

Thursday, 21 August 2014

## RESULTS FOR ANNOUNCEMENT TO THE MARKET

In accordance with the listing rules, please find attached the following documents relating to ERM Power's results for the 12 months ended 30 June 2014:

1. ASX Appendix 4E
2. Annual Financial Report
  - 2.1. Management Discussion and Analysis
  - 2.2. Directors' Report and Remuneration Report
  - 2.3. Annual Financial Statements



Peter Jans  
Group General Counsel & Company Secretary  
ERM Power Limited

### About ERM Power

ERM Power is a dynamic Australian energy company with interests in electricity sales, generation and metering, and gas production and exploration. Trading as ERM Business Energy and founded in 1980, we have grown to become the 4th largest electricity retailer in Australia with operations in every state and the Australian Capital Territory. We initially focused on larger businesses but now offer our industry leading services to small businesses. We have equity interests in 497 megawatts of low emission, gas fired peaking power stations in Western Australia and Queensland, operate an electricity metering business that trades as Powermetric, sell conventional gas and condensate from onshore discoveries in Western Australia, and have gas exploration operations in Western Australia and New South Wales.

[www.ermpower.com.au](http://www.ermpower.com.au)



**Appendix 4E**  
**ERM Power Limited**  
**ABN 28 122 259 223**

Results for announcement to the market  
for the year ended 30 June 2014

Notification in Accordance with Listing Rule 4.3A

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

<b>1. Results for the year</b>					<b>FY 2014</b>	<b>FY 2013</b>
					<b>\$'000</b>	<b>\$'000</b>
1.1. Revenue from ordinary activities:						
1.1.1 Revenue from ordinary activities:						
ERM Power Limited and controlled entities	up	32%	to		2,076,537	1,569,570
1.2. Profit from ordinary activities:						
1.2.1. EBITDAIF*:						
ERM Power Limited and controlled entities	up	6%	to		74,238	69,821
(*earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains/losses on financial instruments designated at fair value through profit and loss)						
1.2.2. Underlying profit after tax attributable to members**:						
ERM Power Limited and controlled entities	up	264%	to		57,001	15,671
(**underlying profit is statutory profit after tax adjusted for the impact of unrealised changes in fair values of financial instruments and reflects the ongoing performance of the business)						
1.3. Net statutory (loss) / profit for the period attributable to members:						
1.3.1 Net (loss)/profit for the period attributable to members:						
ERM Power Limited and controlled entities	down	165%	to		(23,897)	36,539

## **2. Dividend**

A fully franked final dividend of 6 cents per share (2013: 5.5 cents) has been declared and will be paid on 13 October 2014 to shareholders on record as at 11 September 2014. The Company's shares will trade ex-dividend from 5 September 2014.

The Company's dividend reinvestment plan (DRP) will apply to this dividend. The pricing period for DRP purposes will be ten trading days, starting on 15 September 2014 and concluding on 26 September 2014 (both inclusive). No discount will apply to the price of shares issued under the DRP. The DRP price will be announced to the ASX at the end of the pricing period. The last date for receipt of notifications to participate in the DRP is close of business 12 September 2014 to be effective for this dividend.

In the previous corresponding period, a final FY2013 fully franked dividend of 5.5 cents per share was declared on 22 August 2013 and paid on 17 October 2013 to shareholders on record as at 17 September 2013.

An interim fully franked 6 cents per share (2013: 5 cents) dividend was declared on 3 February 2014 and paid on 14 March 2014 to shareholders on record at 12 February 2014.

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

The attached Directors' Report and Management Discussion and Analysis provide further information and explanation.

## **4. Commentary on the results for the year**

The attached Directors' Report and Management Discussion and Analysis provide further information and explanation.

## **5. Net tangible assets per share**

	<b>FY 2014</b>	<b>FY 2013</b>
	<b>Cents</b>	<b>Cents</b>
Net tangible assets (cents per share)	111	131
Net tangible assets (cents per share) excluding net fair value gain or loss on financial instruments designated at fair value through profit or loss after tax:	146	132

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

During the period 1 July 2013 to 30 June 2014 the Company did not lose control of any entities but gained control over Queensland Electricity Investors Pty Ltd.

## **7. Details of associates and joint arrangements**

The following entities are proportionately consolidated as joint operation entities:

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



**ERM Power Limited**

**Annual Financial Report**

**for the year ended 30 June 2014**

# ERM Power Limited

## Annual Financial Report

FOR THE YEAR ENDED 30 JUNE 2014

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**ERM Power Limited and Controlled Entities  
ABN 28 122 259 223**

**Management Discussion and Analysis  
for the year ended 30 June 2014**

# ERM Power Limited

## Management Discussion and Analysis

FOR THE YEAR ENDED 30 JUNE 2014

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ERM Power Limited (ERM Power, Company, Group, we, our) was listed on the Australian Securities Exchange on 10 December 2010. This review is for the year ended 30 June 2014 with comparison against the previous corresponding period ended 30 June 2013 (previous year or previous period).

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

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 1. FY 2014 HIGHLIGHTS AND FY 2015 GUIDANCE

	FY 2014	FY 2013	FY 2012
Electricity sold (TWh)	14.1	11.1	8.3
EBITDAIF excluding significant items <sup>2</sup> (\$m)	84.6	78.4	70.1
Statutory EBITDAIF (\$m)	74.2	69.8	85.4
Underlying NPAT excluding significant items <sup>2</sup> (\$m)	26.3	20.0	13.9
Underlying NPAT (\$m)	57.0	15.7	30.3
Dividends paid (cents per share)	11.5	9.5	7.5

#### Rated number 1 for customer satisfaction in the electricity business customer market

For the third year in a row, we were rated number 1<sup>1</sup> for customer satisfaction in the sale of electricity to the commercial and industrial (C&I) business customer market.

#### Electricity sales up 27% to 14.1 TWh

Electricity sales continued to grow strongly, up 27% to 14.1TWh for the year, from 11.1TWh in the previous year.

#### Record forward sales contracts in place, greater than double total FY 2014 sales

As of 30 June 2014, forward contracted electricity sales were a record 29.7TWh locking in the continuing strong growth of electricity sales. This figure comprises more than 14.4TWh for FY 2015 and a total of 23.6TWh over the two years to June 2016.

#### Electricity sales revenue up 34% to \$2 billion, with contestable revenue up 25% to \$1.12 billion

Electricity sales revenue for the year increased by 34% over the previous year, from \$1,493m to \$1,996m. The increase in electricity sales revenue over and above the sales volume increase was the result of increased unit costs for legislated environmental products and increased network costs (passed through to customers without transaction margin).

#### Generation EBITDAIF up 19% to \$51.8m, with revenue steady at \$73.5m

The Generation business continued to deliver steady revenue, but with improved EBITDAIF, up 19% from \$43.8m to \$51.8m. The purchase of the final 3<sup>rd</sup> party minority shareholding in Oakey power station represented a 12% increase in ERM Power-owned generation capacity. New generation developments remain on hold as a result of declining electricity demands.

#### Group EBITDAIF<sup>2</sup> (adjusted for significant items) up 8% to \$84.6m

Group EBITDAIF for the year, which contains a number of significant items, was \$74.2m compared to \$69.8m in the previous year. EBITDAIF excluding significant items was up 8% to \$84.6m from \$78.4m in the previous year. Appendix A1.2 contains a reconciliation of the significant items. Our electricity sales business increased its EBITDAIF by 9% to \$41.8m, from \$38.3m in the previous year, and our generation business by 19% to \$51.8m from \$43.5m.

#### Underlying Profit<sup>2</sup> (adjusted for significant items) up 32% to \$26.3m

Underlying profit after tax includes various items that were not part of general operations. Excluding these, Underlying Profit was \$26.3m compared to \$20.0m in the previous year, an increase of 32%. Within the excluded significant items is the one-off accounting tax benefit of \$39.1 million resulting from achieving 100% ownership of the Oakey power station. Whilst the accounting tax treatment is a one-off benefit, the cash flow benefit will continue to be realised over the operating life of the power station through higher tax depreciation deductions, which on a tax effected basis have a nominal cash value of \$39.1 million.

#### Final dividend of 6.0 cents per share to be paid on 13 October 2014

A fully franked final dividend of 6.0 cents per share has been declared and will be paid on 13 October 2014. The record date is 11 September 2014. The Company's shares will trade ex-dividend from 5 September 2014. This dividend is 9% higher than last year's final dividend.

#### FY 2015 Guidance

There is no change to the FY 2015 forecast provided earlier in 2014 with EBITDAIF of \$94m - \$98m and Underlying Net Profit after Tax of \$30m - \$33m.

<sup>1</sup> Based on UMI survey results – refer glossary for further details

<sup>2</sup> Refer Appendix A1.2 for reconciliation and summary of significant items, and glossary for definition of EBITDAIF and underlying earnings



# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 2. GROUP OVERVIEW

ERM Power Limited is a diversified energy company that operates electricity sales, electricity generation, and gas exploration and production businesses.

Our aspiration is to be the preferred supplier of energy to Australian business customers.

We are licensed to sell electricity in all Australian states and territories and are the 4th largest seller<sup>3</sup> of electricity by volume in Australia. We focus on selling electricity exclusively to business customers, with this segment of the market comprising approximately 12% of all customers and 70% of all electricity sold in Australia.

We own 497MW of low emission gas-fired power generation power stations, comprising 100% of the 332MW Oakey Power Station (Oakey) and 50% of the 330MW Neerabup Power Station (Neerabup) both of which we operate. We are one of Australia's largest power development companies having led the development of more than 2,000MW of gas-fired power generation. Completed projects include the Oakey, Braemar 1 and Braemar 2 power stations in Queensland, the Uranquinty power station in New South Wales and Neerabup and the Kwinana power station in Western Australia.

We have participated in two successive commercial gas/condensate discoveries, which are now in production, and have equity interests in over 10,000 km<sup>2</sup> of gas exploration acreage across Australia. Exploration tenements include conventional gas, condensate, oil and shale gas prospects. We also hold strategic shareholdings in gas exploration companies.

The diverse nature of the Group necessitates different measures to be applied to each of its operating businesses in assessing performance.

The strategic priorities of each operating business and key performance indicators and operating metrics are set out below.

Electricity sales	Generation	Other (Gas, Metering and Corporate)
<b>Strategic priorities</b> <ul style="list-style-type: none"> <li>- Increase earnings</li> <li>- Increase market penetration</li> <li>- Generate appropriate average gross margins</li> <li>- Enter new energy markets and segments</li> <li>- Maintain leading customer satisfaction position with customers</li> <li>- Demand response</li> </ul>	<b>Strategic priorities</b> <ul style="list-style-type: none"> <li>- Increase earnings</li> <li>- Safe and reliable operations</li> <li>- Exploit merchant opportunities</li> <li>- Generate a stable return on assets</li> <li>- Identify and where appropriate, develop or acquire generation assets</li> <li>- Utilise industry expertise in operating power stations and gas pipelines</li> <li>- Investment opportunities</li> </ul>	<b>Strategic priorities</b> <ul style="list-style-type: none"> <li>- Increase earnings</li> <li>- Enhance value of existing gas assets</li> <li>- Attract external capital as required</li> <li>- Identify and pursue investment opportunities that have strategic and commercial value</li> <li>- Establish an electricity metering business</li> <li>- Investment opportunities</li> </ul>
<b>Key performance indicators and operating metrics</b> <ul style="list-style-type: none"> <li>- Earnings</li> <li>- Sales (load sold)</li> <li>- Gross margin in \$ per MWh</li> <li>- Operating cost in \$ per MWh</li> <li>- Collection rate</li> <li>- Billing accuracy</li> <li>- Customer satisfaction</li> </ul>	<b>Key performance indicators and operating metrics</b> <ul style="list-style-type: none"> <li>- Safety</li> <li>- Earnings</li> <li>- Reliability</li> <li>- Availability</li> <li>- Operating income</li> <li>- Fuel and operating costs</li> </ul>	<b>Key performance indicators and operating metrics</b> <ul style="list-style-type: none"> <li>- Safety</li> <li>- Earnings</li> <li>- Reliability</li> <li>- Availability</li> <li>- Production volumes</li> <li>- Operating cost</li> <li>- Reserves</li> <li>- Penetration of electricity metering market</li> </ul>

<sup>3</sup> ERM Power's forecast league table for volume of electricity sold in the National Electricity Market (NEM) for FY 2014. The analysis draws on 2011 SRES scheme liability data, ERM Power signed contracts and broad assumptions about the market and participants. This is not an independently verified forecast.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3. REVIEW OF OPERATING RESULTS

#### 3.1 Summary of Group financial results

\$m	FY 2014	FY 2013	Change	Change %
Revenue	2,076.5	1,569.6	506.9	32%
Expenses	(2,002.3)	(1,499.8)	(502.5)	-34%
<b>EBITDAIF</b>	<b>74.2</b>	<b>69.8</b>	<b>4.4</b>	<b>6%</b>
Depreciation and amortisation	(18.0)	(14.0)	(4.0)	-29%
Net fair value (loss) / gain on financial instruments	(115.6)	29.8	(145.4)	N/A
Finance expense	(29.3)	(31.8)	2.5	8%
(Loss) / profit before tax	(88.7)	53.8	(142.5)	N/A
Tax benefit / (expense)	65.6	(15.3)	80.9	N/A
<b>Statutory net (loss) / profit after tax (NPAT)</b>	<b>(23.1)</b>	<b>38.5</b>	<b>(61.6)</b>	<b>N/A</b>
Non-controlling interest	(0.8)	(1.9)	1.1	58%
Add back:				
Net fair value loss / (gain) on financial instruments after tax	80.9	(20.9)	101.8	N/A
<b>Underlying NPAT</b>	<b>57.0</b>	<b>15.7</b>	<b>41.3</b>	<b>263%</b>
Underlying EPS (cents per share)	25.2	8.9	16.3	183%
Dividends paid (cents per share)	11.5	9.5	2.0	21%
Statutory EBITDAIF	74.2	69.8	4.4	6%
Significant items (refer Appendix A1.2)	10.4	8.6	1.8	21%
<b>EBITDAIF excluding significant items</b>	<b>84.6</b>	<b>78.4</b>	<b>6.2</b>	<b>8%</b>
Underlying earnings	57.0	15.7	41.3	263%
Oakey tax benefit (refer Appendix A1.2)	(39.1)	-	(39.1)	-100%
Finance costs on termination of Oakey debt (refer Appendix A1.2)	1.1	-	1.1	100%
<b>Underlying earnings excluding Oakey transaction</b>	<b>19.0</b>	<b>15.7</b>	<b>3.3</b>	<b>21%</b>
Other significant items (refer Appendix A1.2)	7.3	4.3	3.0	70%
<b>Underlying earnings excluding all significant items</b>	<b>26.3</b>	<b>20.0</b>	<b>6.3</b>	<b>32%</b>

Group EBITDAIF for the year was \$74.2m compared to \$69.8m in the previous year. On a like for like basis, EBITDAIF (i.e. excluding significant items<sup>4</sup>) was 8% higher at \$84.6m. The increase is attributable to increases across all operating segments.

Depreciation and amortisation increased by \$4.0m primarily as a result of the commencement of operations from the Red Gully processing facility of which we are a joint venture participant and depreciation of new software development spend associated with serving the extended business market (SME).

Finance charges include an additional \$1.6m of one-off costs associated with the repayment of the Oakey term debt ahead of the scheduled date in FY 2015.

The tax benefit includes a one off permanent adjustment of \$39.1m resulting from the reset of the Oakey tax base. This benefit will be realised over the depreciable lives of the assets involved.

Group underlying earnings for the year were \$57.0m compared to \$15.7m in the previous year. On a like for like basis, Underlying Profit (i.e. excluding the significant items) was 32% higher at \$26.3m up from \$20.0m.

Dividends paid during the year per share were 21% higher than the prior year and were broadly in line with underlying earnings excluding significant items associated with the Oakey transaction.

<sup>4</sup> Refer Appendix A1.2 for reconciliation and summary of significant items

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3.2 Operating division results

#### 3.2.1 Electricity sales

	FY 2014	FY 2013	Change	Change %
EBITDAIF (\$m)	41.8	38.3	3.5	9%
Significant items (refer Appendix A1.2) (\$m)	2.8	3.7	(0.9)	-24%
EBITDAIF <sup>5</sup> (\$m)	44.6	42.0	2.6	6%
Sales load (TWh)	14.1	11.1	3.0	27%
Total revenue excluding interest income (\$m)	1,992.4	1,490.1	502.3	34%
Contestable revenue (\$m)	1,118.7	894.4	224.3	25%
Gross margin (\$m)	59.1	51.7	7.4	14%
Operating expenses <sup>5</sup> (\$m)	(17.9)	(12.5)	(5.4)	-43%
Gross margin \$ per MWh	4.20	4.67	(0.47)	-10%
Operating expenses <sup>5</sup> \$ per MWh	(1.27)	(1.13)	(0.14)	-12%

#### FY 2014 financial performance

Revenue figures have two components, contestable and pass-through. Contestable is that component on which we earn a margin and pass-through (being network charges) on which we do not. Contestable revenue per MWh remained steady at approximately \$80 per MWh.

During the year, gross margin per MWh decreased to \$4.20 from \$4.67 in the previous year reflecting a temporary softening in gross margins primarily associated with the impact of the carbon scheme and its retrospective repeal. Operating costs<sup>5</sup> per MWh have increased reflecting the establishment of our Small to Medium Enterprise (SME) business. As the SME business scales up, the operating expenses will reduce on a per MWh basis. During the year we also incurred some further non-recurring costs associated with developing new business streams such as gas retailing and energy management services.

Sales volume continues to grow strongly. This, combined with the 25% increase in forward contracted sales for the next two financial years, positions us for continued growth in the future. The geographic diversification continues with sales volumes outside Queensland rising by 2.6TWh (40%) from 6.5TWh to 9.1TWh. During the year we achieved growth in Victoria of 31% and 56% in NSW. Sales volumes in Queensland increased by 9% to 5TWh, and sales in the residual states increased by 25% to 1.5TWh.

#### Entry into the SME market

On 1 July 2013, we served our first customer in the SME business customer market and we now have over 17,500 sites under contract across four states. We have built a robust operating system capable of delivering continued growth in customer numbers.

#### Customer satisfaction

During the year we maintained our number one customer satisfaction rating with 87% of customers very satisfied with ERM Power's service compared to 42% for our competitors<sup>6</sup>. In July 2014, we released our new customer portal, providing an enhanced platform for our customers to access information relating to their account, usage data and general market information.

#### Operational performance

Our billing accuracy exceeded 99.95% for the year and our billing collection rate exceeded 99.88%. We have achieved these industry leading performance levels by designing, building, owning and operating our own retailing processes and IT systems and enforcing our conservative risk management policies. During the year we invested \$4.2m on improvements to these IT systems to facilitate future growth.

<sup>5</sup> Adjusted for significant items. Refer Appendix A1.2 for summary of significant items

<sup>6</sup> Based on UMI survey results – refer glossary for further details

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3.2.2 Generation

\$m	FY 2014	FY 2013	Change	Change %
<b>Revenue and other income</b>				
Oakey	35.7	39.2	(3.5)	-9%
Neerabup	29.9	26.6	3.3	12%
Generation development and operations	7.9	6.9	1.0	14%
<b>Total revenue</b>	<b>73.5</b>	<b>72.7</b>	<b>0.8</b>	<b>1%</b>
<b>EBITDAIF</b>				
Oakey	28.8	28.8	0.0	0%
Neerabup	23.7	21.7	2.0	9%
Generation development and operations	(0.7)	(7.0)	6.3	90%
<b>Total EBITDAIF</b>	<b>51.8</b>	<b>43.5</b>	<b>8.3</b>	<b>19%</b>
Significant items (refer Appendix A1.2)	(0.5)	4.8	(5.3)	-110%
<b>EBITDAIF excluding significant items</b>	<b>51.3</b>	<b>48.3</b>	<b>3.0</b>	<b>6%</b>

#### FY 2014 financial performance

Generation revenue for Oakey and generation development and operations revenue was consistent with the previous year whilst revenue from Neerabup increased principally as a result of additional operation of energy sales to third parties. Both revenue and operating costs for Oakey include distillate fuel costs which are fully recovered under its off-take agreement. The amount of diesel used in FY 2013 was higher than this year.

Prior year EBITDAIF from generation development and operations includes \$4.4m in costs associated with the Neerabup contractor arbitration plus staff restructuring costs. During the year \$0.3m of costs were incurred in respect of the arbitration.

Further financial information on the power station assets is contained in Appendix A1.4.

#### Acquisition of minority interest

During the year we acquired the remaining 16.7% interest in Oakey for a cash price of \$30.0m. As part of the purchase, funds previously advanced by the minority interest were also repaid. On acquisition the tax base of Oakey's assets were reset and the resulting benefit has been calculated as \$39.1m. This benefit will be realised over the depreciable lives of the assets.

#### Generation development activities

Development opportunities continue to be limited by low demand. Our East coast projects are well positioned to support electricity sales growth as an alternative to buying market product. In Western Australia, we are well positioned in the mid-west minerals province. We also maintain an interest in pursuing well-priced assets in the NEM.

#### Power station operating performance

Oakey continues to operate as a peaking plant and runs only in response to dispatch directions under its off-take agreement. During the year it operated for less than 2% of the time. Oakey maintained its outstanding availability and overall performance record, with 99% availability during the period.

Neerabup operated for 2.6% of the period and also maintained its outstanding availability and overall performance record with availability of 99%.

