synergy

219 Forrest Centre, Perth, WA 6000
GPO Box F366, Perth, WA 6841

synergy.net.au

Synergy Annual Report 2018 ABN 58 673 830 106

synergy

LEADING WESTERN AUSTRALIANS
TO THEIR INTELLIGENT ENERGY

FUTURE

2018 ANNUAL REPORT

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 the pleasure in submitting the 2018 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,

Robert Cole
Chairman

Synergy ABN 58 673 830 106
Manager public affairs and corporate communications, GPO Box F366, Perth WA 6841
email: corporate.communications@synergy.net.au | website: synergy.net.au

About Synergy

Synergy is proud to be Western Australia's largest integrated electricity generator and energy retailer. Our objective is to utilise our diverse energy generation portfolio to supply reliable and efficient energy to more than one million residential and business customers.

Synergy owns and operates electricity generating assets, including thermal power stations and wind farms spanning from Kalbarri in the north, out to Kalgoorlie in the east and down to Albany – an electricity network known as the South West Interconnected System (SWIS). Established under the Act and owned by the State Government of Western Australia, Synergy reports to the Minister for Energy, the Hon Ben Wyatt MLA.

As one of the state's most essential organisations, Synergy continues to support and play an active role in the communities in which it operates, as well as developing innovative energy solutions for its customers.

Synergy's employees are committed to driving performance, as well as embracing new technologies and market changes. In order to achieve a successful new energy future, Synergy has implemented a refreshed set of strategic objectives to ensure the business is responsive and adaptive to the evolving energy landscape and best positioned to lead Western Australians to their intelligent energy future.

Synergy's vision for the future is clear - that is to be the first choice for energy in Western Australia, for today and tomorrow.

Chairman's report

The wave of change impacting the energy industry globally is accelerating, leading to rapid and transformational change in how electricity is generated, bought, sold and distributed.

In our state, like elsewhere, this profound change is driven by a number of simultaneous forces. The uptake of rooftop PV has resulted in a challenging daily load profile, and the increasing levels of intermittent large-scale renewables have impacted the critical stabilising role of traditional generation. Added to this is the ever evolving nature of customer demands and expectations.

In this dynamic environment, we at Synergy, have ramped up our efforts over the past year to transform our business, so that we can meet the rapidly changing needs of our customers, while ensuring our business is commercially sustainable and delivering value to our owners, the Government and people of Western Australia.

At the heart of our challenge is the changing generation profile in the State. Installed rooftop solar capacity for the year grew by 183.6 MW to a total of 918.5 MW, a 25 per cent increase. It is estimated that rooftop solar is now supplying 7 per cent of total South West Interconnected System demand. This trend is forecast to continue as customers, facing rising electricity prices, look for cheaper alternatives. In addition, a significant amount of large-scale new renewable generating capacity will be added to the network over the coming years. This major growth in renewable generation, has profound consequences for the dispatch profile of our generation fleet and our cost of generation, as well as our revenue base. Due in part to these forces, Synergy's revenue for 2017-18 fell by 2.3 per cent.

With the State Government's decision to cease the tariff adjustment payment (TAP) after 2017-18, Synergy can no longer rely on subsidies to top-up its revenue. However, the State Government introduced further tariff increases in May 2018 which have brought electricity charges closer to efficient cost reflectivity, especially in regards to the daily fixed charge. Putting up electricity prices is never a popular choice, but the reality is that the cost of critical elements of the electricity supply chain was increasingly being paid for by the Western Australian taxpayer.

Everyone benefitting from a network connection should be paying for the cost of that connection and the Government should once again be commended on its firm and fair decisions to date.

While Synergy faces new revenue pressures, the vast majority of Synergy's costs are fixed and not easily reduced. In the face of this downward pressure on profitability, the challenge for Synergy, which we fully embrace, is to reshape our business so that it remains sustainable and meets the expectations of customers. At a time when State budget repair is paramount, our responsibility is also to deliver a solution that ultimately benefits the State's finances.

The starting point is to focus on the costs that we can control. Pleasingly, over the past year, the team at Synergy delivered $50.7 million in reduced operating expenses which enabled the organisation to deliver a modest profit. Going forward, we are committed to constantly challenging our cost base as part of a broader internal transformation. The business is driving a culture of continuously improving efficiency, being agile and flexible to adapt to an increasingly uncertain future, and positioning itself as a driver and thought leader in shaping an intelligent energy future for the State.

Our ability to operate sustainably depends in part on the policy and regulatory framework in which the industry operates. Like previous years, energy policy, energy prices and energy security have continued to dominate national and state debate, culminating in the proposal by the Federal Government to introduce the National Energy Guarantee, the future of which is now uncertain. In this regard, I echo the ongoing calls from business for a cohesive national policy to guide investment in the electricity system as we transition to more renewable energy generation. Furthermore, as the WA Energy Minister has advocated, any truly national policy must also take into account the direct and indirect impacts on the state and ensure we are not disadvantaged. As a central player in the Western Australian electricity market, it is critical for Synergy to have certainty about these national requirements.

While the energy sector at both levels of government needs a coordinated and collaborative direction, the discussion going forward must include some difficult decisions at a State level, if consumers are to benefit in the future. In the face of this, Synergy is committed to working closely with the State Government, industry and relevant agencies to develop policy frameworks that benefit consumers and the market. Synergy looks forward to ensuring successful and sustainable reform in the best interests of all Western Australians.

Synergy has a strong history in developing significant solar and wind generating assets in Western Australia and is committed to increasing its renewable energy portfolio. In doing this we will balance renewable and traditional generation to ensure security and reliability of electricity supply in the communities in which we operate. In 2018, Synergy demonstrated it continues embrace new technology by investing jointly with infrastructure investment company DIF and Australian super fund Cbus to form Bright Energy Investments for the development of large scale renewable assets. Bright Energy Investments brings to life Synergy's commitment to renewables and is a great transaction for the business and the State.

On behalf of the Synergy Board, I acknowledge and thank the Minister for Energy, the Hon Ben Wyatt for his continued engagement and support, as we work diligently to shape this State's energy future.

On a personal note, I also wish to express my appreciation to my fellow board members in my first year as Chair. I have been honoured to work with a team who bring such valuable enthusiasm, experience and expertise in this exciting industry as it undergoes such significant change.

I also thank Jason Waters, his executive team and the staff at Synergy, and congratulate them on their contribution to our intelligent energy future.

Robert Cole
Chairman

Chief Executive Officer's report

Amid the challenge of rapid and irreversible change across the energy sector, Synergy's 2017-18 financial year results provide insights into the resilience of the organisation. This highlights the potential that exists within it to meet the challenges of an increasingly complex electricity supply environment, while delivering reliable and cost-effective electricity to the homes and businesses of Western Australia.

While our financial result of a net profit after tax of $24.3 million is an improvement on the $12.6 million loss in 2016-17, the fact it was achieved in a year when residential demand fell 3.9 per cent (238.1 GWh) from 2016-17 due to unfavourable weather conditions and increased uptake of solar PV, was a more pleasing aspect.

Total revenue for 2017-18 fell by 2.3 per cent from 2016-17 to $2.98 billion. However, the business was able to offset the reduction through a strong cost-control approach which saw expenditure in the areas of materials, services and wages fall by $44.4 million (8.6 per cent) from 2016-17. Overall the business was able to outstrip a $70.1 million reduction in revenue with $50.7 million in reduced operating expenses and lower non-cash expenses of $80 million. This is a trend that will need to be continued for the medium term, in order to achieve our ambition of financial sustainability and reduced upwards pressure on prices.

Safety remained an area of significant challenge in 2017-18, with a degradation in our performance to a lost time injury frequency rate of 2.0 and a total recordable injury frequency rate of 4.97. Neither of these results meet the expectations that we set for ourselves, and the sustainable improvement of our safety performance will remain our top priority. On a more positive note, Synergy has taken significant steps again in 2017-18 towards the creation of a workplace that places mental health wellbeing on an equal footing to physical health and safety. I also am pleased that in June 2018, we achieved accreditation under the Australian Medical Association (AMA) program for the integrated approach to the management of psychological risks in the workplace.

This year, helping our customers to better manage their energy needs was the cornerstone of Synergy's approach. In terms of our customer service performance, I am very pleased with this year's net promoter score of 71.5, which was an improvement on the 2016-17 score of 69.5. This is an excellent result and something our customer service teams should be extremely proud of. We are well aware that many of our customers face financial hardship and providing information, support and real solutions is a key part of our how we do business.

Solar energy continues to be one of the most immediate opportunities for Synergy's customers to manage their electricity bills and contribute to a cleaner electricity supply chain. More than 1000 residential solar systems have now been installed as part of Synergy's solar and battery business, SolarReturn. Synergy also continues to support customers considering solar and batteries through the availability of on-line tools and information which are aimed to help customers make the right choice of technology at the right time.

In a major move towards achieving Synergy's obligations under the Large Scale Renewable Energy Target, Synergy entered into a joint venture with the Dutch Infrastructure Fund (DIF) and Australian industry super fund Cbus to form Bright Energy Investments. BEI is working to build up to 210MW of large-scale renewable energy projects in the SWIS.

This joint venture and the subsequent development of these large scale renewables projects is a significant milestone for Synergy with the Stage two of the Greenough River Solar Farm already under construction and the Warradarge Wind Farm at the final stages of planning. Through its involvement in Bright Energy Investments, Synergy will build on its experience in developing the Mumbida Windfarm and Greenough River Solar Farm Stage one to once again partner with the private sector to develop renewable energy projects that deliver value for electricity consumers and the State Government.

Despite challenging and changing conditions, I am pleased with the ongoing commitment and drive of Synergy's people and our overall progress across the business. Our customers are at the heart of everything we do, and we will maintain our commitment to delivering reliable and cost-effective energy solutions while we navigate this evolving energy environment.

I would like extend my heart-felt thanks to Synergy employees and contractors for their hard work and belief in our purpose of leading Western Australians to their intelligent energy future. I would also like to thank Synergy's chairman Robert Cole, our previous chairman Lyndon Rowe, our board of Directors, and the Minister for Energy the Hon Ben Wyatt MLA for their continued support and guidance throughout the year.

Jason Waters
CEO

Executive team

Jason Waters
Chief Executive Officer

Karl Matacz
Chief Financial Officer

Geoff Roberts
General Manager Retail

Angie Young
Chief Information Officer

Gary Peel
General Manager People and Culture

Barry Ford
General Manager Generation

Sasha Pendal
General Manager Commercial

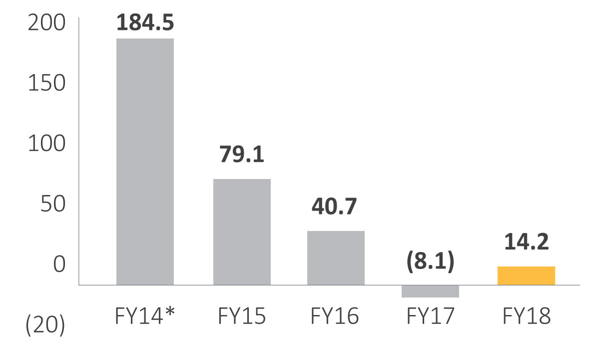
Kurt Baker
General Manager Wholesale

Will Bargmann
General Manager Corporate Services; Company Secretary

Operating and financial summary

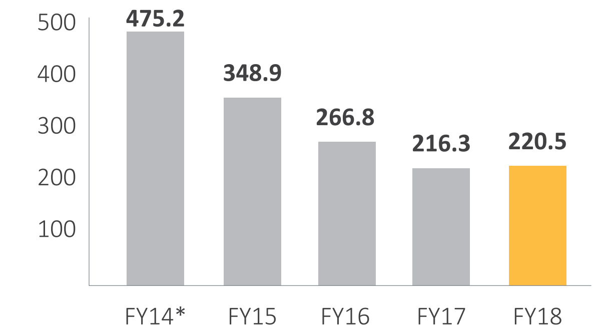
Synergy's statutory profit after tax for the year ended 30 June 2018 was $24.3 million, which is a $36.9 million improvement on 2016-17.

Reported net (loss) / profit before tax $m



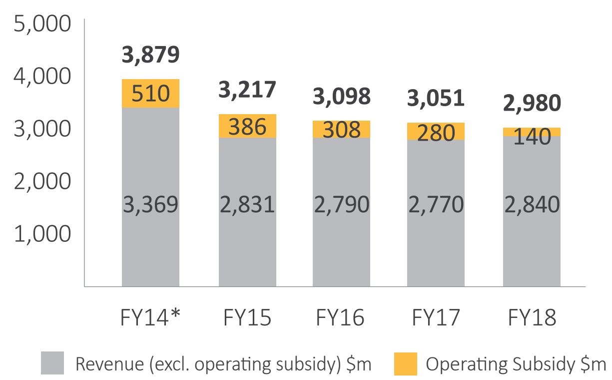
Profit before tax is $14.2 million. This is a $22.3 million improvement on FY17.

EBITDA $m



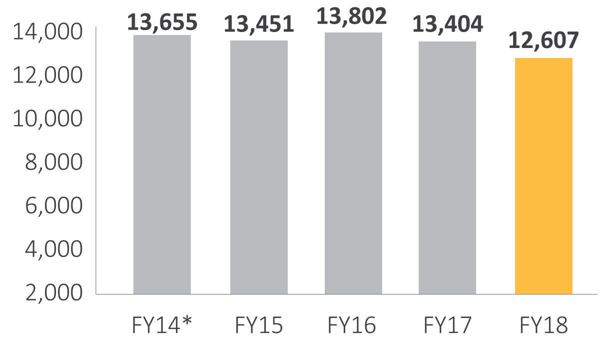
EBITDA increased marginally on FY17. Lower revenue is offset by Synergy's ongoing focus on cost reduction in FY18.

Total revenue and operating subsidy $m



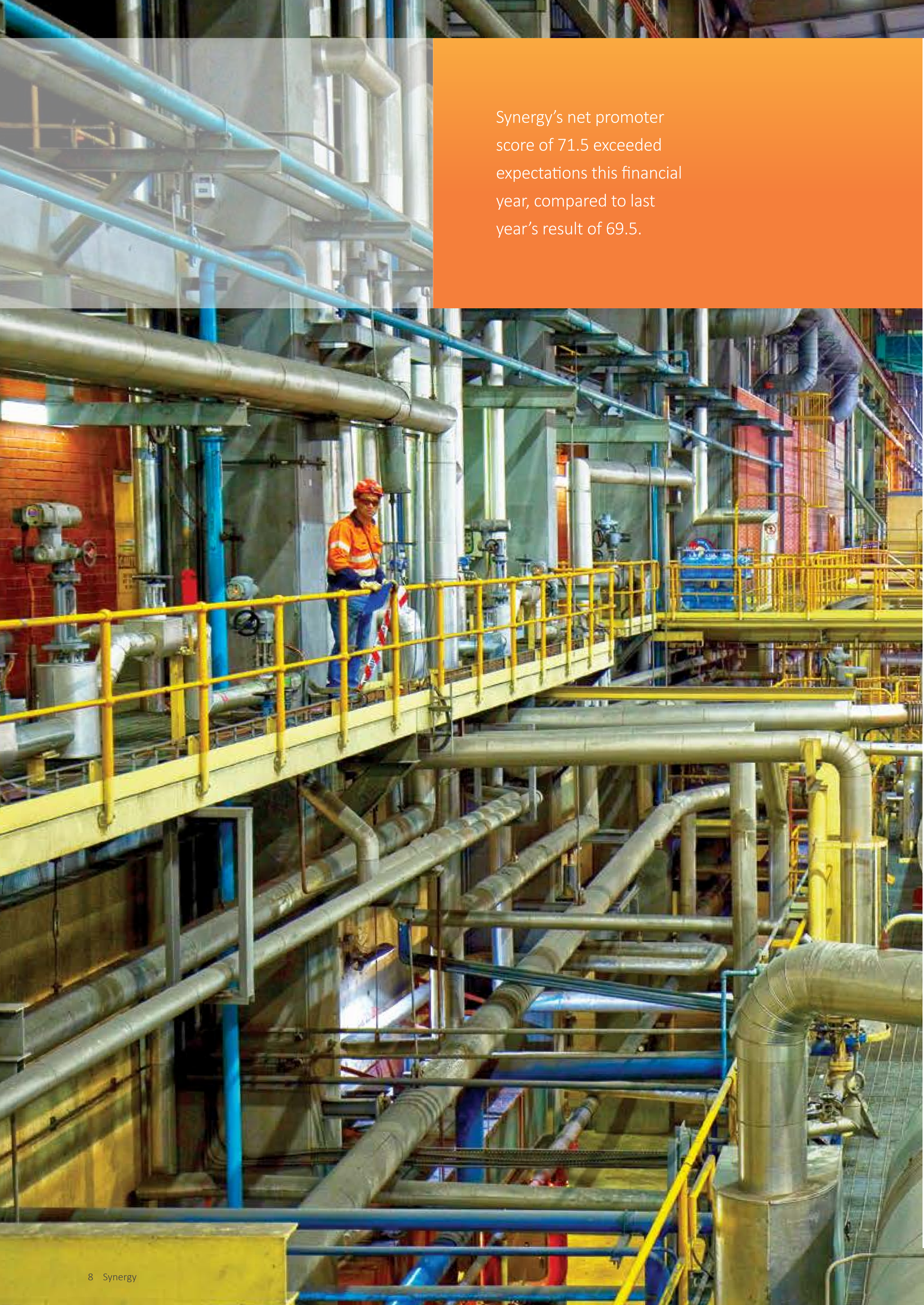
Total revenue declined by 2.3%. Lower sales and operating subsidy receipts, partially offset the increase in retail tariffs.

