2017

Annual Report

synergy

For the Electricity Generation and Retail Corporation trading as Synergy

ABN 58 673 830 106

Letter to the Minister for Energy

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

Yours sincerely,

Lyndon Rowe
Chairman

Synergy
ABN 58 673 830 106

Manager public affairs and
corporate communications
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Perth WA 6841

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About Synergy

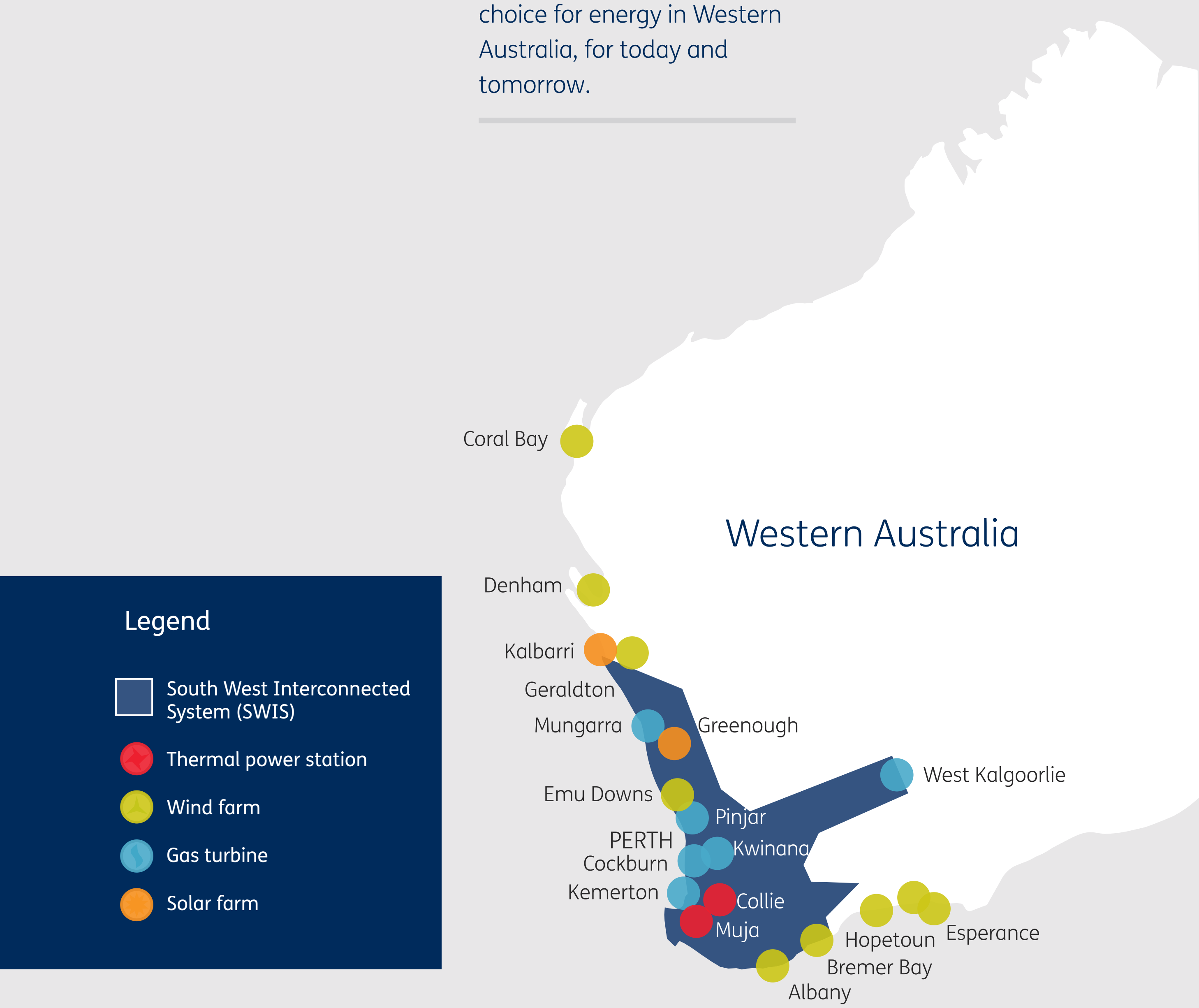
Synergy is proud to be Western Australia's leading energy generator and retailer. We deliver energy to more than one million residential and business customers, enhancing lives and contributing to the growth of our state. As one of Western Australia's most essential organisations, we support and play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

Synergy owns and operates electricity generating assets including thermal power stations, wind and solar farms and hybrid systems between Kalbarri in the north, Kalgoorlie in the east and Albany in the south – an electricity network known as the South West Interconnected System (SWIS).

Our employees are embracing the rapidly developing and enabling technologies and market changes and they are committed to our purpose to lead Western Australians to their intelligent energy future.

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

Synergy is a vertically-integrated energy generation and retail corporation, established under the Act, owned by the Western Australian State Government, reporting to the Minister for Energy, the Hon Ben Wyatt.



Chairman's report

Energy policy, energy prices and energy security were constant and dominating topics of debate throughout the year at both national and state levels. While the energy sector is desperate for a period of regulatory stability, these discussions need to result in further market reform in the year ahead, if consumers are to benefit in the future.

Not all of the debate has been rational or evidence based. The view of many market participants operating in this highly regulated industry was best expressed by the inaugural Chairman of the Productivity Commission, Gary Banks, earlier this year in summarising issues in the National Electricity Market (NEM).

> *"The resulting costs and difficulties (in energy markets) have been greatly compounded... by governments choosing a policy path that is essentially anti-market, one violating basic principles of demand and supply. The energy crisis is self-evidently not the result of market failure but of government failure."*[1]

In the past year, the issues of energy security and gas prices have focussed on the NEM but operators in Western Australia, including Synergy, are not immune from the uncertainty created by the current confusion around the future of energy markets and policies.

In my Chairman's report two years ago I noted the increasing impact of renewable energy, distributed generation and storage technology on the traditional utility model and reinforced Synergy's focus on delivering value for both our customers and our shareholder.

Our focus has not changed and we steadfastly continue to uphold our legislative responsibility and act in accordance with prudent commercial principles. We do this with a focus on reducing our cost base and maintaining the value of an asset owned by the taxpayer, at a time when state budget repair is paramount.

The team at Synergy have continued to drive reform within the organisation. Very significant operating costs have been taken out of the business since merger whilst improving our organisational health and improving customer service levels.

Our efficiency and savings measures are sustainable and have been achieved responsibly. Synergy is a business that requires a subsidy due to policy levers adopted by successive state governments committed to protecting consumers from paying the true cost of electricity generation, distribution and supply.

If operators and customers (who are increasingly also operators) are to make sensible investment decisions, it is important that price signals are allowed to work including those price signals being reflective of actual costs.

The lack of cost reflectivity in electricity tariffs has been of ongoing concern for a number of years and the importance of getting these signals right increases as the traditional energy market model is challenged by new technology.

The new State Government should be congratulated for making the tough, but completely necessary, decision to undertake tariff reform. Increasing electricity prices is not a vote winner but there were many inequities and inefficiencies in both the level and structure of household tariffs particularly related to the cost of network connection.

The reality was that the cost of the network was increasingly being paid for by a smaller and smaller group of customers (often those with the least capacity to pay or avoid those costs) or the Western Australian taxpayer.

Everyone benefitting from network connection should be paying for the cost of that connection.

What the State Government has undertaken is fair reform, consistent with enabling the market to operate successfully. It was an important first step on the way to a more efficient and fair energy market.

While further reform is required, Synergy will continue its focus and drive to develop the cheapest forms of renewable energy in the state in order to meet our 2020 renewable energy obligations. It is the strong view of the Synergy board that, given the current budgetary constraints, our responsibility is to deliver a solution that ultimately benefits the state's finances as well as electricity consumers.

On behalf of the board I acknowledge the support we received from both our previous Minister, the Hon Mike Nahan and our current Minister the Hon Ben Wyatt. Their advice and guidance is appreciated.

On a personal level, I express my appreciation to my fellow board members. This is a very interesting industry to be in and the enthusiasm, experience and expertise they bring is greatly appreciated.

I thank Jason Waters, his executive team and all staff at Synergy, and congratulate them on their successes in what is a very challenging environment.

Lyndon Rowe
Chairman

[1] *Infrastructure Oration 2017*, Infrastructure Partnerships Australia, Sydney, 6 April 2017.

Chief executive officer's report

The 2016-17 financial year demonstrated yet again the significant challenges being faced by the electricity sector, not just here in Western Australia, but nationally.

Never before in my 27 years in the industry have the forces of policy and regulation, consumer interests, broader economic conditions and new technologies conspired to make a once reliable and stable industry so difficult.

While Synergy continues to avoid the customer outcomes being felt in the National Electricity Market, we do have many of our own challenges in the South West Interconnected System (SWIS). We are keeping a very close eye on developments both on the east coast of Australia and internationally to ensure we navigate a way through this current period of disruption and uncertainty while remaining resolute in our commitment to the delivery of reliable and affordable energy to our customers.

For 2016-17 Synergy has reported an after tax loss of $12.6 million, a reduction from an after tax profit of $32.3 million in 2015-16. This after tax loss contains several significant items, the largest of which is the $126.5 million before tax accelerated depreciation and impairment associated with the announced closure of 380 megawatts of generating capacity by September 2018. It was a difficult but necessary decision given the oversupply of capacity that exists in the electricity market being funded by consumers. The other significant items include $47.4 million profit from the sale of the Mumbida wind farm, benefits of $84.1 million from the adjustment of our decommissioning provision and $61 million in revalued derivatives and swaps (reference footnote table 1, page 7).

Synergy also reported an underlying loss of $27.4 million for 2016-17, compared to an underlying loss of $13.5 million in 2015-16, and directly representative of the challenges being faced by the industry that I mentioned earlier.

Total electricity sales fell from 13,802 gigawatt hours (GWh) in 2015-16 to 13,404 GWh in 2016-17 however, remain profitable at a gross margin level despite a further reduction of $27.2 million in the tariff adjustment payment paid by government. Gas gross margin decreased by $42.5 million from 2015-16 as Synergy completed its transition from legacy gas supply contracts to a new long term supply contract from the Gorgon facility.

Synergy's commitment to efficiency continued as costs such as materials, services, employee and other costs were reduced by a further $42.8 million in 2016-17.

Synergy's primary area of focus remains the health and safety of our people and the supply of high quality services to our customers. I am disappointed in our year end lost time injury frequency rate of 0.96 and total recordable injury frequency rate of 4.3 as both represent a deterioration in performance from 2015-16 however, I am pleased that Muja Power Station completed 696 days lost time injury free to June. An excellent result and a level of performance that we aspire to maintain across our business.

The customer net promoter score for 2016-17 was 69.5, an outstanding result and one that our customer services teams should be very proud of.

Synergy's generating plant performance remained strong during 2016-17 and several major upgrades and overhauls were completed on time and on budget. Synergy owns and operates a range of plant across its sites that are the most reliable and lowest cost generators in the SWIS and provide a critical backbone to the state's economy. Our commitment to the ongoing operation and maintenance of these facilities is unwavering.

This year we also extended the SolarReturn product range and introduced the option of battery storage for those customers who choose to store rather than sell back their surplus solar generation. While household batteries are not expected to become a mainstream consumer product for a few years, their addition to our product range is a significant milestone in the continued evolution of electricity supply.

Amid difficult market conditions I am very pleased with the progress we have made as a business. We continue to build capability, maintain discipline around our costs, invest in our operations and focus on customers in everything we do. In this regard I want to thank all Synergy employees and contractors for their commitment to and belief in our future. I also thank Synergy's chairman, Lyndon Rowe, our board of directors, the previous Minister for Energy the Hon Mike Nahan and the current Minister for Energy the Hon Ben Wyatt for their support and guidance.

Jason Waters
CEO

Executive team

Jason Waters
Chief executive officer

Karl Matacz
Chief financial officer

Stephanie Unwin
General manager retail

Will Bargmann
General manager corporate services; company secretary

Angie Young
General manager people & culture

Barry Ford
General manager wholesale

Geoff Roberts
General manager commercial

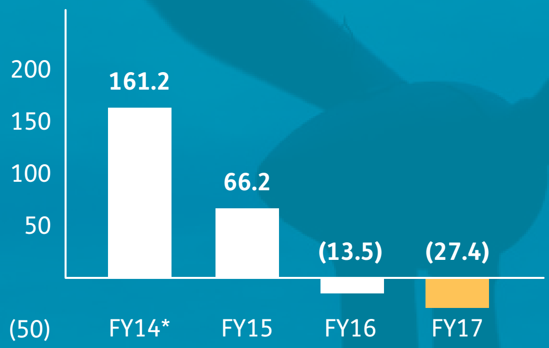
Kurt Baker
General manager generation

Gary Peel
Chief information officer

Operating & financial summary

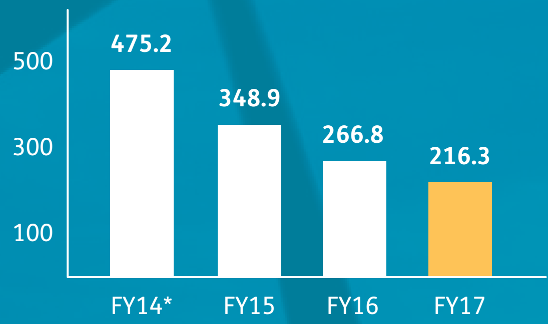
Synergy's statutory loss after tax for the year ended 30 June 2017 was $12.6 million. Underlying performance excluding significant items was a loss of $27.4 million, a decline of $13.9 million reflecting continued pressure on earnings growth.

Underlying net (loss)/profit before tax $m



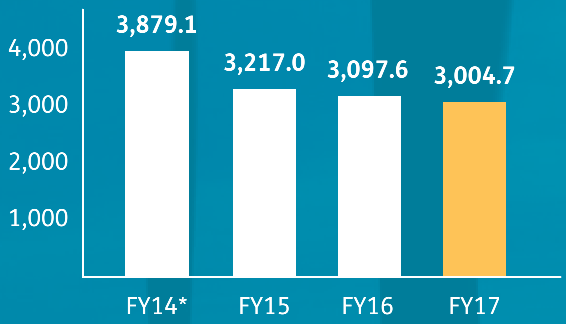
The decline in FY17 is due to the transition from legacy gas supply contracts to a new long-term gas supply contract.

EBITDA $m



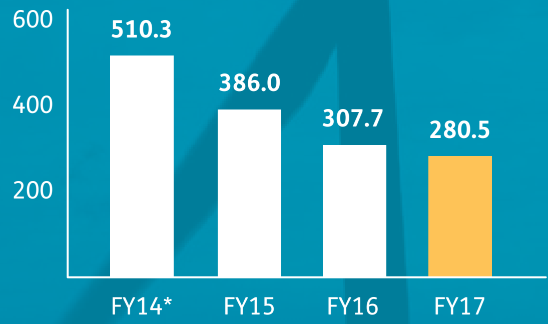
EBITDA decreased 18.9 per cent compared to FY16 as margins in the gas portfolio decline.

Revenue $m



Revenue decreased 3 per cent from FY16 due to declining sales and price pressure in the gas market due to oversupply.

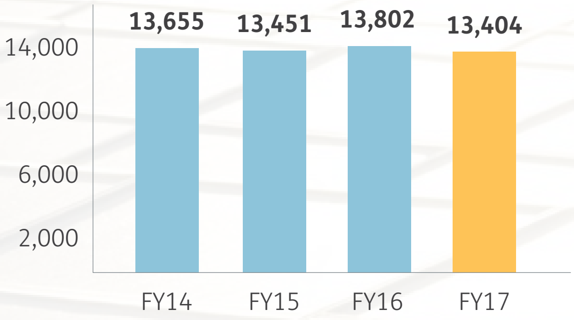
Operating subsidy $m



The operating subsidy received from the state government has declined $229.8 million since FY14 and represents a fall of 45 per cent. Operating subsidy receipts declined by 8.8 per cent from FY16.

