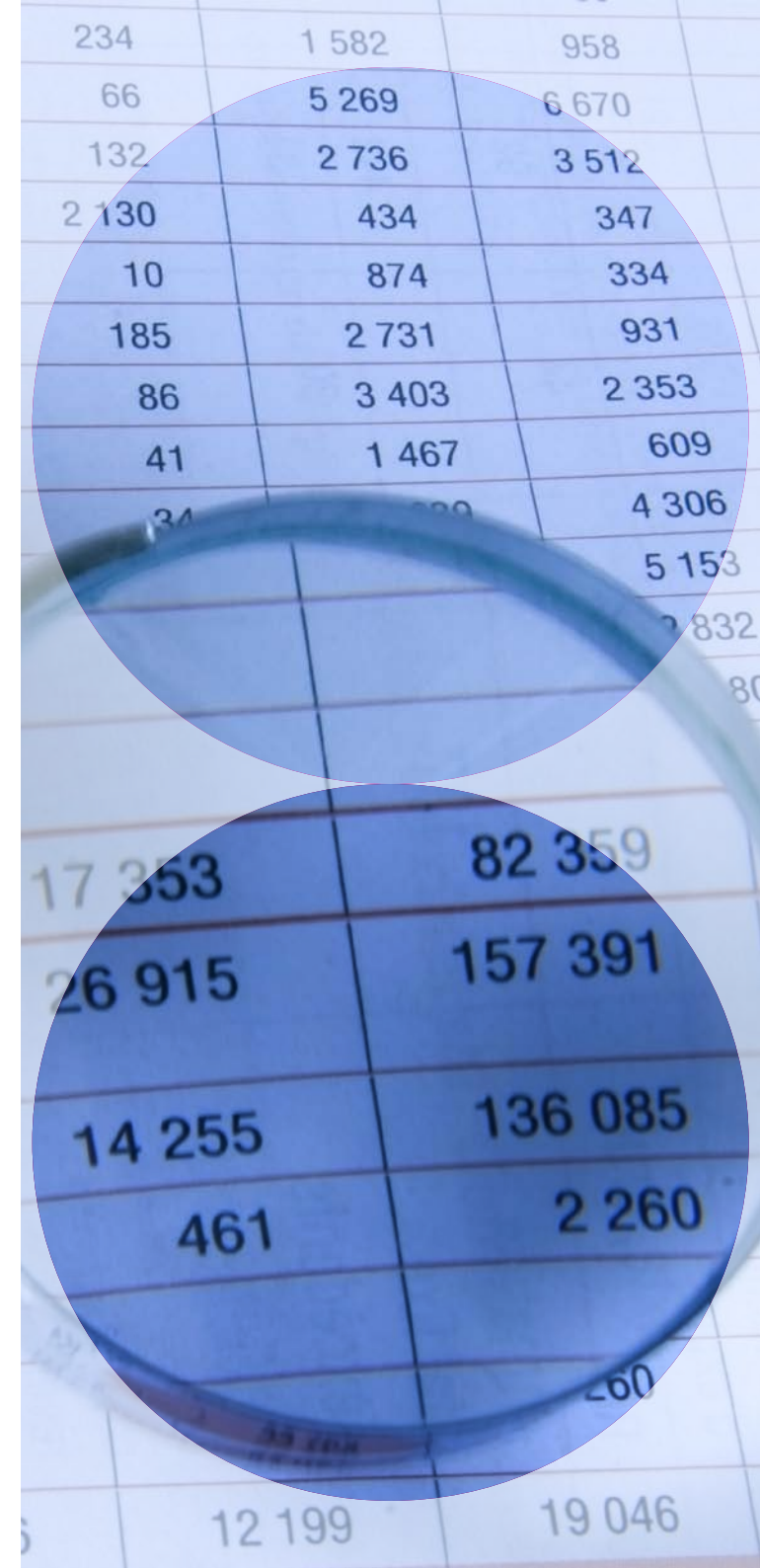




## Facts at a glance

Measure	Fact
Revenue	\$2.67 billion
Expenses	\$2.56 billion
NPAT	\$76.3 million
Dividend	\$57.24 million (to be paid in 11/12)
Operational Subsidy (Tariff adjustment payment)	\$282.1 million
~ 898,000	Number of residential customers
~ 90,000	Number of small business customers
~ 6 million	Number of bills issued by Synergy
< 100,000	The average number of calls received each month by Synergy's contact centre.
~ 380	Number of staff employed by Synergy
12,600 GWh	Size of Synergy's electricity portfolio
70%	Synergy's share of the market in the South West Interconnected System
50%	Synergy's share of contestable electricity market
50%	Synergy's share of contestable gas market
8.5%	Synergy's percentage of renewable energy
~ 250,000	Customers on concessions
\$245.6 million	Total amount returned to WA community by Synergy from dividend and tax equivalent payments (April 06 - July 10)
58,691	Number of customers in Renewable Energy Buyback Scheme
23,186	Number of SmartPower customers
7,468	Number of customers purchasing accredited renewable energy



# Chairman's Report

Figures current as at 30 June 2011

The remarkable staff members at Synergy are unlikely to feel this has been a year of real accomplishment. Nor are our customers going to be celebrating. This has been a difficult year for all concerned with Synergy with some real disappointment over issues that were within our control and significant discomfort over those that were beyond our control.

To put our year in perspective, it feels in many ways like we have just moved house, and while experiencing the seemingly inevitable range of unanticipated challenges, a storm arrived.

While we find ourselves in a better place, the experience has not been something anyone would want to return to. The move was from an old, simple legacy IT and billing system to one that has all of the functionality and capacity to meet the new and very much more sophisticated requirements of the energy market and our customers.

When we look at other international examples of similar organisations that have taken these steps, our experience, and our ability to deal with the inevitable raft of difficulties is similar to most. Even so we have caused too many customers too many problems with billing and related matters. This is a matter of real regret. One thing we, and our advisors, missed was the warning. Even in hindsight it is hard to see how many of the problems could have been avoided let alone lessened, but there is experience out there that should have told us these problems should be expected. With this knowledge at hand we could have provided more warning to our stakeholders.

The storm was sharply increased by energy price rises. No one enjoys this. We don't, our customers don't and our owner does not. The price increases reflect a national and global economy and the unavoidable fact that if fuel prices go up, inevitably so must energy. This was more of a shock after such a long period of capped prices that saw increasing taxpayer subsidisation of the real cost of energy.

The factors of a new, highly complex billing system failing to meet customer needs combined with sharply rising prices have created a kind of perfect storm with no winners.

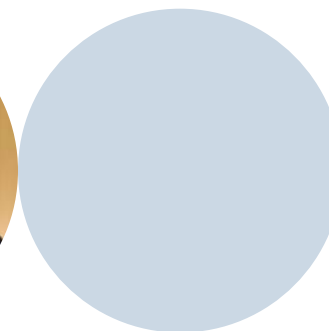
One of the board's real regrets is the difficulty in having our staff recognised for the exceptional job they have done in the most trying circumstances. They have worked long hours and demonstrated both tenacity and expertise in getting us "moved-in" and with that to get the system stabilised to a point where we are well placed to delivering the level of service our customers (and owner) expect.

This has been a busy year for the board with matters such as the procurement of gas and electricity, including renewable energy for our customers; appointing and inducting a new CEO in Trevor James, setting new policy to assist those in financial hardship, winning significant contestable business, a major review of policies and supporting the development of a long term strategy for our sector.

Our staff, owners and stakeholders can, and should, look at what has been accomplished. Synergy has gone from, essentially, an issuer of bills with a non-compliant customer information system, to a very modern, sophisticated energy retailer well positioned to serve our customers in an ever evolving industry. The business has now contracted to procure over \$20 billion of energy using our size and capacity to contract long to ensure that we are able to provide energy solutions that offer real value.

We were only profitable this year due to the receipt of a Tariff Adjustment Payment of \$282 million going into revenue, delivering a profit of \$76.3 million, slightly lower than the previous year's result of \$97.7 million.

The Tariff Adjustment Payment was 68% higher than the previous year following the replacement of Synergy's vesting contract with Verve Energy. This payment makes up the difference in revenue between the current regulated tariffs and the revenue we would have received if we were to cover our energy procurement costs. Without the Tariff



Adjustment Payment, which is paid by Western Australian taxpayers, we would have reported a loss of approximately \$170 million.

We will be returning approximately 20% of the Tariff Adjustment Payment to the Government by way of an expected dividend payment of \$57 million. Accordingly, after the dividend is returned to the state, the net subsidy Synergy received from Western Australian taxpayers will be \$225 million.

We also faced a substantial increase in our renewable energy costs, with our expenditure on renewable energy certificates increasing by over \$40 million. The main driver behind this is the requirement to purchase certificates generated by the Federal Government's Small-Scale Renewable Energy Scheme (SRES), where the total number of certificates created from the installation of small scale systems such as solar PV must be purchased by electricity retailers.

We look forward to the year ahead of bringing our new capability to bear on our most fundamental responsibility: to look after our customers.

Our board is very conscious that the decisions we make impact the prices our customers pay, and we are dedicated to overseeing an efficient and effective energy retailer, on behalf of our shareholder.

The fact we receive the Tariff Adjustment Payment shows the price most customers pay for their electricity remains below the efficient cost of supplying it.

When we look at the cost of electricity in other states, the price we charge householders is mid-range and I am confident this reflects an efficient energy sector compared to other states.



However, increasing costs, such as our renewable energy costs, highlight the challenges we face to keep future cost increases to a minimum. Many of the factors behind the cost increases are beyond our control; indeed, for every dollar a customer spends with Synergy, our share of the costs account for only six cents.

