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Synergy Annual Report 2016 ABN 58 673 830 106

ANNUAL REPORT **2016**

For the Electricity Generation and Retail Corporation trading as Synergy

ABN 58 673 830 106

LETTER TO THE MINISTER FOR **ENERGY**

In accordance with the Electricity Corporations Act 2005 (Act), I have pleasure in submitting the annual report of the Electricity Generation and Retail Corporation trading as Synergy. Consistent with the provisions of the Act, Synergy will publish this document upon advice from the Minister.

Yours sincerely,

Lyndon Rowe
Chairman

CONTENTS

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ABOUT **SYNERGY**

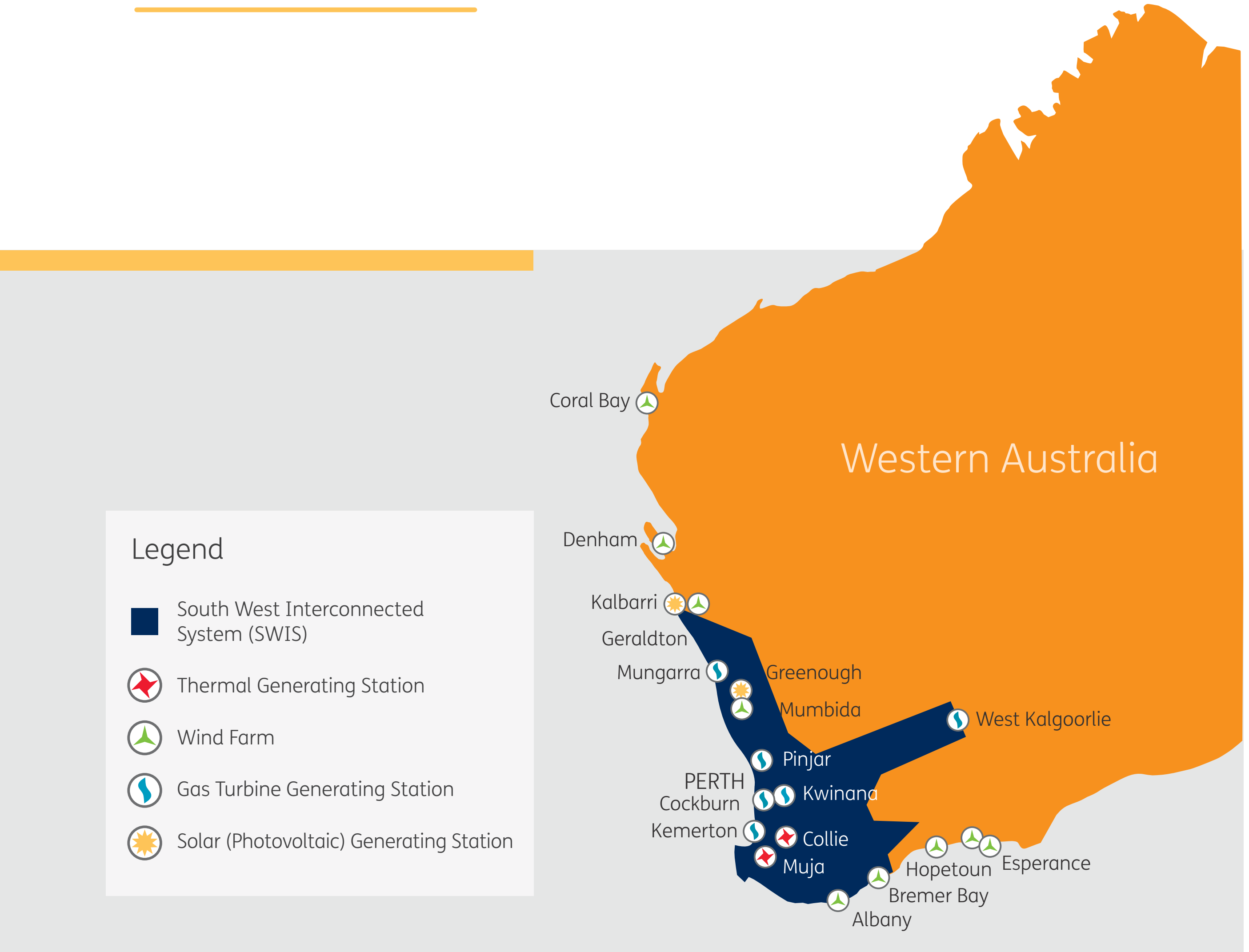
Synergy is proud to be Western Australia's leading energy generator and retailer. We deliver energy to more than one million residential and business customers, enhancing lives and contributing to the growth of our state. As one of Western Australia's most essential organisations, we support and play an active role in the communities in which we operate.

Synergy owns and operates $1.7 billion of generating assets, with power stations between Kalbarri in the north, Kalgoorlie in the east and Albany in the south – an electricity network known as the South West Interconnected System (SWIS). We also generate electricity from sustainable energy sources including wind and solar farms and hybrid systems across Western Australia.

Our employees are embracing a new cultural direction guided by a clear corporate vision and the values of innovation, accountability, collaboration and trust as we transform for the future. Our purpose is to understand our customers and deliver energy management solutions.

Our future vision is clear. We aspire to be the first choice for energy in Western Australia, for today and tomorrow.

Synergy is a vertically-integrated energy generation and retail corporation, established under the Electricity Corporations Act 2005, owned by the State Government, reporting to the Minister for Energy, the Hon Dr Mike Nahan.



CHAIRMAN'S **REPORT**

The 2015-16 financial year represented another 12 months of Synergy overcoming the blistering challenges to the electricity sector resulting from disruptive technologies and, laying the foundation for future sustainability. We have developed a corporate strategy with a strong focus on delivering the new products and services demanded by our customers.

Synergy is actively implementing a transformational strategy that will see it transition more rapidly to a modern energy provider. The organisation is also focused on playing a role in influencing and shaping energy policy outcomes at state and federal levels to ensure Western Australia's future energy market is sustainable, successful and delivers benefits to all energy consumers and the broader community.

Synergy is very aware that these changes can only be achieved from a position of trust where its corporate brand and reputation are held in high regard by the government, industry and the community.

Our corporate strategy for the future will see Synergy divest from traditional forms of electricity generation, increase our participation in renewable energy and emerging technologies and establish an agile culture to overcome market challenges, realise opportunities and deliver the next wave of energy products and services that our customers demand.

Synergy's business efficiency program, launched in November 2014 and implemented throughout this reporting period, has been an incredible success and has provided the organisation with the insights and a platform on which it can build a positive future. The program's efficiency and cost minimisation principles now form part of the cultural mindset of the organisation, looking to commercial viability and value creation.

As Synergy commits to driving efficiencies, reducing state-funded operating subsidies and transforming its operating model, the business needs to do everything it can to shape external forces that pose a risk to consumers benefitting from an efficient electricity market.

In Synergy's view, the most significant risk for the future sustainability of Western Australia's energy market is a failure to address the current tariff structure. All efficient markets are reliant on appropriate price signals. The prices paid for all goods and services must be reflective of the efficient costs, otherwise there are perverse outcomes that benefit rent seeking practices and vested interest groups at the expense of those that require assistance the most. Essential services like electricity are no different in this regard.

Tariff reform does not simply mean increasing prices. It means implementing a fairer, more sustainable pricing model that ensures the efficient allocation of resources, greater fairness between customers and elimination of unnecessary subsidies. This is in the long-term interests of consumers and taxpayers.

Cost reflectivity also provides the platform to better target and assist customers who truly require support to make an essential service more affordable.

There is no doubt the issue of tariff reform is a tough sell. Any discussion about the issue always proves a convenient platform for lobby groups to mount scare campaigns serving only their own interests. Despite this, Synergy must play a role in the discussion if the desired outcomes include financial responsibility and long-term energy solutions based on efficient use of resources.

Synergy's success over the past 12 months was made possible with significant support from the Minister for Energy, Hon Dr Mike Nahan. I thank him and his team for their ongoing commitment to reforming the energy market. Market reform in this space is hard and always contentious, but is certainly for the better in the long term. Also, both the Department of Treasury and Public Utilities Office have played critical roles in Synergy's strategic goals being met in 2015-16.

From a personal perspective I wish to thank Synergy's directors for their ongoing dedication to securing the future of the business.

I would also like to recognise the outstanding efforts of Synergy CEO, Jason Waters and his executive team, and thank them for their vision and leadership. Finally, my thanks must go to the entire Synergy team who are driving the very necessary reforms inside and outside the business to ensure Synergy is considered the first choice for energy by our customers and the community.

Lyndon Rowe
Chairman

CHIEF EXECUTIVE OFFICER'S **REPORT**

The 2015-16 financial year was another tough yet rewarding one for Synergy as we continued our progress towards meeting the challenges presented by changing energy usage patterns of customers, difficult underlying economic conditions and an oversupplied market undergoing much needed reform.

Our primary areas of focus remained on the health and safety of our people and the provision of high quality service to our customers and I am pleased with our results on both fronts. Our year end lost time injury frequency rate of 0.8 and total recordable injury frequency rate of 2.5 are results we can be proud of but will seek to improve. Our customer net promoter score of 64.3 is an excellent result that speaks volumes for our committed and talented people working in critical customer servicing roles.

Synergy reported a net profit after tax of $32.3 million, a 43.4 per cent reduction from the previous year's result.

Difficult market conditions saw Synergy's total revenue fall $119.4 million, 3.7 per cent from 2014-15. The decline is partly due to a $78.3 million reduction in the subsidy paid by the Western Australian State Government, and $41.1 million in lower sales revenue.

This decline in revenue was only partly offset by a fall in Synergy's operating expenses of $63.5 million as we faced higher network and other direct costs in the retail segment. Net finance costs improved $16.2 million driven by lower interest charges as debt levels were reduced.

Synergy's positive cash flow from operations has remained at levels similar to 2014-15 and we continued to invest in our operations to the value of $79.5 million.

As an organisation we made outstanding progress in several key areas that place Synergy in a very good position for the future. We launched SolarReturn, our first residential solar product, with strong early sales an indicator of the potential for this new business. We look forward to growing this market opportunity with an expanded product offering that will include an energy storage solution within the next 12 months.

Our new public website went live in October 2015 with the new platform offering several enhanced features that significantly improve the experience for customers who choose to deal with us via this digital channel. Over 276,000 customers now use My Account to manage their Synergy account, an uplift of 30 per cent in registered users over the year. In addition, about 30 per cent of our customers have subscribed to paperless billing, an 18 per cent uplift year-on-year and, 15 per cent have chosen the direct debit payment option.

In June 2016 we completed the rollout of a new enterprise resource and asset management system, replacing a vast array of obsolete applications and enabling the business to operate under a single IT platform for the first time. As a result of this significant project, which was completed on time and on budget, Synergy is poised to extract benefits through improved operating efficiency for many years to come.

Further, in April 2016 we officially opened our first community battery storage system at the Alkimos Beach development north of Perth. This exciting trial which received critical funding from the Australian Renewable Energy Agency, is being undertaken in collaboration with development partners Lendlease and LandCorp and is a glimpse into a very exciting future for electricity consumers in Western Australia - a future in which Synergy will be the leading supplier of the products and services our customers want.

Nothing that we have undertaken or achieved in the past year could have been done without the support of a committed and capable team and I thank each and every one of Synergy's 844 employees.

We are building a strong values driven culture, united by a clear shared vision and I'm confident, given the scale of change and accomplishments over the last 12 months, that Synergy will create and realise future opportunities.

I also thank Synergy's chairman Lyndon Rowe, our board of directors and the Minister for Energy and his staff for their invaluable support over the last year.

Jason Waters
CEO

OPERATING & FINANCIAL **SUMMARY**

TOTAL INCOME	EBITDA	NET PROFIT AFTER TAX	GROSS PROFIT
$3.1b	$266.8m	$32.3m	$568.4m
↓ 3.5%	↓ 26.1%	↓ 43.4%	↓ 16.7%

OPERATING COSTS^	OPERATING SUBSIDY	OPERATING CASH FLOW	CASH SURPLUS
$310.4m	$307.7m	$239.3m	$83.5m
↓ 4.0%	↓ 20.3%	↑ 1.3%	

Year Ended 30 June		FY16	FY15
Profitability			
Revenue (inc. operating subsidy)	$M	3,121.1	3,233.1
Operating subsidy	$M	307.7	386.0
Net profit before tax (NPBT)	$M	39.3	79.4
NPBT (exc. operating subsidy)	$M	(268.3)	(306.7)
Net profit after tax	$M	32.3	57.1
Shareholder return			
Net Shareholder return	$M	(277.9)	(326.7)
Dividends paid	$M	70.3	83.6
Return on equity	%	2.5	4.4
Financial position			
Net assets	$M	1,060.0	1,100.0
Cash from operations	$M	239.3	236.2
Gearing	%	(6.9)	0.7
Sales Volumes			
Electricity	GWh	13,801.7	13,451.9
Gas	TJ	32,513.6	32,817.5
Generation			
Production*	GWh	8,582.9	8,360.1
Plant availability	%	88.1	83.2

* Electricity generation sent out (including south west co-generation joint venture).
^ Combined total of employee and other expense categories

Back L-R: Barry Ford, Karl Matacz, Will Bargmann, Kurt Baker
Front L-R: Geoff Roberts, Stephanie Unwin, Jason Waters, Angie Young, Gary Peel

OUR EXECUTIVE **TEAM**

Jason Waters

Chief executive officer (CEO)

Jason was appointed CEO of Synergy in January 2014 following the merger between Synergy and Verve Energy. He has 26 years' experience in the State's energy sector, and prior to leading Synergy he was CEO of Verve Energy from 2012.

Karl Matacz

Chief financial officer (CFO)

Karl has extensive experience in Western Australia's energy sector with a career spanning more than 10 years at Western Power, Verve Energy and Synergy. He was appointed CFO at Synergy in 2014, and is focused on delivering effective financial stewardship through efficient financial control, compliance and analysis.

Kurt Baker

General manager wholesale

Kurt was appointed to the Synergy executive team in 2014 from his previous role as general manager trading and fuel at Verve Energy. Kurt has primary responsibility for optimising Synergy's wholesale portfolio, managing fuel and electricity trading activities, contract management and marketing electricity and wholesale products.

Will Bargmann

General manager corporate services; general counsel; company secretary

Will has been a practising lawyer for more than 25 years. He was with the former Synergy since its creation in 2006. Will has responsibility for the key governance functions of legal, regulatory, internal audit, risk management, environmental compliance and health and safety.

Barry Ford

General manager generation

Barry has 25 years of international experience working with energy infrastructure businesses in Canada, New Zealand and Australia. Barry joined Synergy in 2012 and has an unwavering focus on safety, as well as proven effectiveness in developing teams and delivering strong business results.

Gary Peel

Chief information officer (CIO)

Gary was appointed CIO in 2015. His career with Synergy spans over 10 years and includes leading the integration of IT during the merger of Synergy and Verve Energy in 2014. Gary is responsible for the implementation of technology related initiatives, focusing on innovation and realising efficiencies. He is currently completing an MBA at Murdoch University.

Geoff Roberts

General manager retail

Prior to joining Synergy in 2006, Geoff held senior positions within the Australian retail financial services sector. His key focus is the customer – ensuring that his team continually seek out new ways to deliver innovative solutions to address the evolving energy needs of all Synergy customers.

Stephanie Unwin

General manager commercial; chief transformation officer

Stephanie was appointed as general manager commercial in March 2014 from her previous role as general manager of strategy and business development at Verve Energy. The business efficiency program continues to be a strategic priority for the commercial business unit together with leading the development and embedding of the corporate strategy, support for the policy reform team and transitioning the Synergy fleet with a strong centralised renewables focus.

Angie Young

General manager people and culture

Angie joined Synergy in 2014 and has over 20 years' experience in human resources. Her passion is on delivering people strategies that create a positive employee experience through capability development, engagement and recognition.

OUR **CUSTOMERS**

This was a cornerstone year for Synergy in demonstrating its customer first approach. **An increased focus on providing modern and relevant energy solutions delivered business results and ensured Western Australians have never been more empowered to manage their energy needs.**

In a retail market that continues to weather disruptive customer, technology and industry forces, the imperative for customer focus has never been stronger.

This year has seen the establishment of strong future foundations, as we commenced our transformation into the responsive, contemporary energy retailer our customers expect.

SolarReturn offers more choice

Synergy's transformational journey was perhaps best symbolised by the launch of our first solar product in April 2016, SolarReturn. Solar and the complementary products it enables, represent the future of the energy sector and typify how traditional utilities are evolving their product offer to meet customer demand.

Customer response was overwhelmingly positive following the launch of SolarReturn, with early sales results exceeding business forecasts. Customer feedback reinforced the benefits of purchasing a solar system from Synergy, with our intimate customer knowledge ensuring a customised, quality solution.

Synergy intends to expand its solar related product offering into 2016-17, with a solar and energy storage solution identified to respond to the increasingly sophisticated needs of customers.

We will also extend our network of key business partners to ensure successful delivery of these product options, ensuring Synergy's entrance not only responds to the clear need of consumers, but also supports the development of a thriving renewables sector in Western Australia.

Digital innovation delivers business outcomes

Synergy won the category of best digital experience in the utilities sector in SAP's *2016 Australian Digital Experience Report*. This award acknowledged our focus on digital innovation and followed the redevelopment of our website.

A focus on providing customer services online and ensuring access to information via a 'digital by default' strategy saw Synergy migrate significant volumes of customer transactions online through design enhancements and improvement of core user journeys across our website.

These improvements are an acknowledgement of how Synergy customers are continuing to change the way they interact with us, and have been designed to ensure the customer experience is convenient, clever and personalised.

More than 276,000 customers are now registered for Synergy's self-service portal, with a further 30 per cent of customers choosing to receive their bills electronically. Synergy has also grown its social media footprint, with a small and vocal community of motivated customers regularly engaging with Synergy through this emerging channel.

Where our energy's going

Synergy continued to deepen its engagement with customers throughout the year, with more regular communications, keeping customers informed about the steps we are taking to improve the customer experience. Synergy clearly demonstrated its ability to help customers manage their energy needs, with the presentation of tools, products and tailored advice.

The results were clear. Our research showed that residential customers who could recall how Synergy was providing the tools, products, information and advice to give them the choice and control to manage their energy use, were 16 per cent more likely to endorse Synergy across a range of brand image and equity indicators. This was a clear response that our interaction with customers is resonating into positive results.

Synergy also increased its participation within the community, powering the *Light up Leederville festival* with 100 per cent renewable energy and taking solar to the community via *SolarSundays*. These initiatives reinforced the critical role Synergy can play in educating the community about the benefits of renewable energy and the practical applications available for home and business owners.

With an increased range of new products and offers made available to customers throughout year, Synergy has never been better equipped to provide tailored support to homes and businesses within the state.

Service excellence maintained

Synergy continued to maintain its strong performance in customer service with the knowledge and nature of Synergy staff, improvements in digital delivery and a continuous improvement mindset driving service outcomes.

Our commitment to providing customers with payment assistance continued, through a range of initiatives, options and assistance programs.

Significant improvements were also made to bill payment and account movement processes, with the complexity of these transactions streamlined to ensure a simpler, more convenient service experience.

Complaint levels were maintained at record lows and service standards continued to track favourably, with a 75 per cent grade of service achieved for the year.

Pleasingly, the sustained focus on maintaining excellence in service delivery was achieved whilst Synergy restructured its customer operations in order to drive significant cost efficiencies. With our net promoter score (NPS) now maintained at industry high levels of +60 for two years running, strong service delivery remains a core strength within the retail business.

$19.6m
INVESTED IN MUJA MAINTENANCE ACTIVITIES

$71m
OPERATIONAL SAVINGS

First
ENERGY STORAGE SYSTEM AT ALKIMOS BEACH

Core systems
TECHNOLOGY UPGRADE

OUR **ENERGY**

Synergy owns and operates $1.7 billion of generating assets across Western Australia including a coal-fired thermal plant near Collie, high efficiency gas turbines at Kwinana, gas turbines at Pinjar, Mungarra and Kalgoorlie, an industrial scale solar farm in Greenough River and windfarms in the south west and north as far as Coral Bay.

Portfolio performance

Synergy's generating assets performed well throughout the year and generally in-line with targets. Our portfolio achieved an availability factor of 88 per cent up six per cent on the previous year and total sent-out energy was 8,212 gigawatt hours, slightly down on the previous year. Overall plant efficiency was impacted by lower market demand, number of unit starts, variations in load profiles and some minor mechanical deficiencies. The forced outage factor was slighter higher than target, mostly affected by wearing of gas turbine components, faults in high voltage electrical systems, as well as scheduled maintenance and general repairs.

Despite this, Synergy remained well under budget for reserve capacity payments (RCP), saving almost $1.5 million by minimising outages during high cost periods. Overall production cost was also significantly less than planned, affected favourably by the RCP savings but mostly to below forecast sent-out generation.

