ASX Announcement

Thursday, 21 February 2019

FY2019 Half Year Appendix 4D and Financial Report

Please find attached the following documents relating to ERM Power's results for the six months ended 31 December 2018:

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 load[1]. 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. The Company operates 662 megawatts of low emission, gas-fired power stations in Western Australia and Queensland.

[1] 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 2018

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 2019 $'000**	**1H 2018 $'000**
1.1. Revenue from ordinary activities:					
1.1.1 Revenue from ordinary continuing activities:					
ERM Power Limited and controlled entities	up	3%	to	1,585,579	1,533,528
1.2. Profit from ordinary continuing activities:					
1.2.1. Underlying EBITDAF*:					
ERM Power Limited and controlled entities	down	-5%	to	47,339	49,613
(*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	down	-13%	to	14,896	17,213
(**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	38%	to	68,977	49,809

2. Dividend

A fully franked interim dividend of 4.5 cents per share has been declared and will be paid on 17 April 2019. Record date is 27 March 2019. The Company's shares will trade ex-dividend from 26 March 2019.
A fully franked dividend of 4 cents per share was declared on 23 August 2018 and paid on 10 October 2018 to shareholders on record at 17 September 2018. The Company's dividend reinvestment plan (DRP) did not apply to this dividend.
A fully franked special dividend of 3 cents per share has been declared and will be paid on 17 April 2019. Record date is 27 March 2019. The Company's shares will trade ex-dividend from 26 March 2019.

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 2019 Cents**	**1H 2018 Cents**
Net tangible assets (cents per share)	128	169

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

During the period 1 July 2018 to 31 December 2018 the Company did not lose control of any entities, but gained control of:
- Out Performers Pty Ltd
- Out Performers Unit Trust
- Out Performers Trading Pty Ltd
- Out Performers Trading Unit Trust
- Out Performers Project Services Pty Ltd
- Out Performers Project Services Unit Trust
- CCM Energy Solutions Pty Ltd
- CCM Energy Solutions Unit Trust

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%)

Half Year Financial Report for the period ended 31 December 2018

ERM Power Limited
ABN 28 122 259 223

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ERM Power Limited and Controlled Entities

ABN 28 122 259 223

Operating and Financial Review

For the half year ended 31 December 2018

Contents

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[1]. 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. 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 half year ended 31 December 2018 with comparison against the previous corresponding period ended 31 December 2017 (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.

[1] Based on ERM Power analysis of latest published information

Half Year Highlights

Underlying NPAT[1]	Underlying EBITDAF[1]	Statutory NPAT	Declared 1H FY2019 Dividend (fully franked)	Special Dividend (fully franked)
$14.9m	$47.3m	$69m[2]	4.5cps	3cps
($17.2m 1H FY2018)	($49.7m 1H FY2018)	$49.8m 1H FY2018	1H FY2018 3.5cps	Payable in April

[1] All figures continuing operations unless otherwise stated

[2] Includes unrealised net fair value gains of $62.3m on financial instruments designated at fair value through profit and loss after tax and a loss from US discontinued operations of $7.7m

Highlights

Highlights for the period include:

- Divestment of US business, Source Power & Gas, completed with sale proceeds of A$37.2m received
- Acquisition of Out Performers completed in line with the strategy to deploy capital to expand the Energy Solutions business
- Electricity Sales 8.9TWh. Forward sales increased 3% to 29.9TWh 1HFY2019
- Net cash position at 31 December (excluding Neerabup project financing) of $78.6m (an increase of $187.3m)
- Capital Management Program updated:
  - Ordinary dividend annual base level reset from 7c (fully franked) to 9c (fully franked) for FY2019 subject to continued market environment
  - Capital reserved for organic and inorganic growth increased to $60m (from $40m in February 2018)
  - On market share buyback continued up to $15m
  - Special dividend of 3cps fully franked declared

Updated outlook

ERM Power delivered a strong first half result in FY2019 driven by improved gross margin in the core Australian Commercial and Industrial (C&I) Retail business. Outlook for the full year is ahead of expectations. The progress for the key drivers against outlook for FY2019 is shown below. We expect gross margin in the Australian retail business to outperform based on performance in the first half and over the summer months and accordingly have upgraded our outlook to a gross margin of $5.10/MWh for FY2019, with upside potential. Similarly, we have increased our medium-term gross margin range from $4.00-$5.50/MWh to $4.50-$6.00/MWh based on the strong performance of our forward book of business.

		FY2019 Outlook 23 August 2018	FY2019 Outlook 21 February 2019	Progress from August 2018 Outlook
Australia Retail	**Sales volume**	~19TWh	~18TWh	x outlook revised
	Gross margin	~$4.75[1]/MWh	~$5.10[1]/MWh	✓ on track
	Opex	~$22m	~$22m	✓ on track
	LGC strategy	$35m-$45m NPAT FY2019/2020	~$16m NPAT FY2019 ~$21m NPAT FY2020	✓ on track
	Medium term gross margin range	$4.00-$5.50/MWh over the FY2019 – FY2021 period	$4.50-$6.00/MWh over the FY2019 – FY2021 period	✓ on track

[1] Gross margin excludes the impact from LGC strategy.

		FY2019 Outlook 23 August 2018	FY2019 Outlook 21 February 2019	Progress from August 2018 Outlook
Generation	Oakey EBITDAF[2]	$14-$16m	$14-$16m	✓ on track
	Neerabup EBITDAF[2]	~$26m	~$26m	✓ on track
Energy Solutions	Revenue - Excl Out Performers - Incl Out Performers	~+50% on FY2018	~+50% on FY2018	x at risk ✓ on track
	EBITDAF - Excl Out Performers - Incl Out Performers	($2.5)m	~($2.5)m	x at risk ✓ on track
Corporate and Capital expenditure	Corporate EBITDAF	~($16)m	~($17)m	✓ on track
	Capital Expenditure	N/A	~($21)m	

[2] FY2019 outlook includes $1.6m generation overhead expenditure

1H FY2019 Financial summary

Underlying EBITDAF from continuing operations for the Group decreased $2.4m on prior period EBITDAF of $49.7m. EBITDAF decreased principally due to lower earnings from the Oakey power station of $3.1m during the half (1H FY2018: $6.2m) and higher corporate costs of $8.6m (1H FY2018: $7.1m) as the business increased IT spend to drive process improvements. Oakey power station remains on track to deliver FY2019 EBITDAF guidance of $14-$16m. EBITDAF from the Australian electricity retail business increased $3.6m on the comparative period, driven by both higher gross margin and lower operating costs per MWh of electricity sold.

Underlying NPAT decreased $2.3m as a result of the above EBITDAF movements and higher net finance costs. Finance costs were $1.4m higher as a result of the December 2017 increase in the working capital facility, which is used to fund customer receivables in the Australian electricity retail business.

The sale of the US business was completed during the period and a loss on sale of A$0.6m after tax is reflected in the overall loss from discontinued operations of $7.7m. Cash proceeds received from the sale were A$37.2m and transaction costs were A$3m with the value of goodwill, customer acquisition costs and derivative financial instruments sold written off against sale proceeds. Net operating losses during the period were A$4.4m and management expect to incur further costs of approximately $4.2m during 2H FY2019 as the business is wound up. Included within the loss from discontinued operations is a number of non-cash one-off items as shown in appendix A1.2.

Statutory NPAT was a profit of $69m and differs to underlying NPAT largely due to the unrealised net fair value movement in financial instruments. The after-tax impact of the unrealised fair value movement of $62.3m is a result of increasing wholesale market electricity prices during 1H FY2019 on derivative instruments largely in place to manage exposures on future customer contracts which have offsetting movements, which are not included for accounting purposes. Statutory NPAT also includes the discontinued operations statutory loss results of $7.7m.

Review of Operating and Financial Results

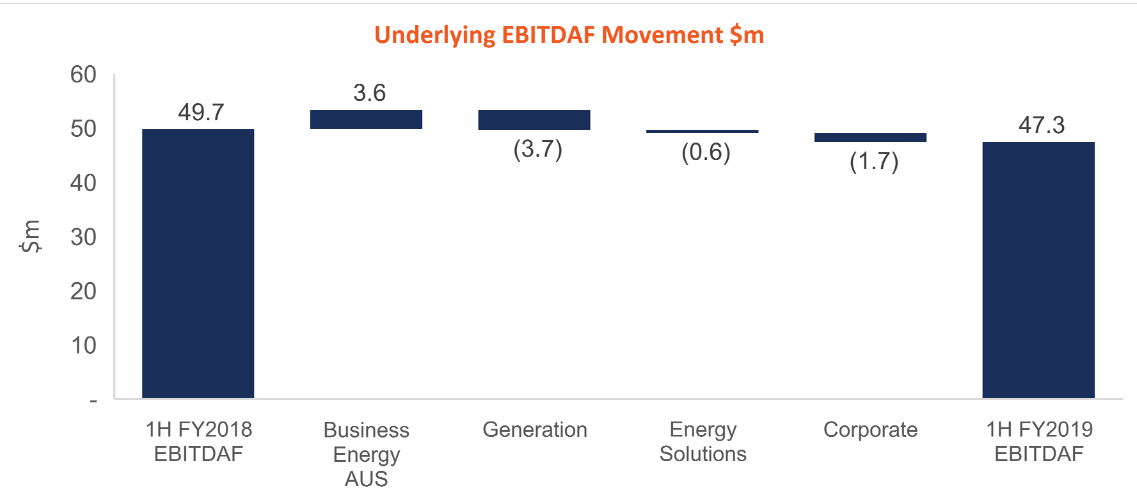
1. Summary of Group financial results

1.1 Performance summary

$m	1H FY2019	1H FY2018[1]	Change	%
Business Energy Australia	41.3	37.7	3.6	10%
Generation	16.9	20.6	(3.7)	(18%)
Energy Solutions	(2.4)	(1.8)	(0.6)	(33%)
Corporate and other	(8.5)	(6.8)	(1.7)	(25%)
Underlying EBITDAF continuing operations	**47.3**	**49.7**	**(2.4)**	**(5%)**
Significant items	(0.6)	-	(0.6)	100%
Statutory EBITDAF continuing operations	**46.7**	**49.7**	**(3.0)**	**(6%)**
Depreciation and amortisation	(13.9)	(14.2)	0.3	2%
Net fair value gain on financial instruments	89.0	58.5	30.5	52%
Share of associate profit / (loss) (net of tax)	-	0.6	(0.6)	(100%)
Finance income	1.7	1.7	-	N/A
Finance expense	(13.8)	(12.4)	(1.4)	(11%)
Profit before tax	**109.7**	**83.9**	**25.8**	**31%**
Tax expense	(33.0)	(25.2)	(7.8)	(31%)
Loss from discontinued operations	(7.7)	(8.9)	1.2	13%
Statutory net profit after tax (NPAT)	**69.0**	**49.8**	**19.2**	**38%**
Add back:				
Net fair value gain on financial instruments (net of tax)	(62.3)	(40.9)	(21.4)	52%
Share of associate (profit) / loss (net of tax)	-	(0.6)	0.6	(100%)
Loss from discontinued operations	7.7	8.9	(1.2)	13%
Significant items (net of tax)	0.5	-	0.5	100%
Underlying NPAT continuing operations	**14.9**	**17.2**	**(2.3)**	**(13%)**
Underlying earnings cents per share	**5.99**	**6.96**	**(0.97)**	**(14%)**

[1] 1H FY2018 figures restated to exclude US operations, which are included within discontinued operations following a decision to sell the business in FY2018.