That is why it is important we have been working closely with Western Power through the establishment of the Future Energy Alliance, which aims to encourage Western Australian consumers to think about their electricity usage behaviour. Just as Western Australians have changed their behaviour to conserve water, we are keen to achieve behavioural change in energy use.

There are dual benefits in improving energy efficiency in the community; our customers reduce their expenditure on electricity, while we reduce our reliance on new, more expensive infrastructure.

Finally, our business could not service our customers without having professional, customer focused people working for us. Over this last year we have run with a small board which has made the contribution of my colleagues even more appreciated.

During the year our inaugural Managing Director, Jim Mitchell advised the board he would not be seeking re-appointment and on behalf of the board I would like to thank Mr Mitchell for his contribution. In addition, Ms Terri Reilly, an inaugural board member, resigned from the board and I would like to personally thank Ms Reilly for her commitment, dedication and contribution to the board.

The board was pleased to appoint Mr Trevor James to the position of Chief Executive Officer from 1 April 2011. Trevor brings a wealth of experience across many areas of the energy industry and is well placed with his experience to lead Synergy at a time of significant change at a global, national and state level, as well as within the organisation.

I would like to thank my colleagues on the board, Trevor James and his executive team, and finally we offer a special thanks to all of the people at Synergy for their efforts in a tough year and, of course, to our customers.

**Michael Smith**  
Chairman





## Chief Executive Officer's Report

It is a privilege to lead an outstanding, passionate and professional team who have shown great resilience during an eventful year. My colleagues have demonstrated great skills, initiative and tenacity as they have worked hard to respond to customer expectations.

Much of our time has been devoted to resolving and managing a number of ongoing issues arising from the implementation of our new billing system. This has also happened at a time when new policy initiatives were being implemented. While there have been numerous challenges for our customers as a result of the billing system, it will ultimately deliver Synergy a contemporary system which will enable us to adapt to the evolving energy market and most importantly, ensure we meet the needs of our customers.

I am pleased we have resolved many of the issues that contributed to customer dissatisfaction over the last year, and we can now start to focus on improving the service we provide to our customers. Customer service is, and always will be, our number one priority.

I would like to acknowledge the contribution of our outgoing Managing Director Jim Mitchell, whose term finished at the end of March. Jim led the corporation in implementing many new initiatives over the past five years and his vision and commitment have built a strong business and brought Synergy to where it stands today as a true stand-alone retailer.

Since taking on the role of Chief Executive Officer in April, I have been undertaking a restructure of the organisation to ensure we progress as a customer focused retailer in a competitive energy environment and ready to face the challenges that lie ahead.

We continue to be active in securing renewable energy generation, evidenced by the increasing contribution within our portfolio, through the development of the Collgar Wind Farm, from which we will secure the energy and renewable energy certificates over the next 15 years, the extension of

our contract to source energy from the Emu Downs Wind Farm and the sourcing of energy from a small wind farm in Mt Barker.

Our residential customers have also become more active in renewable energy, in large part due to the popularity of the State Government's feed-in Tariff Scheme with the number of customers installing solar photovoltaic systems, and registering for Synergy's Renewable Energy Buyback Scheme, increasing over 300% to over 58,600 households. The processing of applications for the feed-in tariff caused considerable work internally, particularly in the lead up to the end of the financial year, and our staff responsible for processing feed-in tariff applications did a tremendous job.

While customers installing solar systems reduce their electricity bills by generating their own electricity, and exporting any excess they generate, we have been active in promoting energy efficiency to those customers who do not have the benefit of their own generation. Providing awareness and education to our customers about their energy use is fundamental to reducing demand on energy and at a household level, reducing electricity bills.

Tariffs started increasing in 2009 after a period of a decade in which they remained flat. Our staff have worked steadfastly to communicate tips and tools to our customers to minimise the impacts of these increases, and to assist those customers who are facing financial difficulty or hardship as a result of tariff increases. We acknowledge that for the 2010/11 year, we will be reporting an increase in the number of customers requesting payment extensions, and the number of households disconnected, which highlights the difficult situation we face as a provider of an essential service.

Our staff have the unenviable task of determining the time at which we must disconnect customers when all our attempts to keep them connected have been exhausted. Of course, we bear the brunt of criticism if we

disconnect anyone; but we also receive criticism if we delay disconnection and customers increase their debt. It goes without saying, our people working in credit management have an extremely difficult job, and I thank them for doing their utmost to help our most vulnerable customers.

I also want to thank our staff who deal with customer complaints. While there has been an increase in complaints which we regret, we are at a level consistent with electricity retailers from other jurisdictions. That is not an excuse for the increase; I want us to do better than other jurisdictions. That said, there are root causes for complaints both within and outside our control and we will do our utmost to address the causes of these complaints which we can address directly, as well as with our third party suppliers. Where our customers are dissatisfied with the service we have provided, I commit to listening to those concerns and doing everything we can to improve the service we provide.

One of our deep regrets is the erroneous application of rebates and concessions, which arose following the implementation of our billing system. Our performance is audited by the Economic Regulation Authority, and through this process, we identified we had failed to apply the dependent child rebate correctly to over 7,000 customers between August 2009 and January 2010. While we have since repaid the underpayment of the rebate to these customers, during the year we commenced a comprehensive review and audit of all concessions and rebates to identify any other issues relating to the correct application of rebates. Through this, we identified a further 8,000 customers that were underpaid rebate and concession entitlements. We have notified those affected customers, apologised to them and corrected the underpayment. As the review continues, we will maintain this open communication to affected customers. Such errors should not occur, and I am keen to ensure we have the systems and processes in place to ensure such errors do not recur.

We are conscious of the future environment in which we must operate - and it must be in the best interests of our customers. Synergy is preparing for a number of challenges, in the midst of uncertain global economic conditions. Following the announcement of the Federal Government's Clean Energy Future policy, we are working to ensure we are aware of the impacts of the proposed carbon tax on our business and particularly what this will mean for our customers. We will work with our customers to make the transition to this carbon-ready position as seamless as possible.

Energy is fundamental to maintaining a strong and vibrant economy. I am confident, with the people, skills and experience we have behind us, and with our diverse portfolio, Synergy is in a strong position to support the state's development in coming years. We have worked hard to develop a diverse portfolio which provides for security and reliability, but we also need to start exploring new generation opportunities and developing business in evolving areas, such as the mid-west of the state. We are cognisant of the fact that network investment in the mid-west is needed so the SWIS can expand, however this is also dependent on global financial conditions allowing vital investment.

One of the highlights of Synergy in recent years has been our success in the gas market, to the extent we now service around half of the industrial and commercial gas market. During this time, we have secured a diversified portfolio, which enhances the reliability of supply, with an agreement with AWE during the year complementing this portfolio. Synergy is now selling around 50 terajoules of gas a day, a significant result given we have only been in the gas market for around eight years.

I would like to acknowledge the board for their support, leadership and guidance to me and the executive. We are grateful to the Minister and his staff for their support and cooperation throughout the year. Finally, I acknowledge the hard work and outstanding contribution of everyone at Synergy who have all worked hard to respond to the needs of our customers. It is, after all, our customers that are the basis of why we are here.

**Trevor James**  
Chief Executive Officer



# About Synergy

Synergy is Western Australia's largest energy retailer, procuring and selling electricity and gas to customers throughout the South West Interconnected System (SWIS), stretching from Kalbarri in the north, to Kalgoorlie in the east and Albany in the south. Synergy serves around one million industrial, commercial and residential customers within this jurisdiction.

Synergy sells approximately 70% of the electricity sold in the SWIS (household and business customers) and around 50% of the gas load supplying businesses.

The organisation has a workforce of approximately 380 employees, and has also partnered with specialised service providers, to support the business' operations.

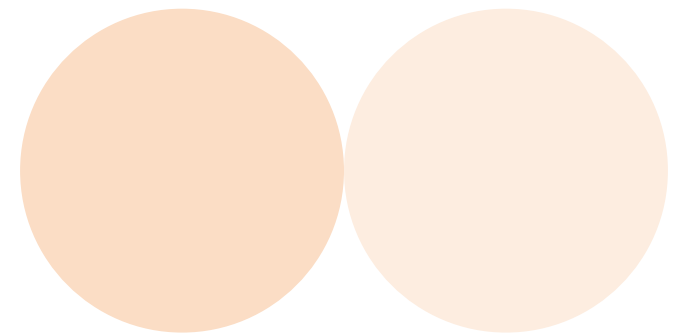
The primary activities of Synergy include energy procurement, with a portfolio in excess of \$20 billion, marketing, electricity and gas sales, customer service as well as billing and payment processing. Through these activities, Synergy receives over \$2.67 billion in revenue per annum, which pays for the commodity cost of electricity, network tariffs, market fees and other costs of delivering reliable and secure energy to Western Australian homes and businesses.

## OUR VISION

Synergy's vision is to "redefine energy retailing... across the full value chain... with boundless opportunities".

Redefining energy retailing will apply to Synergy's whole customer base, from household customers to the largest power and gas users.

The paradigm of electricity retailing is on a path of change. Synergy is redefining energy retailing to keep pace with that change to ensure value based energy solutions are available to customers. Redefining energy retailing is fundamentally about expanding the range of services Synergy provides its customers and enhancing the underlying efficiency of our service delivery.

