Sustainability is not a policy...

ANNUAL REPORT 2019

erm POWER

...it's our DNA.

CONTENTS

Performance highlights	2
Chair and Managing Director's report	4
Rethinking energy	6
Board of Directors	8
Executive team	12
Our business model	14
Our strategy	16
Corporate social responsibility	18
Operating and financial review	29
Financial year highlights	30
Outlook and future prospects	32
Summary of group financial results	34
Divisional performance review	39
Appendices	46
Glossary	49
Directors' report	50
Remuneration report	53
Annual financial statements	69
Shareholder information	133
Corporate information	135

ERM Power Limited ABN 28 122 259 223 shares are traded on the Australian Securities Exchange under the symbol EPW. This review is for ERM Power (Company, Group, we, our) for the year ended 30 June 2019 with comparison against the previous corresponding period ended 30 June 2018 (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.

Bigger thinking: it's just better business.

Sustainability is fundamental to ERM Power's business strategy and our reason for being. Electricity retailing and energy management are what we do. These core business functions:

1. support customers to manage energy volatility, reduce energy consumption and build energy productivity for cost and environmental benefits; and
2. ensure our own business sustainability by doing the right things for customers, the environment and our relevance in a rapidly evolving energy sector.

Kicking goals.

ERM Power's success in FY2019 was achieved by placing customers at the centre of what we do and delivering on our strategy to meet the growing supply and demand side needs of our customers.

17.7TWh

ELECTRICITY SALES LOAD VOLUME

$90.5m

UNDERLYING EBITDAF[1]

$5.16

ELECTRICITY GROSS MARGIN/MWh

$26.0m

UNDERLYING NPAT[1]

8 YEARS IN A ROW

#1 FOR CUSTOMER SATISFACTION[2]

91%

OF EMPLOYEES PROUD TO WORK AT ERM POWER. ABOVE GLOBAL HIGH PERFORMING NORMS.[3]

12CPS

FY2019 DIVIDENDS FULLY FRANKED

1. All figures continuing operations unless otherwise stated. Refer Appendix A1.2 for reconciliation to statutory earnings.
2. Utility Market Intelligence (UMI) Survey, Feb 2019.
3. Korn Ferry Hay Group Employee Survey, Feb 2019.

A nimbler, swifter, smarter year.

ERM Power performed well in FY2019, delivering on our strategy to meet the growing supply and demand needs of commercial and industrial energy consumers in an increasingly complex market.

All parts of the business performed in line with expectations. Strategic acquisitions delivered further capability and market reach to our growing Energy Solutions business.

Earnings were at $90.5m (EBITDAF[1]) relative to $97.5m in FY2018 primarily due to lower earnings from Oakey Power Station and higher corporate costs as the business invested in IT and infrastructure to support new energy productivity platforms and an expanded proposition for customers.

Underlying Net Profit After Tax was $26.0m[2] ($30.2m in FY2018).

An additional $16.1m of Net Profit After Tax was realised through our 2017 large scale generation certificate strategy, which allowed us to support two large renewable generation projects.

The sale of the US business, Source Power & Gas, was completed allowing a focus on value creation in our Australian business. The growth and potential of our Energy Solutions business was underpinned by the acquisition of Out Performers in September 2018 and investment in Alliance Automation in July 2019. Both add substantially to the capability of our business across the energy procurement and productivity value chain.

Strategy and sustainability

Sustainability is fundamental to our business strategy and the way we operate. It isn't simply a policy for ERM Power. Electricity retailing and energy efficiency are what we do. These core functions:

- support customers to manage energy volatility, reduce energy consumption and build energy productivity for cost and environmental benefits; and
- ensure our own business sustainability by doing the right things for customers, the environment and our own relevance in a rapidly evolving energy sector.

ERM Power and the energy environment

Our success throughout the year was achieved in the face of a volatile and transforming energy market, policy uncertainty and political rhetoric that further added to customer confusion and frustration. Our advocacy for commercial and industrial (C&I) customers, and ultimately all C&I energy users, has been core to our success and will remain our unique market differentiator.

Our business model has always placed customers at the centre of what we do. We help our customers to better navigate and manage through their energy supply side and demand side challenges.

On the supply side of the equation we work with businesses to manage wholesale market volatility through their retail contract. We have been good at this for the past 10 years and have successfully continued to grow and innovate in this space. We are a retailer that can understand the complexity of a customer's electricity load and shape and help them optimise outcomes, ultimately by offering a fixed unit price for what is a volatile commodity.

On the demand side of the equation we work with our customers to improve their energy productivity. We're motivated to help customers with their energy efficiency, demand management and renewable generation to drive energy productivity because customers want it and it is the future. We are offering solutions that harness smart data and analytics to give businesses meaningful ways of driving down consumption for cost and environmental benefits.

Performance

In FY2019 electricity sales load was at 17.7TWh and pleasingly forward contracted load at 30 June 2019 was the highest on record at 32.2TWh. The full-year gross margin was at the higher end of expectations at $5.16/MWh. In Retail, we've driven growth in forward sales load and gross margin demonstrating the value and strength of this franchise with its exceptional customer service, satisfaction and preference.

In the Generation business, Neerabup Power Station performed strongly, primarily off the back of merchant opportunities. Oakey Power Station, which underperformed relative to FY2018 due to benign market conditions, will benefit from the increasing penetration of renewable generation and resulting wholesale price volatility. The power stations delivered outstanding availability and overall performance, while maintaining excellent safety records.

Energy Solutions recorded revenue of $21.8m and increased gross margin as we continued to invest in the growth of our energy productivity business. Energy Solutions is on track to make material contributions in the medium term and achieve breakeven at the NPAT level in FY2020. This is all about partnering with customers to deliver end to end, integrated solutions - meeting the energy management needs of Australian businesses, driving customer retention, and leveraging our significant retail customer base into Energy Solutions. We estimate this will build to an annual market of about $1 billion of spend - a sizable market opportunity for our Energy Solutions business.

Capital management and dividends

A share buyback commenced in March 2018 as part of our capital management framework to return excess capital to shareholders. At 30 June 2019 $12.8m of capital had been utilised for the buyback with a total of 7.3m shares acquired.

A fully franked final dividend of 4.5 cents per share for FY2019 was declared on 22 August 2019. A fully franked interim dividend of 4.5 cents per share was paid on 17 April 2019.

A fully franked special dividend of 3 cents per share was paid on 17 April 2019. We saw this as an efficient way to return surplus capital to shareholders while retaining capital for investment in further growth opportunities.

The capital management program reflects the Company's strong liquidity position and our confidence in the earnings outlook.

Transitioning to a lower-carbon future

Energy Solutions is at the core of supporting C&I energy consumers with efficiency and productivity solutions that answer to environmental, cost and value creation imperatives. We're also supporting the transition to renewables through offtake agreements underpinning the Lincoln Gap wind farm (126MW) and Hamilton solar farm (58MW), and through new generation financial products. This strategy further supports corporate investment in renewable energy.

ERM Power is proud to have pioneered these new generation products which have been well received in the market.

Additionally, we are a major participant in the national Renewable Energy Target scheme and for calendar year 2018, we procured and surrendered over 2.9 million large-scale generation certificates and about 3 million small-scale technology certificates.

Customers, community and environment

The performance of our Australian electricity retailing business is underpinned by our industry-leading customer service, as evidenced by our number one ranking in the UMI electricity retailer customer satisfaction survey[3] for the eighth year running. ERM Power achieved 88% customer satisfaction with the gap to our nearest competitor widening to 30%.

Our financial success is complemented by our efforts to build our presence and our contributions to community, environment, leadership, customer advocacy and workplace culture.

Julieanne Alroe
Chair

Jon Stretch
Managing Director and CEO

Culture

The strong performance of ERM Power is underpinned by the hard work, innovation and responsiveness of our people.

We have the highest customer satisfaction ratings in the industry by a long shot and that's because our people are engaged and enabled to deliver. In February 2019 we undertook the Korn Ferry Hay Group employee survey for the third time in four years to gauge employee sentiment during what has been a period of growth and change for the business and industry. The results were at or above global high-performing norms in engagement, enablement, leadership, safety and across a range of key dimensions important to our people.

We would like to thank the employees of ERM Power for their professionalism and dedication to delivering outstanding customer service. Importantly, to our loyal customers and shareholders, thank you for the trust you place in us as we continue on this journey to deliver great energy outcomes and create shared value for all.

To our fellow directors, your support and commitment to the business during FY2019 is greatly appreciated and a special thanks to Tony Bellas who served as Chair for seven years until his retirement from our Board in February 2019. Tony was instrumental in guiding the business during its formative years and positioning ERM Power as one of the largest electricity retailers in Australia with a trusted brand and enviable culture.

Outlook

We are in the fortunate position to be outlooking good profit growth over the next two years, and at the same time have the capacity to continue our investment in the Energy Solutions business to accelerate the growth and potential of this portfolio. We see continued growth in our C&I segment with sales volumes ahead of FY2019 levels and value being realised in our gas-fired peaking assets as they support the transition to renewables.

Julieanne Alroe
Chair

Jon Stretch
Managing Director and CEO

1 Continuing operations. 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 other significant items. EBITDAF excludes any profit or loss from associates.
2 Continuing operations.
3 Utility Market Intelligence (UMI) Survey, February 2019.

Rethinking energy.

Rapid change in Australia's energy environment is forcing commercial and industrial businesses to rethink the way they understand and invest in their energy productivity.

Electricity in Australia has become complex, volatile and expensive, given less reliable baseload generation and more intermittent supply. Concurrently, sustainability considerations and social pressures see large energy users making concerted efforts to lower their emissions or negate them completely.

Image opposite: Pictured from left to right: GPT Chief Operating Officer Mark Fookes, ERM Power CEO Jon Stretch and Soldpod CEO James Larratt inspect the solpod installation at Norton Plaza shopping centre, operated by GPT in Leichhardt, NSW.

Businesses are now realising that they cannot rely on energy policy and are taking matters into their own hands, exploring alternate procurement strategies and energy management solutions to reduce consumption, emissions and cost.

Commercial and industrial businesses are at vastly different levels of maturity in dealing with these transitional changes, and the market today is at a tipping point.

While Australian businesses know how to manage commodities with volatile prices and erratic supply, the realisation that energy is one of them has not fully sunk in.

However, there is an increasing acceptance by business that it's up to them to take control of their energy use and implement holistic strategies that help them better manage both supply and demand.

Understanding the wholesale market

A starting point for business is a deep understanding of what's driving the cost in the wholesale market, how and when they purchase and consume energy, and how they use it more efficiently. There is an important linkage between understanding the wholesale market data and making confident energy investment decisions, with data providing the evidence needed to prove up the investment business case.

While energy has traditionally been seen as a smaller and steady part of the operational budget, in recent years market volatility has changed this. Energy typically eats up twice as much of a site's operational costs as it did not long ago, and there are big rewards on offer for those who make smart energy investment decisions.

ERM Power can usually go to a business and, calling on accumulated usage data, nominate a range of initiatives likely to have a significant pay-off in energy productivity. This often marks the start of a more comprehensive and detailed analysis of the business's energy usage, needs and processes.

The bottom-line impact can be surprisingly large. In 2018, ERM Power conducted an energy productivity trial in conjunction with Government and Industry, finding that investment in energy productivity in the manufacturing sector yielded annual savings in electricity costs of 28%.

With no investment in coal-fired power to drive its recommendations, ERM Power is free to find the best options for both procurement and productivity, leading to consistently sector-leading customer satisfaction ratings for the best part of a decade.

More and more companies are selecting energy partners who can provide all energy services, retailing and productivity solutions. ERM Power is positioned to do that, with both the expertise and data to give businesses the highest value solutions.

ERM Power helps customers manage the volatility in price and supply, using software applications and real-time data feeds that allow price monitoring and forecasting, like the ERM Power App, or the web-based STEP Online, which allows customers to take control of their electricity procurement.

Adapting to changing energy strategies within the commercial and industrial market.

Greener procurement

Many large corporates are committed to moving to 100% renewable energy, given sustainability targets and continued volatility in the wholesale markets.

In 2019, ERM Power launched a new Corporate Renewable Power Purchase Agreement (PPA) product to facilitate easier access to renewable energy sources for commercial and industrial customers.

This allows commercial and industrial businesses to buy a partial interest in the output of a large renewable power station, to support their business and environmental energy objectives.

Working through ERM Power, businesses can enjoy the benefits of a PPA without the intricacies of negotiating and managing a complex contractual arrangement directly with a renewable energy provider.

While PPAs are an increasingly popular option, businesses must proceed cautiously if negotiating these directly, as there may be hidden pitfalls. ERM Power's new product helps businesses secure exposure to renewable energy generation as part of their energy mix in a way that's simple, transparent and efficient.

Energy solutions delivering a competitive edge

For most businesses the easy wins in electricity spending will come from simply using less of it, by opting for more energy-efficient premises, equipment, processes and products.

ERM Power's signature 'advise, deliver, track' approach helps businesses identify, implement and monitor energy solutions that meet their energy objectives – whether that's to reduce cost or find ways of generating revenue from expensive energy assets.

ERM Power's integrated, end-to-end approach starts with data science and analytics to identify the right solution, then made a reality through project management and procurement services. Ongoing monitoring and verification services further support customers in maximising the return on their investment.

Solpod – solving a customer problem

In April 2019, ERM Power and Solpod Pty Ltd brought Solpod, a world-first method of deploying and installing large-scale rooftop commercial solar energy installations, to the Australian market.

Solpod, is opening up new markets for commercial solar by addressing a genuine customer need that boils down to one simple problem – traditional solar installations being permanently affixed to roofs.

Solpod comprises prefabricated commercial-grade solar panels on raised aluminium pods that can be installed within hours on industrial sized rooftops. The pods are mobile and can easily be re-deployed if the business moves, property is sold, or businesses have an appetite to effectively lease rather than buy the solar systems.

Property industry interest can be demonstrated by blue-chip property giants such as the GPT Group and NSW Government agency, Property NSW, signing up to an Australian Renewable Energy Agency co-funded pilot program.

ERM Power predicts that Solpod could double the scale of Australia's commercial solar installations in the 100kW to 5MW range from a total of 113MW in 2018 to around 250MW by 2021.

Board of Directors.

Julieanne Alroe

BEc. MAICD

Chair of the Board

Age: 64 years
Director since 24 August 2018
1 year's service

Skills and experience:

Julieanne was appointed Chair of the ERM Power Board on 1 March 2019 having previously joined as an independent non-executive director on 24 August 2018. She is also Chair of the Boards of Infrastructure Australia and the Queensland Ballet, the inaugural President of the Queensland Futures Institute (QFI), and a member with each of; the University of Queensland Senate, the Advisory Board of the Committee for Brisbane, the Council of Governors of the American Chamber of Commerce QLD (AMCHAM), and Chief Executive Women (CEW). Julieanne was granted the Doctor of the Griffith University (honoris causa) in December 2016.

Julieanne retired in June 2018 from Brisbane Airport Corporation (BAC) where she held the position of CEO and Managing Director since 1 July 2009. With more than 40 years in the aviation industry, she was one of only a handful of women in the world to run a privatised airport. Previously, Julieanne held a number of executive management positions with Sydney Airport Corporation, in the commercial, operations, corporate affairs, and planning and infrastructure departments.

Julieanne has previously been a member of Urban Futures Brisbane, the Brisbane Infrastructure Council, and the Queensland Climate Advisory Council (QCAC). Previous board appointments include the position of Chairman of Airports Coordination Australia Ltd and of the Airports Council International Safety and Technical Standing Committee, and Deputy Chair for Tourism and Events Queensland until August 2018. She was also a Board member of The Queensland Theatre Company, Australia Trade Coast Ltd and the International Grammar School Sydney.

Special Responsibilities

Chair of the Remuneration & Nomination Committee and Member of the Audit & Risk Committee.

Albert Goller

Masters Degree in Information & Telecommunications

Independent Non-Executive Director

Age: 68 years
Director since 1 January 2015
4.5 years' service

Skills and experience:

Albert brings considerable management and marketing expertise, garnered through a successful executive career in Germany, Canada, the USA and Australia at the global multinational conglomerate Siemens AG. He was Chair and Managing Director of Siemens Ltd in Australia between 2002 and 2012.

Commencing his career as an electronics engineer with Siemens in Germany in 1973, Albert held a number of senior executive positions throughout the world including President and CEO of Siemens Canada Ltd and Head of the Corporate Office for E-business in Munich, Germany. He has a Masters Degree in Information and Telecommunications from Paderborn University in Germany and was consistently nominated as one of Australia's most influential engineers by Engineers Australia magazine between 2004 and 2010.

From July 2013 to February 2015 Albert served as the Chair of META, an independent organisation that was funded by the Federal Government and represented the interests of Australian manufacturers across the nation. META was established to generate innovative thinking and collaboration across manufacturing to target job growth, enhance productivity and increase export opportunities for Australian Manufacturing companies.

Special Responsibilities

Member of the Audit & Risk Committee and the Remuneration & Nomination Committee.

Georganne Hodges

Bachelor of Business Administration in Accounting from Baylor University, CPA (Texas), Member of National Association of Corporate Directors (NACD)

Independent Non-Executive Director

Age: 53 years
Director since 26 October 2016
2.5 years' service

Skills and experience:

Georganne brings over 25 years of wholesale and retail energy experience, including extensive industry experience across the energy value chain leading the finance, accounting and other back office operations of medium to large North American wholesale and retail energy companies.

She is currently Chief Financial Officer (CFO) for energy refining and marketing company Motiva Enterprises, based in Houston Texas and a board member for Big Brothers Big Sisters Lone Star, a non-profit volunteer youth mentoring organisation.

Prior to mid-2016 Georganne was CFO and Treasurer for Spark Energy Incorporated (Nasdaq: SPKE), a US natural gas and electricity supplier serving residential and commercial customers in 16 states, where from 2013 she was responsible for corporate financial reporting, risk management, accounting, financial planning and analysis, treasury, tax and internal controls. During her time there, she successfully completed the company's initial public offering as well as several acquisitions. Prior to joining Spark Energy, Georganne served as Vice President Finance for US company Direct Energy's retail energy business from August 2009 to October 2012 and in various other senior financial roles prior to that. Georganne began her finance career in 1987 with Arthur Andersen, where she audited companies across the energy value chain.

Georganne also holds memberships with TXCPA Houston, a chapter of the Texas Society of Certified Public Accountants, and the Women's Energy Network.

Special Responsibilities

Member of the Audit & Risk Committee.

Antonino (Tony) Iannello

BCom, FCPA, SFFSIA, Harvard Business School Advanced Management Program, FAICD

Independent Non-Executive Director

Age: 61 years
Director since 19 July 2010
9 years' service

Skills and experience:

Tony brings more than 30 years of banking and energy experience to ERM Power's Board. Tony is Non-Executive Chair of D'Orsogna Ltd and GSB Management Pty Ltd, and a director of Juniper Aged Care Services. He has prior experience as Non-Executive Chair on each of the boards of Empire Oil & Gas NL, Energia Minerals Ltd, HBF Health Ltd and the MG Kailis Group of Companies, a director on the boards of AusNet Services Ltd and the Water Corporation of Western Australia, and was a member of The Murdoch University Senate. Prior to embarking on a career as a non-executive director, Tony was the Managing Director of Western Power Corporation until its separation into four separate businesses. Previously he held a number of senior executive positions at BankWest.

Listed company directorships in the last three years:

Empire Oil & Gas NL (Chair)
November 2013 – March 2018

Special Responsibilities

Chair of the Audit & Risk Committee and member of the Remuneration & Nomination Committee.

Board of Directors (continued).

Philip St Baker
BEng, MAICD

Non-Executive Director
Age: 51 years
Director since 14 July 2017
2 years' service

Skills and experience:

Philip is an experienced entrepreneur active in Australia and the USA. In addition to the listed company directorship below, he is a director for the St Baker Energy Innovation Fund. He was previously Managing Director of ERM Power for eight years to 2014 overseeing the development of over $2 billion of power generation assets, and the creation and expansion of ERM Power's retail business. Prior to that Philip had a 16 year career with BHP Billiton gaining international experience in the resources sector including mining, processing, smelting and refining.

In 2014 Philip received the Ernst & Young Queensland Entrepreneur of the Year Award for Listed Companies and was a nominee for the Australian Entrepreneur of the Year. Philip is also a member of State Advisory Board of Queensland for the Starlight Children's Foundation.

Listed company directorships in the last three years:

NOVONIX Limited (MD & CEO)
Since August 2015.

Special Responsibilities

Member of the Remuneration & Nomination Committee.

Jon Stretch
BSc (Melb), MAICD

Managing Director & CEO
Age: 55 years
Director since 2 February 2015
4.5 years' service

Skills and experience:

Jon joined ERM Power as Managing Director and Chief Executive Officer (MD & CEO) on 2 February 2015. He plays an advocacy role in the broader energy industry speaking at various events such as the Australian Energy Week.

Jon is an experienced chief executive with broad international experience in the information technology (IT), telecommunications and industrial sectors. His background in systems and process engineering, and business-to-business (B2B) and business-to-consumer (B2C) sales and marketing has enabled him to lead business transformation and growth in Australia and internationally.

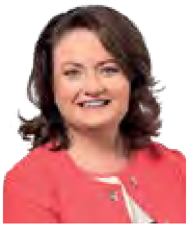
Prior to joining ERM Power, Jon was the Executive Vice President, Europe, Middle East and Africa (EMEA) for Landis+Gyr, the leading provider of smart metering and energy management solutions globally. Jon joined Landis+Gyr as Executive Vice President Asia Pacific in January 2008 and in April 2010 moved to Switzerland to take up the EMEA position.

Prior to joining Landis+Gyr, Jon was CEO of AAPT, an Australian based telecommunications company, wholly owned by Telecom New Zealand and was based in Sydney. He has had extensive experience in Asia and Europe in IT and telecommunications, starting his career with IBM in Australia in 1986. He spent six years in Hong Kong with IBM and AT&T running substantial cross regional telecommunications services businesses, and several years running AT&T's business across Europe, Middle East and Africa, based in Paris.

Special Responsibilities

Chair of the Health, Safety, Environment & Sustainability Committee, the Workplace Health & Safety Committee, and the Enterprise Risk Committee.

Executive team.



Michelle Barry

BBus

Executive General Manager, Corporate Affairs

Michelle is responsible for ERM Power's investor relations, human resources, regulatory affairs and communications programs. Michelle has more than 20 years' experience in media, strategy and corporate affairs roles across the energy and financial services sectors in Australia and the United Kingdom.

Gregg Buskey

BE (electrical), PhD, GAICD

Executive General Manager, Corporate Finance & Strategy

Gregg is responsible for strategy development, corporate financing and M&A activities, each critical to the business strategy underpinning ERM Power's growth and business plans. Gregg has more than 14 years' experience in the energy industry and prior to that worked in robotics.

Phil Davis

LLB, AGIA

Group General Counsel and Company Secretary

Phil heads up ERM Power's in-house legal team and supports the Board as Company Secretary. Phil is a qualified lawyer in Australia and the United Kingdom and specialises in the corporate, construction, property, energy and resource sectors.

David Guiver

GAICD

Executive General Manager, Wholesale Energy Markets

David leads a team of energy trading specialists who source competitively priced energy risk management products. David's team is also responsible for the commercial operations of the Company's power station assets. David has over 20 years' experience in electricity trading and retailing.

Megan Houghton

BCom, BA (Economics), GAICD

Executive General Manager, Energy Solutions

Megan is responsible for the Company's Energy Solutions business, which delivers integrated energy management solutions to business, government and industrial customers. Megan has over 20 years' experience in consulting, government, energy and water utilities leading business strategy, growth and transformation.

Derek McKay

MBA, BE (Mech), GAICD

Chief Information Officer & Executive General Manager, Generation

Derek manages teams across ERM Power's two gas-fired peaking power stations, and the Company's technology strategy, including infrastructure support and software development. Derek has more than 25 years' experience in the Australian gas and electricity industries.

Steve Rogers

B.Comm, MAICD

Executive General Manager, Energy Retail (AU)

Steve leads the retailing business in Australia, which is responsible for the acquisition, retention and growth of the commercial and industrial customer base. Steve previously held commercial roles in the utilities sector and started his career as an accountant. He has more than 17 years' experience in the energy industry.

James Spence

B.Sc, CA

Chief Financial Officer

James is responsible for ERM Power's group financial operations and risk management. James has experience in power generation, energy retailing and trading businesses in Australia, the US and United Kingdom. He has held CFO and Finance Director roles in energy businesses in Australia, UK and North America.

Our business model.

Capital (resources)

FINANCIAL
We seek to efficiently source and use funds generated from operations or investments or obtained through financing.

ENERGY MANAGEMENT
We seek to maximise customers' energy productivity by addressing both the supply and demand side of the energy equation.

PEOPLE
We continually work to develop the competencies, capabilities and talent of our people, who underpin our success.

INTELLECTUAL
Our knowledge-based assets includes our brands, proprietary technology, systems and processes.

PHYSICAL
Our power stations are important inputs to our value creation processes and we manage them safely, efficiently and effectively.

SOCIAL AND RELATIONSHIPS
We will protect and enhance our reputation with our stakeholders, ensuring continuation of our licence to operate.

Value added by

ENERGY RETAILING
We work with businesses and brokers to deliver efficient, timely and cost-effective electricity supply over a defined contract period. We rely on our supply chain for a number of inputs into our businesses including energy solution products and renewables certificates.

PRODUCTION OF ENERGY PRODUCTS AND SERVICES
We develop, deliver, install and monitor a range a energy solutions that help businesses manage their energy more efficiently, and reduce their business costs.

SERVING CUSTOMERS EFFECTIVELY
Through our active customer management, accurate billing and technical innovations, we ensure customer satisfaction and build mutually-beneficial long-term relationships.

WHOLESALE MARKETS
We efficiently source electricity and green certificates for our customers and manage risk through our trading practices.

ENGAGING AND ENABLING EMPLOYEES
Highly engaged and enabled people create high-performing organisations.

SERVING COMMUNITIES
By providing products that meet our customers needs and operating a responsible, sustainable business, we create value for the communities where we operate.

INDUSTRY LEADERSHIP
We advocate on behalf of businesses and seek to amplify their voice.

PARTNERSHIPS
We develop mutually beneficial partnerships which support our business objectives.

SUSTAINABILITY
Energy management products and services help customers drive down costs and emissions to meet sustainability targets.

Our business model defines the activities that we are engaged in, the relationships we depend on and the outputs and outcomes we aim to achieve in order to create value for all our stakeholders in the short, medium and long term.

Value created

EBITDAF
$90.5m

DIVIDEND YIELD
6.9%[1]

CUSTOMER SATISFACTION
88%

LOAD SOLD
17.7TWh

EMPLOYMENT
319

MW OF RENEWABLE ENERGY SUPPORTED
~200MW

ENGAGED WORKFORCE SCORE
73 SCORE ENGAGED AT HIGH-PERFORMING GLOBAL NORMS

ENABLED WORKFORCE SCORE
77 SCORE ENABLED AT HIGH-PERFORMING GLOBAL NORMS

TARGETING CUSTOMER ENERGY SAVINGS OF
25%

1. Ordinary dividends based on share prices at 30 June 2019.

Value shared

SHAREHOLDERS
By managing all inputs into our business well, we create profits which benefit shareholders through dividend payments and share value.

GOVERNMENT
We contribute to state and federal government monies through tax contribution.

SUPPLIERS/ BUSINESS PARTNERS
As we create value, we support businesses throughout our value chain, and job creation beyond our business.

STAFF
Engaging, developing, recognising and rewarding our staff helps us secure and retain a skilled, energetic and motivated workforce.

COMMUNITIES
The communities where we operate benefit through job creation, tax payments, useful products, services, minimisation of environmental impacts and philanthropy programs.

CUSTOMERS
We build value for our customers' businesses through the efficient and cost-effective provision of electricity and energy solutions.

INDUSTRY
ERM Power executives and regulatory specialists actively participate in advocacy and government relations opportunities, sitting on various consultative forums, writing regulatory submissions and engaging with strategic stakeholders.

Our Strategy.

Customer

Improving energy productivity through the ERM Power One Customer experience

By end to end energy management, from electricity contracting to integrated energy solutions

Supply Side through Retail

- Mitigating the risk of price volatility for business customers
- Providing visibility of wholesale electricity market
- Aligning to customers' environmental, cost and energy profile objectives
- Delivering new financial instruments to support renewables

RETAIL, WHOLESALE MARKETS, GENERATION, ENERGY SOLUTIONS

Demand Side through Energy Solutions

- Improving the efficiency and productivity of business customers' energy consumption
- Using digital channels and advanced data analytics to simplify energy choices
- Helping customers save money, reduce consumption, improve sustainability, generate revenue from existing assets and improve their energy literacy

Taking a holistic view of the customer to meet their supply and demand challenge.

INFORMATION & ADVICE
- Ease of access to relevant information
- Advice on tariffs, wholesale markets and operational matters (e.g. adding new connections)

ACCOUNT MANAGEMENT
- Single point of contact
- Customer relationship focus and customer advocacy

FLEXIBLE RISK MANAGEMENT
- Flexibility to adapt contracting arrangements
- Strategic procurement (STEP) giving customers the freedom to choose how they manage their exposure

EASE OF DOING BUSINESS
- Billing excellence
- Operational excellence

• CONSISTENT SERVICE MODEL • INTEGRATED BILLING AND ON-BILL FINANCING • TRADING PROVIDING WHOLESALE MARKET EXPERTISE

e.g. Demand Response, STEP, Corporate PPAs, Risk Management Tools, Solar Shapes, Network Tariff Optimisation

ADVISE
Data-driven professional services provide integrated technical and commercial solutions to drive energy productivity

DELIVER
Delivery of technical and commercial solutions with quality assurance, ease of implementation and financing arrangements to suit the customer's objectives

TRACK
Understand and optimise performance of assets and energy usage including reporting and verification on initiative outcomes relative to the objectives

Our Values: Simplify, Amplify, Exemplify.

Corporate social responsibility.

1. Leadership

Approach

ERM Power takes an industry leadership position to bring balance to what are complex and dynamic policy debates and challenges. With 22 percent share by load of the Australian business electricity market and market-leading customer satisfaction, the Company's credibility in public policy is founded on customer advocacy and insights, deep knowledge of industry processes, diverse business interests and a direct approach.

Operating in this highly regulated sector, anticipating and influencing public policy is critical to successful business strategy development and execution. ERM Power executives and regulatory specialists actively participate in advocacy and government relations opportunities, sitting on various consultative forums and working groups, writing regulatory submissions and engaging with strategic stakeholders. ERM Power also utilises peak bodies, including the Australian Industry Group and the Energy Efficiency Council to amplify its voice across the sector.

Policy environment in 2019

Over the past year, policy makers have focussed on enhancing reliability in the National Electricity Market through the development of the Retailer Reliability Obligation to ensure there is sufficient supply at times of high demand. There has also been a continued attention on transparency in the retail market through the Australian Competition and Consumer Commission's investigation into energy prices and the implementation of several rule changes through the Australian Energy Market Commission. There are several other major reforms being introduced which present opportunity for ERM Power given the Company's expertise in this physical and financial energy market.

Against this backdrop, ERM Power took opportunities to effectively inform and influence policy makers towards more practical and workable outcomes on energy policy which support the community, investors, customers and the business.

ERM Power's key policy principles

Whether discussing day-to-day obligations or the sector's future more broadly, ERM Power maintains a strong principled approach to advocacy. Priority principles are:

- Enduring, bipartisan, national energy policy, to support greater investment certainty;
- An efficient and orderly transition to a low-emissions energy sector, recognising gas-fired electricity generation as a vital support to intermittent renewables;
- Competitive and technology neutral policies, to provide an even playing field to meet sectoral objectives; and
- Supporting both supply and demand-side measures to improve market efficiency and reliability at lowest cost, to support customers.

These are integral to creating a sustainable energy market into the future.

2. Customers

ERM Power continues to deliver outstanding customer service. The Utility Market Intelligence survey[1] reported 88% satisfaction from ERM Power's large business customers, and yet again ranked ERM Power No.1 in customer satisfaction against its peers. This marks the eighth consecutive year that ERM Power has dominated other retailers in this survey.

Broker satisfaction is similarly impressive with industry leading satisfaction and a No.1 ranking against other retailers as shown in the Markets and Communication Research (MCR) survey[2].

1. Utility Market Intelligence (UMI) Survey, February 2019.
2. Markets and Communication Research (MCR), February 2018.

3. Workplace

Employee Engagement and Enablement

ERM Power has a point of differentiation and enduring competitive advantage in its engaged and enabled workforce and culture.

The employee survey administered independently by Korn Ferry Hay Group in February 2019 resulted in a 98% participation rate and showed that engagement and enablement are at global high-performing norms.

ERM Power rated at or above global norms in critical areas including quality and customer focus, working together, leadership, demonstrating care and concern for employees and clear and promising direction.

Like previous surveys, strong emphasis is being placed on further improving the workplace experience based on employee feedback, with learning and development and connected conversations selected as the key areas of focus out of this year's survey.

Supporting staff wellness

Maintaining a healthy workforce by supporting employee wellbeing has positive outcomes for both employees and ERM Power.