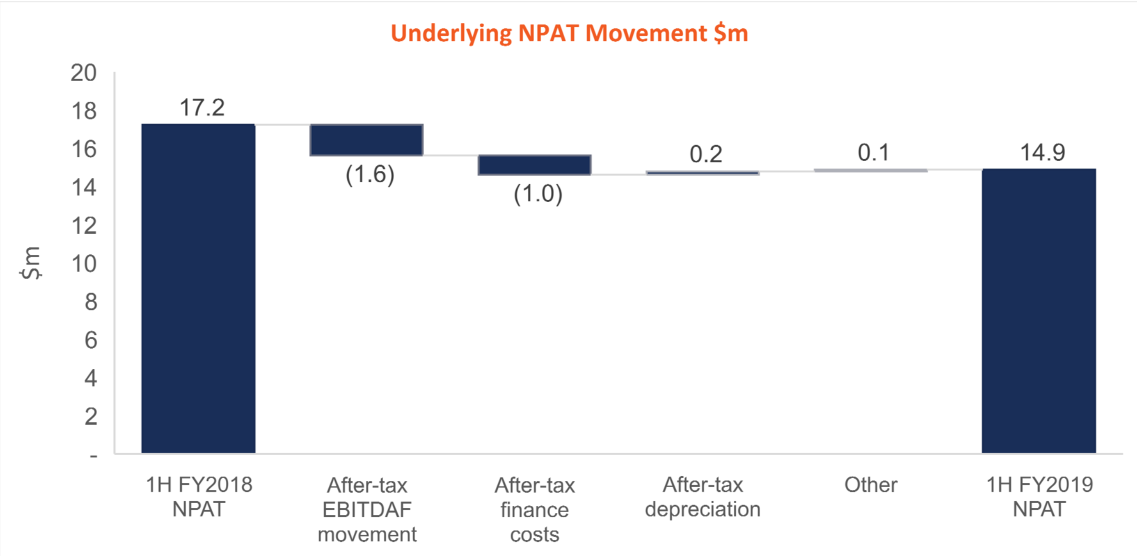
1.2 Underlying profits from continuing operations



Underlying EBITDAF from continuing operations for the year was $47.3m compared to $49.7m in the comparative period. The key drivers of the $2.4m decrease were as follows:

- Business Energy Australia earnings increased by $3.6m on the comparative period. During the period gross margin per MWh increased by $0.64/MWh (13%) with strong performance across all areas of Retail operations. Operating costs declined by $1.1m driven partly by a reduction in bad debts.

- Generation earnings decreased by $3.7m on the comparative period with Oakey earnings $3.1m lower as a result of supressed prices and low volatility in the Queensland market during the half. Neerabup earnings decreased $0.6m on the comparative period with lower merchant revenue during the period. Oakey and Neerabup remain on track to deliver full year performance in line with guidance.
- Energy Solutions made an EBITDAF loss of $2.4m, an increase of $0.6m on the comparative period loss of $1.8m. Revenue for the period was $9.7m, including revenue of $2.1m from the Out Performers business, acquired in September 2018. The decrease in underlying revenue was due to the business generating more revenue from smaller but more profitable advisory work, which also saw a corresponding increase in gross margin profit. Operating costs were $2.1m higher with Out Performers operating costs of $1.1m and higher staffing costs as the business continues to build capability across the business development and advisory functions.
- Net corporate and other costs increased by $1.7m on the comparative period, mainly as a result of increased IT costs as the business invested in IT capability to develop technology solutions and improved processes across the Group.



Underlying NPAT from continuing operations was a profit of $14.9m, a decrease of $2.3m on the comparative period. The key drivers of the $2.3m decrease were as follows:

- Net after tax impact of EBITDAF movements of $1.6m; and,
- After tax impact of finance cost increase of $1.0m, mainly as a result of the December 2017 increase in the ANZ working capital, which is used to fund customer receivables in our Australian electricity retail business.

1.3 Cash flow

$m	Continuing operations 1H FY2019	Continuing and discontinued 1H FY2019	Continuing and discontinued 1H FY2018	Continuing and discontinued Change
Cash flow				
Operating cash flow before working capital changes	50.7	56.2	26.9	29.3
Net working capital changes	168.3	146.9	83.8	63.1
Operating cash flow	**219.0**	**203.1**	**110.7**	**92.4**
Total investing cash flow	(16.8)	6.0	(21.9)	27.9
Net drawdown / (repayment) of borrowings	(153.9)	(153.9)	14.2	(168.1)
Net repayment of leases	(2.2)	(2.4)	(2.1)	(0.3)
Finance costs	(12.6)	(18.1)	(16.0)	(2.1)
Dividends paid	(10.2)	(10.2)	(8.3)	(1.9)
Payments for shares bought back	(2.7)	(2.7)	-	(2.7)
Termination of US Sleever agreement	-	-	(5.1)	5.1
Effect of exchange rate changes on cash and cash equivalents	-	(0.2)	(0.6)	0.4
Increase in cash	**20.6**	**21.6**	**70.9**	**(49.3)**
Change in net cash / (debt)	**173.1**	**174.4**	**55.9**	**118.5**

Operating cash flow before working capital changes of $56.2m was $29.3m higher than the prior period due to higher earnings in the Australian retail business and a reduction in the tax payments made during the period. Comparative period tax payments were $27.9m higher as a result of the non-deductible LGC shortfall penalty charge incurred for the year ended 30 June 2017 and paid during 1H FY2018.

Net working capital changes saw the inflow of variation margin cash of $149m following wholesale market price changes during the period. The cash flow benefit in our Australian retail operations of lower inventory levels held than in the comparative period was offset by higher security deposits paid to wholesale market counterparties and the early payment of creditors triggered on the sale of the US business on 31 December 2018.

Net investing cash inflows increased $28m on the prior period as a result of receiving $34.2m in proceeds from the sale of the US business (net of transaction costs) and $1.3m for the sale of SME single site contracts. The purchase of the Out Performers business, net of cash acquired, saw cash outflows of $9.8m during the period. Investing cash flows in the prior period included additional capital spend associated with the Oakey power station overhaul.

Finance costs increased on the prior period as a result of higher load sold in our US operations during the period and the associated credit sleeving fees, an increase in bank fees relating to the increased use of the Liberty surety guarantee facility and the buyback of $2.7m of shares. Dividend payments also increased as the company increased its final FY2018 dividend to 4.0 cents per share (3.5 cents per share in the comparative period). The comparative period finance costs included termination fees of $5.1m paid to exit the previous US sleeving arrangement. Termination fees paid during 1H FY2019 to exit the current sleeving arrangement of $2.2m are reflected within transaction costs associated with the sale and are included within net investing cash flows.

Free cash increased by $139m to $206.6m primarily due to the utilisation of the Liberty Mutual guarantee facility and the ANZ facility to meet initial margin requirements on the futures exchange. Restricted cash correspondingly decreased by $104.6m as a result of the sale of the US business and associated release of funds and the aforementioned utilisation of the Liberty Mutual and ANZ guarantee facilities.

1.4 Balance Sheet

$m	1H FY2019	FY2018	Change
Balance sheet[1]			
Net assets (including assets held for sale)	375.5	249.5	126.0
Net working capital	(36.9)	(7.0)	(29.9)
Net capital employed including working capital	385.7	411.5	(25.8)
Net derivative balances	28.9	(14.3)	43.2
Net cash / (debt)	78.6	(108.7)	187.3
Free cash	206.6	67.6	139.0
Restricted cash	55.4	160.0	(104.6)
Borrowings	-	150.8	(150.8)
Borrowings – limited recourse	183.5	185.5	(2.0)

[1] Continuing operations only unless otherwise indicated

Net assets increased $126m from 30 June 2018. This was principally a result of an increase in net derivative balances of $43.2m following an increase in forward electricity market prices. A large portion of the movement was reflected in changes in the Group's hedge reserve while changes related to instruments not hedge accounted are reflected in profit and loss. Net cash increased principally from the inflow of variation margin cash posted in the group's favour of $149m and the net cash sale proceeds received of $34.2m on the sale of the US business. Further commentary on net debt is set out below.

Net working capital decreased overall due to an increase in the green emissions liability to account for the full calendar year surrender obligations, which was partially offset by an increase in security deposits posted to wholesale market counterparties and an increase in the green certificate inventory on hand.

Net debt decreased primarily as a result of favourable futures exchange variation margin movements resulting in cash being posted in the Group's favour, as shown in working capital changes in section 1.3 above. The positive movement in variation margin cash was a result of an increase in wholesale prices during 1H FY2019. In addition, changes to our financing facilities mentioned below, has allowed an increase to the level of bank guarantees issued to meet credit posting requirement, therefore reducing the Group's cash posting requirements. As a result, there was no cash utilisation of the ANZ receivables facility at 31 December 2018.

The Group's reported net debt is subject to fluctuations at balance date as a result the of timing of working capital items, in particular settlement timing of wholesale market and counterparty payables related to our electricity retailing business in Australia.

During 1H FY2019, the $300m facility with ANZ was increased by $20m commencing 1 January 2019, as well as the ability to temporarily reduce the facility limit under certain circumstances. In addition, the term of this facility was extended to July 2022. The $250m Liberty facility was also amended to increase the limit by $50m. In addition, the term of this facility was extended to July 2021. The changes to each of these facilities will support Business Energy Australia's working capital and collateral needs during peak capital periods, whilst ensuring capital efficiency, especially in periods of lower capital requirements.

Included within net debt above for 1H FY2019 is a cash balance of A$14.1m associated with the US operations. As the business is wound down and working capital items are settled we expect approximately A$25.2m of this cash to be repatriated for use in our Australian operations.

1.5 Capital management

$m	1H FY2019	1H FY2018	Change
Balance sheet			
Ordinary dividends paid (cents per share) during period	4.0	3.5	0.5
Franking percentage	100%	100%	-

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.

