



ANNUAL REPORT 1 APRIL – 30 JUNE 2006

Electricity Retail Corporation

***committed to energy, committed to the
environment, committed to the community,
but most of all we're committed to you, our
customer.***

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CHAIRMAN'S REPORT

It is with great pleasure I present Synergy's inaugural Annual Report. This report details the activities since Synergy commenced on 1 April to 30 June.

I was delighted in January this year to be invited to take on the position of Chairman of the Electricity Retail Corporation, trading as Synergy, created as part of the disaggregation of Western Power.

It is a great privilege to be appointed to this challenging and important role, in an evolving industry.

On behalf of the Board, we have appreciated the effort the Government and Office of Energy have made to ensure our business has a foundation of solid policy and sound business frameworks.

Synergy's People

The Board has been very impressed with the quality of people working for Synergy. Indeed, the Board has been delighted to see the degree to which long-established employees have met the new challenges that have emerged as a result of deregulation of the energy industry. At the same time we welcome new staff who bring expertise from within the energy sector and other specialist areas.

We are grateful to all staff for ensuring the transition from Western Power to Synergy was seamless, and caused minimal disruption to our customers and employees. Moreover, the focus on customers in the lead up to, and since the establishment of Synergy, has been outstanding.

Future Focus

The Board's initial focus was to develop a detailed understanding of the requirement for Synergy to both return a dividend to the community via the Government and contribute towards an efficient and competitive energy market in Western Australia.

As our community's energy retailer, we are conscious of our obligation to achieve these important objectives. This also provides opportunities to develop a level of rapport with customers and the WA community that will not necessarily be available to competitors, particularly from outside Western Australia.

A Great Start

I am pleased to report the Corporation has performed extremely well in its first quarter of operations, recording a profit after tax of \$13.7 million. The successful result, coupled with Synergy's initial balance sheet, ensures Synergy has a strong foundation to

successfully operate in the new wholesale market which commences on 21 September 2006. The State Government will receive a dividend of \$6.8 million, and with a tax equivalent payment of \$5.8 million, the Western Australian community has benefited with an overall payment of \$12.6 million from Synergy.

Increasing Competition

Since we first met, the Board's focus has been on establishing a sound operational foundation from which we can grow as the market opens up to increasing competition.

The operation of a retailer in a deregulated market requires a sophisticated management of risk, the ability to anticipate our customers' requirements, the capacity to create valuable products and services for them, and to act as their advocate.

We have been very pleased with the work to date of Synergy in the developing our procurement capabilities and look forward to using these to create and access competitively priced energy over the long term.

Finally, I would like to pay tribute to the management and staff of Synergy, who have delivered a tremendous result, and to my fellow Board members who have taken on a significant workload during these early days. We look forward to working with the Synergy team to achieve our goal of being Western Australia's number one energy retailer.

Michael Smith
Chairman

MANAGING DIRECTOR'S REPORT

It was with great pleasure I accepted the position of inaugural Managing Director of Synergy earlier this year, and more importantly, the challenges of the emerging competitive energy market in Western Australia.

The establishment of Synergy required a significant amount of work by a dedicated team of staff, resulting in a seamless transformation to the new Synergy business over the weekend of 1 – 2 April. I pay tribute to all Synergy staff for the considerable effort towards the successful formation of Synergy.

The Minister for Energy, Hon. Francis Logan, MLA, officially launched Synergy and our sponsorship of the Synergy Parkland at Kings Park on 2 April.

The name Synergy responds to customer feedback signalling they expected their energy retailer will work together with Western Power Networks and generators on behalf of customers, as well as the new entity's desire to be customer driven and future-focused in its concern for the environment and the community.

Notwithstanding a low-key brand launch, I am pleased to note there is very high customer awareness of the new brand within a short time.

The successful establishment and launch of Synergy would not have occurred without the full and unequivocal support of the inaugural Board, led by the Chairperson, Mr Michael Smith. Michael brings a strategic, results focused approach to this position and he has provided welcome leadership and expertise. The Board has an outstanding and diverse array of skills and experience across a diverse range of industries, providing sound and effective guidance to the Corporation.

As a stand-alone retailer, it was important Synergy was provided with sufficient financial resources upfront, owing to the long-term nature and high value of supply contracts.

I am very pleased our opening balance position has provided sufficient funding to further develop the business and enable Synergy to competitively engage in the market.

Synergy is developing Service Level Agreements, on a commercial basis, with Western Power and Horizon, and importantly, is establishing commercial relationships with alternative suppliers in the energy industry.

Establishing new relationships with energy suppliers in the wholesale market is integral to delivering competitively priced energy over the longer term.

Accordingly, suppliers will have the opportunity to satisfy Synergy's purchasing requirements and will be treated on the basis that the best proposal will win the opportunity.

Synergy will also leverage its robust existing processes in billing, collections and contact centre operations to provide services back to Horizon Power and Western Power.

Considerable effort has also been focused behind the scenes on developing Synergy into a successful energy retailer. While the major portion of our revenue is via electricity sales, I am pleased with the increasing revenues from gas sales, which have exceeded forecasts, and we expect will increase over the next financial year.

We have developed a Strategic Business Plan to lead the business through our first five years.

Our first priority is the customer and a significant part of our strategic approach will concentrate on enhancing the customer experience.

This has included a restructure of our Contact Centre and increased mentoring of Contact Centre staff, and the establishment of a New Connections team. In addition Synergy has established the Office of Customer Advocate. This position will represent customer concerns and support our corporate vision of becoming a customer driven organisation by developing a company wide awareness and focus on delivering high quality customer service.

I would like to conclude by expressing my appreciation to all Synergy staff for their considerable efforts in the lead up to disaggregation and throughout Synergy's first three months in operation; to the Chairman, Michael Smith and the members of the Synergy Board; and to the Minister for Energy the Hon Francis Logan MLA and his staff for their support and assistance.

James K Mitchell
Managing Director

REPORT OF OPERATIONS

Introducing Synergy

This report refers to the operations of Synergy from 1 April to 30 June 2006.

Synergy is Western Australia's biggest energy retailer with more than 870,000 industrial, commercial and residential customer accounts, generating total revenue of more than \$1.5 billion annually.

Synergy operates throughout the South-West Integrated System (SWIS) which includes the Perth metropolitan area and extends north to Kalbarri, east to Kalgoorlie and south to Albany.



The primary activities of Synergy include wholesale energy procurement and trading, marketing, sales and customer service, billing and payment processing. Synergy operates a dedicated Contact Centre and an outbound teleservices group. In addition, we service major customers' needs through face-to-face customer support from sales account management teams.

The new Synergy corporate identity was unveiled to staff prior to its public launch on 2 April 2006. Although the launches were low key, customer awareness of the new brand developed very quickly. By May, 68% of customers were able to correctly identify Synergy as

their electricity retailer. When prompted, recognition of the brand was even higher with 90% of residential and small medium enterprise customers knowing the brand at the end of May.

Synergy has a work force of approximately 350 permanent staff.

Establishment of Synergy

Retail Business Establishment Program

1 April 2006 brought about a significant milestone, that of the establishment of Synergy.

After many months of preparation, what was Western Power Retail was successfully transformed into Australia's largest stand-alone energy retailer.

The vehicle for this transformation was the Retail Business Establishment Program, whereby a team of dedicated staff completed over 500 discrete deliverables.

The vast program of work undertaken during a period of 'three-dimensional' change in the industry, namely market, regulatory and structural, delivered an outstanding result, namely the seamless creation of Synergy.

OUR VISION

Synergy's vision is to be the number one energy retailer in Western Australia.

OUR VALUES

The organisational values, on which we base behaviour and with which we will successfully deliver on our vision, are:

Enterprising

We will seize opportunities, move ahead, take the initiative, innovate and focus on being the experts in energy.

Quality Relationships

We put our customers' interests at the centre of everything we do. We establish good relations with everyone who has an interest in our business. We understand the importance of good relationships with customers, staff, stakeholders, the community and the environment. We support, respect and learn from each other, we provide service, we are a partner, a team.

Spirit

Spirit is an intrinsic quality enabling us to approach work with an inspired outlook. It breeds a culture of enthusiasm, initiative and 'giving things a go'.

Integrity

Integrity is our foundation, providing a genuine platform for a culture of good faith. We will keep our promises and build trust with our customers and stakeholders.

Code of Conduct

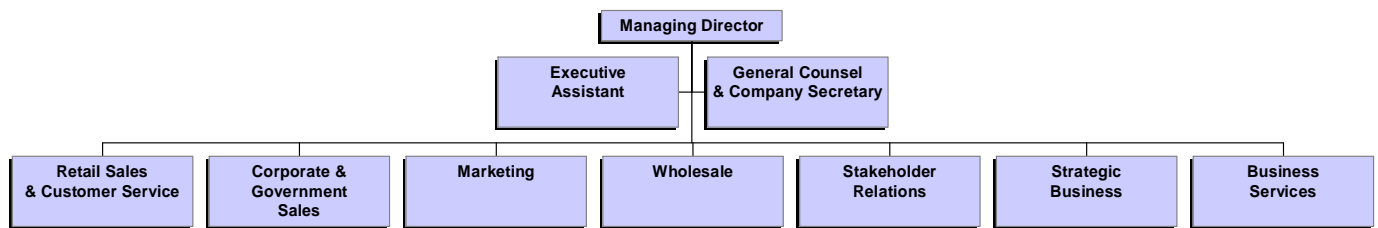
The Synergy Code of Conduct sets down standards for appropriate ethical and professional behaviour for employees (including Directors). It sets out the fundamental values that form the basis of, and, underpin Synergy's business relationships.

