synergy

2020 ANNUAL REPORT

Letter to the Minister for Energy

In accordance with the *Electricity Corporations Act 2005* (the Act), I have the pleasure in submitting the 2020 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**
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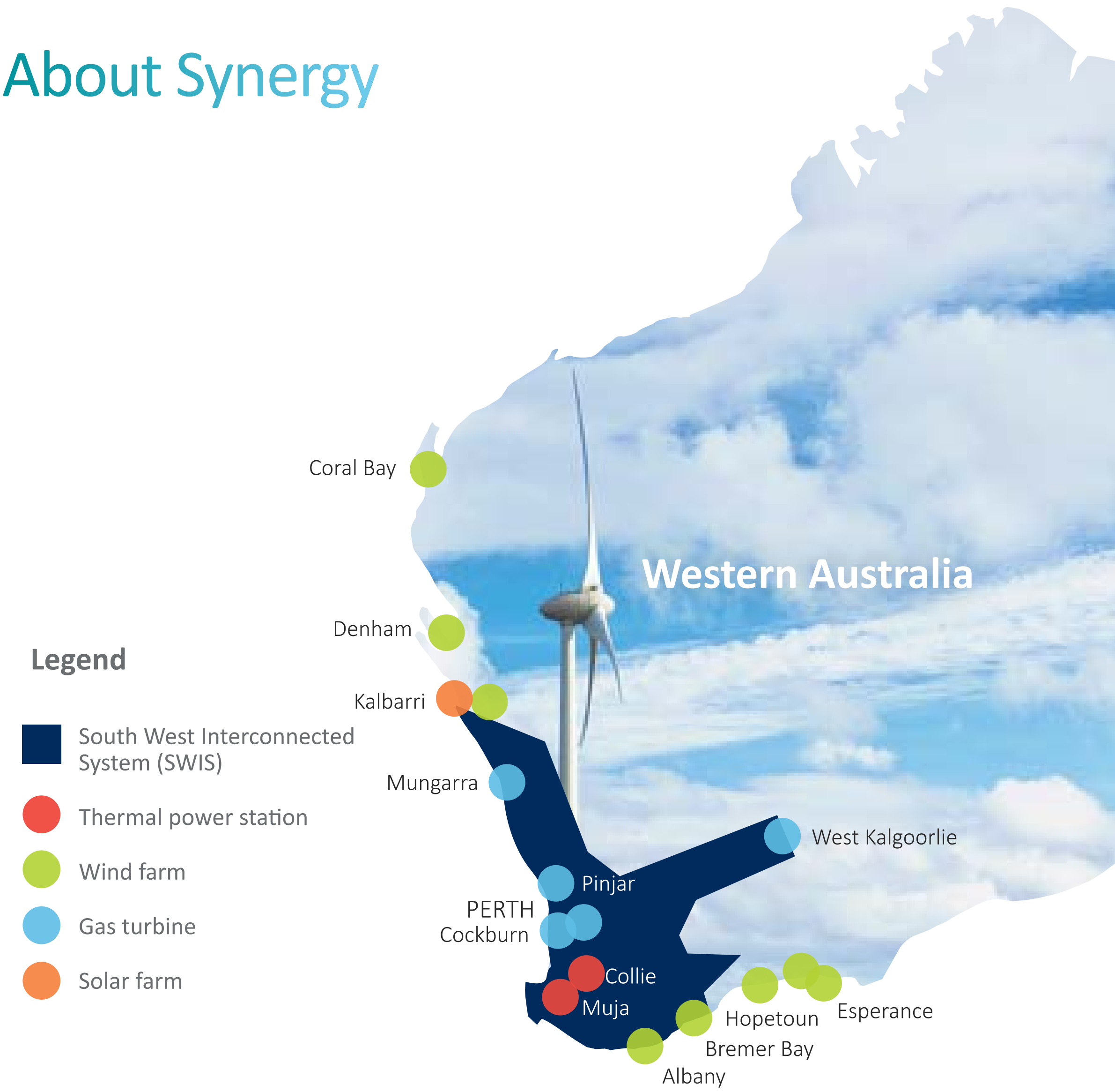
About Synergy



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 affordable energy to more than one million residential and business customers.

Synergy owns and operates both traditional and renewable electricity generating assets, including thermal power stations, spanning from Kalbarri in the north, out to Kalgoorlie in the east and down to Albany in the south – an electricity network known as the South West Interconnected System (SWIS). Established under the *Electricity Corporations Act 2005* and owned by the State Government of Western Australia, Synergy reports to the Minister for Energy, the Hon Bill Johnston MLA.

Through its interest in Bright Energy Investments (BEI), Synergy along with its joint venture partners Dutch Infrastructure Fund (DIF) and Cbus have overseen the development and construction of large-scale renewables projects in Western Australia. These include the 180MW Warradarge Wind Farm, the Stage two 30MW expansion of the Greenough River Solar Farm in the State's Mid West and the refurbishment of the Albany Grasmere Wind Farm.

Synergy continues to develop innovative and affordable energy solutions for its customers and plays an active role in the communities in which it operates. Our people are committed to ensuring our business is responsive and adaptive in a rapidly evolving energy landscape.

Synergy's purpose is clear – to lead Western Australians to their intelligent energy future.

Chairman's report

In a year when we have been hit by an unimaginable crisis, Synergy and its people have responded effectively to the far-reaching impacts of the COVID-19 pandemic.

We have maintained the safe delivery of reliable energy for Western Australia and supported our customers in the face of radical economic change. Despite extremely challenging circumstances, we are proud of our performance and business management throughout the 2019-20 financial year.

The COVID-19 crisis hit in the first quarter of 2020, resulting in severe and protracted health, social and economic impacts to our people and customers, as well as an unprecedented level of uncertainty about the future. Synergy, like businesses around the country, has had to rapidly adapt and evolve its way of working to ensure the interests of our customers and our people are protected. I want to acknowledge the amazing leadership, sacrifices and efforts of all of Synergy's people and thank them for working so closely with the State Government and other stakeholders to ensure we maintained a safe, secure and reliable energy system, despite extremely difficult circumstances.

I also want to acknowledge the rapid and decisive work done by the State Government and Synergy's team to quickly deliver a series of relief packages during the COVID-19 pandemic. In April 2020, Synergy received $310.8 million from the Government in COVID-19 stimulus payments to be applied towards customers' accounts. Along with the freezing of disconnections for residential customers, Synergy has delivered support to small businesses and charities within the SWIS.

However, the number of Synergy's customers now facing financial hardship as a result of this health crisis is concerning on many levels. Many customers will experience even tougher times due to the prolonged uncertainty of COVID-19. In addition, these circumstances will have a major impact on Synergy's bad debt situation in the coming period. However, we will continue to work with Government in a process that is collaborative and caring, to ensure the continued good management of Synergy's business and our customers' individual circumstances.

Turning to our core business, this year has reinforced Synergy's position as a critical service provider to Western Australians. In addition to the upheaval resulting from COVID-19, the transformational forces underway in the energy sector which I wrote about last year have strengthened yet again in FY2019-20. Our business has had to contend with the changing face of generation, the accelerating uptake of solar PV (which grew by 269MW during the year, once again exceeding our expectations) and more and more large-scale renewables coming onto the grid. We are seeing a continuation in the trends of changes to the generation mix and in our customers' energy consumption behaviours.

Customers are installing rooftop solar in ever growing numbers and increasingly, wanting to trial new energy technologies, such as battery storage to reduce their energy bills, thus resulting in a decreasing net demand for our generation. Despite this change, Synergy still bears the burden of very large fixed network costs and maintaining critical coal plant to underpin the reliable supply of electricity in the SWIS.

In the face of these continuing headwinds, Synergy incurred a net loss of $27.2 million in FY2019-20. Despite the impact of COVID-19, electricity demand remained relatively flat, with revenue from electricity sales growing modestly year-on-year. Unlike last financial year, no impairment or onerous contract provisions were booked. However, total expenses once again exceeded revenue, and were higher than planned, due to a number of factors, including continuing high fixed costs, the changing load profile in the SWIS, forced outages, lower generation from coal, and increased supply from more expensive sources including power purchase agreements, purchases from the Wholesale Electricity Market and gas generation assets.

The financial result for the year was also adversely affected by an incremental provision for bad debts of $21.5 million to allow for increased financial distress expected to arise from COVID-19, which I foreshadowed earlier. While these factors weighed down Synergy's financial performance, the net result for the year was boosted by payments made by Government to keep Synergy whole for costs incurred supporting certain Government initiatives, including the Tariff Equalisation Contribution (TEC), Feed in Tariff rebates (FiT), and under-recovery of subsidies to certain customers. In total, these payments from Government improved Synergy's net result by $135.9 million.

Turning to achievements in the business, there were several significant milestones in FY2019-2020. Early in the financial year, the State Government and Synergy announced the staged retirement in 2022 and 2024 of two units in Muja Power Station Stage C. This was a major decision, which was only taken after a thorough, complex and extensive study of the adverse impact on our coal fleet of the transformational forces underway in the SWIS. To support this decision, Synergy committed to, and has implemented, a range of measures to make this transition as seamless as possible for our operations and especially our people. While a decision has been made to retire these units, it is also clear that generation from our extensive coal fleet will be needed for a long time to come to time to enable system security and reliability in the SWIS. It has also become clearer than ever that our other gas fired generating assets are critical to meet the changing generation needs of the system in the future.

I am also particularly proud of the achievements of Bright Energy Investments, our joint venture with DIF and Cbus. Despite COVID-19, there has been excellent progress on the construction of the 180MW Warradarge Wind Farm with all 51 turbines now in place and commissioning activities underway. The stage two expansion of the Greenough River Solar Farm near Geraldton faced some significant hurdles as a result of the administration of RCR Tomlinson, but it is pleasing to see that this is also now nearing completion. On top of these achievements, successful refurbishment works at the Albany Grasmere Wind Farm will extend the life of that asset well into the next decade. These large-scale renewables projects not only have an environmental benefit in lowering carbon emissions, but also demonstrate Synergy's transformation that includes responding to the impacts of climate change and the subsequent effects on our operations.

Turning to the future, I am very encouraged by the Distributed Energy Resources (DER) Roadmap released by the Minister for Energy earlier this year, and the body of work surrounding it, which paves a way forward for system stability. The direction set by the DER Roadmap will also set the foundations for Synergy to reposition ourselves as a business, and in parallel to this work Synergy commenced a comprehensive review of its strategy late last year, with a view to becoming a new and different organisation with a sustainable future in the evolving and complex new energy market. Informed by the DER Roadmap, we see opportunities now and in the long-term, to be able to deliver affordable, secure and greener energy to Western Australians through harnessing the immense power of DER. As this report is written, we are in the process of finalising a proposed new strategy and expect to make a final decision in the near future. In the meantime, Synergy already has momentum on a number of DER projects, including: a virtual power plant (VPP) to transform a cross-section of schools across the State into a smart, green aggregated power plant; a smart energy for social housing project; and a DER Orchestration pilot in partnership with Western Power and AEMO.

Finally, on behalf of the board, I would like to thank the Minister for Energy, the Hon Bill Johnston MLA for his support and leadership throughout the year. To my fellow board members, thank you for your dedication and commitment in these particularly trying times. I welcome the appointment of Peter Clough to the board and thank Samantha Tough for her counsel for more than five years. Peter's experience in energy and resources and corporate communications are a valuable addition to our board. Samantha's leadership and exceptional service has helped grow Synergy during her tenure and we wish her all the best in her new role as chairperson of Horizon Power. Finally, I would like to thank our CEO Jason Waters and all of Synergy's people for their hard work, sacrifices and resilience in what have been unimaginably challenging, unprecedented and difficult circumstances over the past year.

Robert Cole
Chairman

Chief Executive Officer's report

It's undoubtedly the case for most of us that the severe global economic, social and health impacts of the COVID-19 pandemic shaped events in FY2019-20 unlike any other.

Synergy's response to the pandemic was threefold; to ensure the safety and well-being of our employees and contractors, maintaining the availability of our generation operations such that electricity system security wasn't compromised, and to support our 1.1 million residential and business customers as they confronted such unprecedented conditions.

Thanks to the leadership and support shown by the Western Australian government and efforts of Synergy's people and our contract partners, we were successful on every front. While we face continued uncertainty relating to COVID-19, we know that not only are we well prepared and capable of dealing with that uncertainty, but better as a business for having been through the events of 2020.

I want to call out the fantastic response from two areas of our business in particular; our power station teams who selflessly and voluntarily undertook to modify their working arrangements to ensure the safety of their colleagues and to enable them to keep our plants running, and our retail operations team which, in partnership with our contact centre partner Stellar, transitioned our 200-strong customer service team to working from home over a two-week period.

I also want to make mention of the support that we received from the State Government in providing $114.1 million in additional energy assistance payments, a disconnection moratorium for our most vulnerable customers and $196.7 million in support of our 76,024 small business customers. We know from what our customers tell us that this support was greatly appreciated and made a significant difference to their lives.

Our full financial year result for FY2019-20 was a net loss after tax of $27.2 million compared with a net loss of $656.9 million the previous year, which was the result of significant impairment and onerous contract provisions booked across that period. Total revenue in FY2019-20 grew by 5.2 per cent to $2.99 billion resultant from increased subsidy payments from government with sales largely flat at 12,112 GWh compared with 12,356 GWh in FY2018-19, with the impacts of COVID-19 offset by warmer than average weather across the 2020 summer and spring period.

An incremental provision for bad debts of $21.5 million has been recognised for FY2019-20, along with a further $21.3 million onerous obligation relating to the disconnection moratorium due to expected subsequent challenges with residential collections during the 2020-21 period. Supporting our customers facing payment difficulties is one of our highest priorities, and we will continue to work extremely hard in this area.

Factors driving the structural shift in the South West Interconnected System continued unabated during the year, with a further 269MW of distribution connected rooftop photo-voltaic (PV) generation being constructed, further impacting the operations of our grid connected generation. In recognition of this change, we announced in August 2019 that the two units in Muja Power Station Stage C will retire from operation in 2022 and 2024. Through this transition, our challenge is maintaining reliable operations of our fossil fuelled generation fleet, which is critical to system cost and security and we remain committed to the just transition of our Collie region workers, contractors and suppliers.

As further evidence of this shift, and as a specific result of the daytime demand trough created by increasing levels of rooftop PV generation, baseload generation across the whole of the market reduced by 4.9 per cent from FY2018-19 with supply from more expensive peaking generation being utilised at increased levels to meet evening peak demand.

Pleasingly our safety performance improved during 2019-20 with our lost time injury frequency rate falling from 2.26 to 0.82 across FY2019-20 and our total recordable injury frequency rate improving from 3.61 to 2.87 over the same period. The health and safety of all people who access our sites is our top priority and has been the focus of significant effort over many years. I genuinely believe that we are becoming a safer business and look forward to seeing steady and sustainable improvement in this area in the future.

Our customer service capability was tested during the year due to the impacts of COVID-19 and I couldn't be happier with the results. Our 'Helping Hands' campaign launched during the midst of the COVID-19 pandemic, set the tone for our approach and thanks to the support from the State Government, we were able to deliver a raft of measures that we know have made a difference to people's lives. It was a privilege to be able to support our customers during such challenging and uncertain times and enormous credit goes to our retail team for what we were able to deliver.

The Warradarge Wind Farm and Greenough River Solar Farm projects, being undertaken by Bright Energy Investments with our partners DIF and Cbus, continued construction throughout the challenges of 2020 and are now nearing completion and have begun generating. The electricity produced by these facilities will be purchased by Synergy and is critical to us achieving our renewable energy production targets over the next decade. Every home and small business in Western Australia will benefit from their supply and the ownership stake that the State retains through Synergy's shareholding.

These projects are part of Synergy's operational transformation that includes responding to the effects of climate change by reducing emissions and providing greener energy to our customers. This is also reflected in our support of customers with education on energy efficient practices, accessing solar PV and residential batteries, along with various new energy trials undertaken by Synergy during the year, including the PowerBank battery storage trials. These trials expanded to include three distribution connected batteries, with 125 households participating. The project is a collaboration between Synergy and Western Power and will unlock the potential for batteries to enhance network operation while enabling customers to store their unused roof top solar supply production for use later in the day. It's an innovative program, rich in opportunity, and indicative of the sustainable future model for electricity supply and consumption. I want to thank both the Synergy and Western Power teams for their efforts in bringing these projects to fruition and I look forward to our ongoing collaboration.

Our internal change program kicked into another gear during FY2019-20 with the increased adoption of agile ways of working under our Transformation and Technology business unit that was established during the year. We are progressively building capability, and through the use of digital systems and our data rich environment, we are delivering outcomes that change the way we operate our power stations, serve our customers and ensure that Synergy is a productive and engaging place to work.

The communities in which we operate and where our staff and customers live are very important to us and I'm proud of the work we have done once again in this area in 2019-20. Along with our metropolitan community initiatives, like our Community Solar Grants, the Xmas Lights Trail, Solar Schools Challenge and eV Challenge activities, we have continued our role as part of the Collie community.

As with every year, but more so in FY2019-20, I remain humbled by the support I receive from every member of our Synergy team and our contractors and partners. We operate in a complex environment where the challenges are many and the steps of progress are small and hard won but thanks to our people's commitment and capability, we continue to achieve great things.

I want to extend my thanks once again to the Synergy Board of Directors for their ongoing support, counsel and encouragement and to our Minister, the Hon. Bill Johnston MLA and his staff, whose leadership across FY2019-20 has been instrumental in establishing a new energy future for Western Australia.