Key projects

The core systems improvement project (CSI) was the single largest renewal application undertaken by Synergy during the year. It involved implementing the SAP platform and associated processes to replace the Ellipse management system. The CSI project will fundamentally change the processes related to asset management, procurement, human resource management and financial reporting. At implementation, the CSI project moved the whole of Synergy's business onto a single platform for the first time since the 2014 merger, providing an organisation wide, functional and managerial, single source of truth. The project cost $19 million, involved over 100,000 hours and a team of 90 people including subject matter experts and will affect the daily work practices of around 800 Synergy employees. This was a critical foundation project for Synergy to launch the next phase of its corporate strategy.

During the year, Synergy also introduced a new asset management framework to guide investment decisions for individual assets and the portfolio as a whole. This has provided a greater strategic view for lifecycle planning and will improve our processes to match current and future fleet to changing market dynamics.

Major maintenance activities were successfully completed on Muja units 4, 5 and 6 and gas turbine units at Pinjar, Cockburn, and Kalgoorlie. Work was also completed on repairing the cooling towers on Muja 7 following the partial collapse in 2015.

The most significant activity this year involved replacement of the precipitators, economiser and ash hopper on Muja 6. Synergy invested $19.6 million in this project, which involved over 300 people and consumed more than 350,000 hours over a two month period. The project was delivered safely without a recordable injury and, within budget and time parameters, ensuring no disruption to energy supply.

It was an outstanding demonstration of the improvements we have made to planning and operational practices.

In April 2016, Synergy completed construction of its first energy storage facility at Alkimos Beach as part of an Australian first trial, with funding support from the Australian Renewable Energy Agency. The 1.1 megawatt hour facility is comprised of nearly 6,000 lithium ion cells, has a four hour discharge capacity and is central to a trial being implemented for Alkimos Beach residents, in collaboration with development partners Lendlease and LandCorp. For residents, the aim of the trial is to measure the effectiveness of a combination of incentives and a time-of-use pricing plan to encourage behavioural and consumption changes leading to energy and cost savings. For Synergy, the trial is our first opportunity to integrate and test the performance of storage technology within the existing electricity network leading to better management of peak demand and efficiencies in asset utilisation.

Focus on business effectiveness

During the year, Synergy's generation business has uncovered over $71 million in savings, positively contributing to a reduction in Synergy's overall operating costs.

This has been achieved through a truly collaborative approach, a change in cultural mindset and with a clear commitment to continue to leverage every opportunity for Synergy to stand out as Western Australia's first choice for energy.

OUR **PEOPLE**

Synergy recognises the critical importance of engaging and supporting employees, to promote performance and growth, sustain customer service excellence and embrace an innovation mindset in order to realise opportunities. While advancements in technology and changes in consumer behaviour are precipitating the transformation of energy markets globally, we recognise that our people will be the key enablers and differentiators of our future success.

The pace of change for the organisation continued during 2015-16 as we strengthened the foundations that will see us deliver a transformational corporate strategy. All of the changes we've implemented this year represent the first tactical actions of creating a lean and agile operating model and maturing a culture to align with strategic corporate imperatives and drive workforce strategy to 2020.

Change and transformation

Synergy's people & culture team drove a strong program on organisational effectiveness and culture to support the business efficiency program and shape a modern, future focused workforce. We implemented several waves of major structural reform to support business units create new operating models, strengthen capabilities and introduce a tangible mix of stable and dynamic workforce elements.

Synergy implemented a number of key activities aimed at shifting and promoting a positive organisational culture. We completed the first phase of our diversity plan to increase rates for female participation in leadership and people with disabilities, through proactive recruitment and talent development. We recognise the benefits that come with diversity and will continue to embrace the different attributes and qualities that our people bring to enhance our culture.

To establish a sustainable employment benefits framework, Synergy successfully negotiated an enterprise agreement for head office employees and commenced renegotiation of the enterprise agreement for our operational site based employees.

Finalist
AUSTRALIAN HR AWARDS

98%
USE AMPS REWARD & RECOGNITION SYSTEM

90%
OF EMPLOYEES ACTIVELY ENGAGED IN STRATEGY

The new arrangements reflect our commercial environment, are comparable to market-based structures and provide a better opportunity to align pay to performance. The arrangements also integrate progressive benefit provisions such as paid leave for domestic violence.

Effecting sustainable change to achieve transformation involves making difficult decisions about the way we work. To support and make sense of the changes, this year Synergy selected six priority organisational performance practices to drive our people, improve the way we do things and develop an enabling culture. We measure our performance through an annual survey (we call it our health survey) and in 2015-16 we achieved strong improvement in practices such as rewards & recognition, and inspiring and challenging leadership. We also achieved an outstanding result in the category of shared vision, with over 90 per cent of all employees feeling they had been actively engaged in the rollout of corporate strategy and have an informed understanding of our future direction.

Recognition and reward

This year, Synergy introduced a new, contemporary recognition and reward program called Amps. Similar to a consumer loyalty program, Amps is a points based system allowing employees to accrue and redeem rewards and acknowledge each other's contribution and performance. It is a real-time reward program, aligned to Synergy's primary corporate values and designed to drive strong peer-to-peer recognition.

This innovative approach to rewarding individuals and teams was supported by a continuous, fully integrated communication campaign to encourage usage, and has been received enthusiastically by employees and achieved a participation rate of 98 per cent. This demonstrates a real, tangible shift in employee attitude which underpins the new corporate philosophy and approach of finding better, more effective ways to do things.

Synergy is a finalist in the Australian HR Awards to be held in September 2016 and is proud to be leading the way in reframing rewards and recognition.

Growing capability

To support the scale of organisational change, Synergy invested in a transformational leadership development program for 120 leaders and people managers throughout the organisation. The program covered both strategic and tactical skills such as communication, planning, team management, personal development, industry and market awareness and financial acumen.

Through the core systems improvement project, Synergy upgraded its HR related IT systems including payroll. For the first time since the 2014 merger, Synergy has a single HR technology platform that will now facilitate automated workflows and enable transition to a self-service model for managers and individual employees.

Analytics and workforce intelligence have been improved substantially and new diagnostic tools, dashboards and metrics now provide consistent, accessible workforce information for leaders. Activities are continuing to further streamline and simplify processes for performance management, recruitment and onboarding.

Synergy is committed to improving the employee experience through meaningful and interesting touchpoints. By doing this, we will create personal development opportunities for employees which translate into improved performance for the organisation.

Photo: Emergency response team participating in a simulated activity at MERC

Winner
MUJA EMERGENCY RESPONSE TEAM WINS AT MERC

10%
REDUCTION IN HIGH RISK INCIDENT FREQUENCY RATE

Best practice
SAFETY RESULTS MAINTAINED

New
HEALTH & WELLBEING INITIATIVES

HEALTH & SAFETY

At Synergy, the health and safety of our people is our first priority and central to everything we do. We operate our business in a manner that protects our people, partners, customers and the community.

Our health and safety principles are inextricably linked to our four primary corporate values:

- **Innovation** - we are all personally committed to continually improve our safety performance
- **Accountability** - we are all accountable to assert our expectations for safe work
- **Collaboration** - we are all committed to each other's safety and wellbeing
- **Trust** - no business need takes precedence over our commitment to work safely

Synergy has delivered positive results in the key health and safety metrics during the reporting period. These include a 10 per cent reduction in the high risk incident frequency rate, a lost time injury frequency rate (LTIFR) of 0.8 and a recordable injury frequency rate (RIFR) of 2.5. These results equate to best practice amongst comparable industries. They also demonstrate that the significant improvements in safety performance achieved over the past 3 years are sustainable even during periods of major organisational change.

Building leadership capability

Synergy is committed to ensuring that our leaders have the skills and capabilities to deliver safe operations.

We have developed a program specifically for supervisors to increase their understanding of the fundamentals of safe systems of work and the implementation of controls to keep personnel safe during execution of higher risk tasks. Based on established social science, the program is designed to align shared constructive and positive beliefs towards a mature safety culture.

Health and Wellbeing

Synergy has increased its focus on promoting health and wellbeing initiatives for all employees.

An employee assistance program (EAP) is available to support employees through both work related and personal difficulties and our annual calendar of activities takes account of workforce demographics and includes activities in support of men's and women's health, healthy lifestyle choices and sustaining mental health.

Highlight activities during the year included:

- supporting the national White Ribbon Day to increase awareness and prevention of domestic violence;
- healthy weight week to help employees better understand the lifestyle factors that impact their health;
- partnership with the Red Cross to encourage blood donation;
- free flu vaccinations in the lead-up to winter;
- men's health month to actively engage male employees about their physical and mental health.

Practice and training

Synergy's Emergency Response Team from Muja power station won the prestigious Mining Emergency Response Competition (MERC) in December 2015. It was an outstanding achievement for the volunteer team who competed against professional full-time emergency response teams from major mining companies.

The team was assessed for skills in simulated emergency situations such as confined space rescue, firefighting, first aid, hazardous chemicals, car crash rescue, vertical rescue and response and readiness.

OUR **ENVIRONMENT**

Synergy has revised its environmental policy during the reporting period to include all operations, from our generation plant to city offices. Our environmental policy states our commitment to minimise the impact of our operations on the environment and to continually seek opportunities to protect the regions and communities in which we operate.

The key pillars that underpin our policy are:

- minimisation of waste, emissions and pollution;
- protection of the natural and cultural environment; and
- compliance with relevant environmental legal requirements and corporate commitments.

Synergy supports these pillars by promoting initiatives to reduce our emissions intensity, providing education and tools that enable our customers to use energy in an environmentally considerate manner and ensuring our people have the training and skills to fulfil their environmental responsibilities.

Environmental Management System (EMS)

The international environmental management standard AS/NZS ISO14001, which frames Synergy's EMS, underwent significant revision during the reporting period. The revision resulted in major changes, with a greater focus on:

- strategic environmental management and direction
- addressing risks and opportunities to the EMS
- leadership; and
- adoption of a lifecycle perspective.

Synergy has commenced the process of upgrading its EMS to conform with the 2015 version of the standard and full implementation is expected to be completed during 2016-17.

Auditing for continuous improvement

Two internal legal audits of Synergy's compliance obligations were completed during the period. The objective of each audit was to determine the level of compliance with relevant environmental legislation and licence conditions for Synergy sites covered under the Environmental Protection Act.

The audits found no major non-compliances and only 11 minor non-compliances, an improvement on the previous year. Corrective actions have been implemented to address all minor non-compliances.

ENVIRONMENT **KEY PILLARS**

Minimisation
OF WASTE, EMISSIONS AND POLLUTION

Protection
OF THE NATURAL AND CULTURAL ENVIRONMENT

Compliance
WITH RELEVANT LEGAL REQUIREMENTS AND CORPORATE COMMITMENTS

Emissions to air

The Collie Air Shed Study partners Synergy, Bluewaters Power and South 32/Worsley are undertaking a study to determine the environmental impact of sulphur dioxide (SO2) emissions from coal burning in the Collie region. The study partners are working with the Department of Environmental Regulation to establish a reliable scientific foundation on which to base an air shed management strategy for sulphur dioxide emissions in the Collie region. The procurement of hardware and instrumentation is currently being undertaken with the aim of commencing the monitoring phase of the study later in 2016. The monitoring phase will run for two years and focus on monitoring stack emissions and ambient air quality.

In accordance with the National Greenhouse and Energy Reporting Act, Synergy reports its annual greenhouse gas emissions, energy production and energy consumption to the Clean Energy Regulator. For 2015-16, Synergy's greenhouse emissions were approximately 7.6 million tonnes of CO_2e.

Details of Synergy's reported emissions for substances such as sulphur dioxide, oxides of nitrogen, particulates and metals are provided annually by Synergy to the National Pollutant Inventory and are available at www.npi.gov.au.

Reportable environmental incidents

There was one reportable environmental incident in 2015-16. This involved one of the ambient air monitoring stations surrounding Muja Power Station. Incorrect data was returned for a period due to a leakage in the sampling equipment not being detected during routine maintenance.

Contaminated sites program

Following closure of Kwinana power station in 2015, planning has commenced for the rehabilitation of the site and associated Perron Quarry fly ash storage area. Synergy continued monitoring and remediation related to a release of diesel that happened at Kwinana power station in 2012.

OUR **COMMUNITY**

Synergy is proud to be part of the Western Australian community. We continue to invest in a range of initiatives, events, partnerships and sponsorships to build and extend our relationship with business and community groups. We are committed to building community awareness on safe and cost effective energy consumption and empowering our customers to effectively take control and manage their energy usage.

Synergy is proud to continue its association with and support for Kings Park and Botanic Garden through Synergy Parkland, establishing it as a fun and favourite destination for families. We were excited to once again be a supporter and participant at the Light up Leederville street festival, where our team demonstrated the connection that energy has with everyday lives of Western Australians.

Throughout the year, we supported many not-for-profit associations such as Lifeline WA and the Lord Mayor's relief fund, providing financial assistance and support to victims of the south west fires. We also continued our financial contribution to educational scholarships through Gilmore College and supported the Collie driver training program. Through small donations, we enabled Bassendean primary school to improve its outdoor shelters for children and the Brookton Shire to continue its classic car show. And, through the generosity of Synergy employees, our Synergy Spirit program continues to raise money for various charities.

Synergy's people participated in many community events including team entries in HBF's Run for Reason and the EV electric car challenge. Our emergency response team from Muja won several categories at the Mining Emergency Response Competition (MERC) competing against some of the biggest mining companies in Western Australia.

THESE ARE SOME OF THE WAYS WE STAYED INVOLVED IN COMMUNITY ACTIVITIES AND ORGANISATIONS WE'VE SUPPORTED OVER THE LAST YEAR.

Synergy Parkland at Kings Park

Lifeline WA

Lord Mayor's relief fund

Collie community fund

WA Council of Social Services (WACOSS)

Financial Counsellors Association of WA (FCAWA)

Gilmore College

Town of Kwinana coastal rehabilitation

Light up Leederville street festival

EV electric car challenge

HBF, Run for a Reason

Wirrpanda Foundation

Collie driver training program

Mining emergency response competition (MERC)

Bassendean primary school

Brookton Shire

Christmas pageants, Perth and Collie

Malaga and districts business association

Australian Hotels Association

Property Council conference

Wanneroo Business Association

WA Local Government Convention

WA Managers of Business in Education (WAMBE)

WA State School Registrars Association (WASSRA)

Dowerin Agricultural Field Day

Geraldton memorial flame

DIRECTORS' **REPORT**

The Electricity Generation and Retail Corporation trading as Synergy is a Western Australian government trading enterprise established under the Electricity Corporations Act 2005 (the Act), which specifies its powers, functions and operational restrictions. Synergy is not an agent of the state, and in accordance with schedule 1 of the Public Sector Management Act 1994 and is not a public sector organisation.

As a government trading enterprise, Synergy is not listed on the Australian Securities Exchange (ASX) but seeks to comply with the ASX principles of corporate governance and recommendations, to the extent applicable and not inconsistent with the requirements of the Act.

Synergy's core values of innovation, accountability, collaboration and trust guide the actions and behaviours of all employees.

Board of directors

The directors of the Electricity Generation and Retail Corporation trading as Synergy, at any time during or since the end of 2015-16 financial year, are as follows.

Lyndon Rowe

Chairman since August 2014

Independent: yes
Non-executive: yes
Qualifications: B.Ec (Hons), FAICD

Mr Rowe served as executive chairman of the Western Australian Economic Regulation Authority from March 2004-August 2014, is a former chief executive officer of the Chamber of Commerce and Industry of Western Australia, a former senator of the University of Western Australia, a former director of Westscheme Pty Ltd and is a current director of Perth Airport Pty Ltd.

Committee membership

Member of the audit and compliance committee, human resources and sustainability committee and risk committee.

Kim Horne

Deputy chairman since July 2015; director since October 2014

Independent: yes
Non-executive: yes
Qualifications: AM

Mr Horne has extensive experience in the minerals industry working in a number of high level roles at Alcoa in the areas of mine development and management, human resources, corporate affairs, strategy and government relations both in Australia and overseas. He is a graduate of the University of Western Australia's management education program and appointed as a Member of the Order of Australia in January 2014 for his services to the mining industry.

Committee membership

Chairman of the human resources and sustainability committee.

Rob Bransby

Director since July 2015

Independent: yes
Non-executive: yes
Qualifications: A.Fin, FAIM

Mr Bransby has been managing director of HBF Health Limited since January 2008 after joining the organisation in 2005. He was formerly a director of HealthGuard Health Benefits Pty Ltd and was director of HBF Insurance Pty Ltd. Prior to HBF, Mr Bransby held various executive positions throughout twenty-five years at the National Australia Bank Ltd. He is president of Private Healthcare Australia and director of the Australian Digital Health Agency, Pioneer Credit Ltd, Commonwealth Financial Planning Limited, BW Financial Advice Limited, Count Financial Limited and Financial Wisdom Limited. He is also a commissioner of the Insurance Commission of WA.

Committee membership

Member of the human resources and sustainability committee.

Michele Dolin

Director since October 2014

Independent: yes
Non-executive: yes
Qualifications: MBA, MA, BA, FCPA, FAICD

Ms Dolin is a professional company director, a certified practising accountant and former financial services CEO and senior executive. She is a former chief executive officer of GESB and held senior executive positions in Bankwest, Westpac and Challenge Bank. Ms Dolin has held a number of directorships in WA including St John of God Health Care and the Water Corporation, she was also pro-chancellor of Curtin University. Her current board appointments include AMP Superannuation Limited, the St Andrew's Insurance Group, CPA Australia Limited and she is a senate member of the University of Western Australia.

Committee membership

Member of the audit and compliance committee and risk committee.

Michael Goddard

Director since July 2013

Independent: yes
Non-executive: yes
Qualifications: B.Comm, MBS, MPhil, CPA

Mr Goddard is a consultant to McRae Investments Pty Ltd and has more than 25 years' experience in financial, taxation and international trade. He is a former director and chief financial officer of Clough Engineering Limited and former director of finance and planning for Bunnings Limited.

Committee membership

Chairman of the audit and compliance committee and member of the risk committee.

David Hunt

Director since August 2014

Independent: yes
Non-executive: yes
Qualifications: BA (first class honours), BA (Stats)

Mr Hunt is a former director of the former Synergy, has served as chief executive of New Zealand-based Contact Energy and is a current director of Concept Consulting Group Ltd.

Committee membership

Member of the human resources and sustainability committee.

Samantha Tough

Director since October 2014

Independent: yes
Non-executive: yes
Qualifications: FAICD, LIB, BJuris Western Australia

Ms Tough holds a number of directorships including Cape plc and Saracen Mineral Holdings Ltd. She is also the chair of Molopo Energy Ltd, chair of Aerison Pty Ltd and deputy chair of the WA Academy of Performing Arts. She has extensive experience in the mining, resource and energy industry holding key positions in Woodside Energy Ltd including general manager North West Shelf, was a director of Strike Resources Ltd and was the director of strategy at Hardman Resources Ltd. She was also project director of the Pilbara Power Project and advisor to the Resources Group at the Commonwealth Bank. Ms Tough has a Bachelor of Law and a Bachelor of Jurisprudence from the University of Western Australia and is a Fellow of the Australian Institute of Company Directors.

Committee membership

Chair of the risk committee.

Mark Chatfield

Ceased as a director in July 2015

Independent: yes
Non-executive: yes
Qualifications: B Eng, GDipEcon, GDip Fin

Mr Chatfield is an executive director of ACIL Allen Consulting Pty Ltd. He is a former chief executive officer of CS Energy and general manager of the generation business unit at Western Power Corporation.

Committee membership

Member of the former sustainability and risk committee.

Company secretary

Synergy's company secretary and general counsel is Will Bargmann. The appointment and removal of the company secretary is a matter for decision by the board. The company secretary is responsible for ensuring that board procedures are complied with and governance matters are addressed. All directors have access to the company secretary's advice and services.

DIRECTORS' **REPORT**

Corporate governance checklist

While Synergy is not a listed company on the ASX and is not subject to ASX listing rules, we seek to comply with the principles and recommendations of the ASX Corporate Governance Principles and Recommendations (ASX principles), where relevant and appropriate.