#### Safety

During the year we continued to maintain an outstanding safety record with no lost-time injuries from any staff or contractors on the facilities during commercial operation.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3.2.3 Gas

\$m	FY 2014	FY 2013	Change	Change %
Exploration expenditure capitalised	2.9	7.4	(4.5)	-61%
Development expenditure capitalised	1.3	8.3	(7.0)	-84%
EBITDAIF	0.9	(0.8)	1.7	213%

#### FY 2014 performance

Our gas business moved into profitability with the start of gas and condensate sales from the Red Gully facility in Western Australia which is jointly owned with, and operated by, Empire Oil & Gas NL. Changes to Empire's board and management and the recruitment of experienced production and exploration personnel has helped it to manage early production and operational challenges at Red Gully. Perforation of the primary resource was completed in June 2014 and we are expecting to obtain a certified reserve estimate in FY 2015. A seismic survey has been completed in the area surrounding Red Gully which has highlighted a number of significant prospects for low cost expansion.

Our East coast gas interests comprise a passive interest in Metgasco Limited together with exploration areas in NSW. These assets have been impacted by regulatory uncertainty in NSW which, at this point, seems far from being resolved. We will continue to keep these assets on hold until investment conditions materially improve.

We are actively working on a restructure of our gas exploration assets as they are no longer strategically critical for us and are better held in a different structure which can attract external sources of capital. We hope to complete this restructure in FY 2015 and significantly reduce capital requirements from FY 2016.

### 3.2.4 Corporate

\$m	FY 2014	FY 2013	Change	Change %
Interest revenue	2.2	2.3	(0.1)	-4%
Other revenue	1.6	1.5	0.1	7%
<b>Revenue</b>	<b>3.8</b>	<b>3.8</b>	<b>0.0</b>	<b>0%</b>
Office and property expenses	(4.7)	(3.6)	(1.1)	-31%
Other expenses	(1.5)	(1.7)	0.2	12%
Payroll and related expenses	(9.6)	(9.7)	0.1	1%
<b>Expenses</b>	<b>(15.8)</b>	<b>(15.0)</b>	<b>(0.8)</b>	<b>-5%</b>
<b>EBITDAIF before significant items</b>	<b>(12.0)</b>	<b>(11.2)</b>	<b>(0.8)</b>	<b>-7%</b>
<b>Significant items</b>				
New business establishment costs	(1.1)	0.0	(1.1)	-100%
Macquarie generation bid costs	(6.1)	0.0	(6.1)	-100%
Legal fees in relation to Empire Oil actions	(0.9)	0.0	(0.9)	-100%
Restructuring costs	0.0	(0.1)	0.1	100%
<b>Total corporate EBITDAIF</b>	<b>(20.1)</b>	<b>(11.3)</b>	<b>(8.8)</b>	<b>-78%</b>

#### FY 2014 financial performance

Corporate revenue was the same as the prior year whilst expenses excluding significant items showed a modest increase of 5% from \$15.0m to \$15.8m.

Office and property expenses increased following the move to different premises in March 2013 in Brisbane, Melbourne and Sydney. Overall, these costs are lower on a unit basis than those they replaced. The various moves provided for future growth.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3.3 Cash flow

\$m	FY 2014	FY 2013	Change
EBITDAIF net of non-cash items	76.0	70.6	5.4
Tax paid	(4.2)	(6.6)	2.4
Operating cashflow before working capital changes	71.8	64.0	7.8
Working capital changes	(46.4)	40.7	(87.1)
Operating cashflow	25.4	104.7	(79.3)
Investing cashflow	(20.0)	(40.7)	20.7
Financing cashflow	26.9	11.7	15.2
Total net change in cash	32.3	75.7	(43.4)

Net cash flow from operating activities for the year was \$25.4m compared to \$104.7m in the previous year. This decrease is a result of unfavourable working capital movements and timing between the two periods. A reconciliation is provided in Appendix A1.3. The previous year had unusually low purchases of renewable energy certificates due to the sale and re-purchase arrangement with Macquarie Bank, whilst the current year had the repurchase cost of these certificates as well as the costs of acquiring further certificates on the higher sold volume of electricity.

The reconciliation of EBITDAIF to operating cash flows, together with a summary of cash flows, is shown in Appendix A1.3.

Investing cash flows in the prior year included higher cash outflows due to higher investment in gas development and exploration.

Financing cash flow included net proceeds of \$83.7m from capital raising, the purchase of the minority interest in Oakey for \$30.0m and the early repayment of the Oakey term debt.

### 3.4 Review of financial position

#### 3.4.1 Significant balance sheet movements

\$m	FY 2014	FY 2013	Change	Change %
Cash and cash equivalents	247.7	215.4	32.3	15%
Net working capital	17.8	6.7	11.1	166%
PPE, gas and intangible assets	478.2	482.0	(3.8)	-1%
Net derivative financial instruments	(151.9)	(37.3)	(114.6)	-307%
Net deferred tax assets/(liabilities)	9.8	(60.7)	70.5	N/A
Borrowings	(331.5)	(338.9)	7.4	2%
Other assets and liabilities	7.1	4.7	2.4	51%
Net assets	277.2	271.9	5.3	2%

Net assets increased by \$5.3m during the period, but exclude the increased mark to market value of the electricity sales book. The movement in the mark to market value of derivative financial instruments was offset by capital raised during the year and earnings generated, including the Oakey minority interest acquisition tax benefit.

A full reconciliation of the \$32.3m cash movement to EBITDAIF is provided in Appendix A1.3.

Contracts to sell electricity to consumers do not presently meet the definition of a financial instrument. This precludes the recognition of mark to market movements of opposing sell side contracts to an economic hedge being recognised in the statutory accounts. Only the buy side hedge contracts may be recognised for accounting purposes. The value of these customer contracts, together with internally generated intellectual property in respect of systems used as part of the electricity sales operation represent the main assets not recognised for accounting purposes. The un-audited value of our customer contracts at 30 June 2014 was \$174.5m.

A significant portion of tangible property, plant and equipment and borrowings continues to relate to the generation business, whilst the less capital intensive electricity sales business continues to require further cash and cash equivalent prudential support as sales volumes increase.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3.4.2 Net debt and capital structure

\$m	FY 2014	FY2013	Change
Electricity sales working capital facility	129.9	59.1	70.8
Electricity sales environmental certificate financing	-	36.4	(36.4)
Term debt - recourse to Oakey Power Station project only	-	40.5	(40.5)
Term debt - recourse to Neerabup Power Station project only	156.3	160.8	(4.5)
Convertible notes - recourse to Neerabup Power Station project only	40.0	40.0	-
Convertible notes redemption premium *	6.5	5.2	1.3
Capitalised borrowing costs **	(1.2)	(3.1)	1.9
	331.5	338.9	(7.4)

\* Redemption premium payable on maturity of notes in February 2023 of \$20m. A lower redemption premium is payable on early redemption up until 30 September 2016. Early redemption is at the option of ERM. For accounting purposes, the maximum redemption premium of \$20m is accumulated up until February 2023 using the effective interest rate method. The effective interest rate is the rate that exactly discounts the \$20m through the expected life of the convertible note.

\*\* For accounting purposes the cost associated with establishing term and other long-term debt facilities is amortised over the life of the respective financial liability.

During the year the debt on Oakey was fully repaid. In the prior year an additional financial liability relating to a sale and repurchase agreement for renewable energy certificates was recognised. This arrangement settled in January 2014.

A significant portion of the Group debt relates to long-term funding of Neerabup. This debt is recourse only to the Neerabup assets. The financing of the power station is under-pinned by an off-take agreement with a Western Australian government entity.

To consider the risk of the Company's capital structure it is appropriate to segregate the projects (together with their project debt) from the rest of the Group. The table below illustrates the gearing and interest cover for the Group. When the Oakey and Neerabup assets and associated non-recourse debt are excluded the Group has no net debt.

\$m	FY 2014	FY 2013	Change
<b>Capital Risk Management</b>			
Current borrowings	138.0	122.3	15.7
Non-current borrowings	193.5	216.6	(23.1)
Total debt	331.5	338.9	(7.4)
Cash and cash equivalents	(247.7)	(215.4)	(32.3)
Net debt	83.8	123.5	(39.7)
Total equity excluding reserves	323.5	306.6	16.9
Total capital	407.3	430.1	(22.8)
Gearing percentage	21%	29%	8%
Gearing percentage excluding Oakey and Neerabup	0%	0%	0%
EBITDA interest cover ratio	2.54	2.19	0.35

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.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3.4.3 Dividend strategy and history

A fully franked dividend of 6.0 cents per Share for FY 2014 was declared on 21 August 2014 equating to an annualised dividend yield of 6.6% at 30 June 2014.

Dividends to shareholders have been at or above the 2 year forecast in the 2010 prospectus increasing at 0.5 cents per half year. This reflects the growth in the electricity sales business and the fact that the power stations are self-funding their project finance obligations. Total shareholder return over the period since the IPO on 10 December 2010 is more than 20.3% based on a closing share price of \$1.82 at 30 June 2014.

We have a progressive dividend policy with consideration of current and future cash flow and growth capital requirements. When determining the dividend payable, the directors take into consideration any significant non-recurring items in respect of either earnings or capital expenditure.

Directors intend to pay dividends bi-annually after the respective period results are published. The final decision to pay a dividend will be made subject to actual results and other considerations with reference to the underlying cash flow requirements of the business.

## 4. BUSINESS STRATEGIES AND FUTURE PROSPECTS

### 4.1 Electricity sales

Since our electricity sales business was established in 2007, we have grown to be the 4<sup>th</sup> largest electricity supplier in Australia with our market share at approximately 8.7%<sup>7</sup>. We remain the only retailer licensed in all active Australian markets with a portfolio well balanced across the states. We see opportunity to increase our market share in all states in FY 2015. We started serving the small business segment on 1 July 2013. We secured a multi-site base load of approximately 10,000 small customers in NSW with a 3 year term and we continue to target further multi-site customers as part of our growth plans. In addition, we launched an online single site offering to small business customers in October 2013 which will be further leveraged with increased marketing spend in FY 2015. We now have 17,500 sites under contract across four states and expect similar levels of growth in FY 2015. We plan to replicate our large business success in the small business market by providing the same high quality service and value. We have established a gas retailing operation in Victoria and have signed our first customers. We will run this business on a trial basis over FY 2015 and if successful will roll this business out across other suitable markets. Gas retailing is a natural extension of our business customer retailing activities. We are leveraging our existing customer and intermediary network to access the market and are utilising our existing account management, operations and trading staff which will deliver a low cost entry.

During the year, we undertook some benchmarking to identify prospective markets for expansion of our Business Energy model. We are currently undertaking a detailed feasibility study into expanding our electricity retail model to the United States market, which is approximately 8 times the size of the Australian market with similar structures and characteristics and active participation by foreign owned companies. The feasibility report is to be finalised by the end of 2014.

### 4.2 Generation

The Oakey and Neerabup power stations occupy strategic peaking electricity supply positions in the markets in which they operate. Both plants are fully contracted to investment grade counterparties.

Oakey will come off contract in January 2015 and became debt free in December 2013. We will utilise Oakey's products internally and leverage vertical integration benefits, in addition to merchant sale and tolling opportunities.

Neerabup is in the early years of its off-take and project financing arrangements and is expected to continue to operate and self-fund its debt servicing obligations until it too reaches the stage that Oakey is about to reach and be uncontracted and debt free.

### 4.3 Other (Gas, Metering and Corporate)

#### Gas

We continue to consider opportunities to realise full value from our gas business including transactions that will result in the business being able to attract external capital for future growth.

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<sup>7</sup> ERM Power's forecast league table for volume of electricity sold in the National Electricity Market (NEM) for FY 2014. The analysis draws on 2012 SRES scheme liability data, ERM Power signed contracts and broad assumptions about the market and participants. This is not an independently verified forecast.



# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### Metering

We have established a new business subsidiary Powermetric Metering Pty Ltd ("Powermetric") to provide electricity metering services to C&I customers. During the year, the focus of our efforts has been on implementing the necessary information and data management systems, establishing key supplier relationships for meter provision and telecommunications and obtaining the necessary accreditation from the Australian Energy Market Operator. It is expected that operations will commence in the first half of FY 2015 once this accreditation is obtained. Initially this business will target our own customers but it is expected over time that we will offer services to all C&I customers irrespective of their chosen retailer. To ensure confidentiality of customer data and thereby enable the business to service other retailers and their customers, Powermetric is appropriately ring-fenced from our electricity sales business.

## 5. SAFETY, ENVIRONMENT AND COMMUNITY

### 5.1 Safety

Our key safety vision is to achieve "Zero Harm" to any employee or contractor. Our safety performance is measured by recording the number of injuries experienced in a year.

Our employees did not incur any lost time or permanent injuries during the year. This is an excellent achievement. One medical treatment injury to an employee, associated with manual handling, resulted in reduced duties for the employee for a period of two weeks. There were no injuries to contractors during the year.

Our safety performance is the result of a commitment to implementing safety programs that focus on the key factors that could potentially lead to injuries. Our Health, Safety, Environment and Sustainability Policy provides a pathway to achieving "Zero Harm" in the workplace.

### 5.2 Environment

Our key environmental value is to care for people and the planet, and our environmental performance is measured by recording the number of environmental incidents in a year, and monitoring carbon emissions and water usage.

During the year we did not receive any penalty or correction notices from environmental authorities.

Neerabup and Oakey's carbon dioxide emissions were in line with expectations and the carbon emission intensity of the facilities were less than the average carbon emissions intensity in each state. An audit by the Clean Energy Regulator of our National Greenhouse and Energy Reporting (NGERs) for FY 2013 achieved a positive result.

Water usage at our power stations is low in comparison to other technologies, with little domestic fresh water used in the operation of the facilities. There were no unexpected changes in water usage at Oakey and Neerabup during the year.

### 5.3 Community

We are proud to contribute to the communities in which we operate through partnership and sponsorship programs. We have developed relationships and community partnership programs with local communities through resource donation, event sponsorship and the creation and support of local community initiatives.

We are committed to building positive and long lasting relationships that harness community spirit, build local skills and leverage combined expertise to deliver tangible outcomes. We proudly support sporting groups, the arts, youth education, community and charitable organisations, both directly and through our partners.

We are also passionately and directly involved in fundraising across the country for many of the community causes that are both close to home and close to our hearts.

# **ERM Power Limited**

## **Management Discussion and Analysis (continued)**

**FOR THE YEAR ENDED 30 JUNE 2014**

### **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 measures include but are not limited to:

1. EBITDAIF - Earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit and loss and gains/losses on onerous contracts.
2. Underlying Profit - 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.

A reconciliation of Underlying Profit and EBITDAIF is detailed in Appendix A1.1 of this document. The above non-IFRS financial measures have not been subject to review or audit. However, the Company's auditor, PricewaterhouseCoopers, have separately undertaken a set of procedures to agree the non-IFRS financial measures disclosed to the books and records of the consolidated entity.

The directors believe that EBITDAIF and Underlying Profit provide the most meaningful indicators of the Group's underlying business performance.

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 period. These fair value gains net of tax are the only adjustments made to Statutory Profit to arrive at statutory underlying profit for each of the years presented.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### APPENDICES

#### A1.1 Reconciliation of EBITDAIF to Underlying Profit

\$m	FY 2014	FY 2013	Change	Change %
EBITDAIF	74.2	69.8	4.4	6%
Depreciation and amortisation	(18.0)	(14.0)	(4.0)	-29%
Finance expense	(29.3)	(31.8)	2.5	8%
Underlying profit before tax	26.9	24.0	2.9	12%
Income tax benefit/(expense) attributed to underlying profit	30.9	(6.4)	37.3	N/A
Non-controlling interest	(0.8)	(1.9)	1.1	58%
Underlying profit after tax attributable to equity holders of the Company	57.0	15.7	41.3	263%
Items excluded from underlying profit				
- Net fair value gain on financial instruments	(115.6)	29.8	(145.4)	N/A
- Tax credit on items excluded from underlying profit	34.7	(8.9)	43.6	N/A
- Non-controlling interest	0.8	1.9	(1.1)	-58%
Statutory (loss)/profit after tax	(23.1)	38.5	(61.6)	N/A

The reconciling items shown above are the unrealised changes in market values of financial instruments that the Group routinely enters into as part of risk management.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### A1.2 Reconciliation of significant items

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

FY 2014

\$m	Electricity			Group
	sales	Generation	Other	
<b>Statutory EBITDAIF</b>	<b>41.8</b>	<b>51.8</b>	<b>(19.4)</b>	<b>74.2</b>
<u>Significant items</u>				
a) New business establishment costs	2.8	-	1.1	3.9
b) Macquarie Generation bid costs	-	-	6.1	6.1
c) Arbitration costs	-	(0.5)	-	(0.5)
d) Legal fees in relation to Empire Oil action	-	-	0.9	0.9
Total significant items	2.8	(0.5)	8.1	10.4
<b>Adjusted EBITDAIF</b>	<b>44.6</b>	<b>51.3</b>	<b>(11.3)</b>	<b>84.6</b>
<b>Statutory underlying NPAT</b>	<b>22.0</b>	<b>52.0</b>	<b>(17.0)</b>	<b>57.0</b>
<u>Significant items</u>				
EBITDAIF adjustments (above)	2.8	(0.5)	8.1	10.4
e) Oakey term debt repayment costs	-	1.6	-	1.6
f) Tax effect of Oakey minority interest buy out	-	(39.1)	-	(39.1)
Tax effect of significant item adjustments	(0.8)	(0.3)	(2.4)	(3.6)
Total significant items	2.0	(38.3)	5.7	(30.7)
<b>Adjusted underlying NPAT</b>	<b>24.0</b>	<b>13.7</b>	<b>(11.3)</b>	<b>26.3</b>

- a) Costs incurred in respect of developing our capability to retail gas, serve the SME market and establish our metering business.
- b) Costs in respect to the bid for the Macquarie Generation assets.
- c) Costs net of contributions received in respect of the Neerabup contractor arbitration.
- d) Legal fees incurred in respect of changing the board of Empire Oil & Gas NL.
- e) Accelerated amortisation of capitalised debt establishment costs and swap break fee resulting from early repayment of Oakey term debt.
- f) Tax benefit resulting from buyout of Oakey minority interest resulting in the reset of tax cost base upon entry to ERM Power tax consolidated group.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2014

FY 2013

\$m	Electricity			Group
	sales	Generation	Other	
<b>Statutory EBITDAIF</b>	<b>38.3</b>	<b>43.5</b>	<b>(12.0)</b>	<b>69.8</b>
<i>Significant items</i>				
a) New business establishment costs	3.4	-	-	3.4
b) Restructuring costs	0.3	0.4	0.1	0.8
c) Arbitration costs	-	4.4	-	4.4
Total significant items	3.7	4.8	0.1	8.6
<b>Adjusted EBITDAIF</b>	<b>42.0</b>	<b>48.3</b>	<b>(11.9)</b>	<b>78.4</b>
<b>Statutory underlying NPAT</b>	<b>21.5</b>	<b>4.4</b>	<b>(10.2)</b>	<b>15.7</b>
<i>Significant items</i>				
EBITDAIF adjustments (above)	3.7	4.8	0.1	8.6
d) Prospective depreciation adjustment	-	(2.4)	-	(2.4)
Tax effect of significant item adjustments	(1.1)	(0.7)	(0.1)	(1.9)
Total significant items	2.6	1.7	-	4.3
<b>Adjusted underlying NPAT</b>	<b>24.1</b>	<b>6.1</b>	<b>(10.2)</b>	<b>20.0</b>

- a) Costs incurred in respect of developing our capability to sell electricity to SME customers and advertising and branding expenditure in respect of the advertising campaign and brand launch earlier in the financial year.
- b) Staff rationalisation costs.
- c) Costs in respect of the Neerabup contractor arbitration.
- d) Revision to the estimated useful lives of certain components of the power generation assets, which was applied prospectively from 1 July 2012.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### A1.3 Reconciliation of movements in cash and cash equivalents

\$m	FY 2014	FY 2013	Change	Change %
<u>Operating Activities</u>				
EBITDAIF	74.2	69.8	4.4	6%
Share-based payments	1.9	0.8	1.1	138%
Net change in working capital	(46.5)	40.7	(87.2)	N/A
Net tax paid	(4.2)	(6.6)	2.4	36%
<b>Net operating cash flows</b>	<b>25.4</b>	<b>104.7</b>	<b>(79.3)</b>	<b>-76%</b>
<u>Development Investing Activities</u>				
Capital expenditure - development projects	(1.9)	(3.5)	1.6	46%
Capital expenditure - gas development	(1.7)	(8.0)	6.3	79%
Capital expenditure - gas exploration	(3.0)	(7.9)	4.9	62%
Capital expenditure - other PPE and Intangibles	(8.2)	(14.6)	6.4	44%
<b>Net capital expenditure cash flows</b>	<b>(14.8)</b>	<b>(34.0)</b>	<b>19.2</b>	<b>56%</b>
<u>Financing and other Investing Activities</u>				
Repayment of corporate borrowings	(1.5)	(15.6)	14.1	90%
Drawdown of project borrowings	-	1.5	(1.5)	-100%
Repayment of project borrowings	(44.9)	(19.8)	(25.1)	-127%
Loan to Empire Oil & Gas NL	(2.0)	-	(2.0)	-100%
Net drawdown of Electricity Sales borrowings	70.8	24.8	46.0	185%
Proceeds from issue of shares	83.7	64.9	18.8	29%
Purchase of shares	(5.4)	(6.7)	1.3	19%
Dividends paid	(23.7)	(15.5)	(8.2)	-53%
Net cash cost of additional interest acquired in Oakey	(30.0)	-	(30.0)	-100%
Net interest paid	(25.3)	(28.6)	3.3	12%
<b>Other financing and investing cash flows</b>	<b>21.7</b>	<b>5.0</b>	<b>16.7</b>	<b>334%</b>
<b>Net increase in cash</b>	<b>32.3</b>	<b>75.7</b>	<b>(43.4)</b>	<b>-57%</b>
<u>Closing cash balances</u>				
Free cash held in ERM Power	82.2	92.8	(10.6)	-11%
Free cash held in projects	5.0	2.1	2.9	138%
<b>Total free cash</b>	<b>87.2</b>	<b>94.9</b>	<b>(7.7)</b>	<b>-8%</b>
Restricted cash	160.5	120.5	40.0	33%
<b>Total closing cash balances</b>	<b>247.7</b>	<b>215.4</b>	<b>32.3</b>	<b>15%</b>