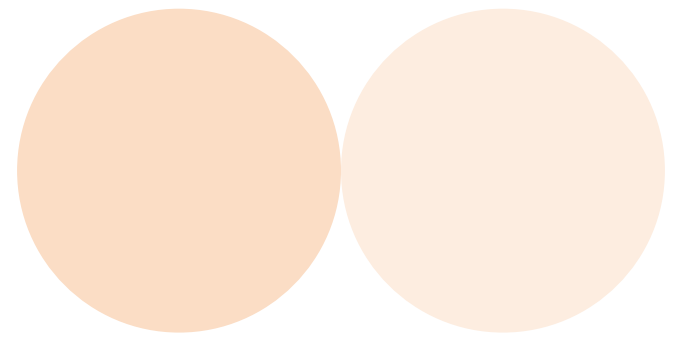


## SYNERGY'S VALUES

Synergy's values are embedded in the organisation. The organisational values on which Synergy bases its reputation are the guiding principles upon which staff and business operate, and are:

- **Enterprising:** Enables the business to seize opportunities, move ahead, take the initiative, innovate and focus on being the experts in energy. Synergy supports a culture focused on the growth of the business, its people, the community, the environment and the State;
- **Quality Relationships:** Ensures Synergy focuses on establishing good relationships with each person with an interest in its business: Synergy understands the importance of good relationships with customers, staff, stakeholders, the community and the environment;
- **Spirit:** Is an intrinsic quality to enable Synergy to approach work with enthusiasm and eagerness. It breeds a culture of initiative, interest and "giving things a go"; and
- **Integrity:** Is the foundation that grounds the business. Synergy will keep its promises and build trust with customers and stakeholders.





## CORPORATE RESPONSIBILITIES

In carrying out its business, Synergy seeks to achieve an acceptable balance between the specific requirements established within its governing legislation, in particular, to act with prudent commercial principles and maximise the long term value of the business, and the broader responsibilities as a government trading enterprise and which are adopted in being a good corporate citizen.

### Social responsibilities

As a retailer of an essential service, Synergy impacts all households and many businesses throughout the South West Interconnected System (SWIS).

Relationships with communities are fostered both through commercial relationships and through the sponsorships and partnerships the business participates in each year.

Synergy is focused on providing its customers with the highest level of service and its Customer Charter details this commitment to residential and small use business customers.

### Financial Hardship assistance

Synergy's financial hardship policy, 'Keeping Connected', continues to provide valuable support to our customers who face extreme financial hardship. The policy was developed in association with representatives from WA's community sector, and in accordance with best practice guidelines. Endorsed by the Western Australian Council of Social Services and the Financial Councillors Association of Western Australia, Synergy's financial hardship policy was created to provide an extra level of support to customers experiencing genuine financial hardship. Synergy's financial hardship policy is reviewed annually and this ensures it remains contemporary and meets the needs of Synergy's most vulnerable customers.

### Environmental responsibilities

As Western Australia's largest energy retailer, everyone at Synergy is cognisant of the impact the operations of the business has on the environment. Synergy is committed to working towards a sustainable energy future by providing innovative energy choices for customers.

Synergy will continue to strive to improve its environmental performance with regard to wholesale procurement, carbon emissions, internal business practices, customer communication and product development.

Synergy will also be active assisting customers in managing the direct impacts of any environmental policy changes.

### Market responsibilities

Synergy recognises reliability and security of energy supply are key concerns for both the Government and our customers. As the largest retailer in Western Australia, Synergy has a substantial role to play in supporting the implementation of Government reforms, while ensuring the market operates successfully.

In supporting the continued development of a sustainable energy industry in Western Australia, Synergy is:

- continuing to operate as a commercially viable, independent energy retailer;
- committed to the development of the Wholesale Electricity Market;
- working with the Office of Energy, the Independent Market Operator and the Economic Regulation Authority to further develop the market environment;
- complying with the requirements and facilitating the implementation of various industry codes and other instruments designed both to underpin the operation of the market and as measures to mitigate market power;
- operating in the franchise electricity retail market; and
- competing in the contestable electricity and gas markets.

### Ministerial Reporting

In line with the accountability provisions of the Electricity Corporations Act (WA) 2005, Synergy has provided the Minister with a quarterly report, for each of the first three quarters of the 2010/11 financial year, and this Annual Report details the entire 2010/11 financial year.

Each of the quarterly reports for the 2010/11 reporting period were submitted to the Minister no later than one month following the end of the preceding reporting quarter and included:

- an overview of performance (including specific performance indicators);
- highlights of important achievements; and
- consolidated financial statements with relevant accompanying notes.



## Synergy's Board

The Board of Directors is Synergy's governing body and is responsible to the Minister for Energy for Synergy's performance.

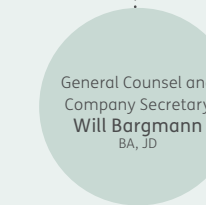
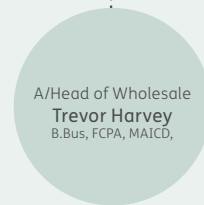
## Synergy's Organisational Structure

During the year, there were personnel and structural changes undertaken or in process, in particular, the departure of Managing Director Mr James Mitchell. Mr Mitchell was Managing Director of Synergy from 1 April 2006 to 31 March 2011.



After Mr Mitchell advised the board that he would not be seeking to renew his contract, Mr Trevor James was appointed by the board to take up the position of Chief Executive Officer. Mr Trevor James commenced as Chief Executive Officer on 1 April 2011. Prior to this, Mr James was Head of Wholesale.

Mr James has introduced a new structure which took effect from 1 July 2011, and will be reported in the 2011/12 Annual Report.





The key roles during the year of each department were as follows:

### Retail and Support Services

Retail and Support Services, reporting to the Chief Operating Officer (COO), was responsible for the smooth and efficient operations of the business and encompasses the Sales, Customer Service, Transformation and Technology, Marketing, Human Resources and Corporate Affairs areas. The roles within each area include:

- **Sales:** responsible for the account management of key customer relationships and for delivering Synergy's overall sales strategy.
- **Customer Service:** assists Synergy's customers through a variety of channels, and includes Synergy's contact centre and e-channel and all back office customer operations including billing, credit management and resolution of more complex customer transactions.
- **Technology and Transformation:** plays an important role aimed at supporting and improving organisational processes and structures through seamlessly integrating the key components of business transformation technology, processes, and people. T&T manages business process streamlining and restructuring through negotiating smart outsourcing agreements and innovative ways to advance Synergy's strategic and business objectives and is accountable for the delivery of high-profile strategic projects.
- **Marketing:** responsible for the development and implementation of Synergy's marketing strategy which encompasses all brand and communication, market segmentation and product activities. Synergy's marketing strategy places a strong emphasis on understanding customer needs via segmentation and in delivering energy solutions our customers can use.

- **Human Resources:** responsible for all operational HR functions such as payroll, recruitment etc as well as organisational development functions such as directing cultural development, talent management and succession planning.
- **Corporate Affairs:** responsible for internal and external corporate communications, government and stakeholder relations, sponsorship, public relations activities and customer complaints.

### Finance and Business Services

Reporting to the Chief Financial Officer, the Finance and Business Services Department manages Synergy's accounting and financial reporting activities as well as all treasury functions, pricing, compliance and risk, and middle office tasks for wholesale trading and sales.

### Wholesale

The Wholesale Department manages a diverse and growing portfolio of supply contracts for electrical energy generating capacity, gas supply, transport and environmental instruments. These contracts are mostly large scale and long term and form the basis of Synergy's product offerings to customers.

The department seeks to ensure electricity supply contracts are negotiated to deliver the most secure, sustainable and least costly options to our customers, and works closely with Synergy's products and sales teams to provide competitive electricity supply to customer segments.

Wholesale is also responsible for meeting Synergy's renewable energy requirements and responding to the outcomes of climate change policies and legislative changes.

### Strategy and Growth

Strategy and Growth has overall responsibility for strategy development and pursuing strategic growth opportunities in the context of redefining energy retailing. The department is focused on delivering new customer solutions in areas such as energy efficiency, demand response, energy management services and advanced metering, and works with Retail to bring these customer solutions and products to market readiness.

### Legal, Regulatory and Audit

Legal, Regulatory and Audit (LRA) provides advice on legal and contractual issues within Synergy, undertakes the company secretariat role, and provides advice on complex regulatory issues. The department is also responsible for the internal audit function.

Through internal audit the department reviews compliance with policies, operating principles and codes of conduct. Internal audit also assesses the efficacy of major internal controls and processes. The regulatory function monitors compliance with legislative and regulatory obligations applicable to Synergy, including the creation and management of training in key legal and regulatory areas. LRA, in conjunction with other departments, also makes submissions to and liaises on behalf of Synergy with regulatory bodies and other major stakeholders.

# Report on Operations

## FINANCIAL

Synergy recorded a profit of \$76.3 million, down from \$97.7 million the previous year. Revenue from the sale of energy increased by \$288 million or 13.9% while the cost of energy purchased increased by \$140 million or 10.5%.

The Tariff Adjustment Payment increased by nearly \$115 million or over 68%. Synergy required additional Tariff Adjustment Payments following the transition from its Vesting Contract with Verve Energy to the prescribed Vesting Replacement Contract.

With respect to costs, Synergy incurred additional network access costs, increasing by 36% to over \$860 million and the cost of renewable energy certificates (REC) increased by 172% to over \$65 million.

The main reason for the increase in REC costs is a result of changes to the Federal Government's legislative changes to renewable energy schemes.

As an electricity retailer, Synergy is required to purchase certificates from both large and small scale renewable energy sources. In particular, Synergy is required to purchase certificates generated by the Federal Government's Small Scale Renewable Energy Scheme, where the total number of certificates created from the installation of small scale systems such as solar PV must be purchased by electricity retailers.

