QUARTERLY REPORT

Period Ending
31 December 2015

1. PERFORMANCE OVERVIEW

1.1 FINANCIAL PERFORMANCE

The financial information for the year to date has been compared to the Mid-Year Review (MYR) approved in December 2015.

$ Millions	Actual YTD	MYR YTD	+ / -
Revenue	1,565.1	1,639.5	(74.4)
Direct costs	(1,285.6)	(1,307.1)	21.5
Gross profit	**279.5**	**332.4**	**(52.9)**
Other income	1.8	0.0	1.8
Operating costs	(209.7)	(201.8)	(7.9)
Doubtful debts expense	(4.0)	(5.2)	1.2
EBITDA	**67.6**	**125.4**	**(57.8)**
Depreciation & amortisation	(91.8)	(88.6)	(3.3)
EBIT	**(24.3)**	**36.8**	**(61.1)**
Net finance cost	(20.3)	(6.5)	(13.9)
Share of loss (joint ventures)	(0.7)	2.0	(2.7)
Reported NPBT	**(45.3)**	**32.4**	**(77.7)**

The December 2015 YTD reported net loss before tax of $45.3 million is $77.7 million below budget. The key reasons for this variance are:

1. Below budget revenue of $74.4 million due to:

   a. Unfavourable electricity revenue ($74.0 million), the combined result of:
      i. unfavourable impact ($49.8 million) of lower than forecast, higher priced, franchise sales (down 177.7 GWh or 5.6%), primarily the result of benign weather conditions i.e. cooler than expected summer and warmer than expected winter;
      ii. favourable impact ($27.0 million) of higher than forecast, lower priced, contestable sales (up 226.0 GWh or 15.5%, notwithstanding that Synergy's contestable market share is decreasing); and
      iii. unfavourable impact ($40.4 million) of deteriorating wholesale sales volume (down 588.0 GWh or 24.7%) due to more than expected generation from market competitors resulting in lower sales by Synergy.

   b. Unfavourable gas revenue ($0.4 million or 0.4%). This is largely in line with expectation.

2. Below budget direct costs of $21.5 million due to:

   a. Lower electricity direct costs of:
      i. reduced network distribution ($7.2 million) due to lower franchise sales but not in the same proportion due to a significant portion of the network cost being fixed in nature; and
      ii. lower fuel cost ($8.7 million) due to lower plant production.

   b. Lower gas trading costs ($2.3 million). These are in line with budget expectation for the December 2015 quarter.

3. Unfavourable operating costs ($7.9 million) are attributable to the manner in which the business efficiency program benefits were budgeted. For FY16, the budget assumed $50.0 million of benefits under the operating cost category only. Actual benefits are being delivered through increased revenue, as well as reductions in direct costs, operating costs and capital expenditure.

4. Doubtful debts (favourable $1.2 million) are in line with budget expectation for the December 2015 quarter.

5. Unfavourable depreciation and amortisation charges ($3.3 million) are primarily attributable to accelerated depreciation of fit out costs, associated with vacated office premises, which were not budgeted.

6. Unfavourable net finance costs ($13.9 million) are primarily attributable to a change in the bond discount rate applicable to long term gas commodity liabilities ($8.1 million), with the balance attributable to lower than anticipated repayment of borrowings resulting in higher than budgeted interest costs.

7. Unfavourable contribution from joint ventures ($2.7 million) is primarily attributable to underperformance of Mumbida wind farm. Mumbida has experienced reduced plant availability due to both mechanical issues and lower than expected wind speeds.

2. CORPORATE DASHBOARD

Key Performance Indicators	YTD Actual	YTD MYR	Var.
Reportable Injury Frequency Rate (#) (Rolling 12 month)	1.9	3.2	favourable
Compliance (Retail)	No Type 1 or Regulatory Ring Fence breaches recorded		
Gross Profit ($M)	279.5	332.4	(15.9%)
Operating Costs ($M)	209.7	201.8	(3.9%)
Net Promoter Score - Residential (#)	65.4	60.0	5.4
Net Promoter Score - Business (#)	63.2	60.0	3.2
Plant Availability (%)	83.8%	84.3%	unfavourable

SEGMENT REPORT FOR PERIOD ENDED 31 DECEMBER 2015

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 2015

Financial Year 2016	GBU $'000	WBU $'000	RBU $'000	CSS $'000	Eliminations $'000	Consolidated $'000
External customers	49,073	167,881	1,348,099	-	-	1,565,053
Inter-segment	239,204	719,948	-	-	(959,152)	-
Total revenue	**288,277**	**887,829**	**1,348,099**	**-**	**(959,152)**	**1,565,053**
Cost of sales	(214,982)	(671,549)	(1,358,214)	-	959,152	(1,285,593)
Operating costs	(116,835)	(3,125)	(38,953)	(54,891)	4,089	(209,715)
Doubtful debts	-	-	(4,013)	-	-	(4,013)
Other income	5,452	11	24	6,024	(9,689)	1,821
	(326,366)	(674,663)	(1,401,156)	(48,867)	953,552	(1,497,501)
EBITDA	**(38,089)**	**213,166**	**(53,057)**	**(48,867)**	**(5,600)**	**67,552**
Depreciation and amortisation	(79,523)	(823)	(5,218)	(7,620)	1,373	(91,812)
Segment profit / (loss)	**(117,613)**	**212,343**	**(58,276)**	**(56,488)**	**(4,227)**	**(24,261)**
Unallocated items:						
Finance income						4,650
Finance expense						(24,978)
Net finance costs						(20,329)
Share of loss of joint ventures						(695)
Net loss before tax						**(45,284)**
Tax refund @30% (provisional)						13,585
Loss for the year from continuing operations						**(31,699)**

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.