ERM Power offers a range of workplace programs, policies and facilities to support personal wellness. Initiatives include regular wellness focused education sessions to equip employees with the tools and knowledge required to promote balance across key life domains including relationships, nutrition, financial security, sleep and exercise. ERM Power's flexible working policy further supports wellbeing and has been promoted at all levels to ensure employees are aware of the options available to them. Employees and their families also have access to the Employee Assistance Program in the event they need further support on personal or work-related matters.

Corporate social responsibility (continued).

Safety

Safety is the top priority across ERM Power's locations. Safety measures are reported to and considered by the Board each month, including any first-aid treatment, near misses, and lost-time injuries.

Safety is the first Key Performance Indicator (KPI) for all power station personnel. On-site staff participate in regular safety meetings, safety procedure reviews, and drug and alcohol testing. All corporate staff complete regular online Workplace Health and Safety training modules and participate in monthly briefings.

In FY2019 ERM Power again celebrated an excellent safety record. Across both Neerabup and Oakey power stations, there were no lost-time injuries or medical treatment injuries.

Diversity

ERM Power is committed to diversity in the workforce and has been actively managing a gender diversity program since 2016. This annual diversity update highlights the progress made and the opportunities and challenges still being addressed. It's clear that targets, regular reporting, activity to deliver change, transparency and communication are all important aspects of delivering a new norm.

Board and employee diversity is the responsibility of the Remuneration & Nomination Committee and is a focus for the executive and leadership team.

ERM Power continues to make positive progress towards its diversity targets set by the Board and has since added additional internal targets which are reviewed bi-monthly at the executive level.

Recognising that leadership starts at the top of an organisation, on 1 March 2019 Julieanne Alroe was appointed Chair of the ERM Power Board. Having a female chair places ERM Power into a small group with only 5% of ASX 300 companies[1] with a female chair. With two female directors, ERM Power also meets the 30% minimum gender board composition requirements.[2]

As at 30 June 2019, women represent 44% of the total ERM Power workforce[3] compared to 43% at the same time last year. Strategic initiatives and hard targets to support diversity objectives were set at the beginning of the year (prior to the purchase of Out Performers).

1. Source: The Watermark Search International Board Diversity Index 2018.
2. Recommendation 1.5 of the ASX Corporate Governance Principals and Recommendations 4th edition.
3. Excluding non-executive directors and inclusive of the Out Performers group in 2019 and US personnel in 2018.

Targets

1. **EMBED** formal talent identification and succession planning (in place);
2. **ENSURE** a woman is on the shortlist for all vacant roles (73% achievement FY2019);
3. **SPONSOR** scholarships and events that build recruitment brand and Employee Value Proposition (achieved and ongoing);
4. Actively **SUPPORT** flexible working arrangements (policy in place and being communicated and role modelled);
5. 65% of **NEW HIRES** to be women (57% of new hires and 56.3% of all appointments FY2019);
6. 50% of **PROMOTIONS** to go to women (43% FY2019);
7. 40% of **MANAGER ROLES** to be occupied by women (40% FY2019);
8. All remuneration, promotion and succession to be **ACTIVELY CONSIDERED** through the lens of gender diversity (actively managed); and
9. **ACHIEVING** gender diversity in the composition of the Board to have not less than 30% of its directors of each gender (achieved in March 2019).

The achievement of outcomes is being driven by enduring behavioural change. This includes:

- Seeing diversity as a benefit that candidates bring to the organisation and culture, and supporting this through education such as unconscious bias training;
- Changing recruitment activity to cast a broader net and engage those who would otherwise be excluded;
- Presenting the recruitment brand differently to have broader appeal;
- Sponsoring scholarships and events that build ERM Power's recruitment brand and demonstrate the Employee Value Proposition e.g. Women in Energy and Industry and QUT scholarships for women in technology;
- Embedding career development and succession planning supported by a dedicated Learning and Development program;
- Undertaking remuneration reviews and incentive scheme moderation, giving active consideration to diversity; and
- Encouraging networking opportunities, actively encouraging female applicants for roles and building confidence and commercial acumen through Women in Leadership programs.

Achieving gender equity will be an ongoing focus. There is a need to improve gender balance at every level and in every part of ERM Power. IT and Energy Solutions pose challenges as the 'war on talent' is particularly evident in the technology and engineering professions. ERM Power recognises that improving the gender mix in all areas of the business will take some time, but targets and activities drive outcomes.

Gender Pay Gap

ERM Power submits a report for the year to 31 March annually to the Workplace Gender Equality Agency (WGEA). A gender pay audit was completed during the period for base salary levels using WGEA job categories reflecting a pay gap greater than 9% in five of the 12 WGEA job categories. The pay gap has reduced in the past two years due to the changing gender mix across the business, including at senior levels, but remains challenging in the Professionals and Other Managers categories. These both have diverse groups of professions in which women are over represented in the typically lower paid professions and men over-represented in the higher paid professions. ERM Power also has had more women join the organisation though at more junior levels in recent years while senior roles have had lower turnover. The targets and programs of work outlined above aim to improve the gender mix and build the talent pipeline through to senior levels while addressing pay gaps.

ERM Power's report for the Workplace Gender Equality Agency is available on the company website, along with the company-wide Diversity Policy.

Corporate social responsibility (continued).

4. Community

ERM Power actively seeks to engage with and give back to the communities in which it operates. In 2017, ERM Power launched its 'Power of Giving' sponsorship program as a formal channel for community support and engagement and continues to honour that program by supporting a wide array of charitable causes throughout the country. Staff are also encouraged to utilise volunteer leave to support charitable causes.

Initiatives supported by ERM Power staff in FY2019 include:

- Over $106,000 raised through the **Vinnies CEO Sleepout** event in Brisbane in 2019. In addition to participating each year, CEO Jon Stretch is a CEO Sleepout ambassador, helping to raise awareness for the issue of homelessness while encouraging his peers to participate.
- In 2018 ERM Power became a sponsor for **Robogals Brisbane**, an international student-run organisation that aims to inspire, engage and empower young women to consider studying engineering and related fields.
- The Neerabup Power Station team took advantage of ERM Power's volunteer entitlement to support **Manna Inc.** – a charitable organisation that aims to provide hope and dignity to Perth's hungry and under privileged. The team prepared 130 meals which were delivered to those in need at Weld Park in Northbridge WA.
- ERM Power continues its long-term support of **indigenous education** programs at The Armidale School in New South Wales and Geelong Grammar School in Victoria.
- The team at Neerabup Power Station continued its support of the **Black Dog Institute** to help heighten awareness of important mental health issues.
- In late 2018 ERM Power launched its **Green Team** initiative, a staff-led program that brings together like-minded people who want a greener future. Green Team members have organised a variety of projects with the aim of educating and improving ERM Power practices when it comes to sustainability and waste reduction. A national office clean-up week helped identify e-waste, paper waste, and unused stationery, which was then disposed of responsibly or donated to those in need.
- ERM Power people have thrown their support behind the **Red25 Red Cross Blood Donation** program in 2019 and have helped save the lives of 81 people through blood and plasma donations. Red25 is a life-saving social responsibility program where workplaces, community groups and universities around Australia unite to save lives through blood donation. Together, Red25 members work towards ensuring that 25% of Australia's blood donations are secured.

5. Environment & climate change

As a diversified energy company, ERM Power recognises the potential for its business to both burden and protect the natural environment. This influences how the Company runs its business, as well as the products and services offered to customers. The Company is technology agnostic and has a public position of supporting efforts to develop the electricity market to deal with the three imperatives of reliability, affordability and emissions reduction. The Company's Business Model is aligned to supporting the largest energy consumers in the country to improve energy productivity, lower their emissions and meet the challenges of climate change.

ERM Power is helping build a more sustainable energy market and environment by:

- Owning and operating gas-fired power generation which supports the transition to intermittent, renewable generation;
- Writing offtake agreements underpinning wind and solar power;
- Negotiating Corporate Power Purchase Agreements (PPAs) to help businesses incorporate more wind and solar into their energy mix;
- Creating new renewables financial instruments which support renewables projects;
- Building an Energy Solutions business and creating a new solutions market that's showing commercial and industrial energy consumers how to use less energy and improve energy productivity.

ERM Power believes:

That climate change is **REAL**.

In the **SCIENCE** behind climate change.

That climate and energy are inextricably **LINKED**.

That **RENEWABLES** are the future.

That ERM Power can **PUNCH ABOVE ITS WEIGHT** in helping Australia cut emissions.

The quickest and cheapest way to **CUT EMISSIONS** is to use less energy.

Image: Twenty children took part in a fun and engaging workshop run by Robogals Brisbane in ERM Power's Brisbane office in early 2019.

Gas fired peakers supporting renewables

ERM Power does not own or operate coal-fired generation. The Company operates two gas-fired peaking power stations, Oakey (Queensland) and Neerabup (WA), which play a vital role in the transition to renewables by providing fast-ramping support for intermittent generation.

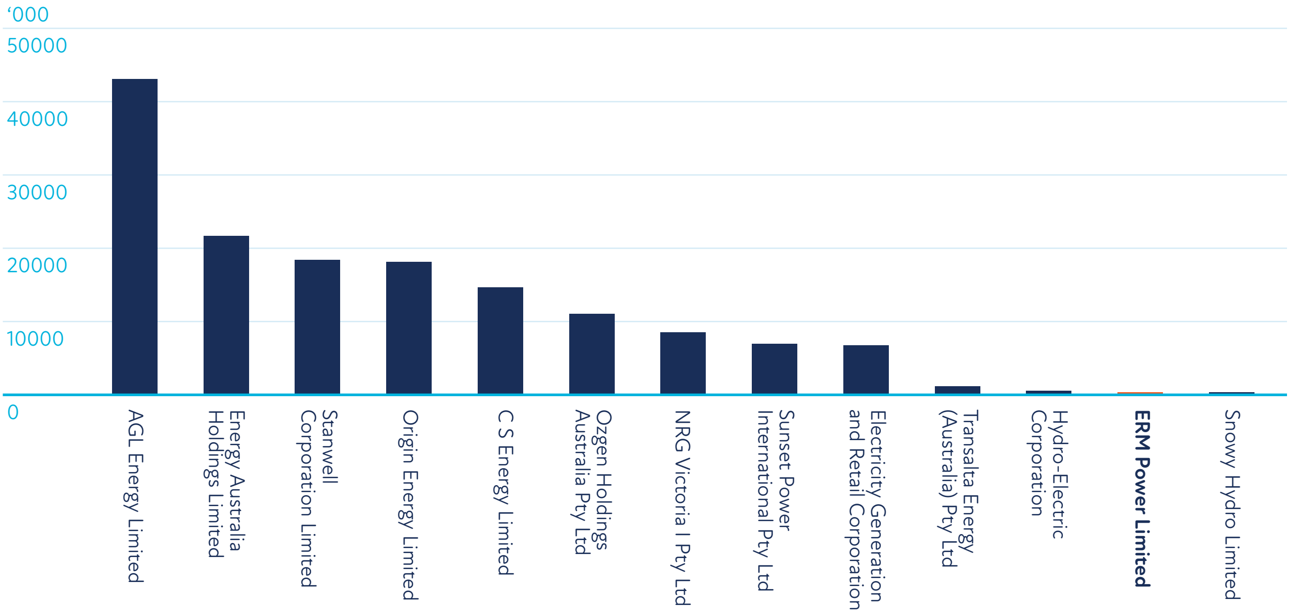
Emissions comparisons

Corporations registered under the National Greenhouse and Energy Reporting Act 2007 (NGER Act) must report their greenhouse gas emissions, and energy production and consumption to the Clean Energy Regulator, by 31 October each year.

ERM Power's generation assets have historically produced circa 200,000 t CO2-e per annum in total. This equates to ~0.1% of Australia's emissions from the electricity sector, or approximately 0.035% of Australia's total carbon emissions. The emission intensity of ERM Power's generation assets are approximately 0.6 t CO2-e/MWh which is lower than the average intensity of the sector.

For the 2017-18 year ERM Power reported 201,482 t CO2-e, which is compared to an extract of other industry participants below[1]:

2017-18 Total Scope 1 Emissions (t CO2-e)



1. Extract from information as reported to the Clean Energy Regulator as at 28 February 2019. Scope 1 emissions are direct emissions from owned or controlled sources.

Corporate social responsibility (continued).

Reducing customers' consumption, emissions and cost

ERM Power considers it both a business opportunity and a social responsibility to enable customers to lower their carbon footprint through smarter energy usage.

ERM Power helps customers manage the volatility of the energy markets on the supply side through their power contracts and on the demand side through energy efficiency and productivity initiatives.

With its growing Energy Solutions portfolio, ERM Power makes it simple for organisations to take charge of their energy and make smarter choices. The Company helps to relieve organisations of the stress of energy management – cutting through the complexity to develop tailored solutions and help them achieve better energy and business outcomes. When businesses take charge of their energy needs they save time and money, and can remain focused on their business.

ERM Power provides customers with a full suite of practical and affordable energy solutions to reduce their environmental impact and improve energy efficiency, as part of their day-to-day operations. The Energy Solutions portfolio includes data-driven advisory services, project management and digital services to help customers cut power bills, promote sustainability and energy productivity.

ERM Power partners with pre-qualified suppliers to provide end-to-end, turn-key solar solutions that can be implemented individually or as part of the overall energy productivity mix. In 2019 ERM Power and Solpod Pty Ltd brought innovation to the commercial solar market through Solpod, a world-first mobile method of deploying and installing large-scale rooftop commercial solar installations.

The Company helps customers meet their environmental commitments by offering Government-accredited renewable energy under the GreenPower Program. This allows customers to make voluntary contributions above and beyond what otherwise would have occurred.

Supporting renewables infrastructure

ERM Power has entered into offtake agreements with developers of wind and solar farms.

ERM Power's investment ensured construction of Edify Energy's 58MW Hamilton Solar Farm in regional Queensland and Nexif Energy's Lincoln Gap Wind Farm in SA (126MW). The Lincoln Gap project is expected to offset approximately 680,000 tonnes of carbon emissions annually.

The Company has launched new-generation financial instruments into the market to support developers of renewables infrastructure and corporate customers, and in 2019 launched a corporate renewable power purchase agreement product to facilitate easier access to renewable energy sources for commercial and industrial customers.

Renewables as the way of the future

ERM Power advocates the need for integrated and coordinated national energy policy, and promotes the efficient use of energy and resources and the minimisation of waste and emissions. The Company understands that reducing emissions from the electricity sector is an important part of a long-term plan to reduce greenhouse gas emissions.

ERM Power continues to call for an orderly transition to low emissions electricity generation, with the closure of existing high-emission generators forming part of a pathway to a low emissions economy.

The Company is a signatory to Take2, the Victoria State Government's climate change pledge program.

The opportunities for supporting the transition to a lower carbon economy in the energy market and for customers, provides ERM Power with substantial business opportunity but also a tangible way to help meet the government mandates in place being:

- The Renewable Energy Target (RET) stipulating that by 2020, 20% of Australia's energy is produced by renewable sources; and
- Australia's pledge to reduce emissions by at least 26% below 2005 levels by 2030 as part of its commitment to the Paris Agreement.

Power Station Environmental Compliance

As operators at Oakey and Neerabup power stations, ERM Power is responsible for ensuring compliance with environmental licence conditions. The Company regularly monitors and reports on a broad range of environmental factors, including air and water quality, waste management, emissions of greenhouse gases and other pollutants, pest control, and chemical use.

During FY2019 there were no reportable environmental incidents, nor were there any breaches of any environmental licence conditions at either plant.

FY2019 Environmental Snapshot[1]

Power Station	Generation (GWh)	Scope 1 Emissions (tCO_2-e)	Environmental incidents	Water discharge strategy
Oakey Power Station	16.9	11,727	Nil	Discharge reused for farmland irrigation (salinity controlled if required).
Neerabup Power Station	185.3	114,098	Nil	Nil discharge – waste water is evaporated.

1. Preliminary data.

As peaking power stations, operation and output varies significantly each year as the Company responds to market signals. Accordingly, greenhouse gas emissions from the power stations can also vary significantly. ERM Power maintains high efficiency standards to manage both operational and environmental impact and continually looks for ways to become more efficient and effective in its operations.

Renewable Energy Target Compliance

ERM Power is committed to playing its part in the transition to a less emission-intensive energy sector.

The Renewable Energy Target requires electricity retailers like ERM Power to acquire regulatory certificates from renewable energy generators. Retailers may achieve compliance under the large-scale renewable energy target scheme by either surrendering the required number of certificates to the Clean Energy Regulator, or by paying a charge for the shortfall in surrendered certificates. Scheme legislation provides a three-year window whereby a retailer may surrender large-scale generation certificates (LGCs) and receive a refund for any charge previously paid.

For the 2018 compliance year, ERM Power achieved compliance by surrendering approximately 2.9 million LGCs. ERM Power chose to surrender certificates to cover the entire 2018 compliance year liability and there was no shortfall charge payable.

6. Risk framework and management

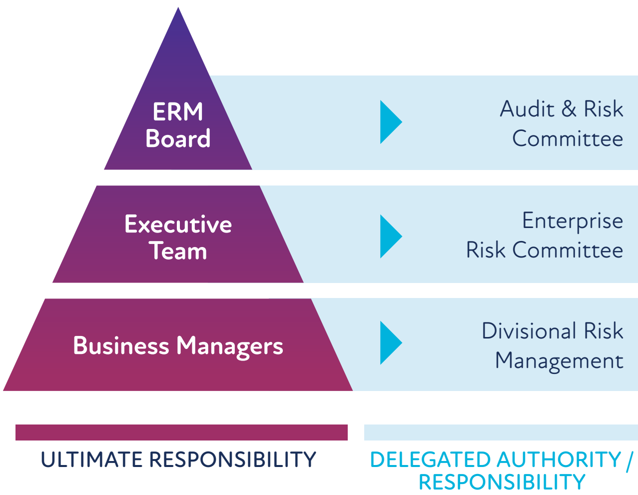
Group risk

ERM Power recognises that risk is an inherent part of its business and that it is exposed to a range of strategic, financial and operational risks. These risks arise from both the external environment in which the Company operates, and its own business and investment decisions. ERM Power does not seek to eliminate these risks; rather it looks to manage and mitigate them, and use them to create opportunity, ensuring the potential range of outcomes is acceptable.

Risk management framework

Effective risk management requires that risk assessment and decision making is introduced into all functions of the business and through all stages of decision making, whether it be strategy, planning, delivery of projects or operation of assets.

All ERM Power staff are responsible for, and empowered to, take ownership of risk management within their function and for their level of responsibility. This organisation-wide adoption of risk management principles and practices is encouraged and promoted by the ERM Power Board and the executive team. Final accountability and authority for the Risk Management Framework Policy and decisions rests with the Board.



ERM Power's Risk Management Framework Policy is publicly available on the Company's website: www.ermpower.com.au/about-erm/corporate-governance/

Corporate social responsibility (continued).

Material business risks

ERM Power's Enterprise Risk Committee reviews business risks, potential impacts and mitigation programs on a quarterly basis. Key business risks are summarised in no order of significance as follows:

Strategic risks

Risk	Potential Impacts	Mitigation
Industry risk	An evolving industry structure, highly competitive retail environment and technological changes in the generation and delivery of energy pose risks and opportunities for the business model.	• The business model includes diversification of service and product offerings and geography of operations. • The business generates revenue on both the supply and demand side. • A focus on superior quality of service offering includes deep retailer broker and customer relationships, data services and bespoke product offerings. • The business model allows for incorporating commercial opportunities arising from an evolving industry.
Regulatory changes	Government policy and regulatory changes create investment and price uncertainty and can result in restrictions or changes to product and service offerings and price structures.	• ERM Power actively monitors regulatory and political developments on a continuous basis and seeks to constructively engage in discussions where appropriate. • ERM Power also has a strong voice in the industry and responds to the regulatory environment via written submissions, participation on industry groups and by representation to regulators, policy makers and politicians, thus influencing outcomes. • Strategy supports new and strategic commercial opportunities which leverage regulatory and policy change.

Financial risks

Risk	Potential Impacts	Mitigation
Commodity price	ERM Power is exposed to fluctuations in wholesale market electricity and renewable energy certificate prices. This can increase cost of procuring energy to meet customer contract requirements.	• Group policies prescribe active management of exposures arising from forecast electricity sales within prescribed limits. In doing so, various hedging contracts have been entered into with individual market participants. • The hedging program includes severe weather event mitigation.
Liquidity in energy derivative markets	Lack of liquidity in the energy derivative market can impact accurate pricing of retail contracts and hedging of retail contracted load.	• The Group undertakes a continual review of market conditions and employs a diverse and dynamic trading strategy which is highly responsive to market dynamics. • ERM Power forms strategic trading relationships with energy generators. • ERM Power can access its own peaking power generation capability.
Power station failure	Prolonged outage of Oakey or Neerabup power stations would lead to a loss of revenue, coinciding with a potentially high cost of servicing derivative hedges.	The Group: • Undertakes a preventive maintenance program. • Has established contingency plans. • Employs fire protection systems and flood plans. • Has security systems to prevent security breaches. • Has an excellent availability record based on maintenance and training.

Image right: Twenty women from ERM Power attended the Great Debate in Brisbane to mark International Women's Day. ERM Power is committed to diversity and fostering an environment that cultivates and nurtures talented women.

Financial risks (continued)

Risk	Potential Impacts	Mitigation
Credit risk	ERM Power could suffer financial losses if a debtor or wholesale counterparty fails to meet contractual obligations.	The Group seeks to limit its exposure to credit risks by: • Conducting appropriate due diligence on counterparties before entering into arrangements with them; • Where appropriate and possible obtaining collateral in line with the counterparties' obligations to the Group; • Preferential contracting with high credit quality derivative counterparties; • Diversification by reducing reliance on particular counterparties; • Reporting and monitoring credit exposures on a regular basis; and • Setting credit limits aligned to assessed credit strength.
Funding risk	A failure to secure or maintain funding would negatively impact on financial performance, business strategies and growth plans.	• Actively consider the level of funding required under the Group's capital management framework, taking into account funding needs based on stress case scenarios. • Maintain existing and identify potential new diversified funding sources and relationships.

Business risks

Risk	Potential Impacts	Mitigation
Talent management and succession planning	An inability to attract and retain talent could impact the Company's future financial performance, as well as hinder the ability to innovate.	• The Company has a robust HR framework in place which includes leadership development and succession planning, career pathway support, a learning and development program, a focus on engagement and enablement and a competitive remuneration program. • An LTI scheme is in place for key staff, which encourages retention as well as high performance.
System failures and cyber risk	A failure of system infrastructure or a cyber-security event may lead to a disruption of operations, a privacy breach, data corruption, theft of commercially sensitive information and damage to reputation.	• The Group undertakes a continual on-going improvement program that includes staff training, system improvements, and reliability measures which include maintenance and systems support. • The Group's approach to cyber security leverages industry best practice set out in Information Security Management standards.
Climate risk	Climate change presents both risks and opportunities to the ERM Power business, through short-term and long-term climate-related physical and transition risks impacting on electricity supply and demand.	• Energy management is an integral part of the Group's business model. In particular, ERM Power seeks to maximise customers' energy productivity by addressing the supply side and demand side of the energy equation. • Its agile business model increases the resilience of the Group to climate risks and takes advantage of the opportunities driven by a need to tackle climate change. • It has diversification of service and product offerings to support sustainability objectives. • Supports the Group's customers and people to transition to a renewable energy future. • ERM Power manages volatile weather events through a range of derivative agreements and through its peaking power stations.

Operating & financial review.

FOR THE YEAR ENDED 30 JUNE 2019

Contents

Financial Year Highlights	30
Outlook and Future Prospects	32
Review of Operating and Financial Results	34
1. Summary of Group financial results	34
1.1 Performance summary	34
1.2 Underlying profit from continuing operations	35
1.3 Cash flow	36
1.4 Balance sheet	37
1.5 Capital management	38
2. Divisional performance review	39
2.1 Business Energy Australia	39
2.2 Business Energy US	40
2.3 Generation	42
2.4 Energy Solutions	44
2.5 Corporate and other	44
Appendices	46
Glossary	49

About ERM Power

ERM Power is an Australian energy business for business. ERM Power provides large businesses with end to end energy management, from electricity retailing to integrated solutions that improve energy productivity. Market-leading customer satisfaction has fuelled ERM Power's growth, and today the Company is the second largest electricity provider to commercial businesses and industrials in Australia by load[1]. ERM Power also operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, supporting the industry's transition to renewables.

ermpower.com.au

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 year ended 30 June 2019 with comparison against the previous corresponding period ended 30 June 2018 (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.

A reconciliation for non-IFRS earnings measure is included in Appendix A1.2.

1. Based on ERM Power analysis of latest published information.

Financial year highlights.

UNDERLYING NPAT[1]

$26.0m

▼ $30.2m FY2018

UNDERLYING EBITDAF[1]

$90.5m

▼ $97.5m FY2018

STATUTORY PROFIT/(LOSS)[2]

$123.1m

▲ ($80.5m) FY2018

DECLARED DIVIDEND
2H FY2019 (fully franked)

4.5cps

▲ 4.0cps fully franked 2H FY2018
12cps fully franked dividends for FY2019
7.5cps fully franked dividends for FY2018

Highlights for the year include:

- Underlying NPAT of $26.0m excluding contribution from the LGC strategy and $42.1m including contribution from the LGC strategy
- Divestment of US business, Source Power & Gas, completed with gross sale proceeds before transaction costs of A$34.9m received
- Acquisition of Out Performers completed in line with the strategy to deploy capital to expand the Energy Solutions business
- Electricity Sales 17.7TWh. Forward sales increased 11% from 28.9TWh at 30 June 2018 to 32.2TWh at 30 June 2019
- Capital Management Program updated:
  - Ordinary dividend annual base level reset from 7c (fully franked) to 9c (fully franked) for FY2019
  - Capital reserved for organic and inorganic growth increased to $60m (from $40m in February 2018)
  - On market share buyback continued up to $15m with total of $10.1m utilised during FY2019 for the buyback
  - Special dividend of 3cps fully franked paid in April 2019

1. All figures continuing operations unless otherwise stated. Refer Appendix A1.2 for reconciliation to statutory earnings.
2. Includes unrealised net fair value gains of $132.3m on financial instruments designated at fair value through profit and loss after tax and a loss from US discontinued operations of $10.8m.

Performance against outlook

		FY2019 Outlook 23 August 2018	FY2019 Outlook 21 February 2019	FY2019 actual	
AUSTRALIA RETAIL	Sales volume	~19TWh	~18TWh	17.7TWh	✗
	Gross margin[3]	~$4.75/MWh	~$5.10/MWh	$5.16/MWh	✓
	Opex	~$22m	~$22m	$20.5m	✓
	LGC strategy	$35m-$45m FY2019/2020	~$16m NPAT FY2019	$16.1m	✓
GENERATION	Oakey EBITDAF[4]	$14-$16m	$14-$16m	$15.2m	✓
	Neerabup EBITDAF[4]	~$26m	~$26m	$27.1m	✓
ENERGY SOLUTIONS	Revenue	~+50% on FY2018	~+50% on FY2018	+25% on FY2018	✗
	EBITDAF	($2.5)m	~($2.5)m	($3.9m)	✗
CORPORATE AND CAPITAL EXPENDITURE	Corporate EBITDAF	~($16)m	~($17)m	($17.7)m	✓
	Capital Expenditure[5]	N/A	~($21)m	($19.5)m	

FY2019 Financial summary

Underlying EBITDAF from continuing operations for the Group decreased $7.0m on prior period EBITDAF of $97.5m. EBITDAF decreased principally due to lower earnings from the Oakey Power Station ("Oakey") of $15.2m (FY2018: $17.0m) and higher corporate costs of $17.7m (FY2018: $14.6m) as the business increased IT spend to drive process improvements and utilise more subscription based cloud computing architecture. EBITDAF from the Australian electricity retail business decreased $1.2m on the comparative period, driven by a lower volume of electricity sold.

Underlying NPAT decreased $4.2m principally as a result of the above EBITDAF movements. Net finance costs were $0.6m higher as a result of an increase in financing facilities used to fund the growth in capital requirements of the Group's Australian electricity retail business. Depreciation costs reduced $2.1m during the year with reduced customer acquisition cost spend following the sale of the Australian electricity retail SME single site customer book in the prior year.

3. Gross margin excludes the impact from LGC strategy.

4. FY2019 outlook included $1.6m generation overhead expenditure.

5. Continuous operations.

The sale of the US business was completed during the period and a loss on sale of A$0.9m after tax is reflected in the overall loss from discontinued operations of A$10.8m. Gross cash proceeds received from the sale were A$37.2m less a final price adjustment of A$2.3m. Transaction costs were A$2.4m with the value of goodwill, customer acquisition costs and derivative financial instruments sold written off against sale proceeds. 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 $123.1m and differs to underlying NPAT largely due to the unrealised net fair value movement in financial instruments and the exclusion of the profit made on the LGC strategy of $16.1m. The after-tax impact of the unrealised fair value movement of $92.6m is a result of increasing wholesale market electricity prices during 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 $10.8m.

Operating & financial review.

Outlook and future prospects.

The outlook for FY2020 is shown in the table below.

	FY2019 actual	FY2020 outlook
Australia retail		
Sales volume	17.7TWh	~18.5TWh
Gross margin	$5.16/MWh	~$5.00/MWh
Opex	$20.5m	~$22m
Generation EBITDAF[1] ($m)		
Oakey	$15.2m	$14-16m
Neerabup	$27.1m	~$26m
Energy solutions ($m)		
Underlying NPAT	($5.5)m	NPAT break-even
Corporate and other costs ($m)		
EBITDAF	($17.7)m	~($18)m
Short surrender strategy ($m)	$16.1m NPAT	$20.7m NPAT
Capex	$19.5m	~$24m

1. FY2020 outlook includes $1.7 million generation overhead expenditure, whilst the actual result in FY2019 was $0.9m.
Medium term (FY20: FY22) Australian Retail gross margin outlook is $4.50-6.00/MWh.

Outlook

Sales volumes in Australia Retail are expected to be ahead of FY2019, which was impacted by the loss of two large low margin customers and the sale of our SME single site book. The mid-case margin of $5.00/MWh is in line with the range previously provided of $4.50-$6.00/MWh. Opex is forecast to be in line with FY2019 after factoring in the forecast load growth of ~0.8TWh.

We anticipate that the large-scale generation certificates (LGC) strategy will deliver further NPAT of $20.7m in FY2020. After recognising NPAT of $16.1m during FY2019 this would see total profit from the strategy of $36.8m, in line with previous guidance. This is not included in the outlook for gross margin.

Our expectation is that generation earnings will be in line with FY2019 for both Oakey and Neerabup.

Energy Solutions is expected to breakeven at the NPAT level in FY2020. This improvement is forecast to be driven by both revenue from the Queensland Government Advancing Clean Energy Schools (ACES) program and from continued growth in the business model, which provides customers the opportunity to realise savings on their energy costs by making investments in energy efficiency.

Corporate costs are expected to remain steady at around $18m, having increased in FY2019 largely driven by higher expensing of IT costs; capex was correspondingly lower than expected at $19.5m.

Future Prospects

ERM Power is at the forefront of helping customers navigate the growing cost, complexity and volatility of energy markets. Our strategy is focussed on meeting customers' end-to-end energy supply and demand needs through innovative advice and products that utilise our expertise, insight, capability and agility.

Customer behaviour is changing as commercial and industrial energy users seek more sustainable energy solutions to meet cost, environmental and value creation imperatives.

Sustainability is fundamental to our business strategy and the way we operate. It isn't simply a policy for ERM Power. Electricity retailing and energy efficiency are what we do. These core functions:

- support customers to manage energy volatility, reduce energy consumption and build energy productivity for cost and environmental benefits; and
- ensure our own business sustainability by doing the right things for customers, the environment and for our own relevance in a rapidly evolving energy sector.

We are focussed on building exceptional customer service and profitable growth in our core retail business, and we're leveraging those customer relationships to deliver more and more sophisticated and innovative energy solutions. This is good for customers and it's good for retention in our core retail business.

The growth of Energy Solutions is adding substantially to the capability of our business across the energy procurement and productivity value chain. We will continue to invest in organic and inorganic growth in this business to build the energy demand management proposition for commercial and industrial energy users in Australia.

The strategic value of ERM Power's two gas-fired peaking power stations – Oakey Power Station in Queensland, and Neerabup Power Station in Western Australia - is evident as the market seeks to manage volatility in an increasingly renewable world. The firming capability and a range of financial products related to these assets places our generation business in a good position as more wind and solar energy enters the market.

ERM Power's capability and assets provide strategic and competitive advantage in an increasingly complex market.

Operating & financial review.

Review of operating and financial results.