Electricity sales (GWh)



Electricity sales decreased 5.9%. This reflects declines in both the retail and wholesale markets.

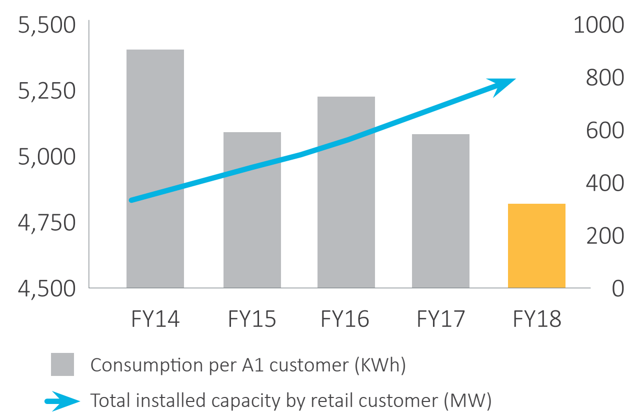
*Due to the merger of Synergy with Verve Energy effective 1 January 2014, these numbers have been derived from the audited financial statements of the former Synergy for the period 1 July 2013 to 31 December 2013 and former Verve Energy for the period 1 July 2013 to 30 June 2014. These combined results are themselves not audited.



Synergy's net promoter score of 71.5 exceeded expectations this financial year, compared to last year's result of 69.5.

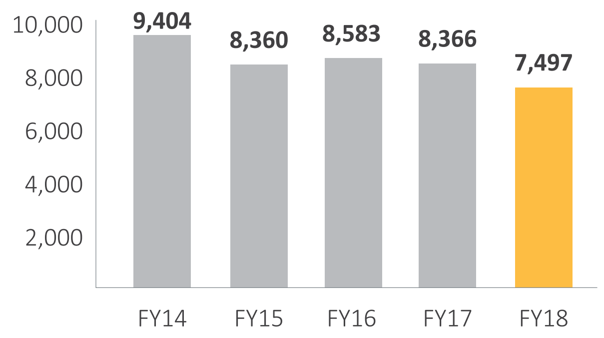
Operating and financial summary (continued)

A1 consumption & PV solar uptake



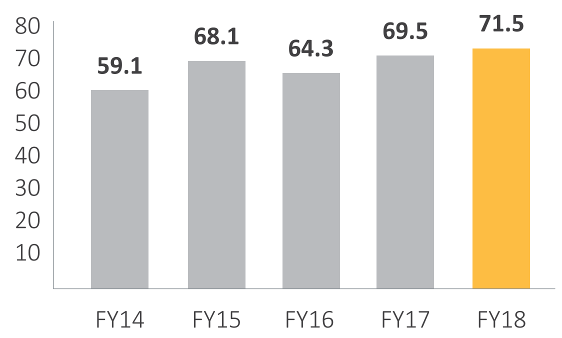
Installed roof top solar photo-voltaic (PV) capacity increased approximately 130MW on FY17. This contributed to the decline in average residential consumption.

Generation production (GWh)



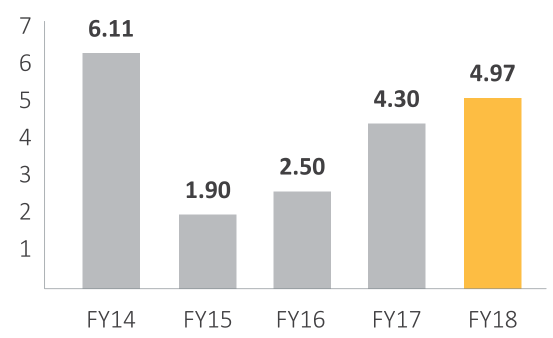
Generation production declined 10.4%. This reflects lower market demand and increased installed capacity of solar PVs.

Net promoter score



The net promoter score exceeded the 69.5 target set for the year.

Recordable Injury Frequency Rate (RIFR)



The RIFR target of 1.9 was not achieved in the year. However RIFR recorded a positive trend during the second half of FY18, improving from 6.83 to 4.97.

Our customers and community

Helping Western Australians to better manage their energy needs remains Synergy's focus. Synergy is committed to offering its customers innovative and cost-effective energy solutions, to ensure they feel empowered to manage their energy consumption.

Customer needs

Synergy's customer research over the past year shows that customers desire a simple experience when it comes to their energy. The cost to run their homes continues to be a key priority, which drives their appetite for data and improved energy monitoring capabilities. Customers are also hungry for information and personal insights into their energy consumption. This is reflected in many customers' attitudes to large-scale renewable generation and community energy storage and sharing schemes.

With customer and community needs central to its objectives, Synergy's retail activities have had customers at the heart of everything it does. Synergy understands the hardship certain customers face when their energy bills arrive, and have introduced a number of options to help customers manage their bills from direct debit and payment plans, to extra time to pay.

Informed and involved

In 2017-18, Synergy engaged its customers in over 50 research and insights projects via its community feedback platform Synergy Connect, customer co-creation events, journey mapping sessions and research projects. The valuable feedback and insights received directly from customers has influenced Synergy's priorities, and resulted in better quality outputs that meet customer needs.

Key outputs informed directly by customers included the design of the Synergy website, smart meter requirements, new tariff structures and energy management solutions.

Helping customers manage their energy and costs

Synergy has continued to support its customers through the State Government's Hardship Utility Grants Scheme (HUGS) and the Keeping Connected programs. This financial year, Synergy has successfully assisted more than 46,150 customers to obtain a HUGS grant, providing

Synergy's solar offering SolarReturn, has been in the market for the past two years having installed over 1,000 residential solar systems.

Customers desire simplicity when it comes to their energy. The cost to run their homes continues to be a key priority, which drives their appetite for data and improved energy monitoring capabilities.

valuable financial assistance to Western Australians who are experiencing financial hardship and unable to pay their energy bills.

Synergy also continues to support customers via the Western Australian Council of Social Service (WACOSS) through the Synergy Power Assist Program. This pool of funds assists those in need with payments towards electricity bills distributed through St Vincent de Paul Society. Synergy also works closely with WACOSS and the Financial Counsellors Association of WA to manage hardship situations across the State.

Synergy is constantly looking for ways to develop innovative and cost-effective energy solutions for its customers. In April 2018, Synergy trialled a retail pop up store in several metro shopping centres to deliver a face-to-face customer experience. Customers responded positively to the initiative which facilitated solar energy education, individual account holder services and energy savings tips via a new interactive online energy tool. The success of the trial has helped to validate how and when customers need service from Synergy and also informed initiatives for service innovation opportunities in the next year.

Synergy also launched a number of pilot electricity products with small groups of customers. These in-field tests challenge whether alternates to the standard regulated tariffs better meet customer needs. Off-Peak Saver (for business customers), Electric Vehicle, Lifestyle and Solar tariffs (for residential customers) utilise time of use pricing to incentivise a change in consumption patterns through different price bands. Early insights suggest that when customers are able to shift their consumption to off-peak usage, savings can be delivered.

Synergy's solar offer, SolarReturn, has been in the market for two years having installed over 1,000 residential solar systems. Solar energy continues to be one of the most immediate opportunities for customers to manage their electricity bills. Synergy has been actively supporting customers' access to solar through its ongoing online education and tools as well introducing a third party finance option that eliminates upfront costs.

Simplicity and ease

Synergy continues to make an ongoing effort to ensure the service it provides meets its customers' changing needs. During the past year customers sought mainly payment-related support, but also information relating to moving home, managing energy consumption and products enquiries.

Synergy's net promoter score, a measure of a customers' willingness to recommend, tracked above 71.5 for the year. This is a pleasing result given customers now interact with Synergy in a variety of ways, with digital channels increasing in prevalence.

New to the customer service mix is Synergy's webchat trial that commenced in February 2018 providing web chat service between 8am-6pm weekdays. The successful trial averages 120 chats daily with strong customer satisfaction metrics.

In the community

Synergy's community events and activities kicked off at the beginning of the financial year with the launch of Home of the Future at HomeBase in Subiaco. This award winning installation showcases energy's role in home automation technologies as well as options for householders now and in the very near future. Home of the Future had almost 20,000 visitors over the year and hosted energy savings workshops on topics such as 'passive solar design.'

During July, Synergy partnered with the not-for-profit Tesla Forum to bring the 2017 Tesla Expo to Perth. The free expo showcased inventions from one of the most prolific inventors and scientists in history, Nikola Tesla, who created the remote control, neon lighting, robots and electric motors.

Synergy's Xmas Lights Trail launched with a new interactive website in celebration of the festive season and to support Lifeline WA's Shine a Light for Life appeal.

The website for decorators and visitors alike was launched in October 2017 and allowed a simple interface for decorated home profiles and visitors to create a unique map of the homes they'd like to view. As part of this year's Synergy Xmas Lights Trail, the Synergy Elves performed musical shows to encourage the community to support Lifeline. Synergy also sponsored the Swan Festival of Lights, Victoria Park Festival, Subiaco Festival and Light up Leederville events.

In its second year, the Synergy Schools Solar Challenge focussed strongly on Science, Technology, Engineering and Maths (STEM) subjects, and provided additional curriculum and materials support for teachers. The 2018 challenge kicked off with Synergy's first regional heat in March 2018 at Newton College Bunbury. As a new feature of the program in 2018, Synergy donated $10,000 in prize money for the winning schools, along with the introduction of batteries into the car building materials.

The 16 finalist schools competed in the Grand Final held at Optus Stadium. Over 400 students participated directly in the race day competitions, with the overall education program reaching around 5,000 students.

Nominations for Synergy's Solar Community Fund opened to eligible not-for-profit and community groups in February. This community solar program is aimed at identifying energy saving opportunities primarily for small businesses and involved the gifting of six solar systems. All applicants received an energy audit, allowing Synergy to determine the best candidates for solar and the way in which subsequent savings could be reinvested into the community.

Our energy and environment

Synergy owns and operates electricity generating assets across Western Australia including the coal-fired Muja Power Station near Collie, the Collie Power Station, gas turbines at Cockburn, Pinjar and Mungarra, and windfarms near Albany and in the State's mid-west.

Energy

Portfolio performance

Synergy's generation portfolio availability was adversely impacted by extended maintenance outages to address unexpected equipment issues at the Muja, Collie and Cockburn power stations.

Available capacity factor in the portfolio was 84.04 per cent, which was 3.96 per cent below plan. The planned outage factor was 12.4 per cent (combined maintenance outage factor and planned outage factor), against a target of 10.4 per cent. The generation portfolio had a forced outage factor of 3.54 per cent, exceeding the 1.6 per cent target. This was primarily a result of an extended outage at the Cockburn Power Station.

Driving efficiency

This year, Synergy initiated a portfolio of projects that were focused on addressing risk reduction and sustaining generating plant capability.

Synergy implemented a project at Pinjar Power Station to replace the life expired gas turbine rotor. Pinjar plays a key role in Synergy's asset portfolio as a fast response generator. The completed works will result in an extended lifecycle of the unit.

Major maintenance events were also conducted at Muja and Cockburn power stations, which returned the units to a satisfactory condition for the next cycle of their operation.

Power station decommissioning

The decommissioning focus at Kwinana power station has been on cladding and insulation removal from site structures and equipment. Work was also progressed on approvals and contracts for the modification of site services, and minor demolition works to enable relocation of new site services.

Decommissioning and rehabilitation planning has been undertaken for Muja AB which was retired in September 2017. This power station's facilities are integrated with the existing Muja CD power station, which remains operational. While the main Muja AB building will remain intact in the near term, demolition of the Muja AB cooling towers and coal conveyors has commenced. Access to Muja AB power station facilities will be limited to ensuring it remains safe following its retirement.

A renewable future

Synergy prides itself on being a leader in the development of renewable energy projects throughout Western Australia. We have developed significant solar and wind generating assets in the state and are committed to increasing our renewable energy portfolio.

This year, Synergy invested jointly with world-renowned infrastructure investment company DIF and Australian super fund giant Cbus to form Bright Energy Investments to build up to 210MW of large-scale renewable energy projects in the SWIS.

The joint venture will assist Synergy in meeting its Large Scale Renewable Energy Target (LRET) obligations by 2020.

Bright Energy Investments will commence its development pipeline by constructing stage two of the Greenough River Solar Farm, and acquiring the existing Albany Grasmere Wind Farm. The 30MW increase at the Greenough River Solar Farm is the equivalent of powering over 16,000 average homes.

Synergy's commitment to reducing pollution from operating sites has been strengthened in its revised environmental policy.

Bright Energy Investments is also working towards the acquisition and construction of the Warradarge Wind Farm, which is being developed by Synergy.

Wholesale energy

During the year our wholesale team responded to the increasing pace of change in the shape and dynamism of electricity market through:

- progressing the development of Synergy's new wholesale electricity and gas trading system;
- developing new analytical approaches to better model scenarios including for variables such as weather, rooftop solar PV and renewables; and
- embedding a new energy market model into the forecasting and corporate planning cycle.

Environment

Synergy's commitment to reducing pollution from operating sites has been strengthened in its revised environmental policy.

The policy reaffirms Synergy's commitment to minimise waste and to continually seek opportunities to protect the natural environment in which it operates. The environmental policy is the cornerstone of Synergy's environmental management system which assists the business in meeting its environmental compliance requirements and obligations.

Placing greater emphasis on Synergy's environmental management system, the revised policy states the international standard by which we operate, and outlines Synergy's commitment to preventing pollution.

The principles and practices outlined in the policy ensure continual improvement in Synergy's environmental performance. All Synergy staff, contractors and suppliers share the responsibility for meeting the requirements of the policy, and working in accordance with relevant environmental standards and legal requirements.

Emissions to air

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. In 2017-18, Synergy's greenhouse emissions were approximately 6.8 million tonnes of CO_2e, compared to 7.7 million tonnes of CO_2e in the previous year. 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.

Collie Air Shed study

Synergy is participating in a study to monitor air quality in the Collie region, which is home to WA's only operating coal field, three coal fired power stations and an alumina refinery.

The Collie Air Shed study partners Synergy, Bluewaters Power and South 32-Worsley are working with the Department of Water and Environmental Regulation in undertaking the study, to determine the environmental impact of sulphur dioxide (SO_2) emissions from coal burning in the Collie region.

The monitoring phase of the study commenced in November 2017 and will run for two years. It will focus on monitoring stack emissions, ambient air quality and meteorology within the region.

Data obtained from the monitoring will be analysed and used to develop an air quality model to provide a better understanding of any likely impacts from emissions. Results from the study will be used to develop an appropriate air management strategy for emissions of sulphur dioxide in the Collie region.

Reportable environmental breaches

There were two reportable environmental breaches in 2017-18. The first breach involved the late submission of a native vegetation clearing permit report, even though no clearing was undertaken during the relevant time period.

The Synergy environmental management system has been updated to ensure a repeat does not occur in the future. This has involved modifying the work flow system to ensure reminders of the need to submit the annual report are issued.

The second breach involved the lack of documentation demonstrating that monitoring requirements were fully met at the Muja Power Station fly ash dam.

Site processes and procedures have been updated and reinforced to ensure these monitoring requirements are met in the future.

Neither of these two reportable breaches resulted in environmental impact or harm to the environment.

Contaminated sites program

The Geraldton gas turbine station was decommissioned and demolished with the site fully investigated and remediated to a level consistent with its ongoing industrial use by Western Power. The site has been cleared of all infrastructure and accessible low level contamination has been removed.

The final stage of the remediation of the former South Fremantle Power Station has been completed. The cooling pond area on the ocean side of the power station has been classified as decontaminated.

Monitoring and remediation work was ongoing at the Kwinana Power Station strategic oil reserve tank farm this financial year.

Our people

Synergy has an achievement-oriented culture, focussed on safety, innovation and collaboration. Synergy's people are committed to fulfilling our purpose of leading Western Australians to their intelligent energy future.

Changing the way we work

In order to be responsive to a disruptive and ever changing environment, Synergy is finding ways to work differently, such as investing in building agile capability across the organisation.

This approach has provided a platform to collaborate, learn from experimentation and change our ways of working. The program ensures that capability and maturity is built, enabling teams to ensure risks are highlighted and mitigated early through transparency and collaboration.

Organisational health

Synergy is committed to organisational health and regularly undertakes people surveys to measure and understand workforce effectiveness. These insights enable focus to be directed in the right areas, ensuring Synergy remains a great place for its people and contractors to work.

Synergy also utilises global benchmarking tools including the Gallup Survey, which measures the level of engagement of its people within the organisation. This survey is conducted quarterly and provides valuable insights into people engagement, but also identifies areas where Synergy can further support its staff.

In the past year, Synergy has focussed on improving all areas of organisational effectiveness and engagement. Compared to other Australian and global energy companies, Synergy now ranks equal to or above the benchmark median in leadership practices including direction, leadership, work environment, accountability and importantly, motivation.

Leadership development

To build strong leadership capabilities, Synergy offers leadership programs to its emerging, core and senior leaders across all business units.

For emerging and core leaders, the People Leaders Program (PLP) focuses on the foundations of leadership and over a number of months, the training modules focus on leading themselves, leading others and business skills including financial acumen. For 2017-18 more than 70 leaders completed this program.