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### A1.4 Power station assets

\$m	FY 2014	FY 2013	Change	Change %
<u>Oakey power station (100% interest)</u>				
Property, plant and equipment	226.8	234.1	(7.3)	-3%
Net tangible assets	240.8	209.3	31.5	15%
Borrowings	-	38.9	(38.9)	-100%
EBITDA	28.8	28.8	-	0%
EBIT	21.0	21.2	(0.2)	-1%
Interest expense	(3.3)	(4.7)	1.4	30%
Depreciation	(7.8)	(7.7)	(0.1)	-1%

\$m	FY 2014	FY 2013	Change	Change %
<u>Neerabup power station (50% interest)</u>				
Property, plant and equipment	173.9	177.8	(3.9)	-2%
Net tangible liabilities	(8.6)	(10.5)	1.9	18%
Borrowings	201.6	204.5	(2.9)	-1%
EBITDA	23.0	21.7	1.3	6%
EBIT	18.7	17.4	1.3	7%
Interest expense	(17.4)	(17.8)	0.4	-2%
Depreciation	(4.3)	(4.3)	-	0%

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### A1.5 Historical figures

\$m (unless indicated)	FY 2014	FY 2013	FY 2012	FY 2011
<u>Interest income by business division</u>				
Electricity sales	3.3	2.9	3.6	2.6
Generation	0.8	0.7	1.0	0.7
Other	2.2	2.3	2.8	1.3
Total interest income	6.3	5.9	7.4	4.6
<u>Electricity sales division statistics</u>				
Load (TWh)	14.1	11.1	8.3	5.6
Total revenue excluding interest revenue	1,992.4	1,490.1	838.8	484.1
Contestable revenue	1,118.7	894.4	521.9	341.3
Gross margin	59.1	51.7	36.8	26.8
Operating expenses <sup>1</sup>	(17.9)	(12.5)	(8.7)	(6.9)
Gross margin (\$) per MWh <sup>1</sup>	4.20	4.67	4.45	4.79
Operating expenses (\$) per MWh <sup>1</sup>	(1.27)	(1.13)	(1.06)	(1.24)
EBITDAIF	41.8	38.3	30.9	22.5
<u>Gas division statistics</u>				
Exploration expenditure capitalised	2.9	7.4	2.6	4.9
Development expenditure capitalised	1.3	8.3	-	-
EBITDAIF	0.9	(0.8)	(1.0)	(0.5)
<u>Generation division statistics</u>				
<i>Revenue</i>				
Oakey	35.7	39.2	34.0	-
Neerabup	29.9	26.6	28.9	26.2
Generation Development and operations	7.9	6.9	8.1	29.6
Total revenue	73.5	72.7	71.0	55.8
Oakey <sup>2</sup>	28.8	28.8	27.4	1.4
Neerabup	23.7	21.7	23.6	21.5
Generation Development and operations	(0.7)	(7.0)	(6.7)	6.1
Discount on acquisition	-	-	19.1	-
EBITDAIF	51.8	43.5	63.4	29.0
<u>Corporate division statistics</u>				
<i>Revenue</i>				
Interest revenue	2.2	2.3	2.8	1.3
Other revenue	1.6	1.5	2.6	6.0
Total Revenue	3.8	3.8	5.4	7.3
Expenses	(15.8)	(15.0)	(13.3)	(11.9)
EBITDAIF	(12.0)	(11.2)	(7.9)	(4.6)

<sup>1</sup> Excludes significant items - refer to MD&A for relevant financial year for further details

<sup>2</sup> Accounted for as an associate in FY 2011



# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### GLOSSARY

<b>\$m</b>	<b>Millions of dollars</b>
<b>C&amp;I</b>	Commercial and Industrial
<b>Contestable Revenue</b>	Contestable revenue is the electricity sales revenue component on which we earn a margin and excludes pass-through items such as network charges.
<b>EBITDAIF</b>	Earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit and loss and gains/losses on onerous contracts.
<b>EBIT</b>	Earnings before interest and taxes
<b>FY</b>	Financial year ended or ending 30 June
<b>GWh</b>	Gigawatt hours, abbreviated as GWh, is a unit of energy representing one billion watt hours
<b>IFRS</b>	International Financial Reporting Standards
<b>MWh</b>	Megawatt hours, abbreviated as MWh, is a unit of energy representing one million watt hours
<b>NEM</b>	The National Electricity Market
<b>NPAT</b>	Net profit after tax
<b>Oakey Tax Benefit</b>	Tax benefit resulting from buyout of Oakey minority interest allowing reset of tax cost base upon entry to ERM Power tax consolidated group
<b>SME</b>	Small to Medium Enterprise
<b>TWh</b>	Terawatt hours, abbreviated as TWh, is a unit of energy representing one thousand gigawatt hours (GWh)
<b>UMI Survey</b>	Utility Market Intelligence (UMI) 2013 survey of retail electricity industry by independent research company The NTF Group in October and November 2013 (18th year of Survey). The 2013 UMI survey was based on a survey of 414 C&I customers, drawn in approximately equal proportions from the four major energy retailers.
<b>Underlying Profit</b>	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.

# ERM Power Limited

## Directors' Report

FOR THE YEAR ENDED 30 JUNE 2014

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 2014 ("the year").

### 1. PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were:

- electricity sales to business;
- generation of electricity; and
- gas production and exploration.

### 2. OPERATING RESULTS FOR THE YEAR

A review of the operating results of the Group can be found in the Management Discussion and Analysis ("MD&A") on pages 2 to 21.

### 3. REVIEW OF OPERATIONS

A review of the operations of the Group can be found in the MD&A on pages 2 to 21.

### 4. BUSINESS STRATEGIES AND PROSPECTS

A review of the business strategies and prospects of the Group can be found in the MD&A on pages 2 to 21.

### 5. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

#### 5.1 Purchase of Oakey non-controlling interest and repayment of debt

In December 2013 ERM Power successfully completed the acquisition of the remaining 16.67% interest in the Oakey Power Station (Oakey) that it did not already hold for \$31.5 million by exercising its option to acquire the interest. As a result of the completion of the acquisition, ERM Power has moved to full ownership of Oakey.

Following acquisition of the remaining interest ERM repaid the associated term debt facility at a cost of \$36.2 million providing flexibility for funding growth in the future.

ERM Power funded the acquisition and debt repayment through a \$74.7 million capital raising in November 2013.

### 6. EVENTS AFTER BALANCE DATE

Since 30 June 2014 there have been no 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 MD&A on 2 to 21, 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 2014 financial year as follows:

Amount:	6.0 cents per share
Franking:	Fully franked
Date Payable:	13 October 2014

The dividend has not been provided for in the 2014 financial statements.

During the year the Company paid an interim fully franked dividend of 6.0 cents per share (2013: 5.0 cents), together with a fully franked final dividend of 5.5 cents per share in respect of the previous year.

# ERM Power Limited

## Directors' Report (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 10. SHARE OPTIONS

#### 10.1 Unissued shares

As at the date of this report, there were 1,477,794 options on issue, exercisable into fully paid ordinary shares. The options do not carry any entitlement to participate in any share issue of the Company. In respect of those options with a 2017 expiry date, the options lapse on termination of employment, unless otherwise determined by the board.

Expiry date	Quantity	Exercise price
1 November 2017	1,235,088	275 cents
8 November 2017	242,706	275 cents

#### 10.2 Shares issued on exercise of options

No shares were issued during the year on the exercise of any options.

### 11. DIRECTORS AND COMPANY SECRETARIES

The directors of the Company during the year and up to the date of this report are:

Anthony (Tony) Bellas	Independent Non-Executive Chairman
Trevor St Baker	Non-Executive Deputy Chairman and Founder
Martin Greenberg	Independent Non-Executive Director
Antonino (Tony) Iannello	Independent Non-Executive Director
Philip St Baker	Managing Director and CEO

Brett Heading was a director from the beginning of the financial year until his resignation on 12 December 2013.

#### Information on Directors and Company Secretaries

**Anthony Bellas** MBA, BEc, DipEd, ASA, FAIM, MAICD.

Tony was appointed as Chairman of the Company on 21 October 2011, having served as director since December 2009. He brings over 25 years of policy and operational experience in the energy industry to the business. Tony was previously CEO of the Seymour Group, one of Queensland's largest private investment and development companies. Prior to joining the Seymour Group, Tony held the position of CEO of Ergon Energy, a Queensland Government-owned corporation involved in electricity distribution and retailing. Before that, he was CEO of CS Energy, also a Queensland Government-owned corporation and the State's largest electricity generation company, operating over 3,500 MW of gas-fired and coal-fired plant at four locations.

Tony had a long career with Queensland Treasury, achieving the position of Deputy Under Treasurer. In 2000, as an Assistant Under Treasurer, he was responsible for the Industry and Energy Division of Queensland Treasury and was heavily involved in formulating the State Government's energy strategy.

Tony is a director of the listed companies shown below and is also a director of Loch Explorations Pty Ltd, West Bengal Resources (Australia) Pty Ltd and the Endeavour Foundation.

*Other listed company directorships in the last three years:*

Shine Corporate Ltd	Since March 2013
Corporate Travel Management Limited	Since June 2010
Guilford Coal Limited	(December 2010 - June 2012)

#### *Special Responsibilities*

Chairman of the Nomination Committee and a member of the Audit and Risk Committee, the Remuneration Committee and the Health, Safety, Environment and Sustainability Committee.

# ERM Power Limited

## Directors' Report (continued)

FOR THE YEAR ENDED 30 JUNE 2014

**Trevor St Baker** BEng, BA, FAusIMM, FIEAust, FAIE, MAICD

Trevor founded ERM Power and is currently a Non-Executive Director and Deputy Chairman. Trevor has over 50 years of experience in the energy industry, including 23 years in planning and leadership roles within NSW and Queensland public utilities. These roles incorporated the establishment of the first Energy Resources Division in Queensland in 1975 and subsequent deregulation of power station fuel procurement in the State, development of Blackwater and Curragh steaming coal developments, and long term coal procurement to underpin the Gladstone, Tarong, Callide B and Stanwell power station developments.

In 1980 Trevor founded companies which have evolved into ERM Power. For the first 15 years, as principal of ERM Consultants Pty Ltd, Trevor created a successful boutique energy consulting and advisory firm. In the late 1990's, as Executive Chairman of Energy Resource Managers Pty Ltd, Trevor established one of Australia's first private power development companies, developing firstly the Oakey power station, in Queensland, and then a further five new gas-fired power stations, in Western Australia, NSW and Queensland. Since 2006, ERM Power has successfully diversified to become an integrated energy company which operates electricity sales, generation and gas businesses.

Trevor plays an active role in the broader energy industry with current positions including non-executive director roles on the boards of National Generators Forum Limited, Energy Policy Institute of Australia Limited, Queensland Resources Council Ltd, Sunset Power Ltd, Energy Resource Managers Holdings Pty Ltd, as well as new-start energy R&D companies: SMR Nuclear Technology Pty Ltd, Kortek Industries Pty Ltd, United States company NthDegree Technologies Worldwide Inc. and Tritium Pty Ltd (of which he is the Chairman). He also co-founded the St Baker Wilkes Indigenous Educational Foundation Limited, of which he is the Chairman.

### *Special Responsibilities*

Member of the Audit and Risk Committee, and the Nomination Committee, and Chairman of the operating committee of NewGen Neerabup Partnership.

**Martin Greenberg** BBus, DipCom, FCPA, JP, MAICD

Martin was appointed as a director in July 2007, bringing finance credentials and business experience spanning 35 years. Martin is currently the Managing Director of Apollan Investments Group, a Sydney based company specialising in venture capital, corporate finance, securities, and general investment. He is also the current Chairman of Selector Funds Management Ltd.

From 1986 to 1999, Martin was a director of Babcock & Brown, an international investment bank. Prior to this he was a director of Morgan Grenfell Australia Limited and a Senior Vice President with Security Pacific Group in London. Martin has been a director of several companies in Australia and New Zealand and has an extensive range of national and international contacts and experience, accumulated over the past 35 years.

### *Special Responsibilities*

Chairman of the Audit and Risk Committee, and member of the Remuneration Committee and the Nomination Committee.

**Antonino Iannello** BCom, FCPA, SFFSIA, Harvard Business School Advanced Management Program, FAICD

Tony was appointed as a director in July 2010, bringing to the business more than 30 years of banking and energy experience.

He is a director of the listed companies shown below. He is the Non-Executive Chairman of HBF Health Ltd, MG Kailis Group, and D'Orsogna Ltd. He is a director of St Baker Wilkes Indigenous Educational Foundation Limited, Water Corporation of Western Australia, and 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.

### *Other listed company directorships in the last three years:*

Chairman of Empire Oil & Gas NL	Since November 2013
Chairman of Energia Minerals Limited	Since March 2010
SP Ausnet*	Since June 2006

\*The SP Ausnet "stapled group" of companies comprises SP Australia Networks (Distribution) Ltd, SP Australia Networks (Transmission) Ltd & SP Australia Networks (Finance) Trust.

### *Special Responsibilities*

Chairman of the Remuneration Committee and member of the Audit and Risk Committee and Nomination Committee.

# ERM Power Limited

## Directors' Report (continued)

FOR THE YEAR ENDED 30 JUNE 2014

**Philip St Baker** BEng, MAICD

Philip was appointed as Managing Director and CEO in July 2006. Since this time the Group has transformed from a private power development company with annual turnover under \$10 million, into one of Australia's fastest growing diversified energy companies listed on the Australian Securities Exchange with annual turnover in excess of \$2 billion.

Today the Group operates electricity sales, generation and gas businesses, and is well on its way to achieving its aspiration to become the preferred energy supplier to business customers across Australia.

Philip has more than 20 years of international experience in the resources and energy industry including exploration, mining, processing, smelting, refining, power and gas. Prior roles also include Vice President of QNI, CEO of NewGen Power and Global Maintenance Manager of BHP Billiton.

### *Special Responsibilities*

Chairman of the Health, Safety, Environment and Sustainability Committee, the Group Operational Risk Committee and the Group IT Steering Committee.

### **Former Director**

**Brett Heading** BCom, LLB (Hons), FAICD

Brett was appointed as a director in October 2010 bringing extensive experience as a corporate lawyer and company director until his resignation on 12 December 2013. Brett has been a director of the listed companies shown below and a number of unlisted companies.

*Other listed company directorships in the last three years:*

Empire Oil & Gas NL	Since November 2013
Invin Limited	Since February 2012
Chairman of Trinity Limited	Since August 2009
ChemGenex Pharmaceuticals Limited	(June 2002 - July 2011)

### *Special Responsibilities*

Member of the Remuneration Committee and Nomination Committee until 12 December 2013.

### **Company Secretaries**

**Peter Jans** LLB (Hons), MA

Peter joined the Group in July 2007 and was appointed as Company Secretary in March 2008. He is a member of the Queensland Law Society, Barrister and a Solicitor of the Supreme Court of Victoria and a Solicitor of the Supreme Court of Queensland and the High Court of Australia. He has practised as a lawyer for over 30 years in the corporate, property, international investment, energy and resource sectors. After an active career in private practice, Peter became General Counsel of CS Energy in the late 1990s and was involved in major electricity generation projects, including Callide C, Swanbank E and Kogan Creek. Peter was General Counsel and Company Secretary of Queensland Gas Company Limited from April 2005 until July 2007, during which period the company transformed from junior explorer to a major gas producer.

### *Special Responsibilities*

Peter's role and responsibility covers the whole of the Group's broader business plans and portfolios, including business development, construction and operations, sales and gas activities. Peter is responsible for all aspects of the Group's legal dealings, and for compliance and corporate governance.

**Graeme Walker** BCom, CA, CA(SA), FAICD

Graeme joined the Group in April 2009 and was appointed as joint Company Secretary in December 2009. As Chief Financial Officer, he is responsible for the financial management and control of the Group.

Graeme has served as CFO of a number of major ASX-listed companies in the resources sector, including Normandy Mining Limited and Ampolex Limited, where he was involved in significant business growth and corporate activity. He subsequently provided consulting services to a number of companies, advising on financial and commercial services, as well as interim management. During this time he was also involved in the listing of a number of resource companies, as a non-executive director.

# ERM Power Limited

## Directors' Report (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 12. 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		Meetings of committees					
	A	B	Audit & Risk		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
Tony Bellas	20	20	7	8	2	2	4	4
Trevor St Baker	18	20	7	8	2	2	**	**
Martin Greenberg	19	20	8	8	2	2	4	4
Brett Heading	7	8	**	**	1	1	2	3
Tony Iannello	18	20	8	8	2	2	4	4
Philip St Baker	20	20	**	**	**	**	**	**

A = number of meetings attended

B = number of meetings held during the time the director held office during the year

\*\* = Not a member of the relevant committee

The Group has a Health, Safety, Environment and Sustainability Committee. Committee members include the Chairman, the Managing Director and other senior management. This committee met three times during the financial year.

### 13. DIRECTORS' INTERESTS

The relevant interest of each director in the share capital 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	Options to acquire ordinary shares
Tony Bellas	106,250	-
Trevor St Baker	85,610,647	-
Martin Greenberg	571,794	-
Tony Iannello	131,644	-
Philip St Baker	5,775,334	242,706

### 14. ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's environmental obligations are regulated by relevant federal, state and local government ordinances. During the year ended 30 June 2014, the Group did not experience any reportable environmental incidents and nor were there any breaches of any environmental licence conditions.

# ERM Power Limited

## Directors' Report (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 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 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 PricewaterhouseCoopers Australia for non-audit services:**

	2014	2013
	\$	\$
Other agreed-upon procedures in relation to the entity and any other entity in the consolidated Group <sup>1</sup>	1,196,808	199,930

<sup>1</sup> For the year ended 30 June 2014 these services include due diligence services in relation to the Company's bid to acquire the Macquarie Generation assets.

### 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 Class Order 98/100. The Group and the Company are entities to which the class order 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.



Tony Bellas  
Chairman

# ERM Power Limited

## Remuneration Report

FOR THE YEAR ENDED 30 JUNE 2014

The directors present the Remuneration Report for ERM Power Limited ("Company") and its consolidated entities ("Group") for the year ended 30 June 2014.

### 1. REMUNERATION FRAMEWORK

#### 1.1 Role of the Remuneration Committee

The Remuneration Committee ensures that 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 Managing Director 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 Company'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
- Link incentives to the creation of shareholder value

In undertaking its work, the committee seeks the advice of external remuneration consultants who provide analysis to ensure remuneration levels are set to reflect the market for comparable roles. In May 2013, the committee employed the services of Ernst & Young ("EY") to provide benchmarking analysis and review the remuneration framework of the non-executive directors, the Managing Director and senior executives. While EY did not act as a Remuneration Consultant for the purposes of the Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011, it provided benchmarking information and data to provide a frame of reference against which the committee could evaluate current remuneration levels.

#### 1.2 Key Management Personnel

Key Management Personnel ("KMP") are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly and include directors of the Company. The term KMP refers to the following persons who were KMPs during the financial year. Unless otherwise indicated, they were KMPs for the entire year.

##### Non-Executive Directors

Tony Bellas  
Trevor St Baker  
Martin Greenberg  
Tony Iannello  
Brett Heading (until 12 December 2013)

##### Senior Executives

Philip St Baker	Managing Director and CEO
William (Mitch) Anderson	CEO – Electricity Sales
Peter Jans	Group General Counsel and Company Secretary
Derek McKay	CEO – Generation
Graeme Walker	Chief Financial Officer



# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 2. REMUNERATION

#### 2.1 Fees payable to Non-Executive Directors

Fees are determined by the demands on, and responsibilities of directors and are reviewed annually by the board. Independent advice has previously been sought from remuneration consultants to ensure directors' fees are appropriate and in line with the market. The latest review of fees was conducted in June 2014. Non-Executive directors' fees are determined within an aggregate fee pool limit of \$1,100,000, which was approved by shareholders at the Annual General Meeting held on 31 October 2013.

Fees received by each director comprise a base fee together with additional fees dependent on the various offices they hold as set out in Table 1, with superannuation contributions made at the rates and limits prescribed from time to time by legislation. Non-Executive directors do not receive any performance-related remuneration. The May 2013 benchmarking evaluation resulted in an increase to the Chairman's fees for financial year 2014 to align with the remuneration for that position in comparator group companies based on market capitalisation. The accounting value of fees paid to each non-executive director is shown in Table 2.

**Table 1 – Directors' Fees Structure**

<b>Non-Executive Director Fees (excluding superannuation)</b>	<b>FY 2014</b> \$	<b>FY 2013</b> \$
Chairman	185,000	160,000
Non-Executive directors	105,000	105,000
<b>Additional fees</b>		
Audit Committee - chairman	20,000	20,000
Audit Committee - member	10,000	10,000
Remuneration Committee - chairman	10,000	10,000
Remuneration Committee - member	5,000	5,000
Representation on non-wholly owned subsidiary boards	25,000 each	25,000 each

**Table 2 – Directors' Fees**

		<b>Short-term benefits</b>		<b>Post-employment benefits</b>	<b>Total remuneration per income statement<sup>3</sup></b> \$
		<b>Cash salary and fees</b> \$	<b>Non-monetary benefits<sup>1</sup></b> \$	<b>Superannuation entitlement</b> \$	
Tony Bellas	2014	200,000	10,510	17,775	228,285
	2013	175,000	9,940	15,750	200,690
Trevor St Baker	2014	152,500	21,739	14,106	188,345
	2013	165,000	19,910	14,850	199,760
Martin Greenberg	2014	130,000	-	12,025	142,025
	2013	130,000	-	11,700	141,700
Brett Heading <sup>2</sup>	2014	53,826	-	-	53,826
	2013	119,900	-	-	119,900
Tony Iannello	2014	125,000	-	11,562	136,562
	2013	125,000	-	11,250	136,250
<b>Total</b>	<b>2014</b>	<b>661,326</b>	<b>32,249</b>	<b>55,468</b>	<b>749,043</b>
	<b>2013</b>	<b>714,900</b>	<b>29,850</b>	<b>53,550</b>	<b>798,300</b>

<sup>1.</sup> Non-monetary benefits include car parking benefits and FBT.