Due to the substantial increase in the number of small scale systems installed throughout the country, the total number of certificates needing to be purchased has also dramatically increased

## OPERATIONAL

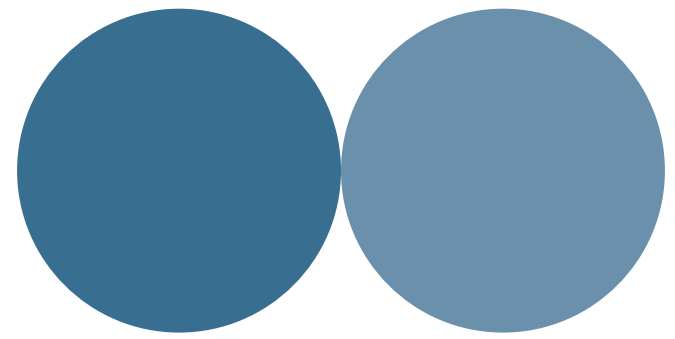
Synergy's primary point of contact for its customers is through its contact centre operations. Accordingly, Synergy's responsiveness to customer inquiries are an important barometer of its overall performance. Synergy strives to answer each customer call within 30 seconds, and has set a benchmark to answer at least 80% of calls within this timeframe. In addition, Synergy strives to achieve an average waiting time of 30 seconds before a call is answered.

Synergy's call volumes increased by 14.5% in 2010/11 to over 1.4 million calls. The increase is due to a variety of reasons including the introduction of the feed-in tariff and tariff increases. For all of these calls, 22.9% were not answered within Synergy's aspirational target of 30 seconds. Further, the average waiting time before a call was answered was 40.2 seconds, which is 10 seconds above target, but an improvement on the previous year.

While these results provide the average numbers over the course of the year, there were spikes in activity at particular times which impacted these results. For example, product calls from September 2010 to April 2011 averaged 7,083 per month, whereas in May 12,015 calls were received and during June 17,500 calls were received. The unprecedented call activity, due to changes to the feed-in tariff, impacted Synergy's service quality and the annual averages for the performance indicators measured.

Synergy also recorded a significant increase in complaints to the Energy Ombudsman, increasing 75% to 3,367. The basis of the complaints varied, but the predominant causes of customer dissatisfaction traversed the areas of billing, meter reading issues and concerns from customers who had installed renewable energy systems. It is accepted many complaints arose due to an error or omission on Synergy's part. However there was also a significant portion of complaints in which customers were legitimately dissatisfied, but the cause of their dissatisfaction was beyond Synergy's control.





## Year in Review

It has been a demanding year for everyone at Synergy, and for many customers. Many of the internal challenges centred on managing and resolving an assortment of billing system issues, which were affecting customers. Addressing these issues was at the forefront of activity along with the requirement to implement new policy initiatives.

Notwithstanding the public issues which affected the business, there were positive outcomes across various areas of Synergy.

The vesting contract between Synergy and Verve which took affect at disaggregation was replaced early in the financial year. This was the culmination of significant work and negotiation between all parties associated with the arrangement. These amendments were the outcome of the Oates Review into Verve Energy. As a result of the changes, Synergy will be requiring increased Tariff Adjustment Payments while regulated tariffs remain below cost reflective levels.

The new contract arrangements between Synergy and Verve Energy complements the power purchase agreements Synergy has entered with private generators since 2006. During the year, Synergy also received ministerial approval to enter into a 450 megawatt electricity supply contract with Verve, following a competitive tender process.

As a consortium member of Perth Solar City, Synergy launched two new products to be trialled by customers, aimed at providing greater awareness of householders' energy use.

Synergy's smart meter customers within East Metropolitan Regional Council were invited to participate in an air conditioning trial whereby a demand response device is installed on or near a customer's air conditioner. This allows Western Power to interrupt or reduce the appliance's consumption of power during times of system peak – with little impact to comfort levels. This trial is being undertaken over a two year period.

Synergy is also piloting an In-Home Display product providing customers with a visible pricing signal through a handheld device to help them monitor their energy use in their home. By providing the real time cost of using electricity, it is expected greater behavioural change can be achieved.

Both of these initiatives support Synergy's commitment to working with its customers to help them save energy by changing the way they use electricity.

In December, the Minister for Energy launched the Future Energy Alliance (FEA), a joint initiative of Synergy and Western Power. The Alliance aims to build community awareness about energy conservation and to encourage behavioural changes to improve energy efficiency. The FEA has been focused on communicating how simple actions by customers can have a wider impact on reducing greenhouse gas emissions and reduce the cost of building more peak demand infrastructure, while also reducing household energy costs.

Electricity tariffs commenced increasing from 1 April 2009 after a decade in which they remained relatively static. In the space of 27 months, residential tariffs have increased by 57% and we acknowledge this has had a significant impact on our residential customers. Coupled with increasing energy consumption over recent decades, Synergy appreciates the importance of helping customers manage their energy bills.

Synergy has worked closely with customer representative organisations, such as the Western Australian Council of Social Service (WACOSS), the Financial Counsellors Association, and other community organisations to ensure customers experiencing financial hardship are supported through a range of hardship initiatives and programs.

As a retailer, it is important Synergy takes all available action to receive payment for electricity that has been consumed. In doing so, it has increased payment extensions, and made it easier for many customers to receive payment extensions,

so that electricity bills can be managed with other household expenditure. However, disconnection will always be a last resort and Synergy has seen more households disconnected compared to previous years.

Synergy has been active in increasing renewable energy as part of its portfolio over recent years, which will be important to achieving a 20% target of renewable energy by 2020.

During the year, Synergy extended its contract with Emu Downs Wind Farm which means Synergy will continue to purchase the renewable energy generated by the 80MW plant to the end of the wind farm's life. The wind farm commenced operations in October 2006 and is expected to operate through to 2030.

The Collgar Wind Farm in Merredin, which was developed through a power purchase agreement with Synergy, has been progressively commissioning wind turbines and exporting increasing volumes of energy into the SWIS. On completion, the Collgar project will consist of 111 wind turbines with a generating a capacity of 206 megawatts of clean, green energy.

Synergy continues to be committed to sourcing new renewable energy opportunities and views partnerships such as those with Emu Downs and Collgar Wind Farm as important steps in securing a longer term renewable energy position for Synergy and Western Australia.

In keeping with its commitment to a sustainable energy future, Synergy's own practices saw it be awarded the winner of the Hewlett Packard Eco Solutions Printing Award, ahead of 41 other organisations across Australia and New Zealand. The award recognised Synergy's sustainable office practices in general, with specific attention paid to the printing system installed at Synergy's Adelaide Terrace headquarters.

From 1 July 2010, a new feed-in tariff applied, which saw a massive increase in the number of customers participating in Synergy's Renewable Energy Buyback Scheme from



19,536 to 58,691 during the financial year. The substantial increase in households installing solar systems impacted service levels at Synergy, and also contributed to the increase in complaints received at Synergy. On a positive note, it has increased households' awareness of energy and a greater understanding of the benefits of energy efficiency, as the more energy efficient these households are, the greater they benefit.

### Community investment

As a retailer of an essential service, Synergy touches the lives of thousands of people every day. Synergy appreciates its responsibility to be community minded and make a difference in the communities within which it operates and belongs.

Through its sponsorship program, and financial hardship scheme, Keeping Connected, Synergy is making a real contribution to the lives of customers as it works toward delivering on its social commitments.

Synergy strives to be active in the community it belongs to and is proud to support community based initiatives which provide immediate and practical assistance and benefits, as well as long-term investment in the community.

Synergy's sponsorships during 2010/11 included Starlight Children's Foundation, where Synergy is the largest sponsor of the Starlight Express Room in Princess Margaret Hospital, a special space for seriously ill children and their families to spend time and have some fun amidst their treatments; Synergy Parkland in Kings Park, and Great Gardens where the community has the opportunity to participate in free Synergy energy efficiency workshops held throughout the year.

### SYNERGY SPIRIT

In addition to Synergy's corporate sponsorships it has an internal outreach program, Synergy Spirit. Synergy Spirit is a staff-initiated program at Synergy which supports charitable causes through a number of internal fundraising activities. Further to raising funds for its chosen charities Synergy Spirit educates staff about the charities it is supporting by raising awareness about the challenges and difficulties faced by people involved with the charities.

The main recipients of Synergy Spirit's fundraising in 2010/11 were Hannah's House and Personal Advocacy Service. Synergy Spirit raised a total of approximately \$13,000 over the past 12 months.



## The Year Ahead

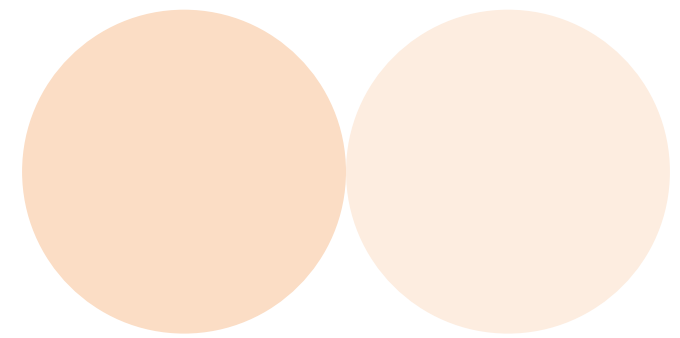
Synergy has been focused in the past two years on preparing for the evolving energy market, and significant attention has been paid to rectifying issues associated with the implementation of a new billing system. There will be some residual issues which require addressing in the forthcoming financial year, in order that the business can restore the trust and confidence of customers and stakeholders.

Synergy is also awaiting the outcome of proposed legislative changes, and in particular, specific details relating to the Federal Government's Clean Energy Future policy and the proposed carbon tax. If introduced, the policy – and the carbon tax in particular – will impact most, if not all, areas of Synergy, as it will require system and billing changes and product and contract reviews. It will also influence procurement activities as well as Synergy's sales activities, and will affect customers in terms of their accounts and their ability to manage the impacts of the proposed tax.