Table 1 : ASX principles and recommendations

Principle 1: Lay solid foundations for management and oversight		
Recommendation 1.1	Disclose the board and management respective roles and responsibilities, matters reserved to the board and delegated to management.	Y
1.2	Undertake appropriate checks before appointing a person or a candidate to security holders for election as a director and provide relevant information.	NA
1.3	A listed entity should have a written agreement with directors and senior executives regarding their appointment terms.	Y
1.4	The company secretary should be accountable directly to the board on matters regarding the proper functioning of the board.	Y
1.5	A listed entity should have a diversity policy with measurable objectives, assess it annually and disclose the policy and progress towards objectives.	Y
1.6	A listed entity should have a process for periodically evaluating the performance of the board, its committees and individual directors.	Y
1.7	A listed entity should have a process for evaluating senior executive performance and disclose its performance evaluation.	Y
Principle 2: Structure the board to add value		
Recommendation 2.1	A board should have a nomination committee of at least three members, mostly independent and chaired by an independent director, and disclose the charter, members' names and committee meetings.	NA
2.2	A listed entity should have and disclose a boards' skills matrix.	Y
2.3	A listed entity should disclose the names of independent directors, interests, position, association or relationship and length of service.	Y
2.4	A majority of the board of a listed entity should be independent directors.	Y
2.5	The chair of the board should be an independent director and not the same person as the CEO.	Y
2.6	A listed entity should provide an induction program for new directors which addresses professional development opportunities and skills and knowledge.	Y
Principle 3: Act ethically and responsibly		
Recommendation 3.1	A listed entity should have a code of conduct for its directors, senior executives and employees and disclose it.	Y
Principle 4: Safeguard integrity in corporate reporting		
Recommendation 4.1	A listed entity should have an audit committee and disclose its charter and members' qualifications and experience, as well as meeting attendances.	Y
4.2	Prior to board approval, the CEO and CFO should declare financial statements have been properly maintained and comply with appropriate accounting standards.	Y
4.3	An external auditor should attend a listed entity's AGM and be available to answer security holders' questions relevant to the audit.	NA
Principle 5: Make timely and balanced disclosure		
Recommendation 5.1	A listed entity should have a written policy for complying with its continuous disclosure obligations under the Listing Rules and disclose that policy or a summary of it	NA
Principle 6: Respect the rights of security holders		
Recommendation 6.1	A listed entity should provide information about itself and its governance to investors via its website.	Y
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	NA
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	NA
6.4	A listed entity should give security holders the option to electronically receive communications from, and send communication to, the entity and its security registry.	NA
Principle 7: Recognise and manage risk		
Recommendation 7.1	A listed entity should have a committee which overseas risk, and the charter, members and meetings held by the committee should be disclosed.	Y
7.2	The board or a committee of the board should review its risk management framework at least annually and disclose whether such a review has occurred.	Y
7.3	A listed entity should disclose its internal audit function, how the function is structured and what role it performs.	Y
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and if it does, how it manages or intends to manage those risks.	Y
Principle 8: Remunerate fairly and responsibly		
Recommendation 8.1	A listed entity should have a remuneration committee and disclose the charter, members and number of meetings held.	Y
8.2	A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive and executive directors and senior executives.	Y
8.3	A listed entity which has an equity-based remuneration scheme should have a policy on whether participants are permitted to enter into transactions and disclose that policy or a summary.	NA

Notes

Disclosure under the corporate governance principles is consistent with Synergy's obligations under the Electricity Corporations Act 2005. The following notes are relevant to Synergy's decision not to comply with the ASX Corporate Governance Principles and Recommendations as outlined in Table 1.

1.2 has no relevance to Synergy as the corporation does not have security holders.

2.1 the corporation has not established a nomination committee. As required by the Act, persons are appointed to the board of Synergy by the Governor on the nomination of the Minister. Where a vacancy occurs in the membership of the board, the board may recommend a candidate to the Minister. The board ensures that any candidate nominated to the Minister has an appropriate balance of skills, knowledge, experience, independence and diversity to enable the board to discharge its duties and responsibilities effectively. The board charter also provides that, in nominating candidates for directorship to the Minister, the board will have regard to the independence of prospective directors.

4.3 has no relevance to Synergy as the corporation is not a publicly listed company nor does it hold annual general meetings.

5.1 has no relevance to Synergy as the corporation is not a publicly listed company and therefore not bound by the ASX listing rules.

6.2 has no relevance to Synergy as it does not have investors.

6.3 and 6.4 have no relevance to Synergy as the corporation does not have security holders.

DIRECTORS' **REPORT**

Roles and responsibilities of board and management

As a statutory corporation, the respective duties and responsibilities of Synergy's board and executive officers are substantially set out in the Act. The Synergy board of directors is Synergy's governing body and responsible to the Minister for its performance. Subject to the Act, the board has the authority to perform the functions, determine policies and control the affairs of Synergy. Its central role is to set Synergy's strategic direction and to oversee its management and commercial activities. In addition to matters required by law to be approved by the board, Synergy's board charter (available on Synergy's website) details its role, power, duties and functions. The following matters are reserved for the board:

- providing input into and final approval of management's development of corporate strategy and performance objectives;
- further developing planning processes, including Synergy's strategic plan;
- monitoring and overseeing Synergy's stakeholder relationship strategy and its implementation;
- monitoring the effectiveness of risk management by reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance;
- approving all board level policies in accordance with the policy standard;
- appointing and, where appropriate, removing the company secretary or company secretaries;
- appointing and removing the chief executive officer, including approving remuneration and conditions of service of the chief executive officer and remuneration policy and succession plans for the chief executive officer;
- approving the appointment, removal or any material change to the role of senior executives ;
- approving Synergy's remuneration framework including the level of remuneration and conditions of service of senior executives ;
- monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;
- approving operating budgets and monitoring financial performance against the approved budget;
- consulting with the Minister in relation to appointment of any person as a director of Synergy in accordance with section 8(4) of the Act;
- reviewing and assessing the performance of the board;
- approving and monitoring the effectiveness of Synergy's system of corporate governance practices;
- ensuring Synergy complies with all requirements under the Act and all other laws; and
- handling any other matters for which the board is responsible under the Synergy committee charters.

The responsibility for the management of Synergy's day-to-day operations is delegated to the chief executive officer, who is accountable to the board. The purpose of Synergy's executive officers is to assist the chief executive officer in the overall leadership and oversight of Synergy's business and operations. In addition to powers set out in the Act, Synergy's executive leadership team charter details its role, power, duties and function. The following matters are the responsibility of management:

- developing a team performance plan;
- developing planning processes including Synergy's strategic plan;
- achieving delivery of Synergy's strategy;
- monitoring and discussing significant risks;
- monitoring and discussing significant issues;
- engaging with our board, employees and stakeholders;
- implementing Synergy's stakeholder relationship strategy; and
- ensuring Synergy complies with all requirements under the Act and all other laws.

Diversity

Synergy is committed to our vision of being a preferred and trusted supplier of energy, innovative products and services, and being an employer of choice. We embrace workforce equity and diversity as a source of strength. This is not only about visible differences in the workforce, but more importantly about recognising the strategic advantage that comes from incorporating a wide variety of capabilities, ideas and insights in our decision making, problem solving, policy development and service delivery.

At Synergy we believe that to continually improve our business performance and to achieve our strategic objectives, we need to harness the ideas and abilities of all our people and create an environment that enables superior service delivery. We recognise that varied backgrounds and experiences contribute to new perspectives and fresh ideas, and we are committed to creating a workplace in which differences are valued and respected. We facilitate this by:

- treating all employees, prospective employees, contractors, consultants and suppliers, fairly and equitably regardless of their gender, age, sexuality, culture/ethnicity, language and religious beliefs, and regardless of any disability or flexible workplace practices;
- fostering a diverse and inclusive working environment by promoting an organisational culture that values respect, diversity and inclusiveness and by developing and offering working arrangements that help meet the needs of a diverse workforce;
- proactively promoting and advancing equality and equity through improved employment and career development opportunities for women, indigenous people, culturally diverse employees and people with disabilities;
- driving strategies and a commitment to target, retain and create development opportunities for disadvantaged groups in order to successfully attract and retain a diverse workforce;
- providing awareness in all staff of their rights and responsibilities with regards to equity, integrity and respect for aspects of diversity;
- supporting managers to develop employees that continually strive to deliver excellent results and to perform their duties with diligence to the very best of their ability;
- nurturing and developing the skills and experience of employees;
- implementing diversity strategies and seizing organisational and market opportunities to achieve our diversity goals and objectives;
- developing management systems, policies and procedures that promote equity and diversity; and
- measuring ongoing strategies, initiatives and programs to promote equity and diversity across the organisation.

The CEO has overall accountability for the implementation of this policy. The board approves measurable objectives for achieving diversity in our organisation as set out in Synergy's Diversity Management Plan.

Performance evaluation

The human resources and sustainability committee is responsible for determining the process for evaluating the performance of the board, its committees and individual directors. This is done on an annual basis by:

- assessing the extent to which the board and each of its committees has acquitted its responsibilities under their respective charters;
- assessing the performance of the board as a whole – a survey is circulated to the chairman and each director and the responses are compiled by the company secretary. Once the results of the survey have been submitted, the company secretary analyses the results and provides them to the chairman. The survey's key results and aggregated overall scores are submitted at the next board meeting for the board to discuss;
- assessing the performance of each individual director – a survey is circulated to the chairman and each director and the responses are compiled by the company secretary. A summary of each director's feedback is prepared by the company secretary and provided to the chairman. The overall feedback is used to facilitate a discussion between each individual director and the chairman; and
- assessing the performance of the chairman – a survey is circulated to each director and the responses are compiled by the company secretary. The results are provided to the chairman and discussed with the chair of the human resources and sustainability committee.

The periodic use of external facilitators, to evaluate board performance, is recommended in the 3rd edition of the ASX's corporate governance principles and recommendations. Synergy has adopted a two year board evaluation cycle and, for the current reporting period, this was completed by conducting an internal self-assessment process. An externally facilitated evaluation will be completed by the end of April 2017.

DIRECTORS' **REPORT**

Executive performance

Contracts of employment for executive officers, are unlimited in term but generally these contracts are capable of termination by the executive officers on four weeks' notice, and the corporation retains the right to terminate the contract immediately by making payment equal to a maximum of 52 weeks' pay in lieu of notice. The executive officers are also entitled to receive, on termination of employment, their statutory entitlements of accrued annual and long service leave together with any superannuation benefits. Fixed compensation consists of base compensation (which is calculated on a total cost basis, including accrued annual leave and long service leave entitlements, and fringe benefit taxation charges related to employee benefits) as well as the corporation's contribution to superannuation funds.

The chief executive officer has a contract of employment with the corporation that commenced on 1 January 2014. The contract specifies the duties and obligations to be fulfilled by the chief executive officer and provides that the board and chief executive officer will, early in each financial year, consult and agree on the objectives for achievement during that year. The contract can be terminated either by the corporation providing 12 months' notice, or the chief executive officer providing six months' notice. All contracts provide for no entitlement to termination payments in the event of termination for serious misconduct.

Board composition

In accordance with the Act, the board must comprise of not less than four and not more than eight directors appointed by the Governor of Western Australia on the nomination of the Minister. The skills matrix in Table 2 sets out the areas of competence of Synergy's board of directors. Currently, one third of the board are female.

Table 2: areas of competence

Experience and competencies	Description
Financial and risk management	senior executive experience in financial accounting and reporting, corporate finance, risk and internal controls
Governance and board	prior experience as a board member or membership of governance bodies
Executive and strategic leadership	senior executive and strategic leadership experience
Industry (electricity)	senior executive experience in the electricity industry
HSE and sustainability	senior executive experience in health, safety, environment, social responsibility and sustainability
Capital projects and infrastructure	senior executive experience in capital projects, infrastructure and project management
Public policy	senior executive experience in public policy
Retail and marketing	senior executive experience in retail and/or marketing
Legal and regulatory	senior executive experience in regulatory and legal
Wholesale trading	senior executive experience in wholesale trading
Commodities	senior executive experience in commodities
HR/IR & change management	senior executive experience in HR/IR & change management
Information technology	senior executive experience in information technology

Director independence, conflicts of interest and length of service

The board charter outlines the criteria to be considered in assessing director independence. These criteria are based on the premise that a director must be independent of management and free of any business or other relationship that could materially interfere, or could reasonably be perceived to interfere, with the exercise of the director's unfettered and independent judgement.

Directors must keep the board advised on an ongoing basis of any interest that could potentially conflict with Synergy's interests. The board has developed procedures to assist directors on disclosing potential conflicts of interest. A director with an actual or potential conflict of interest in relation to a matter before the board is required to withdraw from the meeting while the matter is considered.

Under the Act, a director holds office for such period, not exceeding three years, as is specified in the instrument of his or her appointment and is eligible for re-appointment. Periods of appointment are structured to ensure approximately one third of directors retire each year.

Table 3 sets out the details of each director including their length of service, and independent status.

Code of conduct

Synergy's Code of Conduct (the Code) sets out standards for appropriate ethical and professional behaviour for directors, employees and contractors (collectively referred to as staff). It sets out the fundamental values that form the basis of, and underpin Synergy's business relationships.

The Code applies to all Synergy staff, which includes directors, employees, whether permanent, temporary, part-time, full-time, fixed term contract or casual, and contractors engaged to provide services to Synergy.

All staff are all responsible for ensuring their behaviour reflects the standards within the Code.

Managers and the executive have a special responsibility to support staff in achieving these standards through leading by example and raising awareness of the Code. Managers and the executive also have a duty to investigate and act accordingly where allegations of breaches of the Code are raised or suspected. The board has an oversight responsibility to ensure that management establishes and maintains proper frameworks, systems and processes to enable the effective implementation of the objectives underlying the Code.

It is every staff member's responsibility to report any breach of the Code, or any matter of serious concern.

It is mandatory that any breach involving fraud, corruption, collusion, dishonesty or misuse of Synergy funds, assets or information (including the suppression of information) be reported immediately. Any breach of the Code may be grounds for disciplinary action, up to and including termination of employment. Matters involving potential criminal conduct may be reported to the relevant authority.

Audit and compliance committee

The purpose of the audit and compliance committee is to assist the board to fulfil its corporate governance oversight responsibilities relating to financial reporting, internal control, compliance and audit. Synergy's website contains a link to the charter that governs the audit and compliance committee. The members of the audit and compliance committee and individual attendances at these meetings during the reporting period are set out in table 4.

Table 3: details of directors

Name of director	Length of service	Independent
Lyndon Rowe (chairman)	Chairman and director since August 2014	Yes
Kim Horne (deputy chairman)	Director since October 2014	Yes
Rob Bransby	Director since July 2015	Yes
Michele Dolin	Director since October 2014	Yes
Michael Goddard	Director since July 2013	Yes
David Hunt	Director since August 2014	Yes
Samantha Tough	Director since October 2014	Yes
Mark Chatfield	Ceased as a director on 31 July 2015	Yes

DIRECTORS' **REPORT**

Risk management

Risk management is a fundamental activity at Synergy, with risk management integrated into our major business processes. There is engagement at all levels within the corporation to minimise risks in all our activities.

In February 2016, the board concluded that the risk management component of the former sustainability and risk committee should become a stand-alone risk committee. The health and safety, environment and community components of the former sustainability and risk committee were recognised as primarily relating to people and culture type activities and the board agreed that these functions should be moved to the current human resources and sustainability committee. The changes to these committees took effect in March 2016. The purpose of the risk committee is to assist the board in setting components that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout Synergy. The charter that governs the risk committee is available on Synergy's website. The members of the risk committee and individual attendances at these meetings during the reporting period are set out in table 4.

Risk management framework

Synergy operates an enterprise-wide risk management system which provides a standardised and consistent process for the recognition and management of material risk, including economic, environmental and social sustainability risks, in accordance with Synergy's risk management policy. Synergy's risk management framework is aligned to ISO 31000, the international standard for risk management, and is reviewed annually by the board.

The risk committee has oversight of the risk management policy and framework and is responsible for ensuring that management has developed and implemented a sound risk management system. Management at all levels has responsibility for managing risk in their area of control. Support is provided by Synergy's risk function to ensure the framework is consistently and effectively applied.

As part of the FY2015-16 review, changes to the risk management framework included the implementation of a new compliance, audit and risk enterprise management system to enable better insights, better reporting, better decisions and therefore a better business.

Internal audit function

Synergy has an independent in-house internal audit team which is supplemented by external co-source providers. The independence and role of the internal audit function is governed by the Synergy internal audit charter which is approved by the audit and compliance committee. The head of internal audit has direct access to the audit and compliance committee members if required.

The internal audit function is an integral component of Synergy's governance process. Its primary objective is to provide independent and objective assurance and consulting activity designed to add value and improve Synergy's operations. Internal audit assists in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of Synergy's control and governance processes. The role of Synergy's internal audit function is to:

- periodically review compliance with policies, operating principles and codes of conduct to determine whether adequate controls are in place to ensure the requirements are met;
- conduct periodic assessment of the structure and effectiveness of the internal control framework in place over the operations used to provide information for financial reporting;
- conduct periodic assessment of management's systems and processes for generating significant and/or material disclosures;
- independently evaluate and monitor the adequacy of Synergy's internal identification, management and reporting of risk;
- conduct periodic assessment of compliance with the agreed remuneration structure;
- carry out any special investigations, appraisals, inspections and examinations in areas having financial, operational or management impact;
- undertake consultancy work either requested by management or identified by internal audit and report to the relevant management team the observations and recommendations and highlight to management the failure to take remedial action on audit issues previously raised.

Human resources and sustainability committee

The purpose of the human resources and sustainability committee is to assist the board to fulfil its corporate governance oversight responsibilities in relation to Synergy's human resources and sustainability policies and practices. Sustainability for the purposes of this charter includes matters relating to health, safety, environment and community relations.

Synergy's website contains a link to the charter that governs the human resources and sustainability committee. The members of the human resources and sustainability committee and individual attendances at these meetings during the reporting period are set out in table 4.

Table 4: directors, committee membership and directors' attendance at meetings during the reporting period.

	board meetings		audit and compliance committee		human resources and sustainability committee[1]		risk committee[2]	
	A	B	A	B	A	B	A	B
Lyndon Rowe	10	11	4	4	5	5	5	5
Kim Horne	11	11	N/A	N/A	5	5	3	4
Rob Bransby	10	11	N/A	N/A	1	1	N/A	N/A
Michele Dolin	11	11	4	4	N/A	N/A	1	1
Michael Goddard	11	11	4	4	N/A	N/A	5	5
David Hunt	11	11	N/A	N/A	5	5	N/A	N/A
Samantha Tough	11	11	N/A	N/A	N/A	N/A	3	5
Mark Chatfield	1	1	N/A	N/A	N/A	N/A	N/A	N/A

Ceased as a director during the reporting period.

A – number of meetings attended

B – number of meetings eligible to attend at the time the director held office during the year.

1 The membership of the former human resources and development committee changed when it became the current human resources and sustainability committee in March 2016.

2 The membership of the former sustainability and risk committee changed when it became a stand-alone risk committee in March 2016.

DIRECTORS' **REPORT**

Remuneration

The Minister for Energy determines total compensation for all non-executive directors. Non-executive directors do not receive performance-related compensation.

Details of the nature and emolument of each director of the corporation is set out in table 5.

Table 5: remuneration of directors and key management personnel 2015-16

30 June 2016	Note	Salary & fees*	Short-term benefits Other benefits^	Post employment Benefits	Termination benefits	Total Remuneration
Current directors						
Lyndon Rowe		550,895	-	52,335	-	603,230
Samantha Tough		68,995	-	6,555	-	75,550
Kim Horne		68,995	-	6,555	-	75,550
Michele Dolin		59,863	-	5,687	-	65,550
Robert Bransby	1	56,185	-	5,338	-	61,523
David Hunt		66,096	-	-	-	66,096
Michael Goddard		68,995	-	6,555	-	75,550
Former directors						
Mark Chatfield	2	5,756	-	547	-	6,303
Key management personnel (current)						
Jason Waters		524,850	40,649	30,000	-	595,498
Karl Matacz		387,094	4,642	36,774	-	428,510
Stephanie Unwin		383,529	38,555	22,334	-	444,418
Angie Young		362,890	18,336	30,000	-	411,226
Geoffrey Roberts		383,282	7,862	26,770	-	417,915
Kurt Baker		375,863	(8,476)	30,000	-	397,386
William Bargmann		351,884	5,940	33,429	-	391,253
Barry Ford		406,371	17,614	33,704	-	457,689
Gary Peel	3	282,587	39,246	30,374	-	352,208
Former key management personnel						
Jon D'Sylva	4	225,020	-	24,329	-	249,349

1. Non-executive director commenced 21 July 2015
2. Non-executive director resigned 31 July 2015
3. Acted as chief information officer from 29 June 2015 until 29 November 2015. He was officially appointed as CIO on 30 November 2015
4. Jon D'Sylva resigned as of 1 April 2016

* No salary increase or performance related bonus was paid other than to Jon D'Sylva and Gary Peel who both received bonuses in the 2016 financial year for services rendered prior to being appointed to the executive team.

^ Short-term benefits include net movement in annual leave and long service leave

Table 6: remuneration of directors and key management personnel 2014-15

30 June 2015	Note	Salary & fees	Short-term benefits Other benefits*	Post employment benefits Super/ retirement	Termination benefits	Total remuneration
Current directors^						
Lyndon Rowe		485,211	-	46,095	-	531,307
Samantha Tough		50,951	-	4,840	-	55,791
Kim Horne		50,591	-	4,840	-	55,431
Michele Dolin		44,256	-	4,200	-	48,456
Mark Chatfield		59,863	-	5,867	-	65,730
Michael Goddard		66,607	-	6,328	-	72,935
David Hunt		54,625	-	-	-	54,625
Former directors						
Michael Smith		6,754	-	642	-	7,395
Eric Hooper		3,837	-	365	-	4,202
Margaret Seares		2,302	-	219	-	2,521
Keith Spence		2,302	-	219	-	2,521
Key management personnel (current)						
Jason Waters		540,262	16,714	30,000	-	586,976
Karl Matacz		382,889	5,342	36,374	-	424,604
Stephanie Unwin	1	382,479	19,572	23,193	-	425,244
Angie Young		361,890	23,615	30,000	-	415,505
Geoffrey Roberts		376,041	12,045	35,353	-	423,439
Kurt Baker		373,983	(5,193)	30,000	-	398,790
William Bargmann		350,254	11,619	33,274	-	395,147
Barry Ford		407,598	16,028	35,000	-	458,626
Jon D'Sylva	2	160,147	41,261	15,214	-	216,622
Former key management personnel						
Alex Jones	3	352,043	(23,221)	33,718	-	358,540

^ Most current directors were appointed during the course of the 2015 financial year

* Other benefits include net movement in annual leave and long service leave liabilities which were recorded in profit or loss.