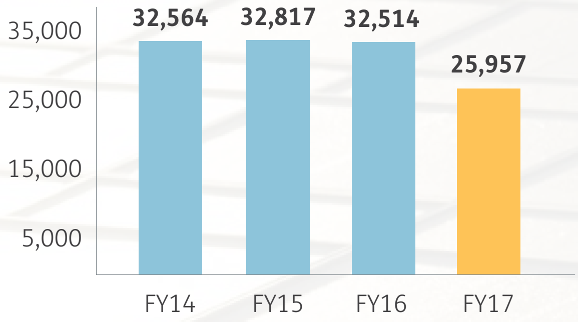
* Due to the merger of Synergy with Verve Energy effective 1 January 2014, these numbers have been derived from the audited financial statements of the former Synergy for the period 1 July 2013 to 31 December 2013 and former Verve Energy for the period 1 July 2013 to 30 June 2014. These combined results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

Electricity sales (GWh)



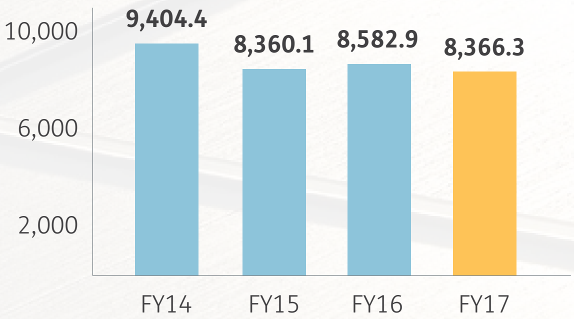
Electricity sales decreased 2.9 per cent from FY16 due primarily to rapid take-up of rooftop solar and increased competition in the retail portfolio.

Gas sales (TJ)



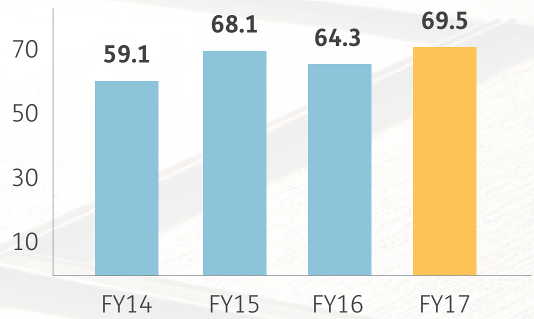
Gas sales declined due mainly to the closure of the South West Cogeneration Plant.

Generation sent-out (GWh)



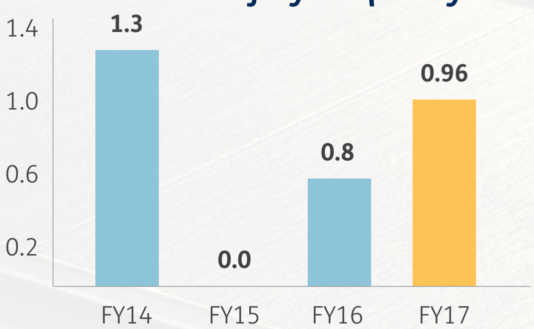
Generation sent-outs declined by 2.5 per cent from FY16.

Net promoter score



The net promoter continues to track up and increased 8.1 per cent on FY16.

Lost time injury frequency rate



Reference table 1

	FY17 $ million	FY16 $ million
Underlying loss before tax	**(27.4)**	**(13.5)**
Plus / (minus):		
Decommissioning asset adjustment	84.1	-
Sale of Mumbida wind farm	47.4	-
Electricity derivative revaluation	31.3	21.2
Commodity swap asset and liability revaluations	29.7	(28.6)
Contract renegotiation and dispute settlement	-	61.6
Impact of plant retirement	(126.5)	-
Receivables impairment	(46.7)	-
Statutory (loss) / profit from continuing operations before tax	**(8.1)**	**40.7**

Our customers & community

This year Synergy deepened its engagement with the Western Australian community, creating a shared interest in the excitement and possibilities a customer centred, intelligent energy future represents. We invested in innovative energy trials, increased our focus on community engagement and continued with our commitment to deliver digitally enabled customer services across a variety of channels.

New energy trials

Synergy's commitment to offering customers forward thinking energy solutions was best evidenced by its involvement in a range of innovative energy trials that offered customers increasing energy choice in a digital world.

A partnership arrangement with the University of Western Australia (UWA) is helping to grow the electric vehicle (EV) charging network across Perth, with Synergy installing a number of EV charging stations to encourage uptake of this high potential, emerging technology. Synergy's participation in the White Gum Valley community project further demonstrates our commitment to providing energy solutions that enhance our customers' lives.

Technical trials of battery storage products highlight the significant impact this technology will have in driving changes to energy consumption patterns. Data captured from these trials has shown their potential to change average and peak demand across the SWIS and provide tangible, real time solutions to customers seeking to manage their energy costs.

Solar and battery storage lead the charge

More than 500 customers purchased SolarReturn during the year and feedback strongly reinforced a positive customer experience and trust in Synergy's guidance and data-driven approach in helping them choose the most appropriate package.

Following this success, Synergy extended its solar product range with two new packages. We designed and introduced a specific solar package for commercial customers; and, a Fronius battery energy storage product to complement SolarReturn.

Customers have shown strong interest in the new product range. The content about solar and battery options on our website regularly ranks amongst the most viewed pages. It's clear consumers are looking to invest in self managed energy solutions and there is continuously increasing demand for more information and education on battery technology in particular.

An increased focus on customer engagement and experience delivers business outcomes

During the year Synergy launched its online insight community, Synergy Connect, and the platform provides an important mechanism for engaging with customers and enabling them to co-create future product and service solutions.

Through Synergy Connect we have completed 34 research activities with members, including four new product concept tests and development of a digital experience testing group. The research shows that 76 per cent of customers think we are future focused, 65 per cent feel we are listening to their needs and 63 per cent feel they are involved in Synergy's decision making.

Customers are continuing to change the way they engage with Synergy. More than 328,000 customers access their energy account through My Account, more than 400,000 customers have elected to receive their bills electronically and more customers are paying through online channels than ever before.

In addition, business customers appreciate the option to renew their contracts seamlessly online and in their own time.

Pleasingly, Synergy's efforts to deepen engagement across the community have also paid dividends. Synergy customers have reported deeper levels of affinity with the Synergy brand, with overall improvement across key brand metrics.

Service excellence maintained

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

Our net promoter score tracked above 60 per cent all year which is considered best practice level, an impressive result when considering the changing channel mix customers now use to interact with Synergy, with digital channels increasing in prevalence.

Our commitment to providing customers with payment assistance continued, through a range of options and assistance programs. With cost of living pressures continuing to affect our community, Synergy has partnered with customer advocacy groups and is contributing financially to support assistance programs.

A focus on customer service has seen our grade of service for incoming calls reach almost 75 per cent and complaint levels have stayed low.

In the community

Synergy is proud to be part of the Western Australian community. We continue to invest in a range of initiatives, events, partnerships and sponsorships to build and extend our engagement with customers, business and community groups.

More than 500 students took part in a new initiative that teachers believe will ignite students' excitement about learning science at school. The Synergy Schools Solar Challenge is a joint initiative with the Science Teachers Association of WA (STAWA) that enables year 6 and year 8 students to build and race solar-powered kit cars. Participating schools received solar car kits and curriculum linked support material to help teachers deliver science, technology, engineering, maths (STEM) learning outcomes around solar energy.

This year Synergy also supported the Wunan Foundation by covering the cost of electricity to homes provided to aboriginal students from the Kimberley who have moved to Perth to attend high school.

We continued our support for Lifeline's Christmas Appeal for a second year to shine a light on the escalating problem of suicide in our community. Our sponsorship provides Lifeline WA with funding that goes towards educating accredited volunteers who do such important life saving work.

In December we powered the annual Christmas Pageant and the streets of Leederville shone bright as Synergy powered the Light up Leederville Carnival for a second year. We also powered the Mount Hawthorn Streets and Lanes Festival in May and trialled smart benches equipped with wireless chargers and USB connectors entirely powered by integrated solar panels, enabling phone charging and internet access.

Our team took part in the Matt & Kim To The Rescue tv series, helping renovate a home for a very deserving family. We were proud to install a complete energy management solution and provide 12 months of free electricity to the family.

For the second year, our Muja Power Station emergency response team won the prestigious Mines Emergency Response Competition (MERC). It was an impressive result for the volunteer team who competed against professional full-time emergency response teams from major mining companies.

Our energy & environment

Synergy owns and operates generating assets across Western Australia including coal-fired thermal plant near Collie, gas turbines at Cockburn, Pinjar and Mungarra, Australia's first industrial scale solar farm in Greenough River and windfarms throughout the south west and north as far as Coral Bay.

Energy

Portfolio performance

The generation portfolio available capacity factor was 85.8 per cent, which was 0.8 per cent below plan. The planned outage factor was slightly unfavourable to plan at 13.2 per cent. However, the generation portfolio was reliable with a forced outage factor of only 1.8 per cent.

Driving efficiency

This year Synergy completed significant projects to upgrade primary generating assets.

The most complex project involved a burner and gas turbine upgrade at Cockburn Power Station, Synergy's biggest and most efficient gas turbine. The upgrade exceeded expectations, achieving an efficiency gain of around 1 per cent and a capacity increase of approximately 10 megawatts. The project was undertaken during a planned major maintenance outage, which involved more than 250 staff and contractors over a period of three months. This outage was completed within budget and without a recordable injury.

At Pinjar Power Station, a major project was completed to replace the life expired gas turbine rotor. This extended the lifecycle of the unit which plays a key role in Synergy's asset portfolio as a fast response generator.

At Muja Power Station, the unit eight cooling tower was replaced. This work was undertaken with the generating unit in service and with minimal impact to production. Synergy also completed work on extending the life of the fly ash storage dam to increase capacity and improve environmental protection.

Decommissioning of Kwinana Power Station continued with the commencement of demolition works to address various risk areas and enable preparations for relocation of continuing site services. The project, which includes remediation of Perron Quarry fly ash storage facility will continue throughout the coming years. Synergy also completed decommissioning works on the Geraldton gas turbine. The site has been rehabilitated and will be handed back to Western Power management as part of their switchyard.

The implementation of the SAP enterprise management system was completed in September 2016. The SAP solutions have provided improved access to maintenance and cost data, which has enabled enhanced tracking of maintenance performance metrics and development of automated business reporting. These improvements, together with organisational alignment, are changing the way we work and having a positive effect in driving asset management and optimisation practices, reducing operating costs and improving opportunities to realise greater value from our operations.

A renewable future

Synergy has always been a leader in the development of renewable energy projects throughout Western Australia. We own and operate some of the largest solar and wind generating assets in the state and we are committed to increasing our renewable asset portfolio. We will do this responsibly, balancing renewable and traditional generation to ensure security and reliability of electricity supply to the communities in which we operate.

In the last year Synergy has been assessing investment opportunities including expansion of the Greenough River solar farm and development of Warradarge wind farm.

Wholesale energy

During the year our wholesale team successfully:

- managed the transition for gas supply to a new agreement with the Gorgon joint venture;
- instigated a major redevelopment to optimise our trading and dispatch systems; and
- implemented new analytical tools that will improve the team's ability to forecast, price and manage risk.

Environment

Synergy is committed to minimising the impact of our operations on the environment.

Our environmental management system (EMS) provides a structured process to manage impacts and ensures legal compliance. Both our policy and EMS are built on the principles of ISO 14001, the international EMS standard that provides organisations with the framework to protect and respond to changing environmental conditions in balance with social and economic needs. This year, Synergy continued to revise the EMS with a greater focus on leadership, strategic management and risk minimisation.

Auditing for continuous improvement

An internal legal audit of Synergy's compliance obligations was completed in December 2016. The objective of the audit was to determine the level of compliance with relevant environmental legislation and licence conditions for Synergy sites covered under the Environmental Protection Act. The audit found no major non-compliances and six minor non-compliances; a continuing improvement on the results of previous years. Corrective actions have been implemented to address all non-compliances.

Emissions to air

The installation of low NOx (oxides of nitrogen) burners at Synergy's Cockburn Power Station has delivered a positive result and halved emissions from the power station. The station was the first in Australia to install the GE burners, as part of a pilot project to validate the newly designed 13E2 gas turbine installed at the site.

In accordance with the National Greenhouse and Energy Reporting Act, Synergy reports its annual greenhouse gas emissions, energy production and energy consumption to the Clean Energy Regulator (CER). This year, Synergy's greenhouse emissions were estimated at 7.7 million tonnes of CO_2e. Details of Synergy's reported emissions for substances such as sulphur dioxide, oxides of nitrogen, particulates and metals are provided annually by Synergy to the National Pollutant Inventory.

Reportable incidents

There was one reportable incident which involved the leakage of low concentration waste water from a storage dam at the Kwinana Power Station site. Ongoing monitoring has shown no evidence of environmental harm or impact above background level. To allow ongoing use, the storage dam will be suitably lined to ensure no ongoing leakage occurs.

Contaminated sites program

Synergy is continuing a significant decontamination and remediation program on an on-site storage tank area as a result of a release of diesel that happened at the site in 2012.

Our people

The primary differentiators for any business revolve around people and culture. Taking action to keep pace with disruption and heightened consumer engagement, requires a committed, talented team and an appetite and ability to adapt and transform while balancing delivery.

Synergy's culture is maturing, our people understand our purpose and they are focused towards creating an intelligent energy future.

Changing the way we work

The most successful businesses are both stable and dynamic and Synergy recognises the importance of supporting people through change while providing the opportunity to do things differently.

Synergy has been trialling an agile operating methodology in some areas of its business over the last 18 months. Being agile means being collaborative, learning by experiment and having the autonomy to act on what you've learned. It means matching the ways of working to suit the challenge and the environment, and evolving those ways as more information and feedback emerges.

The outcomes will include accelerated speed of delivery of products and services, reduced risk through transparency and higher employee engagement.

Building on these successes, we will increase and broaden capability in agile techniques and embed the agile model as a new way of working.

Organisational health

Synergy undertakes an organisational effectiveness survey every year to evaluate the organisation's overall health and alignment with strategic direction. The survey, which benchmarks specific health practices across more than 1,000 companies globally, is a predictor of an organisation's future capacity to perform and implement transformation in a sustainable manner.

Synergy has achieved strong improvements across the board this year, with all key strategic focus areas achieving significant gains. Compared to Australian and global energy companies, Synergy now ranks equal or above benchmark median in practices such as direction, leadership, work environment, accountability and motivation.

Leadership & diversity

About 150 senior professionals have participated in Synergy's effective conversations program. Our leaders have received coaching in performance management and effective communication and continue to build skills to drive a performance culture.

We recognise that varied backgrounds and experiences contribute to new perspectives and fresh ideas and we are committed to creating a workplace in which differences are valued and respected. Our two year diversity management plan aimed to create an inclusive culture, fast-track development into leadership positions, increase female representation in leadership and diversify our workforce by sponsoring education and employment opportunities.

The strategy has promoted the importance of diversity and improved awareness through celebration of various events. Staff participated in activities such as NAIDOC week, international women's day, white ribbon day (preventing violence against women) and the Diwali festival of lights.

Synergy is making progress towards its women in leadership target and women now occupy 32 per cent of leadership positions across the organisation. This year, we also continued with our apprenticeship program, employing four new apprentices in our generation business including two females. We recognise there is much to do and our diversity strategy for the next two years will continue to build awareness and inclusion and aim to improve employment opportunities for women and people from culturally diverse backgrounds.

Safety

The safety of our people and partners who work with us is always the highest priority across all our operations.

This year, Synergy launched a belief based safety leadership program, a customised program moving us from a compliance and systems approach to one which is people and practices driven.

Our aim is to create a 'want to' rather than 'have to' culture, where new habits, beliefs, attitudes and expectations drive a mature and high performance safety culture. The program uses neuroscience and psychology to understand how the brain collects, stores and interprets information to make decisions. It can have a profound impact on people's way of thinking so that they achieve their full potential. The program helps us understand how our beliefs guide our behaviour and equips us to make positive changes.

The safety program is successfully promoted through billboards, posters and videos which feature employees. Leaders and coaches help drive the monthly safety messages by engaging with employees at team meetings, morning pre-starts, station-wide meetings and other opportunities.

Directors' report

The Electricity Generation and Retail Corporation trading as Synergy is a Western Australian government trading enterprise established under the Electricity Corporations Act 2005 (the Act), which specifies its powers, functions and operational restrictions. Synergy is neither an agent of the state, and in accordance with schedule 1 of the Public Sector Management Act 1994 nor is it a public sector organisation.

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

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

Board of directors

The directors of Electricity Generation and Retail Corporation trading as Synergy, at any time during or since the end of 2016-17 financial year, are as follows.

