PURPOSE OF THE STATEMENT OF CORPORATE INTENT

This Statement of Corporate Intent (SCI) is prepared in accordance with Part 5 of the Electricity Corporations Act 2005 (the Act), and reflects the business intentions of the Electricity Generation and Retail Corporation, trading as Synergy, for the 2016-17 financial year.

Consistent with the requirements of section 99 of the Act, amongst other things, this SCI outlines the objectives, functions, main undertakings and performance targets for the year, the community service obligations, the dividends and accounting policies to apply and the information to be provided to the Minister. Pursuant to section 97 of the Act, this SCI is intended to apply for the Corporation and any subsidiary.

The SCI is consistent with the Corporation's Strategic Development Plan (SDP) 2016-17 to 2020-21. The SDP sets out Synergy's economic and financial objectives and operational targets over the medium term, and the commercial strategies and initiatives it will pursue.
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FROM THE CHAIRMAN

The SCI outlines Synergy’s business and corporate social responsibility objectives for 2016-17, framing how Synergy intends to meet its legislative and statutory obligations.

This SCI reflects the opportunities and challenges confronting Synergy over the coming year as the entity continues to navigate an uncertain regulatory and commercial environment as WA’s largest electricity generator and retailer.

Synergy’s challenges focus on ensuring the business provides value for both our customers and for our shareholders; the people of WA. Finding a clear view of the future of the state’s energy sector is not easy. The full impact of increasing levels of renewable energy, distributed generation and storage technology is having an effect on the traditional utility model.

The SCI addresses key external factors confronting the consolidated entity which have had a disruptive effect on Synergy’s business (but are common to power utilities globally), and have subsequently contributed to weaker demand and rising price pressures for grid supplied electricity. These external challenges have a range of implications for Synergy’s internal positioning, across retail, wholesale, generation and corporate.

The 2015-16 year highlighted the need for Synergy to focus on three strategic initiatives going forward:

- driving efficiencies across the business to create a sustainable cost base;
- building out capabilities to thrive in a changing world; and
- providing advice and energy solutions our customers want.

Synergy’s best starting position is to be as efficient as possible at what we currently do and to create a culture that not only welcomes change, but is responsive to it. This has been a strong focus of all of us at Synergy in the last year through our business efficiency program (BEP). The program has not just been about taking unnecessary costs out of the business and maximising our revenue opportunities, but about enhancing our organisational health and culture so that we can respond effectively to new challenges.

The BEP has placed very large demands on all employees over the past year as they balanced business as usual requirements and implemented a very resource-intensive program. The results to date have exceeded our expectations and the program will continue into the next reporting cycle.

Capabilities have been reinforced in key areas of the business and the business will continue to build capabilities that will make it on-par with the best electricity utilities around the world. With the realisation of the community-based energy storage trial at Alkimos Beach (over 150 homes powered by rooftop solar and batteries) and the imminent launch of a rooftop solar product line, Synergy is determined to offer all the energy products and services its customers want.

For 2016-17, Synergy will continue to build on these strategic initiatives with the goal of decreasing its reliance on operating subsidies and strengthening its foundations to mature into a robust and adaptable corporation able to meet the challenges of an uncertain future and a more competitive market.
External challenges will continue to grow for Synergy and the key stakeholders of the energy market. The market needs far reaching reform. The market rules urgently need to be redesigned, as current mechanisms and regulations are obsolete with the rise of new technologies and continuous decline in end-user demand. To deliver a sustainable solution as cost effective as possible for the end-user, a concerted effort between all parties must be conducted. Synergy is playing, and will continue to play, a proactive and positive role in contributing to the reform agenda.

This next year will be critical for the SWIS as we see the commencement of market changes at the same time as subsidised new technologies continue to bring additional generation capacity in an already oversupplied market. Synergy will continue along its transformation journey to a new energy future, helping to build a better system with the most optimal outcomes for the State and tax-payers of Western Australia.

LYNDON ROWE
CHAIRMAN
1 BUSINESS OVERVIEW

The SCI considers Synergy's strategic vision and objectives.

Synergy's corporate strategic vision is 'First choice for energy, trusted to provide homes and businesses with innovative and effective products and services. For today and tomorrow.'

Supporting the pursuit of this strategic vision are a set of values which are intended to guide the behaviours and actions of all Synergy employees to drive performance in the right direction towards achieving this strategic vision and a successful new energy future.