Buyback

On 22 February 2018 the Company announced an on-market share buy-back of up to $20 million. The buy-back commenced on 12 March 2018. At 31 December 2018 a total of 3.4m shares had been acquired at a weighted cost of $1.62 per share.

The company has retained $15m of capital at 31 December 2018 to continue to progress the buyback.

Ordinary dividend

A fully franked interim dividend of 4.5 cents per share for FY2019 was declared on 21 February 2019. A final FY2018 dividend of 4 cents per share was paid on 10 October 2018.

Special dividend

A fully franked special dividend of 3 cents per share was declared on 21 February 2019. The dividend is payable at the same time as the interim ordinary dividend on 17 April 2019. We see this as an efficient way to return surplus capital to shareholders while retaining capital for investment in further growth opportunities.

2. Divisional performance review

2.1 Business Energy Australia

ERM Power is the second largest electricity provider to C&I customers in Australia and the third largest retailer in the market. ERM Power has brought competition to the Australian market based on price and service; with a number 1 customer service ranking for eight years running[1].

Financial result

	1H FY2019	1H FY2018	Change
Load sold (TWh)	8.9	9.6	(0.7)
Contestable revenue ($'000)	1,012,193	920,938	91,255
Gross margin ($'000)	51,157	48,742	2,415
Opex ($'000)	(9,896)	(11,009)	1,113
Underlying EBITDAF ($'000)	41,261	37,733	3,528
Statutory EBITDAF ($'000)	41,261	37,733	3,528
Underlying gross margin $/MWh	5.72	5.08	0.64
Underlying opex $/MWh	(1.11)	(1.15)	0.04

Operational highlights

Forward contracted load grew 3% from 28.9TWh at 30 June 2018 to 29.9TWh reflecting our continued strong competitive position in the market.

During the half, there was a decline in C&I load, which fell by 6% from the prior half. The July to December period is typically a lower consumption period than the equivalent January to June period and with a relatively stable customer base, was as expected. ERM Power has been successful in winning the expected volume of new business in the first half, however the loss of two large low margin customers who moved to other suppliers at prices below our required rates of return, has impacted our full year load expectation by around 1TWh. These losses have contributed to the increase

[1] Refers to the Utility Market Intelligence (UMI) survey between 2011 and 2018 of large customers of major electricity retailers in Australia by independent research company NTF Group

in our expected $/MWh gross margins for the year and demonstrate our discipline in pricing at economic levels to meet appropriate return requirements.

Our C&I small site division (multisite SME) has rebounded strongly to have 25,247 sites under contract at 31 December. Total load sold was 8.9TWh across C&I large and small sites.

The annual NTF Group UMI survey[1] of C&I electricity customers saw ERM Power again comfortably win the survey for the 8th year running with 88% of customers either satisfied or very satisfied. 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. The gap to our nearest competitor increased from 22 to 30 points highlighting the strength of our customer proposition in a difficult market.

The sale of our SME single site book, which comprised about 5,200 sites has now largely been completed with total sale proceeds expected to be around $4m once completed in March 2019.

Contract length in FY2019 YTD remained steady at 2.2 years. There remains a significant trend for larger customers to contract for shorter periods.

Our STEP online platform continues to resonate with customers with continued strong growth in customer numbers which are tracking to expectations due to strong interest from customers looking to spread the timing risk of their energy purchases. We expect this trend to continue as market dynamics remain volatile. In addition, over the next 12 months we will be progressively rolling out further enhancements to the product to further the appeal of this market leading product.

The Retail customer base has been a strong source of leads for the Energy Solutions division and we are increasingly seeing Retail customers show interest in Energy Solutions offerings to assist them in managing their energy costs.

Financial performance

Continued strong operating performance across the business resulted in an increase on the prior year in gross margin per MWh. Value derived from underlying sales performance, through pricing, portfolio optimisation and from the Vales Point offtake agreement all contributed to a gross profit margin of $5.72/MWh which was above the full year outlook provided in August 2018. Due to the strong performance in the value of the forward book, we have lifted our medium-term gross margin outlook for the FY2019-FY2021 period from $4.00-5.50/MWh to $4.50-6.00/MWh.

During the period a number of electricity futures contracts were settled early for portfolio optimisation reasons resulting in significant additional costs being incurred during 1H FY2019. These costs are included in the reported gross margin in the period of $5.72/MWh. 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.

Operating expenditure decreased $1.1m on the prior year, driven largely by an improvement in collectability of customer accounts receivable following the sale of SME single sites as well as other operating efficiencies achieved across the business.

2.2 Business Energy US

ERM Power's Houston-based energy retailing business, Source Power & Gas, served C&I customers in the ERCOT and PJM energy markets. These markets cover Texas and 13 other states in the north east and mid-west of the country. The business sale to Direct Energy Business LLC, a subsidiary of Centrica plc, was announced on 15th October 2018 and completed on 31st December 2018.

Financial result from discontinued operations

A$'000	1H FY2019	1H FY2018	Change
Underlying EBITDAF	1,672	1,447	225
Underlying NPAT[1]	(4,432)	(7,926)	3,494
Gain on sale before income tax and reclassification of foreign currency translation reserve	1,475		

[1] Significant items include the loss on sale of assets of $0.6m after tax, an onerous lease provision of $1.1m, impairment of PPE of $0.8m, and the write-down for non-recoverability of deferred tax assets of $0.8m. The comparative period earnings includes the after tax impact of mark to market movements of financial instruments of a $8.4m gain, termination costs in respect of exiting the businesses previous sleeving agreement of $3.3m and the effect of a change in federal tax rates in the US of $6.1m.

Operational performance

During the period, load of 3.8TWh was sold, up from 3TWh in the comparative period. Gross margin on load sold was A$3.11/MWh, a decrease on the comparative period gross margin of A$3.78/MWh. Operating costs increased $0.2m from $9.9m to $10.1m.

The underlying NPAT loss for the period was A$4.4m and includes finance costs, depreciation associated with PPE and tax charges but excludes any amortisation of customer contract assets that were held for sale during the period.

Divestment

Further costs of approximately A$4.2m are expected to be incurred during 2H FY2019 to complete the wind-up of the business. After receipt of remaining net working capital items, management expect to repatriate net cash of approximately A$25.2m after 31 December 2018. A summary reconciliation of the net sale proceeds to net cash forecast to be repatriated is shown in the table below.

A$'000	1H FY2019
Sale proceeds received	37,206
Transaction costs on sale[1]	(2,971)
Net sale proceeds	**34,235**
Net assets disposed and forecast sales price adjustment	(32,760)
Accounting gain on sale before tax and reclassification of foreign currency translation reserve	**1,475**
Net sale proceeds	**34,235**
Opening cash at 1 July 2018	12,822
Net loss from 1H FY2019	(4,432)
Customer brokerage costs paid during 1H FY2019[2]	(11,923)
Net forecast wind down costs from 1 January 2019	(4,186)
Forecast working capital and fx movements net of parent funding in FY2019[3]	(1,334)
Forecast cash to be repatriated from 1 January 2019[4]	**25,182**

1 Transaction costs include legal and professional fees and costs paid to terminate the sleeving arrangement in place
2 Customer brokerage costs paid under agreements to acquire customers are not amortised for accounting purposes while the operations are held for sale
3 Includes collection of accounts receivable and payment of all outstanding creditors and accounts payable during windup, net of parent funding during the period
4 Cash to be repatriated has been hedged with forward foreign exchange contracts to remove currency fluctuation risk

2.3 Generation

ERM Power has an interest of 497MW in two high quality power stations; Oakey and Neerabup (100% interest in the Oakey power station). ERM Power is the operator of both these power stations.

Financial result

$m	1H FY2019	1H FY2018	Change
External revenue and other income			
Oakey	30.7	18.8	11.9
Neerabup	16.7	18.6	(1.9)
Generation development and operations	0.8	0.7	0.1
	48.2	38.1	10.1
Underlying EBITDAF			
Oakey	3.1	6.2	(3.1)
Neerabup	13.9	14.5	(0.6)
Generation development and operations	(0.1)	(0.1)	-
	16.9	20.6	(3.7)

Operational highlights

Neerabup continued its outstanding operational performance during 1H FY2019 with 99.9% availability and no unplanned or forced outages.

The Western Australian electricity market FY2019 half year period was characterised by the continued increase in small-scale rooftop solar installations, with the total small-scale solar installed in the market reaching approximately 1GW. The rooftop solar has the effect of reducing the electricity demand in the middle of the day without impacting the peak demands in the morning and evening. With mild weather conditions, comparatively low generator outages, and additional generation from the low marginal cost large-scale wind and solar facilities, the electricity price in the 'day light' periods in the Wholesale Electricity Market continued to fall.

Neerabup, as a peaking power station, continued to be well placed to take advantage of the changing market conditions without being impacted by the falling daylight period demand. Low delivered gas prices and continued high electricity prices in the 'peaks' allowed Neerabup to continue to operate the facility at high generation levels. The station operated at 7.4% capacity over the period compared to 10.7% for the same period in FY2018, reflecting reduced generator outages and changes in generator pricing in the FY2019 period.

Oakey also performed exceptionally well with availability of 99.8%, and at 0.7% capacity (1H FY2018: 98.1% and 4% respectively). The National Electricity Market in which Oakey operates also saw a continued increase in the installations of roof top solar PV in Queensland, with the electricity demand falling in the daylight hours and an increase in electricity demand in the morning and evening peaks due to underlying demand growth. Oakey has successfully returned to reliable service following the major overhaul and control system upgrade completed during FY2018.

Safety performance at the sites has also remained an area of focus for staff and management with zero Lost Time Injuries across both power stations in 1H FY2019.

Financial performance

Underlying EBITDAF for Generation decreased by 18% relative to the comparative period.

While the majority of Neerabup's margin is protected by a long-term PPA contract, Neerabup also retains the ability to take advantage of merchant generation opportunities during the period. Weather conditions in Western Australia remained mild, however with low gas prices, strong electricity prices in the peak periods, and competing generator outages, conditions for merchant operation at Neerabup remained favourable albeit down on the comparative period. EBITDAF for Neerabup decreased by 4% due to a reduction in merchant operation compared to the prior corresponding period. There are a number of factors that influence the prevailing market price, including weather, generator outages, fuel, and generator pricing behaviour. Compared to 1H FY2018, spot gas prices continued to fall, there were fewer generation outages, and generator pricing from competitors reduced. Neerabup remains on track to achieve the stated outlook of $26m EBITDAF for the financial year.