The Code of Conduct provides direction on:

- Compliance with the Law
- Respect for Synergy's Values
- Protection of Synergy's interests
- Occupational Health and Safety
- Professional Behaviour
- Action within Delegated Authority and Company Policy
- Conflict of Interest
- Gifts and Entertainment

- Use of Company Assets
- Use of Computers
- Stealing, Misappropriation and Illegal Practices
- Management of Diversity
- Responsibility for the Environment
- Information, Reports and Record Keeping
- Breaches of Code of Conduct
- Observance of the Code of Conduct

ORGANISATIONAL STRUCTURE



James K Mitchell, B. Comm, CPA, MAICD, FCT
Managing Director

Will Bargmann, Barts (Hon), JD
General Counsel and Company Secretary

Geoff Roberts, Assoc.Dip App Sc (Comp. Sc), Adv Cert in
Management, GAICD, FAIB
Head of Retail Sales & Customer Service

Mark Nielsen, MBA
Head of Corporate & Government Sales

Russell Mitchell, B.Bus
Head of Marketing

Mike Bailey
Head of Wholesale

Andrew Gaspar, B.Bus
Head of Stakeholder Relations

Grant Draper, M.Ec, MBA
Head of Strategic Business

Trevor James, B.Bus, MFTA, FCPA, MAICD
Chief Financial Officer & Head of Business Services

Virginia Miltrup, B.Com*
Head of Employee & Organisational Services

Geoff White, B.Bus*
Chief Information Officer

* Virginia Miltrup and Geoff White are part of Business Services, reporting to Trevor James. Due to the strategic focus of their area of work they are also part of the Executive Management Team.

The key roles of each department are as follows:

Retail Sales and Customer Service

- Consolidation of Synergy's sales and service functions:
- Contact Centre - major service channel for franchise customers (< 5.7kW average demand).
- New Connections Team – to coordinate new connections on behalf of customers.
- Customer Services Centre - customer rebates and subsidies.
- Revenue Services – Responsible for the accurate and timely billing of over 870,000 customers; reconciliation of revenue from all payment agencies; and credit management.
- Business Management - telephone account management services for contestable SME customers (5.7kW to 230kW average demand).
- Account Management - provide sales and account management to large contestable customers (>230kW average demand), excluding key accounts in the Corporate and Government portfolio.

Corporate and Government Sales

- Sales team focused on relationships with high volume electricity and gas customers. This team manages electricity and gas supply tenders and buyers groups (e.g. government tender process). This team will also perform a strong customer advocacy role to ensure services supplied by Western Power (Networks) meet the requirements of Synergy's customers.

Marketing

- Product development and management.
- Brand strategy, management and communications.
- Market strategy, forecasting, pricing and analysis.
- Customer research.
- Promotions, advertising and sponsorship.

Wholesale

- Wholesale trading, network and pipeline access, electricity and gas procurement.
- Renewable energy procurement

Stakeholder Relations

- Manages corporate communications and key stakeholder relationships.

- Also includes the Office of the Customer Advocate who will ensure services provided by Synergy meet customer requirements and will liaise with the Energy Ombudsman to ensure customer complaints are dealt with in an effective manner.

Strategic Business

- Strategy and business development, regulatory compliance, and risk management.

Business Services

- Management of information technology, treasury functions and middle office for wholesale trading and sales, management of commercial contracts (suppliers), accounting and forecasting, organisational development and human resources management.

COMMITTED TO CUSTOMERS

Our customers are our number one priority and we at Synergy are committed to making the customer experience a positive one.

Synergy is strongly committed to providing customers with the highest level of service. The Customer Charter details this commitment to all customers.

Customer Advocate

Synergy has introduced the Office of Customer Advocate to assist in achieving the vision to be a customer-focussed, world-class energy retailer.

Mr Ken Nylander, who has extensive experience in the energy industry and advocacy in the area of disability services, was appointed to the position of Customer Advocate in May.

The Customer Advocate is an 'internal ombudsman', a champion of the customer who will represent customer concerns within Synergy.

Importantly, the Customer Advocate will undertake reviews of Synergy's policies and procedures to improve the customer experience.

Contact Centre

Synergy has invested significantly in its Contact Centre to enable it to respond to customer enquires efficiently and effectively. This has included an expansion of the Contact Centre team, a restructure to allow increased management and mentoring of Contact Centre members and the establishment of a New Connections team to facilitate the seamless establishment of new connections.

Safety Watch-It Van

Synergy is continuing to provide the Safety Watch-It Program, which involves Synergy staff operating the Safety Watch-It Van at shopping centres throughout the South West Interconnected System to provide free safety checks on portable electrical appliances.

The Van's safety officers carry out cord and plug repairs and safety tests.

Rebates

On behalf of the Western Australian Government, Synergy provides up to five rebates to eligible customers including pensioners, veterans, seniors and persons with a Centrelink health card. Concession cardholders, who are permanent residents in caravan

parks, receive similar benefits to those in standard dwellings. The estimated total cost of rebates in 2006/07 is approximately \$37.3M.

In addition, eligible charitable and voluntary organisations can elect to take supply on the concessional C1 tariff instead of general supply tariffs, saving the typical customer up to \$276 per year. The total cost of the concession is estimated at \$0.3M for 2006/07.

Account Paying Assistance

Synergy manages a program to support customers who are having problems paying an account, working with them to make arrangements to pay off outstanding debts either directly or through deductions from a Centrelink payment.

WACOSS

Synergy also supports customers who are in financial hardship through sponsorship of the Western Australian Council of Social Service's (WACOSS) *Power Assist Scheme*, coordinated by the WACOSS Emergency Relief Agencies Forum (ER Forum). The ER Forum assists members of the community experiencing financial difficulties with the payment of their electricity accounts and in particular to prevent electricity disconnection.

COMMITTED TO ENERGY

Synergy's core business involves sourcing energy, primarily electricity and to an increasing degree gas, and supplying it to our customers at competitive prices.

Readiness For The New Market

One of the most significant achievements to 30 June 2006 has been the work that has gone into creating the capability for Synergy to participate in the new Wholesale Energy Market (WEM). The wholesale market, which will be introduced from 21 September 2006, is a key component of the Government's electricity reform program and will open up the Western Australian energy market to increased competition in the wholesale market of the South-West Interconnected System.

Synergy's preparation has involved developing strategies to source energy at competitive prices and in developing the people, processes and systems required to become a stand alone retailer in the contestable market.

To achieve this, Synergy has established an energy procurement process, which encompasses the securing of sufficient capacity and energy to meet customer sales and market obligations.

In the wholesale area other developments have included:

- Development and establishment of 'best practice' front, middle and back office processes in preparation for the commencement of the Wholesale Energy Market. The **Front Office** system is designed to manage and optimise the position between wholesale supply contracts and retail sales contracts. The **Middle Office** is the compliance mechanism, which monitors operations of the Front Office within approved governance limits and oversees the conversion of the wholesale price to a retail selling price. The **Back Office** settles the obligations created by the Front Office and establishes network costs.
- Development of trading strategies for the capacity and energy markets. These markets are undergoing refinement and change as new players emerge, and as the Independent Market Operator sets up its operations for the new market. A well-considered, dynamic and strategic trading plan is essential for success in this area.

Development of Gas Business

The benefits of expanding into the WA gas market are consistent with Synergy's objective of becoming an 'energy' retailer, as well as assisting Synergy to realise economies of scale in customer service management

Notwithstanding the prohibition on Synergy selling gas to customers consuming less than one terajoule per year, growth in sales of natural gas is exceeding expectations.

Black Swan Nickel Pty Ltd Agreement

Synergy signed a major deal worth \$50 million with 'MPI Nickel's' Black Swan Nickel Operation for the supply of electricity to its planned expansion project, north east of Kalgoorlie in Western Australia.

Agreement with Simcoa Operations

Synergy has signed a significant agreement with Simcoa Operations to continue to supply electricity to its silicon smelter in Kemerton. The new deal, which takes over from 2008, will be worth hundreds of millions of dollars over the period of the agreement.

Water Corporation Desalination Plant Agreement

From November 2006 Synergy will provide electricity to the Water Corporation to power a seawater desalination plant with renewable energy from a new wind farm, Emu Downs.

NewGen Power Station

Synergy will source energy from a new gas-fired, base load power station within the South West Interconnected System, being built adjacent to Verve's Cockburn power station. It will provide an additional 320 megawatts of power and is expected to be operational from November 2008.

Peak Demand Saver Program

The Peak Demand Saver program was introduced to contribute to the required capacity needed to meet system peak demand. This program was very successfully introduced in 2005 in which a total of over 80 MW was available last summer to meet peak demand.

COMMITTED TO THE ENVIRONMENT

Synergy is conscious of the impact energy consumption has on the environment and is committed to delivering innovative energy solutions for sustainable growth. As an energy retailer, Synergy will endeavour to minimise the environmental impact of our customers' use of energy.

Energy Options

Synergy continues to offer two 'green' energy options for customers, NaturalPower and Earth Friendly. Customers are able to make an informed decision as to the cost of switching from their existing tariff, based on their current usage.

NaturalPower

NaturalPower is renewable energy sourced from the sun and the wind, which generate no greenhouse gas emissions. Customers who choose to purchase NaturalPower are preventing the emission of greenhouse gases that would otherwise be produced to meet their energy needs and are therefore contributing to a cleaner, healthier environment. NaturalPower has received the Green Power tick from the National Green Power Accreditation Program to verify it is sourced from genuine government approved renewable sources. In 2005/06, Synergy added 14,843MWh of NaturalPower to the electricity grid on behalf of our customers.

Earth Friendly

Earth Friendly is generated in the traditional way, but all emissions created in the production of the energy are offset by contributions to greenhouse gas reduction programs. In effect, 100% Earth Friendly customers are greenhouse gas emission neutral. Earth Friendly is certified under the Greenhouse Friendly Program, which is an Australian Greenhouse Office program to assist customers identify products that have minimal impact on the environment.

Both NaturalPower and Earth Friendly "make a difference" to the environment by reducing the amount of harmful greenhouse gases in the atmosphere.

NaturalPower sales are in addition to Synergy's regulatory requirements, and therefore further drive the amount of renewable energy on the grid and provide funds for renewable energy project development. Synergy also offers Earth Friendly as an alternative Green Energy option for customers concerned about the environment.

Whilst green energy customers are currently a relatively small proportion of Synergy's total customer base, the participation rate is

growing rapidly, and is expected to continue to grow. The issue of climate change requires a global solution, which everyone can be a part of by actively reducing greenhouse gas emissions. Synergy encourages customers to be a part of the solution by choosing NaturalPower or Earth Friendly.

In 2006/07 Synergy will continue to support and promote the green energy product suite to develop customer awareness and growth in uptake of green energy.

