

Thursday, 25 February 2016

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Please find attached the following documents relating to ERM Power's results for the six months ended 31 December 2015:

1. Appendix 4D
2. Half Year Financial Report including Management Discussion and Analysis and Directors' Report

A handwritten signature in black ink, appearing to read "Phil Davis".

Phil Davis
Group General Counsel & Company Secretary
ERM Power Limited

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About ERM Power

ERM Power is an Australian energy company operating electricity sales and generation businesses. Trading as ERM Business Energy and founded in 1980, ERM Power has grown to become the second largest electricity retailer to commercial and industrials in Australia with operations in every State and the Australian Capital Territory. ERM Power also sells electricity in several markets in the United States. The Company has equity interests in 497 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, both of which ERM Power operates.

www.ermpower.com.au



Appendix 4D
ERM Power Limited
ABN 28 122 259 223

**Results for announcement to the market
for the half year ended 31 December 2015**

Notification in Accordance with Listing Rule 4.2A.3

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

1. Results for the half year					1H 2016	1H 2015
					\$'000	\$'000
1.1. Revenue from ordinary activities:						
1.1.1 Revenue from ordinary activities:						
ERM Power Limited and controlled entities	up	21%	to		1,324,485	1,099,141
1.2. Profit from ordinary activities:						
1.2.1. Underlying EBITDAIF*:						
ERM Power Limited and controlled entities	down	15%	to		37,893	44,592
(*earnings before interest expense, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit and loss and gains / losses on onerous contracts and other significant items)						
1.2.2. Underlying NPAT**:						
ERM Power Limited and controlled entities	down	36%	to		9,386	14,746
(**statutory net profit after tax attributable to equity holders of the Company after excluding the after tax effect of unrealised marked to market changes in the fair value of financial instruments, impairment and gains/losses on onerous contracts and other significant items)						
1.3. Net profit after tax for the period attributable to members:						
1.3.1 Net profit after tax for the period attributable to members:						
ERM Power Limited and controlled entities	down	80%	to		14,945	74,993

2. Dividend

An unfranked interim dividend of 6 cents per share has been declared and will be paid on 15 April 2016. Record date is 15 March 2016. The Company's shares will trade ex-dividend from 11 March 2016.

A partially franked 6.0 cents per share dividend was declared on 21 August 2015 and paid on 7 October 2015 to shareholders on record at 11 September 2015.

The Company's dividend reinvestment plan (DRP) will apply to this dividend with no discount. The last date for receipt of notifications to participate in the DRP is 16 March 2016.

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 half year

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

5. Net tangible assets per share

	1H 2016	1H 2015
	Cents	Cents
Net tangible assets (cents per share)	129	134

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

During the period 1 July 2015 to 31 December 2015 the Company did not lose control of any entities.

7. Details of associates and joint ventures

The following entities are proportionately consolidated as joint ventures

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

The following entity is accounted for as an associate:

- Empire Oil and Gas NL (18.7%)



ERM Power Limited

Half Year Financial Report
for the period ended 31 December 2015

ERM Power Limited

Half Year Financial Report

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

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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 page 21. The directors' report does not form part of the financial report.

ERM Power Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is as set out on page 29.

The financial statements were authorised for issue by the directors on 25 February 2016. The directors have the power to amend and reissue the financial statements.



ERM Power Limited and Controlled Entities
ABN 28 122 259 223

Management Discussion and Analysis
for the half year ended 31 December 2015

ERM Power Limited

Management Discussion and Analysis

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

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ABOUT ERM

ERM Power is an Australian energy company operating electricity sales and generation businesses. Trading as ERM Business Energy and founded in 1980, ERM Power has grown to become the second largest electricity provided to commercial and industrials in Australia with operations in every State and the Australian Capital Territory. ERM Power also sells electricity in several markets in the United States. The Company has equity interest in 497 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, both of which ERM Power operates.

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 half year ended 31 December 2015 with comparison against the previous corresponding period ended 31 December 2014 (previous period or previous year).

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 HALF YEAR ENDED 31 DECEMBER 2015

1. RESULTS OVERVIEW

Key financial data (\$m unless otherwise stated)	1H FY2016	1H FY2015
Underlying EBITDAF	37.9	44.6
Underlying EBIT	27.2	34.8
Underlying NPAT	9.4	14.7
Statutory NPAT	14.9	75.0
Net debt / (cash)	23.4	(38.0)
Dividends paid (cents per share)	6.0	6.0
Underlying earnings per share (cents)	3.8	6.1

Key operational data	1H FY2016	1H FY2015
Electricity sold (TWh)	10.1	7.9
Forward contracted electricity sales (TWh)	37.9	29.0
SME customers (Australia)	32,929	23,977
Billing collection rate (Australia)	99.81%	99.90%

Overview

During the half year period the Group performed well in respect of generating earnings and establishing a base for generating future earnings. The electricity retail business in Australia has grown load by 14% to 9.0TWh against the comparable half year period with EBITDAF before interest income increasing by \$7.6m. In the US business the forward contract book has grown by 97% in six months to 7.9TWh. Subsequent to 31 December 2015 progress has also been made in delivering on the Company's strategy of improving capital efficiency with the Vales Point deal in place and entering into a A\$150m unsecured senior bank guarantee facility with Liberty International Underwriters Singapore. The Group is also growing the Customer Solutions portfolio with the acquisition of Greensense Pty Ltd in January 2016.

Underlying EBITDAF for the period was \$37.9m compared to \$44.6m in the previous period. The key drivers of the \$6.7m decrease were as follows:

- The Oakey Power Station (Oakey) offtake contract expiring on 31 December 2014 and Oakey operating as a merchant facility during the period (\$8.0m);
- Losses arising from our US electricity sales business SPG Energy Group LLC (Source) during the US summer months and increased operating costs to scale up the business and enter new markets (\$3.2m);
- Earnings from WA joint venture gas interests in the prior period, which were divested before the start of the current half year period (\$1.5m); and
- Reduction in interest income (\$0.6m) and changes in corporate and other generation combined of (\$1.0m)

Offsetting the \$14.3m decrease in earnings from the above was an increase in earnings of \$7.6m from our Australian electricity sales business with earnings contributions from C&I and in particular SME both increasing from the comparable prior period.

Underlying NPAT was \$9.4m compared to \$14.7m in the previous year with the key driver of the decrease being the after tax impact of reduced EBITDAF. Finance costs and depreciation combined were \$1.3m higher than the comparable period.

Statutory NPAT was \$14.9m and differs to underlying NPAT largely due to the unrealised net fair value movement in financial instruments, which are excluded from the underlying NPAT result.

Outlook

We now forecast underlying EBITDAF of \$81 - \$85m in FY 2016. We have narrowed the range of our guidance as a result of the forecast for US earnings in FY2016, which is lower than expected. The medium term outlook for the US business remains positive. The increase in the forward sales book is encouraging and the investments in building our US team and systems are delivering results. We forecast underlying NPAT of \$20 - \$22m.

The Australian summer period is drawing to a close and results are in line with expectations. Guidance previously provided is confirmed on load in both Australia and the US of 20 - 21.5TWh.

ERM Power Limited

Management Discussion and Analysis (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

2. REVIEW OF OPERATING AND FINANCIAL RESULTS

2.1 Summary of Group financial results

\$m	1H FY2016	1H FY2015	Change	%
Revenue	1,321.8	1,096.3	225.5	21%
Expenses	(1,286.1)	(1,054.5)	(231.6)	(22%)
Underlying EBITDAF before interest income	35.7	41.8	(6.1)	(15%)
Interest income	2.2	2.8	(0.6)	(21%)
Underlying EBITDAF	37.9	44.6	(6.7)	(15%)
Significant items	(2.8)	(2.6)	(0.2)	(8%)
Statutory EBITDAF	35.1	42.0	(6.9)	(16%)
Depreciation and amortisation	(10.7)	(9.8)	(0.9)	(9%)
Net fair value gain on financial instruments	13.8	91.7	(77.9)	(85%)
Share of associate profit (net of tax)	0.3	-	0.3	N/A
Impairment expense	-	(3.0)	3.0	N/A
Finance expense	(14.2)	(13.8)	(0.4)	(3%)
Profit before tax	24.3	107.1	(82.8)	(77%)
Tax expense	(9.4)	(32.1)	22.7	71%
Statutory net profit after tax (NPAT)	14.9	75.0	(60.1)	(80%)
Add back:				
Net fair value gain on financial instruments (net of tax)	(9.8)	(64.3)	54.5	85%
Share of associate profit (net of tax)	(0.3)	-	(0.3)	N/A
Significant items	4.6	4.0	0.6	15%
Underlying NPAT	9.4	14.7	(5.3)	(36%)

Statutory NPAT down 80% to \$14.9m

Statutory NPAT reduced \$60.1m largely as a result of a reduction in net fair value gains on financial instruments following adoption of hedge accounting from 1 July 2015 for certain electricity derivative financial instruments. 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 either in profit or loss or the hedge reserve.

During the current period the Group recognised a provision of \$1.7m for an onerous contract in relation to the sublease of part of the Group's Brisbane premises. In the prior period, an impairment expense of \$3.0m was recognised on the sale of WA gas assets to Empire Oil & Gas NL (Empire).