Synergy also offers an Accelerator Leadership Program (ALP) for its senior leaders. The one year program is an advanced leadership program which focuses on capabilities such as commercial acumen, leading culture change during disruption, leadership and industry advocacy. Participants in the ALP completed a wide range of assessments to further personal development, including 360 degree feedback. Executive coaching was also provided in parallel to the ALP program.

All of Synergy's people participate in robust development planning to build their own capabilities across the organisation. Employee development sessions focus on a variety of personal and professional skill development, including on the job training. These development sessions are open to all Synergy employees throughout the year, with around 296 people attending in 2017-18.

Diversity

Synergy recognises that varied backgrounds and experiences contribute to new perspectives and fresh ideas. Synergy is committed to creating a workplace in which differences are valued and respected.

Synergy also adheres to a diversity strategy built on the following four elements:

- measuring and tracking the diversity of individual business units via a maturity model;
- identifying and correcting unconscious bias;
- guiding leaders to be bold using the concept and power of storytelling; and
- gender diverse leadership teams.

The strategy has promoted the importance of diversity and grown employee awareness through the celebration of various events. Staff participated in activities such as NAIDOC week, International Women's Day, White Ribbon Day, the Pride Parade and the Swan Festival of Lights for Diwali.

One of the major strategies embraced by the Executive team this year, was to focus on improving its women in leadership target. During 2017-18, the percentage of women in leadership roles had increased to 34 per cent by 30 June 2018. While Synergy is pleased with this progress, it will endeavour to further increase the proportion of women in leadership, which will be a major focus for the organisation in 2018-19.

Other major initiatives include recruiting for our apprenticeship and trainee programs. The apprentices in our Generation Business Unit included a mature age mechanical apprentice and two new laboratory trainees – a young Indigenous male and a mature age female.

All of Synergy's people participate in robust development planning to build their own capabilities across the organisation.

Safety

There is nothing more important than the safety and wellbeing of Synergy's people. This year we went 'back to basics' in our approach.

More than 450 people participated in Synergy's belief based safety leadership program this year, which draws on neuroscience and psychology to better understand how the brain collects and stores information and makes decisions. The aim of the program is to create a 'want to' rather than 'have to' culture, where new habits, beliefs, attitudes and expectations drive a mature and high performance safety culture. The program has received positive feedback. Testimonials from people who have used the knowledge and tools highlighted positive changes to both their work and personal lives.

Doing the 'right things at the right time, all the time' was a core principle in the 'back to basics' approach Synergy has implemented over the past year. In order to achieve excellent health and safety performance, Synergy acknowledges that core foundations such as risk management processes, effective supervision, fit for purpose tooling and equipment, trained and competent personnel and procedural compliance must be continually maintained at high standards. Synergy will continue to work hard to ensure these safety processes are both implemented and adhered to moving forward.

Synergy is not only committed to providing a safe working environment to manage physical safety risks, but the mental health and wellbeing of employees is equally important. Synergy has partnered with the Australian Medical Association (AMA) and has achieved accreditation under the AMA program for the integrated approach to the management of psychosocial risks in the workplace. This approach combines policy, leadership commitment and extensive training to raise awareness regarding mental health, while also providing employees with core skills.

Synergy's critical risk management (CRM) program is now fully implemented, with the objective of preventing serious injury. The final stage of CRM, implemented in April 2018, was the critical control observation program, involving high frequency in-field verification of compliance to critical controls. Information collated from the program provides valuable insights into health and safety practices at Synergy and supports informed decision making on where continuous improvement is required.

Directors' report

Corporate governance

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.

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 Electricity Generation and Retail Corporation trading as Synergy, at any time during or since the end of 2017-18 financial year, are as follows:

Robert Cole

Chairman since November 2017

Independent, non-executive, BSc, LLB (Hons)

Mr Cole has over 30 years' experience in the energy and resources industry. He is a former executive director on the board of Woodside Petroleum Ltd and former managing director of Beach Energy Ltd. He is also a former chairman of the Australian Petroleum Production and Exploration Association. Prior to joining the oil and gas industry, he had an extensive legal career with King & Wood Mallesons. He is currently chairman of Southern Ports Authority, chairman of GLX Holdings Ltd, a non-executive director of Iluka Resources Ltd, and a non-executive director of Ausdrill. In the not for profit sector, Mr Cole is on the board of St Bartholomew's House Inc.

Committee membership

Member of the audit and compliance committee and risk committee.

Lyndon Rowe

Chairman from August 2014 to October 2017

Independent, non-executive, B.Ec (Hons), FAICD

Mr Rowe served as executive chairman of the Western Australian Economic Regulation Authority from March 2004 to 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. He 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, non-executive, 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, non-executive, A.Fin, FAIM

Mr Bransby is the chairman of Australian Health Insurance Alliance, Commonwealth Private Bank Ltd, Commonwealth Financial Planning Ltd, BW Financial Advice Limited, Count Financial Limited, Financial Wisdom Limited and is a director of the Australian Digital Health Agency, and the Craig Mostyn Group. He is also a commissioner of the Insurance Commission of WA. He is a former managing director of HBF Health Limited and a former director of HealthGuard Health Benefits Pty Ltd, HBF Insurance Pty Ltd and Pioneer Credit Ltd. Prior to HBF, Mr Bransby held various executive positions throughout 25 years at the National Australia Bank Ltd.

Committee membership

Member of the human resources and sustainability committee.

Yasmin Broughton

Director since November 2017

Independent, non-executive, BComm PG Dip Law GAICD

Ms Broughton is a corporate lawyer with significant experience working as both a director and senior executive in a diverse range of industries, including electricity and gas and was previously the acting general counsel and company secretary of Alinta Limited, a former ASX 50 company. Ms Broughton is a non-executive director of the Insurance Commission of Western Australia, Resolute Mining Limited and Edge Employment Solutions Inc.

Committee membership

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

Michele Dolin

Director since October 2014

Independent, non-executive, 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 including AMP Superannuation Ltd, National Mutual Superannuation Pty Ltd, CPA Australia Ltd, St John of God Health Care and the Water Corporation; she was also pro-chancellor of Curtin University. Her current board appointments include the St Andrew's Insurance Group and she is a senate member of the University of Western Australia. She chairs the audit and risk committees for both these organisations.

Committee membership

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

Michael Goddard

Director from July 2013 to October 2017

Independent, non-executive, 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, non-executive, BA (first class honours), BA (Stats)

Mr Hunt was previously a 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 and audit and compliance committee

Samantha Tough

Director since October 2014

Independent, non-executive, FAICD, LlB, BJuris Western Australia

Ms Tough holds a number of directorships including the Clean Energy Finance Corporation, Saracen Mineral Holdings Ltd, Ox Mountain Pty Ltd and WAAPA. She has been a director on public and private companies for over 20 years and held 20+ directorships in that time including chair Molopo Energy Ltd, chair Aerison Pty Ltd, chair Southern Cross Goldfields, chair Structerre Pty Ltd, director Strike Resources Ltd and director Cape plc. She has extensive experience in the mining, resource and energy industry holding key positions in Woodside Energy Ltd including general manager North West Shelf, director strategy at Hardman Resources Ltd, director 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.

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.

Pictured left to right: David Hunt, Yasmin Broughton, Kim Horne, Robert Cole, Michele Dolin, Rob Bransby, Samantha Tough.

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 : Summary of ASX principles and recommendations

Principle 1: Lay solid foundations for management and oversight		
Recommendation 1.1	Disclose: (a) the board and management respective roles and responsibilities; and (b) matters reserved to the board and delegated to management.	Y
1.2	Undertake appropriate checks before proposing the appointment of a director and provide relevant information.	NA
1.3	Have a written agreement with directors and senior executives setting out 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	Have a diversity policy with measurable objectives, assess it annually and disclose the policy and progress towards objectives.	Y
1.6	Have a process for periodically evaluating the performance of the board, its committees and individual directors, and disclose whether the process was undertaken.	Y
1.7	Have a process for evaluating senior executive performance and disclose whether a performance evaluation was undertaken in the reporting period	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’ attendance at committee meetings.	NA
2.2	Have and disclose a board skills matrix.	N
2.3	Disclose the names of independent directors, any circumstances potentially impacting independence and length of service.	Y
2.4	A majority of the board should be independent directors.	Y
2.5	The chair of the board should be an independent director and not be the same person as the CEO.	Y
2.6	Provide an induction program for new directors and provide professional development opportunities for directors to develop relevant skills and knowledge.	Y
Principle 3: Act ethically and responsibly		
Recommendation 3.1	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	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 comply with appropriate accounting standards.	Y
4.3	An external auditor should attend the 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	Have a written policy for complying with its continuous disclosure obligations and disclose that policy or a summary of it.	NA
Principle 6: Respect the rights of security holders		
Recommendation 6.1	Provide information about itself and its governance to investors via its website.	Y
6.2	Design and implement an investor relations program to facilitate effective two-way communication with investors.	NA
6.3	Disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	NA
6.4	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	Have a committee which overseas risk, and disclose the charter and members' attendance at committee meetings.	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	Disclose how its internal audit function is structured and what role it performs.	Y
7.4	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	Have a remuneration committee and disclose the charter and members' attendance at meetings.	Y
8.2	Separately disclose its policies and practices regarding the remuneration of non-executive and executive directors and senior executives.	Y
8.3	Make certain disclosures about any equity-based remuneration scheme.	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.

1.5 Synergy outlines its diversity commitment in this annual report. Progress against targets will be published in next year’s report.

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.

2.2 the board does not believe that this is appropriate for Synergy due to its ownership structure.

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 continuous disclosure obligations. Synergy has certain disclosure obligations to its shareholder, which it meets.

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.

8.3 has no relevance to Synergy as it does not have an equity-based remuneration scheme.

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, determines 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 function. The following matters are reserved for the board:

Strategy

(a) approving and guiding management in the development of Synergy’s annual strategic development plan and statement of corporate intent;

(b) providing input into and final approval of management’s development of corporate strategy and performance objectives;

(c) further developing planning processes, including Synergy’s strategic plan;

(d) monitoring senior management’s performance and implementation of strategy, and ensuring appropriate resources are available;

Governance and oversight of management

(a) 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;

(b) appointing and, where appropriate, removing the company secretary or company secretaries;

(c) approving the appointment, removal or any material change to the role of senior executives;

(d) approving succession plans for senior executives;

(e) approving performance objectives for the CEO and monitoring performance against those objectives;

(f) reviewing the CEO’s recommendations on performance objectives for senior executives;

(g) approving measurable objectives for achieving gender diversity and Synergy’s progress in achieving those objectives;

(h) approving all board level policies in accordance with the policy standard;

(i) approving Synergy’s remuneration framework and annual budgeted remuneration increases;

(j) approving incentive plans, including the design and implementation of incentive schemes including performance hurdles and incentive pool amounts and reviewing of performance under those incentive schemes and corresponding incentive plan payment;

Stakeholders

(a) monitoring and overseeing Synergy’s stakeholder relationship strategy and its implementation;

Board membership, committees and performance

(a) 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;

(b) reviewing the process for evaluating the performance of the board, its committees and directors;

(c) handling any other matters for which the board is responsible under the Synergy committee charters;

Oversight of financial, operation and capital management

(a) approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures;

(b) approving operating budgets and monitoring financial performance against the approved budget;

(c) approving annual financial accounts and reports, including the director’s report;

Compliance and risk management

(a) monitoring the effectiveness of risk management by reviewing and approving Synergy risk management framework and ratifying associated systems of risk management and internal compliance and control, codes of conduct and legal compliance;

(b) reviewing and approving, at least annually, Synergy’s material risks;

(c) approving and monitoring the effectiveness of Synergy’s system of corporate governance practices; and

(d) ensuring Synergy complies with all requirements under the Act and all other laws.

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 the 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 its vision of being a preferred and trusted supplier of energy, innovative products and services, and being an employer of choice. Synergy embraces 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 its decision making, problem solving, policy development and service delivery.

Synergy believes that to continually improve its business performance, and to achieve its strategic objectives, it needs to harness the ideas and abilities of all our people and create an environment that enables superior service delivery. Synergy recognises 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. Synergy facilitates 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.

Directors' report

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 is looking at conducting an externally facilitated evaluation for the next financial year. An internal-self assessment for this financial year will be conducted shortly.

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. Currently, three of Synergy's seven directors are female.

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 2 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 Synergy staff. Staff includes directors, employees, whether permanent, temporary, part-time, full-time, fixed term contract or casual, and contractors engaged to provide services to Synergy. The Code sets out the fundamental values that form the basis of, and underpin Synergy's business relationships. 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. As at 30 June 2018, there were nine reported incidents of a breach of Synergy's Code of Conduct.

Table 2: Details of directors

Name of director	Length of service	Independent
Robert Cole (chairman)	chairman and director since November 2017	Yes
Lyndon Rowe (chairman)	chairman and director August 2014 to October 2017	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 July 2013 to October 2017	Yes
David Hunt	director since August 2014	Yes
Samantha Tough	director since October 2014	Yes
Yasmin Broughton	director since November 2017	Yes

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.

Risk management

Risk management is a fundamental activity at Synergy, with risk management integrated into major business processes. There is engagement at all levels within the organisation to minimise risks in all activities. Engagement is further facilitated by real time access to risk information through the compliance, audit and risk enterprise management system.

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, 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 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.

During the year the risk committee and board approved a new risk management framework. The new framework has established more accessible risk and control documentation for the business to use and apply at all levels within the organisation.

Key performance indicators

Synergy manages its day-to-day performance through the use of a wide range of operational key performance indicators. The measures and targets for these operational key performance indicators for 2017-18 were set out in Synergy's Statement of Corporate Intent (SCI) and are as detailed in table 3.

Table 3: Key performance indicators

Forecasts	2017-18 SCI targets	2017-18 result
Financial performance		
EBITDA Margin (%)	6.25%	7.4%
NPAT Margin (%)	0.17%	0.8%
Return on Assets (%)	(0.10%)	0.6%
Return on Capital Employed (%)	(0.20%)	1.4%
Targets		
Operational performance		
Worksafe breaches	Zero	Zero
Environmental incidents	Zero	Two
Water Licence Incidents	Zero	Zero
Market rule breaches	Zero	Zero
Customers		
Grade of Service	Greater than 80%	75.3%
Number of complaints referred to the Energy Ombudsman	<1800	<1800
Net promoter score	+60	+71.5
Employee		
Safety- Recordable Injury Frequency Rate	1.9	4.97

Notes: Synergy's Grade of Service Performance for FY2017-18 was 79.7 per cent for business customers and 75.3 per cent for residential customers. There were 1056 complaints made to the Energy and Water Ombudsman (EWO) in the last financial year which were then sent to Synergy to address. Synergy did not incur a financial penalty for breaches of electricity and gas market rules during 2017-18.

Directors' report

Synergy's operating results

For the reporting year ended 30 June 2018:

- Synergy's statutory profit after tax was $24.3 million, which is a $36.9 million improvement on FY16-17.
- A special dividend of $148 million was paid to the State Government. No ordinary dividends have been declared in relation to the 2018 financial year.

State Records Act

Synergy as a state government organisation is required to comply with the above Act. Synergy's current record keeping plan was approved by the Minister for Energy in January 2017. During 2017-18 Synergy successfully deployed a single record keeping system/electronic records and document management system, 1DMS. As part of 1DMS deployment Synergy undertook whole of business records management training on the new system. During the year Synergy also procured new records management services with the objective of facilitating greater compliance with the Act.

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; and
- 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.

Remuneration report

The remuneration report details the remuneration arrangements for persons having authority and responsibility for planning, directing and controlling the major activities of the corporation, directly or indirectly, including any director.

Remuneration governance

The human resources and sustainability committee has delegated decision making authority for some matters related to the remuneration arrangements for directors and executives and is required to make recommendations to the board on other matters. Specifically, the board approves the remuneration arrangements of executives, excluding the CEO, following recommendations from the human resources and sustainability committee.

The Minister for Energy determines total remuneration for the CEO and all directors.

The human resources and sustainability committee meets regularly through the year. The CEO attends human resources and sustainability committee meetings by invitation, where management input is required. The CEO is not present during any discussions related to his own remuneration arrangements.

Director remuneration arrangements

The Minister sets remuneration for directors in accordance with the Act.

Directors do not receive any retirement benefits (apart from statutory superannuation) nor do they participate in any incentive programs. Details of the nature and emolument of directors of the corporation are set out in table 5.

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		Risk committee meetings	
	A	B	A	B	A	B	A	B
Lyndon Rowe	2	2	2	2	1	1	3	3
Kim Horne	9	10	N/A	N/A	4	4	N/A	N/A
Rob Bransby	9	10	N/A	N/A	4	4	N/A	N/A
Michele Dolin	10	10	4	4	N/A	N/A	3	3
Michael Goddard	2	2	2	2	N/A	N/A	3	3
David Hunt	9	10	N/A	N/A	4	4	N/A	N/A
Samantha Tough	9	10	N/A	N/A	N/A	N/A	3	3
Rob Cole	8	8	2	2	N/A	N/A	1	1
Yasmin Broughton	8	8	2	2	2	2	N/A	N/A

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

Table 5: Director remuneration

total remuneration band $	number of staff		short term $'000				post employment $'000				total $'000	
			salary & fees		other		super		termination			
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
25,000- 30,000	-	1	-	24	-	-	-	2	-	-	-	26
40,000- 45,000	-	1	-	39	-	-	-	4	-	0	-	43
65,000- 69,999	3	2	60	60	-	-	6	6	-	-	66	66
70,000- 74,999	-	1	-	66	-	-	-	6	-	-	-	72
75,000- 79,999	3	2	69	69	-	-	7	7	-	-	76	76
90,000- 95,000	-	1	-	86	-	-	-	8	-	-	-	94
300,000- 325,000	-	1	-	195	-	27	-	18	-	65	-	305
600,000- 624,999	1	-	551	-	-	-	52	-	-	-	603	-

Note: Where there is more than one director in a remuneration band the average remuneration is shown.