1. Summary of Group financial results.

1. Summary of Group financial results

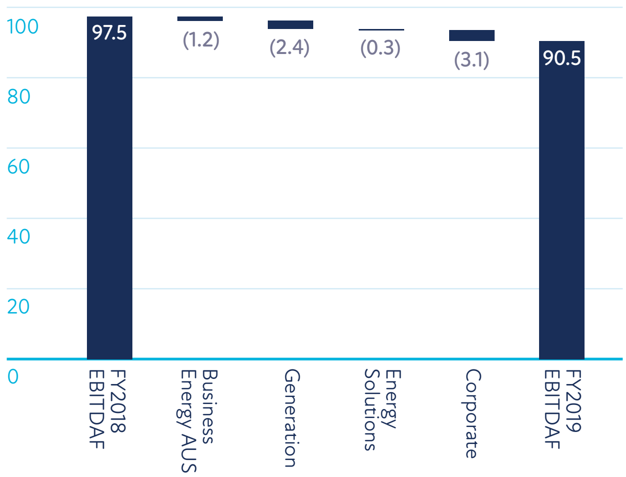
1.1 Performance summary

$m	FY2019	FY2018	Change	%
Business Energy Australia	70.7	71.9	(1.2)	(2%)
Generation	41.4	43.8	(2.4)	(5%)
Energy Solutions	(3.9)	(3.6)	(0.3)	(8%)
Corporate and other	(17.7)	(14.6)	(3.1)	(21%)
Underlying EBITDAF continuing operations[1]	**90.5**	**97.5**	**(7.0)**	**(7%)**
Significant items	(1.1)	-	(1.1)	N/A
LGC shortfall charge refund	5.3	-	5.3	N/A
Statutory EBITDAF continuing operations	**94.7**	**97.5**	**(2.8)**	**(3%)**
Depreciation and amortisation	(28.1)	(30.2)	2.1	7%
Net fair value gain / (loss) on financial instruments	132.3	(108.8)	241.5	N/A
Share of associate profit / (loss) (net of tax)	0.1	0.2	(0.1)	(50%)
Impairment expense	-	(1.0)	1.0	100%
Finance income	3.8	3.1	0.7	23%
Finance expense	(28.6)	(27.3)	(1.3)	(5%)
Profit / (loss) before tax	**174.2**	**(66.5)**	**241.1**	**N/A**
Tax (expense) / benefit excluding short surrender transaction	(52.7)	20.1	(72.9)	N/A
Tax benefit of LGC shortfall charge refund	12.4	-	12.4	N/A
(Loss) from discontinued operations	(10.8)	(34.0)	23.2	68%
Statutory net profit / (loss) after tax (NPAT)	**123.1**	**(80.4)**	**203.8**	**N/A**
Add back:				
Net fair value (gain) / loss on financial instruments (net of tax)	(92.6)	76.1	(169.0)	N/A
Share of associate (profit) / loss (net of tax)	(0.1)	(0.2)	0.1	(50%)
Loss from discontinued operations	10.8	34.0	(23.2)	(68%)
Significant items (net of tax)	0.9	0.7	0.2	29%
LGC shortfall charge refund NPAT	(16.1)	-	(16.1)	N/A
Underlying NPAT continuing operations	**26.0**	**30.2**	**(4.2)**	**(14%)**
Statutory earnings / (loss) per share	**54.00**	**(18.93)**	**72.9**	**N/A**
Underlying earnings cents per share	**10.46**	**12.30**	**(1.8)**	**(15%)**

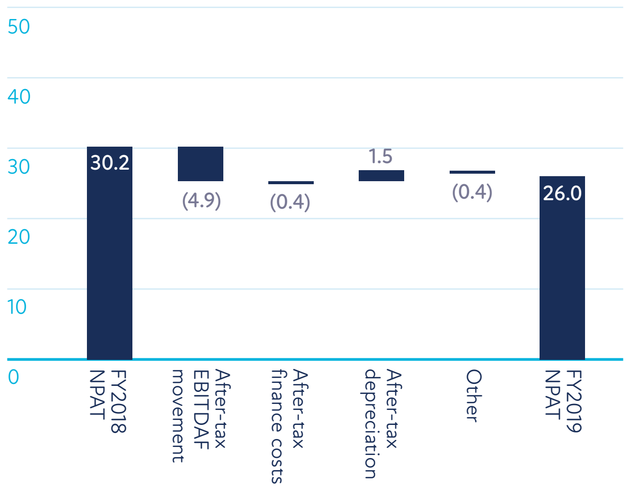
1 Refer Appendix A1.2 for reconciliation to statutory earnings.

1.2 Underlying profit from continuing operations

Underlying EBITDAF Movement $m



Underlying NPAT Movement $m



Underlying EBITDAF from continuing operations for the year was $90.5m compared to $97.5m in the comparative period. The key drivers of the $7.0m decrease were as follows:

- Business Energy Australia earnings decreased by $1.2m on the comparative period driven primarily by a reduction in load sold. During the year, gross margin per MWh increased by $0.26/MWh (5%) driven by both strong performance across all areas of retail operations and the loss of two large low margin customer contracts. Operating costs per MWh remained steady at $1.16/MWh.
- Generation earnings decreased by $2.4m on the comparative period with Oakey earnings $1.8m lower as a result of supressed prices and low volatility in the Queensland market during the year. Neerabup earnings decreased $0.5m on the prior year with milder weather in Western Australia and fewer merchant revenue opportunities during the year.
- Energy Solutions made an EBITDAF loss of $3.9m, an increase of $0.3m on the comparative period loss of $3.6m. Revenue for the period was $21.8m, including revenue of $7.2m from the Out Performers business, acquired in September 2018. The decrease in revenue excluding Out Performers 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. The business also experienced longer sales lead times than anticipated, which has resulted in a strong order book for FY2020 but lower than anticipated earnings in FY2019. Operating costs were $5.0m higher with Out Performers operating costs of $3.7m and higher staffing and IT costs as the business continues to build capability across the business development and advisory functions.

  The business is well positioned with its forward order book to reach breakeven at the NPAT level in FY2020.
- Net corporate and other costs increased by $3.1m 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 as well as move more IT architecture onto cloud platforms. Capex for the year was below expectation at $19.5m reflecting in part higher expensing of IT costs in the period.

Underlying NPAT from continuing operations was a profit of $26.0m, a decrease of $4.2m on the comparative period. The key drivers of the $4.2m decrease were as follows:

- Net after tax impact of EBITDAF movements of $4.9m;
- After tax impact of net finance cost increase of $0.4m, driven by increases in financing facilities used to fund the growth in capital requirements of our Australian electricity retail business; and
- After tax impact of depreciation cost decrease of $1.5m, driven by the discontinuance of SME single site sales and associated customer acquisition asset spend.

Review of operating and financial results.

1. Summary of Group financial results (continued).

1.3 Cash flow

$m	Continuing and discontinued FY2019	Continuing operations FY2019	Continuing operations FY2018	Continuing operations Change
Cash flow				
Operating cash flow before working capital changes	**97.6**	99.4	77.1	22.3
Net working capital changes	**73.2**	88.1	(136.2)	224.3
Operating cash flow	**170.8**	**187.5**	**(59.1)**	**246.6**
Total investing cash flow	**(7.2)**	(26.9)	(31.8)	4.9
Net drawdown / (repayment) of borrowings	**(156.9)**	(156.9)	145.4	(302.3)
Net repayment of leases	**(4.4)**	(4.4)	(4.1)	(0.3)
Finance costs	**(31.9)**	(26.2)	(24.4)	(1.8)
Dividends paid	**(29.2)**	(29.2)	(17.3)	(11.9)
Payments for shares bought back	**(10.0)**	(10.0)	(2.9)	(7.1)
Effect of exchange rate changes on cash and cash equivalents	**0.5**	-	-	-
(Decrease) / increase in cash	**(68.4)**	**(66.1)**	**5.8**	**(71.9)**
Change in net cash / (debt)	**88.5**	**90.8**	**(139.6)**	**230.4**

Operating cash flow before working capital changes of $99.4m was $22.3m higher than the prior year primarily due to a reduction in the tax payments made during the period. Comparative period net tax payments were $24.4m higher as a result of the non-deductible LGC shortfall penalty charge incurred for the year ended 30 June 2017 and paid during FY2018. The benefit of lower tax payments was offset by lower EBITDAF as set out in section 1.2.

Net working capital changes saw the inflow of variation margin cash of $162.9m following wholesale market price changes during the period. This, in contrast with the $118.7m outflow of variation margin cash in the prior year, drove a $281.6m change in net working capital movements from the prior year. The remaining amount of ($57.3m) was driven primarily by lower amounts of accrued derivative and AEMO costs not yet settled at balance date.

Net investing cash outflows decreased $4.9m on the prior year with the prior year investing cash flows including costs associated with Oakey major maintenance of $9.5m. The purchase of the Out Performers business, net of cash acquired, saw cash outflows of $9.3m during the year. A further $2.6m cash was received in respect of the sale of the SME single site customer book, sold during FY2018.

Net financing cash outflows increased on the prior period as a result of an increase in bank fees relating to the increased use of the Liberty surety guarantee facility, the increase of the ANZ facility and $10.1m invested in the buyback of shares ($2.9m FY2018). Dividend payments also increased as the company increased both its final FY2018 and 1H FY2019 dividend and paid a special dividend of 3.0 cents per share during FY2019.

Free cash increased by $31.7m to $99.3m primarily due to the utilisation of the Liberty Mutual guarantee facility and the ANZ facility to meet initial margin requirements on the futures exchange. Discontinued operations cash balances of $10.4m at 30 June 2019 were previously classified within assets held for sale. Restricted cash correspondingly decreased by $87.2m as a result of the aforementioned utilisation of the Liberty Mutual and ANZ guarantee facilities.

1.4 Balance Sheet

$m	FY2019	FY2018	Change
Balance sheet[1]			
Net assets (including assets held for sale)	429.0	249.5	179.5
Net working capital	49.6	(7.0)	56.6
Net capital employed including working capital	472.1	411.5	60.5
Net derivative balances	98.8	(14.3)	113.1
Net cash / (debt)	(9.1)	(108.7)	99.6
Free cash	99.3	67.6	31.7
Restricted cash	72.8	160.0	(87.2)
Borrowings	-	(150.8)	150.8
Borrowings – limited recourse	(181.2)	(185.5)	4.3

1. Continuing operations only unless otherwise indicated

Net assets increased $179.5m from 30 June 2018. This was principally a result of an increase in net derivative balances of $113.1m 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 were reflected in profit and loss. Net cash increased principally from the inflow of variation margin cash posted in the group's favour of $162.9m. Further commentary on net debt is set out on the following page.

Review of operating and financial results.

1. Summary of Group financial results (continued).

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

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 FY2019. In addition, changes to our financing facilities mentioned below, have 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 30 June 2019.

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

During 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 FY2019 is a cash balance of A$10.4m associated with the US operations. As the business is further wound down and remaining working capital items are settled we expect approximately A$5m of this cash to be repatriated for use in our Australian operations.

1.5 Capital management

$m	FY2019	FY2018	Change
Balance sheet			
Ordinary dividends paid (cents per share) during period	8.5	7.0	1.5
Special dividends paid (cents per share) during period	3.5	-	3.5
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 21 February 2019 the Company announced the continuation of the on-market share buy-back for a total consideration of up to $20.5 million. The buy-back commenced on 12 March 2018. At 30 June 2019 $12.8m of capital had been utilised for the buyback with a total of 7.3m shares acquired at a weighted cost of $1.75 per share.

Ordinary dividend

A fully franked final dividend of 4.5 cents per share for FY2019 was declared on 22 August 2019. An interim dividend of 4.5 cents per share was paid on 17 April 2019. Based on the share price at 30 June 2019, total ordinary dividends paid during FY2019 equate to a gross dividend yield of 6.9%.

Special dividend

A fully franked special dividend of 3 cents per share was paid on 17 April 2019. We saw 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. 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

	FY2019	FY2018	Change
Load sold (TWh)	17.7	19.2	(1.5)
Contestable revenue ($'000)	2,033,646	2,046,377	(12,731)
Gross margin ($'000)	91,197	93,938	(2,741)
Opex ($'000)	(20,466)	(22,028)	1,562
Underlying EBITDAF ($'000)[i]	70,741	71,910	(1,169)
Statutory EBITDAF ($'000)	76,027	71,910	4,117
Underlying gross margin $/MWh	5.16	4.90	0.26
Underlying opex $/MWh	(1.16)	(1.15)	(0.01)

i. Refer Appendix A1.2 for reconciliation to statutory earnings.

Operational highlights

Forward contracted load grew 11% from 28.9TWh at 30 June 2018 to 32.2TWh reflecting our continued strong competitive position in the market.

During FY2019, there was a decline in C&I load, which fell by 8% from the prior year. ERM Power has been successful in winning the expected volume of new business, 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 in our $/MWh gross margins for the year and demonstrate our discipline in pricing at economic levels to meet appropriate return requirements. In addition, the sale of our SME 'single site' book and generally lower than expected consumption across our customer base has removed another 0.5 TWh.

1. Refers to the Utility Market Intelligence (UMI) surveys between 2011 and 2019 of large customers of major electricity retailers in Australia by independent research company NTF Group.

Despite these setbacks the current contracted forward load position points to a strong rebound in FY2020 as a renewed focus on our superior service and product mix takes effect.

Our C&I small site division (multisite SME) has rebounded strongly to have 25,216 sites under contract at 30 June. Total load sold was 17.7TWh 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 been completed with total sale proceeds of $3.9m over FY2018 and FY2019.

Contract length in FY2019 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 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.

2. Divisional performance review.

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, pricing and portfolio optimisation all contributed to a gross profit margin of $5.16/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 FY2020-FY2021 period from $4.00-5.50/MWh to $4.50-6.00/MWh.

Our gross margin is a combination of both our written retail margin and portfolio optimisation. During the period a number of electricity futures contracts were settled early for portfolio optimisation reasons resulting in a small net cost being incurred during FY2019. This amount is included in the reported gross margin in the period of $5.16/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 $1.6m on the prior year, driven largely by an improvement in collectability of customer accounts receivable following the sale of SME single sites, lower load sold and 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	FY2019	FY2018	Change
Underlying EBITDAF[1]	(1,794)	173	(1,967)
Underlying NPAT[1]	(8,049)	(19,283)	11,234
Gain on sale before income tax and reclassification of foreign currency translation reserve	1,623	-	1,623

1. Significant items include the loss on sale of assets of $0.9m after tax, an onerous lease provision of $1.0m and impairment of PPE of $1.0m. The comparative period earnings includes the after tax impact of mark to market movements of financial instruments of a $6.9m gain, termination costs in respect of exiting the businesses previous sleeving agreement of $3.7m, the effect of a change in federal tax rates in the US of $7.6m and the deferred tax asset write-down for non-recoverability of US tax losses of $10.3m. Refer Appendix A1.2 for reconciliation to statutory earnings.

Operational performance

The underlying NPAT loss for the period was A$8.0m 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$0.8m are expected to be incurred during FY2020 to complete the wind-up of the business. Cash of A$23.9m was repatriated during FY2019 following the sale of the business. A further A$5m of cash is expected to be repatriated after 30 June 2019.

A$'000	FY2019
Sale proceeds received net of sales price adjustment	34,901
Transaction costs on sale[2]	(2,405)
Net cash sale proceeds	**32,496**
Net cash repatriated following sale	23,875
Forecast cash to be repatriated from 1 July 2019	5,000

2. Transaction costs include legal and professional fees and costs paid to terminate the sleeving arrangement in place

Review of operating and financial results.

2. Divisional performance review.

2.3 Generation

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

Financial result

$m	FY2019	FY2018	Change
External revenue and other income			
Oakey	74.0	35.6	38.4
Neerabup	32.2	34.6	(2.4)
Generation development and operations	1.2	1.3	(0.1)
	107.4	**71.5**	**35.9**
Underlying EBITDAF[1]			
Oakey	15.2	17.0	(1.8)
Neerabup	27.1	27.6	(0.5)
Generation development and operations	(0.9)	(0.8)	(0.1)
	41.4	**43.8**	**(2.4)**

1. Refer Appendix A1.2 for reconciliation to statutory earnings.

Operational highlights

Neerabup continued its outstanding operational performance during FY2019 with 98.4% availability and no unplanned or forced outages.

The Western Australian electricity market for FY2019 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 6.2% capacity over the period compared to 8.36% 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 100%, and at 0.6% capacity (FY2018: 91% and 2.5% respectively). The National Electricity Market in which Oakey operates also saw a continued increase in the installations of rooftop 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 FY2019.

Financial performance

Underlying EBITDAF for Generation decreased by 5% 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 2% 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 FY2018, spot gas prices continued to fall, there were fewer generation outages, and generator pricing from competitors reduced.

Oakey'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 addition 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 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.

Review of operating and financial results.

2. Divisional performance review.

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	FY2019	FY2018	Change
Revenue (including internal segment sales)	21.8	18.9	2.9
Gross margin	15.3	10.6	4.7
Operating expenses	(19.2)	(14.2)	(5.0)
Underlying EBITDAF[1]	**(3.9)**	**(3.6)**	**(0.3)**

1. Refer Appendix A1.2 for reconciliation to statutory earnings.

Operational highlights

In FY2019, the business transitioned from transactional sales to solution selling building and leveraging strategic client relationships. This approach is still aligned with the 'Advise Deliver Track' business model. The new sales approach has driven multiproduct purchases to over 60% and generates greater revenue from each customer relationship. The approach has inherently longer sales cycles that resulted in key projects not being realised as revenue in FY2019 but has created a particularly strong order book leading into FY2020 with 60% of the target margin required to reach breakeven NPAT already contracted.

An example of this was the business successfully winning over 40% of the project value to be delivered in the Queensland Government's $97m Advancing Clean Energy Schools program to be delivered over the next three years. This year the business also built greater annual recurring revenue streams to build sustainability of future earnings in the business.

During the year ERM invested in Solpod Pty Ltd (Solpod) with a 24% ownership interest held at 30 June 2019. Solpod has developed a world-first mobile method of deploying and installing large-scale rooftop commercial solar energy installations, designed and made in Australia. The pods are mobile and can easily be re-deployed if the business moves, property is sold, or businesses have an appetite to effectively lease rather than buy the solar systems.

The establishment of a new delivery and installation process for Solpod took longer than expected and affected revenue in the current period with greater value to be recognised in FY2020.

The business saw higher metering and advisory service revenues that has led to higher gross margin percentages compared to the previous period and increased the contribution from recurring sources by 27%.

Image opposite: Building basic energy literacy was a key aspect of ERM Power's work in the NSW Schools Energy Productivity Program, an initiative developed by the NSW public schools sector.

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 sectors it is targeting. Growth in advisory services is positive in delivering the Advise Deliver Track model and creating further opportunities with these clients.

Operating costs overall have increased primarily due to the acquisition of Out Performers and headcount expansion required to build capability across the business development and advisory functions.

The business restructured the lighting services unit in FY2019 that shifted the sourcing of lighting hardware to an external partnership and resulted in the closure of the Newcastle operation.

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 and Out Performers has performed to expectations.

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 increased 13%, while gross margin grew by 44% over the past year with advisory, digital, metering and Out Performers services making up 74% of total revenue (2018: 35%) and 96% of gross margin (2018: 60%). Over 36% of the division's total revenues are now recurring due to growth in metering services and minimal customer churn in both digital and metering services.

2.5 Corporate and other

Financial result

$m	FY2019	FY2018	Change
External revenue	0.2	0.6	(0.4)
Expenses	(17.9)	(15.2)	(2.7)
Underlying EBITDAF	**(17.7)**	**(14.6)**	**(3.1)**

Net corporate costs increased on the prior year largely driven by IT costs with smaller increases in a number of other costs and general CPI increases. IT costs were partially driven by higher expensing of costs with a corresponding saving in capex which was below expectation at $19.5m.

Operating & financial review.

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 and joint ventures.
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 and joint ventures.

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 following.

A1.2 Reconciliation of underlying EBITDAF and underlying NPAT

FY2019 $m	Business Energy AU	Generation	Energy Solutions	Corporate and other	Group continuing operations	Discontinued operations[1]
Statutory EBITDAF	**76.0**	**41.4**	**(4.6)**	**(18.1)**	**94.7**	**(1.8)**
Significant items						
a) LGC shortfall refund	(5.3)	-	-	-	(5.3)	-
b) Subsidiary and investment acquisition costs	-	-	-	0.4	0.4	-
c) Newcastle office closure costs	-	-	0.7	-	0.7	-
Total significant items	**(5.3)**	**-**	**0.7**	**0.4**	**(4.2)**	**-**
Underlying EBITDAF	**70.7**	**41.4**	**(3.9)**	**(17.7)**	**90.5**	**(1.8)**
Statutory NPAT	**145.1**	**11.2**	**(6.0)**	**(16.4)**	**133.9**	**(10.8)**
Significant items						
EBITDAF adjustments (above)	(5.3)	-	0.7	0.4	(4.2)	-
d) Gain on sale of US business assets	-	-	-	-	-	(1.6)
e) Reclassification of foreign currency translation reserve	-	-	-	-	-	(3.3)
f) Onerous lease provision	-	-	-	-	-	1.0
g) Impairment of PPE	-	-	-	-	-	1.0
Tax effect of significant item adjustments	(10.8)	-	(0.2)	(0.1)	(11.1)	5.2
Total significant items	**(16.1)**	**-**	**0.5**	**0.3**	**(15.3)**	**2.3**
Fair value gain on financial instruments net of tax	(91.2)	(1.4)	-	-	(92.6)	-
Associate loss after tax	-	-	-	-	-	-
Underlying NPAT	**37.8**	**9.8**	**(5.5)**	**(16.1)**	**26.0**	**(8.5)**

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

a) Refund of Clean Energy Regulator penalty charges on surrender of LGC certificates less cost of associated certificates

b) Transaction costs associated with the acquisition of Out Performers and the investment in Alliance Automation

c) Newcastle office closure costs on restructure of lighting division operations

d) Gain on sale of US business assets

e) Non-cash reclassification of historical foreign currency translation differences in relation to the US business assets sold and on cessation of operations

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

g) Impairment of office equipment following the sale of the US business

Appendices (continued).

A1.2 Reconciliation of underlying EBITDAF and underlying NPAT (continued)

FY2018 $m	Business Energy AU	Generation	Energy Solutions	Corporate and other	Group continuing operations	Discontinued operations[1]
Statutory EBITDAF	**71.9**	**43.8**	**(3.6)**	**(14.6)**	**97.5**	**0.2**
Significant items	-	-	-	-	-	-
Underlying EBITDAF	**71.9**	**43.8**	**(3.6)**	**(14.6)**	**97.5**	**0.2**
Statutory NPAT	**(40.0)**	**10.6**	**(4.1)**	**(13.2)**	**(46.7)**	**(34.0)**
Significant items						
EBITDAF adjustments (above)	-	-	-	-	-	-
a) SME single site impairment	1.0	-	-	-	1.0	-
b) Termination of US sleever agreement	-	-	-	-	-	5.1
c) Change in US tax rate to 21%	-	-	-	-	-	7.6
d) Write down DTA to recoverable amount	-	-	-	-	-	10.3
Tax effect of significant item adjustments	(0.3)	-	-	-	(0.3)	(1.4)
Total significant items	**0.7**	**-**	**-**	**-**	**0.7**	**(12.4)**
Fair value gain on financial instruments net of tax	76.2	0.2	-	-	76.4	(6.9)
Associate gain after tax	-	-	-	(0.2)	(0.2)	-
Underlying NPAT	**36.9**	**10.8**	**(4.1)**	**(13.4)**	**30.2**	**(19.3)**

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

a) Impairment of SME single site customer acquisition costs held at 30 June 2018

b) Termination fee paid to exit US sleever agreement

c) Change in US Federal income tax rate to 21% and associated change in carrying value of deferred tax assets at date of change

d) Write down of net DTA in respect of the US operations to estimated recoverable amount following decision to sell the operations

A1.3 Business Energy historical margins[2]

	2H FY2019	1H FY2019	2H FY2018	1H FY2018	2H FY2017	1H FY2017
Underlying gross margin $/ MWh						
Australia	4.56	5.72	4.72	5.08	7.24	0.73
US – discontinued operations	-	3.11	2.83	3.78	2.92	4.23
Underlying Opex $/ MWh						
Australia	(1.20)	(1.11)	(1.15)	(1.15)	(1.26)	(1.19)
US – discontinued operations	-	(2.67)	(3.22)	(3.30)	(4.36)	(4.70)
Load sold (TWh)						
C&I Australia	8.6	8.7	9.3	9.2	9.2	8.5
SME Australia	0.2	0.2	0.3	0.4	0.4	0.4
US – discontinued operations	-	3.8	3.3	3.0	2.6	2.0
Underlying EBITDAF ($'000)						
Australia	34,766	41,261	34,177	37,733	57,437	(4,078)
US – discontinued operations	(3,466)	1,672	(1,274)	1,447	(3,783)	(951)

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

Operating & financial review.

Glossary.

$m	Millions of dollars
ACES	Queensland Government Advancing Clean Energy Schools program
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 and joint ventures
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 2018. Research based on survey of 300 business electricity customers between November 2018 and January 2019. 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 and joint ventures
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 and joint ventures
US or USA	United States of America
WEM	Wholesale Electricity Market

Directors' report.

In accordance with the Corporations Act 2001, the directors of ERM Power Limited ("**Company**") report on the Company and the consolidated entity ERM Power Group ("**Group**"), being the Company and its controlled entities, for the year ended 30 June 2019 ("**the year**"). The information appearing on the preceding pages forms part of this Directors' Report.

1. Principal activities

The principal activities of the Group during the year were:

- electricity sales to businesses in Australia and the United States of America (until 31 December 2018);
- generation of electricity; and
- energy solutions.

2. Operating results for the year

A review of the operating results of the Group can be found in the Operating and Financial Review on pages 29 to 49.

3. Review of operations

A review of the operations of the Group can be found in the Operating and Financial Review on pages 29 to 49.

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 29 to 49.

5. Significant changes in the state of affairs

No matter or circumstance has arisen since 30 June 2019 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

On 5 July 2019 the Group acquired a 50% interest in industrial automation and electrical engineering company Alliance Automation Pty Ltd ("**Alliance Automation**") for $8.1m. Alliance Automation is one of the largest independent electrical engineering and automation solution providers in Australia, with a team of more than 190 people and offices in Queensland, New South Wales, Victoria and South Australia.

On 21 August 2019 the Group entered into a binding scheme implementation deed with Shell Energy Australia ("**Shell**") under which it is proposed that Shell will acquire 100% of the shares in ERM Power Limited by way of a Scheme of Arrangement for $2.465 per share less the value per share of any dividends paid between 21 August 2019 and the scheme implementation date. Under the Scheme of Arrangement, the directors of ERM Power Limited are permitted to issue a final FY2019 dividend of 4.5 cents per ordinary share and a special dividend of up to 8.5 cents per ordinary share between 21 August 2019 and the scheme implementation date.

The implementation of the scheme is subject to approval from shareholders and Court approval.

Since 30 June 2019 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 29 to 49, information as to other likely developments in the operations of the Group and the expected results of those operations in subsequent financial years 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 year end, the directors have declared a final dividend in respect of the 2019 financial year as follows:

Amount:	4.5 cents per share
Franking:	100% franked
Date Payable:	9 October 2019

The dividend has not been provided for in the 2019 financial statements.

During the year the Company paid an interim fully franked dividend of 4.5 cents per share (2018: 3.5 cents fully franked) and a fully franked special dividend of 3.0 cents per share, together with a fully franked final dividend of 4.0 cents per share in respect of the previous year.

10. Directors

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

Julieanne Alroe	Independent Non-Executive Chair (appointed to the Board 24 August 2018, appointed as Chair 1 March 2019)
Anthony (Tony) Bellas	Independent Non-Executive Chair (resigned 28 February 2019)
Albert Goller	Independent Non-Executive Director
Georganne Hodges	Independent Non-Executive Director
Antonino (Tony) Iannello	Independent Non-Executive Director
Philip St Baker	Non-Executive Director
Wayne St Baker	Non-Executive Director (resigned 25 October 2018)
Jonathan (Jon) Stretch	Managing Director and Chief Executive Officer (MD & CEO)

Information on the current directors can be found in the Board of Directors section on pages 8 to 10. This information includes the qualifications, experience, other directorships and special responsibilities of each director in office as at the date of this report.

11. Meetings of directors

The number of meetings of the Board of directors and each Board committee held during the financial year, and the number of meetings attended by each director are as follows:

	Board meetings		Audit & Risk		Remuneration & Nomination	
	A	B	A	B	A	B
Julieanne Alroe	10	10	4	4	4	4
Tony Bellas	8	8	5	5	5	5
Albert Goller	11	11	5	6	5	6
Georganne Hodges	11	11	6	6	**	**
Tony Iannello	8	11	6	6	5	6
Philip St Baker	9	11	**	**	4	6
Wayne St Baker	6	6	**	**	**	**
Jon Stretch	10	10	**	**	**	**

A = number of meetings attended
B = number of meetings held during the time the director held office during the year and was eligible to attend
** = Not a member of the relevant committee

12. Directors' interests

The relevant interest of each director in the securities of the Company at the date of this report, as notified by directors to the ASX in accordance with Section 205G of the Corporations Act, is as follows:

	Ordinary shares	Performance Rights
Julieanne Alroe	9,275	-
Albert Goller	290,000	-
Georganne Hodges	-	-
Tony Iannello	202,839	-
Philip St Baker	4,762,695	-
Jon Stretch	2,753,375	1,310,720

13. Company Secretaries

Phil Davis LLB, AGIA

Phil Davis joined ERM Power in December 2007 and was appointed Group General Counsel and Company Secretary in October 2015. During this time his roles and responsibilities have covered the whole of ERM Power's business including generation, sales, gas activities, compliance and corporate governance. Phil is a qualified lawyer in Australia and the United Kingdom, and specialises in the corporate, construction, property, energy and resource sectors.

Suzanne Irwin B.Com, C.Dec, FGIA & FCIS

Suzanne Irwin joined ERM Power in February 2007 and was appointed as an additional Company Secretary in 25 August 2017 managing the administrative functions for the Corporate Secretariat department.

Directors' report (continued).

14. Environment regulation and performance

The Group's environmental regulation and performance can be found in the Corporate Social Responsibility Report on pages 18 to 27.

15. Indemnification and insurance of officers

Insurance and indemnity arrangements are in place for directors and officers of the Group. Disclosure of premiums and coverage is not permitted by the contract of insurance.

To the extent permitted by law, the Group indemnifies every person who is or has been an officer against:

- any liability to any person (other than the Company, related entities or a major shareholder) incurred whilst acting in that capacity and in good faith; and
- costs and expenses incurred by that person in that capacity in successfully defending legal proceedings and ancillary matters.

For this purpose, "officer" means any company secretary or any person who makes or participates in making decisions that affect the whole, or a substantial part of the business of the Company or Group.

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 Annual Financial Statements which accompany this report.

17. Non-audit services

Non-audit services provided by the Group's auditors Deloitte Touche Tohmatsu Australia ("Deloitte") (FY2018: PricewaterhouseCoopers) were in relation to advice and certain agreed upon procedures. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Amounts received or due and receivable by Deloitte (FY2018: PricewaterhouseCoopers Australia) for non-audit services:

	2019 $	2018 $
Other procedures in relation to the entity and any other entity in the consolidated Group	**42,150**	-

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.

19. Remuneration report

The Remuneration Report is attached and forms part of this report.

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

Julieanne Alroe
Chair
22 August 2019

Remuneration report.

The directors present the Remuneration Report for ERM Power Limited (“**Company**”) and its consolidated entities (“**Group**”) for the year ended 30 June 2019.

Structure of this report

The Remuneration Report is divided into the following sections:

1. Key Management Personnel
2. Remuneration governance
3. Senior executive remuneration framework
4. FY2019 executive remuneration outcomes and the link to company performance
5. Non-executive directors’ fees
6. Tables for executive remuneration and equity grants
7. Other remuneration disclosures

1. Key Management Personnel

For the purpose of this report Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. They include all non-executive directors of the Board in addition to the following senior executives:

Jonathan (Jon) Stretch

Managing Director and Chief Executive Officer (MD & CEO)

William (Mitch) Anderson

Executive General Manager (EGM) Business Energy (US) (until 31 December 2018)

Gregg Buskey

EGM Corporate Finance & Strategy

David Guiver

EGM Wholesale Energy Markets

Megan Houghton

EGM Energy Solutions

Derek McKay

Chief Information Officer (CIO) and EGM Generation

Stephen (Steve) Rogers

EGM Energy Retail (AU)

Alastair (James) Spence

Chief Financial Officer (CFO)

There have been no changes to KMP from the end of the reporting period up to the date of this Remuneration Report.

2. Remuneration governance

The Remuneration & Nomination Committee (Committee) ensures the remuneration of directors and senior executives is consistent with market practice and is sufficient to ensure that the Company can attract, develop and retain the best individuals. The Committee reviews the remuneration of the MD & CEO and senior executives against the market, and against Group and individual performance. It also reviews non-executive directors’ fees against the market, with due regard to responsibilities and demands on time.

The Committee oversees governance procedures and policy on remuneration including:

- general remuneration practices;
- performance management;
- equity plans and incentive schemes; and
- recruitment and termination.

Through the Committee, the Board ensures that the Group’s remuneration philosophy and strategy continues to be focused to:

- attract, develop and retain first class director and executive talent;
- create a high-performance culture by driving and rewarding executives for achievement of the Group’s strategy and business objectives; and
- link incentives to the creation of shareholder value.

In undertaking its role, the Committee may seek the advice of external remuneration consultants who provide analysis to ensure remuneration levels are set to reflect the market for comparable roles. In reviewing remuneration levels for FY2019, the Committee referred to a benchmarking analysis conducted by Korn Ferry Hay Group Pty Ltd (KFHG) in May 2017.

Whilst KFHG did not act as a Remuneration Consultant for the purposes of the Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011, it did provide benchmarking information and data to provide a frame of reference against which the committee could evaluate current remuneration levels for non-executive directors, the MD & CEO, and those executives reporting to the MD & CEO. As no “remuneration recommendations” were made, there is no requirement for KFHG to provide a declaration regarding no undue influence by members of the KMP to whom the report related to.