1. Stephanie Unwin was general manager commercial up to 14 December 2014. From 15 December 2014 to present she also holds the position of chief transformation officer.
2. Jon D'Sylva was appointed as acting general manager commercial on 1 January 2015. Prior to that he was part of the senior leadership team.
3. Resigned from position on 27 June 2015.

Principal activities

The principal activities of the corporation during the course of the year are listed below:

- electricity and gas retailing;
- generate, purchase or otherwise acquire, and supply electricity from various sources of energy including renewable sources;
- acquire, transport and supply gas and steam;
- acquire, develop, operate and supply energy-efficient technologies;
- provide ancillary services;
- provide the Regional Power Corporation with consultative and advisory services in relation to electricity generation and on their behalf operate and maintain electricity generation plant or equipment;
- undertake, maintain and operate any works, system, facilities, apparatus or equipment required for the above.

Indemnification of directors and officers

During the reporting period, a directors' and officers' Liability Insurance Policy was maintained to ensure that the directors and officers had adequate coverage. The policy indemnifies directors and officers of the corporation from losses arising from a claim or claims made against them, jointly or severally during the period of insurance by reason of any wrongful act (as defined in the policy) in their capacity as a director or officer of the corporation.

Events after the reporting period

There were no significant events after the reporting period.

FINANCIAL **REPORT**

CONTENTS

Statement of comprehensive income

For the year ended 30 June 2016

	Note	Group 2016 $'000	Group 2015 $'000	Corporation 2016 $'000	Corporation 2015 $'000
Continuing operations					
Sales revenue	1	2,787,764	2,828,544	2,730,742	2,761,726
Other revenue	2	309,821	388,462	317,725	388,037
Total revenue		**3,097,585**	**3,217,006**	**3,048,467**	**3,149,763**
Fuel, networks and other direct costs	4	(2,146,322)	(2,083,746)	(2,142,500)	(2,074,256)
Raw materials and services used		(382,875)	(467,013)	(381,710)	(450,042)
Employee expenses	5	(146,749)	(176,929)	(146,182)	(176,259)
Other expenses	6	(163,617)	(146,315)	(162,036)	(144,057)
Depreciation and amortisation	16/17	(181,059)	(206,853)	(164,371)	(190,165)
Impairment (losses) / reversal	7	(14,239)	(17,559)	(14,239)	59,406
Total expenses		**(3,034,861)**	**(3,098,415)**	**(3,011,038)**	**(2,975,373)**
Other operating income		23,526	16,049	26,442	16,049
Finance income		10,260	11,833	11,712	10,734
Finance costs		(56,639)	(74,455)	(55,194)	(64,822)
Net finance costs	8	**(46,379)**	**(62,622)**	**(43,482)**	**(54,088)**
Share of profit from joint ventures	29	811	7,274	-	-
Share of loss from an associate	30	-	(179)	-	-
Profit before tax from continuing operations		**40,682**	**79,113**	**20,389**	**136,351**
Income tax expense	10	(6,996)	(22,203)	(6,753)	(44,420)
Profit for the year from continuing operations		**33,686**	**56,909**	**13,636**	**91,931**
Discontinued operations					
Profit / (loss) after tax for the year from discontinued operations	9	(1,349)	237	2,600	7,100
Profit for the year		**32,337**	**57,147**	**16,236**	**99,031**
Other comprehensive income (OCI)					
Items that may be reclassified subsequently to profit or loss					
Changes in fair value of cash flow hedges, net of tax		(372)	736	(372)	253
Net change in fair value of cash flow hedges transferred to profit and loss, net of tax		(886)	1,076	-	1,076
Share of joint venture entities other comprehensive income, net of tax	29	593	377	-	-
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods, net of tax		(665)	2,189	(372)	1,329
Items that will not be reclassified subsequently to profit or loss					
Re-measurement gains on defined benefit plans, net of tax		(1,359)	(2,407)	(1,359)	(2,407)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods, net of tax		(1,359)	(2,407)	(1,359)	(2,407)
Other comprehensive loss for the year, net of tax		**(2,024)**	**(218)**	**(1,731)**	**(1,078)**
Total comprehensive income for the year		**30,313**	**56,929**	**14,505**	**97,953**

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

As at 30 June 2016

	Note	Group 2016 $'000	Group 2015 $'000	Corporation 2016 $'000	Corporation 2015 $'000
Current assets					
Cash and short term deposits	12a	251,341	197,149	225,051	172,971
Trade and other receivables	13	397,899	368,196	531,603	515,710
Loans and advances	23	-	-	16,800	-
Inventories	14	158,515	172,781	158,264	169,356
Derivative financial instruments	20a	19,738	1,599	19,738	1,599
Lease receivable	34	-	1,802	-	1,802
Other financial assets	12b	82,000	86,000	82,000	86,000
Current tax receivable		-	67,902	-	67,902
Intangible assets	17	41,545	44,143	41,545	44,143
Assets held for sale	9	6,700	-	24,474	-
Total current assets		**957,738**	**939,572**	**1,099,475**	**1,059,483**
Non-current assets					
Loans and advances	23	-	-	75,834	-
Property, plant and equipment	16	1,731,026	1,853,450	1,598,086	1,708,965
Intangible assets	17	86,852	84,623	53,485	46,112
Investment in joint ventures	29	24,220	33,340	13,643	37,994
Investment in associate	30	-	-	179	179
Deferred tax assets	11	24,042	-	27,214	-
Total non-current assets		**1,866,140**	**1,971,413**	**1,768,441**	**1,793,250**
Total assets		**2,823,878**	**2,910,985**	**2,867,916**	**2,852,733**
Current liabilities					
Trade and other payables	15	419,016	460,635	417,737	461,798
Current tax liabilities		11,931	-	11,931	-
Derivative financial instruments	21a	1,368	12,013	1,368	4,126
Interest bearing loans and borrowings	21b	53,100	43,907	53,100	27,294
Finance lease liabilities	21c	6,565	5,761	6,565	5,761
Employee benefits	18	32,295	35,899	32,218	35,834
Provisions	19	110,207	36,066	110,207	36,066
Deferred income		2,169	2,916	2,169	2,916
Total current liabilities		**636,651**	**597,197**	**635,295**	**573,795**
Non-current liabilities					
Trade and other payables	15	2,100	2,100	2,100	2,100
Interest bearing loans and borrowings	21b	196,708	248,276	196,708	154,469
Finance lease liabilities	21c	225,470	232,034	225,470	232,034
Employee benefits	18	36,863	34,974	36,863	35,659
Provisions	19	647,914	681,967	647,914	681,967
Deferred income		18,197	6,359	18,197	6,359
Deferred tax liabilities	11	-	8,085	-	5,155
Total non-current liabilities		**1,127,252**	**1,213,795**	**1,127,252**	**1,117,743**
Total liabilities		**1,763,903**	**1,810,992**	**1,762,547**	**1,691,538**
Net assets		**1,059,975**	**1,099,993**	**1,105,369**	**1,161,195**
Equity					
Contributed equity	27	1,292,744	1,292,744	1,292,744	1,292,744
Accumulated losses		(229,138)	(189,785)	(187,750)	(132,296)
Reserves		(3,631)	(2,966)	375	747
Total equity		**1,059,975**	**1,099,993**	**1,105,369**	**1,161,195**

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the year ended 30 June 2016

	Note	Contributed equity $'000	Accumulated losses $'000	Hedging reserve $'000	Total $'000
Group					
Balance at 1 July 2014		**1,292,744**	**(189,785)**	**(2,966)**	**1,099,993**
Profit for the year		-	57,147	-	57,147
Other comprehensive income/(loss)	27	-	(2,407)	2,189	(218)
Total comprehensive income for the year, net of tax		-	54,740	2,189	56,929
Dividend paid	27	-	(83,567)	-	(83,567)
Balance at 30 June 2015		**1,292,744**	**(189,785)**	**(2,966)**	**1,099,993**
Balance at 1 July 2015		**1,292,744**	**(189,785)**	**(2,966)**	**1,099,993**
Profit for the year		-	32,337	-	32,337
Other comprehensive loss	27	-	(1,359)	(665)	(2,024)
Total comprehensive income for the year, net of tax		-	30,978	(665)	30,313
Dividend paid	27	-	(70,331)	-	(70,331)
Balance at 30 June 2016		**1,292,744**	**(229,138)**	**(3,631)**	**1,059,975**
Corporation					
Balance at 1 July 2014		**1,292,744**	**(145,353)**	**(582)**	**1,146,809**
Profit for the year		-	99,031	-	99,031
Other comprehensive income/(loss)	27	-	(2,407)	1,329	(1,078)
Total comprehensive income for the year, net of tax		-	96,624	1,329	97,953
Dividend paid	27	-	(83,567)	-	(83,567)
Balance at 30 June 2015		**1,292,744**	**(132,296)**	**747**	**1,161,195**
Balance at 1 July 2015		**1,292,744**	**(132,296)**	**747**	**1,161,195**
Profit for the year		-	16,236	-	16,236
Other comprehensive loss	27	-	(1,359)	(372)	(1,731)
Total comprehensive income for the year, net of tax		-	14,877	(372)	14,505
Dividend paid	27	-	(70,331)	-	(70,331)
Balance at 30 June 2016		**1,292,744**	**(187,750)**	**375**	**1,105,369**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

For the year ended 30 June 2016

		Group		Corporation	
	Note	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Operating activities					
Cash receipts from customers		3,436,706	3,896,011	3,396,475	3,832,194
Energy purchase and network access costs		(2,572,324)	(2,805,096)	(2,567,339)	(2,778,338)
Payments to suppliers and employees		(663,907)	(788,697)	(651,383)	(771,315)
Interest received		9,050	14,160	10,429	13,061
Interest paid		(10,910)	(36,082)	(9,465)	(19,538)
Income tax received (paid)		40,710	(44,111)	40,710	(44,112)
Net cash flows from operating activities	12d	**239,325**	**236,185**	**219,427**	**231,952**
Investing activities					
Investments in joint ventures		(123)	6,522	(123)	6,900
Investment in deposits		(82,000)	(86,000)	(82,000)	(86,000)
Loans to subsidiaries		-	-	(105,234)	-
Repayment of loans by subsidiaries		-	-	12,600	-
Proceeds from deposits		86,000	-	86,000	-
Dividends received from investments		2,600	-	2,600	-
Payment for property, plant and equipment		(60,195)	(42,212)	(60,195)	(42,199)
Payment for intangible assets		(19,277)	(26,350)	(19,277)	(26,350)
Proceeds from disposal of assets		568	370	568	370
Net cash flows used in investing activities		**(72,427)**	**(147,670)**	**(165,061)**	**(147,279)**
Financing activities					
Proceeds from borrowings		105,234	-	105,234	-
Repayment of borrowings		(147,609)	(316,411)	(37,189)	(300,000)
Dividend paid		(70,331)	(83,567)	(70,331)	(83,567)
Net cash flows used in financing activities		**(112,706)**	**(399,978)**	**(2,286)**	**(383,567)**
Net increase/(decrease) in cash and cash equivalents		54,192	(311,463)	52,080	(298,894)
Cash and cash equivalents at 1 July	12a	197,149	508,612	172,971	471,865
Cash and cash equivalents at 30 June	12a	**251,341**	**197,149**	**225,051**	**172,971**

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements: about this report

For the year ended 30 June 2016

Corporate information

The consolidated financial statements of the Electricity Generation and Retail Corporation, trading as Synergy (the Corporation) and its subsidiaries (collectively, the Group) for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of the directors on 17 August 2016.

The Corporation is a not-for-profit entity, incorporated under the *Electricity Corporations Act 2005 (WA)*.

The Group is primarily involved in generation and supply of electricity, retailing of electricity and gas, trading of energy, wholesale supply of gas and steam and provision of ancillary services.

Basis of preparation

This financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the disclosure requirements of Schedule 4 of the *Electricity Corporations Act 2005 (WA)* and the *Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013*. The Corporation has applied the not-for-profit elections available in the Australian Accounting Standards where applicable.

The accounting policies adopted in the preparation of this financial report have been consistently applied throughout all periods presented unless otherwise stated.

This financial report utilises both an accruals and historical cost basis, except for derivative financial instruments and defined benefit obligations, which are measured at fair value.

The Group presents assets and liabilities, in the statement of financial position, based on a current/non-current classification. An asset or liability is current when it is either; expected to be realised, or intended to be consumed, within the normal operating cycle, or twelve months after the reporting period; held primarily for the purpose of trading; or where there is no unconditional right to defer the settlement of a liability for at least twelve months after the reporting period.

All other assets and liabilities are classified as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities.

This financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

Foreign currency

The Group's consolidated financial statements are presented in Australian dollars, which is also the Corporation's functional currency. Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

Comparatives

Comparative information is for the financial year ended 30 June 2015. Certain comparative amounts in the statement of financial position have been reclassified to conform to the current year's presentation (see Notes 15 and 19).

Key judgements and estimates

In the process of applying the Group's accounting policies, management has made a number of judgements, estimates and assumptions that affect the reported assets, liabilities, revenues and expenses. Judgements and estimates are based on inputs available when the consolidated financial statements are prepared and may change due to market changes or other circumstances arising that are beyond management's control.

Key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are detailed, where applicable, in the following notes to the financial statements.

Notes to the financial statements: segment information

For the year ended 30 June 2016

- Revenue recognition – retail sales of energy: Notes 1 and 2
- Impairment allowance for receivables: Note 13
- Defined benefit plans (pension benefits): Note 18
- Employee entitlements: Note 18
- Provision for decommissioning: Note 19
- Provision for commodity swaps: Note 19
- Classification of lease commitments: Note 21
- Fair value of financial instruments: Note 22

Other accounting policies

Significant and other accounting policies that summarise the recognition and measurement basis used and that are relevant to an understanding of the financial statements are provided, where appropriate, throughout the notes to the financial statements.

The notes to the financial statements

The notes to the financial statements are grouped together into sections and include, where applicable, a summary of the accounting policies, judgements and estimates relevant to understanding them.

Segment information

Segment reporting for the Group is required under Part 2 of *The Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013*.

For management purposes, the Group is organised into business units based on functions and activities. The Group has four reportable operating segments detailed as follows:

- **Generation business unit (GBU):** This manages operations involving the construction or operation of generating works (as defined in the *Electricity Industry Act 2004* section 3), and the operations of a controlled entity, Vinalco.
- **Wholesale business unit (WBU):** This manages operations involving the wholesale acquisition or supply of electricity (including pricing in respect of such acquisition or supply), or the acquisition or supply of wholesale products (including pricing in respect of such acquisition or supply).
- **Retail business unit (RBU):** This manages operations involving the pricing, sale and marketing of electricity to customers served by the South West interconnected system.
- **Corporate shared services (CSS):** This manages operations relating to the following activities: corporate planning and strategy; organisational development; accounting, financial and legal matters; human resources; information technology support; regulatory and compliance matters; communications; billing; record keeping, and any other operations (excluding generation operations, wholesale operations and retail operations) undertaken in connection with two or more business units.

No operating segments have been aggregated in arriving at the reportable segments of the Group.

There are varying levels of integration between the WBU, the GBU and the RBU. This integration includes transfers of energy and related products and shared distribution services. Where appropriate, any inter-segment pricing is determined on an arm's length basis.

The Group's CEO and executive management team review internal management reporting of each business unit on a monthly basis for the purpose of making decisions.

The accounting policies of the reportable segments are the same as the Group's accounting policies described elsewhere in this financial statement. Segment profit/(loss) represent the profit/(loss) before tax earned by each segment without allocation of central administration costs and directors' salaries, depreciation, investment income and finance costs and income tax.

Inter-segment revenues are eliminated upon consolidation and reflected in the eliminations column. Currently, there exists the following formal arrangements. An arrangement between WBU and RBU whereby WBU sells energy to RBU on an arms-length basis, and an arrangement between WBU and GBU whereby GBU is compensated for both maintaining and making available a fleet of plant, as well as the efficient utilisation of that plant. No transfer pricing arrangements exist between CSS and other business units.

Notes to the financial statements: segment information

For the year ended 30 June 2016

Segment information - continued

Year ended 30 June 2016	GBU $'000	WBU $'000	RBU $'000	CSS $'000	Eliminations $'000	Group $'000
Revenue						
External customers	98,375	278,848	2,719,088	1,274	-	3,097,585
Inter-segment	521,548	1,452,972	-	-	(1,974,520)	-
Total Revenue	**619,923**	**1,731,820**	**2,719,088**	**1,274**	**(1,974,520)**	**3,097,585**
Results						
EBITDA	354,301	147,364	(116,929)	(111,827)	(5,600)	267,309
Depreciation and amortisation	(143,185)	(13,458)	(10,200)	(15,893)	1,677	(181,059)
Segment profit (loss)	**211,116**	**133,906**	**(127,129)**	**(127,720)**	**(3,923)**	**86,250**
Unallocated items						
Finance income						10,260
Finance expense						(56,639)
Share of profit of joint ventures and an associate						811
Tax equivalent expense						(6,996)
Profit for the year from continuing operations						**33,686**

Year ended 30 June 2015	GBU $'000	WBU $'000	RBU $'000	CSS $'000	Eliminations $'000	Group $'000
Revenue						
External customers	100,064	290,647	2,812,490	13,805	-	3,217,006
Inter-segment	-	1,544,212	-	-	(1,544,212)	-
Total Revenue	**100,064**	**1,834,859**	**2,812,490**	**13,805**	**(1,544,212)**	**3,217,006**
Results						
EBITDA	(613,715)	1,049,053	4,875	(98,720)	-	341,493
Depreciation and amortisation	(173,721)	(11,917)	(11,738)	(9,477)	-	(206,853)
Segment profit (loss)	**(787,436)**	**1,037,136**	**(6,863)**	**(108,197)**	**-**	**134,640**
Unallocated items						
Finance income						11,833
Finance expense						(74,455)
Share of profit of joint ventures and an associate						7,094
Tax equivalent expense						(22,203)
Profit for the year from continuing operations						**56,909**

Notes to the financial statements

For the year ended 30 June 2016

1. Sales revenue

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Sale of energy- retail customers	2,389,650	2,433,634	2,389,648	2,433,634
Sale of energy- wholesale customers	316,328	316,770	259,308	259,825
Sale of energy- other	61,249	58,756	61,249	48,883
Account fees and charges	20,537	19,384	20,537	19,384
Total sales revenue	**2,787,764**	**2,828,544**	**2,730,742**	**2,761,726**

2. Other revenue

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Tariff adjustment payments	307,671	386,008	307,671	386,008
Contract works and grants	950	2,434	8,854	2,009
Foreign exchange gain	-	-	-	-
Government grants	1,200	20	1,200	20
Total other revenue	**309,821**	**388,462**	**317,725**	**388,037**

Recognition, measurement and accounting estimates

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable and excluding taxes or duty. The specific recognition criteria described below must also be met before revenue is recognised.

Sale of energy

Sale of energy comprises revenue earned from the provision of electricity, gas and related products to wholesale and retail customers.

Revenue recognised represents the sum of invoices raised and the movement in the estimated unread energy consumption. A portion of the Corporation's retail energy revenue is based on estimated unread energy consumption. Unread energy consumption represents the estimated value of electricity and gas provided to customers but not invoiced. This assessment is based on historical data, adjusted for changes in consumption patterns, if any.

Sale of energy-other

Other sales comprise revenue earned from fuel sales, steam sales, renewable energy certificates, spinning reserve and other related goods and services incidental to the Group's core activities and are recognised when the significant risks and rewards of ownership have been transferred to customers.

Contract works

Revenue is recognised by reference to the stage of completion. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Dividends

Revenue is recognised when the Group's right to receive the payment is established, which is generally when the shareholder approves the dividend.

Government grants

An unconditional government grant is recognised as revenue when the grant becomes receivable.

3. Economic dependency

The Corporation, at the direction of the State Government, is not permitted to charge its retail customers cost reflective tariffs. To subsidise the Corporation for the difference between cost reflective tariffs and the gazetted retail tariffs charged to customers, the Corporation receives Tariff Adjustment Payments (TAP) from the State Government. The Corporation has a significant economic dependency on the TAP it receives.

4. Fuel, networks and other direct costs

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Fuel, electricity and gas purchases	(856,739)	(871,253)	(852,917)	(863,661)
Network access and market participant costs	(1,170,166)	(1,121,489)	(1,170,166)	(1,119,591)
Renewable energy certificates	(119,417)	(91,004)	(119,417)	(91,004)
Total fuel, networks and other direct costs	**(2,146,322)**	**(2,083,746)**	**(2,142,500)**	**(2,074,256)**

Community service obligations

Community Service Obligations (CSOs) are obligations to perform functions, on behalf of the State Government, that are not in the commercial interests of the Corporation to perform. Where the Government agrees to reimburse the Corporation for the cost of CSOs, the entitlement to reimbursement is recognised in the statement of comprehensive income on a basis consistent with the associated CSO expenses and when the right to receive the payment is established. The cost of CSOs if not fully reimbursed is reflected under direct costs above.

