

Thursday, 22 February 2018

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Please find attached the following documents relating to ERM Power's results for the six months ended 31 December 2017:

1. Appendix 4D
2. Half Year Financial Report including Operating & Financial Review and Directors' Report



Phil Davis
Group General Counsel & Company Secretary
ERM Power Limited

About ERM Power

ERM Power is an Australian energy company operating electricity sales, generation and energy solutions businesses. The Company has grown to become the second largest electricity provider to commercial businesses and industrials in Australia by loadⁱ, and is the only energy retailer licensed to sell electricity in all Australian states as well as the Northern Territory and the Australian Capital Territory. A growing range of energy solutions products and services are being delivered, including lighting and energy efficiency software and data analytics, to the Company's existing and new customer base. ERM Power also sells electricity in several markets in the United States. The Company operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland.

www.ermpower.com.au

ⁱ Based on ERM Power analysis of latest published information



Appendix 4D
ERM Power Limited
ABN 28 122 259 223

**Results for announcement to the market
for the half year ended 31 December 2017**

Notification in Accordance with Listing Rule 4.2A.3

(The amount and percentage changes are in relation to the previous corresponding period)

1. Results for the half year					1H 2018	1H 2017
					\$'000	\$'000
1.1. Revenue from ordinary activities:						
1.1.1 Revenue from ordinary continuing activities:						
ERM Power Limited and controlled entities	up	34%	to		1,783,890	1,330,570
1.2. Profit from ordinary continuing activities:						
1.2.1. Underlying EBITDAF*:						
ERM Power Limited and controlled entities	up	360%	to		51,060	11,102
(*earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit and loss and gains / losses on onerous contracts and other significant items)						
1.2.2. Underlying NPAT**:						
ERM Power Limited and controlled entities	up	N/A	to		9,287	(50,981)
(**statutory net profit after tax attributable to equity holders of the Company after excluding the after tax effect of unrealised marked to market changes in the fair value of financial instruments, impairment and gains / losses on onerous contracts and other significant items. Underlying NPAT excludes any profit or loss from associates)						
1.3. Statutory net profit / (loss) after tax for the period attributable to members:						
1.3.1 Net profit / (loss) after tax for the period attributable to members:						
ERM Power Limited and controlled entities	up	N/A	to		49,558	(18,847)

2. Dividend

A fully franked interim dividend of 3.5 cents per share has been declared and will be paid on 6 April 2018. Record date is 6 March 2018. The Company's shares will trade ex-dividend from 5 March 2018.

A fully franked 3.5 cents per share dividend was declared on 24 August 2017 and paid on 10 October 2017 to shareholders on record at 15 September 2017.

The Company's dividend reinvestment plan (DRP) will not apply to this dividend.

3. Brief explanation of any of the figures reported above or other items of importance not previously released to the market

The attached Directors' Report and Operating and Financial Review provide further information and explanation.

4. Commentary on the results for the half year

The attached Directors' Report and Operating and Financial Review provide further information and explanation.

5. Net tangible assets per share

	1H 2018	1H 2017
	Cents	Cents
Net tangible assets (cents per share)	169	188

6. Entities in which control was gained or lost during the half year

During the period 1 July 2017 to 31 December 2017 the Company did not lose control of any entities.

7. Details of associates and joint ventures

The following entity is accounted for as a joint venture:

- Energy Locals Pty Ltd

The following entity is accounted for as an associate:

- 1st Energy Pty Ltd

The following entities are proportionately consolidated as joint operation entities:

- NewGen Power Neerabup Pty Ltd (50%)
- NewGen Neerabup Pty Ltd (50%)
- NewGen Neerabup Partnership (50%)



ERM Power Limited

Half Year Financial Report
for the period ended 31 December 2017

ERM Power Limited

Half Year Financial Report

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

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A description of the Group's operations and of its principal activities is included in the operating and financial review in the Directors' Report on page 17. The Directors' Report does not form part of the financial report.

ERM Power Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is as set out on page 26.

The financial statements were authorised for issue by the directors on 22 February 2018. The directors have the power to amend and reissue the financial statements.



ERM Power Limited and Controlled Entities
ABN 28 122 259 223

Operating and financial review
for the half year ended 31 December 2017

ERM Power Limited

Operating and financial review

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

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ABOUT ERM POWER

ERM Power is an Australian energy company operating electricity sales, generation and energy solutions businesses. The Company has grown to become the second largest electricity provider to commercial businesses and industrials in Australia by load, and is the only energy retailer licensed to sell electricity in all Australian states as well as the Northern Territory and the Australian Capital Territory. A growing range of energy solutions products and services are being delivered, including lighting and energy efficiency software and data analytics, to the Company's existing and new customer base. ERM Power also sells electricity in several markets in the United States. The Company operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland.

ERM Power Limited shares are traded on the Australian Securities Exchange under the symbol EPW. This review is for ERM Power (Company, Group, we, our) for the period ended 31 December 2017 with comparison against the previous corresponding period ended 31 December 2016 (previous period, previous year or comparative period).

All reference to \$ is a reference to Australian dollars unless otherwise stated. Individual items totals and percentages are rounded to the nearest approximate number or decimal. Some totals may not add down the page due to rounding of individual components.

ERM Power Limited

Operating and financial review (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

1. HALF YEAR HIGHLIGHTS

ERM Power delivered a strong set of results for the half year. The highlights included:

- Statutory NPAT from continuing operations of \$49.6m
- Underlying NPAT of \$9.3m
- Underlying EBIT of \$28.4m
- Australian retail sales volume of 9.6TWh
- Consistent generation asset performance
- US sales volumes more than doubling to 3.0TWh
- Energy Solutions revenue of \$9.7m up 143% on the prior period
- A fully franked interim dividend of 3.5cps
- Growth in forward load up 16% to 49.0TWh
- No. 1 customer satisfaction rating seventh year in a row¹

2. OUTLOOK AND PROSPECTS

The outlook for FY2018 compared to the previous guidance provided is shown in the table below.

	FY2018 outlook 30 June 2017 ASX, 2017 AGM	FY2018 outlook 22 February 2018		Progress
Australia Retail				
• Sales volume	~19 TWh	~19 TWh	●	On track
• Gross margin	~\$4.40 / MWh	~\$4.70 / MWh	●	On track
• Opex	~\$23m	~\$23m	●	On track
US Retail⁽ⁱ⁾				
• Sales volume	~7.5 TWh	~6.5 TWh	●	Lower growth
• Gross margin	~A\$5.00 / MWh	~A\$4.50 / MWh	●	At risk
• Opex	~A\$3.20 / MWh	~A\$3.50 / MWh	●	On track for \$m
Generation EBITDAF⁽ⁱⁱ⁾				
• Oakey	\$14-16m	\$14-16m	●	On track
• Neerabup	~\$26m	~\$26m	●	On track
Energy Solutions EBITDAF	~(\$4.5)m	~(\$4.0)m - (\$4.5)m	●	On track
Corporate & Other costs	~(\$15.5)m	~(\$14.5)m	●	On track

⁽ⁱ⁾ US\$ converted at US\$0.75:A\$1.00 for FY2018 outlook

⁽ⁱⁱ⁾ FY2018 outlook includes \$1.5 million generation overhead expenditure not reflected in the above earnings figures

- Medium-term Australian gross margin increased from between \$3.50-\$5.00 / MWh to between \$4.00-\$5.50 / MWh
- Large Scale Generation Certificates (LGC) strategy expected to deliver \$35-\$45 million NPAT FY2019/2020 (weighted to FY2020)
- NPAT on LGC strategy is independent of gross margin outlook (above)

FY2018 is a year of continued growth for ERM Power against a backdrop of unprecedented change in the Australian energy market. Energy consumers are feeling the impact of rising wholesale energy prices on their bottom line. Commercial and industrial customers need an energy partner who understands this market and the critical role energy plays in the prosperity of their business and the economy. ERM Power is committed to being the advocate for businesses that rely heavily on energy to fuel their success.

¹ UMI Survey. Refer glossary for further details

ERM Power Limited

Operating and financial review (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

ERM Power's consistent, clear strategy recognises the fundamental changes in the industry. The Company is achieving growth through diversification. The strategy capitalises on strong, enduring customer relationships and industry-leading customer value, satisfaction and retention, underpinned by a progressive and innovative culture.

The Company's generation assets are an important part of the diversified offering. Gas has a critical role to play in the transition to a lower-emission electricity sector, highlighting the value of ERM Power's two gas-fired peaking power stations – Oakey Power Station in Queensland, and Neerabup Power Station in Western Australia.

As ERM Power's electricity retailing business matures in Australia, it will increasingly extend its customer relationships into energy management solutions that enable businesses to extract greater value from their energy investments. Against a backdrop of customer demand, the Company is accelerating its investment in its Australian Energy Solutions business, underpinned by market insights, deep knowledge of how businesses consume energy and powerful data analytics.

ERM Power is replicating its successful Australian retail business model in the US, through energy retailer Source Power & Gas. Based in Houston, Texas, Source operates across two key electricity markets in the US, offering ERM Power significant growth opportunities in an accessible market that is more than six times larger than Australia.

For the Australian electricity retailing business we see continued margin growth opportunities as we refine our customer segmentation. For the US electricity retailing business, we see margin growth and customer load growth that will deliver scale benefits and profitable growth in the medium-term.

Both the US electricity retailing and Australian Energy Solutions businesses are in investment phase, and are on track to make material contributions in the medium term.

ERM Power will continue to execute on its clear, robust strategy to create a high performing business that delivers shareholder value and makes a positive contribution to the communities in which it operates.

The Australian energy industry is undergoing a fundamental change which provides options and opportunity which an innovative and agile business like ERM Power can execute on.