Oakey Power Station's firm capacity and commercial flexibility is highly complementary with the increased renewable penetration in the National Electricity Market. Oakey's capability is leveraged by ERM Power's retail business to hedge load, with the combination of highly reliable firm capacity from Oakey and intermittent supply from renewable facilities providing excellent coverage over the day. The further ingress of renewables in Queensland is likely to increase the value of Oakey's firm capacity over the medium term. In additional to the sale of hedges to the retail business, Oakey supports other market participants through hedge products, and continues to retain some merchant exposure to wholesale electricity market prices.

For Oakey, the relative value of the wholesale electricity and gas markets play a key role in the operation and financial performance of the power station. During 1H FY2019 higher gas prices reduced merchant dispatch opportunities for the station. However, the higher gas prices across the eastern seaboard allowed additional gas sales and associated margin to be extracted, partially offsetting the lower electricity margin. While 1H FY2019 performance was lower than the prior corresponding period, the relative value of firm capacity, including hedge contracts in place for the summer period, and merchant opportunities for the remainder of the year are forecast to be higher. Accordingly, the EBITDAF outlook for Oakey remains on track to achieve between $14-$16m during the period.

2.4 Energy Solutions

ERM Power's Energy Solutions business provides an expanding portfolio of energy solutions to C&I business customers.

Financial result

$m	1H FY2019	1H FY2018	Change
Revenue (including internal segment sales)	9.7	9.7	-
Gross margin	6.5	5.0	1.5
Operating expenses	(8.9)	(6.8)	(2.1)
Underlying EBITDAF	(2.4)	(1.8)	(0.6)

Operational highlights

In 1H FY2019, the business focused on selling higher margin services, such as metering and advisory to input into our data analytic capability and create integrated solutions for customers as part of our Advise Deliver Track business model focus. The strong growth in these service units led to higher gross margin percentages compared to the previous period and increased the annual recurring revenue which provide greater sustainability for future period earnings. Australia's high wholesale electricity prices and greater awareness about the need to manage energy costs continues to drive customers to seek advice and energy efficiency solutions.

An increased focus on developing strategic client opportunities in the current period has led to a longer sales cycle than anticipated. This has resulted in lower revenues than expected during the half year, excluding the contribution from Out Performers. In addition, the establishment of a new delivery and installation process for Solpod has taken longer than expected and this has also had a negative impact in the current period.

The business continues to develop new products and strategic partnerships to ensure it can respond to a wide range of customer needs and grow the delivery and tracking revenue in future periods as the advisory function creates new opportunities. The lighting services unit is undergoing a restructure which will shift the sourcing of lighting hardware to an external partnership and reduce operating costs. Operating costs for the entire division have increased primarily due to the acquisition of Out Performers and headcount expansion required to build capability across the business development and advisory functions.

Out Performers acquisition

On 28 September 2018, ERM Power finalised the acquisition of independent engineering group, Out Performers. Out Performers delivers large and complex commercial and industrial energy efficiency projects aimed at the 300 largest energy users in the country. The Out Performers business brings technical expertise and services in energy advisory, project delivery and performance tracking for industrials combined with certificate creation and measurement and verification accreditation. These services complement and expand the existing Energy Solutions offering, capability and reach. During the period the acquired business contributed revenue and gross margin of $2.1m and $1.6m respectively. EBITDAF and NPAT contributed during the 3 months of ownership was $0.4m and $0.3m respectively.

Financial performance

Gross margins increased significantly as high margin services, such as advisory, digital and metering and the Out Performers business, made up a larger portion of total revenue. Total revenue remained constant, while gross margin grew by 30% over the past year with advisory, digital, metering and Out Performers services making up 69% of total revenue (1H 2018: 30%) and 89% of gross margin (1H 2018: 58%). Over 50% of the division's total revenues (1H 2018: 27%) are now recurring due to growth in metering services and minimal customer churn in digital services. Expanding the business development and advisory capacity of the business continues to be a key priority in FY2019 which led to an increase in operating costs.

Revenue in 2H FY2019 is expected to surpass the first half result, based on the division's order book at 31 December and some material opportunities that are expected to be awarded in the second half. Despite the expected revenue increase in the second half, management's target of 50% revenue growth in FY2019 is unlikely to be achieved given the first half performance. Full year EBITDAF loss including Out Performers is expected to range between $2.1m-$2.6m, excluding restructuring costs associated with the lighting division.

2.5 Corporate and other

Financial result

$m	1H FY2019	1H FY2018	Change
External revenue	0.1	0.3	(0.2)
Expenses	(8.6)	(7.1)	(1.5)
Underlying EBITDAF	(8.5)	(6.8)	(1.7)

Net corporate costs increased on the prior year largely driven by IT costs. Smaller increases in a number of other costs include additional marketing costs and strategy related transaction costs.

Appendices

A1.1 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 and 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 A1.2 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.

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.

A1.2 Reconciliation of underlying EBITDAF and underlying NPAT

1H FY2019

$m	Business Energy AU	Generation	Energy Solutions	Corporate and other	Group continuing operations	Discontinued operations[1]
Statutory EBITDAF	**41.3**	**16.9**	**(2.7)**	**(8.8)**	**46.7**	**1.7**
Significant items						
a) Write down of obsolete stock	-	-	0.3	-	0.3	-
b) Transaction costs	-	-	-	0.3	0.3	-
Total significant items	-	-	0.3	0.3	0.6	-
Underlying EBITDAF	**41.3**	**16.9**	**(2.4)**	**(8.5)**	**47.3**	**1.7**
Statutory NPAT	**84.6**	**3.1**	**(3.1)**	**(7.9)**	**76.7**	**(7.7)**
Significant items						
EBITDAF adjustments (above)	-	-	0.3	0.3	0.6	-
c) Gain on sale of US business assets	-	-	-	-	-	(1.5)
d) Reclassification of foreign currency translation reserve	-	-	-	-	-	(2.7)
e) Onerous lease provision	-	-	-	-	-	1.4
f) Impairment of PPE	-	-	-	-	-	1.0
g) Write-down of US deferred tax	-	-	-	-	-	0.8
Tax effect of significant item adjustments	-	-	(0.1)	-	(0.1)	4.3
Total significant items	-	-	0.2	0.3	0.5	3.3
Fair value loss on financial instruments net of tax	(61.2)	(1.1)	-	-	(62.3)	-
Associate loss after tax	-	-	-	-	-	-
Underlying NPAT	**23.4**	**2.0**	**(2.9)**	**(7.6)**	**14.9**	**(4.4)**

a) Write down of obsolete stock on restructure of lighting division operations.

b) Transaction costs associated with the acquisition of Out Performers.

c) Gain on sale of US business assets.

d) Non-cash reclassification of historical foreign currency translation differences in relation to the US business assets sold.

e) Impairment of the contract to lease office space in Sugarland, Texas.

f) Impairment of office equipment following the sale of the US business.

g) Write-down for non-recoverability of US deferred tax assets.

1H FY2018

$m	Business Energy AU	Generation	Energy Solutions	Corporate and other	Group continuing operations	Discontinued operations[1]
Statutory EBITDAF	**37.7**	**20.6**	**(1.8)**	**(6.8)**	**49.7**	**1.4**
Significant items	-	-	-	-	-	-
Underlying EBITDAF	**37.7**	**20.6**	**(1.8)**	**(6.8)**	**49.7**	**1.4**
Statutory NPAT	**59.7**	**7.2**	**(1.9)**	**(6.3)**	**58.7**	**(8.9)**
Significant items						
EBITDAF adjustments (above)	-	-	-	-	-	-
a) Termination of US sleever arrangement	-	-	-	-	-	5.1
b) Change in US tax rate	-	-	-	-	-	6.1
Tax effect of above adjustments	-	-	-	-	-	(1.8)
Total significant items	-	-	-	-	-	9.4
Fair value gain on financial instruments net of tax	(38.4)	(2.5)	-	-	(40.9)	(8.4)
Associate gain after tax	-	-	-	(0.6)	(0.6)	-
Underlying NPAT	**21.3**	**4.7**	**(1.9)**	**(6.9)**	**17.2**	**(7.9)**

a) Termination of US sleever arrangement.

b) Tax effect impact for the change in US tax rate.

[1]On 23 August 2018, the Group publicly announced the decision of its Board of Directors to sell the US business Source Power & Gas. A plan to sell was approved and actioned in June 2018 and the business was sold on 31 December 2018.

A1.3 Business Energy historical margins[1]

Underlying gross margin $/ MW	1H FY2019	2H FY2018	1H FY2018	2H FY2017	1H FY2017	2H FY2016	1H FY2016
Australia	5.72	4.72	5.08	7.24	0.73	3.93	4.49
US – discontinued operations	3.11	2.83	3.78	2.92	4.23	7.16	5.61
Underlying Opex $/ MWh							
Australia	(1.11)	(1.15)	(1.15)	(1.26)	(1.19)	(1.08)	(1.21)
US – discontinued operations	(2.67)	(3.22)	(3.30)	(4.36)	(4.70)	(6.13)	(6.82)
Load sold (TWh)							
C&I Australia	8.7	9.3	9.2	9.2	8.5	8.8	8.7
SME Australia	0.2	0.3	0.4	0.4	0.4	0.3	0.3
US – discontinued operations	3.8	3.3	3.0	2.6	2.0	1.3	1.1
Underlying EBITDAF ($'000)							
Australia	41,261	34,177	37,733	57,437	(4,078)	25,970	29,450
US – discontinued operations	1,672	(1,274)	1,447	(3,783)	(951)	1,276	(1,283)

[1]All comparative figures for the US discontinued operations include earnings for the residential business, which was sold during FY17.

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 and 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
WEM	Wholesale Electricity Market

Directors' Report

The directors submit their report for the half year period ended 31 December 2018. 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. Principal activities

The principal activities of the Group during the period were:

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

2. Operating results for the half year

A review of the operating results of the Group can be found in the Operating and Financial Review on pages 2 to 17.

3. Review of operations

A review of the operations of the Group can be found in the Operating and Financial Review on pages 2 to 17.

4. Business strategies and prospects

A review of the business strategies and prospects of the Group can be found in the Operating and Financial Review on pages 2 to 17.

5. Significant changes in the state of affairs

No matter or circumstance has arisen since 31 December 2018 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.

6. Events after balance date

Since 31 December 2018 there have been no other matters or circumstances not otherwise dealt with in the Financial Report that have significantly or may significantly affect the Group.

7. Likely developments and expected results

Apart from the matters referred to in the Operating and Financial Review on pages 2 to 17, information as to other likely developments in the operations of the Group and the expected results of those operations in subsequent financial periods has not been included in this report because the directors believe this could result in unreasonable prejudice to the Group.