Remuneration report (continued).

3. Senior executive remuneration framework

The objective of the Company's executive remuneration framework is to ensure that reward for performance is competitive and appropriate for the results delivered. The framework aligns executive remuneration with the achievement of strategic objectives and the creation of value for shareholders, and conforms to market practice. The Board ensures that executive reward satisfies the following key criteria for good governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage/alignment of executive remuneration; and
- transparency.

Remuneration and other terms of employment for the MD & CEO and the other senior executives are formalised in service agreements. Each of these agreements specifies the components of remuneration to which they are entitled and outlines base salary, the provision of incentives, other benefits including superannuation, salary continuance insurance and notice periods required on termination.

Senior executives are remunerated by way of a mix of fixed and variable remuneration in a manner that motivates them to pursue the long-term growth and success of the Group. The components of remuneration are:

- base pay and benefits, including superannuation for Australian employees, or retirement contributions for US employees;
- short-term and long-term incentives; and
- other discretionary cash or equity based incentives.

In accordance with the objective of ensuring that executive remuneration is aligned to Group performance without encouraging undue risk taking, a significant portion of executive's target pay is at risk. The Board considers this combination an effective way to align incentives to shareholder value (refer section 3.2). Short-term incentives (STIs) are focused on achieving annual profit and operational targets, whilst long-term incentives (LTIs) are focused on alignment with growth in shareholder returns assessed over a three-year period, as well as encouraging talent retention.

3.1 Base salary and benefits

Remuneration is reviewed annually and external remuneration consultants are engaged periodically to provide analysis and advice to ensure executive remuneration is set at levels that reflect the market for comparable positions. The remuneration target is for a fixed remuneration level around the midpoint and a total remuneration close to or above the 75th percentile of comparator groups on achieving strong performance, with flexibility to take into account capability, experience and value to the organisation and performance of the individual. Remuneration is also reviewed on promotion or change of role. There are no guaranteed base salary increases included in executive service agreements.

For Australian employees, superannuation is included in fixed remuneration up to the maximum superannuation contribution base set by the relevant legislation, while the Company contributes to the basic safe harbor 401K retirement plan for the Group's US employees.

3.2 Incentive schemes

Variable remuneration is in the form of STIs and LTIs which represent "at risk" remuneration. STIs are generally paid annually against agreed Key Performance Indicators (KPIs) which are focused on achieving profit and operational targets set by the Board annually. LTIs are designed to align the interests of the senior executives with the Company's shareholders, being accrued over a three-year period and earned through satisfaction of both performance and service conditions.

STIs are paid in the form of cash or equity, or a combination of these. LTIs are paid in the form of equity.

The trading of equities which vest under incentive schemes is required to comply with the Company's Securities Trading Policy. This policy prohibits any employees or directors from entering into any scheme, arrangement or agreement under which the economic benefit derived by the employee or director, in relation to an equity–based incentive award or grant made by the Company is altered, irrespective of the outcome under that incentive award or grant, other than as permitted in any approved share or option plan, or as authorised by the Board.

For shareholders, benefits associated with the incentive schemes include:

- focus on performance improvement at all levels of the Group, with year-on-year earnings growth a core component;
- focus on sustained growth in shareholder wealth, consisting of share price growth, and delivering the greatest returns on assets; and
- the ability to attract and retain high calibre executives.

For employees, benefits associated with the incentive schemes include:

- provision of clear targets, stretch targets and structures for achieving rewards;
- recognition and reward for achievement, capability and experience; and
- delivery of reward for contribution to growth in shareholder wealth.

KPIs for STI include both financial and non-financial measures using a balanced scorecard approach and reflect the key measures of success as determined by the Board. These vary from year to year and may include, but are not limited to, a range of measures such as:

- financial measures – including underlying net profit after tax (underlying NPAT), underlying earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains/losses on financial instruments designated at fair value through profit and loss, excluding significant items[1] (underlying EBITDAF), a cash flow proxy, load, gross margins and sales growth, etc.;
- people – targets related to women in management and gender pay gaps, engagement and enablement survey results; safety and environment performance measures, including lost time injury frequency rates, medically treated injury frequency rates and environmental measures; and
- strategic imperatives – focusing on major specific project goals for the period.

KPIs for LTI are market based – with total shareholder return (TSR) quantitative measures.

Malus and Clawback

The Company has malus and clawback provisions whereby awards will lapse, be forfeit or a participant may be required to reimburse the Company all or part of the cash received as net proceeds on the sale of any award if, in the opinion of the Board:

- a participant is found to have acted fraudulently or dishonestly or is in material breach of obligations to the Group;
- the Company becomes aware of a material misstatement or omission in the financial statements in relation to the Group; or
- any circumstances occur that the Board determines in good faith to have resulted in an unfair benefit to the participant.

1. Refer to Page 79.

3.2.1 Short-term incentives

STIs are provided to most employees. The awarding of STIs is based on performance against KPIs or targets across three components; individual, team and corporate. Each of these components is allocated a weighting and include both targets and stretch targets that are set at the beginning of each financial year. The MD & CEO's targets and the corporate targets are set by the Board, whilst the individual and team targets are set under the direction of the MD & CEO. The Committee is responsible for determining the STI to be awarded based on an assessment of whether the KPIs are met. To assist in this assessment, the Committee receives detailed reports on performance from management. The Committee has the discretion to not award and to adjust STIs downwards in light of unexpected or unintended circumstances.

At the end of each financial year, achievement of targets is measured and applied against the target participation rate determined for each individual. These participation rates range between 10% and 50% of annual average base salary, with the potential to achieve up to 150% of these levels (i.e. 15% to 75%) for employees other than the MD & CEO and CFO, whose maximum participation rate for the FY2019 STI was 150% and 112.5% respectively. STI awards may be offered by way of cash and/or equity at the election of the Board. Any equity award normally vests immediately.

The following apply to STI in the event of cessation of employment:

- Termination (without cause) - entitlement to pro rata STI for the year is subject to Board discretion.
- Termination (with cause) - STI is not awarded.

Remuneration report (continued).

3.2.2 Long-term incentives

The provision of LTI awards exposes executive KMP to long-term movements in the price of the Company's shares, by aligning the long-term interests of executives with shareholders through the use of a Total Shareholder Return (TSR) performance hurdle. This reflects the Company's strategy of adopting a long-term approach to decision making and sustained value creation for shareholders.

From FY2019 Australian LTIs have been awarded to selected employees by way of Performance Rights which do not carry voting rights, nor do they have any entitlement to dividends. Subject to satisfaction of performance and service conditions, at the end of the Performance Period each Performance Right will be satisfied by a cash payment, the issue of ordinary fully paid shares in ERM Power, or an offer to participate in an employee share trust, at the absolute discretion of ERM Power. The vesting value of each Performance Right will be equal to the volume weighted average price at which ERM Power shares were traded on the ASX during the 10 trading days immediately preceding the end of each Performance Period.

Up to and including FY2018 LTIs were provided in the form of units in the Company's Employee Share Trust (EST) as established in 2010. The corresponding equity was issued into the EST and units may vest subject to satisfaction of performance and service conditions. During the vesting period, the units were held beneficially on behalf of the participants, and thus the participant enjoyed many of the same benefits as the holder of ordinary shares; with entitlement to any dividends that may be awarded and the right to direct the trustee as to how to cast their vote at a meeting of members, although participants were not eligible for the Dividend Reinvestment Plan. These benefits formed part of the employees' total remuneration package and were taken into account during annual remuneration reviews.

In prior years, US employees participated in a "Phantom Equity Plan" which emulates, as much as possible, the performance rights structure. US participants were given an award of "phantom shares" based on the relevant ASX:EPW market value of shares as at the grant date. The number of phantom shares would convert to a cash salary payment after the expiry of the performance period at which time the value to be paid would be determined based on the market value of shares at the end of the performance period, with the same performance and service criteria as Australian participants. No dividends, dividend equivalent cash salary payments or voting rights were associated with the phantom shares.

Early vesting for any LTI award may occur on a change of control of the Company or the Company's US business, as relevant. A change of control for the Company is determined as a material change in the composition of the Board initiated as a result of a change of ownership of shares and the purchaser of the shares requiring (or agreeing with other shareholders to require) that change in Board composition, or in other circumstances that the Board determines appropriate.

The following will apply to unvested LTI awards on termination of employment:

Circumstance	Potential benefit/treatment
Death, serious injury, disability or serious illness that results in the employee leaving ERM Power "early".	All LTI will vest.
Resignation or termination for cause.	All LTI will be forfeit.
Redundancy, retirement or termination by mutual agreement.	The Board will determine if the unvested LTI will continue to be held from the date the participant's employment ceases to the date at which the relevant LTI award vesting is determined, subject to any other vesting conditions (and subject to limits outlined in the Corporations Act 2001 as they relate to Termination Payments).

LTI issues made in the reporting period will vest subject to continuation of employment for the three-year performance period and total TSR performance. The TSR vesting condition will be determined by the Company's relative TSR performance over the three-year period commencing 1 July, measured against the TSR performance of a comparator group being those companies in the Standard & Poor's (S&P) ASX 300 index at the beginning of the performance period. At the end of the three-year period, vesting is determined on the following basis:

- Less than or equal to 50th percentile = 0%
- Greater than 50th to less than the 75th percentile = 50% to 100% (linear)
- 75th percentile and higher = 100%.

The performance hurdle will only be satisfied where the TSR value is positive, and if the TSR value is negative the LTI will not vest.

The Committee is responsible for assessing performance and determining the proportion of LTIs to vest. To assist in this assessment, the Committee receives detailed independent reports from Orient Capital Pty Ltd calculating the TSR performance and ranking against the comparator group.

Performance Rights are also granted as part of an employee retention strategy. Vesting is subject to continuation of service over specified periods with no performance hurdles. Forfeiture conditions, form of satisfaction and determination of vesting value are consistent to the Performance Rights granted for LTIs above.

4. FY2019 senior executive remuneration outcomes and the link to company performance

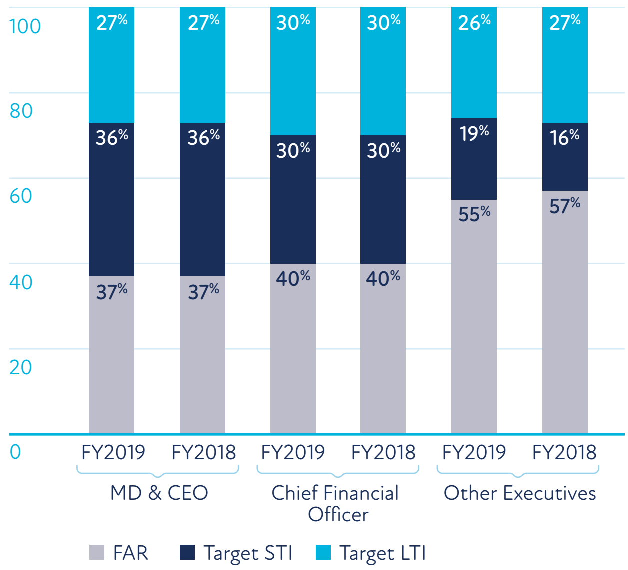
4.1 Senior executive remuneration mix

For FY2019, the remuneration for senior executives was reviewed in June 2018 in the context of benchmarking report of May 2017, the change in the LTI scheme structure, and an increase to short-term "at risk" remuneration for some executives.

Consistent with the process for other employees, fixed remuneration was increased by CPI for some of the senior executives; however a review of each individual's experience, performance and alignment with comparative roles resulted in some receiving a higher increase.

Table 4.1 sets out the current named senior executives' target remuneration mix for FY2019 compared to FY2018. It reflects the STI opportunity available if the performance conditions were satisfied at target, and the value of the LTI as determined by the 10-day volume weighted average price (VWAP) of the Company's shares as awarded at the beginning of the period. The target STI for other senior executives was increased from 30% to either 35% or 40% during the period, increasing the weighting for "at risk" remuneration.

Table 4.1 - Senior Executive Target Remuneration Mix



ERM Power aims to align senior executive remuneration to strategic and business objectives and the creation of shareholder wealth. There will not always be a direct correlation between the statutory key performance measures and total variable remuneration awarded to senior executives due to the remuneration mix (see Table 4.1), which consists of a range of annual profit, operational targets, people management and engagement goals set by the Board, and the ranking of TSR performance against peers.

Remuneration report (continued).

4.2 Short-Term Incentives

ERM Power has a stated and agreed corporate strategy from which the Company's FY2019 Balanced Scorecard was derived. The scorecard has three dimensions:

- people;
- financial and operational; and
- strategic imperatives.

The below measures are assessed based on outcomes for FY2019 and an achievement percentage is allocated, with the achievement scaled from a threshold of 80% of target against each measure. A 0% outcome is assigned if the achievement is below 80% of target and a maximum outcome of 150% of the base weighting is possible for target overachievement.

Table 4.2 – FY2019 Corporate Targets – Balanced Scorecard

Measure	Target	Weighting	Achievement	Outcome	Commentary
People – engagement and enablement					
Women in management	Internal Targets	5%	40%	5.0%	Target achieved
Gender pay gap	Internal Targets	5%	Above threshold	2.5%	Partial award reflects target achieved on several WGEA category levels
Engagement[1]	Target 72	5%	73	7.5%	Outcome reflects exceedance of target
Enablement[1]	Target 77	5%	77	5.0%	Target achieved
Financial and Operational					
Successful divestment of US business	Board discretion	5%	Target met	5.0%	Outcome achieved
US Gross margin	A$3.30/MWh	5%	A$3.17/MWh	4.0%	Target mostly achieved
NPAT (AU only)	A$24.5m	15%	A$26.0m	19.0%	Outcome reflects exceedance of target
Cash proxy (EBITAF-capex-finance costs) AU only	A$30m	15%	A$46.2m	22.5%	Outcome reflects exceedance of target
Strategic Imperatives[2]					
Group	NPAT FY20B[3] (AU business)	20%	Targets partially met	16.8%	Marginally below target due to corporate costs and FY2019 electricity load
Energy Solutions	Gross Margin & sales; Revenue growth; Major project success	20%	Targets partially met	13.7%	Partial award reflects most targets being met and some key project delays
Totals		**100%**		**101.0%**	

1. Hay Group Employee Engagement and Enablement Survey
2. Specific target commercially sensitive
3. Budget

For senior executives, the awarding of STIs is weighted evenly based on performance against the individual's targets and the corporate targets shown above, other than the MD & CEO whose STI is based on the corporate target alone. The table below provides details of the STI outcomes for current executive KMP in the reporting period and the comparatives for the FY2018 STI. Payment of the STI is at the Board's discretion.

Table 4.3 - STI Achievement

	FY2019 STI[1]			FY2018 STI[1]		
	Actual	Target	Maximum	Actual	Target	Maximum
Jon Stretch	**101%**	**100%**	**150%**	110%	100%	150%
Mitch Anderson	**0%**	**0%**	**0%**	0%	30%	45%
Gregg Buskey	**40%**	**35%**	**53%**	36%	30%	45%
David Guiver	**44%**	**40%**	**60%**	38%	30%	45%
Megan Houghton	**38%**	**40%**	**60%**	37%	30%	45%
Derek McKay	**34%**	**35%**	**53%**	37%	30%	45%
Steve Rogers	**33%**	**35%**	**53%**	34%	30%	45%
James Spence	**76%**	**75%**	**112.5%**	86%	75%	112.5%

1. Percentage of base salary, other than for James Spence, which is a percentage of fixed annual remuneration (base salary plus superannuation)

4.3 Long-Term Incentives

The table below shows the Group's financial performance over the last five financial years as required by the Corporations Act 2001, together with the proportion of performance-based LTI vesting metric which is designed to align the interests of senior executives to the Company's shareholders.

Table 4.4 Shareholder Wealth Financial Data

		Year ended 30 June 2019	Year ended 30 June 2018	Year ended 30 June 2017	Year ended 30 June 2016	Year ended 30 June 2015
		Actual	Actual	Actual	Actual	Actual
Revenue and other income	($m)	**3,197.0[1]**	3,280.6[1]	2,790.2[1]	2,763.3	2,316.4
EBITDAF[2]	($m)	**94.7[1]**	97.5[1]	78.2[1]	68.4	81.5
Statutory NPAT[3] attributable to equity holders	($m)	**123.1**	(80.4)	(1.1)	35.8	65.9
Underlying NPAT[4]	($m)	**26.0[1]**	30.2[1]	(16.1)[1]	19.2	32.3
Basic earnings / (loss) per share	(cents)	**49.6**	(32.8)	(0.4)	14.8	27.4
Underlying earnings / (loss) per share	(cents)	**10.5[1]**	12.3[1]	(6.6)[1]	7.9	13.4
Ordinary dividends per share	(cents)	**9.0**	7.5	7.0	12.0	12.0
Closing share price at 30 June	($)	**1.87**	1.48	1.20	0.84	2.32
3-year Total Shareholder Return[5]	%	**110.5**	(29.8)	(18.4)	(51.2)	47.4
LTI vesting	%	**100.0**	0.0	0.0	0.0	100.0

1. Excludes discontinued operations.
2. Earnings before net interest costs, 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 and joint ventures.
3. Statutory net profit after tax attributable to equity holders of the Company.
4. Underlying NPAT excludes 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 and joint ventures.
5. TSR outcomes are provided by an external supplier. The basic calculation of TSR is:

$$\frac{\text{TSR} = (\text{end average share price x re-investment factor}) - 1 \text{ x } 100}{\text{start average share price}}$$

Average share prices are based on a 60 trading day volume weighted average price (VWAP). All share prices (and dividends) used are adjusted prices, which take into account the impact of any capital changes such as return of capital dividend, rights and bonus issues. The re-investment factor represents the cumulative number of shares held at the end of the performance period. It commences with a notional shareholding of one share and assumes dividends are reinvested during the performance period, resulting in a notional shareholding of greater than one share at the end of the performance period (assuming dividends are paid in the period). Franking credits are excluded from TSR calculations.

Remuneration report (continued).

Table 6.2 details any cash bonus or share based remuneration allocated, forfeited and vested to KMP during the reporting period. For accounting purposes, equity awards are shown at fair value as determined by the accounting standards and expensed over the performance period.

- The LTI awarded in FY2016 for which the three year performance period expired on 30 June 2018 was forfeited during the period. The three-year performance period had been significantly affected by the falls in the Company's share price in June 2016.
- With the sale of the US business, the EGM Business Energy (US) forfeited unvested LTI, which were replaced with a retention award of an equivalent value in order to support the divestment process.
- In August 2019 the Committee determined the FY2017 LTI for which the three-year performance period expired on 30 June 2019 will fully vest for Australian-based participants based on successful TSR performance hurdle outcomes, for which the result will be shown in the FY2020 Remuneration Report.
- LTI granted during the period - The FY2019 LTI target rate determined for each individual is based on a percentage of annual salary, and for the reporting period it was based on awards of 75% for the MD & CEO as approved by shareholders at the 2018 AGM, 75% for the CFO and 50% for other Australian-based executive KMP.

5. Non-executive directors' fees

Fees are determined by the demands on, and responsibilities of directors and are reviewed annually by the Board. Independent advice may be sought from remuneration consultants to ensure directors' fees are appropriate and in line with the market. The last review of fees was conducted in May 2015. Non-executive directors' fees are determined within an aggregate fee pool limit of $1,100,000, an amount approved by shareholders at the Annual General Meeting held on 31 October 2013. Any director who devotes special attention to the business of the Company, or who otherwise performs services which in the opinion of the directors are outside the scope of the ordinary duties of a director, or who at the request of the directors engage in any journey on the business of the Company, may be paid extra remuneration as determined by the directors which will not form part of the aggregate fee pool limit above. Non-executive directors do not receive any performance-related remuneration or retirement allowances outside of statutory superannuation entitlements.

Fees received by each non-executive director comprise a base fee together with additional fees dependent on the various offices they hold as set out in Table 5.1, with superannuation contributions made at the rates and limits prescribed from time to time by legislation.

Table 5.1 Non-executive director fees (excluding superannuation)

	FY2019 $	FY2018 $
Fee type		
Chair	**190,000**	190,000
Non-executive directors	**108,000**	108,000
Deputy Chair (in addition to above fee)	**N/A**	30,000
Additional fees		
Strategy Lead	**N/A**	25,000
Audit & Risk Committee - chair	**20,000**	20,000
Audit & Risk Committee - member	**10,000**	10,000
Remuneration & Nomination Committee - chair	**10,000**	10,000
Remuneration & Nomination Committee - member	**5,000**	5,000
Representation on non-wholly owned subsidiary Boards	**N/A**	25,000 each

Although there have been no increases in base or additional fees since FY2015, a change from the prior year in individual directors' cash salary and fees may reflect any change in committee composition. On 24 August 2018 Julieanne Alroe was appointed to the Board, replacing Tony Bellas as Chair of the Board and the Remuneration & Nomination Committee on 1 March 2019.

The accounting value of fees paid to each non-executive director is shown in Table 5.2.

Table 5.2 Accounting value of non-executive director fees

		Short-term benefits		Post-employment benefits	Total remuneration per income statement
		Cash salary and fees	Non-monetary benefits[1]	Superannuation entitlement	
	FY	$	$	$	$
Julieanne Alroe[2]	**2019**	**134,338**	**-**	**12,762**	**147,100**
	2018	-	-	-	-
Tony Bellas[3]	**2019**	**140,000**	**6,664**	**13,300**	**159,964**
	2018	210,000	7,939	19,950	237,889
Albert Goller	**2019**	**123,000**	**-**	**11,685**	**134,685**
	2018	123,000	-	11,685	134,685
Georganne Hodges	**2019**	**128,276**	**950**	**934**	**130,160**
	2018	128,276	979	934	130,189
Tony Iannello	**2019**	**133,000**	**-**	**12,635**	**145,635**
	2018	133,000	-	12,635	145,635
Philip St Baker[4]	**2019**	**113,000**	**-**	**10,735**	**123,735**
	2018	108,964	-	10,352	119,316
Trevor St Baker[5]	**2019**	**-**	**-**	**-**	**-**
	2018	16,083	933	1,528	18,544
Wayne St Baker[6]	**2019**	**36,000**	**103**	**3,420**	**39,523**
	2018	108,000	-	10,260	118,260
Total	**2019**	**807,614**	**7,717**	**65,471**	**880,802**
	2018	827,323	9,851	67,344	904,518

Notes:

1. Non-monetary benefits include foreign tax advice, health assessments, car parking benefits, personal Australian tax return assistance for non-resident G.Hodges, and associated FBT related items.
2. Appointed 24 August 2018.
3. Resigned 28 February 2019.
4. Appointed 14 July 2017.
5. Resigned 14 July 2017.
6. Resigned 25 October 2018.

Remuneration report (continued).

6. Tables for executive remuneration and equity grants

Table 6.1 Executive KMP Remuneration

The following table shows details of the remuneration expense recognised for the Group's executive KMP for the current and previous reporting period expensed in accordance with the requirements of the accounting standards, with supplementary information provided to reflect the value of vested remuneration received by the KMP in that period.

			EXPENSED IN INCOME STATEMENT				
			Short term benefits				
			Base salary-cash[2]	Non monetary benefits and annual leave accrual[3]	Other Benefits[4]	Short-term incentive[5]	Post-employment benefits[6]
Jon Stretch (MD & CEO)	**2019**	**A$**	**880,207**	**11,700**	**-**	**951,356**	**20,531**
	2018	A$	830,384	23,680	59,347	845,818	20,049
Mitch Anderson[1]	**2019**	**A$**	**262,404**	**5,831**	**843,759**	**-**	**3,497**
	2018	A$	552,836	32,908	17,356	-	14,200
Gregg Buskey	**2019**	**A$**	**402,900**	**6,972**	**80,388**	**159,348**	**20,531**
	2018	A$	395,000	6,508	-	143,887	20,049
David Guiver	**2019**	**A$**	**423,300**	**(524)**	**-**	**187,100**	**20,531**
	2018	A$	415,000	19,811	-	159,264	20,049
Megan Hougton	**2019**	**A$**	**421,626**	**6,330**	**-**	**161,062**	**20,531**
	2018	A$	390,394	4,965	-	144,707	20,049
Derek McKay	**2019**	**A$**	**466,154**	**631**	**-**	**159,891**	**20,531**
	2018	A$	457,014	(6,589)	27,682	167,673	20,049
Steve Rogers	**2019**	**A$**	**383,686**	**14,115**	**-**	**128,248**	**20,531**
	2018	A$	367,164	6,507	-	123,919	20,049
James Spence	**2019**	**A$**	**516,957**	**3,919**	**-**	**407,148**	**20,531**
	2018	A$	490,472	7,624	-	441,174	20,049
TOTAL	**2019**	**A$**	**3,757,234**	**48,974**	**924,147**	**2,154,153**	**147,214**
	2018	A$	3,898,264	95,414	104,385	2,026,442	154,543

1. With the sale of the US business, the EGM Business Energy (US) ceased employment on 31 December 2018. A cash retention award of an equivalent value to his forfeited LTI was provided to support the divestment process. Executive remuneration is reported in A$ using the average exchange rates of A$1=US$0.6942 for FY2019, and A$1=US$0.7753 for FY2018.
2. Each senior executive is employed under an on-going employment contract, for which the termination benefits are payable at the option of the Company in lieu of notice. The notice periods (by the employee or the Company) in respect of each of the executives listed is 6 months, however for Jon Stretch the Company has an additional right of termination in certain circumstances by providing 3 months' written notice.
3. Non-monetary benefits includes annual benefits of salary continuance insurance premiums paid for Australian employees, health insurance coverage for US residents and executive health assessments.
4. Other benefits include non-recurring items, such as the retention accrual for Mitch Anderson given the sale of the US business, relocation allowance in regards to professional tax services for Jon Stretch (in FY2018) and subsidisation of family visits during extended US secondments for Gregg Buskey (in FY2019) and Derek McKay (in FY2018).

					SUPPLEMENTARY INFORMATION[9]			
Long term benefits								
Long-term Incentive Plan	Other equity based benefits[7]	LSL Accrual	Termination Benefits[8]	Total remuneration per income statement[9]	Less: Accounting accruals	Add: STI vesting in current year[10]	Add: Long term equity vesting[10]	Total remuneration vested
426,948	**478,324**	**2,083**	**-**	**2,771,149**	**(1,800,170)**	**980,170[e]**	**-**	**1,951,149**
338,963	-	1,780	-	2,120,021	(1,252,385)	868,857[e]	-	1,716,366
(201,098)	**-**	**-**	**262,404**	**1,176,797**	**224,827**	**-[c]**	**-**	**1,401,624**
132,696	-	-	-	749,996	(150,560)	141,580[c]	-	741,016
110,793	**-**	**9,604**	**-**	**790,536**	**(285,147)**	**143,887[e]**	**-**	**649,276**
103,281	-	13,999	-	682,724	(265,973)	142,351[e]	-	559,102
116,017	**23,698**	**9,987**	**-**	**780,109**	**(333,662)**	**159,265[e]**	**250,000[c]**	**855,712**
106,935	52,652	14,853	-	788,564	(349,836)	151,051[e]	-	589,779
71,579	**67,618**	**949**	**-**	**749,695**	**(304,950)**	**144,707[e]**	**96,888[e]**	**686,340**
28,374	100,925	767	-	690,181	(276,334)	84,004[e]	96,888[e]	594,739
130,980	**47,500**	**10,961**	**-**	**836,648**	**(346,942)**	**167,673[e]**	**-**	**657,379**
125,172	43,804	19,157	-	853,962	(344,061)	164,499[e]	-	674,400
106,806	**47,500**	**(34,927)**	**-**	**665,959**	**(259,281)**	**123,919[e]**	**-**	**530,597**
102,115	43,804	(12,107)	-	651,451	(260,555)	126,672[e]	-	517,568
221,505	**-**	**1,185**	**-**	**1,171,245**	**(630,618)**	**441,174[e]**	**-**	**981,801**
176,589	11,112	953	-	1,147,973	(632,970)	450,000[e]	52,059[e]	1,017,062
983,530	**664,640**	**(158)**	**262,404**	**8,942,138**	**(3,735,943)**	**2,160,795**	**346,888**	**7,713,878**
1,114,125	252,297	39,402	-	7,684,872	(3,552,801)	2,129,015	148,947	6,410,033

5. Short-term incentives in respect of FY2019 have not been paid by the date of this report, with accounting accruals shown for the expected payments based on the STI achievements reported in Table 4.3.
6. Australian superannuation entitlements and US 401K retirement plan contributions.
7. Other equity benefits refer to the accounting expense of retention and commencement awards which will vest subject to service conditions.
8. Termination benefit of 6 months base salary as per employment contract.
9. The amounts shown are as expensed in the income statement but which may not reflect the benefit actually received by the executive in that year. In accordance with AASB 2, equity benefits include a portion of the value of equity that has not vested during the financial year as well as the present value of expected dividends over the vesting period. The amount included as remuneration does not necessarily reflect the benefit (if any) that may ultimately be realised by the executive if vesting occurs. Supplementary Information is provided to reflect the value of vested remuneration actually received by the executive in that year, with equity values based on the fair value as at the date of grant.
10. The STI vesting in the current year relates to performance in FY2018. Awards were made in cash ("c") or equity ("e").

Remuneration report (continued).