<sup>2.</sup> From 1 July 2013 to 12 December 2013

<sup>3.</sup> The value of remuneration consisting of options was nil in both FY 2014 and FY 2013

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 2.2 Remuneration of Managing Director and Senior Executives

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 reward governance practices:

- Competitiveness and reasonableness,
- Acceptability to shareholders,
- Performance linkage/alignment of executive remuneration, and
- Transparency.

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,
- Short term and long term incentives, and
- Other cash or equity based discretionary incentives.

Short term incentives are focused on achieving annual profit and operational targets, whilst long term incentives are focused on achieving long term growth. The board considers this combination an effective way to align incentives to shareholder value.

In accordance with the objective of ensuring that executive remuneration is aligned to Group performance, a significant portion of executives target pay is at risk. The remuneration target is for a fixed remuneration level around the mean and a total remuneration close to or above the 75th percentile of comparator groups on achieving strong performance. Table 3 sets out the executives' target remuneration mix for the 2014 financial year.

**Table 3 – Executive Target Remuneration Mix**

	Base pay and superannuation	Target short term incentive	Target long term incentive	Total target remuneration
Managing Director and CEO	45%	25%	30%	100%
Other Senior Executives (ranges)	56-78%	18-29%	0-21%	100%

#### 2.2.1 Base salary and benefits

Remuneration and other terms of employment for the Managing Director and the other senior executives are formalised in service agreements. Each of these agreements specify the components of remuneration to which they are entitled and outline base salary, the provision of incentives, and other benefits including superannuation and salary continuance insurance.

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. Remuneration is also reviewed on promotion or change of role. There are no guaranteed base salary increases included in executive service agreements.

Increases in base salary for the 2014 financial year were based on the expanded role and increased responsibilities assumed by some senior executives in line with the growth of the Company. The May 2013 benchmarking evaluation from EY formed the frame of reference against which the Remuneration Committee evaluated any proposed increases for senior executives. Table 5 at the end of this section provides details of total remuneration during the financial year to the Managing Director and each of the named executives.

#### 2.2.2 Incentive Schemes

Variable remuneration is in the form of short term ("STI") and long term ("LTI") incentives which represent at risk remuneration. STIs are paid annually against agreed key performance indicators ("KPIs") which are designed to align the interests of the Company and its shareholders. Achievement is assessed annually. LTIs are accrued over a number of years and earned through satisfaction of 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.

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2014

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 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 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 include, but are not limited to, a range of measures such as:

- Zero Harm – safety and environment performance measures, including lost time and medically treated injury frequency rates,
- Financial Measures – including earnings before interest, tax, depreciation, amortisation and net fair value changes in financial instruments, cash flow management, etc., and
- Market based – shareholder returns, earnings per share, etc.

### Short term incentives

STIs are provided to most employees. They have 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 Managing Director's targets and the corporate targets are set by the board, whilst the individual and team targets are set under the direction of the Managing Director.

At the end of each financial year, achievement of targets is measured and applied against the target rate determined for each individual. These rates range between 10% and 40% of annual average base salary, with the potential to achieve up to 150% of these levels (i.e. 15% to 60%).

STIs are calculated and paid following adoption of the Group's annual financial results. Payment may be offered by way of cash and/or equity at the election of the board. Any equity vests immediately.

Based on the achievements of the Group's results for year ending 2013, the remuneration committee determined that the financial performance exceeded targets and awarded 108% of the target opportunity for the Managing Director. The corporate target award for the 2013 STI was also 108%. In making this assessment, the committee included the following factors in its considerations;

- achievement of Underlying NPAT above expectations;
- continuing strong growth in the electricity sales business;
- successful execution of strategic initiatives;
- successful restructuring and overhead reduction;
- restructure of the Group's gas businesses; and streamlining board reporting activities.

Table 4 provides details of the STIs paid to KMPs in the current financial year following the outcome of 2013 results and the comparatives for the 2012 STI paid in the 2013 financial year.

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2014

**Table 4 – STI Achievement**

	2013 STI Paid in FY 2014		2012 STI Paid in FY 2013	
	Actual	Maximum	Actual	Maximum
Philip St Baker	43%	60%	51%	60%
Mitch Anderson	33%	45%	38%	45%
Peter Jans	32%	45%	38%	45%
Derek McKay	33%	45%	42%	45%
Graeme Walker	33%	45%	37%	45%

The Managing Director's corporate target for the 2014 financial year includes the following elements and weightings as set by the remuneration committee at the beginning of the financial year, and align to the Group's strategic and business objectives. These objectives and weightings are reviewed annually;

- 40% profit delivery against guidance expectations ,
- 20% positioning of the Company by increases in customer growth,
- 25% execution of board approved strategies,
- 10% improved stock liquidity and broader investor base, and
- 5% for successful talent management including succession plans and board reporting activities
- Deductions of 30% may apply if safety or compliance targets or other governance standards are not met.

The remuneration committee is responsible for determining the STI to be paid 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 adjust short-term incentives downwards in light of unexpected or unintended circumstances. Although a general provision has been made for incentive payments for FY 2014, to be paid in FY 2015, the allocation of payments to specific individuals and the form, whether to be taken in cash or equity, has not yet been determined. Any equity grants to the Managing Director will be subject to shareholder approval at the 2014 Annual General Meeting.

### Long term incentives

LTIs are provided to selected employees in the form of equity via the Company's Long Term Incentive Share Trust ("LTIST"). If a participant's employment ceases prior to the shares vesting, the board will determine if the participant's units in the LTIST will continue to be held to the end of the performance period. This may occur depending on the circumstances of ceasing employment (redundancy, retirement, death or permanent disability, or in circumstances that the board determines appropriate). Units are forfeit on voluntary resignation.

An LTI issue was made in the 2014 financial year with vesting subject to continuation of employment through to 30 June 2016 and total security holder return ("TSR") performance. The TSR vesting condition will be determined by ERM Power's relative TSR performance over the three year period commencing 1 July 2013, measured against the TSR performance of a comparator group being those companies in the Standard & Poor's (S&P) ASX 300 index. At the end of the three year period, TSR vesting is granted 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 LTI target rate determined for each individual is based on a percentage of annual average base salary, and for the 2014 financial year it was based on the maximum awards of 75% for the Managing Director, 40% for other executive KMP and 30% for other selected senior executives. The corresponding equity is issued into the LTIST and will vest subject to evaluation of the performance condition assessed at 30 June 2016.

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.

Section 3.1 details the equity allocated to executive KMP in the current and prior financial year, and for which the allocation to Philip St Baker was approved by shareholders at the 2013 and 2012 Annual General Meetings respectively. For accounting purposes, long term incentives are expensed over the performance period and incorporated within tables 5 and 7.

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2014

Table 5 - Executive Remuneration

		Expensed in Income Statement								Supplementary Information <sup>6</sup>			
		Short term benefits			Post-employment benefits	Long term benefits		Total remuneration per income statement <sup>6</sup>	% related to the value of options	Less: Long term benefits and annual leave accounting accruals	Add: Vested Other equity-based payments	Total remuneration vested	
		Base salary-cash <sup>2</sup>	Non monetary benefits and annual leave accrual <sup>3</sup>	Short-term incentive <sup>4</sup>	Super-annuation entitlement	Other equity benefits <sup>5</sup>	LSL Accrual						
		\$	\$	\$	\$	\$	\$	\$		\$	\$	\$	
Philip St Baker <sup>1</sup>	2014	660,031	45,286	257,961	<sup>c</sup>	61,053	352,787	19,904	1,397,022	0%	(411,903)	94,388	1,079,507
	2013	597,133	57,235	297,110	<sup>c</sup>	53,742	253,917	22,563	1,281,700	0%	(322,078)	72,508	1,032,130
Mitch Anderson	2014	439,725	33,875	121,293	<sup>e</sup>	40,675	128,773	17,223	781,564	0%	(142,641)	41,367	680,290
	2013	366,438	18,545	136,741	<sup>c</sup>	32,979	97,438	7,125	659,266	0%	(93,770)	31,779	597,275
Peter Jans	2014	374,004	8,610	118,974	<sup>c</sup>	34,595	124,172	10,146	670,501	0%	(140,636)	41,454	571,319
	2013	367,211	6,390	137,033	<sup>c</sup>	33,049	97,644	14,602	655,929	0%	(116,375)	31,844	571,398
Derek McKay	2014	373,216	24,758	119,459	<sup>c &amp; e</sup>	34,522	123,911	9,785	685,651	0%	(155,781)	41,367	571,237
	2013	366,438	4,667	149,257	<sup>c</sup>	32,979	97,438	16,521	667,300	0%	(116,039)	31,779	583,040
Graeme Walker	2014	363,000	4,007	109,231	<sup>e</sup>	33,578	110,794	15,781	636,391	0%	(128,291)	36,050	544,150
	2013	330,000	(2,743)	111,261	<sup>c</sup>	29,700	84,550	643	553,411	0%	(80,190)	27,694	500,915

1. Managing Director & CEO.

2. Each 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 (other than termination for cause) on the basis of 6 months' salary, with the exception of the Managing Director, whose termination benefit is provided as 12 months salary in lieu of notice.

3. Non monetary benefits include salary continuance insurance premiums, use of company vehicle, car parking and other benefits with associated FBT.

4. The short term incentive paid relates to performance in the previous year. Payments were made in cash("c") or equity ("e").

5. Other equity benefits refer to the accounting value of retention awards or long term incentives paid in equity which will vest subject to service and performance conditions.

6. The amounts shown are as expensed in the income statement may not reflect the benefit actually received by the executive in that year. In accordance with AASB2, Other 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.

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2014

**Table 6 - Terms and conditions of equity grants**

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 are as follows:

Grant date	Nature of compensation		Service and performance criteria	Changes in terms or conditions since grant date	% Paid in FY 2014	% Vested in FY 2014	% Forfeited in FY 2014	Vesting
Nov-13	Long term incentive	LTIST	See Remuneration Report section 2.2.2	N/A	100%	-	-	After 30 June 2016
Sept-13	Short term incentive 2013	Cash or STIST	See Remuneration Report section 2.2.2	N/A	100%	100%	-	Vested
Nov-12	Long term incentive	LTIST	See 2013 Remuneration Report section 2.2.2	N/A	-	-	-	After 30 June 2015
Nov-11	Long term incentive	LTIST	See 2012 Remuneration Report section 2.2.2	N/A	0%	-	-	After 2014 Financial Statements are signed.
Nov-10	Other incentive	IPO Retention	Service condition only	N/A	0%	100%	0%	Vested

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2014

A detailed breakdown of the accounting expense of long term equity benefits to disclosed executives, and the maximum value of the grant that may vest in future financial years is shown in Table 7.

Table 7- Long Term Equity Benefits

Executive Remuneration	Long-term Equity Benefits	FY	Expensed in income statement <sup>2</sup>			Supplementary Information <sup>2</sup>		
			Long-term Incentive	Other Incentives:	Remuneration per income statement	Long-term Incentive	Other Incentives:	Long Term Equity Benefits Vesting
				IPO Retention			IPO Retention	
			\$	\$	\$	\$	\$	\$
Philip St Baker <sup>1</sup>		2017	-	-	-	371,342	-	371,342
		2016	140,841	-	140,841	360,314	-	360,314
		2015	275,067	-	275,067	316,396	-	316,396
		2014	346,992	5,796	352,788	-	94,388	94,388
		2013	213,428	40,489	253,917	-	72,508	72,508
Mitch Anderson		2017	-	-	-	132,586	-	132,586
		2016	50,286	-	50,286	117,927	-	117,927
		2015	94,206	-	94,206	129,440	-	129,440
		2014	126,255	2,518	128,773	-	41,367	41,367
		2013	79,862	17,576	97,438	-	31,779	31,779
Peter Jans		2017	-	-	-	112,769	-	112,769
		2016	42,771	-	42,771	118,176	-	118,176
		2015	86,804	-	86,804	129,713	-	129,713
		2014	121,649	2,523	124,172	-	41,454	41,454
		2013	80,031	17,613	97,644	-	31,844	31,844
Derek McKay		2017	-	-	-	112,533	-	112,533
		2016	42,681	-	42,681	117,927	-	117,927
		2015	86,621	-	86,621	129,440	-	129,440
		2014	121,393	2,518	123,911	-	41,367	41,367
		2013	79,862	17,576	97,438	-	31,779	31,779
Graeme Walker		2017	-	-	-	109,450	-	109,450
		2016	41,512	-	41,512	106,200	-	106,200
		2015	81,074	-	81,074	109,617	-	109,617
		2014	108,600	2,194	110,794	-	36,050	36,050
		2013	69,233	15,317	84,550	-	27,694	27,694

1. Managing Director & CEO

2. The amounts shown are as expensed in the income statement but do not reflect the benefit actually received by the executive in each respective year. In accordance with AASB2, these amounts represent a portion of the value of equity that has not vested during 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 each executive if vesting occurs. Supplementary Information is provided to reflect the maximum vested long-term equity benefit receivable by each executive.

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3. Additional Remuneration Disclosures

#### 3.1 Details of shares, options and rights

The number of shares and options held at the date of this report by each director of the Group are disclosed in Section 13 of the Directors' Report.

No options were issued, lapsed nor exercised during financial year 2014.

The numbers of options over ordinary shares in the Company granted under the executive incentive schemes that were held during the financial year by each director and other disclosed executives of the Group, including their related parties, are set out below:

**Table 8 – Option holdings**

		<i>Balance at the start of the year</i>		<i>Granted as compensation</i>	<i>Options Exercised</i>	<i>Other Changes<sup>1</sup></i>	<i>Balance at the end of the year</i>	
		<i>Vested and exercisable</i>	<i>Unvested</i>				<i>Vested and exercisable</i>	<i>Unvested</i>
Trevor St Baker <sup>1</sup>	2014	-	-	-	-	-	-	-
	2013	-	-	-	(10,000)	10,000	-	-
Martin Greenberg	2014	-	-	-	-	-	-	-
	2013	354,726	-	-	-	(354,726)	-	-
Philip St Baker	2014	242,706	-	-	-	-	242,706	-
	2013	833,870	242,706	-	(833,870)	-	242,706	-
Mitch Anderson	2014	106,364	-	-	-	-	106,364	-
	2013	196,872	106,364	-	-	(196,872)	106,364	-
Peter Jans	2014	106,590	-	-	-	-	106,590	-
	2013	429,754	106,590	-	-	(429,754)	106,590	-
Derek McKay	2014	106,364	-	-	-	-	106,364	-
	2013	125,000	106,364	-	-	(125,000)	106,364	-
Graeme Walker	2014	92,700	-	-	-	-	92,700	-
	2013	30,000	92,700	-	-	(30,000)	92,700	-

1. Options bought or sold



# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2014

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 below:

**Table 9 – Share holdings**

		<i>Balance at the start of the year</i>		<i>Granted as compensation</i>	<i>Options Exercised</i>	<i>Other Changes<sup>1</sup></i>	<i>Balance at the end of the year</i>		<i>Balance at the end of the year held nominally</i>
		<i>Vested</i>	<i>Unvested</i>				<i>Vested</i>	<i>Unvested</i>	
Tony Bellas	2014	106,250	-	-	-	-	106,250	-	-
	2013	100,000	-	-	-	6,250	106,250	-	-
Trevor St Baker	2014	85,200,647	-	-	-	410,000	85,610,647	-	1,025,242
	2013	85,752,905	-	-	10,000	(562,258)	85,200,647	-	1,025,242
Martin Greenberg	2014	571,794	-	-	-	-	571,794	-	-
	2013	571,794	-	-	-	-	571,794	-	-
Brett Heading	2014	14,285	-	-	-	(14,285)	-	-	-
	2013	14,285	-	-	-	-	14,285	-	-
Tony Iannello	2014	125,694	-	-	-	5,950	131,644	-	-
	2013	114,285	-	-	-	11,409	125,694	-	-
Philip St Baker	2014	5,436,583	531,439	186,604	-	(379,292)	5,111,227	664,107	-
	2013	4,176,926	319,630	238,777	833,870	398,819	5,436,583	531,439	-
Mitch Anderson	2014	979,672	199,452	116,955	-	6,250	1,059,889	242,440	804,288
	2013	967,852	133,123	78,149	-	-	979,672	199,452	798,038
Peter Jans	2014	224	199,873	56,668	-	-	23,912	232,853	-
	2013	205,885	133,403	78,314	-	(217,505)	224	199,873	-
Derek McKay	2014	272,014	199,452	66,698	-	-	305,801	232,363	-
	2013	260,194	133,123	78,149	-	-	272,014	199,452	-
Graeme Walker	2014	-	173,686	100,324	-	-	65,834	208,176	-
	2013	467,446	113,608	70,378	-	(477,746)	-	173,686	-

1. On and off market movements, dividend reinvestment plan, cessation of directorship, etc.

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3.2 Loans to directors and employees

Details of loans made to key management personnel and related parties of the Group, are set out below:

Aggregate amounts	Balance at the start of the year	Interest paid and payable for the year	Interest not charged	Balance at the end of the year	Number in Group at the end of the year
	\$	\$	\$	\$	
<b>2014</b>	<b>1,029,380</b>	<b>47,523</b>	-	<b>670,444</b>	<b>4</b>
2013	1,167,039	75,854	-	1,029,380	4

Individuals with loans above \$100,000 during the financial year	Balance at the start of the year	Interest paid and payable for the year	Interest not charged	Balance at the end of the year	Highest indebtedness during the year
	\$	\$	\$	\$	\$
<b>2014</b>					
Philip St Baker	589,331	23,863	-	308,368	589,331
Mitch Anderson	212,240	12,651	-	203,568	215,492
<b>2014 Total</b>	<b>801,571</b>	<b>36,514</b>	-	<b>511,936</b>	
<b>2013</b>					
Philip St Baker	687,254	44,842	-	589,331	699,210
Mitch Anderson	223,853	14,326	-	212,240	227,583
<b>2013 Total</b>	<b>911,107</b>	<b>59,168</b>	-	<b>801,571</b>	

The above loans represent employee shareholder loans that were offered to certain senior executives in 2007 and 2008 to participate in a share loan incentive plan which enabled them to subscribe for shares. The loans are subject to loan deeds and are interest bearing at either the FBT or Division 7A benchmark rates with recourse limited to the value of the shares. The loans are repayable in the event of cessation of employment or otherwise between seven and ten years from the date of advance.

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

### 3.3 Share price and consequences of performance on shareholder wealth

The Company's shares were listed on the ASX in December 2010 at a listing price of \$1.75. Table 10 shows selected Group financial data for the current and previous years, and the effect of the Group's performance on shareholder value.

**Table 10 – Shareholder Wealth Financial Data**

		Year ended 30 June 2014	Year ended 30 June 2013	Year ended 30 June 2012	Year ended 30 June 2011
		Actual	Actual	Actual	Actual
Revenue and other income	(\$'000)	<b>2,076,537</b>	1,569,570	937,926	549,814
EBITDAIF <sup>1</sup>	(\$'000)	<b>74,238</b>	69,821	85,390	46,407
Net (Loss)/Profit After Tax <sup>2</sup>	(\$'000)	<b>(23,897)</b>	36,539	34,156	16,176
Underlying Net Profit After Tax <sup>2</sup>	(\$'000)	<b>57,001</b>	15,671	30,311	6,245
Basic (Loss)/Earnings per Share	(cents)	<b>(10.56)</b>	20.8	20.7	11.7
Underlying Earnings per Share <sup>3</sup>	(cents)	<b>25.2</b>	8.9	18.4	4.5
Dividend per share	(cents)	<b>12.0</b>	10.5	8.5	3.5
Closing share price at 30 June	(\$)	<b>1.82</b>	2.50	2.00	1.57

<sup>1</sup> EBITDAIF is Earnings Before Interest, Tax, Depreciation, Amortisation, Impairment and fair value gains/losses on Financial instruments.

<sup>2</sup> NPAT and Underlying Net Profit After Tax attributable to equity holders of the Company.

<sup>3</sup> Includes the \$39.1m Oakey tax benefit in 2014 and the \$19.1m discount on acquisition in 2012.

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3.4 Voting and comments received at the 2013 Annual General Meeting

The Company's Remuneration Report for the 2013 financial year was approved by shareholders at the 2013 Annual General Meeting by a show of hands. The Company did not receive any specific feedback at the AGM or during the year on its remuneration practices.



**ERM Power Limited**

**Annual Financial Statements**

**for the year ended 30 June 2014**

# ERM Power Limited

## Annual Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

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*The financial statements were authorised for issue by the directors on 21 August 2014. 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 functional and presentation currency is Australian dollars (AUD). 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 49.*

*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 22 to 27. The Directors' Report does not form part of the annual financial statements.*

ABN 28 122 259 223



## Auditor's Independence Declaration

As lead auditor for the audit of ERM Power Limited for the year ended 30 June 2014, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink, appearing to read 'Tim Allman', written over a horizontal line.