Emu Downs Windfarm

As a result of a competitive tender process, Synergy (then Western Power Retail) entered in a commercial arrangement with Stanwell Corporation Limited and Griffin Energy to supply renewable energy and renewable energy certificates from a new wind farm.. The Emu Downs Windfarm proposal, developed by Stanwell and Griffin, is under construction east of Cervantes and is currently scheduled for completion late October 2006. It will have 48 wind turbines producing up to 80 megawatts of power. Synergy will purchase all electricity generated and on-sell a major portion to the Water Corporation to operate its seawater desalination plant. Synergy will also purchase a major portion of the renewable energy certificates.

Sponsorships

Working towards a healthier environment is also a focus of our sponsorship program.

Environmental Education

Synergy's sponsorship of the Synergy Parkland in Kings Park complements the Kings Park and Botanic Gardens commitment to the environment.

The Synergy Parkland is a highly valued resource that is used extensively by the community and school groups. In future years Synergy will work with Kings Park and Botanic Garden's to enhance the value of the Parkland, in particular, for environmental education.

Landcare

Synergy will continue the longstanding sponsorship of Landcare Australia, which commenced in 1997 with Western Power.

Synergy is working with Landcare on priorities for projects for 2006/07 within the SWIS, which will meet with Landcare's objectives of:

- Moving towards a cleaner, greener environment;
- Maintaining and protecting the environment; and

- Providing education and leadership for future generations in 'Landcare'.

Solar Cities

Synergy is a third party member of two consortia (Perth & Kalgoorlie) bidding for the right to become Solar Cities. The Solar Cities Program is a Federal Government initiative distributing \$75m in funding to at least four cities around Australia. This innovative program is designed to demonstrate how solar power, smart meters, energy efficiency and new approaches to electricity pricing can combine to provide a sustainable energy future in urban locations throughout Australia.

Environment Policy

Aligning with its brand values and commitment to the environment, Synergy is developing an Environmental Policy. The policy will provide guidance to all areas of the business in reducing environmental impact and delivering sustainable outcomes. The policy will be rolled out to the business over coming months.

COMMITTED TO THE COMMUNITY

Synergy touches the lives of thousands of people every day in communities through the South-West Interconnected System.

Our relationships with communities are fostered both through commercial relationships and the key sponsorships and partnerships the business undertakes each year.

Synergy Parkland

Synergy is involved in a long-term partnership with the Botanic Gardens and Parks Authority, which involves sponsorship of the Synergy Parkland in Kings Park. In addition to the environmental benefits of this partnership, the Synergy Parkland is a community resource enjoyed by hundreds of thousands of Western Australians each year.

The Parkland is celebrated for its unique blend of play and education, and showcases the way the energy of the sun and wind have left their special mark on Western Australia's plants and animals.

Starlight Express Van

The Starlight Children's Foundation aims to brighten the lives of seriously ill and hospitalised children and their families. The 'Starlight Express' van visits hospitals and education support schools in Perth and country centres. Synergy's commitment to the 'Starlight Express' van will enable the visiting programs to metropolitan centres and country areas to be increased during 2006/07.

To provide an example of what this will mean in just one regional centre, instead of visiting Kalgoorlie just three times a year, Captain Starlight will visit monthly. The Starlight Children's Foundation estimates this will increase the number of children visited in Kalgoorlie from 45 to more than 180 a year.

Synergy staff also help raise additional funds for the Foundation by collecting money for the Foundation's main fundraising event, Star Day.

Western Australian Symphony Orchestra

Synergy has taken over Western Power's sponsorship of the Western Australian Symphony Orchestra's (WASO) summer concert series held in Kings Park. The series aim to cater to a wide range of tastes and in 2006 included concerts as varied as violin virtuoso Nigel Kennedy playing Vivaldi; rock musicians Tex Perkins and Tim

Rogers playing with WASO, and for the younger members of the community, the Hooley Dooleys.

Casual Dress Fridays

Each Friday, Synergy staff dress casually and donate to a cause selected by staff. This year we have been supporting the Western Australian Retinitis Pigmentosa Foundation.

REPORT ON OPERATIONS

Synergy's trading performance for the first three months ended 30 June 2006 was strong with a Profit After Tax of \$13.7m.

Sales revenue of \$365.2m was within expectations. Electricity sales were on target considering the competitive environment set up in the WA electricity market and the relatively mild weather. Gas sales exceeded forecasts for the period and growth is expected to increase over the next financial year.

Synergy's Profit after tax to Revenue margin delivered a 3%. The margin was primarily achieved through reduced operating costs that were achieved through cost management initiatives.

During the period, Synergy repurchased all outstanding debt and increased equity to \$139.7m. Synergy through its strong balance sheet is now well positioned to operate in the new wholesale electricity market when it commences on 21 September 2006.

Dividends for the full year total \$6.8m representing a dividend payout ratio of 50%.

Through dividend and tax equivalent payments to State Government, Synergy will have delivered \$12.6m to the WA community.

PERFORMANCE OVERVIEW

Synergy's corporate Key Performance Indicators (KPIs) have been selected to reflect the high-level business drivers, with the aim of allowing the shareholder 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

	2003/04	2004/05	2005/06	2006/07
Contact Centre Effectiveness				
Total Number of Calls Received	2,097,328	2,260,809	2,320,000	2,375,000
% of Calls not answered within 30 seconds from when a customer is connected to a complaint/inquiry line	11.4%	17.2%	21.3%	20.0%
Average waiting time before a call is answered	17.8	33.3	31.5	30.0
% of calls abandoned	5.37%	11.60%	5.78%	5.0%
Business Development and Innovation				
Uptake of online billing	N/A	N/A	1.2%	1.3%
NaturalPower as a % of total sales	N/A	0.10%	0.13%	0.14%
SmartPower sales as a % of total sales	N/A	1.02%	1.07%	1.21%
Customer Service				
Number of disputes involving the Energy Ombudsman	87	50	300	300
Affordability and Access				
Number of customers on instalment plans	8,787	8,169	7,552	6,935

DIRECTORS REPORT

The Synergy (Electricity Retail Corporation) Board of Directors present their report for the period 1 April – 30 June 2006.

BOARD OF DIRECTORS

Role of the Board

The Board of Directors is Synergy's governing body and is 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 comprises five non-executive Directors and one executive Director, the Managing Director.

The Board is Synergy's governing body with authority, subject to this Act, in the name of the corporation, to perform the functions, determine the policies and control the affairs of the corporation.

DIRECTORS

The names and details of the Directors in office at any time during the period 1 April – 30 June 2006 are:

Michael Smith, FIMC, FAIM, FAMI – Director and Chairperson (Age 52)

Michael Smith, Managing Director of the Marketing Centre, was appointed Chairperson in March 2006. He has previously held several chairman and director positions since he began his career. Mr Smith's term expires on 31 March 2009.

Mr Smith also Chairs the Boards of Scotch College, the Pearling Industry Advisory Committee and the Perth International Arts Festival. He is a director of 7-Eleven Stores Pty Ltd, a chain of 350 convenience stores on Australia's east coast and of Home Building Society Ltd, listed on the ASX.

Mr Smith was formerly the Chairperson and Director of the West Coast Eagles and a director of Indian Pacific Ltd. He was also the State President of the Australian Marketing Institute and a member on the Federal Board.

James Mitchell, B.Com CPA MAICD – Managing Director (Age 54)

Jim Mitchell was appointed as CEO Designate, Western Power Retail in February 2006 and was Synergy's Managing Director from 1 April 2006. Mr Mitchell is also a Board member of the Uniting Church

Investment Fund Advisory Board for the Uniting Church's Western Australian Synod. Mr Mitchell's term expires on 30 June 2007.

Eric Hooper BA (Business), MBA, GAICD – Director and Deputy Chairperson (Age 48)

Eric Hooper was appointed to the Board as Deputy Chairperson in March 2006. Mr Hooper is the Group Director, Finance at St John of God Health Care Inc. Mr Hooper's term expires on 31 March 2009.

Craig Coleman, B Comm – Director (Age 40)

Craig Coleman was appointed to the Board in March 2006. Mr Coleman is the Managing Director of Home Building Society Ltd. Mr Coleman's term expires on 30 June 2008.

Caryle Demarte PSM, BA, FAICD – Director (Age 58)

Caryle Demarte was appointed to the Board as a Non-Executive Director in March 2006. Her term expires on 30 June 2008. During the past three years, Ms Demarte has served as a director of the following listed companies:

- Yarra Valley Water
- Aurora Energy
- TXU Australia Customer Services Pty Ltd
- Energy and Water Industry Ombudsman of Victoria
- Energy Retailers Association of Australia
- VENCORP

Terri Reilly, BA, Bachelor Social Work - Director (Age 50)

Terri Reilly was appointed to the Board as a non-executive director in March 2006. Ms Reilly is Chief Executive Officer of Relationships Australia WA, a leading provider of professional, clinical services to the community, aimed at improving personal, family and workplace relationships. Ms Reilly also has a leadership role with Relationships Australia's national board and on state and national committees concerned with a range of community issues. Her term expires on 30 June 2007.

Committees

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

Human Resources and Remuneration Committee members – Mike Smith (Chair), Terri Reilly and Caryle Demarte.

Audit and Legal Compliance Committee members – Eric Hooper (Chair), Craig Coleman and Caryle Demarte.

The Managing Director has a standing invitation to all Committees.

Role of the Committees

Remuneration and HR Committee

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

- pursuant to Section 18(2) of the Act power to determine the remuneration and other terms and conditions of service of Synergy staff;
- 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.
- Compliance with the relevant regulatory and legal requirements.
- The internal audit function.
- 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 April and 30 June 2006 are as follows:

	Board Meetings		Remuneration and HR Committee		Audit and Legal Compliance Committee	
	A	B	A	B	A	B
Michael Smith	2	2	2	2	0	0
Eric Hooper	2	2	0	0	1	1
Craig Coleman	1	2	0	0	1	1
Caryle Demarte	1	2	2	2	1	1
Terri Reilly	2	2	2	2	0	0
James Mitchell	2	2	2	2	1	1

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 that the Synergy's Board followed during the reporting period 1 April – 30 June 2006.

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.