The Corporation is reimbursed for the following CSO's:

- Feed in Tariff (FiT) rebates and Renewable Energy Buyback Scheme (REBS);
- Supply charge rebates and Energy Assistance Payments (EAP);
- Dependent child rebates;
- Caravan park subsidy; and
- Air conditioning subsidy for seniors.

5. Employee expenses

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Wages and salaries	(120,404)	(140,052)	(119,881)	(139,428)
Termination benefits	(13,230)	(21,595)	(13,230)	(21,595)
Post employment benefits	(13,115)	(15,282)	(13,071)	(15,236)
Total employee expenses	**(146,749)**	**(176,929)**	**(146,182)**	**(176,259)**

Remuneration detail of directors and key management personnel has been disclosed in the directors' report.

6. Other expenses

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Metering	(6,885)	(9,089)	(6,885)	(9,089)
Communications	(5,270)	(5,727)	(5,263)	(5,723)
Contractors and consultants	(88,524)	(74,132)	(88,479)	(73,621)
Commissions	(3,358)	(7,561)	(3,358)	(7,561)
Insurance	(8,879)	(9,404)	(7,529)	(7,910)
Legal fees	(2,600)	(4,595)	(2,591)	(4,595)
Promotions and advertising	(5,460)	(6,157)	(5,460)	(6,157)
Operating lease rentals	(9,866)	(8,617)	(9,790)	(8,516)
Training and recruitment	(2,896)	(3,249)	(2,896)	(3,249)
Audit services - Office of Auditor General	(399)	(419)	(382)	(389)
Audit services - other	(124)	(53)	(115)	(35)
Foreign exchange loss	-	(1,977)	-	(1,977)
Loss on disposal/write off of assets	(12,162)	(115)	(12,162)	(115)
Computer software	(1,660)	(2,271)	(1,657)	(2,250)
Printing	(1,304)	(1,203)	(1,304)	(1,200)
Other	(14,230)	(11,746)	(14,165)	(11,670)
Total other expenses	**(163,617)**	**(146,315)**	**(162,036)**	**(144,057)**

Recognition, measurement and accounting estimates

Operating leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Operating lease payments are recognised as an operating expense in the statement of comprehensive income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Lease incentives are capitalised at the inception of the lease and amortised on a straight-line basis as a reduction in rental expense over the term of the lease.

7. Impairment (losses)/reversal

		Group		Corporation	
	Note	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Impairment allowance/(reversal) for receivables	13	(14,239)	(5,118)	(14,239)	71,847
Work in progress write off	16	-	(12,441)	-	(12,441)
Balance at 30 June		**(14,239)**	**(17,559)**	**(14,239)**	**59,406**

In 2015 the Corporation's impairment of assets includes $77.0 million impairment write back on corporate investments

8. Net finance costs

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Interest income	10,260	11,833	11,712	10,734
Interest on loans and borrowings	(4,048)	(20,197)	(1,717)	(10,564)
Finance lease interest expense	(30,853)	(31,390)	(30,853)	(31,390)
Unwinding of discount on provisions	(22,624)	(23,308)	(22,624)	(23,308)
Gain on interest rate swaps	886	440	-	440
Total finance costs	(56,639)	(74,455)	(55,194)	(64,822)
Net finance costs	**(46,379)**	**(62,622)**	**(43,482)**	**(54,088)**

Recognition, measurement and accounting estimates

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset.

All other borrowing costs are expensed in the period in which they occur.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Interest Income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available-for-sale, interest income is recorded using the effective interest rate. Interest income is included as finance income in the statement of comprehensive income.

9. Discontinued operations

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Share of profit/(loss) recognised in profit or loss	(1,349)	237	2,600	7,100
Profit/(loss) for the year from discontinued operations	**(1,349)**	**237**	**2,600**	**7,100**

On 25 April 2016, the Group advised the Board of Directors of Mumbida Wind Farm Holdings Pty Ltd that it is proposing to sell its interest in the Mumbida wind farm project by selling its 50% shareholding in Mumbida Wind Farm Holdings Pty Ltd. At the reporting date, the sale has not been finalised and the asset is being marketed for sale. The accounting policy for the available-for-sale financial instruments is included in Note 20.

	Group	Corporation
	2016 $'000	2016 $'000
Investment in Mumbida Wind Farm Holdings Pty Ltd	6,700	24,474
Net Assets directly associated with assets held for sale	6,700	24,474
Net cash inflow from discontinued operations	2,600	2,600

Notes to the financial statements
For the year ended 30 June 2016

10. Income tax expense

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Profit before income tax from continuing operations	40,682	79,113	20,389	136,351
Profit before income tax from discontinued operations	(1,349)	237	2,600	7,100
Profit before income tax	**39,333**	**79,350**	**22,989**	**143,451**
Income tax using the domestic Corporation tax rate of 30%	(11,800)	(23,805)	(6,897)	(43,032)
Effect of:				
Exempt / (non-deductible) items	(10)	(75)	(10)	(75)
Over provided tax benefit in respect of prior year	85	6	85	6
Recognition of previously unrecognised deductible/(taxable) temporary differences	180	287	180	-
Derecognition of previous recognised deductible temporary difference	-	(236)	-	(236)
Recognition of (taxable)/deductible temporary differences	(244)	(1,159)	-	-
Deductible temporary differences not recognised	(1,011)	(1,245)	(1,011)	(1,246)
Taxable temporary differences not recognised	5,804	4,024	900	163
Income tax expense	**(6,996)**	**(22,203)**	**(6,753)**	**(44,420)**
Income tax reported in the statement of profit or loss	**(6,996)**	**(22,203)**	**(6,753)**	**(44,420)**
Income tax attributable to discontinued operations	**-**	**-**	**-**	**-**

The tax rate used for the 2016 and 2015 reconciliation above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

10. Income tax expense - continued

The major components of income tax expense for the years ended 30 June 2016 and 30 June 2015 are:

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Other Comprehensive Income				
Current tax expense	**(38,441)**	**(6,308)**	**(38,441)**	**(6,308)**
Deferred tax benefit/(expense)				
Origination and reversal of temporary differences	31,445	(15,895)	31,688	(38,112)
Income tax expense in the Statement of Comprehensive Income	**(6,996)**	**(22,203)**	**(6,753)**	**(44,420)**
Statement of OCI				
Deferred tax related to items recognised in OCI during the year				
Net gain/(loss) on revaluation of cash flow hedges	100	(570)	100	(570)
Net gain/(loss) on defined benefit re-measurement	582	1,032	582	1,032
Income tax charged to OCI	**682**	**462**	**682**	**462**

11. Deferred tax

	Group		Corporation		Movement	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000	Group $'000	Corporation $'000
Deferred income tax relating to:						
Trade and other receivables	4,614	3,041	4,614	3,041	1,573	1,573
Lease receivables	-	11	-	11	(11)	(11)
Derivative financial instruments	(5,511)	758	(5,511)	758	(6,269)	(6,269)
Investments	-	-	180	-	-	180
Intangibles	2,197	2,218	2,197	2,218	(21)	(21)
Trade and other payables	7,262	4,470	7,262	4,470	2,792	2,792
Finance lease liability	69,610	71,339	69,610	71,339	(1,729)	(1,729)
Employee benefits	22,190	21,852	22,190	21,852	338	338
Provisions	105,002	87,254	105,002	87,254	17,748	17,748
Business related costs	964	1,443	963	1,444	(479)	(481)
Total deferred tax asset	**206,328**	**192,386**	**206,507**	**192,387**	**13,942**	**14,120**
Inventories	(32,601)	(35,867)	(32,601)	(35,867)	3,266	3,266
Investments	(2,993)	(2,929)	-	-	(64)	-
Property, plant and equipment	(146,692)	(161,390)	(146,692)	(161,390)	14,698	14,698
Reserves	-	(285)	-	(285)	285	285
Total deferred tax liability	**(182,286)**	**(200,471)**	**(179,293)**	**(197,542)**	**18,185**	**18,249**
Net deferred tax asset/(liability)	**24,042**	**(8,085)**	**27,214**	**(5,155)**	**32,127**	**32,369**

11. Deferred tax - continued

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
The (increase)/decrease in deferred tax balance relates to:				
Amounts recognised in the Statement of Comprehensive Income				
Trade and other receivables	1,573	(1,973)	1,573	(25,063)
Lease receivable	(11)	(51)	(11)	(51)
Derivative financial instruments	(6,370)	(592)	(6,370)	(592)
Investments	(64)	(1,108)	180	(236)
Intangibles	(21)	1,292	(21)	1,292
Trade and other payables	2,792	(19,059)	2,792	(19,059)
Finance lease liability	(1,728)	(1,516)	(1,728)	(1,516)
Employee benefits	(244)	(7,012)	(244)	(7,012)
Provisions	17,748	9,855	17,748	9,855
Business related costs	(480)	(482)	(481)	(481)
Inventories	3,266	(7,876)	3,266	(7,876)
Property, plant and equipment	14,699	12,627	14,699	12,627
Reserves	285	-	285	-
	31,445	**(15,895)**	**31,688**	**(38,112)**

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
The (increase)/decrease in deferred tax balance relates to:				
Amounts recognised in OCI				
Derivative financial instruments	100	(570)	100	(570)
Defined benefit re-measurement	582	1,032	582	1,032
	682	**462**	**682**	**462**

As at 30 June 2016, deferred tax assets have not been recognised in respect of tax losses and deductible temporary differences of $13.7million for the Group and deductible temporary differences of $8.3 million for the Corporation (2015: $11.8 million for the Group and $7.5 million for the Corporation) as it was not probable that in the foreseeable future sufficient income of that category would be generated for such temporary differences to be reversed.

11. Deferred tax - continued

Recognition, measurement and accounting estimates

Tax equivalent expense

The Corporation operates under the National Taxation Equivalent Regime (NTER). While tax equivalent payments are remitted to WA Treasury, the Corporation's tax is subject to Australian Taxation Office (ATO) administration. The calculation of the liability in respect of income tax is governed by the Income Tax Administration Acts and the NTER guidelines as agreed by the State Government.

Income tax equivalent expense comprises current and deferred tax. Income tax equivalent expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current equivalent income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date. Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred income tax liabilities and tax assets are recognised for all temporary differences except when the deferred tax liabilities and assets arise from the following: the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled, it is probable that the temporary differences will not reverse in the foreseeable future taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax equivalent liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

12. Cash and short-term deposits

a) Cash and cash equivalents

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Cash at bank and on hand	251,341	197,149	225,051	172,971
Total cash and cash equivalent	**251,341**	**197,149**	**225,051**	**172,971**

Cash at bank earns interest at floating rates based on daily bank deposit rates.

b) Other financial assets

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Term deposits greater than 3 months	82,000	86,000	82,000	86,000

Term deposits earn interest at fixed rates based on bank deposit rates at the inception of the term deposit. Term deposits are made for varying periods of between three and six months, depending on the cash requirements of the Group.

12. Cash and short term deposits - continued

c) Recognition, measurement and accounting estimates

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and on hand and short-term deposits with a maturity of three months or less.

For the purpose of the consolidated statement of cash flows, consist of cash and cash equivalents and short term deposits, as defined above, net of outstanding bank overdrafts.

d) Reconciliation of profit to net cash flows from operating activities

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Reconciliation of cash flows from operating activities				
Profit for the year from continuing operations	33,686	56,910	13,636	91,931
(Loss)/profit for the year from discontinued operations	(1,349)	237	2,600	7,100
	32,337	57,147	16,236	99,031
Adjustments for:				
Loss on disposal of property, plant and equipment	12,162	115	12,162	115
Depreciation and amortisation	181,059	206,852	164,371	190,165
Impairment loss on trade receivables	14,239	5,118	14,239	(71,848)
Impairment loss on inventory	-	7,049	-	7,049
Impairment of plant and equipment	-	12,432	-	14,727
Accrued interest	(1,210)	-	(1,283)	-
Dividend received from discontinued operations	-	-	(2,600)	(7,100)
Non-cash interest expense	22,624	23,308	22,624	23,308
Unused financial guarantee liability	-	-	(3,000)	-
Share of loss of joint venture entities and an associate	(55)	(7,332)	-	-
	261,156	304,689	222,749	255,447
Changes in trade and other receivables	(93,967)	63,054	(64,018)	73,547
Changes in inventories	14,266	(15,067)	11,092	(14,860)
Changes in intangible assets	(2,598)	(7,139)	(2,598)	(9,434)
Changes in derivative financial instruments and investment	28,784	(2,109)	20,897	(2,485)
Changes in tax assets and liabilities	47,706	(21,909)	47,464	309
Changes in trade and other payables	(30,412)	(59,673)	(29,852)	(45,575)
Changes in provisions and others	14,390	(25,661)	13,693	(24,997)
Net cash from operating activities	**239,325**	**236,185**	**219,427**	**231,952**

13. Trade and other receivables

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Trade receivables, net impairment allowance	157,771	156,023	157,771	146,951
Unbilled receivables	214,221	193,314	209,380	193,314
Inter-group receivables, net impairment allowance	-	-	138,673	158,066
Commodity swaps	856	-	856	-
Other receivables	16,396	5,564	16,470	10,552
Prepayments	8,566	8,307	8,453	6,827
Deposits	89	4,988	-	-
Total current trade and other receivables	**397,899**	**368,196**	**531,603**	**515,710**

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days.

As at 30 June 2016, trade receivables of an initial value of $15.4 million Group and $15.4 million Corporation (2015: $10.1 million Group and $10.1 million Corporation) were impaired and fully provided for. See below for the movements in the allowance for impairment of receivables.

At the end of the reporting period the Group and the Corporation held collateral of $12.7 million (2015: $13.0 million) in the form of bank guarantees and cash deposits.

	Group		Corporation	
Allowance for impairment of receivables	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Balance at 1 July	(10,136)	(16,797)	(10,136)	(93,763)
Charge for the year, net recoveries	(14,239)	(5,118)	(14,239)	(5,118)
Reversal during the year	-	-	-	76,965
Amount written-off during the year	8,946	11,779	8,946	11,780
Balance at 30 June	**(15,429)**	**(10,136)**	**(15,429)**	**(10,136)**

As at 30 June, the ageing analysis of trade and inter-group receivables is as follows:

			Past due but not impaired			
	Total $'000	Neither past due or impaired $'000	< 30 days $'000	30-90 days $'000	>91 days $'000	Impaired $'000
Group						
2016	173,200	72,808	29,003	20,411	35,549	15,429
2015	166,159	83,197	29,998	14,571	28,257	10,136
Corporation						
2016	311,873	72,815	29,003	20,411	174,215	15,429
2015	315,153	82,092	32,180	16,515	174,230	10,136

The Corporation balance includes inter-group amounts of $138.7 million (2015:$161.2 million) for which payment has been deferred until the subsidiary is in a position to pay. No impairment (2015: Nil) was provided against this balance.

Recognition, measurement and accounting estimates

Impairment allowance for receivables

The Group has recognised an allowance for the impairment of receivables. Other than those items that have been individually impaired, the Group recognises a collective impairment allowance on retail trade receivables. This assessment is based on historical bad debts written off as a percentage of total retail trade receivables.

Notes to the financial statements
For the year ended 30 June 2016

14. Inventories

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Fuel	109,057	125,610	108,807	124,572
Spares and consumables, net of provision	49,458	47,171	49,457	44,784
Total inventories	**158,515**	**172,781**	**158,264**	**169,356**

Recognition, measurement and accounting estimates

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in purchasing and bringing each product to its present location and condition are accounted for using the weighted average cost method. Initial cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognised in OCI, in respect of the purchases of raw materials.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Spares and consumables are presented net of provision for obsolescence.

15. Trade and other payables

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Trade payables and accruals	368,023	431,932	366,839	430,363
Financial guarantee liability	-	-	-	3,000
Other payables	47,243	25,037	47,155	24,769
Accrued salaries	2,219	721	2,212	721
Interest accrued	1,531	2,945	1,531	2,945
Total current trade and other payables	**419,016**	**460,635**	**417,737**	**461,798**

In 2015, the financial guarantee liability related to borrowings by one of the Corporation's subsidiaries whereby the Corporation had undertaken to repay any outstanding amounts of such borrowings in an event of default by the subsidiary borrower. In the consolidated financial statements of the Group, the underlying secured borrowings were fully recognised on the balance sheet and disclosed at note 21b and as a result, this guarantee liability was derecognised in the Group. In 2016, the financial guarantee liability was released.

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Deferred costs	2,100	2,100	2,100	2,100
Total non-current trade and other payables	**2,100**	**2,100**	**2,100**	**2,100**

16. Property, plant and equipment

Corporation	Land $'000	Buildings $'000	Plant and equipment $'000	Work in progress $'000	Leased assets $'000	Total $'000
At Cost						
Balance at 1 July 2014	6,488	150,015	2,574,734	135,918	253,630	3,120,785
Additions	-	-	13	70,334	-	70,347
Transfers (i)	-	2,228	120,833	(150,982)	-	(27,921)
Disposals/write-off	(122)	-	(24,510)	(12,441)	-	(37,073)
Decommissioning adjustment (note 19)	-	-	(8,456)	-	-	(8,456)
Balance at 30 June 2015	**6,366**	**152,243**	**2,662,614**	**42,829**	**253,630**	**3,117,682**
Balance at 1 July 2015	6,366	152,243	2,662,614	42,829	253,630	3,117,682
Additions	-	-	14,343	47,269	-	61,612
Adjustments	-	-	30,117	-	3,162	33,278
Transfers (i)	(32)	(90)	37,791	(43,872)	-	(6,203)
Disposals/write-off	-	-	(55,143)	-	-	(55,143)
Decommissioning adjustment (note 19)	-	-	(2,911)	-	-	(2,911)
Balance at 30 June 2016	**6,334**	**152,153**	**2,686,811**	**46,226**	**256,792**	**3,148,316**
Depreciation and impairment						
Balance at 1 July 2014	-	(58,591)	(965,846)	-	(75,586)	(1,100,023)
Annual depreciation charge	-	(6,429)	(169,868)	-	(11,917)	(188,214)
Disposals	-	-	24,005	-	-	24,005
Balance at 30 June 2015	**-**	**(65,020)**	**(1,111,709)**	**-**	**(87,503)**	**(1,264,232)**
Balance at 1 July 2015	-	(65,020)	(1,111,709)	-	(87,503)	(1,264,232)
Annual depreciation charge	-	(6,310)	(139,903)	-	(11,917)	(158,130)
Adjustments	-	-	(30,670)	-	(3,162)	(33,831)
Transfers	-	61	(61)	-	-	-
Disposals/write-off	-	-	38,904	-	-	38,904
Balance at 30 June 2016	**-**	**(71,269)**	**(1,243,439)**	**-**	**(102,582)**	**(1,417,290)**
Carrying amount						
At 30 June 2015	6,366	87,223	1,550,905	42,829	166,127	1,853,450
At 30 June 2016	6,334	80,884	1,443,372	46,226	154,210	1,731,026

(i) Transfers - there were $6.2 million in transfers (2015: $27.9 million) from works under construction to intangible assets.

Notes to the financial statements
For the year ended 30 June 2016

16. Property, plant and equipment – continued

Corporation	Land $'000	Buildings $'000	Plant and equipment $'000	Work in progress $'000	Leased assets $'000	Total $'000
At Cost						
Balance at 1 July 2014	6,488	150,015	2,411,597	135,918	253,630	2,957,648
Additions	-	-	-	70,334	-	70,334
Transfers (i)	-	2,228	120,833	(150,982)	-	(27,921)
Disposals/write-off	(122)	-	(24,510)	(12,441)	-	(37,073)
Decommissioning adjustment (note 19)	-	-	(8,456)	-	-	(8,456)
Balance at 30 June 2015	**6,366**	**152,243**	**2,499,464**	**42,829**	**253,630**	**2,954,532**
Balance at 1 July 2015	6,366	152,243	2,499,464	42,829	253,630	2,954,532
Additions	-	-	14,343	47,269	-	61,612
Transfers (i)	(32)	(90)	37,793	(43,872)	-	(6,201)
Adjustments	-	-	22,943	-	3,162	26,105
Disposals/write-off	-	-	(55,142)	-	-	(55,142)
Decommissioning adjustment (note 19)	-	-	(2,911)	-	-	(2,911)
Balance at 30 June 2016	**6,334**	**152,153**	**2,516,490**	**46,226**	**256,792**	**2,977,995**
Depreciation and impairment						
Balance at 1 July 2014	-	(58,591)	(958,726)	-	(75,586)	(1,092,903)
Annual depreciation charge	-	(6,429)	(158,324)	-	(11,917)	(176,670)
Disposals	-	-	24,006	-	-	24,006
Balance at 30 June 2015	**-**	**(65,020)**	**(1,093,044)**	**-**	**(87,503)**	**(1,245,567)**
Balance at 1 July 2015	-	(65,020)	(1,093,044)	-	(87,503)	(1,245,567)
Annual depreciation charge	-	(6,310)	(128,361)	-	(11,917)	(146,588)
Adjustments	-	-	(23,496)	-	(3,162)	(26,657)
Transfers	-	60	(60)	-	-	-
Disposals/write-off	-	-	38,904	-	-	38,904
Balance at 30 June 2016	**-**	**(71,270)**	**(1,206,057)**	**-**	**(102,582)**	**(1,379,909)**
Carrying amount						
At 30 June 2015	6,366	87,223	1,406,420	42,829	166,127	1,708,965
At 30 June 2016	6,334	80,883	1,310,433	46,226	154,210	1,598,086

(i) Transfers - there are $6.2 million in transfers (2015: $27.9 million) from works under construction to intangible assets (note 17).

