

Thursday, 25 August 2016

## FY 2016 RESULTS FOR ANNOUNCEMENT TO THE MARKET

In accordance with the listing rules, please find attached the following documents relating to ERM Power's results for the 12 months ended 30 June 2016:

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



Phil Davis  
Group General Counsel & Company Secretary  
ERM Power Limited

### About ERM Power

ERM Power is an Australian energy company operating electricity sales, generation and energy solutions businesses. The Company has grown to become the second largest electricity provider to commercial and industrials in Australia with operations in every state and the Australian Capital Territory. A growing range of energy solutions products and services are being delivered, including lighting and energy efficiency software and data analytics, to the company's existing and new customer base. ERM Power also sells electricity in several markets in the United States. The Company 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.

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



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

**Results for announcement to the market**  
**for the year ended 30 June 2016**

Notification in Accordance with Listing Rule 4.3A

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

<b>1. Results for the year</b>					<b>FY 2016</b>	<b>FY 2015</b>
					<b>\$'000</b>	<b>\$'000</b>
<b>1.1. Revenue from ordinary activities:</b>						
1.1.1 Revenue from ordinary activities:						
ERM Power Limited and controlled entities	up	19%	to		2,763,345	2,316,362
<b>1.2. Profit from ordinary activities:</b>						
1.2.1. Underlying EBITDAIF*:						
ERM Power Limited and controlled entities	down	-14%	to		81,176	94,396
(*Earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit and excluding significant items. Underlying EBITDAIF excludes any profit or loss from associates)						
1.2.2. Underlying NPAT**:						
ERM Power Limited and controlled entities	down	-41%	to		19,189	32,347
(**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 and excluding significant items. Underlying NPAT excludes any profit or loss from associates)						
<b>1.3. Net statutory profit for the period attributable to members:</b>						
1.3.1 Net profit for the period attributable to members:						
ERM Power Limited and controlled entities	down	-46%	to		35,809	65,937

## **2. Dividend**

An unfranked final dividend of 6 cents per share (2015: 6 cents) has been declared and will be paid on 6 October 2016 to shareholders on record as at 12 September 2016. The Company's shares will trade ex-dividend from 9 September 2016.

The Company's dividend reinvestment plan (DRP) will apply to this dividend. Shareholders will have 15 business days from the date of the year end results announcement on Thursday 25 August 2016 for DRP elections to be finalised by 5pm on the business day following the record date. The 10 day VWAP for shares to be issued under the DRP starts 2 trading days after the record date, on 14 September 2016. No discount will apply to the price of shares issued under the DRP. The DRP price will be announced to the ASX at the end of the pricing period.

In the previous corresponding period FY2015, a partially franked dividend of 6 cents per share was declared and paid on 7 October 2015 to shareholders on record as at 11 September 2015. The Company's shares traded ex-dividend from 9 September 2015. The franking percentage was 33%

An interim unfranked 6 cents per share (2015: 6 cents fully franked) dividend was declared on 11 March 2016 and paid on 15 April 2016 to shareholders on record at 15 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 year**

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

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

	<b>FY 2016</b>	<b>FY 2015</b>
	<b>Cents</b>	<b>Cents</b>
Net tangible assets (cents per share)	160	114
Net tangible assets (cents per share) excluding net fair value of derivative financial instruments net of tax:	115	128

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

During the period 1 July 2015 to 30 June 2016 the Company did not lose control of any entities but gained control over the Greensense Pty Ltd and Lumaed Pty Ltd.

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

The following entity is accounted for as joint venture:

- Energy Locals Pty Ltd

The following entities are proportionately consolidated as joint operation entities:

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



**ERM Power Limited**

**Annual Financial Report**

**for the year ended 30 June 2016**

# ERM Power Limited

## Annual Financial Report

FOR THE YEAR ENDED 30 JUNE 2016

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ERM Power Limited and Controlled Entities  
ABN 28 122 259 223

Management Discussion and Analysis  
for the year ended 30 June 2016

# ERM Power Limited

## Management Discussion and Analysis

FOR THE YEAR ENDED 30 JUNE 2016

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### ABOUT ERM POWER

ERM Power is an Australian energy company operating electricity sales, generation and energy solutions businesses. The Company has grown to become the second largest electricity provider to commercial businesses and industrials in Australia with operations in every state and the Australian Capital Territory. A growing range of energy solutions products and services are being delivered, including lighting and energy efficiency software and data analytics, to the company's existing and new customer base. ERM Power also sells electricity in several markets in the United States. The Company 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 shares are traded on the Australian Securities Exchange under the symbol EPW. This review is for ERM Power (Company, Group, we, our) for the year ended 30 June 2016 with comparison against the previous corresponding period ended 30 June 2015 (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 YEAR ENDED 30 JUNE 2016