Tim Allman  
Partner  
PricewaterhouseCoopers

Brisbane  
21 August 2014

# ERM Power Limited

## Consolidated Income Statement

FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 \$'000	2013 \$'000
<b>CONTINUING OPERATIONS</b>			
Revenue	5	2,075,548	1,569,322
Other income		989	248
<b>Total revenue</b>		<b>2,076,537</b>	<b>1,569,570</b>
Expenses	6	(2,002,299)	(1,499,749)
<b>EBITDAIF</b>		<b>74,238</b>	<b>69,821</b>
Depreciation and amortisation		(18,044)	(14,037)
Net fair value (loss)/gain on financial instruments designated at fair value through profit or loss	7	(115,568)	29,812
<b>Results from operating activities</b>		<b>(59,374)</b>	<b>85,596</b>
Finance expense	8	(29,284)	(31,853)
<b>(Loss)/profit before income tax</b>		<b>(88,658)</b>	<b>53,743</b>
Income tax benefit/(expense)	9	65,583	(15,274)
<b>Statutory (loss)/profit for the year</b>		<b>(23,075)</b>	<b>38,469</b>
Non-controlling interest		(822)	(1,930)
<b>Statutory (loss)/profit for the year attributable to equity holders of the Company</b>		<b>(23,897)</b>	<b>36,539</b>
<b>Statutory (loss)/earnings per share based on earnings attributable to the ordinary equity holders of the Company</b>			
		<b>Cents</b>	<b>Cents</b>
Basic (loss)/earnings per share	34	(10.56)	20.80
Diluted (loss)/earnings per share	34	(10.56)	20.80

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

# ERM Power Limited

## Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 \$'000	2013 \$'000
<b>Statutory (loss)/profit for the year</b>		<b>(23,075)</b>	<b>38,469</b>
<b>Other comprehensive (loss)/income</b>			
<i>Items that may be reclassified subsequently to profit and loss</i>			
Changes in the fair value of cash flow hedges (net of tax)	26	107	5,459
<i>Items that will not be reclassified subsequently to profit and loss</i>			
Changes in the fair value of financial assets at fair value through other comprehensive income (net of tax)	26	(2,750)	(4,472)
<b>Other comprehensive (loss)/income for the year, net of tax</b>		<b>(2,643)</b>	<b>987</b>
Non-controlling interest		-	28
<b>Other comprehensive (loss)/income for the year attributable to equity holders of the Company</b>		<b>(2,643)</b>	<b>959</b>
<b>Total comprehensive (loss)/income for the year</b>		<b>(25,718)</b>	<b>39,456</b>
Non-controlling interest		(822)	(1,958)
<b>Total comprehensive (loss)/income for the year attributable equity holders of the Company</b>		<b>(26,540)</b>	<b>37,498</b>

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 2014

	Note	2014 \$'000	2013 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	11	247,687	215,355
Trade and other receivables at amortised cost	13	202,357	157,338
Inventories	14	56,396	63,453
Other assets	15	10,721	8,474
Derivative financial instruments	17	2,133	27,622
<b>Total Current Assets</b>		<b>519,294</b>	<b>472,242</b>
<b>Non-Current Assets</b>			
Trade and other receivables at amortised cost	13	682	1,446
Financial assets at fair value through other comprehensive income	16	7,636	6,187
Derivative financial instruments	17	837	20
Property, plant and equipment	18	435,691	446,392
Exploration and evaluation costs	19	15,313	12,448
Gas assets	20	16,308	17,309
Deferred tax assets	9	9,789	5,845
Intangible assets	21	10,924	5,851
<b>Total Non-Current Assets</b>		<b>497,180</b>	<b>495,498</b>
<b>TOTAL ASSETS</b>		<b>1,016,474</b>	<b>967,740</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	22	249,402	221,624
Current tax liabilities	9	564	1,498
Borrowings	23	129,949	95,498
Borrowings – limited recourse	23	8,079	26,790
Derivative financial instruments	17	114,367	17,757
Provisions	24	2,014	1,818
<b>Total Current Liabilities</b>		<b>504,375</b>	<b>364,985</b>
<b>Non-Current Liabilities</b>			
Borrowings – limited recourse	23	193,518	216,563
Derivative financial instruments	17	40,479	47,167
Deferred tax liabilities	9	-	66,588
Provisions	24	897	594
<b>Total Non-Current Liabilities</b>		<b>234,894</b>	<b>330,912</b>
<b>TOTAL LIABILITIES</b>		<b>739,269</b>	<b>695,897</b>
<b>NET ASSETS</b>		<b>277,205</b>	<b>271,843</b>
<b>EQUITY</b>			
Contributed equity	25	322,337	233,291
Reserves	26	(46,283)	(34,776)
Retained earnings		1,151	50,820
<b>Capital and reserves attributable to equity holders of the Company</b>		<b>277,205</b>	<b>249,335</b>
Non-controlling interest		-	22,508
<b>TOTAL EQUITY</b>		<b>277,205</b>	<b>271,843</b>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

# ERM Power Limited

## Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2014

	Note	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
<b>Balance at 1 July 2012</b>		166,660	(36,313)	30,859	161,206	20,550	181,756
Profit for the period		-	-	36,539	36,539	1,930	38,469
Other comprehensive income		-	959	-	959	28	987
<b>Total comprehensive income for the year</b>		-	959	36,539	37,498	1,958	39,456
<b>Transactions with owners in their capacity as owners:</b>							
Dividends paid	10	1,104	-	(16,578)	(15,474)	-	(15,474)
Issue of shares and share options exercised pursuant to employee incentive scheme	25	8,959	(175)	-	8,784	-	8,784
Contribution of equity from capital raising	25	60,000	-	-	60,000	-	60,000
Transaction costs arising on share issue (net of tax)	25	(1,489)	-	-	(1,489)	-	(1,489)
Purchase of treasury shares	25	(1,943)	-	-	(1,943)	-	(1,943)
Share based payment expense	27	-	753	-	753	-	753
<b>Balance at 30 June 2013</b>		233,291	(34,776)	50,820	249,335	22,508	271,843
(Loss)/profit for the period		-	-	(23,897)	(23,897)	822	(23,075)
Other comprehensive loss		-	(2,643)	-	(2,643)	-	(2,643)
<b>Total comprehensive (loss)/income for the year</b>		-	(2,643)	(23,897)	(26,540)	822	(25,718)
<b>Transactions with owners in their capacity as owners:</b>							
Dividends paid	10	2,040	-	(25,772)	(23,732)	-	(23,732)
Issue of shares and share options exercised pursuant to employee incentive scheme	25/26	6,064	(2,498)	-	3,566	-	3,566
Contribution of equity from capital raising	25	84,700	-	-	84,700	-	84,700
Transaction costs arising on share issue (net of tax)	25	(1,680)	-	-	(1,680)	-	(1,680)
Purchase of treasury shares	25	(2,078)	-	-	(2,078)	-	(2,078)
Share based payment expense	27	-	1,890	-	1,890	-	1,890
Cash flow hedges transferred to profit and loss (net of tax)	26	-	348	-	348	-	348
Transactions with non-controlling interests	30(d)	-	(8,604)	-	(8,604)	(23,330)	(31,934)
<b>Balance at 30 June 2014</b>		322,337	(46,283)	1,151	277,205	-	277,205

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 2014

	Note	2014 \$'000	2013 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax)		2,191,919	1,652,153
Payments to suppliers and employees (inclusive of goods and services tax)		(2,169,114)	(1,546,529)
Interest received		6,857	5,745
Income tax paid		(4,183)	(6,627)
<b>Net cash flows from operating activities</b>	12	<b>25,479</b>	<b>104,742</b>
<b>Cash flows from investing activities</b>			
Payments for gas exploration and evaluation		(2,962)	(7,853)
Payments for gas development assets		(1,670)	(8,019)
Payments for plant and equipment		(1,755)	(13,494)
Payments for intangible assets		(8,315)	(4,634)
Purchase of shares in listed companies		(5,377)	(6,720)
Net cash acquired as part of acquiring non-controlling interest	30(d)	62	-
<b>Net cash flows used in investing activities</b>		<b>(20,017)</b>	<b>(40,720)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings including receivables financing facility		2,594,290	1,755,457
Repayments of borrowings including receivables financing facility		(2,524,911)	(1,746,150)
Proceeds from borrowings – limited recourse		-	1,500
Repayments of borrowings – limited recourse		(44,919)	(19,793)
Loans to investees	13(ii)	(2,000)	-
Payment for acquisition of non-controlling interest	30(d)	(30,000)	-
Finance costs		(25,496)	(28,686)
Dividends paid	10	(23,730)	(15,474)
Issue of shares on capital raising net of transaction costs	25	83,636	58,023
Cash received on exercise of share options	25	-	6,841
<b>Net cash flows from financing activities</b>		<b>26,870</b>	<b>11,718</b>
Net increase in cash and cash equivalents		32,332	75,740
Cash and cash equivalents at the beginning of the year		215,355	139,615
<b>Cash and cash equivalents at the end of the year</b>	11	<b>247,687</b>	<b>215,355</b>

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

# ERM Power Limited

## Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

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# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

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 on pages 22 to 27.

This report was authorised for issue by the directors on 21 August 2014.

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

#### (a) Basis of preparation

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 2013.

##### *Critical accounting estimates*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Information regarding critical accounting estimates is provided in note 4.

##### *Changes in accounting policies*

The Group had to change some of its accounting policies as the result of new or revised accounting standards which became effective for the annual reporting period commencing on 1 July 2013.

The affected policies and standards are:

- (i) Principles of consolidation – new standards AASB 10 *Consolidated Financial Statements* and AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, AASB 128 *Investments in Associates and Joint Ventures*, AASB 127 *Separate Financial Statements* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards*;
- (ii) AASB 13 *Fair Value Measurement*, AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB13*, AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*; and
- (iii) Accounting for employee benefits – revised AASB 119 *Employee Benefits (September 2011)* and AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)*.

Another new standard that is applicable for the first time for the June 2014 annual report is AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*. This standard has introduced new disclosure requirements for the Group but did not affect the Group's accounting policies or any of the amounts recognised in the financial statements.

##### *(i) Principles of consolidation – subsidiaries and joint arrangements*

AASB 10 was issued in August 2011 and replaces the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements* and in Interpretation 112 *Consolidation – Special Purpose Entities*. Under the new principles, the Group controls an entity 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 over the entity.

The Group has reviewed its investments in other entities to assess whether the consolidation conclusion in relation to these entities is different under AASB 10 than under AASB 127. No differences were found and therefore no adjustments to any of the carrying amounts in the financial statements are required as a result of the adoption of AASB 10.

Under AASB 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined to only have joint operations and no joint ventures.

The accounting for the Group's joint operations has not changed as a result of the adoption of AASB 11. The Group continues to recognise its direct right to and its share of jointly held assets, liabilities, revenues and expenses of joint operations. These have been incorporated in the financial statements under the appropriate headings.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (a) Basis of preparation (continued)

(ii) *AASB 13 Fair Value Measurement, AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB13, AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*

Application of the new standards impacts the type of information disclosed in the notes to the financial statements and requires financial instrument valuations to include counterparty credit risk.

On 1 July 2013, we adopted AASB 2012-2 *Disclosures - Offsetting Financial Assets and Financial Liabilities*. AASB 2012-2 amends the disclosures requirements in AASB 7 *Financial Instruments* so that more extensive disclosures are required. The disclosures focus on quantitative information about recognised financial instruments that are offset in the statement of financial position, as well as those recognised financial instruments that are subject to master netting or similar arrangement irrespective of whether they are offset. Refer to Note 3D for further details on offsetting disclosures.

AASB 13 *Fair Value Measurement* aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across Australian Accounting Standards. The standard does not extend the use of fair value accounting but provides guidance on how it should be applied where its use is already required or permitted by other Australian Accounting Standards.

Previously the fair value of financial liabilities (including derivatives) was measured on the basis that the financial liability would be settled or extinguished with the counterparty. The adoption of AASB 13 has clarified that fair value is an exit price notion, and as such, the fair value of financial liabilities should be determined based on a transfer value to a third party market participant. As a result of this change, the fair value of derivative liabilities has changed on transition to AASB 13, largely due to incorporating credit risk into the valuation.

As required under AASB 13, the change to the fair value of the derivative liabilities is applied prospectively, in the same way as a change in an accounting estimate. As a consequence, the fair value of derivative liabilities held at 1 July 2013 was remeasured under AASB 13. The difference has been recorded as a fair value movement through profit or loss and has resulted in a net decrease of derivative liabilities of approximately \$4.8 million at 1 July 2013. Comparative amounts have not been restated.

(iii) *Accounting for employee benefits – revised AASB 119 Employee Benefits*

The revised standard has changed the accounting application to the Group's annual leave obligations. However, as the entity expects all annual leave to be taken within 12 months of the respective service being provided, the annual leave obligations continue to be classified as short term employee benefits in their entirety. The annual leave is recognised in the provision for employee benefits and measured as an undiscounted amount of short term employee benefits. Consideration is given to the current wage and salary levels and periods of service. The annual leave obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

#### (b) Principles of consolidation

##### *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2014 and the results of all its subsidiaries for the year then ended.

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.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

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

Investments in subsidiaries are accounted for at cost less any impairment in the individual financial statements of the Company.

##### *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.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Principles of consolidation (continued)

##### *Associates*

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.

##### *Joint arrangements*

Under AASB 11 Joint Arrangements 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 joint ventures.

##### *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. Details of the joint operation are set out in note 30.

##### *Employee share trusts*

The Group has formed trusts to administer the Group's employee share 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.

#### (c) Parent entity financial information

The financial information for the parent entity, ERM Power Limited, disclosed in note 28 has been prepared on the same basis as the consolidated financial statements, except as set out below:

##### (i) 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.

##### (ii) 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.

##### (iii) Share-based payments

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. 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.

##### (iv) 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.

#### (d) Segment reporting

The consolidated entity determines and presents operating segments based on the information that is internally provided to the Managing Director who is the chief operating decision maker. The Managing Director regularly receives financial information on the underlying profit of each operating segment and the statutory profit.

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 components 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.



# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (e) Foreign currency translation

##### *Functional and presentation currency*

The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of each of the Group companies.

##### *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.

#### (f) Cash and cash equivalents

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 29.

#### (g) Trade and other receivables

All trade and other debtors are recognised initially at fair value and subsequently measured at amortised cost using the original effective interest method less allowances for doubtful debts. Collectability is reviewed on an ongoing basis. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect any amounts due according to original terms. The amount of the allowance is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate. The amount of the impairment loss is recognised in the income statement.

Trade receivables are those due for settlement no more than 30 days from the date of invoice.

#### (h) Inventories

Stocks and materials are valued at the lower of cost and estimated net realisable value.

##### *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.

#### (i) Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value.

Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements. Further information regarding equity accounted investments is detailed in note 1(b).

From 1 July 2012 the Group classifies its financial assets as either amortised cost or fair value. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

##### *(i) Financial assets – at amortised cost*

A financial asset is classified as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model with the objective to collect the contractual cash flows, and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The nature of any derivatives embedded in the financial asset are considered in determining whether the cash flows of the investment are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

##### *(ii) Financial assets – at fair value through profit or loss*

If either of the two criteria above are not met, the financial asset is classified as at fair value through profit or loss.

The Group has not designated any financial assets as measured at fair value through profit or loss so as to specifically eliminate or significantly reduce an accounting mismatch. The Group is required to reclassify all affected financial assets when and only when its business model for managing those assets changes.

##### *(iii) Equity investments*

All equity investments are measured at fair value. Equity investments that are held for trading are measured at fair value through profit or loss. For all other equity investments, the Group can make an irrevocable election at initial recognition of each investment to recognise changes in fair value through other comprehensive income rather than profit or loss.



# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (i) Financial assets (continued)

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

A gain or loss on a financial asset that is subsequently measured at fair value and is not part of a hedging relationship is recognised in profit or loss and presented net in the income statement within other income or other expenses in the period in which it arises.

A gain or loss on a financial asset that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process using the effective interest rate method.

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as other revenue when the Group's right to receive payments is established and as long as they represent a return on investment.

Changes in the fair value of financial assets at fair value through profit or loss are recognised in other income or other expenses in the income statement as applicable. Interest income from these financial assets is included in the net gains / losses. Dividend income is presented as other revenue.

##### *De-recognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

##### *Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial assets including uncollectable trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

##### *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 exactly 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.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

#### (j) Capitalised work in progress

Costs incurred in relation to the development of a project, including the cost of construction, are recorded as capitalised work in progress when these costs are incurred prior to the establishment of a development vehicle. Development expenditure is recorded as capitalised work in progress only if development costs can be measured reliably, the project is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Development costs relating to project costs incurred may include legal fees, insurance costs, independent engineer costs, borrowing costs, environmental impact study fees, and direct labour and overhead costs.

Capitalised work in progress is measured at cost less accumulated impairment losses.

The recovery of these costs usually occurs at financial close of a project at which time these costs are transferred to a development vehicle.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (k) Derivative financial instruments

ERM Power Retail Pty Ltd, one of the subsidiaries in the Group, routinely enters into forward sales contracts ("Contracts") related to the provision of electricity in the Australian National Electricity Market ("NEM"). The Contracts are exclusively entered into with industrial, commercial and government entities under term contracts. All of the electricity provided under these Contracts is traded in the NEM spot market.

ERM Power Retail Pty Ltd also enters into a variety of electricity derivative transactions ("Derivatives") as part of an overall strategy to hedge the exposure to Contract prices. ERM Power Retail Pty Ltd manages all of its Contracts and Derivatives as part of an overall commodity trading strategy.

Revenue from the Contracts is recognised in accordance with the revenue recognition policy in note 1(y). Derivatives are initially recognised at fair value on the date the derivative contract is entered into, and are subsequently remeasured to their fair value at each balance date. Derivatives are carried in the statement of financial position as assets when the fair value is positive and as liabilities when the fair value is negative. The resulting gain or loss arising from the revaluation is recognised in the income statement in the period it arises.

##### *Hedge accounting*

The Group designates interest rate swaps as cash flow hedges. At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

##### *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss in the same line as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

#### (l) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market is determined using a variety of valuation techniques and assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward exchange contracts is determined using market exchange rates and published forward margins at balance date.

The nominal value less estimated credit adjustments of trade receivables and payables is assumed to approximate their fair value. For disclosure purposes the fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

#### (m) Property, plant and equipment

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.

Subsequent impairment losses are recognised in accordance with note 1(p).

##### *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          | 3 – 8 years  |
| • Plant and equipment     | 1 – 50 years   |
| • IT Equipment            | 1 – 3 years  |
| • Furniture and equipment | 1 – 10 years   |

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.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (n) Gas assets

##### *Exploration and evaluation costs*

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure but does not include overheads or administration expenditure not having a specific nexus with a particular area of interest. Exploration and evaluation expenditure is only capitalised from the point when the rights to tenure of the area are granted. All exploration and evaluation costs are capitalised to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the area are continuing.

The probability of expected future economic benefits is assessed using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset. In this assessment, greater weighting is given to available external evidence. Exploration and evaluation assets will be reclassified as development assets at the point in which technical feasibility and commercial viability of extracting gas are demonstrated or a petroleum lease is granted. Exploration and evaluation assets are assessed for impairment and any impairment loss is recognised before reclassification. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon is made.

##### *Farm-outs*

The Group does not record any expenditure made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements, but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

##### *Development assets*

At the point in which technical feasibility and commercial viability of extraction of gas is demonstrated or a petroleum lease is granted, an area of interest enters the development phase. Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells for the relevant area of interest, is capitalised within development assets.

##### *Gas assets in production*

On commencement of commercial production, development assets for production wells are reclassified as gas assets in production. Ongoing costs of continuing to develop production reserves, costs to expand or replace plant and equipment and any associated land and buildings are also capitalised within gas assets.

##### *Depreciation*

Gas assets in production are depreciated using the units of production (UOP) method over total proved developed and undeveloped reserves or resources. Each reserve or resource life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves or resources at which the gas asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves or resources and estimates of future capital expenditure. The calculation of the UOP rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on total proved reserves or resources, or future capital expenditure estimates changes. Changes to reserves or resources could arise due to changes in the factors or assumptions used in estimating reserves or resources. Changes are accounted for prospectively.

#### (o) Intangible assets

##### *Goodwill*

Goodwill is measured as described in note 1(q). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates.

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 and is recorded at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method over the estimated useful lives. Depending on the individual software, the estimated useful life ranges between 3 and 10 years.

##### *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 the average contract term of 3 years.

#### (p) Impairment of assets

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 flows.

Intangible assets, including exploration and evaluation assets, are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (q) Business combinations

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

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

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

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

#### (r) Trade and other payables

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.

#### (s) Provisions

##### *Onerous contracts*

Obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be derived from it.

#### (t) Other financial liabilities

Other financial liabilities, including borrowings, are initially recognised at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

#### (u) Employee benefits

##### *Wages and salaries, annual leave and sick leave*

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*

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. Expected future payments are discounted using market yields at balance date on government bonds with terms to maturity that match, as closely as possible, the estimated future cash flows.

##### *Bonus plans*

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.

##### *Equity-based compensation benefits*

Equity-based compensation benefits 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.

The fair value of options at grant date is determined using the Black Scholes method that takes into account the value of the underlying share at grant date, the term of the vesting period, exercise price and expiry date.

The assessed fair value of shares granted to employees is allocated equally over the period from issue to the actual or expected vesting date.

Refer to note 0 for further details.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (v) Assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

#### (w) Earnings per share

Basic earnings per share are calculated by dividing:

- The profit attributable to owners of the Company, excluding any cost of servicing equity other than ordinary shares
- By the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements ordinary shares issued during the year and excluding treasury shares.

*Diluted earnings per share*

Diluted earnings per share adjust the figures used in the determination of basic earnings per share to take into account:

- The after income tax effect of interest and other financing cost associated with dilutive potential ordinary shares, and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

#### (x) Contributed equity

*Ordinary shares*

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.

*Preference share capital*

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the entity's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon declaration by the directors.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss.

#### (y) Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as outlined below.

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of trade allowances and duties and taxes paid. Electricity sales revenue from sales contracts is recognised on measurement of electrical consumption at the metering point, as specified in each contractual agreement, and is billed monthly in arrears. At each balance date, sales and receivables include an amount of sales delivered to customers but not yet billed and recognised as accrued income. Generation revenue is recognised from the generation of electricity when the electricity has been supplied to customers.