Directors' report

Executive remuneration arrangements

Synergy's executive remuneration approach is designed to attract and retain high performing individuals who consistently demonstrate exemplary behaviours consistent with Synergy values. Total remuneration for executives consists of fixed remuneration comprising base salary (which is calculated on a total cost basis, including accrued annual leave and long service leave entitlements) as well as the corporation's contribution to superannuation funds.

Synergy sets key performance indicators (KPIs) for the CEO and other executives each year which has both a target and stretch outcome. These KPIs are reviewed and approved by the board at the beginning of the financial year.

Table 6: Names and positions of executives

Executives		
Jason Waters	CEO	✓
Karl Matacz	chief financial officer	✓
Stephanie Unwin	general manager retail from 10 April 2017, previously general manager commercial; ceased employment 28 July 2017	
Will Bargmann	general manager corporate services; company secretary	
Angie Young	acting chief information officer, previously general manager people and culture	
Barry Ford	general manager wholesale from 8 May 2017, previously general manager generation	✓
Geoff Roberts	general manager retail, previously general manager commercial	✓
Kurt Baker	general manager generation from 8 May 2017, previously general manager wholesale	✓
Gary Peel	acting general manager people and culture, previously chief information officer	
Sasha Pendal	general manager commercial, appointed May 2018	
Colin Smith	acting general manager retail from 30 October 2017 to 8 April 2018	

✓ Denotes five highest paid executives

Table 7: Executive remuneration

total remuneration band $	number of staff		short term $'000				post employment $'000				total $'000	
			salary & fees		other		super		termination			
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
0- 150,000	-	3	-	64	-	(53)	-	7	-	53		71
350,000- 374,999	1	1	315	324	9	12	30	30	-	-	354	366
375,000- 399,999	-	1	-	358	-	4	-	35	-	-	-	397
400,000- 424,999	4	2	374	389	13	(1)	29	25	-	-	416	413
425,000- 449,999	1	-	405	-	13	-	27	-	-	-	444	-
450,000- 474,999	1	2	390	402	41	30	37	25	-	-	468	457
475,000- 499,999	1	-	413	-	29	-	35	-	-	-	477	-
500,000- 525,000	-	1	-	423	-	63	-	25	-	-		511
575,000- 599,999	1	-	533	0	17	-	30	-	-	-	580	-
600,000- 625000	-	1	-	538	-	46	0	25	-	-	-	609

Notes
Where there is more than one executive in a remuneration band the average remuneration is shown.
Salaries have not been increased in line with government policy, but variations in total remuneration can be caused by a wide variety of factors such as leave, accruals and other adjustments.
'Other' includes leave accrual and liability.

At the end of 12 months, an assessment against these KPIs and performance is undertaken and development plans agreed. The CEO performance plan outcomes are discussed and approved by the board. Executives do not participate in any incentive plans. Remuneration levels for executives are considered annually through a review process that considers market data, the performance of corporation and the individual, and the broader economic environment.

In May 2017, the Government of Western Australia announced changes to the State Government wages and remuneration policy including a four year wage freeze for all comparable positions to those covered by the Salaries and Allowances Tribunal. Synergy is committed to align with this announcement and has implemented a four year freeze on remuneration for executive positions. Details of the nature and emolument of executives of the corporation are set out in table 7.

Contracts of employment for other executives are unlimited in term but are generally capable of termination on 13 weeks' notice for poor performance and redundancy or 26 weeks' for any other reason. In the event of redundancy the corporation provides for a capped payment including notice, of up to 52 weeks. Executives are also entitled to receive, on termination of employment, their statutory entitlements of accrued annual and long service leave together with any superannuation benefits.

The CEO has a contract of employment with the corporation that commenced on 1 July 2014. The contract specifies the duties and obligations to be fulfilled by the CEO and provides that the board and CEO 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, or the CEO, providing 26 weeks notice.

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.

The Directors' report is authorised for issue in accordance with a resolution of the Board.

Rob Cole
Chairman

Kim Horne
Deputy Chairman

Financial report

Consolidated statement of profit or loss

For the year ended 30 June 2018

	Note	Group 2018 $'000	Group 2017 $'000	Corporation 2018 $'000	Corporation 2017 $'000
Sales revenue	3.2	2,840,358	2,768,477	2,829,847	2,726,200
Other revenue	3.2	140,048	282,050	142,222	290,650
Total revenue		**2,980,406**	**3,050,527**	**2,972,069**	**3,016,850**
Fuel, networks and other direct costs	3.4	(2,104,828)	(2,118,296)	(2,104,823)	(2,109,014)
Materials and services used	3.4	(357,269)	(382,083)	(354,859)	(381,931)
Employee expenses	3.4	(114,807)	(134,407)	(114,044)	(133,758)
Other expenses	3.4	(177,911)	(170,718)	(176,799)	(169,573)
Depreciation and amortisation	5.1/5.2	(162,997)	(174,718)	(145,647)	(90,099)
Impairment losses	3.4	(42,634)	(110,954)	(123,389)	(129,054)
Total expenses		**(2,960,446)**	**(3,091,176)**	**(3,019,561)**	**(3,013,429)**
Other operating income	3.3	38,026	83,255	38,116	65,802
Finance income		8,219	10,900	9,945	13,125
Finance costs		(51,562)	(60,579)	(51,949)	(60,579)
Net finance costs	3.5	**(43,343)**	**(49,679)**	**(42,004)**	**(47,454)**
Share of loss from joint ventures	6.6	(453)	(1,067)	-	-
Profit/ (loss) before tax		**14,190**	**(8,140)**	**(51,380)**	**21,769**
Income tax benefit/ (expense)	3.6	10,128	(4,484)	5,716	(7,631)
Profit/ (loss) for the year		**24,318**	**(12,624)**	**(45,664)**	**14,138**

The above consolidated statement of profit or loss should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income

For the year ended 30 June 2018

	Note	Group 2018 $'000	Group 2017 $'000	Corporation 2018 $'000	Corporation 2017 $'000
Profit/ (loss) for the year		**24,318**	**(12,624)**	**(45,664)**	**14,138**
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	6.1	27	3,604	27	(402)
Other comprehensive profit/ (loss) to be reclassified to profit or loss in subsequent periods, net of tax		27	3,604	27	(402)
Items that will not be reclassified subsequently to profit or loss					
Re-measurement gains on defined benefit plans, net of tax	6.1	1,523	(1,194)	1,523	(1,194)
Other comprehensive profit/ (loss) not to be reclassified to profit or loss in subsequent periods, net of tax		1,523	(1,194)	1,523	(1,194)
Other comprehensive profit/ (loss) for the year, net of tax		**1,550**	**2,410**	**1,550**	**(1,596)**
Total comprehensive profit/ (loss) for the year		**25,868**	**(10,214)**	**(44,114)**	**12,542**

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

Consolidated statement of financial position

As at 30 June 2018

	Note	Group 2018 $'000	Group 2017 $'000	Corporation 2018 $'000	Corporation 2017 $'000
Cash and short-term deposits	4.2	254,405	418,848	245,297	387,548
Trade and other receivables	4.3	382,267	355,602	382,077	423,659
Loans and advances	5.7	-	-	22,964	24,400
Inventories	4.4	139,623	155,089	139,623	154,066
Derivative financial instruments	5.6	8,196	4,628	8,196	4,628
Intangible assets	5.2	47,479	25,525	47,479	25,525
Assets held for sale	5.3	34,209	-	34,209	-
Total current assets		**866,179**	**959,692**	**879,845**	**1,019,826**
Trade and other receivables	4.3	7,058	30,764	7,058	30,764
Loans and advances	5.7	-	-	-	52,894
Property, plant and equipment	5.1	1,292,474	1,435,425	1,292,473	1,413,962
Intangible assets	5.2	81,056	107,222	62,834	59,464
Derivative financial instruments	5.6	58,746	44,476	58,746	44,476
Investment in subsidiaries	6.6	-	-	36,762	36,832
Investment in joint ventures	6.6	-	435	885	638
Investment in associate	6.6	-	-	-	179
Deferred tax assets	3.7	72,715	46,137	69,391	47,350
Total non-current assets		**1,512,049**	**1,664,459**	**1,528,149**	**1,686,559**
Total assets		**2,378,228**	**2,624,151**	**2,407,994**	**2,706,385**
Trade and other payables	4.5	394,637	396,849	412,174	396,809
Current tax liabilities		2,907	8,995	2,812	8,995
Derivative financial instruments	5.6	-	55	-	55
Interest-bearing loans and borrowings	5.8	115,200	51,600	129,528	51,600
Finance lease liabilities	5.5	8,520	7,480	8,520	7,480
Employee benefits	6.4	24,567	27,533	24,395	27,365
Provisions	5.4	146,478	125,004	146,478	125,004
Deferred income	4.6	7,753	7,013	7,753	7,013
Total current liabilities		**700,062**	**624,529**	**731,660**	**624,321**
Trade and other payables	4.5	2,567	2,324	2,567	2,324
Interest-bearing loans and borrowings	5.8	27,176	142,384	27,176	156,712
Finance lease liabilities	5.5	209,469	217,989	209,469	217,989
Employee benefits	6.4	37,820	40,750	37,820	40,714
Provisions	5.4	458,053	528,878	458,053	528,878
Deferred income	4.6	15,452	17,536	15,452	17,536
Total non-current liabilities		**750,537**	**949,861**	**750,537**	**964,153**
Total liabilities		**1,450,599**	**1,574,390**	**1,482,197**	**1,588,474**
Net assets		**927,629**	**1,049,761**	**925,797**	**1,117,911**
Contributed equity	6.1	1,292,744	1,292,744	1,292,744	1,292,744
Accumulated losses		(365,115)	(242,956)	(366,947)	(174,806)
Reserves		-	(27)	-	(27)
Total equity		**927,629**	**1,049,761**	**925,797**	**1,117,911**

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

Consolidated statement of changes in equity

For the year ended 30 June 2018

	Note	Contributed equity $'000	Accumulated losses $'000	Hedging reserve $'000	Total $'000
Group					
Balance at 1 July 2016		**1,292,744**	**(229,138)**	**(3,631)**	**1,059,975**
Loss for the year		-	(12,624)	-	(12,624)
Other comprehensive profit/ (loss) for the year	6.1	-	(1,194)	3,604	2,410
Total comprehensive (loss)/ income for the year, net of tax		-	(13,818)	3,604	(10,214)
Dividend paid	6.1	-	-	-	-
Balance at 30 June 2017		**1,292,744**	**(242,956)**	**(27)**	**1,049,761**
Balance at 1 July 2017		**1,292,744**	**(242,956)**	**(27)**	**1,049,761**
Profit for the year		-	24,318	-	24,318
Other comprehensive profit for the year	6.1	-	1,523	27	1,550
Total comprehensive (loss)/ income for the year, net of tax		-	25,841	27	25,868
Dividend paid	6.1	-	(148,000)	-	(148,000)
Balance at 30 June 2018		**1,292,744**	**(365,115)**	**-**	**927,629**
Corporation					
Balance at 1 July 2016		**1,292,744**	**(187,750)**	**375**	**1,105,369**
Profit for the year		-	14,138	-	14,138
Other comprehensive loss for the year	6.1	-	(1,194)	(402)	(1,596)
Total comprehensive income for the year, net of tax		-	12,944	(402)	12,542
Dividend paid	6.1	-	-	-	-
Balance at 30 June 2017		**1,292,744**	**(174,806)**	**(27)**	**1,117,911**
Balance at 1 July 2017		**1,292,744**	**(174,806)**	**(27)**	**1,117,911**
Loss for the year		-	(45,664)	-	(45,664)
Other comprehensive profit for the year	6.1	-	1,523	27	1,550
Total comprehensive income for the year, net of tax		-	(44,141)	27	(44,114)
Dividend paid	6.1	-	(148,000)	-	(148,000)
Balance at 30 June 2018		**1,292,744**	**(366,947)**	**-**	**925,797**

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

Consolidated statement of cash flows

For the year ended 30 June 2018

	Note	Group 2018 $'000	Group 2017 $'000	Corporation 2018 $'000	Corporation 2017 $'000
Operating activities					
Cash receipts from customers		3,015,598	3,086,474	3,008,728	3,052,017
Energy purchase and network access costs		(2,554,879)	(2,470,015)	(2,553,866)	(2,461,967)
Payments to suppliers and employees		(379,576)	(442,433)	(360,377)	(437,327)
Interest received		8,864	11,865	10,612	14,101
Interest paid		(6,864)	(8,892)	(6,864)	(8,892)
Income tax paid		(22,537)	(30,704)	(22,507)	(30,704)
Net cash flows from operating activities	4.2	**60,606**	**146,295**	**75,726**	**127,228**
Investing activities					
Investments in joint ventures		(248)	(515)	(247)	(515)
Purchase of subsidiary		-	(24,821)	-	(24,821)
Disposal of joint venture/subsidiary		1,296	58,090	1,296	58,090
Investment in deposits		-	(70,000)	-	(70,000)
Repayment of loans by subsidiaries		-	-	24,400	16,800
Proceeds from deposits		70,000	82,000	70,000	82,000
Cash transferred from business combination		(70)	2,741	-	-
Payment for property, plant and equipment		(27,940)	(28,393)	(27,809)	(28,393)
Payment for intangible assets		(26,980)	(26,073)	(26,981)	(26,073)
Proceeds from disposal of assets		28,501	1,050	10,973	1,050
Net cash flows from investing activities		**44,559**	**(5,921)**	**51,631**	**8,138**
Financing activities					
Proceeds from borrowings		-	11,718	-	11,718
Repayment of borrowings		(51,608)	(54,570)	(51,608)	(54,570)
Dividend paid		(148,000)	-	(148,000)	-
Net cash flows from financing activities		**(199,608)**	**(42,852)**	**(199,608)**	**(42,852)**
Net increase/ (decrease) in cash and cash equivalents		(94,443)	97,524	(72,251)	92,514
Cash and cash equivalents at 1 July		348,848	251,324	317,548	225,034
Cash and cash equivalents at 30 June	4.2	**254,405**	**348,848**	**245,297**	**317,548**

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

Notes to the financial statements

For the year ended 30 June 2018

Section 1 - About this report

Corporate information

The Electricity Generation and Retail Corporation, trading as Synergy (the Corporation) is a not-for-profit entity, incorporated under the *Electricity Corporations Act 2005*. The financial statements comprise the financial results of the Corporation and its subsidiaries (collectively the Group), for the year ended 30 June 2018.

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

The financial statements were authorised for issue in accordance with a resolution of the directors on 28 August 2018.

Basis of preparation

The financial statements are general purpose financial statements which have 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* 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 financial statements have been prepared on an historical cost basis, except for derivative financial instruments and certain other financial assets and liabilities, which have been measured at fair value.

All values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

Accounting policies

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

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date at which the Group ceases to have control. The financial statements of subsidiaries are prepared for the same reporting period as the Corporation, using consistent accounting policies. All intercompany balances and transactions have been eliminated.

A summary of the recognition and measurement basis used for significant accounting policies, and policies that are relevant to the understanding of the financial statements are disclosed throughout the notes to the financial statements.

Key judgements and estimates

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances known to management. Actual results may differ from those judgements, estimates and assumptions.

Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are found in the following notes:

- note 3.2- revenue;
- note 3.7- deferred tax;
- note 4.3- trade and other receivables;
- note 5.1- property, plant and equipment;
- note 5.4- provisions;
- note 5.6- derivative financial instruments;
- note 6.2- commitments;
- note 6.3- contingencies; and
- note 6.4- employee benefits.

Currency

The functional and presentation currency of the Group and its subsidiaries is Australian dollars.

Transactions in foreign currencies are initially recorded in the functional currency using the exchange rates on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the exchange rates on that date. Exchange differences are recognised in the statement of profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing at the date of the initial transaction.

Goods and services tax (GST)

Amounts shown in the financial statements are net of GST with the exception of trade receivables and payables.

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, 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.

Non-recoverable GST is either recognised as part of the cost of an asset or expensed as incurred.

Comparatives

Comparative information is for the financial year ended 30 June 2017.

Certain prior year amounts have been reclassified in the statement of profit or loss, the statement of financial position and the statement of cash flows for consistency with current year presentation. This change in classification does not affect the previously reported result for the year in the statement of profit or loss.

Section 2 - Segment information

The Group is required to present segment information under Part 2 of *The Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013* (the Regulations). The Regulations do not require comparative information to be presented.

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)** - manages operations involving the construction or operation of generating works (as defined in the *Electricity Industry Act 2004* section 3), and the operations of the South West Solar Development Holdings Pty Ltd consolidated group.
- **Wholesale business unit (WBU)** - manages operations involving the wholesale supply of energy and related products (including pricing in respect of such acquisition or supply) and includes the operations of subsidiary Vinalco Energy Trust
- **Retail business unit (RBU)** - manages operations involving the pricing, sale and marketing of energy and related products to customers.
- **Corporate shared services (CSS)** - manages operations relating to the following activities: corporate development and strategy; accounting and finance, compliance and legal matters; human resources; information technology support; communications; record keeping, and any other operations (excluding generation operations, wholesale operations and retail operations) undertaken in connection with two or more business units.