3. REVIEW OF OPERATING AND FINANCIAL RESULTS

3.1 Summary of Group financial results

Overview

Key financial measures (\$m unless otherwise stated)	1H FY2018	1H FY2017
Underlying EBITDAF continuing operations	51.1	11.1
Underlying EBIT continuing operations	28.4	(7.0)
Underlying NPAT continuing operations	9.3	(51.0)
Statutory NPAT continuing operations	49.6	(16.4)
Dividends paid during period (cents per share)	3.5	6.0
Dividends paid (franking %)	100%	0%

Key operational measures	1H FY2018	1H FY2017
Electricity sold (TWh) continuing operations	12.6	10.4
Forward contracted electricity sales (TWh) continuing operations	49.0	42.1

Underlying EBITDAF for the Group increased \$40m on prior period EBITDAF of \$11.1m. EBITDAF increased substantially due to the performance of the Australian retail business and the timing impacts of earnings being weighted to the second half in FY2017. Business Energy Australia operations performed strongly in 1H FY2018 with good load and margin growth underpinned by market-leading service and sustained high customer satisfaction.

Earnings from our Australian Business Energy operations improved substantially on the prior period as a result of the timing impact of green certificate forward contracts sold in January 2017, the continued positive contribution from the Vales Point offtake agreement following the uplift in NSW wholesale prices, and strong operational performance across the business. Overall, EBITDAF from Australian Business Energy operations was \$41.8m higher than the prior period with strong growth indicators in forward load sold, increasing 17% to 33.5 TWh from 30 June 2017, higher than average recontracting rates of 73% and higher written margins.

Based on the rising cost of LGCs during 1H FY2017 and optionality allowed in the LGC scheme, ERM Power made a commercial decision during 1H FY2017 to sell rather than surrender a large portion of LGCs available under forward purchase contracts. This decision resulted in a net cost in 1H FY2017 after recognising the accrual for the Clean Energy Regulator shortfall charge at \$65 per certificate on a shortfall position of approximately 1.9m certificates. A gain was realised in 2H with the sale of the LGC inventory at a profit.

ERM Power Limited

Operating and financial review (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

The LGC shortfall charge was not tax deductible and accordingly resulted in a permanent tax difference of \$36.6m in the prior period. This permanent tax difference and the timing impact of the realisation of profits on the sale of green certificates in 2H resulted in lower underlying NPAT in the prior period.

Statutory NPAT from continuing operations was \$49.6m and differs to underlying NPAT largely due to the unrealised net fair value movement in financial instruments. The after tax impact of the early termination payment of \$3.3m made to exit the previous sleeving arrangement used as part of our US electricity sales operation is also excluded from underlying NPAT as is the \$6m income tax impact of the US tax reform on our US deferred tax asset.

Performance summary

\$m	1H FY2018	1H FY2017	Change	%
Business Energy Australia	37.7	(4.1)	41.8	N/A
Business Energy US	1.4	1.9	(0.5)	(26%)
Generation	20.6	20.4	0.2	1%
Energy Solutions	(1.8)	(3.0)	1.2	40%
Corporate and other	(6.8)	(4.1)	(2.7)	(66%)
Underlying EBITDAF continuing operations	51.1	11.1	40.0	360%
Significant items	-	-	-	-
Statutory EBITDAF continuing operations	51.1	11.1	40.0	360%
Depreciation and amortisation	(22.7)	(18.1)	(4.6)	25%
Net fair value gain on financial instruments	71.1	50.5	20.6	41%
Share of associate profit / (loss) (net of tax)	0.6	(0.1)	0.7	N/A
Finance income	1.7	1.6	0.1	1%
Finance expense	(22.3)	(15.0)	(7.3)	49%
Profit before tax	79.5	30.0	49.5	165%
Tax expense	(29.9)	(46.4)	16.5	(36%)
Loss from discontinued operations	-	(2.4)	2.4	100%
Statutory net profit / (loss) after tax	49.6	(18.8)	68.4	N/A
Add back:				
Net fair value gain on financial instruments (net of tax)	(49.1)	(34.6)	(14.5)	42%
Share of associate (profit) / loss (net of tax)	(0.6)	0.1	(0.7)	N/A
Loss from discontinued operations	-	2.4	(2.4)	100%
Significant items (net of tax)	9.4	(0.1)	9.5	N/A
Underlying NPAT continuing operations	9.3	(51.0)	60.3	N/A

Underlying EBITDAF for the period was \$51.1m compared to \$11.1m in the prior period. The key drivers of the \$40m increase were as follows:

- Business Energy Australia earnings increased by \$41.8m on the comparative period. Gross margin per MWh sold was substantially higher than the prior period primarily as a result of strong performance in 1H FY2018 and the aforementioned timing impact of green certificate sales realised in January 2017. The business has had a strong start to FY2018 with higher written margins on new business and continued margin contribution from portfolio optimisation and the Vales Point off-take agreement. During the period there were also strong leading indicators in recontracting and forward sales. The strong start to the year has contributed to higher than expected first half gross profit margins of \$5.08 / MWh. We expect these margins to moderate in the second half with an expected FY2018 gross margin of \$4.70 / MWh, higher than previous guidance of \$4.40 / MWh. Operating costs decreased slightly on higher load sold.
- Business Energy US EBITDAF reduced \$0.5m. Realised gross margins of \$3.78 / MWh were lower than the prior period and reflect a lower than expected contribution from portfolio optimisation activities. More disciplined pricing and risk management resulted in lower than expected load growth but an improved underlying retail margin on load sold. There was continued economies of scale in operating costs on increased load sold of 3 TWh, which was double the prior year.
- Generation earnings remained consistent with the prior period. Oakey contributed slightly lower earnings with fewer opportunities for the station to run at high spot prices whilst Neerabup contributed higher earnings following a number of plant outages and merchant generation opportunities in the Western Australian market.
- Net corporate and other costs increased by \$2.7m on the prior period as a result of software licence sale earnings realised in 1H FY2017.

Underlying NPAT was a profit of \$9.3m compared to a loss of (\$51m) in the previous period. The key drivers of the \$60.3m increase were as follows:

ERM Power Limited

Operating and financial review (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

- Net after tax impact of EBITDAF movements of \$28.1m;
- A permanent tax difference resulting from the Clean Energy Regulator shortfall charge of \$36.6m in the prior period. The decision to meet a portion of our 2016 LGC surrender requirements by way of payment of a shortfall charge to the Clean Energy Regulator resulted in an additional permanent tax difference as the shortfall charge was not tax deductible;
- After tax impact of net finance cost increase of \$1.3m, mainly as a result of sleeving fees in our US operation increasing as a result of higher load sold; and
- After tax impact of increased depreciation of \$3.1m. Depreciation increased \$3.4m as a result of higher load sold in our US operation and the associated customer contract amortisation charge. Depreciation across other parts of the business increased by \$1.2m.

3.2 Divisional performance review

3.2.1 Electricity sales

	Business Energy Australia		Business Energy US		Total	
	1H FY2018	1H FY2017	1H FY2018	1H FY2017	1H FY2018	1H FY2017
Continuing operations						
Load sold (TWh)	9.6	8.9	3.0	1.5	12.6	10.4
Contestable revenue (\$'000)	920,938	603,261	195,060	96,775	1,115,998	700,036
Gross margin (\$'000)	48,742	6,507	11,356	10,008	60,098	16,515
Opex (\$'000)	(11,009)	(10,585)	(9,909)	(8,064)	(20,918)	(18,649)
Underlying EBITDAF (\$'000)	37,733	(4,078)	1,447	1,944	39,180	(2,134)
Significant items (\$'000)	-	-	-	-	-	-
Statutory EBITDAF (\$'000)	37,733	(4,078)	1,447	1,944	39,180	(2,134)
Discontinued operations						
Underlying EBITDAF (\$'000)	-	-	-	(2,895)	-	(2,895)
Earnings \$/MWh						
Underlying gross margin	5.08	0.73	3.78	6.56	N/A	N/A
Underlying opex	(1.15)	(1.19)	(3.30)	(5.29)	N/A	N/A

Underlying gross margin \$/MWh	1H FY2018	2H FY2017	1H FY2017	2H FY2016	1H FY2016	2H FY2015
Australia	5.08	7.24	0.73	3.93	4.49	5.37
US – continuing operations	3.78	3.95	6.56	6.86	5.31	9.89
Underlying Opex \$/MWh						
Australia	(1.15)	(1.26)	(1.19)	(1.08)	(1.21)	(1.32)
US – continuing operations	(3.30)	(4.72)	(5.29)	(7.30)	(8.94)	(12.05)
Load sold (TWh)						
C&I Australia	9.2	9.2	8.5	8.8	8.7	8.0
SME Australia	0.4	0.4	0.4	0.3	0.3	0.2
US – continuing operations	3.0	2.3	1.5	1.0	0.8	0.4
Underlying EBITDAF (\$'000)						
Australia	37,733	57,437	(4,078)	25,970	29,450	33,176
US – continuing operations	1,447	(1,776)	1,944	(442)	(2,710)	(966)
US – discontinued operations	-	(2,007)	(2,895)	1,718	1,427	1,746
	39,180	53,654	(5,029)	27,246	28,167	33,956

Figures above are rounded

ERM Power Limited

Operating and financial review (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

1H FY2018 performance

Australian market

Gross margin

Gross margin per MWh increased substantially on the prior comparative period as a result of strong operating performance across the business and a timing difference in 1H FY2017 on green certificate forward contracts sold and settled in January 2017. During the period we continued to see an improvement in operating conditions following on from the second half of FY2017 with continued benefit from portfolio optimisation and the Vales Point offtake agreement, as prices in NSW remained high. Gross profit margins of \$5.08 / MWh were above the previous outlook. Written margins on new business increased during the period with product innovation and continued outstanding customer service supporting our customer proposition. Our outlook for medium term gross margin range (to FY2020) has been raised to between \$4.00-\$5.50 / MWh (from between \$3.50-\$5.00 / MWh).