The Group continues to hold an investment in Empire and the proportional earnings from this investment are shown in share of associate profit, which was \$0.3m in the period.

Underlying EBITDAF down 15% to \$37.9m

Underlying EBITDAF decreased as a result of lower earnings from Oakey power station and first half losses from the US electricity sales business. Gas earnings decreased following the sale of gas assets, which had a \$1.2m EBITDAF contribution in the comparable half and reduced interest and other income.

\$m	1H FY2016	1H FY2015	Change	%
Business Energy AU	29.0	21.4	7.6	35%
Business Energy US	(3.2)	-	(3.2)	N/A
Generation	18.6	26.0	(7.4)	(29%)
Corporate and other	(8.4)	(6.8)	(1.6)	(23%)
Gas	(0.3)	1.2	(1.5)	N/A
Underlying EBITDAF before interest income	35.7	41.8	(6.1)	(15%)

ERM Power Limited

Management Discussion and Analysis (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

Underlying NPAT down 36% to \$9.4m

Underlying NPAT decreased from \$14.7m in the comparable half to \$9.4m with the key driver of the decrease being the after tax impact of reduced EBITDAF.

Finance costs were \$0.4m higher overall primarily as the result of US credit sleeving and other financial costs of \$1.9m, whilst Australian finance costs were \$1.5m lower than the comparable half.

Depreciation and amortisation costs have risen \$0.9m overall with increases in depreciation and amortisation of software and customer acquisition costs in our Australian electricity sales business and the inclusion of our US operations. Offsetting these increases was the reduction in depreciation following the sale of gas assets in the second half of FY2015.

2.2 Operating business results

2.2.1 Electricity sales

	Business Energy Australia		Business Energy US		Total	
	1H FY2016	1H FY2015	1H FY2016	1H FY2015	1H FY2016	1H FY2015
Load sold (TWh)	8.98	7.90	1.07	-	10.05	7.90
Contestable revenue (\$'000)	604,304	539,921	73,412	-	677,716	539,921
Gross margin (\$'000)	40,211	32,116	6,004	-	46,215	32,116
Opex (\$'000)	(11,213)	(10,591)	(9,575)	-	(20,788)	(10,591)
EBITDAF before interest income (\$'000)	29,000	21,357	(3,571)	-	25,429	21,357
Interest income (\$'000) ¹	1,355	1,706	-	-	1,355	1,706
EBITDAF (\$'000)	30,355	23,063	(3,571)	-	26,784	23,063
Significant items (\$'000)	-	-	341	-	341	-
Underlying EBITDAF (\$'000)	30,355	23,063	(3,230)	-	27,125	23,063

¹ Includes interest income on cash held for AEMO prudential requirements.

	1H FY2016	2H FY2015	1H FY2015	2H FY2014	1H FY2014	2H FY2013	1H FY2013
Gross margin / MWh							
Australia	4.48	4.91	4.06	4.71	3.60	3.62	5.85
US	5.61	10.02	-	-	-	-	-
Opex / MWh							
Australia	(1.25)	(1.34)	(1.37)	(1.28)	(1.65)	(1.59)	(1.33)
US	(8.95)	(8.85)	-	-	-	-	-
Load (TWh)							
C&I Australia	8.7	8.0	7.8	7.4	6.4	5.9	5.2
SME Australia	0.3	0.2	0.1	0.1	0.1	-	-
US	1.1	0.6	-	-	-	-	-
EBITDAF before interest income (\$'000)							
Australia	29,000	29,203	21,357	25,785	12,709	13,197	22,208
US	(3,571)	780	-	-	-	-	-
	25,429	29,983	21,357	25,785	12,709	13,197	22,208

ERM Power Limited

Management Discussion and Analysis (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

1H FY 2016 performance

Australia

The Australian electricity sales business load grew 9.8% on the immediately preceding half and 13.9% on the comparable half to 9.0TWh.

Both C&I and SME load grew with SME load growing 50% on the immediately preceding half and 200% on the comparable half to 0.3TWh. C&I load grew 11.5% on the comparable half to 8.7TWh.

Both C&I and SME achieved earnings growth on the comparable half year period with SME delivering improved economies of scale.

Revenue figures have two components, contestable and pass-through. Contestable is the component on which a margin is earned. Pass-through (being network costs) does not attract a margin. Revenue per MWh in Australia remained consistent with the comparable half.

Contracted forward sales of 30.0TWh at 31 December 2015 for the Australian business was up 1.0TWh on the same time last year.

Gross margin per MWh improved from \$4.06 in the previous comparable half to \$4.48. The increase reflects the better-than-expected performance of our SME business, with higher gross margins. During 1H portfolio optimisation activities had a favourable impact on gross margin.

Operating costs per MWh in our Australian business decreased on both the immediately preceding and the prior comparable half. This reflected the continued economies of scale in SME.

Results from ERM Power's second annual survey of intermediaries were received in December. 150 responses were received, including responses from all the major energy brokers and consultants. The survey was conducted by an independent Market Research Agency.

ERM Power was ranked #1 energy retailer by a significant margin across 5 of the 6 key performance factors assessed (timeliness, ease of doing business with, billing, flexibility and value added products). ERM Power ranked second only on competitive pricing.

Average intermediary satisfaction with ERM Power was 8.46 out of 10 (almost identical to 2014) with 91% of brokers rating satisfaction with ERM Power as 7/10 or higher.

US

Our US electricity sales business Source sold 1.1TWh of electricity during the half year period. Source sold most of this electricity in the Texas market, which had record demand during the July and August summer months.

Operating costs in our US business increased on the immediately preceding half as we continued investment in staffing to facilitate growth. Forward electricity sales increased from 4.0TWh¹ to 7.9TWh. Much of the growth in forward load is starting after 30 June 2016.

As a result of the high prices in July and August and the increase in operating costs to accommodate higher expected sold load, overall underlying EBITDAF loss of \$3.2m was incurred for the period.

C&I market - Australia

The C&I market has seen 12 months of intense competition. This has contributed to an industry wide tightening of margins. ERM Power will continue to focus on profitable load growth over pure market share.

The scale of our C&I customer base is now also at a point where we expect historical growth rates will slow irrespective of competitor behaviour. For the 2015 calendar year our recontracting rate was 71%.

SME market - Australia

Progress in the SME market continued with 32,929 sites under contract at 31 December 2015, an increase of 12.6% on the 29,238 sites under contract at 30 June 2015 and an increase of 37% on the sites under contract at 31 December 2014.

Profitability continued to improve. Margins per MWh split for SME and C&I are not disclosed as this information is commercially sensitive.

ERM Power's focus in the SME market remains New South Wales (NSW), Victoria (VIC) and South Australia (SA) where market regulations support effective competition. We have a presence in both the Queensland (QLD) and Tasmanian (TAS) market but the level at which regulated electricity tariffs are set precludes effective competition.

Moving forwards we anticipate bringing many of the C&I Customer Solutions concepts, once operational, to the SME market to enhance our value proposition.

US market

Since acquisition we have invested significantly in staffing and systems. We have installed a new CRM system to manage all sales leads and customer management and a new pricing system for the PJM and ERCOT markets. These investments in staff and systems will allow us to execute our business plan to expand in the PJM market and continue to grow in the ERCOT market. During the half year we developed the capability to serve in an additional nine new local markets across Pennsylvania, Delaware and the District of Columbia. We now serve 31 local markets in eight states and have added 105TWh to our current total accessible market of 516TWh.

¹ Previously forward contracted load for our US business was reported in our 30 June 2015 annual report as 3.2 TWh. This is incorrect and forward contracted load was 4.0TWh.

ERM Power Limited

Management Discussion and Analysis (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

2.2.2 Generation

\$m	1H FY2016	1H FY2015	Change	%
Oakey	23.2	18.4	4.8	26%
Neerabup	15.5	17.5	(2.0)	(11%)
Generation development and operations	1.9	3.7	(1.8)	(49%)
Revenue and other income	40.6	39.6	1.0	3%
Oakey	6.7	14.7	(8.0)	(54%)
Neerabup	12.4	12.5	(0.1)	(1%)
Generation development and operations	(0.5)	(1.2)	0.7	58%
Interest income	0.2	0.3	(0.1)	(33%)
Underlying EBITDAF	18.8	26.3	(7.5)	(28%)
Significant items	-	(0.3)	0.3	N/A
Statutory EBITDAF	18.8	26.0	(7.2)	(28%)

\$m unless otherwise stated	1H FY2016	1H FY2015	Change	%
<i>Oakey</i>				
Forced outage rate	0.01%	0.34%	(0.33%)	(97%)
Availability rate	99.90%	98.45%	1.45%	15%
<i>Neerabup</i>				
Forced outage rate	0.00%	0.02%	(0.02%)	N/A
Availability rate	99.95%	99.98%	(0.03%)	-

1H FY 2016 performance

Underlying EBITDAF for the period was \$18.8m, down 28% from \$26.3m in the previous comparable period.