Jason Waters
CEO

Executive team: FY2019 -20

Jason Waters

Chief Executive Officer

Kurt Baker

General Manager Wholesale

Melanie Brown

General Manager Office of the General Counsel and Company Secretary

Jonathan Cowper

General Manager Finance and Business Services

Daniel Nocciolino

Acting General Manager Commercial

Dion Paunich

General Manager Generation

Gary Peel

General Manger Transformation and Technology

Colin Smith

General Manager Customer Experience

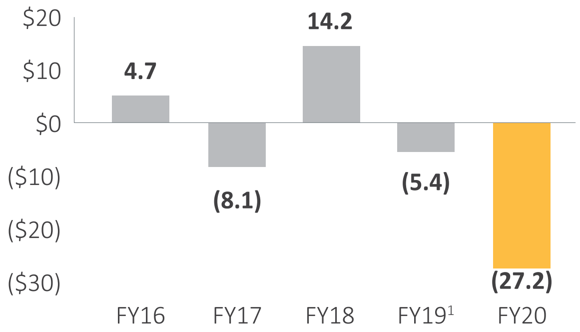
Angie Young

General Manager Sustainability

Operating and financial summary[1]

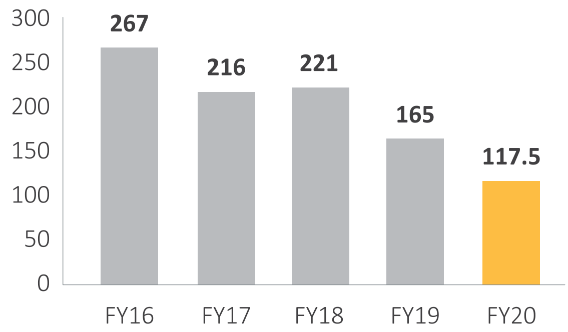
For FY2019-20 Synergy reported a net loss after tax of $27.2 million.

Underlying NPBT / (NLBT) ($M)



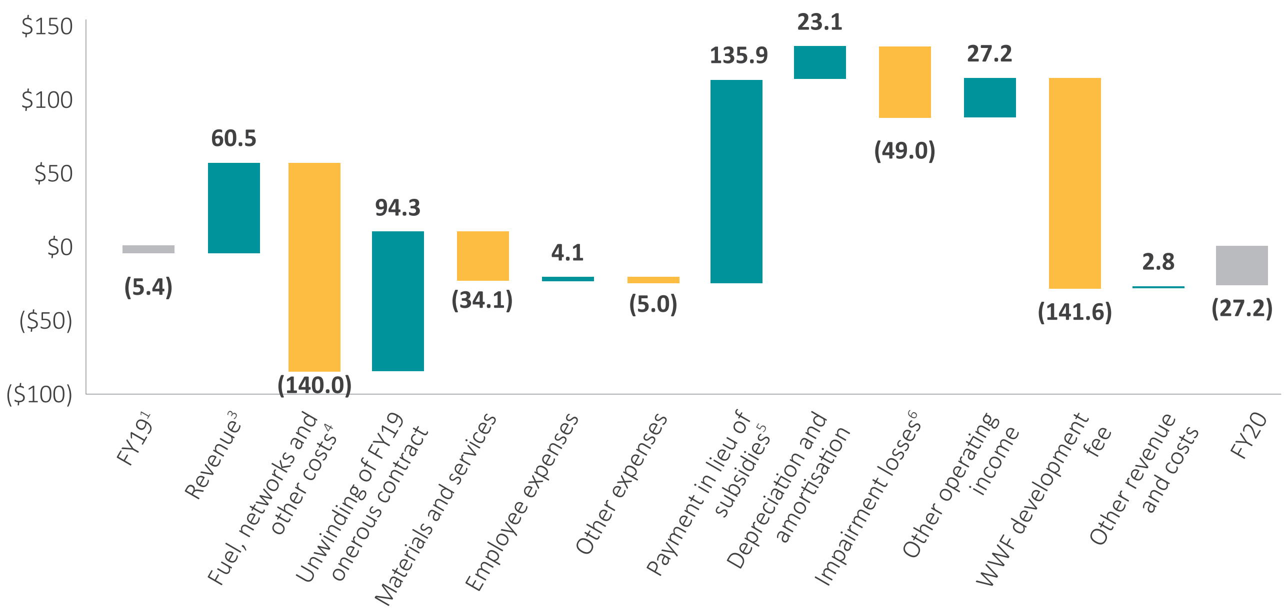
FY20 Underlying net loss before tax is $21.8 million lower than FY19.

EBITDA ($M)



FY20 EBITDA is $47.5 million lower than FY19, reflecting increasing costs, inventory obsolescence, and incremental provision for doubtful debts due to COVID-19.

Movement[2] in underlying net loss before tax FY19 - FY20 ($M)



Increase in revenue primarily due to regulated tariff prices increases and higher consumption over summer and autumn, has been offset by increasing costs and higher impairment losses due to increase in customers credit risk arising from the COVID-19.

1 The financial results presented in the operating and financial review excludes FY19's one-off non-cash adjustments relating to the impairment of assets and provision for onerous contracts.

2 Movement in NLBT excludes the FY19 impairment of assets $428.9 million and provision for onerous contracts $152.4 million.

3 Total revenue increase of $148.8 million less $88.3 million payment in lieu of subsidies.

4 Fuel, networks and other purchases reduction of $2.0 million adjusted for the unwinding of the FY19 onerous contract provision $94.3 million and payment in lieu of subsidies totalling $47.6 million.

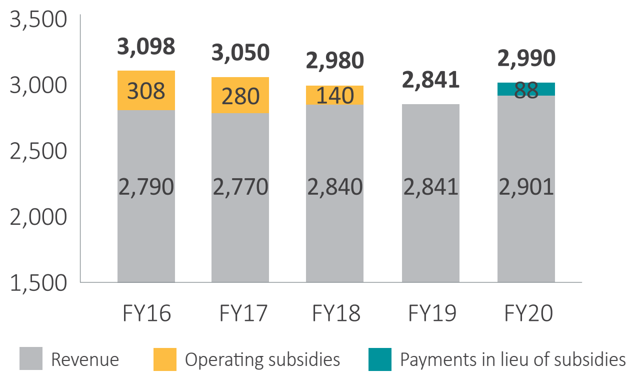
5 Payment in lieu of subsidies totalled $135.9 million. $88.3 million has been recognised as revenue and $47.6 million has been recognised as a reduction in direct costs.

6 Movement in the allowance for impairment of receivables and allowance for inventory obsolescence.


Compare your bill
Reduce your bill

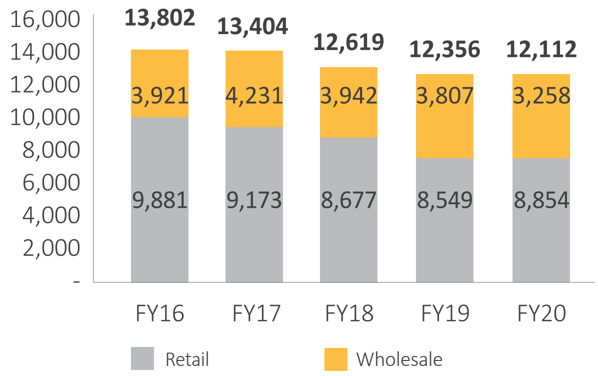
Operating and financial summary (continued)

Revenue ($M)



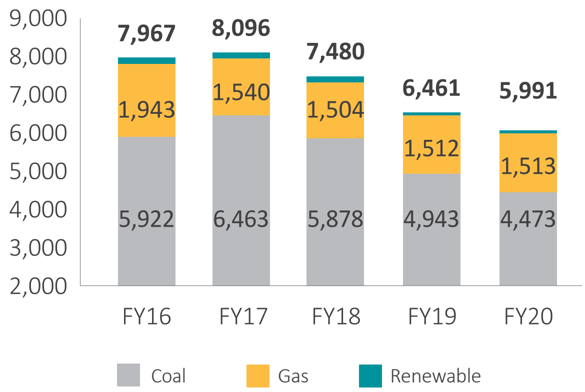
Increase in revenue primarily due to the increase in regulated tariff prices, higher residential customer consumption and receipt of payments in lieu of subsidies.

Electricity sales (GWh)



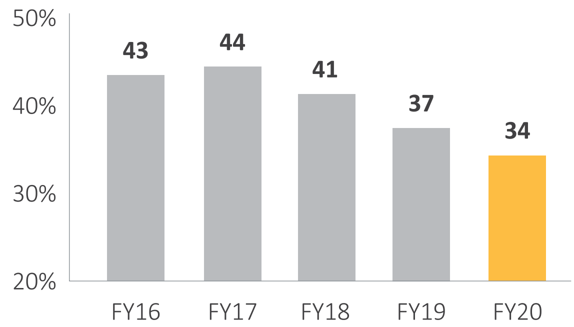
Total electricity sales have declined by only 2%, however a greater proportion of sales to retail customers is driving higher revenue in FY20.

Generation (GWh)



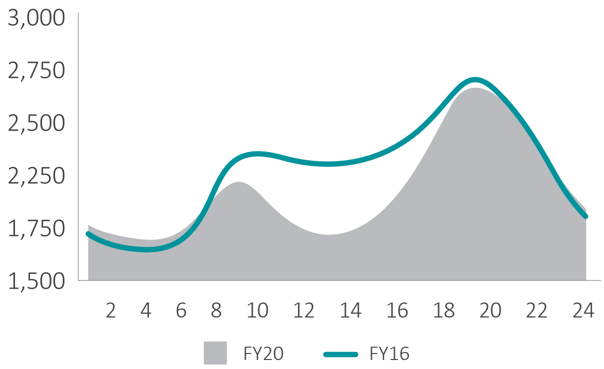
Generation from Synergy plant has declined by 7.3% from FY19, primarily due to reduction in sent outs from the coal fleet , underpinned by higher generation from small and large scale renewables.

Generation share of SWIS (%)



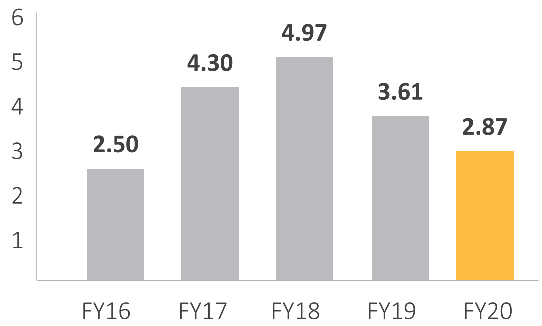
Synergy generation share of SWIS sent outs has declined by a further 3% from FY19 and as in prior years the decline was in Synergy's coal fleet.

Average Hourly Load (MW)



The uptake of small-scale solar capacity is having a significant impact on scheduled generation with a substantial disruption to Synergy coal fleet.

Recordable Injury Frequency Rate (RIFR)



RIFR (per million hours worked) has declined by 0.74 from FY19 reflecting Synergy investment and continual focus on health and safety.

Our customers and community

Western Australians have found themselves collectively dealing with a great deal of uncertainty and upheaval during the year. More than ever, our focus has remained on engaging with our customers and the community in the most helpful and supportive ways, while continuing to lead Western Australians into their intelligent energy future.

Synergy customers may experience hardship in many situations, from a single event such as having trouble paying a higher bill than expected, to handling the stresses of chronic hardship, and now managing the impacts of a global pandemic. Over the past year, we have continued to work to understand and help our customers as the world changes around us all.

Helping hands: managing the impact of COVID-19

When the COVID-19 pandemic reached WA in March 2020, it was more important than ever to communicate with our customers and provide practical solutions, as many were experiencing unprecedented hardship amidst extraordinary times.

The "helping hands" program was developed in collaboration with the State Government, as a rapid response to the widespread economic impacts of COVID-19. Both residential and business customers were offered a range of proactive energy solutions. These included a freeze on household disconnections until 30 September 2020, no interest being charged on deferred bill payments and a one-off account credit of $2,500 on electricity bills for eligible WA small businesses and charities.

These "helping hands" assistance measures were well-received by customers and were successful in both communicating energy relief options and strengthening our customers' trust and engagement with Synergy. The success of "helping hands" will influence the way we create future initiatives in direct response to customer needs, including the actions outlined in the State Government's DER Roadmap.

Customer education and energy management

In early 2020, the Synergy website was updated with enhanced payment facilities to provide more options for customers to manage their bill commitments and help to reduce payment anxiety.

The enhancements included a new fee-free payment option, the ability to see payment arrangement details and an energy tool in Synergy's online My account portal, to help customers make more confident decisions on how they use their energy. Customers can compare their electricity usage and view meaningful interval data, a feature which will also support the roll out of advanced meter infrastructure.

Synergy will continue its efforts to understand customer needs, explore new technologies and navigate the changing energy market, responding with the initiatives, programs and solutions that our residential and business customers need to support their energy journey.

The "helping hands" program was developed in collaboration with the State Government, as a rapid response to the widespread economic impacts of COVID-19.

Moving into WA's intelligent energy future

The DER roadmap was launched by the State Government in April 2020. The roadmap outlines the actions needed to address the challenges and opportunities facing WA's energy sector, to create a smarter and more integrated energy system.

DER is the name given to distributed energy resources, the collection of rooftop solar systems, batteries, electric vehicles, microgrids and other small-scale energy technologies which are transforming our electricity systems, here in WA and across the world.

Under the roadmap, Synergy will continue to work to harness the potential for cleaner and more affordable energy for everyone, ensuring no one is left behind. The roadmap aligns with our commitment to support vulnerable customers, as well as empowering all customers to take control of their energy management through behavioural changes and new energy solutions.

Synergy has continued to grow its community energy storage trials, allowing our customers to test the benefits of energy storage. PowerBank community battery storage trials, a joint initiative between Synergy and Western Power, are being undertaken at Meadow Springs, Falcon and Ellenbrook. The trials enable customers to access a local battery to store electricity from their solar photo-voltaic (PV) installation, without the associated up-front expenses of investing in a battery.

Synergy will continue to work with the State Government, Energy Policy WA and other energy partners to deliver on the actions outlined in the DER roadmap.

Powering the community

Synergy's Community Solar Fund is enabling vital community organisations to save on their power and reinvest those savings back into supporting the WA community. In the third year of the fund, four not-for-profit organisations were gifted with a SolarReturn rooftop solar PV system, supplied and installed by Synergy.

The recipients of the 2019 fund were Orana House, Police and Community Youth Centre in Gosnells, Wheatbelt Natural Resource Management in Northam and Native Animal Rescue in Malaga.

Recipients from the first two years of the fund have already saved more than $30,000 in energy costs because of the solar panels.

Investing in future generations

In 2019, almost 6,000 WA school students in Years 6 and 8 harnessed the sun's energy in a major initiative to ignite students' interest in science, technology, engineering and maths (STEM) subjects.

The Synergy Schools Solar Challenge, a joint initiative between Synergy and the Science Teachers Association of WA, saw the students build and race solar-powered cars against other schools for the chance to win a share of a $10,000 prize pool of science equipment.

The eV Challenge powered by Synergy continued to grow in stature in FY2019-20 and attracted a competing team from Queensland for the first time.

The challenge was first launched in 2017 with 64 schools and expanded to include regional events in Bunbury, Geraldton, Kalgoorlie and Collie involving a total of 156 schools in 2019.

The first rounds of the 2020 Synergy Schools Solar Challenge took place in Term 1, but the program was forced to be put on hold due to COVID-19 restrictions. We look forward to resuming the program next year.

Going electric

The eV Challenge powered by Synergy continued to grow in stature in FY2019-20 and attracted a competing team from Queensland for the first time.

The challenge is Australia's longest running electric motorsport competition, established in 2001. It is also one of Australia's premier STEM education competitions, encouraging innovative engineering in a competitive and stimulating arena.

Having designed and built their single-seat electric vehicle, a total of 30 school teams plus five open class teams, took to the racetrack at Cockburn with the aim of completing as many laps of the closed course as possible in one hour.

The eV Challenge not only builds on engineering principles and fosters the understanding of future energy technology in secondary school students, but also fosters a greater understanding of the use of electricity in innovative ways. A second mini-event that was scheduled in early 2020 was unable to be held due to COVID-19 restrictions, however Synergy has been working with the organisers to continue the challenge in FY2020-21.

Promoting the festive spirit in WA

The Synergy Xmas Lights Trail 2019 again supported the Lifeline WA Lights for Lifeline campaign, as an extension of Synergy's ongoing commitment to provide support to customers experiencing hardship.

The web-based platform connected the WA community with the best Christmas light displays across Perth and areas of regional WA. The website received 89,000 unique visits, helping families and individuals to find homes lit up for Christmas. This is compared with 73,000 unique visits in the previous year.

A new "nominate your neighbour" element of the Synergy Xmas Lights Trail boosted community spirit even further, giving people the opportunity to nominate someone they believed deserved some Christmas cheer. More than 700 nominations were received by friends, family members and neighbours. After a very difficult selection process, four winners were chosen to have their homes adorned in Christmas lights by Synergy elves and their electricity bills paid for six months.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Jason Waters

Our Collie community

Synergy significantly increased its presence in the Collie community during the financial year, participating in a range of community events. The events, including the Collie Show, Collie Christmas Parade and Labour Day Festival, along with a variety of community forums and meetings enabled us to engage with the local community and stakeholders.

In support of unlocking economic opportunity for the Collie community through the attraction of electric vehicle tourism to the region, Synergy gifted an electric vehicle fast charger to the Shire of Collie. Enabling the town to become part of the emerging network of electric vehicle infrastructure in the SWIS, the charger celebrates Synergy's local connection and created an important link in the State's charging infrastructure.

The Collie Small Grants Program in its second year, distributed $43,000 of grants to support nine community groups. A range of projects were supported, including the upgrade of the local BMX track, a pamper room for Alzheimer's patients, cricket net upgrades and a new water point for a local bushfire brigade. The establishment of a Synergy employee volunteering program at Muja Power Station (MPS) saw the Collie PCYC benefit with a facelift to its facility. A large team of Muja employees painted the local centre and upgraded gym equipment.

The Collie region's bushfire-fighting capacity was increased thanks to Synergy's sponsorship of a purpose-built 30,000-litre mobile water tank and filling point. The tank supported the emergency response activities of both the town and bushfire brigades in the region, in addition to being deployed to major bushfire responses in the south of the state.

To better engage with young people in the Collie community, Synergy supported the 2020 Collie Art Prize. The support saw the creation of a new children's art division "Kid-entity" for the biennial event and attracted more than 500 entries by children from local schools.

As part of its response to ensuring the safe and reliable generation of electricity throughout the COVID-19 pandemic, a temporary accommodation village was erected at Muja Power Station to isolate and protect critical operational workers if needed. At the height of WA's response, more than 500 frozen meals were prepared for use in the village. Fortunately, the meals were not needed and were able to be donated to the Bunbury Soup Van for distribution to the homeless and vulnerable in the area.

Our operations

Synergy's generating assets include traditional coal-fired generation at Muja and Collie power stations, gas turbines at Cockburn, Pinjar, Kalgoorlie and Mungarra and wind and solar farms in WA's mid-west and great southern regions through its interest in Bright Energy Investments.