As disclosed previously, under the LGC scheme ERM Power elected to pay the shortfall charge of \$65 per certificate in FY2017 and take up the 3 year optionality period available to potentially acquire certificates through either the market or through securing certificates directly from new renewable generators to assist with obtaining financial close of such projects. ERM Power has a further 2 years available under the optionality period to acquire and surrender large scale generation certificates. We expect to deliver approximately \$35-\$45 million NPAT in FY2019/2020 (weighted to FY2020) from this strategy.

Included within gross margin during the period were timing variances from portfolio optimisation activities including the early settlement of electricity futures contracts. Portfolio optimisation of positions for both black electricity and environmental commodity products is a normal part of operations and may involve early settlement of derivative financial instruments, which may be positive or negative. If these instruments do not qualify for hedge accounting, any realised gain or loss is recognised immediately in profit and loss regardless of the original settlement date.

Operations

The Australian electricity sales business saw C&I load sold increase by 8% and SME load reduce by 2% for a total of 9.6 TWh, up 0.7 TWh from the prior period. Forward contract load grew 17% from 28.6 TWh at 30 June 2017 to 33.5 TWh reflecting our continued strong competitive position in the market. This increase has been driven by two factors. Firstly, a rebound in average contract length from 1.7 years in calendar 2016 to 2.2 years in 2017. Secondly, the volume of customers coming to market, particularly in the last six months has been higher than normal with 32.6 TWh of customer load quoted in the period alone (out of a total market size of 85 TWh). This concentration of customer demand for contracts has been caused by a number of factors, primarily alignment of previous contract end dates around December to avoid policy uncertainty around carbon policy combined with a customer desire to both contract shorter terms and to leave contract extensions to the last minute to maximise opportunities for wholesale price relief. With such a large volume of customers priced in 2017, we expect 2018 to see lower volumes of customers available for acquisition and this may have a moderating influence on load growth in FY2019.

The annual NTF Group UMI survey² of C&I electricity customers saw ERM Power again comfortably win the survey for the 7th year running with 92% of customers either satisfied or very satisfied. The survey results clearly demonstrate ERM Power's leadership in customer satisfaction and service. This was a result achieved in a market where customers were struggling with rapidly increasing wholesale costs of energy and re-enforced our position as a trusted partner in helping our customers manage their energy costs. Operationally ERM Power continued to maintain its industry leading position across all key measures including billing timeliness and accuracy.

The recontracting rate in calendar 2017 improved to 73% which is above the historical average. Average contract length in the six months increased to an average length of 2.3 years, from 1.9 as customers increasingly see value in longer term contracts due to lower wholesale prices beyond the immediate forward 12 months. This highlights the value of our STEP online platform to customers looking to spread the timing risk of their energy purchases. The proportion of our customers (by load) using the platform has increased to 46% (from 38%) with strong interest from customers looking for alternatives. The take up rate of the product has been higher than expected and has been supportive of our win rates and renewal rates.

Progress in the SME market was interrupted with 37,929 sites under contract at 31 December 2017, a small decrease on the number of sites under contract at 30 June 2017. This reduction in site numbers was influenced by the previously flagged market convention of only updating prices annually coupled with a failure of the primary market participants to then price cost reflectively against the current wholesale price. As the wholesale market retreats we expect to be able to resume growth as our competitive position improves.

Operating costs in the Australian business increased by \$0.4m on higher load sold during the period.

US market

Gross margin

The US gross margin from continuing operations was below expectations for the period at A\$3.78 MWh. Underlying retail margin in line with expectations in both ERCOT and PJM regions, but a lower than expected margin contribution from portfolio optimisation resulted in lower overall reported margin. More disciplined pricing and risk management activities saw load grow slightly less than forecast. Our main growth region is PJM where over 50% of our new business has been written. In PJM due to backward sloping energy and capacity prices, the booked margin is low at the front-end of the contract and increases at the back end of the contract. As a result, our FY2018 margins are

² Refer glossary for further details

ERM Power Limited

Operating and financial review (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

impacted in total by approximately A\$1 / MWh. This will also impact FY2019. Our medium term gross margin view remains in the range of A\$6.50-\$7.50 / MWh.

Operations

Total electricity load sold from continuing operations was 3 TWh, double the prior period. Forward electricity sales decreased from 16.7 TWh at 30 June 2017 to 15.5 TWh at 31 December 2017 as no large deals were booked during the period. The rate of forward sales slowed as the business implemented a more disciplined approach to pricing new deals with forward written margins 80% higher than the prior comparative period. The business continues to make progress across a variety of process and systems issues that will enable future sales with minimal fixed costs thus increasing the economies of scale of the business.

3.2.2 Generation

\$m	1H FY2018	1H FY2017	Change	%
External revenue and other income				
Oakey	18.8	23.2	(4.4)	(19%)
Neerabup	18.6	17.2	1.4	8%
Generation development and operations	0.7	0.7	-	-
	38.1	41.1	(3.0)	(7%)
Underlying EBITDAF				
Oakey	6.2	7.2	(1.0)	(14%)
Neerabup	14.5	13.8	0.7	5%
Generation development and operations	(0.1)	(0.6)	0.5	83%
	20.6	20.4	0.2	1%

1H FY2018 performance

Underlying EBITDAF for the period was \$20.6m, a slight increase from the prior period.

Plant outages in Western Australia enabled additional merchant revenue to be generated by Neerabup whilst Oakey earnings were slightly lower than in the same period last year as the power station ran less frequently in the last quarter of calendar 2017.

Major maintenance on the second unit of Oakey remains on track to be completed during the second half.

Power station operating performance

Neerabup Power Station had an exceptional operating performance during the period with an availability of 99.9%. In response to favourable market conditions, the power station operated 10.7% of the time, compared to 5.4% in the prior six month period.

Oakey Power Station's availability was 98.1% in the period compared to 98.3% in the prior period. The power station operated 4% of the time, compared to 1.9% in the prior period. The increase in operation did not result in higher earnings due to a reduced price spread between the gas and electricity markets.

There were no Lost Time Injuries at Neerabup or Oakey Power Station during the period, continuing ERM Power's track record of exceptional safety performance in power station operations.

3.2.3 Corporate and other

3.2.3.1 Energy Solutions

\$m	1H FY2018	1H FY2017	Change	%
Revenue (including internal segment sales)	9.7	4.0	5.7	143%
Gross margin	5.9	2.1	3.8	181%
Operating expenses	(7.7)	(5.1)	(2.6)	51%
Underlying EBITDAF	(1.8)	(3.0)	1.2	40%

1H FY2018 performance

EBITDAF from the Energy Solutions business improved to a loss of \$1.8m as at 31 December 2017 from a loss of \$3m in the previous period. The business is on track to double its revenue this year. Investment in capability and partnerships to position the business to deliver integrated energy solutions is delivering results. Solar and lighting revenues have more than doubled to \$5m during the period and overall gross margin across all products has increased from \$2.1m to \$5.9m. Operating costs have increased over last year mostly due to increased staff numbers building capability across the sales and fulfilment functions to manage increased volume and deliver better customer service in delivery.

ERM Power Limited

Operating and financial review (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

3.2.3.2 Corporate

\$m	1H FY2018	1H FY2017	Change	%
External revenue	0.3	2.7	(2.4)	(89%)
Expenses	(7.1)	(6.8)	(0.3)	4%
Underlying EBITDAF	(6.8)	(4.1)	(2.7)	(66%)

1H FY2018 performance

Corporate expenses were in line with the prior period. Net corporate EBITDAF decreased overall on the prior period by \$2.7m as a result of lower software license sales.

3.3 Cash flow and balance sheet

\$m	1H FY2018	1H FY2017	Change
Cash flow			
Operating cash flow before working capital changes	26.9	11.4	15.5
Net working capital changes	83.8	125.2	(41.4)
Operating cash flow	110.7	136.6	(25.9)
Total investing cash flow	(21.9)	0.1	(22.0)
Net drawdown / (repayment) of borrowings	14.2	(20.7)	34.9
Net repayment of leases	(2.1)	(1.8)	(0.3)
Finance costs	(16.0)	(13.5)	(2.5)
Termination of US sleever agreement	(5.1)	-	(5.1)
Dividends paid	(8.3)	(14.1)	5.8
Effect of exchange rate changes on cash and cash equivalents	(0.6)	0.9	(1.5)
Net change in cash	70.9	87.5	(16.6)
Net working capital movements			
Renewable energy scheme liability	114.9	108.2	6.7
Renewable energy scheme certificates and other inventory	(75.4)	(13.0)	(62.4)
Broker margin account changes	(16.3)	(27.3)	11.0
Net accounts receivable / accounts payable and other	60.6	57.3	3.3
Net working capital changes	83.8	125.2	(41.4)

ERM Power Limited

Operating and financial review (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

\$m	31 December 2017	30 June 2017	Change
Balance sheet			
Net assets	521.3	565.9	(44.6)
Net working capital	(108.1)	(73.0)	(35.1)
Net capital employed including working capital	335.4	369.4	(34.0)
Net derivative balances	220.5	305.3	(84.8)
Net debt			
Neerabup free cash	23.7	17.0	6.7
Other free cash	126.9	109.1	17.8
Total free cash	150.6	126.1	24.5
Neerabup restricted cash	11.0	12.0	(1.0)
Other restricted cash	154.0	106.5	47.5
Total restricted cash	165.0	118.5	46.5
Total cash	315.6	244.6	71.0
Neerabup debt (non-recourse)	187.3	188.9	(1.6)
Other debt	16.7	-	16.7
Total borrowings	204.0	188.9	15.1
Net (cash) / debt on balance sheet	(111.6)	(55.7)	(55.9)
<i>Net financial (cash) / debt excluding Neerabup net debt</i>	<i>(264.2)</i>	<i>(215.6)</i>	<i>(48.6)</i>
Dividends			
Dividends paid (cents per share)	3.5	3.5	-
Franking percentage	100%	100%	-

3.3.1 Cash flow

Operating cash flow before working capital changes of \$26.9m was \$15.5m higher than the prior period as a result of higher earnings, which were partially offset by higher tax payments made during the period following utilisation of prior year tax losses. Working capital changes were lower than the prior year. Favourable timing differences associated with the large scale renewable energy target scheme costs, which settle in February, were offset by higher inventory purchases during the period.