Revenue for Oakey increased and EBITDAF decreased on the comparable half following the expiration of the off-take contract with AGL on 31 December 2014. The station ran less frequently than the immediately preceding half year period ending 30 June 2015. As a result, EBITDAF for the half of \$6.7m was lower than the immediately preceding half year ended 30 June 2015 earnings of \$8.2m.

Generation development and operations revenue was down slightly following the operator agreement with Kwinana concluding on 30 September 2014. EBITDAF improved slightly following the decision to suspend future generation development activities.

Revenue and EBITDAF from Neerabup decreased principally as a result of additional energy sales in the comparable half.

Further financial information on the power station assets is contained in Appendix A1.3.

Power station operating performance

During the period Oakey operated for 18.43% of the time. Oakey maintained its outstanding availability and overall performance record, with a forced outage rate of 0.01% and an overall availability of 99.90% during the year.

Neerabup operated for 3.4% of the year and also maintained its outstanding availability and overall performance record with a forced outage rate of 0.00% and availability of 99.95%.

Safety

During the period the business continued to maintain an outstanding safety record with no lost-time injuries among staff. There was one contractor lost time injury at Neerabup Power Station causing 15 days lost time.

ERM Power Limited

Management Discussion and Analysis (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

2.2.3 Corporate and other

\$m	1H FY2016	1H FY2015	Change	%
Revenue	0.6	0.9	(0.3)	(34%)
Interest income	0.2	0.8	(0.6)	(75%)
Expenses	(9.1)	(7.7)	(1.4)	(18%)
Underlying EBITDAF	(8.3)	(6.0)	(2.3)	(38%)
Significant items	(2.4)	(2.3)	(0.1)	(4%)
Statutory EBITDAF	(10.7)	(8.3)	(2.4)	(29%)

1H FY 2016 performance

Corporate revenue was \$0.3m lower than the comparable half with external consulting and license fee income decreasing. Excluding significant items, expenses overall increased by \$1.4m. The increase includes the costs associated with recruitment and appointment of executive staff as well as external consulting fees to assist the Group with its strategy.

Significant items include staff rationalisation, retirement payments and costs associated with the Greensense acquisition completed in January 2016. The prior comparable half significant items included costs associated with the staff rationalisation costs and Source acquisition. Staff rationalisation costs reflect the Group's divestment of gas assets and suspension of power generation development activities.

2.3 Cash flow

\$m	1H FY2016	1H FY2015	Change
EBITDAF	35.1	42.0	(6.9)
Non-cash items	2.7	0.4	2.3
Tax paid	-	(0.3)	0.3
Operating cash flow before working capital changes	37.8	42.1	(4.3)
Transfer from / (to) broker account	2.8	13.9	(11.1)
Renewable energy certificates	(30.3)	25.9	(56.2)
Emissions trading scheme liability	66.4	40.0	26.4
Customer accounts receivable and accrued income	(23.8)	7.1	(30.9)
Network and other trade payables	(6.1)	(18.4)	12.3
Wholesale and other counterparty payables net	29.9	83.5	(53.6)
Other working capital	1.3	2.7	(1.4)
Net working capital changes	40.2	154.7	(114.5)
Operating cash flow	78.0	196.8	(118.8)
Business Energy Australia	(5.5)	(4.8)	(0.7)
Business Energy US	(1.0)	-	(1.0)
Oakey	-	(0.1)	0.1
Neerabup	(0.1)	(0.1)	-
Sale of Metgasco	3.2	-	3.2
Other	(2.2)	(2.6)	0.4
Total investing cash flow	(5.6)	(7.6)	2.0
Net draw down / (repayment) of borrowings	11.4	(108.2)	119.6
Finance costs	(13.1)	(13.0)	(0.1)
Dividends paid	(13.9)	(13.9)	-
Total financing cash flows	(15.6)	(135.1)	119.5
Effect of exchange rate changes on cash and cash equivalent	0.8	1.0	(0.2)
Total net change in cash	56.8	54.1	2.7
Opening cash	172.8	208.8	(36.0)
Closing cash	230.4	263.9	(33.5)

ERM Power Limited

Management Discussion and Analysis (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

Operating cash flow before working capital changes was \$4.3m lower than the prior comparable half as a result of a decrease in earnings. Working capital changes were \$114.5m lower than the comparable half year period principally as a result of timing related to wholesale and counterparty settlements and higher renewable energy certificate purchases in the period ended 31 December 2015.

Accounts receivable and accrued income increased with the increase in load and the SME proportion of load.

Working capital changes and resultant operating cash flows can fluctuate extensively intra-month and between balance dates in our electricity sales business due to the factors below:

- Changes in inventory levels and timing of purchases of renewable energy certificates to cover emissions trading scheme liabilities,
- Weekly market settlement terms for electricity pool purchases and counterparty derivative settlements resulting in payments falling after balance date,
- Variability of invoice issue dates and resulting payment due dates for network charges and other trade payments resulting in required payment timing falling before or after balance dates, and
- Timing of customer receipts after the invoice issue date.

Working capital items excluding renewable energy certificates and the associated emissions trading scheme liability generally clear within a short period after balance date.

Finance costs remained consistent with the prior comparable half while investment cash flows were \$2.0m lower.

Included within investment cash flows was the sale proceeds of the investment in Metgasco, which was sold for \$3.2m during the period. Excluding this item investing cash flows were \$1.2m higher than the comparable period.

2.4 Balance sheet and capital structure

2.4.1 Balance sheet

\$m	31 December 2015	30 June 2015	Change
Inventory	65.9	36.4	29.5
Receivables and accrued income	257.3	232.4	24.9
Payables, provisions and accrued expenses	(379.2)	(288.1)	(91.1)
Broker margin account	30.4	33.2	(2.8)
Other assets	5.6	6.3	(0.7)
Net working capital	(20.0)	20.2	(40.2)
PPE and intangibles	439.1	439.7	(0.6)
Investments	12.0	15.1	(3.1)
Provisions and other liabilities	(4.7)	(3.1)	(1.6)
Net capital employed	426.4	471.9	(45.5)
Net tax balances	(38.1)	(13.3)	(24.8)
Net derivative balances excluding broker margin account	(2.9)	(70.0)	67.1
Net financial debt	(23.4)	(68.9)	45.5
Total net assets	362.0	319.7	42.3

ERM Power Limited

Management Discussion and Analysis (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

2.4.2 Net debt

\$m	31 December 2015	30 June 2015	Change
Neerabup free cash	11.3	9.9	1.4
Other free cash	50.2	35.5	14.7
Total free cash	61.5	45.4	16.1
Neerabup restricted cash	8.9	8.6	0.3
Other restricted cash	160.0	118.8	41.2
Total restricted cash	168.9	127.4	41.5
Total cash	230.4	172.8	57.6
Neerabup debt (non-recourse)	195.9	198.0	(2.1)
Other debt	57.9	43.7	14.2
Total borrowings	253.8	241.7	12.1
Net debt / (cash) on balance sheet	23.4	68.9	(45.5)
<i>Net financial debt / (cash) excluding Neerabup non-recourse debt</i>	<i>(152.3)</i>	<i>(110.6)</i>	<i>(41.7)</i>

\$m	31 December 2015	31 December 2014	Change
Group contributed equity	331.3	326.8	4.5
Group EBIT excluding impairment and net fair value gains / (losses)	22.5	29.4	(6.9)
Group finance costs excluding US sleeving costs	(13.0)	(13.8)	0.8
Group interest cover (times) ¹	1.88	2.67	0.79
Gearing % (net debt to equity) ²	6.5%	(9.9%)	N/A

¹ Earnings before interest, tax, impairment and net fair value gains / (losses) divided by finance expenses

² Net debt as a percentage of equity excluding reserves

Total borrowings increased by \$12.1m at 31 December 2015 with additional draw down of the receivables working capital facility. Net debt on balance sheet reduced by \$45.5m with more restricted cash held in relation to prudential requirements. Excluded from this net debt figure is certain non-cash backed guarantees provided under banking facilities as detailed in note 7(c) of the half year financial report.

Included within interest cover calculations above are sleeving fees associated with the Group's US subsidiary Source. These sleeving fees are not associated with any net debt but are financial in nature and accordingly have been included within the interest cover calculation.

2.4.3 Dividend strategy and history

An unfranked interim dividend of 6.0 cents per share for FY 2016 was declared on 25 February 2016 equating to an annualised pre-tax dividend yield of 7.7% at 31 December 2015.

The Company has a progressive dividend policy with consideration of current and future cash flow and growth capital requirements. When determining the dividend payable, 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.

ERM Power Limited

Management Discussion and Analysis (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

3 SAFETY, ENVIRONMENT AND COMMUNITY

3.1 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.

The Company has a number of safety measures that are reported to the Board monthly including number of near misses, lost time or permanent injuries (LTI).

There were no ERM Power personnel lost time injuries during the period. There was one contractor lost time injury when a security guard at Neerabup Power Station tripped on a mat and injured her knee, causing 15 days lost time.

3.2 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 there were no reportable environmental incidents, nor were there any breaches of any environmental licence conditions at Oakey or Neerabup.

During the year Oakey and Neerabup'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.

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 or Neerabup during the year.

3.3 Community

We are proud to contribute to the communities in which we operate through partnership and sponsorship programs. 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.