Energy generation portfolio

In FY2019-20, Synergy's generation portfolio availability was impacted by reliability issues within the thermal generation fleet at Muja and Collie power stations. The available capacity factor (ACF) across the portfolio was 83.2 per cent, 3.0 per cent below the target of 85.8 per cent.

The planned outage factor was 11.0 per cent (combined maintenance outage factor and planned outage factor), against a target of 12 per cent. The generation portfolio had a forced outage factor of 4.8 per cent, exceeding the 1.8 per cent target. Below target ACF and changing market conditions contributed to total generation (Gigawatt hours) across the portfolio being 7.8 per cent below target.

Sustainability and efficiency

Reducing risk and ensuring sustainability in our generating operations, was a continued focus for Synergy in FY2019-20. Foundations were established for the continuous improvement of the process safety management (PSM) system across operational sites, including the establishment of the Synergy PSM governance committee and PSM standard. A Synergy asset management framework was established, and work commenced on updating asset management plans for the generation portfolio and supporting infrastructure. A packaged boiler was installed at Muja to mitigate risks associated with single unit operation.

The Collie Power Station half-life maintenance event was successfully completed amidst the COVID-19 pandemic, with major works completed on the turbine, cooling tower, submerged drag coal conveyor and air heater.

Routine planned maintenance was also conducted at Muja, Kwinana and Pinjar power stations during their outages, which returned the units to a satisfactory condition for the next cycle of their operation. A new multi-year service contract was established for Muja and the delivery of major and interim maintenance events.

Decommissioning and rehabilitation

In FY2019-20, decommissioning activities continued at Kwinana Power Station (KPS) on the removal of cladding and insulation from site structures and equipment. Construction works included the building of the new generation administration building, new information data centre and the offsite assembly of the new water treatment plant. Positive progress was also made on the environmental rehabilitation of the Perron Quarry site. Risk based decommissioning and rehabilitation activities continued on the retired Muja stage AB units.

In August 2019, the State Government announced that the staggered retirement of the Muja Power Station stage C units would occur in October 2022 and October 2024. The establishment of the stage C retirement project includes a workforce transition program, utilising a highly collaborative approach with personnel and a strategic asset transition plan.

Renewables for the future

Synergy prides itself in developing major solar and wind assets within the state. Through its interest in Bright Energy Investments, Synergy has developed and supported the construction of the 180MW Warradarge Wind Farm and the 30MW stage two expansion of the Greenough River Solar Farm in the State's Mid West. The Albany Grasmere Wind Farm has also been refurbished, extending its life well into the next decade.

Synergy's wholesale business unit continues to adapt its operations to the changing energy market.

Construction of the 51-turbine Warradarge Wind Farm continued unabated through the COVID-19 pandemic with some modified planning and site procedures, ensuring personnel safety during the crisis. The wind farm is expected to generate enough power for 135,000 WA homes, with first generation expected towards the end of 2020.

Another major milestone was reached with the physical construction of the stage two expansion of the Greenough River Solar Farm near Geraldton. Many Western Australians were employed in the construction of the expanded facilities and local contractors also played an important role in the project. With the addition of a further 30 MW of electricity capacity, it will continue to make a significant contribution to WA's renewable energy generation portfolio.

Wholesale energy

Synergy's wholesale business unit continues to adapt its operations to the changing energy market. Throughout the year, a number of key measures were implemented, including the ongoing improvement in systems and processes to forecast outcomes and the development of trading strategies in a market that continues to be impacted by a changing and less stable load shape, caused by both large and small-scale renewables. These improvements assist Synergy in ensuring the most efficient and low-cost generation is dispatched to meet the load.

Changes to fuel and transport agreements were negotiated to give increased flexibility and price certainty, greatly assisting in the pricing of longer-term sales agreements and forward planning.

A project team was established to prepare Synergy for the significant changes to the wholesale energy market, as outlined in the State Government's Energy Transformation Strategy. This team will work to ensure Synergy is both fully compliant and able to take advantage of opportunities which the new market will present.

Increased active engagement with the system operator and suppliers meant Synergy was able to prevent any disruption to its supply of energy, resulting from the uncertainties caused by the COVID-19 pandemic and variations to electricity demand in WA.

Our environment

Managing the environmental impact of our electricity generation operations and retail activities, while continually improving our environmental performance, is paramount to Synergy. Our environmental policy underpins our environmental management system and, aligned to the international standard- ISO14001, it contains the following goals:

- improve environmental performance including undertaking measures to reduce waste and prevent pollution;
- manage the environmental impacts of our operations to enhance protection of the environment; and
- comply with relevant environmental legal requirements and corporate commitments.

The policy also includes a commitment to integrate environmental sustainability considerations into our business decisions and processes, and to ensure our people and those working on our behalf have the necessary training and skills to fulfil their environmental responsibilities.

Reportable environmental incidents

In October 2019, an incident occurred at Muja Power Station where a precipitator failed and did not operate in accordance with a condition in the Muja environmental licence relating to pollution control equipment, in breach of that condition. The Department of Water and Environmental Regulation was notified.

Environmental compliance and control

As part of Synergy's commitment to continually improving its environmental management system, the process for reporting and managing environmental incidents has been strengthened to further ensure timely decision-making and prompt management action.

Emissions to air

Synergy reports its annual greenhouse gas emissions, energy production and energy consumption to the Clean Energy Regulator, in line with the requirements of the *National Greenhouse and Energy Reporting Act*. In FY2019-20, Synergy's greenhouse emissions were approximately 5.4 million tonnes of CO2e, an improvement on 5.9 million tonnes of CO2e in the previous year.

Synergy has developed a waste strategy, aligned to the State Government's waste avoidance and resource recovery strategy 2030.

The National Pollutant Inventory is a public database that provides information on emissions from industrial facilities. All Australian industrial facilities that meet the reporting criteria are required to submit annual reports of their emissions for a number of substances. Details of Synergy's reported emissions for substances such as sulphur dioxide, oxides of nitrogen, particulates and metals are available at www.npi.gov.au.

Contaminated sites program

Synergy's contaminated sites management program made significant progress in the past year with two of its site remediation projects at Kwinana Power Station:

- the clean-up and remediation of the KPS strategic oil reserve tank area continued throughout FY2019-20. Ongoing monitoring of the groundwater at the site included additional bores being installed to delineate any remaining contamination; and
- the investigation and rehabilitation of Perron Quarry, the former fly ash storage area for KPS included work to delineate the extent of any impact of coal ash outside the designated containment infrastructure. It was concluded that there are no residual impacts and no risk to human or ecological health.

Waste management

Continually improving waste management performance is important at Synergy to meet our environmental policy goal to reduce waste and prevent pollution.

Synergy has developed a waste strategy, aligned to the State Government's Waste Avoidance and Resource Recovery Strategy 2030.

The approach taken in this, our first waste strategy, is founded on working collaboratively across all levels of Synergy, facilitated by a team of Green Champions and underpinned by a waste management action plan. Headline strategies are to:

- develop and implement site specific waste management plans, which align with Synergy's waste strategy 2020-2025;
- develop Synergy-wide communications to support consistent messaging on waste avoidance, resource recovery and appropriate waste disposal behaviours;
- investigate Synergy's participation in recycling activities for organic food waste and soft plastics;
- implement sustainable government procurement practices that encourage greater use of recycled products; and
- review and update data collection and reporting systems to allow waste generation, recovery and disposal performance to be reported and assessed in a timely manner.

Synergy staff continue to support the Simply Cups takeaway coffee cup recycling program, with 16,307 cups recycled this financial year, which would previously have gone into landfill. To recycle coffee cups effectively, they are collected as a clean waste stream in tubes located in kitchen areas. The cups are upcycled by Simply Cups into higher value products such as outdoor furniture, traffic management equipment and reusable coffee cups. This helps to minimise waste and plastic pollution, keep our oceans cleaner and protect marine life.


MUJA
POWER STATION

Our people

Synergy's people are at the heart of everything we do. Across our operations, customer engagement and corporate initiatives, the health and wellbeing of our employees and contractors has continued to be the core focus of all Synergy's activities, something that has never been more evident than throughout the COVID-19 pandemic.

Through careful crisis management, Synergy has been responsive, flexible and agile to ensure that the physical and mental health of our people is protected during these challenging times.

Responding to change

With the global, national and WA energy markets changing faster than once anticipated, Synergy is ensuring its workforce is adaptive, responsive and empowered to face the multiple challenges ahead. These challenges include changing customer needs, the rapid up take of new energy technologies, an evolving electricity market and increased competition from non-traditional sources.

Synergy has redesigned its operating model and culture to provide its teams with a framework allowing them to experiment and learn rapidly, to collaboratively work on solutions that deliver value and adapt the way they work to better serve our customers.

Engaging with our people

Synergy has a long-term commitment to engaging and empowering its workforce, regularly undertaking engagement surveys to measure and understand how our people experience Synergy as a place to work.

For FY2019-20, two engagement surveys were conducted utilising the Gallup platform, one in November 2019 and another in May 2020. Each time, Synergy's engagement scores have improved across the board for it to now comfortably be a second quartile organisation, as measured against Gallup's global benchmark. The continuing improvement highlights leaders' and teams' collective commitment to creating an environment that motivates performance. Within this 12-month period, the top three strengths were quality work, caring leadership and recognition.

Development and work-life balance

Key elements of an engaged workforce are personal development and offering flexibility to enable a healthy work-life balance. Over the past 12 months, Synergy has emphasised the importance of skills growth with more than 95 per cent of employees having actionable development plans incorporating on-the-job learning, coaching, mentoring and training.

Prior to the COVID-19 pandemic, formal flexible work arrangements recorded 26 per cent of our people working alternate rosters (including part time). This increased to 63 per cent during the pandemic with people predominately working from home.

Developing people for the future

In support of the engagement and empowering of its people, Synergy is focused on having an inclusive and diverse workplace. This diversity is vital in contributing to new perspectives, adapting rapidly to change and better serving our customers' varied needs.

As part of this, Synergy has commenced a reconciliation journey, partnering with local Traditional Owners to raise awareness of their history and culture. This journey includes the development of a Reflect Reconciliation Action Plan for the organisation.

Synergy has extended its graduate program to span all of the business and has added eight graduate roles, with an equal distribution of gender. Synergy continues to ensure it provides equal opportunities for all its employees, with a focus on improving the balance of women in its leadership roles. This continued focus has resulted in 38 per cent of women in leadership roles, meeting the target set.

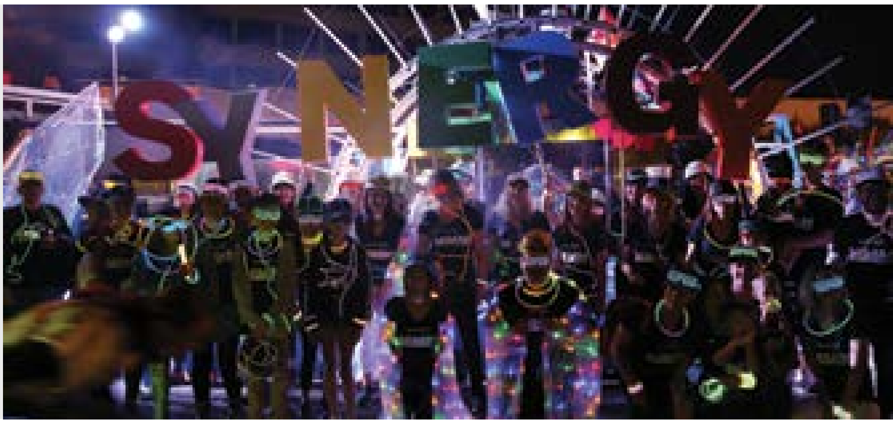
In 2018, Synergy developed a five-year Disability Access and Inclusion Plan to ensure people with Disability have an inclusive and appropriate environment to participate within. The progress of this plan continues to be implemented and reported to government. This plan assists employees, customers and the wider community in accessing Synergy's services, events, facilities and employment.

Supporting our people through change

In August 2019, the WA Premier Mark McGowan announced the staged retirement of the C units at Muja Power Station. The closure reflects the changing face of the energy market in the SWIS and will support reliable and affordable electricity supply into the future.

Acknowledging that this transition away from coal-fired generation will have a significant impact on Synergy's workforce, their families and the wider community in the Collie region, Synergy has actively engaged with its people to map out their futures. Even before the certainty of staged closure dates was known, Synergy commenced discussions with its people and their representatives about how the transition would be approached, resulting in the co-creation of a Workforce Transition Program (WTP) with supporting principles and plan. This was commenced on the back of increased State and local discussions around the future of coal-fired generation and in respect of the potential impacts of that chatter on our people.

In support of the engagement and empowering of its people, Synergy is focused on having an inclusive and diverse workplace.



With the support of Synergy leadership, the WTP has continued a “co-creation” approach among our Muja team to determine the best way to structure and operate the power station following the unit retirements. This approach has also ensured individually tailored support and assistance for our people and their families throughout the transition.

To date, the WTP has successfully completed two of its five stages. Throughout a series of in-depth workshops, conversations, information sessions and co-creation, the WTP has:

- engaged our workforce to establish and develop a people-first, co-creation approach to transition;
- gained an understanding of the potential impact stage C retirement will have on roles, using this knowledge to co-create MPS’ future operating model and organisational structure;
- developed a dedicated online transition website portal and an on-site transition centre for our people and their families to increase access to key information about the WTP, support services and resources available, along with career and development opportunities; and
- supported our people in mapping out their preferred transition pathway and creating a tailored individual transition plan.

Stages three and four of the WTP formalises each person’s preferred transition pathway and looks at finding the balance between individuals’ pathways and the continuation of safe and sustainable operations. These stages are scheduled for completion in late 2020.

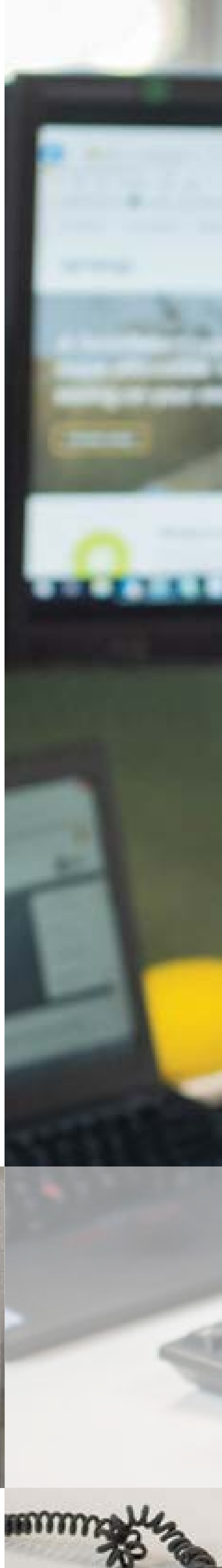
The fifth and final stage of the WTP provides for ongoing individual transition support leading up to, and beyond, Muja C’s closure in 2024.

Safety

The health, safety and wellbeing of everyone at Synergy is central to everything we do. We are committed to conducting our business in a manner that protects our people, our business partners, customers and the community.

Over the past year, Synergy has delivered positive outcomes in health and safety performance, measured through key health and safety metrics. This has included a 9 per cent reduction in the significant incident frequency rate per million hours worked, dropping from 2.71 in FY2018-19 to 2.46 in FY2019-20. This has been supported with a 21 per cent reduction in the recordable injury frequency rate from 3.61 in FY2018-19 to 2.87 in FY2019-20, and a 64 per cent reduction in the lost time injury frequency rate from 2.26 in FY2018-19 to 0.82 in FY2019-20. During the reporting period, there were no WorkSafe notices issued to Synergy for required improvements to health and safety practices.

These positive trends in Synergy’s health and safety performance can be attributed to a focus on leadership and the progression of initiatives aligned to our health, safety and wellbeing strategy. Efforts have focussed on the continuation of our management of critical risks and, in collaboration with our contract partners, an increased focus on health, safety and wellbeing during the planning and delivery of scheduled maintenance outages across our operating sites.



Synergy has proactively considered the health and wellbeing of our employees as a key element in ensuring the security of critical power supplies for WA.

During the year, an independent audit of Synergy's health and safety management system was conducted by a certified WorkSafe auditor. This audit was aimed at validating the extent to which the organisation had implemented a systematic approach to the management of health and safety and the extent to which it is complying with legislative requirements. Synergy achieved formal recognition for its health and safety management system and was awarded a Platinum WorkSafe Plan certificate of achievement. Platinum Certificates are for those organisations that achieve the highest standards, ensuring a best practice approach to health and safety management.

Contractor safety management

Synergy recognises the important role that our contract partners play in the safe and efficient operation of the business. The focus on continued improvement in contractor safety performance during the year included the awarding of a long-term contract for outage delivery services at Muja Power Station. It is expected that this new long-term contract partnering arrangement will deliver significant benefits to the business, including improved management of outage risks and sustained improvements in health and safety performance, scheduling and cost performance.

Process safety management

Synergy has established a process safety management (PSM) standard, developed to strengthen and align our process safety practices with industry. PSM is the application of operational, engineering, maintenance, and business management systems and controls across Synergy's operations. This enables process hazards to be identified, understood and controlled to prevent process-related injuries and incidents.

In support of this, Synergy's health and safety policy has been updated to include our commitments to process safety and reinforce the importance that effective process safety management can have on our overall safety performance.

Health and wellbeing

Synergy is aware that an evolved wellbeing strategy leads to improvements in mental health, mitigation of psychosocial risks, better productivity, greater equity, improved culture and increased employee engagement. Synergy has continued to embed the management of psychosocial risks in the workplace and raise the importance of mental health across its operational sites and offices. The aim is to create a workplace which supports and enhances the physical and mental health, safety and wellbeing of all of Synergy's people. Synergy is committed to continuing to examine its work environments and practices, to identify and manage risks of psychological injury and transfer skills to our employees to build resilience and help managing stresses.

In FY2019-20, a health and wellbeing calendar of events was developed and identified activities over the course of the year. Some of the activities included increased education and support of mens' and womens' health, healthy lifestyle choices and mental health and wellbeing. Synergy supported the State Government initiative "16 Days in WA to Stop Violence Against Women", raising awareness about the issue which had social, economic, health and welfare impacts on children, young people, individuals, families and communities.

As part of the National Safe Work Month in October 2019, Synergy was invited by Industrial Foundation for Accident Prevention and Women in Safety WA to deliver a series of seminars on psychosocial risk management and the benefits of a whole of business mental health and wellbeing strategy.