### 1. RESULTS OVERVIEW

Key financial data (\$m unless otherwise stated)	FY2016	FY2015
Underlying EBITDAF before interest income	77.9	89.5
Underlying EBITDAF	81.2	94.4
Underlying EBIT	52.7	69.2
Underlying NPAT	19.2	32.3
Statutory NPAT	35.8	65.9
Net debt / (cash)	29.0	68.9
Dividends paid (cents per share)	12.0	12.0
Underlying earnings per share (cents)	7.8	13.4

  

Key operational data	FY2016	FY2015
Electricity sold (TWh)	20.5	16.7
Forward contracted electricity sales (TWh)	36.1	35.1
SME customers (Australia)	38,341	29,238

#### Overview

ERM Power delivered earnings of \$81.2m (underlying EBITDAF) in the 2016 financial year while making significant progress on the execution of its diversification and growth strategy. The Company's transition gathered pace with the acquisition of complementary energy solutions businesses and growth in the US retailing business, consistent with the strategy to build allied revenue streams off a strong, satisfied and growing electricity retailing customer base. During the year, the scale of operations and the forward customer book in the US business grew substantially. The Australian electricity retailing business performed well in a competitive market which was characterised by sustained high prices in wholesale electricity and environmental certificates. It was a challenging year for Oakey Power Station, operating in its first full financial year as a merchant plant. Neerabup and corporate expenses have remained stable. Significant progress was made in delivering on the capital efficiency program of work, with the Vales Point offtake agreement signed and the finalisation of a A\$150m unsecured senior bank guarantee facility with Liberty International Underwriters Singapore.

Underlying EBITDAF for the period was \$81.2m compared to \$94.4m in the prior year. Lower margins in the Australian electricity retailing business were offset by increased volumes during the period. The key drivers of the \$13.2m decrease were as follows:

- The Oakey Power Station (Oakey) offtake contract expired on 31 December 2014 and Oakey operated for its first full financial year as a merchant facility. Earnings reduced \$11.2m on the prior year with a major contributing factor being the Q4 market environment which differed substantially to expectations and market trends;
- A smaller profit from the US electricity sales business SPG Energy Group LLC (Source) than the prior year due to increased operating costs to scale up the business and enter new markets (\$0.8m); and
- Reduction in underlying interest income (\$1.6m).

Underlying NPAT was \$19.2m compared to \$32.3m in the previous year with the key driver of the decrease being the after tax impact of reduced EBITDAF of \$13.7m. Underlying finance costs and depreciation combined were \$6.4m higher than the comparable period with the increase mostly arising from a full year of operations in the US business.

Statutory NPAT was \$35.8m 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.

Earnings were at the lower end of the EBITDAF guidance range of \$81m to \$85m given the well-publicised volatility in energy markets, particularly in Q4, which saw unexpected electricity price outcomes.

#### Outlook

The FY2017 outlook for each of the business divisions, as outlined in the market update of 20 June 2016, is as follows:

- The **US electricity retailing business** continues to show strong lead indicators:
  - A forecast doubling of annual sales volume in FY2017 to about 5TWh.
  - Gross margin expected to be AUD\$8 to \$8.50/MWh and operating expenditure at AUD\$4/MWh, reducing as the business scales.



# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2016

- The **Australian electricity retailing business** anticipates load growth and margin pressure, as outlined below, given the significant retail competition in the Australian electricity markets:
  - Continued growth in sales volumes to about 18.5TWh for FY2017, which at 2% growth, is slower than historic levels. This reflects a larger than normal proportion of business which came up for renewal and has resulted in some attrition, notwithstanding win rates and retention rates were strong at 23% and 67% for FY2016. Re-contracting volumes will normalise during FY2017. Average gross margin for FY2017 is expected to be about \$3/MWh for the Australian retailing business.
- FY2017 EBITDAF for **Oakey Power Station** is forecast in the range of \$14 to \$16m which includes allowance for a scheduled maintenance outage in 2017.
- Corporate costs, combined with investment in the growing Energy Solutions portfolio, are expected to be about \$18m.