ERM Power Limited

Management Discussion and Analysis (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

NON-IFRS FINANCIAL INFORMATION

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

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

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

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

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

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

ERM Power Limited

Management Discussion and Analysis (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

APPENDICES

A1.1 Reconciliation of underlying EBITDAF and underlying NPAT

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

1H FY 2016

\$m	Business Energy AU	Business Energy US	Generation	Other	Group
Statutory EBITDAF	30.4	(3.6)	18.8	(10.5)	35.1
<i>Significant items</i>					
a) New business establishment costs	-	0.4	-	0.2	0.6
b) Effective interest revenue on associate loan	-	-	-	(0.5)	(0.5)
c) Staff rationalisation cost	-	-	-	1.0	1.0
d) Provision for onerous contract	-	-	-	1.7	1.7
Total significant items	-	0.4	-	2.4	2.8
Underlying EBITDAF	30.4	(3.2)	18.8	(8.1)	37.9
 Statutory NPAT	 31.2	 (6.4)	 0.4	 (10.3)	 14.9
<i>Significant items</i>					
EBITDAF adjustments (above)	-	0.4	-	2.4	2.8
e) Tax effect on sale of Metgasco shares	-	-	-	2.6	2.6
Tax effect of above adjustments	-	(0.1)	-	(0.7)	(0.8)
Total significant items	-	0.3	-	4.3	4.6
Fair value gain / (loss) on financial instruments net of tax	(14.6)	2.4	2.6	(0.2)	(9.8)
Associate profit after tax	-	-	-	(0.3)	(0.3)
Underlying NPAT	16.6	(3.7)	3.0	(6.5)	9.4

- a) Costs incurred in respect of integrating Source and acquiring Greensense.
- b) Recognition of Empire loan at present value and interest revenue unwind.
- c) Costs associated with rationalisation of staff.
- d) Impairment of the contract to sublease office space.
- e) Derecognition of deferred tax asset upon sale of Metgasco shares.

ERM Power Limited

Management Discussion and Analysis (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

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

1H FY 2015

\$m	Business Energy AU	Business Energy US	Generation	Other	Group
Statutory EBITDAF	23.1	-	26.0	(7.1)	42.0
<i>Significant items</i>					
a) New business establishment costs	-	-	-	2.2	2.2
b) Unrealised foreign exchange gain	-	-	-	(1.0)	(1.0)
c) Arbitration costs	-	-	0.3	-	0.3
d) Staff rationalisation cost	-	-	-	1.1	1.1
Total significant items	-	-	0.3	2.3	2.6
Underlying EBITDAF	23.1	-	26.3	(4.8)	44.6
 Statutory NPAT	 76.0	 -	 7.5	 (8.5)	 75.0
<i>Significant items</i>					
EBITDAF adjustments (above)	-	-	0.3	2.3	2.6
e) Impairment of WA gas assets	-	-	-	3.0	3.0
Tax effect of above adjustments	-	-	(0.1)	(1.5)	(1.6)
Total significant items	-	-	0.2	3.8	4.0
Fair value gain on financial instruments net of tax	(64.3)	-	-	-	(64.3)
Underlying NPAT	11.7	-	7.7	(4.7)	14.7

- a) Costs incurred in respect of establishing our metering business and acquiring an electricity retailer in the US.
- b) Unrealised foreign exchange gains on funds held in a US dollar bank account.
- c) Costs net of contributions received in respect of the Neerabup contractor arbitration.
- d) Costs associated with changes and rationalisation of staff.
- e) Impairment of WA gas assets held for sale to Empire.

ERM Power Limited

Management Discussion and Analysis (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

A1.2 Reconciliation of movements in cash and cash equivalents

\$m	1H FY2016	1H FY2015	Change	%
Operating activities				
EBITDAF	35.1	42.0	(6.9)	(16%)
Share based payments	0.9	0.4	0.5	125%
Provision for onerous contract	1.8	-	1.8	N/A
Net change in working capital	40.2	154.7	(114.5)	(74%)
Net tax paid	-	(0.3)	0.3	N/A
Net operating cash flows	78.0	196.8	(118.8)	(60%)
Development investing activities				
Capital expenditure - gas exploration	-	(0.7)	0.7	N/A
Capital expenditure - other PPE	(8.8)	(6.9)	(1.9)	(27%)
Net capital expenditure cash flows	(8.8)	(7.6)	(1.2)	(16%)
Financing and other investing activities				
Repayment of project borrowings	(2.8)	(3.5)	0.7	20%
Loan to Empire Oil & Gas NL	-	(1.8)	1.8	N/A
Net drawdown / (repayment) of electricity sales borrowings	14.2	(102.9)	117.1	N/A
Sale of shares	3.2	-	3.2	N/A
Dividends paid	(13.9)	(13.9)	-	-
Net interest paid	(13.1)	(13.0)	(0.1)	(1%)
Other financing and investing cash flows	(12.4)	(135.1)	122.7	91%
Net increase in cash	56.8	54.1	2.7	5%
Effect of exchange rate changes on cash and cash equivalents	0.8	1.0	(0.2)	(20%)
Net increase in cash and cash equivalents	57.6	55.1	2.5	4%
Closing cash balances				
Free cash held in ERM Power	50.2	88.1	(37.9)	(43%)
Free cash held in projects	11.3	4.9	6.4	131%
Total free cash	61.5	93.0	(31.5)	(34%)
Restricted cash	168.9	170.9	(2.0)	(1%)
Total closing cash balances	230.4	263.9	(33.5)	(13%)

ERM Power Limited

Management Discussion and Analysis (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

A1.3 Power station assets

\$m	1H FY2016	FY2015	Change	%
Oakey power station 100%				
PPE	215.3	219.1	(3.8)	(2%)
Net tangible assets	224.2	226.9	(2.7)	(1%)
Borrowings	-	-	-	N/A
\$m	1H FY2016	1H FY2015	Change	%
Oakey power station 100%				
EBITDAF including interest income	6.7	14.7	(8.0)	(54%)
EBIT	2.8	10.8	(8.0)	(74%)
Interest expense	-	-	-	N/A
Depreciation	(3.9)	(3.9)	-	-
\$m	1H FY2016	FY2015	Change	%
Neerabup power station 50%				
PPE	166.8	169.6	(2.8)	(2%)
Net tangible assets	(6.5)	(8.0)	1.5	19%
Borrowings	195.9	198.0	(2.1)	(1%)
\$m	1H FY2016	1H FY2015	Change	%
Neerabup power station 50%				
EBITDAF including interest income	12.6	12.5	0.1	1%
EBIT	10.4	10.3	0.1	1%
Interest expense	(8.3)	(8.6)	0.3	4%
Depreciation	(2.2)	(2.2)	-	-

ERM Power Limited

Management Discussion and Analysis (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

A1.4 Supplementary information

\$m unless otherwise stated	1H FY2016	1H FY2015	1H FY2014	1H FY2013	1H FY2012
Revenue	1,324.5	1,099.1	970.1	715.9	424.1
EBITDAF	35.1	42.0	33.2	39.0	56.7
Underlying EBITDAF	37.9	44.6	34.4	44.4	37.8
Statutory NPAT attributable to equity holders	14.9	75.0	13.3	26.4	51.2
Underlying NPAT	9.4	14.7	6.9	14.4	14.7
Operating cash flow before working capital changes	37.8	42.1	31.0	36.4	34.6
Load sold (TWh)	10.1	7.9	6.5	5.2	3.7
Shares on issue (millions of shares)	245.1	241.5	238.7	174.1	165.1
Share price (\$ per share)	1.57	2.12	2.40	2.00	1.55
Market capitalisation ¹	383.6	511.9	572.9	348.3	256.0
Weighted average shares (number of shares)	244.0	240.3	217.1	171.6	163.6
Statutory EPS (cents per share)	6.13	31.20	6.11	15.40	31.31
Underlying EPS (cents per share)	3.85	6.14	3.18	8.39	8.97
Dividends paid in period (cents per share)	6.0	6.0	5.5	4.5	3.5
Franking %	33%	100%	100%	100%	100%
Annual pre-tax dividend yield ²	7.7%	5.7%	4.6%	4.5%	4.5%
CFPS (cents per share) ³	15.49	17.52	14.28	21.21	21.15

¹ Based on share price at balance date and shares on issue.

² Total annual dividends paid during financial year as a percentage of closing share price.

³ Operating cash flow before working capital changes per share using weighted average number of shares on issue during the year.