Lyndon Rowe

Chairman since August 2014

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

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

Committee membership

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

Kim Horne

Deputy chairman since July 2015; director since October 2014

Independent, non-executive
AM

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

Committee membership

Chairman of the human resources and sustainability committee.

Left to right: Rob Bransby, David Hunt, Michele Dolin, Lyndon Rowe, Kim Horne, Michael Goddard, Samantha Tough

Rob Bransby

Director since July 2015

Independent, non-executive
A.Fin, FAIM

Mr Bransby is the president of Private Healthcare Australia and is a director of the Australian Digital Health Agency, Craig Mostyn Group, Commonwealth Financial Planning Limited, BW Financial Advice Limited, Count Financial Limited and Financial Wisdom Limited. He is also a commissioner of the Insurance Commission of WA. 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 twenty-five years at the National Australia Bank Ltd.

Committee membership

Member of the human resources and sustainability committee.

Michele Dolin

Director since October 2014

Independent, non-executive
MBA, MA, BA, FCPA, FAICD

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

Committee membership

Member of the audit and compliance committee and risk committee.

Michael Goddard

Director since July 2013

Independent, non-executive
B.Comm, MBS, MPhil, CPA

Mr Goddard has business interests in property, mining and psychometric testing. He has experience in general management, financial management, international trade and fundraising. He has served on a range of public and private company boards including Bunnings Limited, Clough Limited, PT Petrosea TBK and Pacific Forests.

Committee membership

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

David Hunt

Director since August 2014

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

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

Committee membership

Member of the human resources and sustainability committee.

Samantha Tough

Director since October 2014

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

Ms Tough is currently a director of Clean Energy Finance Corporation which is a $10 billion Australian Government owned green energy fund. She is also a director and remuneration committee chair of Saracen Mineral Holdings Ltd; chairman of BlueMount Capital Investment Committee and deputy chair of the WA Academy of Performing Arts. In addition to her board roles, Ms Tough is chief executive officer of The Asthma Foundation. Ms Tough's former directorships include Cape plc, chairman Molopo Energy Ltd, chairman Aerison Pty Ltd, chairman Southern Cross Resources and director Strike Resources Limited.

Committee membership

Chair of the risk committee.

Company secretary

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

Directors' report

Corporate governance checklist

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

Table 1 : ASX principles and recommendations

Principle 1: Lay solid foundations for management and oversight		
Recommendation 1.1	Disclose the board and management respective roles and responsibilities, matters reserved to the board and delegated to management.	Y
1.2	Undertake appropriate checks before appointing a person or a candidate to security holders for election as a director and provide relevant information.	n/a
1.3	A listed entity should have a written agreement with directors and senior executives regarding their appointment terms.	Y
1.4	The company secretary should be accountable directly to the board on matters regarding the proper functioning of the board.	Y
1.5	A listed entity should have a diversity policy with measurable objectives, assess it annually and disclose a summary of the policy and progress towards objectives.	Y
1.6	A listed entity should have a process for periodically evaluating the performance of the board, its committees and individual directors.	Y
1.7	A listed entity should have a process for evaluating senior executive performance and disclose 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.	n/a
2.2	A listed entity should have and disclose a boards' skills matrix.	Y
2.3	A listed entity should disclose the names of independent directors, interests, position, association or relationship and length of service.	Y
2.4	A majority of the board of a listed entity should be independent directors.	Y
2.5	The chair of the board should be an independent director and not the same person as the CEO.	Y
2.6	A listed entity should provide an induction program for new directors which addresses professional development opportunities and skills and knowledge.	Y
Principle 3: Act ethically and responsibly		
Recommendation 3.1	A listed entity should have a code of conduct for its directors, senior executives and employees and disclose it.	Y
Principle 4: Safeguard integrity in corporate reporting		
Recommendation 4.1	A listed entity should have an audit committee and disclose its charter and members' qualifications and experience, as well as meeting attendances.	Y
4.2	Prior to board approval, the CEO and CFO should declare financial statements have been properly maintained and comply with appropriate accounting standards.	Y
4.3	An external auditor should attend a listed entity's AGM and be available to answer security holders' questions relevant to the audit.	n/a
Principle 5: Make timely and balanced disclosure		
Recommendation 5.1	A listed entity should have a written policy for complying with its continuous disclosure obligations under the Listing Rules and disclose that policy or a summary of it.	n/a

Principle 6: Respect the rights of security holders		
Recommendation 6.1	A listed entity should provide information about itself and its governance to investors via its website.	Y
6.2	A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	n/a
6.3	A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	n/a
6.4	A listed entity should give security holders the option to electronically receive communications from, and send communication to, the entity and its security registry.	n/a
Principle 7: Recognise and manage risk		
Recommendation 7.1	A listed entity should have a committee which overseas risk, and the charter, members and meetings held by the committee should be disclosed.	Y
7.2	The board or a committee of the board should review its risk management framework at least annually and disclose whether such a review has occurred.	Y
7.3	A listed entity should disclose its internal audit function, how the function is structured and what role it performs.	Y
7.4	A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and if it does, how it manages or intends to manage those risk.	Y
Principle 8: Remunerate fairly and responsibly		
Recommendation 8.1	A listed entity should have a remuneration committee and disclose the charter, members and number of meetings held.	Y
8.2	A listed entity should separately disclose a summary of its policies and practices regarding the remuneration of non-executive and executive directors and senior executives.	Y
8.3	A listed entity which has an equity-based remuneration scheme should have a policy on whether participants are permitted to enter into transactions and disclose that policy or a summary.	n/a

Notes

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

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

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

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

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

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

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

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

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

Directors’ report

Roles and responsibilities of board and management

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

Strategy

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

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

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

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

Governance and oversight of management

(a) appointing and removing the chief executive officer (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, removal or any material change to the role of senior executives;

(d) approving succession plans for senior executives;

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

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

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

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

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

(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; and

(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; and

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

Compliance and risk management

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

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

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

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

The responsibility for the management of Synergy’s day-to-day operations is delegated to the 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.

In addition to powers set out in the Act, Synergy's executive leadership team charter details its role, power, duties and function. The following matters are the responsibility of management:

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

Diversity

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

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

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

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

Performance evaluation

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

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

Directors' report

- assessing the performance of the chairman – a survey is circulated to each director and the responses are compiled by the company secretary. The results are provided to the chairman and discussed with the chair of the human resources and sustainability committee.

The periodic use of external facilitators to evaluate board performance is recommended in the 3rd edition of the ASX's corporate governance principles and recommendations. Synergy is looking at conducting an externally facilitated evaluation for the next financial year. An internal-self assessment for this financial year will be conducted shortly.

Board composition

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

Director independence, conflicts of interest and length of service

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

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

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

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

Table 2: areas of competence

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

Code of conduct

Synergy's Code of Conduct (the Code) sets out standards for appropriate ethical and professional behaviour for Synergy staff. Staff includes directors, employees, whether permanent, temporary, part-time, full-time, fixed term contract or casual, and contractors engaged to provide services to Synergy. The Code sets out the fundamental values that form the basis of, and underpin Synergy's business relationships. All staff are all responsible for ensuring their behaviour reflects the standards within the Code.

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

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

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

Audit and compliance committee

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

Risk management

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

The purpose of the risk committee is to assist the board in setting components that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout Synergy. The charter that governs the risk committee is available on Synergy's website. The members of the risk committee and individual attendances at these meetings during the reporting period are set out in Table 4.

Risk management framework

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

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

As part of the 2016-17 review, it was ascertained more accessible documentation for the business to use and apply at all levels within the organisation was required. Additional risk activity including operational risk, safety and the approach to internal control and assurance will be addressed within the framework documentation.

Table 3: details of directors

name of director	length of service	independent
Lyndon Rowe (chairman)	chairman and director since August 2014	yes
Kim Horne (deputy chairman)	director since October 2014	yes
Rob Bransby	director since July 2015	yes
Michele Dolin	director since October 2014	yes
Michael Goddard	director since July 2013	yes
David Hunt	director since August 2014	yes
Samantha Tough	director since October 2014	yes

Directors' report

Internal audit function

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

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

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

Human resources and sustainability committee

The purpose of the human resources and sustainability committee is to assist the board to fulfil its corporate governance oversight responsibilities in relation to Synergy's human resources, remuneration 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 these meetings during the reporting period are set out in Table 4.

Remuneration report

The remuneration report details the remuneration arrangements for persons having authority and responsibility for planning, directing and controlling the major activities of the corporation, directly or indirectly, including any director. Names and roles of directors and executives for the financial years ended 2016 and 2017 are listed in Table 5.

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

	board meetings		audit and compliance committee		human resources and sustainability committee		risk committee meetings	
	A	B	A	B	A	B	A	B
Lyndon Rowe	11	11	4	4	4	4	3	3
Kim Horne	10	11	n/a	n/a	3	4	n/a	n/a
Rob Bransby	10	11	n/a	n/a	4	4	n/a	n/a
Michele Dolin	11	11	4	4	n/a	n/a	3	3
Michael Goddard	11	11	4	4	n/a	n/a	3	3
David Hunt	11	11	n/a	n/a	4	4	n/a	n/a
Samantha Tough	10	11	n/a	n/a	n/a	n/a	3	3

A – number of meetings attended

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

Table 5: names and positions of directors and executives

Directors	
Lyndon Rowe	chairman (non executive)
Kim Horne	deputy chairman (non executive)
Rob Bransby	director (non executive)
Michele Dolin	director (non executive)
Michael Goddard	director (non executive)
David Hunt	director (non executive)
Samantha Tough	director (non executive)
Mark Chatfield	director (non executive); ceased as director on 31 July 2015
Executives	
Jason Waters	CEO
Karl Matacz	chief financial officer
Stephanie Unwin	general manager retail from 10 April 2017, previously general manager commercial; ceased employment 28 July 2017
Will Bargmann	general manager corporate services; company secretary
Angie Young	general manager people and culture
Barry Ford	general manager wholesale from 8 May 2017, previously general manager generation
Geoff Roberts	general manager commercial from 10 April 2017, previously general manager retail
Kurt Baker	general manager generation from 8 May 2017, previously general manager wholesale
Gary Peel	chief information officer, appointed 30 November 2015
Jon D'Sylva	general manager commercial; ceased employment on 1 April 2016

Remuneration governance

The human resources and sustainability committee has delegated decision making authority for some matters related to the remuneration arrangements for directors and executives and is required to make recommendations to the board on other matters.

Specifically, the board approves the remuneration arrangements of executives, excluding the CEO, following recommendations from the human resources and sustainability committee. The Minister for Energy determines total remuneration for the CEO and all directors.

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

Director remuneration arrangements

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

Directors do not receive any retirement benefits (apart from statutory superannuation) nor do they participate in any incentive programs.

Details of the nature and emolument of directors of the corporation are set out in Table 6.

Table 6: director remuneration

total remuneration band $	number of staff		short term $'000				post employment $'000				total $'000	
	2016	2017	salary & fees		other		super		termination			
			2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
5,000-9,999	1	-	5	-	-	-	1	-	-	-	6	-
60,000-64,999	1	-	56	-	-	-	6	-	-	-	62	-
65,000-69,999	2	3	63	60	-	-	3	6	-	-	66	66
75,000-79,999	3	3	69	69	-	-	7	7	-	-	76	76
600,000-624,999	1	1	551	551	-	-	52	52	-	-	603	603

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

Directors' report

Executive remuneration arrangements

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

Synergy sets key performance indicators (KPIs) for the CEO and other executives each year which has both a target and stretch outcome. These KPIs are reviewed and approved by the board at the beginning of the financial year. At the end of 12 months, an assessment against these KPIs and performance is undertaken and development plans agreed. The CEO performance plan outcomes are discussed and approved by the board. Executives do not participate in any incentive plans.

Remuneration levels for executives are considered annually through a review process that considers market data, the performance of corporation and the individual, and the broader economic environment.

Following the annual review process in September 2016, executives received a 1.5 per cent increase to salaries effective 1 July 2016.

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 executive positions covered by the Salaries and Allowances Tribunal. Synergy is committed to align with this announcement and has implemented a four year freeze on remuneration for executive positions.

Details of the nature and emolument of executives of the corporation are set out in Table 7.

Contracts of employment for other executives are unlimited in term but generally these contracts are capable of termination by an executive on 13 weeks notice. The corporation retains the right to terminate an executive contract with notice by making payment equivalent to 26 weeks. 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.

Table 7: executive remuneration

total remuneration band $	number of staff		short term $'000				post employment $'000				total $'000	
	2016	2017	salary & fees		other		super		termination			
			2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
225,000-249,999	1	-	225	-	-	-	24		-	-	249	-
350,000-374,999	1	1	283	315	39	9	30	30	-	-	352	354
375,000-399,999	2	-	364	-	-	-	32	-	-	-	396	-
400,000-424,999	2	4	373	374	13	13	28	29	-	-	414	416
425,000-449,999	2	1	385	405	22	13	30	27	-	-	437	445
450,000-474,999	1	1	406	390	18	41	34	37	-	-	458	468
475,000-499,999	-	1	-	413	-	29	-	35	-	-	-	477
575,000-599,999	1	1	525	533	40	17	30	30	-	-	595	580

Notes
Where there is more than one executive in a remuneration band the average remuneration is shown.
Variations in total remuneration can be caused by a wide variety of factors such as leave, accruals and other adjustments.
'Other' includes leave accrual and liability.

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 and subject to any limitations set by the Act) in their capacity as a director or officer of the corporation.

Events after the reporting period

There were no significant events after the reporting period.

Financial report

Contents

Consolidated statement of profit or loss

For the year ended 30 June 2017

		Group		Corporation	
	Note	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Continuing operations					
Sales revenue	1a	2,722,679	2,787,764	2,683,349	2,730,742
Other revenue	1b	282,050	309,821	290,650	317,725
Total revenue		**3,004,729**	**3,097,585**	**2,973,999**	**3,048,467**
Fuel, networks and other direct costs	4	(2,109,284)	(2,146,322)	(2,102,949)	(2,142,500)
Raw materials and services used		(345,297)	(382,875)	(345,145)	(381,710)
Employee expenses	5	(134,407)	(146,749)	(133,758)	(146,182)
Other expenses	6	(170,718)	(163,617)	(169,573)	(162,036)
Depreciation and amortisation	17/18	(174,718)	(181,059)	(90,099)	(164,371)
Impairment losses	7	(110,954)	(14,239)	(129,054)	(14,239)
Total expenses		**(3,045,378)**	**(3,034,861)**	**(2,970,578)**	**(3,011,038)**
Other operating income	2	83,255	23,526	65,802	26,442
Finance income		10,900	10,260	13,125	11,712
Finance costs		(60,579)	(56,639)	(60,579)	(55,194)
Net finance costs	8	**(49,679)**	**(46,379)**	**(47,454)**	**(43,482)**
Share of (loss)/ profit from joint ventures	31	(1,067)	811	-	-
Share of loss from an associate	32	-	-	-	-
(Loss)/ profit before tax from continuing operations		**(8,140)**	**40,682**	**21,769**	**20,389**
Income tax expense	10	(4,484)	(6,996)	(7,631)	(6,753)
(Loss)/ profit for the year from continuing operations		**(12,624)**	**33,686**	**14,138**	**13,636**
Discontinued operations					
(Loss)/ profit after tax for the year from discontinued operations	9	-	(1,349)	-	2,600
(Loss)/ profit for the year		**(12,624)**	**32,337**	**14,138**	**16,236**

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 2017

	Note	Group 2017 $'000	Group 2016 $'000	Corporation 2017 $'000	Corporation 2016 $'000
(Loss)/ profit for the year		**(12,624)**	**32,337**	**14,138**	**16,236**
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		3,604	(372)	(402)	(372)
Net change in fair value of cash flow hedges transferred to profit or loss, net of tax		-	(886)	-	-
Share of joint venture entities other comprehensive income, net of tax		-	593	-	-
Other comprehensive profit/ (loss) to be reclassified to profit or loss in subsequent periods, net of tax		3,604	(665)	(402)	(372)
Items that will not be reclassified subsequently to profit or loss					
Re-measurement gains on defined benefit plans, net of tax		(1,194)	(1,359)	(1,194)	(1,359)
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods, net of tax		(1,194)	(1,359)	(1,194)	(1,359)
Other comprehensive profit/ (loss) for the year, net of tax		**2,410**	**(2,024)**	**(1,596)**	**(1,731)**
Total comprehensive (loss)/ income for the year		**(10,214)**	**30,313**	**12,542**	**14,505**