Net investing cash flows increased \$22m on the prior period with higher spend on customer acquisition costs in our US business as a result of higher load and further plant and equipment spend associated with the Oakey major maintenance. Investing cash flows in the prior period included the receipt of \$14.9m in August 2016 from the sale of Western Australia joint venture gas interests to Empire Oil & Gas NL in February 2015.

Finance costs increased on the prior period as a result of higher load sold in our US operation and the associated credit sleeving fees as well as the early termination payment of \$5.1m to exit the previous sleeving arrangement used as part of our US operations. Dividend payments reduced following the reduction of the dividend paid to 3.5 cents per share fully franked.

Free cash increased \$24.5m primarily due to favourable working capital movements. An increase in cash posted to restricted broker margin accounts saw restricted cash increase \$46.5m from 30 June 2017.

3.3.2 Balance sheet

Net assets decreased \$44.6m from 30 June 2017. The decrease was principally as a result of a decrease in net derivative balances following a reduction in forward market prices. Net working capital overall decreased due to an increase in the LGC scheme liability offset by higher levels of green certificate inventory.

Intangible assets increased primarily as a result of continued customer acquisition spend in both the Australian and US electricity sales operations.

In December 2017, the \$240m facility with ANZ Facility was increased by \$60m for the period from 1 January to 31 May for each year of the remaining term. This increase will support Business Energy Australia working capital and collateral needs during this peak period. In addition, the term of this facility was extended to July 2020. The \$50m bank guarantee facility with ANZ remains unchanged.

ERM Power Limited

Operating and financial review (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

3.3.3 Capital management

Under the Company's capital management framework, capital available for distribution or reinvestment is determined with consideration to the liquidity requirements of the business whilst maintaining suitable buffers. Capital not required to maintain liquidity is used firstly in the payment of an appropriate level of ordinary dividends and secondly to fund growth opportunities. Additional surplus capital beyond these requirements is distributed back to shareholders in the most appropriate form. In determining the level of ordinary dividends Directors consider the earnings outlook, sustainability of the dividend level, yield and level of payout relative to earnings. Directors intend to pay dividends bi-annually after the respective period results are published. A reduction in the ordinary dividend is only considered in the event of material earnings volatility.

Consistent with the Company's capital management framework, on 22 February the Company announced an on-market share buy-back of up to \$20 million. The buy-back will commence in March 2018.

A fully franked final dividend of 3.5 cents per share for 1H FY2018 was declared on 22 February 2018. Based on the share price at 31 December 2017, total annualised dividends equate to a gross dividend yield of 7.1%.

ERM Power Limited

Operating and financial review (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

NON-IFRS FINANCIAL INFORMATION

The directors believe the presentation of certain non-IFRS financial measures is useful for the users of this document as they reflect the underlying financial performance of the business.

The non-IFRS financial profit measures are used by the Managing Director to review operations of the Group and include but are not limited to:

1. EBITDAF - Earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit. EBITDAF excludes any profit or loss from associates.
2. Underlying EBITDAF - EBITDAF excluding significant items.
3. Underlying NPAT - Statutory net profit after tax attributable to equity holders of the Company after excluding the after tax effect of unrealised marked to market changes in the fair value of financial instruments, impairment, gains / losses on onerous contracts and other significant items. Underlying NPAT excludes any profit or loss from associates.

All profit measures refer to continuing operations of the Group unless otherwise noted.

A reconciliation of underlying NPAT and underlying EBITDAF is detailed in Appendix A1.1 of this document. The above non-IFRS financial measures have not been subject to review or audit. These non-IFRS financial measures form part of the financial measures disclosed in the books and records of the Consolidated Entity, which have been reviewed by the Group's auditor.

The Group is required to value its forward electricity purchase contracts at market prices at each reporting date. Changes in values between reporting dates are recognised as unrealised gains or losses in the particular reporting year either in profit or loss or the hedging reserve.

The directors believe that underlying EBITDAF and underlying NPAT provide the most meaningful indicators of the Group's business performance. Significant items adjusted in deriving these measures are material items of revenue or expense that are unrelated to the underlying performance of the Group.

ERM Power Limited

Operating and financial review (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

APPENDICES

A1.1 Reconciliation of underlying EBITDAF and underlying NPAT

To allow shareholders to make an informed assessment of operating performance for the year, a number of significant items of revenue or expense in each year have been identified and excluded to calculate an underlying EBITDAF and underlying NPAT measure. These items may relate to one-off transactions or revenue or costs recognised during the year that are not expected to routinely occur as part of the Group's normal operations. A reconciliation of underlying EBITDAF and underlying NPAT are shown in the tables below.

1H FY2018

\$m	Business Energy AU	Business Energy US	Generation	Corporate and other	Group
Statutory EBITDAF continuing operations	37.7	1.4	20.6	(8.6)	51.1
<i>Significant items</i>	-	-	-	-	-
Underlying EBITDAF continuing operations	37.7	1.4	20.6	(8.6)	51.1
Statutory NPAT continuing operations	59.5	(8.9)	7.2	(8.2)	49.6
<i>Significant items</i>					
EBITDAF adjustments (above)	-	-	-	-	-
a) Termination of US sleever arrangement	-	5.1	-	-	5.1
b) Change in US tax rate	-	6.1	-	-	6.1
Tax effect of above adjustments	-	(1.8)	-	-	(1.8)
Total significant items	-	9.4	-	-	9.4
Fair value gain on financial instruments net of tax	(38.2)	(8.4)	(2.5)	-	(49.1)
Associate profit after tax	-	-	-	(0.6)	(0.6)
Underlying NPAT continuing operations	21.3	(7.9)	4.7	(8.8)	9.3

- a) Termination of US sleever arrangement.
- b) Tax effect impact for the change in US tax rate.

ERM Power Limited

Operating and financial review (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

A1.1 Reconciliation of underlying EBITDAF and underlying NPAT (continued)

1H FY2017

\$m	Business Energy AU	Business Energy US	Generation	Corporate and other	Group
Statutory EBITDAF continuing operations	(4.1)	1.9	20.4	(7.1)	11.1
<i>Significant items</i>	-	-	-	-	-
Underlying EBITDAF continuing operations	(4.1)	1.9	20.4	(7.1)	11.1
Statutory NPAT	(18.7)	4.8	2.5	(7.4)	(18.8)
<i>Significant items</i>					
EBITDAF adjustments (above)	-	-	-	-	-
a) Effective interest revenue unwind	-	-	-	(0.2)	(0.2)
b) Discontinued operations net of tax	-	2.4	-	-	2.4
Tax effect of above adjustments	-	-	-	0.1	0.1
Total significant items	-	2.4	-	(0.1)	2.3
Fair value (gain) / loss on financial instruments net of tax	(25.5)	(10.5)	1.4	-	(34.6)
Associate loss after tax	-	-	-	0.1	0.1
Underlying NPAT continuing operations	(44.2)	(3.3)	3.9	(7.4)	(51.0)

- a) Recognition of Empire Oil & Gas NL loan at present value and interest revenue unwind.
b) Net earnings from discontinued US residential sales business.

ERM Power Limited

Operating and financial review (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

GLOSSARY

\$m	Millions of dollars
C&I	Commercial and Industrial
Contestable Revenue	Contestable revenue is the electricity sales revenue component on which we earn a margin and excludes pass-through items such as network charges
EBITDAF	Earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit and loss. EBITDAF excludes any profit or loss from associates
EBIT	Earnings before interest and tax
ERCOT	Electric Reliability Council of Texas
1H	First half of financial year
2H	Second half of financial year
FY	Financial year ended or ending 30 June
GWh	Gigawatt hours is a unit of energy representing one billion watt hours
IFRS	International Financial Reporting Standards
MWh	Megawatt hours is a unit of energy representing one million watt hours
NEM	The National Electricity Market
NPAT	Net profit after tax
PJM	Pennsylvania, Jersey, Maryland Power Pool
Sleeving	Credit sleeving through intermediary to trade and hedge with third parties
SME	Small to Medium Enterprise
Source Power & Gas	SPG Energy Group LLC
TWh	Terawatt hours is a unit of energy representing one thousand gigawatt hours (GWh)
UMI Survey	Utility Market Intelligence (UMI) survey of major retail electricity retailers by independent research company NTF Group in 2017. Research based on survey of 300 business electricity customers between November 2017 and January 2018. Three major electricity retailers benchmarked
Underlying EBITDAF	EBITDAF excluding significant items
Underlying EBIT	EBIT after excluding the unrealised marked to market changes in the fair value of financial instruments, impairment and gains / losses on onerous contracts and other significant items. Underlying EBIT excludes any profit or loss from associates
Underlying NPAT	Statutory net profit after tax attributable to equity holders of the Company after excluding the after tax effect of unrealised marked to market changes in the fair value of financial instruments, impairment, gains / losses on onerous contracts and other significant items. Underlying NPAT excludes any profit or loss from associates
US or USA	United States of America

ERM Power Limited

Directors' Report

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

The directors submit their report for the half year period ended 31 December 2017. The term "ERM Power Group" or "Group" is used throughout this report to refer to the company ERM Power Limited ("Company") and its controlled subsidiary entities.