Interest revenue is recognised on a time proportional basis taking into account the interest rates applicable to the financial assets. All revenue is stated net of goods and services tax.

Project management fees are calculated based on current contractual guidelines and include project success fees earned at financial close. The Group's share of capitalised project management fees is eliminated on consolidation.

#### (z) Cost of sales

Cost of sales is recognised as those costs directly attributable to the goods sold and includes the costs of electricity, materials and associated distribution expenses. Electricity costs are based upon spot prices for electricity as established by the Australian Energy Market Operator (AEMO) and the outcomes of derivative financial instruments entered into for the purpose of risk management (refer to note 1(k)).

#### (aa) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. 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.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis using the effective interest rate method until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

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.



# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (bb) Borrowing costs

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.

#### (cc) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

#### (dd) Income tax

Income tax expense or revenue 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.

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 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.

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.

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.

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.

#### (ee) 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.

#### (ff) Dividends

Provision is made for the amount of any dividend declared, appropriately authorised, no longer at the discretion of the entity and not distributed during the reporting period.

#### (gg) Rounding of amounts

The Group is of a kind referred to in Class Order 98/100, 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.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (hh) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2014 reporting periods. Unless stated otherwise below, the Group is currently in the process of assessing the impact of these standards and amendments and is yet to decide whether to early adopt any of the new and amended standards.

***AASB 9 Financial Instruments (December 2013) (effective from 1 January 2017).***

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. Since December 2013, it also sets out new rules for hedge accounting and introduces expanded disclosure requirements and changes in presentation.

***AASB 9 Financial Instruments, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) and AASB 2012-6 Amendments to Australian Accounting Standards – Mandatory Effective Date of AASB 9 and Transition Disclosures (effective from 1 January 2015).***

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption.

***AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (effective from 1 January 2015).***

AASB 2012-3 adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.

***AASB 2013-4 Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting (effective from 1 January 2014).***

AASB 2013-4 makes amendments to AASB 139 *Financial Instruments: Recognition & Measurement* to permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.

***AASB 2014-1 Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010–2012 and 2011–2013 Cycles) (effective from 1 July 2014).***

Part A of AASB 2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle.

***AASB Interpretation 21 Levies (effective from 1 January 2014).***

Interpretation 21 addresses how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements (in particular, when the entity should recognise a liability to pay a levy).

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

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 2. SEGMENT REPORT

\$'000	Electricity Sales		Generation Assets		Other		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>Non-statutory revenue</b>								
Non-statutory revenue	1,995,724	1,493,032	72,625	72,734	10,882	5,146	2,079,231	1,570,912
Other income	-	-	855	5	134	243	989	248
Intersegment sales elimination	-	-	-	-	(3,683)	(1,590)	(3,683)	(1,590)
<b>Total segment revenue</b>	<b>1,995,724</b>	<b>1,493,032</b>	<b>73,480</b>	<b>72,739</b>	<b>7,333</b>	<b>3,799</b>	<b>2,076,537</b>	<b>1,569,570</b>
Less Expenses	(1,953,916)	(1,454,742)	(21,687)	(29,211)	(26,696)	(15,796)	(2,002,299)	(1,499,749)
<b>EBITDAIF<sup>(i)</sup></b>	<b>41,808</b>	<b>38,290</b>	<b>51,793</b>	<b>43,528</b>	<b>(19,363)</b>	<b>(11,997)</b>	<b>74,238</b>	<b>69,821</b>
Depreciation and amortisation	(1,787)	(936)	(12,132)	(11,980)	(4,125)	(1,121)	(18,044)	(14,037)
Finance expenses	(8,496)	(6,857)	(20,721)	(22,503)	(67)	(2,493)	(29,284)	(31,853)
<b>Underlying profit before income tax</b>	<b>31,525</b>	<b>30,497</b>	<b>18,940</b>	<b>9,045</b>	<b>(23,555)</b>	<b>(15,611)</b>	<b>26,910</b>	<b>23,931</b>
Income tax expense attributed to underlying profit							30,913	(6,330)
Non-controlling interest							(822)	(1,930)
<b>Underlying profit after tax attributable to equity holders of the Company</b>							<b>57,001</b>	<b>15,671</b>
<i>Impact of items excluded from underlying profit:</i>								
Net fair value (loss)/gain on financial instruments designated as fair value through profit or loss							(115,568)	29,812
Tax benefit/(credit) on items excluded from underlying profit							34,670	(8,944)
<b>Statutory (loss)/profit after tax attributable to equity holders of the Company</b>							<b>(23,897)</b>	<b>36,539</b>
Non-controlling interest							822	1,930
<b>Statutory (loss)/profit after tax</b>							<b>(23,075)</b>	<b>38,469</b>

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

Revenue in the Other segment comprises interest, consulting, gas and condensate sales and other income.



# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 2. SEGMENT REPORT (continued)

\$'000	Electricity Sales		Generation Assets		Other		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>Assets</b>								
<b>Total segment assets</b>	<b>452,350</b>	360,106	<b>459,029</b>	467,443	<b>95,306</b>	134,346	<b>1,006,685</b>	961,895
Current and deferred tax assets							<b>9,789</b>	5,845
<b>Total assets</b>							<b>1,016,474</b>	967,740
<b>Liabilities</b>								
<b>Total segment liabilities</b>	<b>486,304</b>	332,566	<b>239,109</b>	282,042	<b>13,292</b>	13,203	<b>738,705</b>	627,811
Current and deferred tax liabilities							<b>564</b>	68,086
<b>Total liabilities</b>							<b>739,269</b>	695,897

### SEGMENT DESCRIPTION

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:

Electricity Sales  
Generation Assets  
Other

#### Products and services:

Electricity sales to business customers  
Gas-fired power generation assets and delivery of power generation solutions, from the initial concept through to development and operations  
Gas, Metering and Corporate

Sales between segments are carried out at arm's length and are eliminated on consolidation.

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

All segment activity takes place in Australia.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3. FINANCIAL RISK MANAGEMENT

#### A. Financial risk management objectives

The Group's activities are exposed to a variety of financial risks, including market risk (commodity price and interest rate), credit risk and 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.

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.

#### (a) 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.

ERM Power Retail Pty Ltd, one of the subsidiaries of the Group, routinely enters 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 rate 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 rate. 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 rate lower than the prevailing forward market rate. 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.

	<b>Increase by 10% \$'000</b>	<b>Decrease by 10% \$'000</b>
<b>2014</b>		
Net profit / (loss) – unrealised mark to market of electricity derivative contracts	<b>40,132</b>	<b>(51,472)</b>
Other Components of Equity increase / (decrease)	-	-
<b>2013</b>		
Net profit / (loss) – unrealised mark to market of electricity derivative contracts	<b>75,915</b>	<b>(75,599)</b>
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.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### A. Financial risk management objectives (continued)

##### (a) 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% \$'000	Decrease by 10% \$'000
<b>2014</b>		
Net profit / (loss)	161	(161)
Other Components of Equity increase / (decrease)	-	-
<b>2013</b>		
Net profit / (loss)	117	(117)
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 100 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 100 basis points higher / lower and all other variables were held constant, the impact on the Group would be:

	Increase by 100bps \$'000	Decrease by 100bps \$'000
<b>2014</b>		
Net profit / (loss)	173	(173)
Other equity increase / (decrease)	-	-
<b>2013</b>		
Net profit / (loss)	589	(589)
Other equity increase / (decrease)	-	-

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.

##### (b) 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 financial assets 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 Group has no significant concentrations of credit risk. The credit qualities of all financial assets are consistently monitored in order to identify any potential adverse changes in the credit quality.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### A. Financial risk management objectives (continued)

##### (b) Credit risk (continued)

###### *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.

The ageing of receivables as at balance date was as follows:

	Total \$'000	< 30 days \$'000	31-60 days \$'000		> 60 days \$'000	
			Impaired <sup>(i)</sup>	PDNI <sup>(ii)</sup>	Impaired <sup>(i)</sup>	PDNI <sup>(ii)</sup>
<b>2014</b>						
<b>Consolidated</b>						
Trade receivables	19,872	18,370	253	535	617	967
Loan receivables	2,043	-	-	1,043	-	1,000
Other receivables <sup>(iii)</sup>	1,689	322	-	-	-	1,367
	<b>23,604</b>	<b>18,692</b>	<b>253</b>	<b>1,578</b>	<b>617</b>	<b>3,334</b>
<b>2013</b>						
<b>Consolidated</b>						
Trade receivables	15,746	14,356	44	1,210	129	180
Other receivables <sup>(iii)</sup>	2,338	23	-	-	-	2,315
	<b>18,084</b>	<b>14,379</b>	<b>44</b>	<b>1,210</b>	<b>129</b>	<b>2,495</b>

The majority of year-end debtors relate to electricity.

- <sup>(i)</sup> Impaired balance represents account balances deemed to be irrecoverable by the Group at balance date. A provision for doubtful debts has been provided for.
- <sup>(ii)</sup> Past due not impaired (PDNI) represents account balances outstanding for greater than 30 days but are still considered to be recoverable in the ordinary course of business. Included in the Group's trade receivable balance are debtors with a carrying amount of \$2,869,539 (2013: \$1,383,056) which are past due at balance date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not have any collateral over these balances.
- <sup>(iii)</sup> Other receivables are neither past due or impaired and relate principally to employee shareholder loans, which are subject to loan deeds.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### A. Financial risk management objectives (continued)

##### (c) 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 2014 is contained in Note 23.

##### *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	≤1 year \$'000	1 to 5 years \$'000	>5 years \$'000	Discount \$'000	Total \$'000
<b>Consolidated</b>					
<b>2014</b>					
Trade payables	186,321	-	-	-	186,321
Other payables	63,081	-	-	-	63,081
Interest bearing liabilities	129,949	-	-	-	129,949
Interest bearing liabilities – limited recourse <sup>(i)</sup>	8,079	23,411	184,853	(14,746)	201,597
Derivatives	120,807	24,635	9,404	-	154,846
	<b>508,237</b>	<b>48,046</b>	<b>194,257</b>	<b>(14,746)</b>	<b>735,794</b>
<b>2013</b>					
Trade payables	156,060	-	-	-	156,060
Other payables	64,954	-	-	-	64,954
Interest bearing liabilities	95,498	-	-	-	95,498
Interest bearing liabilities – limited recourse <sup>(i)</sup>	31,243	66,302	163,717	(17,909)	243,353
Derivatives	25,114	30,494	9,316	-	64,924
	<b>372,869</b>	<b>96,796</b>	<b>173,033</b>	<b>(17,909)</b>	<b>624,789</b>

<sup>(i)</sup> Recourse limited to assets of the Neerabup Partnership and Oakey Power Holdings Pty Ltd. Refer note 23 for further details. No recourse relates to Oakey Power Station for the loan balance at 30 June 2014.

#### B. Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### C. Fair value of financial assets and liabilities

The Group holds the following financial instruments:

	Note	CONSOLIDATED	
		2014 \$'000 Carrying value	2013 \$'000 Carrying value
<b>Financial assets</b>			
Derivative financial instruments	17	2,970	27,642
Equity investments	16	7,636	6,187
Loans and receivables	13	23,604	18,084
Cash and cash equivalents	11	247,687	215,355
		<b>281,897</b>	<b>267,268</b>
<b>Financial liabilities</b>			
Derivative financial instruments	17	154,846	64,924
Other financial liabilities at amortised cost	22/23	580,948	560,475
		<b>735,794</b>	<b>625,399</b>
		CONSOLIDATED	
		2014 \$'000 Carrying value	2013 \$'000 Carrying value
<b>Financial assets by category</b>			
Financial assets at fair value through profit or loss		2,970	27,642
Amortised cost financial assets		271,291	233,439
Financial assets at fair value through other comprehensive income		7,636	6,187
		<b>281,897</b>	<b>267,268</b>

The financial assets and liabilities held by the group are outlined below:

#### *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 estimated 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.

#### *Equity investments*

The fair value of financial assets and financial liabilities with standard terms and conditions, and traded on active liquid markets, is determined with reference to quoted market prices.

#### *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.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### C. Fair value of financial instruments (continued)

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The following tables present the Group's assets and liabilities measured and recognised at fair value at 30 June 2014 and 30 June 2013.

#### As at 30 June 2014

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Electricity derivatives contracts	-	2,970	-	2,970
Financial assets at fair value through other comprehensive income	7,636	-	-	7,636
<b>Total assets</b>	<b>7,636</b>	<b>2,970</b>	<b>-</b>	<b>10,606</b>
<b>Liabilities</b>				
Electricity derivatives contracts	32,624	89,067	-	121,691
Derivatives used for hedging	-	33,155	-	33,155
<b>Total liabilities</b>	<b>32,624</b>	<b>122,222</b>	<b>-</b>	<b>154,846</b>

#### As at 30 June 2013

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Electricity derivatives contracts	-	27,642	-	27,642
Financial assets at fair value through other comprehensive income	6,187	-	-	6,187
<b>Total assets</b>	<b>6,187</b>	<b>27,642</b>	<b>-</b>	<b>33,829</b>
<b>Liabilities</b>				
Electricity derivatives contracts	5,504	25,616	-	31,120
Derivatives used for hedging	-	33,804	-	33,804
<b>Total liabilities</b>	<b>5,504</b>	<b>59,420</b>	<b>-</b>	<b>64,924</b>

#### Level 1

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

#### Level 2

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

#### Level 3

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

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. For the years ending 30 June 2014 and 30 June 2013 there were no transfers between the fair value hierarchy levels.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### D. 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 2014 and 30 June 2013. 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 financial assets and liabilities offset to those presented on the consolidated statement of financial position as at 30 June 2014 and as at 30 June 2013.

#### As at 30 June 2014

\$'000	Gross carrying amount (before offsetting)	Gross amounts offset	Net amount presented	Related amounts not offset		Net exposure
				Financial instruments <sup>(i)</sup>	Cash collateral and futures margin deposits	
<b>Financial assets</b>						
Electricity derivatives contracts	37,675	(34,705)	2,970	(1,548)	-	1,422
<b>Total</b>	<b>37,675</b>	<b>(34,705)</b>	<b>2,970</b>	<b>(1,548)</b>	<b>-</b>	<b>1,422</b>
<b>Financial liabilities</b>						
Electricity derivatives contracts	156,396	(34,705)	121,691	(1,548)	(39,685)	80,458
Interest rate swaps	33,155	-	33,155	-	-	33,155
<b>Total</b>	<b>189,551</b>	<b>(34,705)</b>	<b>154,846</b>	<b>(1,548)</b>	<b>(39,685)</b>	<b>113,613</b>

#### As at 30 June 2013

\$'000	Gross carrying amount (before offsetting)	Gross amounts offset	Net amount presented	Related amounts not offset		Net exposure
				Financial instruments <sup>(i)</sup>	Cash collateral and futures margin deposits	
<b>Financial assets</b>						
Electricity derivatives contracts	32,994	(5,352)	27,642	(5,152)	-	22,490
<b>Total</b>	<b>32,994</b>	<b>(5,352)</b>	<b>27,642</b>	<b>(5,152)</b>	<b>-</b>	<b>22,490</b>
<b>Financial liabilities</b>						
Electricity derivatives contracts	36,472	(5,352)	31,120	(5,152)	(8,039)	17,929
Interest rate swaps	33,804	-	33,804	-	-	33,804
<b>Total</b>	<b>70,276</b>	<b>(5,352)</b>	<b>64,924</b>	<b>(5,152)</b>	<b>(8,039)</b>	<b>51,733</b>

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



# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### E. 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 23, total limited recourse facilities as listed in note 23 and equity, comprising issued capital, reserves and retained earnings as listed in notes 25 and 26.

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 2014 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 projects from the rest of the Group. The table below illustrates the gearing and interest cover for the Group. When the Oakey and Neerabup assets and associated limited recourse debt are excluded the Group has no net debt.

	CONSOLIDATED	
	2014	2013
	\$'000	\$'000
Current borrowings	138,028	122,288
Non-current borrowings	193,518	216,563
Total debt	331,546	338,851
Cash and cash equivalents	(247,687)	(215,355)
Net debt	83,859	123,496
Total equity excluding reserves	323,488	306,619
Total capital	407,347	430,115
Gearing percentage <sup>(i)</sup>	21%	29%
Gearing percentage <sup>(i)</sup> excluding Oakey and Neerabup	0%	0%
EBITDA Interest cover ratio	2.54	2.19

<sup>(i)</sup> 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.

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

#### (a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning variables. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### *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 0.

##### *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.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

#### (b) Critical judgements in applying the entity's accounting policies

##### *Recoverability of exploration costs*

All exploration, evaluation and development costs are capitalised to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the area are continuing. The probability of expected future economic benefits is assessed using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset. In this assessment, greater weighting is given to available external evidence. Exploration and evaluation assets are reclassified as development assets at the point in which technical feasibility and commercial viability of extracting gas are demonstrated or a petroleum lease is granted. Exploration and evaluation assets are assessed for impairment and any impairment loss recognised before reclassification.

##### *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 3 for further details of valuation methods used by the Group to determine fair value.

##### *Joint arrangements*

The Group has classified its investments in the NewGen Neerabup Partnership and various gas interests as joint operations. 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. The gas joint arrangements are not controlled through a separate vehicle and have accordingly been classified as joint operations.

	CONSOLIDATED	
	2014	2013
	\$'000	\$'000
<b>5. REVENUE</b>		
<i>Revenue from Continuing Operations</i>		
Sale of electricity	1,992,410	1,490,147
Electricity generation revenue	63,703	65,228
Operations income and project fees	6,533	6,112
Gas production and condensate income	3,624	-
Interest income	6,292	5,842
Consulting and other revenue	2,986	1,993
	<b>2,075,548</b>	<b>1,569,322</b>

Refer to note 0 for further information regarding transactions between entities within the Group that have been eliminated on consolidation.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

**CONSOLIDATED**  
**2014**                  **2013**  
**\$'000**                  **\$'000**

### 6. EXPENSES

Cost of electricity sales	1,931,696	1,438,257
Cost of electricity generation	7,909	9,371
Employee benefits expense	32,793	30,524
Other expenses	29,901	21,597
	<b>2,002,299</b>	<b>1,499,749</b>

*Included in the above employee benefits and other expenses are:*

Rental expenses relating to operating leases	3,684	3,250
Defined contribution superannuation expense	2,431	2,092
Equity settled share based payment compensation	1,890	753

**CONSOLIDATED**  
**2014**                  **2013**  
**\$'000**                  **\$'000**

### 7. NET FAIR VALUE (LOSS)/GAIN ON FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT AND LOSS

#### Unrealised

Electricity derivative contracts	(115,568)	29,812
	<b>(115,568)</b>	<b>29,812</b>

In the absence of hedge accounting, the Group's electricity derivatives are designated at fair value through profit or loss. The corresponding fair value movement in the value of customer contracts is not recognised for accounting purposes.

**CONSOLIDATED**  
**2014**                  **2013**  
**\$'000**                  **\$'000**

### 8. FINANCE EXPENSE

Borrowing costs – bank loans	16,619	18,131
Borrowing costs – receivables financing facility	5,308	5,510
Borrowing costs – convertible notes	4,039	4,196
Other borrowing costs	3,318	4,016
	<b>29,284</b>	<b>31,853</b>

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

CONSOLIDATED  
2014                      2013  
\$'000                      \$'000

### 9. INCOME TAX

#### (a) Income tax (benefit)/expense

Income tax comprises:

Current tax expense	3,249	6,990
Deferred tax (benefit)/expense	(69,419)	8,595
Adjustment to current and deferred tax of prior periods	587	(311)
<b>Income tax (benefit)/expense</b>	<b>(65,583)</b>	<b>15,274</b>

#### Deferred income tax included in income tax expense comprises:

(Increase)/decrease in deferred tax assets	(34,675)	4,249
Increase/(decrease) in deferred tax liabilities	(34,157)	4,036
<b>Deferred income tax (benefit)/expense</b>	<b>(68,832)</b>	<b>8,285</b>

#### (b) Numerical reconciliation of prima facie tax benefit to prima facie tax

(Loss)/profit from continuing operations	(88,658)	53,743
Income tax (benefit)/expense calculated at 30%	(26,597)	16,123
Effect of expenses that are not deductible in determining taxable profit	286	89
Oakey acquisition <sup>(i)</sup>	(39,131)	-
Other permanent differences	(728)	(627)
Adjustment to deferred tax of prior periods	587	(311)
<b>Income tax (benefit)/expense</b>	<b>(65,583)</b>	<b>15,274</b>

#### (c) Amounts recognised directly in other comprehensive income

(Increase)/decrease 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	(195)	(2,345)
Net tax effect of amounts charged to fair value reserve	1,179	1,916
Net tax effect of amounts charged to share capital	720	543
	<b>1,704</b>	<b>114</b>

<sup>(i)</sup> Tax effect of the non-controlling interest acquisition of the Oakey Power Station during the year ended 30 June 2014. Refer note 30(d) for further details.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

CONSOLIDATED  
2014      2013  
\$'000      \$'000

### 9. INCOME TAX (continued)

#### (d) Tax losses

Tax losses for which deferred tax asset is recognised in the current period

Potential tax benefit at 30%

-	15,400
-	4,620

#### (e) Current tax liabilities

Current tax payables:

Income tax payable

564	1,498
564	1,498

#### (f) Recognised deferred tax assets and deferred tax liabilities

##### Deferred tax assets

Carried forward income tax losses

Derivative financial instruments

Employee provisions

Financial assets at fair value through other comprehensive income

Other items

18,825	19,079
45,865	11,320
2,702	2,716
4,240	3,061
1,285	362
72,917	36,538
(63,128)	(30,693)
9,789	5,845

Set-off of deferred tax liabilities

Net deferred tax assets

##### Deferred tax liabilities

Property, plant and equipment

Capitalised gas exploration costs

Gas assets

Other items

(55,831)	(89,042)
(4,594)	(3,734)
(2,148)	(2,645)
(555)	(1,860)
(63,128)	(97,281)
63,128	30,693
-	(66,588)

Set-off of deferred tax assets

Net deferred tax liabilities

#### Tax consolidation

The Company and its wholly-owned Australian controlled entities, has 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.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 9. INCOME TAX (continued)

#### Movements in temporary differences - consolidated

	Opening balance	Recognised in income statement	Recognised in equity	Closing balance
2014	\$'000	\$'000	\$'000	\$'000
<b>Deferred tax assets</b>				
Carried forward income tax losses	19,079	(254)	-	18,825
Net derivative financial liabilities	11,320	34,740	(195)	45,865
Employee provisions	2,716	(14)	-	2,702
Financial assets at fair value through other comprehensive income	3,061	-	1,179	4,240
Other items	362	203	720	1,285
	<b>36,538</b>	<b>34,675</b>	<b>1,704</b>	<b>72,917</b>

#### Deferred tax liabilities

Capitalised gas exploration costs	(3,734)	(860)	-	(4,594)
Gas assets	(2,645)	497	-	(2,148)
Property, plant and equipment	(89,042)	33,211	-	(55,831)
Other items	(1,860)	1,305	-	(555)
	<b>(97,281)</b>	<b>34,153</b>	<b>-</b>	<b>(63,128)</b>

2013	\$'000	\$'000	\$'000	\$'000
<b>Deferred tax assets</b>				
Carried forward tax losses	14,459	4,620	-	19,079
Net derivative financial liabilities	22,467	(8,802)	(2,345)	11,320
Employee provisions	1,799	917	-	2,716
Financial assets at fair value through other comprehensive income	1,145	-	1,916	3,061
Other items	803	(984)	543	362
	<b>40,673</b>	<b>(4,249)</b>	<b>114</b>	<b>36,538</b>

#### Deferred tax liabilities

Capitalised gas exploration costs	(4,196)	462	-	(3,734)
Gas assets	-	(2,645)	-	(2,645)
Property, plant and equipment	(87,236)	(1,806)	-	(89,042)
Other items	(1,813)	(47)	-	(1,860)
	<b>(93,245)</b>	<b>(4,036)</b>	<b>-</b>	<b>(97,281)</b>

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 10. DIVIDENDS PAID AND PROPOSED

During the year ended 30 June 2014, the Company paid a fully franked final dividend for the year ended 30 June 2013 of 5.5 cents per share and an interim dividend for the year ended 30 June 2014 of 6.0 cents per share (2013: 5.0 cents).