## 2. REVIEW OF OPERATING AND FINANCIAL RESULTS

### 2.1 Summary of Group financial results

\$m	FY2016	FY2015	Change	%
Revenue	2,763.3	2,316.2	447.1	19%
Expenses	(2,685.4)	(2,226.7)	(458.7)	21%
<b>Underlying EBITDAF before interest income</b>	<b>77.9</b>	<b>89.5</b>	<b>(11.6)</b>	<b>(13%)</b>
Interest income	3.3	4.9	(1.6)	(33%)
<b>Underlying EBITDAF</b>	<b>81.2</b>	<b>94.4</b>	<b>(13.2)</b>	<b>(14%)</b>
Significant items	(8.5)	(7.7)	0.8	10%
<b>Statutory EBITDAF including interest income</b>	<b>72.7</b>	<b>86.7</b>	<b>(14.0)</b>	<b>(16%)</b>
Depreciation and amortisation	(25.2)	(20.3)	(4.9)	24%
Net fair value gain on financial instruments	39.5	97.7	(58.2)	(60%)
Share of associate profit (net of tax)	0.4	0.7	(0.3)	(43%)
Impairment expense	-	(43.0)	43.0	N/A
Finance expense	(29.2)	(27.3)	(1.9)	7%
<b>Profit before tax</b>	<b>58.2</b>	<b>94.5</b>	<b>(36.3)</b>	<b>(38%)</b>
Tax expense	(22.4)	(28.6)	6.2	(22%)
<b>Statutory net profit after tax (NPAT)</b>	<b>35.8</b>	<b>65.9</b>	<b>(30.1)</b>	<b>(46%)</b>
Add back:				
Net fair value gain on financial instruments (net of tax)	(27.3)	(68.3)	41.0	(60%)
Share of associate profit (net of tax)	(0.4)	(0.7)	0.3	(43%)
Significant items	11.1	35.4	(24.3)	(69%)
<b>Underlying NPAT</b>	<b>19.2</b>	<b>32.3</b>	<b>(13.1)</b>	<b>(41%)</b>

**Statutory NPAT down 46% to \$35.8m**

Statutory NPAT reduced \$30.1m 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 year the Group recognised a provision of \$1.9m for an onerous contract in relation to the sublease of part of the Group's Brisbane premises. A \$3.4m loss was recognised on sale of the Group's shareholding in Empire Oil & Gas NL (Empire). The Group's proportional earnings from this investment prior to sale are shown in share of associate profit, which was \$0.4m for the year. In the prior year, an impairment expense of \$43.0m was recognised on the Group's power station development costs and gas interests.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2016

Underlying EBITDAF down 14% to \$81.2m

Underlying EBITDAF decreased principally as a result of lower earnings from Oakey Power Station as shown in the table below.

\$m	FY2016	FY2015	Change	%
Business Energy AU	54.8	54.6	0.2	-
Business Energy US	0.0	0.8	(0.8)	N/A
Generation	35.4	46.8	(11.4)	(24%)
Corporate and other	(12.3)	(12.7)	0.4	3%
<b>Underlying EBITDAF before interest income</b>	<b>77.9</b>	<b>89.5</b>	<b>(11.6)</b>	<b>(13%)</b>
Interest income	3.3	4.9	(1.6)	(33%)
<b>Underlying EBITDAF</b>	<b>81.2</b>	<b>94.4</b>	<b>(13.2)</b>	<b>(14%)</b>

Underlying NPAT down 41% to \$19.2m

Underlying NPAT decreased from \$32.3m in the prior year to \$19.2m with the key drivers of the decrease being the after tax impact of reduced EBITDAF and increased depreciation and finance costs from a full year of operations in the US.

Finance costs were \$1.9m higher overall primarily as a result of additional US credit sleeving and other financial costs of \$2.7m on higher load sold, while Australian finance costs were \$0.8m lower than the prior year.