8. Proceedings on behalf of the Company

No person has brought or intervened in on behalf of the Company with an application for leave under section 237 of the *Corporations Act 2001.*

9. Dividends

Subsequent to the period end, the directors have declared an interim dividend in respect of the 2019 financial year as follows:

Amount:	4.5 cents per share
Franking:	100% franked
Date Payable:	17 April 2019

Record date is 27 March 2019. The Company's shares will trade ex-dividend from 26 March 2019. The Company's dividend reinvestment plan ("DRP") will not apply to this dividend.

A fully franked special dividend of 3 cents per share was also declared on 21 February 2019. The dividend is payable at the same time as the interim ordinary dividend on 17 April 2019.

During the period, the Company paid a final fully franked dividend of 4.0 cents per share (2018: 3.5 cents fully franked).

10. Directors

The following persons were directors of the Company during the period and up to the date of this report unless otherwise indicated:

Anthony (Tony) Bellas	Independent Non-Executive Chair
Albert Goller	Independent Non-Executive Director
Georganne Hodges	Independent Non-Executive Director
Antonino (Tony) Iannello	Independent Non-Executive Director
Julieanne Alroe	Independent Non-Executive Director (appointed 24 August 2018)
Philip St Baker	Non-Executive Director
Wayne St Baker	Non-Executive Director (resigned 25 October 2018)
Jonathan (Jon) Stretch	Managing Director and Chief Executive Officer (MD & CEO)

As announced at the Annual General Meeting on 25 October 2018, Tony Bellas will resign as Director on 28 February 2019.

11. 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

16. 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.

18. Rounding of amounts

The amounts contained in this 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.

Tony Bellas

Chairman
21 February 2019

ERM Power Limited
Half Year Financial Statements
for the period ended 31 December 2018

Contents

The financial statements were authorised for issue by the directors on 21 February 2019. The directors have the power to amend and reissue the financial statements.

These financial statements cover ERM Power Limited as a consolidated entity comprising ERM Power Limited and its controlled entities.

The Group's presentation currency is Australian dollars (AUD). All subsidiaries operating in Australia have a functional currency of AUD and all subsidiaries operating in the United States have a functional currency of US Dollars (USD). ERM Power Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is set out on page 55.

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report on pages 18 to 19. The Directors' Report does not form part of the annual financial statements.

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The Board of Directors
ERM Power Limited
Level 52, One One One
111 Eagle Street
Brisbane QLD 4000

21 February 2019

Dear Directors

ERM Power Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of ERM Power Limited.

As lead audit partner for the review of the financial statements of ERM Power Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Matthew Donaldson
Partner
Chartered Accountants

ERM Power Limited
Consolidated Income Statement
For the period ended 31 December 2018

	Note	Half year ended 31 December 2018	31 December 2017 Restated(i)
		$'000	$'000
CONTINUING OPERATIONS			
Revenue	4	**1,585,579**	1,533,528
Other income		**100**	691
Total revenue		**1,585,679**	1,534,219
Expenses		**(1,538,972)**	(1,484,606)
EBITDAF		**46,707**	49,613
Depreciation and amortisation		**(13,950)**	(14,195)
Net fair value gain on financial instruments designated at fair value through profit or loss		**88,993**	58,530
Results from operating activities		**121,750**	93,948
Share of net (loss) / profit of associates and joint ventures accounted for using the equity method		**(36)**	564
Finance income		**1,722**	1,712
Finance expense		**(13,760)**	(12,297)
Profit before income tax		**109,676**	83,927
Income tax expense	5	**(32,963)**	(25,179)
Profit from continuing operations		**76,713**	58,748
Loss from discontinued operations (attributable to equity holders of the Company)	10	**(7,736)**	(8,939)
Statutory profit for the period attributable to equity holders of the Company		**68,977**	49,809
		Cents	Cents
Statutory earnings per share based on continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings per share	1	**30.84**	23.74
Diluted earnings per share	1	**29.94**	23.16
		Cents	Cents
Statutory earnings per share based on earnings attributable to the ordinary equity holders of the Company			
Basic earnings per share	1	**27.73**	20.13
Diluted earnings per share	1	**26.92**	19.63

(i) Refer to Note 14.

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 3, together with a reconciliation between statutory profit attributable to members of the parent entity and underlying profit.

ERM Power Limited
Consolidated Statement of Comprehensive Income
For the period ended 31 December 2018

	Note	Half year ended 31 December 2018 $'000	Half year ended 31 December 2017 Restated(i) $'000
Statutory profit for the period		**68,977**	49,809
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to profit and loss			
Changes in the fair value of cash flow hedges (net of tax)		**68,449**	(91,524)
Other comprehensive income arising from discontinued operations	10	**(1,843)**	(22)
Items that will not be reclassified subsequently to profit and loss			
Changes in the fair value of financial assets at fair value through other comprehensive income (net of tax)		**(3)**	-
Other comprehensive income / (loss) for the period attributable to equity holders of the Company (net of tax)		**66,603**	(91,546)
Total comprehensive income / (loss) for the period attributable to equity holders of the Company		**135,580**	(41,737)
Total comprehensive income / (loss) for the period attributable to equity holders of the Company arises from:			
Continuing operations		**145,159**	(32,776)
Discontinued operations	10	**(9,579)**	(8,961)
		135,580	(41,737)

(i) Refer to Note 14.

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

ERM Power Limited
Consolidated Statement of Financial Position
For the period ended 31 December 2018

	Note	31 December 2018	30 June 2018 Restated(i)
ASSETS		**$'000**	**$'000**
Current Assets			
Cash and cash equivalents		**262,032**	227,636
Trade and other receivables at amortised cost		**426,280**	320,251
Inventories		**99,162**	81,762
Current tax assets		**-**	2,974
Other assets		**70,090**	14,601
Derivative financial instruments	6	**136,193**	73,127
		993,757	720,351
Assets classified as held for sale		**-**	167,235
Total Current Assets		**993,757**	887,586
Non-Current Assets			
Trade and other receivables at amortised cost		**1,569**	-
Financial assets at fair value through other comprehensive income		**6**	9
Investments accounted for using the equity method		**7,162**	6,898
Derivative financial instruments	6	**60,907**	25,968
Property, plant and equipment		**384,184**	390,682
Intangible assets		**57,851**	38,466
Leased assets		**8,783**	10,524
Total Non-Current Assets		**520,462**	472,547
TOTAL ASSETS		**1,514,219**	1,360,133
LIABILITIES			
Current Liabilities			
Trade and other payables		**633,962**	423,639
Current tax liabilities		**3,326**	-
Borrowings	7	**-**	150,831
Borrowings – limited recourse	7	**130,701**	8,904
Lease liabilities		**4,461**	3,681
Derivative financial instruments	6	**73,261**	28,239
Provisions		**13,615**	6,596
		859,326	621,890
Liabilities directly associated with assets classified as held for sale		**-**	152,088
Total Current Liabilities		**859,326**	773,978
Non-Current Liabilities			
Borrowings – limited recourse	7	**52,781**	176,567
Lease liabilities		**12,920**	13,588
Derivative financial instruments	6	**94,943**	85,183
Deferred tax liabilities		**114,302**	57,095
Provisions		**4,437**	4,222
Total Non-Current Liabilities		**279,383**	336,655
TOTAL LIABILITIES		**1,138,709**	1,110,633
NET ASSETS		**375,510**	249,500
EQUITY			
Contributed equity	8	**343,490**	340,431
Reserves		**54,421**	(9,770)
Accumulated losses		**(22,401)**	(81,161)
TOTAL EQUITY		**375,510**	249,500

(i) Refer to Note 14.

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 period ended 31 December 2018

	Note	Contributed equity $'000	Reserves $'000	Retained earnings / (accumulated losses) $'000	Total equity $'000
Balance at 1 July 2017 Restated[(i)]		335,012	213,635	17,233	565,880
Profit for the period[(i)]		-	-	49,809	49,809
Other comprehensive loss[(i)]		-	(91,546)	-	(91,546)
Total comprehensive (loss) / income for the period		-	(91,546)	49,809	(41,737)
Transactions with owners in their capacity as owners:					
Dividends paid		673	-	(8,943)	(8,270)
Issue of shares pursuant to employee incentive scheme		9,808	(2,968)	-	6,840
Purchase of treasury shares		(2,674)	-	-	(2,674)
Share based payment expense		-	1,299	-	1,299
Balance at 31 December 2017		342,819	120,420	58,099	521,338
Balance at 1 July 2018 Restated[(i)]		**340,431**	**(9,770)**	**(81,161)**	**249,500**
Profit for the period		**-**	**-**	**68,977**	**68,977**
Other comprehensive income		**-**	**66,603**	**-**	**66,603**
Total comprehensive income for the period		**-**	**66,603**	**68,977**	**135,580**
Transactions with owners in their capacity as owners:					
Dividends paid		**-**	**-**	**(10,217)**	**(10,217)**
Issue of shares pursuant to employee incentive scheme		**5,347**	**(3,185)**	**-**	**2,162**
Buy-back of shares (net of transaction costs and tax)		**(2,288)**	**(440)**	**-**	**(2,728)**
Share based payment expense		**-**	**1,213**	**-**	**1,213**
Balance at 31 December 2018		**343,490**	**54,421**	**(22,401)**	**375,510**

(i) Refer to Note 14.

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 period ended 31 December 2018

	Note	Half year ended 31 December 2018 $'000	Half year ended 31 December 2017 $'000
Cash flows from operating activities			
Receipts from customers		**2,078,724**	1,933,104
Payments to suppliers and employees		**(2,026,660)**	(1,780,610)
Transfer from / (to) variation margin account		**148,999**	(16,296)
Interest received		**1,384**	1,709
Income tax received / (paid)		**631**	(27,229)
Net cash inflow from operating activities		**203,078**	110,678
Cash flows from investing activities			
Payments for plant and equipment		**(1,353)**	(4,241)
Payments for intangible assets		**(18,095)**	(17,621)
Purchase of shares and options in non-listed companies		**(200)**	-
Payment for subsidiary net of cash acquired	9	**(9,843)**	-
Proceeds on sale of discontinued operations		**34,235**	-
Proceeds on sale of SME customer contracts		**1,296**	-
Net cash inflow / (outflow) from investing activities		**6,040**	(21,862)
Cash flows from financing activities			
Proceeds from borrowings including receivables financing facility		**887,199**	985,954
Repayments of borrowings including receivables financing facility		**(1,037,998)**	(969,174)
Repayments of borrowings – limited recourse		**(3,057)**	(2,572)
Lease repayments - principle		**(2,083)**	(1,720)
Lease repayments - interest		**(347)**	(410)
Finance costs - other		**(18,112)**	(15,980)
Dividends paid	2	**(10,217)**	(8,270)
Payments for shares bought back		**(2,728)**	-
Termination of US Sleever agreement		**-**	(5,121)
Net cash outflow from financing activities		**(187,343)**	(17,293)
Net increase in cash and cash equivalents		**21,775**	71,523
Cash and cash equivalents at the beginning of the half year		**240,458**	244,616
Effect of exchange rate changes on cash and cash equivalents		**(201)**	(576)
Cash and cash equivalents at the end of the half year		**262,032**	315,563

Refer to note 10 for cash flows of discontinued operations.