Best Practice Recommendation	Synergy Governance Practices
1. Lay solid foundations for management and oversight	<ul style="list-style-type: none"> The role and responsibilities of the Board and Committees of the Board are clearly defined in Terms of Reference for each body. The Synergy Board and management are currently in the process of adopting a comprehensive Corporate Governance Framework. This Framework will define the system by which Synergy is directed and

	<p>the system by which Synergy is directed and managed. When fully implemented the Framework will influence how objectives are set and achieved, how risk is monitored and assessed and performance optimised. It will support directors and senior managers in undertaking their governance responsibilities.</p> <ul style="list-style-type: none"> • Management's responsibilities are well defined and documented through formal position descriptions, performance agreements and Board-approved delegation of authority policies.
2. Structure the Board to add value	<ul style="list-style-type: none"> • All Non-Executive Directors (including the Chairman) are considered to be independent. • Details of Director's experience, expertise and attendance at Board and Committee meetings are disclosed in the Annual Report. • Each director has access to all relevant company information and personnel. Subject to prior consultation with the Chairman, directors may seek independent professional advice on any matter, at Synergy's expense. A copy of the independent advice received is available to all other members of the Board.
3. Promote ethical and responsible decision-making	<ul style="list-style-type: none"> • Synergy has a set of behavioural standards incorporating leadership principles and minimum standards applicable to the management of its personnel as well as a Code of Conduct setting out minimum standards of conduct for all personnel.
4. Safeguard integrity in financial reporting	<ul style="list-style-type: none"> • The Managing Director and the Head of Business Services certify that the financial statements give a true and fair view to the Board. • The Board has an Audit and Legal Compliance Committee that operates under a formal Charter. The committee comprises of only independent directors with a Chair who is not the Chairman of the Board. Membership and attendance of the Audit and Legal Compliance Committee is disclosed in the Annual Report. • The Manager, Internal Audit and external advisors perform the internal audit function. • The Office of the Auditor General performs the external audit function.
5. Make timely and balanced disclosure	<ul style="list-style-type: none"> • Synergy is a statutory corporation. As such, the ASX Listing Rules do not apply. • Nonetheless, an extensive continuous reporting regime is in place in relation to Synergy's shareholder, the Minister for Energy (including quarterly reporting in relation to the Statement of Corporate Intent which is negotiated and completed with the Minister on an annual basis). The Minister tables the Statement of Corporate Intent in both Houses of Parliament within 14 days of its approval.

6. Respect the rights of shareholders	<ul style="list-style-type: none"> • Synergy has developed a formal protocol to ensure that a comprehensive level of governance applies to all communications with the Minister and his Office. • Legislation requires Synergy to consult the Minister on major initiatives or courses of action that are likely to be of significant public interest. Synergy must obtain the approval of the Minister for major strategic initiatives and any project involving expenditure greater than \$20 million
7. Recognise and manage risk	<ul style="list-style-type: none"> • The Board Audit and Legal Compliance Committee oversees risk-related issues. The committee oversees the Risk Management Framework and its implementation plan. • The Managing Director and the Head of Business Services certify to the Board that the financial statements are founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board.
8. Encourage enhanced performance	<ul style="list-style-type: none"> • A performance framework is established and overseen by the Board's Human Resources and Remuneration Committee (as reflected in its Charter). • The Board has an induction process in place for directors and on-going education. • The Board has a performance evaluation regime in place that covers the evaluation of the Board, its Committees and members of staff.
9. Remunerate fairly and responsibly	<ul style="list-style-type: none"> • The Minister for Energy approves the remuneration of all non-executive directors. • The Board subject to the concurrence of the Minister for Energy approves the remuneration of the Managing Director. • The Board on recommendation of the Managing Director approves the remuneration of all Executive Officers. • The directors and senior executive remuneration is disclosed in the Annual Report.
10. Recognise the legitimate interests of stakeholders	<ul style="list-style-type: none"> • Synergy has a clear view of its wider group of stakeholders (including but not limited to the Minister and Government, employees, customers, the community, unions and regulatory authorities).

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.
- Managing Director: The Board subject to the concurrence of the Minister for Energy approves the remuneration of the Managing Director (also referred to as the CEO).
- Specified Executive Officers: The Board on recommendation of the Managing Director 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 in 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.

Managing Director

Synergy Managing Director James K Mitchell is not paid an additional amount to sit on the Synergy Board.

COMPENSATION OF DIRECTOR'S AND EXECUTIVE DISCLOSURES

Service Agreements

James Mitchell, Managing Director

- **Term of Agreement** – 5 years commencing from 1 April 2006.
- **Notice period**- 26 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**
 - Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Synergy, will be by payment of the greater of the amount equivalent to the remuneration calculated over the balance of the period of this agreement, or a redundancy payment of 150% of annual salary, unless reasonable alternative employment with Synergy is obtained.
 - Poor performance: the lesser of either 13 weeks notice or remainder of the Agreement.
- **Performance Pay**- At the Board's discretion with the concurrence of the Minister, a payment of up to 27% remuneration can be made for the achievement of specific targets set by the Board.

Geoff Roberts, Head of Retail Sales & Customer Service

- **Term of the Agreement** – Not a fixed term contract
- **Notice period**- 4 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**
 - Redundancy: paying 12 weeks in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service, maximum of 52 weeks.
 - Incapacity or poor performance: 4 weeks notice, or without notice for serious misconduct.
 - Other than redundancy, incapacity, poor performance or serious misconduct: 52 weeks notice or 52 weeks total fixed remuneration as payment of lieu of notice.
- **Performance Pay**- At Risk Remuneration (ARR) will be variable from zero to a capped maximum, in accordance with the ARR scheme and based on the achievement of specific performance targets, as approved by the Board on 28 April 2006. ARR payments will range from zero for non-performance, to 20% of total targeted remuneration for on-target performance, and ranging up to a capped maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.

Russell Mitchell, Head of Marketing

- **Term of the Agreement** – Not a fixed term contract
- **Notice period**- 4 weeks written notice, or such shorter period as may be agreed.

- **Termination**

- Redundancy: 12 weeks total fixed remuneration in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service, to a maximum of 87 weeks.
- Incapacity or poor performance: 4 weeks notice, or without notice for serious misconduct.
- Other than redundancy, incapacity, poor performance or serious misconduct: 52 weeks notice or 52 weeks total fixed remuneration as payment of lieu of notice.

- **Performance Pay**- At Risk Remuneration (ARR) will be variable from zero to a capped maximum, in accordance with the ARR scheme and based on the achievement of specific performance targets, as approved by the Board on 28 April 2006. ARR payments will range from zero for non performance, to 20% of total targeted remuneration for on-target performance, and ranging up to a capped maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.

Trevor James, Head of Business Services

- **Term of the Agreement** – Not a fixed term contract
- **Notice period**- 4 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**
 - Redundancy: 12 weeks total fixed remuneration in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service, to a maximum of 87 weeks.
 - Incapacity or poor performance: 4 weeks notice, or without notice for serious misconduct.
- **Performance Pay**- At Risk Remuneration (ARR) will be variable from zero to a capped maximum, in accordance with the ARR scheme and based on the achievement of specific performance targets, as approved by the Board on 28 April 2006. ARR payments will range from zero for non-performance, to 20% of total targeted remuneration for on-target performance, and ranging up to a capped maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.

Mike Bailey, Head of Wholesale

- **Term of the Agreement** – Not a fixed term contract.
- **Notice period**- 4 weeks written notice, or such shorter period as may be agreed, or 4 weeks total fixed remuneration in lieu of notice.
- **Termination**
 - Redundancy: 12 weeks total fixed remuneration in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service, to a maximum of 52 weeks.
 - Incapacity or poor performance: 4 weeks notice, or without notice for serious misconduct.

- Other than redundancy, incapacity or poor performance: 52 weeks notice or 52 weeks total fixed remuneration as payment of lieu of notice.

- **Performance Pay**- At Risk Remuneration (ARR) will be variable from zero to a capped maximum, in accordance with the ARR scheme and based on the achievement of specific performance targets, as approved by the Board on 28 April 2006. ARR payments will range from zero for non-performance, to 20% of total targeted remuneration for on-target performance, and ranging up to a capped maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.

- **Leave**- 37.50 hours of additional annual leave, to a total of 187.50 hours annual leave per annum.

Emolument of Key Management Personnel

Details of the nature and amount of each element of the emolument for Key Management Personnel during 2005/06 are detailed below:

	Short Term Benefits			Post Employment Benefits			
	Salary & Fees \$,000	At Risk Remunerati on \$,000	Non-Monetary \$,000	Superannua tion & Retirement \$,000	Other Benefits \$,000	Termination Benefits \$,000	Total Remunerati on \$,000
Non-Executive Directors							
Michael Smith (Chairperson)	24	-	-	2	-	-	26
Eric Hooper	15	-	-	1	-	-	16
Terri Reilly	12	-	-	1	-	-	13
Caryle Demarte	12	-	-	1	-	-	13
Craig Coleman	12	-	-	1	-	-	13
Sub-Total Non-Executive Directors	75	-	-	6	-	-	81
Executive Directors							
James K Mitchell	70	30	-	7	-	-	107
Other Key Management Personnel							
Russell Mitchell, Head of Marketing	45	19	-	4	-	-	68
Trevor James, Head of Business Services	44	23	5	12	-	-	85
Geoff Roberts, Head of Retail Sales and Customer Service	38	16	-	7	-	-	61
Mike Bailey, Head of Wholesale	49	19	-	7	-	-	75
TOTAL	320	106	5	43	-	-	474

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 the Corporation, or Directors and Officers of the Corporation, 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 the Corporation.

The Directors' and Officers' Liability Insurance Policy forms part of the Corporation'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 the Corporation during the financial year and the results of those operations are discussed in the Chairman's Report, the Managing Director's Report and the Review of Operations.

Change In State Of Affairs

In light of the Corporation commencing operations on 1 April 2006, there were no significant changes in the state of affairs of the Corporation during the financial year.

Principal Activities

The functions of the Corporation 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;
- to acquire gas and supply it to consumers;

It is also the function of the Corporation 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.

The Corporation can do anything that it determines to be conducive or incidental to the performance of its function mentioned above.