1. DIRECTORS

The following persons were directors of ERM Power Limited during the period and up to the date of this report, unless otherwise noted:

Anthony (Tony) Bellas	Independent Non-Executive Chairman
Albert Goller	Independent Non-Executive Director
Georganne Hodges	Independent Non-Executive Director
Antonino (Tony) Iannello	Independent Non-Executive Director
Philip St Baker	Non-Executive Director (appointed 14 July 2017)
Trevor St Baker	Non-Executive Deputy Chairman and Founder (resigned 14 July 2017)
Wayne St Baker	Non-Executive Director
Jonathan (Jon) Stretch	Managing Director and Chief Executive Officer (MD & CEO)

2. COMPANY SECRETARIES

The following persons were company secretaries of ERM Power Limited during the financial period and up to the date of this report, unless otherwise noted:

Phil Davis
Suzanne Irwin (appointed 25 August 2017)

3. DIVIDENDS

A fully franked interim dividend of 3.5 cents per share has been declared and will be paid on 6 April 2018. Record date is 6 March 2018. The Company's shares will trade ex-dividend from 5 March 2018. The Company's dividend reinvestment plan ("DRP") will not apply to this dividend.

A fully franked 3.5 cents per share dividend was declared on 24 August 2017 and paid on 10 October 2017 to shareholders on record at 15 September 2017. An interim fully franked 3.5 cents per share dividend was paid in respect of the half year to 31 December 2016.

4. PRINCIPAL ACTIVITIES

The principal activities of the Group during the financial period were:

- electricity sales to businesses in Australia and the United States of America;
- generation of electricity; and
- provision of energy solutions to businesses in Australia.

5. REVIEW OF OPERATIONS

A review of the operations of the Group can be found in the Operating and financial review ("OFR") on pages 2 to 16.

6. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Consistent with the Company's capital management framework, on 22 February the Company announced an on-market share buy-back of up to \$20 million. The buy-back will commence in March 2018.

Other than the above matters there have been no matter or circumstance that has arisen since 31 December 2017 that has significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in the future.

7. AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included in the Half Year Financial Statements which accompany this report.

ERM Power Limited

Directors' Report (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

8. ROUNDING OF AMOUNTS

The amounts contained in the directors' report and in the financial report have been rounded to the nearest thousand dollars (where rounding is applicable) under the option available to the Group and the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Group and the Company are entities to which the instrument applies.

This report is made in accordance with a resolution of the Board of directors.

A handwritten signature in dark ink, appearing to read 'Tony Bellas', is positioned above the printed name and title.

Tony Bellas
Chairman
22 February 2018



Auditor's Independence Declaration

As lead auditor for the review of ERM Power Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of ERM Power Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Michael Shewan'.

Michael Shewan
Partner
PricewaterhouseCoopers

Brisbane
22 February 2018

ERM Power Limited

Consolidated Income Statement

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

		Half year ended	
	Notes	31 December 2017 \$'000	31 December 2016 \$'000
CONTINUING OPERATIONS			
Revenue	3	1,783,890	1,330,570
Other income		714	439
Total revenue		1,784,604	1,331,009
Expenses		(1,733,544)	(1,319,907)
EBITDAF		51,060	11,102
Depreciation and amortisation		(22,693)	(18,149)
Net fair value gain on financial instruments designated at fair value through profit or loss		71,104	50,527
Results from operating activities		99,471	43,480
Share of net profit / (loss) of associates accounted for using the equity method		564	(137)
Finance income		1,712	1,606
Finance expense		(22,296)	(14,982)
Profit before income tax		79,451	29,967
Income tax expense	4	(29,893)	(46,410)
Profit / (loss) from continuing operations		49,558	(16,443)
Loss from discontinued operation (attributable to equity holders of the company)		-	(2,404)
Statutory profit / (loss) for the period attributable to equity holders of the Company		49,558	(18,847)
 Statutory earnings / (loss) per share based on continuing operations attributable to the ordinary equity holders of the Company			
		Cents	Cents
Basic earnings / (loss) per share	11	20.03	(6.75)
Diluted earnings / (loss) per share	11	19.39	(6.57)
 Statutory earnings / (loss) per share based on earnings attributable to the ordinary equity holders of the Company			
		Cents	Cents
Basic earnings / (loss) per share	11	20.03	(7.73)
Diluted earnings / (loss) per share	11	19.39	(7.53)

The above consolidated income statement should be read in conjunction with the accompanying notes.

Operational business segment performance and underlying profit of the consolidated entity is presented in note 2.

ERM Power Limited

Consolidated Statement of Comprehensive Income

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

	Half year ended	
	31 December 2017 \$'000	31 December 2016 \$'000
Statutory profit / (loss) for the period	49,558	(18,847)
Other comprehensive (loss) / income		
<i>Items that may be reclassified subsequently to profit and loss</i>		
Change in the fair value of cash flow hedges, net of tax	(91,273)	116,163
Exchange differences on translation of foreign subsidiaries	(22)	1,454
Other comprehensive (loss) / income for the period attributable to equity holders of the Company, net of tax	(91,295)	117,617
Total comprehensive (loss) / income for the period attributable to equity holders of the Company	(41,737)	98,770

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

ERM Power Limited

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2017

	Notes	31 December 2017 \$'000	30 June 2017 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents		315,563	244,616
Trade and other receivables at amortised cost		367,637	360,947
Inventories		118,346	42,257
Other assets		14,367	6,180
Current tax assets		7,181	-
Derivative financial instruments	6	196,567	325,161
Total Current Assets		1,019,661	979,161
Non-Current Assets			
Financial assets at fair value through other comprehensive income		15	15
Investments accounted for using the equity method		7,267	6,702
Derivative financial instruments	6	84,153	81,445
Property, plant and equipment		388,071	391,386
Intangible assets		102,893	89,378
Leased assets		12,896	14,381
Deferred tax assets		9,136	13,850
Total Non-Current Assets		604,431	597,157
TOTAL ASSETS		1,624,092	1,576,318
LIABILITIES			
Current Liabilities			
Trade and other payables		608,458	464,314
Current tax liabilities		-	18,088
Borrowings	5	16,751	-
Borrowings – limited recourse	5	8,559	8,264
Lease liabilities		3,810	3,605
Derivative financial instruments	6	13,017	33,889
Provisions		20,958	14,811
Total Current Liabilities		671,553	542,971
Non-Current Liabilities			
Non-current borrowings – limited recourse	5	178,696	180,653
Lease liabilities		16,454	18,375
Derivative financial instruments	6	47,216	67,453
Deferred tax liabilities		162,374	178,380
Provisions		26,461	22,606
Total Non-Current Liabilities		431,201	467,467
TOTAL LIABILITIES		1,102,754	1,010,438
NET ASSETS		521,338	565,880
EQUITY			
Contributed equity	7	342,819	335,012
Reserves		127,913	220,877
Retained earnings		50,606	9,991
TOTAL EQUITY		521,338	565,880

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

ERM Power Limited

Consolidated Statement of Changes in Equity

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

	Note	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2016		332,355	103,413	35,635	471,403
Impact on change in accounting policy		-	-	(732)	(732)
Loss for the period		-	-	(18,847)	(18,847)
Other comprehensive income		-	117,617	-	117,617
Total comprehensive income / (loss) for the period		-	117,617	(18,847)	98,770
Transactions with owners in their capacity as owners:					
Dividends paid	8	878	-	(15,014)	(14,136)
Issue of shares and share options exercised pursuant to employee incentive scheme	7	5,408	(652)	-	4,756
Purchase of treasury shares	7	(4,553)	-	-	(4,553)
Share based payment expense		-	1,468	-	1,468
Balance at 31 December 2016		334,088	221,846	1,042	556,976
Balance at 1 July 2017		335,012	220,877	9,991	565,880
Profit for the period		-	-	49,558	49,558
Other comprehensive loss		-	(91,295)	-	(91,295)
Total comprehensive (loss) / income for the period		-	(91,295)	49,558	(41,737)
Transactions with owners in their capacity as owners:					
Dividends paid	8	673	-	(8,943)	(8,270)
Issue of shares and share options exercised pursuant to employee incentive scheme	7	9,808	(2,968)	-	6,840
Purchase of treasury shares	7	(2,674)	-	-	(2,674)
Share based payment expense		-	1,299	-	1,299
Balance at 31 December 2017		342,819	127,913	50,606	521,338

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

ERM Power Limited

Consolidated Statement of Cash Flows

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

		Half year ended	
	Notes	31 December 2017 \$'000	31 December 2016 \$'000
Cash flows from operating activities			
Receipts from customers		1,933,104	1,552,712
Payments to suppliers and employees		(1,780,610)	(1,390,308)
Transfer to broker margin account		(16,296)	(27,268)
Interest received		1,709	1,374
Income tax (paid) / refund received		(27,229)	73
Net cash flows from operating activities		110,678	136,583
Cash flows from investing activities			
Payments for plant and equipment		(4,241)	(1,920)
Payments for intangible assets		(17,621)	(11,719)
Proceeds on disposal of gas assets		-	14,921
Purchase of shares in non-listed companies		-	(1,125)
Net cash flows (used in) / from investing activities		(21,862)	157
Cash flows from financing activities			
Proceeds from borrowings including receivables financing facility		985,954	406,981
Repayments of borrowings including receivables financing facility		(969,174)	(424,342)
Repayments of borrowings - limited recourse		(2,572)	(3,311)
Lease repayments		(2,130)	(1,846)
Finance costs		(15,980)	(13,476)
Termination of US sleever agreement		(5,121)	-
Dividends paid	8	(8,270)	(14,136)
Net cash flows used in financing activities		(17,293)	(50,130)
Net increase in cash and cash equivalents		71,523	86,610
Cash and cash equivalents at the beginning of the half year		244,616	192,467
Effects of exchange rate changes on cash and cash equivalents		(576)	935
Cash and cash equivalents at the end of the half year		315,563	280,012

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

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ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

1. BASIS OF PREPARATION OF THE HALF YEAR REPORT

This interim financial report covers ERM Power Limited the consolidated entity ("Group" or "consolidated entity") consisting of ERM Power Limited and its subsidiaries. The report is presented in Australian dollars.