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

ERM Power Limited
Notes to the Consolidated Financial Statements

Definitions

The directors believe that EBITDAF, underlying EBITDAF and underlying NPAT provide the most meaningful indicators of the Group's underlying business performance. The directors utilise underlying NPAT as a measure to assess the performance of the segments.

These earnings measures are referenced throughout the notes to the financial statements. A reconciliation to statutory earnings is provided in note 3.

Underlying NPAT is 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.

Significant items adjusted in deriving underlying NPAT are material items of revenue or expense that are unrelated to the underlying performance of the Group.

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

1. Earnings Per Share

	Note	31 December 2018	31 December 2017 Restated(i)
		CONSOLIDATED	
		Cents per share	
(a) Basic earnings per share			
From continuing operations attributable to the ordinary equity holders of the Company		**30.84**	23.74
From discontinued operation		**(3.11)**	(3.61)
Total basic earnings per share attributable to the ordinary equity holders of the Company		**27.73**	20.13
(b) Diluted earnings per share			
From continuing operations attributable to the ordinary equity holders of the Company		**29.94**	23.16
From discontinued operation		**(3.02)**	(3.53)
Total basic earnings per share attributable to the ordinary equity holders of the Company		**26.92**	19.63
(c) Underlying earnings per share			
From continuing operations attributable to the ordinary equity holders of the Company		**5.99**	6.96
(d) Reconciliations of earnings used in calculating earnings per share		**$'000**	**$'000**
Basic earnings per share			
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share:			
From continuing operations		**76,713**	58,748
From discontinued operation		**(7,736)**	(8,939)
Diluted earnings per share			
Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share:			
From continuing operations		**76,713**	58,748
From discontinued operation		**(7,736)**	(8,939)
Underlying profit attributable to the ordinary equity holders of the Company from continuing operations	3	**14,896**	17,213
(e) Weighted average number of shares used as the denominator		**Number of shares '000**	
Weighted average number used in calculating basic and underlying earnings per share		**248,759**	247,473
Adjustments for calculation of diluted earnings per share:			
Long term incentive schemes		**5,347**	5,758
Performance rights		**2,125**	462
Weighted average number used in calculating diluted earnings per share		**256,231**	253,693

(i) Refer to Note 14.

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 financial year 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.

2. Dividends Paid and Proposed

	Cents per share	Total amount $'000	Franking percentage	Date of payment
2017 Final dividend paid	3.5	8,943	100%	10 October 2017
2018 Final dividend paid	4.0	10,217	100%	10 October 2018
2019 Interim dividend proposed	4.5	11,430	100%	17 April 2019
Special dividend proposed	3.0	7,620	100%	17 April 2019

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 2018 and will be recognised in subsequent consolidated financial statements.

Franking credits available at 31 December 2018 are $23.6m (30 June 2018: $29.2m).

3. Segment Report

$'000	Business Energy Australia Half year ended 31 December 2018	Business Energy Australia 2017 Restated(i)	Generation Assets Half year ended 31 December 2018	Generation Assets 2017	Energy Solutions Half year ended 31 December 2018	Energy Solutions 2017	Other Half year ended 31 December 2018	Other 2017	Note	Total Half year ended 31 December 2018	Total 2017 Restated(i)
External revenue to customers and other income	**1,530,088**	1,488,203	**48,138**	38,125	**7,316**	7,581	**137**	310		**1,585,679**	1,534,219
Internal segment revenue	**-**	-	**5,326**	6,258	**2,351**	2,074	**30**	79		**7,707**	8,411
Segment revenue and other income	**1,530,088**	1,488,203	**53,464**	44,383	**9,667**	9,655	**167**	389		**1,593,386**	1,542,630
Expenses	**(1,488,827)**	(1,450,470)	**(36,608)**	(23,833)	**(12,313)**	(11,433)	**(8,931)**	(7,281)		**(1,546,679)**	(1,493,017)
EBITDAF	**41,261**	37,733	**16,856**	20,550	**(2,646)**	(1,778)	**(8,764)**	(6,892)		**46,707**	49,613
Depreciation and amortisation	**(3,430)**	(4,586)	**(6,768)**	(6,402)	**(1,777)**	(872)	**(1,975)**	(2,335)		**(13,950)**	(14,195)
Net fair value gain on financial instruments designated at fair value through profit or loss	**87,362**	54,873	**1,631**	3,657	**-**	-	**-**	-		**88,993**	58,530
Results from operating activities	**125,193**	88,020	**11,719**	17,805	**(4,423)**	(2,650)	**(10,739)**	(9,227)		**121,750**	93,948
Share of net (loss) / profit of associates and joint ventures accounted for using the equity method	**-**	-	**-**	-	**-**	-	**(36)**	564		**(36)**	564
Finance income	**1,222**	1,177	**356**	258	**15**	25	**129**	252		**1,722**	1,712
Finance expenses	**(5,468)**	(3,843)	**(7,661)**	(7,806)	**(34)**	(7)	**(597)**	(641)		**(13,760)**	(12,297)
Profit before income tax	**120,947**	85,354	**4,414**	10,257	**(4,442)**	(2,632)	**(11,243)**	(9,052)		**109,676**	83,927
Income tax expense										**(32,963)**	(25,179)
Profit from continuing operations										**76,713**	58,748
Loss from discontinued operations (attributable to equity holders of the Company)									(ii)	**(7,736)**	(8,939)
Statutory profit for the year attributable to equity holders of the Company										**68,977**	49,809
Underlying NPAT from continuing operations										**14,896**	17,213

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

(i) Refer to Note 14.

(ii) Profit and loss information for the Business Energy US segment classified as a discontinued operation is reported through to the chief operational decision maker of the consolidated entity as shown in note 10.

3. Segment Report (continued)

$'000	Note	Half year ended 31 December 2018	Half year ended 31 December 2017 Restated[(i)]
Statutory profit after tax attributable to equity holders of the Company		**68,977**	49,809
Adjusted for the following items:			
Net unrealised change in fair value of financial instruments designated at fair value through profit or loss after tax		**(62,295)**	(40,971)
Share of net loss / (profit) of associates and joint ventures accounted for using the equity method		**36**	(564)
Loss from discontinued operations (attributable to equity holders of the Company)	10	**7,736**	8,939
Other significant items			
Write down of obsolete stock	(ii)	**300**	-
Out Performers acquisition transaction costs	(iii)	**332**	-
Tax benefit on other significant items	(iv)	**(190)**	-
Underlying NPAT continuing operations		**14,896**	17,213

(i) Refer to Note 14.
(ii) Write down of obsolete stock on restructure of lighting division operations.
(iii) Transaction costs associated with the acquisition of Out Performers.
(iv) Tax effect of the above other significant items.

3. Segment Report (continued)

$'000	Business Energy Australia As at 31 December 2018	Business Energy Australia As at 30 June 2018	Business Energy US(i) As at 31 December 2018	Business Energy US(i) As at 30 June 2018	Generation Assets As at 31 December 2018	Generation Assets As at 30 June 2018	Energy Solutions As at 31 December 2018	Energy Solutions As at 30 June 2018	Other As at 31 December 2018	Other As at 30 June 2018	Total As at 31 December 2018	Total As at 30 June 2018
Assets												
Total segment assets	**861,838**	673,050	**103,451**	-	**412,274**	436,792	**71,484**	42,240	**65,172**	37,842	**1,514,219**	1,189,924
Current and deferred tax assets											**-**	2,974
Assets classified as held for sale / discontinued operations											**-**	167,235
Total assets											**1,514,219**	1,360,133
Liabilities												
Total segment liabilities	**693,301**	641,319	**71,420**	-	**220,728**	227,602	**10,489**	3,067	**25,143**	29,462	**1,021,081**	901,450
Current and deferred tax liabilities											**117,628**	57,095
Liabilities directly associated with assets classified as held for sale / discontinued operations											**-**	152,088
Total liabilities											**1,138,709**	1,110,633

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:	**Products and services:**
Business Energy Australia	Electricity sales to business customers in Australia
Business Energy US	Electricity sales to business customers in the United States of America
Generation Assets	Gas-fired power generation assets and delivery of power generation solutions, from the initial concept through to development and operations
Energy Solutions	Energy efficiency and productivity advice and services, using smart data and advanced analytics, for commercial and industrial business customers
Other	Gas 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 revenue from generation assets and other operations is earned in Australia.

(i) All assets and liabilities were held for sale at 30 June 2018 and on 31 December 2018 the customer contracts and associated derivative financial instruments were sold. All other assets of the business consisting mainly of working capital items were not sold. The business will be wound down over a period of approximately 6 months.

4. 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 discontinued Business Energy US segment is entirely generated within the US market whilst revenue recognised in all other segments is generated in Australia. Refer to note 10 for further details on the discontinued operations.

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 Half year ended 31 December		Generation Assets Half year ended 31 December		Energy Solutions Half year ended 31 December		Other Half year ended 31 December		Total Half year ended 31 December	
$'000	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Major product / service lines										
Sale of electricity	**1,460,672**	1,434,098	**-**	-	**-**	-	**-**	-	**1,460,672**	1,434,098
Electricity generation	**-**	-	**19,110**	27,122	**-**	-	**-**	-	**19,110**	27,122
Commodity product sales	**69,401**	54,105	**28,806**	10,446	**269**	-	**-**	-	**98,476**	64,551
Energy solutions products and services	**-**	-	**-**	-	**7,056**	7,574	**-**	-	**7,056**	7,574
Consulting fees	**-**	-	**131**	140	**-**	-	**-**	-	**131**	140
Other revenue	**-**	-	**60**	12	**-**	-	**74**	31	**134**	43
	1,530,073	1,488,203	**48,107**	37,720	**7,325**	7,574	**74**	31	**1,585,579**	1,533,528
Timing of revenue recognition										
Recognised at a point in time	**69,401**	54,105	**48,107**	37,720	**6,822**	7,069	**74**	31	**124,404**	98,925
Recognised over time	**1,460,672**	1,434,098	**-**	-	**503**	505	**-**	-	**1,461,175**	1,434,603
	1,530,073	1,488,203	**48,107**	37,720	**7,325**	7,574	**74**	31	**1,585,579**	1,533,528

4. 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. 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. Sale of gas revenue 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.