(ii) The Corporation has applied Interpretation 4 *Determining whether an Arrangement contains a Lease* and has determined that a power purchase agreement the Corporation has with its supplier contains a lease arrangement. The lease has been recognised as a finance lease in accordance with AASB 117 *Leases*.

16. Property, plant and equipment - continued

Recognition, measurement and accounting estimates

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the statement of comprehensive income as incurred.

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to provisions (note 19) for further information about the decommissioning provision.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Leased assets and leasehold improvements are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives for the current and comparative periods are as follows:

- Buildings 10 – 40 years
- Plant and equipment 2 – 45 years
- Leasehold improvements 2 – 10 years
- Lease assets 15 – 25 years

Land is not depreciated.

Work-in-progress is not amortised until the assets are completed and ready for use.

An item of property, plant and equipment and any significant part initially recognised is de-recognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Finance leases that transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group, are capitalised at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of comprehensive income.

17. Intangibles

Group	Computer software $'000	Environment certificates $'000	Exclusive rights $'000	Sales and purchases agreements $'000	Total $'000
At Cost					
Balance at 1 July 2015	74,965	74,123	537	48,800	198,425
Additions	19	81,487	-	-	81,506
Transfers from WIP (note 16)	27,920	-	-	-	27,920
Disposals/surrenders	(402)	(89,897)	-	-	(90,299)
Balance at 30 June 2015	**102,502**	**65,713**	**537**	**48,800**	**217,552**
Balance at 1 July 2015	102,502	65,713	537	48,800	217,552
Additions	19,276	97,868	-	-	117,144
Transfers from WIP (note 16)	6,204	-	-	-	6,204
Adjustment	401	-	-	-	401
Disposals/surrenders	(10,681)	(100,466)	-	-	(111,147)
Write-off	-	(21,570)	-	-	(21,570)
Balance at 30 June 2016	**117,702**	**41,545**	**537**	**48,800**	**208,584**
Amortisation and impairment					
Balance at 1 July 2014	(42,975)	(21,570)	(458)	(5,144)	(70,147)
Annual amortisation charge	(13,440)	-	(55)	(5,144)	(18,639)
Balance at 30 June 2015	**(56,415)**	**(21,570)**	**(513)**	**(10,288)**	**(88,786)**
Balance at 1 July 2015	(56,415)	(21,570)	(513)	(10,288)	(88,786)
Annual amortisation charge	(17,760)	-	(24)	(5,145)	(22,929)
Adjustment	(401)	-	-	-	(401)
Disposals	10,359	-	-	-	10,359
Write-off	-	21,570	-	-	21,570
Balance at 30 June 2016	**(64,218)**	**-**	**(537)**	**(15,433)**	**(80,187)**
Carrying amount - current					
At 30 June 2015	-	44,143	-	-	44,143
At 30 June 2016	-	41,545	-	-	41,545
Carrying amount - non-current					
At 30 June 2015	46,087	-	24	38,512	84,623
At 30 June 2016	53,485	-	-	33,367	86,852

17. Intangibles - continued

Corporation	Computer software $'000	Environment certificates $'000	Exclusive rights $'000	Sales and purchases agreements $'000	Total $'000
At Cost					
Balance at 1 July 2014	74,965	74,123	537	-	149,625
Additions	19	81,487	-	-	81,506
Transfers from WIP (note 16)	27,920	-	-	-	27,920
Disposals/surrenders	(402)	(89,897)	-	-	(90,298)
Balance at 30 June 2015	**102,502**	**65,713**	**537**	**-**	**168,752**
Balance at 1 July 2015	102,502	65,713	537	-	168,752
Additions	19,277	97,868	-	-	117,145
Transfers from WIP (note 16)	6,202	-	-	-	6,202
Adjustments	(9,855)	-	-	-	(9,855)
Disposals/surrenders	(425)	(100,466)	-	-	(100,891)
Write-off	-	(21,570)	-	-	(21,570)
Balance at 30 June 2016	**117,701**	**41,545**	**537**	**-**	**159,783**
Amortisation and impairment					
Balance at 1 July 2014	(42,975)	(21,570)	(458)	-	(65,003)
Annual amortisation charge	(13,440)	-	(55)	-	(13,495)
Balance at 30 June 2015	**(56,415)**	**(21,570)**	**(513)**	**-**	**(78,498)**
Balance at 1 July 2015	(56,415)	(21,570)	(513)	-	(78,498)
Annual amortisation charge	(17,759)	-	(24)	-	(17,783)
Adjustments	9,941	-	-	-	9,941
Disposals	17	-	-	-	17
Write-off	-	21,570	-	-	21,570
Balance at 30 June 2016	**(64,216)**	**-**	**(537)**	**-**	**(64,753)**
Carrying amount- current					
At 30 June 2015	-	44,143	-	-	44,143
At 30 June 2016	-	41,545	-	-	41,545
Carrying amount- non-current					
At 30 June 2015	46,087	-	24	-	46,111
At 30 June 2016	53,485	-	-	-	53,485

Environmental certificates

The *Renewable Energy (Electricity) Act 2000* requires electricity wholesale purchasers to source specified amounts of electricity from renewable energy sources. The Act imposes an annual liability on relevant wholesale acquisitions, which is extinguished by the surrender of an equivalent number of large-scale generation certificates (LGCs) and small-scale technology certificates (STCs).

The Group purchases LGCs, STCs and ACCUs from external sources. The Group is not entitled to any free environmental certificates.

The Group liabilities under both the *Renewable Energy (Electricity) Act 2000* and the *Clean Energy Future Act2011* are measured at the cost of settling the respective obligations, being the weighted average cost of; LGCs and STCs (in the case of renewable energy); and ACCUs (in the case of clean energy) held at the date of surrender. At period end any shortfall in permits is measured at market value. The liability is expensed as cost of sales. Any excess permits are held as an intangible asset.

17. Intangibles - continued

Sales and purchase agreements

Sales and purchase agreements pertain to long-term agreements of a subsidiary to sell electricity to its customers and purchase fuel from its suppliers.

Exclusive rights

Recognition, measurement and accounting estimates

Intangible assets acquired separately are measured, on initial recognition, at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is expensed to the statement of comprehensive income in the period in which the expenditure is incurred.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Environmental certificates purchased from external sources are recognised at the weighted average cost of purchase. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is de-recognised.

Internally generated intangible assets include costs related to research and development. Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- the technical feasibility of completing the intangible asset so that it will be available for use;
- its intention to complete and its ability to use the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the development; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development costs include the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses.

17. Intangibles - continued

Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit, and is recorded in profit or loss. Amortisation of the Group's intangible assets is calculated using the straight-line method as follows:

- Software 2 – 10 years
- Exclusive rights 2 – 14 years
- Sales and purchase agreements 10 – 15 years

The Group's environmental certificates are not amortised.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The Group uses the depreciated replacement costs as value in use for the purpose of assessing for impairment when the future economic benefits of the asset are not primarily dependent on the asset's ability to generate net cash inflows and where the entity would, if deprived of the asset, replace its remaining future economic benefits. Otherwise, the net present value of future cash flows is used, whereby the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The other entities of the Group use the discounted cash flow method to assess the impairment to their non-current assets.

Impairment losses of continuing operations are recognised in the statement of comprehensive income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Notes to the financial statements
For the year ended 30 June 2016

18. Employee benefits

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Annual leave	16,957	18,662	16,880	18,597
Long service leave	15,338	17,237	15,338	17,237
Total current liability	**32,295**	**35,899**	**32,218**	**35,834**
Long service leave	3,078	2,022	3,078	2,022
Defined benefit plan obligation	33,785	32,952	33,785	33,637
Total non-current liability	**36,863**	**34,974**	**36,863**	**35,659**

Amounts not expected to be settled within the next 12 months

The annual and long service leave benefits reported as current because Synergy does not have an unconditional right to defer settlement, but that based on past experience are not expected to be taken or paid within the next 12 months are presented below:

	Group		Corporation	
Amounts not expected to be settled within the next 12 months	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Annual leave (current):				
Annual leave expected to be settled within 12 months	9,295	9,239	9,246	9,174
Annual leave expected to be settled after 12 months	7,662	9,423	7,634	9,423
	16,957	**18,662**	**16,880**	**18,597**
Long service leave (current):				
Long service leave expected to be settled within 12 months	6,159	2,672	6,159	2,672
Long service leave expected to be settled after 12 months	9,179	14,565	9,179	14,565
	15,338	**17,237**	**15,338**	**17,237**

Recognition, measurement and accounting estimates

The present value of employee benefits, including long service leave, are determined using various assumptions, such as; the determination of a discount rate; future salary increases; leave utilisation rates; and employment term probabilities. All assumptions are reviewed at each reporting date.

Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on federal government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Defined benefit plan obligation

The Corporation participates in two defined benefit plans consisting of the Pension Scheme and the prior service component of the Gold State Scheme. The schemes, which are now closed to new members, are wholly unfunded. The schemes have no assets.

18. Employee benefits - continued

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Pension Scheme members receive pension benefits on retirement, death or invalidity. The Pension Scheme's share of the pension benefit, which is based on the member's contributions plus investment earnings, may be commuted to a lump sum benefit. Some former members have transferred to Gold State Super. In respect of their transferred benefit the members receive a lump sum benefit on retirement, death or invalidity which is related to their salary during employment, indexed during any deferral period after leaving public sector employment.

The employers do not bear the cost associated with the indexation of any pension arising from the fund share. The Western Australian Government's share of the pension benefit, which is fully employer-financed, cannot be commuted to a lump sum benefit.

An actuarial review was conducted for the year ended 30 June 2016 using the membership data as at 30 April2016 as it is not expected that the membership data will be materially different as at 30 June 2016.

Description of the regulatory framework

The schemes operate under the *State Superannuation Act 2000 (Western Australia)* and the *State Superannuation Regulations 2001 (Western Australia).*

Although the schemes are not formally subject to the Superannuation Industry (Supervision) (SIS) legislation, the Western Australian government has undertaken (in a Heads of Government Agreement) to operate the schemes in accordance with the spirit of the SIS legislation. As an exempt public sector superannuation scheme (as defined in the SIS legislation), the schemes are not subject to any minimum funding requirements. As a constitutionally protected scheme, the schemes are not required to pay tax.

Description of other entities' responsibilities for the governance of the Scheme

The Government Employees Superannuation Board (GESB) is the schemes' trustee and is responsible for the governance of the schemes. As trustee, GESB has a legal obligation to act solely in the best interests of the scheme beneficiaries, to comply with the Heads of Government Agreement referred above, and administration of the schemes and payment to the beneficiaries when required in accordance with the scheme rules.

Descriptions of risks

There are a number of risks to which the schemes exposes the Corporation. The more significant risks relating to the defined benefits are:

- legislative risk- the risk that legislative changes could be made which increase the cost of providing the defined benefits;
- pensioner mortality risk- the risk that pensioner mortality will be lighter than expected, resulting in pensions being paid for longer;
- inflation risk- the risk that inflation is higher than anticipated, increasing pension payments, and the associated employer contributions; and
- salary growth risk- the risk that wages or salaries (on which future benefits amounts will be based) will rise more rapidly than assumed, increasing defined benefit amounts and the associated employer contributions.

Description of significant events

There were no plan amendments, curtailments or settlements during the year.

18. Employee benefits - continued

Amounts recognised in the statement of comprehensive income:

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Amounts recognised in profit or loss:				
Interest cost	880	1,143	880	1,143
Amounts recognised in OCI:				
Actuarial losses	1,941	3,439	1,941	3,439
	2,821	**4,582**	**2,821**	**4,582**

Reconciliation of movement in present value of obligation recognised in statement of financial position:

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Balance at 1 July	32,952	31,979	32,952	31,979
Interest cost	880	1,143	880	1,143
Benefits paid	(1,988)	(3,609)	(1,988)	(3,609)
Actuarial gains arising from changes in assumptions	1,941	3,439	1,941	3,439
Balance at 30 June	**33,785**	**32,952**	**33,785**	**32,952**

Significant actuarial assumptions:

	Defined benefit obligation at valuation date	
	2016	2015
Discount rate	2.26%	2.74%
Expected future salary increase	3.50%	4.00%
Expected future pension increase	2.50%	2.50%

The discount rate is based on the yield on the federal government bonds maturing in 2025. The decrement rates used (e.g. mortality and retirement rates) are based on those used at the last actuarial valuation for the schemes.

Sensitivity analysis:

The defined benefit obligation has been recalculated by changing the assumptions as outlined above, whilst retaining all other obligations.

		-0.5 %		+0.5%	
	Base case	Discount rate	Pension increase rate	Discount rate	Pension increase rate
Pension Scheme					
Discount rate	2.26%	1.76%	2.26%	2.76%	2.26%
Pension increase rate	2.50%	2.50%	2.00%	2.50%	3.00%
Defined benefit obligation	32,253	34,552	30,174	30,206	34,537

		-0.5 %		+0.5%	
	Base case	Discount rate	Salary inflation	Discount rate	Salary inflation
Gold State Super					
Discount rate	2.26%	1.76%	2.26%	2.76%	2.26%
Salary inflation rate	3.50%	3.50%	3.00%	3.50%	4.00%
Defined benefit obligation	1,532	1,561	1,511	1,504	1,553

18. Employee benefits - continued

Maturity profile

The weighted average duration of the defined benefit obligation for the whole of the pension scheme is 13.8 years, and for the gold state super scheme is 3.8 years.

Expected contributions

Expected employer contributions for the financial year ended 30 June 2017 is $1.7 million.

Recognition, measurement and accounting estimates

Pensions and other post-employment benefits

The Group's employees are members of either a defined contribution or a defined benefit pension plan (outlined above) in Australia, which requires contributions to be made to a separately administered fund.

The cost of providing benefits under the defined contribution plan is recognised in the statement of comprehensive income as incurred. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

With respect to the defined benefit plan, re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, and the return on plan assets (excluding net interest), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to the statement of comprehensive income in subsequent periods.

Past service costs are recognised in the statement of comprehensive income on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under employee expenses in the statement of comprehensive income: service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements; and net interest expense or income.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for redundancies are recognised once a position that has become redundant has been identified and the associated costs can be reliably estimated.

19. Provisions

Group and Corporation	Decommissioning provision $'000	Commodity swaps $'000	Other provisions $'000	Total $'000
Balance at 1 July 2014	413,650	279,065	11,250	703,965
Recognised in profit or loss	-	4,232	(5,779)	(1,547)
Change in assumptions recognised in PPE (note 16)	(8,456)	-	-	(8,456)
Discount rate adjustment and imputed interest	14,418	9,653	-	24,071
Balance at 30 June 2015	**419,612**	**292,950**	**5,471**	**718,033**
Balance at 1 July 2015	419,612	292,950	5,471	718,033
Recognised in profit or loss	-	28,554	9,561	38,115
Utilised	-	(12,955)	(3,332)	(16,287)
Change in assumptions recognised in PPE (note 16)	(2,911)	-	-	(2,911)
Reversed during the year	-	-	(1,455)	(1,455)
Discount rate adjustment and imputed interest	13,221	9,405	-	22,626
Balance at 30 June 2016	**429,922**	**317,954**	**10,245**	**758,121**
2016				
Current	34,919	65,043	10,245	110,207
Non-current	395,003	252,911	-	647,914
	429,922	**317,954**	**10,245**	**758,121**
2015				
Current	25,348	5,247	5,471	36,066
Non-current	394,264	287,703	-	681,967
	419,612	**292,950**	**5,471**	**718,033**

Under long term gas swap agreements entered into from 2012, the Corporation has been receiving gas from various counterparties and is obliged to return such gas in the future. The ending balance represents the value of the obligation of returning such gas. The gas agreements are entered into for the purpose of providing flexibility in managing the Corporation's fuel requirements, thereby enhancing energy security.

Commodity swaps were reclassified from trade and other payables to conform to the current year presentation.

19. Provisions - continued

Recognition, measurement and accounting estimates

Decommissioning provision

The Group has recognised a provision for decommissioning obligations associated with the facilities owned by the Group over a period to 2037.Recognition of a provision is consistent with both; the Group's published environmental policy; and applicable legal requirements

In determining the fair value of the provision, assumptions and estimates are made in relation to; discount rates; the expected cost to dismantle and remove the plant from the site; and the expected timing of those costs. Judgement extends to include the anticipated removal date, impact of future environmental legislation, extent of reclamation activities required, engineering methodology for estimating costs, future removal technologies in determining removal cost, and asset specific discount rates to determine the present value of these cash flows.

During 2015, the Corporation engaged an independent expert to estimate the future decommissioning costs. The mid-point of the estimate range, which represents the probability weighted average of the possible scenarios, estimated by the expert, was adopted as the basis for calculating the provision. Because of the long-term nature of the liability, there is significant estimation risk around the estimated decommissioning costs that will be incurred. The Corporation has assumed the sites will be restored using the technology and materials that are available currently.

The carrying amount of the provision as at 30 June 2016was $429.9 million (2015: $419.61 million). Fair value for the Group's decommissioning provision is determined using discounted cash flow (DCF) method at the market yields on high quality corporate bonds as published by the Group of 100 for fixed long-term borrowings of similar durations. Such assumptions are reviewed and updated at least once a year at the end of each reporting period.

Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows and are recognised as part of the cost of the particular asset. The unwinding of the discount is expensed as incurred and recognised in the statement of comprehensive income as a finance cost. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

Provisions for commodity swaps are recognised at the present value of expected costs to settle the obligation using estimated cash flows. The unwinding of the discount is expensed as incurred and recognised in the statement of comprehensive income as a finance cost. Changes in the estimated future costs are recognised in the statement of comprehensive income as a cost of sale.

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.

Notes to the financial statements
For the year ended 30 June 2016

20. Financial assets

a) Derivative financial instruments

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Financial instruments at fair value through OCI				
Forward exchange contracts - cash flow hedge	840	893	840	893
Total current financial instruments through OCI	**840**	**893**	**840**	**893**
Financial instruments at fair value through profit or loss				
Electricity derivatives - embedded	18,899	706	18,899	706
Total current financial instruments through profit or loss	**18,899**	**706**	**18,899**	**706**
Total financial instruments at fair value	**19,738**	**1,599**	**19,738**	**1,599**

Financial assets at fair value through OCI reflect the change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable forecast purchases in foreign currencies.

Financial assets through profit or loss reflect the change in fair value of electricity derivatives that are not designated in hedge relationships, but are nevertheless intended to reduce the level of commodity price risk for expected sales.

b) Other financial assets

		Group		Corporation	
	Note	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Cash and cash equivalents	12a	251,341	197,149	225,051	172,971
Other financial assets	12b	82,000	86,000	82,000	86,000
Trade receivables and prepayments	13	397,899	368,196	531,603	515,710
Lease receivables		-	1,802	-	1,802
Total current other financial assets		**731,240**	**653,147**	**838,654**	**776,483**

Recognition, measurement and accounting estimates

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

20. Financial assets - continued

Subsequent measurement

For purposes of subsequent measurement financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial investments

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by AASB 139.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance costs or finance income in the statement of comprehensive income.

Electricity derivatives are the contract-for-difference component of electricity trading contracts which the Group has entered into. These derivatives are measured at fair value with changes in fair value recognised in profit or loss. Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in finance costs for loans and in cost of sales or other operating expenses for receivables.

This category generally applies to trade and other receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance income in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income as finance costs.

Available-for-sale (AFS) financial investments

AFS financial investments include equity investments in the Mumbida Wind Farm Holdings Pty Ltd, see Note 9. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, AFS financial investments are subsequently measured at fair value with unrealised gains or losses recognised as OCI and credited in the AFS reserve until the investment is de-recognised, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the AFS reserve to the statement of comprehensive income in finance costs. Interest earned whilst holding AFS financial investments is reported as interest income using the EIR method.

The Group evaluates whether the ability and intention to sell its AFS financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

20. Financial assets - continued

For a financial asset reclassified from the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on the asset that has been recognised in equity is amortised to the statement of comprehensive income over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of comprehensive income.

De-recognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily de-recognised when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of comprehensive income. Interest income (recorded as finance income in the statement of comprehensive income) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

For AFS financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

20. Financial assets - continued

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of comprehensive income – is removed from OCI and recognised in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the statement of comprehensive income; increases in their fair value after impairment are recognised directly in OCI.