ERM Power Limited

Management Discussion and Analysis (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

A1.5 Historical figures

\$m	1H FY2016	1H FY2015	1H FY2014	1H FY2013	1H FY2012
Unless indicated					
Interest income by business division					
Electricity sales Australia	1.4	1.7	1.4	1.4	1.7
Electricity sales US	-	-	-	-	-
Generation	0.2	0.3	0.3	0.3	0.6
Other	0.6	0.8	1.5	1.2	1.4
Total interest income	2.2	2.8	3.2	2.9	3.7
Electricity sales Australia division statistics					
Load (TWh)	9.0	7.9	6.5	5.2	3.7
Gross margin	40.2	32.1	23.4	30.4	21.5
Operating expenses	(11.2)	(10.8)	(10.7)	(6.9)	(3.8)
Gross margin \$ per MWh	4.48	4.06	3.60	5.85	5.81
Operating expenses \$ per MWh	(1.25)	(1.37)	(1.65)	(1.33)	(1.02)
EBITDAF	30.4	23.1	14.1	23.6	17.7
Electricity sales US division statistics					
Load (TWh)	1.1	-	-	-	-
Gross margin	6.0	-	-	-	-
Operating expenses	(9.6)	-	-	-	-
Gross margin \$ per MWh	5.61	-	-	-	-
Operating expenses \$ per MWh	(8.95)	-	-	-	-
EBITDAF	(3.6)	-	-	-	-
Gas division statistics					
Exploration expenditure capitalised	-	0.5	0.5	3.2	0.6
Development expenditure capitalised	-	-	1.0	4.6	0.2
EBITDAF	0.2	1.2	0.7	(0.4)	(0.4)
Generation division statistics					
<i>Revenue</i>					
Oakey	23.2	18.4	17.4	17.5	17.0
Neerabup	15.5	17.5	14.8	13.4	15.4
Generation development and operations	1.9	3.7	4.1	4.3	4.4
Total revenue	40.6	39.6	36.3	35.2	36.8
<i>EBITDAF</i>					
Oakey	6.7	14.7	14.3	14.0	13.4
Neerabup	12.6	12.5	11.1	10.8	12.5
Generation development and operations	(0.5)	(1.2)	(0.7)	(4.4)	(1.0)
Discount on acquisition	-	-	-	-	19.1
Total EBITDAF	18.8	26.0	24.7	20.4	44.0
Corporate division statistic					
<i>Revenue</i>					
Interest revenue ¹	0.6	0.7	1.5	1.2	1.4
Other revenue ¹	0.2	1.0	0.7	1.0	1.5
Total revenue¹	0.8	1.7	2.2	2.2	2.9
Total expenses¹	(9.1)	(7.7)	(7.3)	(6.7)	(7.6)
EBITDAF¹	(8.3)	(6.0)	(5.1)	(4.5)	(4.7)

¹ Excluding significant items – refer to A1.1 for further details.

ERM Power Limited

Management Discussion and Analysis (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

GLOSSARY

\$m	Millions of dollars
C&I	Commercial and Industrial
Contestable Revenue	Contestable revenue is the electricity sales revenue component on which we earn a margin and excludes pass-through items such as network charges.
EBITDAF	Earnings before interest expense, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit and loss. EBITDAF excludes any profit or loss from associates.
EBIT	Earnings before interest expense and taxes
1H	First half of financial year
FY	Financial year ended or ending 30 June
GWh	Gigawatt hours is a unit of energy representing one billion watt hours
IFRS	International Financial Reporting Standards
MWh	Megawatt hours is a unit of energy representing one million watt hours
NEM	The National Electricity Market
NPAT	Net profit after tax
Sleeving	Credit sleeving through intermediary to trade and hedge with third parties.
SME	Small to Medium Enterprise
Source	SPG Energy Group LLC
TWh	Terawatt hours is a unit of energy representing one thousand gigawatt hours (GWh)
UMI Survey	Utility Market Intelligence (UMI) survey of major retail electricity retailers by independent research company NTF Group in 2015 (20th year of Survey). Research based on survey of 300 business electricity customers between November 2015 and January 2016. Four major electricity retailers benchmarked.
Underlying EBITDAF	EBITDAF excluding significant items
Underlying NPAT	Statutory net profit after tax attributable to equity holders of the Company after excluding the after tax effect of unrealised marked to market changes in the fair value of financial instruments, impairment and gains / losses on onerous contracts and other significant items. Underlying NPAT excludes any profit or loss from associates.
US or USA	United States of America

ERM Power Limited

Directors' Report

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

The directors submit their report for the half year period ended 31 December 2015. The term "ERM Power Group" or "Group" is used throughout this report to refer to the company ERM Power Limited ("Company") and its controlled subsidiary entities.

1. DIRECTORS

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

Anthony (Tony) Bellas	Independent Non-Executive Chairman
Trevor St Baker	Non-Executive Deputy Chairman and Founder
Albert Goller	Independent Non-Executive Director
Martin Greenberg	Independent Non-Executive Director
Antonino (Tony) Iannello	Independent Non-Executive Director
Jonathan (Jon) Stretch	Managing Director and CEO

2. COMPANY SECRETARY

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

Phil Davis
Peter Jans (ceased on 1 October 2015)

3. DIVIDENDS

An interim dividend of 6.0 cents per share has been declared and will be paid on 15 April 2016. Record date is 15 March 2016. The Company's shares will trade ex-dividend from 11 March 2016. The Company's dividend reinvestment plan ("DRP") will apply to this dividend with no discount. The last date for receipt of notifications to participate in the DRP is 16 March 2016.

A partially franked 6.0 cents per share dividend was declared on 21 August 2015 and paid on 7 October 2015 to shareholders on record at 11 September 2015. An interim fully franked 6.0 cents per share dividend was paid in respect of the half year to 31 December 2014.

4. PRINCIPAL ACTIVITIES

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

- electricity sales to business in Australia and the United States of America; and
- generation of electricity.

5. REVIEW OF OPERATIONS

A review of the operations of the Group can be found in the Management Discussion and Analysis ("MD&A") on pages 2 to 20.

6. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

In January 2016 the Group acquired Greensense Pty Ltd (Greensense) for \$5.3m. Greensense is an award winning technology business focused on improving the sustainability performance of commercial buildings.

On 24 February 2016 ERM Power Limited entered into a A\$150m unsecured senior bank guarantee facility with Liberty International Underwriters Singapore and put in place an associated Fronting Bank Facility Agreement with CBA. This provides for the issue of guarantees to support our prudential requirements.

On 22 February 2016 final credit terms were agreed with Sunset Power International and accordingly ERM will have access to the respective hedge volumes under the agreement out to 31 December 2022. Further details are contained in Note 8 of the financial report.

Other than the above matters there have been no matter or circumstance that has arisen since 31 December 2015 that has significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in the future.


7. AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 22.

8. ROUNDING OF AMOUNTS

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (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.

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



A Bellas
Chairman
25 February 2016



Auditor's Independence Declaration

As lead auditor for the review of ERM Power Limited for the half-year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Michael Shewan
Partner
PricewaterhouseCoopers

Brisbane
25 February 2016

ERM Power Limited

Consolidated Income Statement

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

		Half year ended	
	Notes	31 December 2015 \$'000	31 December 2014 \$'000
CONTINUING OPERATIONS			
Revenue		1,324,260	1,097,903
Other income		225	1,238
Total revenue		1,324,485	1,099,141
Expenses		(1,287,604)	(1,057,188)
Provision for onerous contract		(1,741)	-
EBITDAF		35,140	41,953
Depreciation and amortisation		(10,670)	(9,790)
Impairment expense		-	(3,044)
Net fair value gain on financial instruments designated at fair value through profit or loss		13,802	91,750
Profit before finance costs		38,272	120,869
Share of net profit of associates accounted for using the equity method		258	-
Finance expense		(14,208)	(13,809)
Profit before income tax		24,322	107,060
Income tax expense		(9,377)	(32,067)
Statutory profit for the period attributable to equity holders of the Company		14,945	74,993
Statutory earnings per share based on earnings attributable to the ordinary equity holders of the Company		Cents	Cents
Basic earnings per share	9	6.13	31.20
Diluted earnings per share	9	6.13	31.20

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

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

ERM Power Limited

Consolidated Statement of Comprehensive Income

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	Half year ended	
	31 December 2015 \$'000	31 December 2014 \$'000
Statutory profit for the period	14,945	74,993
Other comprehensive income		
<i>Items that may be reclassified subsequently to profit and loss</i>		
Change in the fair value of cash flow hedges, net of tax	36,614	(4,218)
Exchange differences on translation of foreign subsidiaries	1,118	-
<i>Items that will not be reclassified subsequently to profit and loss</i>		
Change in fair value of financial assets at fair value through other comprehensive income, net of tax	(63)	(153)
Other comprehensive income for the year attributable to equity holders of the Company, net of tax	37,669	(4,371)
Total comprehensive income for the year attributable to equity holders of the Company	52,614	70,622

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

ERM Power Limited

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2015

	Notes	31 December 2015 \$'000	30 June 2015 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents		230,396	172,836
Trade and other receivables at amortised cost		256,944	218,305
Inventories		65,855	36,433
Other assets		5,556	6,341
Derivative financial instruments	4	56,343	11,367
Total Current Assets		615,094	445,282
Non-Current Assets			
Trade and other receivables at amortised cost		272	14,094
Financial assets at fair value through other comprehensive income		150	3,463
Investments accounted for using the equity method		11,904	11,647
Derivative financial instruments	4	22,712	5,901
Property, plant and equipment		391,360	396,856
Deferred tax assets		8,635	4,961
Intangible assets		47,771	42,813
Total Non-Current Assets		482,804	479,735
TOTAL ASSETS		1,097,898	925,017
LIABILITIES			
Current Liabilities			
Trade and other payables		372,372	279,239
Borrowings	3	47,376	33,183
Borrowings – limited recourse	3	9,378	8,912
Derivative financial instruments	4	15,207	20,289
Provisions		1,955	2,032
Total Current Liabilities		446,288	343,655
Non-Current Liabilities			
Borrowings	3	10,500	10,500
Borrowings – limited recourse	3	186,557	189,109
Derivative financial instruments	4	43,166	42,697
Deferred tax liabilities		46,704	18,271
Provisions		2,687	1,069
Total Non-Current Liabilities		289,614	261,646
TOTAL LIABILITIES		735,902	605,301
NET ASSETS		361,996	319,716
EQUITY			
Contributed equity	5	331,330	326,816
Reserves		1,176	(42,391)
Retained earnings		29,490	35,291
TOTAL EQUITY		361,996	319,716