Table 6.2 Terms and conditions of equity grants and long-term benefits

The terms and conditions of each grant of a cash bonus, performance-related bonus or share-based compensation benefit affecting compensation of disclosed executives in the current or a future reporting period, and the maximum value of the grant that may vest in future financial years is shown below:

	Award[1]	Service and performance criteria	Grant date	Nature of compensation[2]	Fair Value at Grant Date Total $	Fair Value at Grant Date per unit	Equity balance at the start of the year Unvested	Granted as compensation Number
Jon Stretch	FY2018 STI	Note 4	1/11/18	Units in EST	A $980,170	$1.68	-	584,478
	FY2016 LTI	Note 5	30/10/15	Units in EST	A $320,015	$1.26	253,980	
	FY2017 LTI	Note 6	26/10/16	Units in EST	A $430,685	$0.68	633,361	
	FY2018 LTI	Note 7	23/10/17	Units in EST	A $331,078	$0.64	517,309	
	FY2019 LTI	Note 8	1/11/18	Performance Rights	A $535,765	$1.15		465,883
	FY2019 Retention (1)	Note 9	1/11/18	Performance Rights	A $440,103	$1.56		281,612
	FY2019 Retention (2)	Note 9	1/11/18	Performance Rights	A $440,103	$1.56		281,612
	FY2019 Retention (3)	Note 9	1/11/18	Performance Rights	A $440,105	$1.56		281,613
Mitch Anderson	FY2016 LTI	Note 5	14/3/16	Phantom Shares	US $60,598	$0.59	101,949	
	FY2017 LTI	Note 6	7/7/16	Phantom Shares	US $349,163	$1.77	197,490	
	FY2018 LTI	Note 7	1/7/17	Phantom Shares	US $256,174	$1.09	234,083	
Gregg Buskey	FY2018 STI	Note 4	14/9/18	Units in EST	A $143,887	$1.56	-	92,070
	FY2016 LTI	Note 5	8/7/15	Units in EST	A $108,376	$1.44	75,261	
	FY2017 LTI	Note 6	1/7/16	Units in EST	A $112,569	$0.57	197,490	
	FY2018 LTI	Note 7	1/7/17	Units in EST	A $103,352	$0.63	164,051	
	FY2019 LTI	Note 8	20/7/18	Performance Rights	A $130,794	$0.92		142,167
David Guiver	FY2018 STI	Note 4	14/9/18	Units in EST	A $159,265	$1.56	-	101,910
	FY2016 LTI	Note 5	8/7/15	Units in EST	A $110,254	$1.44	76,565	
	FY2017 LTI	Note 6	1/7/16	Units in EST	A $117,195	$0.57	205,606	
	FY2018 LTI	Note 7	1/7/17	Units in EST	A $108,585	$0.63	172,357	
	FY2019 LTI	Note 8	20/7/18	Performance Rights	A $137,416	$0.92		149,365
	Retention	Note 10	19/8/13	Performance Rights	A $250,000	$2.71	92,285	
	FY2019 Retention (1)	Note 11	18/3/19	Performance Rights	A $125,001	$1.81		69,126
	FY2019 Retention (2)	Note 11	18/3/19	Performance Rights	A $125,001	$1.81		69,126
Megan Houghton	FY2018 STI	Note 4	14/9/18	Units in EST	A $144,707	$1.56	-	92,595
	FY2018 LTI	Note 7	1/7/17	Units in EST	A $102,147	$0.63	162,138	
	FY2019 LTI	Note 8	20/7/18	Performance Rights	A $136,873	$0.92		148,775
	Commencement Award (2)	Note 12	24/11/16	Units in EST	A $96,888	$1.11	87,681	
	FY2019 Retention (1)	Note 13	20/7/18	Performance Rights	A $84,326	$1.42		59,510
	FY2019 Retention (2)	Note 13	20/7/18	Performance Rights	A $84,326	$1.42		59,510
Derek McKay	FY2018 STI	Note 4	14/9/18	Units in EST	A $167,673	$1.56	-	107,290
	FY2016 LTI	Note 5	8/7/15	Units in EST	A $134,412	$1.44	93,342	
	FY2017 LTI	Note 6	1/7/16	Units in EST	A $138,048	$0.57	242,190	
	Retention	Note 10	24/9/14	Performance Rights	A $250,002	$1.79	140,057	
	FY2018 LTI	Note 7	1/7/17	Units in EST	A $119,578	$0.63	189,806	
	FY2019 LTI	Note 8	20/7/18	Performance Rights	A $151,328	$0.92		164,487
Steve Rogers	FY2018 STI	Note 4	14/9/18	Units in EST	A $123,919	$1.56	-	79,293
	FY2016 LTI	Note 5	8/7/15	Units in EST	A $110,254	$1.44	76,565	
	FY2017 LTI	Note 6	1/7/16	Units in EST	A $113,237	$0.57	198,661	
	Retention	Note 10	24/9/14	Performance Rights	A $250,002	$1.79	140,057	
	FY2018 LTI	Note 7	1/7/17	Units in EST	A $96,069	$0.63	152,490	
	FY2019 LTI	Note 8	20/7/18	Performance Rights	A $124,556	$0.92		135,387
James Spence	FY2018 STI	Note 4	14/9/18	Units in EST	A $441,174	$1.56	-	282,297
	FY2016 LTI	Note 5	13/8/15	Units in EST	A $122,234	$1.39	87,938	
	FY2017 LTI	Note 6	1/7/16	Units in EST	A $231,307	$0.57	405,801	
	FY2018 LTI	Note 7	1/7/17	Units in EST	A $200,366	$0.63	318,042	
	FY2019 LTI	Note 8	20/7/18	Performance Rights	A $261,727	$0.92		284,486

Vested		Forfeit		Equity balance at the end of the year	Financial Year award may vest	Maximum remaining value of award that may vest[3]
Number	%	Number	%	Unvested		
584,478	100%			-	2019	A $-
		253,980	100%	-	2019	A $-
				633,361	2020	A $-
				517,309	2021	A $131,591
				465,883	2022	A $435,309
				281,612	2020	A $152,036
				281,612	2021	A $325,294
				281,613	2022	A $364,658
		101,949	100%	-	2019	US $-
		197,490	100%	-	2020	US $-
		234,083	100%	-	2021	US $-
92,070	100%			-	2019	A $-
		75,261	100%	-	2019	A $-
				197,490	2020	A $-
				164,051	2021	A $36,747
				142,167	2022	A $98,185
101,910	100%			-	2019	A $-
		76,565	100%	-	2019	A $-
				205,606	2020	A $-
				172,357	2021	A $38,609
				149,365	2022	A $103,156
92,285	100%			-	2019	A $-
				69,126	2021	A $113,282
				69,126	2022	A $117,188
92,595	100%			-	2019	A $-
				162,138	2021	A $36,319
				148,775	2022	A $102,748
87,681	100%			-	2019	A $-
				59,510	2020	A $52,704
				59,510	2022	A $68,515
107,290	100%			-	2019	A $-
		93,342	100%	-	2019	A $-
				242,190	2020	A $-
				140,057	2020	A $20,417
				189,806	2021	A $42,517
				164,487	2022	A $113,600
79,293	100%			-	2019	A $-
		76,565	100%	-	2019	A $-
				198,661	2020	A $-
				140,057	2020	A $20,417
				152,490	2021	A $34,158
				135,387	2022	A $93,502
282,297	100%			-	2019	A $-
		87,938	100%	-	2019	A $-
				405,801	2020	A $-
				318,042	2021	A $71,241
				284,486	2022	A $196,475

1. There have been no alterations in terms or conditions since grant date.
2. The nature of compensation may be by way of cash or equity (units in the Employee Share Trust (EST), Performance Rights or Phantom Shares for US employees.
3. The maximum value yet to vest for Australian awards has been determined as the amount of fair value as at grant date that is yet to be expensed in a future accounting period. The minimum value yet to vest will always be zero, as equity will be forfeited if the vesting conditions are not met.
4. The FY2018 STI achievements were disclosed in Table 4.3 of the FY2018 Remuneration Report. The award by way of equity was included for shareholder approval at the 2018 Annual General Meeting for Jon Stretch.
5. FY2016 LTI TSR was determined to be -29.8%, which in accordance with the vesting conditions resulted in 100% of the FY2016 LTI being forfeited.
6. FY2017 LTI vesting was subject to continuation of employment through to 30 June 2019 and TSR performance measured against the TSR performance of a comparator group being those companies in the Standard & Poor's (S&P) ASX 300 index at the beginning of the performance period. On 15 August 2019 the Committee determined that based on successful TSR performance hurdle outcomes this award will fully vest.
7. FY2018 LTI vesting is subject to continuation of employment through to 30 June 2020 and TSR performance measured against the TSR performance of a comparator group being those companies in the Standard & Poor's (S&P) ASX 300 index at the beginning of the performance period.
8. FY2019 LTI vesting is subject to continuation of employment through to 30 June 2021 and TSR performance measured against the TSR performance of a comparator group being those companies in the Standard & Poor's (S&P) ASX 300 index at the beginning of the performance period.
9. Retention award for Jon Stretch of $1,320,311 granted as Performance Rights to be satisfied at the Board's discretion in cash or equity, subject to continuous full-time employment to each vesting date. A third to vest at each vesting date in Sept 2019, 2020 and 2021 as approved by shareholders at the 2018 AGM. Fair value as determined by AASB2 and expensed over the vesting period.
10. Performance Rights granted under an employee retention strategy for Derek McKay, David Guiver and Steve Rogers, subject to a 5 year vesting period and satisfied, at the Board's discretion, in cash or equity, subject to continuous full-time employment with the Company. The vesting value will be the number of Performance Rights held, multiplied by the higher of either the notional issue price, or the 10 day VWAP prior to the date of vesting.
11. Retention award for David Guiver of $250,000 granted as Performance Rights to be satisfied at the Board's discretion in cash or equity, subject to continuous full-time employment to each vesting date. 50% to vest on 31 March 2021 with the balance to vest on 31 March 2022. Fair value as determined by AASB2 and expensed over the vesting period. The vesting value will be the number of Performance Rights held, multiplied by the higher of either the notional issue price, or the 10 day VWAP prior to the date of vesting.
12. Commencement award for Megan Houghton of $100,000 (Fair value of $96,888) of units in the Employee Share Trust. Vesting subject to continued employment to each vesting date. 50% vested on the first anniversary of the commencement date, and the remaining 50% are to vest on the second anniversary of the commencement date. Fair value as determined by AASB 2 and expensed over the vesting period.
13. Retention award for Megan Houghton of $168,651 granted as Performance Rights to be satisfied at the Board's discretion in cash or equity, subject to continuous full-time employment to each vesting date. 50% to vest on 30 June 2020 with the balance to vest on 30 June 2022. Fair value as determined by AASB 2 and expensed over the vesting period.

Remuneration report (continued).

7. Other Remuneration Disclosures

7.1 Details of shares, options and rights

Unissued shares

No options were granted to directors or any of the five highest remunerated officers of the Group during the reporting period or since the end of FY2019. As at the date of this report, there were no options exercisable into fully paid ordinary shares on issue, and no shares were issued during the year on the exercise of any options.

Performance rights

The number of Performance rights which may result in the issue of ordinary shares in the Company granted under executive incentive schemes that were held during the financial year by each disclosed executive of the Group, including their related parties, are set out below:

Table 7.1 – Performance rights

Unvested Performance rights	Balance at the start of the year	Granted as compensation	Vested	Forfeit	Balance at the end of the year
Jon Stretch	-	1,310,720	-	-	1,310,720
Gregg Buskey	-	142,167	-	-	142,167
David Guiver	92,285	287,617	(92,285)	-	287,617
Megan Houghton	-	267,795	-	-	267,795
Derek McKay	140,057	164,487	-	-	304,544
Steve Rogers	140,057	135,387	-	-	275,444
James Spence	-	284,486	-	-	284,486

Share holdings

The numbers of shares in the Company held during the financial year by each director and other disclosed executives of the Group, including their related parties, are set out in tables 7.2 and 7.3.

Table 7.2 - Non-executive director's share holdings

Non-executive directors[1]	Balance at the start of the year	Appointment or cessation as KMP	Other Changes[2]	Balance at the end of the year
Julieanne Alroe	-		9,275	9,275
Tony Bellas	106,250	(106,250)		-
Albert Goller	290,000			290,000
Georganne Hodges	-			-
Tony Iannello	202,839			202,839
Philip St Baker	4,762,695			4,762,695
Wayne St Baker	1,625,290	(1,625,290)		-

1. No shares were held nominally.
2. On and off market movements, dividend reinvestment plan, etc.

Table 7.3 – Executives' share holdings

Executives	Balance at the start of the year		Granted as compensation	Forfeit	Appointment or cessation as KMP	Other Changes[1]	Balance at the end of the year		Balance at the end of the year held nominally
	Vested	Unvested					Vested	Unvested	
Jon Stretch	1,728,227	1,404,650	584,478	(253,980)	-	(710,000)	1,602,705	1,150,670	382,179
Mitch Anderson[2]	1,296,020	-	-	-	(1,296,020)	-	-	-	-
Gregg Buskey	245,183	436,802	92,070	(75,261)	-	-	337,253	361,541	-
David Guiver	233,923	454,528	101,910	(76,565)	-	(151,998)	183,835	377,963	-
Megan Houghton	148,325	249,819	92,595	-	-	-	328,601	162,138	-
Derek McKay	518,642	525,338	107,290	(93,342)	-	(251,738)	374,194	431,996	-
Steve Rogers	243,811	427,716	79,293	(76,565)	-	(123,967)	199,137	351,151	-
James Spence	567,305	811,781	282,297	(87,938)	-	(125,000)	724,602	723,843	-

1. On and off market movements, dividend reinvestment plan etc.
2. Excludes Phantom Shares.

7.2 Loans to Key Management Personnel

No loans were outstanding or made to KMP or close members of the family of a member of the KMP, or an entity over which the KMP has control or significant influence.

No loans were made, guaranteed or secured, nor remain outstanding in the reporting period to any KMP or close member of the family of any KMP for an amount greater than $100,000.

No write-downs or allowances for doubtful receivables have been recognised in relation to any loans made to KMP.

7.3 Other transactions with KMP

During the period the Company entered into certain transactions with KMP or their related entities as outlined in note 35 of the Financial Statements. The Board is satisfied that those transactions:

- were on terms and conditions no more favourable than those that would have been adopted if dealing at arm's length with an unrelated person;
- did not have the potential to affect adversely decisions about the allocation of scarce resources made by users of the financial statements, or the discharge of accountability by the KMP; or
- were trivial or domestic in nature.

7.4 Voting and comments received at the 2018 Annual General Meeting

The Company received more than 97% of votes cast at the 2018 AGM on the Remuneration Report when put to a poll. The company did not receive any specific feedback at the AGM on its remuneration practices.

ERM POWER LIMITED

Annual financial statements.

FOR THE YEAR ENDED 30 JUNE 2019

Contents

Auditor's Independence Declaration	70
Consolidated Income Statement	71
Consolidated Statement of Comprehensive Income	72
Consolidated Statement of Financial Position	73
Consolidated Statement of Changes in Equity	74
Consolidated Statement of Cash Flows	75
Notes to the Consolidated Financial Statements	76
Directors' Declaration	127
Independent Auditor's Report	128

The financial statements were authorised for issue by the directors on 22 August 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 135.

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 50 to 52. The Directors' Report does not form part of the annual financial statements.

ABN 28 122 259 223

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Level 23, Riverside Centre
123 Eagle Street
Brisbane, QLD, 4000
Australia

Phone: +61 7 3308 7000
www.deloitte.com.au

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

22 August 2019

Dear Directors

Auditor's Independence Declaration to 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 audit of the financial statements of ERM Power Limited for the year ended 30 June 2019, 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 audit; and
(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Matthew Donaldson
Partner
Chartered Accountants

ERM POWER LIMITED

Consolidated Income Statement.

FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 $'000	2018 Restated (i) $'000
Continuing operations			
Revenue	4	**3,196,262**	3,279,476
Other income		**782**	1,107
Total revenue		**3,197,044**	**3,280,583**
Expenses	5	**(3,102,380)**	(3,183,085)
EBITDAF		**94,664**	**97,498**
Depreciation and amortisation		**(28,133)**	(30,224)
Impairment expense	17	**-**	(1,034)
Net fair value gain / (loss) on financial instruments designated at fair value through profit or loss	6	**132,278**	(108,795)
Results from operating activities		**198,809**	**(42,555)**
Share of net profit of associates and joint ventures accounted for using the equity method		**95**	195
Finance income	7	**3,849**	3,100
Finance expense	7	**(28,558)**	(27,311)
Profits / (loss) before income tax		**174,195**	**(66,571)**
Income tax (expense) / benefit	8	**(40,239)**	20,088
Profits / (loss) from continuing operations		**133,956**	**(46,483)**
Loss from discontinued operations (attributable to equity holders of the Company)	31	**(10,834)**	(33,968)
Statutory profit / (loss) for the year attributable to equity holders of the Company		**123,122**	**(80,451)**

		Cents	Cents
Statutory earnings / (loss) per share based on continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings / (loss) per share	1	**54.00**	(18.93)
Diluted earnings / (loss) per share	1	**52.28**	(18.93)
Statutory earnings / (loss) per share based on earnings attributable to the ordinary equity holders of the Company			
Basic earnings / (loss) per share	1	**49.63**	(32.76)
Diluted earnings / (loss) per share	1	**48.05**	(32.76)

(i) Refer to Note 38.

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 ordinary equity holders of the company and underlying profit.

ERM POWER LIMITED

Consolidated Statement of Comprehensive Income.

FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 $'000	2018 Restated(i) $'000
Statutory profit / (loss) for the year		**123,122**	**(80,451)**
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)	27	**93,667**	(224,023)
Other comprehensive / (loss) income arising from discontinued operations	31	**(2,594)**	1,310
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)	27	**(3)**	(6)
Other comprehensive income / (loss) for the year attributable to equity holders of the Company (net of tax)		**91,070**	**(222,719)**
Total comprehensive income / (loss) for the year attributable to equity holders of the Company		**214,192**	**(303,170)**
Total comprehensive income / (loss) for the year attributable to equity holders of the Company arises from:			
Continuing operations		**222,432**	(270,512)
Discontinued operations	31	**(8,240)**	(32,658)
		214,192	**(303,170)**

(i) Refer to Note 38.

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

ERM POWER LIMITED

Consolidated Statement of Financial Position.

AS AT 30 JUNE 2019

	Note	2019 $'000	2018 Restated (i) $'000
Assets			
CURRENT ASSETS			
Cash and cash equivalents	24	**172,096**	227,636
Trade and other receivables at amortised cost	10	**352,053**	320,251
Inventories	11	**50,365**	81,762
Current tax assets		**4,773**	2,974
Other assets	12	**32,923**	14,601
Derivative financial instruments	13	**188,139**	73,127
		800,349	**720,351**
Assets classified as held for sale	31	**-**	167,235
Total Current Assets		**800,349**	**887,586**
NON-CURRENT ASSETS			
Trade and other receivables at amortised cost	10	**1,186**	-
Financial assets at fair value through other comprehensive income		**7**	9
Investments accounted for using the equity method	29(c)/(d)	**7,343**	6,898
Derivative financial instruments	13	**56,613**	25,968
Property, plant and equipment	15	**378,878**	390,682
Intangible assets	16	**60,330**	38,466
Leased assets	18	**8,793**	10,524
Total Non-Current Assets		**513,150**	**472,547**
Total Assets		**1,313,499**	**1,360,133**
Liabilities			
CURRENT LIABILITIES			
Trade and other payables	19	**386,942**	423,639
Borrowings	25	**-**	150,831
Borrowings – limited recourse	25	**127,854**	8,904
Lease liabilities	18	**4,305**	3,681
Derivative financial instruments	13	**68,548**	28,239
Provisions	20	**10,285**	6,596
		597,934	**621,890**
Liabilities directly associated with assets classified as held for sale	31	**-**	152,088
Total Current Liabilities		**597,934**	**773,978**
NON-CURRENT LIABILITIES			
Borrowings – limited recourse	25	**53,369**	176,567
Lease liabilities	18	**12,012**	13,588
Derivative financial instruments	13	**77,369**	85,183
Deferred tax liabilities	21	**137,557**	57,095
Provisions	20	**6,298**	4,222
Total Non-Current Liabilities		**286,605**	**336,655**
Total Liabilities		**884,539**	**1,110,633**
Net Assets		**428,960**	**249,500**
Equity			
Contributed equity	26	**338,505**	340,431
Reserves	27	**77,670**	(9,770)
Retained earnings / (accumulated losses)		**12,785**	(81,161)
Total Equity		**428,960**	**249,500**

(i) Refer to Note 38.

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.

AS AT 30 JUNE 2019

	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**
Loss for the period		-	-	(80,451)	(80,451)
Other comprehensive loss		-	(222,719)	-	(222,719)
Total comprehensive loss for the year		**-**	**(222,719)**	**(80,451)**	**(303,170)**
Transactions with owners in their capacity as owners:					
Dividends paid		673	-	(17,943)	(17,270)
Issue of shares pursuant to employee incentive scheme	26/27	9,893	(3,052)	-	6,841
Transfer (to) / from treasury shares	26	(2,675)	-	-	(2,675)
Buy-back of shares (net of transaction costs and tax)	26	(2,472)	(408)	-	(2,880)
Share based payment expense	33	-	2,774	-	2,774
Balance at 30 June 2018		**340,431**	**(9,770)**	**(81,161)**	**249,500**
Profit for the period		**-**	**-**	**123,122**	**123,122**
Other comprehensive income		**-**	**91,070**	**-**	**91,070**
Total comprehensive income for the year		**-**	**91,070**	**123,122**	**214,192**
Transactions with owners in their capacity as owners:					
Dividends paid	2	**-**	**-**	**(29,176)**	**(29,176)**
Issue of shares pursuant to employee incentive scheme	26/27	**10,028**	**(3,982)**	**-**	**6,046**
Transfer (to) / from treasury shares	26	**(4,244)**	**-**	**-**	**(4,244)**
Buy-back of shares (net of transaction costs and tax)	26	**(7,710)**	**(2,340)**	**-**	**(10,050)**
Share based payment expense	33	**-**	**2,692**	**-**	**2,692**
Balance at 30 June 2019		**338,505**	**77,670**	**12,785**	**428,960**

(i) Refer to Note 38.

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 YEAR ENDED 30 JUNE 2019

	Note	2019 $'000	2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**3,945,414**	4,117,624
Payments to suppliers and employees		**(3,938,606)**	(4,017,873)
Transfer from / (to) variation margin account		**162,885**	(118,723)
Interest received		**3,738**	3,069
Income tax paid		**(2,606)**	(26,876)
Net cash inflow / (outflow) from operating activities	9	**170,825**	**(42,779)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		**(3,214)**	(16,036)
Proceeds on disposal of plant and equipment		**-**	177
Payments for intangible assets		**(29,636)**	(33,273)
Purchase of shares and options in non-listed companies		**(250)**	(100)
Proceeds on sale of discontinued operations	31	**32,496**	4,253
Acquisition of subsidiary net of cash acquired		**(9,285)**	-
Proceeds on sale of SME customer contracts		**2,640**	1,450
Net cash outflow from investing activities		**(7,249)**	**(43,529)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings including receivables financing facility		**1,463,618**	1,931,000
Repayments of borrowings including receivables financing facility		**(1,614,447)**	(1,780,293)
Repayments of borrowings – limited recourse		**(6,035)**	(5,264)
Lease repayments – principle		**(4,378)**	(3,599)
Lease repayments – interest		**(635)**	(779)
Finance costs – other		**(31,294)**	(34,015)
Dividends paid	2	**(29,176)**	(17,270)
Payments for shares bought back		**(10,050)**	(2,916)
Termination of US Sleever agreement		**-**	(5,121)
Net cash (outflow) / inflow from financing activities		**(232,397)**	**81,743**
Net decrease in cash and cash equivalents		**(68,821)**	(4,565)
Cash and cash equivalents at the beginning of the year		**240,458**	244,616
Effect of exchange rate changes on cash and cash equivalents		**459**	407
Cash and cash equivalents at the end of the year	24	**172,096**	**240,458**
Cash and cash equivalents – continuing operations		**161,684**	227,636
Cash and cash equivalents – discontinued operations	(i)	**10,412**	12,822

(i) Refer to note 31 for cash flows of discontinued operations.

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

Notes to the Consolidated Financial Statements.

FOR THE YEAR ENDED 30 JUNE 2019

Section 1: FINANCIAL PERFORMANCE

1.	Earnings Per Share	77
2.	Dividends Paid and Proposed	78
3.	Segment Report	78
4.	Revenue	80
5.	Expenses	82
6.	Net Fair Value Gain / (Loss) on Financial Instruments Designated at Fair Value through Profit and Loss	83
7.	Net Finance Expense	83
8.	Income Tax	84
9.	Cash Flow Information	85

Section 2: OPERATING ASSETS AND LIABILITIES

10.	Trade and Other Receivables at Amortised Cost	87
11.	Inventories	88
12.	Other Assets	89
13.	Derivative Financial Instruments	89
14.	Hedge Accounting	90
15.	Property, Plant and Equipment	93
16.	Intangible Assets	95
17.	Impairment of Non-Financial Assets	96
18.	Lease Assets and Liabilities	97
19.	Trade and Other Payables	99
20.	Provisions	99
21.	Deferred Tax Assets and Liabilities	100

Section 3: CAPITAL AND FINANCIAL RISK MANAGEMENT

22.	Financial Risk Management	103
23.	Fair Value Measurement	106
24.	Cash and Cash Equivalents	109
25.	Borrowings	110
26.	Contributed Equity	111
27.	Reserves	112

Section 4: GROUP STRUCTURE

28.	Parent Entity Financial Information	113
29.	Interests in Other Entities	114
30.	Business Combinations	118
31.	Discontinued Operations	119

Section 5: EMPLOYEE REMUNERATION

32.	Key Management Personnel	121
33.	Share Based Payments	121

Section 6: OTHER DISCLOSURE ITEMS

34.	Commitments and Contingencies	123
35.	Related Party Disclosures	123
36.	Auditors' Remuneration	124
37.	Events After the Reporting Period	125
38.	Correction of Error in Prior Periods	125
39.	Basis of Preparation	125

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 Group.

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 and joint ventures.

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.

Section 1: Financial Performance.

1. Earnings Per Share

	2019	2018 Restated(i)
	Cents per share	
(a) Basic earnings / (loss) per share		
From continuing operations attributable to the ordinary equity holders of the Company	**54.00**	(18.93)
From discontinued operation	**(4.37)**	(13.83)
Total basic earnings / (loss) per share attributable to the ordinary equity holders of the Company	**49.63**	**(32.76)**
(b) Diluted earnings / (loss) per share		
From continuing operations attributable to the ordinary equity holders of the Company	**52.28**	(18.93)
From discontinued operation	**(4.23)**	(13.83)
Total diluted earnings / (loss) per share attributable to the ordinary equity holders of the Company	**48.05**	**(32.76)**
(c) Basic Underlying earnings / (loss) per share		
From continuing operations attributable to the ordinary equity holders of the Company	**10.46**	12.30
	$'000	
(d) Reconciliations of earnings used in calculating earnings per share		
Basic (loss) / earnings per share		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share:		
From continuing operations	**133,956**	(46,483)
From discontinued operation	**(10,834)**	(33,968)
Diluted (loss) / earnings per share		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share:		
From continuing operations	**133,956**	(46,483)
From discontinued operation	**(10,834)**	(33,968)
Underlying profit attributable to the ordinary equity holders of the Company from continuing operations(ii)	**25,959**	30,202
	Number of shares '000	
(e) Weighted average number of shares used as the denominator		
Weighted average number used in calculating basic and underlying earnings per share	**248,073**	245,580
Adjustments for calculation of diluted earnings per share:		
Long-term incentive schemes (market based)	**7,276**	-
Long-term incentive schemes (non-market based)	**903**	-
Weighted average number used in calculating diluted earnings per share	**256,252**	**245,580[1]**

1. Adjustments not made in the case of a loss, which results in an anti-dilutive impact on earnings per share.

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 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 from long-term incentives.

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.

(i) Refer to Note 38.
(ii) Refer to Note 3.

Section 1: Financial Performance (continued).

2. Dividends Paid and Proposed

	Cents per share	Total amount $'000	Franking percentage	Date of payment
2018 Final dividend paid	4.0	10,217	100%	10 October 2018
2019 Interim dividend paid	4.5	11,377	100%	17 April 2019
Special dividend paid	3.0	7,582	100%	17 April 2019
2019 Final dividend proposed	4.5	11,289	100%	9 October 2019

The final 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 30 June 2019 and will be recognised in subsequent consolidated financial statements.

Franking credits available at 30 June 2019 are $18.8m (2018: $29.2m).

3. Segment Report

	Business Energy Australia		Generation Assets		Energy Solutions		Other		Total	
$'000	2019	2018 Restated[(i)]	2019	2018	2019	2018	2019	2018	2019	2018 Restated[(i)]
External revenue to customers and other income	**3,070,478**	3,194,073	**107,578**	71,453	**18,763**	14,425	**225**	632	**3,197,044**	3,280,583
Internal segment revenue	**-**	-	**18,467**	20,045	**3,071**	4,520	**97**	2,682	**21,635**	27,247
Segment revenue and other income	**3,070,478**	3,194,073	**126,045**	91,498	**21,834**	18,945	**322**	3,314	**3,218,679**	3,307,830
Expenses	**(2,994,451)**	(3,122,163)	**(84,618)**	(47,721)	**(26,425)**	(22,585)	**(18,521)**	(17,863)	**(3,124,015)**	(3,210,332)
EBITDAF	**76,027**	71,910	**41,427**	43,777	**(4,591)**	(3,640)	**(18,199)**	(14,549)	**94,664**	**97,498**
Depreciation and amortisation	**(7,175)**	(9,840)	**(12,879)**	(13,409)	**(3,960)**	(2,311)	**(4,119)**	(4,664)	**(28,133)**	(30,224)
Impairment expense	**-**	(1,034)	**-**	-	**-**	-	**-**	-	**-**	(1,034)
Net fair value gain / (loss) on financial instruments designated at fair value through profit or loss	**130,272**	(108,541)	**2,006**	(254)	**-**	-	**-**	-	**132,278**	(108,795)
Results from operating activities	**199,124**	(47,505)	**30,554**	30,114	**(8,551)**	(5,951)	**(22,318)**	(19,213)	**198,809**	**(42,555)**
Share of net profit of associates and joint ventures accounted for using the equity method	**-**	-	**-**	-	**-**	-	**95**	195	**95**	195
Finance income	**2,946**	2,154	**527**	562	**30**	36	**346**	348	**3,849**	3,100
Finance expenses	**(12,478)**	(10,854)	**(15,097)**	(15,488)	**(76)**	(13)	**(907)**	(956)	**(28,558)**	(27,311)
Profit / (loss) before income tax	**189,592**	(56,205)	**15,984**	15,188	**(8,597)**	(5,928)	**(22,784)**	(19,626)	**174,195**	**(66,571)**
Income tax (expense) / benefit									**(40,239)**	20,088
Profit / (loss) from continuing operations									**133,956**	(46,483)
Loss from discontinued operations (attributable to equity holders of the Company)								[(ii)]	**(10,834)**	(33,968)
Statutory profit / (loss) for the year attributable to equity holders of the Company									**123,122**	**(80,451)**
Underlying NPAT from continuing operations									**25,959**	**30,202**

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

(i) Refer to Note 38.

(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 31.

3. Segment Report (continued)

$'000	Note	2019	2018 Restated[i]
Statutory profit / (loss) after tax attributable to equity holders of the Company		**123,122**	**(80,451)**
Adjusted for the following items:			
Net unrealised change in fair value of financial instruments designated at fair value through profit or loss after tax		**(92,595)**	76,156
Share of net (profit) / loss of associates and joint ventures accounted for using the equity method		**(95)**	(195)
Loss from discontinued operation (attributable to equity holders of the Company)	31	**10,834**	33,968
Other significant items			
Impairment of SME customer acquisition costs	(ii)	**-**	1,034
Subsidiary and investment acquisition costs	(iii)	**276**	-
Newcastle office closure costs	(iv)	**500**	-
Tax benefit on other significant items	(v)	**-**	(310)
LGC shortfall charge refund NPAT	(vi)	**(16,083)**	-
Underlying NPAT continuing operations		**25,959**	**30,202**

(i) Refer to Note 38.
(ii) Impairment of SME single site customer acquisition costs held for sale at 30 June 2018.
(iii) Transaction costs associated with the acquisition of Out Performers and investment in Alliance Automation.
(iv) Costs of closing the Newcastle office as part of restructuring the lighting division of Energy Solutions.
(v) Tax effect of the above other significant items.
(vi) Refund of clean energy regulator penalty charges on surrender of LGCs less associated certificate costs, net of tax.

	Business Energy Australia		Business Energy US[i]		Generation Assets		Energy Solutions		Other		Note	Total	
$'000	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**		**2019**	**2018**
Assets													
Total segment assets	**792,185**	673,050	**17,391**	-	**408,991**	436,792	**50,935**	42,240	**39,224**	37,842		**1,308,726**	1,189,924
Current and deferred tax assets												**4,773**	2,974
Assets classified as held for sale / discontinued operations											31	**-**	167,235
Total assets												**1,313,499**	**1,360,133**
Liabilities													
Total segment liabilities	**471,318**	641,319	**12,744**	-	**221,815**	227,602	**14,258**	3,067	**26,847**	29,462		**746,982**	901,450
Current and deferred tax liabilities												**137,557**	57,095
Liabilities directly associated with assets classified as held for sale / discontinued operations											31	**-**	152,088
Total liabilities												**884,539**	**1,110,633**

(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 is expected to be wound down over a period of 6 - 12 months from 1 July 2019.

Section 1: Financial Performance (continued).

3. Segment Report (continued)

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 (operations ceased 31 December 2018)
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

The total of non-current assets other than derivative financial instruments and deferred tax assets, broken down by location of the assets is $456.0m for Australia (2018: $446.6m) and $Nil for the United States (2018: $Nil).

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.

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 31 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		Generation Assets		Energy Solutions		Other		Total	
$'000	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Major product / service lines										
Sale of electricity	**2,912,965**	3,068,351	**-**	-	**-**	-	**-**	-	**2,912,965**	3,068,351
Electricity generation	**-**	-	**36,008**	44,964	**-**	-	**-**	-	**36,008**	44,964
Commodity product sales	**156,976**	125,722	**71,067**	25,719	**1,039**	-	**-**	-	**229,082**	151,441
Energy solutions products and services	**-**	-	**-**	-	**17,716**	14,368	**-**	-	**17,716**	14,368
Consulting fees	**-**	-	**131**	140	**-**	-	**-**	-	**131**	140
Other revenue	**51**	-	**170**	96	**-**	22	**139**	94	**360**	212
	3,069,992	3,194,073	**107,376**	70,919	**18,755**	14,390	**139**	94	**3,196,262**	**3,279,476**
Timing of revenue recognition										
Recognised at a point in time	**157,027**	125,722	**107,245**	70,779	**17,872**	13,330	**139**	94	**282,283**	209,925
Recognised over time	**2,912,965**	3,068,351	**131**	140	**883**	1,060	**-**	-	**2,913,979**	3,069,511
	3,069,992	3,194,073	**107,376**	70,919	**18,755**	14,390	**139**	94	**3,196,262**	**3,279,476**

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) and variable consideration that is constrained. The Group recognises revenue in respect to electricity sales over time using the right to invoice practical expedient. 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. At each balance date, revenue is recognised for the amount of sales delivered to customers but not yet billed. When the consideration is subject to variability, such as prompt payment discount or estimated meter reads, revenue is constrained and is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur.

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 (i.e. at a point in time). Revenue received from off-take agreements provides a fixed revenue stream for the respective power station. The transaction price is the contracted price for the electricity generated.

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 of a product sold is recognised at a point in time when control of the product is transferred to a customer. Revenue from services provided is recognised as and when the performance obligation is satisfied. When the products and services are sold bundled together, revenue is apportioned to these performance obligation or goods and services based on the estimated stand-alone selling price of goods or services provided. For any contracts that are recurring in nature such as annual subscriptions, revenue is recognised over the term of the contract.

iv) Consulting fees and other revenue

Consulting fee revenue and other income are recognised as and when performance obligations are satisfied. For any contracts that are recurring in nature such as annual licences, 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.

For further information on contract assets and liabilities, refer to notes 10 and 19.

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. Further information is contained in Note 10.

Notes to the Consolidated Financial Statements (continued).

FOR THE YEAR ENDED 30 JUNE 2019

Section 1: Financial Performance (continued).

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	
	2019 $'000	2018 $'000
Continuing operations		
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Sale of electricity	**3,091**	1,195
Electricity generation	**10**	10
Energy solutions products and services	**162**	1,843
Other revenue	**60**	150
	3,323	**3,198**

5. Expenses

	Consolidated	
	2019 $'000	2018 $'000
Continuing operations		
Cost of electricity sales	**2,798,742**	2,960,504
Cost of electricity generation	**5,411**	6,786
Cost of commodity products sold	**223,631**	148,825
Employee benefits expense	**48,162**	42,037
Share based payments	**2,693**	2,774
Other expenses	**23,741**	22,159
	3,102,380	**3,183,085**
Included in the above employee benefit expense is:		
Defined contribution superannuation expense	**3,758**	2,734

RECOGNITION AND MEASUREMENT

Cost of sales is recognised as those costs directly attributable to the goods or services sold and includes the costs of electricity, materials and associated distribution expenses. Electricity costs are based upon spot prices for electricity and the outcomes of derivative financial instruments entered into for the purpose of risk management (refer to note 22). Included within cost of sales are total net realised gains on the settlement of derivative financial instruments (2019: $248.2m, 2018: $91.5m).