Inter-segment revenues are eliminated upon consolidation and reflected in the eliminations column. No operating segments have been aggregated in arriving at the reportable segments of the Group.

There are varying levels of interaction between WBU, GBU and RBU. This interaction includes transfers of energy and related products and shared distribution services.

Formal arrangements exist between:

- WBU and RBU whereby WBU sells energy to RBU in accordance with the Regulations; and
- WBU and GBU whereby GBU is compensated by WBU for both maintaining and making available a fleet of plant, as well as the efficient utilisation of that plant.

Segment information (continued)

Year ended 30 June 2018	GBU $'000	WBU $'000	RBU $'000	CSS $'000	Eliminations $'000	Group $'000
External customers	13,227	397,197	2,569,882	100	-	2,980,406
Inter-segment	481,321	1,062,624	-	-	(1,543,945)	-
Total revenue	**494,548**	**1,459,821**	**2,569,882**	**100**	**(1,543,945)**	**2,980,406**
Cost of sales	(388,442)	(1,193,406)	(2,371,556)	-	1,543,944	(2,409,460)
Operating costs	(183,698)	(8,028)	(71,680)	(82,168)	230	(345,344)
Impairment	(20,372)	(96,760)	(16,207)	(2,135)	92,840	(42,634)
Other income	16,545	17,839	7	3,488	(260)	37,619
EBITDA	**(81,419)**	**179,466**	**110,446**	**(80,715)**	**92,809**	**220,587**
Depreciation and amortisation	(112,759)	(23,358)	(10,269)	(16,611)	-	(162,997)
Finance income	409	398	-	9,944	(2,532)	8,219
Finance costs	(6,930)	(39,864)	(3)	(7,297)	2,532	(51,562)
Net finance costs	(6,521)	(39,466)	(3)	2,647	-	(43,343)
Segment profit/ (loss)	**(200,699)**	**116,642**	**100,174**	**(94,679)**	**92,809**	**14,247**
Unallocated items						
Share of loss from joint ventures and associate						(453)
Gain on closure of subsidiary						396
Tax benefit						10,128
Profit for the year						**24,318**

Section 3 - Financial performance

3.1 Key financial and operating risks

3.1.1 Market risk management

The Group is exposed to market risk. Market risk is made up of the following:

- interest rate risk;
- foreign currency risk; and
- commodity price 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 is assisted in its governance oversight role by an internal audit function. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the ACC.

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 the statement of profit or loss.

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

The board of directors approves policies for managing risk, which are summarised below.

3.1 Key financial and operating risks (continued)

Interest rate risk

Interest rate risk is the risk that the Group's financial position will fluctuate due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to financial instruments with floating interest rates including long-term debt obligations and cash and short-term deposits.

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	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Financial assets	100,000	299,000	100,000	376,294
Financial liabilities	(360,223)	(419,453)	(374,551)	(419,453)
Total fixed rate instruments	**(260,223)**	**(120,453)**	**(274,551)**	**(43,159)**
Financial assets	154,405	119,837	145,297	88,537
Financial liabilities	(142)	-	(14,470)	(14,328)
Total variable rate instruments	**154,263**	**119,837**	**130,827**	**74,209**

For variable rate instruments, a change of 25 basis points in interest rates at the reporting date, with all other variables held constant, would have increased/ (decreased) profit or loss and other comprehensive income by the amounts shown below.

		- 25 basis points		+ 25 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 - 2017					
Cash and cash equivalents	119,837	(300)	-	300	-
Unsecured loans and borrowings	-	-	-	-	-
Group - 2018					
Cash and cash equivalents	154,405	(386)	-	386	-
Unsecured loans and borrowings	(142)	-	-	-	-
Corporation - 2017					
Cash and cash equivalents	88,537	(221)	-	221	-
Unsecured loans and borrowings	(14,328)	-	-	-	-
Corporation - 2018					
Cash and cash equivalents	145,297	(363)	-	363	-
Unsecured loans and borrowings	(14,470)	-	-	-	-

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 and capital expenditure. The currencies giving rise to this risk are primarily Euro and US Dollar.

The Group manages its foreign currency risk by hedging transactions. 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 forward exchange contracts. There were no foreign currency hedges in place at 30 June 2018. At 30 June 2017 the Group hedged 100% of its foreign currency purchases for which highly probable forecasted transactions existed at the reporting date; the average deal rates were USD 0.76 and EUR 0.68.

3.1 Key financial and operating risks (continued)

The Group's exposure to foreign currency risk at end of the reporting period was as follows, based on notional amounts:

	USD		EURO	
Group and Corporation	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Estimated forecast purchases	-	(4,068)	-	(939)
Forward exchange contracts	-	4,068	-	939
Net exposure	**-**	**-**	**-**	**-**

A 10% strengthening/ weakening of the Australian dollar against the above currencies at the reporting date, with all other variables held constant, would not have an impact on the Group's equity or the profit or loss in the current period.

Commodity price risk

Commodity price risk arises from an electricity commodity derivative.

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

		-10%		+10%	
	Carrying amount	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
Group and Corporation	$'000	$'000	$'000	$'000	$'000
2017					
Embedded electricity derivatives	49,088	15,370	-	(15,370)	-
2018					
Embedded electricity derivatives	66,942	13,768	-	(13,768)	-

3.1.2 Operational risk

The Group is exposed to single sources of supply in relation to both its coal and gas commodity purchases and networks access. As such these suppliers represent a significant source of failure risk 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. From time to time, the Group enters into discussions with its suppliers to address any potential interruptions to supply.

3.2 Revenue

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Sale of energy- retail customers	2,402,510	2,327,730	2,402,510	2,327,730
Sale of energy- wholesale customers	343,160	357,586	332,646	315,309
Sale of energy- other	67,230	58,399	67,233	58,399
Products and services	7,195	3,771	7,195	3,771
Account fees and charges	20,263	20,991	20,263	20,991
Total sales revenue	**2,840,358**	**2,768,477**	**2,829,847**	**2,726,200**
Tariff adjustment payments	139,914	280,469	139,914	280,469
Contract works and grants	34	271	2,208	8,871
Government grants	100	1,310	100	1,310
Total other revenue	**140,048**	**282,050**	**142,222**	**290,650**

3.2 Revenue (continued)

Recognition and measurement

Revenue is recognised when it is probable that economic benefits will flow to the Group which can be reliably measured. Revenue is measured at the fair value of consideration received or receivable, excluding taxes or duty.

Tariff adjustment payments

Tariff adjustment payment (TAP) revenue is recognised on the same basis as revenue from the sale of energy, and includes an amount based on estimated unread energy consumption. The Corporation is subsidised by the State Government for the difference between cost reflective tariffs and the gazetted retail tariffs, in the form of the TAP. During the reporting period, the Corporation had an economic dependency on the TAP.

Effective 1 July 2018, gazetted retail tariffs increased. Although there remains a difference between the gazetted retail tariff and cost reflective tariffs, no TAP is expected from 1 July 2018.

Key estimates

A portion of the Group'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 measurable changes in consumption patterns during the estimation period.

3.3 Other operating income

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Revaluation of electricity derivatives	17,854	31,254	17,854	31,254
Gain on sale/ closure of investment transactions	396	49,134	626	32,107
Other operating income	19,776	2,867	19,636	2,441
Total other operating income	**38,026**	**83,255**	**38,116**	**65,802**

Included in other operating income are proceeds from the sale of assets ($11.5 million) and the impact on the statement of profit or loss of derecognition of the provision for decommissioning costs for certain sites ($4.2 million) (note 5.4).

3.4 Expenses

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Fuel, electricity, gas and other purchases	(867,901)	(830,578)	(867,901)	(821,296)
Network access and market participant costs	(1,139,959)	(1,165,249)	(1,139,956)	(1,165,249)
Renewable energy certificates	(96,968)	(122,469)	(96,966)	(122,469)
Total fuel, networks and other direct costs	**(2,104,828)**	**(2,118,296)**	**(2,104,823)**	**(2,109,014)**
Market participant costs	(98,977)	(117,817)	(96,953)	(117,297)
Commodity charges	(191,728)	(170,803)	(191,728)	(170,803)
Materials	(39,768)	(47,075)	(39,771)	(47,074)
Maintenance services	(26,796)	(46,388)	(26,407)	(46,757)
Total materials and services	**(357,269)**	**(382,083)**	**(354,859)**	**(381,931)**
Wages and salaries	(101,893)	(108,828)	(101,170)	(108,223)
Termination benefits	(1,882)	(12,861)	(1,882)	(12,861)
Post employment benefits	(11,032)	(12,718)	(10,992)	(12,674)
Total employee expenses	**(114,807)**	**(134,407)**	**(114,044)**	**(133,758)**

Community service obligations

The State Government reimburses the Corporation for the cost of community service obligations (CSOs), including feed in tariff rebates, energy assistance payments, dependent child rebates and an air conditioning subsidy for seniors. This entitlement to reimbursement is recognised in the statement of profit or loss when the right to receive the payment is established. Where CSOs are not fully reimbursed, the cost is included in fuel, electricity, gas and other purchases.

3.4 Expenses (continued)

		Group		Corporation	
		2018 $'000	2017 $'000	2018 $'000	2017 $'000
Audit services- Office of Auditor General		(488)	(412)	(434)	(383)
Bank fees and charges		(5,113)	(4,299)	(5,112)	(4,297)
Communications		(5,083)	(5,419)	(5,080)	(5,409)
Commissions		(3,265)	(3,438)	(3,265)	(3,438)
Contractors and consultants		(112,155)	(99,430)	(112,059)	(99,440)
Insurance		(6,652)	(6,911)	(6,079)	(5,857)
Legal fees		(4,262)	(4,809)	(4,097)	(4,809)
Metering		(10,076)	(9,136)	(10,076)	(9,136)
Operating lease rentals		(6,416)	(8,515)	(6,366)	(8,505)
Printing		(1,456)	(1,590)	(1,456)	(1,590)
Promotions and advertising		(5,832)	(9,279)	(5,792)	(9,279)
Profit/ (loss) on disposal/ write-off of assets		(6)	141	62	141
Other expenses		(17,107)	(17,621)	(17,045)	(17,571)
Total other expenses		**(177,911)**	**(170,718)**	**(176,799)**	**(169,573)**
Allowance for impairment of receivables	4.3	(16,208)	(59,285)	(83,035)	(125,098)
Allowance for impairment of inventory		(8,289)	(3,956)	(8,289)	(3,956)
Allowance for impairment of inter-group loans		-	-	(29,930)	-
Impairment of plant and equipment	5.1	-	(43,302)	-	-
Impairment of sales and purchases agreements	5.2	-	(4,411)	-	-
Impairment of assets sold and held for sale		(18,137)	-	(2,135)	-
Impairment losses		**(42,634)**	**(110,954)**	**(123,389)**	**(129,054)**

3.5 Net finance costs

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Interest income	8,219	10,900	9,945	13,125
Total finance income	8,219	10,900	9,945	13,125
Interest on loans and borrowings	(5,861)	(7,658)	(6,248)	(7,658)
Finance lease interest expense	(29,479)	(30,220)	(29,479)	(30,220)
Unwinding of discount on provisions	(15,455)	(21,956)	(15,455)	(21,956)
Interest on defined benefit fund	(767)	(745)	(767)	(745)
Total finance costs	(51,562)	(60,579)	(51,949)	(60,579)
Net finance costs	**(43,343)**	**(49,679)**	**(42,004)**	**(47,454)**

3.6 Income tax expense

Reconciliation of income tax expense to the effective tax rate:

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Profit/ (loss) before income tax	14,190	(8,140)	(51,380)	21,769
Income tax using the Corporation tax rate of 30%	(4,257)	2,442	15,414	(6,531)
Effect of:				
Exempt/ (non-deductible) items	24,142	(13,946)	107	(184)
Over provided tax benefit in respect of prior year	169	209	173	209
Derecognition of previous recognised deductible temporary differences	-	2,649	-	(123)
Deductible temporary differences not recognised	(9,926)	4,162	(9,978)	(1,002)
Income tax benefit/ (expense)	**10,128**	**(4,484)**	**5,716**	**(7,631)**

The tax rate used in the reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

The major components of income tax (expense)/ benefit for the year are:

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current tax expense	(17,084)	(27,083)	(16,989)	(27,082)
Origination and reversal of temporary differences	27,212	22,600	22,705	19,453
Income tax benefit/ (expense) in the statement of profit or loss	**10,128**	**(4,484)**	**5,716**	**(7,631)**
Statement of other comprehensive income (OCI)				
Deferred tax related to items recognised in OCI during the year				
Net (gain)/ loss on revaluation of cash flow hedges	(12)	173	(12)	173
Net (gain)/ loss on defined benefit re-measurement	(653)	512	(653)	512
Income tax benefit/ (expense) charged to OCI	**(665)**	**685**	**(665)**	**685**

Recognition and measurement

The Corporation operates under the National Taxation Equivalent Regime (NTER). While tax equivalent payments are remitted to the Department of 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, referred to as income tax in these financial statements, is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Income tax expense includes tax adjustments for permanent and timing differences. Permanent differences represent the differences for transactions which will never be included in taxable income or loss, although they are recognised in the accounting profit or loss. Timing differences represent the differences between the time transactions are recognised for accounting purposes and when they are recognised for tax purposes.

3.6 Income tax expense (continued)

Income tax expense is calculated based on amounts of income which are assessable for tax and amounts of expenditure which are deductible for tax, irrespective of when that assessment or deduction arises. Income tax payable reflects amounts which are assessable or deductible in the current year, which does not always align with the timing of recognition in the statement of profit or loss.

Synergy has not formed a tax consolidated group. The tax losses of each subsidiaries cannot be used to offset against the Group's taxable income. Therefore, the income tax liability of the Group will represent the income tax liability of the Corporation and each of its subsidiaries.

3.7 Deferred tax

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Deferred income tax relating to:				
Trade and other receivables	58,228	38,725	58,227	38,725
Investments	-	-	-	177
Intangible assets	7,317	7,455	7,317	4,146
Trade and other payables	5,261	5,849	5,230	5,835
Finance lease liabilities	68,972	67,641	68,972	67,641
Employee benefits	19,565	24,208	19,565	24,199
Provisions	77,492	80,245	77,492	80,245
Business related costs	949	1,665	910	1,665
Carried forward tax losses	3,253	21	-	-
Total deferred tax asset	**241,037**	**225,809**	**237,713**	**222,633**
Inventories	(27,078)	(31,175)	(27,078)	(31,175)
Derivative financial instruments	(20,082)	(14,561)	(20,082)	(14,715)
Property, plant and equipment	(121,162)	(133,936)	(121,162)	(129,393)
Total deferred tax liability	**(168,322)**	**(179,672)**	**(168,322)**	**(175,283)**
Net deferred tax asset	**72,715**	**46,137**	**69,391**	**47,350**

The Group recognised the following in the 2018 financial year:

- a deductible temporary difference of $42.0 million between the accounting and tax treatment for the depreciation of property, plant and equipment (PPE) and amortisation of intangibles (Corporation: $38.0 million);
- a deductible temporary difference of $65.0 million between the accounting and tax treatment of the doubtful debt provision;
- a deductible temporary difference of $13.7 million between the accounting and tax treatment of inventory; and
- a taxable temporary difference of $17.9 million between the accounting and tax treatment of derivative financial instruments.

3.7 Deferred tax (continued)

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
The (increase)/ decrease in deferred tax balance relates to:				
Amounts recognised in the statement of profit and loss				
Trade and other receivables	19,503	34,111	19,503	34,111
Derivative financial instruments	(5,356)	(9,377)	(5,356)	(9,377)
Investments	(154)	3,147	(179)	(3)
Intangible assets	(169)	1,948	3,171	1,949
Trade and other payables	(588)	(1,428)	(604)	(1,427)
Finance lease liabilities	1,331	(1,969)	1,331	(1,969)
Employee benefits	(3,990)	1,498	(3,981)	1,497
Provisions	(2,752)	(24,757)	(2,752)	(24,757)
Business related costs	(716)	701	(755)	702
Inventories	4,097	1,426	4,097	1,426
Property, plant and equipment	12,775	17,299	8,231	17,299
Carried forward tax losses	3,232	-	-	-
	27,213	**22,599**	**22,706**	**19,451**
Amounts recognised in OCI				
Derivative financial instruments	(12)	173	(12)	173
Defined benefit re-measurement	(653)	512	(653)	512
	(665)	**685**	**(665)**	**685**
Amounts recognised on business combination				
Intangible assets	30	3,310	-	-
Trade and other payables	-	15	-	-
Employee benefits	-	8	-	-
Property, plant and equipment	-	(4,543)	-	-
Carried forward tax losses	-	21	-	-
	30	**(1,189)**	**-**	**-**
Total movement	**26,578**	**22,095**	**22,041**	**20,136**

Recognition and measurement

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. Deferred tax is calculated using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for accounting purposes at the reporting date.

Deferred income tax liabilities and assets are recognised for all temporary differences except for the following:

- 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;
- where it is probable that the temporary differences will not reverse in the foreseeable future; or
- where taxable profit will not 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.

3.7 Deferred tax (continued)

Key estimates

As at 30 June 2018, deferred tax assets have not been recognised in respect of tax losses and deductible temporary differences of $13.0 million for the Group (2017: $3.1 million) and $19.0 million for the Corporation (2017: $9.5 million) as it was not probable that in the foreseeable future sufficient income would be generated for such temporary differences to be reversed.