Depreciation and amortisation costs have risen \$4.9m overall with increases in depreciation and amortisation of software and customer acquisition costs in the Australian electricity sales business and the inclusion of the US operations for a full year. These increases were partly offset by 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	
	FY2016	FY2015	FY2016	FY2015 <sup>1</sup>	FY2016	FY2015
Load sold (TWh)	18.1	16.1	2.4	0.6	20.5	16.7
Contestable revenue (\$'000)	1,299,380	1,066,237	158,629	44,231	1,458,009	1,110,468
Gross margin (\$'000)	75,665	72,299	15,356	6,662	91,021	78,961
Opex (\$'000)	(21,212)	(21,739)	(15,832)	(5,887)	(37,044)	(27,626)
EBITDAF before interest income (\$'000)	54,453	50,560	(476)	780	53,977	51,340
Interest income (\$'000) <sup>2</sup>	2,482	3,174	-	-	2,482	3,174
EBITDAF (\$'000)	56,935	53,733	(476)	780	56,459	54,513
Significant items (\$'000)	363	3,974	469	-	832	3,974
<b>Underlying EBITDAF (\$'000)</b>	<b>57,298</b>	<b>57,707</b>	<b>(7)</b>	<b>780</b>	<b>57,291</b>	<b>58,487</b>

<sup>1</sup> Reflects part year ownership from January 2015 to 30 June 2015.

<sup>2</sup> Includes interest income on cash held for AEMO prudential requirements.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2016

	2H FY2016	1H FY2016	2H FY2015	1H FY2015	2H FY2014	1H FY2014	2H FY2013	1H FY2013
<b>Underlying gross margin / MWh</b>								
Australia	3.94	4.48	5.37	4.07	4.71	3.60	3.62	5.85
US	7.16	5.61	10.02	-	-	-	-	-
<b>Underlying Opex / MWh</b>								
Australia	(1.10)	(1.25)	(1.32)	(1.36)	(0.91)	(1.65)	(1.08)	(1.18)
US	(6.13)	(6.82) <sup>1</sup>	(8.85)	-	-	-	-	-
<b>Load (TWh)</b>								
C&I Australia	8.8	8.7	8.0	7.8	7.4	6.5	5.9	5.2
SME Australia	0.3	0.3	0.2	0.1	0.1	0.1	-	-
US	1.3	1.1	0.6	-	-	-	-	-
<b>Underlying EBITDAF before interest income (\$'000)</b>								
Australia	25,816	29,000	33,176	21,357	28,598	12,709	16,155	22,989
US	1,276	(1,283) <sup>1</sup>	780	-	-	-	-	-
	27,092	27,717	33,956	21,357	28,598	12,709	16,155	22,989

*Figures above are rounded*

### FY2016 performance

#### Australian market

The Australian electricity sales business load grew 12.4% on the prior year. SME load grew 73.7% and C&I load sold increased by 11.5% on the prior year.

C&I load increased to 17.5TWh reflecting ERM Power's continued strong position in the market and excellent customer service. Market share at 30 June 2016 was approximately 20%. The business was again recognised for outstanding customer service in the independent NTF Group's annual Utility Market Index survey with 84% of customers either very satisfied or satisfied. The nearest competitor achieved a score of 65%. This represented the fifth year in a row in which the survey results demonstrated ERM Power's leadership in customer satisfaction and service. Operationally ERM Power continued to maintain its industry leading position across all key measures including billing timeliness and accuracy.

The recontracting rate in FY2016 remained strong at 67%, although slightly below the calendar 2015 rate of 71%. FY2016 overall win rates were also strong at 23%. Contracted forward sales of 25.3TWh at 30 June 2016 for the Australian business were down 5.8TWh (19%) on the same time last year. The 12-month forward contracted load at 1 July 2016 for FY2017 is 15.7TWh, which is in line with the comparable figure for FY2016 (15.7TWh). These changes reflect customers entering into shorter duration contracts, driven by their reluctance to contract for long periods at current higher wholesale prices. The average contract length of ERM Power's largest customers signed in FY2016 versus FY2015 declined around 23%.

Progress in the SME market continued with 38,341 sites under contract at 30 June 2016, an increase of 31% on the 29,238 sites under contract at 30 June 2015. Profitability continued to improve with greater economies of scale on higher load sold. All aspects of operational performance kept pace with the growth in customer numbers and renewal rates remain strong as customers value ERM Power's superior service.

ERM Power's focus in the SME market remains in New South Wales (NSW) and Victoria (VIC) with a growing presence in Queensland (QLD). The Company continues to have limited presence in South Australia (SA) and Tasmania (TAS) due to wholesale market conditions and unfavourable regulated electricity tariffs.

Contestable revenue increased as a result of both volume increases and higher underlying wholesale prices (energy and renewable energy certificates). Underlying gross margin per MWh decreased from \$4.72 in the prior year to \$4.20. The decrease reflects competitive pressures lowering margins. Portfolio optimisation of positions for both black electricity and environmental commodity products is a normal part of operations; in FY2016 with the substantial rise in both Large Scale Generation Certificates (LGCs) and wholesale electricity prices, sales on market increased for both of these products as part of ERM Power's risk management strategy. The sale of favourably priced LGC inventory in FY2016 has contributed partially to the lower than trend gross margin forecast for FY2017, which is expected to be about \$3/MWh.