ERM Power Limited ("Company") is incorporated and domiciled in Australia. Its registered office and place of business is Level 52, One One One, 111 Eagle Street, Brisbane, Queensland, 4000.

A description of the nature of the Group's operations and of its principal activities is included in the review of operations in the Directors' Report on page 17.

This report was reviewed and approved by the directors on the recommendation of the Audit & Risk Committee.

(a) Statement of compliance

This interim financial report for the half year reporting period ended 31 December 2017 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial statements of the Company for the year ended 30 June 2017 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the Australian Securities Exchange Listing Rules.

(b) Significant accounting policies

The Company has not had to change its accounting policies as the result of new or revised accounting standards which became effective for the annual reporting period commencing on 1 July 2017. The accounting policies adopted are consistent with those of the previous financial year, which are accessible <http://www.ermpower.com.au/investor-centre>.

(c) Estimates and critical judgements applied

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses.

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 Group and that are believed to be reasonable under the circumstances.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2017.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

2. SEGMENT REPORT

	Business Energy Australia		Business Energy US		Generation Assets		Other		Total	
	Half year ended 31 December		Half year ended 31 December		Half year ended 31 December		Half year ended 31 December		Half year ended 31 December	
\$'000	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
External revenue to customers and other revenue	1,488,203	1,157,610	250,385	126,524	38,125	41,100	7,891	5,775	1,784,604	1,331,009
Internal segment revenue	-	-	-	-	6,258	4,862	2,153	1,055	8,411	5,917
Segment revenue and other income	1,488,203	1,157,610	250,385	126,524	44,383	45,962	10,044	6,830	1,793,015	1,336,926
Expenses	(1,450,470)	(1,161,688)	(248,938)	(124,580)	(23,833)	(25,581)	(18,714)	(13,975)	(1,741,955)	(1,325,824)
EBITDAF⁽ⁱ⁾	37,733	(4,078)	1,447	1,944	20,550	20,381	(8,670)	(7,145)	51,060	11,102
Depreciation and amortisation	(4,586)	(3,484)	(8,498)	(5,135)	(6,402)	(7,011)	(3,207)	(2,519)	(22,693)	(18,149)
Net fair value gain / (loss) on financial instruments designated at fair value through profit or loss	54,515	36,360	12,932	16,184	3,657	(2,017)	-	-	71,104	50,527
Results from operating activities	87,662	28,798	5,881	12,993	17,805	11,353	(11,877)	(9,664)	99,471	43,480
Share of net profit / (loss) of associates accounted for using the equity method	-	-	-	-	-	-	564	(137)	564	(137)
Finance income	1,177	1,075	-	-	258	228	277	303	1,712	1,606
Finance expenses	(3,843)	(4,218)	(9,999)	(2,339)	(7,806)	(7,995)	(648)	(430)	(22,296)	(14,982)
Profit / (loss) before income tax	84,996	25,655	(4,118)	10,654	10,257	3,586	(11,684)	(9,928)	79,451	29,967
Income tax expense									(29,893)	(46,410)
Profit / (loss) from continuing operations									49,558	(16,443)
Loss from discontinued operation (attributable to equity holders of the company)									-	(2,404)
Statutory profit / (loss) after tax attributable to equity holders of the Company									49,558	(18,847)
Underlying NPAT continuing operations⁽ⁱⁱ⁾									9,287	(50,981)

⁽ⁱ⁾ Earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit and loss.

⁽ⁱⁱ⁾ Statutory profit after tax attributable to equity holders of the Company after excluding the after tax effect of unrealised marked to market changes in the fair value of financial instruments, impairment, gains / losses on onerous contracts and other significant items. Underlying NPAT excludes any profit or loss from associates.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

2. SEGMENT REPORT (CONTINUED)

		Half year ended 31 December	
\$'000		2017	2016
Statutory profit / (loss) after tax attributable to equity holders of the Company		49,558	(18,847)
<i>Adjusted for the following items:</i>			
Net fair value gain on financial instruments designated at fair value through profit or loss after tax		(49,126)	(34,559)
Share of net (profit) / loss of associates accounted for using the equity method		(564)	137
Loss from discontinued operations		-	2,404
<i>Other significant items</i>			
Termination of US sleever agreement		5,121	-
Unrealised foreign exchange loss	(i)	-	8
Effective interest revenue unwind	(ii)	-	(174)
Change in US federal income tax rate	(iii)	6,090	-
Tax (benefit) / expense on other significant items	(iv)	(1,792)	50
Underlying NPAT continuing operations		9,287	(50,981)

- (i) Unrealised foreign exchange losses on funds held.
- (ii) Recognition of Empire Oil & Gas NL loan at present value and interest revenue unwind.
- (iii) Tax effect impact for the change in the US federal income tax rate.
- (iv) Tax effect of the above other significant items.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

2. SEGMENT REPORT (CONTINUED)

	Business Energy Australia		Business Energy US		Generation Assets		Other		Total	
	As at		As at		As at		As at		As at	
	31 December 2017	30 June 2017	31 December 2017	30 June 2017	31 December 2017	30 June 2017	31 December 2017	30 June 2017	31 December 2017	30 June 2017
\$'000										
Assets										
Total segment assets	957,774	899,581	151,884	145,413	426,544	429,303	71,573	88,171	1,607,775	1,562,468
Current and deferred tax assets									16,317	13,850
Total assets									1,624,092	1,576,318
Liabilities										
Total segment liabilities	550,231	405,829	136,648	143,576	222,912	230,464	30,589	34,101	940,380	813,970
Current and deferred tax liabilities									162,374	196,468
Total liabilities									1,102,754	1,010,438

SEGMENT DESCRIPTION

An operating segment is a distinguishable component of an entity that engages in business activity from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other segments of the same entity), and whose operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment.

Management has determined the operating segments based on reports reviewed by the Managing Director who is the chief operating decision maker for the consolidated entity. The Managing Director regularly receives financial information on the underlying profit of each operating segment so as to assess the ongoing performance of each segment and to enable a relevant comparison to budget and forecast underlying profit.

Business segments:

Business Energy Australia
Business Energy US
Generation Assets
Other

Products and services:

Electricity sales to business customers in Australia
Electricity sales to business customers in the United States of America
Gas-fired power generation assets and delivery of power generation solutions, from the initial concept through to development and operations
Gas, Metering, Data Analytics, Lighting Solutions and Corporate

Segment assets and liabilities are measured in the same way as in the financial statements. Both assets and liabilities are allocated based on the operations of the segment and the physical location of the asset. The Group's current and deferred tax balances are not considered to be a part of a specific segment but are managed by the Group's central corporate function.

All segment activity takes place in Australia and the United States of America.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

3. REVENUE

Revenue is recognised when performance obligations under relevant customer contracts are completed. Performance obligations may be completed at a point in time or over time.

In the following table revenue is disaggregated by major product or service line and by timing of revenue recognition. Revenue recognised in the Business Energy US segment is entirely generated within the US market whilst revenue recognised in all other segments is generated in Australia.

No single customer amounts to 10% or more of the consolidated entity's total external revenue for either the current or comparative period.

	Business Energy Australia		Business Energy US		Generation Assets		Other		Total	
	Half year ended 31 December		Half year ended 31 December		Half year ended 31 December		Half year ended 31 December		Half year ended 31 December	
\$'000	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Major product / service lines										
Sale of electricity	1,434,098	1,130,906	250,306	126,524	-	-	-	-	1,684,404	1,257,430
Electricity generation	-	-	-	-	27,122	23,792	-	-	27,122	23,792
Commodity product sales	54,105	26,704	56	-	10,446	17,028	-	-	64,607	43,732
Energy solutions products and services	-	-	-	-	-	-	7,574	3,019	7,574	3,019
Consulting fees	-	-	-	-	140	264	-	785	140	1,049
Other revenue	-	-	-	-	12	-	31	1,548	43	1,548
	1,488,203	1,157,610	250,362	126,524	37,720	41,084	7,605	5,352	1,783,890	1,330,570
Timing of revenue recognition										
Recognised at a point in time	54,105	26,704	56	-	37,720	41,084	7,100	5,248	98,981	73,036
Recognised over time	1,434,098	1,130,906	250,306	126,524	-	-	505	104	1,684,909	1,257,534
	1,488,203	1,157,610	250,362	126,524	37,720	41,084	7,605	5,352	1,783,890	1,330,570

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

3. REVENUE (CONTINUED)

Recognition and measurement

i) *Sale of electricity*

Revenue is recognised at the amount of consideration to which the Group is entitled, excluding amounts collected on behalf of third parties (i.e. duties and sales taxes). Using the practical expedient, the Group recognises revenue in respect to electricity sales over time as there is a right to invoice when the customers have consumed the performance obligation of electricity supply. Electricity sales revenue from customer sales contracts is recognised on measurement of electrical consumption (KWh) at the metering point, as specified in each contractual agreement, and is billed monthly in arrears. The transaction price is the contracted price for the electricity consumed during the period. When the consideration receivable is subject to variability, such as prompt payment discount or estimated meter reads, an assessment is performed to determine whether it is highly probable that the receivables or accrued income will be received. At each balance date, sales and receivables include an amount of sales delivered to customers but not yet billed and recognised as accrued income.