Section 4 - Operating capital

4.1 Key financial and operating risks

The Group is exposed to credit risk and liquidity risk. The board of directors oversees the management of these risks, supported by an ACC and a TMC that advises on financial risks and the appropriate financial risk governance framework for the Group.

The board of directors approves policies for managing risk, which are summarised below.

4.1.1 Credit risk management

Credit risk is the risk that a 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.

Customer credit risk is managed under the Group's established policy, procedures and control relating to customer credit risk management.

The Group has credit policies under which the creditworthiness of contestable retail and wholesale customers is assessed before credit is offered. The Group's review includes external ratings, where available. Purchase limits are established for each customer and 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. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 4.3.

4.1.2 Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The liquidity position of the Group is managed 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.

4.1 Key financial and operating risks (continued)

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

	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	$'000	$'000	$'000	$'000	$'000
Group					
Year ended 30 June 2017					
Interest-bearing loans and borrowings	(6,717)	(50,966)	(147,263)	-	(204,946)
Trade and other payables	(386,235)	(8,125)	(2,954)	(1,859)	(399,173)
Finance lease liabilities	(9,240)	(27,719)	(149,585)	(295,288)	(481,832)
Derivatives	(55)	-	-	-	(55)
Total financial liabilities	(402,247)	(86,810)	(299,802)	(297,147)	(1,086,006)
Year ended 30 June 2018					
Interest-bearing loans and borrowings	(6,100)	(109,100)	(27,176)	-	(142,376)
Trade and other payables	(379,871)	(11,339)	(4,270)	(1,724)	(397,204)
Finance lease liabilities	(9,283)	(27,850)	(150,291)	(257,450)	(444,874)
Total financial liabilities	(395,254)	(148,289)	(181,737)	(259,174)	(984,454)
Corporation					
Year ended 30 June 2017					
Interest-bearing loans and borrowings	(6,810)	(51,244)	(162,764)	-	(220,818)
Trade and other payables	(386,206)	(8,114)	(2,954)	(1,859)	(399,133)
Finance lease liabilities	(9,240)	(27,719)	(149,585)	(295,288)	(481,832)
Derivatives	(55)	-	-	-	(55)
Total financial liabilities	(402,311)	(87,077)	(315,303)	(297,147)	(1,101,838)
Year ended 30 June 2018					
Interest-bearing loans and borrowings	(20,428)	(109,100)	(27,176)	-	(156,704)
Trade and other payables	(397,417)	(11,331)	(4,270)	(1,723)	(414,741)
Finance lease liabilities	(9,283)	(27,850)	(150,291)	(257,450)	(444,874)
Total financial liabilities	(427,128)	(148,281)	(181,737)	(259,173)	(1,016,319)

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. These amounts may be settled gross or net, however the impact is not material on the Group.

Notes to the financial statements
For the year ended 30 June 2018

4.2 Cash and short-term deposits

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Cash at bank and on hand	154,405	119,848	145,297	88,548
Short-term deposits equal to and less than 3 months	100,000	229,000	100,000	229,000
Total cash and cash equivalents	**254,405**	**348,848**	**245,297**	**317,548**
Short-term deposits greater than 3 months	-	70,000	-	70,000
Total cash and short term deposits	**254,405**	**418,848**	**245,297**	**387,548**

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

Reconciliation of profit/ (loss) to net cash flows from operating activities

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Profit/ (loss) for the year	24,318	(12,624)	(45,664)	14,138
Adjustments for:				
Profit on disposal of plant and equipment	(11,457)	(141)	(11,526)	(141)
Depreciation and amortisation	162,997	174,718	145,647	90,099
Impairment loss on trade receivables	16,208	59,285	83,035	125,098
Impairment loss on inventories	8,289	3,956	8,289	3,956
Impairment of plant, equipment and intangible assets	-	47,713	-	-
Other impairment	18,137	-	32,065	-
Gain on sale of investments	(996)	(47,383)	(1,226)	(33,616)
(Gain)/ loss on purchase of subsidiary	-	(1,751)	-	1,509
Non cash interest expense	15,454	21,956	15,455	21,956
Share of loss of joint ventures	453	1,067	-	-
	233,403	259,420	226,075	208,861
Changes in trade and other receivables	(10,915)	8,404	(9,495)	7,737
Changes in inventories	7,177	(531)	6,154	241
Changes in intangible assets	(21,954)	16,020	(21,954)	16,020
Changes in derivative financial instruments	(17,865)	(31,081)	(17,865)	(31,081)
Changes in tax assets and liabilities	(32,665)	(26,219)	(28,223)	(23,073)
Changes in trade and other payables	(13,326)	(23,471)	4,249	(21,871)
Changes in provisions and others	(83,249)	(43,623)	(83,216)	(43,744)
Net cash from operating activities	**60,606**	**146,295**	**75,726**	**127,228**

4.3 Trade and other receivables

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Trade receivables	134,973	139,610	134,832	143,702
Unbilled receivables	207,521	191,133	207,237	188,405
Inter-group receivables	-	-	252	66,764
Commodity swaps	18,658	-	18,658	-
Other receivables	10,467	14,816	10,508	14,879
Prepayments	10,648	10,043	10,590	9,909
Total current trade and other receivables	**382,267**	**355,602**	**382,077**	**423,659**
Commodity swaps	7,058	30,764	7,058	30,764
Total non-current trade and other receivables	**7,058**	**30,764**	**7,058**	**30,764**

Recognition and measurement

Most trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost less an allowance for impairment. Commodity swaps are recognised at fair value.

Uncollectable amounts are determined using the expected loss impairment model. Collectability and impairment are assessed on a regular basis. Subsequent recoveries of amounts previously written off are credited against impairment losses in the statement of profit or loss.

The Group's customers are required to pay in accordance with agreed payment terms. Trade receivables are not interest-bearing and are generally on terms of 7 to 30 days. For terms and conditions relating to related party receivables, refer to note 6.7.

Trade, unbilled and inter-group receivables are shown net of impairment allowances.

Key estimates

Impairment allowance

The Group applies judgement when assessing trade receivables for impairment. Evidence of impairment may include indications that the customer is experiencing significant financial difficulty, and observable data indicating a decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Commodity swaps

The Group has entered into an agreement to deliver gas to a counterparty which will be returned at a future date. The fair value of the commodity swap asset is estimated at the present value of future commodity receipts.

Ageing of trade and inter-group receivables

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

	Total $'000	Neither past due or impaired $'000	Past due but not impaired < 30 days $'000	30-90 days $'000	>91 days $'000
Group					
2017	139,610	101,760	24,514	10,231	3,105
2018	134,973	92,351	29,364	10,307	2,951
Corporation					
2017	210,466	103,135	24,514	10,231	72,586
2018	135,084	92,500	29,358	10,275	2,951

The Corporation balance includes inter-group amounts of $132.9 million (2017: $132.4 million) for which payment has been deferred until Vinalco Energy Trust is in a position to pay. An impairment allowance of $132.6 million (2017: $65.8 million) has been provided against this balance.

4.3 Trade and other receivables (continued)

Impairment allowance

As at 30 June 2018, an allowance for impairment of trade receivables of $61.6 million was recognised in the Group and $194.2 million in the Corporation (2017: $63.4 million Group and $129.2 million Corporation).

The Group's impairment allowance for receivables is made up of:

- items that have been individually assessed to be impaired; and
- items that have been collectively assessed to be impaired.

The Group first assesses whether impairment exists individually for a customer. If the Group determines that the individual customer is not impaired, it is included in a group of customers with similar credit risk characteristics and collectively assessed for impairment. Customers 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 methodology for the estimation of the collective allowance uses a statistical model, considers emerging trends in the portfolio and is sufficiently granular as to permit estimation accuracy to be assessed.

See below for the movements in the allowance for impairment of receivables.

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Allowance for impairment of receivables				
Balance at 1 July	(63,364)	(15,429)	(129,177)	(15,429)
Charge for the year, net recoveries	(16,208)	(59,285)	(83,035)	(125,098)
Amounts written-off during the year	17,964	11,350	17,964	11,350
Balance as at 30 June	**(61,608)**	**(63,364)**	**(194,248)**	**(129,177)**

4.4 Inventories

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Fuel	101,393	108,897	101,393	107,874
Spares and consumables, net of provision	38,230	46,192	38,230	46,192
Total inventories	**139,623**	**155,089**	**139,623**	**154,066**

Recognition and measurement

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Inventories determined to be obsolete or damaged are written down to net realisable value, being the estimated selling price less selling costs. Spares and consumables include an allowance for impairment losses of $11.1 million (2017: $4.0 million).

4.5 Trade and other payables

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Trade payables and accruals	380,680	355,647	397,725	355,521
Other payables	10,962	37,918	10,963	37,918
Accrued salaries	2,189	2,243	2,189	2,225
Interest accrued	806	1,041	1,297	1,145
Total current trade and other payables	**394,637**	**396,849**	**412,174**	**396,809**
Deferred costs	2,567	2,324	2,567	2,324
Total non-current trade and other payables	**2,567**	**2,324**	**2,567**	**2,324**

Recognition and measurement

Trade and other payables are recognised initially at fair value net of directly attributable transaction costs and subsequently at amortised cost. For terms and conditions relating to related party payables, refer to note 6.7.

4.6 Deferred income

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current	7,753	7,013	7,753	7,013
Non-current	15,452	17,536	15,452	17,536
Deferred income	**23,205**	**24,549**	**23,205**	**24,549**
Represented by:				
Leasehold incentive	12,407	14,080	12,407	14,080
Deferred lease income	5,128	5,538	5,128	5,538
Unearned revenue	5,670	4,931	5,670	4,931
Deferred income	**23,205**	**24,549**	**23,205**	**24,549**

Recognition and measurement

Leasehold incentive

The Group entered into a lease agreement in July 2015 for office space and received a leasehold incentive. The incentive was 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.

Deferred lease income

The Group received an upfront lease payment in relation to the Emu Downs Wind Farm (EDWF) off-take agreement, which was recorded at cost, deferred and recognised as revenue on a straight line basis over the term of the lease.

Section 5 - Invested capital

5.1 Property, plant and equipment

Group	Land $'000	Buildings $'000	Plant and equipment $'000	Work in progress $'000	Leased assets $'000	Total $'000
At Cost						
Balance at 1 July 2016	6,334	152,153	2,686,811	46,226	256,792	3,148,316
Additions	-	-	13,715	35,560	-	49,275
Transfers (note 5.2)	-	-	17,436	(37,837)	-	(20,401)
Disposals/ write-off	-	(204)	(41,083)	-	-	(41,287)
Decommissioning adjustment (note 5.4)	-	-	(130,758)	-	-	(130,758)
Decommissioning adjustment against accumulated depreciation	-	-	84,111	-	-	84,111
Balance at 30 June 2017	**6,334**	**151,949**	**2,630,232**	**43,949**	**256,792**	**3,089,256**
Balance at 1 July 2017	6,334	151,949	2,630,232	43,949	256,792	3,089,256
Additions	-	-	23,043	19,183	-	42,226
Transfers (note 5.2)	-	-	21,535	(35,723)	-	(14,188)
Disposals/ write-off	-	-	(12,137)	-	-	(12,137)
Decommissioning adjustment (note 5.4)	-	-	5,243	-	-	5,243
Reclassified as held for sale (note 5.3)	-	-	(68,771)	-	-	(68,771)
Balance at 30 June 2018	**6,334**	**151,949**	**2,599,145**	**27,409**	**256,792**	**3,041,629**
Depreciation and impairment						
Balance at 1 July 2016	-	(71,269)	(1,243,439)	-	(102,582)	(1,417,290)
Annual depreciation charge	-	(6,152)	(131,413)	-	(11,914)	(149,479)
Impairment	-	-	(43,302)	-	-	(43,302)
Transfers	-	-	(84,111)	-	-	(84,111)
Disposals/write-off	-	202	40,149	-	-	40,351
Balance at 30 June 2017	**-**	**(77,219)**	**(1,462,116)**	**-**	**(114,496)**	**(1,653,831)**
Balance at 1 July 2017	-	(77,219)	(1,462,116)	-	(114,496)	(1,653,831)
Annual depreciation charge	-	(5,403)	(115,298)	-	(11,917)	(132,618)
Disposals/ write-off	-	-	964	-	-	964
Reclassified as held for sale (note 5.3)	-	-	36,330	-	-	36,330
Balance at 30 June 2018	**-**	**(82,622)**	**(1,540,120)**	**-**	**(126,413)**	**(1,749,155)**
Carrying amount						
At 30 June 2017	6,334	74,730	1,168,116	43,949	142,296	1,435,425
At 30 June 2018	**6,334**	**69,327**	**1,059,025**	**27,409**	**130,379**	**1,292,474**

5.1 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 2016	6,334	152,153	2,516,490	46,226	256,792	2,977,995
Additions	-	-	2,390	35,560	-	37,950
Transfers (note 5.2)	-	-	17,436	(37,837)	-	(20,401)
Disposals/write-off	-	(203)	(41,083)	-	-	(41,286)
Decommissioning adjustment (note 5.4)	-	-	(130,758)	-	-	(130,758)
Decommissioning adjustment against accumulated depreciation	-	-	84,111	-	-	84,111
Balance at 30 June 2017	**6,334**	**151,950**	**2,448,586**	**43,949**	**256,792**	**2,907,611**
Balance at 1 July 2017	6,334	151,950	2,448,586	43,949	256,792	2,907,611
Additions	-	-	22,792	19,203	-	41,995
Transfers (note 5.2)	-	-	21,555	(35,743)	-	(14,188)
Disposals/ write-off	-	-	(584)	-	-	(584)
Decommissioning adjustment (note 5.4)	-	-	5,243	-	-	5,243
Reclassified as held for sale (note 5.3)	-	-	(68,771)	-	-	(68,771)
Balance at 30 June 2018	**6,334**	**151,950**	**2,428,821**	**27,409**	**256,792**	**2,871,306**
Depreciation and impairment						
Balance at 1 July 2016	-	(71,270)	(1,206,057)	-	(102,582)	(1,379,909)
Annual depreciation charge	-	(6,152)	(51,937)	-	(11,915)	(70,004)
Decommissioning adjustment	-	-	(84,111)	-	-	(84,111)
Disposals/write-off	-	202	40,173	-	-	40,375
Balance at 30 June 2017	**-**	**(77,220)**	**(1,301,932)**	**-**	**(114,497)**	**(1,493,649)**
Balance at 1 July 2017	-	(77,220)	(1,301,932)	-	(114,497)	(1,493,649)
Annual depreciation charge	-	(5,403)	(104,716)	-	(11,917)	(122,036)
Disposals/ write-off	-	-	522	-	-	522
Reclassified as held for sale (note 5.3)	-	-	36,330	-	-	36,330
Balance at 30 June 2018	**-**	**(82,623)**	**(1,369,796)**	**-**	**(126,414)**	**(1,578,833)**
Carrying amount						
At 30 June 2017	6,334	74,730	1,146,654	43,949	142,295	1,413,962
At 30 June 2018	**6,334**	**69,327**	**1,059,025**	**27,409**	**130,378**	**1,292,473**

Notes to the financial statements
For the year ended 30 June 2018

5.1 Property, plant and equipment (continued)

Recognition and measurement

Property, plant and equipment

Property, plant and equipment (PPE) are stated at cost, net of accumulated depreciation and impairment losses.

Costs include costs of purchase, delivery, and installation, and borrowing costs for long-term construction projects. When significant parts of PPE are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Repair and maintenance costs are recognised in the statement of profit or loss 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 5.4) for further information about the decommissioning provision.

Leased assets

The Group has applied Interpretation 4 Determining whether an Arrangement contains a Lease and determined that some power purchase agreements held by the Group contain a lease arrangement. The leases have been recognised as finance leases or disclosed as operating leases.

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 present value of the minimum lease payments.

Depreciation and impairment

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
- Lease assets 15 – 25 years

Land is not depreciated. Work in progress (WIP) is not amortised until the assets are completed and ready for use.

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

The Group assesses, at each reporting date, whether there is an indication of impairment or impairment reversal for those assets which have previously been impaired. If any indication exists, or where annual impairment testing 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 unit's (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 use the discounted cash flow method to assess impairment of its non-current assets.

Key estimates

Property, plant and equipment

In determining the useful lives of the Group's generation assets, assumptions and estimates are made in relation to the period over which an asset is expected to be available for use. Judgement extends to include the intended design life and the operating and maintenance regime of the fleet, and notional plant retirement dates.

In 2018, the Group determined that an extension of the useful life of certain generation assets was required to align with current assumptions on plant retirement dates, as used in the decommissioning provision. This change resulted in a decrease in the annual depreciation expense of approximately $19.6 million.