During the year, Synergy received gold medal status in the Mental Health First Aid (MHFA) skilled workplace program for the initiatives introduced and work done on understanding and managing mental health in the workplace. More than 60 of our people from across the business volunteered to be formally accredited to administer MHFA, as part of the Synergy mental health first response team. This team is focused on identifying signs and symptoms of mental health challenges, provision of MHFA and reporting of psychosocial hazards. The MHFA Skilled Workplace Program recognises workplaces across Australia for their commitment to MHFA training. The achievement of gold medal status is testament to Synergy's recognition of the vital nature of diversity and inclusion as a driver of well-being at an organisational, team and individual level.

COVID-19 and our people

In response to the COVID-19 pandemic, Synergy has proactively considered the health and wellbeing of our employees as a key element in ensuring the security of critical power supplies for WA. Synergy was able to effectively and swiftly transition all employees whose roles were not site-dependant to work from home, supported with a rapid deployment of enabling technology.

Additionally, Synergy undertook regular surveys to assess sentiments of employees during the COVID-19 pandemic. The survey focused on Synergy's agility, employee connection and sense of belonging, as well as the business plan and response to the evolving situation.

The survey results recorded a strong positive sentiment, with second to top quartile overall results when compared to the Gallup globally benchmarked data. There was particularly strong sentiment around employees feeling that Synergy cared about their overall wellbeing, a connection to the business providing a critical service to the State and having a clear response plan of action in place.

Directors' report

Corporate governance

The Electricity Generation and Retail Corporation, trading as Synergy, is a WA government trading enterprise established under 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 2019-20 financial year, are as follows:

Robert Cole

Chair since November 2017

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

Mr Cole has 35 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 chair of the Australian Petroleum Production and Exploration Association. Prior to joining the oil and gas industry, he had an extensive legal career with King and Wood Mallesons. He is currently chair of Landgate, a non-executive director of Perenti Global Ltd, a non-executive director of Iluka Resources Ltd, and an external member of the regulation and market operations committee of the board of the Power and Water Corporation in the Northern Territory. 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 Risk Committee.

Kim Horne

Deputy chair 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 currently the deputy chair of Fremantle Ports and chair of RBE an Australian green waste to energy company. 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

Chair of the Human Resources and Sustainability Committee.

Bronwyn Barnes

Director since May 2019

Independent, non-executive, BA, Grad Dip (Mgmt.)

Ms Barnes is an experienced director with broad and strategic experience across a range of board positions and industries. She has more than 20 years' experience in the mining and resources sector with companies ranging from BHP Billiton to emerging juniors in director, leadership and operational roles. She is currently Executive Chair of Indiana Resources Ltd, non-executive director of Scorpion Minerals Ltd, and an Independent Director of Perth Racing. She was inducted into the WA Women's Hall of Fame in 2019.

Committee membership

Member of the Human Resources and Sustainability Committee.

Rob Bransby

Director since July 2015

Independent, non-executive, A.Fin, FAIM

Mr Bransby is the chair of Australian Health Insurance Alliance, Commonwealth Private Bank Ltd, Commonwealth Financial Planning Ltd, Financial Wisdom Limited, Craig Mostyn Group and is a director of the Racing and Wagering Western Australia. 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 Resolute Mining Limited and Wright Prospecting Pty Ltd. Ms Broughton is also a commissioner of the Insurance Commission of Western Australia and an advisory council member for the Curtin University School of Business. In the not for profit sector, Ms Broughton is a non-executive director of Edge Employment Solutions Inc.

Committee membership

Member of the Human Resources and Sustainability Committee and Audit and Risk 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, a former financial services chief executive officer (CEO) and senior executive. She is a former CEO 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 PathWest Laboratory Medicine WA and she is a senate member of the University of Western Australia.

Committee membership

Chair of the Audit and Risk Committee.

Richard Watson

Director since May 2019

Non-executive, B.Econs (Hons), M.Phil

Mr Watson is currently the executive director, infrastructure and finance for the Western Australian Department of Treasury and a director ex officio of the Gold Corporation (the Perth Mint). He currently leads a team of 50 professionals who provide advice and analysis on the budgeting needs of WA's government trading enterprises and around 60 general government agencies. He was previously a senior manager in PwC's national economic and policy practice and a lecturer in economics at Murdoch University.

Committee membership

Member of the Audit and Risk Committee.

Samantha Tough

Director from October 2014 to November 2019

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 of Molopo Energy Ltd, chair of Aerison Pty Ltd, chair of Southern Cross Goldfields, chair of Structerre Pty Ltd, director of Strike Resources Ltd and director of 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.

Peter Clough

Director since November 2019

Independent, non-executive, B.C.E.

Mr Clough has over 30 years of experience in the energy and resources sectors. He was most recently the general manager of government affairs at Woodside Petroleum, but during his career has provided consulting services to a number of Western Australia's biggest firms including Alcoa, BHP Billiton, Santos and Telstra. Following his early career working for the WA State Government primarily in resources development, he became the executive officer of government affairs at the Chamber of Minerals and Energy WA, and later the general secretary of that industry association. He has also served as the deputy chairman of commissioners at the City of Joondalup.

Committee membership

Member of the Audit and Risk Committee.

Company secretary

On 1 July 2019, Andrea Chapman was appointed Acting Company Secretary and General Counsel. On 3 February 2020, Melanie Brown was appointed Company Secretary and General Manager Office of the General Counsel.

The Company Secretary is responsible for ensuring that board procedures are complied with and governance matters are addressed. All directors have access to the Company Secretary's advice and services.

Directors' report

Corporate governance checklist

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

Table 1: ASX principles and recommendations

Principle 1: Lay solid foundations for management and oversight		
Recommendation 1.1	Disclose: (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 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.	N
1.6	Have a process for periodically evaluating the performance of the board, its committees and individual directors, and discuss 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' names and committee meetings.	NA
2.2	Have and disclose a boards' skills matrix.	N
2.3	Disclose the names of independent directors, interests, position, association or relationship 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 the same person as the CEO.	Y
2.6	Provide an induction program for new directors and provide professional development opportunities and 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 have been properly maintained and comply with appropriate accounting standards.	Y
4.3	An external auditor should attend a listed entity's AGM and be available to answer security holders' questions relevant to the audit.	NA
Principle 5: Make timely and balanced disclosure		
Recommendation 5.1	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 the charter, members and meetings held by the committee should be disclosed.	Y
7.2	The board or a committee of the board should review its risk management framework at least annually and disclose whether such a review has occurred.	Y
7.3	Disclose its internal audit function, how the 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, members and number of meetings held.	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 has a diversity policy and outlines its diversity commitment in this annual report. However, Synergy does not disclose the diversity policy.

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.

2.2 - Synergy has a board skills matrix. The board does not believe that disclosure of the matrix is appropriate due to Synergy's 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 ASX listing rules.

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

6.3 and 6.4 - Have no relevance to Synergy as it does not have investors.

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, determine policies and control the affairs of Synergy. Its central role is to set Synergy's strategic direction and to oversee its management and commercial activities. In addition to matters required by law to be approved by the board, Synergy's board charter (available on Synergy's website) details its role, power, duties and 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 (SCI).

(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 CEO, including approving remuneration and conditions of service of the CEO and remuneration policy and succession plans for the CEO.

(b) Appointing and, where appropriate, removing the Company Secretary or company secretaries.

(c) Approving the appointment or removal of a member of staff as an executive officer.

(d) Noting any material change to the role of the senior executive.

(e) Noting succession plans for senior executives.

(f) Approving performance objectives for the CEO and monitoring performance against those objectives.

(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.

(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 CEO, who is accountable to the board. The purpose of Synergy's executive officers is to assist the CEO in the overall leadership and oversight of Synergy's business and operations.

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 diversity and inclusion 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:

(a) 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;

(b) 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;

(c) 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;

(d) 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;

(e) providing awareness in all staff of their rights and responsibilities with regards to equity, integrity and respect for aspects of diversity;

(f) 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;

(g) nurturing and developing the skills and experience of employees;

(h) implementing diversity strategies and seizing organisational and market opportunities to achieve our diversity goals and objectives;

(i) developing management systems, policies and procedures that promote equity and diversity; and,

(j) 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 reviewing and making recommendations to the board on matters pertaining to board performance and capability including, in consultation with the board chair, the process for evaluating the performance of the board, its committees and directors. The board is responsible for reviewing the process for evaluating the performance of the board, its committees and directors.

During the second half of 2019, an external consultant conducted a review and evaluation of the effectiveness of the board.

The scope of work included an online board performance survey adapted to Synergy's governance environment, one-on-one interviews with directors, review of governance framework, advice on board composition and skills matrix, comment on committee structure and board governance improvement.

The board and each of its committees also conducted a review of performance against the board and committee charters respectively.

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, 37 percent of Synergy's 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. In July 2019, Synergy adopted a conflicts of interest guideline for directors. 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.

Directors' report

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 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 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, mal-administration 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 to be taken, up to and including termination of employment. Matters involving potential criminal conduct may be reported to the relevant authority.

Audit and Risk Committee

In February 2020, the board approved the dissolution of the Risk Committee and the reconstitution of the Audit and Compliance Committee as the Audit and Risk Committee.

The purpose of the Audit and Risk Committee is to assist the board to fulfil its corporate governance oversight responsibilities relating to financial reporting, legal and regulatory requirements, risk and internal control, compliance and audit. Synergy's website contains a link to the charter that governs the Audit and Risk Committee.

The members of the Audit and Risk Committee and individual attendances at the committee meetings during the reporting period are set out in table 4. The members of the Risk Committee (prior to its dissolution) and individual attendances at the committee meetings during the reporting period are also 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.

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.

Table 2: Details of directors

Name of director	Length of service
Robert Cole	Chairman and director since November 2017
Kim Horne	Deputy chair since July 2015 and director since October 2014
Bronwyn Barnes	Director since May 2019
Rob Bransby	Director since July 2015
Yasmin Broughton	Director since November 2017
Peter Clough	Director since November 2019
Michele Dolin	Director since October 2014
Samantha Tough	Director from October 2014 to November 2019
Richard Watson	Director since May 2019

The Audit and 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.

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 FY2019-20 were set out in Synergy's Statement of Corporate Intent and are as detailed in table 3.

Review of operations

To avoid duplication of content, please refer to the front section of this annual report, including the "CEO's report", for information on the operations and financial position of Synergy, and its business strategies.

Synergy's operating results

For the year ended 30 June 2020:

(a) Synergy's statutory loss after tax was $27.2 million compared to a loss after tax of $656.9 million for FY2018-19. The results of FY2018-19 include one-off charges associated with:

   (i) the impairment of assets of $428.9 million primarily as a direct result of the business facing increasing fixed costs which were no longer offset by adequate levels of revenue;

   (ii) provision for onerous contracts of $152.4 million where the unavoidable costs of meeting the obligations exceed the economic benefits; and

(b) a special dividend of $2.8 million in respect of FY18-19 was paid during the year. No dividends have been declared in relation to the current year.

Table 3: Key performance indicators against Statement of Corporate Intent

Financial performance	2019-20 SCI targets	2019-20 result
Earnings before interest, depreciation, amortisation and tax (EBITDA) ($ million)	$79.9	$117.5
EBITDA Margin (%)	2.7%	3.9%
NPAT margin (%)	(1.9%)	(0.9%)
Operational performance		
Various legislative compliance requirements	Zero breaches	Two Type 1 breaches
Customers		
Customer Effort Score	Equal to or greater than 67.5%	68.1%
Grade of service	Greater than 80%	81.2%
Number of complaints referred to the Energy Ombudsman	<1,800	878
Employee		
Safety-recordable injury frequency rate	1.9	2.87

Directors' report

Principal activities

In line with the requirements of the Act and the *Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013*, Synergy is functionally organised to deliver on its key purpose as follows:

(a) generation – responsible for the management of Synergy's generating assets, including the safe and reliable operations and maintenance of Synergy's power stations and associated infrastructure;

(b) wholesale – responsible for the wholesale trading of electricity and gas. Wholesale manages the dispatch of Synergy's generation fleet and independent power producer contracts, as well as fuel contracts. Wholesale buys electricity and related products, and sells to retail and wholesale market participants under ring fenced arrangements; and

(c) retail – carries out the retail operations of Synergy, involving the pricing, sale and marketing of electricity and gas to end-user customers in the SWIS. Underpinning the core functional roles fulfilled by the business are the remaining corporate support functions which undertake a large range of activities designed to ensure that the optimal level of service provision is delivered for the benefit of the overall business.

State Records Act 2000

Synergy, as a State Government organisation, is required to comply with the *State Records Act 2000*. During FY2019-20, Synergy upgraded its Electronic Document and Records Management System (EDRMS) to provide a platform for integration with other internal information repositories. Additional records management activities included business engagement on managing records through pandemic response; improving document and records access within the EDRMS; disposition of legacy records and enhancing Synergy's document and records management awareness program. The awareness program, available to all employees at any time, includes a digital learning module assigned to new employees and contractors and then every two years thereafter. Over 1050 people completed the learning module during the year.

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 Risk Committee. The head of internal audit has direct access to the Audit and Risk 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.

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

	Board		Audit and Compliance Committee		Human Resources and Sustainability Committee		Risk Committee		Audit and Risk Committee	
	A	B	A	B	A	B	A	B	A	B
Robert Cole	12	12	3	3	N/A	N/A	2	2	2	2
Bronwyn Barnes	12	12	N/A	N/A	4	4	N/A	N/A	N/A	N/A
Rob Bransby	12	12	N/A	N/A	4	4	N/A	N/A	N/A	N/A
Yasmin Broughton	12	12	3	3	4	4	N/A	N/A	2	2
Peter Clough	7	7	N/A	N/A	N/A	N/A	N/A	N/A	2	2
Michele Dolin	12	12	3	3	N/A	N/A	2	2	2	2
Kim Horne	12	12	N/A	N/A	4	4	N/A	N/A	N/A	N/A
Samantha Tough	5	5	N/A	N/A	N/A	N/A	2	2	N/A	N/A
Richard Watson	12	12	3	3	N/A	N/A	N/A	N/A	2	2

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

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:

(a) 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;

(b) 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;

(c) conduct periodic assessment of management's systems and processes for generating significant and/or material disclosures;

(d) independently evaluate and monitor the adequacy of Synergy's internal identification, management and reporting of risk;

(e) carry out any special investigations, appraisals, inspections and examinations in areas having financial, operational or management impact;

(f) independently maintain and uphold Synergy's public interest disclosure and whistle-blower protection frameworks;

(g) 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 any failure to take remedial action on audit issues previously raised; and

(h) highlight to management any 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 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 committee 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 in relation to various matters including the remuneration arrangements for executives other than the CEO and is required to make recommendations to the board on other matters including CEO remuneration. The Minister determines total remuneration for the CEO.

The Human Resources and Sustainability Committee meets regularly through the year. The CEO is not present during any discussions related to his own remuneration arrangements.

Table 5: Director remuneration

Total remuneration band $	Number of directors		Short term $'000				Post employment $'000				Total $'000	
			Salary & fees		Other		Super		Termination			
	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
0-24,999	1	1	-	-	-	-			-	-	-	-
25,000-49,999	-	2	-	33	-	-	-	3	-	-	-	36
50,000-74,999	3	3	55	61	-	-	5	6	-	-	60	67
75,000-99,999	3	2	69	69	-	-	7	7	-	-	76	76
100,000-124,999	-	-	-	-	-	-			-	-	-	-
125,000-150,000	1	1	132	132	6	5	12	12	-	-	150	149

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

Directors' report

Table 6: Names and positions of executives

Executives	
Jason Waters*	CEO
Jonathan Cowper	Chief Financial Officer/General Manager Finance and Business Services (commenced 6/1/20)
Melanie Brown	General Counsel (commenced 3/2/20)
Kurt Baker*	General Manager Wholesale (General Manager Crisis Management 23/3/20-28/6/20)
Dion Paunich	General Manager Generation (commenced 23/11/19)
Gary Peel*	General Manager Transformation & Technology
Daniel Nocciolino	Acting General Manager Commercial (acting from 27/9/19)
Colin Smith	General Manager Customer Experience (commenced 14/10/19)
Andrea Chapman	Acting General Counsel (acting period 5/8/19 – 2/2/20)
Amitkumar Kabra	Acting General Manager Finance and Business Services (acting period 2/8/19 – 31/12/19)
Robert Fruin	Acting General Manager Wholesale (acting period 23/3/20– 28/6/20)
Angie Young*	General Manager Sustainability
Karl Matacz	Chief Financial Officer (exited 25/10/2019)
Geoffrey Roberts	General Manager Retail (exited 12/7/2019)
William Bargmann	General Manager Corporate Services (exited 23/9/19)
Barry Ford*	General Manager Generation (exited 14/2/20)
Sasha Pendal	General Manager Commercial (exited 26/9/19)

Note: *Denotes the five highest paid executives

Table 7: Executive remuneration

Total remuneration band $	Number of staff		Short term $'000				Post employment $'000				Total $'000	
			Salary & fees		Short term benefits		Super		Termination			
	2019	2020*	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020
0-200,000	-	4	-	126	-	(4)	-	10	-	-	-	132
225,000-299,999	-	4	-	192	-	19	-	16	-	-	-	227
325,000-349,999	-	1	-	250	-	59	-	23	-	-	-	332
350,000-374,999	1	-	315	-	30	-	30	-	-	-	375	-
375,000-399,999	1	-	357	-	8	-	32	-	-	-	397	-
400,000-424,999	-	2	-	391	-	5	-	25	-	-	-	421
425,000-449,999	2	2	405	317	13	(32)	25	22	-	130	443	437
450,000-474,999	4	2	393	179	37	(177)	28	16	-	445	458	463
550,000-574,999	1	-	538	-	(11)	-	25	-	-	-	552	-
575,000-599,999	-	1	-	158	-	(130)	-	12	-	547	-	587
600,000-625,000	-	1	-	539	-	37	-	25	-	-	-	601

Note:
Where there is more than one executive in a remuneration band the average remuneration is shown. In line with government policy salaries have not been increased, but variations in total remuneration can be caused by a wide variety of factors such as leave accruals and other adjustments.

*Due to five executives exiting during the year, a number of extra executives were appointed until a permanent replacement commenced.

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.

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 have both a target and stretch outcome. The CEO's KPIs and Corporate KPIs are reviewed and approved by the board at the beginning of the financial year.