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

ERM Power Limited

Consolidated Statement of Changes in Equity

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	Note	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2014		322,337	(46,283)	1,151	277,205
Profit for the period		-	-	74,993	74,993
Other comprehensive loss		-	(4,371)	-	(4,371)
Total comprehensive income / (loss) for the period		-	(4,371)	74,993	70,622
Transactions with owners in their capacity as owners:					
Dividends paid	6	518	-	(14,432)	(13,914)
Issue of shares and share options exercised pursuant to employee incentive scheme	5	3,694	(81)	-	3,613
Purchase of treasury shares	5	(892)	-	-	(892)
Share based payment expense		-	372	-	372
Acquisition of associate (net of tax)		-	2,862	(2,862)	-
Balance at 31 December 2014		325,657	(47,501)	58,850	337,006
Balance at 1 July 2015					
Balance at 1 July 2015		326,816	(42,391)	35,291	319,716
Profit for the period		-	-	14,945	14,945
Other comprehensive income		-	37,669	-	37,669
Total comprehensive income for the period		-	37,669	14,945	52,614
Transactions with owners in their capacity as owners:					
Dividends paid	6	708	-	(14,648)	(13,940)
Issue of shares and share options exercised pursuant to employee incentive scheme	5	7,234	(1,136)	-	6,098
Purchase of treasury shares	5	(3,428)	-	-	(3,428)
Share based payment expense		-	936	-	936
Sale of financial assets (net of tax)		-	6,098	(6,098)	-
Balance at 31 December 2015		331,330	1,176	29,490	361,996

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

ERM Power Limited

Consolidated Statement of Cash Flows

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

		Half year ended	
	Notes	31 December 2015 \$'000	31 December 2014 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		1,422,866	1,256,708
Payments to suppliers and employees (inclusive of goods and services tax)		(1,349,435)	(1,076,842)
Transfer from / (to) broker margin account		2,813	13,971
Interest received		1,742	3,264
Income tax paid		-	(342)
Net cash flows from operating activities		77,986	196,759
Cash flows from investing activities			
Payments for gas exploration and evaluation		-	(663)
Payments for gas development		-	(38)
Payments for plant and equipment		(1,435)	(1,988)
Payments for intangible assets		(7,338)	(4,937)
Sale of shares in listed companies		3,223	-
Net cash flows used in investing activities		(5,550)	(7,626)
Cash flows from financing activities			
Proceeds from borrowings		1,225,790	1,185,073
Repayments of borrowings		(1,211,594)	(1,287,984)
Repayments of borrowings - limited recourse		(2,844)	(3,476)
Loans to investees		-	(1,750)
Finance costs		(13,043)	(12,999)
Dividends paid	6	(13,940)	(13,914)
Net cash flows used in financing activities		(15,631)	(135,050)
Net increase in cash and cash equivalents		56,805	54,083
Cash and cash equivalents at the beginning of the half year		172,836	208,829
Effects of exchange rate changes on cash and cash equivalents		755	960
Cash and cash equivalents at the end of the half year		230,396	263,872

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

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

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ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

1. BASIS OF PREPARATION OF THE HALF YEAR REPORT

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

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

A description of the nature of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report on page 21.

This report was authorised for issue by the directors on 25 February 2016.

(a) Statement of compliance

This interim financial report for the half year reporting period ended 31 December 2015 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual financial statements of the Company for the year ended 30 June 2015 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the Australian Securities Exchange Listing Rules.

(b) Significant accounting policies

Except for the changes stated below, the accounting policies adopted are consistent with those of the previous financial year, which are accessible at <http://www.ermpower.com.au/investor-centre>.

The Group early adopted AASB 9 *Financial Instruments (2014)* with a date of initial application of 1 July 2015. As a result, the Group's policies were amended to comply with AASB 9 issued in July 2015. This version of AASB 9 replaces the provisions of AASB 139 that relate to the recognition and measurement, impairment, derecognition and general hedge accounting.

While AASB 9 does not need to be applied until 1 January 2018, the Group has decided to adopt it early from 1 July 2015. There was no difference between the previous carrying amount and the revised carrying amount of the financial assets at 1 July 2014 to be recognised in opening retained earnings and there was no change in classification of the financial assets.

The adoption of the revised AASB 9 did not affect the Group's accounting for its financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities.

The Group elected to apply the hedge accounting in Chapter 6 of AASB 9 prospectively. The Group's management has assessed the existing hedging relationships in accordance with the qualifying criteria in AASB 9 at 1 July 2015. The hedging relationships continue to meet the requirement under AASB 9 and all hedge relationships are continuing and no hedge ratio rebalancing was required at the initial application of AASB 9.

Previously the following instruments were not hedge accounted but now are:

- Electricity swaps, caps and purchased options used to hedge price exposure in our Australian electricity sales business.

Instruments held for trading, exchange traded instruments (such as futures contracts), written options and all instruments related to renewable energy certificates and our US operations are not hedge accounted.

The impairment model in AASB 9 is based on the premise of providing for expected losses. The change in the impairment model has no significant impact to the Group's impairment policy.

As outlined above, there has been no impact on adopting AASB 9 and no restatement of prior period has occurred.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

1. BASIS OF PREPARATION OF THE HALF YEAR REPORT (continued)

(c) Estimates and critical judgements applied

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

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

In November 2015, the Group entered into an offtake agreement with Sunset Power International Pty Ltd, which acquired the Vales Point power station in New South Wales in December 2015. Under the contract terms, final hedge volumes and associated credit terms must be negotiated by 26 February 2016. As at 31 December 2015 these terms had not been agreed and accordingly only notional quantities for the period from 1 January 2016 to 31 December 2016 have been valued for the related financial instruments shown on the Group's statement of financial position as at 31 December 2015. Further details are contained in note 8.

Except for the above changes, in preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2015.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

2. SEGMENT REPORT

	Business Energy Australia		Business Energy US		Generation Assets		Other		Total	
	Half year ended 31 December		Half year ended 31 December		Half year ended 31 December		Half year ended 31 December		Half year ended 31 December	
\$'000	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Revenue										
Non-statutory revenue	1,171,399	1,054,118	111,088	-	41,825	41,178	1,846	5,005	1,326,158	1,100,301
Other income	-	-	-	-	11	15	214	1,223	225	1,238
Intersegment sales elimination	-	-	-	-	(1,176)	(1,579)	(722)	(819)	(1,898)	(2,398)
Total segment revenue	1,171,399	1,054,118	111,088	-	40,660	39,614	1,338	5,409	1,324,485	1,099,141
Expenses	(1,141,044)	(1,031,055)	(114,659)	-	(21,835)	(13,694)	(10,066)	(12,439)	(1,287,604)	(1,057,188)
Provision for onerous contract	-	-	-	-	-	-	(1,741)	-	(1,741)	-
EBITDAF⁽ⁱ⁾	30,355	23,063	(3,571)	-	18,825	25,920	(10,469)	(7,030)	35,140	41,953
Depreciation and amortisation	(2,722)	(1,576)	(759)	-	(6,121)	(6,116)	(1,068)	(2,098)	(10,670)	(9,790)
Impairment expense	-	-	-	-	-	-	-	(3,044)	-	(3,044)
Net fair value gain / (loss) on financial instruments designated at fair value through profit or loss	20,934	91,750	(3,651)	-	(3,700)	-	219	-	13,802	91,750
Results from operating activities	48,567	113,237	(7,981)	-	9,004	19,804	(11,318)	(12,172)	38,272	120,869
Share of net profit of associates for using the equity method	-	-	-	-	-	-	258	-	258	-
Finance expenses	(3,938)	(5,148)	(1,853)	-	(8,349)	(8,614)	(68)	(47)	(14,208)	(13,809)
Profit / (loss) before income tax	44,629	108,089	(9,834)	-	655	11,190	(11,128)	(12,219)	24,322	107,060
Income tax expense	-	-	-	-	-	-	-	-	(9,377)	(32,067)
Statutory profit after tax attributable to equity holders of the Company									14,945	74,993
Underlying NPAT⁽ⁱⁱ⁾									9,386	14,746

Revenue in the other segment comprises interest, consulting, metering, gas and condensate sales and other income. Sales between segments are carried out at arm's length and 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 and the United States of America.

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

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

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

2. SEGMENT REPORT (continued)

The directors believe that EBITDAF, underlying EBITDAF and underlying NPAT provide the most meaningful indicators of the Group's underlying business performance.