5.2 Intangible assets

Group	Computer software $'000	Environment certificates $'000	Exclusive rights $'000	Sales and purchase agreements $'000	Other $'000	Total $'000
At Cost						
Balance at 1 July 2016	117,702	41,545	537	48,800	-	208,584
Additions	5,674	101,255	-	15,800	8,145	130,874
Transfers from WIP (note 5.1)	20,401	-	-	-	-	20,401
Disposals/ surrenders	(5)	(117,275)	(537)	-	-	(117,817)
Balance at 30 June 2017	**143,772**	**25,525**	**-**	**64,600**	**8,145**	**242,042**
Balance at 1 July 2017	143,772	25,525	-	64,600	8,145	242,042
Additions	12,792	119,181	-	-	-	131,973
Transfers from WIP (note 5.1)	14,188	-	-	-	-	14,188
Disposals/ surrenders	-	(97,227)	-	(15,800)	(8,145)	(121,172)
Balance at 30 June 2018	**170,752**	**47,479**	**-**	**48,800**	**-**	**267,031**
Amortisation and impairment						
Balance at 1 July 2016	(64,218)	-	(537)	(15,433)	-	(80,188)
Annual amortisation charge	(20,095)	-	-	(5,144)	-	(25,239)
Disposals	6	-	537	-	-	543
Impairment	-	-	-	(4,411)	-	(4,411)
Balance at 30 June 2017	**(84,307)**	**-**	**-**	**(24,988)**	**-**	**(109,295)**
Balance at 1 July 2017	(84,307)	-	-	(24,988)	-	(109,295)
Annual amortisation charge	(23,611)	-	-	(6,768)	-	(30,379)
Disposals	-	-	-	1,178	-	1,178
Balance at 30 June 2018	**(107,918)**	**-**	**-**	**(30,578)**	**-**	**(138,496)**
Carrying amount- current						
Balance at 30 June 2017	-	25,525	-	-	-	25,525
Balance at 30 June 2018	**-**	**47,479**	**-**	**-**	**-**	**47,479**
Carrying amount- non-current						
Balance at 30 June 2017	59,465	-	-	39,612	8,145	107,222
Balance at 30 June 2018	**62,834**	**-**	**-**	**18,222**	**-**	**81,056**

5.2 Intangible assets (continued)

Corporation	Computer software $'000	Environment certificates $'000	Exclusive rights $'000	Sales and purchase agreements $'000	Other $'000	Total $'000
At Cost						
Balance at 1 July 2016	117,701	41,545	537	-	-	159,783
Additions	5,672	101,255	-	-	-	106,927
Transfers from WIP (note 5.1)	20,401	-	-	-	-	20,401
Disposals/ surrenders	(5)	(117,275)	(537)	-	-	(117,817)
Balance at 30 June 2017	**143,769**	**25,525**	**-**	**-**	**-**	**169,294**
Balance at 1 July 2017	143,769	25,525	-	-	-	169,294
Additions	12,793	119,181	-	-	-	131,974
Transfers from WIP (note 5.1)	14,188	-	-	-	-	14,188
Disposals/ surrenders	-	(97,227)	-	-	-	(97,227)
Balance at 30 June 2018	**170,750**	**47,479**	**-**	**-**	**-**	**218,229**
Amortisation and impairment						
Balance at 1 July 2016	(64,216)	-	(537)	-	-	(64,753)
Annual amortisation charge	(20,095)	-	-	-	-	(20,095)
Disposals	6	-	537	-	-	543
Balance at 30 June 2017	**(84,305)**	**-**	**-**	**-**	**-**	**(84,305)**
Balance at 1 July 2017	(84,305)	-	-	-	-	(84,305)
Annual amortisation charge	(23,611)	-	-	-	-	(23,611)
Disposals	-	-	-	-	-	-
Balance at 30 June 2018	**(107,916)**	**-**	**-**	**-**	**-**	**(107,916)**
Carrying amount- current						
Balance at 30 June 2017	-	25,525	-	-	-	25,525
Balance at 30 June 2018	**-**	**47,479**	**-**	**-**	**-**	**47,479**
Carrying amount- non-current						
Balance at 30 June 2017	59,464	-	-	-	-	59,464
Balance at 30 June 2018	**62,834**	**-**	**-**	**-**	**-**	**62,834**

Recognition and measurement

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. Environmental certificates purchased from external sources are recognised at the weighted average cost of purchase.

Internally generated intangible assets include costs that meet the recognition criteria for development costs only, as research costs are expensed as incurred. 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, intangible assets are carried at cost less any accumulated amortisation and impairment losses.

5.2 Intangibles (continued)

Amortisation and impairment

Intangible assets with finite lives are amortised on a straight-line basis over the period of expected future benefits.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually. 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.

The estimated useful lives for the current and comparative periods are 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.

The Group assesses, at each reporting date, whether there is an indication of impairment or impairment reversal for those assets which have previously been impaired. If any indication exists, or where annual impairment testing is required, the Group estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or CGU's 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.

5.3 Assets held for sale

During the 2018 financial year, the Group entered into a joint arrangement to manage and develop renewable energy assets. As part of that arrangement the Group intends to sell its Albany and Grasmere wind farm assets to a related party, Bright Energy Investments Trust. At the reporting date, the sale has not been finalised and the assets have been reclassified as held for sale.

Assets held for sale as at 30 June 2018 in the Corporation and the Group are outlined below:

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Plant and equipment, net of impairment	31,100	-	31,100	-
Other receivables	3,109	-	3,109	-
Total assets held for sale	**34,209**	**-**	**34,209**	**-**

Recognition and measurement

An asset is held for sale when it is available for immediate sale in its present condition, and its sale is highly probable. Held for sale assets are held at the lower of carrying value and fair value less cost to sell. Where fair value is less than the assets carrying value an impairment loss is recognised in the statement of profit or loss.

5.4 Provisions

Group and Corporation	Decom. provision $'000	Commodity swaps $'000	Renewable energy certificates $'000	Other provisions $'000	Total $'000
Balance at 1 July 2016	429,922	317,954	49,549	10,245	807,670
Recognised in profit or loss	-	(27,385)	121,474	11,363	105,452
Utilised	(2,494)	(21,768)	(116,453)	(8,440)	(149,155)
Change in assumptions recognised in PPE (note 5.1)	(130,758)	-	-	-	(130,758)
Reversed during the year	-	-	-	(878)	(878)
Discount rate adjustment and imputed interest	13,608	7,943	-	-	21,551
Balance at 30 June 2017	**310,278**	**276,744**	**54,570**	**12,290**	**653,882**
Balance at 1 July 2017	310,278	276,744	54,570	12,290	653,882
Recognised in profit or loss	-	4,121	124,027	2,219	130,367
Utilised	(13,960)	(46,765)	(96,390)	(10,624)	(167,739)
Change in assumptions recognised in PPE (note 5.1)	5,243	-	-	-	5,243
Reversed during the year	(4,175)	-	(28,046)	(1,016)	(33,237)
Discount rate adjustment and imputed interest	6,930	9,085	-	-	16,015
Balance at 30 June 2018	**304,316**	**243,185**	**54,161**	**2,869**	**604,531**
2017					
Current	33,916	24,228	54,570	12,290	125,004
Non-current	276,362	252,516	-	-	528,878
	310,278	**276,744**	**54,570**	**12,290**	**653,882**
2018					
Current	26,599	62,849	54,161	2,869	146,478
Non-current	277,717	180,336	-	-	458,053
	304,316	**243,185**	**54,161**	**2,869**	**604,531**

Recognition and measurement

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.

Decommissioning provision

The Group has recognised a provision for decommissioning obligations associated with the facilities owned by the Group. Recognition of a provision is consistent with the Group's policies and applicable legal requirements.

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 recognised in the statement of profit or loss as a finance cost. Changes in the estimated future costs or in the discount rate applied are added to or deducted from the cost of the asset.

Commodity Swaps

Under long-term gas swap agreements entered into from 2012, the Group has been receiving gas from various counterparties and is obliged to return gas in the future. The gas agreements are entered into for the purpose of providing flexibility in managing the Group's fuel requirements.

Provision for commodity swaps is recognised at the present value of expected costs to settle the obligation using estimated cash flows. The unwinding of the discount is recognised in the statement of profit or loss as a finance cost. Changes in the estimated future costs are recognised as an expense in the statement of profit or loss.

5.4 Provisions (continued)

Renewable energy certificates

The *Renewable Energy (Electricity) Act 2000* requires electricity wholesale purchasers to source specified amounts of electricity from renewable energy sources, and imposes an annual liability on the Group.

The provision for renewable energy certificates (RECs) is measured at the estimated cost of settling the obligation, being the weighted average cost of RECs held at the date of surrender, less any internally generated RECs on hand. At period end any shortfall in certificates is measured at market value. The liability is expensed in the statement of profit or loss as cost of sales.

Key estimates

Decommissioning provision

In determining the amount of the provision, assumptions and estimates are made in relation to discount rates, the expected cost to decommission 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 and 2017, the Group 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 Group has assumed the sites will be restored using the technology and materials that are currently available.

Commodity Swaps

The commodity swap liability represents the value of the obligation to return gas. In determining the amount of the provision, assumptions and estimates are made in relation to discount rates, future commodity prices and the expected timing of the gas returns.

5.5 Finance leases

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current	8,520	7,480	8,520	7,480
Non-current	209,469	217,989	209,469	217,989
Total finance lease liability	**217,989**	**225,469**	**217,989**	**225,469**

The Group has entered into a number of power purchase arrangements with generation facilities. Based on an evaluation of the terms and conditions, it was determined that some of those arrangements contained a lease.

Recognition and measurement

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. All other leases are finance leases.

Finance leases are a financial liability recognised initially at fair value. Subsequently, the lease liability is held at amortised cost, with the reduction in the carrying amount reflecting the lease payments made during the year. The total finance lease expense recognised in the statement of profit or loss for the year ended 30 June 2018 is $7.5 million (2017: $6.6 million).

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

5.5 Finance leases (continued)

Finance lease commitments

	2018		2017	
	$'000 Minimum payments	$'000 Present value of payments	$'000 Minimum payments	$'000 Present value of payments
Group and Corporation				
Within one year	37,133	8,520	36,959	7,480
Between one and five years	150,291	47,743	149,585	41,891
More than five years	257,450	161,726	295,288	176,098
	444,874	**217,989**	**481,832**	**225,469**

5.6 Derivative financial instruments

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Forward exchange contracts- cash flow hedge	-	16	-	16
Total current financial assets through OCI	**-**	**16**	**-**	**16**
Electricity derivatives- embedded current	8,196	4,612	8,196	4,612
Electricity derivatives- embedded non-current	58,746	44,476	58,746	44,476
Total current financial assets through profit or loss	**66,942**	**49,088**	**66,942**	**49,088**
Total current financial assets at fair value	**66,942**	**49,104**	**66,942**	**49,104**
Forward exchange contracts- cash flow hedge	-	55	-	55
Total current financial liabilities through OCI	**-**	**55**	**-**	**55**
Total current financial liabilities at fair value	**-**	**55**	**-**	**55**

The Group uses derivative financial instruments, such as forward currency contracts and forward commodity contracts, to hedge its foreign currency risks and commodity price risks.

Forward exchange contracts

When the Group has expected foreign currency denominated purchases, foreign exchange forward contracts are entered into and designated as hedging instruments in cash flow hedges. These expected transactions are highly probable, and they comprise 100% of the Group's total expected purchases in foreign currencies. Where the period of the underlying transaction is less than 12 months, foreign exchange forward contracts are not generally designated as cash flow hedges.

The foreign exchange forward contract balances vary with the level of expected foreign currency purchases and changes in foreign exchange forward rates. 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 profit or loss.

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. These financial instruments 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.

5.6 Derivative financial instruments (continued)

Recognition and measurement

Derivative financial instruments are classified, at initial recognition, as either financial assets or liabilities at fair value through profit or loss, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Financial assets and liabilities 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 profit or loss.

Hedging

Derivatives that are designated within qualifying hedge relationships are initially recognised at fair value on the date the contract is entered into.

For relationships designated as fair value hedges, subsequent fair value movements of the derivative are recognised in the statement of profit or loss.

For relationships designated as cash flow hedges, subsequent fair value movements of the derivative for the effective portion of the hedge are recognised in other comprehensive income and accumulated in reserves in equity; fair value movements for the ineffective portion are recognised immediately in the statement of profit or loss.

Fair value

Fair value is the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When the fair values cannot be measured based on quoted prices in active markets, it is measured using valuation techniques considered appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs.

Fair value of derivative financial instruments

The following methods and assumptions were used to estimate the fair values of the Group's derivative financial instruments:

- fair values of foreign exchange forward contracts are determined using the discounted cash flow (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; and
- fair value of 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 market yields on high quality corporate bonds as published by the Group of 100 for fixed long-term borrowings of similar durations.

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

The following table provides the hierarchy of the Group's financial instruments measured at fair value:

	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
2017	$'000	$'000	$'000	$'000
Assets measured at fair value				
Foreign exchange forward contracts	16	-	16	-
Electricity derivatives- embedded	49,088	-	-	49,088
Liabilities measured at fair value				
Forward exchange contracts- cash flow hedge	(55)	-	(55)	-
2018				
Assets measured at fair value				
Electricity derivatives- embedded	66,942	-	-	66,942

For recurring assets and liabilities, there were no transfers between Level 1 and Level 2 during the reporting period.

5.6 Derivative financial instruments (continued)

	2018	2017
Reconciliation of Level 3 financial instruments	$'000	$'000
Opening balance	49,088	17,833
Amount recognised in profit or loss	17,854	31,255
Closing balance	66,942	49,088

Key estimates

Electricity derivatives

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates of the forward electricity price and the discount rate. 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. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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 $13.8 million.
		Discount rate	1% increase/ (decrease) would result in a decrease/ (increase) in fair value by $0.1 million.

5.7 Loans and advances

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Current	-	-	22,964	24,400
Non-current	-	-	-	52,894
Total loans and advances, net of impairment	**-**	**-**	**22,964**	**77,294**

Loans and advances include loans to subsidiaries, one which accrues interest at the Corporation's incremental borrowing cost, and the other which is interest free. Included in the balance is a provision for impairment of $29.9 million (2017: Nil).

Recognition and measurement

Loans and advances are initially recognised at fair value, and are subsequently measured at amortised cost less impairment.

5.8 Loans and borrowings

			Group		Corporation	
	Interest rate	Maturity	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Unsecured borrowings	2.55% to 2.99%	Oct-18 to Jun-19	115,200	51,600	129,528	51,600
Total current interest-bearing loans and borrowings			**115,200**	**51,600**	**129,528**	**51,600**
Unsecured borrowings	2.55%	Sep-20	27,034	142,234	27,034	156,562
Secured borrowings	3.13%	Jun-21	142	150	142	150
Total non-current interest-bearing loans and borrowings			**27,176**	**142,384**	**27,176**	**156,712**
Total interest-bearing loans and borrowings			**142,376**	**193,984**	**156,704**	**208,312**

5.8 Loans and borrowings (continued)

Unsecured borrowings

This loan has been drawn down under a Master Lending Agreement with the Western Australian Treasury Corporation (WATC). There is no fixed term on this facility. The loans drawn under the facility are repayable at dates 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 2018, the Group had available $1,257 million (2017: $1,206 million) of undrawn committed borrowing facilities.

Recognition and measurement

Loans and borrowings are initially recognised at fair value, net of directly attributable transaction costs, and are subsequently measured at amortised cost.

Section 6 - Other items

6.1 Contributed equity and reserves

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'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 on 1 April 2006 and comprised assets and liabilities transferred from Western Power Corporation. On 1 January 2014, an additional contribution was received in the form of a transfer of the assets and liabilities from the former Electricity Retail Corporation. Contributions of assets and liabilities, under a restructure of administrative arrangements, are recognised at their carrying values through equity as capital contribution by owner.

Dividends

During 2018 a special dividend of $148.0 million was paid in relation to the 2017 financial year. There were no dividends paid in 2017.

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 other comprehensive income by each type of reserve in equity is shown below:

	Accumulated losses	Hedging reserve	Total
Group	$'000	$'000	$'000
Changes in fair value of cash flow hedges, net of tax	-	3,604	3,604
Re-measurement on defined benefit plans, net of tax	(1,194)	-	(1,194)
As at 30 June 2017	**(1,194)**	**3,604**	**2,410**
Changes in fair value of cash flow hedges, net of tax	-	27	27
Re-measurement on defined benefit plans, net of tax	1,523	-	1,523
As at 30 June 2018	**1,523**	**27**	**1,550**
Corporation			
Changes in fair value of cash flow hedges, net of tax	-	(402)	(402)
Re-measurement on defined benefit plans, net of tax	(1,194)	**-**	(1,194)
As at 30 June 2017	**(1,194)**	**(402)**	**(1,596)**
Changes in fair value of cash flow hedges, net of tax	-	27	27
Re-measurement on defined benefit plans, net of tax	1,523	-	1,523
As at 30 June 2018	**1,523**	**27**	**1,550**

6.2 Commitments

Operating lease commitments

The Group has the following operating lease contracts:

- an office building lease, with an initial lease term of 10 years with two options to extend for a further 3 years each; and
- purchase agreements for energy, capacity and renewable energy certificates with lease terms ranging between 10 to 25 years.

Future minimum lease payments under non-cancellable operating leases as at 30 June are as follows:

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Less than one year	120,059	118,695	120,059	118,695
Between one and five years	499,976	494,090	499,976	494,090
More than five years	565,020	701,259	565,020	701,259
Total non-cancellable operating lease payments	**1,185,055**	**1,314,044**	**1,185,055**	**1,314,044**

Capital and other commitments

The Group has commitments relating to the future purchase of renewable energy certificates, energy purchase agreements, information technology and contact centre support services, and other committed capital expenditure.