4. Revenue (continued)

Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

	CONSOLIDATED	
	Half year ended 31 December	
	2018	2017
	$'000	$'000
Continuing operations		
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Sale of electricity	**-**	1,195
Commodity product sales	**1,641**	-
Electricity generation	**10**	10
Energy solutions products and services	**162**	1,843
Other revenue	**1,510**	150
	3,323	3,198

5. Income Tax

	Note	CONSOLIDATED Half year ended 31 December 2018 $'000	2017 Restated[(i)] $'000
(a) Income tax expense			
Income tax comprises:			
Current tax expense		**6,391**	2,235
Deferred tax expense		**31,675**	27,765
Income tax expense		**38,066**	30,000
Income tax expense is attributable to:			
Profit from continuing operations		**32,963**	25,179
Loss from discontinued operations	10	**5,103**	4,821
		38,066	30,000
(b) Numerical reconciliation of prima facie tax benefit to prima facie tax			
Profit from continuing operations		**109,676**	83,927
Loss from discontinued operations	10	**(2,633)**	(4,118)
		107,043	79,809
Income tax expense calculated at 30%		**32,113**	23,942
Other income taxes		**1,243**	193
Net effect of expenses that are not deductible in determining taxable profit		**206**	162
Difference in overseas tax rates		**(108)**	(226)
Permanent differences on the sale of the US business		**3,833**	-
Write-down of US deferred tax	(ii)	**745**	-
Change in overseas tax rate	(iii)	**-**	6,090
Other items		**34**	(161)
Income tax expense		**38,066**	30,000
(c) Amounts recognised directly in other comprehensive income			
Increase in equity due to current and deferred amounts charged directly to equity during the period:			
Net tax effect of amounts charged to cash flow hedge reserve		**(29,335)**	39,224
Net tax effect of amounts charged to share capital		**2**	-
		(29,333)	39,224

(i) Refer to Note 14.

(ii) Non-recoverability of US deferred tax balances post sale of US business.

(iii) Change in US federal tax rate from 35% to 21% effective from 1 January 2018.

5. Income Tax (continued)

Recognition and measurement

Income tax or income tax benefit for the period is the tax payable on the current period's taxable income based on the prevailing income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Key judgments and estimates

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

6. Fair Value Measurement

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 2018	31 December 2018
	$'000	$'000
	Carrying value	Fair value
Financial assets		
Electricity and commodity derivatives	197,100	218,573
	197,100	**218,573**

The carrying value of derivative financial assets recognised excludes a day one gain on certain electricity derivatives. In accordance with the Groups 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 2018 excludes the remaining balance of the deferred day one gain of $21.5m. 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 year.

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
Cash and cash equivalents	The carrying amount is fair value due to the asset's liquid nature.
Derivative financial instruments	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 option valuation models, 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. Where the derivative instrument life extends beyond the period of available market data valuation techniques and assumptions are used in the fair value estimate.
Other financial assets	Due to their short-term nature, the carrying amounts of loans, receivables, and cash and cash equivalents approximate their fair value.
Other financial liabilities at amortised cost	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.

6. Fair Value Measurement (continued)

Fair value 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 2018 and 30 June 2018.

As at 31 December 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Electricity and commodity derivatives	**-**	**177,655**	**19,445**	**197,100**
Financial assets at fair value through other comprehensive income	**6**	**-**	**-**	**6**
Total assets	**6**	**177,655**	**19,445**	**197,106**
Liabilities				
Electricity and commodity derivatives	**-**	**139,307**	**576**	**139,883**
Interest rates swaps	**-**	**28,321**	**-**	**28,321**
Total liabilities	**-**	**167,628**	**576**	**168,204**

As at 30 June 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Electricity and commodity derivatives	5,233	93,862	-	99,095
Financial assets at fair value through other comprehensive income	9	-	-	9
Total assets	5,242	93,862	-	99,104
Liabilities				
Electricity and commodity derivatives	1,790	82,151	-	83,941
Interest rates swaps	-	29,481	-	29,481
Total liabilities	1,790	111,632	-	113,422

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 and option valuation models, 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
The group utilises certain derivative instruments with counterparties, such as renewable generators, that rely upon a rolling forecast of electricity generated or consumed rather than a fixed contracted volume. As the forecast is an unobservable market input, these instruments are categorised as level 3 financial instruments. The value of these instruments at 31 December 2018 was $18.9m. Had the forecast volume of these instruments combined, increased or decreased by 10%, the market value combined, would have increased or decreased by $1.9m.

The gains or (losses) recognised in relation to the level 3 electricity and commodity derivatives during the period are as follows:

	Half year ended 31 December 2018 $'000
Closing balance 30 June 2018	**-**
Transfers into level 3	**8,016**
Net fair value gain on financial instruments designated at fair value through profit or loss	**10,853**
Closing balance 31 December 2018	**18,869**

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the start of the reporting period. For the period ending 31 December 2018, derivatives with a MTM of $8.0m at 1 July 2018 were transferred between level 2 and level 3.

6. Fair Value Measurement (continued)

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 2018 and 30 June 2018. The column 'net exposure' shows the impact on the Group's balance sheet if all set-off rights were exercised.

The below table provides a reconciliation of the Group's gross derivative financial assets and liabilities offset to those presented on the consolidated statement of financial position as at 31 December 2018 and 30 June 2018.

As at 31 December 2018

$'000	Gross carrying amount (before offsetting)	Gross amounts offset	Cash collateral and futures margin deposits (received) / paid	Net amount presented	Related amounts not offset		Net exposure
					Financial instruments[(i)]	Cash collateral	
Financial assets							
Electricity and commodity derivatives contracts	**325,601**	**(11,182)**	**(117,319)**	**197,100**	**(18,169)**	**-**	**178,931**
Total	**325,601**	**(11,182)**	**(117,319)**	**197,100**	**(18,169)**	**-**	**178,931**
Financial liabilities							
Electricity and commodity derivatives contracts	**151,065**	**(11,182)**	**-**	**139,883**	**(18,169)**	**42,539**	**164,253**
Interest rate swaps	**28,321**	**-**	**-**	**28,321**	**-**	**-**	**28,321**
Total	**179,386**	**(11,182)**	**-**	**168,204**	**(18,169)**	**42,539**	**192,574**

As at 30 June 2018

$'000	Gross carrying amount (before offsetting)	Gross amounts offset	Cash collateral and futures margin deposits (received) / paid	Net amount presented	Related amounts not offset		Net exposure
					Financial instruments[(i)]	Cash collateral	
Financial assets							
Electricity and commodity derivatives contracts	245,467	(172,457)	26,085	99,095	(12,225)	-	86,870
Total	245,467	(172,457)	26,085	99,095	(12,225)	-	86,870
Financial liabilities							
Electricity and commodity derivatives contracts	256,398	(172,457)	-	83,941	(12,225)	9,997	81,713
Interest rate swaps	29,481	-	-	29,481	-	-	29,481
Total	285,879	(172,457)	-	113,422	(12,225)	9,997	111,194

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

7. Borrowings

	Note	CONSOLIDATED	
		31 December 2018	30 June 2018
Current		$'000	$'000
Secured			
Bank loan - Receivables financing facility	(i)	**-**	150,831
		-	150,831
Secured - limited recourse			
Bank loan - Neerabup working capital facility	(ii)	**3,000**	3,000
Bank loan - Neerabup term facility	(iii)	**127,701**	5,904
		130,701	8,904
Total current borrowings		**130,701**	159,735
Non-current			
Secured - limited recourse			
Bank loan - Neerabup term facility	(iii)	**-**	124,537
Convertible notes	(iv)	**52,781**	52,030
		52,781	176,567
Total non-current borrowings		**52,781**	176,567
Total borrowings		**183,482**	336,302

(i) Amounts drawn down on receivables financing facility secured against billed and unbilled electricity sales customer revenue receivables. The facility is available until July 2022.

(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. The Neerabup term facility has been classified as current at 31 December 2018 as it expires on 31 December 2019. A process to re-finance the debt is currently underway and the Group expects that the debt will be re-financed for a period beyond 12 months.

(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 7.48% (30 June 2018: 7.62%). 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.

Recognition and measurement

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in profit or loss as finance costs.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

8. Contributed Equity

	CONSOLIDATED		CONSOLIDATED	
	31 December 2018	30 June 2018	31 December 2018	30 June 2018
	Number of shares	Number of shares	$'000	$'000
Issued ordinary shares – fully paid	**253,989,569**	255,421,056	**349,690**	350,745
Treasury shares	**(5,411,940)**	(7,531,156)	**(6,200)**	(10,314)
	248,577,629	247,889,900	**343,490**	340,431
Movement in ordinary share capital				
At the beginning of the period	**255,421,056**	252,708,202	**350,745**	346,621
Issue of new shares – employee incentive scheme	**230,469**	3,948,853	**386**	6,841
Issue of shares – dividend reinvestment plan	**-**	503,561	**-**	673
Shares bought back on-market and cancelled, including transaction costs (net of tax)	**(1,661,956)**	(1,739,560)	**(2,728)**	(2,880)
Transfer from share buy-back reserve	**-**	-	**440**	408
Transfer from share-based payment reserve	**-**	-	**4,961**	3,052
Transfer to treasury shares	**-**	-	**(4,114)**	(3,970)
At the end of the period	**253,989,569**	255,421,056	**349,690**	350,745

Terms and conditions of contributed equity

Ordinary shares

During the period ended 31 December 2018, 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 shares that are held in trust for the purpose of issuing shares under employee share incentive schemes.

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.

Share buy-back

During the period ended 31 December 2018, the Company purchased and cancelled 1,661,956 (2018: 1,739,560) ordinary shares on-market. The shares were acquired at an average price of $1.64 (2018: $1.61). The total cost of $2.7m (2018: $2.9m) was deducted from contributed equity. As the shares were bought back at an average price in excess of the share capital issued, $0.4m (2018: $0.4m) was transferred to the share buy-back reserve. The total reduction in paid up capital was $2.3m (2018: $2.5m).

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.

9. Business Combination

(a) Summary of acquisition

On 28 September 2018, the Group acquired 100% of Out Performers, an independent engineering group which specialises in industrial energy productivity for large energy customers. The acquisition allows the Group to expand its existing Energy Solutions offering, capability and reach through the technical expertise of Out Performers in energy advisory, project delivery and performance tracking for industrial customers. Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	Note	Half year ended 31 December 2018 $'000
Cash paid		**11,476**
Earn out	(i)	**3,898**
Total purchase consideration		**15,374**

(i) In the event the operations of Out Performers achieves certain performance criteria as specified in an earn out clause of the purchase agreement during the period October 2018 to September 2020, additional cash consideration of up to $2,012,500 will be payable in both November 2019 and November 2020. At the time of purchase, the fair value of the consideration was determined to be $3.9m.