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 2017

	Note	Group 2017 $'000	Group 2016 $'000	Corporation 2017 $'000	Corporation 2016 $'000
Current assets					
Cash and short term deposits	12a	348,837	251,341	317,537	225,051
Trade and other receivables	13	355,613	453,640	423,670	587,344
Loans and advances	22	-	-	24,400	16,800
Inventories	14	155,089	158,515	154,066	158,264
Derivative financial instruments	23a	49,104	19,738	49,104	19,738
Other financial assets	12b	70,000	82,000	70,000	82,000
Intangible assets	18	25,525	41,545	25,525	41,545
Assets held for sale	19	-	6,700	-	24,474
Total current assets		**1,004,168**	**1,013,479**	**1,064,302**	**1,155,216**
Non-current assets					
Trade and other receivables	13	30,764	-	30,764	-
Loans and advances	22	-	-	52,894	75,834
Property, plant and equipment	17	1,435,425	1,731,026	1,413,962	1,598,086
Intangible assets	18	107,222	86,852	59,464	53,485
Investment in subsidiaries	30	-	-	36,832	-
Investment in joint ventures	31	435	24,220	638	13,643
Investment in associate	32	-	-	179	179
Deferred tax assets	11	46,137	24,042	47,350	27,214
Total non-current assets		**1,619,983**	**1,866,140**	**1,642,083**	**1,768,441**
Total assets		**2,624,151**	**2,879,619**	**2,706,385**	**2,923,657**
Current liabilities					
Trade and other payables	15	451,419	474,757	451,379	473,478
Current tax liabilities		8,995	11,931	8,995	11,931
Derivative financial instruments	23b	55	1,368	55	1,368
Interest bearing loans and borrowings	24	51,600	53,100	51,600	53,100
Finance lease liabilities	25	7,480	6,565	7,480	6,565
Employee benefits	20	27,533	32,295	27,365	32,218
Provisions	21	70,434	110,207	70,434	110,207
Deferred income	16	7,013	2,169	7,013	2,169
Total current liabilities		**624,529**	**692,392**	**624,321**	**691,036**
Non-current liabilities					
Trade and other payables	15	2,324	2,100	2,324	2,100
Interest bearing loans and borrowings	24	142,384	196,708	156,712	196,708
Finance lease liabilities	25	217,989	225,470	217,989	225,470
Employee benefits	20	40,750	36,863	40,714	36,863
Provisions	21	528,878	647,914	528,878	647,914
Deferred income	16	17,536	18,197	17,536	18,197
Total non-current liabilities		**949,861**	**1,127,252**	**964,153**	**1,127,252**
Total liabilities		**1,574,390**	**1,819,644**	**1,588,474**	**1,818,288**
Net assets		**1,049,761**	**1,059,975**	**1,117,911**	**1,105,369**
Equity					
Contributed equity	29	1,292,744	1,292,744	1,292,744	1,292,744
Accumulated losses		(242,956)	(229,138)	(174,806)	(187,750)
Reserves		(27)	(3,631)	(27)	375
Total equity		**1,049,761**	**1,059,975**	**1,117,911**	**1,105,369**

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 2017

	Note	Contributed equity $'000	Accumulated losses $'000	Hedging reserve $'000	Total $'000
Group					
Balance at 1 July 2015		**1,292,744**	**(189,785)**	**(2,966)**	**1,099,993**
Profit for the year		-	32,337	-	32,337
Other comprehensive loss	29	-	(1,359)	(665)	(2,024)
Total comprehensive income for the year, net of tax		-	30,978	(665)	30,313
Dividend paid	29	-	(70,331)	-	(70,331)
Balance at 30 June 2016		**1,292,744**	**(229,138)**	**(3,631)**	**1,059,975**
Balance at 1 July 2016		**1,292,744**	**(229,138)**	**(3,631)**	**1,059,975**
Loss for the year		-	(12,624)	-	(12,624)
Other comprehensive (loss)/ income	29	-	(1,194)	3,604	2,410
Total comprehensive (loss)/ income for the year, net of tax		-	(13,818)	3,604	(10,214)
Dividend paid	29	-	-	-	-
Balance at 30 June 2017		**1,292,744**	**(242,956)**	**(27)**	**1,049,761**
Corporation					
Balance at 1 July 2015		**1,292,744**	**(132,296)**	**747**	**1,161,195**
Profit for the year		-	16,236	-	16,236
Other comprehensive loss	29	-	(1,359)	(372)	(1,731)
Total comprehensive income for the year, net of tax		-	14,877	(372)	14,505
Dividend paid	29	-	(70,331)	-	(70,331)
Balance at 30 June 2016		**1,292,744**	**(187,750)**	**375**	**1,105,369**
Balance at 1 July 2016		**1,292,744**	**(187,750)**	**375**	**1,105,369**
Profit for the year		-	14,138	-	14,138
Other comprehensive loss	29	-	(1,194)	(402)	(1,596)
Total comprehensive income for the year, net of tax		-	12,944	(402)	12,542
Dividend paid	29	-	-		-
Balance at 30 June 2017		**1,292,744**	**(174,806)**	**(27)**	**1,117,911**

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 2017

		Group		Corporation	
	Note	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Operating activities					
Cash receipts from customers		3,014,861	3,436,706	2,983,349	3,396,475
Energy purchase and network access costs		(2,398,428)	(2,572,324)	(2,393,327)	(2,567,339)
Payments to suppliers and employees		(442,433)	(663,907)	(437,327)	(651,383)
Interest received		11,865	9,050	14,101	10,429
Interest paid		(8,892)	(10,910)	(8,892)	(9,465)
Income tax received/(paid)		(30,704)	40,710	(30,704)	40,710
Net cash flows from operating activities	12c	**146,269**	**239,325**	**127,200**	**219,427**
Investing activities					
Investments in joint ventures		(515)	(123)	(515)	(123)
Purchase of subsidiary		(24,821)	-	(24,821)	-
Disposal of joint venture		58,090	-	58,090	-
Investment in deposits		(70,000)	(82,000)	(70,000)	(82,000)
Loans to subsidiaries		-	-	-	(105,234)
Repayment of loans by subsidiaries		-	-	16,800	12,600
Proceeds from deposits		82,000	86,000	82,000	86,000
Dividends received from investments		-	2,600	-	2,600
Cash transferred from business combination		2,741	-	-	-
Payment for property, plant and equipment		(28,393)	(60,195)	(28,393)	(60,195)
Payment for intangible assets		(26,073)	(19,277)	(26,073)	(19,277)
Proceeds from disposal of assets		1,050	568	1,050	568
Net cash flows (used in)/ from investing activities		**(5,921)**	**(72,427)**	**8,138**	**(165,061)**
Financing activities					
Proceeds from borrowings		11,718	105,234	11,718	105,234
Repayment of borrowings		(54,570)	(147,609)	(54,570)	(37,189)
Dividend paid		-	(70,331)	-	(70,331)
Net cash flows used in financing activities		**(42,852)**	**(112,706)**	**(42,852)**	**(2,286)**
Net increase in cash and cash equivalents		97,496	54,192	92,486	52,080
Cash and cash equivalents at 1 July		251,341	197,149	225,051	172,971
Cash and cash equivalents at 30 June	12a	**348,837**	**251,341**	**317,537**	**225,051**

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

Notes to the financial statements: about this report

For the year ended 30 June 2017

Corporate information

The consolidated financial statements of the Electricity Generation and Retail Corporation, trading as Synergy (the Corporation) and its subsidiaries (collectively, the Group), for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of the directors on 29 August 2017.

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

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

Basis of preparation

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

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

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

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

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

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

Foreign currency

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

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognised in the consolidated 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. Non-monetary items measured at fair value are translated using the exchange rates prevailing at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item.

Comparatives

Comparative information is for the financial year ended 30 June 2016.

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

The Group considered additional information which became available during the 2017 financial year and has concluded that it is appropriate to reclassify customers with net credit balances as a trade payable, instead of being net off against trade receivables. For the financial year ended 30 June 2016, $55.7 million was reclassified from trade and other receivables to trade and other payables.

Notes to the financial statements: segment information

For the year ended 30 June 2017

Key judgements and estimates

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

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

- revenue recognition – retail sales of energy: note 1;
- impairment allowance for receivables: note 13;
- commodity swap receivable: note 13;
- defined benefit plans (pension benefits): note 20;
- employee entitlements: note 20;
- provision for decommissioning: note 21;
- provision for commodity swaps: note 21;
- fair value of financial instruments: note 26; and
- classification of lease commitments: note 38.

Other accounting policies

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

Segment information

Segment information is required to be presented for the Group under Part 2 of The Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013. Comparative information is not required to be presented under these Regulations.

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

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

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

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

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

Notes to the financial statements: segment information

For the year ended 30 June 2017

Segment information (continued)

Year ended 30 June 2017	GBU $'000	WBU $'000	RBU $'000	CSS $'000	Eliminations $'000	Group $'000
Revenue						
External customers	83,504	286,780	2,633,135	1,310	-	3,004,729
Inter-segment	609,171	1,469,557	-	-	(2,078,728)	-
Total Revenue	**692,675**	**1,756,337**	**2,633,135**	**1,310**	**(2,078,728)**	**3,004,729**
Cost of sales	(384,063)	(1,304,351)	(2,762,431)	(27)	2,078,728	(2,372,144)
Operating costs	(217,867)	(4,977)	(74,552)	(90,235)	63	(387,568)
Impairment	(51,670)	(65,813)	(59,284)	-	65,813	(110,954)
Other income	1,365	31,255	19	1,047	441	34,127
EBITDA	**40,440**	**412,451**	**(263,113)**	**(87,905)**	**66,317**	**168,190**
Depreciation and amortisation	(139,099)	(12,130)	(10,582)	(12,907)	-	(174,718)
Finance income	570	-	-	13,125	(2,795)	10,900
Finance costs	(16,403)	(38,134)	(4)	(8,833)	2,795	(60,579)
Net finance costs	(15,833)	(38,134)	(4)	4,292	-	(49,679)
Segment profit/ (loss)	**(114,492)**	**362,187**	**(273,699)**	**(96,520)**	**66,317**	**(56,207)**

Unallocated items	
Share of profit of joint ventures and an associate	(1,067)
Gain on sale/ purchase of investment in subsidiaries	49,134
Tax equivalent expense	(4,484)
Loss for the year from continuing operations	**(12,624)**

1. Sales and other revenue

a) Sales revenue

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Sale of energy - retail customers	2,327,730	2,389,650	2,327,730	2,389,648
Sale of energy - wholesale customers	311,788	316,328	272,458	259,308
Sale of energy - other	58,399	61,249	58,399	61,249
Products and services	3,771	-	3,771	-
Account fees and charges	20,991	20,537	20,991	20,537
Total sales revenue	**2,722,679**	**2,787,764**	**2,683,349**	**2,730,742**

b) Other revenue

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Tariff adjustment payments	280,469	307,671	280,469	307,671
Contract works and grants	271	950	8,871	8,854
Government grants	1,310	1,200	1,310	1,200
Total other revenue	**282,050**	**309,821**	**290,650**	**317,725**

1. Sales and other revenue (continued)

Recognition, measurement and accounting estimates

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

Sale of energy

Sale of energy comprises revenue earned from the provision of electricity, gas and related products to wholesale and retail customers. Revenue recognised represents the sum of invoices raised and the movement in the estimated unread energy consumption. A portion of the 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 changes in consumption patterns, if any.

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

Products and services

Products and services revenue is earned from the sale and installation of solar panels and smart meter monitoring software.

Account fees and charges

Account fees and charges include revenue earned from account establishment fees, merchant service fees and late payment charges.

Tariff adjustment payments

Tariff adjustment payment revenue (see note 3) is recognised in line with the sale of energy, and includes an amount based on estimated unread energy consumption.

Contract works

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

Government grants

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

2. Other operating income

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Revaluation of electricity derivatives	31,254	21,231	31,254	21,231
Gain on sale/ purchase of investment transactions	49,134	-	32,107	-
Other operating income	2,867	2,295	2,441	5,211
Total other operating income	**83,255**	**23,526**	**65,802**	**26,442**

3. Economic dependency and community service obligations

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

Community service obligations

Community service obligations (CSOs) are obligations to perform functions, on behalf of the State Government, that are not in the commercial interests of the Corporation to perform. Where the Government agrees to reimburse the Corporation for the cost of CSOs, the entitlement to reimbursement is recognised in the statement of comprehensive income on a basis consistent with the associated CSO expenses and when the right to receive the payment is established. The cost of CSOs if not fully reimbursed is reflected under direct costs (note 4).

The Corporation is reimbursed for the following CSOs:

- Feed in Tariff (FiT) rebates and Renewable Energy Buyback Scheme (REBS);
- supply charge rebates and Energy Assistance Payments (EAP); and
- dependent child rebates and an air conditioning subsidy for seniors.

4. Fuel, networks and other direct costs

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Fuel, electricity and gas purchases	(821,566)	(856,739)	(815,231)	(852,917)
Network access and market participant costs	(1,165,249)	(1,170,166)	(1,165,249)	(1,170,166)
Renewable energy certificates	(122,469)	(119,417)	(122,469)	(119,417)
Total fuel, networks and other direct costs	**(2,109,284)**	**(2,146,322)**	**(2,102,949)**	**(2,142,500)**

5. Employee expenses

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Wages and salaries	(108,828)	(120,404)	(108,223)	(119,881)
Termination benefits	(12,861)	(13,230)	(12,861)	(13,230)
Post employment benefits	(12,718)	(13,115)	(12,674)	(13,071)
Total employee expenses	**(134,407)**	**(146,749)**	**(133,758)**	**(146,182)**

See note 36 for remuneration disclosures of key management personnel.

Notes to the financial statements

For the year ended 30 June 2017

6. Other expenses

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Metering	(9,136)	(6,885)	(9,136)	(6,885)
Communications	(5,419)	(5,270)	(5,409)	(5,263)
Contractors and consultants	(99,430)	(88,524)	(99,440)	(88,479)
Commissions	(3,438)	(3,358)	(3,438)	(3,358)
Insurance	(6,911)	(8,879)	(5,857)	(7,529)
Legal fees	(4,809)	(2,600)	(4,809)	(2,591)
Promotions and advertising	(9,279)	(5,460)	(9,279)	(5,460)
Operating lease rentals	(8,515)	(9,866)	(8,505)	(9,790)
Training and recruitment	(2,841)	(2,896)	(2,841)	(2,896)
Audit services - Office of Auditor General	(412)	(399)	(383)	(382)
Audit services - other	-	(124)	-	(115)
Bank fees and charges	(4,299)	(4,146)	(4,297)	(4,117)
Profit/(loss) on disposal/write off of assets	141	(12,162)	141	(12,162)
Computer software	(518)	(1,660)	(516)	(1,657)
Printing	(1,590)	(1,304)	(1,590)	(1,304)
Other	(14,262)	(10,084)	(14,214)	(10,048)
Total other expenses	**(170,718)**	**(163,617)**	**(169,573)**	**(162,036)**

7. Impairment losses

		Group		Corporation	
	Note	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Allowance for impairment of receivables, net of recoveries	13	(59,285)	(14,239)	(125,098)	(14,239)
Allowance for impairment of inventory	14	(3,956)	-	(3,956)	-
Impairment of plant and equipment	17	(43,302)	-	-	-
Impairment of sales and purchases agreements	18	(4,411)	-	-	-
		(110,954)	**(14,239)**	**(129,054)**	**(14,239)**

8. Net finance costs

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Interest income	10,900	10,260	13,125	11,712
Total finance income	10,900	10,260	13,125	11,712
Interest on loans and borrowings	(7,658)	(3,168)	(7,658)	(837)
Finance lease interest expense	(30,220)	(30,853)	(30,220)	(30,853)
Unwinding of discount on provisions	(21,956)	(22,624)	(21,956)	(22,624)
Gain on interest rate swaps	-	886	-	-
Interest on defined benefit fund	(745)	(880)	(745)	(880)
Total finance costs	(60,579)	(56,639)	(60,579)	(55,194)
Net finance costs	**(49,679)**	**(46,379)**	**(47,454)**	**(43,482)**

8. Net finance costs (continued)

Recognition, measurement and accounting estimates

Borrowing costs

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

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

Interest Income

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

9. Discontinued operations

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Share of profit/(loss) recognised in profit or loss	-	(1,349)	-	2,600
Profit/(loss) for the year from discontinued operations	**-**	**(1,349)**	**-**	**2,600**

In 2016, the Corporation advised the board of directors of Mumbida Wind Farm Holdings Pty Ltd that it intended to sell its interest in the Mumbida wind farm project by selling its 50 per cent shareholding, and so at 30 June 2016 the asset was classified as held for sale. The interest was sold in December 2016. Net assets and net cash inflows from discontinued operations as at 30 June 2016 were as follows:

	Group	Corporation
	2016 $'000	2016 $'000
Net assets directly associated with assets held for sale	6,700	24,474
Net cash inflow from discontinued operations	2,600	2,600

Recognition, measurement and accounting estimates

The equity investment in Mumbida Wind Farm Holdings Pty Ltd was classified as an available-for-sale (AFS) financial asset as it was neither classified as held for trading nor designated at fair value through profit or loss.