Synergy will continue to be active in its procurement activities, particularly with respect to increasing renewable sources in the longer term. Given such projects take a number of years to finalise, these activities will be ongoing for Synergy in the forthcoming year.

Finally, in light of the fact tariffs are still below cost reflective levels, Synergy will be working with relevant stakeholders to ensure customers are best prepared for any future tariff increases.





## Performance Overview

Synergy's corporate Key Performance Indicators (KPIs) have been selected with the aim of allowing the shareholder, board and management to effectively monitor progress at a corporate level.

Accordingly, the corporate measures will not reflect the detailed management requirements for measuring performance at an operational level.

The KPIs used for monitoring Synergy's corporate performance are based on the:

- costs and relevance of providing the information on an ongoing basis;
- different information requirements of the organisation and the shareholder;
- regulatory requirements and
- commercial sensitivity of the measures and the degree of exposure for those that could affect our competitive position.

### Operational Key Performance Indicators

	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Forecast
<b>Contact Centre Effectiveness</b>				
Total number of calls received	1,083,434	1,257,153	1,439,432	1,470,000
% of calls not answered within 30 seconds from when a customer is connected	9.70%	23%	22.9%	≤ 20.0%
Average waiting time before a call is answered (seconds)	17.4	44.1	40.2	≤ 30
% of calls abandoned	2.28%	3.1%	3.2%	≤ 5%
<b>Business Development and Innovation</b>				
Accredited renewable energy customers:	17,383	27,107	66,822	TBA
NaturalPower	7,011	5,813	5,631	TBA
EasyGreen	1,234	1,095	1,837	TBA
REBS	8,393	19,536	58,691	TBA
Earth Friendly	745	663	663	TBA
SmartPower customers	17,977	19,447	23,186	TBA
<b>Customer Service</b>				
Number of disputes involving the Energy Ombudsman	487	1,924	3,367	3,250

Synergy is currently awaiting clarification of the Federal Government's Clean Energy Future policy to understand the impacts on these products and is thus currently unable to provide meaningful forecasts.

# Directors' Report

The Synergy (Electricity Retail Corporation) board of directors presents their report for the period 1 July 2010 to 30 June 2011.

## BOARD OF DIRECTORS

### Role of the Board

The board of directors is Synergy's governing body and responsible to the Minister for Energy (the Minister) for its performance. Subject to the Electricity Corporation Act 2005 (the Act), the board has the authority to perform the functions, determine policies and control Synergy's affairs.

### Composition of the Board

The board of directors comprised five non-executive directors and one executive director, the managing director until 31 March 2011. From 1 April 2011, the board of directors comprised five non-executive directors.

## DIRECTORS

The names and details of the directors in office at any time during the period 1 July 2010 to 30 June 2011 are:

**Michael Smith, FAICD, FIMC, FAIM, FAMI**  
– Director and Chairperson (Age 57)

Mr Smith is the Managing Director of Black House, which consults to a number of leading Australian companies. He has held several chairman and director positions since he began his career.

Mr Smith also chairs the boards of iiNet, Australia's second largest internet service provider; and Perth International Arts Festival. He is also Deputy Chairman of AHG Group, Director of 7-Eleven Stores and Vice President of the Australian Institute of Company Directors WA.

Mr Smith was first appointed Chairperson in March 2006 and his term expires on 30 June 2013.

**James Mitchell, B.Com CPA MAICD**  
– Managing Director (Age 59)  
(from 1 July 2010 to 31 March 2011)

Mr Mitchell was appointed as CEO Designate, Western Power Retail in February 2006 and has been Synergy's Managing Director since 1 April 2006. Mr Mitchell is also Chairman of the Uniting Church Investment Fund Advisory Board for the Uniting Church's Western Australian Synod. Mr Mitchell advised the board that he would not seek to renew his contract at its expiry of 31 March 2011.

**Eric Hooper BA (Business), MBA, GAICD**  
– Director and Deputy Chairperson (Age 53)

Mr Hooper was appointed to the board as a non-executive director in March 2006. Mr Hooper is also a director of Ocean Gardens Inc, and consultant providing corporate finance advisory services. Mr Hooper's term expires in 2012.

**Caryle Demarte PSM, BA, FAICD**  
– Director (Age 63)

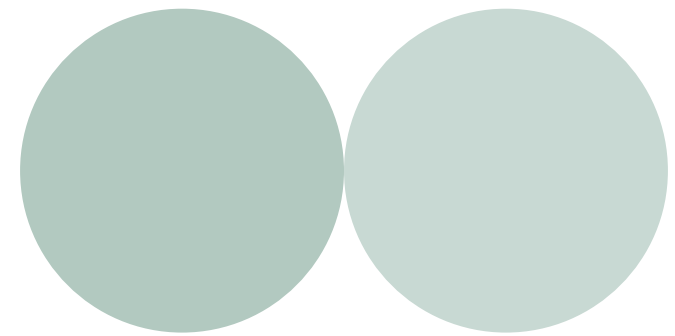
Ms Demarte was appointed to the board as a non-executive director in March 2006. Ms Demarte is a director of Yarra Valley Water and Aurora Energy and has served as a Councillor of the Earth Resources Development Council, a director of TXU Australia Customer Services Pty Ltd, Energy and Water Industry Ombudsman of Victoria, Energy Retailers Association of Australia and VENCORP. Ms Demarte's term expires in 2014.

**Margaret Seares AO, MA, PhD (UWA), FAICD**  
– Director (Age 62)  
(from September 2010)

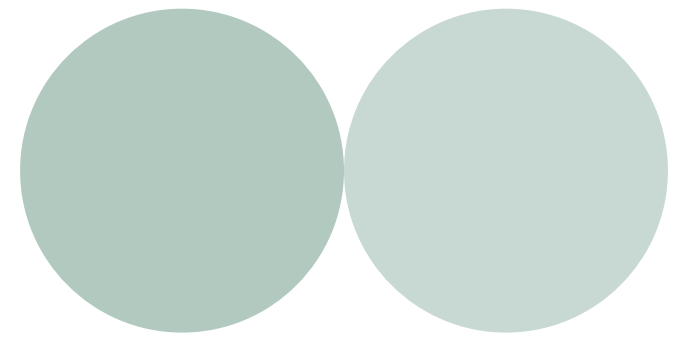
Dr Seares was appointed to the board as a non-executive director in September 2010. Dr Seares has served as Senior Deputy Vice Chancellor of The University of Western Australia, Chief Executive Officer of the Western Australian Department for the Arts, and Chair of the Australia Council; and is a director of the Education Investment Fund, the National Research Infrastructure Council, the Telethon Institute for Child Health Research, and the Perth International Arts Festival. Ms Seares' term expires in 2012.

**Terri Reilly, BA, B Soc Wk, GAICD**  
– Director (Age 55)  
(from 1 July 2010 to November 2010)

Ms Reilly was appointed to the board as a non-executive director in March 2006. Ms Reilly is Chief Executive Officer of Relationships Australia (WA). Ms Reilly is a Director of Relationships Australia's National Board and a Director of Western Australian Council of Social Service Board (WACOSS). Ms Reilly also sits on state and national committees concerned with a range of community and clinical issues. Ms Reilly resigned in November 2010.







## COMMITTEES

Synergy operates a Human Resources and Remuneration Committee, an Audit and Legal Compliance Committee and a Nominations Committee consisting of the following Directors:

- Human Resources and Remuneration Committee members – Margaret Seares (Chair), Michael Smith, and Caryle Demarte.
- Audit and Legal Compliance Committee members – Eric Hooper (Chair), Caryle Demarte and Michael Smith.
- Nominations Committee – Michael Smith (Chair) and Eric Hooper.

The Chief Executive Officer is not a member of, but has a standing invitation to, the Human Resources and Remuneration Committee and the Audit and Legal Compliance Committee.

## ROLE OF THE COMMITTEES

### Human Resources and Remuneration Committee

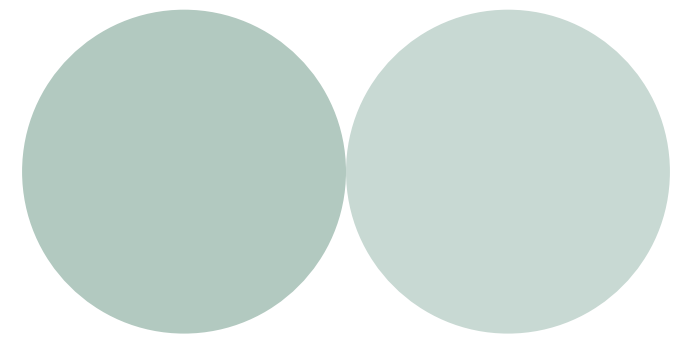
The purpose of the Committee is to assist the board to fulfil its corporate governance oversight responsibilities in relation to:

- the remuneration and other terms and conditions of service of Synergy staff pursuant to Section 18(2) of the Act;
- quality assurance relating to the integrity and probity of Synergy's remuneration policies and practices;
- quality assurance relating to occupational health & safety policies and programs;
- succession planning and nomination of directors and the chief executive officer in accordance with Section 8(5) and Section 14(2)(a) of the Act and
- review the performance of the board and its Committees and the chief executive officer/managing director.

### Audit and Legal Compliance Committee

The primary function of the Committee is to assist the board in fulfilling its fiduciary duties and corporate governance and oversight responsibilities. The Committee will achieve this role by overseeing:

- the adequacy of the financial reporting, principles and policies, internal controls and procedures;
- the integrity and quality of financial statements and the independent audit of those statements;
- oversight of Synergy's business transformation program;
- compliance with the relevant regulatory and legal requirements;
- the internal audit function; and
- the identification and management of business risks by Management.