The provisional fair value of the assets and liabilities recognised as a result of the acquisition are as follows:

	Provisional fair value $'000
Cash and cash equivalents	**2,564**
Trade and other receivables	**1,852**
Inventories	**899**
Other assets	**257**
Leased assets	**511**
Property, plant and equipment	**99**
Goodwill and intangibles	**15,853**
Trade and other payables	**(5,557)**
Provisions	**(140)**
Lease liability	**(903)**
Deferred tax liability	**(61)**
Net assets acquired	**15,374**

Goodwill acquired is attributable to the established energy solutions sales operation. It will not be deductible for tax purposes.

Acquired receivables

The fair value of acquired trade receivables is $1.2m.

Revenue and profit contribution

The acquired business contributed revenues of $2.1m and net profit of $0.3m to the Group for the period from 28 September 2018 to 31 December 2018. If the acquisition had occurred on 1 July 2018, consolidated Group revenue and net profit for the period ended 31 December 2018 would have been $4.2m and $0.3m respectively.

9. Business Combination (continued)

(b) Purchase consideration – cash outflow

	$'000	$'000
	31 December 2018	**30 June 2018**
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	**12,075**	-
Less: Balances acquired		
Cash	**(2,564)**	-
Plus: Acquisition-related costs	**332**	-
Net outflow of cash – investing activities	**9,843**	-

Recognition and measurement

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a discount on acquisition.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

10. Discontinued Operations

On 23 August 2018, the Group publicly announced the decision of its Board of Directors to sell the US business, Source Power & Gas. A plan to sell was approved and actioned in June 2018. The associated assets and liabilities were consequently presented as held for sale in the 2018 financial statements.

Source Power & Gas was sold on 31 December 2018 and is reported in the current period as a discontinued operation. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

Under the Sale and Purchase agreement an adjustment mechanism requires the sale price to be adjusted for movements in the value of customer contracts sold between the date of execution of the agreement on 15 October 2018 and 31 December 2018. At the date of signing this report this adjustment had not been finalised.

(a) Financial performance and cash flow information

The financial performance and cash flow information presented reflects the operations for the year.

	Note	Half year ended 31 December	
		2018	2017
		$'000	$'000
Revenue		**345,696**	250,385
Expenses		**(344,024)**	(248,938)
EBITDAF		**1,672**	1,447
Net fair value gain on financial instruments designated at fair value through profit or loss		**-**	12,932
Depreciation and amortisation		**(509)**	(8,498)
Provision for onerous contract		**(1,375)**	-
Impairment expense		**(1,048)**	-
Net finance costs		**(5,544)**	(9,999)
Loss before tax		**(6,804)**	(4,118)
Income tax expense		**(288)**	(4,821)
Loss after tax of discontinued operation		**(7,092)**	(8,939)
Loss on sale of business assets	10(b)	**(644)**	-
Loss from discontinued operation		**(7,736)**	(8,939)
Exchange differences on translation of discontinued operations		**(1,843)**	(22)
Other comprehensive loss from discontinued operations		**(1,843)**	(22)
Total comprehensive loss from discontinued operations		**(9,579)**	(8,961)
Net cash (outflow) / inflow from operating activities		**(43,556)**	2,424
Net cash inflow / (outflow) from investing activities		**22,962**	(8,036)
Net cash inflow from financing activities		**22,046**	13,138
Net increase in cash generated by the discontinued operations		**1,452**	7,526
Revenue			
Major product / service lines			
Sale of electricity		**345,696**	250,385
		345,696	250,385
Timing of revenue recognition			
Recognised at a point in time		**-**	56
Recognised over time		**345,696**	250,329
		345,696	250,385

10. Discontinued Operations (continued)

(b) Details on the sale of the assets

	Note	Half year ended 31 December 2018 $'000	Half year ended 31 December 2017 $'000
Consideration received or receivable:			
Proceeds received on sale		37,206	-
Transaction costs and sale price adjustment		(6,513)	-
Total disposal consideration		30,693	-
Carrying amount of net assets sold		(29,218)	-
Gain on sale before income tax and reclassification of foreign currency translation reserve		1,475	-
Reclassification of foreign currency translation reserve	(i)	2,696	-
Income tax expense on gain		(4,815)	-
Loss on sale after income tax		(644)	-

(i) Non-cash reclassification of historical foreign currency translation differences to the Group's profit and loss. The reclassification is a non-taxable event as any income tax expense incurred on the discontinued operations' profit and loss has been calculated and charged prior to sale of the assets.

(c) Assets and liabilities of disposal group classified as held for sale

The following assets and liabilities were reclassified as held for sale in relation to the US discontinued operation as at 31 December 2018 and 30 June 2018:

	31 December 2018 $'000	30 June 2018 $'000
Assets classified as held for sale		
Cash and cash equivalents	-	12,822
Trade and other receivables at amortised cost	-	74,000
Inventories	-	14
Other assets	-	837
Derivative financial instruments	-	5,890
Leased assets	-	990
Property, plant and equipment	-	769
Intangible assets	-	64,795
Deferred tax assets	-	3,710
Total assets of disposal group held for sale	-	163,827
Liabilities directly associated with assets classified as held for sale		
Trade and other payables	-	94,915
Lease liabilities	-	1,189
Provisions	-	39,181
Derivative financial instruments	-	15,352
Total liabilities of disposal group held for sale	-	150,637

11. Commitments and Contingencies

	CONSOLIDATED	
	31 December 2018 $'000	30 June 2018 $'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	**759**	199
– later than one year and not later than five years	**-**	-
– later than five years	**-**	-
	759	199

(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.

	Note	CONSOLIDATED	
		31 December 2018 $'000	30 June 2018 $'000
Bank guarantees - Australian Energy Market Operator and other counterparties	(i)	**389,046**	221,845
Bank guarantees - Lease arrangements	(ii)	**2,365**	2,365
Futures margin deposits	(iii)	**144,613**	98,070
Security deposits	(iv)	**45,375**	10,155
Bank guarantees - Western Power	(v)	**300**	300
Bank Guarantees- Uniper	(vi)	**78,064**	-
		659,763	332,735

(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. $348m of the bank guarantees are supported by non-cash backed guarantees in 2018 (30 June 2018: $180m).

(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) Futures margin deposits represent cash lodged with the Group's futures clearing brokers. The deposits are in relation to various futures contracts on the Australian Securities Exchange and Intercontinental exchange and may be retained by the clearing brokers in the event that the Group does not meet its contractual obligations.

(iv) 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.

(v) 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.

(vi) The Group has provided a bank guarantee in favour of Uniper of A$78m (US$50m). The guarantee covers market collateral and payables for derivative financial instruments that are posted by Uniper on SPG's behalf. The guarantee will reduce as SPG winds up its operations and ceases billing customers following the sale of its assets.

12. 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 ("SPI") 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 SPI 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 Energy contract prices)
- Firm peak swap sold to ERM priced at market prices (based on market observed ASX 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 2019 to 31 December 2022 is $3.9m.

All accounts payable 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 21% 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 2018 net assets of $110.2m have been recognised in relation to the above transaction comprising the following:
MTM of electricity swaps of $66.5m of which $47.1m is current
MTM of electricity options of $34.5m of which $18m is current
Accrued income of $9.2m

During the year ended 31 December 2018 total net receipts of $46.9m were recognised in profit and loss in respect of the swap agreement.

Under the terms of the swap agreement SPI 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; 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 allowance account for impaired receivables in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from related parties.

13. Events After the Reporting Period

Since 31 December 2018 there have been no other matters or circumstances not otherwise dealt with in the Financial Report that have significantly or may significantly affect the Group.

14. Correction of Error in Prior Periods

The Group undertook a review of its application of AASB 9 on the opening fair value balance of financial instruments designated to the hedge reserve on adoption of hedge accounting at 1 July 2015. The review concluded that the financial instruments associated with the opening balance were incorrectly held in the cash flow reserve rather than recycled through net fair value gain on financial instruments designated at fair value through profit or loss. The restatement does not affect underlying profit in any prior period and relates only to movements through unrealised fair value gains and losses on financial instruments.

The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

Balance Sheet (extract) $'000	30 June 2018	Increase / Decrease	30 June 2018 (Restated)	1 July 2017	Increase / Decrease	1 July 2017 (Restated)
Net assets	249,500	-	**249,500**	565,880	-	**565,880**
Reserves	(2,277)	(7,493)	**(9,770)**	220,877	(7,242)	**213,635**
Retained earnings / (accumulated losses)	(88,654)	7,493	**(81,161)**	9,991	7,242	**17,233**
Total equity	249,500	-	**249,500**	565,880	-	**565,880**

Statement of profit or loss (extract) $'000	31 December 2017	Increase / Decrease	31 December 2017 (Restated)
Net fair value gain on financial instruments designated at fair value through profit or loss	58,172	358	**58,530**
Profit before income tax	83,569	358	**83,927**
Income tax expense	(25,072)	(107)	**(25,179)**
Profit from continuing operations	58,497	251	**58,748**
Statutory profit for the period attributable to equity holders of the Company	49,558	251	**49,809**

Basic and diluted earnings per share for the prior period have also been restated. The amount of the correction for both basic and diluted earnings per share was an increase of $0.1 per share.

The correction further affected some of the amounts disclosed in note 3 and note 5. Net fair value gain on financial instruments designated at fair value through profit or loss increased by $358,137 and income tax expense increased by $107,441.

15. Basis of Preparation

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 18.

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 2018 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 2018 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 2018. The accounting policies adopted are consistent with those of the previous financial year, which are accessible http://www.ermpower.com.au/investor-centre.

15. Basis of Preparation (continued)

(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 2018.

ERM Power Limited
Directors' Declaration

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

(a) the financial statements and notes set out on pages 23 to 51 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 2018 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.

(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

21 February 2019

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Review Report to the Board of Directors of ERM Power Limited

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 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 23 to 52.

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 gives a true and fair view and 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 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 2018 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.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ERM Power Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Deloitte.

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:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Matthew Donaldson
Partner
Chartered Accountants
Brisbane, 21 February 2019

Corporate Information

ERM Power Limited
ABN 22 122 259 223

Directors
Tony Bellas (Non-Executive Chair)
Albert Goller
Georganne Hodges
Tony Iannello
Julieanne Alroe
Philip St Baker
Jon Stretch (Managing Director and CEO)

Company Secretaries
Phil Davis
Suzanne Irwin

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Auditors
Deloitte

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