Employee benefits expense includes movement in recognition and measurement of related liabilities such as annual leave and long service leave. Refer to note 20.

Share based payments are provided to employees via employee and executive equity plans.

The fair value of options or shares issued to employees is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised in the option reserve or share-based payment reserve over the period during which the employees become unconditionally entitled to the equity. When the shares are issued, or the options exercised, the value is transferred to contributed equity.

KEY JUDGMENTS AND ESTIMATES

Share-based payment transactions

The Company measures the cost of shares and options issued to employees and third parties by reference to the fair value of the equity instruments at the date at which they are granted. Details regarding the terms and conditions upon which the instruments were granted and methodology for determining fair value at grant date are available in note 33.

The fair value of the equity instruments includes non-market vesting conditions. Management estimates the number of shares that are expected to be vested based on the probability of non-market vesting conditions being met.

6. Net Fair Value Gain / (Loss) on Financial Instruments Designated at Fair Value through Profit and Loss

	Consolidated	
	2019 $'000	2018 Restated(i) $'000
Continuing operations		
Unrealised		
Electricity and commodity derivative contracts	**132,018**	(108,795)
Hedge ineffectiveness	**260**	-
	132,278	**(108,795)**

RECOGNITION AND MEASUREMENT

The Group accounts for certain derivative financial instruments as cash flow hedges with corresponding unrealised fair value movements recognised in the cash flow hedge reserve. Any unrealised gain or loss on other instruments that are not hedge accounted and any ineffective portion of hedge accounted instruments is recognised directly in profit or loss. Refer note 13 for further information on which derivative financial instruments are not hedge accounted.

KEY JUDGMENTS AND ESTIMATES

Designation of instruments

The designation of instruments as either held for trading or hedging may affect the amount of fair value gains and losses recognised in profit and loss. Fair value movements on instruments held for trading are not deferred within the cash flow hedge reserve. Further information on the designation of financial instruments is contained in note 13.

Valuation of derivative financial instruments

The valuation of financial instruments may affect the amount of fair value movements recognised in profit and loss. Further information on the valuation of financial instruments is contained in note 23.

7. Net Finance Expense

	Consolidated	
	2019 $'000	2018 $'000
Continuing operations		
Finance income		
Interest income	**3,849**	3,100
	3,849	**3,100**
Finance costs		
Borrowing costs – lease liabilities	**635**	733
Borrowing costs – bank loans	**11,163**	11,542
Borrowing costs – receivables financing facility	**3,272**	5,145
Borrowing costs – convertible notes	**3,932**	3,937
Other borrowing costs	**9,556**	5,954
	28,558	**27,311**

RECOGNITION AND MEASUREMENT

Interest revenue and expenses are recognised on a time proportional basis using the effective interest rate method applicable to financial assets and liabilities. Other borrowing costs includes bank guarantee charges associated with the Group's Australian electricity retailing operation.

Section 1: Financial Performance (continued).

8. Income Tax

	Note	Consolidated 2019 $'000	Consolidated 2018 Restated[i] $'000
(a) Income tax (benefit) / expense			
Income tax comprises:			
Current tax expense		**1,475**	8,041
Deferred tax expense / (benefit)		**44,295**	(15,556)
Adjustment to current and deferred tax of prior periods		**(147)**	(277)
Income tax expense / (benefit)		**45,623**	**(7,792)**
Income tax expense / (benefit) is attributable to:			
Continuing operations		**40,239**	(20,088)
Discontinued operations	31	**5,384**	12,296
		45,623	**(7,792)**
(b) Numerical reconciliation of prima facie tax benefit to prima facie tax			
Profit / (loss) from continuing operations		**174,195**	(66,571)
Loss from discontinued operations	31	**(5,449)**	(21,672)
		168,746	**(88,243)**
Income tax expense / (benefit) calculated at 30%		**50,623**	(26,473)
Other income taxes		**1,475**	949
Net effect of expenses / (income) that are not deductible / (non-assessable) in determining taxable profit (excluding Clean Energy Regulator shortfall charge)		**419**	301
Clean Energy Regulator shortfall (refund) / charge	(i)	**(12,321)**	(388)
Permanent differences on the sale of the US business	(ii)	**4,658**	-
Write-down of US deferred tax balance	21/(iii)	**498**	10,279
Adjustment to current and deferred tax of prior periods		**(147)**	(277)
Difference in overseas tax rates		**418**	211
Change in overseas tax rate	(iv)	**-**	7,606
Income tax expense / (benefit)		**45,623**	**(7,792)**
(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		**(40,076)**	96,010
Net tax effect of amounts charged to share capital		**2**	28
		(40,074)	**96,038**

(i) In 2017, the Company took the commercial decision to incur a non-deductible charge of $65 per certificate in lieu of surrendering 1.9m large-scale generation certificates. The total cost was $123m before tax. In 2019 the Company surrendered a parcel of large-scale generation certificates and received a non-assessable refund of the previous charge of $41.1m before tax (2018: $1.3m).

(ii) Refer to Note 31.

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

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

8. 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.

9. Cash Flow Information

A) RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

		Consolidated	
	Note	2019 $'000	2018 Restated[i] $'000
Net profit / (loss) after tax		**123,122**	(80,451)
Adjustments for:			
Depreciation and amortisation of non-current assets		**28,135**	46,911
Impairment expense	31	**1,016**	1,034
Onerous contract provision	31	**1,046**	-
Share based payment expense		**2,693**	2,774
Net unrealised fair value gains / (losses) on financial instruments and inventory		**(132,278)**	108,795
Gain on the sale of discontinued operations before tax	31	**(4,319)**	-
Share of (profits) / loss of associates		**(95)**	(195)
Loss on the sale of non-current assets		**487**	137
Transaction costs for subsidiary acquisition	30	**337**	-
Net exchange differences and other items		**(692)**	(665)
Finance costs		**34,327**	42,056
Transfers to provisions:			
Employee entitlements		**266**	582
Changes in operating assets and liabilities net of assets and liabilities acquired from business combinations:			
Decrease / (Increase) in trade and other receivables		**47,448**	(37,446)
(Increase) in other assets		**(15,627)**	(9,436)
Decrease / (Increase) in inventories		**30,744**	(37,737)
Decrease / (Increase) in deferred tax assets recognised in profit or loss		**15,754**	(8,459)
Changes in variation margin account		**162,885**	(118,723)
(Decrease) / increase in deferred tax liabilities recognised in profit or loss		**28,541**	(15,007)
(Decrease) / increase in current tax liability / (receivable)		**(1,825)**	(21,062)
(Decrease) / Increase in trade and other payables		**(151,140)**	84,113
Net cash provided by / (used in) operating activities		**170,825**	**(42,779)**

Section 1: Financial Performance (continued).

9. Cash Flow Information (continued)

B) NET DEBT RECONCILIATION

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Consolidated	
	2019 $'000	2018 $'000
Cash and cash equivalents		
Cash and cash equivalents – continuing operations	**161,684**	227,636
Cash and cash equivalents – discontinued operations	**10,412**	12,822
Debt excluding lease liabilities		
Borrowings – repayable within one year	**-**	(150,831)
Borrowings – limited recourse – repayable within one year	**(127,854)**	(8,904)
Borrowings – limited recourse – repayable after one year	**(53,369)**	(176,567)
Net (debt) / cash	**(9,127)**	**(95,844)**
Cash and cash equivalents	**172,096**	240,458
Gross debt – fixed interest rates	**(127,854)**	(126,750)
Gross debt – variable interest rates	**(53,369)**	(209,552)
Net (debt) / cash	**(9,127)**	**(95,844)**

	Other assets	Liabilities from financing activities		
	Cash	Borrowings due within 1 year	Borrowings due after 1 year	Total
	$'000	$'000	$'000	$'000
Net debt as at 30 June 2018	**240,458**	**(159,735)**	**(176,567)**	**(95,844)**
Cash flows	**(68,362)**	**32,075**	**124,788**	**88,501**
Other non-cash movements	**-**	**(194)**	**(1,590)**	**(1,784)**
Net debt as at 30 June 2019	**172,096**	**(127,854)**	**(53,369)**	**(9,127)**

Section 2: Operating Assets and Liabilities.

10. Trade and Other Receivables at Amortised Cost

The majority of trade and other receivables relate to electricity sales customers. Trade receivables are non-interest bearing and are generally 14 to 30-day terms.

	Consolidated	
	2019 $'000	2018 $'000
Current		
Trade and other receivables	**66,474**	38,888
Accrued income	**258,901**	281,363
Clean energy regulator shortfall charge refund receivable	**26,678**	-
Total	**352,053**	**320,251**
Non-current		
Trade and other receivables	**1,186**	-
Total	**1,186**	-

RECOGNITION AND MEASUREMENT

All trade and other debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Collectability is reviewed on an ongoing basis. For trade receivables, the Company applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which requires the use of the lifetime expected loss provision for all trade receivables. The amount of the impairment loss is recognised in the income statement.

Accrued income receivable represents electricity amounts due to be invoiced after 30 June 2019 and wholesale counterparty settlements due to be settled and received after 30 June 2019.

KEY JUDGMENTS AND ESTIMATES

Accrued income receivable

Accrued electricity sales revenue requires estimates of average daily usage based on historical patterns as well as average pricing and consumption pattern estimates where no actual meter data is available. A large portion of accrued income receivable is measured based on actual billed electricity in the following month whilst a smaller portion is based on estimated meter data where the customer meter is read less frequently.

CREDIT RISK

Credit risk refers to the loss that would occur if a debtor or other counterparty fails to perform under its contractual obligations. The carrying amounts of trade and other receivables recognised at balance date best represents the Group's maximum exposure to credit risk at balance date. The Group seeks to limit its exposure to credit risks as follows:

- conducting appropriate due diligence on counterparties before entering into arrangements with them;
- depending on the outcome of the credit assessment, obtaining collateral with a value in excess of the counterparties' obligations to the Group – providing a 'margin of safety' against loss; and
- for derivative counterparties, using primarily high credit quality counterparties, in addition to utilising ISDA master agreements with derivative counterparties in order to limit the exposure to credit risk.

The credit quality of all financial assets is consistently monitored in order to identify any potential adverse changes.

Concentrations of credit risk

The Group minimises concentrations of credit risk in relation to debtors by undertaking transactions with a large number of customers from across a broad range of industries within the business segments in which the Group operates, such that there are no significant concentrations of credit risk within the Group at balance date. Credit risk to trade debtors is managed through setting normal payment terms of up to 30 days and through continual risk assessment of debtors with material balances. Credit risk to electricity debtors is managed through system driven credit management processes. The process commences after due date. For some debtors the Group may also obtain security in the form of guarantees, deeds of undertaking, or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement.

Section 2: Operating Assets and Liabilities (continued).

10. Trade and Other Receivables at Amortised Cost (continued)

CREDIT RISK (CONTINUED)

The Company applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. The expected credit losses also incorporates forward looking information. The loss allowance provision as at 30 June 2019 is determined as follows:

	Total $'000	< 30 days $'000		31-60 days $'000		61-120 days $'000		> 120 days $'000	
		Trade	Other(i)	Trade	Other(i)	Trade	Other(i)	Trade	Other(i)
2019									
Consolidated									
Expected loss rate		**0% - 5%**	-	**10% - 15%**	-	**25% - 90%**	-	**Up to 100%**	-
Accrued income	**258,901**	**258,901**	-	-	-	-	-	-	-
Other receivables	**26,678**	**26,678**	-	-	-	-	-	-	-
Trade receivables gross carrying amount	**67,859**	**50,158**	**12,237**	**1,612**	-	**1,141**	-	**2,711**	-
Loss allowance provision(ii)	**(1,385)**	**(6)**	-	**(191)**	-	**(281)**	-	**(907)**	-
Net receivables	**66,474**	**50,152**	**12,237**	**1,421**	-	**860**	-	**1,804**	-
Total	**352,053**	**335,731**	**12,237**	**1,421**	-	**860**	-	**1,804**	-
2018									
Consolidated									
Expected loss rate		0% - 5%	-	10% - 15%	-	Up to 90%	-	Up to 100%	-
Accrued income	281,363	281,363	-	-	-	-	-	-	-
Trade receivables gross carrying amount	41,531	37,087	182	1,319	-	955	-	1,988	-
Loss allowance provision(ii)	(2,643)	(667)	-	(131)	-	(463)	-	(1,382)	-
Net receivables	**38,888**	**36,420**	**182**	**1,188**	-	**492**	-	**606**	-
Total	**320,251**	**317,783**	**182**	**1,188**	-	**492**	-	**606**	-

(i) Other receivables are neither past due or impaired and relate principally to counterparty receivables and receivables due under the group's working capital facility.
(ii) Of the above loss allowance provision $1.4m (2018: $2.6m) relate to receivables arising from contracts with customers.

11. Inventories

	Note	Consolidated 2019 $'000	Consolidated 2018 $'000
Work in progress		**208**	246
Stock on hand		**33**	914
Renewable energy certificates – at cost		**45,880**	67,150
Renewable energy certificates – at fair value less cost to sell	(i)	**2,847**	11,993
Gas in storage		**76**	77
Diesel fuel		**1,321**	1,382
Total		**50,365**	**81,762**

(i) Renewable energy certificates designated as commodity broker trader inventory are measured at fair value less costs to sell.

11. Inventories (continued)

RECOGNITION AND MEASUREMENT

Renewable energy certificates

Renewable energy certificates held by the Group are accounted for as commodity inventories. The Group participates in the purchase and sale of a range of renewable energy certificates, including both mandatory and voluntary schemes.

Purchased renewable energy certificates are initially recognised at cost within inventories on settlement date. Subsequent measurement is at the lower of cost or net realisable value, with losses arising from changes in realisable value being recognised in the income statement in the period of the change.

Renewable energy certificates held for trading are held at fair value less costs to sell.

Other inventory

Stock, materials and work in progress are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the reclassification from equity of any gains or losses on qualifying cash flow hedges relating to purchases of raw material but excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

KEY JUDGMENTS AND ESTIMATES

Renewable energy certificates held for trading

Renewable energy certificates that are designated as held for trading are initially recognised at cost and are subsequently recognised at fair value with movements in fair value taken up through profit and loss in the net fair value gain on financial instruments designated at fair value through profit and loss line until settlement at which time the gain or loss is recognised in cost of goods sold. Certificates are designated at the initial trade date on a deal by deal basis and segregated from other certificates held for the purposes of surrender under applicable renewable energy schemes.

12. Other Assets

	Consolidated	
	2019 $'000	2018 $'000
Prepayments	**4,613**	4,119
Security and other deposits	**28,112**	10,185
Other	**198**	297
Total	**32,923**	**14,601**

13. Derivative Financial Instruments

The Group is party to derivative financial instruments in the normal course of business acquired in order to manage exposure to fluctuations in electricity and commodity prices and interest and foreign exchange rates in accordance with the Group's financial risk management policies.

	Consolidated	
	2019 $'000	2018 $'000
Current assets		
Electricity and commodity derivatives	**188,139**	73,127
Total	**188,139**	**73,127**
Non-current assets		
Electricity and commodity derivatives	**56,613**	25,968
Total	**56,613**	**25,968**
Current liabilities		
Electricity and commodity derivatives	**61,252**	28,239
Interest rate swaps	**7,296**	-
Total	**68,548**	**28,239**
Non-current liabilities		
Electricity and commodity derivatives	**53,002**	55,702
Interest rate swaps	**24,367**	29,481
Total	**77,369**	**85,183**

Section 2: Operating Assets and Liabilities (continued).

13. Derivative Financial Instruments (continued)

RECOGNITION AND MEASUREMENT

Derivatives financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

The gain or loss from re-measurement of hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into profit or loss when the hedged interest expense or hedged electricity purchase is settled.

Certain derivative instruments do not qualify for hedge accounting. The change in the fair value of any derivative instrument that does not qualify for hedge accounting is recognised immediately in profit or loss. Any realised gains or losses on settlement of derivatives that do not qualify for hedge accounting are recognised immediately in profit and loss and are included within cost of sales regardless of the original settlement date of the instrument.

Derivatives that are not hedge accounted include futures, bilateral written options, market traded caps and swaps and any derivative held for trading purposes or to manage renewable certificate price risk including forward purchase agreements held for trading. All derivatives used in the Group's US Business Energy operations are not hedge accounted.

Recognition of day one gain or loss on derivative financial instruments

Evidence of fair value of an investment at initial recognition is often provided by the transaction price, unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. Such financial instruments are initially recognised at the transaction price which is the best indicator of fair value, although the market value derived by independent valuers may differ. The difference between the transaction price and the market value (the day one gain or loss), is not recognised immediately for accounting purposes in profit or loss and is instead recognised through profit or loss progressively as the instrument is settled. Any subsequent measurement of the instrument excludes the balance of the deferred day one gain or loss.

KEY JUDGMENTS AND ESTIMATES

Fair value of financial instruments

The fair value of financial assets and financial liabilities are estimated for recognition and measurement and for disclosure purposes. Management uses its judgement in selecting appropriate valuation techniques for financial instruments not quoted in active markets. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices and rates. Refer to note 23 for further details of valuation methods used by the Group to determine fair value.

14. Hedge Accounting

Contracts are entered into with individual parties in the normal course of business in order to economically hedge exposure to fluctuations in electricity prices, foreign currency and interest rates. These derivative instruments may meet the requirements for hedge accounting. The instruments include OTC swaps, options, swaptions, caps and other risk management instruments. Settlement of the contracts require exchange of cash for the difference between the contracted and spot market prices. The contracts are measured at fair value and the resultant gains or losses that effectively hedge designated risk exposures are deferred within the cash flow reserve.

ELECTRICITY DERIVATIVES USED FOR HEDGING

The following carrying values represent the total value of hedge instruments used to hedge electricity price risk recognised on the Group's balance sheet together with maturity of these instruments and associated nominal volume. The value of these instruments excludes the ineffective portion that has not been recognised in the cash flow hedge reserve.

14. Hedge Accounting (continued)

ELECTRICITY DERIVATIVES USED FOR HEDGING (CONTINUED)

	Assets		Liabilities			
	Carrying value(i)		Carrying value(i)		Nominal hedge volume(ii)	
Net asset / (liability)	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 TWh	2018 TWh
12 months or less	**125,469**	63,763	**(2,128)**	(12,149)	**6**	14
More than 12 months	**39,815**	13,936	**(1,111)**	(28,093)	**5**	3
Total	**165,284**	**77,699**	**(3,239)**	**(40,242)**	**11**	**17**

(i) Carrying value of hedging instruments only.
(ii) Nominal hedge volumes exclude volumes for other instruments that provide an economic hedge but are not hedge accounted for, such as exchange based instruments and instruments used in the Group's US operations.

The Group uses cash flow hedges to mitigate the risk of variability in electricity prices. The instruments that are hedge accounted include OTC swaps, options, swaptions, caps and other eligible risk management instruments used in the Groups Australian business energy operations.

Hedge rates for these instruments vary by product type, time period and region and range from $44 to $300 per MWh.

Instruments held for trading, exchange traded instruments (such as futures contracts), written options and all instruments related to renewable energy certificates and ERM Power's US operations are not hedge accounted. The above nominal hedge volumes exclude volumes associated with these instruments.

The movement in the hedged items for the year ended 30 June 2019 was $133.7m (2018: -$320.0m). The movement in hedge instruments recognised in reserves for the year ended 30 June 2019 was $133.7m (2018: -$320.0m). There was $0.3m hedge ineffectiveness recognised for the year ended 30 June 2019 (2018: $Nil). The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedge reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. Effectiveness is assessed against forecast electricity purchase requirements. Where the portfolio volume of the cash flow hedge contracts is in excess of forecast electricity purchase requirements for a particular time period an amount of ineffectiveness is recognised immediately in profit or loss.

During the year ended 30 June 2019 amounts accumulated to the cash flow hedge reserve of $88.8m (2018: $88.0m) were settled and recognised as a gain in profit and loss.

INTEREST RATE SWAPS USED FOR HEDGING

The Neerabup Partnership has limited recourse, variable interest rate project finance in place. This variable interest has been swapped into fixed.

Swaps currently in place for the Neerabup Partnership cover approximately 98% (2018: 97%) of the variable loan principal outstanding and are timed to expire as each loan repayment falls due as set out below.

The fixed interest rate is 7.187% (2018: 7.189%) and the variable rate is 1.1% above the BBSY rate which at the end of the reporting period was 1.25% (2018: 1.95%).

There was no hedge ineffectiveness in the current or prior year and the movement of the fair value of the hedged item and instrument deferred in the hedge reserve was -$2.1m (2018: $4.3m).

	Carrying value	
	2019 $'000	2018 $'000
Swap liabilities		
12 months or less	**7,296**	6,272
1-2 years	**6,833**	5,782
2-5 years	**15,655**	13,278
More than 5 years	**1,879**	4,149
	31,663	**29,481**

The above table indicates the periods in which the cash flows associated with cash flow hedges are expected to impact profit or loss and the fair value of the related hedging instruments. The notional amount of debt covered by the interest rate swap in place at 30 June 2019 was $121.0m (2018: $126.8m). During the year ended 30 June 2019 amounts accumulated to the cash flow hedge reserve of $6.3m (2018: $6.8m) were settled and recognised in profit and loss.

Section 2: Operating Assets and Liabilities (continued).

14. Hedge Accounting (continued)

RECOGNITION AND MEASUREMENT OF DERIVATIVES HEDGE ACCOUNTED

The fair value of a derivative is classified as a non-current asset or liability when the cash flows are expected to occur more than 12 months from the reported date. It is classified as a current asset or liability when the cash flows are expected to occur less than 12 months from the reported date.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Gains or losses relating to the effective portion of the change in intrinsic value of the option contracts are recognised in the cash flow hedge reserve within equity. The changes in the time value of the option contracts that relate to the hedged item ('aligned time value') are recognised within other comprehensive income in the costs of hedging reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

If the hedge ratio for risk management purposes is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for in profit or loss at the time of the hedge relationship rebalancing.

HEDGING RESERVES

The group's hedging reserves disclosed in note 27 relate to the following hedging instruments:

Consolidated	Note	Electricity derivatives $'000	Cost of hedging electricity derivatives $'000	Interest rate swaps $'000	Total $'000
Opening net carrying amount at 1 July 2018		**18,657**	**(374)**	**(20,636)**	**(2,353)**
Revaluation - net		**137,641**	**(1,716)**	**(2,182)**	**133,743**
Revaluation - deferred tax		**(41,246)**	**515**	**655**	**(40,076)**
Closing balance at 30 June 2019		**115,052**	**(1,575)**	**(22,163)**	**91,314**
Revaluation - net		**164,294**	**(2,250)**	**(31,662)**	**130,382**
Revaluation - deferred tax		**(49,242)**	**675**	**9,499**	**(39,068)**
Closing balance at 30 June 2019	27	**115,052**	**(1,575)**	**(22,163)**	**91,314**

Consolidated	Note	Intrinsic value of electricity derivatives $'000	Cost of hedging electricity derivatives $'000	Interest rate swaps $'000	Total $'000
Opening net carrying amount at 1 July 2017		245,422	(6)	(23,669)	221,747
Revaluation - net		(323,950)	(526)	4,332	(320,144)
Revaluation - deferred tax		97,185	158	(1,299)	96,044
Closing balance at 30 June 2018		**18,657**	**(374)**	**(20,636)**	**(2,353)**
Revaluation - net		26,653	(534)	(29,480)	(3,361)
Revaluation - deferred tax		(7,996)	160	8,844	1,008
Closing balance at 30 June 2018	27	**18,657**	**(374)**	**(20,636)**	**(2,353)**

15. Property, Plant and Equipment

Consolidated	Note	Land	Capital work in progress	Plant and equipment	Furniture, fittings and improvements	Total
2019		**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cost		**22,987**	**253**	**511,283**	**15,444**	**549,967**
Accumulated depreciation and impairment		**(447)**	**-**	**(160,313)**	**(10,329)**	**(171,089)**
Net carrying amount at 30 June 2019		**22,540**	**253**	**350,970**	**5,115**	**378,878**
Opening net carrying amount at 1 July 2018		**22,516**	**669**	**361,680**	**5,817**	**390,682**
Additions		**24**	**-**	**2,405**	**769**	**3,198**
Acquired through business combination		**-**	**-**	**83**	**16**	**99**
Disposals		**-**	**-**	**(131)**	**(27)**	**(158)**
Transfers		**-**	**(416)**	**327**	**89**	**-**
Depreciation		**-**	**-**	**(13,394)**	**(1,549)**	**(14,943)**
Closing net carrying amount at 30 June 2019		**22,540**	**253**	**350,970**	**5,115**	**378,878**

Consolidated	Land	Capital work in progress	Plant and equipment	Furniture, fittings and improvements	Total
2018	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cost	22,963	669	508,601	14,585	546,818
Accumulated depreciation and impairment	(447)	-	(146,921)	(8,768)	(156,136)
Net carrying amount at 30 June 2018	**22,516**	**669**	**361,680**	**5,817**	**390,682**
Opening net carrying amount at 1 July 2017	22,516	5,549	359,141	4,180	391,386
Exchange differences	-	-	9	22	31
Additions	-	566	12,254	3,336	16,156
Disposals	-	-	(315)	(15)	(330)
Transfers	-	(5,446)	5,005	441	-
Depreciation	-	-	(13,926)	(1,866)	(15,792)
Assets included in a disposal group classified as held for sale	-	-	(488)	(281)	(769)
Closing net carrying amount at 30 June 2018	**22,516**	**669**	**361,680**	**5,817**	**390,682**

Capital work in progress relates to capitalised costs for power station projects.

One of the Group's current generation assets, the Neerabup Power Station, is project financed by limited recourse debt, meaning the security of project lenders does not extend beyond the particular generation asset. The Group also raised funds for its equity investment in the Neerabup Power Station by issuing notes in 2008. Those notes are limited-recourse to the Group's interest in the Neerabup Power Station.

Refer note 25 for details regarding recourse and limited recourse borrowings of the Group.

Section 2: Operating Assets and Liabilities (continued).

15. Property, Plant and Equipment (continued)

RECOGNITION AND MEASUREMENT

Items of property, plant and equipment are initially measured at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains / losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows.

Capital work in progress comprises costs incurred to date on construction of power generation plants. Asset residual values and useful lives are reviewed and adjusted if appropriate at each balance date. Gains and losses on disposals are determined by comparing the proceeds to the carrying amount. These are included in the income statement.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised to each project is the effective interest rate applicable to the specific borrowings at a project level during the year.

KEY JUDGMENTS AND ESTIMATES

Depreciation

Land and capital work in progress are not depreciated.

Depreciation on the other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Leasehold improvements	The lesser of the remaining lease term and the life of the asset
Motor vehicles	8 years
Power stations and power station components	1 – 50 years
Other plant and equipment	1 – 15 years
IT Equipment	1 – 3 years
Furniture and fittings	1 – 10 years

16. Intangible Assets

Consolidated	Note	Goodwill	Capital work in progress	Software internally generated	Software and other	Customer acquisition costs	Total
2019		$'000	$'000	$'000	$'000	$'000	$'000
Cost		22,269	2,488	34,636	5,350	22,785	87,528
Accumulated depreciation and impairment		-	-	(16,605)	(3,953)	(6,640)	(27,198)
Net carrying amount at 30 June 2019		**22,269**	**2,488**	**18,031**	**1,397**	**16,145**	**60,330**
Opening net carrying amount at 1 July 2018		6,454	1,478	15,698	1,812	13,024	38,466
Current period trailing commission sales and additions	(i)	-	-	-	-	8,961	8,961
Additions		-	2,438	5,295	68	-	7,801
Acquired through business combination	30	15,815	-	-	91	-	15,906
Disposals		-	-	-	(29)	-	(29)
Transfer		-	(1,428)	1,428	-	-	-
Amortisation		-	-	(4,390)	(545)	(5,840)	(10,775)
Closing net carrying amount at 30 June 2019		**22,269**	**2,488**	**18,031**	**1,397**	**16,145**	**60,330**

Consolidated	Note	Goodwill	Capital work in progress	Software internally generated	Software and other	Customer acquisition costs	Total
2018		$'000	$'000	$'000	$'000	$'000	$'000
Cost		6,454	1,478	27,913	5,224	29,853	70,922
Accumulated depreciation and impairment		-	-	(12,215)	(3,412)	(16,829)	(32,456)
Net carrying amount at 30 June 2018		**6,454**	**1,478**	**15,698**	**1,812**	**13,024**	**38,466**
Opening net carrying amount at 1 July 2017		26,806	91	13,521	3,258	45,702	89,378
Current period trailing commission sales and additions	(i)	-	-	-	-	36,401	36,401
Exchange differences		829	-	-	74	1,825	2,728
Additions		-	1,428	5,606	506	-	7,540
Disposals		-	-	-	(167)	-	(167)
Transfer		-	(41)	100	(59)	-	-
Amortisation		-	-	(3,529)	(1,159)	(23,488)	(28,176)
Impairment expense	(ii)	-	-	-	-	(1,034)	(1,034)
Assets included in a disposal group classified as held for sale and other disposals	31/(iii)	(21,181)	-	-	(641)	(46,382)	(68,204)
Closing net carrying amount at 30 June 2018		**6,454**	**1,478**	**15,968**	**1,812**	**13,024**	**38,466**

(i) Refer to note 20 for corresponding provision movement.

(ii) Impairment of the SME single site customer acquisition costs held for sale at 30 June 2018.

(iii) In 2018, the $68.2m intangible assets held for sale reflects management's decision to sell the US business Source Power & Gas ($64.8m) and the single site SME customer contracts from the Business Energy Australia operations ($3.4m).

Amortisation of intangible assets is included in depreciation and amortisation expense in the income statement.

Section 2: Operating Assets and Liabilities (continued).

16. Intangible Assets (continued)

RECOGNITION AND MEASUREMENT

Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised but it is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments.

Software

Computer software is either purchased or developed within the organisation to support business operations and generate customer revenue. Software assets are recorded at cost less accumulated amortisation and impairment losses.

Customer acquisition costs

The direct costs of establishing customer contracts are recognised as an asset when the customer contract is expected to provide a future economic benefit to the Group. Direct costs are amortised over an average contract term. In the event that a customer contract is not fulfilled, and direct costs are not recoverable from the channel partner, a provision for impairment is recognised.

Customer contracts acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

Customer contracts that are acquired through a trailing commission agreement have a corresponding provision liability recognised. The provision liability is measured against forecast payments required and is discounted at a risk-free rate.

KEY JUDGMENTS AND ESTIMATES

Purchase price allocation

AASB 3 *Business Combinations* requires the recognition of fair value estimates of assets and liabilities acquired. By the nature of these estimates, judgements are made on the allocation of the purchase consideration. Goodwill is not amortised.

Amortisation

Amortisation of intangible assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

Software	3 – 10 years
Customer acquisition costs (Australia)	Average contract term of 2 years (2018: 2 years)
Customer acquisition costs (United States)	Over individual contract term as trailing fee paid

17. Impairment of Non-Financial Assets

The Group tests property, plant and equipment, intangibles and goodwill for impairment:

- at least annually for indefinite life intangibles and goodwill; and
- where there is an indication that the asset may be impaired (which is assessed at least each reporting date); or
- where there is an indication that previously recognised impairment (on assets other than goodwill) may have changed.

If the asset does not generate independent cash inflows and its value in use cannot be estimated to be close to its fair value, the asset is tested for impairment as part of the cash-generating unit (CGU) to which it belongs. Assets are impaired if their carrying value exceeds their recoverable amount. The recoverable amount of an asset or CGU is determined as the higher of its fair value less costs of disposal or value in use.

At 30 June 2019 the Group did not have any indefinite life intangible assets. The Group had goodwill of $22.3m of which 100% related to the Group's Energy Solutions operations.

RECOGNITION AND MEASUREMENT

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

Impairment losses recognised for goodwill are not reversed. Impairment losses recognised in prior periods for other assets are assessed at each reporting date for any indications that the impairment loss has decreased or may no longer exist. The impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount of the asset and is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognised.

There were no material reversals of impairment in the current or prior year.

KEY JUDGMENTS AND ESTIMATES

At 30 June 2019 the Group has tested goodwill for impairment and made critical judgements with respect to assumptions used in the value in use assessment. These assumptions are set out as follows.

17. Impairment of Non-Financial Assets (continued)

CGU	Goodwill allocation		Pre-tax discount rate (real)		Years of cash flows included		Cumulative average growth rate(i)		Terminal growth rate (real)	
	2019 $'000	2018 $'000	2019 %	2018 %	2019 years	2018 years	2019 %	2018 %	2019 %	2018 %
Energy Solutions(ii)	**22,269**	6,454	**15.4%**	13.3%	**5**	5	**24%**	15%	**3%**	3%

(i) Cumulative average growth rate is based on revenue.