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 the 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 positions comparable to those covered by the Salaries and Allowances Tribunal. Synergy committed to align with this announcement and has continued its four-year freeze on remuneration for executive positions. As such, executive salaries for FY2019-20 have not been increased. Details of the nature and emolument of executives of the corporation are set out in table 7.

Contracts of employment for 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.

Matters subsequent to the end of the reporting year

The impact of COVID-19 is ongoing, and it has impacted the Group as outlined in the Financial Report. The situation is continuously changing, which creates uncertainty of the scale and duration of the pandemic and the associated government response. Accordingly, it is not possible to reliably estimate the impact, positive or negative, after the reporting date.

Except for the above, there were no significant events after the reporting date.

Robert Cole
Chairman

Kim Horne
Deputy Chairman

Financial report

Consolidated statement of profit or loss

For the year ended 30 June 2020

	Note	Group 2020 $'000	Group 2019 $'000	Corporation 2020 $'000	Corporation 2019 $'000
Sales revenue	3.1	2,901,233	2,840,066	2,901,231	2,840,690
Other revenue	3.1	88,456	774	88,456	774
Total revenue		**2,989,689**	**2,840,840**	**2,989,687**	**2,841,464**
Fuel, networks and other direct costs	3.3	(2,402,346)	(2,556,722)	(2,402,269)	(2,556,672)
Materials and services	3.3	(107,406)	(73,159)	(107,406)	(73,221)
Employee expenses	3.3	(105,697)	(109,785)	(105,075)	(109,468)
Other expenses	3.3	(220,848)	(215,883)	(220,628)	(215,530)
Depreciation and amortisation	5.1/5.2/5.3	(105,639)	(128,763)	(105,639)	(128,065)
Impairment of non-current assets	3.3	-	(428,900)	-	(428,900)
Other impairment losses	3.3	(66,759)	(17,730)	(66,759)	(19,730)
Total expenses		**(3,008,695)**	**(3,530,942)**	**(3,007,776)**	**(3,531,586)**
Other operating income	3.2	30,856	145,202	29,973	144,576
Finance income		3,933	5,971	3,920	6,566
Finance costs		(42,273)	(46,856)	(42,470)	(47,249)
Net finance costs	3.4	**(38,340)**	**(40,885)**	**(38,550)**	**(40,683)**
Share of loss from joint ventures	6.5	(666)	(923)	-	-
Loss before tax		**(27,156)**	**(586,708)**	**(26,666)**	**(586,229)**
Income tax expense	3.5	(54)	(70,209)	(1)	(70,076)
Loss for the year		**(27,210)**	**(656,917)**	**(26,667)**	**(656,305)**

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 2020

		Group		Corporation	
	Note	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Loss for the year		**(27,210)**	**(656,917)**	**(26,667)**	**(656,305)**
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	85	37	85	37
Share of joint venture entities other comprehensive income, net of tax	6.1	(12,765)	-	-	-
Items that will not be reclassified subsequently to profit or loss					
Re-measurement gains on defined benefit plans, net of tax	6.1	(1,577)	(2,116)	(1,577)	(2,116)
Other comprehensive loss for the year, net of tax		**(14,257)**	**(2,079)**	**(1,492)**	**(2,079)**
Total comprehensive loss for the year		**(41,467)**	**(658,996)**	**(28,159)**	**(658,384)**

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 2020

		Group		Corporation	
	Note	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Cash and short-term deposits	4.2	534,797	128,497	533,363	123,390
Trade and other receivables	4.3	371,049	404,098	371,187	404,276
Loans and advances		-	-	-	1,460
Inventories	4.4	146,002	164,374	146,002	164,374
Derivative financial instruments	5.5	9,390	4,392	9,390	4,392
Current tax receivable		-	4,003	-	4,055
Intangible assets	5.2	21,671	27,772	21,671	27,772
Total current assets		**1,082,909**	**733,136**	**1,081,613**	**729,719**
Trade and other receivables	4.3	-	29,798	-	29,798
Property, plant and equipment	5.1	756,865	840,457	756,865	840,457
Intangible assets	5.2	44,857	46,763	44,857	46,763
Right of use assets	5.3	97,034	-	97,034	-
Derivative financial instruments	5.5	57,850	38,548	57,850	38,548
Investment in subsidiaries	6.5	-	-	1,462	36,762
Investment in joint ventures	6.5	9,121	3,082	24,360	4,890
Deferred tax assets	3.6	3,278	3,271	-	-
Total non-current assets		**969,005**	**961,919**	**982,428**	**997,218**
Total assets		**2,051,914**	**1,695,055**	**2,064,041**	**1,726,937**
Trade and other payables	4.5	655,443	388,514	655,476	407,295
Current tax liabilities		-	-	37	-
Derivative financial instruments	5.5	-	53	-	53
Interest-bearing loans and borrowings	5.6	2,634	24,400	2,634	38,728
Lease liabilities	5.3	17,098	9,706	17,098	9,706
Employee benefits	6.3	32,740	26,135	32,709	26,128
Provisions	5.4	188,112	168,981	188,112	168,981
Deferred income	4.6	3,418	5,881	3,418	5,881
Total current liabilities		**899,445**	**623,670**	**899,484**	**656,772**
Trade and other payables	4.5	2,400	2,840	2,400	2,840
Interest-bearing loans and borrowings	5.6	225,696	2,769	225,696	2,769
Lease liabilities	5.3	222,978	199,763	222,978	199,763
Employee benefits	6.3	36,660	40,444	36,660	40,444
Provisions	5.4	458,020	556,977	458,020	556,977
Deferred income	4.6	6,389	18,159	6,389	18,159
Total non-current liabilities		**952,143**	**820,952**	**952,143**	**820,952**
Total liabilities		**1,851,588**	**1,444,622**	**1,851,627**	**1,477,724**
Net assets		**200,326**	**250,433**	**212,414**	**249,213**
Contributed equity	6.1	1,292,744	1,292,744	1,292,744	1,292,744
Accumulated losses		(1,079,775)	(1,042,348)	(1,080,452)	(1,043,568)
Reserves		(12,643)	37	122	37
Total equity		**200,326**	**250,433**	**212,414**	**249,213**

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 2020

	Note	Contributed equity $'000	Accumulated losses $'000	Reserves $'000	Total $'000
Group					
Balance at 1 July 2018		**1,292,744**	**(365,115)**	**-**	**927,629**
Loss for the year		-	(656,917)	-	(656,917)
Other comprehensive loss for the year	6.1	-	(2,116)	37	(2,079)
Total comprehensive loss for the year, net of tax		-	(659,033)	37	(658,996)
Dividend paid	6.1	-	(18,200)	-	(18,200)
Balance at 30 June 2019		**1,292,744**	**(1,042,348)**	**37**	**250,433**
Balance at 1 July 2019 as previously reported		**1,292,744**	**(1,042,348)**	**37**	**250,433**
Effect of adopting new accounting standard	1	-	(5,820)	-	(5,820)
Balance at 1 July 2019 - restated		**1,292,744**	**(1,048,168)**	**37**	**244,613**
Loss for the year		-	(27,210)	-	(27,210)
Other comprehensive loss for the year	6.1	-	(1,577)	(12,680)	(14,257)
Total comprehensive loss for the year, net of tax		-	(28,787)	(12,680)	(41,467)
Dividend paid	6.1	-	(2,820)	-	(2,820)
Balance at 30 June 2020		**1,292,744**	**(1,079,775)**	**(12,643)**	**200,326**
Corporation					
Balance at 1 July 2018		**1,292,744**	**(366,947)**	**-**	**925,797**
Loss for the year		-	(656,305)	-	(656,305)
Other comprehensive loss for the year	6.1	-	(2,116)	37	(2,079)
Total comprehensive loss for the year, net of tax		-	(658,421)	37	(658,384)
Dividend paid	6.1	-	(18,200)	-	(18,200)
Balance at 30 June 2019		**1,292,744**	**(1,043,568)**	**37**	**249,213**
Balance at 1 July 2019 as previously reported		**1,292,744**	**(1,043,568)**	**37**	**249,213**
Effect of adopting new accounting standard	1	-	(5,820)	-	(5,820)
Balance at 1 July 2019 - restated		**1,292,744**	**(1,049,388)**	**37**	**243,393**
Loss for the year		-	(26,667)	-	(26,667)
Other comprehensive loss for the year	6.1	-	(1,577)	85	(1,492)
Total comprehensive loss for the year, net of tax		-	(28,244)	85	(28,159)
Dividend paid	6.1	-	(2,820)	-	(2,820)
Balance at 30 June 2020		**1,292,744**	**(1,080,452)**	**122**	**212,414**

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 2020

	Note	Group 2020 $'000	Group 2019 $'000	Corporation 2020 $'000	Corporation 2019 $'000
Operating activities					
Cash receipts from customers		2,965,624	2,849,624	2,964,798	2,819,898
COVID-19 stimulus received on behalf of customers		300,424	-	300,424	-
Energy purchase and network access costs		(2,561,122)	(2,528,480)	(2,548,819)	(2,528,430)
Payments to suppliers and employees		(413,837)	(408,879)	(443,127)	(407,860)
Interest received		3,812	6,434	3,799	7,070
Interest paid		(3,315)	(3,902)	(4,396)	(3,902)
Income tax refund/(paid)		3,942	(7,675)	4,090	(7,551)
Net cash flows from/(used in) operating activities	4.2	**295,528**	**(92,878)**	**276,769**	**(120,775)**
Investing activities					
Investments in joint ventures		(19,470)	(4,005)	(19,470)	(4,005)
Repayment of loans by subsidiaries		-	-	35,300	51,434
Payment for property, plant and equipment		(51,081)	(22,857)	(51,081)	(22,857)
Payment for intangible assets		(17,082)	(46,544)	(17,082)	(46,545)
Proceeds from disposal of assets		64	173,783	64	154,248
Net cash flows (used in)/from investing activities		**(87,569)**	**100,377**	**(52,269)**	**132,275**
Financing activities					
Proceeds from borrowings		225,566	-	225,566	-
Repayment of borrowings		(24,405)	(115,207)	(37,273)	(115,207)
Dividend paid		(2,820)	(18,200)	(2,820)	(18,200)
Net cash flows from/(used in) financing activities		**198,341**	**(133,407)**	**185,473**	**(133,407)**
Net increase/(decrease) in cash and cash equivalents		406,300	(125,908)	409,973	(121,907)
Cash and cash equivalents at 1 July		128,497	254,405	123,390	245,297
Cash and cash equivalents at 30 June	4.2	**534,797**	**128,497**	**533,363**	**123,390**

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

Notes to the financial statements

For the year ended 30 June 2020

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 2020.

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 26 August 2020.

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 not-for-profit elections available in 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.

New and amended accounting standards and interpretations

All new and amended Australian Accounting Standards and Interpretations effective from at 1 July 2019 that are relevant to the Group have been adopted, including the following, which did not have a significant impact on the Group:

AASB 15 *Revenue from Contracts with Customers*

This standard replaced 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.

The Group adopted AASB 15 using the modified retrospective approach with the initial date of application of 1 July 2019. The Group undertook analysis of the impact of AASB 15 and determined that 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, there was no material impact on the recognition, timing and measurement of the Group's revenue.

AASB 16 *Leases*

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. The Group has recognised a Right of Use (ROU) asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments. A separate interest expense on the lease liability and depreciation expense on the ROU asset is recognised.

New and amended accounting standards and interpretations (continued)

The Group adopted AASB 16 using the modified retrospective approach with the initial date of application of 1 July 2019. The Group elected to use the transitional practical expedient option wherein the standard only applies to contracts that were previously identified as finance or operating leases at the date of initial application. The ROU assets and lease liabilities are initially measured on a present value basis using the discount rates sourced from the Western Australian Treasury Corporation (WATC), with any difference between the ROU asset and lease liabilities recognised as an adjustment to opening retained earnings on 1 July 2019.

The opening balance adjustment to retained earnings for the Group and Corporation was a reduction of $5.8 million.

	Note	2020 $'000
Lease assets (net of depreciation)		29,264
Lease liabilities		(45,818)
Lease incentive		10,734
Retained earnings		**(5,820)**
Lease liabilities reconciliation on transition:		
Operating lease commitments disclosed at 30 June 2019		1,055,410
Less:		
Components excluded from lease liability (undiscounted)		(1,005,325)
Effect of discounting of lease liabilities (i)		(4,267)
Lease liabilities recognised on transition	5.3.2	**45,818**

(i) Lease liabilities were discounted using a weighted average discount rate of 3.5%.

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 3.1- revenue;
- note 3.6- deferred tax;
- note 4.3- trade and other receivables;
- note 5.1- property, plant and equipment;
- note 5.3- right of use assets and lease liabilities;
- note 5.4- provisions;
- note 5.5- derivative financial instruments;
- note 6.2- commitments and contingencies; and
- note 6.3- employee benefits.

COVID-19 impacts

The COVID-19 outbreak was declared a pandemic by the World Health Organization in March 2020. The outbreak and Government response to the pandemic is impacting the community, the economy and the operations of the Group.

COVID-19 impacts (continued)

The financial statements have been prepared taking into account the conditions and known trends existing at 30 June 2020, and the following key accounting estimates and assumptions include the estimated impacts of COVID-19:

- note 3.1- revenue;
- note 3.3- expenses;
- note 4.3- trade and other receivables;
- note 4.5- trade and other payables;
- note 5.4- provisions; and
- note 5.6- interest bearing loans and borrowings.

Whilst the best estimates of the known impacts have been reflected in the financial statements, the uncertainty of the scale and duration of the pandemic remains, and the long term financial impacts of the pandemic remain difficult to predict.

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 presented in the financial statements is for the financial year ended 30 June 2019.

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).
- **Wholesale business unit (WBU)**- manages operations involving the wholesale supply of energy and related products (including pricing in respect of such acquisition or supply).
- **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, finance, compliance and legal matters; human resources; information technology support; and any other operations undertaken in connection with two or more business units. CSS includes the operations of the South West Solar Development Holdings Pty Ltd and its subsidiary Synergy Renewable Energy Development Pty Ltd which is in the business of providing asset management services and vehicle management services.

Inter-segment revenues are eliminated upon consolidation. No operating segments have been aggregated in arriving at the reportable segments of the Group. 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 2020	GBU $'000	WBU $'000	RBU $'000	CSS $'000	Eliminations $'000	Group $'000
Revenue						
External customers	14,638	298,854	2,676,097	100	-	2,989,689
Inter-segment	441,975	947,852	-	-	(1,389,827)	-
Total revenue	**456,613**	**1,246,706**	**2,676,097**	**100**	**(1,389,827)**	**2,989,689**
Cost of sales	(342,889)	(1,122,472)	(2,342,401)	-	1,389,750	(2,418,012)
Operating costs	(244,302)	(4,578)	(74,812)	(94,670)	77	(418,285)
Impairment losses	(25,061)	-	(41,698)	-	-	(66,759)
Other income	254	27,806	19	2,777	-	30,856
Earnings before interest, tax, depreciation and amortisation	**(155,385)**	**147,462**	**217,205**	**(91,793)**	**-**	**117,489**
Depreciation and amortisation	(74,268)	(13,838)	(3,323)	(14,210)	-	(105,639)
Finance income	-	-	-	4,129	(196)	3,933
Finance costs	(4,710)	(33,456)	(8)	(4,295)	196	(42,273)
Net finance costs	**(4,710)**	**(33,456)**	**(8)**	**(166)**	**-**	**(38,340)**
Segment profit/ (loss)	**(234,363)**	**100,168**	**213,874**	**(106,169)**	**-**	**(26,490)**

Unallocated items	
Share of loss from joint ventures and associate	(666)
Income tax expense	(54)
Loss for the year	**(27,210)**

Section 3 - Financial performance

3.1 Revenue

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Sale of energy- retail customers	2,555,182	2,461,161	2,555,183	2,461,161
Sale of energy- wholesale customers	278,953	290,181	278,950	290,805
Products and services	43,458	65,101	43,458	65,101
Account fees and charges	23,640	23,623	23,640	23,623
Total sales revenue	**2,901,233**	**2,840,066**	**2,901,231**	**2,840,690**
Payment in lieu of subsidies	88,343	-	88,343	-
Tariff adjustment payments	-	582	-	582
Contract works and grants	13	30	13	30
Government grants	100	162	100	162
Total other revenue	**88,456**	**774**	**88,456**	**774**

Recognition and measurement

Revenue is recognised when or as each performance obligation is satisfied at the amount of the transaction price allocated to that performance obligation.

Sale of energy

Energy sales represents the sale of gas and electricity to retail (residential and business) and wholesale customers. Residential sales consist of short term, day-by-day contracts and revenue is recognised on a day-by-day basis upon the delivery of energy to customers. Business and wholesale customers are on longer contracts and the supply of energy is considered to be a single performance obligation, and revenue is recognised when the supply of energy has been delivered to the customer. If consideration includes a variable component, it is adjusted for the estimated impact of the variable component at the point of recognition and re-estimated at every reporting period.

Products and services

Revenue from the sale of products and services is recognised at a point in time when the goods or services have been transferred to the customer.

Account fees and charges

Revenue from account fees and charges is not considered a separate performance obligation and is therefore recognised immediately along with revenue from sale of energy to customers.

Payment in lieu of subsidies

Payment in lieu of subsidies received from the State Government includes the Tariff Equalisation Contribution (TEC) which is embedded in Western Power's network tariffs, and under recovery of account fees and charges from eligible concession card holders. This is recognised as other revenue when received.

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. COVID-19 has had an impact on the Group's electricity demand generally with varying impact on different classes of customers. The observable trend for the different classes of customers has been taken into account when estimating the unread revenue as at 30 June 2020.

3.2 Other operating income

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Revaluation of electricity derivatives	28,054	-	28,054	-
Other operating income	2,802	145,202	1,919	144,576
Total other operating income	**30,856**	**145,202**	**29,973**	**144,576**

Other operating income includes net proceeds from the sale of assets of nil (2019: $140.4 million).

3.3 Expenses

		Group		Corporation	
		2020 $'000	2019 $'000	2020 $'000	2019 $'000
Fuel, electricity, gas and other purchases	(i)	(906,325)	(901,492)	(906,325)	(901,492)
Network access costs		(1,171,735)	(1,124,382)	(1,171,658)	(1,124,332)
Renewable energy certificates	(ii)	(150,986)	(125,535)	(150,986)	(125,535)
Market participant costs		(82,766)	(77,487)	(82,766)	(77,487)
Commodity charges	(iii)	(90,534)	(327,826)	(90,534)	(327,826)
Total fuel, networks and other direct costs		**(2,402,346)**	**(2,556,722)**	**(2,402,269)**	**(2,556,672)**

(i) Community service obligations

The State Government reimburses the Corporation for the cost of community service obligations (CSOs), including feed in tariff rebates (FiT) and energy assistance payments (EAP). 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.