Operating costs per MWh in the Australian business decreased in FY2016 compared to FY2015. This reflects continued economies of scale and reduced staff bonuses.

<sup>1</sup> Restated following finalisation of SPG purchase price allocation to include provision for trailing commission broker costs. See note 29 of annual financial report for further details.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### US market

The US electricity sales business Source Power & Gas sold 2.4TWh of electricity during the year, an increase of 64% on the total load sold in FY2015. Forward electricity sales increased substantially from 4.0TWh<sup>[1]</sup> to 10.8TWh at 30 June 2016. The significant increase in forward contracted load reflects a comprehensive broker engagement plan and significant investment in new systems, processes and people. As the business grows in scale we expect to see greater portfolio diversification of customers in the PJM and ERCOT markets and greater economies of scale in operating costs.

Gross margin increased in the second half to \$7.16/MWh versus \$5.61/MWh in the first half, and was ahead of expectations. This is driven by a number of factors, including customer mix, where there are benefits being realised from an increase in high margin customer load, and the contribution from improved trading and risk management capability. There is further scope for improvement in this area.

Operating unit costs in the US business decreased on the immediately preceding half through a combination of scale benefits and the timing of investments weighted to 1H. As a part of completion of the purchase price allocation, the accounting treatment of trailing broker costs in the US has been aligned with the Australian business resulting in the capitalisation of \$1.9m of broker costs which had been expensed in 1H, which equates to A\$1.73/MWh.

During the year, the business developed the capability to serve an additional nine new PJM local markets across Pennsylvania, Delaware and the District of Columbia. The business now serves 31 local markets in eight states, which has added 105TWh to the current total accessible business market of 516TWh and a residential market in ERCOT of 86TWh. This capability to serve combined with the investment in system improvements and increased staffing sets the business up to continue to grow the forward sales book and decrease operating costs per MWh.

In 2015 Source participated in the ERCG<sup>2</sup> Broker Survey for the second year running. Pleasingly the business was ranked third overall for broker satisfaction, up from fourth in the prior year. 21% of the 130 brokers surveyed said they did business with Source in 2014 and this increased to 44% in December 2015. The survey results demonstrate strong customer service and growing broker consideration and satisfaction with the Source proposition.

### 2.2.2 Generation

\$m	FY2016	FY2015	Change	%
<b>Revenue and other income<sup>1</sup></b>				
Oakey	71.7	74.2	(2.5)	(3%)
Neerabup	31.1	32.2	(1.1)	(3%)
Generation development and operations	2.7	6.9	(4.2)	(61%)
	105.5	113.3	(7.8)	(7%)
<b>Underlying EBITDAF</b>				
Oakey	11.5	22.7	(11.2)	(49%)
Neerabup	25.1	25.2	(0.1)	-
Generation development and operations	(1.2)	(1.1)	(0.1)	9%
Interest income	0.5	0.6	(0.1)	(17%)
	35.9	47.4	(11.5)	(24%)
Significant items	(0.3)	(0.6)	0.3	(50%)
<b>Statutory EBITDAF including interest income</b>	35.6	46.8	(11.2)	(24%)

<sup>1</sup> Excludes interest income.

	FY2016	FY2015
<i>Oakey</i>		
Forced outage rate	0.03%	0.2%
Availability rate	99.1%	98.5%
<i>Neerabup</i>		
Forced outage rate	0.01%	0.01%
Availability rate	97.96%	99.93%

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

<sup>2</sup> Energy Research Consulting Group's (ERCG) survey of Aggregators, Brokers and Consultants (ABC) Study December 2015. Research based on survey of 134 ABCs, which represents ~82% of brokered US power sales.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### FY2016 performance

Underlying EBITDAF for the period was \$35.9m, down 24% from \$47.4m in the previous comparable period.

Revenue and EBITDAF for Oakey decreased following the expiration of the off-take contract with AGL on 31 December 2014. Oakey operated as a merchant facility during the year with the electricity market and derivative revenue lower than the off-take contract revenue from AGL and consequently underlying EBITDAF before interest income for the year was down 49% to \$11.5m for FY2016.