(ii) Energy Solutions CGU goodwill includes the goodwill arising on the acquisition of the Out Performers group, Lumaled Pty Ltd and Greensense Pty Ltd. The acquisition of Out Performers was completed in September 2018 and the acquisition of the other businesses was completed in the first half of 2016.

Management have utilised a value in use model to test goodwill for impairment at 30 June 2019 for the CGU. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Sensitivity analysis on reasonably possible changes to the discount rates or growth rates would result in an outcome where impairment would be required for the Energy Solutions goodwill. A reduction in the terminal value growth rate of 1% and/or an increase of 0.5% in the discount rate would result in an impairment of between $0.5m - $4m. Directors and management have considered the likelihood of this change and have not updated the impairment calculation given the strong revenue growth for the current year, the current forward order book for sales in FY20, the early lifecycle stage of the Energy Solutions business and availability of capital to fund organic growth.

In the prior year customer acquisition costs were impaired by $1.0m following a decision to sell the associated customer contracts. Further details are contained in note 16.

18. Lease Assets and Liabilities

RIGHT OF USE LEASE ASSETS

		Consolidated	
	Note	2019 $'000	2018 $'000
Cost		**16,204**	15,876
Accumulated depreciation and impairment		**(7,411)**	(5,352)
Net carrying amount at 30 June		**8,793**	**10,524**
Opening net carrying amount at 1 July		**10,524**	14,381
Exchange differences		**(135)**	37
Additions		**1,825**	39
Acquisitions through business combination	30	**511**	-
Amortisation		**(2,657)**	(2,943)
Classified from / (to) held for sale	31	**990**	(990)
Reclassification upon sublease of asset		**(2,265)**	-
Closing net carrying amount at 30 June		**8,793**	**10,524**

The Group leases office premises in Brisbane, Sydney, Melbourne, Perth, Newcastle and Houston. Income from the sublease of the Group's office premises for the year ended 30 June 2019 is $422,283 (2018: $431,110).

Section 2: Operating Assets and Liabilities (continued).

18. Lease Assets and Liabilities (continued)

LEASE LIABILITIES

	Consolidated	
	2019 $'000	**2018 $'000**
Current		
Lease liabilities	**4,305**	3,681
Non-current		
Lease liabilities	**12,012**	13,588
Total lease liabilities	**16,317**	**17,269**
Undiscounted lease payments to be received		
1 year	**441**	451
2 years	**460**	469
3 years	**483**	488
4 years	**195**	510
5 years	**-**	204
>5 years	**-**	-
	1,579	**2,122**

Refer to Note 7 for interest expense on the lease liabilities and the consolidated statement of cash flows for the total cash outflow for the leases.

RECOGNITION AND MEASUREMENT

Leased assets

Leased assets are capitalised at the commencement date of the lease and comprise of the initial lease liability amount, initial direct costs incurred when entering into the lease less any lease incentives received.

An impairment review is undertaken for any right of use lease asset that shows indicators of impairment and an impairment loss is recognised against any right of use lease assets that is impaired.

Lease liabilities

The lease liability is measured at the present value of the fixed and variable lease payments net of cash lease incentives that are not paid at the balance date. Lease payments are apportioned between the finance charges and reduction of the lease liability using the incremental borrowing rate implicit in the lease to achieve a constant rate of interest on the remaining balance of the liability. Lease payments for buildings exclude service fees for cleaning and other costs.

Lease modifications are accounted for as a new lease with an effective date of the modification.

KEY JUDGMENTS AND ESTIMATES

Amortisation

Amortisation of leased assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives being the lesser of the remaining lease term and the life of the asset.

19. Trade and Other Payables

	Consolidated	
	2019 $'000	2018 $'000
Current		
Trade creditors and accruals	**257,130**	268,525
Other creditors	**129,812**	155,114
	386,942	**423,639**

RECOGNITION AND MEASUREMENT

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period and which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition.

KEY JUDGMENTS AND ESTIMATES

Accrued electricity network costs

Accrued electricity network costs payable requires estimates of average daily usage where no meter data is available. This usage estimate is combined with a customer specific network tariff to estimate accrued network costs.

20. Provisions

		Consolidated	
	Note	2019 $'000	2018 $'000
Current			
Employee benefits - annual leave	(i)	**2,239**	2,093
Customer acquisition cost provision		**5,531**	4,503
Other provisions	(iii)	**2,515**	-
		10,285	**6,596**
Non-current			
Employee benefits - long service leave		**2,079**	1,880
Customer acquisition cost provision		**1,726**	2,342
Other provisions	(iii)	**2,493**	-
		6,298	**4,222**
Movements in provisions			
Carrying amount at start of the year		**10,818**	37,417
Additional provision recognised and charged to profit and loss		**4,090**	2,669
Amounts used during the year		**(2,696)**	(2,087)
Current period trailing commission sales and additions provision recognised	(ii)	**8,961**	36,401
Current period commission sales paid		**(8,549)**	(26,096)
Classified as held for sale	31	**-**	(39,181)
Provision for contingent consideration recognised	30	**3,898**	-
Acquired as part of business combination	30	**140**	-
Exchange differences and other movements		**(79)**	1,695
		16,583	**10,818**

(i) The entire amount of the annual leave provision is presented as current since the Group does not have an unconditional right to defer settlement for any of these obligations. In addition, based on past experience, the Group expects all employees to take the full amount of accrued leave or require payment within the next 12 months.

(ii) Corresponding amount capitalised as an intangible asset.

(iii) Other provisions include the earn out associated with the acquisition of the Outperformers Group. Refer Note 30.

Section 2: Operating Assets and Liabilities (continued).

20. Provisions (continued)

RECOGNITION AND MEASUREMENT

Commission payments
Customer contracts that are acquired through commission agreements have a corresponding provision liability recognised. The provision liability is measured against forecast payments required and is discounted at a risk-free rate.

Employee benefits
Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within 12 months of balance date are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to balance date. Consideration is given to expected future wage and salary levels, projected employee movements and periods of service.

Liabilities for employee benefits in the form of bonus plans are recognised in liabilities when it is probable that the liability will be settled and there are formal terms in place to determine the amount of the benefit. Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

KEY JUDGMENTS AND ESTIMATES

Employee benefits
Provisions for employee benefits include assumptions around expected future wage and salary levels and expected periods of service for the purposes of assessing the long service leave liability.

Commission payments
Provisions for commission payments include assumptions around forecast electricity usage for currently contracted customers acquired through a brokerage arrangement.

21. Deferred Tax Assets and Liabilities

RECOGNISED DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Movements in temporary differences - consolidated		Opening balance	Recognised in income statement	Currency translation differences	Recognised in equity	Acquired in business combination	Closing balance
2019	**Note**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Carried forward income tax losses	(i)	1,347	(1,189)	73	-	-	231
Net derivative financial liabilities		14,389	(14,389)	-	-	-	-
Employee provisions		4,694	(532)	38	-	76	4,276
Lease liabilities		5,430	(634)	14	-	-	4,810
Other items		8,444	990	27	-	-	9,461
Deferred tax assets		**34,304**	**(15,754)**	**152**	**-**	**76**	**18,778**
Set-off deferred tax liabilities							(18,778)
Net deferred tax assets							**-**
Net derivative financial assets		-	(28,765)	116	(40,076)	-	(68,725)
Property, plant and equipment and intangibles		(77,495)	(2,064)	25	-	(12)	(79,546)
Lease assets		(3,365)	1,145	(11)	-	-	(2,231)
Goodwill		(1,451)	1,529	(78)	-	-	-
Associates		(179)	-	-	-	-	(179)
Other items		(5,199)	(386)	(2)	2	(69)	(5,654)
Deferred tax liabilities		**(87,689)**	**(28,541)**	**50**	**(40,074)**	**(81)**	**(156,335)**
Set-off deferred tax assets							18,778
Net deferred tax liabilities							**(137,557)**
Net deferred tax liabilities for discontinued operations	31						-
Net deferred tax liabilities for continuing operations							(137,557)

(i) Opening balance excludes estimated non-recoverability of US deferred tax assets impaired during FY2018 and partial impairment reversal in FY2019.

21. Deferred Tax Assets and Liabilities (continued)

RECOGNISED DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (CONTINUED)

Movements in temporary differences - consolidated		Opening balance	Recognised in income statement	Currency translation differences	Recognised in equity	Closing balance
2018	Note	$'000	$'000	$'000	$'000	$'000
Carried forward income tax losses		5,817	4,692	1,117	-	11,626
Net derivative financial liabilities		-	14,389	-	-	14,389
Employee provisions		4,352	284	58	-	4,694
Lease liabilities		6,662	(1,249)	17	-	5,430
Other items		7,785	622	37	-	8,444
Deferred tax assets		**24,616**	**18,738**	**1,229**	**-**	**44,583**
Set-off deferred tax liabilities						(30,594)
Write-down of deferred tax assets	(i)					(10,279)
Net deferred tax assets						**3,710**
Net derivative financial assets		(109,576)	13,479	87	96,010	-
Property, plant and equipment and intangibles		(68,976)	(8,553)	34	-	(77,495)
Lease assets		(4,375)	1,023	(13)	-	(3,365)
Goodwill		(1,650)	320	(121)	-	(1,451)
Associates		(72)	(107)	-	-	(179)
Other items		(4,497)	(727)	(3)	28	(5,199)
Deferred tax liabilities		**(189,146)**	**5,435**	**(16)**	**96,038**	**(87,689)**
Set-off deferred tax assets						30,594
Net deferred tax liabilities						**(57,095)**
Recognised deferred tax assets and deferred tax liabilities						
Net deferred tax assets for discontinued operations	31/(ii)					3,710
Net deferred tax liabilities for continuing operations						**(57,095)**

(i) Estimated non-recoverability of US deferred tax assets.

(ii) The deferred tax asset remaining for the US discontinued operations relates to the amount expected to be recoverable on sale.

RECOGNITION AND MEASUREMENT

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Section 2: Operating Assets and Liabilities (continued).

21. Deferred Tax Assets and Liabilities (continued)

Deferred tax assets and liabilities have not been recognised for the following items:

		Consolidated	
		2019 $'000	2018 $'000
Tax losses not recognised			
Unused capital tax losses for which no deferred tax asset has been recognised	(i)	**15,127**	15,127
Unused tax losses for which no deferred tax asset has been recognised – continuing operations	(ii)	**-**	698
Unused tax losses for which no deferred tax asset has been recognised – discontinued operation	(iii)	**57,828**	37,697
Potential Australian tax benefit at 30%		**4,538**	4,748
Potential US tax benefit at 21%		**12,144**	7,916

(i) The unused capital losses were incurred from the disposal of capital investments that are not likely to be recouped in the foreseeable future.
(ii) The unused tax losses were incurred by a joint venture the Group invests in. The losses are not likely to generate taxable income in the foreseeable future.
(iii) The unused tax losses were incurred by the US business Source Power & Gas that is not likely to generate taxable income in the foreseeable future.

	2019	2018
Unrecognised temporary differences		
Temporary difference relating to investments in subsidiaries for which deferred tax balances have not been recognised:		
Foreign currency translation	**(77)**	(2,671)
Unrecognised deferred tax liabilities relating to the above temporary differences	**(16)**	(561)

TAX CONSOLIDATION

The Company and its wholly-owned Australian controlled entities, have implemented the tax consolidation legislation. The entities in the tax consolidated group have entered into tax sharing agreements which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity being ERM Power Limited.

The entities in the tax consolidated group have also entered into tax funding agreements under which the wholly-owned entities fully compensate the head entity for any current tax payable assumed and are compensated by the head entity for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to the head entity under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements. The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

KEY JUDGMENTS AND ESTIMATES

Deferred tax assets

The Group has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped.

Section 3: Capital and Financial Risk Management.

22. Financial Risk Management

FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group's activities are exposed to a variety of financial risks, including:

(a) Market risk (commodity price and interest rate),

(b) Credit risk (refer Note 10), and

(c) Liquidity risk.

The Group's overall risk management strategy focuses on the unpredictability of markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses a variety of derivative financial instruments such as electricity derivatives and interest rate swaps to hedge against certain risk exposures. Further details on these instruments are set out in notes 13 and 14.

The Group uses different methods to measure the different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and ageing analysis for credit risk.

MARKET RISK

Electricity pool price risk

The Group is exposed to fluctuations in wholesale market electricity prices as a result of electricity generation and sales.

Group policies prescribe active management of exposures arising from forecast electricity sales within prescribed limits. In doing so, various hedging contracts have been entered into with individual market participants. Any unhedged position has the potential for variation in net profit from fluctuations in electricity pool prices.

Subsidiaries in the Group's electricity sales segment routinely enter into forward sales contracts for the provision of electricity. The Group is exposed to a market risk of price fluctuations between the fixed price of these contracts and the relevant spot price of the electricity pool at the time of usage. The majority of this exposure to fluctuations in wholesale market electricity prices is managed through the use of various types of hedging contracts. The hedge portfolio consists predominantly of swaps, caps, futures and options. Electricity derivatives are either entered into in separate agreements or arise as embedded derivatives. Whilst the Group recognises the fair value of electricity derivative contracts for accounting purposes, the Group is not permitted to similarly recognise the fair value of the sales contracts that form the other side of the economic hedging relationship.

The following tables summarise the impact of a 10% change in the relevant forward prices for wholesale market electricity prices for the Group at the balance date, while all other variables were held constant.

Electricity sales sensitivity

The impact disclosed below summarises the sensitivity on the unrealised mark to market of electricity derivatives contracts only and does not include any corresponding movement in the value of customer contracts, which would vary in the opposite direction to the underlying hedge. As electricity forward prices increase above the contracted price of a derivative contract (buy side contract) the derivative contract becomes more valuable as it allows the Group to effectively purchase electricity at a cost lower than the prevailing forward market price. Equally, the value of the corresponding customer contract (sell side contract) decreases as the Group has contracted to sell electricity to a customer at a price lower than the prevailing forward market price. Only the mark to market on the buy side contract has been recognised for accounting purposes regardless of whether there is an effective hedge in place.

	Increase by 10%	Decrease by 10%
	$'000	$'000
2019		
Net profit / (loss) – unrealised mark to market of electricity derivative contracts	**114,534**	**76,993**
Other Components of Equity increase / (decrease)	**114,813**	**(65,084)**
2018		
Net profit / (loss) – unrealised mark to market of electricity derivative contracts	185,428	(157,180)
Other Components of Equity increase / (decrease)	83,404	(215,847)

Sensitivity of 10% has been selected as this is considered reasonably possible based on industry standard benchmarks and historical volatilities.

Section 3: Capital and Financial Risk Management (continued).

22. Financial Risk Management (continued)

MARKET RISK (CONTINUED)

Electricity generation sensitivity

The impact disclosed below summarises the sensitivity on the profit of generating assets held by the Group resulting from a change in spot prices.

	Increase by 10%	Decrease by 10%
	$'000	$'000
2019		
Net profit / (loss)	**9,582**	**(9,582)**
Other Components of Equity increase / (decrease)	**-**	**-**
2018		
Net profit / (loss)	5,695	(5,695)
Other Components of Equity increase / (decrease)	-	-

Sensitivity of 10% has been selected as this is considered reasonably possible based on industry standard benchmarks and historical volatilities.

Interest rate risk

The Group is exposed to interest rate risk on the funds it borrows at floating interest rates and on cash deposits. The risk is managed by entering into interest rate swap contracts for project term debt. The sensitivity analysis to net profit (being profit before tax) and equity has been determined based on the exposure to interest rates at the balance date and assumes that there are concurrent movements in interest rates and parallel shifts in the yield curves. A sensitivity of 50 basis points has been selected as this is considered reasonable given the current level of short-term and long-term interest rates.

At balance date, if interest rates had been 50 basis points higher / lower and all other variables were held constant, the impact on the Group would be:

	Increase by 50bps	Decrease by 50bps
	$'000	$'000
2019		
Net profit / (loss)	**170**	**(170)**
Other equity increase / (decrease)	**1,827**	**(1,827)**
2018		
Net profit / (loss)	434	(434)
Other equity increase / (decrease)	2,141	(2,141)

The impact on net profit is largely due to the Group's exposure to interest rates on its non-hedged variable rate borrowings and cash assets.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets. Information regarding undrawn finance facilities available as at 30 June 2019 is contained in Note 25.

22. Financial Risk Management (continued)

LIQUIDITY RISK (CONTINUED)

Maturities of financial liabilities

The table below analyses the Group's financial liabilities, including net and gross settled derivative financial instruments, into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. For interest rate swaps the cash flows have been estimated using forward interest rates applicable at balance date. For electricity derivatives the cash flows have been estimated using forward electricity prices at balance date.

FINANCIAL LIABILITIES

Consolidated	≤1 year $'000	1 to 5 years $'000	>5 years $'000	Discount $'000	Total $'000
2019					
Trade payables and accrued expenses	**380,094**	**-**	**-**	**-**	**380,094**
Other payables	**6,848**	**-**	**-**	**-**	**6,848**
Leased liabilities	**4,930**	**12,830**	**-**	**(1,443)**	**16,317**
Interest bearing liabilities	**-**	**-**	**-**	**-**	**-**
Interest bearing liabilities – limited recourse (i)	**127,854**	**53,369**	**-**	**-**	**181,223**
Derivatives	**68,548**	**71,418**	**5,951**	**-**	**145,917**
	588,274	**137,617**	**5,951**	**(1,443)**	**730,399**
2018					
Trade payables and accrued expenses	268,525	-	-	-	268,525
Other payables	155,114	-	-	-	155,114
Leased liabilities	4,276	14,509	-	(1,516)	17,269
Interest bearing liabilities	150,831	-	-	-	150,831
Interest bearing liabilities – limited recourse (i)	8,904	96,722	87,814	(7,969)	185,471
Derivatives	34,511	74,762	4,149	-	113,422
	622,161	**185,993**	**91,963**	**(9,485)**	**890,632**

(i) Recourse limited to assets of the Neerabup Partnership. Refer note 29 for further details.

CAPITAL RISK MANAGEMENT

The Group manages its capital so that it will be able to continue as a going concern while maximising the return to stakeholders through an appropriate mix of debt and equity. This approach is consistent with prior years. The capital structure of the Group as at balance date consists of total corporate facilities, as listed in note 25, total limited recourse facilities as listed in note 25 and equity, comprising issued capital, reserves and retained earnings as listed in notes 26 and 27.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group is required to provide prudential credit support to various parties which it does through the provision of bank guarantees or cash collateral. It also has a working capital facility in place which is settled each month. A large percentage of the Group debt is in the form of limited recourse project finance provided directly to power stations in which the Group has an interest. During the financial year ended 30 June 2019 the entity complied with all applicable debt covenants.

The quantitative analysis of the Group's gearing structure is illustrated below. To consider the risk of the Company's capital structure it is appropriate to segregate the power stations from the rest of the Group. The table below illustrates the gearing and interest cover for the Group. When the Neerabup assets and associated limited recourse debt are excluded the Group has no net debt.

	Consolidated	
	2019 $'000	**2018 $'000**
Gearing percentage (i)	**2.1%**	28.2%
Gearing percentage (i) excluding Neerabup	**0%**	0%
EBITDAF Interest cover ratio for continuing operations	**3.31**	3.57

(i) Gearing percentage is calculated as net debt divided by total capital. Net debt is calculated as total interest-bearing borrowings less cash and cash equivalents.

Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt less reserves attributable to fair value adjustments.

Section 3: Capital and Financial Risk Management (continued).

23. 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	
	2019 $'000	2019 $'000
	Carrying value	Fair value
Financial assets		
Electricity and gas derivative financial instruments	**244,752**	**265,193**
	244,752	**265,193**

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 30 June 2019 excludes the remaining balance of the deferred day one gain of $22.4m. At inception the day one gain was $31.9m. The movement in the day one gain balance relates to settlement of derivatives through profit and loss during the 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 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.

23. 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 30 June 2019 and 30 June 2018.

As at 30 June 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Electricity and commodity derivatives	**-**	**228,269**	**16,483**	**244,752**
Financial assets at fair value through other comprehensive income	**6**	**-**	**-**	**6**
Total assets	**6**	**228,269**	**16,483**	**244,758**
Liabilities				
Electricity and commodity derivatives	**-**	**100,885**	**13,369**	**114,254**
Interest rates swaps	**-**	**31,663**	**-**	**31,663**
Total liabilities	**-**	**132,548**	**13,369**	**145,917**

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, 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 group also utilizes instruments with maturity dates beyond the current market curve. The value of these instruments at 30 June 2019 was $3.1m. Had the forecast volume or price of these instruments combined, increased or decreased by 10%, the market value combined, would have increased or decreased by $0.3m.

Section 3: Capital and Financial Risk Management (continued).

23. Fair Value Measurement (continued)

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

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

	2019 $'000
Closing balance 30 June 2018	-
Transfers into level 3	3,080
Net fair value gain on financial instruments designated at fair value through profit or loss	34
Closing balance 30 June 2019	3,114

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. For the period ending 30 June 2019, derivatives with a MTM of $3.1m at 1 July 2018 were transferred between level 2 and 3 (2018: Nil transfers).

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 30 June 2019 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 30 June 2019 and as at 30 June 2018.

As at 30 June 2019 $'000	Gross carrying amount (before offsetting)	Gross amounts offset	Cash collateral and futures margin deposits paid / (received)	Net amount presented	Related amounts not offset: Financial instruments[(i)]	Related amounts not offset: Cash collateral	Net exposure
Financial assets							
Electricity and commodity derivatives contracts	404,967	(29,300)	(130,915)	244,752	(10,895)	-	233,857
Total	404,967	(29,300)	(130,915)	244,752	(10,895)	-	233,857
Financial liabilities							
Electricity and commodity derivatives contracts	143,554	(29,300)	-	114,254	(10,895)	(25,980)	77,379
Interest rate swaps	31,663	-	-	31,663	-	-	31,663
Total	175,217	(29,300)	-	145,917	(10,895)	(25,980)	109,042

As at 30 June 2018 $'000	Gross carrying amount (before offsetting)	Gross amounts offset	Cash collateral and futures margin deposits paid / (received)	Net amount presented	Related amounts not offset: Financial instruments[(i)]	Related amounts not offset: Cash collateral	Net exposure
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.

24. Cash and Cash Equivalents

	Consolidated	
	2019 $'000	**2018 $'000**
Current		
Restricted cash	**72,789**	160,038
Non-restricted cash at bank and cash on hand	**99,307**	67,598
Total cash and cash equivalents	**172,096**	**227,636**

The cash and cash equivalents are bearing interest at rates between nil and 2.75%.

Restricted cash		
Term deposits	**35,915**	34,120
Other restricted cash deposits	**36,874**	125,918
	72,789	**160,038**

RESTRICTED CASH

Cash that is reserved and its use specifically restricted for maintenance and/or debt servicing under the Group's borrowing agreements is defined as restricted cash. Cash that is on deposit with counterparties as security deposits and cash that is on deposit with financial institutions as security for bank guarantees issued to various counterparties as credit support, is defined as restricted cash, with a corresponding disclosure in contingent liabilities in Note 34. Cash collateral held in margin accounts to facilitate wholesale price hedging on the ASX Energy Exchange is classified as restricted cash unless it is eligible for offset against the corresponding derivative liability. As at 30 June 2019 $140.6m cash collateral held in margin accounts has been offset against the corresponding asset or liability (2018: $22.3m).

The restricted cash deposits, held on term deposit, are bearing interest at rates between 1.75% and 2.75%.

RECOGNITION AND MEASUREMENT

Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of any bank overdrafts. These assets are stated at nominal values.

Cash that is reserved and its use specifically restricted for maintenance and / or debt servicing under the Group's borrowing agreements is defined as restricted cash. Cash that is on deposit with counterparties as security deposits and cash that is on deposit with financial institutions as security for bank guarantees issued to various counterparties as credit support, is defined as restricted cash, with a corresponding disclosure in contingent liabilities in Note 34. Cash collateral held in margin accounts to facilitate wholesale price hedging on the ASX Energy Exchange is classified as restricted cash unless it is eligible for offset against the corresponding derivative liability.

Section 3: Capital and Financial Risk Management (continued).

25. Borrowings

	Note	Consolidated 2019 $'000	2018 $'000
Current			
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)	**124,854**	5,904
		127,854	**8,904**
Total current borrowings		**127,854**	**159,735**
Non-current			
Secured - limited recourse			
Bank loan - Neerabup term facility	(iii)	-	124,537
Convertible notes	(iv)	**53,369**	52,030
Total non-current borrowings		**53,369**	**176,567**
Total borrowings		**181,223**	**336,302**

Information on credit risk, fair value and interest rate risk exposure of the Group is provided at note 22.

(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 30 June 2019 as it expires on 31 December 2019. The debt was refinanced in July 2019 for a term of 10.25 years expiring 28 September 2029.

(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 7.30% (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.

Financing facilities available

The Group's financing facilities predominantly relate to limited recourse power station development activities. Funding is drawn down progressively according to project time lines. At balance date, the following financing facilities had been negotiated and were available:

	Consolidated 2019 $'000	2018 $'000
Total facilities - bank loans	**447,592**	413,123
Facilities used at balance date - bank loans	**(215,494)**	(324,426)
Facilities unused at balance date - bank loans	**232,098**	**88,697**

25. Borrowings (continued)

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 recognized 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.

26. Contributed Equity

		Consolidated		Consolidated	
		2019	2018	**2019**	2018
	Note	Number of shares	Number of shares	$'000	$'000
Issued ordinary shares – fully paid		**250,288,527**	255,421,056	**344,576**	350,745
Treasury shares		**(5,327,548)**	(7,531,156)	**(6,071)**	(10,314)
		244,960,979	**247,889,900**	**338,505**	**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	33	**466,566**	3,948,853	**388**	6,841
Issue of shares – dividend reinvestment plan		**-**	503,561	**-**	673
Shares bought back on-market and cancelled, including transaction costs (net of tax)		**(5,599,095)**	(1,739,560)	**(10,050)**	(2,880)
Transfer from share buy-back reserve		**-**	-	**2,340**	408
Transfer from share based payment reserve		**-**	-	**5,397**	3,052
Transfer to treasury shares		**-**	-	**(4,244)**	(3,970)
At the end of the period		**250,288,527**	**255,421,056**	**344,576**	**350,745**

TERMS AND CONDITIONS OF CONTRIBUTED EQUITY

Ordinary shares

During the year ended 30 June 2019, 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.
For details of shares and options issued under employee share schemes see note 33.

Share buy-back

During the year ended 30 June 2019, the Company purchased and cancelled 5,599,095 (2018: 1,739,560) ordinary shares on-market. The shares were acquired at an average price of $1.75 (2018: $1.61). The total cost of $10.1m (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, $2.3m (2018: $0.4m) was transferred to the share buy-back reserve. The total reduction in paid up capital was $7.7m (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.

Section 3: Capital and Financial Risk Management (continued).

27. Reserves

CONSOLIDATED 2019 $'000	Cash flow hedge reserve	Fair value reserve	Share based payment reserve	Share buy-back reserve	Transactions with non-controlling interests	Foreign currency translation reserve	Total
Balance at the beginning of the year	(2,353)	(1,048)	5,772	(408)	(14,404)	2,671	(9,770)
Revaluation - net	133,743	(3)					133,740
Revaluation - deferred tax	(40,076)	-	-	-	-	-	(40,076)
Share based payments vested	-	-	(3,982)	-	-	-	(3,982)
Share based payments expense	-	-	2,692	-	-	-	2,692
Transfer to contributed equity	-	-	-	(2,340)	-	-	(2,340)
Currency translation differences	-	-	-	-	-	(2,594)	(2,594)
Balance at the end of the year	**91,314**	**(1,051)**	**4,482**	**(2,748)**	**(14,404)**	**77**	**77,670**

CONSOLIDATED 2018 $'000	Cash flow hedge reserve Restated(i)	Fair value reserve	Share based payment reserve	Share buy-back reserve	Transactions with non-controlling interests	Foreign currency translation reserve	Total
Balance at the beginning of the year	221,670	(1,042)	6,050	-	(14,404)	1,361	213,635
Revaluation - net	(320,033)	(6)	-	-	-	-	(320,039)
Revaluation - deferred tax	96,010	-	-	-	-	-	96,010
Share based payments vested	-	-	(3,052)	-	-	-	(3,052)
Share based payments expense	-	-	2,774	-	-	-	2,774
Transfer to contributed equity	-	-	-	(408)	-	-	(408)
Currency translation differences	-	-	-	-	-	1,310	1,310
Balance at the end of the year	**(2,353)**	**(1,048)**	**5,772**	**(408)**	**(14,404)**	**2,671**	**(9,770)**

(i) Refer to Note 38.

CASH FLOW HEDGE RESERVE
The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

FAIR VALUE RESERVE
Changes in the fair value and exchange differences arising on translation of investments, such as equities classified as fair value through other comprehensive income, are recognised in other comprehensive income and accumulated in a separate reserve within equity.

SHARE BASED PAYMENT RESERVE
The share-based payments reserve is used to recognise:

- the grant date fair value of Performance Rights issued to employees but not exercised;
- the grant date fair value of shares issued to employees; and
- the issue of unvested shares held in the EST to employees.

SHARE BUY-BACK RESERVE
The share buy-back reserve is used to record the difference in the average share price for the shares bought back compared to the share capital issued prior to the buy-back.

TRANSACTIONS WITH NON-CONTROLLING INTERESTS
This reserve is used to record the differences described in note 39 which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

FOREIGN CURRENCY TRANSLATION RESERVE
Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 39(a) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Section 4: Group Structure.

28. Parent Entity Financial Information

The individual financial statements for the parent entity show the following aggregate amounts

	2019 $'000	2018 $'000
Statement of financial position		
Current assets	**256,284**	245,901
Total assets	**413,167**	398,750
Current liabilities	**7,332**	18,690
Total liabilities	**23,623**	34,102
Net assets	**389,544**	**364,648**
Shareholders' equity		
Contributed equity	**344,575**	350,745
Treasury shares	**(6,071)**	(10,314)
Fair value reserve	**(1,044)**	(1,048)
Share based payment reserve	**4,482**	5,772
Share buy-back reserve	**(2,749)**	(408)
Retained earnings	**50,351**	19,901
Total equity	**389,544**	**364,648**
Profit / (loss) for the year	**59,502**	**(49,753)**
Other comprehensive income / (loss)	**3**	(6)
Total comprehensive income / (loss)	**59,505**	**(49,759)**

GUARANTEES ENTERED INTO BY THE PARENT ENTITY

The parent entity has issued non-cash backed guarantees to certain third parties to support the operations of the Australia and US electricity sales businesses.

CONTINGENT LIABILITIES OF THE PARENT ENTITY

At 30 June 2019, the parent entity has drawn on $250m of non-cash backed financial guarantees under the Liberty International Underwriters Singapore and Hong Kong Surety guarantee facility. The guarantee is drawn to support Australian energy market operational obligations as detailed in note 34(b).

CONTRACTUAL COMMITMENTS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

There are no contractual commitments for the acquisition of property, plant and equipment at 30 June 2019.

PARENT ENTITY FINANCIAL INFORMATION

The financial information for the parent entity, ERM Power Limited has been prepared on the same basis as the consolidated financial statements, except as set out below:

(a) Investments in subsidiaries, associates and joint arrangements

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of the Company. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(b) Financial Guarantees

Where the parent entity provides financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investments.

(c) Share-based payments

The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

(d) Tax consolidation legislation

The Company and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity ERM Power Limited, and the controlled entities in the tax consolidated group, account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right. In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

Section 4: Group Structure (continued).

29. Interests in Other Entities

(A) SUBSIDIARY COMPANIES

The Consolidated Entity consists of a number of wholly or majority owned subsidiaries as set out below. The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2019 as set out below and the results for the year then ended.

	Place of incorporation	Percentage of equity interest held by the Company	
Name		2019 %	2018 %
Material operating subsidiaries			
CCM Energy Solutions Pty Ltd	NSW	**100**	-
ERM Employee Share Plan Administrator Pty Ltd	QLD	**100**	-
ERM Energy Solutions Holdings Pty Ltd	QLD	**100**	-
ERM Financial Services Pty Ltd	QLD	**100**	100
ERM Gas Pty Ltd	QLD	**100**	100
ERM Holdings Pty Ltd	QLD	**100**	100
ERM Innovation Labs Pty Ltd	VIC	**100**	100
ERM Land Holdings Pty Ltd	QLD	**100**	100
ERM Neerabup Power Pty Ltd	VIC	**100**	100
ERM Neerabup Pty Ltd	VIC	**100**	100
ERM Power Developments Pty Ltd	VIC	**100**	100
ERM Power Generation Pty Ltd	VIC	**100**	100
ERM Power International Pty Ltd	QLD	**100**	100
ERM Power Investments Pty Ltd	QLD	**100**	100
ERM Power Retail Pty Ltd	VIC	**100**	100
ERM Power Trading LLC	USA	**100**	100
Greensense Pty Ltd	WA	**100**	100
Lumaled Pty Ltd	NSW	**100**	100
Oakey Power Holdings Pty Ltd	ACT	**100**	100
Out Performers Pty Ltd	NSW	**100**	-
Out Performers Project Services Pty Ltd	NSW	**100**	-
Out Performers Trading Pty Ltd	NSW	**100**	-
Powermetric Metering Pty Ltd	NSW	**100**	100
Source Operations Group LLC	USA	**100**	100
Source Power & Gas LLC	USA	**100**	100
SPG Energy Group LLC	USA	**100**	100
Other non-material subsidiaries			
Braemar 3 Holdings Pty Ltd	QLD	**100**	100
ERM Braemar 3 Pty Ltd	QLD	**100**	100
ERM Braemar 3 Power Pty Ltd	QLD	**100**	100
ERM Business Energy LLC	USA	**100**	100
ERM Gas WA01 Pty Ltd	VIC	**100**	100
ERM Oakey Power Holdings Pty Ltd	NSW	**100**	100
E.R.M. Oakey Power Pty Ltd	QLD	**100**	100
ERM Power Services Pty Ltd	VIC	**100**	100
ERM Power Utility Systems Pty Ltd	QLD	**100**	100
ERM Wellington 1 Holdings Pty Ltd	QLD	**100**	100
Queensland Electricity Investors Pty Ltd	QLD	**100**	100
Richmond Valley Solar Thermal Pty Ltd	QLD	**100**	100

29. Interests in Other Entities (continued)

(A) SUBSIDIARY COMPANIES (CONTINUED)

RECOGNITION AND MEASUREMENT

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control of an entity exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group that were not previously under common control.