In 2020, fuel, electricity, gas and other purchases includes $47.6 million of payment in lieu of subsidies for FiT, renewable energy buyback scheme (REBS) and other fees.

(ii) Renewable energy certificates

The *Renewable Energy (Electricity) Act 2000* requires certain purchasers to surrender a specified number of renewable energy certificates for the electricity that they acquire during the year. Compliance is achieved by either surrendering the required number of Large-scale Generation Certificates (LGCs) to the Clean Energy Regulator (CER), or by paying a penalty for the shortfall in surrendered certificates. The legislation provides a three-year window whereby a generator may surrender certificates and receive a refund for any shortfall charge previously paid. Synergy's strategy in this regard is to utilise excess LGCs available from Warradarge Wind Farm and Greenough River Solar Farm to surrender.

During the year, the Group chose to achieve compliance by paying the CER a shortfall penalty of $33.2 million in lieu of surrendering 513,049 LGCs. The penalty, which has been fully expensed in the profit or loss, is expected to be recovered through the surrender of surplus LGCs from the renewable power purchase agreement or market purchases at a price lower than the current market rate over the next three years.

(iii) Provision for onerous contract

Provision for onerous contract of nil (2019: $152.4 million) has been included in the commodity charges. An amount of $94.3 million has been unwound as a credit to the profit or loss in the current year. Refer to note 5.4 for details.

3.3 Expenses (continued)

		Group		Corporation	
	Note	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Materials		(48,471)	(40,392)	(48,471)	(40,392)
Maintenance services		(58,935)	(32,767)	(58,935)	(32,829)
Total materials and services		**(107,406)**	**(73,159)**	**(107,406)**	**(73,221)**
Wages and salaries		(94,709)	(97,244)	(94,136)	(96,956)
Termination benefits		-	(2,470)	-	(2,470)
Post employment benefits		(10,988)	(10,071)	(10,939)	(10,042)
Total employee expenses		**(105,697)**	**(109,785)**	**(105,075)**	**(109,468)**
Audit services- Office of Auditor General		(504)	(436)	(482)	(393)
Bank fees and charges		(5,286)	(4,849)	(5,286)	(4,851)
Communication and advertising		(9,761)	(10,668)	(9,759)	(10,665)
Commissions		(2,921)	(3,005)	(2,921)	(3,005)
Contractors and consultants		(157,139)	(125,474)	(157,047)	(125,311)
Insurance		(7,390)	(6,157)	(7,384)	(6,140)
Legal fees		(4,756)	(3,975)	(4,751)	(3,967)
Metering		(9,472)	(12,166)	(9,472)	(12,166)
Rental expense		(3,551)	(7,163)	(3,546)	(7,153)
Printing		(1,240)	(1,405)	(1,240)	(1,405)
Revaluation of electricity derivatives		-	(15,806)	-	(15,806)
Other expenses		(18,828)	(24,779)	(18,740)	(24,668)
Total other expenses		**(220,848)**	**(215,883)**	**(220,628)**	**(215,530)**
Allowance for impairment of receivables	4.3	(41,672)	(16,948)	(41,672)	(16,948)
Allowance for inventory obsolescence	4.4	(25,087)	(691)	(25,087)	(691)
Impairment of property, plant and equipment and intangibles	5.1/5.2	-	(428,900)	-	(428,900)
Impairment of assets sold and held for sale		-	(91)	-	(2,091)
Impairment losses		**(66,759)**	**(446,630)**	**(66,759)**	**(448,630)**

Total other expenses includes $2.9 million of expenditure to manage COVID-19 risks. This is mainly comprised of temporary accommodation at generation sites, additional personal protective equipment and cleaning supplies and services.

3.4 Net finance costs

		Group		Corporation	
	Note	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Interest income		3,933	5,971	3,920	6,566
Total finance income		3,933	5,971	3,920	6,566
Interest on loans and borrowings		(4,206)	(3,170)	(4,403)	(3,563)
Lease interest expense		(28,902)	(28,613)	(28,902)	(28,613)
Unwinding of discount on provisions		(8,699)	(14,268)	(8,699)	(14,268)
Interest on defined benefit fund	6.3	(466)	(805)	(466)	(805)
Total finance costs		(42,273)	(46,856)	(42,470)	(47,249)
Net finance costs		**(38,340)**	**(40,885)**	**(38,550)**	**(40,683)**

3.5 Income tax expense

Reconciliation of income tax expense to the effective tax rate:

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Loss before income tax	**(27,156)**	**(586,708)**	**(26,666)**	**(586,229)**
Income tax using the Corporation tax rate of 30%	8,147	176,012	8,000	175,869
Effect of:				
Non-deductible items	(10,093)	(154)	(10,002)	(45)
Other allowable deductions	91	145	91	145
Under provided tax benefit in respect of prior year	(1)	259	(1)	259
Derecognition of previously recognised deductible temporary differences	-	(192,784)	-	(192,714)
Current year tax losses not recognised	(25,331)	(31,083)	(24,385)	(31,083)
Deductible temporary differences not recognised	27,133	(22,604)	26,297	(22,507)
Income tax expense	**(54)**	**(70,209)**	**(1)**	**(70,076)**

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.

3.5 Income tax expense (continued)

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

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Current tax expense	(60)	141	(1)	259
Origination and reversal of temporary differences	-	122,416	-	122,416
Write-down of previously recognised deferred tax assets	(7)	(192,784)	-	(192,751)
Tax loss current year	13	18	-	-
Income tax expense in the statement of profit or loss	**(54)**	**(70,209)**	**(1)**	**(70,076)**
Deferred tax related to items recognised in OCI during the year				
Net (gain)/ loss on defined benefit re-measurement	-	907	-	907
Income tax benefit expense charged to OCI	**-**	**907**	**-**	**907**

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.

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 the 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 subsidiary.

3.6 Deferred tax

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Trade and other receivables	28,363	20,219	28,363	20,219
Intangible assets	6,627	9,668	6,627	9,668
Property, plant and equipment	36,713	9,149	36,713	9,149
Trade and other payables	2,699	6,551	2,687	6,544
Lease liabilities	66,628	66,416	66,627	66,416
Employee benefits	21,412	67,493	21,412	67,493
Provisions	97,561	80,889	97,561	80,889
Business related costs	292	577	274	577
Carried forward tax losses	59,813	34,354	56,528	31,083
Total deferred tax asset	**320,109**	**295,316**	**316,793**	**292,038**
Inventories	(23,083)	(32,134)	(23,083)	(32,134)
Derivative financial instruments	(20,172)	(12,866)	(20,172)	(12,866)
Right of use asset	(23,710)	-	(23,710)	-
Total deferred tax liability	**(66,965)**	**(45,000)**	**(66,965)**	**(45,000)**
Total de-recognition of deferred tax asset	**(249,865)**	**(247,045)**	**(249,828)**	**(247,038)**
Net deferred tax asset	**3,278**	**3,271**	**-**	**-**

3.6 Deferred tax (continued)

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
The (increase)/ decrease in deferred tax balance relates to:				
Trade and other receivables	8,144	(38,009)	8,144	(38,008)
Derivative financial instruments	(7,254)	7,216	(7,254)	7,216
Right of use asset	(23,710)	-	(23,710)	-
Intangible assets	(3,041)	2,351	(3,041)	2,351
Trade and other payables	(3,852)	1,290	(3,857)	1,314
Lease liabilities	212	(2,556)	211	(2,556)
Employee benefits	(46,554)	47,021	(46,554)	47,021
Provisions	16,672	3,397	16,672	3,397
Business related costs	(285)	(372)	(303)	(333)
Inventories	9,051	(5,056)	9,051	(5,056)
Property, plant and equipment	27,564	130,311	27,564	130,311
Carried forward tax losses including prior year tax benefit not recognised	25,459	31,101	25,445	31,083
De-recognition of deferred tax asset	(2,400)	(247,045)	(2,370)	(247,038)
Amounts recognised in the statement of profit and loss	**7**	**(70,351)**	**-**	**(70,298)**
Derivative financial instruments	(53)	-	(53)	-
Defined benefit re-measurement	473	907	473	907
De-recognition of deferred tax asset	(420)	-	(420)	-
Amounts recognised in OCI	**-**	**907**	**-**	**907**
Total movement	**7**	**(69,444)**	**-**	**(69,391)**

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.

Key estimates

As at 30 June 2020, deferred tax assets have not been recognised in respect of tax losses and deductible temporary differences of $263.1 million for the Group (2019: $259.5 million) and $268.9 million for the Corporation (2019: $265.3 million) as there was no other convincing evidence that in the foreseeable future sufficient taxable income would be generated for such temporary differences to be reversed.

Section 4 - Operating capital

4.1 Key operating and financial risks

The Group is exposed to operational, market, credit and liquidity risks.

The board of directors oversee the management of these risks, supported by an audit and risk committee (ARC) that advises on financial risks and the appropriate financial risk governance framework for the Group.

The ARC 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 ARC.

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

4.1.1 Operational risk management

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.

4.1.2 Market risk management

Market risk is made up of the following:

- interest rate risk;
- foreign currency risk; and
- commodity price risk.

The Group enters into derivatives in order to manage market risks. All such transactions are carried out within approved guidelines. 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.

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 a mix of fixed and variable rate borrowings, 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	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Financial assets	240,000	60,000	240,000	60,000
Financial liabilities	(400,630)	(236,503)	(400,630)	(236,368)
Total fixed rate instruments	**(160,630)**	**(176,503)**	**(160,630)**	**(176,368)**
Financial assets	294,797	68,497	293,362	63,390
Financial liabilities	(67,776)	(135)	(67,776)	(14,463)
Total variable rate instruments	**227,021**	**68,362**	**225,586**	**48,927**

4.1 Key operating and financial risks (continued)

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 - 2019					
Cash and cash equivalents	68,497	(171)	-	171	-
Group - 2020					
Cash and cash equivalents	294,797	(737)	-	737	-
Unsecured loans and borrowings	(67,776)	169	-	(169)	-
Corporation - 2019					
Cash and cash equivalents	63,390	(158)	-	158	-
Unsecured loans and borrowings	(14,463)	36	-	(36)	-
Corporation - 2020					
Cash and cash equivalents	293,362	(733)	-	733	-
Unsecured loans and borrowings	(67,776)	169	-	(169)	-

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 United States Dollar and Japanese Yen.

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. At 30 June 2020 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 0.6990 (2019: USD 0.6990 and JPY 79.7411).

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

	USD		JPY	
Group and Corporation	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Estimated forecast purchases	4,635	5,408	-	558
Forward exchange contracts	(4,635)	(5,408)	-	(558)
Net exposure	**-**	**-**	**-**	**-**

A 10% strengthening or weakening of the Australian dollar against the above currencies at the reporting date, with all other variables held constant, would not have a material 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.

4.1 Key operating and financial risks (continued)

		-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
2019					
Embedded electricity derivatives	42,940	10,921	-	(10,921)	-
2020					
Embedded electricity derivatives	67,118	6,986	-	(6,986)	-

4.1.3 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 creditworthiness 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.

4.1.4 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 WATC loan facility.

4.1 Key operating and financial 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 2019					
Interest-bearing loans and borrowings	(6,100)	(18,435)	(2,634)	-	(27,169)
Trade and other payables	(318,467)	(66,680)	(4,015)	(2,192)	(391,354)
Finance lease liabilities	(9,327)	(27,980)	(151,002)	(219,431)	(407,740)
Derivatives	(53)	-	-	-	(53)
Total financial liabilities	**(333,947)**	**(113,095)**	**(157,651)**	**(221,623)**	**(826,316)**
Year ended 30 June 2020					
Interest-bearing loans and borrowings	(2,634)	-	(130)	(225,566)	(228,330)
Trade and other payables	(367,614)	(284,512)	(4,117)	(1,600)	(657,843)
Lease liabilities	(11,162)	(33,485)	(181,434)	(188,355)	(414,436)
Total financial liabilities	**(381,410)**	**(317,997)**	**(185,681)**	**(415,521)**	**(1,300,609)**
Corporation					
Year ended 30 June 2019					
Interest-bearing loans and borrowings	(20,428)	(18,435)	(2,634)	-	(41,497)
Trade and other payables	(337,248)	(66,680)	(4,015)	(2,192)	(410,135)
Finance lease liabilities	(9,327)	(27,980)	(151,002)	(219,431)	(407,740)
Derivatives	(53)	-	-	-	(53)
Total financial liabilities	**(367,056)**	**(113,095)**	**(157,651)**	**(221,623)**	**(859,425)**
Year ended 30 June 2020					
Interest-bearing loans and borrowings	(2,634)	-	(130)	(225,566)	(228,330)
Trade and other payables	(367,646)	(284,512)	(4,118)	(1,600)	(657,876)
Lease liabilities	(11,162)	(33,485)	(181,434)	(188,355)	(414,436)
Total financial liabilities	**(381,442)**	**(317,997)**	**(185,682)**	**(415,521)**	**(1,300,642)**

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.

4.2 Cash and short-term deposits

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Cash at bank and on hand	294,797	68,497	293,363	63,390
Short-term deposits equal to and less than 3 months	240,000	60,000	240,000	60,000
Total cash and cash equivalents	**534,797**	**128,497**	**533,363**	**123,390**

4.2 Cash and short-term deposits (continued)

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 up to twelve months.

Reconciliation of loss for the year to net cash flows from operating activities

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Loss for the year	(27,210)	(656,917)	(26,667)	(656,305)
Adjustments for:				
Profit on disposal of plant and equipment	(64)	(140,361)	(64)	(140,351)
Depreciation and amortisation	105,639	128,763	105,639	128,065
Impairment loss on trade receivables	41,672	16,948	41,672	16,948
Impairment loss on inventories	25,087	691	25,087	691
Impairment of plant, equipment and intangible assets	-	428,900	-	428,900
Other impairment	-	91	-	2,091
Non cash interest expense	8,699	14,268	8,699	14,268
Share of loss from joint ventures	666	923	-	-
	154,489	(206,694)	154,366	(205,693)
Changes in trade and other receivables	55,145	(61,520)	55,183	(91,818)
Changes in inventories	(6,715)	(25,442)	(6,715)	(25,442)
Changes in intangible assets	6,101	19,707	6,101	19,707
Changes in derivative financial instruments	(24,231)	24,055	(24,268)	24,055
Changes in tax assets and liabilities	3,996	62,534	4,091	62,525
Changes in trade and other payables	212,772	(5,813)	194,026	(4,569)
Changes in provisions and others	(106,029)	100,295	(106,015)	100,460
Net cash from/(used in) operating activities	**295,528**	**(92,878)**	**276,769**	**(120,775)**

4.3 Trade and other receivables

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Trade receivables	114,135	150,542	114,343	150,799
Unbilled receivables	200,591	212,371	200,528	212,312
Inter-group receivables	-	-	18	11
Commodity swaps	-	12,932	-	12,932
Other receivables	30,986	10,842	30,986	10,842
Prepayments	25,337	17,411	25,312	17,380
Total current trade and other receivables	**371,049**	**404,098**	**371,187**	**404,276**
Other receivables	-	29,798	-	29,798
Total non-current trade and other receivables	**-**	**29,798**	**-**	**29,798**

4.3 Trade and other receivables (continued)

Recognition and measurement

Trade and other receivables that do not have a significant financing component are initially recognised at their transaction price and subsequently measured at amortised cost less an allowance for expected credit losses.

Other financial assets, including commodity swaps, that do not satisfy the contractual cash flow and business model tests are subsequently measured at fair value. Subsequent fair value movements are recognised in the income statement.

The Group applies the 'simplified approach' to trade receivable balances. 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 6.6.

Trade, unbilled and inter-group receivables are shown net of expected credit loss allowances.

Key estimates

Allowance for expected credit losses

The Group applies judgement when assessing expected credit losses on trade receivables. Evidence of a requirement for an allowance 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 (including COVID-19) that correlate with defaults.

The Group has taken into account the observable impact of COVID-19 to date in assessing its collective provision using the methodology noted below. The update to the methodology for COVID-19 has resulted in an additional provision of $21.5 million in the current year. Notwithstanding the additional provision, the full impact of COVID-19 continues to evolve and there remains an uncertainty on the full impact of the pandemic.

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

			Past due		
Group	Total $'000	Current $'000	< 30 days $'000	30-90 days $'000	>90 days $'000
2019					
Gross carrying amount	202,090	108,495	34,142	21,079	38,374
Expected credit losses	(51,548)	(4,044)	(4,781)	(8,287)	(34,436)
Trade receivables	**150,542**	**104,451**	**29,361**	**12,792**	**3,938**
2020					
Gross carrying amount	185,678	97,533	24,132	20,201	43,812
Expected credit losses	(71,543)	(6,951)	(7,300)	(13,588)	(43,704)
Trade receivables	**114,135**	**90,582**	**16,832**	**6,613**	**108**

Corporation					
2019					
Gross carrying amount	202,429	108,822	34,154	21,079	38,374
Expected credit losses	(51,619)	(4,115)	(4,781)	(8,287)	(34,436)
Trade and inter-group receivables	**150,810**	**104,707**	**29,373**	**12,792**	**3,938**
2020					
Gross carrying amount	185,904	97,759	24,132	20,201	43,812
Expected credit losses	(71,543)	(6,951)	(7,300)	(13,588)	(43,704)
Trade and inter-group receivables	**114,361**	**90,808**	**16,832**	**6,613**	**108**

4.3 Trade and other receivables (continued)

Allowance for expected credit losses

As at 30 June 2020, an allowance for expected credit losses on trade receivables of $71.5 million (2019: $51.6 million) and $23.3 million (2019: $16.0 million) on unbilled receivables was recognised in the Group and in the Corporation

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Allowance for impairment of receivables				
Balance at 1 July	(67,609)	(61,608)	(67,609)	(194,248)
Charge for the year, net of recoveries	(41,672)	(16,948)	(41,672)	(16,948)
Amounts written-off during the year	14,462	10,947	14,462	143,587
Balance as at 30 June	**(94,819)**	**(67,609)**	**(94,819)**	**(67,609)**

The Group's expected credit loss 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 model provides a specific provision for customers who are already assessed to be impaired, and a collective provision for the balance of the portfolio utilising a statistical approach to predict an eventual loss event based on the:

- probability of default: likelihood that a customer will not be able to meet their obligation to pay;
- loss given default: for customers in default- the exposure likely to be lost; and
- exposure default: exposure at the point when a customer enters default.