## DIRECTORS' MEETINGS

The number of meetings of the board (including meetings of committees) and number of meetings attended by each of the Directors between 1 July 2009 and 30 June 2010 are as follows:

	Board Meetings		Human Resources and Remuneration Committee		Audit and Legal Compliance Committee	
	A	B	A	B	A	B
Michael Smith	11	11	3	3	7	7
Eric Hooper	10	11	0	0	7	7
Caryle Demarte	11	11	3	3	7	7
Terri Reilly	4	4	1	1	0	0
Margaret Seares	8	9	2	2	0	0
James Mitchell	8	8	n/a	n/a	n/a	n/a

A Number of meetings attended

B Number of meetings eligible to attend during the time the Director held office during the year

## Corporate Governance Statement

This statement outlines the principal corporate governance practices Synergy's board followed during the reporting period 1 July 2010 to 30 June 2011.

Synergy is committed to acting responsibly, ethically and with the highest standards of integrity. This requires sound corporate governance principles and practices to be adopted by the board and implemented with commitment throughout the business.

The Synergy board considers that its governance practices comply with the recommendations of the ASX Corporate Governance Council Best Practice Recommendations.

### 1. Corporate governance at Synergy

Synergy is committed to a high level of corporate governance and promoting a culture of spirit, integrity, being enterprising and having quality relationships.

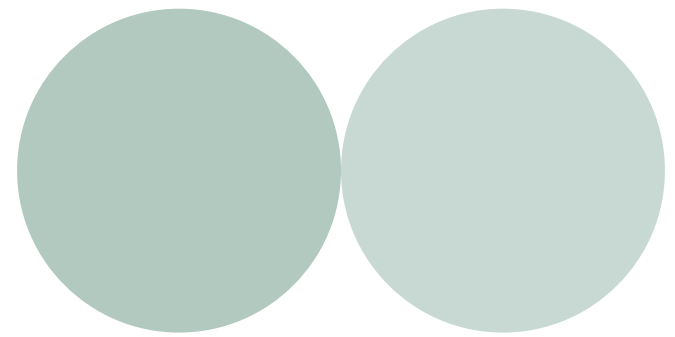
Synergy must comply with the Electricity Corporations Act 2005 (WA) (the 'Act') and other state and commonwealth laws. As a government trading enterprise, Synergy is not listed on the Australian Securities Exchange ('ASX'), but seeks to comply, to the extent applicable and not inconsistent with the requirements of the Act, with the ASX Corporate Governance Principles.

The ASX Principles require the board to consider the development and adoption of appropriate governance policies and practices founded on the ASX Principles. Details of Synergy's compliance with the ASX Principles are set out below and in the compliance checklist found at the end of this statement.

### 2. Board of Directors

#### 2.1 Board role and responsibilities (ASX Principle 1.1)

As a statutory corporation, the respective duties and responsibilities of Synergy's board, chief executive officer and executive officers are substantially set out in the Act.



Subject to the provisions of the Act, the board has overall responsibility for performing the functions, determining the policies and controlling the affairs of Synergy. Its central role is to set Synergy's strategic direction and to oversee its management and commercial activities.

Synergy has a board charter detailing its role, powers, duties and functions. In addition to matters required by law to be approved by the board, the following matters are reserved to the board:

- appointing the chief executive officer - subject to the Minister's endorsement - and overseeing appointments of the chief executive officer's direct reports;
- providing strategic direction, approving policies and reviewing major decisions, including capital expenditure proposals;
- approving budgets and monitoring senior executives' and financial performance;
- overseeing compliance with internal processes and regulatory requirements; and
- assessing board performance to ensure the board's effectiveness.

Responsibility for the management of Synergy's day-to-day operations is delegated to the chief executive officer, who is accountable to the board. The board has also delegated a number of responsibilities to its committees. The responsibilities of these committees are detailed in section 3 of this report.

## 2.2 Board composition (ASX Principles 2.1, 2.2, 2.3 & 2.6)

In accordance with the Act, the board must comprise not less than four and not more than six directors appointed by the Governor of Western Australia on the nomination of the Minister. In making nominations, the Minister is required to consult with the board. Where a vacancy occurs in the membership of the board, it may recommend a new candidate to the Minister.

At the date of this report the board has four members, all of whom are non-executive directors. The names of the directors in office at the date of this report, the date they were first appointed, and their biographical details are set on page 15 of this report.

The board considers all of the non-executive directors collectively bring the range of skills, knowledge and experience necessary to direct Synergy.

In assessing the composition of the board, the directors have regard to the following criteria:

- the chair and the deputy chair must be independent, non-executive, directors;
- the role of the chair and the chief executive officer cannot be filled by the same person;
- the chief executive officer is to be resident in, or near, the town in which Synergy's head office is located
- the majority of the board should comprise independent directors; and
- the board should have the required blend of qualifications, experience and expertise.

## 2.3 Director independence (ASX Principle 2.1 and 2.6)

The structure and composition of the board is prescribed by the Act. The independence of directors is, therefore, not a matter entirely in control of the board. However, the board charter provides that in nominating candidate directors to the Minister, the board will have regard to the independence of prospective directors.

The board charter further outlines the criteria to be considered in assessing director independence, which are based on the premise that a director, other than the chief executive officer, 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 judgment.

None of the non-executive directors is considered to have a 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 judgment.

## 2.4 Conflicts of interest

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.

## 2.5 Terms of appointment, induction training and continuing education (ASX Principles 1.1)

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 reappointment. Periods of appointment will be structured to ensure approximately one-third of directors retire each year.

The Nominations Committee oversees the establishment and implementation of an effective induction process for new directors and will review that process regularly. The induction process includes discussions with the chief executive officer, senior management and relevant external stakeholders and provision of information on key corporate and board policies and strategic plans.

All directors are expected to undertake professional development to maintain the skills required to discharge their duties. Where this involves industry seminars and approved education courses, Synergy pays the cost, subject to the chair's approval. In addition, where skill gaps are identified, directors will be provided with appropriate resources and training.



## 2.6 Performance evaluation (ASX Principle 1.2, 1.3 & 2.5)

The responsibilities of Synergy's executive are well defined and documented through formal position descriptions, performance agreements and board-approved delegation of authority policies. Synergy has also developed an extensive performance management system for evaluating the performance of senior executives.

The HRRC reviews and makes recommendations to the board on the process for reviewing the performance of the chief executive officer. The chief executive officer's performance is judged against the approved strategic plan and the corporate and personal key performance indicators established for the chief executive officer on an annual basis. The same process is adopted in the case of other senior executives, except that their performance is also judged against additional key performance indicators relating to their respective departments.

The Nominations Committee reviews the performance of the board and its committees.

## 2.7 Board access to information and professional advice (ASX Principle 2.6)

Directors have direct access to members of Synergy's management and information.

Directors may, in carrying out their duties owed to Synergy, seek external professional advice. They are entitled to reimbursement of all reasonable costs where a request for advice is approved by the chair. Where the chair proposes to seek external advice, he, or she will consult the deputy chair.

## 2.8 Directors' remuneration (ASX Principle 8.2)

The principles used to determine the nature and amount of remuneration of directors is detailed in the Remuneration Report of the Annual Report. The HRRC is responsible for, among other matters, assisting the board in establishing remuneration policies and reviewing their effectiveness. The remuneration of non-executive directors is determined by the Minister.

There are no schemes for retirement benefits, other than superannuation, provided for any non-executive director.

## 2.9 Chair (ASX Principles 2.2 & 2.3)

The board chair, Mr Michael Smith, is an independent non-executive director. Under the Act, the Governor appoints the chair and deputy chair from the non-executive directors on the nomination of the Minister. In compliance with the Act, the board chair and the chief executive officer are not the same person. The chair is responsible for leadership of the board, for the efficient organisation and conduct of the board's function and for the promotion of relations between board members and between the board and management that are open, cordial and conducive to productive cooperation. The chair's responsibilities are set out in more detail in the board charter.

Mr Smith is also chair/director of the companies listed on page 20 of the Annual Report. The board considers neither his chairmanship of the companies listed, nor any of his other directorship commitments as listed, interfere with the discharge of his duties to Synergy. The board is satisfied he commits the time necessary to discharge his role effectively.

## 2.10 Company Secretary

Synergy's company secretary is Mr Will Bargmann, who is also its general counsel. 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.

## 2.11 Board meetings (ASX Principle 2.6)

The board meets at least eight times per year to address strategic issues and as needed to address urgent issues. Details of the number of board meetings and directors' attendance at these meetings are set out on page 17 of this Annual Report.

The board has adopted rules and procedures which govern the proceedings of board meetings in addition to the provisions in Schedule 1 of the Act.

Copies of board papers are circulated in advance of meetings. Directors are entitled to request additional information where they consider the information is necessary to support informed decision-making.

## 3. Board committees

### 3.1 Committees, membership and charters (ASX Principles 2.4, 2.6, 4.1, 4.2, 4.3, 4.4, 8.1 & 8.3)

The board has established three committees to assist in the discharge of its responsibilities. These are:

- the Audit and Legal Compliance Committee ('ALCC');
- the Human Resources and Remuneration Committee ('HRRC'); and
- the Nominations Committee.

Each of the committees has its charter that describes its role and duties. The company secretary provides secretariat services for each committee.

Minutes of all committee meetings are provided to the board and the proceedings of each meeting are reported by the respective committee chair at the next board meeting. A director may attend committee meetings even if he or she is not a member of the committee.

The number of committee meetings held during the year, and members' attendances at the meetings of the ALCC and HRRC are set out on page 17 of this Annual Report.