The Corporation 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 has established the planning for an energy procurement process, which encompasses the securing of sufficient capacity and energy to meet customer sales and market obligations. Over the course of the next year, there are two major wholesale supply activities Synergy is actively working on.

The first relates to sourcing supply for contestable customers, and the second relates to the mandatory tender to displace capacity and energy supplied by Verve under the Vesting Contract.

MINISTERIAL DIRECTIONS

Synergy has received two Ministerial Directions during the year.

The first Ministerial Direction prohibits the Corporation from entering into any agreements which would result in the Corporation being required to register, or seek exemption from the requirement to register, as a Market Generator.

The second Ministerial Direction details the Tender Process the Corporation must follow in order to acquire Capacity Credits and the electricity required to replace the Tendered Displacement Amounts and requirement to prepare and make publicly available each year an Annual Displacement Statement of Opportunities.

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 are posted on our intranet facility for staff to view. Synergy has appointed the Managing Director, the Head of Business Services, Company Secretary/General Counsel, Head of Employee and Organisational Services and the Manager Internal Audit as Public Interest Disclosure Officers

There were no disclosures made during 2005-06.

Appendix 1

**ELECTRICITY RETAIL
CORPORATION
TRADING AS
SYNERGY**

(ABN 71 743 446 839)

**FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
30 JUNE 2006**



Synergy Financial Statements
For The Period Ended 30 June 2006

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**INCOME STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2006**

	NOTES	01/04/06 - 30/06/06 \$'000
Revenue	2	369,985
Other Income	3	1,497
<i>Less:</i>		
Cost of Goods Sold	4	331,156
Employee Benefits	5	6,039
Borrowing Costs	5	191
Materials & Services	5	11,698
Renewable Energy Certificates	5	1,981
Depreciation & Amortisation	5	350
Other expenses	5	475
Profit from Ordinary Activities Before Income Tax Equivalent Expense		<hr/> 19,592
<i>Less:</i>		
Income Tax Equivalent Expense	6	5,881
Profit from Ordinary Activities After Income Tax Equivalent Expense		<hr/> <hr/> 13,711

The above Income Statement should be read in conjunction with the accompanying notes.

BALANCE SHEET AS AT 30 JUNE 2006

	NOTES	30/06/06 \$'000
CURRENT ASSETS		
Cash & Cash Equivalents	7	89,713
Trade and Other Receivables	8	202,397
Intangible Assets	9	5,039
Financial Assets	10	33,162
Other Assets	11	853
Total Current Assets		<u>331,164</u>
NON-CURRENT ASSETS		
Plant and Equipment	12	1,178
Intangible Assets	13	3,636
Financial Asset	14	45
Deferred Tax Assets	15	5,835
Total Non-Current Assets		<u>10,694</u>
<u>Total Assets</u>		<u>341,858</u>
CURRENT LIABILITIES		
Trade and Other Payables	16	178,521
Tax Liabilities	15	6,402
Provisions	17	11,288
Total Current Liabilities		<u>196,211</u>
NON-CURRENT LIABILITIES		
Deferred Tax Liabilities	15	1,195
Provisions	17	4,765
Total Non-Current Liabilities		<u>5,960</u>
<u>Total Liabilities</u>		<u>202,171</u>
<u>NET ASSETS</u>		<u>139,687</u>
EQUITY		
Contributed Equity	18	132,832
Retained Profits	18	6,855
<u>TOTAL EQUITY</u>		<u>139,687</u>

The above Balance Sheet should be read in conjunction with the accompanying notes.

**CASH FLOW STATEMENT
FOR THE PERIOD ENDED 30 JUNE 2006**

	NOTES	01/04/06 - 30/06/06 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers		404,263
Interest Received		690
Other operating receipts		9,544
Energy Purchases and Network Access Costs		(194,981)
Payments to Employees and Suppliers		(33,287)
Interest and other costs of financing		(278)
Lease Expenses		(555)
Goods and Services Tax Paid		(15,936)
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	23	<u>169,460</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for Investments		(29,712)
Payment for Plant and Equipment		(283)
Payment for Intangible Assets		(1,258)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		<u>(31,253)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of borrowings		(49,244)
Customer and Contractor Deposits		(127)
Contributions from Owners		877
NET CASH FLOWS USED IN FINANCING ACTIVITIES		<u>(48,494)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		89,713
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	23	<u>89,713</u>

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

**STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2006**

	NOTES	01/04/06 - 30/06/06 \$'000
Net Income Recognised Directly in Equity		
Net Profit after Tax Expense	18	13,711
Less Dividends Provided for	18	<u>6,856</u> 6,855
Contributed Equity at beginning of period	18	<u>132,832</u>
<u>EQUITY AT END OF THE REPORTING PERIOD</u>		<u><u>139,687</u></u>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Corporate Information

The financial statements of Electricity Retail Corporation trading as Synergy for the period ended 30 June 2006 were authorised for issue in accordance with a resolution of the Directors on 21 September 2006.

Synergy came into operation on 1 April 2006 as a result of legislation passed in September 2005 allowing for the disaggregation of Western Power Corporation into four separate entities.

At inception, Synergy's assets and liabilities were transferred from former Western Power Corporation as per the transfer order.

The principal function of Synergy is to supply electricity to consumers in the South West Interconnected System (SWIS), which is located in the south west of the state, extending between Kalbarri, Albany and Kalgoorlie.

(a) Basis of Preparation

The financial statements have been prepared as a general purpose financial report in accordance with the Australian Accounting Standards, the Framework and other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the disclosure requirements of Schedule 4 of the Electricity Corporations Act 2005.

The financial statements have been prepared on an accrual basis and are based on historical cost basis except for financial instruments, which are measured at fair value.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated.

(b) Statement of Compliance

The financial statements comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS).

(c) Comparative Information

No comparative information is required as it is the first financial statements completed by Synergy.

(d) Reporting Period

The report period is for the three months ended 30 June 2006.

(e) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Synergy and the revenue can be reliably measured. It is valued at the fair value of the consideration received, or to be received net of the amount of goods and services tax.

i. Sales of Energy

Sales of energy comprise revenue earned from the provision of electricity, gas and products and services to entities outside the economic entity and is recognised when the energy is provided.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognised represents the sum of invoices raised and the movement in the estimated unread energy consumption.

Unread energy consumption represents the estimated value of metered electricity and gas provided to customers but not invoiced.

ii. Other Income

Other income comprises revenue earned from the provision of activities incidental to the core activities of Synergy. Other income may include:

- Gain on Sale of Non-Current Assets, and
- Interest

(f) Community Service Obligations

Community Service Obligations (CSOs) are obligations to perform functions, on behalf of the State Government, that are not in the commercial interests of Synergy to perform. Where the Government agrees to reimburse Synergy for the cost of CSOs, the entitlement to reimbursement is recognised in the income statement on a basis consistent with the associated CSO expenses. As at 30 June 2006 the Corporation received \$9.2 million for the reimbursement of CSO's including:

- Supply charge rebates
- Caravan park rebates, and
- Air conditioning subsidy for seniors.

(g) Cost of Goods Sold

Costs of sales are those costs directly attributable to the acquisition and sale of energy.

(h) Current Assets and Current Liabilities

Current assets and current liabilities are recognised on the basis of assets expected to be realised or consumed, and liabilities expected to be settled within twelve months from the reporting date.

(i) Cash and Cash Equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank, deposits held at call with financial institutions and other short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as mentioned above.

(j) Trade and Other Receivables

Trade receivables, which generally have 30-day terms, are recognised at fair value and subsequently measured at amortised cost, less a provision for any irrecoverable amounts. This provision is raised when collection of the full amount is no longer probable.

Collectability of trade and other receivables are reviewed on an ongoing basis. Bad debts are written off when identified.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Intangible Assets

i. Software

Research and Development Costs

Research costs are recognised in the income statement when incurred. Development expenditure incurred on an individual software project is capitalised when its future recoverability can reasonably be regarded as assured.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting period indicating that the carrying value may not be recoverable.

Amortisation

Following the initial recognition of development expenditure the cost model is applied whereby the asset is stated at cost less accumulated amortisation.

The useful lives of Synergy's software is calculated using the straight-line method as follows:

Software	12-30 months
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Work-In-Progress

Work-in-progress is not amortised until the expense is capitalised.

ii. Renewable Energy Certificates

The Renewable Energy (Electricity) Act that took effect on 1 April 2001 requires electricity wholesale purchasers to source specified amounts of electricity from Renewable Energy (RE) sources. The Act imposes an annual liability, on a calendar year basis, by applying the specified Renewable Power Percentage to relevant wholesale acquisitions.

The RE liability is extinguished by annual surrender of an equivalent number of Renewable Energy Certificates (RECs) with a penalty applying for any shortfall. Synergy's liability is recognised at the average market price of REC purchased for the period. The liability is expensed in the income statement.

Synergy extinguishes its REC liability by the surrender of RECs that are purchased in the open market. RECs purchased from external sources are recognised as current intangible asset at their purchase price.

Disposal of Assets

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising from the derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income statement when the asset is derecognised.

(l) Prepayments

Current and non-current prepayments include Insurance, IT Support and Other Costs. Prepaid expenses are recognised in the income statement in the reporting period in which the associated benefit is consumed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Plant and Equipment

Plant and equipment is carried at cost less accumulated depreciation and accumulated impairment as at 30 June 2006.

i. Acquisition of Assets

Synergy is a statutory Corporation subject to the requirements of the Electricity Corporations Act 2005 and came into existence on 1 April 2006. The assets of Western Power Corporation that were transferred to Synergy on this date were brought to account at their book value in accordance with the Transfer Order.

The cost method of accounting is used for all acquisitions of assets. Cost is determined as the fair value of the asset given at the date of acquisition plus costs incidental to the acquisition.

ii. Depreciation

Plant and equipment is depreciated using the straight-line method over their remaining useful lives.

The useful lives of Synergy's major plant and equipment classes are as follows:

Plant and Equipment	45 – 120 months
---------------------	-----------------

Depreciation rates are reviewed annually, and if necessary adjusted to reflect the most recent assessment of the useful lives of the assets.

Disposal of Assets

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising from the derecognition of an asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income statement when the asset is derecognised.