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

The Group evaluates whether it remains appropriate to classify financial assets as AFS by considering its ability and intention to sell those assets in the near term.

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

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

9. Discontinued operations (continued)

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

10. Income tax expense

	Group		Corporation	
	2017 $’000	2016 $’000	2017 $’000	2016 $’000
(Loss)/ profit before income tax from continuing operations	(8,140)	40,682	21,769	20,389
(Loss)/ profit before income tax from discontinued operations	-	(1,349)	-	2,600
(Loss)/ profit before income tax	**(8,140)**	**39,333**	**21,769**	**22,989**
Income tax benefit/(expense) using the domestic Corporation tax rate of 30%	2,442	(11,800)	(6,531)	(6,897)
Effect of:				
Exempt / (non-deductible) items	(184)	(10)	(184)	(10)
Over provided tax benefit in respect of prior year	209	85	209	85
Recognition of previously unrecognised deductible/(taxable) temporary differences	-	180	-	180
Derecognition of previous recognised deductible temporary differences	2,649	-	(123)	-
Recognition of (taxable)/deductible temporary differences	374	(244)	-	-
Deductible temporary differences not recognised	(9,974)	(1,011)	(1,002)	(1,011)
Taxable temporary differences not recognised	-	5,804	-	900
Income tax expense	**(4,484)**	**(6,996)**	**(7,631)**	**(6,753)**

The tax rate used for the 2017 and 2016 reconciliation above is the corporate tax rate of 30 per cent payable by Australian corporate entities on taxable profits under Australian tax law.

10. Income tax expense (continued)

The major components of income tax expense for the years ended 30 June 2017 and 30 June 2016 are:

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Other Comprehensive Income (OCI)				
Current tax expense	**(27,084)**	**(38,441)**	**(27,084)**	**(38,441)**
Deferred tax benefit				
Origination and reversal of temporary differences	22,600	31,445	19,453	31,688
Income tax expense in the Statement of profit or loss	**(4,484)**	**(6,996)**	**(7,631)**	**(6,753)**
Statement of OCI				
Deferred tax related to items recognised in OCI during the year				
Net gain on revaluation of cash flow hedges	173	100	173	100
Net gain on defined benefit re-measurement	512	582	512	582
Income tax charged to OCI	**685**	**682**	**685**	**682**

11. Deferred tax

	Group		Corporation		Movement	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000	Group $'000	Corporation $'000
Deferred income tax relating to:						
Trade and other receivables	38,725	4,614	38,725	4,614	34,111	34,111
Derivative financial instruments	(14,715)	(5,511)	(14,715)	(5,511)	(9,204)	(9,204)
Investments	-	-	177	180	-	(3)
Intangibles	7,455	2,197	4,146	2,197	5,258	1,949
Trade and other payables	5,849	7,262	5,835	7,262	(1,413)	(1,427)
Finance lease liability	67,641	69,610	67,641	69,610	(1,969)	(1,969)
Employee benefits	24,208	22,190	24,199	22,190	2,018	2,009
Provisions	80,245	105,002	80,245	105,002	(24,757)	(24,757)
Business related costs	1,665	964	1,665	963	701	702
Carried forward tax losses	21	-	-	-	21	-
Total deferred tax asset	**211,094**	**206,328**	**207,918**	**206,507**	**4,766**	**1,411**
Inventories	(31,175)	(32,601)	(31,175)	(32,601)	1,426	1,426
Investments	154	(2,993)	-	-	3,147	-
Property, plant and equipment	(133,936)	(146,692)	(129,393)	(146,692)	12,756	17,299
Total deferred tax liability	**(164,957)**	**(182,286)**	**(160,568)**	**(179,293)**	**17,329**	**18,725**
Net deferred tax asset	**46,137**	**24,042**	**47,350**	**27,214**	**22,095**	**20,136**

11. Deferred tax (continued)

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
The (increase)/decrease in deferred tax balance relates to:				
Amounts recognised in the Statement of Comprehensive Income				
Trade and other receivables	34,111	1,573	34,111	1,573
Lease receivable	-	(11)	-	(11)
Derivative financial instruments	(9,377)	(6,370)	(9,377)	(6,370)
Investments	3,147	(64)	(3)	180
Intangibles	1,948	(21)	1,949	(21)
Trade and other payables	(1,428)	2,792	(1,427)	2,792
Finance lease liability	(1,969)	(1,728)	(1,969)	(1,728)
Employee benefits	1,498	(244)	1,497	(244)
Provisions	(24,757)	17,748	(24,757)	17,748
Business related costs	701	(480)	702	(480)
Inventories	1,426	3,266	1,426	3,266
Property, plant and equipment	17,299	14,699	17,299	14,699
Reserves	-	285	-	285
	22,599	**31,445**	**19,451**	**31,689**
Amounts recognised in Other Comprehensive Income				
Derivative financial instruments	173	100	173	100
Defined benefit re-measurement	512	582	512	582
	685	**682**	**685**	**682**
Amounts recognised on business combination				
Intangibles	3,310	-	-	-
Trade and other payables	15	-	-	-
Employee benefits	8	-	-	-
Property, plant and equipment	(4,543)	-	-	-
Carried forward tax losses	21	-	-	-
	(1,189)	-	-	-
Total movement	**22,095**	**32,127**	**20,136**	**32,370**

As at 30 June 2017, deferred tax assets have not been recognised in respect of tax losses and deductible temporary differences of $3.1 million for the Group and deductible temporary differences of $9.5 million for the Corporation (2016: $13.7 million for the Group and $8.3 million for the Corporation) as it was not probable that in the foreseeable future sufficient income of that category would be generated for such temporary differences to be reversed.

Recognition, measurement and accounting estimates

Tax equivalent expense

The Corporation operates under the National Taxation Equivalent Regime (NTER). While tax equivalent payments are remitted to 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.

11. Deferred tax (continued)

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 consolidated 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 equity.

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

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

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

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

12. Cash and short term deposits

a) Cash and cash equivalents

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Cash at bank and on hand	119,837	94,341	88,537	68,051
Short term deposits	229,000	157,000	229,000	157,000
Total cash and cash equivalent	**348,837**	**251,341**	**317,537**	**225,051**

b) Other financial assets

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Short-term deposits greater than 3 months	70,000	82,000	70,000	82,000
Total other financial assets	**70,000**	**82,000**	**70,000**	**82,000**

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

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

12. Cash and short term deposits (continued)

Recognition, measurement and accounting estimates

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

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

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

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
(Loss)/ profit for the year from continuing operations	(12,624)	33,686	14,138	13,636
(Loss)/ profit for the year from discontinued operations	-	(1,349)	-	2,600
	(12,624)	32,337	14,138	16,236
Adjustments for:				
(Profit)/ loss on disposal of plant and equipment	(141)	12,162	(141)	12,162
Depreciation and amortisation	174,718	181,059	90,099	164,371
Impairment loss on trade receivables	59,285	14,239	125,098	14,239
Impairment loss on inventory	3,956	-	3,956	-
Impairment of plant and equipment	43,302	-	-	-
Impairment of sales and purchases agreements	4,411	-	-	-
Gain on sale of investments	(47,383)	-	(33,616)	-
Dividend received from discontinued operations	-	-	-	(2,600)
(Gain)/ loss on purchase of subsidiary	(1,751)	-	1,509	-
Non-cash interest expense	21,956	22,624	21,956	22,624
Unused financial guarantee liability	-	-	-	(3,000)
Share of loss/ (profit) of joint ventures and an associate	1,067	(55)	-	-
	246,796	262,366	222,999	224,032
Changes in trade and other receivables	8,376	(95,177)	7,709	(65,301)
Changes in inventories	(531)	14,266	241	11,092
Changes in intangible assets	16,020	(2,598)	16,020	(2,598)
Changes in derivative financial instruments	(31,081)	28,784	(31,081)	20,897
Changes in tax assets and liabilities	(26,219)	47,706	(23,073)	47,464
Changes in trade and other payables	(23,475)	(30,412)	(21,871)	(29,852)
Changes in provisions and others	(43,617)	14,390	(43,744)	13,693
Net cash from operating activities	**146,269**	**239,325**	**127,200**	**219,427**

13. Trade and other receivables

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Trade receivables	139,621	213,512	143,713	213,512
Unbilled receivables	191,133	214,221	188,405	209,380
Inter-group receivables	-	-	66,764	138,673
Commodity swaps	-	856	-	856
Other receivables	14,816	16,396	14,879	16,470
Prepayments	10,043	8,566	9,909	8,453
Deposits	-	89	-	-
Total current trade and other receivables	**355,613**	**453,640**	**423,670**	**587,344**
Commodity swaps	30,764	-	30,764	-
Total non-current trade and other receivables	**30,764**	**-**	**30,764**	**-**

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

Trade receivables are non-interest bearing and are generally on terms of 7 to 30 days. For terms and conditions relating to related party receivables, refer to note 37.

At the end of the reporting period the Group and the Corporation held collateral of $9.2 million (2016: $12.7 million) in the form of bank guarantees and cash deposits.

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

			Past due but not impaired		
	Total $'000	Neither past due or impaired $'000	< 30 days $'000	30-90 days $'000	>91 days $'000
Group					
2016	213,512	139,788	28,001	18,362	27,362
2017	139,621	101,771	24,514	10,231	3,105
Corporation					
2016	352,185	139,794	28,001	18,362	166,028
2017	210,477	103,146	24,514	10,231	72,586

The Corporation balance includes inter-group amounts of $132.4 million (2016: $138.7 million) for which payment has been deferred until Vinalco Energy Trust is in a position to pay. Impairment of $65.8 million (2016: Nil) has been provided against this balance.

As at 30 June 2017, an allowance for impairment of trade receivables of $63.4 million was recognised in the Group and $129.2 million in the Corporation (2016: $15.4 million Group and $15.4 million Corporation).

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

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

The Group first assesses whether impairment exists individually for a customer. If the Group determines that the individual customer is not impaired, it is included in a group of customers with similar credit risk characteristics and collectively assessed for impairment. Customers that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

During the year the Group changed its estimation methodology in relation to provisioning for doubtful debts. The previous methodology relied upon the assessment of historical bad debts written off as a percentage of total retail trade receivables. The new methodology for the estimation of the collective allowance uses a statistical model, considers emerging trends in the portfolio and is sufficiently granular as to permit estimation accuracy to be assessed.

13. Trade and other receivables (continued)

The change in methodology for the estimation of the collective provision and the increase in the specific provision resulted in an increase in the overall allowance for impairment of receivables of $47.9 million in the Group and $113.8 million in the Corporation. See below for the movements in the allowance for impairment of receivables.

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Allowance for impairment of receivables				
Balance at 1 July	(15,429)	(10,136)	(15,429)	(10,136)
Charge for the year, net recoveries	(59,285)	(14,239)	(125,098)	(14,239)
Amount written-off during the year	11,350	8,946	11,350	8,946
Balance as at 30 June	**(63,364)**	**(15,429)**	**(129,177)**	**(15,429)**

Recognition, measurement and accounting estimates

Trade and other receivables

Financial assets are recognised initially at fair value. Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The losses arising from impairment are recognised in the statement of comprehensive income in cost of sales or other operating expenses for receivables.

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

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of comprehensive income. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.

Commodity swaps

The Group has entered into an agreement to deliver gas to a counterparty which will be returned at a future date. These gas agreements are entered into for the purpose of providing flexibility in managing the Group's fuel requirements.

Commodity swaps are non-derivative financial assets, recognised at the present value of future commodity receipts. The unwinding of the discount is expensed as incurred and recognised in the statement of comprehensive income as a finance cost. Changes in the estimated future value of receipts are recognised in the statement of comprehensive income as a cost of sale.

14. Inventories

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Fuel	108,897	109,057	107,874	108,807
Spares and consumables, net of provision	46,192	49,458	46,192	49,457
Total inventories	**155,089**	**158,515**	**154,066**	**158,264**

Recognition, measurement and accounting estimates

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

Spares and consumables include an allowance for impairment losses of $4.0 million (2016: NIL).

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

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

15. Trade and other payables

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Trade payables and accruals	410,217	423,764	410,091	422,580
Other payables	37,918	47,243	37,918	47,155
Accrued salaries	2,243	2,219	2,225	2,212
Interest accrued	1,041	1,531	1,145	1,531
Total current trade and other payables	**451,419**	**474,757**	**451,379**	**473,478**
Deferred costs	2,324	2,100	2,324	2,100
Total non-current trade and other payables	**2,324**	**2,100**	**2,324**	**2,100**

For terms and conditions relating to related party payables, refer to note 37.

Recognition, measurement and accounting estimates

Trade and other payables are a financial liability, recognised initially at fair value net of directly attributable transaction costs. After initial recognition, trade and other payables are measured at amortised cost.

16. Deferred income

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Current	7,013	2,169	7,013	2,169
Non-current	17,536	18,197	17,536	18,197
Deferred income	**24,549**	**20,366**	**24,549**	**20,366**
Represented by:				
Leasehold incentive	14,080	14,098	14,080	14,098
Deferred lease income	5,538	5,983	5,538	5,983
Unearned revenue	4,931	285	4,931	285
Deferred income	**24,549**	**20,366**	**24,549**	**20,366**

16. Deferred income (continued)

Recognition, measurement and accounting estimates

Leasehold incentive

The Group entered into a lease agreement in July 2015 for office space and received a leasehold incentive. The incentive was capitalised at the inception of the lease and amortised on a straight line basis as a reduction in rental expense over the term of the lease.