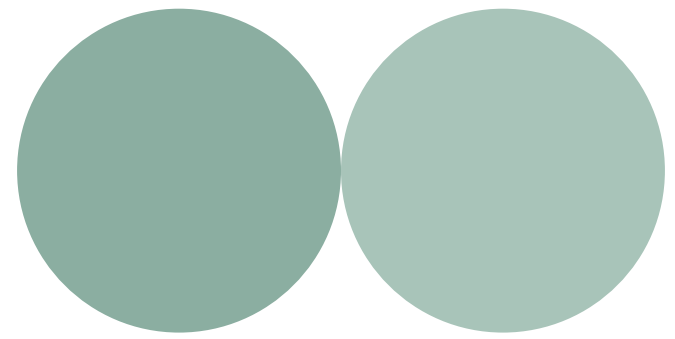
### 3.2 Audit and Legal Compliance Committee (ASX Principles 4.1, 4.2, 4.3 & 4.4)

The role and membership of the ALCC is detailed on pages 16 and 17 of the Annual Report.

### 3.3 Human Resources and Remuneration Committee (ASX Principles 2.4, 2.6, 8.1 & 8.3)

The role and membership of the HRRC is detailed on pages 16 and 17 of the Annual Report.





## 4. Promoting responsible and ethical behaviour

### 4.1 Code of conduct (ASX Principles 3.1 & 3.3)

The board has also approved a code of conduct setting out minimum standards of conduct for all officers and employees of Synergy, as well as a legislative and regulatory compliance policy and a conflict of interest policy. The code of conduct outlines Synergy's position on a range of ethical and legal issues and summarises its policies on matters such as compliance with laws, occupational health and safety, corporate opportunity, confidentiality, protection of corporate assets and diversity in the workplace, and responsibility for the environment.

The codes of conduct and the policies;

- guide compliance with Synergy's legal and other obligations to its stakeholders, including the Minister and the Government, employees, customers, the community, unions and regulatory authorities; and
- are designed to reflect Synergy's commitment to appropriate corporate practices.

Compliance with the principles contained within these documents will also assist Synergy in effectively managing risks and meeting its legal and compliance obligations. Synergy also has a public interest disclosure policy, the details of which are detailed in this report.

### 4.2 Ownership and dealing in securities (ASX Principles 3.2)

Synergy is not a listed entity and has no transferable securities. The potential for issues in relation to trading in other companies' shares while in possession of inside information is addressed in the statutory duties contained in the Act and further explained in an outline of the duties and obligations of directors and executive officers, a copy of which is provided to all directors and officers of Synergy. Synergy's conflict of interest policy also highlights the potential for issues to arise in this regard.

## 5. Shareholder

### 5.1 Shareholder communication (ASX Principles 6.1 & 6.2)

The Minister for Energy is the only shareholder of Synergy. As Synergy's governing body, the board is responsible to the Minister for its performance. The Minister has various rights set out in the Act in relation to certain aspects of Synergy, such as board nominations, approvals for certain transactions and access to information about Synergy.

The Act also imposes certain reporting obligations on Synergy. It must produce a strategic development plan ('SDP') and a statement of corporate intent ('SCI') each year. The SDP sets out Synergy's five-year economic and financial objectives, strategic result areas and associated performance targets, as well as strategies. The SCI sets out Synergy's scope of activities, objectives and performance targets for the coming financial year and is consistent with the SDP. The SCI is tabled in Parliament after it has been agreed with the Minister and has received the Treasurer's endorsement.

In addition:

- Synergy provides quarterly and annual written reports to the Minister detailing its performance and progress made in fulfilling the agreed targets set in the SCI; and
- the Minister and the board must, at the request of either, consult on any aspect of Synergy's operation.

### 5.2 Continuous disclosure and market communications (ASX Principles 5.1 & 5.2)

Synergy is not a listed company and is not subject to disclosure obligations under the ASX Listing Rules. However, the Act imposes requirements on Synergy to report on a range of matters to the Minister.

## 6. Financial reporting (ASX Principles 7.3)

The Act requires the board to declare annually that Synergy's financial statements give, in all material respects, a true and fair view of its financial position and that its financial condition and operating results are in accordance with relevant accounting standards.

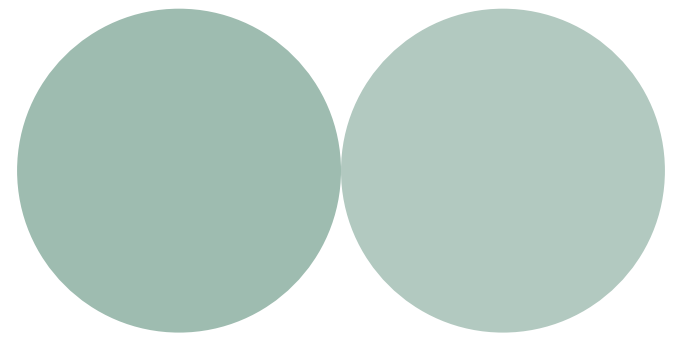
The chief executive officer and the chief financial officer have assured the board that Synergy's financial reports present a true and fair view, in all material respects, of its financial condition and operational results and are in accordance with relevant accounting standards and that such declaration is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

## 7. External auditor relationship (ASX Principle 4.4 & 6)

The Act requires Synergy's financial statements to be audited by the Auditor General by 30 September each year. The Auditor General also reports to the Minister on whether he or she is of the opinion that the financial report is in accordance with the Act.

The ALCC oversees communications between the board; senior financial management; Legal, Regulatory and Audit department; Finance and Business Services Department; and the Auditor General in order to ensure all assistance necessary to complete the audit by the Auditor General is provided.

Synergy does not have control over the appointment (or selection) of the external auditor. This matter is prescribed by the Act.



## 8. Risk management (ASX Principles 7.1& 7.2)

Synergy has a comprehensive framework to manage its strategic, operational, regulatory and reporting risks. The corporate risk management policy sets out a methodology and process for identification of risks, outlines the accountabilities of management and contains procedures for reporting on risk issues throughout Synergy.

Synergy's executive and management are responsible for identifying risks and implementing strategies to mitigate them. The ALCC oversees the risk management framework and reviews the effectiveness of key mitigation strategies. Risk reviews are conducted at least annually to ensure emerging risks, such as those from changes in market structure and design, organisational restructures and operational issues are identified and responses developed.

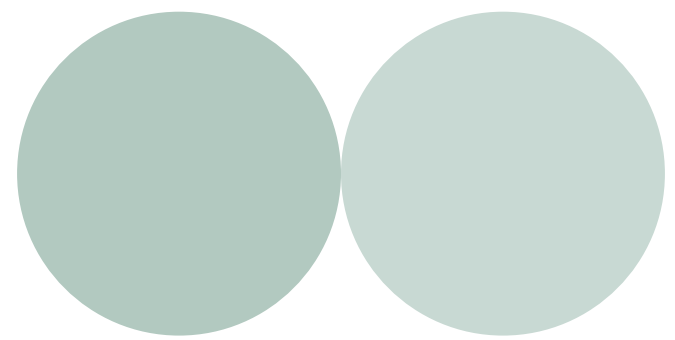
The chief executive officer and the chief financial officer have assured the board that Synergy's management of its material business risks is effective. In accordance with the Act, the Finance and Business Services Department makes recommendations to the board on the appropriate level of insurance cover for Synergy. Financial risk issues are managed through a treasury policy statement that requires reporting to the ALCC on treasury activities.

### Corporate Governance Checklist

Although it is not a company listed on the Australian Securities Exchange and as such is not subject to the ASX Listing Rules, Synergy has voluntarily chosen to comply with the principles and recommendations of the ASX Corporate Governance Council in the most recent edition of its ASX Corporate Governance Principles and Recommendations (ASX Principles), where appropriate and relevant in Synergy's circumstances.

The following checklist reports on the extent to which Synergy has complied with the ASX Principles and explains the reasons for any non-compliance. This table cross-references to various sections of the corporate governance disclosure statement contained within this Annual Report.

	ASX PRINCIPLE	Comply	Reference
Principle 1	<b>Lay Solid foundations for management and oversight</b>		
	1.1 Establish the functions reserved to the Board and those delegated to senior executives and disclose those functions	✓	2.1, 2.5
	1.2 Disclose the process for evaluating the performance of senior executives	✓	2.6
	1.3 Provide the information indicated in the guide to reporting on ASX Principle 1	✓	2.6
Principle 2	<b>Structure the Board to add value</b>		
	2.1 A majority of the Board should be independent directors	✓	2.2, 2.3
	2.2 The Board Chair should be an independent director	✓	2.2, 2.9
	2.3 The roles of the Board Chair and CEO should not be exercised by the same individual	✓	2.3, 2.9
	2.4 The Board should establish a nomination committee	See Note 1	3.1
	2.5 Disclose the process for evaluating the performance of the Board, its committees and individual directors	✓	2.6
	2.6 Provide the information indicated in the guide to reporting on ASX Principle 2	✓	2.2, 2.3, 2.7, 2.11, 3.1, 3.3
Principle 3	<b>Promote ethical and responsible decision-making</b>		
	3.1 Establish a code of conduct and disclose the code or a summary of the code as to:	✓	4.1
	3.1.1 the practices necessary to maintain confidence in the company's integrity;		
	3.1.2 the practices necessary to take into account Synergy's legal obligations and the reasonable expectations of its stakeholders; and		
	3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.		
	3.2 Establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or a summary of the policy	See Note 2	4.2
	3.3 Provide the information indicated in the guide to reporting on ASX Principle 3	✓	4.1