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Less than one year	34,126	26,954	34,126	26,954
Between one and five years	33,626	24,183	33,626	24,183
More than five years	51,421	42,922	51,421	42,922
Total intangible asset commitments	**119,173**	**94,059**	**119,173**	**94,059**
Less than one year	747,724	742,921	747,724	735,331
Between one and five years	2,959,747	3,091,365	2,959,747	3,059,220
More than five years	8,422,366	9,880,940	8,422,366	9,843,367
Total energy procurement commitments	**12,129,837**	**13,715,226**	**12,129,837**	**13,637,918**
Less than one year	57,447	80,778	57,447	80,778
Between one and five years	7,374	3,353	7,374	3,353
More than five years	-	-	-	-
Total other operating commitments	**64,821**	**84,131**	**64,821**	**84,131**
Less than one year	47,836	13,593	47,836	13,593
Between one and five years	-	1,377	-	1,377
More than five years	**-**	**-**	**-**	**-**
Total other capital commitments	**47,836**	**14,970**	**47,836**	**14,970**

6.3 Contingencies

The Group has the following contingent liabilities as at 30 June 2018:

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 5.4). 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 Group. 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.

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.

Contractual dispute

The Group is currently in a contractual dispute with a supplier. The timing until resolution and the financial impacts of the dispute are uncertain. As such, a contingent liability of $12.3 million is disclosed, representing management's estimated exposure from the dispute at 30 June 2018. Management expect that the resolution of the dispute will be favourable for the Group, but as the amount is not virtually certain, management have estimated the value of the contingent asset at $17.8 million at 30 June 2018.

6.4 Employee benefits

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Annual leave	13,731	15,538	13,603	15,370
Long service leave	10,836	11,995	10,792	11,995
Total current liability	**24,567**	**27,533**	**24,395**	**27,365**
Long service leave	6,029	6,023	6,029	5,987
Defined benefit plan obligation	31,791	34,727	31,791	34,727
Total non-current liability	**37,820**	**40,750**	**37,820**	**40,714**

6.4 Employee benefits (continued)

Amounts not expected to be settled within the next 12 months

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

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Annual leave expected to be settled < 12 months	6,631	7,690	6,504	7,627
Annual leave expected to be settled > 12 months	7,100	7,848	7,099	7,743
Total annual leave	**13,731**	**15,538**	**13,603**	**15,370**
Long service leave expected to be settled < 12 months	10,836	11,995	10,792	11,995
Long service leave expected to be settled > 12 months	6,029	6,023	6,029	5,987
Total long service leave	**16,865**	**18,018**	**16,821**	**17,982**

Recognition and measurement

Provision is made for employee benefits accumulated as a result of employees rendering services up to the end of the reporting period. These benefits include wages, salaries, annual leave and long service leave.

Liabilities expected to be wholly settled within one year after the end of the period in which the employees render the related services are classified as short-term benefits and are measured at the amount due to be paid.

Liabilities in respect of employees' services rendered that are not expected to be wholly settled within one year after the end of the period in which the employees render the related services are recognised as long-term employee benefits. These liabilities are measured at the present value of the estimated future cash outflow to be made to the employees using the projected unit credit method.

The Group's employees are entitled to benefits upon retirement, disability or death from any number of superannuation plans, which may include a defined contribution pension plan, a defined benefit pension plan, or both.

The cost of providing benefits under the defined contribution plan is recognised in the statement of profit or loss 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-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in other comprehensive income. Changes in the present value of defined benefit obligations resulting from plan amendments or curtailments are recognised immediately in the statement of profit or loss as past service costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. It is recognised immediately along with all other defined benefit plan expenses including past services costs, under employee expenses in the statement of profit or loss.

Key estimates

Long service leave

Long service leave is measured at the present value of benefits accumulated up to the end of the reporting period. The liability is discounted using an appropriate discount rate. Management requires judgement to determine key assumptions used in the calculation including future increases in salaries and wages, future on-cost rates and future settlement dates of employees' departures.

6.4 Employee benefits (continued)

Defined benefit plan obligations

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.

An actuarial review was conducted for the year ended 30 June 2018 using the membership data as at 30 April 2018 as it is not expected that the membership data will be materially different as at 30 June 2018.

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, in which members receive pension benefits on retirement, death or invalidity, or a lump sum benefit on resignation. The schemes, which are now closed to new members, are wholly unfunded. The schemes have no assets.

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.

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, and administer the schemes and payment to the beneficiaries when required in accordance with the scheme rules.

A reconciliation of the movement in the present value of the obligation recognised in the statement of financial position is shown below.

	Group		Corporation	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Balance at 1 July 2017	34,727	33,785	34,727	33,785
Interest cost	767	745	767	745
Benefits paid	(1,527)	(1,508)	(1,527)	(1,508)
Actuarial gains/ (losses) arising from changes in assumptions	(1,419)	(21)	(1,419)	(21)
Actuarial gains/ (losses) arising from liability experience	(757)	1,726	(757)	1,726
Balance at 30 June 2018	**31,791**	**34,727**	**31,791**	**34,727**

The significant actuarial assumptions used at valuation date include the discount rate based on the yield on the federal government bonds maturing in 2025, of 2.60% (2017: 2.26%), expected future salary increase of 4.20% (2017: 3.70%) and expected pension increase of 2.50% (2017: 2.50%).

Sensitivity was performed on the defined benefit obligation using a 0.5% increase/ decrease in the assumptions above, whilst retaining all other obligations, and the variances had a maximum impact on the statement of comprehensive income of $2.1 million (2017: $2.5 million).

6.5 Key management personnel compensation

	2018 $'000	2017 $'000
Short-term employee benefits	4,140	4,652
Post-employment benefits	297	363
Other long-term benefits	-	-
Termination benefits	224	-
Total compensation paid to key management personnel	**4,661**	**5,015**

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel of the Group.

6.6 Group structure

Information relating to subsidiaries

The financial statements of the Group include:

	Principal activity	Country of incorporation	% Equity interest 2018	% Equity interest 2017
Vinalco Energy Pty Ltd	Muja AB plant operators	Australia	100%	100%
South West Hub Pty Ltd (i)	Carbon storage research	Australia	-	100%
South West Solar Development Holdings Pty Ltd (ii)	Renewable energy development	Australia	100%	100%

(i) South West Hub Pty Ltd was deregistered on 29 October 2017.

(ii) On 30 June 2017 the Group purchased the remaining 50% shareholding in South West Solar Development Holdings Pty Ltd.

	2018 $'000	2017 $'000
Net carrying value	36,762	36,832
Movement in investment in subsidiaries		
Balance at 1 July	36,832	-
Transfer from investment in joint ventures	(70)	13,521
Loss on purchase of investment	-	(1,591)
Capital contributions	-	24,902
Balance 30 June	**36,762**	**36,832**

Recognition and measurement

Subsidiaries are all the entities over which the Group has the power over the investee such that the Group is able to direct the relevant activities, has exposure, or rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns.

Acquisition of subsidiary

On 30 June 2017 the Group obtained control of South West Solar Development Holdings Pty Ltd (SWSDH) by acquiring the remaining 50% shareholding for $24.9 million. The acquisition accounting balances recognised were provisional due to the ongoing work finalising valuations. In the 2018 financial year, there was an adjustment to the fair value of the identifiable assets and liabilities of SWSDH of $0.07 million.

6.6 Group structure (continued)

Interest in associates and joint arrangements

The financial statements of the Group include:

	Principal activity	Report Date	Country of incorporation	% Equity interest 2018	2017
Associates					
Premier Coal Limited [i]	Coal mining	31 Dec	Australia	-	-
Joint arrangements					
Collie Basin SO_2 Modelling Study	SO_2 emission research	30 June	NA	64.3%	64.3%
South West Hub Joint Venture [ii]	Carbon storage research	30 June	NA	-	100%
Bright Energy Investments Trust [iii]	Renewable energy construction and operation	30 June	NA	19.9%	-

(i) Under the Amended Coal Supply Agreement 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.

(ii) The South West Hub Joint Venture was wound up in October 2017.

(iii) The Group entered in to a joint arrangement in April 2018 which resulted in the creation of the Bright Energy Investment Trust and its subsidiaries (the Trust), with the intention of building up to 210MW of large-scale renewable energy projects in the South West Interconnected System. During the year the Group sold the Greenough River solar farm to the Trust and entered into a transaction to sell the Albany Grasmere wind farm (AGWF) to the Trust. As that sale was not completed at 30 June 2018, AGWF has been classified as held for sale (refer note 5.3). The Group has also entered into power purchase agreements with the Trust.

	Group 2018 $'000	Group 2017 $'000	Corporation 2018 $'000	Corporation 2017 $'000
Investment in associate	-	-	-	179
Investment in joint ventures	-	435	885	638
	-	**435**	**885**	**817**
Net profits from operations of associates	-	-	-	-
Loss from operations of joint ventures	(453)	(1,067)	-	-
Total comprehensive income	**(453)**	**(1,067)**	**-**	**-**

There were no reported contingent liabilities as at 30 June 2018 (2017: Nil), in relation to these investments.

Recognition and measurement

Joint arrangements

Joint arrangements are arrangements in which two or more parties have joint control. Joint control is the contractual agreed sharing of control of the arrangement which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Joint arrangements are classified as either a joint operation or joint venture, based on the rights and obligations arising from the contractual obligations between the parties to the arrangement.

To the extent the joint arrangement provides the Group with rights to the individual assets and obligations arising from the joint arrangement, the arrangement is classified as a joint operation, and as such the Group recognises its share of the operations assets, liabilities, revenue and expenses, including those incurred jointly.

To the extent the joint arrangement provides the Group with rights to the net assets of the arrangement, the investment is classified as a joint venture and accounted for using the equity method.

Joint arrangements acquired which are deemed to be carrying on a business are treated as business combinations and are accounted for under AASB 3 Business Combinations. Joint arrangements which are not deemed to be carrying on a business are treated as asset acquisitions.

Associates

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.

6.7 Related party disclosures

The Group is a wholly-owned public sector entity, controlled by the State Government of Western Australia, and so related parties of the Group include:

- all Ministers and their close family members, and their controlled or jointly controlled entities;
- all key management personnel (KMP) and their close family members, and their controlled or jointly controlled entities;
- other departments and statutory authorities, including their related bodies, that are included in the whole of government consolidated financial statements;
- associates and joint ventures of an entity that are included in the whole of Government consolidated financial statements; and
- the Government Employees Superannuation Board (GESB). GESB is responsible for the governance of the Group's pension schemes, further details of which are disclosed in note 6.4.

Transactions with related parties

Transactions with State Government related entities include the retail sale of electricity in the ordinary course of business on normal commercial terms. Other significant transactions include:

- other revenue of $254,032,000 from the Department of Treasury for TAP and CSO rebates (2017: $377,550,000); $2,363,000 of which was receivable at 30 June 2018 (2017: $8,473,000);
- borrowings under a Master Lending Agreement with the WATC (note 5.7); the Group repaid $51,600,000 (2017: $53,100,000) of borrowings and incurred interest charges of $4,646,000 (2017: $5,953,000) during the year; $540,000 of interest was accrued at 30 June 2018 (2017: $684,000);
- network access and metering services from the Electricity Networks Corporation; and
- energy sales to the Regional Power Corporation and the Water Corporation.

The Group is not aware of any material transactions with the KMP or their close family members or controlled entities, or the Premier of Western Australia or any of the Cabinet Ministers during the year ended 30 June 2018.

Transactions with joint ventures and operations and associate include sale, purchase and service transactions in the ordinary course of business on normal commercial terms.

Remuneration and benefits received by directors and key management personnel are disclosed in the directors' report and in note 6.5.

		Sale of goods and services to related parties $'000	Purchases of goods and services from related parties $'000	Amounts owed by related parties $'000	Amounts owed to related parties $'000	Commitments outstanding with related parties $'000
Associate	**2017**	-	184,240	-	2,759	69,375
	2018	-	160,333	-	3,561	-
Joint Ventures and Operations	**2017**	62	-	-	-	-
	2018	347	-	169	-	-
Government Related Entities						
Water Corporation	**2017**	16,960	-	526	-	-
	2018	11,568	49	104	-	-
Regional Power Corporation	**2017**	30,875	572	2,397	-	-
	2018	20,928	307	1,693	-	-
Electricity Networks Corporation	**2017**	154	1,177,213	83	173,774	-
	2018	-	1,154,953	-	186,154	-

6.8 New and amended accounting standards and interpretations

All new and amended Australian Accounting Standards and Interpretations effective from at 1 July 2017 that are relevant to the Group have been adopted, including the following, which did not have a significant impact on the Group:

AASB 2016-2 *Amendments to Australian Accounting Standards- AASB 107 Statement of Cash Flows*

The amendments to AASB 107 *Statement of Cash Flows* are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

AASB 2016-4 *Amendments to Australian Accounting Standards- Recoverable Amount of Non-Cash-Generating Specialised Assets for Not-for-Profit Entities*

This Standard amends AASB 136 *Impairment of Assets* to remove references to depreciated replacement cost as a measure of value in use for not-for-profit entities and clarify that not-for-profit entities holding non-cash-generating specialised assets at fair value in accordance with AASB 13 *Fair Value Measurement* no longer need to consider AASB 136.

Not-for-profit entities holding such assets at cost may determine recoverable amounts using current replacement cost in AASB 13 as a measure of fair value for the purposes of AASB 136.

6.9 Accounting standards and interpretations issued but not yet effective

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

Reference	Summary	Application date for Group
AASB 9 *Financial Instruments* Effective 1 January 2018	This standard replaces AASB 139 *Financial Instruments: Recognition and Measurement* and includes a model for classification and measurement of financial instruments, a single, forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. It is not expected that AASB 9 will have a significant impact on the Group.	1 July 2018
AASB 15 *Revenue from Contracts with Customers* Effective 1 January 2019	This standard replaces AASB 111 *Construction Contracts* and AASB 118 *Revenue* and specifies the treatment for revenue arising from contracts with customers. The core principle of AASB 15 is that an entity recognises revenue from customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services As the principal activity of the Group is the sale of electricity and gas which is delivered and billed over time, and this is the single performance obligation in the majority of contracts, based on analysis performed to date, it is not expected that AASB 15 will have a significant impact on the Group.	1 July 2019

6.9 Accounting standards and interpretations issued but not yet effective (continued)

Reference	Summary	Application date for Group
AASB 16 *Leases* Effective 1 January 2019	This standard replaces AASB 117 *Leases* and Interpretation 4 *Determining whether an Arrangement contains a Lease* and requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset value is low. Assets and liabilities arising from a lease are initially measured on a present value basis. AASB 16 contains disclosure requirements for lessees. The Group has performed an initial assessment on the impact of AASB 16 on the financial results, based on assumptions of the transition approach and practical expedients that may be applied once the standard is effective. AASB 16 will result in the recognition of right of use (ROU) assets and liabilities on the balance sheet. Assuming that the 'grandfathering' practical expedient is applied, the Group's current finance leases and operating lease commitments disclosed under AASB 117 will form the basis of the ROU asset and liability. However under AASB 16, the lease liability calculation excludes variable payments, and so once the present value of the fixed payments is calculated, the liability will be less than the total undiscounted payments disclosed under AASB 117 in note 6.2. Under AASB 117, charges for operating lease rentals are included within other expenses or fuel, electricity, gas and other purchases as disclosed in note 3.4. Under AASB 16, charges for operating lease rentals will be included in depreciation and finance costs. AASB 16 must be implemented retrospectively, with either the restatement of comparatives or with the cumulative impact recognised in equity on the transition date of 1 July 2019 under the modified retrospective approach. The Group currently expects to use the modified retrospective approach. Under the modified retrospective approach, the right of use asset may be deemed to be equivalent to the liability at transition or calculated retrospectively as at inception of the lease. To date, the Group has focused on the identification and understanding of the provisions of the standard which have the most impact, establishing the population of lease contracts which will extend beyond 1 July 2019, impact analysis and a review of system and training requirements. The Group is continuing to assess the full impact of AASB 16 on the financial results.	1 July 2019

6.10 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 2018 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.

On behalf of the board

Robert Cole
Chairman

Kim Horne
Deputy Chairman

Date: 28 August 2018

Independent auditor's report

Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

ELECTRICITY GENERATION AND RETAIL CORPORATION

Opinion

I have audited the financial report of Electricity Generation and Retail Corporation and its controlled entities (collectively the Group), which comprises the Consolidated Statement of Financial Position as at 30 June 2018, the Consolidated Statement of Profit or Loss, the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

(a) giving a true and fair view of the Corporation and the Group's financial position as at 30 June 2018 and of its performance for the year then ended; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

I conducted my audit in accordance with the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of my report. I am independent of the Group in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial report. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibility of the Directors for the Financial Report

The directors of the Corporation are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and schedule 4 of the *Electricity Corporations Act 2005*. The directors' responsibility also includes such internal control as the directors determine is necessary to enable the preparation of a financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Western Australian Government has made policy or funding decisions affecting the continued existence of the Group.

Auditor's Responsibility for the Audit of the Financial Report

The objectives of my audit are to obtain reasonable assurance about whether the financial report as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

7th Floor Albert Facey House 469 Wellington Street Perth MAIL TO: Perth BC PO Box 8489 Perth WA 6849 TEL: 08 6557 7500 FAX: 08 6557 7600

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. I am responsible for the direction, supervision and performance of the Group audit. I remain solely responsible for my audit opinion.

I communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Matters Relating to the Electronic Publication of the Audited Financial Report
This auditor's report relates to the financial report of the Corporation and the Group for the year ended 30 June 2018 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 these financial report. If users of the financial report are concerned with the inherent risks arising from publication on 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.

CAROLINE SPENCER
AUDITOR GENERAL
FOR WESTERN AUSTRALIA
Perth, Western Australia
31 August 2018

Page 2 of 2