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

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

The directors utilise underlying NPAT as a measure to assess the performance of the segments. A reconciliation of underlying NPAT to the statutory profit after tax is as follows:

		Half year ended 31 December	
		2015	2014
\$'000			
Statutory profit after tax attributable to equity holders of the Company		14,945	74,993
<i>Adjusted for the following items:</i>			
Net unrealised change in fair value of financial instruments designated at fair value through profit or loss after tax		(9,843)	(64,225)
Share of net profit of associates accounted for using the equity method		(258)	-
Other significant items			
New business establishment costs	(i)	486	2,179
Unrealised foreign exchange gain	(ii)	(9)	(960)
Arbitration costs net of proceeds	(iii)	-	289
Staff rationalisation costs	(iv)	1,010	1,131
Provision for onerous contract	(v)	1,741	-
Effective interest revenue on associate loan	(vi)	(474)	-
Impairment of Western Australia gas assets	(vii)	-	3,044
Tax effect on sale of Metgasco shares	(viii)	2,614	-
Tax benefit on other significant items	(ix)	(826)	(1,705)
Underlying NPAT all segments		9,386	14,746

- (i) Costs incurred in respect of integrating Source and acquiring Greensense.
- (ii) Unrealised foreign exchange gains on funds held.
- (iii) Costs net of contributions received in respect of the Neerabup contractor arbitration.
- (iv) Costs associated with rationalisation of staff.
- (v) Impairment of the contract to sublease office space.
- (vi) Recognition of Empire loan at present value and interest revenue unwind.
- (vii) Impairment of Western Australia gas assets held for sale to Empire.
- (viii) Derecognition of deferred tax asset upon sale of Metgasco shares.
- (ix) Tax effect of the above other significant items.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

2. SEGMENT REPORT (continued)

	Business Energy Australia		Business Energy US		Generation Assets		Other		Total	
	As at		As at		As at		As at		As at	
	31	30	31	30	31	30	31	30	31	30
	December	June	December	June	December	June	December	June	December	June
\$'000	2015	2015	2015	2015	2015	2015	2015	2015	2015	2015
Assets										
Total segment assets	539,014	417,983	54,809	-	419,752	419,799	75,688	82,274	1,089,263	920,056
Deferred tax assets									8,635	4,961
Total assets									1,097,898	925,017
Liabilities										
Total segment liabilities	391,620	337,246	45,243	-	237,853	237,072	14,482	12,712	689,198	587,030
Current and deferred tax liabilities									46,704	18,271
Total liabilities									735,902	605,301

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:

Business Energy Australia
Business Energy US
Generation Assets
Other

Products and services:

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

Segment assets and liabilities are measured in the same way as in the financial statements. Both assets and liabilities are allocated based on the operations of the segment and the physical location of the asset.

The Group's current and deferred tax balances are not considered to be a part of a specific segment but are managed by the Group's central corporate function.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

		CONSOLIDATED	
		31 December 2015	30 June 2015
		\$'000	\$'000
3. BORROWINGS			
Current			
<i>Secured</i>			
Bank loans - Receivables financing facility	(i)	47,376	33,183
Total secured borrowings		47,376	33,183
<i>Secured limited-recourse</i>			
Bank loan - Neerabup working capital facility	(ii)	3,000	3,000
Bank loans - Neerabup term facility (current portion)	(iii)	6,378	5,912
Total limited recourse borrowings		9,378	8,912
		56,754	42,095
Non-current			
<i>Secured</i>			
Bank loan - Inventory repurchase	(iv)	10,500	10,500
		10,500	10,500
<i>Secured limited recourse</i>			
Bank loans - Neerabup term facility	(iii)	138,113	141,302
Convertible notes	(v)	48,444	47,807
		186,557	189,109
		197,057	199,609
Total borrowings		253,811	241,704

- (i) Amounts drawn down on receivables financing facility secured against billed and unbilled electricity sales customer revenue receivables.
- (ii) Amounts drawn down on a limited recourse bank working capital facility by Neerabup Partnership. This debt has recourse to the assets of Neerabup Partnership only.
- (iii) Amounts drawn down on a limited recourse term debt facility in respect of the Neerabup Partnership. This debt has recourse to the assets of Neerabup Partnership only.
- (iv) Sale and repurchase agreement in respect of renewable energy certificates. The equivalent renewable energy certificate assets, over which the Group has the right of repurchase, are included within inventory at 31 December 2015.
- (v) Convertible notes are redeemable by the issuer from 30 September 2010 until maturity in February 2023. Notes have a coupon rate that is variable based on BBSY plus 4%. The notes are accounted for using the effective interest method at 7.87% (30 June 2015: 7.89%). The notes can only be converted to shares in the issuing subsidiary upon failure to redeem them at maturity or other named event of default. The notes have recourse to the Group's 50% interest in the Neerabup partnership only.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

4. FAIR VALUE MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

a) Fair value of financial assets and liabilities

The Group holds the following financial instruments:

	CONSOLIDATED	
	31 December 2015 \$'000 Carrying value	30 June 2015 \$'000 Carrying value
Financial assets		
Derivative financial instruments	79,055	17,268
Equity investments	150	3,463
Loans and receivables	49,966	46,029
Cash and cash equivalents	230,396	172,836
	359,567	239,596
Financial liabilities		
Derivative financial instruments	58,373	62,986
Other financial liabilities at amortised cost	626,186	520,943
	684,559	583,929

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 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.

b) Fair value hierarchy

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 31 December 2015 and 30 June 2015.

As at 31 December 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Electricity derivatives contracts	-	76,914	-	76,914
Embedded derivative contract	-	2,141	-	2,141
Financial assets at fair value through other comprehensive income	150	-	-	150
Total assets	150	79,055	-	79,205
Liabilities				
Electricity derivatives contracts	17,266	5,429	-	22,695
Interest rates swaps	-	35,678	-	35,678
Total liabilities	17,266	41,107	-	58,373

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

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

b) Fair value hierarchy (continued)

As at 30 June 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Electricity derivatives contracts	-	15,324	-	15,324
Gas derivative contracts	-	21	-	21
Embedded derivative contract	-	1,923	-	1,923
Financial assets at fair value through other comprehensive income	3,463	-	-	3,463
Total assets	3,463	17,268	-	20,731
Liabilities				
Electricity derivative contracts	847	14,383	-	15,230
Gas derivative contracts	12,248	-	-	12,248
Interest rates swaps	-	35,508	-	35,508
Total liabilities	13,095	49,891	-	62,986

Level 1

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

Level 2

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

Level 3

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

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. For the periods ending 31 December 2015 and 30 June 2015 there were no transfers between the fair value hierarchy levels.

c) Offsetting of financial assets and financial liabilities

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

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 31 December 2015 and 30 June 2015. The column 'net exposure' shows the impact on the Group's balance sheet if all set-off rights were exercised.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

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

c) Offsetting of financial assets and financial liabilities (continued)

The below table provides a reconciliation of the Group's gross financial assets and liabilities offset to those presented on the consolidated statement of financial position as at 31 December 2015 and as at 30 June 2015.

As at 31 December 2015

\$'000	Gross carrying amount (before offsetting)	Gross amounts offset	Cash collateral and futures margin deposits	Net amount presented	Related amounts not offset Financial instruments ^①	Cash collateral and futures margin deposits	Net exposure
Financial assets							
Electricity derivatives contracts	113,240	(36,326)	-	76,914	(1,698)	-	75,216
Embedded derivative contract	2,141	-	-	2,141	-	-	2,141
Total	115,381	(36,326)	-	79,055	(1,698)	-	77,357
Financial liabilities							
Electricity derivatives contracts	82,609	(36,326)	(23,588)	22,695	(1,698)	-	20,997
Interest rate swaps	35,678	-	-	35,678	-	-	35,678
Total	118,287	(36,326)	(23,588)	58,373	(1,698)	-	56,675

As at 30 June 2015

\$'000	Gross carrying amount (before offsetting)	Gross amounts offset	Cash collateral and futures margin deposits	Net amount presented	Related amounts not offset Financial instruments ^①	Cash collateral and futures margin deposits	Net exposure
Financial assets							
Electricity derivatives contracts	28,117	(12,793)	-	15,324	(3,339)	-	11,985
Embedded derivative contract	1,923	-	-	1,923	-	-	1,923
Gas derivatives contract	4,628	(4,607)	-	21	-	-	21
Total	34,668	(17,400)	-	17,268	(3,339)	-	13,929
Financial liabilities							
Electricity derivatives contracts	52,293	(12,793)	(24,270)	15,230	(3,339)	(260)	11,631
Gas derivatives contracts	16,855	(4,607)	-	12,248	-	-	12,248
Interest rate swaps	35,508	-	-	35,508	-	-	35,508
Total	104,656	(17,400)	(24,270)	62,986	(3,339)	(260)	59,387

^① Financial instruments that do not meet the criteria for offsetting but may be offset in certain circumstances.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

5. CONTRIBUTED EQUITY

	Note	CONSOLIDATED		CONSOLIDATED	
		31 December 2015	30 June 2015	31 December 2015	30 June 2015
		Number of shares	Number of shares	\$'000	\$'000
Issued ordinary shares – fully paid	5(a)	245,087,388	242,021,217	338,582	332,134
Treasury shares	5(b)	(3,297,661)	(2,544,194)	(7,252)	(5,318)
		241,789,727	239,477,023	331,330	326,816
(a) Movement in ordinary share capital					
At the beginning of the period		242,021,217	239,269,727	332,134	328,762
Issue of shares – employee incentive scheme		2,735,786	1,924,430	6,098	3,640
Issue of shares – dividend reinvestment plan		330,385	627,782	708	1,233
Issue of shares – acquisition of subsidiary		-	199,278	-	444
Vesting of shares – employee incentive scheme		-	-	1,136	81
Transfer to treasury shares		-	-	(1,494)	(2,026)
At the end of the period		245,087,388	242,021,217	338,582	332,134

(b) Terms and conditions of contributed equity

Ordinary shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

Treasury shares

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

Dividend reinvestment plan

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

Employee Incentive scheme and Options

The share based payments accounting policies adopted in this half year report are consistent with those of the previous financial year. These are accessible at <http://www.ermpower.com.au/investor-centre>.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

6. DIVIDENDS PAID AND PROPOSED

During the half year ended 31 December 2015, a partially franked final dividend of 6.0 cents per share was paid on 7 October 2015. (2014: 6.0 cents final dividend).