These four core values are outlined as follows:

- **innovation** – we have a belief that there is a better way to do things, we embrace change and the opportunity to shape our future;
- **accountability** – we take ownership and initiative to solve problems, we demonstrate responsibility in everything we do and deliver on our commitments;
- **collaboration** – we have shared goals, we seek and share ideas for the best outcome for the business and we respect each other: we are one team; and
- **trust** – we always act with integrity and set others up for success, we value our peers, our customers and our community.

1.1 Operations/activities

Synergy is the largest integrated electricity generator and energy retailer servicing the SWIS in Western Australia. Its objective is to utilise its diverse energy generation portfolio to supply reliable and efficient energy to wholesale and retail customers.

In its current state, Synergy employs more than 900 employees servicing over one million electricity customer accounts and approximately 400 industrial and commercial gas customers.

Synergy owns Western Australia's largest electricity generation portfolio with 2,815 megawatts (MW) of capacity, and 1,400 MW contracted under power purchase agreements. Synergy has a wholesale energy market share of 74 percent and a retail market share of 61 percent in the franchise and contestable markets.

In line with the requirements of the Act and the Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013, Synergy is functionally organised to deliver on its key purpose as follows:

1. Generation – responsible for the management of Synergy's generating assets, including the safe and reliable operations and maintenance of Synergy's power stations and associated infrastructure;
2. Wholesale – responsible for the wholesale trading of electricity and gas. Wholesale manages the dispatch of Synergy's generation fleet and independent power producer contracts, as well as fuel contracts. Wholesale buys electricity and related...
products, and sells to retail and wholesale market participants under ring fenced arrangements; and
3. Retail – carries out the retail operations of Synergy, involving the pricing, sale and marketing of electricity and gas to end-user customers in the SWIS. Retail is focussed on customer experience and driving high-levels of customer service and engagement.

Underpinning the core functional roles fulfilled by the business are the remaining corporate support functions which undertake a large range of activities designed to ensure the optimal level of service provision is delivered for the benefit of the overall business.
2 EXTERNAL ENVIRONMENT AND INTERNAL CHALLENGES

Synergy is operating in a constantly evolving market environment, with significant ongoing uncertainty regarding the outcomes and recommendations of the Western Australian State Government's electricity market review (EMR) in addition to continued uncertainty regarding Australia's carbon future.

As well as the ambiguity surrounding the supporting regulatory and political frameworks, Synergy is in the midst of an industry defining disruption brought on by the significant growth in distributed solar generation, soon to be supplemented by battery storage as it becomes commercially viable.

In recent years, a variety of disruptive economic and technological changes have emerged around the world to compete with utility-provided services. In particular, an oversupply of generation capacity in the wholesale electricity market (WEM), weaker demand and rising price pressures for grid supplied electricity and government subsidies have provided incentives for a range of efficient, large-scale renewable and/or distributed generation technologies to thrive.

2.1 Declining growth in customer demand

Growth in electricity grid demand in the SWIS continues to decelerate over recent years. Key drivers include improvements in appliance and building energy efficiency, demand response to price increases, increased penetration of distributed generation (e.g. rooftop photovoltaic systems) and slower demand growth due to weaker manufacturing and mining activity. Retail competition for contestable volumes has also intensified due to excess supply in the wholesale market.

2.2 Excess supply in the wholesale market

Lower electricity demand growth and a significant over supply of generation capacity has resulted in a large surplus of capacity and energy in the WEM. The situation has led to the underutilisation and suboptimal operation of Synergy's base load generation portfolio. This situation requires reform of the existing capacity mechanism to provide pricing signals to drive a better plant mix for the market needs and also reduce some of the excess.

2.3 Regulatory and policy environment

Synergy faces an uncertain regulatory and political environment, reflecting potential changes to Commonwealth environmental policies and schemes, and market settings and rules at the state level. Key drivers include:

- the application of the Commonwealth Government's Direct Action Plan to the electricity sector;
- complying with the large-scale renewable energy target (LRET) requirement to deliver 33,000 gigawatt hours (GWh) of energy from renewable sources by 2020;
- the State government's EMR with the objectives of reducing costs, facilitating
private sector investment, and ensuring long-term stability; and

- the pending expectation of full retail contestability and the end of the gas moratorium, which will introduce competition in the residential market for electricity and gas.