	2014	2013
	\$'000	\$'000
Franking credits available to shareholders in subsequent years	14,134	17,770

The franking account balance is adjusted for:

- franking credits that will arise from the payment of income tax;
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

After 30 June 2014 the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

	Cents per share	Total amount \$'000	Franked	Date of payment
Final proposed ordinary share dividend estimated based upon shares on issue at 30 June 2014	6.0	14,356	14,356	13/10/2014

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries not included within the tax consolidated group were paid as dividends. The impact on the franking account of the dividend recommended by the directors since the end of the reporting period, but not recognised as a liability at the reporting date, is forecast to be a reduction in the franking account of \$6,152,650.

CONSOLIDATED	
2014	2013
\$'000	\$'000

### 11. CASH AND CASH EQUIVALENTS

#### Current

Restricted cash	160,525	120,486
Non-restricted cash at bank and cash on hand	87,162	94,869
Total cash and cash equivalents	247,687	215,355

The cash and cash equivalents are bearing interest at rates between nil and 3.96%.

#### 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 29.

The restricted cash deposits, held on term deposit, are bearing interest at rates between 3.00% and 3.96%.

Term deposits	156,230	93,971
Other restricted cash deposits	4,295	26,515
	160,525	120,486

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

CONSOLIDATED  
2014                      2013  
\$'000                      \$'000

### 12. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

Net (loss)/profit after tax	(23,075)	38,469
<i>Adjustments for:</i>		
Depreciation and amortisation of non-current assets	18,044	14,037
Share based payment expense	1,890	753
Net unrealised fair value losses/(gains) on financial instruments and inventory	115,568	(29,812)
Finance costs	29,284	31,853
<i>Transfers to / (from) provisions:</i>		
Employee entitlements	503	672
<i>Changes in assets and liabilities:</i>		
(Increase) / decrease in trade and other receivables	(42,789)	(70,166)
(Increase) / decrease in other assets	(2,738)	823
(Increase) / decrease in inventories	(29,089)	19,049
(Increase) / decrease in deferred tax assets	(34,675)	4,135
(Decrease) / increase / in deferred tax liabilities	(34,157)	4,036
(Decrease) / increase in current tax liability	(934)	219
Increase in trade and other payables	27,647	90,674
Net cash provided by operating activities	<u>25,479</u>	<u>104,742</u>

#### Disclosure of financing facilities

Refer to note 23 for information regarding financing facilities.



# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

	Note	CONSOLIDATED	
		2014	2013
		\$'000	\$'000
<b>13. TRADE AND OTHER RECEIVABLES AT AMORTISED COST</b>			
<b>Current</b>			
Trade receivables	(i)	19,872	15,746
Loan receivables	(ii)	2,043	-
Other receivables		324	486
Amounts receivable from employee shareholders	(iii)	683	406
		<b>22,922</b>	<b>16,638</b>
Accrued income	(iv)	179,435	140,700
		<b>202,357</b>	<b>157,338</b>
<b>Non-current</b>			
Amounts receivable from employee shareholders	(iii)	682	1,446
		<b>682</b>	<b>1,446</b>

- (i) Trade receivables are non-interest bearing and are generally on 30-day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. An allowance of \$884,653 (2013: \$173,069) has been recognised as an expense for the current year for specific debtors for which such evidence exists. The amount of the allowance / impairment loss is measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.
- (ii) Credit Facility provided to Empire Oil & Gas NL at a fixed interest rate of 10.38% per annum. Termination of the loan is on 30 September 2014.
- (iii) Employee shareholder loans are subject to loan deeds and interest is charged at either the Division 7A or the FBT benchmark rates.
- (iv) Accrued income represents electricity amounts due to be invoiced after 30 June 2014.

Details regarding the effective interest rate and credit risk of current receivables are disclosed in note 3.

### Impaired receivables and receivables past due

None of the non-current receivables are impaired or past due. The carrying amounts of non-current receivables are equal to the fair values.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

	CONSOLIDATED	
	2014	2013
	\$'000	\$'000
<b>14. INVENTORIES</b>		
Renewable energy certificates <sup>(i)</sup>	54,315	24,979
Renewable energy certificates recognised under sale and repurchase arrangement <sup>(ii)</sup>	-	36,383
Gas in storage	42	142
Diesel fuel <sup>(i)</sup>	2,039	1,949
	<b>56,396</b>	<b>63,453</b>

<sup>(i)</sup> Renewable energy certificates and diesel fuel are pledged as security against outstanding bank loan and receivables finance facilities at 30 June 2014.

<sup>(ii)</sup> The Group has right of repurchase under sale and repurchase arrangement. The corresponding liability is included within borrowings at 30 June 2013. Refer to Note 23. The liability was repaid during the year ended 30 June 2014.

	CONSOLIDATED	
	2014	2013
	\$'000	\$'000
<b>15. OTHER ASSETS</b>		
<b>Current</b>		
Prepayments	2,235	2,027
Security and other deposits <sup>(i)</sup>	8,486	6,447
	<b>10,721</b>	<b>8,474</b>

<sup>(i)</sup> Refer to Note 29 for further details regarding security deposits.

	CONSOLIDATED	
	2014	2013
	\$'000	\$'000
<b>16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME</b>		
<b>Non-current</b>		
Shares held in listed entities	7,636	6,187
	<b>7,636</b>	<b>6,187</b>

All shares held in listed entities as at 30 June 2014 have been classified as fair value through other comprehensive income because they are investments that the group intends to hold for the long-term.

No dividends have been received in respect of these investments during the current or prior year.

Refer note 1(b) for further details.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

	CONSOLIDATED	
	2014	2013
	\$'000	\$'000
<b>17. DERIVATIVE FINANCIAL INSTRUMENTS</b>		
<b>Current assets</b>		
Electricity derivatives	2,133	27,622
	<b>2,133</b>	<b>27,622</b>
<b>Non-current assets</b>		
Electricity derivatives	837	20
	<b>837</b>	<b>20</b>
<b>Current liabilities</b>		
Electricity derivatives	114,367	17,757
	<b>114,367</b>	<b>17,757</b>
<b>Non-current liabilities</b>		
Electricity derivatives	7,324	13,363
Interest rate swaps	33,155	33,804
	<b>40,479</b>	<b>47,167</b>

### Derivative financial instruments used by the Group

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

All electricity derivatives are measured at fair value through profit and loss.

#### Interest rate swap contracts - cash flow hedges

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% (2013: 97%) of the variable loan principal outstanding and are timed to expire as each loan repayment falls due. The fixed interest rate is 7.189% (2013: 7.189%) and the variable rate is 1.1% above the BBSY rate which at the end of the reporting period was 2.72% (2013: 2.87%).

Swaps in place for Oakey Power Holdings Pty Ltd were terminated in December 2013. For the year ended 30 June 2013 these swaps covered 100% of the variable loan principal outstanding. In 2013, the fixed interest rate was 4.16% and the variable rate was 2.75% above the BBSY rate which at the end of the reporting period was 2.87%.

The contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. The contracts are settled on a net basis.

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 is recognised. There was no hedge ineffectiveness in the current or prior year.

#### Electricity derivative contracts held for trading

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial asset.

### Derivative financial instruments designated as cash flow hedges

The following 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.

	CONSOLIDATED	
	2014	2013
	\$'000	\$'000
<b>Liabilities</b>		
<i>Interest rate swaps</i>		
12 months or less	6,440	7,359
1-2 years	5,711	5,994
2-5 years	11,600	11,135
More than 5 years	9,404	9,316
	<b>33,155</b>	<b>33,804</b>

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 18. PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED	Land	Capital work in progress	Plant and equipment	Furniture, fittings and improvements	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2014</b>					
Cost	23,109	26,735	482,535	10,530	542,909
Accumulated depreciation and impairment	-	-	(102,483)	(4,735)	(107,218)
Net carrying amount at 30 June 2014	<u>23,109</u>	<u>26,735</u>	<u>380,052</u>	<u>5,795</u>	<u>435,691</u>
Opening net carrying amount at 1 July 2013	22,835	26,851	390,599	6,107	446,392
Additions	268	1,518	473	655	2,914
Transfers	6	(1,634)	1,065	563	-
Disposals	-	-	(27)	-	(27)
Depreciation	-	-	(12,058)	(1,530)	(13,588)
Closing net carrying amount at 30 June 2014	<u>23,109</u>	<u>26,735</u>	<u>380,052</u>	<u>5,795</u>	<u>435,691</u>

CONSOLIDATED	Land	Capital work in progress	Plant and equipment	Furniture, fittings and improvements	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2013</b>					
Cost	22,835	26,851	481,056	9,307	540,049
Accumulated depreciation and impairment	-	-	(90,457)	(3,200)	(93,657)
Net carrying amount at 30 June 2013	<u>22,835</u>	<u>26,851</u>	<u>390,599</u>	<u>6,107</u>	<u>446,392</u>
Opening net carrying amount at 1 July 2012	21,091	21,581	401,971	1,137	445,780
Additions	1,744	5,270	577	5,945	13,536
Disposals	-	-	(32)	(6)	(38)
Depreciation	-	-	(11,917)	(969)	(12,886)
Closing net carrying amount at 30 June 2013	<u>22,835</u>	<u>26,851</u>	<u>390,599</u>	<u>6,107</u>	<u>446,392</u>

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 23 for details regarding recourse and limited recourse borrowings of the Group.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

	CONSOLIDATED	
	2014	2013
	\$'000	\$'000
<b>19. EXPLORATION AND EVALUATION COSTS</b>		
Cost (gross carrying amount)	15,313	12,448
Accumulated amortisation and impairment	-	-
Net carrying amount	15,313	12,448
<b>Reconciliations</b>		
Net of accumulated amortisation and impairment at start of year	12,448	13,985
Additions	2,865	7,425
Transfers to gas assets	-	(8,962)
Net of accumulated amortisation and impairment at end of year	15,313	12,448

	CONSOLIDATED	
	2014	2013
	\$'000	\$'000
<b>20. GAS ASSETS</b>		
<i>Assets in production</i>		
Cost (gross carrying amount)	18,652	17,309
Accumulated amortisation and impairment	(2,344)	-
Net carrying amount	16,308	17,309
<b>Reconciliations</b>		
Net of accumulated amortisation and impairment at start of year	17,309	-
Transfer from exploration and evaluation costs	-	8,962
Additions	1,343	8,347
Amortisation	(2,344)	-
Net of accumulated amortisation and impairment at end of year	16,308	17,309

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 21. INTANGIBLE ASSETS

CONSOLIDATED	Capital work in progress	Software internally generated	Software and other	Customer acquisition costs	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2014</b>					
Cost	4	7,560	3,817	4,930	16,311
Accumulated depreciation and impairment	-	(1,845)	(2,033)	(1,509)	(5,387)
Net carrying amount at 30 June 2014	4	5,715	1,784	3,421	10,924
Opening net carrying amount at 1 July 2013	1,130	1,052	1,673	1,996	5,851
Additions	4	4,171	461	2,549	7,185
Transfer	(1,130)	1,130	-	-	-
Amortisation	-	(638)	(350)	(1,124)	(2,112)
Closing net carrying amount at 30 June 2014	4	5,715	1,784	3,421	10,924

CONSOLIDATED	Capital work in progress	Software internally generated	Software and other	Customer acquisition costs	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2013</b>					
Cost	1,130	2,259	3,356	2,381	9,126
Accumulated depreciation and impairment	-	(1,207)	(1,683)	(385)	(3,275)
Net carrying amount at 30 June 2013	1,130	1,052	1,673	1,996	5,851
Opening net carrying amount at 1 July 2012	-	367	2,001	-	2,368
Additions	1,130	1,020	103	2,381	4,634
Amortisation	-	(335)	(431)	(385)	(1,151)
Closing net carrying amount at 30 June 2013	1,130	1,052	1,673	1,996	5,851

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

### CONSOLIDATED

2014	2013
\$'000	\$'000

### 22. TRADE AND OTHER PAYABLES

#### Current

Trade creditors and accruals	186,321	156,670
Other creditors	63,081	64,954
	<b>249,402</b>	<b>221,624</b>

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

	Note	CONSOLIDATED	
		2014	2013
		\$'000	\$'000
<b>23. BORROWINGS</b>			
<b>Current</b>			
<i>Secured</i>			
Bank loan - Receivables financing facility	(i)	129,949	59,115
Bank loan - Inventory repurchase	(ii)	-	36,383
		<b>129,949</b>	<b>95,498</b>
<i>Secured - limited recourse</i>			
Bank loan - Neerabup working capital facility	(iii)	3,000	3,000
Bank loan - Neerabup term facility (current portion)	(iv)	5,079	4,453
Bank loan - Oakey term facility (current portion)	(v)	-	19,337
		<b>8,079</b>	<b>26,790</b>
<b>Total current borrowings</b>		<b>138,028</b>	<b>122,288</b>
<b>Non-current</b>			
<i>Secured - limited recourse</i>			
Bank loan - Neerabup term facility	(iv)	146,977	151,818
Bank loan - Oakey term facility	(v)	-	19,561
Convertible notes	(vi)	46,541	45,184
		<b>193,518</b>	<b>216,563</b>
<b>Total non-current borrowings</b>		<b>193,518</b>	<b>216,563</b>
<b>Total borrowings</b>		<b>331,546</b>	<b>338,851</b>

Information on credit risk, fair value and interest rate risk exposure of the Group is provided at note 3.

- (i) Amounts drawn down on receivables financing facility secured against billed and unbilled electricity sales customer revenue receivables.
- (ii) Sale and repurchase agreement in respect of renewable energy certificates. The equivalent renewable energy certificate assets, over which ERM has the right of repurchase, are included within inventory at 30 June 2014.
- (iii) 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.
- (iv) 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.
- (v) Amounts drawn down on a limited recourse term debt facility in respect of the Oakey Power Station. This debt had recourse to the assets of Oakey Power Holdings Pty Ltd only. The debt was repaid in December 2013.
- (vi) 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 8.79% (2013: 8.84%). 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	
	2014	2013
	\$'000	\$'000
Total facilities - bank loans	356,343	377,645
Facilities used at balance date - bank loans	326,292	336,760
Facilities unused at balance date - bank loans	<b>30,051</b>	<b>40,885</b>

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

	CONSOLIDATED	
	2014	2013
	\$'000	\$'000
<b>24. PROVISIONS</b>		
<b>Current</b>		
Employee benefits - annual leave	2,014	1,818
	<b>2,014</b>	<b>1,818</b>
<b>Non-current</b>		
Employee benefits - long service leave	897	594
	<b>897</b>	<b>594</b>
<b>Movements in provisions</b>		
Carrying amount at start of the year	2,412	1,732
Additional provision recognised and charged to profit and loss	2,256	1,871
Amounts used during the year	(1,757)	(1,191)
	<b>2,911</b>	<b>2,412</b>

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.



# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

	Note	CONSOLIDATED		CONSOLIDATED	
		2014	2013	2014	2013
		Number of shares	Number of shares	\$'000	\$'000
<b>25. CONTRIBUTED EQUITY</b>					
Issued ordinary shares – fully paid	25(a)	239,269,727	203,332,935	328,762	237,837
Treasury shares	25(b)	(2,916,707)	(2,642,681)	(6,425)	(4,546)
		<b>236,353,020</b>	<b>200,690,254</b>	<b>322,337</b>	<b>233,291</b>

### (a) Movement in ordinary share capital

At the beginning of the period	203,332,935	168,295,039	237,837	169,263
Issue of shares – employee incentive scheme	1,404,304	991,885	3,566	2,024
Issue of shares – dividend reinvestment plan	840,130	416,590	2,040	1,104
Vesting and exercise of options	-	8,629,421	286	6,935
Vesting of shares – employee incentive scheme	-	-	2,212	-
Transfer from/(to) treasury shares	-	-	(199)	-
Issue of shares – capital raising	33,692,358	25,000,000	84,700	60,000
Transaction costs arising on share issue (net of tax)	-	-	(1,680)	(1,489)
At the end of the period	<b>239,269,727</b>	<b>203,332,935</b>	<b>328,762</b>	<b>237,837</b>

### (b) Terms and conditions of contributed equity

#### Ordinary shares

During the year ended 30 June 2014, the Company conducted a capital raising issuing 29.5 million ordinary fully paid shares at \$2.53 per share, raising a total of \$74.7 million. The Company also issued an additional 4.2 million shares through a share purchase plan at \$2.40 per share, raising \$10 million. Transaction costs of \$1.7 million after tax were incurred in raising these funds.

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 27).

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

	Note	CONSOLIDATED	
		2014	2013
		\$'000	\$'000
<b>26. RESERVES</b>			
Cash flow hedge reserve		(23,208)	(23,595)
Fair value reserve		(9,893)	(7,143)
Transactions with non-controlling interests		(14,404)	(5,868)
Share based payment reserve		1,222	1,830
		<b>(46,283)</b>	<b>(34,776)</b>
<b>Movements</b>			
<i>Cash flow hedge reserve</i>			
Balance at the beginning of the year		(23,595)	(29,026)
Revaluation - gross		153	7,758
Revaluation - deferred tax		(46)	(2,327)
Transfer to profit and loss (net of tax)		348	-
Transactions with non-controlling interests		(68)	-
Balance at the end of the year		<b>(23,208)</b>	<b>(23,595)</b>
<i>Fair value reserve</i>			
Balance at the beginning of the year		(7,143)	(2,671)
Revaluation - gross		(3,929)	(6,388)
Revaluation - deferred tax		1,179	1,916
Balance at the end of the year		<b>(9,893)</b>	<b>(7,143)</b>
<i>Share based payment reserve</i>			
Balance at the beginning of the year		1,830	1,252
Share based payments vested		(2,498)	(175)
Share based payment expense		1,890	753
Balance at the end of the year		<b>1,222</b>	<b>1,830</b>
<i>Transactions with non-controlling interests reserve</i>			
Balance at the beginning of the year		(5,868)	(5,868)
Transfer of non-controlling interest from cash flow hedge reserve		68	-
Acquisition of additional ownership in Oakey Power Holdings Pty Ltd	30(d)	(8,604)	-
Balance at the end of the year		<b>(14,404)</b>	<b>(5,868)</b>

### (a) 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.

### (b) 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, as described in note 1(i) and accumulated in a separate reserve within equity.

### (c) Transactions with non-controlling interests

This reserve is used to record the differences described in note 1(b) which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 26. RESERVES (continued)

#### (d) Share based payment reserve

The share-based payments reserve is used to recognise:

- the grant date fair value of options issued to employees but not exercised
- the grant date fair value of shares issued to employees
- the issue of shares held by the LTIST and LTIOE Employee Share Trusts to employees.

Refer to note 27 for details of the employee share and option incentive schemes.

### 27. SHARE BASED PAYMENTS

#### (a) Long term incentives

The objective of the Long Term Incentive Scheme is to provide incentives to focus on long term shareholder returns. Participation in the scheme is open to selected employees (including the Managing Director) who are invited by the board. These incentive awards have been granted by way of offers to participate in both the Long Term Incentive Share Trust (LTIST) and the Long Term Incentive Option Trust (LTIOE).

##### i. LTIST

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. Vesting conditions may be a combination of service and performance hurdles, as determined by the directors.

Participants hold their interest in the LTIST through units, where one unit represents one share. Participants are issued units 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. If the participant's employment ceases prior to the shares vesting, the board will determine if the participant's units in the LTIST 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.