Deferred lease income

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

17. Property, plant and equipment

Group	Land $'000	Buildings $'000	Plant and equipment $'000	Work in progress $'000	Leased assets (ii) $'000	Total $'000
At Cost						
Balance at 1 July 2015	6,366	152,243	2,662,614	42,829	253,630	3,117,682
Additions	-	-	14,343	47,269	-	61,612
Adjustments	-	-	30,117	-	3,162	33,278
Transfers (i)	(32)	(90)	37,791	(43,872)	-	(6,203)
Disposals/write-off	-	-	(55,143)	-	-	(55,143)
Decommissioning adjustment (note 21)	-	-	(2,911)	-	-	(2,911)
Balance at 30 June 2016	**6,334**	**152,153**	**2,686,811**	**46,226**	**256,792**	**3,148,316**
Balance at 1 July 2016	6,334	152,153	2,686,811	46,226	256,792	3,148,316
Additions	-	-	13,715	35,560	-	49,275
Transfers (i)	-	-	17,436	(37,837)	-	(20,401)
Disposals/write-off	-	(204)	(41,083)	-	-	(41,287)
Decommissioning adjustment (note 21)	-	-	(130,758)	-	-	(130,758)
Decommissioning adjustment against accumulated depreciation	-	-	84,111	-	-	84,111
Balance at 30 June 2017	**6,334**	**151,949**	**2,630,232**	**43,949**	**256,792**	**3,089,256**
Depreciation and impairment						
Balance at 1 July 2015	-	(65,020)	(1,111,709)	-	(87,503)	(1,264,232)
Annual depreciation charge	-	(6,310)	(139,903)	-	(11,917)	(158,130)
Adjustments	-	-	(30,670)	-	(3,162)	(33,831)
Transfers	-	61	(61)	-	-	-
Disposals/write-off	-	-	38,904	-	-	38,904
Balance at 30 June 2016	**-**	**(71,269)**	**(1,243,439)**	**-**	**(102,582)**	**(1,417,290)**
Balance at 1 July 2016	-	(71,269)	(1,243,439)	-	(102,582)	(1,417,290)
Annual depreciation charge	-	(6,152)	(131,413)	-	(11,914)	(149,479)
Impairment	-	-	(43,302)	-	-	(43,302)
Decommissioning adjustment	-	-	(84,111)	-	-	(84,111)
Disposals/write-off	-	202	40,149	-	-	40,351
Balance at 30 June 2017	**-**	**(77,219)**	**(1,462,116)**	**-**	**(114,496)**	**(1,653,831)**
Carrying amount						
At 30 June 2016	6,334	80,884	1,443,372	46,226	154,210	1,731,026
At 30 June 2017	**6,334**	**74,730**	**1,168,116**	**43,949**	**142,296**	**1,435,425**

17. Property, plant and equipment (continued)

Corporation	Land $'000	Buildings $'000	Plant and equipment $'000	Work in progress $'000	Leased assets $'000 (ii)	Total $'000
At Cost						
Balance at 1 July 2015	6,366	152,243	2,499,464	42,829	253,630	2,954,532
Additions	-	-	14,343	47,269	-	61,612
Transfers (i)	(32)	(90)	37,793	(43,872)	-	(6,201)
Adjustments	-	-	22,943	-	3,162	26,105
Disposals/write-off	-	-	(55,142)	-	-	(55,142)
Decommissioning adjustment (note 21)	-	-	(2,911)	-	-	(2,911)
Balance at 30 June 2016	**6,334**	**152,153**	**2,516,490**	**46,226**	**256,792**	**2,977,995**
Balance at 1 July 2016	6,334	152,153	2,516,490	46,226	256,792	2,977,995
Additions	-	-	2,390	35,560	-	37,950
Transfers (i)	-	-	17,436	(37,837)	-	(20,401)
Disposals/write-off	-	(203)	(41,083)	-	-	(41,286)
Decommissioning adjustment (note 21)	-	-	(130,758)	-	-	(130,758)
Decommissioning adjustment against accumulated depreciation	-	-	84,111	-	-	84,111
Balance at 30 June 2017	**6,334**	**151,950**	**2,448,586**	**43,949**	**256,792**	**2,907,611**
Depreciation and impairment						
Balance at 1 July 2015	-	(65,020)	(1,093,044)	-	(87,503)	(1,245,567)
Annual depreciation charge	-	(6,310)	(128,361)	-	(11,917)	(146,588)
Adjustments	-	-	(23,496)	-	(3,162)	(26,657)
Transfers	-	60	(60)	-	-	-
Disposals/write-off	-	-	38,904	-	-	38,904
Balance at 30 June 2016	**-**	**(71,270)**	**(1,206,057)**	**-**	**(102,582)**	**(1,379,909)**
Balance at 1 July 2016	-	(71,270)	(1,206,057)	-	(102,582)	(1,379,909)
Annual depreciation charge	-	(6,152)	(51,937)	-	(11,915)	(70,004)
Decommissioning adjustment	-	-	(84,111)	-	-	(84,111)
Disposals/write-off	-	202	40,173	-	-	40,375
Balance at 30 June 2017	**-**	**(77,220)**	**(1,301,932)**	**-**	**(114,497)**	**(1,493,649)**
Carrying amount						
At 30 June 2016	6,334	80,883	1,310,433	46,226	154,210	1,598,086
At 30 June 2017	**6,334**	**74,730**	**1,146,654**	**43,949**	**142,295**	**1,413,962**

Group and Corporation

(i) Transfers - there were $20.4 million in transfers (2016: $6.2 million) from work in progress to intangible assets (note 18).

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

17. Property, plant and equipment (continued)

Recognition, measurement and accounting estimates

Property, plant and equipment

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

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

The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to provisions (note 21) for further information about the decommissioning provision.

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

- buildings 10 – 40 years
- plant and equipment 2 – 45 years
- lease assets 15 – 25 years

Land is not depreciated.

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

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

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

Leases

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

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

18. Intangibles

Group	Computer software $'000	Environment certificates $'000	Exclusive rights $'000	Sales and purchases agreements $'000	Other $'000	Total $'000
At Cost						
Balance at 1 July 2015	102,502	65,713	537	48,800	-	217,552
Additions	19,276	97,868	-	-	-	117,144
Transfers from WIP (note 17)	6,204	-	-	-	-	6,204
Adjustment	401	-	-	-	-	401
Disposals/surrenders	(10,681)	(100,466)	-	-	-	(111,147)
Write-off	-	(21,570)	-	-	-	(21,570)
Balance at 30 June 2016	**117,702**	**41,545**	**537**	**48,800**	**-**	**208,584**
Balance at 1 July 2016	117,702	41,545	537	48,800	-	208,584
Additions	5,674	101,255	-	15,800	8,145	130,874
Transfers from WIP (note 17)	20,401	-	-	-	-	20,401
Disposals/surrenders	(5)	(117,275)	(537)	-	-	(117,817)
Balance at 30 June 2017	**143,772**	**25,525**	**-**	**64,600**	**8,145**	**242,042**
Amortisation and impairment						
Balance at 1 July 2015	(56,415)	(21,570)	(513)	(10,288)	-	(88,786)
Annual amortisation charge	(17,760)	-	(24)	(5,145)	-	(22,929)
Adjustment	(401)	-	-	-	-	(401)
Disposals	10,359	-	-	-	-	10,359
Write-off	-	21,570	-	-	-	21,570
Balance at 30 June 2016	**(64,218)**	**-**	**(537)**	**(15,433)**	**-**	**(80,188)**
Balance at 1 July 2016	(64,218)	-	(537)	(15,433)	-	(80,188)
Annual amortisation charge	(20,095)	-	-	(5,144)	-	(25,239)
Disposals	6	-	537	-	-	543
Impairment	-	-	-	(4,411)	-	(4,411)
Balance at 30 June 2017	**(84,307)**	**-**	**-**	**(24,988)**	**-**	**(109,295)**
Carrying amount- current						
At 30 June 2016	-	41,545	-	-	-	41,545
At 30 June 2017	**-**	**25,525**	**-**	**-**	**-**	**25,525**
Carrying amount- non-current						
At 30 June 2016	53,485	-	-	33,367	-	86,852
At 30 June 2017	**59,465**	**-**	**-**	**39,612**	**8,145**	**107,222**

18. Intangibles (continued)

Corporation	Computer software $'000	Environment certificates $'000	Exclusive rights $'000	Sales and purchases agreements $'000	Other $'000	Total $'000
At Cost						
Balance at 1 July 2015	102,502	65,713	537	-	-	168,752
Additions	19,277	97,868	-	-	-	117,145
Transfers from WIP (note 17)	6,202	-	-	-	-	6,202
Adjustments	(9,855)	-	-	-	-	(9,855)
Disposals/surrenders	(425)	(100,466)	-	-	-	(100,891)
Write-off	-	(21,570)	-	-	-	(21,570)
Balance at 30 June 2016	**117,701**	**41,545**	**537**	**-**	**-**	**159,783**
Balance at 1 July 2016	117,701	41,545	537	-	-	159,783
Additions	5,672	101,255	-	-	-	106,927
Transfers from WIP (note 17)	20,401	-	-	-	-	20,401
Disposals/surrenders	(5)	(117,275)	(537)	-	-	(117,817)
Balance at 30 June 2017	**143,769**	**25,525**	**-**	**-**	**-**	**169,294**
Amortisation and impairment						
Balance at 1 July 2015	(56,415)	(21,570)	(513)	-	-	(78,498)
Annual amortisation charge	(17,759)	-	(24)	-	-	(17,783)
Adjustments	9,941	-	-	-	-	9,941
Disposals	17	-	-	-	-	17
Write-off	-	21,570	-	-	-	21,570
Balance at 30 June 2016	**(64,216)**	**-**	**(537)**	**-**	**-**	**(64,753)**
Balance at 1 July 2016	(64,216)	-	(537)	-	-	(64,753)
Annual amortisation charge	(20,095)	-	-	-	-	(20,095)
Disposals	6	-	537	-	-	543
Balance at 30 June 2017	**(84,305)**	**-**	**-**	**-**	**-**	**(84,305)**
Carrying amount- current						
At 30 June 2016	-	41,545	-	-	-	41,545
At 30 June 2017	**-**	**25,525**	**-**	**-**	**-**	**25,525**
Carrying amount- non-current						
At 30 June 2016	53,485	-	-	-	-	53,485
At 30 June 2017	**59,464**	**-**	**-**	**-**	**-**	**59,464**

Environmental certificates

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

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

The Group liabilities under the Renewable Energy (Electricity) Act 2000 are measured at the cost of settling the obligation, being the weighted average cost of LGCs and STCs held at the date of surrender. At period end any shortfall in certificates is measured at market value. The liability is expensed as cost of sales. Any excess certificates are held as an intangible asset.

18. Intangibles (continued)

Sales and purchase agreements

Sales and purchase agreements pertain to long-term agreements of the Group's subsidiaries to sell electricity to its customers and purchase fuel from its suppliers.

Exclusive rights

Under a contractual arrangement, the Group is entitled to receive a scheduled number of Australian carbon credit units (ACCU's) generated under a carbon sequestration project. Due to the repeal of the carbon tax legislation there is no readily available future market price for the ACCUs in Australia. Accordingly, the ACCUs have been impaired.

Recognition, measurement and accounting estimates

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

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

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

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

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

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

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

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

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

- software 2 – 10 years
- exclusive rights 2 – 14 years
- sales and purchase agreements 10 – 15 years

The Group's environmental certificates are not amortised.

18. Intangibles (continued)

Impairment of non-financial assets

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

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

Impairment losses of continuing operations are recognised in the consolidated statement of profit or loss in expense categories consistent with the function of the impaired asset.

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

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

19. Assets held for sale

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Investment in Mumbida Wind Farm Holdings Pty Ltd	-	6,700	-	24,474
Total assets held for sale	**-**	**6,700**	**-**	**24,474**

For details on the investment in Mumbida Wind Farm Holdings Pty Ltd see note 31.

Recognition, measurement and accounting estimates

The Group classifies an asset as held for sale when the following criteria are met: the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets; and the sale is highly probable and will be completed within 12 months of the date of classification.

Assets held for sale are measured at the lower of the carrying amount, immediately before the classification as held for sale, and fair value less costs to sell.

20. Employee benefits

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Annual leave	15,538	16,957	15,370	16,880
Long service leave	11,995	15,338	11,995	15,338
Total current liability	**27,533**	**32,295**	**27,365**	**32,218**
Long service leave	6,023	3,078	5,987	3,078
Defined benefit plan obligation	34,727	33,785	34,727	33,785
Total non-current liability	**40,750**	**36,863**	**40,714**	**36,863**

Amounts not expected to be settled within the next 12 months

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

	Group		Corporation	
Amounts not expected to be settled within the next 12 months	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Annual leave (current):				
Annual leave expected to be settled < 12 months	7,690	9,295	7,627	9,246
Annual leave expected to be settled > 12 months	7,848	7,662	7,743	7,634
	15,538	**16,957**	**15,370**	**16,880**
Long service leave (current):				
Long service leave expected to be settled < 12 months	11,995	6,159	11,995	6,159
Long service leave expected to be settled > 12 months	**6,023**	**9,179**	**5,987**	**9,179**
	18,018	**15,338**	**17,982**	**15,338**

Recognition, measurement and accounting estimates

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

Wages, salaries and annual leave

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

Long service leave

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

20. 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. The schemes, which are now closed to new members, are wholly unfunded. The schemes have no assets.

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

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

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

An actuarial review was conducted for the year ended 30 June 2017 using the membership data as at 30 April 2017 as it is not expected that the membership data will be materially different as at 30 June 2017.

<u>Description of the regulatory framework</u>

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

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

<u>Description of other entities' responsibilities for the governance of the Scheme</u>

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

<u>Descriptions of risks</u>

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

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

<u>Description of significant events</u>

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

20. Employee benefits (continued)

Amounts recognised in the consolidated statement of comprehensive income:

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Amounts recognised in profit or loss:				
Interest cost	745	880	745	880
Amounts recognised in OCI:				
Actuarial losses	1,705	1,941	1,705	1,941
	2,450	**2,821**	**2,450**	**2,821**

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

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Balance at 1 July	33,785	32,952	33,785	32,952
Interest cost	745	880	745	880
Benefits paid	(1,508)	(1,988)	(1,508)	(1,988)
Actuarial gains/(losses) arising from changes in assumptions	(21)	1,941	(21)	1,941
Actuarial gains arising from liability experience	1,726	-	1,726	-
Balance at 30 June	**34,727**	**33,785**	**34,727**	**33,785**

Significant actuarial assumptions:

	Defined benefit obligation at valuation date	
	2017	2016
Discount rate	2.26%	2.26%
Expected future salary increase	3.70%	3.50%
Expected future pension increase	2.50%	2.50%

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

Sensitivity analysis:

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

		-0.5 %		+0.5%	
	Base case	Discount rate	Pension increase rate	Discount rate	Pension increase rate
Pension Scheme					
Discount rate	2.26%	1.76%	2.26%	2.76%	2.26%
Pension increase rate	2.50%	2.50%	2.00%	2.50%	3.00%
Defined benefit obligation	33,355	35,788	31,165	31,158	35,771

		-0.5 %		+0.5%	
	Base case	Discount rate	Salary inflation rate	Discount rate	Salary inflation rate
Gold State Super					
Discount rate	2.26%	1.76%	2.26%	2.76%	2.26%
Salary inflation rate	3.70%	3.70%	3.20%	3.70%	4.20%
Defined benefit obligation	1,372	1,394	1,350	1,352	1,392

20. Employee benefits (continued)

Maturity profile

The weighted average duration of the defined benefit obligation for the whole of the pension scheme is 14 years, and for the gold state super scheme is 3 years.

Expected contributions

Expected employer contributions for the financial year ended 30 June 2018 are $1.4 million.

Recognition, measurement and accounting estimates

Pensions and other post-employment benefits

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

The cost of providing benefits under the defined contribution plan is recognised in the consolidated 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-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling, and the return on plan assets (excluding net interest), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Re-measurements are not reclassified to the consolidated statement of profit or loss in subsequent periods.

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

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

Termination benefits

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

21. Provisions

Group and Corporation	Decom provision $'000	Commodity swaps $'000	Other provisions $'000	Total $'000
Balance at 1 July 2015	419,612	292,950	5,471	718,033
Recognised in profit or loss	-	28,554	9,561	38,115
Utilised	-	(12,955)	(3,332)	(16,287)
Change in assumptions recognised in PPE (note 17)	(2,911)	-	-	(2,911)
Reversed during the year	-	-	(1,455)	(1,455)
Discount rate adjustment and imputed interest	13,221	9,405	-	22,626
Balance at 30 June 2016	**429,922**	**317,954**	**10,245**	**758,121**
Balance at 1 July 2016	429,922	317,954	10,245	758,121
Recognised in profit or loss	-	(27,385)	11,363	(16,022)
Utilised	(2,494)	(21,768)	(8,440)	(32,702)
Change in assumptions recognised in PPE (note 17)	(130,758)	-	-	(130,758)
Reversed during the year	-	-	(878)	(878)
Discount rate adjustment and imputed interest	13,608	7,943	-	21,551
Balance at 30 June 2017	**310,278**	**276,744**	**12,290**	**599,312**
2016				
Current	34,919	65,043	10,245	110,207
Non-current	395,003	252,911	-	647,914
	429,922	**317,954**	**10,245**	**758,121**
2017				
Current	33,916	24,228	12,290	70,434
Non-current	276,362	252,516	-	528,878
	310,278	**276,744**	**12,290**	**599,312**

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 ending balance represents the value of the obligation to return gas. The gas agreements are entered into for the purpose of providing flexibility in managing the Group's fuel requirements.

Recognition, measurement and accounting estimates

Decommissioning provision

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

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

21. Provisions (continued)

During 2015 and 2017, the Group engaged an independent expert to estimate the future decommissioning costs. The mid-point of the estimate range, which represents the probability weighted average of the possible scenarios, estimated by the expert, was adopted as the basis for calculating the provision. Because of the long-term nature of the liability, there is significant estimation risk around the estimated decommissioning costs that will be incurred. The Group has assumed the sites will be restored using the technology and materials that are currently available.

The carrying amount of the provision as at 30 June 2017 was $310.3 million (2016: $429.9 million). Fair value for the Group's decommissioning provision is determined using discounted cash flow (DCF) method at the market yields on high quality corporate bonds as published by the Group of 100 for fixed long-term borrowings of similar durations. These assumptions are reviewed and updated at least once a year and at the end of each reporting period.