ii) *Electricity generation*

Electricity generation revenue is recognised from the generation of electricity at the point when the electricity has been supplied or the off-take performance obligation has been met and there will not be a significant reversal of revenue. Revenue received from off-take agreements provides a fixed revenue stream for the respective power station. Revenue on these contracts is recognised on a daily basis over the contract term. The transaction price is the contracted price for the electricity generated and sold during the period. At each balance date, sales and receivables include an amount of revenue for which performance obligations have been met under the respective contracts but have not yet settled. These amounts are recognised as accrued income. ERM Power has elected to apply the practical expedient available under AASB 15 to not disclose any future unsatisfied performance obligations under respective off-take agreements.

iii) *Energy solutions products and services*

Energy solutions products and services includes the sale of products and services such as lighting solutions, data analytics and energy monitoring, metering and demand response income. Revenue is apportioned to these contracts based on the estimated stand-alone selling price of goods or services provided. Revenue from customer sales contracts is recognised at the point that relevant performance obligations are satisfied, which will vary dependent on the product or service provided and may include product installation or access to energy management software. For any contracts that are recurring in nature such as annual subscriptions, an income in advance liability is recorded within accrued expenses for revenue received in advance and revenue is recognised over the term of the contract.

iv) *Consulting fees and other revenue*

Revenue is apportioned to these contracts based on the estimated stand-alone selling price of goods or services provided. Consulting fee revenue and other income are recognised at the point that relevant performance obligations are satisfied. For any contracts that are recurring in nature such as annual licences, a liability is recorded for revenue received in advance and revenue is recognised over the term of the contract.

v) *Renewable energy certificates*

Revenue from the sale of renewable energy certificates is recognised when the relevant contractual performance obligations have been met. These performance obligations will generally include transfer of scheme certificates from the scheme registry of the seller to the scheme registry of the buyer. The stand-alone selling price for certificates sold is referenced within each sales contract. The sale of renewable energy certificates is included in commodity product sales.

vi) *Sale of gas*

Revenue from the sale of gas to wholesale market counterparties is recognised at the point at which the title passes to the buyer. The sale of gas is included in commodity product sales.

Key judgments and estimates

Accrued income receivable

Revenue from the sale of electricity is estimated where a customer invoice has not been raised at balance date. Where an invoice is raised shortly after balance date or customer meter data is available, this data is used to form the estimate of revenue. Where an invoice is not raised immediately after balance date and customer meter data is not available the revenue estimate is derived from an estimate of average daily electricity usage based on historical patterns as well as average pricing.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

4. INCOME TAX

		CONSOLIDATED	
		Half year ended	
		31 December 2017	31 December 2016
		\$'000	\$'000
Numerical reconciliation of prima facie tax benefit to prima facie tax			
Profit from continuing operations		79,451	29,967
Income tax expense calculated at 30%		23,835	8,990
Other income taxes		193	93
Net effect of expenses that are not deductible in determining taxable profit		162	190
Clean Energy Regulator shortfall charge	(i)	-	36,637
Difference in overseas tax rates		(226)	500
Change in overseas tax rate	(ii)	6,090	-
Other items		(161)	-
Income tax expense		29,893	46,410

- (i) During the half year period ended 31 December 2016, the Company took the commercial decision to incur a non-deductible charge of \$65 per certificate in lieu of surrendering 1.9m large-scale generation certificates. The total cost was \$123m before tax.
- (ii) Change in US federal tax rate from 35% to 21% effective from 1 January 2018.

5. BORROWINGS

		CONSOLIDATED	
		31 December 2017	30 June 2017
		\$'000	\$'000
Current			
<i>Secured</i>			
Bank loans - Receivables financing facility	(i)	16,751	-
Total secured borrowings		16,751	-
<i>Secured limited recourse</i>			
Bank loan - Neerabup working capital facility	(ii)	3,000	3,000
Bank loans - Neerabup term facility (current portion)	(iii)	5,559	5,264
Total limited recourse borrowings		8,559	8,264
Total current borrowings		25,310	8,264
Non-current			
<i>Secured limited recourse</i>			
Bank loans - Neerabup term facility	(iii)	127,449	130,190
Convertible notes	(iv)	51,247	50,463
Total non-current borrowings		178,696	180,653
Total borrowings		204,006	188,917

- (i) Amounts drawn down on receivables financing facility secured against billed and unbilled customer electricity revenue receivable.
- (ii) Amounts drawn down on a limited recourse bank working capital facility by Neerabup Partnership. This debt has recourse to the assets of Neerabup Partnership only.
- (iii) Amounts drawn down on a limited recourse term debt facility in respect of the Neerabup Partnership. This debt has recourse to the assets of Neerabup Partnership only.
- (iv) Convertible notes are redeemable by the issuer from 30 September 2010 until maturity in February 2023. Notes have a coupon rate that is variable based on BBSY plus 4%. The notes are accounted for using the effective interest method at 7.67% (30 June 2017: 7.78%). The notes can only be converted to shares in the issuing subsidiary upon failure to redeem them at maturity or other named event of default. The notes have recourse to the Group's 50% interest in the Neerabup partnership only.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

6. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

Fair value of financial assets and liabilities

The fair value of financial assets and financial liabilities must be estimated for recognition, measurement and disclosure purposes. The carrying amounts and estimated fair values of all the Group's financial instruments recognised in the financial statements are materially the same, with the exception of the following:

	CONSOLIDATED	
	31 December 2017 \$'000 Carrying value	31 December 2017 \$'000 Fair value
Financial assets		
Electricity and gas derivative financial instruments	280,717	307,094
	280,717	307,094

The carrying value of derivative financial assets recognised excludes a day one gain on certain electricity derivatives. In accordance with the Group's accounting policy, a day one gain has not been recognised with the day one value of certain instruments entered into initially valued at the transaction price, which is the best indicator of fair value. Any gain subsequently realised is progressively recognised as the instruments are settled. The measurement of the instruments at 31 December 2017 excludes the remaining balance of the deferred day one gain of \$26.4m. At inception the day one gain was \$31.9m. The movement in the day one gain balance relates to settlement of derivatives through profit and loss during the period.

Key judgments and estimates

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement and for disclosure purposes. The financial assets and liabilities held by the group and the fair value approach for each is outlined below:

Financial asset and liability	Fair value approach
<i>Cash and cash equivalents</i>	The carrying amount is fair value due to the asset's liquid nature.
<i>Derivative financial instruments</i>	<p>The fair value of derivative instruments included in hedging assets and liabilities is calculated using quoted prices. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods, such as discounted cash flows, and makes assumptions that are based on market conditions existing at each balance date. These amounts reflect the estimated amount which the Group would be required to pay or receive to terminate (or replace) the contracts at their current market rates at balance date.</p> <p>Where the derivative instrument life extends beyond the period of available market data valuation techniques and assumptions are used in the fair value estimate.</p>
<i>Other financial assets</i>	Due to their short-term nature, the carrying amounts of loans, receivables, and cash and cash equivalents approximate their fair value.
<i>Other financial liabilities at amortised cost</i>	The Group holds various trade payables and borrowings at period end. Due to the short-term nature of the trade payables the carrying value of these are assumed to approximate their fair value. The fair value of borrowings is not materially different then the carrying amounts as the interest rates are close to current market rates or are short-term in nature.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

6. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following tables present the Group's assets and liabilities measured and recognised at fair value at 31 December 2017 and 30 June 2017.

As at 31 December 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Electricity and commodity derivatives	371	280,346	-	280,717
Foreign exchange derivative contract	-	3	-	3
Financial assets at fair value through other comprehensive income	15	-	-	15
Total assets	386	280,349	-	280,735
Liabilities				
Electricity and commodity derivatives	5,284	23,415	-	28,699
Interest rates swaps	-	31,534	-	31,534
Total liabilities	5,284	54,949	-	60,233

As at 30 June 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Electricity and commodity derivatives	8,871	397,705	-	406,576
Foreign exchange derivative contract	-	30	-	30
Financial assets at fair value through other comprehensive income	15	-	-	15
Total assets	8,886	397,735	-	406,621
Liabilities				
Electricity and commodity derivatives	7,983	59,547	-	67,530
Interest rates swaps	-	33,812	-	33,812
Total liabilities	7,983	93,359	-	101,342

Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price.

Level 2

The fair values of financial instruments that are not traded in an active market are determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used to estimate fair value for long-term debt for disclosure purposes. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

Level 3

A valuation technique for these instruments is based on significant unobservable inputs.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. For the periods ending 31 December 2017 and 30 June 2017 there were no transfers between the fair value hierarchy levels.

Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2017 and 30 June 2017. The column 'net exposure' shows the impact on the Group's balance sheet if all set-off rights were exercised.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

6. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The below table provides a reconciliation of the Group's gross financial assets and liabilities offset to those presented on the consolidated statement of financial position as at 31 December 2017 and as at 30 June 2017.