21. Financial liabilities

a) Derivative financial instruments

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Financial liabilities at fair value through OCI				
Forward exchange contracts- cash flow hedge	303	22	303	22
Interest rate swaps- cash flow hedge	-	7,887	-	-
Total current financial liabilities through OCI	**303**	**7,909**	**303**	**22**
Financial liabilities at fair value through profit or loss				
Electricity derivatives- embedded	1,065	4,104	1,065	4,104
Total current financial liabilities through profit or loss	**1,065**	**4,104**	**1,065**	**4,104**
Total financial liabilities at fair value	**1,368**	**12,013**	**1,368**	**4,126**
Current	1,368	12,013	1,368	4,126
Non-current	-	-	-	-
Total financial liabilities at fair value	**1,368**	**12,013**	**1,368**	**4,126**

Financial liabilities at fair value through OCI reflect the change in fair value of foreign exchange forward contracts, designated as cash flow hedges to hedge highly probable future purchases in foreign currencies. Financial liabilities at fair value through OCI reflect the change in fair value of interest rate swaps as cash flow hedges to hedge future floating interest payments.

Financial liabilities through profit or loss reflect the change in fair value of those foreign exchange forward contracts that are not designated in hedge relationships, and the change in fair value of electricity derivatives.

b) Interest bearing loans and borrowings

			Group		Corporation	
	Interest rate	Maturity	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Unsecured borrowings	2.35% to 2.55%	Apr-17 to Sep-20	53,100	27,294	53,100	27,294
Secured borrowings			-	16,613	-	-
Total current interest bearing loans and borrowings			**53,100**	**43,907**	**53,100**	**27,294**
Unsecured borrowings	2.48% to 3.04%	Apr-17 to Nov 23	196,548	154,300	196,548	154,469
Secured borrowings	3.13%	30 June 2021	160	93,976	160	-
Total non-current interest bearing loans and borrowings			**196,708**	**248,276**	**196,708**	**154,469**
Total interest bearing loans and borrowings			**249,808**	**292,183**	**249,808**	**181,763**

21. Financial liabilities - continued

Unsecured borrowings

This loan has been drawn down under a Master Lending Agreement with the Western Australian Treasury Corporation. There is no fixed term on this facility. The loans drawn under the facility are repayable at fixed terms designated at drawdown, and are classified as short term or long term based on each loan's maturity as at the reporting date.

At 30 June 2016, the Group had available $1,153million (2015: $1,218 million) of undrawn committed borrowing facilities. The maximum amount of borrowing approved by the Department of Treasury for the reporting year ended 30 June 2017 is $230.3 million (2016: $299.9 million).

c) Other financial liabilities

		Group		Corporation	
	Note	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Trade and other payables		419,016	460,635	417,737	458,798
Financial guarantee liability	15	-	-	-	3,000
Finance lease liabilities	34	6,565	5,761	6,565	5,761
Total current other financial liabilities at amortised cost		**425,581**	**466,396**	**424,302**	**467,559**
Finance lease liabilities	34	225,470	232,034	225,470	232,034
Trade and other payables	15	2,100	2,100	2,100	2,100
Total non-current other financial liabilities at amortised cost		**227,570**	**234,134**	**227,570**	**234,134**
Total other financial liabilities at amortised cost		**653,151**	**700,530**	**651,873**	**701,693**

Financial guarantee liabilities

For financial guarantee liability, the fair value at initial recognition is the higher of following:

- the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee; and
- the estimated exposure under the guarantee which is based on outstanding exposure of the debt instrument and the historical default rates of comparable companies rated by Standard & Poor's.

Finance leases

The Group has entered into the following lease arrangements:

- Kemerton power purchase arrangement - at the inception of the lease, an asset and a liability was recognised at an amount equal to the estimated fair value of the equipment. The imputed finance expense on the liability was determined based on the effective interest rate of the lease liability.
- Emu Downs Wind Farm off-take agreement - at the inception of the lease, the Group recognised a corresponding asset and liability, representing the present value of minimum lease payments under the contract.

21. Financial liabilities - continued

Recognition, measurement and accounting estimates

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, loans and borrowings, including bank overdrafts, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired or incurred for the purpose of selling or repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by AASB 139. Separate derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in AASB 139 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are de-recognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of comprehensive income.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability.

The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Notes to the financial statements
For the year ended 30 June 2016

22. Fair value of financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

The Group measures financial instruments, such as derivatives, at fair value at each balance sheet date (see note 20a and 21a).

Set out below, is a comparison by class of the carrying amounts and fair value of the Group's and the Corporation's financial instruments, other than those where carrying amounts are reasonable approximations of fair values:

		2016		2015	
		Carrying amount	Fair value	Carrying amount	Fair value
	Note	$'000	$'000	$'000	$'000
Financial assets					
Lease receivables	20b	-	-	1,802	1,802
Financial liabilities					
Finance lease liabilities	21c	(232,035)	(406,877)	(237,795)	(437,621)

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- *Fair values of the Group's interest-bearing borrowings and loans* are determined by using DCF method. The own non-performance risk as at 30 June 2016 was assessed to be insignificant. The interest rates used to discount estimated cash flows, where applicable, are based on the WATC yield curve at the end of the reporting period.
- *Fair values of the Group's foreign exchange forward contracts* are determined by using the DCF method. The difference between the deal rate and the forward curve rate to maturity is discounted using the base currencies discount curve. Curves used are those published by financial institutions at the end of the reporting period.
- *Fair value of the Group's interest rate swaps* is determined by using the DCF method. A combination of short and long term market observed inputs (including BBSW and other rates published by financial institutions) are used to calculate yield curves for valuation purposes. These are discounted using the interest rates for swaps of similar durations.
- *Fair value of the Group's electricity derivatives* is determined using the DCF method. Internally projected forward electricity price is used to calculate the forward price curve. These are discounted using the Group's weighted average cost of capital.

22. Fair value of financial instruments - continued

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Fair value hierarchy for financial instruments measured at fair value:

		Fair value measurement using		
	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
2016	$'000	$'000	$'000	$'000
Assets measured at fair value				
Foreign exchange forward contracts	840	-	840	-
Available for sale financial investments	6,700	-	-	6,700
Electricity derivatives - embedded	18,898	-	-	18,898
Liabilities measured at fair value				
Forward exchange contracts - cash flow hedge	(303)	-	(303)	-
Electricity derivatives - embedded	(1,065)	-	-	(1,065)
2015				
Assets measured at fair value				
Foreign exchange forward contracts	893	-	893	-
Electricity derivatives - embedded	706	-	-	706
Liabilities measured at fair value				
Forward exchange contracts- cash flow hedge	(22)	-	(22)	-
Interest rate swaps - cash flow hedge	(7,887)	-	(7,887)	-
Electricity derivatives - embedded	(4,104)	-	-	(4,104)

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There have been no transfers between Level 1 and Level 2 during these periods.

	2016	2015
Reconciliation of Level 3 financial instruments	$'000	$'000
Opening balance	(3,398)	(5,304)
Additions during the year	6,700	-
Gain/(loss) recognised in profit or loss	14,531	1,906
Closing balance	17,833	(3,398)

22. Fair value of financial instruments - continued

Description of significant unobservable inputs in valuation:

Asset/liability	Valuation technique	Significant unobservable inputs	Sensitivity of the input to the fair value
Electricity derivatives - embedded	DCF method	Internally projected forward electricity price	10% increase (decrease) would result in a decrease (increase) in fair value by $14.647 million.
		Corporation WACC	1% increase (decrease) would result in a decrease (increase) in fair value by $0.087 million.

Recognition, measurement and accounting estimates

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques consistent with established valuation methodology and general market practice applicable to each instrument/ market. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is the Group's weighted average cost of capital. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

23. Loans and advances

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Current	-	-	16,800	-
Non-current	-	-	75,834	-
Total loans and advances	**-**	**-**	**92,634**	**-**

Loans and advances include loans to a wholly owned subsidiary and accrue interest at the Corporation's incremental borrowing cost.

24. Hedging activities and derivatives

Derivatives not designated as hedging instruments

The Group uses foreign exchange forward contracts to manage its transaction exposures. Where the period of the underlying transaction is less than 12 months, foreign exchange forward contracts are not generally designated as cash flow hedges.

Cash flow hedges

Foreign currency risk

Foreign exchange forward contracts measured at fair value through OCI are designated as hedging instruments in cash flow hedges of forecast purchases in foreign currencies. These forecast transactions are highly probable, and they comprise 100% of the Group's total expected purchases in foreign currencies.

While the Group also enters into other foreign exchange forward contracts with the intention to reduce the foreign exchange risk of expected purchases, these other contracts are not designated in hedge relationships and are measured at fair value through profit or loss. The foreign exchange forward contract balances vary with the level of expected foreign currency purchases and changes in foreign exchange forward rates.

The average hedge deal rates as at 30 June 2016 for foreign currency purchases were USD 0.74 (2015: 0.83) and EUR 0.67 (2015: 0.63).

	2016		2015	
	Assets	Liabilities	Assets	Liabilities
	$'000	$'000	$'000	$'000
Foreign currency forward contracts designated as hedging instruments				
Fair value	840	303	893	22

The terms of the foreign currency forward contracts match the terms of the expected highly probable forecast transactions. As a result, no hedge ineffectiveness arises requiring recognition through the statement of comprehensive income.

The cash flow hedges of the expected future purchases in 2016 were assessed to be effective, and as at 30 June 2016, a net unrealised loss of $0.4 million (net of tax) was included in OCI in respect of these contracts. The amounts retained in OCI at 30 June 2016 are expected to mature and affect the statement of comprehensive income in 2017.

Interest rate risk

The Group has closed-out all interest rate swap contracts entered into to hedge against interest rate movements. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in OCI. Where the Group considers an interest rate swap to be an ineffective hedge, the gain or loss from remeasuring the derivative at fair value is recognised in the statement of comprehensive income.

At 30 June 2015, the Group had two interest rate swaps agreements in place, these agreements have been terminated during 2016.

Electricity derivatives

Electricity derivatives are the contract-for-difference component of some electricity trading contracts the Group has entered into. These electricity derivatives have been separated and are carried at fair value through profit or loss. The carrying values of the electricity derivatives at 30 June 2016 amounted to a net asset of $17.8 million (2015: net liability $3.4million). The effects are reflected in the statement of comprehensive income.

24. Hedging activities and derivatives - continued

Recognition, measurement and accounting estimates

Financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The purchase contracts that meet the definition of a derivative under AASB 139 are recognised in the statement of comprehensive income as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of comprehensive income, except for the effective portion of cash flow hedges, which is recognised in OCI and later reclassified to the statement of comprehensive income when the hedge item affects the statement of comprehensive income.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; and
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as described below:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the statement of comprehensive income as finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of comprehensive income as finance costs.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through the statement of comprehensive income over the remaining term of the hedge using the EIR method. EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is de-recognised, the unamortised fair value is recognised immediately in the statement of comprehensive income.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the profit and loss.

24. Hedging activities and derivatives - continued

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised in OCI in the cash flow hedge reserve, while any ineffective portion is recognised immediately in the statement of comprehensive income as other operating expenses.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments, as well as forward commodity contracts for its exposure to volatility in the commodity prices. The ineffective portion relating to foreign currency contracts is recognised in finance costs and the ineffective portion relating to commodity contracts is recognised in other operating income or expenses.

Amounts recognised as OCI are transferred to the statement of comprehensive income when the hedged transaction affects the statement of comprehensive income, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised as OCI are transferred to the initial carrying amount of the non-financial asset or liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognised in OCI remains separately in equity income until the forecast transaction occurs or the foreign currency firm commitment is met.

25. Financial risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise of loans and borrowings, trade and other payables and financial guarantee contracts. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include loans, trade and other receivables, and cash and short-term deposits that derive directly from its operations. The Group also holds available-for-sale investments and enters into derivative transactions.

The Group is exposed to market risk, credit risk and liquidity risk. The board of directors oversees the management of these risks, supported by an audit and compliance committee (ACC) and a treasury management committee (TMC) that advises on financial risks and the appropriate financial risk governance framework for the Group. The ACC and TMC provide assurance to the Board that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives. The ACC is assisted in its governance oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the ACC.

All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken.

The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise three types of risk: interest rate risk, currency risk and other price risk, such as commodity risk. Financial instruments affected by market risk include loans and borrowings, available-for-sale investments and derivative financial instruments. The Group enters into derivatives in order to manage market risks. All such transactions are carried out within the guidelines set by the TMC. Generally the Group seeks to apply hedge accounting in order to manage volatility in profit or loss.

The sensitivity analysis in the following sections relate to the position as at 30 June 2016 and 2015. The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 30 June 2016. The analysis excludes the impact of movements in market variables on the carrying values of pension and other post-retirement obligations, and provisions.

25. Financial risk management objectives and policies - continued

The following assumptions have been made in calculating the sensitivity analysis:

- The statement of financial position sensitivity relates to derivatives.
- The sensitivity of the relevant statement of comprehensive income item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 30 June 2016 and 2015 including the effect of hedge accounting.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group manages its interest rate risk by largely borrowing at fixed or variable rates, based on management's best estimates of future market conditions. The Group's policy is to limit its exposure to changes in interest rates on borrowings to certain percentages in accordance with the duration of the borrowing.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

		Group		Corporation	
		2016 $'000	2015 $'000	2016 $'000	2015 $'000
Financial assets	20b	239,000	137,802	331,634	137,802
Financial liabilities		(478,969)	(502,515)	(478,969)	(392,095)
Total fixed rate instruments		**(239,969)**	**(364,713)**	**(147,335)**	**(254,293)**
Financial assets	20b	94,341	147,149	68,051	122,971
Financial liabilities		(2,874)	(30,178)	(2,874)	(30,178)
Total variable rate instruments		**91,467**	**116,971**	**65,177**	**92,793**

Interest rate sensitivity

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rate at the reporting date will not affect the statement of comprehensive income.

25. Financial risk management objectives and policies - continued

For variable rate instruments, a change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss and OCI by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

		- 100 basis points		+ 100 basis points	
	Carrying amount	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
	$'000	$'000	$'000	$'000	$'000
Group - 2016					
Cash and cash equivalents	94,341	(943)	-	943	-
Unsecured loans and borrowings	(2,874)	29	-	(29)	-
Group - 2015					
Cash and cash equivalents	197,149	(1,971)	-	1,971	-
Interest rate swaps	(7,887)	-	(2,353)	-	2,255
Unsecured loans and borrowings	(30,178)	302	-	(302)	-
Corporation - 2016					
Cash and cash equivalents	68,051	(681)	-	681	-
Unsecured loans and borrowings	(2,874)	29	-	(29)	-
Corporation - 2015					
Cash and cash equivalents	225,051	(2,251)	-	2,251	-
Unsecured loans and borrowings	(30,178)	302	-	(302)	-

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when expenses are denominated in a different currency from the Group's presentation currency). The currencies giving rise to this risk are primarily Euro and US Dollar. The exposure of other Group entities to currency risk is immaterial.

The Group manages its foreign currency risk by hedging transactions that are expected to occur within a maximum 24-month period. When the nature of the hedge relationship is not an economic hedge, it is the Group's policy to negotiate the terms of the hedging derivatives to match the terms of the underlying hedge items to maximise hedge effectiveness. The Group hedges its exposure to fluctuations by using foreign currency swaps and forwards. At 30 June 2016, the Group hedged 100% (2015:100%) of its foreign currency purchases for which highly probable forecasted transactions existed at the reporting date. The Group's exposure to foreign currency risk at end of the reporting period was as follows, based on notional amounts:

	USD		EURO		JPY	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Group and Corporation						
Estimated forecast purchases	(8,353)	(10,868)	(3,463)	(147)	-	(9,500)
Forward exchange contracts	8,353	10,868	3,463	147	-	9,500
Net exposure	-	-	-	-	-	-

25. Financial risk management objectives and policies - continued

Foreign currency sensitivity

A 10% strengthening/weakening of the Australian dollar against the following currencies at 30 June 2016 would have increased/(decreased) profit or loss and OCI by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	-10 %		+10%	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
Group and Corporation	$'000	$'000	$'000	$'000
2016				
USD	-	2,076	-	(191)
EURO	-	283	-	(763)
2015				
USD	-	2,461	-	(391)
EURO	-	3	-	(40)
JPY	-	10	-	(10)

Commodity price risk

Commodity price risk arises from an electricity commodity derivative.

Commodity price sensitivity

A change of 10% in the market price of commodity would have increased/(decreased) profit or loss and OCI by the amounts shown below. This analysis assumes that all other variables, in particular interest rates and foreign exchange rates, remain constant.

		-10 %		+10%	
	Carrying amount	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
	$'000	$'000	$'000	$'000	$'000
Group and Corporation					
2016					
Embedded electricity derivative	17,833	14,647	-	(14,647)	-
2015					
Embedded electricity derivative	(3,398)	9,368	-	(9,368)	-

Credit risk

Credit risk is the risk that counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Trade receivables

Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management.

25. Financial risk management objectives and policies - continued

The Group has established a credit policy under which each new contestable customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, where available. Purchase limits are established for each customer, which represent the maximum open amount without requiring approval from the Board; these limits are reviewed annually. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis or with a security in an acceptable form. The Group regularly reviews the credit worthiness of its counterparties.

An impairment analysis is performed at each reporting date on an individual basis for major clients. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 20. The Group holds collaterals as security.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's TMC in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to counterparty. Counterparty credit limits are reviewed by the Group's Board of Directors on an annual basis, and may be updated throughout the year subject to approval of the Group's TMC. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments.

The Group's maximum exposure to credit risk for the components of the statement of financial position at 30 June 2016 and 2015 is the carrying amounts as illustrated elsewhere in this note except for derivative financial instruments. The Group's maximum exposure for financial derivative instruments is noted in the liquidity table below.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group monitors its risk to a shortage of funds using a liquidity planning tool. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the Western Australian Treasury Corporation (WATC) loan facility. Based on management forecasts, it is expected that the Group will remain cash positive whilst repaying WATC debt. 22% of the Group's debt will mature in less than one year at 30 June 2016 (2015: 15%) based on the carrying value of borrowings reflected in the financial statements.

25. Financial risk management objectives and policies - continued

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Group	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2016					
Interest bearing loans and borrowings	(5,227)	(55,725)	(205,112)	(3,409)	(269,473)
Trade and other payables	(369,697)	(49,552)	(1,649)	(218)	(421,116)
Finance lease liability	-	(36,786)	(148,883)	(332,949)	(518,618)
Derivatives	(299)	(4)	-	-	(303)
Embedded derivatives	48	143	(970)	(937)	(1,716)
	(375,175)	(141,924)	(356,614)	(337,513)	(1,211,227)
Year ended 30 June 2015					
Interest bearing loans and borrowings	(33,343)	(19,464)	(266,279)	(5,350)	(324,436)
Trade and other payables	(463,551)	(410)	(8,050)	-	(472,011)
Financial guarantee contract	-	-	-	-	-
Finance lease liability	-	(36,613)	(148,185)	(370,433)	(555,231)
Derivatives	(694)	(1,230)	(4,876)	(19)	(6,819)
Embedded derivatives	731	2,183	3,311	(23,335)	(17,110)
	(496,857)	(60,781)	(510,738)	(600,181)	(1,668,557)

Corporation	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2016					
Interest bearing loans and borrowings	(5,227)	(55,725)	(205,112)	(3,409)	(269,473)
Trade and other payables	(368,645)	(49,413)	(1,561)	(218)	(419,837)
Finance lease liability	-	(36,786)	(148,883)	(332,949)	(518,618)
Derivatives	(299)	(4)	-	-	(303)
Embedded derivatives	48	143	(970)	(937)	(1,716)
	(374,123)	(141,785)	(356,526)	(337,513)	(1,209,947)
Year ended 30 June 2015					
Interest bearing loans and borrowings	(27,359)	(4,004)	(166,337)	-	(197,700)
Trade and other payables	(461,714)	(410)	(8,050)	(3,000)	(473,174)
Finance lease liability	-	(36,613)	(148,185)	(370,433)	(555,231)
Derivatives	51	835	-	-	886
Embedded derivatives	731	2,183	3,311	(23,335)	(17,110)
	(488,291)	(43,256)	(405,920)	(597,812)	(1,535,279)

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, these amounts may be settled gross or net.

25. Financial risk management objectives and policies - continued

The following table shows the corresponding reconciliation of those amounts to their carrying amounts.

Group and Corporation	Less than 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	> 5 years $'000	Total $'000
Year ended 30 June 2016					
Inflows	5,191	220	-	-	5,411
Outflows	(5,490)	(224)	-	-	(5,714)
Net	(299)	(4)	-	-	(303)
Year ended 30 June 2015					
Inflows	896	13,790	-	-	14,686
Outflows	(1,590)	(15,020)	(4,876)	(19)	(21,505)
Net	(694)	(1,230)	(4,876)	(19)	(6,819)

26. Operational risk

The Group is exposed to single sources of supply in relation to both its coal and gas supplies and networks access. As such these suppliers represent a single source of failure and the Group seeks to protect itself by endeavouring to include protective rights under its supply contracts. Despite these contractual rights, the Group cannot entirely ensure that the supplier will continue to supply. Many contractual remedies require the Group to incur additional costs, some of which may not be recoverable, which may in turn impact the Group's future profitability and cash flows. From time to time, the Group enters into discussions with its suppliers to address any potential interruptions to supply.