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

Commodity Swaps

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

General

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

22. Loans and advances

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Current	-	-	24,400	16,800
Non-current	-	-	52,894	75,834
Total loans and advances	**-**	**-**	**77,294**	**92,634**

Loans and advances include loans to a subsidiary, which accrues interest at the Corporation's incremental borrowing cost, and an interest free loan to another wholly owned subsidiary.

Recognition, measurement and accounting estimates

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

23. Derivative financial instruments

a) Derivative financial assets

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Financial assets at fair value through OCI				
Forward exchange contracts- cash flow hedge	16	840	16	840
Total current financial assets through OCI	**16**	**840**	**16**	**840**
Financial assets at fair value through profit or loss				
Electricity derivatives- embedded	49,088	18,899	49,088	18,899
Total current financial assets through profit or loss	**49,088**	**18,899**	**49,088**	**18,899**
Total current financial assets at fair value	**49,104**	**19,738**	**49,104**	**19,738**

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

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

Recognition, measurement and accounting estimates

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

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

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

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

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

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

23. Derivative financial instruments (continued)

b) Derivative financial liabilities

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Financial liabilities at fair value through OCI				
Forward exchange contracts- cash flow hedge	55	303	55	303
Total current financial liabilities through OCI	**55**	**303**	**55**	**303**
Financial liabilities at fair value through profit or loss				
Electricity derivatives- embedded	-	1,065	-	1,065
Total current financial liabilities through profit or loss	**-**	**1,065**	**-**	**1,065**
Total current financial liabilities at fair value	**55**	**1,368**	**55**	**1,368**

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

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

Recognition, measurement and accounting estimates

Derivative financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

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

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

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

The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

c) Derivatives and hedging activities

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

Foreign currency risk

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

23. Derivative financial instruments (continued)

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

The average hedge deal rates as at 30 June 2017 for foreign currency purchases were USD 0.76 (2016: 0.74) and EUR 0.68 (2016: 0.67).

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
	$'000	$'000	$'000	$'000
Foreign currency forward contracts designated as hedging instruments				
Fair value	16	55	840	303

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 consolidated statement of comprehensive income.

The cash flow hedges of the expected future purchases in 2017 were assessed to be effective, and as at 30 June 2017, a net unrealised gain of $3.6 million (net of tax) was included in OCI in respect of these contracts. The amounts retained in OCI at 30 June 2017 are expected to mature and affect the consolidated statement of profit or loss in 2018.

Electricity derivatives

Electricity derivatives are the contract-for-difference component of some electricity trading contracts the Group has entered into. These electricity derivatives have been separated and are carried at fair value through profit or loss. The carrying values of the electricity derivatives at 30 June 2017 amounted to a net asset of $40.0 million (2016: net asset $18.4 million). The effects are reflected in the consolidated statement of comprehensive income.

Recognition, measurement and accounting estimates

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

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

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

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

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

23. Derivative financial instruments (continued)

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

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

Fair value hedges

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

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

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

Cash flow hedges

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

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

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

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

24. Loans and borrowings

	Interest rate	Maturity	Group 2017 $'000	Group 2016 $'000	Corporation 2017 $'000	Corporation 2016 $'000
Unsecured borrowings	2.48% to 2.55%	Apr-18 to Sep-20	51,600	53,100	51,600	53,100
Total current interest bearing loans and borrowings			**51,600**	**53,100**	**51,600**	**53,100**
Unsecured borrowings	2.55% to 2.77%	Apr-19 to Aug-21	142,234	196,548	156,562	196,548
Secured borrowings	3.13%	30 June 2021	150	160	150	160
Total non-current interest bearing loans and borrowings			**142,384**	**196,708**	**156,712**	**196,708**
Total interest bearing loans and borrowings			**193,984**	**249,808**	**208,312**	**249,808**

Unsecured borrowings

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

At 30 June 2017, the Group had available $1,206 million (2016: $1,153 million) of undrawn committed borrowing facilities. Subject to approval within the State Budget due to be handed down in September 2017, the maximum amount of borrowing permitted by the Department of Treasury for the reporting year ended 30 June 2018 is currently expected to be $193.9 million (2017: $230.3 million).

Recognition, measurement and accounting estimates

Loans and borrowings are a financial liability, recognised initially at fair value and, net of directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated statement of profit or loss when the liabilities are de-recognised as well as through the EIR amortisation process.

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

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

25. Finance leases

	Note	Group 2017 $'000	Group 2016 $'000	Corporation 2017 $'000	Corporation 2016 $'000
Current	38	7,480	6,565	7,480	6,565
Non-current	38	217,989	225,470	217,989	225,470
Total finance lease liability		**225,469**	**232,035**	**225,469**	**232,035**

25. Finance leases (continued)

The Group has entered into the following lease arrangements:

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

Recognition, measurement and accounting estimates

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

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

Finance leases

Finance leases are a financial liability recognised initially at fair value. Subsequently, the lease liability is held at amortised cost, with the reduction in the carrying amount reflecting the lease payments made during the year.

Operating leases

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

26. Fair value of financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

The Group measures derivative financial instruments at fair value at each reporting date.

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

		2017		2016	
		Carrying amount	Fair value	Carrying amount	Fair value
	Note	$'000	$'000	$'000	$'000
Financial liabilities					
Finance lease liabilities	25	(225,469)	(376,632)	(232,035)	(406,877)

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

- *fair values of the Group's interest-bearing borrowings and loans* are determined using the discounted cash flow (DCF) method. The own non-performance risk as at 30 June 2017 was assessed to be insignificant. The interest rates used to discount estimated cash flows, where applicable, are based on the WATC yield curve at the end of the reporting period;
- *fair values of the Group's foreign exchange forward contracts* are determined using the DCF method. The difference between the deal rate and the forward curve rate to maturity is discounted using the base currencies discount curve. Curves used are those published by financial institutions at the end of the reporting period; and
- *fair value of the Group's electricity derivatives* is determined using the DCF method. Internally projected forward electricity price is used to calculate the forward price curve. These are discounted using the at the market yields on high quality corporate bonds as published by the Group of 100 for fixed long-term borrowings of similar durations.

26. Fair value of financial instruments (continued)

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

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

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

Fair value hierarchy for financial instruments measured at fair value:

		Fair value measurement using		
	Total	(Level 1)	(Level 2)	(Level 3)
2016	$'000	$'000	$'000	$'000
Assets measured at fair value				
Foreign exchange forward contracts	840	-	840	-
Available for sale financial investments	6,700	-	-	6,700
Electricity derviatives- embedded	18,898	-	-	18,898
Liabilities measured at fair value				
Forward exchange contracts- cash flow hedge	(303)	-	(303)	-
Electricity derivatives- embedded	(1,065)	-	-	(1,065)
2017				
Assets measured at fair value				
Foreign exchange forward contracts	16	-	16	-
Electricity derivatives- embedded	49,088	-	-	49,088
Liabilities measured at fair value				
Forward exchange contracts- cash flow hedge	(55)	-	(55)	-

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

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

	2017	2016
Reconciliation of Level 3 financial instruments	$'000	$'000
Opening balance	17,833	(3,398)
Additions during the year	-	6,700
Gains recognised in profit or loss	31,255	14,531
Closing balance	49,088	17,833

26. Fair value of financial instruments (continued)

Description of significant unobservable inputs in valuation:

Asset/liability	Valuation technique	Significant unobservable inputs	Sensitivity of the input to the fair value
Electricity derivatives - embedded	DCF method	Internally projected forward electricity price	10% increase (decrease) would result in a decrease (increase) in fair value by $15.3 million.
		Discount rate	1% increase (decrease) would result in a decrease (increase) in fair value by $0.1 million.

Recognition, measurement and accounting estimates

Fair value

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

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

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

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

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

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

27. Financial risk management objectives and policies

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

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

27. Financial risk management objectives and policies (continued)

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

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

Market risk

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

The sensitivity analysis in the following sections relate to the position as at 30 June 2017 and 2016. The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 30 June 2017. The analysis excludes the impact of movements in market variables on the carrying values of pension and other post-retirement obligations, and provisions.

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

- the consolidated statement of financial position sensitivity relates to derivatives; and
- the sensitivity of the relevant consolidated statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 30 June 2017 and 2016 including the effect of hedge accounting.

Interest rate risk

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

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

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

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Financial assets	299,000	239,000	376,294	331,634
Financial liabilities	(419,303)	(478,969)	(419,303)	(478,969)
Total fixed rate instruments	**(120,303)**	**(239,969)**	**(43,009)**	**(147,335)**
Financial assets	119,837	94,341	88,537	68,051
Financial liabilities	(150)	(2,874)	(14,478)	(2,874)
Total variable rate instruments	**119,687**	**91,467**	**74,059**	**65,177**

Interest rate sensitivity

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

27. Financial risk management objectives and policies (continued)

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

		- 100 basis points		+ 100 basis points	
	Carrying amount	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
	$'000	$'000	$'000	$'000	$'000
Group - 2016					
Cash and cash equivalents	94,341	(943)	-	943	-
Unsecured loans and borrowings	(2,874)	29	-	(29)	-
Group - 2017					
Cash and cash equivalents	119,837	(1,198)	-	1,198	-
Unsecured loans and borrowings	(150)	2	-	2	-
Corporation - 2016					
Cash and cash equivalents	68,051	(681)	-	681	-
Interest rate swaps	-	-	-	-	-
Unsecured loans and borrowings	(2,874)	29	-	(29)	-
Corporation - 2017					
Cash and cash equivalents	88,537	(885)	-	885	-
Unsecured loans and borrowings	(14,478)	145	-	145	-

Foreign currency risk

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

The Group manages its foreign currency risk by hedging transactions that are expected to occur within a maximum 24-month period. When the nature of the hedge relationship is not an economic hedge, it is the Group's policy to negotiate the terms of the hedging derivatives to match the terms of the underlying hedge items to maximise hedge effectiveness. The Group hedges its exposure to fluctuations by using foreign currency swaps and forwards. At 30 June 2017, the Group hedged 100 per cent (2016:100 per cent) of its foreign currency purchases for which highly probable forecasted transactions existed at the reporting date.

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

	USD		EURO	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Group and Corporation				
Estimated forecast purchases	(4,068)	(8,353)	(939)	(3,463)
Forward exchange contracts	4,068	8,353	939	3,463
Net exposure	**-**	**-**	**-**	**-**

27. Financial risk management objectives and policies (continued)

Foreign currency sensitivity

A 10 per cent strengthening/weakening of the Australian dollar against the following currencies at 30 June 2017 would have increased/ (decreased) profit or loss and OCI by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	-10%		+10%	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
Group and Corporation	$'000	$'000	$'000	$'000
2016				
USD	-	2,076	-	(191)
EURO	-	283	-	(763)
2017				
USD	-	445	-	(364)
EURO	-	106	-	(87)

Commodity price risk

Commodity price risk arises from an electricity commodity derivative.

Commodity price sensitivity

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

		-10%		+10%	
	Carrying amount	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
	$'000	$'000	$'000	$'000	$'000
Group and Corporation					
2016					
Embedded electricity derivative	17,833	14,647	-	(14,647)	-
2017					
Embedded electricity derivative	49,088	15,370	-	(15,370)	-

Credit risk

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

27. Financial risk management objectives and policies (continued)

Trade receivables

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

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

An impairment analysis is performed at each reporting date on an individual basis for major clients. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in note 13. The Group holds collaterals as security.

Financial instruments and cash deposits

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

The Group's maximum exposure to credit risk for the components of the statement of financial position at 30 June 2017 and 2016 is the carrying amounts as illustrated elsewhere in this note except for derivative financial instruments. The Group's maximum exposure for financial derivative instruments is noted in the liquidity table below.

Liquidity risk

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

The Group monitors its risk to a shortage of funds using a liquidity planning tool. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of the Western Australian Treasury Corporation (WATC) loan facility. Based on management forecasts, it is expected that the Group will remain cash positive whilst repaying WATC debt. 27% of the Group's debt will mature in less than one year at 30 June 2017 (2016: 22%) based on the carrying value of borrowings reflected in the financial statements.

27. Financial risk management objectives and policies (continued)

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

Group	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2016					
Interest bearing loans and borrowings	(5,227)	(55,725)	(205,112)	(3,409)	(269,473)
Trade and other payables	(425,438)	(49,552)	(1,649)	(218)	(476,857)
Finance lease liability	-	(36,786)	(148,883)	(332,949)	(518,618)
Derivatives	(299)	(4)	-	-	(303)
Embedded derivatives	48	143	(970)	(937)	(1,716)
	(375,175)	(141,924)	(356,614)	(337,513)	(1,211,227)
Year ended 30 June 2017					
Interest bearing loans and borrowings	(6,717)	(50,966)	(147,263)	-	(204,946)
Trade and other payables	(386,235)	(62,695)	(2,954)	(1,859)	(453,743)
Finance lease liability	(9,240)	(27,719)	(149,585)	(295,288)	(481,832)
Derivatives	(55)	-	-	-	(55)
	(402,247)	(141,380)	(299,802)	(297,147)	(1,140,576)

Corporation	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2016					
Interest bearing loans and borrowings	(5,227)	(55,725)	(205,112)	(3,409)	(269,473)
Trade and other payables	(424,386)	(49,413)	(1,561)	(218)	(475,578)
Finance lease liability	-	(36,786)	(148,883)	(332,949)	(518,618)
Derivatives	(299)	(4)	-	-	(303)
Embedded derivatives	48	143	(970)	(937)	(1,716)
	(374,123)	(141,785)	(356,526)	(337,513)	(1,209,947)
Year ended 30 June 2017					
Interest bearing loans and borrowings	(6,810)	(51,244)	(162,764)	-	(220,818)
Trade and other payables	(386,206)	(62,684)	(2,954)	(1,859)	(453,703)
Finance lease liability	(9,240)	(27,719)	(149,585)	(295,288)	(481,832)
Derivatives	(55)	-	-	-	(55)
	(402,310)	(141,647)	(315,303)	(297,147)	(1,156,407)

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

27. Financial risk management objectives and policies (continued)

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

Group and Corporation	Less than 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	> 5 years $'000	Total $'000
Year ended 30 June 2016					
Inflows	5,191	220	-	-	5,411
Outflows	(5,490)	(224)	-	-	(5,714)
Net	(299)	(4)	-	-	(303)
Year ended 30 June 2017					
Inflows	4,013	-	-	-	4,013
Outflows	(4,068)	-	-	-	(4,068)
Net	(55)	-	-	-	(55)

28. Operational risk

The Group is exposed to single sources of supply in relation to both its coal and gas supplies and networks access. As such these suppliers represent a 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. Many contractual remedies require the Group to incur additional costs, some of which may not be recoverable, which may in turn impact the Group's future profitability and cash flows. From time to time, the Group enters into discussions with its suppliers to address any potential interruptions to supply.

29. Contributed equity and reserves

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
As at 1 July	1,292,744	1,292,744	1,292,744	1,292,744
As at 30 June	**1,292,744**	**1,292,744**	**1,292,744**	**1,292,744**

Contributions

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

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

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

Contributions from owners under a restructure of administrative arrangements

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

Capital management

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

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

29. Contributed equity and reserves (continued)

Dividends

There were no dividends paid in the current financial year.

During 2016 $33.2 million was paid in relation to the year ended 30 June 2016 and $37.1m was paid in relation to the year ended 30 June 2015.

Other reserves

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

Other comprehensive income, net of tax

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

Group	Accumulated losses $'000	Hedging reserve $'000	Total $'000
As at 30 June 2016			
Changes in fair value of cash flow hedges, net of tax	-	(372)	(372)
Net change in fair value of cash flow hedges transferred to profit and loss, net of tax	-	(886)	(886)
Share of joint venture entities other comprehensive income, net of tax	-	593	593
Re-measurement gains on defined benefit plans, net of tax	(1,359)	-	(1,359)
	(1,359)	**(665)**	**(2,024)**
As at 30 June 2017			
Changes in fair value of cash flow hedges, net of tax	-	3,604	3,604
Re-measurement gains on defined benefit plans, net of tax	(1,194)	-	(1,194)
	(1,194)	**3,604**	**2,410**
Corporation			
As at 30 June 2016			
Changes in fair value of cash flow hedges, net of tax	-	(372)	(372)
Re-measurement gains on defined benefit plans, net of tax	(1,359)	-	(1,359)
	(1,359)	**(372)**	**(1,731)**
As at 30 June 2017			
Changes in fair value of cash flow hedges, net of tax	-	(402)	(402)
Re-measurement gains on defined benefit plans, net of tax	(1,194)	-	(1,194)
	(1,194)	**(402)**	**(1,596)**

30. Information relating to subsidiaries

The consolidated financial statements of the Group include:

	Principal activity	Country of incorporation	% Equity interest 2017	2016
Vinalco Energy Pty Ltd	Muja AB plant operators	Australia	100%	100%
South West Hub Pty Ltd	Carbon storage research	Australia	100%	100%
South West Solar Development Holdings Pty Ltd*	Solar farm operators	Australia	100%	50%

* On 30 June 2017, the Group purchased the other 50% shareholding in South West Solar Development Holdings Pty Ltd. In 2016 the Group had a 50% equity interest in South West Solar Development Holdings Pty Ltd, and disclosed this as a joint venture (note 31).

