QUARTERLY REPORT

Period Ending
31 December 2016

1. PERFORMANCE OVERVIEW

1.1 FINANCIAL PERFORMANCE

The financial information for the year to date has been compared to the 2016-17 MYR, which was published in December 2016.

$ Millions	Actual YTD	MYR YTD	+ / -
Revenue	1,557.6	1,477.2	80.4
Direct costs	(1,229.9)	(1,198.4)	(31.4)
Gross profit	**327.7**	**278.7**	**49.0**
Other income	49.6	52.6	(3.0)
Operating costs	(206.5)	(207.9)	1.4
Doubtful debts expense	(4.0)	(4.8)	0.7
EBITDA	**166.8**	**118.6**	**48.2**
Depreciation & Amortisation	(83.1)	(84.8)	1.7
EBIT	**83.7**	**33.8**	**49.9**
Net finance cost	(9.6)	(12.3)	2.7
Share of profit (joint ventures)	0.3	2.0	(1.8)
Reported NPBT	**74.4**	**23.6**	**50.8**

The December 2016 YTD reported net profit before tax of $74.4 million is $50.8 million above budget. The key reasons for the favourable variance to budget are:

1. Overall favourable revenue variance of $80.4 million, the combined result of:

   a. Favourable electricity revenue (higher $87.9 million or 6.3 per cent), the combination of the;

      i. Favourable impact of higher than forecast retail sales volume (higher 281.4 GWh or 6.2 per cent), contributing an additional $69.0 million in revenue. Additional sales volume remains the result of increased customer consumption over a significantly colder winter period than expected; and

      ii. Higher operating subsidy receipts ($9.1 million above budget) primarily reflecting higher A1 tariff customer sales (higher 196.7GWh).

   b. Unfavourable gas revenue (lower $7.5 million or 8.8 per cent) due to unfavourable average wholesale sales prices (lower $0.7/TJ or 12.5 per cent) and lower than expected wholesale and retail gas sales volume (lower 566.6 TJ or 11.0 per cent and 220.7 TJ or 2.2 per cent) respectively.

2. Overall unfavourable variance in direct costs of $31.3 million, the combined result of:

a. higher electricity purchases ($21.1 million) and network costs ($43.8 million) associated with higher retail sales volumes discussed in 1 above; offset by

b. lower than budget gas commodity costs ($15.5 million) primarily due to the favourable impact of the delayed Gorgon gas supply contract; and

c. non-cash gain of $20.7 million on revaluation of gas swap liabilities.

3. Other income is below budget mainly due to actual profit of $47.8 million on sale of Synergy's 50 per cent share in Mumbida Wind Farm joint venture compared to a budget of $52.3 million.

4. Operating costs are tracking in line with budget.

5. Doubtful debt expense is tracking in line with budget.

6. Depreciation and amortisation charge is tracking in line with budget.

7. Net finance costs ($2.7 million favourable variance) is due to higher than anticipated interest receipts.

8. Contribution from joint ventures ($1.8 million unfavourable variance) is due to a lower than anticipated profit earned by Synergy's joint ventures.

2. CORPORATE DASHBOARD

Corporate Performance Indicators	Actual	Target	Var.
Reportable Injury Frequency Rate (#) (Rolling 12 month)	2.7	1.9	unfavourable
Compliance (Regulatory)	No Regulatory breaches recorded		
Compliance (Environmental)	No Environmental breaches recorded		
EBITDA ($M)	166.8	118.6	40.6%
Net Promoter Score - Combined (#)	68.7	64.0	4.7

3.

Commercially sensitive information deleted in accordance with Section 109(3) of the *Electricity Corporations Act 2005.*

SEGMENT REPORT FOR PERIOD ENDED 31 DECEMBER 2016

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

The Regulations also require that the quarterly report under Section 106 of the *Electricity Corporations Act 2005* include a separate statement of financial performance for each EGRC business unit for the quarter to which the report relates. This report is required to be submitted within 30 days of the quarter end.

For management purposes, EGRC is organised into business units based on its functions and activities, and has four reportable operating segments as follows:

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

Segment Report for the period ended 31 December 2016

Financial Year 2017	**GBU** **$'000**	**WBU** **$'000**	**RBU** **$'000**	**CSS** **$'000**	**Eliminations** **$'000**	**Consolidated** **$'000**
External customers	41,529	131,023	1,386,452	-	-	1,559,004
Inter-segment	279,247	739,195	-	-	(1,019,849)	(1,406)
Total revenue	**320,777**	**870,219**	**1,386,452**	**-**	**(1,019,849)**	**1,557,599**
Cost of sales	(169,954)	(662,920)	(1,416,922)	-	1,019,943	(1,229,853)
Operating costs	(125,353)	(2,774)	(34,803)	(47,761)	4,206	(206,486)
Doubtful debts	-	-	(4,020)	-	-	(4,020)
Other income	5,285	0	10	34,295	9,971	49,561
	(290,022)	(665,694)	(1,455,735)	(13,466)	1,034,119	(1,390,798)
EBITDA	**30,754**	**204,524**	**(69,282)**	**(13,466)**	**14,271**	**166,801**
Depreciation and amortisation	(72,541)	(104)	(5,262)	(6,029)	839	(83,096)
Segment profit / (loss)	**(41,786)**	**204,420**	**(74,544)**	**(19,495)**	**15,109**	**83,704**
Unallocated items:						
Finance income						5,283
Finance expense						(14,874)
Net finance costs						(9,591)
Share of profit of joint ventures						268
Net profit before tax						**74,381**
Tax expense @30% (provisional)						(22,314)
Profit for the year from continuing operations						**52,067**

Inter-segment revenues are eliminated upon consolidation and reflected in the eliminations column.

Formal transfer pricing arrangements exist between:

- GBU and WBU: whereby GBU is compensated for both; maintaining and making available a fleet of plant, as well as the efficient utilisation of that plant; and
- WBU and RBU: whereby WBU sells energy to RBU on an arms-length basis.

No formal transfer pricing arrangements currently exist between CSS and other business units.