	Cents per share	Total amount \$'000	Franked	Date of payment
2015 Final ordinary share dividend (cash and shares)	6.0	14,647	4,834	7 October 2015
2016 Interim ordinary share dividend estimated based upon shares on issue at 31 December 2015	6.0	14,705	-	15 April 2016

	31 December 2015 \$'000	30 June 2015 \$'000
Franking credits available to shareholders in subsequent years	259	2,106

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.

7. COMMITMENTS AND CONTINGENCIES

CONSOLIDATED

31 December 2015 \$'000	30 June 2015 \$'000
-------------------------------	---------------------------

(a) Capital expenditure commitments

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

- not later than one year	1,022	2,625
- later than one year and not later than five years	1,067	1,090
- later than five years	-	-
	2,089	3,715

(b) Lease expenditure commitments

Operating leases (non-cancellable):

Minimum lease payments

- not later than one year	4,681	4,671
- later than one year and not later than five years	18,021	17,929
- later than five years	9,916	12,288
Aggregate lease expenditure contracted for at balance date	32,618	34,888

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

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

7. 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			
		31 December 2015	30 June 2015
	Note	\$'000	\$'000
Bank guarantees - Australian Energy Market Operator and other counterparties	(i)	75,339	45,790
Bank guarantees - lease arrangements	(ii)	2,912	2,912
Futures margin deposits	(iii)	65,248	40,813
Security deposits	(iv)	2,005	4,369
Bank guarantees - Western Power	(v)	300	300
Bank guarantees - NSW exploration licence	(vi)	75	85
Non-cash backed guarantees under banking facilities	(vii)	80,000	80,000
		225,879	174,269

- (i) The Group has provided bank guarantees in favour of the Australian Energy Market Operator to support its obligations to settle electricity and gas purchases from the various markets administered by that entity. Bank guarantees have also been provided to various counterparties in relation to electricity derivatives. Of this amount, \$30,000 are non-cash backed and the remainder is supported by cash 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 cash lodged with the Group's futures clearing brokers. The deposits are in relation to various futures energy contracts on the Australian Securities Exchange and may be retained by the clearing brokers in the event that the Group does not meet its contractual obligations.
- (iv) Security deposits represent interest bearing cash lodged as eligible credit support with various counterparties to the Group's electricity derivative contracts and may be retained by those counterparties in the event that the Group does not meet its contractual obligations.
- (v) The Group has provided a bank guarantee in favour of Western Power. This can be called upon if the Neerabup partnership fails to pay its monthly transmission invoices.
- (vi) The Group has provided bank guarantees in favour of the NSW Government in connection with its gas exploration licences in NSW. These guarantees are supported by term deposits.
- (vii) Non-cash backed guarantees provided under banking facilities to support Australian Energy Market Operator prudential requirements.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

8. RELATED PARTY DISCLOSURES

Transactions with Empire Oil & Gas NL

In February 2015, a subsidiary of ERM Power Limited granted a \$14.9m loan to Empire as a consequence of selling the Group's Western Australia gas assets. The key terms of the facility are:

- Repayable at the earlier of 31 August 2016 and the completion of the sale or like disposal of the Red Gully Facility by Empire, or any transaction that has the same or substantially similar economic outcome.
- No interest is payable during the term of the loan.

As at 31 December 2015, the present value carrying amount of the loan is \$14,255,950.

The subsidiary of ERM Power Limited is also entitled to an additional amount derived by reference to Empire's share price as part of the consideration received for the sale of the Group's Western Australia gas assets. The key terms of the financial asset are:

- Payment will only be made if the volume average price of Empire's shares on ASX over 30 Trading Days ending on the Trading Day prior to the payment date is greater than \$0.8.
- Payment is adjusted to factor in only 70% of any value accretion above \$0.8.
- Payment date is the repayment date of the abovementioned loan.

As at 31 December 2015, the fair value of the financial asset is \$2,141,311.

Transactions with Sunset Power International Pty Ltd

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

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

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

Under the contract terms, final hedge volumes and associated credit terms must be negotiated by 26 February 2016. As at 31 December 2015 these terms had not been agreed and accordingly only notional quantities for the period from 1 January 2016 to 31 December 2016 have been valued for the related financial instruments shown on the Group's statement of financial position as at 31 December 2015.

Subsequent to 31 December 2015 final credit terms were agreed and accordingly ERM will have access to the respective hedge volumes under the agreement out to 31 December 2022. As at 31 December 2015 ERM has recognised a value for the call option for peak and off-peak swaps for the period 1 January 2016 to 31 December 2016. The total premiums payable for the option over this period is \$0.7m. The total premiums payable for the option over the period 1 January 2016 to 31 December 2022 is \$6.5m.

All accounts payable are within payment terms of the agreement and no impairment loss has been recognised during the period in relation to the transaction. The agreement expires on 31 December 2022 and under the agreement ERM is expected to hedge approximately 21% of ERM's electricity load sales over the term of the agreement prior to exercise of any of the available options.

Other related party transactions

During the period the Company charged St Baker Enterprises Pty Ltd (a related party of Trevor St Baker) \$1,184,709 including GST for consulting services. The services were provided by ERM Power Limited staff and the charges were at an arm's length market rate.

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

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

There is no 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.

ERM Power Limited

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

9. STATUTORY EARNINGS PER SHARE

	CONSOLIDATED	
	31 December 2015 Cents	31 December 2014 Cents
Basic earnings per share	6.13	31.20
Diluted earnings per share	6.13	31.20

Information concerning earnings per share

The weighted average number of ordinary shares is used as the denominator in calculating basic earnings per share.

Earnings for the purpose of the calculation of basic earnings per share is the net profit attributable to the ordinary equity holders of the Company.

Earnings for the purpose of the calculation of diluted earnings per share is also the net profit attributable to the ordinary equity holders of the Company.

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

10. SUBSEQUENT EVENTS

In January 2016 the Group acquired Greensense Pty Ltd (Greensense) for \$5.3m.

Greensense is an award winning technology business focused on improving the sustainability performance of commercial buildings. A leader in the rapidly developing area of cloud-based, big data and analytics, Greensense software is used by some of Australia's largest organisations across education, utilities, retail, government and commercial property to drive energy and water efficiency, reduce costs and showcase sustainability achievements.

Due to the timing of acquisition, the Group has not yet finalised the provisional calculation of the net identifiable assets or purchased goodwill. The financial effects of the transaction have not been brought to account at 31 December 2015.

On 24 February 2016 ERM Power Limited entered into a A\$150m unsecured senior bank guarantee facility with Liberty International Underwriters Singapore and put in place an associated Fronting Bank Facility Agreement with CBA. This provides for the issue of guarantees to support our prudential requirements.

Other than the above matters there have been no matter or circumstance that has arisen since 31 December 2015 that has significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in the future.

ERM Power Limited

Directors' Declaration

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

- (a) the financial statements and notes set out on pages 23 to 42 are in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the financial position of the consolidated entity as at 31 December 2015 and of its performance for the half year then ended; and
 - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



A Bellas

Chairman

25 February 2016



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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of ERM Power Limited (the Company), which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for ERM Power Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of ERM Power Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

PricewaterhouseCoopers, ABN 52 780 433 757

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- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read "Michael Shewan", with a long horizontal flourish extending to the right.

Michael Shewan
Partner

Brisbane
25 February 2016

Corporate Information

Directors

Tony Bellas (Non-Executive Chairman)
Trevor St Baker (Non-Executive Deputy Chairman and Founder)
Albert Goller
Martin Greenberg
Tony Iannello
Jon Stretch (Managing Director and CEO)

Company Secretary

Phil Davis

Registered Office

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Telephone: (07) 3020 5100
Facsimile: (07) 3220 6110

Bankers

National Australia Bank Limited
Macquarie Bank Limited

Auditors

PricewaterhouseCoopers

Internet Address

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