30. Information relating to subsidiaries (continued)

Recognition, measurement and accounting estimates

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2017. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

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

Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

During 2016, the Corporation entered into a loan within the Group to Vinalco, and in 2017 the Corporation entered into a loan with South West Solar Development Holdings Pty Ltd, see note 22.

Acquisition of subsidiary

On 30 June 2017, the Group obtained control of South West Solar Development Holdings Pty Ltd (SWSDH) by acquiring the remaining 50% shareholding with the provisional payment of $24.9 million. As a result of the acquisition, the Group holds 100% equity interest in SWSDH and its subsidiary Greenough River Solar Farm Pty Ltd.

The fair value of the identifiable assets and liabilities of SWSDH as at the date of acquisition were determined provisionally to be:

	2017 $'000
Cash and cash equivalents	2,741
Trade and other receivables	397
Property, plant and equipment	11,300
Intangible assets	23,945
Total assets	**38,383**
Trade and other payables	(362)
Deferred tax liabilities	(1,189)
Total liabilities	**(1,551)**
Total identifiable net assets at fair value	**36,832**

The book value of the underlying plant and equipment held by the SWSDH Group was $27.1 million which was taken up at fair value of $11.3 million.

30. Information relating to subsidiaries (continued)

Reconciliation of net investment in subsidiaries in the Corporation:

	2017 $'000	2016 $'000
Cost of investment	36,832	-
Net carrying value	36,832	**-**
Movement in investment in subsidiairies		
Balance at 1 July	-	-
Transfer from investment in joint ventures	13,521	-
Loss on purchase of investment	(1,591)	-
Capital contributions	24,902	-
Balance 30 June	**36,832**	**-**

Recognition, measurement and accounting estimates

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the consideration transferred measured at fair value on the date of acquisition. Acquisition-related costs are expensed as incurred. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated statement of profit or loss. It is then considered in the determination of goodwill.

31. Interest in joint ventures and operations

	Report date	Date of incorporation	Country of incorporation	% Equity interest 2017	% Equity interest 2016
Mumbida Wind Farm Holdings Pty Ltd*	30 June	Nov 2010	Australia	0%	50%
Collie Basin SO_2 Modelling Study	30 June	N/A	N/A	64%	64%
South West Hub Joint Venture	30 June	N/A	N/A	100%	100%
South West Cogeneration Joint Venture^	30 June	N/A	N/A	0%	50%

* On 20 December 2016, the Group sold its 50% shareholding in Mumbida Wind Farm Holdings Pty Ltd (see note 9).

Collie Basin SO_2 Modelling Study is a Cooperative Research Agreement to produce reliable SO_2 dispersion software capable of assessing the impacts of SO_2 in the Collie region.

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

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

31. Interest in joint ventures and operations (continued)

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

	2017 $'000	2016 $'000
Current assets	2,033	8,883
Non-current assets	-	38,484
Current liabilities	(291)	(197)
Non-current liabilities	-	-
Equity	**1,742**	**47,170**
Proportion of group's ownership	1,548	24,285
Carrying amount of the investment	**435**	**24,220**
Revenue	5,610	5,115
Expenses	(6,568)	(2,753)
Profit before tax	**(958)**	**2,362**
Income tax expense	183	(728)
(Loss)/ profit for the year	**(775)**	**1,634**
Group's share of the loss for the year	**(1,067)**	**(538)**

The joint venture entities had no contingent liabilities as at 30 June 2017 (2016: Nil). The joint ventures entities cannot distribute profits until obtaining the consent from the two venture partners.

Reconciliation of investment in joint venture entities:

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Cost of investment	1,238	34,243	38,070	34,243
Accumulated losses recognised	(803)	(10,023)	(600)	(20,600)
Net carrying value	**435**	**24,220**	**37,470**	**13,643**
Balance at 1 July	24,220	33,340	13,643	37,994
Capital contributions	516	123	516	123
Share of loss recognised in profit or loss in year	(1,067)	(538)	-	-
Share of movement in hedge reserve of associate	-	595	-	-
Dividends paid	-	(2,600)	-	-
Transfer to investments in subsidiaries	(23,234)	-	(13,521)	-
Transfer to assets held for sale	-	(6,700)	-	(24,474)
Balance 30 June	**435**	**24,220**	**638**	**13,643**

31. Interest in joint ventures and operations (continued)

Recognition, measurement and accounting estimates

Investment in joint ventures

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

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

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

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

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

Investment in joint operations

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

32. Investment in an associate

The Group has an interest in the following associate:

	Principal Activity	Report Date	Country of Incorporation	% Equity interest	
				2017	2016
Premier Coal Limited	Coal miner	31 Dec	Australia	-	-

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

32. Investment in an associate (continued)

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

	2017 $'000	2016 $'000
Current assets	141,387	100,906
Non-current assets	153,844	186,321
Current liabilities	(65,556)	(57,807)
Non-current liabilities	(41,460)	(36,279)
Equity	**188,215**	**193,141**
Proportion of Group's ownership	-	-
Carrying amount of the investment	**-**	**-**
Revenue	239,523	228,081
Expenses	(247,868)	(234,763)
Loss before tax	**(8,345)**	**(6,682)**
Income tax (benefit) expense	3,421	1,154
Loss for the year	**(4,924)**	**(5,528)**
Group's share of the loss for the year	(1,231)	(1,382)
Group's share of loss restricted to carrying value of investment	-	-

Reconciliation of investment in associate:

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Cost of investment	179	179	179	179
Accumulated losses recognised	(179)	(179)	-	-
Net carrying value	**-**	**-**	**179**	**179**
Balance at 1 July	-	-	179	179
Share of loss recognised in profit or loss in year	-	-	-	-
Balance 30 June	**-**	**-**	**179**	**179**

The associate had no contingent liabilities as at 30 June 2017 (2016: Nil).

Recognition, measurement and accounting estimates

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

33. New and amended accounting standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 July 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Although these new standards and amendments applied for the first time in 2017, they did not have a material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements. The nature of each new standard or amendment is described below:

AASB 2014-4 *Amendments to Australian Accounting Standards*- AASB 116 *Property, Plant and Equipment and* AASB 138 *Intangible Assets*

This standard makes clarifications to the methods used to depreciate and amortise assets under the expected pattern of consumption method in AASB 116 and AASB 138, and to clarify that revenue is generally presumed to be an inappropriate basis for that purpose.

AASB 2014-9 *Amendments to Australian Accounting Standards- Equity Method in Separate Financial Statements*

This standard amends AASB 127 *Separate Financial Statements*, and consequentially AASB 128 *Investments in Associates and Joint Ventures*, to allow entities to use the equity method of accounting for investments in subsidiaries, joint ventures and associates in their separate financial statements.

AASB 2015-2 *Amendments to Australian Accounting Standards*- AASB 101 *Presentation of Financial Statements*

This standard makes amendments to AASB 101 arising from the IASB's Disclosure Initiative project, designed to determine immaterial information that could be excluded from the financial statements, in order to make the financial disclosures more useful.

AASB 2015-6 *Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities*

This standard makes amendments to AASB 124 *Related Party Disclosures* to extend the scope of that standard to include not-for-profit (NFP) public sector entities.

AASB 2015-7 *Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities*

This standard makes amendments to AASB 13 *Fair Value Measurement* to exempt NFP public sector entities from certain requirements of the standard.

34. 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:

The Group has not yet assessed the impact of the new standards on the financial results.

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	*Financial Instruments*	This standard replaces AASB 139 and supersedes both AASB 9 (December 2010) and AASB 9 (December 2009) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.	1 January 2018	1 July 2018
AASB 15	*Revenue from Contracts with Customers*	This standard replaces AASB 111, AASB 118 and related interpretations, and specifies the treatment for revenue arising from contracts with customers. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services	1 January 2019	1 July 2019
AASB 16	*Leases*	This standard replaces AASB 117 and requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset value is low. Assets and liabilities arising from a lease are initially measured on a present value basis. AASB 16 contains disclosure requirements for lessees.	1 January 2019	1 July 2019
AASB 1058 and AASB 2016-8	*Income of Not-for-Profit Entities* *Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities*	AASB 1058 and AASB 2016-8 will defer income recognition in some circumstances for NFP entities, particularly where there is a performance obligation or any other liability. In addition, certain components in an arrangement may be separated from other types of income and recognised immediately. The standard also expands the circumstances in which NFP entities are required to recognise income for goods and services received for consideration that is significantly less than the fair value of the asset principally to enable the entity to further its objectives. AASB 1004 *Contributions* is also amended, with many of its requirements being revised and relocated to AASB 1058.	1 January 2019	1 July 2019

35. Goods and services tax (GST)

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

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

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

36. Key management personnel compensation

	2017 $'000	2016 $'000
Short-term employee benefits	4,652	4,794
Post-employment benefits	363	381
Other long-term benefits	-	-
Termination benefits	-	-
Total compensation paid to key management personnel	**5,015**	**5,175**

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

37. Related party disclosures

The Group is a wholly-owned public sector entity, controlled by the State Government of Western Australia. The Group's related parties include subsidiaries, joint ventures and operations and an associate. Details relating to the Group's structure can be found in notes 30-32.

Other related parties of the Group include:

- all Ministers and their close family members, and their controlled or jointly controlled entities;
- all key management personnel 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).

Transactions with related parties

Transactions between the Group and its subsidiaries are eliminated on consolidation and are not disclosed in this note.

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

Remuneration and benefits received by directors and key management personnel are disclosed in the directors' report and in note 36.

GESB is responsible for the governance of the Group's pension schemes, further details of which are disclosed in note 20.

37. Related party disclosures (continued)

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

- other revenue of $377,550,000 from the Department of Treasury for TAP and CSO rebates (notes 1 and 3); $8,473,000 of which was receivable at 30 June 2017;
- borrowings under a Master Lending Agreement with the WATC (note 24); the Group repaid $53,100,000 of borrowings and incurred interest charges of $5,953,000 during the year; $684,000 of interest was accrued at 30 June 2017;
- network access payments to the Electricity Networks Corporation (see below);
- energy sales to the Regional Power Corporation and the Water Corporation (see below); and
- operating and maintenance costs paid to the Regional Power Corporation.

The Group is not aware of any material transactions with the Premier of Western Australia or any of the cabinet ministers during the year ended 30 June 2017.

Further disclosures of related party transactions are as follows:

	Sale of goods and services to related parties	Purchases of goods and services from related parties	Amounts owed by related parties	Amounts owed to related parties	Commitments outstanding with related parties
	$'000	$'000	$'000	$'000	$'000
Associate					
Premier Coal Ltd	-	184,240	-	2,759	69,375
Joint Ventures and Operations					
South West Solar Development Holdings Pty Ltd*	558	1,598	-	-	-
Collie Basiin SO_2 Modelling Study	62	-	-	-	-
Government Related Entities					
Water Corporation	16,960	-	526	-	-
Regional Power Corporation	30,875	572	2,397	-	-
Electricity Networks Corporation	154	1,177,213	83	173,774	-

* Following the Group's acquisition of the remaining 50% of South West Solar Development Holdings Pty Ltd (see note 30), amounts owing to or from this entity form part of the intercompany balances and are eliminated on consolidation.

Notes to the financial statements

For the year ended 30 June 2017

38. Commitments

Operating lease commitments

The Group has lease contracts that relate to the following:

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

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

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

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Less than one year	118,695	118,529	118,695	118,529
Between one and five years	494,090	498,504	494,090	498,504
More than five years	701,259	856,419	701,259	856,419
Total non-cancellable operating lease payments	**1,314,044**	**1,473,452**	**1,314,044**	**1,473,452**

Finance lease commitments

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

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

	2017		2016	
	$'000 Minimum payments	$'000 Present value of payments	$'000 Minimum payments	$'000 Present value of payments
Group and Corporation				
Within one year	36,959	7,480	36,786	6,565
Between one and five years	149,585	41,891	148,883	36,767
More than five years	295,288	176,098	332,949	188,703
	481,832	**225,469**	**518,618**	**232,035**

Lease liabilities relate to the following:

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

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

The total finance lease expense recognised in the consolidated statement of profit or loss for the year ended 30 June 2017 is $6.6 million (2016: $5.8 million).

Capital and other commitments

As at the 30 June 2017 the Group had commitments relating to future purchase of renewable energy certificates; energy purchase agreements; information technology and contact centre support services; and other committed capital expenditure.

38. Commitments (continued)

	Group		Corporation	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Less than one year	26,954	5,376	26,954	5,376
Between one and five years	24,183	10,063	24,183	10,063
More than five years	42,922	1,243	42,922	1,243
Total intangible asset commitments	**94,059**	**16,682**	**94,059**	**16,682**
Less than one year	742,921	795,300	735,331	787,943
Between one and five years	3,091,365	2,945,641	3,059,220	2,916,211
More than five years	9,880,940	10,481,785	9,843,367	10,443,158
Total energy procurement commitments	**13,715,226**	**14,222,726**	**13,637,918**	**14,147,312**
Less than one year	80,778	97,814	80,778	97,814
Between one and five years	3,353	43,771	3,353	43,771
More than five years	-	38	-	38
Total other operating commitments	**84,131**	**141,623**	**84,131**	**141,623**
Less than one year	13,593	4,160	13,593	4,160
Between one and five years	1,377	-	1,377	-
More than five years	-	-	-	-
Total other capital commitments	**14,970**	**4,160**	**14,970**	**4,160**

39. Contingencies

The Group has the following contingent liabilities as at 30 June 2017:

Site restoration

The Group provides for the restoration of its power station sites including any environmental rehabilitation as required by various environmental regulations (and as disclosed in note 21). Based on management's best estimates and assumptions, the Group has made adequate provision to cover these anticipated restoration costs. However many of these costs will be incurred at some time in the future and as such, the provisions will be subject to changes due to significant estimation risk surrounding such estimates and assumptions. In addition there may be residual environmental obligations on sites which have been declared rehabilitated, and to the extent that these may arise, represent contingent liabilities to the Group. Management does not have any means of quantifying this residual exposure.

Asbestos management

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

40. Events after the reporting date

There are no significant events after reporting date.

Directors' declaration

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

In the opinion of the directors:

(a) the financial statements of the Corporation are in accordance with Schedule 4, Division 3 of the Electricity Corporations Act 2005 (the Act) 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 2017 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 Act;

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

(c) the directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2017 pursuant to the Act.

On behalf of the board

Lyndon Rowe
Chairman

Date: 29 August 2017

Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

ELECTRICITY GENERATION AND RETAIL CORPORATION

Opinion

I have audited the financial report of Electricity Generation and Retail Corporation (the Corporation), which comprises the Statement of Financial Position as at 30 June 2017, the Statement of Comprehensive Income, Statement of Changes in Equity and 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 Electricity Generation and Retail Corporation is in accordance with schedule 4 of the Electricity Corporations Act 2005 including:

(a) giving a true and fair view of the Corporation's financial position as at 30 June 2017 and of its performance for the year then ended; and

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

Basis for Opinion

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

Responsibility of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Corporation'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 Corporation.

Auditor's Responsibility for the Audit of the Financial Report

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.

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

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

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

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

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of Electricity Generation and Retail Corporation for the year ended 30 June 2017 included on the Corporation's website. The Corporation's management is responsible for the integrity of the Corporation's website. This audit does not provide assurance on the integrity of the Corporation's website. The auditor's report refers only to the financial report described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial report. If users of the financial report are concerned with the inherent risks arising from publication on website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in this website version of the financial report.

COLIN MURPHY
AUDITOR GENERAL
FOR WESTERN AUSTRALIA
Perth, Western Australia
30 August 2017

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