(n) Impairment of Assets

At each reporting date the Corporation assesses whether there is any indication that an asset may be impaired, that is events or changes in circumstances indicate the carrying value may not be recoverable. Where an indicator of impairment exists, the Corporation makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement.

Reversals of Impairment

Impairment losses in respect of receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Impairment losses in respect of other assets other than those assets held for trading are reversed if there has been a change in the estimates used to determine the recoverable amount.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Trade and Other Payables

These amounts represent liabilities for goods and services provided to Synergy prior to the end of the reporting period that are unpaid. The amounts are unsecured and are settled within prescribed periods.

(p) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Synergy's operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are recognised in the income statement in the reporting periods in which they are incurred.

(q) National Taxation Equivalent Regime

Synergy operates under the National Taxation Equivalent Regime (NTER) environment. Under this regime, tax equivalent payments are remitted to the State Treasury, however Synergy's tax is subject to Australian Taxation Office (ATO) administration. The calculation of the liability in respect of these taxes is governed by the Income Tax Administration Acts and the NTER guidelines as agreed by the State Government

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets or liabilities are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets or liabilities are reduced to the extent that it is no longer probable that the related tax effects will be realised.

(r) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and service tax (GST) except where the GST incurred on a purchase of goods and services is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables in the balance sheet.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(s) Provisions

Provisions are recognised when Synergy:

- Has a present obligation (legal or constructive) as a result of a past event,
- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- A reliable estimate can be made of the amount of the obligation.

i. Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are appropriately authorised by the Board.

ii. Employee Benefits

Wages and salaries, annual leave and sick leave

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

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government securities, which have terms to maturity approximating the terms of the related liability.

iii. Retirement Benefit Obligations

All employees of Synergy are entitled to benefits upon retirement, disablement or death from one of many superannuation plans, which may include a defined contribution section, a defined benefit section, or both.

The defined benefit Scheme is closed to new members.

Defined Contribution Superannuation Plans

Obligations for contributions to defined contribution plans are recognised in the income statement as incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Defined Benefit Superannuation Plans

A provision in respect of the defined benefit superannuation plans is recognised in the balance sheet and is measured at the present value of the defined benefit obligations. This is based on services provided up to the reporting date, plus/less unrecognised actuarial gains/losses less the fair value of the superannuation plans' assets at that date and any unrecognised past service cost.

The present value of the defined benefit obligations is based upon expected future payments and is calculated using discounted cash flows consistent with the Projected Unit Credit method. Consideration is given to the expected future wages and salaries level, experience of employee departures and periods of service.

Expected future payments are discounted using the market yield, as at the reporting date, on selected Commonwealth government securities with terms to maturity approximating the terms of the related liability.

The defined benefits of the Pension Scheme and Gold State Scheme are wholly unfunded. The Corporation meets the costs of these benefits when the employee leaves the service of the Corporation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial adjustments are recognised immediately in the income statement.

Future taxes are not met by the Corporation (the benefit paid is an untaxed amount to the employee) and so no allowance has been made for future taxes in measuring the net liability.

An independent review was conducted as at 31 March 2006 on the provision balance in Western Power Corporation and the provision for retirement was deemed to be adequate. Synergy received an independent report on the balance transferred on 1 April 2006, indicating no issues with the balance transferred, therefore no independent review was deemed necessary for June 2006.

(t) Derivatives

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to fair value. The fair value of the derivative is calculated by reference to forward price of Silicon obtained from the respective counter party, as forward price data for such derivatives is not widely available. The movement in the fair value of the Derivative is recognised in the income statement.

(u) Investments

Investments are short-term and held to maturity. Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Synergy's management has the positive intention and ability to hold to maturity.

(v) Critical Accounting Estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

NOTES TO THE FINANCIAL STATEMENTS

01/04/06 -
30/06/06
\$'000

2. REVENUE

Sales of Energy	365,229
Account Fees	2,970
Product & Services	1,786
	<u>369,985</u>

3 OTHER INCOME

Interest	1,222
Other	275
	<u>1,497</u>

4 COST OF GOODS SOLD

Energy Purchases	217,660
Network Access Costs	113,496
	<u>331,156</u>

NOTES TO THE FINANCIAL STATEMENTS

01/04/06 -
30/06/06
\$'000

5. EXPENSES

Profit before Income Tax Equivalent Expense includes the following specific items:

Employee Benefits

- Wages and Salaries and Other Related Benefits	5,519
- Superannuation Costs	520
	<u>6,039</u>

Borrowing Costs

- Government Loan Guarantee Charge	2
- Interest on Short Term Borrowings	189
	<u>191</u>

Renewable Energy Certificates

- Renewable Energy Certificates	1,981
	<u>1,981</u>

Materials & Services

- Metering	2,287
- Administration	4,552
- Communications	1,199
- Support Services	1,540
- Other	2,120
	<u>11,698</u>

Depreciation & Amortisation

- Plant and Equipment	73
- Intangible Assets	277
	<u>350</u>

Other Expenses

Provision for Doubtful Debts Written Back	(564)
Derivative Loss	509
Other	76
Operating Lease Rentals	395
Audit Services	
- Audit Services Office of Auditor General	59
- Other Services	-

Total Other Expenses

475

NOTES TO THE FINANCIAL STATEMENTS

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6 INCOME TAX EQUIVALENT EXPENSE

Income Statement

The Prima Facie Tax on Profit is Reconciled to Income Tax Provided in the Accounts as follows:

Profit Before Income Tax Expense	19,592
Income Tax Calculated at 30%	5,878
Tax Effect of Non Assessable Differences	
- Other	3
Total Tax Effect of Non Assessable Differences	3
Income Tax Expense	5,881

Income Statement

Current Income Tax	
- Current Income Tax Expense	6,334
Deferred Income Tax	
- Relating to Origination & Reversal of Temporary Differences	(453)
	5,881

Deferred Income Tax Included in Income Tax Expense is as follows:

- Increase in Deferred Tax Assets	(460)
- Increase in Deferred Tax Liabilities	7
	(453)

Decrease/(Increase) in Deferred Tax Assets relate to the following:

- Provisions	(53)
- Revenue Received in Advance	460
- Other	53
	460

(Decrease)/Increase in Deferred Tax Liabilities relate to the following:

- Embedded Derivatives	(154)
- Other	161
	7

NOTES TO THE FINANCIAL STATEMENTS

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CURRENT ASSETS

7 CASH AND CASH EQUIVALENTS

Cash at Bank	15,013
Domestic Currency Deposits	74,700
	<u>89,713</u>

8 TRADE AND OTHER RECEIVABLES

Trade Receivables	96,894
Estimated Value of Unbilled Energy	106,992
Less: Provision for Doubtful Debts	<u>2,647</u>
	201,239
Other Receivables	<u>1,158</u>
	<u>202,397</u>

9 INTANGIBLE ASSETS

Renewable Energy Certificates	4,984
Emission Reduction Units	<u>55</u>
	<u>5,039</u>

Reconciliation

Reconciliations of the carrying amounts for each class of current intangible assets are set out below:

Renewable Energy Certificates

Opening Balance	4,339
Purchased	<u>645</u>
	<u>4,984</u>

Emission Reduction Units

Opening Balance	62
Applied	<u>(7)</u>
	<u>55</u>

10 FINANCIAL ASSETS

Embedded Derivative *	3,450
Bank Bills	19,712
Fixed Rate Short Term Investment	<u>10,000</u>
	<u>33,162</u>

* The fair value of the embedded derivative has been calculated by discounting the expected future cash flows at prevailing interest rates.

11 OTHER ASSETS

Prepayments	492
Inventory	<u>361</u>
	<u>853</u>

NOTES TO THE FINANCIAL STATEMENTS

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NON CURRENT ASSETS

12 PLANT AND EQUIPMENT

Plant and Equipment

Plant and Equipment - at Cost	1,251
Less: Accumulated Depreciation	73
	<u>1,178</u>

Reconciliation

Reconciliations of the carrying amounts for plant and equipment are set out below:

Plant and Equipment

Opening Balance	968
Additions	283
Depreciation	(73)
	<u>1,178</u>

13 INTANGIBLE ASSETS

Computer Software	3,913
Less: Accumulated Amortisation	277
	<u>3,636</u>

Reconciliation

Reconciliations of the carrying amount for non-current intangible assets is set out below:

Computer Software

Opening Balance	926
Additions	1,102
Amortisation	(277)
	<u>1,751</u>
Work-in-Progress	1,885
	<u>3,636</u>

14 FINANCIAL ASSET

Security Deposit	45
	<u>45</u>

NOTES TO THE FINANCIAL STATEMENTS

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TAXATION

15 TAX LIABILITIES / ASSETS

Current

Income Tax Payable	6,334
Other	68
	<u>6,402</u>

Non-Current

Deferred Tax Assets	5,835
Less: Deferred Tax Liabilities	1,195
Net Deferred Tax Assets	<u>4,640</u>

Deferred Tax Liabilities

Deferred Tax Liabilities relate to the following:

Embedded Derivative	1,035
Provision for Interest Receivable	160
	<u>1,195</u>

Deferred Tax Assets

Deferred Tax Assets relate to the following:

Provisions	2,759
CSO Rebates	2,030
Provision for Doubtful Debts	794
Other	252
	<u>5,835</u>

NOTES TO THE FINANCIAL STATEMENTS

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CURRENT LIABILITIES

16 TRADE AND OTHER PAYABLES

Trade Payables	166,145
Other Payables	12,376
	<u>178,521</u>

17 PROVISIONS

Current

Provision for:

Dividend	6,856
Employee Benefits	4,171
Other	261
	<u>11,288</u>

Reconciliation

Reconciliations of the carrying amounts for each class of provision is set out below:

Dividends

Provision for final dividend	6,856
	<u>6,856</u>

Employee Benefits

Opening Balance	3,649
Provisions	747
Payments	(225)
Closing Balance	<u>4,171</u>

Other

Opening Balance	250
Provisions	11
Closing Balance	<u>261</u>

NOTES TO THE FINANCIAL STATEMENTS

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NON-CURRENT LIABILITIES

17 PROVISIONS

Non-Current

Provision for:

Employee Benefits	1,002
Retirement Benefit Obligations	3,697
Other	66
	<u>4,765</u>