### 2.4 Pace of new technology adoption

Technology is a major driver of future economics, with disruptive effects on the energy and capacity market prices, as well as demand for traditional generation. Given the decentralised nature of the likely technology options that may be installed by end-users, this further presents as a challenge with regards to the inability to dispatch distributed generation in response to supply and demand forces.

With the increasing affordability of solar photovoltaic (PV) and the current inequity in tariff structure preventing the recovery of additional network charges utilised by PV export, this further widens the gap available to be recouped from the traditional customer base.
3 STRATEGIC OBJECTIVES

The following strategic objectives represent key focus areas for Synergy:

- market reform agenda;
- transitioning the generation fleet for a renewables future;
- providing a broader range of products and investing in retail and wholesale tools and capabilities; and
- an ongoing commitment to delivering operational efficiencies across the business.

In addition to our strategic objectives, the safety and wellbeing of our people is fundamental to our business.

3.1 Market reform agenda

There are a number of urgent market reforms fundamental to ensuring the efficient operation of the SWIS. These include:

- tariff structure reform to more accurately reflect the cost to generate and deliver electricity throughout the SWIS;
- a capacity mechanism that rewards generators for their contribution to the total electricity generated and drives toward the optimal asset mix for the SWIS;
- removal of the gas market moratorium to enable more competitive offers for consumers; and
- fair and transparent market rules for all participants that create a level playing field.

Immediate attention to addressing the disparity in current market arrangements will assist in correcting the misaligned incentives and more accurately provide the right economic signals to encourage rational behaviour, particularly in a world of new technologies and declining end-user demand.

To deliver a sustainable solution as cost effective as possible for the end-user, a concerted effort between all parties is needed. Synergy is, and will, play a proactive and positive role in contributing to the reform agenda.

As the recommendations from the EMR commence implementation throughout the next year, this will be the start of the smart re-design of the market. Continuing to embrace progress and new technologies whilst making sure the transition to this new world is as efficient as possible for the State and tax-payers of Western Australia will be a key part of Synergy’s invested efforts for 2016-17.
3.2 Transition of the generation fleet

Synergy’s focus for 2016-17 will continue to be around plant efficiencies and optimisation to maintain its competitive position, whilst not compromising on the safety and reliability of its operations. With the ongoing changes in demand, rise of new technologies and evolution of market rules, this creates a very dynamic environment in which the operational profile of generation assets must be constantly assessed against business returns.

Reinforcing sophisticated analytical capabilities will allow Synergy to help shape the optimised fleet for the system to achieve an economically sustainable outcome. This will include a “whole of SWIS” point of view when providing recommendations regarding the future optimal generation portfolio in light of current and expected market conditions.

Key to the transition of the generation fleet includes the progressive integration of more and more renewables facilities, both centralised and decentralised. Planning for the impact of these new renewables on traditional thermal generation is part of the 2016-17 asset optimisation work.

3.3 Investing in retail and wholesale tools and capabilities

Synergy recognises the value of developing well integrated and dynamic tools and capabilities from both a systems and human capital perspective. In response to the changes already evident through the increasing uptake of solar PV in recent years and with the pending installation of battery storage technologies, the necessity to continuously adapt trading activities in response to new information will be essential to ensuring Synergy’s success.

With Synergy’s vision of being the first choice for energy, the business recognises the options available to customers and seeks to ensure a strong base of customer insights with which to develop tailored offerings. With an in-depth understanding of customer wants and needs Synergy can develop a suite of new, innovative and effective products and services.

By investing in a series of customer focussed initiatives, Synergy seeks to build trust and engagement across a number of interactive channels to enhance the customer experience with a view to maximising the lifetime value of each and every customer.

3.4 Ongoing commitment to delivering operational efficiencies across the business

Synergy will continue to maximise the long term value of the business by actively driving efficiencies and achieving a sustainable cost base. This will be imperative to ensuring the competitiveness of the business in respect to participation in the wholesale and retail markets.

Through the comprehensive BEP which commenced in 2014, the business has identified significant operational savings across the different business units and has already captured over half of this target. Synergy will continue to pursue identified
opportunities across the business and replenish the initiative pipeline to ensure the sustainability of savings and benefits.