The fair value is independently determined using a Monte Carlo simulation (using a Black-Scholes framework). The model inputs for restricted shares granted are shown in the table below.

	2014 financial year grant	2013 financial year grant
Assessed fair value per share at grant date	\$1.99	\$1.51
Number of units allocated under the plan during the financial year	787,098	991,885
Share price at grant date	\$2.64	\$2.01
Exercise price	Nil	Nil
Expected price volatility of the Company's shares based on historic volatility	34.8%	33.8%
Risk free interest rate	2.84%	2.65%
Expected vesting date	3 years after issue	3 years after issue
Dividend yield	5.53%	5.72%
Proportion subject to vesting on satisfaction of total security holder return (TSR) performance	100%	100%

##### ii. LTIOE and other option grants

Options were granted during the 2008 and 2011 financial years. No options have been granted subsequent to the 2011 financial year.

#### 2011 financial year grant - LTIOE

Participants were issued units at the prevailing market value of the options. The assessed fair value at grant date of options granted during the year ended 30 June 2011 was 10.43 cents. The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Early vesting and the consequences of cessation of employment prior to vesting are identical to the LTIST as described above.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 27. SHARE BASED PAYMENTS (continued)

#### ii. LTIOT and other option grants (continued)

Details of movements in each option plan are set out below.

Financial year	Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Forfeited during the year	Options exercised during the year	Balance at end of the year	Vested and exercisable at end of the year
				Number	Number	Number	Number	Number	Number
2011	1/11/2010	1/11/2017	\$2.75	1,235,088	-	-	-	1,235,088	1,235,088
2011	8/11/2010	8/11/2017	\$2.75	242,706	-	-	-	242,706	242,706
<b>Total</b>				<b>1,477,794</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,477,794</b>	<b>1,477,794</b>

The weighted average remaining contractual life of options outstanding at the end of the period is 3.4 years.

#### 2008 financial year grant

In June 2008, the Company granted options with a five year exercise period and an exercise price of \$0.806. There were no performance conditions attached to the options.

The assessed fair value at grant date of options granted during the year ended 30 June 2008 was 8.97 cents. The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The balance at the start and end of the financial year was nil.

#### (b) Other awards

The Company may offer awards outside of the standard incentive plans. In August 2013, 92,285 Performance Rights were granted as part of an employee retention strategy. The Performance Rights are subject to a 5 year 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 notional share price at grant date was \$2.709 per share. 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 at the vesting date.

#### (c) Amounts expensed in respect of share-based payment transactions

Expenses recognised in respect of share-based payment transactions during the period as part of employee benefit expense:

	CONSOLIDATED	
	2014	2013
	\$'000	\$'000
Shares issued under long term employee share scheme	1,890	753
	<b>1,890</b>	<b>753</b>

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 28. PARENT ENTITY FINANCIAL INFORMATION

#### (a) Summary financial information

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

	2014 \$'000	2013 \$'000
<b>Statement of financial position</b>		
Current Assets	203,766	84,418
Total Assets	365,684	242,589
Current Liabilities	9,259	7,921
Total liabilities	9,259	7,921
Net assets	356,425	234,668
<i>Shareholders' equity</i>		
Contributed equity	328,762	237,837
Treasury shares	(6,425)	(4,546)
Fair value reserves	(9,894)	(7,143)
Share option reserve	1,222	1,830
Retained earnings	42,760	6,690
Total equity	356,425	234,668
<b>Profit/(loss) for the year</b>	61,839	(2,431)
Other comprehensive loss	(2,750)	(4,472)
<b>Total comprehensive profit/(loss)</b>	59,089	(6,903)

#### (b) Guarantees entered into by the parent entity

The Company does not have any guarantees entered into by the parent entity at 30 June 2014.

#### (c) Contingent liabilities of the parent entity

The Company does not have any contingent liabilities at 30 June 2014.

#### (d) 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 2014.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### CONSOLIDATED

2014 2013

\$'000 \$'000

### 29. COMMITMENTS AND CONTINGENCIES

#### (a) Capital expenditure commitments

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

– not later than one year	3,492	1,418
– later than one year and not later than five years	-	-
– later than five years	-	-
	<u>3,492</u>	<u>1,418</u>

#### (b) Lease expenditure commitments

*Operating leases (non-cancellable):*

Minimum lease payments

– not later than one year	2,787	1,556
– later than one year and not later than five years	17,573	15,892
– later than five years	16,935	21,403
Aggregate lease expenditure contracted for at balance date	<u>37,295</u>	<u>38,851</u>

The Group leases office premises in Brisbane, Sydney, Melbourne and Perth. Operating lease commitments shown above are net of any cash incentives under the respective lease agreements.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 29. COMMITMENTS AND CONTINGENCIES (continued)

#### (c) Contingent liabilities

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

		CONSOLIDATED	
		2014	2013
		\$'000	\$'000
Bank guarantees - Australian Energy Market Operator and other counterparties	(i)	153,592	112,164
Bank guarantees - Lease arrangements	(ii)	2,945	3,320
Futures margin deposits	(iii)	59,660	26,209
Security deposits	(iv)	8,019	5,971
Bank guarantees - Western Power	(v)	300	300
Bank guarantees - Powerlink	(vi)	-	2,200
Bank guarantees - Neerabup / Contractor dispute	(vii)	1,750	1,750
Bank guarantees - AGL Hydro Partnership	(viii)	4,227	4,227
Bank guarantees - NSW exploration licence	(ix)	60	60
		<b>230,553</b>	<b>156,201</b>

- (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.
- (ii) The Group has provided bank guarantees in relation to lease arrangements for premises in Brisbane, Sydney and Melbourne. These guarantees are supported by term deposits.
- (iii) Futures margin deposits represent interest bearing cash lodged with the Group's futures clearing brokers. The deposits are in relation to various futures contracts on the Australian Stock 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 provided a bank guarantee in favour of Powerlink for \$2.2 million under a Connection Agreement. This guarantee was supported by a term deposit.
- (vii) The Group has provided a bank guarantee in favour of its partner in the NewGen Neerabup Partnership under an indemnity agreement for a contractor dispute. Lend Lease Services Pty Limited (formerly Conneq Infrastructure Services (Australia) Pty Limited (Lend Lease)) served a notice of dispute on the NewGen Neerabup Partnership on 27 August 2010 in relation to a liquidated damages claim made by the NewGen Neerabup Partnership and also alleging several breaches of the balance of plant contract. The notice of dispute claims that Lend Lease is not liable to pay a sum of approximately \$12.0 million levied against it by the NewGen Neerabup Partnership as liquidated damages for certain delays under the balance of plant contract. The notice also alleges that the NewGen Neerabup Partnership has failed to pay Lend Lease a sum of approximately \$770,000 and also claims the sum of approximately \$8.0 million for delay costs. The dispute is currently being progressed through arbitration in line with the dispute resolution provisions contained within the contract. Should the dispute settle in favour of the Partnership the Group expects to recognise the settlement proceeds as revenue.
- (viii) The Group has provided a bank guarantee in favour of the AGL Hydro Partnership in the event that there are damages resulting from the Oakey power station failing an annual capacity test. This guarantee is supported by a term deposit.
- (ix) The Group has provided bank guarantees in favour of the NSW Government in connection with its gas exploration licences in NSW. These guarantees are supported by term deposits.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 30. INTERESTS IN OTHER ENTITIES

#### (a) Subsidiary companies

The Consolidated Entity consists of a number of wholly or majority owned subsidiaries as well as interests in joint operations for power station projects and gas interests.

Name	Place of incorporation	Percentage of equity interest held by the Company		Percentage of equity interest held by the non-controlling interests	
		2014 %	2013 %	2014 %	2013 %
Material operating subsidiaries					
ERM Financial Services Pty Ltd	QLD	100	100	-	-
ERM Gas Pty Ltd	QLD	100	100	-	-
ERM Holdings Pty Ltd	QLD	100	100	-	-
ERM Neerabup Power Pty Ltd	VIC	100	100	-	-
ERM Power Developments Pty Ltd	VIC	100	100	-	-
Powermetric Metering Pty Ltd	NSW	100	100	-	-
ERM Power Generation Pty Ltd	VIC	100	100	-	-
ERM Power Retail Pty Ltd	VIC	100	100	-	-
ERM Land Holdings Pty Ltd	QLD	100	100	-	-
ERM Neerabup Pty Ltd	VIC	100	100	-	-
SAGE Utility Systems Pty Ltd	VIC	100	100	-	-
Oakey Power Holdings Pty Ltd <sup>1</sup>	ACT	100	83.3	-	16.7
Other non-material subsidiaries					
MetroWest Pty Ltd <sup>2</sup>	QLD	-	100	-	-
ERM Wellington 1 Holdings Pty Ltd	QLD	100	100	-	-
Braemar 3 Holdings Pty Ltd	QLD	100	100	-	-
ERM Braemar 3 Pty Ltd	QLD	100	100	-	-
ERM Gas WA01 Pty Ltd	VIC	100	100	-	-
ERM Power Utility Systems Pty Ltd	QLD	100	100	-	-
ACN 162 696 335 Pty Ltd <sup>3</sup>	QLD	-	100	-	-
ERM Finance Pty Ltd	QLD	100	-	-	-
ERM Braemar 3 Power Pty Ltd	QLD	100	100	-	-
ERM Oakey Power Holdings Pty Ltd	NSW	100	100	-	-
Richmond Valley Solar Thermal Pty Ltd	QLD	100	100	-	-
ERM Power Services Pty Ltd	VIC	100	100	-	-
Oakey Power Pty Ltd <sup>1,4</sup>	ACT	100	83.3	-	16.7
Oakey Power Finance Pty Ltd <sup>1,4</sup>	ACT	100	83.3	-	16.7
Oakey Power Operations Pty Ltd <sup>1,4</sup>	ACT	100	83.3	-	16.7
Oakey Power Constructions Pty Ltd <sup>1,4</sup>	ACT	100	83.3	-	16.7
Private Power Investors Pty Ltd <sup>1,4</sup>	ACT	100	83.3	-	16.7
Elrex Pty Ltd <sup>1,4</sup>	NSW	100	83.3	-	16.7

<sup>1</sup> Non-controlling interest purchased during the year ended 30 June 2014. Refer note 30(d) for further details

<sup>2</sup> Deregistered in December 2013

<sup>3</sup> Sold to Trevor St Baker in August 2013.

<sup>4</sup> Deregistered in July 2014

The consolidated financial statements incorporate the assets, liabilities and results of the above subsidiaries in accordance with the accounting policy described in note 1(b). The equity interest is equal to the proportion of voting power held.



# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 30. INTERESTS IN OTHER ENTITIES (continued)

#### (b) Significant joint operations – power station projects

As at 30 June 2014 and 30 June 2013, the Group has the following interests in power station projects with other external parties:

##### Neerabup Power Station:

	Principle place of business	Interest Held 2014 %	2013 %
NewGen Power Neerabup Pty Ltd	QLD	50	50
NewGen Neerabup Pty Ltd	QLD	50	50
NewGen Neerabup Partnership	WA	50	50

##### Oakey Power Station:

ERM Power Trust	QLD	100	50
ERM Oakey Power Pty Ltd	QLD	100	50
Queensland Electricity Investors Pty Ltd	QLD	100	50

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

	CONSOLIDATED	
	2014	2013
	\$'000	\$'000
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	10,488	10,458
Trade and other receivables	4,579	3,379
Inventories	42	142
Other assets	587	195
<b>TOTAL CURRENT ASSETS</b>	<b>15,696</b>	<b>14,174</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	183,662	188,425
Intangible assets	23	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>183,685</b>	<b>188,425</b>
<b>TOTAL ASSETS</b>	<b>199,381</b>	<b>202,599</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	1,779	587
Borrowings	8,079	7,453
Provisions	51	69
<b>TOTAL CURRENT LIABILITIES</b>	<b>9,909</b>	<b>8,109</b>
<b>NON-CURRENT LIABILITIES</b>		
Borrowings	146,976	151,817
Derivative financial instruments	33,155	33,220
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>180,131</b>	<b>185,037</b>
<b>TOTAL LIABILITIES</b>	<b>190,040</b>	<b>193,146</b>
<b>NET ASSETS</b>	<b>9,341</b>	<b>9,453</b>

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 30. INTERESTS IN OTHER ENTITIES (continued)

#### (b) Significant joint operations – power station projects (continued)

##### Capital expenditure commitments

	CONSOLIDATED	
	2014	2013
	\$'000	\$'000
Estimated capital expenditure contracted for at balance date, not provided for but payable		
– not later than one year	73	-
– later than one year and not later than five years	-	-
– later than five years	-	-
	<u>73</u>	<u>-</u>

#### (c) Other joint operations

The consolidated entity also holds interests in a number of unincorporated gas joint ventures. The principal activities of these joint operations are gas exploration, development and production.

#### (d) Transactions with non-controlling interests

In December 2013, a wholly owned subsidiary of ERM Power Limited acquired an additional interest in Queensland Electricity Investors Pty Ltd "QEI". The effect of the transaction was such that the non-controlling interest in Oakey Power Holdings Pty Ltd ("OPH") was reduced from 16.7% to Nil at a total cash cost of \$30 million.

The carrying amount of the non-controlling interest in OPH on the date of the acquisition of the QEI shares was \$23.3 million. The Group has recognised a decrease in the non-controlling interest of \$8.6 million and an increase in equity attributable to ERM Power Limited of \$8.6 million.

	CONSOLIDATED
	2014
	\$'000
Adjustment to non-controlling interest	(23,330)
Consideration paid inclusive of transaction costs and acquired liabilities net of tax	<u>31,934</u>
Excess of consideration paid recognised in the transactions with non-controlling interests reserve within equity	<u>8,604</u>

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 31. RELATED PARTY DISCLOSURES

#### Parent Company

ERM Power Limited is the parent entity of the consolidated entity. Balances and transactions between the Parent entity and its wholly owned subsidiaries (which are related parties) have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the consolidated entity and other related parties are disclosed below.

#### Equity interests in subsidiaries and jointly controlled entities

Details of interests in subsidiaries are set out in note 30.

Details of interests in jointly controlled entities are set out in note 30.

#### Key management personnel

Disclosures relating to key management personnel are set out in the Directors' Report.

#### Transactions with related parties

Transaction type	CONSOLIDATED	
	2014	2013
	\$	\$
<b>Loans from directors</b>		
Loan repayments	(i)	- 5,200,000
Interest and facility fees paid on director loans	(ii)	- 630,838
<b>Director related entity transactions</b>		
Consulting fees	(iii)	150,000 245,000

- (i) Loans of \$5.2 million from a director related entity bearing interest at 12% per annum were repaid during the year ended 30 June 2013.
- (ii) Loan of \$5.2 million (\$0.8 million advanced on 4 July 2011) from a related entity of Trevor St Baker in relation to funding of additional 50% interest in Oakey acquisition. The loan was interest bearing at 12% per annum. Facility fees of \$228,800 were paid during the year ended 30 June 2012.
- (iii) The Company had a consulting agreement with Sunset Power Pty Ltd (a related party of Trevor St Baker) which was extended to June 2014. Under this agreement the Company paid \$150,000 to Sunset Power Pty Ltd ("Sunset") for services provided for the current financial year (2013:\$245,000). Sunset is also entitled to be reimbursed for all reasonable expenses incurred in providing these services.

#### Transactions with Empire Oil & Gas NL

During the year, senior members of the ERM Power Limited's executive management team were appointed to the roles of acting CEO and Director of Empire Oil & Gas NL ("Empire") respectively for a period of three to seven months during the current financial year. The appointments were to assist during the transition period whilst this company searched for a new CEO and independent director. In March 2014, Empire successfully appointed a new CEO and the ERM Power Limited senior member formerly acting CEO was assigned to Company Secretary. Other ERM Power Limited employees were also used on an adhoc basis to assist in this transition period. Empire has paid ERM Power various daily arms-length rates for these services consistent with each individuals skill set as well as any reasonable expenses incurred in providing these services.

Charges in respect of the services provided for the year ended 30 June 2014 were \$641,169.

In December 2013 ERM Power Limited extended a \$2 million working capital credit facility to Empire. The key terms of the facility currently are:

- Repayable at 30 September 2014.
- Interest rate based on the highest of the big-four banks' benchmark overdraft rate plus 1 per cent, secured. The interest rate is fixed for the period of the facility at the time of first draw-down.

As at 30 June 2014, the facility is drawn down at \$2 million and aggregated with any outstanding interest payable.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 31. RELATED PARTY DISCLOSURES (Continued)

#### Other related party transactions

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

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

During the year ended 30 June 2014, Andrew St Baker was employed by the Company on terms and conditions no more favourable than those that would have been adopted if dealing at arm's length with an unrelated person. Total payments for the year ended 30 June 2014 were \$301,579 in cash salary and superannuation (2013: \$234,588).

During the year ended 30 June 2014, the Company provided administrative support to the St Baker Wilkes Indigenous Educational Foundation Limited (SWIEF), of which Trevor St Baker is the co-founder and Chairman and Tony Iannello is a Director. SWIEF is the corporate trustee for two charitable funds which provide grants to indigenous students for ongoing tertiary education. The value of the support provided was \$20,406.

During the year ended 30 June 2014, the Company sold a dormant subsidiary ACN 162 696 335 Pty Ltd, to Trevor St Baker for the arm's length consideration of \$1.

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

2014	2013
\$	\$

#### Transactions with jointly controlled entities:

Movements in net loans advanced / (repaid)	13,084	121,244
Current trade receivables balance	112,893	184,661
Current trade payables balance	(89,119)	(344,799)
Project fees and operations management fees	2,606,032	2,639,924

#### CONSOLIDATED

2014	2013
\$	\$

### 32. KEY MANAGEMENT PERSONNEL

#### Key management personnel compensation

Short-term and long-term employee benefits	3,819,844	3,748,920
Post-employment benefits	259,891	235,999
Termination benefits	-	-
Share-based payments	840,437	630,988
	<u>4,920,172</u>	<u>4,615,907</u>

Detailed remuneration disclosures are provided in the remuneration report.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### CONSOLIDATED

2014	2013
\$	\$

### 33. AUDITORS' REMUNERATION

Amounts received or due and receivable by PricewaterhouseCoopers Australia for:

An audit or review of the financial report of the entity and any other entity in the Group

<b>582,910</b>	513,834
<b>582,910</b>	<b>513,834</b>

Amounts received or due and receivable by PricewaterhouseCoopers Australia for non-audit services:

Other agreed-upon procedures in relation to the entity and any other entity in the consolidated Group<sup>(i)</sup>

<b>1,196,808</b>	199,930
<b>1,196,808</b>	<b>199,930</b>

<sup>(i)</sup> For the year ended 30 June 2014 these services include due diligence services in relation to the Company's bid to acquire the Macquarie Generation assets

CONSOLIDATED		CONSOLIDATED	
2014	2013	2014	2013
Number of shares '000	Number of shares '000	Cents	Cents

### 34. EARNINGS PER SHARE

Basic (loss)/earnings per share	<b>226,328</b>	175,666	<b>(10.56)</b>	20.80
Diluted (loss)/earnings per share	<b>226,328</b>	175,666	<b>(10.56)</b>	20.80

#### Reconciliation of weighted average number of ordinary shares

Weighted average number used in calculating basic earnings per share	<b>226,328</b>	175,666
Effect of share options on issue	-	-
Weighted average number used in calculating diluted earnings per share	<b>226,328</b>	175,666

#### Information concerning earnings per share

##### Options

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.

### CONSOLIDATED

2014	2013
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\$'000	\$'000
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#### Reconciliation of earnings used in calculating earnings per share

##### Basic earnings per share

(Loss)/profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share

From continuing operations	<b>(23,897)</b>	36,539
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##### Diluted earnings per share

(Loss)/profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share

From continuing operations	<b>(23,897)</b>	36,539
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# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

### 35. EVENTS AFTER THE REPORTING PERIOD

Since 30 June 2014 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.

# 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 40 to 98 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 2014 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 1;
- (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 1(a) 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:



Tony Bellas

**Chairman**

21 August 2014



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

### ***Report on the financial report***

We have audited the accompanying financial report of ERM Power Limited (the company), which comprises the statement of financial position as at 30 June 2014, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended 30 June 2014, a summary of significant accounting policies, other explanatory notes and the directors' declaration for ERM Power Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the period's end or from time to time during the financial period.

### ***Directors' responsibility 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 is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Independence***

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

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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### *Auditor's opinion*

In our opinion:

- (a) the financial report of ERM Power Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

### ***Report on the Remuneration Report***

We have audited the remuneration report included in pages 28 to 39 of the directors' report for the year ended 30 June 2014. 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.

### *Auditor's opinion*

In our opinion, the remuneration report of ERM Power Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

### ***Matters relating to the electronic presentation of the audited financial report***

This auditor's report relates to the financial report and remuneration report of ERM Power Limited (the company) for the year ended 30 June 2014 included on ERM Power Limited's web site. The company's directors are responsible for the integrity of ERM Power Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

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

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Tim Allman'.

Tim Allman  
Partner

Brisbane  
21 August 2014

# Corporate Information

## Directors

A Bellas (Non-Executive Chairman)  
T St Baker (Non-Executive Deputy Chairman and Founder)  
M Greenberg  
A Iannello  
P St Baker

## Principal Place of Business

Level 52, One One One  
111 Eagle Street  
Brisbane QLD 4000  
Telephone: (07) 3020 5100  
Facsimile: (07) 3220 6110

## Company Secretaries

P Jans  
G Walker

## Bankers

National Australia Bank Limited  
Macquarie Bank Limited

## Registered Office

Level 52, One One One  
111 Eagle Street  
Brisbane QLD 4000  
Telephone: (07) 3020 5100  
Facsimile: (07) 3220 6110

## Auditors

PricewaterhouseCoopers

## Internet Address

[www.ermpower.com.au](http://www.ermpower.com.au)