This methodology is forward looking and enables the use of early warning detection techniques to identify emerging risks in the portfolio driven by systematic and unsystematic factors.

4.4 Inventories

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Fuel	123,519	118,620	123,519	118,620
Spares and consumables, net of provision	22,483	45,754	22,483	45,754
Total inventories	**146,002**	**164,374**	**146,002**	**164,374**

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 $36.5 million (2019: $11.5 million).

The continued disruption in the utilisation of the generating units due to uptake of solar PVs and the decision to retire Muja C units in October 2022 and October 2024 have resulted in the additional provision of $25.1 million for inventory obsolescence.

4.5 Trade and other payables

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Trade payables and accruals	613,295	382,163	613,329	400,060
Other payables	37,722	3,997	37,721	3,997
Accrued salaries	3,461	2,280	3,461	2,280
Interest accrued	965	74	965	958
Total current trade and other payables	**655,443**	**388,514**	**655,476**	**407,295**
Deferred costs	2,400	2,840	2,400	2,840
Total non-current trade and other payables	**2,400**	**2,840**	**2,400**	**2,840**

Recognition and measurement

Trade and other payables are recognised initially at fair value net of transaction costs and subsequently at amortised cost. For terms and conditions relating to related party payables, refer to note 6.6.

In April 2020, the Corporation received $300.4 million (net of GST) from the State Government in COVID-19 stimulus payments to be applied towards customers accounts. The stimulus comprised of $103.7 million for residential customers in the form of an EAP boost payment and a $196.7 million offset for eligible small business and charity customers (SBCTO). At 30 June 2020, trade payables and accruals includes an amount of $168.9 million, representing the credit balance on customer accounts for the unutilised portion of the stimulus.

4.6 Deferred income

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Current	3,418	5,881	3,418	5,881
Non-current	6,389	18,159	6,389	18,159
Deferred income	**9,807**	**24,040**	**9,807**	**24,040**
Represented by:				
Leasehold incentive	-	10,734	-	10,734
Deferred lease income	4,309	4,718	4,309	4,718
Unearned revenue	5,498	8,588	5,498	8,588
Deferred income	**9,807**	**24,040**	**9,807**	**24,040**

Recognition and measurement

Leasehold incentive

Upon the adoption of AASB 16 Leases, the leasehold incentive related to the office space was derecognised and applied as a reduction of the ROU assets. Refer to note 5.3 for more information.

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.

Unearned revenue

The Group received an upfront payment in relation to long-term sales contract, which was recorded at cost, deferred and recognised as revenue in line with estimated sales volumes over the term of the contract.

Section 5 - Invested capital

5.1 Property, plant and equipment

Group	Note	Land $'000	Buildings $'000	Plant and equipment $'000	Work in progress $'000	Leased assets $'000	Total $'000
At Cost							
Balance at 1 July 2018		6,334	151,949	2,599,145	27,409	256,792	3,041,629
Additions		-	223	11,201	20,859	-	32,283
Transfers	5.2	-	-	1,556	(10,982)	-	(9,426)
Disposals/ write-off		-	-	(12)	-	-	(12)
Decommissioning adjustment	5.4	-	-	31,004	-	-	31,004
Balance at 30 June 2019		**6,334**	**152,172**	**2,642,894**	**37,286**	**256,792**	**3,095,478**
Balance at 1 July 2019		6,334	152,172	2,642,894	37,286	256,792	3,095,478
Transfer to ROU assets	5.3	-	-	-	-	(256,792)	(256,792)
Balance at 1 July 2019, restated		**6,334**	**152,172**	**2,642,894**	**37,286**	**-**	**2,838,686**
Additions		-	490	25,234	33,279	-	59,003
Transfers	5.2	-	848	12,840	(22,124)	-	(8,436)
Disposals/ write-off		-	-	(170,628)	-	-	(170,628)
Decommissioning adjustment	5.4	-	-	19,848	-	-	19,848
Balance at 30 June 2020		**6,334**	**153,510**	**2,530,188**	**48,441**	**-**	**2,738,473**
Depreciation and impairment							
Balance at 1 July 2018		-	(82,622)	(1,540,120)	-	(126,413)	(1,749,155)
Annual depreciation charge		-	(4,585)	(83,087)	-	(11,917)	(99,589)
Impairment		(2,064)	(20,201)	(333,274)	(12,151)	(38,604)	(406,294)
Disposals/ write-off		-	1	16	-	-	17
Balance at 30 June 2019		**(2,064)**	**(107,407)**	**(1,956,465)**	**(12,151)**	**(176,934)**	**(2,255,021)**
Balance at 1 July 2019		(2,064)	(107,407)	(1,956,465)	(12,151)	(176,934)	(2,255,021)
Transfer to ROU assets	5.3	-	-	-	-	176,934	176,934
Balance at 1 July 2019, restated		**(2,064)**	**(107,407)**	**(1,956,465)**	**(12,151)**	**-**	**(2,078,087)**
Annual depreciation charge		-	(2,661)	(74,269)	-	-	(76,930)
Transfer	5.2	-	(890)	(3,813)	7,500	-	2,797
Disposals/ write-off		-	-	170,612	-	-	170,612
Balance at 30 June 2020		**(2,064)**	**(110,958)**	**(1,863,935)**	**(4,651)**	**-**	**(1,981,608)**
Carrying amount							
At 30 June 2019		4,270	44,765	686,429	25,135	79,858	840,457
At 30 June 2020		**4,270**	**42,552**	**666,253**	**43,790**	**-**	**756,865**

5.1 Property, plant and equipment (continued)

Corporation	Note	Land $'000	Buildings $'000	Plant and equipment $'000	Work in progress $'000	Leased assets $'000	Total $'000
At Cost							
Balance at 1 July 2018		6,334	151,950	2,428,821	27,409	256,792	2,871,306
Additions		-	223	11,201	20,859	-	32,283
Transfers	5.2	-	-	1,556	(10,982)	-	(9,426)
Disposals/ write-off		-	-	(12)	-	-	(12)
Decommissioning adjustment	5.4	-	-	31,004	-	-	31,004
Balance at 30 June 2019		**6,334**	**152,173**	**2,472,570**	**37,286**	**256,792**	**2,925,155**
Balance at 1 July 2019		6,334	152,173	2,472,570	37,286	256,792	2,925,155
Transfer to ROU assets	5.3	-	-	-	-	(256,792)	(256,792)
Balance at 1 July 2019, restated		**6,334**	**152,173**	**2,472,570**	**37,286**	**-**	**2,668,363**
Additions		-	490	25,234	33,279	-	59,003
Transfers	5.2	-	848	12,840	(22,124)	-	(8,436)
Disposals/ write-off		-	-	(306)	-	-	(306)
Decommissioning adjustment	5.4	-	-	19,848	-	-	19,848
Balance at 30 June 2020		**6,334**	**153,511**	**2,530,186**	**48,441**	**-**	**2,738,472**
Depreciation and impairment							
Balance at 1 July 2018		-	(82,623)	(1,369,796)	-	(126,414)	(1,578,833)
Annual depreciation charge		-	(4,584)	(83,088)	-	(11,917)	(99,589)
Impairment		(2,064)	(20,202)	(333,273)	(12,151)	(38,604)	(406,294)
Disposals/ write-off		-	3	15	-	-	18
Balance at 30 June 2019		**(2,064)**	**(107,406)**	**(1,786,142)**	**(12,151)**	**(176,935)**	**(2,084,698)**
Balance at 1 July 2019		(2,064)	(107,406)	(1,786,142)	(12,151)	(176,935)	(2,084,698)
Transfer to ROU assets	5.3	-	-	-	-	176,935	176,935
Balance at 1 July 2019, restated		**(2,064)**	**(107,406)**	**(1,786,142)**	**(12,151)**	**-**	**(1,907,763)**
Annual depreciation charge		-	(2,661)	(74,269)	-	-	(76,930)
Transfer	5.2	-	(891)	(3,812)	7,500	-	2,797
Disposals/ write-off		-	-	289	-	-	289
Balance at 30 June 2020		**(2,064)**	**(110,958)**	**(1,863,934)**	**(4,651)**	**-**	**(1,981,607)**
Carrying amount							
At 30 June 2019		4,270	44,767	686,428	25,135	79,857	840,457
At 30 June 2020		**4,270**	**42,553**	**666,252**	**43,790**	**-**	**756,865**

5.1 Property, plant and equipment (continued)

Recognition and measurement

Property, plant and equipment

Property, plant and equipment (PPE) is 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.

Depreciation

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

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.

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.

When there are changes in the assumptions on plant retirement dates, the Group has determined that either an extension or reduction in the useful life of certain generation assets is required to align with the current management assumptions, as used in the decommissioning provision. This change resulted in an increase in the annual depreciation expense of approximately $1.8 million (2019: decrease of $25.7 million).

Impairment

The Group assesses, at each reporting date, whether there is an indication of impairment or, where an impairment has previously been recognised, an indication of impairment reversal. If any indication of impairment or impairment reversal 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 or cash-generating unit's (CGU) fair value less costs of disposal (FVLCD) and its value in use (VIU). 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.

During 2019 the Group identified the following indicators of impairment:

- lower than previously estimated regulated electricity price increases;
- accelerated growth in the solar photovoltaic system market and the entry of large renewable generation resulting in a reduction in forecast electricity sales;
- increased cost of supply, including network tariffs; and
- increased competition in the sale of electricity and ancillary services.

5.1 Property, plant and equipment (continued)

Considering these indicators, management determined the recoverable amounts of the following CGUs:

- Electricity CGU comprises electricity generation and retail and wholesale electricity sales, through the Group's portfolio of generating assets and power purchase agreements. VIU was used to determine the recoverable amount of the Electricity CGU of $1,037.4 million. It is not possible to determine FVLCD of the Electricity CGU because there is no basis for making a reliable estimate of the price at which an orderly transaction to sell the Electricity CGU would take place between market participants at the measurement date under current market condition.

  The VIU was calculated using a 20 year discounted cashflow model incorporating the dispatch profile of each generating unit in the portfolio. The pre-tax discount rate used in the VIU calculation is 8.48%.

- Gas Trading CGU comprises trading of gas in the retail and wholesale market. As there are no assets allocated to the Gas Trading CGU, an impairment assessment is not required.

As a result of management's assessment, an impairment loss of $428.9 million was recognised at 30 June 2019. The impairment was applied pro-rata based on the carrying amount of each asset or class of asset in the CGU (including intangible assets, refer to note 5.2).

During 2020, the Group has reassessed the indicators identified and has undertaken a similar exercise to test the assets for impairment. The determination of the CGU and the methodology has remained consistent with the prior year. The assessment in the current year has resulted in no impairment or reversal of impairment.

There are significant assumptions and estimates used in the preparation of the VIU calculation used for re-assessing impairment. These include franchise electricity prices and the discount rate.

Key input	Assumption	Sensitivity of the input
Franchise tariff prices	Prices as approved by the State Government until 2024, 3.9% increase in tariff in the years 2025 and 2026 to achieve cost reflectivity, then 2.5% increase in subsequent years.	0.25% increase in residential (A1 and SM1) retail tariff rates each year, from 1st July 2021, would result in an increase in NPV of CGU by $501.9 million.
Discount rate	The current market assessment of the risks specific to the Electricity CGU.	1% increase would result in a decrease in the NPV of CGU by $151.8 million.

5.2 Intangible assets

Group	Note	Computer software $'000	Environment certificates $'000	Sale agreements $'000	Other $'000	Total $'000
At Cost						
Balance at 1 July 2018		170,752	47,479	48,800	-	267,031
Additions		8,060	121,581	17,524	11,534	158,699
Transfers from WIP	5.1	9,426	-	-	-	9,426
Disposals/ surrenders		-	(141,288)	(48,800)	(11,534)	(201,622)
Balance at 30 June 2019		**188,238**	**27,772**	**17,524**	**-**	**233,534**
Balance at 1 July 2019		188,238	27,772	17,524	-	233,534
Additions		8,646	106,868	-	-	115,514
Transfers from WIP	5.1	8,436	-	-	-	8,436
Disposals/ surrenders		(2)	(112,969)	-	-	(112,971)
Balance at 30 June 2020		**205,318**	**21,671**	**17,524**	**-**	**244,513**
Amortisation and impairment						
Balance at 1 July 2018		(107,918)	-	(30,578)	-	(138,496)
Annual amortisation charge		(24,747)	-	(4,427)	-	(29,174)
Disposals		-	-	31,277	-	31,277
Impairment		(18,110)	-	(4,496)	-	(22,606)
Balance at 30 June 2019		**(150,775)**	**-**	**(8,224)**	**-**	**(158,999)**
Balance at 1 July 2019		(150,775)	-	(8,224)	-	(158,999)
Annual amortisation charge		(13,176)	-	(3,015)	-	(16,191)
Transfers	5.1	(2,797)	-	-	-	(2,797)
Disposals		2	-	-	-	2
Balance at 30 June 2020		**(166,746)**	**-**	**(11,239)**	**-**	**(177,985)**
Carrying amount- current						
Balance at 30 June 2019		-	27,772	-	-	27,772
Balance at 30 June 2020		**-**	**21,671**	**-**	**-**	**21,671**
Carrying amount- non-current						
Balance at 30 June 2019		37,463	-	9,300	-	46,763
Balance at 30 June 2020		**38,572**	**-**	**6,285**	**-**	**44,857**

5.2 Intangible assets (continued)

Corporation	Note	Computer software $'000	Environment certificates $'000	Sale agreements $'000	Other $'000	Total $'000
At Cost						
Balance at 1 July 2018		170,750	47,479	-	-	218,229
Additions		8,061	121,581	17,524	11,534	158,700
Transfers from WIP	5.1	9,426	-	-	-	9,426
Disposals/ surrenders		-	(141,288)	-	(11,534)	(152,822)
Balance at 30 June 2019		**188,237**	**27,772**	**17,524**	**-**	**233,533**
Balance at 1 July 2019		188,237	27,772	17,524	-	233,533
Additions		8,646	106,868	-	-	115,514
Transfers from WIP	5.1	8,436	-	-	-	8,436
Disposals/ surrenders		-	(112,969)	-	-	(112,969)
Balance at 30 June 2020		**205,319**	**21,671**	**17,524**	**-**	**244,514**
Amortisation and impairment						
Balance at 1 July 2018		(107,916)	-	-	-	(107,916)
Annual amortisation charge		(24,748)	-	(3,728)	-	(28,476)
Impairment		(18,110)	-	(4,496)	-	(22,606)
Balance at 30 June 2019		**(150,774)**	**-**	**(8,224)**	**-**	**(158,998)**
Balance at 1 July 2019		(150,774)	-	(8,224)	-	(158,998)
Annual amortisation charge		(13,176)	-	(3,015)	-	(16,191)
Transfers	5.1	(2,797)	-	-	-	(2,797)
Balance at 30 June 2020		**(166,747)**	**-**	**(11,239)**	**-**	**(177,986)**
Carrying amount- current						
Balance at 30 June 2019		-	27,772	-	-	27,772
Balance at 30 June 2020		**-**	**21,671**	**-**	**-**	**21,671**
Carrying amount- non-current						
Balance at 30 June 2019		37,463	-	9,300	-	46,763
Balance at 30 June 2020		**38,572**	**-**	**6,285**	**-**	**44,857**

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 Intangible assets (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
- 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.

In 2019 the Corporation recorded an impairment loss in relation to intangible assets, refer to note 5.1.

5.3 Right of use assets and lease liabilities

5.3.1 Right of use assets

Group and Corporation		Buildings	Power purchase agreements	Other	ROU Total
		$'000	$'000	$'000	$'000
At Cost					
Transfer from PPE	5.1	-	256,792	-	256,792
Adoption of AASB 16 Leases		21,906	28,468	864	51,238
Additions		83	-	347	430
Disposals/ write-off		(12)	-	-	(12)
Balance at 30 June 2020		**21,977**	**285,260**	**1,211**	**308,448**
Depreciation and impairment					
Transfer from PPE	5.1	-	(176,934)	-	(176,934)
Adoption of AASB 16 Leases		(7,703)	(14,203)	(68)	(21,974)
Annual depreciation charge		(2,283)	(9,779)	(456)	(12,518)
Disposals/ write-off		12	-	-	12
Balance at 30 June 2020		**(9,974)**	**(200,916)**	**(524)**	**(211,414)**
Carrying amount					
At 30 June 2020		**12,003**	**84,344**	**687**	**97,034**

The Group has lease contracts for office buildings, power purchase agreements (PPA), motor vehicles and office equipment. The Group also has leases of equipment with terms of less than 12 months or with low value, to which the Group applies the short-term and lease of low-value recognition exemptions.

5.3 Right of use assets and lease liabilities (continued)

Recognition and measurement

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises right of use (ROU) assets at the commencement date of the lease. ROU assets are measured at cost, net of accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

ROU assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Buildings and other 2 – 10 years
- Power purchase agreements 15 – 25 years

5.3.2 Lease liabilities

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Current	17,098	9,706	17,098	9,706
Non-current	222,978	199,763	222,978	199,763
Total lease liability	**240,076**	**209,469**	**240,076**	**209,469**

Recognition and measurement

Lease liabilities are initially measured at the present value of future fixed lease payments net of cash lease incentives that are not paid at the balance date. To calculate the present value, where the implicit interest rate is not readily determinable, payments are discounted using the Group's incremental borrowing rate. Subsequently, lease liabilities are remeasured when there is a modification or change in lease terms.

Variable lease payments are recognised as an expense in the period in which the condition that triggers the payment occurs. Total variable lease payments of $86.6 million are included in cost of sales.

Lease payments on short-term or low value leased assets are recognised as expense on a straight-line basis over the lease term.

The impact of AASB 16 on the lease liability is as follows:

Opening balance of leases under AASB 117	**209,469**
Impact of adoption of AASB 16	45,818
Less:	
Lease payments made during the year	(15,211)
Closing lease liability	**240,076**

Key estimates

Lease term options

Judgement is applied when determining if it is reasonably certain whether or not to exercise an option to renew or terminate a lease. Factors considered include economic incentives, operational risk and strategic objectives. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Interest rates

Where the Group cannot readily determine the interest rate implicit in the lease it uses discount rates sourced from the WATC as its incremental borrowing rate to measure lease liabilities.