Reconciliation

Reconciliations of the carrying amounts for each class of provision is set out below:

Employee Benefits

Opening Balance	1,052
Provisions	(50)
Closing Balance	<u>1,002</u>

Retirement Benefit Obligations

Present Value of Unfunded Obligations	3,697
	<u>3,697</u>

Reconciliation of Movement in the Present Value of the Unfunded Obligations Recognised in the balance sheet

Opening Balance	3,580
Current Service Cost	497
Benefits paid	(380)
Closing Balance	<u>3,697</u>

Amounts Recognised in the Income Statement

Current Service Cost	497
Actuarial Losses Recognised	-
	<u>497</u>

Historic Summary

Defined Benefit Plan Obligation	3,697
	<u>3,697</u>

Principal Actuarial Assumptions

Discount Rate	5.40%
Expected Future Salary Increases	4.50%
Expected Future Pension Increases	3.00%

Other

Opening Balance	76
Provisions	(10)
Closing Balance	<u>66</u>

NOTES TO THE FINANCIAL STATEMENTS

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18 EQUITY

Contributed Equity

Contributions Received- Beginning of the Period *	132,832
Contributed Equity-End of the Reporting Period	<u>132,832</u>

**This amount represents the amount agreed to as part of the disaggregation of Western Power Corporation as at 31 March 2006.*

Retained Profits

Retained Profits-Beginning of the Period	-
Net Profit After Income Tax Expense	13,711
Less: Dividends Provided for	<u>6,856</u>
Retained Profits-End of the Reporting Period	<u>6,855</u>

TOTAL EQUITY	<u>139,687</u>
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19 OTHER COMMITMENTS

Operating Leases:

Not later than one year	669
Later than one year and not later than five years	<u>2,662</u>
	<u>3,331</u>

The lease rental comprises a base value plus an annual escalation factor equal to the average Perth consumer price index (per annum) and every second year is subject to a market review. In addition Synergy has responsibility for paying an agreed proportion of all outgoings associated with the building. The initial lease term is 5 years with Synergy having the option to extend for a further 5 years.

Intangible Assets

Not later than one year	13,000
Later than one year and not later than five years	56,100
Later than five years	<u>79,200</u>
	<u>148,300</u>

These commitments for the purchase of intangible assets are a result of the Corporation's requirement to source specified amounts of electricity from renewable energy sources as described in Note 1.

NOTES TO THE FINANCIAL STATEMENTS

20 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Corporation's policy is to disclose details of contingent liabilities and contingent assets where the probability of future payments/receipts is not considered remote, as well as details of contingent liabilities and contingent assets, which although considered remote, the Directors of the Corporation consider should be disclosed. As at 30 June 2006 there are no contingent assets or liabilities to be disclosed.

NOTES TO THE FINANCIAL STATEMENTS

21 KEY MANAGEMENT PERSONNEL REMUNERATION

Principles Used to Determine the Nature and Amount of Compensation

Compensation approval protocols are as follows:

- Non-Executive Directors: The Minister for Energy approves the Compensation of all Non-Executive Directors.
- Managing Director: The Board subject to the concurrence of the Minister for Energy approves the Compensation of the Managing Director.
- Executive Officers: The Board is to determine remuneration and other terms and conditions of service.

The Compensation policy is designed to:

- Compensate individuals in accordance with performance and responsibility
- Ensure consistent decision making in individual Compensation adjustments
- Establish flexible Compensation arrangements; and
- Establish and maintain salary ranges comparable to other companies of similar size and industry.

Non-Executive Directors

Payment to specified non-executive directors consists of a base fee, a committee fee and superannuation.

Managing Director and Executives

The Managing Director and Executives pay and reward framework has the following components:

- Base pay
- Selection of prescribed non-financial benefits
- Superannuation, and
- An annual at risk remuneration element

At Risk Remuneration

The At Risk Remuneration (ARR) scheme is self funding, therefore the amount of funds available will depend on the actual Earnings Before Interest and Tax (EBIT) exceeding the budget.

More specific details per Executive in relation to the ARR are noted in the Service Agreement section of this note.

The targets on which the annual at risk remuneration element is based are listed below:

Indicator

- Customer Service
- Organisational Health
- Gas Market >1tj
- Regulatory Compliance
- Market Readiness
- Stakeholder Satisfaction

Synergy
Financial Statements for the Period ended 30 June 2006

21. KEY MANAGEMENT PERSONNEL REMUNERATION (continued)

Service Agreements

James Mitchell, Managing Director

- **Term of Agreement** – 5 years commencing from 1 April 2006.
- **Notice period**- 26 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**
 - Redundancy: should the Minister elect to merge, restructure, or dispose of the business of Synergy, will be by payment of the greater of the amount equivalent to the remuneration calculated over the balance of the period of this agreement, or a redundancy payment of 150% of annual salary, unless reasonable alternative employment with Synergy is obtained.
 - Poor performance: the lesser of either 13 weeks notice or remainder of the Agreement.
- **Performance Pay**- At the Board's discretion with the concurrence of the Minister, a payment of up to 27% remuneration can be made for the achievement of specific targets set by the Board.

Geoff Roberts, Head of Retail Sales & Customer Service

- **Term of the Agreement** – Not a fixed term contract
- **Notice period**- 4 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**
 - Redundancy: paying 12 weeks in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service, maximum of 52 weeks.
 - Incapacity or poor performance: 4 weeks notice, or without notice for serious misconduct.
 - Other than redundancy, incapacity, poor performance or serious misconduct: 52 weeks notice or 52 weeks total fixed remuneration as payment in lieu of notice.
- **Performance Pay**- At Risk Remuneration (ARR) will be variable from zero to a capped maximum, in accordance with the ARR scheme and based on the achievement of specific performance targets, as approved by the Board on 28 April 2006. ARR payments will range from zero for non performance, to 20% of total targeted remuneration for on-target performance, and ranging up to a capped maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.

Russell Mitchell, Head of Marketing

- **Term of the Agreement** – Not a fixed term contract
- **Notice period**- 4 weeks written notice, or such shorter period as may be agreed.
- **Termination**
 - Redundancy: 12 weeks total fixed remuneration in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service, to a maximum of 87 weeks.
 - Incapacity or poor performance: 4 weeks notice, or without notice for serious misconduct.
 - Other than redundancy, incapacity, poor performance or serious misconduct: 52 weeks notice or 52 weeks total fixed remuneration as payment in lieu of notice.
- **Performance Pay**- At Risk Remuneration (ARR) will be variable from zero to a capped maximum, in accordance with the ARR scheme and based on the achievement of specific performance targets, as approved by the Board on 28 April 2006. ARR payments will range from zero for non performance, to 20% of total targeted remuneration for on-target performance, and ranging up to a capped maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.

Synergy
Financial Statements for the Period ended 30 June 2006

21. KEY MANAGEMENT PERSONNEL REMUNERATION (continued)

Trevor James, Head of Business Services

- **Term of the Agreement** – Not a fixed term contract
- **Notice period**- 4 weeks written notice, or such shorter period as may be agreed, or remuneration in lieu of notice.
- **Termination**
 - Redundancy: 12 weeks total fixed remuneration in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service, to a maximum of 87 weeks.
 - Incapacity or poor performance: 4 weeks notice, or without notice for serious misconduct.
- **Performance Pay**- At Risk Remuneration (ARR) will be variable from zero to a capped maximum, in accordance with the ARR scheme and based on the achievement of specific performance targets, as approved by the Board on 28 April 2006. ARR payments will range from zero for non performance, to 20% of total targeted remuneration for on-target performance, and ranging up to a capped maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.

Mike Bailey, Head of Wholesale

- **Term of the Agreement** – Not a fixed term contract.
- **Notice period**- 4 weeks written notice, or such shorter period as may be agreed, or 4 weeks total fixed remuneration in lieu of notice.
- **Termination**
 - Redundancy: 12 weeks total fixed remuneration in lieu of notice and 3 weeks total fixed remuneration for every completed year of continuous service, to a maximum of 52 weeks.
 - Incapacity or poor performance: 4 weeks notice, or without notice for serious misconduct.
 - Other than redundancy, incapacity or poor performance: 52 weeks notice or 52 weeks total fixed remuneration as payment in lieu of notice.
- **Performance Pay**- At Risk Remuneration (ARR) will be variable from zero to a capped maximum, in accordance with the ARR scheme and based on the achievement of specific performance targets, as approved by the Board on 28 April 2006. ARR payments will range from zero for non performance, to 20% of total targeted remuneration for on-target performance, and ranging up to a capped maximum ARR payment of 30% of total targeted remuneration for exceeding performance targets.
- **Leave**- 37.50 hours of additional annual leave, to a total of 187.50 hours annual leave per annum.

NOTES TO THE FINANCIAL STATEMENTS

21 KEY MANAGEMENT PERSONNEL REMUNERATION (Continued)

Details of the nature and amount of each element of the emolument for Key Management Personnel during 2005/06 are detailed below:

	Short Term Benefits			Post Employment Benefits			
	Salary & Fees \$ '000	At Risk Remuneration \$ '000	Non-Monetary \$ '000	Superannuation & Retirement \$ '000	Other Benefits \$ '000	Termination Benefits \$ '000	Total Remuneration \$ '000
Non-Executive Directors							
Michael Smith (Chairperson)	24	-	-	2	-	-	26
Eric Hooper	15	-	-	1	-	-	16
Terri Reilly	12	-	-	1	-	-	13
Caryle Demarte	12	-	-	1	-	-	13
Craig Coleman	12	-	-	1	-	-	13
Sub-Total Non-Executive Directors	75	-	-	6	-	-	81
Executive Director							
James K Mitchell	70	30	-	7	-	-	107
Other Key Management Personnel							
Russell Mitchell, Head of Marketing	45	18	-	4	-	-	67
Trevor James, Head of Business Services	45	23	5	12	-	-	85
Geoff Roberts, Head of Retail Sales & Customer Service	37	16	-	7	-	-	60
Mike Bailey, Head of Wholesale	48	19	-	7	-	-	74
TOTAL	320	106	5	43	-	-	474

NOTES TO THE FINANCIAL STATEMENTS

22 FINANCIAL INSTRUMENTS

Financial Risk Management

Synergy financial instruments consist mainly of deposits with banks, short term investments, receivables and payables.