<b>Principle 4</b>	<b>Safeguard integrity in financial reporting</b>		
4.1	The Board should establish an audit committee	✓	3.1, 3.2
4.2	Structure the audit committee so that it consists of: (i) only non-executive directors; (ii) a majority of independent directors; (iii) an independent Chair, who is not the Board Chair; and (iv) at least 3 members	✓	3.1, 3.2
4.3	The audit committee should have a formal charter	✓	3.1, 3.2
4.4	Provide the information indicated in the guide to reporting on ASX Principle 4	Note 3	3.1, 3.2
<b>Principle 5</b>	<b>Make timely and balanced disclosure</b>		
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies	Note 4	5.2
5.2	Provide the information indicated in the guide to reporting on ASX Principle 5	Note 4	5.2
<b>Principle 6</b>	<b>Respect the rights of shareholders</b>		
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of the policy	✓	5.1, 5.2
6.2	Provide the information indicated in the guide to reporting on ASX Principle 6	✓	5.1, 5.2
<b>Principle 7</b>	<b>Recognise and manage risk</b>		
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies	✓	8
7.2	The Board should require management to design and implement the risk management and internal control system to manage Synergy's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of Synergy's management of its material business risks	✓	8
7.3	The Board should disclose whether it has received assurance from the CEO and the CFO that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks	✓	6, 8
<b>Principle 8</b>	<b>Encourage enhanced performance</b>		
8.1	The Board should establish a remuneration committee	✓	3.1, 3.3
8.2	Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives	✓	2.8
8.3	Provide the information indicated in the guide to reporting on ASX Principle 8	✓	3.1, 3.3

Notes:

1. While Synergy has established a Nomination Committee, it does not fully comply with recommendation 2.4 of the ASX Principles given the size and nature of the Synergy board, and the fact the board is ultimately determined by the Governor (on recommendation from the Minister).
2. ASX Principle 3.2 has no relevance to Synergy as it is not a publicly listed entity (see section 4.2 of the corporate governance statement).
3. The independence of committee members is influenced by the process of appointment of the directors to the board by the Governor and, therefore, the committee may not always have a majority of independent members. However, it currently does have the required majority. Under the Act, Synergy's external auditor is the WA Auditor General. Therefore, recommendations in the ASX Principles as to independence and evaluation of the external auditor are not relevant.
4. ASX Principle 5 has no relevance to Synergy as it is not a publicly listed entity and therefore is not subject to the ASX Listing Rules (see section 5.2 of the corporate governance report).

## Remuneration Report

### Principles Used to Determine the Nature and Amount of Remuneration

Remuneration approval protocols are as follows:

- **Specified non-executive directors:** The Minister for Energy approves the remuneration of all non-executive directors;
- **Chief Executive Officer:** The board subject to the concurrence of the Minister for Energy approves the remuneration of the chief executive officer; and
- **Specified Executive Officers:** The board on recommendation of the chief executive officer approves the remuneration of all specified executive officers.

The Remuneration Policy is to:

- remunerate individuals in accordance with performance and responsibility;
- ensure consistent decision making on individual remuneration adjustments;
- establish flexible remuneration arrangements; and
- establish and maintain salary ranges comparable to other companies of similar size and industry.

### Specified non-executive directors

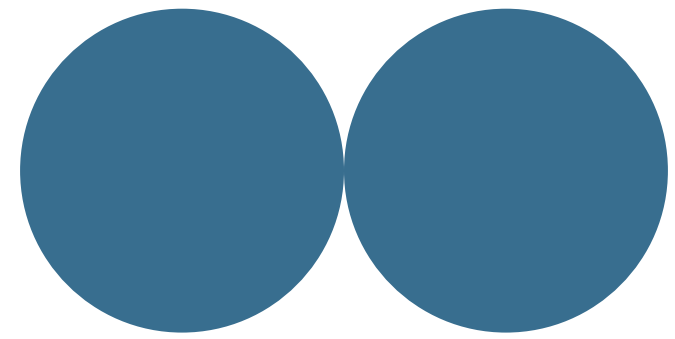
A non-executive director is to be paid out of the funds of the corporation such remuneration and allowances as are determined in the case of that director by the Minister.

### Remuneration

The remuneration of directors and key management personnel is detailed in the Financial Statements.







# Directors' Report

## Service Agreements

It is Synergy's policy that contracts of employment for key managers, excluding the chief executive officer, are unlimited in term but generally these contracts are capable of termination by the key managers on four weeks' notice and Synergy retains the right to terminate the contract immediately by making payment equal to a maximum of 87 weeks pay in lieu of notice. The key managers 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 chief executive officer has a contract of employment that commenced on 1 April 2011 with Synergy. The contract specifies the duties and obligations to be fulfilled by the chief executive officer. The chief executive officer's contract of employment terminates on 31 March 2013. At any time prior to this date, the contract can be terminated either by Synergy providing 12 months' notice or the chief executive officer providing six months' notice.

All contracts provide for no entitlement to termination payments in the event of termination for serious misconduct.

## Emolument of Key Management Personnel

The nature and amount of each element of the emolument for key management personnel during 2010/11 are detailed in the attached Financial Statements.

## Indemnification of Directors and Officers

The board has approved a directors and officers liability insurance policy to ensure the directors and officers of the Corporation have adequate coverage.

The cover will pay on behalf of Synergy, or directors and officers of Synergy, 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 by the policy) in the capacity of director or officer of Synergy.

The directors and officers liability insurance policy forms part of Synergy's third party liability policy, and it is therefore not possible to determine the premium applicable.

At the date of this report no claims have been made against the directors and officers component of the policy.

## Review of Operations

The operations of Synergy during the financial year and the results of those operations are discussed in the chairman's report, the chief executive officer's report and the review of operations.

## Change in State of Affairs

There were no significant changes in the state of affairs of Synergy during the financial year.

## Principal Activities

The functions of Synergy are:

- to supply electricity to consumers and services which improve the efficiency of electricity supply and the management of demand;
- to purchase or otherwise acquire electricity for the purposes of supplying electricity to customers;
- to provide ancillary services;
- by agreement with the Regional Power Corporation (Horizon), to provide retail support services to that corporation; and
- to acquire gas and supply it to consumers.

It is also the function of Synergy to use its expertise and resources to provide consultative, advisory or other services for profit; to develop and turn to account any technology, software or other intellectual property relating to the functions above; to manufacture and market any product relating to the functions above; or to exploit its fixed assets for profit so long as the proper performance of its functions are not affected.

Synergy can do anything that it determines to be conducive or incidental to the performance of its function mentioned in the previous paragraph.

Synergy in performing its functions must act in accordance with prudent commercial principles and endeavour to make a profit, consistent with maximising its long-term value.

## Likely Developments and Expected Results of Operations

Synergy will be monitoring the progress of state and federal policy decisions, which are likely to impact Synergy's operations. Synergy is also awaiting the outcome of proposed legislative changes, and in particular, specific details relating to the Federal Government's Clean Energy Future policy and the proposed carbon tax.

## Ministerial Directions

Synergy has received no Ministerial Directions during the year.

## Observance of the Code of Conduct

Section 33 of the Electricity Corporations Act 2005 (WA) ("Act") requires the board of Synergy to provide to the Minister, at the same time as delivering its Annual Report, a separate report on the observance of its Code of Conduct by members of staff. The board confirms, consistent with section 31 of the Act, Synergy's Code of Conduct was developed after consultation with the Commissioner for Public Sector Standards and was adopted by the board at its meeting on 23 February 2009.

The Code of Conduct has been made available to all employees of Synergy and is available on Synergy's Intranet for employee reference. The board, under delegated authority, assign accountability through the chief executive officer to formal leaders in the organisation to ensure observance of the standards of conduct and integrity by members of staff.

As at 30 June 2011, there were no reported incidents of staff members breaching the requirements of the Code of Conduct.

### State Records Act 2000

Synergy maintains and supports quality record-keeping practices in its day-to-day business activities. All records are managed according to the requirements of the State Records Act 2000 and Synergy's approved Record Keeping plan. Regular reviews are conducted of the corporate record-keeping systems and practices to ensure their efficiency and effectiveness. New employees and contractors are provided with information on the record-keeping systems both at induction and at training in the use of the system. The training programs are reviewed on an ongoing basis to ensure they reflect any new business requirements.

### Public Interest Disclosure

The Public Interest Disclosure Act came into effect 1 July 2003. The Act facilitates the disclosure of public interest information and provides protection for those making such disclosures and those who are subject to such disclosures. Synergy is committed to the aims and objectives of the Act.

In May 2006, a set of procedures was developed which outlined the manner in which Synergy will comply with its obligations under the Act. Public Interest Disclosure information is included in Synergy's induction program, procedures and staff information is posted on our intranet facility for staff to view. Synergy has appointed the chief executive officer, the company secretary/general counsel, manager human resources and organisational development and the manager internal audit as public interest disclosure officers

There were no disclosures made during 2010/11.

### Disability Access Disclosure

Synergy is committed to ensuring people with disabilities, their families and carers have equal access to our services and information.

In accordance with the Disability Services Act 1993, Synergy has developed a Disability Access and Inclusion Plan, which outlines various strategies with a purpose of improving access to services, premises and information.

The Disability Access and Inclusion Plan was created in consultation with key stakeholders and in the plan's implementation a working group was developed to oversee and monitor the overall execution of the plan's objectives.

The Disability Access and Inclusion Plan has six objectives, which include:

- The same opportunities as other people to access the services of, and any events organised by, a public authority;
- The same opportunities as other people to access the buildings and facilities of a public authority;
- Receive information from a public authority in a format that will enable them to access the information as readily as other people are able to access it;
- Receive the same quality and level of service from the staff of a public authority as other people receive from the staff of that public authority;
- The same opportunities as other people to make complaints to a public authority; and
- The same opportunities as other people to participate in any public consultation by a public authority.