As at 31 December 2017

\$'000	Gross carrying amount (before offsetting)	Gross amounts offset	Cash collateral and futures margin deposits received	Net amount presented	Related amounts not offset Financial instruments ⁽ⁱ⁾	Cash collateral	Net exposure
Financial assets							
Electricity and commodity derivatives	521,487	(152,734)	(88,036)	280,717	(6,722)	-	273,995
Foreign exchange derivative contract	3	-	-	3	-	-	3
Total	521,490	(152,734)	(88,036)	280,720	(6,722)	-	273,998
Financial liabilities							
Electricity and commodity derivatives	181,433	(152,734)	-	28,699	(6,722)	253	22,230
Interest rate swaps	31,534	-	-	31,534	-	-	31,534
Total	212,967	(152,734)	-	60,233	(6,722)	253	53,764

As at 30 June 2017

\$'000	Gross carrying amount (before offsetting)	Gross amounts offset	Cash collateral and futures margin deposits received	Net amount presented	Related amounts not offset Financial instruments ⁽ⁱ⁾	Cash collateral	Net exposure
Financial assets							
Electricity and commodity derivatives	547,777	(78,192)	(63,009)	406,576	(3,925)	(46,462)	356,189
Foreign exchange derivative contract	30	-	-	30	-	-	30
Total	547,807	(78,192)	(63,009)	406,606	(3,925)	(46,462)	356,219
Financial liabilities							
Electricity and commodity derivatives	145,948	(78,192)	(226)	67,530	(3,925)	1,340	64,945
Interest rate swaps	33,812	-	-	33,812	-	-	33,812
Total	179,760	(78,192)	(226)	101,342	(3,925)	1,340	98,757

(i) Financial instruments that do not meet the criteria for offsetting but may be offset in certain circumstances.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

7. CONTRIBUTED EQUITY

	Note	CONSOLIDATED		CONSOLIDATED	
		31 December 2017	30 June 2017	31 December 2017	30 June 2017
		Number of shares	Number of shares	\$'000	\$'000
Issued ordinary shares – fully paid	7(a)	257,160,616	252,708,202	353,168	346,621
Treasury shares	7(b)	(7,553,999)	(7,648,455)	(10,349)	(11,609)
		249,606,617	245,059,747	342,819	335,012
(a) Movement in ordinary share capital					
At the beginning of the period		252,708,202	245,836,004	346,621	339,669
Issue of shares – employee incentive scheme		3,948,853	5,588,171	6,840	5,606
Issue of shares – dividend reinvestment plan		503,561	1,284,027	673	1,301
Transfer from share based payment reserve		-	-	2,968	304
Transfer to treasury shares		-	-	(3,934)	(259)
At the end of the period		257,160,616	252,708,202	353,168	346,621

(b) Terms and conditions of contributed equity

Ordinary shares

During the half year period ended 31 December 2017, there were no capital raisings undertaken.

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Treasury shares

Treasury shares are unvested shares in ERM Power Limited that are held in trust for the purpose of employee incentive schemes.

Dividend reinvestment plan

The Company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash.

Employee Incentive scheme and Options

The share based payments accounting policies adopted in this half year report are consistent with those of the previous financial year.

Recognition and measurement

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

8. DIVIDENDS PAID AND PROPOSED

	Cents per share	Total amount \$'000	Franking percentage	Date of payment
2016 Final dividend paid	6.0	15,014	0%	6 October 2016
2017 Final dividend paid	3.5	8,943	100%	10 October 2017
2018 Interim dividend proposed	3.5	9,001	100%	6 April 2018

The interim dividend proposed is subject to variations in the number of shares up to record date. This dividend has not been recognised as a liability as at 31 December 2017 and will be recognised in subsequent consolidated financial statements.

Franking credits available at 31 December 2017 are \$34.3m (30 June 2017: \$10.9m).

9. COMMITMENTS AND CONTINGENCIES

CONSOLIDATED

31 December 2017 \$'000	30 June 2017 \$'000
-------------------------------	---------------------------

(a) Capital expenditure commitments

Estimated capital expenditure contracted for at balance date, not provided for but payable (including share of associates and joint ventures):

– not later than one year	10,284	7,517
– later than one year and not later than five years	-	138
– later than five years	-	-
	<u>10,284</u>	<u>7,655</u>

(b) Contingent liabilities

Details of contingent liabilities are set out below. The directors are of the opinion that provisions are not required in respect of these items as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

CONSOLIDATED

		31 December 2017 \$'000	30 June 2017 \$'000
Bank guarantees - Australian Energy Market Operator and other counterparties	(i)	244,982	208,162
Bank guarantees - lease arrangements	(ii)	2,915	2,915
Security deposits	(iii)	5	1,345
Bank guarantees - Western Power	(iv)	300	300
		<u>248,202</u>	<u>212,722</u>

- (i) The Group has provided bank guarantees in favour of the Australian Energy Market Operator to support its obligations to settle electricity purchases from the National Electricity Market. Bank guarantees have also been provided to various counterparties in relation to electricity derivatives. A portion of the guarantees are supported by term deposits. \$196m of the bank guarantees are supported by non-cash backed guarantees (30 June 2017: \$150m).
- (ii) The Group has provided bank guarantees in relation to lease arrangements for premises in Brisbane, Sydney, Melbourne and Perth. These guarantees are supported by term deposits.
- (iii) Security deposits represent interest bearing cash lodged as eligible credit support with various counterparties to the Group's electricity derivative contracts and may be retained by those counterparties in the event that the Group does not meet its contractual obligations.
- (iv) The Group has provided a bank guarantee in favour of Western Power. This can be called upon if the Neerabup partnership fails to pay its monthly transmission invoices.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

10. RELATED PARTY DISCLOSURES

Transactions with Sunset Power International Pty Ltd

A subsidiary of the Company, ERM Power Retail Pty Ltd ("ERM"), has entered into a long term electricity swap contract with the Vales Point power station in New South Wales to hedge electricity purchases in relation to its eastern state electricity load from the NEM. The power station is 100% owned by Sunset Power International Pty Ltd ("Sunset") which in turn is owned and controlled by Trevor St Baker.

The swap contract was entered into on 20 November 2015 and finalised in February 2016. The contract terms and conditions are no more favourable to Sunset than those that it is reasonable to expect ERM would have adopted if dealing at arms-length with an unrelated person and are not adverse to ERM. The components of the contract are as follows:

- Firm flat swap sold to ERM priced at market prices (based on market observed ASX 24 Energy contract prices)
- Firm peak swap sold to ERM priced at market prices (based on market observed ASX 24 Energy contract prices)
- Call option for ERM to purchase additional off-peak swaps
- Call option for ERM to purchase additional peak swaps
- Reallocation and capital efficiency payments over the term of the contract

ERM have access to the respective hedge volumes under the agreement out to 31 December 2022. The total premiums payable for the option over the period 1 January 2018 to 31 December 2022 is \$4.8m.

All accounts receivable are within payment terms of the agreement and no impairment loss has been recognised during the period in relation to the transaction. The agreement expires on 31 December 2022 and under the agreement ERM is expected to hedge approximately 17% of ERM's electricity load sales over the term of the agreement prior to exercise of any of the available options.

As at 31 December 2017 net assets of \$191.2m have been recognised in relation to the above transaction comprising the following:

MTM of electricity swaps of \$126.4m of which \$110.6m is current

MTM of electricity options of \$50m of which \$23.7m is current

Accrued income of \$14.8m

During the period ended 31 December 2017 total net receipts of \$87.9m were recognised in profit and loss in respect of the swap agreement.

Under the terms of the swap agreement Sunset has posted a bank guarantee in favour of ERM for \$8.5m. The guarantee is accessible under a range of financial risk events.

Other related party transactions

In the normal course of business the Company enters into the following transactions with related parties:

- Project management and operations management fees are charged to jointly controlled entities;
- Interest is paid on shareholder loans; and
- Directors' personal travel insurance is provided under standard terms of a directors and officers business travel insurance policy taken out by the Company. Cover under this policy for directors' personal travel is provided by the insurer at no additional cost to the Company.

There is no impaired receivables in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from related parties.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2017

11. STATUTORY EARNINGS PER SHARE

	CONSOLIDATED	
	31 December 2017 Cents	31 December 2016 Cents
<i>Basic earnings / (loss) per share</i>		
From continuing operations attributable to the ordinary equity holders of the company	20.03	(6.75)
From discontinued operation	-	(0.98)
Total basic earnings per share attributable to the ordinary equity holders of the company	20.03	(7.73)
<i>Diluted earnings / (loss) per share</i>		
From continuing operations attributable to the ordinary equity holders of the company	19.39	(6.57)
From discontinued operation	-	(0.96)
Total diluted earnings per share attributable to the ordinary equity holders of the company	19.39	(7.53)
<i>Underlying earnings / (loss) per share</i>		
From continuing operations attributable to the ordinary equity holders of the company	3.75	(20.92)

Calculation methodology

Basic earnings per share and underlying earnings per share are calculated by dividing the profit measure attributable to owners of the Company, by the weighted average number of ordinary shares outstanding during the period and excluding treasury shares.

Diluted earnings per share are calculated the same way as basic earnings per share including the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Options granted are considered to be potential ordinary shares and taken into account in the determination of diluted earnings per share. They are not included in the determination of basic earnings per share.

12. SUBSEQUENT EVENTS

Consistent with the Company's capital management framework, on 22 February the Company announced an on-market share buy-back of up to \$20 million. The buy-back will commence in March 2018.

Other than the above matters there have been no matter or circumstance that has arisen since 31 December 2017 that has significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in the future.

ERM Power Limited

Directors' Declaration

In the opinion of the directors of ERM Power Limited (the Company):

- (a) the financial statements and notes set out on pages 20 to 39 are in accordance with the *Corporations Act 2001*, including:
- i. giving a true and fair view of the financial position of the consolidated entity as at 31 December 2017 and of its performance for the half year then ended; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Tony Bellas

Chairman

22 February 2018



Independent auditor's review report to the members of ERM Power Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of ERM Power Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half-year ended on that date, selected explanatory notes and the directors' declaration for ERM Power Limited. The consolidated entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of ERM Power Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of ERM Power Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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A handwritten signature in black ink, appearing to read 'Michael Shewan'.

Michael Shewan
Partner

Brisbane
22 February 2018

Corporate Information

Directors

Tony Bellas (Non-Executive Chairman)
Albert Goller
Georganne Hodges
Tony Iannello
Philip St Baker
Wayne St Baker
Jon Stretch (Managing Director and CEO)

Company Secretaries

Phil Davis
Suzanne Irwin

Registered Office

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Principal Place of Business

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Brisbane QLD 4000
Telephone: (07) 3020 5100
Facsimile: (07) 3220 6110

Bankers

National Australia Bank Limited
Macquarie Bank Limited
Australia and New Zealand Banking Group Limited

Auditors

PricewaterhouseCoopers

Internet Address

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