Risk management is carried out by the treasury department policies approved by the Board.

The main risks Synergy is exposed to through its financial instruments are interest rate risk and credit risk.

a) Credit Risk

Credit risk represents the extent of credit related losses that the Corporation may be subject to on amounts to be received from financial assets.

The Corporation's maximum credit risk on current receivables is the carrying amount net of the provision for doubtful debts. Customers included both domestic and commercial customers who are billed and are expected to be settled within the set terms.

Due to the Corporation's large customer base, the Corporation is not materially exposed to any large individual customer.

In respect of investments, credit risk is minimised by the Corporation's practice to deal only with major banks.

b) Interest Rate Risk

Interest rate risk represents the extent to which the Corporation will suffer financial loss due to adverse movements in interest rates.

The Corporation's only interest rate exposure is on its investments which are held with banks that hold at least an A minus credit rating with Standard & Poors.

Synergy invests in short term instruments, allowing the Corporation to maximise any favourable movement in interest rates.

As at 30 June 2006 the Corporation had no outstanding debt.

The following table summarises Synergy's interest rate exposure:

	Weighted Effective Interest Rate	Floating Interest Rate \$'000	Fixed Interest Rate Maturing						Total \$'000
			Within 1 Year \$'000	1-2 Years \$'000	2-3 Years \$'000	3-4 Years \$'000	4-5 Years \$'000	Over 5 Years \$'000	
30/06/2006									
Financial Assets									
Cash at Bank	5.25%	15,013	-	-	-	-	-	-	15,013
Call Deposit	5.65%	74,700	-	-	-	-	-	-	74,700
Fixed Term Deposits	5.86%	-	10,000	-	-	-	-	-	10,000
Bank Bills	5.93%	-	19,712	-	-	-	-	-	19,712
Security Deposit	5.77%	45	-	-	-	-	-	-	45
TOTAL		89,758	29,712	-	-	-	-	-	119,470

NOTES TO THE FINANCIAL STATEMENTS

	30/06/06 \$'000
23 RECONCILIATION OF NET PROFIT AFTER INCOME TAX TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net Profit	13,711
<i>Add/(less) non-cash items:</i>	
Depreciation	73
Amortisation - Intangible Assets	277
<i>Change in assets and liabilities:</i>	
Decrease in Receivables	5,656
Increase in Prepayments	(110)
Increase in Trade Payables	143,852
Increase in Employee Provisions	591
Increase in Inventories	(361)
Increase in Other Provisions	1
Increase in Accrued Interest Receivable	(532)
Decrease in Accrued Interest Payable	(88)
Increase in Income Taxes Payable	5,881
Decrease in Derivatives	509
Net Cash Provided by Operating Activities	<u><u>169,460</u></u>
 Reconciliation of Cash and Cash Equivalents at End of the Reporting Period	
Cash at Bank	15,013
Domestic Currency Deposits	74,700
Cash and Cash Equivalents at End of the Reporting Period	<u><u>89,713</u></u>

Credit Standby Facilities

The Corporation has a master lending agreement in place with the Western Australian Treasury Corporation. This agreement gives Synergy access to a number of debt facilities with a total limit of \$300 million and a short term US facility with a limit of \$25 USD million. As at 30 June 2006 all debt facilities were undrawn.

The planned usage of the facilities is governed by the Corporation's Strategic Development Plan agreed with the Minister of Energy.

NOTES TO THE FINANCIAL STATEMENTS

24 ECONOMIC DEPENDENCY

The Corporation has a significant economic dependency on energy supply from Electricity Generation Corporation (Verve Energy) as per vesting contract and access from Electricity Networks Corporation (Western Power).

25 EVENTS SUBSEQUENT TO BALANCE SHEET DATE

There has not arisen in the interval between the end of the financial period and the date of this report any matter or circumstance likely, in the opinion of the Directors, to affect significantly the operations of the Corporation, the results of those operations, or the state of affairs of the Corporation.

NOTES TO THE FINANCIAL STATEMENTS

26. CONTRIBUTION BY OWNER (DISAGGREGATION)

(1) Transfer Order

In September 2005, legislation was passed in Parliament to allow for the disaggregation of Western Power Corporation into four separate entities. These entities were created under the Electricity Corporations Act 2005 and established on 1 April 2006.

On disaggregation, the assets, rights and liabilities of Western Power Corporation were distributed to the Minister. The Minister, under a Transfer Order prepared under section 147(1) of the Electricity Corporations Act 2005 (Gazetted on 31 March 2006), specified the allocation of assets, rights and liabilities to Synergy.

The transfer order designated the allocation described above as a contribution by the owner to Synergy and that the contribution formed part of Synergy's contributed equity.

The transfer of the opening balances of assets and liabilities from Western Power Corporation to the four successor entities has been reported in the Western Power Corporation financial statements as at 30 June 2006. The Western Power Corporation financial statements include a reconciliation of the Western Power Corporation 31 March 2006 closing balances to the opening balances allocated to the four successor entities on 1 April 2006.

(2) Taxation Treatment

Synergy is subject to the National Taxation Equivalent Regime (NTER), which is administered by the Australian Taxation Office (ATO). Under agreement with the ATO the disaggregation of Western Power Corporation was completed on a tax neutral basis. Hence there is no NTER tax consequence for Synergy. Synergy inherited the tax attributes of the assets, rights and liabilities allocated on disaggregation.

Synergy
Financial Statements for the Period ended 30 June 2006

26. CONTRIBUTION BY OWNER (DISAGGREGATION) (continued)

(3) Reconciliation: Western Power Corporation Net Assets to Synergy Net Assets

	Distributed Balances 1 April 2006 (As per WPC 30/6 Note 37) \$'000	AIFRS Take-up and Reclassifications \$'000	Opening Balances 1 April 2006 \$'000
CURRENT ASSETS			
Cash and Cash Equivalents	877		877
Trade and Other Receivables	202,591		202,591
Intangible Assets	1,954		1,954
Derivative Assets	3,959	(3,959)	0
Financial Assets	0	3,959	3,959
Other Assets	383		383
Total Current Assets	<u>209,764</u>		<u>209,764</u>
NON-CURRENT ASSETS			
Property and Equipment	3,335		3,335
Intangible Assets	926		926
Deferred Tax Assets	0	5,375	5,375
Other Financial Assets	45		45
Total Non-Current Assets	<u>4,306</u>		<u>8,494</u>
Total Assets	<u>214,070</u>		<u>218,258</u>
CURRENT LIABILITIES			
Trade and Other Payables	17,607		17,607
Tax Liabilities	9,879		9,879
Provisions	3,899		3,899
Other Liabilities	88		88
Total Current Liabilities	<u>31,473</u>		<u>31,473</u>
NON-CURRENT LIABILITIES			
Interest Bearing Liabilities	49,244		49,244
Deferred Tax Liabilities	(4,188)	(5,375)	1,187
Provisions	4,709		4,709
Total Non-Current Liabilities	<u>49,765</u>		<u>53,953</u>
Total Liabilities	<u>81,238</u>		<u>85,426</u>
NET ASSETS	<u>132,832</u>		<u>132,832</u>

26. CONTRIBUTION BY OWNER (DISAGGREGATION) (continued)

(3) Reconciliation: Western Power Corporation Net Assets to Synergy Net Assets (continued)

(a) Intangible Assets- Current

On disaggregation, Western Power Corporation's Renewable Energy Certificates (RECs) that had previously been internally generated and hence not recognised under AIFRS, were allocated to Synergy. The fair value of these RECs was calculated using the RECs price quoted in the service level agreement between Verve Energy and Synergy.

(b) Reclassification Derivative Asset

Upon commencement, Synergy reclassified the derivative asset to a financial asset consistent with AASB 101 Presentation of Financial Statements paragraph 68.

(c) Reclassification Deferred Tax Asset

Upon commencement, the deferred tax liability allocated to Synergy included the deferred tax asset. Synergy reallocated the deferred tax asset to a non-current asset as per AASB 112 Income Taxes.

Synergy
Financial Statements for the Period ended 30 June 2006

Directors' Declaration

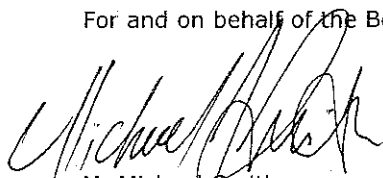
In accordance with a resolution of the Directors' of Synergy, we declare that-

In the opinion of the Directors':

- (a) the financial statements and associated notes comply with the accounting standards and urgent issues group consensus views;
- (b) the financial statements and notes give a true and fair view, and;
- (c) at the date of this statement there are reasonable grounds to believe that the Corporation will be able to pay its debts as and when they fall due, in accordance with the structure of the Corporation existing at 30 June 2006.

The Directors' are of the opinion that the financial statements and notes are in accordance with Section 192, Schedule 4, Division 3 of the *Electricity Corporations Act 2005*.

For and on behalf of the Board,



Mr Michael Smith
Chairman



Mr James K Mitchell
Managing Director



AUDITOR GENERAL

INDEPENDENT AUDIT REPORT ON ELECTRICITY RETAIL CORPORATION (TRADING AS SYNERGY)

To the Parliament of Western Australia

Audit Opinion

In my opinion, the financial report of the Electricity Retail Corporation (trading as Synergy) is in accordance with:

- (a) Schedule 3 of the Electricity Corporations Act 2005, including:
 - (i) giving a true and fair view of the Corporation's position at 30 June 2006 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards in Australia ; and
- (b) other mandatory professional reporting requirements in Australia.

Scope

The Board of Directors is responsible for the financial report.

The financial report consists of the Income Statement, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flow, accompanying Notes and Directors' Declaration.

Summary of my Role

As required by the Electricity Corporations Act 2005, I have independently audited the financial report to express an opinion on it. This was done by testing selected samples of the evidence. Further information on my audit approach is provided in my audit practice statement. Refer "<http://www.audit.wa.gov.au/pubs/Audit-Practice-Statement.pdf>".

An audit does not guarantee that every amount and disclosure in the financial report is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial report.

D D R PEARSON
AUDITOR GENERAL
27 September 2006