Beyond delivering a reduction in the cost base, the BEP, in conjunction with the strategy refresh, is also enabling Synergy to simplify its business, understand and control costs and invest where it makes sense to do so. Combined with the focus on improving the organisational health and culture of the business, this will ensure the right mix of agility and flexibility to stand out in a competitive market.
4 PERFORMANCE MEASURES AND OBLIGATIONS

Synergy’s most recently approved forecast financial outlook is presented below.

4.1 Key performance indicators

The business will manage day-to-day performance through the use of a wide range of operational key performance indicators. The measures and targets for these operational key performance indicators for 2016-17 are as detailed below:

<table>
<thead>
<tr>
<th>Forecasts</th>
<th>2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial performance</strong></td>
<td></td>
</tr>
<tr>
<td>EBITDA Margin (%)*</td>
<td>6.25%</td>
</tr>
<tr>
<td>NPAT Margin (%)*</td>
<td>0.17%</td>
</tr>
<tr>
<td>Return on Assets (%)</td>
<td>(0.10%)</td>
</tr>
<tr>
<td>Return on Capital Employed (%)</td>
<td>(0.20%)</td>
</tr>
<tr>
<td><strong>Targets</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Operational performance</strong></td>
<td></td>
</tr>
<tr>
<td>Worksafe breaches</td>
<td>Zero</td>
</tr>
<tr>
<td>Environmental incidents</td>
<td>Zero</td>
</tr>
<tr>
<td>Water licence incidents</td>
<td>Zero</td>
</tr>
<tr>
<td>Market rule breaches</td>
<td>Zero</td>
</tr>
<tr>
<td><strong>Customers</strong></td>
<td></td>
</tr>
<tr>
<td>Grade of service</td>
<td>Greater than 80%</td>
</tr>
<tr>
<td>Number of complaints referred to the Energy Ombudsman</td>
<td>&lt;1,800</td>
</tr>
<tr>
<td>Net promoter score*</td>
<td>+60</td>
</tr>
<tr>
<td><strong>Employee</strong></td>
<td></td>
</tr>
<tr>
<td>Safety – Recordable Injury Frequency Rate*</td>
<td>&lt; 8</td>
</tr>
</tbody>
</table>

* Indicates inclusion in the Quarterly Report to the Minister and Treasurer

4.2 Dividend policy

Consistent with the performance targets, dividends are agreed annually with the Government according to the profit results. Synergy will comply with the requirements of the Act and relevant regulations with regards to the dividend payout ratio to be paid from after tax profits.

4.3 Accounting policies and governance standards

Synergy’s accounting policies are consistent with Australian Accounting Standards, applying the non-for-profit elections where applicable. Financial statements utilise the accruals basis of accounting and reflect the historic cost convention, except for derivative financial instruments and defined benefit obligations, which are measured at fair value.

In addition, the following guidelines and standards are considered to be most relevant to Synergy’s corporate governance practice.

(a) Good governance guide for public sector agencies;
(b) Australian Standard: AS 8000-2003: Good Governance Principles;
(d) Australian Standard: AS ISO 31000: 2009 Risk Management – Principles and guidelines; and
(e) Australian Stock Exchange (ASX) Corporate Governance Council, 3rd Edition, Corporate Governance Principles and Recommendations

Although Synergy is not obliged to comply with the ASX Guidelines, the business has committed to adopt best practice principles and practices that are in the best interests of its stakeholders.

4.4 Ministerial reporting

To meet the reporting requirements as outlined in the Act, Synergy will provide the Minister and Treasurer with a quarterly report (including a separate statement of financial performance for each business unit and subsidiary), for the first three quarters, and an annual report for the whole financial year.

Each Quarterly Report will be submitted one month after the end of the quarter. It will include:

(a) an overview of performance including specific performance indicators as detailed in the SCI;
(b) highlights of important achievements; and
(c) consolidated financial statements with relevant accompanying notes.

The following additional confidential information will be provided:

(a) on a quarterly basis, for the profit and loss statement, a summary of key variances to year-to-date budget with accompanying commentary; and
(b) on an annual basis, within three months of the end of the financial year, a schedule comparing actual capital expenditure against budgeted capital expenditure, by project.

The Annual Report will follow the end of the financial year and will be provided to the Minister and Treasurer within the time specified by the Act. It will include:

(a) consolidated statutory financial statements;
(b) other statutory information required of any company under the Corporations Law;
(c) an overview of major achievements and an appraisal of future prospects;
(d) a comparison of performance with the SCI targets; and
(e) other information required by the Act to be included, such as the particulars of any directions given by the Minister.