27. Contributed equity and reserves

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
As at 1 July	1,292,744	1,292,744	1,292,744	1,292,744
As at 30 June	**1,292,744**	**1,292,744**	**1,292,744**	**1,292,744**

Contributions

Contributed equity comprises contributions by the owner, the State Government of Western Australia.

The initial contribution by the owner was made up of Western Power Corporation's assets, after deducting the liabilities that were transferred from Western Power Corporation to the Corporation on 1 April 2006.

In 2014, additional contribution was received from the State Government of Western Australia, in the form of transfer of the assets and liabilities from the former Electricity Retail Corporation on 1 January 2014.

Contributions from owners under a restructure of administrative arrangements

Contributions of assets and liabilities from the State Government of Western Australia, under a restructure of administrative arrangements, are recognised at their carrying values through equity as capital contribution by owner.

Capital management

For the purpose of the Group's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches in financial covenants in the current period.

27. Contributed equity and reserves - continued

Dividends

Dividends paid since the end of the previous financial year were:

- $37.1 million final dividend paid out of the Corporation's profit for the year ended 30 June 2015.
- $33.2 interim dividend paid out of the Corporation for the year ended 30 June 2016.

During 2015, $83.6 million was paid in relation to the year ended 30 June 2014.

Other reserves

The hedging reserve represents the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Other comprehensive income, net of tax

The disaggregation of changes of OCI by each type of reserve in equity is shown below:

	Accumulated losses	Hedging reserve	Total
Group	$'000	$'000	$'000
As at 30 June 2016			
Changes in fair value of cash flow hedges, net of tax	-	(372)	(372)
Net change in fair value of cash flow hedges transferred to profit and loss	-	(886)	(886)
Share of joint venture entities	-	593	593
Re-measurement gains on defined benefit plans, net of tax	(1,359)	-	(1,359)
	(1,359)	**(665)**	**(2,024)**
As at 30 June 2015			
Changes in fair value of cash flow hedges	-	736	736
Net change in fair value of cash flow hedges	-	1,076	1,076
Share of joint venture entities	-	377	377
Re-measurement gains on defined benefit plans	(2,407)	-	(2,407)
	(2,407)	**2,189**	**(218)**
Corporation			
As at 30 June 2016			
Changes in fair value of cash flow hedges	-	(372)	(372)
Net change in fair value of cash flow hedges	-	-	-
Re-measurement gains on defined benefit plans	(1,359)	-	(1,359)
	(1,359)	**(372)**	**(1,731)**
As at 30 June 2015			
Changes in fair value of cash flow hedges	-	253	362
Net change in fair value of cash flow hedges	-	1,076	1,537
Re-measurement gains on defined benefit plans	(2,407)	-	(2,407)
	(2,407)	**1,329**	**(1,078)**

28. Information relating to subsidiaries

The consolidated financial statements of the Group include:

	Principal activity	Country of incorporation	% Equity interest 2016	% Equity interest 2015
Vinalco Energy Pty Ltd	Muja AB plant operators	Australia	100%	100%
South West Hub Pty Ltd	Carbon storage research	Australia	100%	100%

Recognition, measurement and accounting estimates

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2016. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Control is achieved when the Group has power over the investee, is exposed, or has rights, to variable returns from the investee, and has the ability to affect those returns through use of its power over the investee. When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has sufficient power over an investee to control it. The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control outlined above.

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. During 2016, the Corporation entered into a loan within the Group to Vinalco, see Note 23.

29. Interest in joint ventures and operations

	Report date	Date of incorporation	Country of incorporation	% Equity Interest 2016	% Equity Interest 2015
Mumbida Wind Farm Holdings Pty Ltd*	30 June	Nov 2010	Australia	50%	50%
South West Solar Development Holdings Pty Ltd	30 June	Aug 2011	Australia	50%	50%
Collie Basin SO_2 Modelling Study	30 June	N/A	N/A	64%	N/A
South West Hub Joint Venture	30 June	N/A	N/A	100%	100%

*On 25 April 2016, the Group advised the Board of Directors of Mumbida Wind Farm Holdings Pty Ltd that it is proposing to sell its interest in the Mumbida wind farm project by selling its 50% shareholding in Mumbida Wind Farm Holdings Pty Ltd, see Note 9.

During 2016 the Corporation made investments into the unincorporated Collie Basin SO_2 Modelling Study.

South West Hub Joint Venture is an unincorporated joint venture funded by State Government and Federal Government to investigate the feasibility of carbon storage in the lower Lesueur geological formation north of Harvey in the South West of Western Australia.

29. Interest in joint ventures and operations - continued

Summarised financial information of the joint ventures, based on Australian Accounting Standards financial statements, and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2016 $'000	2015 $'000
Current assets	8,883	28,823
Non-current assets	38,484	193,146
Current liabilities	(197)	(1,452)
Non-current liabilities	-	(171,127)
Equity	**47,170**	**49,390**
Proportion of group's ownership	24,285	26,243
Carrying amount of the investment	**24,220**	**33,340**
Revenue	5,115	50,796
Expenses	(2,753)	(35,761)
Profit before tax	**2,362**	**15,035**
Income tax expense	(728)	(4,639)
Profit for the year	**1,634**	**10,396**
Group's share of the profit for the year	**(538)**	**7,511**

The joint venture entities had no contingent liabilities as at 30 June 2016 (2015: Nil). The joint ventures entities cannot distribute profits until obtaining the consent from the two venture partners.

Reconciliation of investment in joint venture entities:

	Group 2016 $'000	Group 2015 $'000	Corporation 2016 $'000	Corporation 2015 $'000
Cost of investment	34,243	58,594	34,243	58,594
Accumulated losses recognised	(10,023)	(25,254)	(20,600)	(20,600)
Net carrying value	**24,220**	**33,340**	**13,643**	**37,994**
Balance at 1 July	33,340	32,952	37,994	38,394
Capital contributions	123	200	123	200
Share of profit (loss) recognised in profit or loss in year	(538)	7,511	-	-
Share of movement in hedge reserve of associate	595	377	-	-
Dividends paid	(2,600)	(7,100)	-	-
Impairment in investment	-	(600)	-	(600)
Transfer to assets held for sale	(6,700)	-	(24,474)	-
Balance 30 June	**24,220**	**33,340**	**13,643**	**37,994**

During the year, the Corporation held a 50% interest in an unincorporated joint venture operation, South West Cogeneration Joint Venture. The operation was terminated in March 2016.

	Report date	% Equity interest 2016	% Equity interest 2015
South West Cogeneration Joint Venture	30 June	50%	50%

29. Interest in joint ventures and operations - continued

Recognition, measurement and accounting estimates

Investment in joint ventures

A joint venture is an arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of comprehensive income reflects the Group's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity.

Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture. The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognises the impairment in the statement of comprehensive income.

Upon loss of joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognised in the statement of comprehensive income.

Investment in joint operations

The interest of the Corporation in jointly controlled operations and assets are brought to account by recognising in its financial statements the assets it controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

30. Investment in an associate

The Group has an interest in the following associate:

	Principal Activity	Report Date	Country of Incorporation	% Equity Interest 2016	% Equity Interest 2015
Premier Coal Limited	Coal mine operator	30-Jun	Australia	-	-

Under the Amended Coal Supply Agreement (CSA) and the Convertible Loan Agreement with Premier Coal Limited (PCL), Synergy has a right to convert the loan into a 25% equity stake in PCL, anytime or mandatorily at the end of term of the loan agreement. Synergy has the right to appoint one member to the board of PCL and PCL cannot distribute any profits until obtaining consent from Synergy.

30. Investment in an associate - continued

Summarised financial information of the associate and reconciliation with the carrying amount of the investment in the consolidated financial statements are set out below:

	2016 $'000	2015 $'000
Current assets	100,906	68,573
Non-current assets	186,321	215,195
Current liabilities	(57,807)	(47,632)
Non-current liabilities	(36,279)	(33,148)
Equity	**193,141**	**202,988**
Proportion of Group's ownership	-	-
Carrying amount of the investment	**-**	**-**
Revenue	228,081	219,060
Expenses	(234,763)	(234,969)
Loss before tax	**(6,682)**	**(15,909)**
Income tax (benefit) expense	1,154	344
Loss for the year	**(5,528)**	**(15,565)**
Group's share of the loss for the year	(1,382)	(3,891)
Group's share of loss restricted to carrying value of investment	**-**	**(179)**

Reconciliation of investment in associate:

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Cost of investment	179	179	179	179
Accumulated losses recognised	(179)	(179)	-	-
Net carrying value	**-**	**-**	**179**	**179**
Balance at 1 July	-	-	179	-
Investment at valuation	-	179	-	179
Share of loss recognised in profit or loss in year	-	(179)	-	-
Balance 30 June	**-**	**-**	**179**	**179**

The associate had no contingent liabilities as at 30 June 2016 (2015: Nil).

Recognition, measurement and accounting estimates

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes transactions costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases. Equity accounting in associates ceases when the equity accounting value goes below zero (i.e. where the associate incurs cumulative losses in excess of the carrying value) and does not restart equity accounting until, on a cumulative basis, the equity accounting value moves above zero.

31. New and amended accounting standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 July 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments applied for the first time in 2016, they did not have a material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements. The nature of each new standard or amendment is described below:

AASB 2013-9 *Amendments to Australian Accounting Standards- Conceptual Framework, Materiality and Financial Instruments*

This standard makes amendments to other Australian Accounting standards to delete references to AASB 1031 *Materiality* and to incorporate hedge accounting into AASB 9 *Financial Instruments*.

AASB 2015-3 *Amendments to Australian Accounting Standards arising from the Withdrawal* of AASB 1031 *Materiality*

This Standard effects the withdrawal of AASB 1031 Materiality by amending AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to supersede AASB 1031 and deletes references to AASB 1031 in the Australian Accounting Standards listed in the Appendix to this Standard.

AASB 2014-8 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)*

This Standard makes amendments to AASB 9 (December 2009) and AASB 9 (December 2010) such that for annual reporting periods beginning on or after 1 January 2015, an entity may apply AASB 9 (December 2009) or AASB 9 (December 2010) if, and only if, the entity's date of initial application (as described in the applicable Standard) is before 1 February 2015.

32. Accounting Standards and Interpretations issued but not yet effective

At the date of this financial report the following standards and interpretations, which may impact the entity in the period of initial application, have been issued but are not yet effective:

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 2014-3	*Amendments to Australian Accounting Standards- Accounting for Acquisitions of Interests in Joint Operations*	This standard amends AASB 11 to provide guidance on accounting for acquisition of interests in joint operations in which the activity constitutes a business, as defined in AASB 3. If so the principles in AASB 3 will apply unless they conflict with guidance in AASB 11.	1 January 2016	1 July 2016
AASB 2014-4	*Amendments to Australian Accounting Standards- Clarification of Acceptable Methods of Depreciation and Amortisation*	This standard amends AASB 116 and AASB 138 to establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset, and to clarify that revenue is generally presumed to be an inappropriate basis for that purpose.	1 January 2016	1 July 2016
AASB 2015-1	*Amendments to Australian Accounting Standards- Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*	The standard makes amendments to various Australian Accounting Standards including: changes in methods of disposal in AASB 5; and clarifications to discount rates in AASB 119.	1 January 2016	1 July 2016
AASB 2015-2	*Amendments to Australian Accounting Standards- Disclosure Initiative: Amendments to AASB 101*	The standard makes amendments to AASB 101 arising from the IASB's Disclosure Initiative project.	1 January 2016	1 July 2016
AASB 2015-6	*Amendments to Australian Accounting Standards- Extending Related Party Disclosures to Not-for-Profit Public Sector Entities*	The amendments specify consistent related party disclosure requirements for the Australian Government, State Governments, local councils and other not-for-profit public sector entities.	1 July 2016	1 July 2016
AASB 2015-7	*Amendments to Australian Accounting Standards- Fair Value Disclosures for Not-for-Profit Public Sector Entities*	The standard makes amendments to AASB 13 to exempt not-for-profit public sector entities for certain requirements of the standard.	1 July 2016	1 July 2016
AASB 2014-5	*Amendments to Australian Accounting Standards arising from AASB 15*	These amendments arise from the issuance of AASB 15 Revenue from Contracts with Customers in December 2014.	1 January 2017	1 July 2017

32. Accounting Standards and Interpretations issued but not yet effective - continued

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 15	*Revenue from Contracts with Customers*	This standard replaces AASB 111, AASB 118 and related interpretations, and establishes principles (including disclosure requirements) for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	1 January 2018	1 July 2018
AASB 9	*Financial Instruments*	This standard replaces AASB 139 and supersedes both AASB 9 (December 2010) and AASB 9 (December 2009) when applied. It introduces a "fair value through other comprehensive income" category for debt instruments, contains requirements for impairment of financial assets and a reformed approach to hedge accounting.	1 January 2018	1 July 2018
AASB 16	*Leases*	This standard replaces AASB 117 and removes the lease classification test and requires all leases (including operating leases) to be brought onto the balance sheet. The definition of a lease is also amended and is now the new on/off balance sheet test for leases.	1 January 2019	1 July 2019
AASB 1057	*Application of Australian Accounting Standards*	The objective of this Standard is to specify the types of entities and financial statements to which Australian Accounting Standards (including Interpretations) apply.	1 January 2016	1 July 2016
AASB 2014-7	*Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*	This Standard gives effect to the consequential amendments to Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 9 (December 2014).	1 January 2018	30 June 2018
AASB 2015-10	*Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128*	This Standard defers the mandatory effective date (application date) of amendments to AASB 10 and AASB 128 that were originally made in AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (on or after 1 January 2018 instead of 1 January 2016).	1 January 2018	30 June 2018

33. Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except when the GST incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a net basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

34. Commitments

Operating lease commitments

The Group has lease contracts that relate to the following:

(i) The Group leases office buildings under an operating lease for an initial lease term of 10 years with two options to extend for a further 3 years each;

(ii) Leases relate to the purchase of energy, capacity and renewable energy certificates with lease terms ranging between 10 to 25 years with various suppliers.

Future minimum rentals payable under non-cancellable operating leases as at 30 June are as follows:

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Less than one year	118,529	117,185	118,529	117,185
Between one and five years	498,504	486,198	498,504	486,198
More than five years	856,419	991,773	856,419	991,773
Total non-cancellable operating lease payments	**1,473,452**	**1,595,156**	**1,473,452**	**1,595,156**

Finance lease commitments

The Group has entered into a number of contractual wholesale electricity purchase arrangements with generation facilities. Based on an evaluation of the terms and conditions of these arrangements, it has determined that these third party arrangements constitute finance leases, as the term is for the majority of the electricity generation facilities economic life and the Group receives the benefit of all of the facilities output.

The Group has finance leases contracts for various items of plant and equipment. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2016		2015	
	$'000 Minimum payments	$'000 Present value of payments	$'000 Minimum payments	$'000 Present value of payments
Group and Corporation				
Within one year	36,786	6,565	36,613	5,761
Between one and five years	148,883	36,767	148,185	32,271
More than five years	332,949	188,703	370,433	199,763
	518,618	**232,035**	**555,231**	**237,795**

34. Commitments - continued

Lease liabilities relate to the following:

(i) Kemerton power purchase arrangement- a corresponding asset and liability of $189.7 million was recognised in the statement of financial position at the commencement of the lease term, representing the fair value of the equipment. Arrangement extends to 2030 and removes the right for any further extension.

(ii) Emu Downs Wind Farm (EDWF) off-take agreement- a corresponding asset and liability of $65.7m was recognised in the statement of financial position at the commencement of the lease term, representing the present value of the minimum lease payments under the contract. The EDWF off-take agreement extends to 2026 (with minimum obligations) and to 2030 (without any minimum obligations) and removes the right for any further extension.

The total finance lease expense recognised in the statement of comprehensive income for the year ended 30 June 2016 is $5.8 million (2015: $5.1 million).

Finance lease receivable

The lease receivable is to be received as follows:

		2016			2015	
	$'000	$'000	$'000	$'000	$'000	$'000
	Gross Investment	Unearned interest income	Principal	Gross investment	Unearned interest income	Principal
Group and Corporation						
Within one year	-	-	-	1,878	76	1,802
Between one and five years	-	-	-	-	-	-
	-	**-**	**-**	**1,878**	**76**	**1,802**

The lease relates to a licensing arrangement entered into for a period of five years starting from 1 March 2011 whereby the Corporation grants a licence to a customer to operate one of its electricity generating plants. The Corporation concluded that this licensing arrangement contains a lease which was classified as a finance lease. The Corporation's exposure to credit risks and impairment losses related to the lease receivable is disclosed in note 25.

Capital and other commitments

As at the 30 June 2016 the Group had commitments relating to the following:

- future purchase of renewable energy certificates;
- energy purchase agreements;
- information technology and contact centre support services; and
- committed capital expenditure.

34. Commitments - continued

	Group		Corporation	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Less than one year	5,376	19,601	5,376	19,601
Between one and five years	10,063	12,773	10,063	12,773
More than five years	1,243	2,556	1,243	2,556
Total intangible asset commitments	**16,682**	**34,930**	**16,682**	**34,930**
Less than one year	610,834	765,206	603,476	757,848
Between one and five years	2,977,064	3,559,293	2,947,634	3,529,863
More than five years	4,434,358	4,928,917	4,395,731	4,882,933
Total energy procurement commitments	**8,022,256**	**9,253,416**	**7,946,841**	**9,170,644**
Less than one year	97,814	82,594	97,814	82,594
Between one and five years	43,771	49,836	43,771	49,836
More than five years	38	196	38	196
Total other operating commitments	**141,623**	**132,626**	**141,623**	**132,626**
Less than one year	4,160	40,429	4,160	40,429
Between one and five years	-	601	-	601
More than five years	-	-	-	-
Total capital commitments	**4,160**	**41,030**	**4,160**	**41,030**

35. Contingencies

The Group has the following contingent liabilities as at 30 June 2016:

Site restoration

The Group provides for the restoration of its power station sites including any environmental rehabilitation as required by various environmental regulations (and as disclosed in note 19). Based on management's best estimates and assumptions, the Group has made adequate provision to cover these anticipated restoration costs. However many of these costs will be incurred at some time in the future and as such, the provisions will be subject to changes due to significant estimation risk surrounding such estimates and assumptions. In addition there may be residual environmental obligations on sites which have been declared rehabilitated, and to the extent that these may arise, represent contingent liabilities to the Corporation. Management does not have any means of quantifying this residual exposure.

Asbestos management

The Group operates a portfolio of thermal power stations of varying ages. Many of these power stations utilised asbestos for its insulation and fire resistant qualities prior to the market becoming aware of the dangers of asbestos. The Group has a current asbestos management process in place and addresses these risks on an ongoing basis. However, diseases which emanate from asbestos, such as asbestosis may take many years to develop. As such the Group may have a liability to those workers and other contractors who came in contact with asbestos at one of its power stations in the past. Whilst there is workers' compensation insurance and in some cases public liability insurance which covers the workers and contractors, not all of this liability is insured. As such the Group has a contingent liability for undiagnosed illnesses which may arise from exposure to asbestos at one of its sites. The quantum of this contingent liability is extremely uncertain and cannot be quantified with any accuracy.

36. Events after the reporting date

There are no significant events after reporting date.

Directors' declaration

In accordance with a resolution of the directors of Electricity Generation and Retail Corporation (the Corporation), I declare that:

In the opinion of the directors:

(a) the financial statements of the Corporation are in accordance with Schedule 4, Division 3 of the *Electricity Corporations Act 2005* and the *Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013* including;

- (i) giving a true and fair view of the financial position of the Group and the Corporation as at 30 June 2016 and of the performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), and the *Electricity Corporations Act 2005*;

(b) there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they become due and payable; and

(c) the directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2016 pursuant to the *Electricity Corporations Act 2005*.

On behalf of the board

Lyndon Rowe
Chairman

Date: 17 August 2016

Independent auditor's report

Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

ELECTRICITY GENERATION AND RETAIL CORPORATION

I have audited the financial report of the Electricity Generation and Retail Corporation. The financial report comprises the Statement of Financial Position as at 30 June 2016, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, Notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

The financial report includes the consolidated financial statements of the consolidated entity, comprising the Corporation and the entities it controlled at the year's end or from time to time during the financial year.

Opinion
In my opinion, the financial report of the Electricity Generation and Retail Corporation is in accordance with schedule 4 of the Electricity Corporations Act 2005, including:

(a) giving a true and fair view of the Corporation's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
(b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Directors' Responsibility for the Financial Report
The directors of the Electricity Generation and Retail Corporation are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Electricity Corporations Act 2005, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility for the audit of the Financial Report
As required by the Electricity Corporations Act 2005, my responsibility is to express an opinion on the financial report based on my audit. The audit was conducted in accordance with Australian Auditing Standards. Those Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting this audit, I have complied with the independence requirements of the Auditor General Act 2006 and Australian Auditing Standards, and other relevant ethical requirements.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of the Electricity Generation and Retail Corporation for the year ended 30 June 2016 included on the Corporation's website. The Corporation's management is responsible for the integrity of the Corporation's website. This audit does not provide assurance on the integrity of the Corporation's website. The auditor's report refers only to the financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from this financial report. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

COLIN MURPHY
AUDITOR GENERAL
FOR WESTERN AUSTRALIA
Perth, Western Australia
23 August 2016