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. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

Intercompany balances, transactions and unrealised gains resulting from intra-group transactions with subsidiaries have been eliminated in full. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Employee share trusts

The Group has formed trusts to administer the Group's employee share trust schemes. The trusts are consolidated, as the substance of the relationship is that the trusts are controlled by the Group. Shares held by the trusts are disclosed as treasury shares and deducted from contributed equity.

(B) SIGNIFICANT JOINT OPERATIONS – POWER STATION PROJECTS

As at 30 June 2019 and 30 June 2018, the Group has the following interest in power station projects with other external parties. The Group has classified its investments in the NewGen Neerabup Partnership as a joint operation. The partners of the Partnership are jointly and severally liable for the liabilities of the partnership and under the partnership agreement are entitled to a proportionate share of Partnership's assets.

	Principle place of business	Interest Held	
		2019 %	2018 %
Neerabup Power Station:			
NewGen Power Neerabup Pty Ltd	QLD	**50**	50
NewGen Neerabup Pty Ltd	QLD	**50**	50
NewGen Neerabup Partnership	WA	**50**	50

Section 4: Group Structure (continued).

29. Interests in Other Entities (continued)

(B) SIGNIFICANT JOINT OPERATIONS – POWER STATION PROJECTS (CONTINUED)

The consolidated entity's proportionate share of assets employed and liabilities incurred in power station projects classified as joint operations is summarised below.

	Consolidated	
	2019 $'000	2018 $'000
CURRENT ASSETS		
Cash and cash equivalents	**13,331**	12,582
Trade and other receivables at amortised cost	**3,695**	4,185
Inventories	**76**	52
Other assets	**434**	447
TOTAL CURRENT ASSETS	**17,536**	**17,266**
NON-CURRENT ASSETS		
Property, plant and equipment	**161,320**	165,745
Intangible assets	**50**	51
TOTAL NON-CURRENT ASSETS	**161,370**	**165,796**
TOTAL ASSETS	**178,906**	**183,062**
CURRENT LIABILITIES		
Trade and other payables	**865**	1,006
Borrowings – limited recourse	**127,724**	8,904
Provisions	**39**	46
Derivative financial instruments	**7,296**	-
TOTAL CURRENT LIABILITIES	**135,924**	**9,956**
NON-CURRENT LIABILITIES		
Borrowings – limited recourse	**-**	124,536
Derivative financial instruments	**24,367**	29,481
TOTAL NON-CURRENT LIABILITIES	**24,367**	**154,017**
TOTAL LIABILITIES	**160,291**	**163,973**
NET ASSETS	**18,615**	**19,089**

Capital expenditure commitments	Consolidated	
	2019 $'000	2018 $'000
Estimated capital expenditure contracted for at balance date, not provided for but payable		
– not later than one year	**20**	9
– later than one year and not later than five years	**-**	-
– later than five years	**-**	-
	20	**9**

29. Interests in Other Entities (continued)

(B) SIGNIFICANT JOINT OPERATIONS – POWER STATION PROJECTS (CONTINUED)

RECOGNITION AND MEASUREMENT

Joint arrangements

Under AASB 11, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has joint operations but no material joint ventures. The group's share of its interests in joint venture profit and loss is recognised in the income statement and any share of movement in reserves is recognised in reserves. Cumulative movement in the income statement and in reserves are adjusted against the investment carrying amount.

Joint operations

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

(C) JOINT VENTURES

In June 2016, the Group made a 33% investment in Energy Locals Pty Ltd (**Energy Locals**) for $1.5m, a company which provides a platform for members of communities to supply and charge each other energy. In May 2017, the Group acquired preference shares in Energy Locals for $1m. In May 2018 these shares were converted into ordinary shares and Energy Locals issued additional share capital to a third-party investor, bringing the Group's cash investment in the joint venture to 32.63% for $2.5m.

(D) INTERESTS IN ASSOCIATES

Name of entity	Place of business/ country of incorporation	Principle Activity	Measurement method	% of ownership interest	
				2019	**2018**
1st Energy Pty Ltd	Australia	Electricity sales to business and residential customers in New South Wales	Equity method	**30**	30
Solpod Pty Ltd	Australia	Mobile method of installing large-scale rooftop commercial solar	Equity method	**24**	-

During the 2017 financial year, the Group made a 30% investment in 1st Energy Pty Ltd (**1st Energy**) for $4.5m. The Group has representation on its board of directors and a consequent ability to participate in the financial and operating decisions. In the opinion of the directors, ERM Power has significant influence and 1st Energy is an associate of the Group.

In September 2018, the Group made a 20% investment in Solpod Pty Ltd (**Solpod**) for $0.3m. The Group acquired a further 4% interest for $0.05m in April 2019. The Group has representation on its board of directors and a consequent ability to participate in the financial and operating decisions. In the opinion of the directors, ERM Power has significant influence and Solpod is an associate of the Group.

Recognition and measurement

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the consolidated financial statements by reducing the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the investment.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

KEY JUDGMENTS AND ESTIMATES

ERM Power has determined that it has significant influence, but not control or joint control, to govern the financial and operating policies of 1st Energy and Solpod and accordingly those investments are accounted for as an associate.

Section 4: Group Structure (continued).

30. 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:

		30 June 2019
	Note	$'000
Cash paid		11,513
Earn out	(i)	3,898
Total purchase consideration		**15,411**

(i) In the event that the operations of Out Performers achieve 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	1,851
Inventories	898
Other assets	256
Leased assets	511
Property, plant and equipment	99
Goodwill and intangibles	15,906
Trade and other payables	(5,554)
Provisions	(140)
Lease liability	(903)
Income tax payable	(72)
Deferred tax liability	(5)
Net assets acquired	**15,411**

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 $1.5m.

Revenue and profit contribution

The acquired business contributed revenues of $7.2m and net profit of $1.3m to the Group for the period from 28 September 2018 to 30 June 2019. If the acquisition had occurred on 1 July 2018, consolidated Group revenue and net profit for the period ended 30 June 2019 would have been $9.4m and $1.3m respectively.

PURCHASE CONSIDERATION – CASH OUTFLOW

	$'000 2019	$'000 2018
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	11,513	-
Less: Balances acquired		
Cash	(2,564)	-
Plus: Acquisition-related costs	337	-
Net outflow of cash – investing activities	**9,286**	**-**

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 acquire 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.

31. 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.

(A) FINANCIAL PERFORMANCE AND CASH FLOW INFORMATION

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

	Note	2019 $'000	2018 $'000
Revenue		**349,983**	529,719
Expenses		**(351,777)**	(529,546)
EBITDAF		**(1,794)**	**173**
Net fair value (loss) / gain on financial instruments designated at fair value through profit or loss		**(63)**	9,571
Depreciation and amortisation		**(630)**	(16,687)
Provision for onerous contract		**(1,046)**	-
Impairment expense		**(1,016)**	-
Net finance costs		**(5,791)**	(14,729)
Reclassification of foreign currency translation reserve on disposal of operations		**571**	-
Gain on sale of business assets before tax	31(b)	**4,319**	-
Loss before tax		**(5,450)**	**(21,672)**
Income tax expense		**(5,384)**	(12,296)
Loss after tax of discontinued operation		**(10,834)**	**(33,968)**
Exchange differences on translation of discontinued operations		**2,594**	1,310
Other comprehensive income / (loss) from discontinued operations		**2,594**	**1,310**
Total comprehensive loss from discontinued operations		**(8,240)**	**(32,658)**
Net cash (outflow) / inflow from operating activities		**(16,697)**	16,310
Net cash inflow / (outflow) from investing activities		**19,606**	(11,692)
Net cash outflow from financing activities		**(5,769)**	(14,958)
Net (decrease) / increase in cash generated by the discontinued operations		**(2,860)**	**(10,340)**
Revenue			
Major product / service lines			
Sale of electricity		**349,983**	529,719
		349,983	**529,719**
Timing of revenue recognition			
Recognised over time		**349,983**	529,719
		349,983	**529,719**

Section 4: Group Structure (continued).

31. Discontinued Operations (continued)

(B) DETAILS OF THE SALE OF THE US RESIDENTIAL CUSTOMER CONTRACT ASSETS

	Note	2019 $'000	2018 $'000
Consideration received:			
Proceeds received on sale		**34,901**	-
Transaction costs		**(2,405)**	-
Total disposal consideration		**32,496**	**-**
Other disposal costs		**(878)**	-
Carrying amount of net assets sold		**(29,995)**	-
Gain on sale before reclassification of foreign currency translation reserve		**1,623**	**-**
Reclassification of foreign currency translation reserve	(i)	**2,696**	-
Gain on sale before income tax expense		**4,319**	**-**
Income tax expense on gain		**(5,180)**	-
Loss on sale after income tax expense		**(861)**	**-**

(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 30 June 2019 and 30 June 2018:

	2019 $'000	2018 $'000
Assets classified as held for sale		
Cash and cash equivalents	-	12,822
Trade and other receivables at amortised cost	-	74,000
Other assets	-	851
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**

As at 30 June 2019, the Group has classified $Nil (2018: $3.4m) intangible assets as held for sale and $Nil (2018: $1.5m) trade and other payables as liabilities associated with the Business Energy Australia operations single site SME customer contracts acquisition costs. A decision to sell these sites was finalised in June 2018.

Section 5: Employee Remuneration.

32. Key Management Personnel

	Consolidated	
	2019 $	2018 $
Key management personnel compensation		
Short-term employee benefits	**7,699,839**	6,961,679
Long-term employee benefits	**(158)**	39,402
Post-employment benefits	**212,685**	221,887
Termination benefits	**262,404**	-
Share-based payments	**1,648,170**	1,366,422
	9,822,940	**8,589,390**

Detailed remuneration disclosures are provided in the Remuneration Report.

33. Share Based Payments

The Company provides benefits to employees (including the CEO and Senior Executives) of the Group in the form of share-based payments, whereby selected employees who are invited by the Board render services in exchange for shares or Performance Rights.

The objective of the Long-Term Incentive Scheme (LTI) is to provide incentives to focus on long-term shareholder returns. These incentive awards have previously been granted by way of offers to participate in either or both the Employee Share Trust (EST) or as Performance Rights.

The expense arising from these transactions is shown in note 5.

The Group operates a number of share-based payment plans. A description of each type of share-based payment arrangement that existed at any time during the period is described below. The fair value of rights granted under equity-settled share-based arrangements are measured at grant date and spread over the vesting period through a charge to employee benefit expense in the income statement and a corresponding increase in the share-based payments reserve in equity. The fair value of share-based payments takes into account market performance conditions but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in the assumptions about the number of shares that are expected to be vested. Upon vesting, the relevant amount in the share-based payments reserve is transferred to contributed equity.

LTI AWARDS

The Company previously received approval of these employee incentive plans by shareholders at the 2016 AGM. Shares are acquired by a trustee who holds those shares on behalf of participants. The shares are acquired by the trustee either subscribing for new shares or purchasing shares on market.

Participants hold their interest through units, where one unit represents one share. Participants apply for a loan to acquire units in the trust at the prevailing market value of the shares. A participant may instruct the trustee how to exercise their vote in the case of a poll at a meeting of the Company. Vesting conditions, if any, may be a combination of service and performance hurdles, as determined by the directors. If the participant's employment ceases prior to the units vesting, the Board will determine if the participant's units are forfeit or, for redundancy, death or permanent disability, or in circumstances that the Board determines appropriate, continue to be held to the end of the performance period at which time the proportion to vest will be re-assessed.

Early vesting may occur on a change of control of the Company, being a material change in the composition of the Board initiated as a result of a change of ownership of shares and the purchaser of the shares requiring (or agreeing with other shareholders to require) that change in Board composition, or in other circumstances that the Board determines appropriate.

Any units issued without market based vesting conditions are valued at the external market price at the time of issue and are not valued using a Monte Carlo simulation or other methodology.

At 30 June 2019, 5,327,548 units remained outstanding not yet vested (2018: 7,531,156).

KEY JUDGMENTS AND ESTIMATES

Valuation of share based payments granted under LTI awards

The fair value of shares granted under the EST with market based vesting conditions is determined using a Monte Carlo simulation (using a Black-Scholes framework). The model inputs for restricted shares granted are shown in the table following.

Section 5: Employee Remuneration (continued).

33. Share Based Payments (continued)

	FY2019 grants	FY2018 grants
	Performance Rights	**Units in the EST**
Assessed fair value per share at grant date [(i)]	**$0.92 - $1.36**	$0.63 - $0.64
Number of rights / units allocated during the financial year [(ii)]	**2,232,878**	2,433,169
Share price at grant date	**$1.44 - $1.73**	$1.20 - $1.29
Exercise price	**Nil**	Nil
Expected price volatility of the Company's shares based on historic volatility	**41%**	39%
Risk free interest rate	**2.04% - 2.06%**	1.94% - 2.10%
Expected vesting date	**3 years after issue**	3 years after issue
Dividend yield	**N/A**	5.45% - 5.83%
Proportion subject to vesting on satisfaction of total security holder return (TSR) performance [(ii)]	**100%**	100%

(i) Valued using a Monte Carlo simulation.

(ii) Certain grants may have other service-based conditions in lieu of a TSR component. For those grants with a TSR condition, vesting is based 100% on meeting both TSR and service conditions. The performance hurdle will only be satisfied where the TSR value is positive. If the TSR value is negative, the performance hurdle will not be satisfied, and the underlying shares in the EST will not vest.

OTHER AWARDS

The Company also offers Performance Rights as part of an employee retention strategy. The Performance Rights are subject to a vesting period and will be satisfied, at the Board's discretion, in cash or shares, subject to continuous full-time employment with the Company. The vesting value will be the number of Performance Rights held multiplied by the higher of either the notional issue price, or the 10-day VWAP as at the vesting date. Details of the Performance Rights issued as part of an employee retention strategy are set out below.

Financial year	Grant Date	Vesting date	Notional issue price	Balance at the start of the year	Granted during the year	Vested & exercised during the year	Balance outstanding at end of the year	Vesting Value
2019	18/03/2019	31/03/2022	$1.8083	-	69,126	-	69,126	(iii)
2019	18/03/2019	31/03/2021	$1.8083	-	69,126	-	69,126	(iii)
2019	01/11/2018	07/09/2021	$1.5628	-	281,613	-	281,613	
2019	01/11/2018	07/09/2020	$1.5628	-	281,612	-	281,612	
2019	01/11/2018	07/09/2019	$1.5628	-	281,612	-	281,612	
2019	20/07/2018	30/06/2022	$1.4170	-	155,841	-	155,841	
2019	20/07/2018	30/06/2020	$1.4170	-	169,439	-	169,439	
2016	21/12/2015	06/01/2019	$1.5380	468,232	-	(468,232)	-	(iii)
2015	23/09/2014	23/09/2019	$1.7850	280,114	-	-	280,114	(iii)
2014	16/08/2013	16/08/2018	$2.7090	92,285	-	(92,285)	-	(iii)
TOTAL				**840,631**	**1,308,369**	**(560,517)**	**1,588,483**	

(iii) The vesting value is subject to a floor, being the minimum of the issue price or the 10-day VWAP as at the vesting date.

Section 6: Other Disclosure Items.

34. Commitments and Contingencies

(A) CAPITAL EXPENDITURE COMMITMENTS

	Consolidated 2019 $'000	Consolidated 2018 $'000
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	**838**	199
– later than one year and not later than five years	**-**	-
– later than five years	**-**	-
	838	**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 2019 $'000	Consolidated 2018 $'000
Bank guarantees - Australian Energy Market Operator and other counterparties	(i)	**317,106**	221,845
Bank guarantees - Lease arrangements	(ii)	**2,942**	2,365
Futures margin deposits	(iii)	**160,620**	141,749
Security deposits	(iv)	**25,965**	10,155
Bank guarantees - Western Power	(v)	**300**	300
Bank guarantees - Uniper	(vi)	**22,605**	-
		529,538	**376,414**

(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. $275m of the bank guarantees are supported by non-cash backed guarantees in 2019 (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 non-cash backed bank guarantee in favour of Uniper of A$22.6m (US$13.4m). The guarantee covers market collateral and payables or 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.

35. 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 National Electricity Market. 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 has 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 July 2019 to 31 December 2022 is $3.4m.

Section 6: Other Disclosure Items (continued).

35. Related Party Disclosures (continued)

TRANSACTIONS WITH SUNSET POWER INTERNATIONAL PTY LTD (CONTINUED)

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 22% of ERM's electricity load sales over the term of the agreement prior to exercise of any of the available options.

As at 30 June 2019 net assets of $128.2m have been recognised in relation to the above transaction comprising the following:

MTM of electricity swaps of $79.7m of which $68.1m is current[(i)] and $11.6m is non-current

MTM of electricity options of $42.5m of which $21.5m is current[(i)]

Accrued income of $6.0m

During the year ended 30 June 2019 total net receipts of $88.7m 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.

(i) Refer Note 23 for details of fair value measurement

TRANSACTIONS WITH ASSOCIATE 1ST ENERGY PTY LTD

In addition to normal course of business transactions described below, the Group sold to 1st Energy Pty Ltd (**1st Energy**) a Tasmanian single site electricity retail customer base in May 2019. Final consideration is variable dependent upon the number of sites that transfer to 1st Energy and estimated to be $70,000. The sale price is an arms-length sales price. As at 30 June 2019 no sites had transferred and accordingly no consideration has been received or recognised in the financial statements.

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.

	Consolidated	
	2019 $	2018 $
Transactions with jointly operated and joint venture entities:		
Movements in net loans advanced / (repaid)	**7,300**	332
Current trade receivables balance	**95,349**	94,311
Project fees and operations management fees	**2,799,199**	2,659,737
Electricity derivatives settled (loss) / profit	**(53,771)**	(169,177)
Transactions with associates:		
Accrued income balance	**-**	192,875
Electricity derivatives settled (loss) / profit	**(43,314)**	3,316,928
Project and installation fees paid	**2,191,118**	-

Refer note 29(b) for details of significant jointly controlled entities and note 29(d) for details of associates.

36. Auditors' Remuneration

	Consolidated	
	2019 $	2018 $
*Amounts received or due and receivable by Deloitte Touche Tohmatsu Australia ("**Deloitte**") (FY18: PricewaterhouseCoopers Australia) for:*		
An audit or review of the financial report of the entity and any other entity in the Group	**384,000**	500,000
	384,000	**500,000**
Amounts received or due and receivable by Deloitte (FY18: PricewaterhouseCoopers Australia) for non-audit services:		
Other procedures in relation to the entity and any other entity in the consolidated Group	**42,150**	-
	42,150	**-**
Total remuneration of Deloitte (FY18: PricewaterhouseCoopers Australia)	**426,150**	**500,000**
Amounts received or due and receivable by network firms of Deloitte (FY18: PricewaterhouseCoopers Australia) for:		
An audit or review of the financial report of the entity and any other entity in the Group	**-**	148,830
Non-audit services in relation to the entity and any other entity in the consolidated Group	**102,257**	-
Total remuneration of network firms of Deloitte (FY18: PricewaterhouseCoopers Australia)	**102,257**	**148,830**

37. Events After the Reporting Period

On 5 July 2019 the Group acquired a 50% interest in industrial automation and electrical engineering company Alliance Automation Pty Ltd ("**Alliance Automation**") for $8.1m. Alliance Automation is one of the largest independent electrical engineering and automation solution providers in Australia, with a team of more than 190 people and offices in Queensland, New South Wales, Victoria and South Australia.

On 21 August 2019 the Group entered into a binding scheme implementation deed with Shell Energy Australia ("**Shell**") under which it is proposed that Shell will acquire 100% of the shares in ERM Power Limited by way of a Scheme of Arrangement for $2.465 per share less the value per share of any dividends paid between 21 August 2019 and the scheme implementation date. Under the Scheme of Arrangement, the Directors of ERM Power Limited are permitted to issue a final FY19 dividend of 4.5 cents per ordinary share and a special dividend of up to 8.5 cents per ordinary share between 21 August 2019 and the scheme implementation date.

The implementation of the scheme is subject to approval form shareholders and Court approval.

Since 30 June 2019 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.

38. 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	30 June 2018	Increase / Decrease	30 June 2018 (Restated)
Net fair value (loss) on financial instruments designated at fair value through profit or loss	(109,153)	358	**(108,795)**
(Loss) before income tax	(66,929)	358	**(66,571)**
Income tax benefit	20,195	(107)	**20,088**
(Loss) from continuing operations	(46,734)	251	**(46,483)**
Statutory (loss) for the period attributable to equity holders of the Company	(80,702)	251	**(80,451)**

Basic and diluted earnings per share for the prior period have also been restated. The amount of the correction for basic earnings per share was an increase of 0.10 cents per share. Diluted earnings per share corrected to same value as basic earnings per share due to a loss, which resulted in an anti-dilutive impact on earnings per share.

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

39. Basis of Preparation

These financial statements cover ERM Power Limited the consolidated entity ("**Group**" or "**Consolidated Entity**") consisting of ERM Power Limited (the "**Company**") and its subsidiaries. The report is presented in Australian dollars.

The Company is incorporated and domiciled in Australia. Its registered office and place of business is Level 52, 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 and activities in the Directors' Report.

This report was authorised for issue by the directors on 22 August 2019.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Company is a for-profit entity for the purpose of preparing the financial statements.

Section 6: Other Disclosure Items (continued).

39. Basis of Preparation (continued)

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Compliance with IFRS

The consolidated financial statements of the Group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value through profit and loss and other comprehensive income.

Early adoption of Australian Accounting Standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2018.

Changes in accounting policies

The Group 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.

(A) FOREIGN CURRENCY TRANSLATION

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency at the rate of exchange at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(B) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables at the balance date.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(C) ROUNDING OF AMOUNTS

The Group is of a kind referred to in legislative instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that class order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(D) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods. Unless stated otherwise below, the Group is currently in the process of assessing the impact of these standards and amendments.

AASB Interpretation 23 Uncertainty over Income Tax Treatments (effective from 1 January 2019).

The Interpretation clarifies how to apply the recognition and measurement requirements in AASB 112 when there is uncertainty over income tax treatments.

AASB 2018-1 Annual Improvements 2015–2017 Cycle (effective from 1 January 2019).

This standard makes amendments to AASB 3 Business Combinations, AASB 11 Joint Arrangements, AASB 112 Income Taxes and AASB 123 Borrowing Costs.

AASB 2018-2 Amendments to AASB 19 – plan amendment, curtailment or settlement (effective from 1 January 2019).

The AASB has issued amendments to the guidance in AASB 119 Employee Benefits in connection with accounting for plan amendments, curtailments and settlements.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

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 71 to 126 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 30 June 2019 and of its performance for the 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.

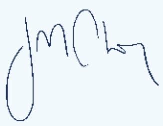
(b) the financial report complies with International Financial Reporting Standards as disclosed in note 39;

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 39 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors:



Julieanne Alroe
Chair
22 August 2019

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Level 23, Riverside Centre
123 Eagle Street
Brisbane, QLD, 4000
Australia

Phone: +61 7 3308 7000
www.deloitte.com.au

Independent Auditor's Report to the Members of ERM Power Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of ERM Power Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and
(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Impairment assessment of goodwill	
As at 30 June 2019, the Group had $22.3 million of goodwill attributable to the Energy Solutions cash-generating unit (CGU) that is required to be tested for impairment. Refer to Note 17. The determination of the recoverable amount of the CGU to which the goodwill has been attributed involves significant judgement, particularly in estimating the key assumptions of • the terminal growth • the discount rate; and • working capital,. that underlie the discounted cash flow model that supports the carrying value of the CGU.	Our procedures included, but were not limited to: • Evaluating the Group's identification of the CGU and carrying value of the assets and liabilities attributable to the CGU. • Testing the key controls management have in place to test impairment of goodwill. • Assessing the appropriateness of cash flow projections used in the model to support the recoverable amount, with reference to signed contracts, Board approved budgets and Management forecasts. • Engaging our valuation specialists to test the mathematical accuracy of the discounted cash flow model and evaluate the valuation methodology applied. • Challenging the key assumptions in the model by performing sensitivity analysis in relation to the assumptions for terminal growth, the discount rate and working capital. Sensitivities analysed were determined in conjunction with our internal valuation specialists, and to the extent available, were developed using external supporting data. We also assessed the appropriateness of the disclosures included in Note 17 to the financial statements.
Identification of Indicators of Impairment over the Carrying value of the Oakey Power Station Cash Generating Unit	
At 30 June 2019 the carrying value of Oakey Power Station Cash Generating Unit totalled $215,316 thousand. The assessment of the carrying value of generation assets requires management to exercise significant judgement in identifying indicators of impairment, including significant adverse changes in: • the wholesale electricity market • the gas market and pricing; and • new entrant pricing.	Our procedures included, but were not limited to: • Testing the key controls management have in place to assess indicators of impairment for the Oakey Power Station. • Engaging our internal valuation and electricity market specialists to challenge the Group's assessment of impairment indicators for the Oakey Power Station, including: o Evaluating the reasonableness of the electricity pricing assumptions with reference to forecasts based on external data, where available. o Evaluating forecast gas pricing assumptions based on external data. o Performing independent modelling in order to determine whether the changes in assumptions of: • the wholesale electricity market • the gas market and pricing • new entrant pricing indicate that there has been a significant change in the indicators of impairment. • Comparing the historical performance of the Oakey Power Station to Board approved budgets. • Evaluating the sales price of other gas fired power stations sold in the market during the year.

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Valuation of derivatives	

At 30 June 2019, derivative financial assets amounted to $245 million and derivative financial liabilities amounted to $146 million. The net fair value gain on derivatives affecting profit for the year ended 30 June 2019 was $132 million and the fair value gain deferred in the cash flow reserve, after tax, is $91 million.
 	
Significant judgement is associated with the valuation and accounting treatment of derivatives and include:
 	
• The judgement in determining the appropriate valuation techniques and associated input assumptions to be applied to each derivative instrument type. These include:
  o the valuation methodology to be applied
  o the sources of market data, in particular, forward prices and discount factors including credit adjustments; and
  o the use of unobservable inputs where market data is not available.
• The designation of derivative instruments into hedge relationships, and the resulting accounting treatment if derivatives are hedge accounted or not hedge accounted.
	Our procedures included, but were not limited to:
	
	• Understanding the processes and controls in place for derivative contracts including with respect to contract origination, valuation, confirmation and accounting.
	• Performing tests of identified controls relating to the validation and confirmation of derivative contracts.
	• On a sample basis, for open derivative contracts at year end, agreeing contract terms to third party confirmations.
	• Engaging our internal valuation experts to assess the valuation methodology adopted by management and independently verifying market observable inputs used in the valuation models, including forward prices, discount rates and credit risk assumptions.
	• On a sample basis, re-performing derivative valuations based on independently verified inputs.
	• Reconciling derivative balance sheet and associated hedge reserve and profit and loss accounts to underlying valuation models and derivative listings.
	• Assessing reasonableness of portfolio movements by performing analytical reviews by derivative type.
	• Assessing the hedge accounting treatment of derivatives designated in hedge relationships, including hedge documentation and calculation of hedge ineffectiveness.
	
	We also assessed the appropriateness of the disclosures included in Notes 13, 14 and 23 to the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Deloitte.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 53 to 67 of the Directors' Report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of ERM Power Limited, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Matthew Donaldson
Partner
Chartered Accountants
Brisbane, 22 August 2019

Share and shareholder information.

Twenty largest shareholders

The following table sets out the 20 largest shareholders of ERM Power Limited (Company), when multiple holdings are grouped together, and the percentage each holds of the 250,288,527 shares on issue as at 22 August 2019.

	Shareholders	Number of Shares	Percentage of issued shares
1	St Baker Energy Holdings Pty Ltd	43,549,489	17.40
2	J P Morgan Nominees Australia Limited	29,165,096	11.65
3	UBS Nominees Pty Ltd	17,499,073	6.99
4	Citicorp Nominees Pty Limited	15,988,486	6.39
5	HSBC Custody Nominees (Australia) Limited	15,445,045	6.17
6	CS Third Nominees Pty Limited	12,780,430	5.11
7	ERM Employee Share Plan Administrator Pty Ltd	10,681,011	4.27
8	Sunset Power Pty Ltd	7,615,892	3.04
9	Trevor and Judith St Baker Family Philanthropic Pty Ltd	6,903,251	2.76
10	BNP Paribas Nominees Pty Ltd	4,962,254	1.98
11	National Nominees Limited	4,543,650	1.82
12	St Baker-Childs Investments Pty Ltd	4,054,228	1.62
13	Sandhurst Trustees Ltd	3,838,592	1.53
14	St Baker Sunset Holdings Pty Ltd	2,622,185	1.05
15	Sunset Power A Pty Ltd	2,538,749	1.01
16	Sunset Power B Pty Ltd	2,538,749	1.01
17	Sunset Power C Pty Ltd	2,538,749	1.01
18	Sunset Power D Pty Ltd	2,538,749	1.01
19	Philip St Baker and Peta St Baker	1,743,368	0.70
20	AMP Life Limited	1,613,021	0.64
Total		**193,160,067**	**77.16**

Distribution of Shares

The following table summarises the distribution of shares as at 22 August 2019:

Shareholdings	Number of Shareholders	% of issued shares
1 – 1,000	1,162	0.23
1,001 – 5,000	2,078	2.43
5,001 - 10,000	952	2.94
10,001 – 100,000	1,123	11.10
100,001 – and over	83	83.30
Total	**5,398**	**100.00**

The number of investors holding less than a marketable parcel ($500) of 205 shares (based on a market price of $2.45 as at 22 August 2019) was 289, holding 6,771 shares.

Share and shareholder information (continued).

Substantial Shareholders

The following table shows holdings of five per cent or more of voting rights over Ordinary Shares as notified to the Company under the *Corporations Act 2001*, Section 671B.

Identity of person or group	Date notice received	Relevant interest in number of securities	Percentage of total voting rights
Trevor Charles St Baker and St Baker Energy Holdings Pty Ltd	25/03/2019	68,374,916	26.90%
Mitsubishi UFJ Financial Group, Inc.	08/08/2019	24,460,512	9.77%
Perpetual Limited and its related bodies corporate	25/02/2019	16,866,701	6.63%
Carol Australia Holdings Pty Ltd and its related bodies corporate	06/08/2019	12,562,840	5.02%

Voting Rights

At a meeting of members, each member who is entitled to attend and vote may attend and vote in person or by proxy, attorney or representative. On a show of hands, every person present who is a member, proxy, attorney or representative shall have one vote and on a poll, every member who is present in person or by proxy, attorney or representative shall have one vote for each share held.

Securities Exchange Listing

The Company's shares are traded on the Australian Securities Exchange under the symbol "EPW".

Unquoted Securities

As at 22 August 2019, there were 5,333,828 performance rights on issue under the Company's employee incentive and retention plans, subject to vesting conditions which once satisfied will, at the election of the Board of ERM Power, convert into either an equal quantity or an equivalent value based on the issue price, of:

a) shares in ERM Power or an offer to apply for an interest in a trust that confers a beneficial interest in ERM Power shares; or

b) a cash payment.

Grant Date	Vesting Date	Quantity	Number of Holders
01/11/2018	07/09/2019	281,612	1
24/09/2014	24/09/2019	280,114	2
20/07/2018	30/06/2020	169,439	12
01/11/2018	07/09/2020	281,612	1
18/03/2019	31/03/2021	69,126	1
20/07/2018	30/06/2021	1,622,405	15
05/10/2018	30/06/2021	43,828	1
01/11/2018	30/06/2021	465,883	1
04/07/2019	30/06/2021	203,446	13
01/11/2018	07/09/2021	281,613	1
18/03/2019	31/03/2022	69,126	1
20/07/2018	30/06/2022	155,841	2
04/07/2019	30/06/2022	1,409,783	19
TOTAL		**5,333,828**	**70**

Corporate information.

ERM Power Limited

ABN 28 122 259 223

Directors

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

Company Secretaries

Phil Davis
Suzanne Irwin

Head Office

(Registered Office and Principal Place of Business)
Level 52,
111 Eagle Street
Brisbane QLD 4000

GPO Box 7152
Brisbane QLD 4001

Telephone: (07) 3020 5100
Facsimile: (07) 3220 6110

Auditors

Deloitte Touche Tohmatsu Australia

Share Registry

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

Telephone: 1300 554 474
Facsimile: (02) 9287 0303

Internet Address

www.ermpower.com.au

erm
POWER

ermpower.com.au