In addition to quarterly and annual reports, the Minister and Treasurer will be provided with:

(a) a five-year SDP and a one-year SCI;
(b) a report on staff compliance with any board issued codes of conduct; and
(c) any information in Synergy's possession requested by the Minister.

In communicating with the Minister, a formal protocol has been developed with the Minister's Office covering comprehensive communications with the Minister. The protocol is consistent with the Act and the Public Sector Management Act 1994. It seeks to ensure the Minister is provided with information that is factual, timely and reflects the best information available at the time. Consistent with the requirements of the Act, Synergy will consult the Minister on items of significant public interest.

4.5 Community Service Obligations

Section 99(1) of the Act defines "community service obligations" as "obligations to perform functions or to meet performance targets that it is not in the commercial interests of the corporation concerned to perform or meet".

Synergy is subject to a number of obligations that are not in its commercial interests. This includes the administration of a number of concession and rebate payments to eligible electricity customers and administration of the payment of the net feed-in tariff to eligible solar PV owners, representing the shortfall in available rebate provided for by the State government.

Synergy currently receives an operating subsidy from the State government to compensate for undertaking some of these community service obligations. The operating subsidy is forecast to reduce from historical levels, but continues to remain high despite the historical price increases.

As such, the operating subsidy remains a significant risk to be addressed to ensure that Synergy remains a viable and sustainable business in the future.
## APPENDIX 1: EXPLANATORY NOTES CONCERNING KEY PERFORMANCE INDICATORS

<table>
<thead>
<tr>
<th>KPI</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Performance</strong></td>
<td></td>
</tr>
<tr>
<td>Earnings Before Interest, Depreciation, Amortisation and Tax (EBITDA) Margin</td>
<td>Measure of operating profitability margin regardless of capital structure (depreciation and interest payments) or taxes, calculated as: EBITDA / Total Revenue.</td>
</tr>
<tr>
<td>Net Profit After Tax (NPAT) Margin</td>
<td>Measure of profits of business operations - i.e. what remains after subtracting all the costs including depreciation, interest, and taxes from total revenue.</td>
</tr>
<tr>
<td>Return on Assets (ROA)</td>
<td>Measure of how profitable a company is relative to its total assets, calculated as: NPBT / Total Assets.</td>
</tr>
<tr>
<td>Return on Capital Employed (ROCE)</td>
<td>Measure of capital return, i.e. how much profit a company generated for each $1 in capital employed (shareholder's capital plus short and long-term borrowed funds), calculated as: NPBT / (Total Assets – Non-Interest Bearing Liabilities).</td>
</tr>
<tr>
<td><strong>Targets</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Operational Performance</strong></td>
<td></td>
</tr>
<tr>
<td>Worksafe Breaches</td>
<td>Proven breaches of occupational health and safety legislation.</td>
</tr>
<tr>
<td>Environmental Incidents</td>
<td>Proven breaches of environmental protection legislation.</td>
</tr>
<tr>
<td>Water Licence Incidents</td>
<td>Proven breaches of conditions of water licences.</td>
</tr>
<tr>
<td>Market Rule Breaches</td>
<td>Proven breaches of market rules resulting in penalties.</td>
</tr>
<tr>
<td><strong>Customers</strong></td>
<td></td>
</tr>
<tr>
<td>Grade of Service</td>
<td>The % of calls that were answered within 30 seconds.</td>
</tr>
<tr>
<td>Number of customer complaints referred to the Energy Ombudsman</td>
<td>The number of customers who choose to contact the Energy Ombudsman to resolve a dispute involving Synergy.</td>
</tr>
<tr>
<td>Net promoter score</td>
<td>A tool used to measure the loyalty of Synergy's residential (non-contestable) and contestable customers.</td>
</tr>
<tr>
<td><strong>Employee</strong></td>
<td></td>
</tr>
<tr>
<td>Recordable Injury Frequency Rate (RIFR)</td>
<td>An occurrence that resulted in a fatality, permanent disability or time lost from work of one day/shift or more (Workplace Injury and Disease Recording Standard (Australian Standard 1885.1 – 1990))</td>
</tr>
</tbody>
</table>

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