5.4 Provisions

Group and Corporation	Note	Decom. provision $'000	Commodity swaps $'000	Renewable energy certificates $'000	Onerous contracts $'000	Other provisions $'000	Total $'000
Balance at 1 July 2018		304,316	243,185	54,161	-	2,869	604,531
Recognised in profit or loss		-	(37)	125,087	152,391	5,895	283,336
Utilised		(16,355)	(47,155)	(141,278)	-	(775)	(205,563)
Change in assumptions recognised in PPE	5.1	31,004	-	-	-	-	31,004
Reversed during the year		-	-	-	-	(1,993)	(1,993)
Unwinding of discount		7,308	7,335	-	-	-	14,643
Balance at 30 June 2019		**326,273**	**203,328**	**37,970**	**152,391**	**5,996**	**725,958**
Balance at 1 July 2019		326,273	203,328	37,970	152,391	5,996	725,958
Recognised in profit or loss		-	(41,359)	117,295	21,300	19,928	117,164
Utilised		(15,732)	2,307	(112,816)	(94,342)	(4,270)	(224,853)
Change in assumptions recognised in PPE	5.1	19,848	-	-	-	-	19,848
Reversed during the year		-	-	-	-	(1,621)	(1,621)
Unwinding of discount		4,710	3,907	-	1,019	-	9,636
Balance at 30 June 2020		**335,099**	**168,183**	**42,449**	**80,368**	**20,033**	**646,132**
2019							
Current		22,547	9,074	37,970	93,394	5,996	168,981
Non-current		303,726	194,254	-	58,997	-	556,977
		326,273	**203,328**	**37,970**	**152,391**	**5,996**	**725,958**
2020							
Current		32,591	27,246	42,449	65,793	20,033	188,112
Non-current		302,508	140,937	-	14,575	-	458,020
		335,099	**168,183**	**42,449**	**80,368**	**20,033**	**646,132**

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, useful lives 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.

5.4 Provisions (continued)

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.

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.

Onerous contracts

The Group currently has certain supply agreements and sales contracts where the unavoidable costs of meeting the obligations under the agreements exceed the economic benefits the Group is expected to receive. A provision for an onerous contracts has been recognised as the net present value of unavoidable net costs i.e. the difference between expected revenue from the use or sale of the physical commodity and the costs to fulfil the agreements.

A provision for onerous retail contracts of $21.3 million was recognised at 30 June 2020, arising from the suspension of power disconnections until 30 September 2020.

Other provisions

The Group is in a contractual dispute with a supplier which was the subject of litigation. In June 2020 the Supreme Court made a declaration consistent with the supplier's construction of the payment obligation under the contract. Although the ruling is not an enforceable order for payment and Synergy has appealed the decision, a provision of $18.9 million has been recognised considering the Supreme Court decision.

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 2019 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.

Onerous contracts

In determining the amount of the provision, assumptions and estimates are made in relation to discount rates, the expected revenue and costs on excess quantity not used, and the expected timing of these cash flows. The Australian government bond rate has been used to discount the cashflows.

In determining the amount of the onerous contract provision for retail customers, assumptions and estimates are made in relation to the number of customers eligible for disconnection, estimated consumption and average cost to supply.

5.5 Derivative financial instruments

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Forward exchange contracts- cash flow hedge	122	-	122	-
Total current financial assets through OCI	**122**	**-**	**122**	**-**
Financial assets at fair value through profit or loss				
Electricity derivatives- embedded current	9,268	4,392	9,268	4,392
Electricity derivatives- embedded non-current	57,850	38,548	57,850	38,548
Total current financial assets through profit or loss	**67,118**	**42,940**	**67,118**	**42,940**
Total financial assets at fair value	**67,240**	**42,940**	**67,240**	**42,940**
Forward exchange contracts- cash flow hedge	-	53	-	53
Total financial liabilities through OCI	**-**	**53**	**-**	**53**

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.

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

5.5 Derivative financial instruments (continued)

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 using quoted prices in active markets, it is measured using valuation techniques considered appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs.

Fair value of derivative financial instruments

The following 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 deal rates and the forward curve rates to maturity, 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 are determined using the discounted cash flow method. Internally projected forward electricity price is used to calculate the forward price curve. These are discounted using the market yields on 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 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	Level 1	Level 2	Level 3
2019	$'000	$'000	$'000	$'000
Electricity derivatives- embedded	42,940	-	-	42,940
Forward exchange contracts- cash flow hedge	(53)	-	(53)	-
2020				
Electricity derivatives- embedded	67,118	-	-	67,118
Forward exchange contracts- cash flow hedge	122	-	122	-

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

	2020	2019
Reconciliation of Level 3 financial instruments	$'000	$'000
Opening balance	42,940	66,942
Amount recognised in profit or loss	24,178	(24,002)
Closing balance	67,118	42,940

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 by management in establishing fair values. Changes in assumptions could affect the reported fair value of financial instruments. The following are the significant unobservable inputs in the electricity derivatives:

- internally projected forward electricity price – a 10% increase/ (decrease) would result in a decrease/ (increase) in fair value by $6.9 million.
- discount rate – a 1% increase/ (decrease) would result in an insignificant change in fair value.
- internally projected sales volumes- a 10% increase/ (decrease) would result in a decrease/ (increase) in fair value by $6.7 million.

5.6 Interest bearing loans and borrowings

			Group		Corporation	
	Interest rate	Maturity	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Unsecured borrowings	2.55- 2.57%	Sept-20	2,634	24,400	2,634	38,728
Total current interest-bearing loans and borrowings			**2,634**	**24,400**	**2,634**	**38,728**
Unsecured borrowings	0.20%- 1.84%	Jan-30	225,566	2,634	225,566	2,634
Secured borrowings	3.13%	Jun-21	130	135	130	135
Total non-current interest-bearing loans and borrowings			**225,696**	**2,769**	**225,696**	**2,769**
Total interest-bearing loans and borrowings			**228,330**	**27,169**	**228,330**	**41,497**

Unsecured borrowings

This loan has been drawn down under a Master Lending Agreement with 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 2020, the Group had an approved borrowing limit of $228.2 million (2019: $102.6 million), of which $228.2 million has been utilised (2019: $27.2 million).

In addition, the Group also had $125.0 million of undrawn committed working capital facility from WATC.

COVID-19

The revenue and expected credit loss impacts on future cashflows is uncertain at this stage and continues to evolve as the full impact of COVID-19 unfolds.

Based on the best estimate at the balance date taking into account the cash and bank balances and the undrawn balance available from the above facilities, the Group is in a position to pay its debts as and when they fall due for payment.

Classification

As at 30 June 2020, the non-current unsecured borrowings of $225.6 million included an amount of $27.9 million that will become due and payable during the 2020/21 reporting year. It is the Group's expectation and discretion that this amount will be refinanced under the master lending agreement with the WATC rather than repaid, and therefore has been classified as non-current. This is supported by:

- a master lending agreement with the WATC that allows the Group to refinance all or any part of maturing debt at regular intervals; and
- the approval of the Group's forecast borrowing requirements for the next four years, including no repayment of amounts classified as non-current above, in the 2020 Western Australian State Budget Mid- Year Review handed down in December 2019.

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	
	2020 $'000	2019 $'000	2020 $'000	2019 $'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 the 2020 financial year, a special dividend of $2.8 million was paid in relation to the 2019 financial year (2019: $18.2 million).

Other reserves

Included in the reserve are 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, and the Group's share of other comprehensive income that will subsequently be reversed through the profit and loss statement from its investment in joint ventures.

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	Reserves	Total
Group and Corporation	$'000	$'000	$'000
Changes in fair value of cash flow hedges, net of tax	-	37	37
Re-measurement on defined benefit plans, net of tax	(2,116)	-	(2,116)
As at 30 June 2019	**(2,116)**	**37**	**(2,079)**
Changes in fair value of cash flow hedges, net of tax	-	(12,680)	(12,680)
Re-measurement on defined benefit plans, net of tax	(1,577)	-	(1,577)
As at 30 June 2020	**(1,577)**	**(12,680)**	**(14,257)**

6.2 Commitments and contingencies

Capital and other commitments

As 30 June 2020 the Group has commitments relating to the future purchase of renewable energy certificates, energy purchase agreements, information technology and contact centre support services of $10.1 billion (2019: $12.5 billion), and other committed capital expenditure of $23.7 million (2019: $9.9 million).

In determining the value of commitments, assumptions and estimates are made in relation to the future output of generating assets and renewable energy certificate prices.

6.2 Commitments and contingencies (continued)

Site restoration contingency

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 contingency

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.

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 estimated with any accuracy.

Investigation by the Economic Regulation Authority

In April 2019, the Economic Regulation Authority (ERA) concluded its investigation of the Corporation's pricing in balancing submissions made in the Western Australian Wholesale Electricity Market (WEM) between March 2016 and July 2017. The ERA considered that the Corporation had breached a provision in the WEM rules prohibiting a market participant from offering prices in its balancing submissions that are above its reasonable expectation of the short run marginal cost of generating electricity, when such behaviour relates to market power. The ERA has referred the Corporation to the Electricity Review Board (ERB) to establish whether Synergy has breached the WEM rules and, if so, is seeking orders for monetary penalties.

No provision is made as at 30 June 2020 as:

- the Corporation denies any wrongdoing or liability in this regard, and is defending the ERA's claims before the ERB; and
- in the event the ERB finds that the Corporation has breached the WEM rules, the ERB has a wide discretion as to the amount of any penalty, and hence it is not possible at this stage to estimate any liability.

6.3 Employee benefits

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Annual leave	16,358	14,184	16,327	14,177
Long service leave	16,382	11,951	16,382	11,951
Total current liability	**32,740**	**26,135**	**32,709**	**26,128**
Long service leave	2,381	6,332	2,381	6,332
Defined benefit plan obligation	34,279	34,112	34,279	34,112
Total non-current liability	**36,660**	**40,444**	**36,660**	**40,444**

6.3 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. Amounts not expected to be taken or paid within the next 12 months are presented below:

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Annual leave:				
Annual leave expected to be settled < 12 months	9,629	7,208	9,598	7,201
Annual leave expected to be settled > 12 months	6,729	6,976	6,729	6,976
	16,358	**14,184**	**16,327**	**14,177**
Long service leave:				
Long service leave expected to be settled < 12 months	16,382	11,951	16,382	11,951
Long service leave expected to be settled > 12 months	2,381	6,332	2,381	6,332
	18,763	**18,283**	**18,763**	**18,283**

Recognition and measurement

Provision is made for 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 are classified as short-term and measured at the amount due to be paid. Liabilities that are not expected to be wholly settled within one year after the end of the period are classified as long-term and measured at the present value of the estimated future cash outflow, 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 in other comprehensive income. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. It is recognised, along with changes in the present value of defined benefit obligations resulting from plan amendments or curtailments, in the statement of profit or loss as past service costs.

Key estimates

Long service leave

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.

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 including 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 2020 using the membership data as at 30 April 2020, as it is not expected that the membership data will be materially different as at 30 June 2020.

6.3 Employee benefits (continued)

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 not formally subject to the Superannuation Industry (Supervision) (SIS) legislation, the Western Australian government has undertaken to operate the schemes in accordance with 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.

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

	Group		Corporation	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Balance at 1 July 2019	34,112	31,791	34,112	31,791
Interest cost	466	805	466	805
Benefits paid	(1,876)	(1,506)	(1,875)	(1,506)
Actuarial changes in assumptions	1,577	3,022	1,576	3,022
Balance at 30 June 2020	**34,279**	**34,112**	**34,279**	**34,112**

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 0.85% (2019: 1.40%), expected future salary increase of 3.50% (2019: 4.20%) and expected pension increase of 2.00% (2019: 2.50%).

Sensitivity analysis 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 $2.4 million (2019: $2.3 million).

6.4 Key management personnel compensation

	2020	2019
	$'000	$'000
Short-term employee benefits	4,129	4,307
Post-employment benefits	337	298
Termination benefits	1,695	-
Total compensation paid to key management personnel	**6,161**	**4,605**

The amounts disclosed in the table are the amounts paid during the reporting period related to key management personnel of the Group.

6.5 Group structure

6.5.1 Information relating to subsidiaries

The financial statements of the Group include:

	Principal activity	Country of incorporation	% Equity interest 2020	% Equity interest 2019
Vinalco Energy Pty Ltd	Muja AB plant operations (i)	Australia	100%	100%
South West Solar Development Holdings Pty Ltd	Renewable energy development	Australia	100%	100%

(i) The Muja AB plant was retired in 2017 and is in the process of liquidation.

The movement in the net carrying value of the subsidiaries is shown below:

	2020 $'000	2019 $'000
Net carrying value		
Balance at 1 July	36,762	36,762
Return of capital	(35,300)	-
Balance 30 June	**1,462**	**36,762**

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.

6.5.2 Interest in associates and joint arrangements

The financial statements of the Group include:

	Principal activity	Report Date	Country of incorporation	% Equity 2020	% Equity 2019
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%
Bright Energy Investments Trust (BEI)	Renewable energy construction and operation	30 June	NA	19.9%	19.9%

(i) Under the Amended Coal Supply Agreement and the Convertible Loan Agreement (Loan) with Premier Coal Limited (PCL), the Loan automatically converts into a 25% equity stake in PCL at the end of the term of the Loan, unless it is repaid by PCL, converted into equity or forgiven by Synergy at an earlier time.

	Group 2020 $'000	Group 2019 $'000	Corporation 2020 $'000	Corporation 2019 $'000
Investment in joint ventures	9,121	3,082	24,360	4,890
	9,121	**3,082**	**24,360**	**4,890**
Loss from operations of joint ventures	(666)	(923)	-	-
Share of other comprehensive income	(12,765)	-	-	-
Total comprehensive income	**(13,431)**	**(923)**	**-**	**-**

There were no reported contingent liabilities as at 30 June 2020 (2019: nil), in relation to these investments.

6.5 Group structure (continued)

The movement in the net carrying value of investments is shown below:

Group	BEI $'000	Collie $'000	Total $'000
Balance at 1 July 2018	-	-	-
Investment	3,426	579	4,005
Carried forward losses	(136)	(4)	(140)
Share of losses for the year	(300)	(483)	(783)
Balance at 30 June 2019	**2,990**	**92**	**3,082**
Balance at 1 July 2019	2,990	92	3,082
Investment	18,808	662	19,470
Share of losses for the year	(363)	(303)	(666)
Share of other comprehensive income	(12,765)	-	(12,765)
Balance at 30 June 2020	**8,670**	**451**	**9,121**

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.

6.6 Related parties

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 6.3.

6.6 Related parties (continued)

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:

- Department of Treasury:
  - $88,343,000 of other revenue relating to payment in lieu of subsidies (2019: nil)
  - $173,329,000 of reimbursement of the cost of CSOs included in fuel, electricity, gas and other purchases, (2019: $121,208,000); nil of which was receivable at 30 June 2020 (2019: $10,252,000);
  - $300,423,000 of COVID-19 stimulus payments of which $36,004,000 was payable at 30 June 2020 (2019: nil). The stimulus comprised of EAP boost and SBCTO.
- borrowings under a Master Lending Agreement with the WATC (note 5.6); the Group drew down $225,566,000 (2019: nil) of borrowings, repaid $24,000,000 (2019: $115,200,000) of borrowings and incurred interest charges of $2,619,000 (2019: $3,066,000) during the year; $532,000 of interest was accrued at 30 June 2020 (2019: $17,000);
- 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 2020. Remuneration and benefits received by directors and key management personnel are disclosed in the directors' report and in note 6.4.

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

	Sales	Purchases	Amounts owed by	Amounts owed to	Commitments outstanding
	$'000	$'000	$'000	$'000	$'000
30 June 2019					
Associate	-	136,773	-	4,168	-
Joint Ventures and Operations	188,639	-	29,456	-	-
Government Related Entities					
Water Corporation	10,080	66	676	-	-
Regional Power Corporation	21,364	419	1,824	-	-
Electricity Networks Corporation	-	1,138,472	-	187,938	-
30 June 2020					
Associate	-	151,617	-	13,596	-
Joint Ventures and Operations	3,337	10,165	30,952	340	809,607
Government Related Entities					
Water Corporation	8,667	50	803	-	-
Regional Power Corporation	29,414	889	1,963	127	-
Electricity Networks Corporation	8,842	1,266,689	3,425	194,096	-

6.7 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 3 *Business Combinations* Effective 1 January 2020	Amendments have been issued to the definition of a business under AASB 3 to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. As the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.	1 July 2020
AASB 1 *Presentation of Financial Statements* AASB 8 *Accounting Policies, Changes in Accounting Estimates and Errors* Effective 1 January 2020	Amendments have been issued to AASB 1 and AASB 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.	1 July 2020

6.8 Events after the reporting date

The impact of COVID-19 is ongoing, and it has impacted the Group as outlined in note 1. The situation is continuously changing, which creates uncertainty of the scale and duration of the pandemic and the associated government response. Accordingly, it is not possible to reliably estimate the impact, positive or negative, after the reporting date.

Except for the above, there were no significant events after reporting date.

Directors' declaration

In accordance with a resolution of the directors of Electricity Generation and Retail Corporation (the Corporation), we 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 2020 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
Chair

Kim Horne
Deputy Chair

Date: 26 August 2020
Perth

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 the Electricity Generation and Retail Corporation (the Corporation) and its controlled entities (the Group), which comprises the Consolidated Statement of Financial Position as at 30 June 2020, 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 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 2020 and of their 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 Responsibility 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.

Emphasis of matter – Contingent liability
I draw attention to note 6.2 of the financial report, which describes the status of the investigation by the Economic Regulation Authority into the Corporation's pricing in balancing submissions made in the Western Australian Wholesale Electrical Market. My opinion is not modified in respect of this matter.

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.

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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 is 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.

A further description of my responsibilities for the audit of the financial statements is located on the Auditing and Assurance Standards Board website at https://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of my auditor's report.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of the Group for the year ended 30 June 2020 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 the financial report. If users of the financial report are concerned with the inherent risks arising from publication on the 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
28 August 2020

Leading Western Australians to their intelligent energy future

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For the Electricity Generation and Retail Corporation trading as Synergy
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