Oakey is utilised both to deliver value as an asset and also as a component of ERM Power's retail hedging strategy. Since moving into merchant operations Oakey's load factor has increased substantially to 17.75%. In its first full year of merchant operations in FY2016, EBITDAF from Oakey Power Station was \$11.5m, lower than the prior year (\$22.7m) when Oakey was contracted under a long-term profitable off-take arrangement in the first half of the year. Oakey produced solid earnings in Q1-Q3 of FY2016 in line with a full year expectation of previous guidance of \$16m EBITDAF. However, market conditions in April to June differed substantially from market expectations and were not favourable to our merchant strategy which had proved effective in previous quarters. This resulted in reduced profitability in Q4 and a full year EBITDAF result of \$11.5m.

After the earnings generated in Q1-Q3 of FY2016 and the experience of running the station as a merchant operation for the full year in FY2016 we expect the FY2017 earnings from Oakey to improve with projected EBITDAF in the range of \$14m to \$16m.

Generation development and operations revenue decreased following the operator agreement with Kwinana concluding on 30 September 2014. EBITDAF remained steady following the decision in 2015 to suspend future generation development activities.

Revenue from Neerabup decreased slightly as a result of additional energy sales in the prior year.

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

### Power station operating performance

During the period Oakey operated for 17.75% of the time. Oakey maintained its outstanding availability and overall performance record, with a forced outage rate of 0.03% and an overall availability of 99.1% during the year.

Neerabup operated for 3.72% of the year and also maintained its outstanding availability and overall performance record with a forced outage rate of 0.01% and availability of 97.96%.

### Safety

During the period the business continued to maintain an outstanding safety record with no lost-time injuries among staff. One lost time injury occurred when a contractor at Neerabup Power Station recorded a trip injury.

### 2.2.3 Corporate and other

\$m	FY2016	FY2015	Change	%
Revenue	3.5	2.7	0.8	30%
Expenses	(15.5)	(16.6)	1.1	(7%)
	(12.0)	(13.9)	1.9	14%
Gas underlying EBITDAF	-	1.2	(1.2)	N/A
Energy solutions underlying EBITDAF	(0.3)	-	(0.3)	N/A
<b>Underlying EBITDAF before interest income</b>	<b>(12.3)</b>	<b>(12.7)</b>	<b>0.4</b>	<b>3%</b>
Interest income	0.3	1.2	(0.9)	(75%)
Significant items	(7.3)	(3.1)	(4.2)	135%
<b>Statutory EBITDAF including interest income</b>	<b>(19.3)</b>	<b>(14.6)</b>	<b>(4.7)</b>	<b>(32%)</b>

### FY2016 performance

Corporate and other expenses decreased on the prior year principally as a result of reduced staff performance bonuses. The Group made a small loss on the acquired energy solutions businesses during the period while earnings from the gas business reduced following the disposal of interests in gas assets in the second half of FY2015.

Significant items include staff rationalisation, retirement payments and costs associated with the Greensense and Lumaed acquisitions completed during the year. Staff rationalisation costs reflect the Group's divestment of gas assets and suspension of power generation development activities. An onerous lease provision was also recognised in respect of the Group's Brisbane head office.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 2.3 Cash flow

\$m	FY2016	FY2015	Change
EBITDAF	68.4	81.5	(13.1)
Interest received	4.3	5.2	(0.9)
Non-cash items	7.9	1.3	6.6
Tax paid	-	(0.6)	0.6
<b>Operating cash flow before working capital changes</b>	<b>80.6</b>	<b>87.4</b>	<b>(6.8)</b>
Transfer from broker account	60.4	8.3	52.1
Renewable energy certificates	13.8	30.3	(16.5)
Emissions trading scheme liability	25.7	5.8	19.9
Accounts receivable and accrued income	(96.2)	(15.9)	(80.3)
Network and other trade payables	62.4	39.5	22.9
Wholesale and other counterparty payables net	(27.5)	(16.2)	(11.3)
Other working capital	0.7	5.0	(4.3)
<b>Net working capital changes</b>	<b>39.3</b>	<b>56.8</b>	<b>(17.5)</b>
<b>Operating cash flow</b>	<b>119.9</b>	<b>144.2</b>	<b>(24.3)</b>
Business Energy Australia	(9.6)	(9.3)	(0.3)
Business Energy US	(7.1)	(0.6)	(6.5)
Oakey	(5.3)	(0.2)	(5.1)
Neerabup	(0.2)	(0.1)	(0.1)
Acquisition of subsidiaries net of cash acquired	(7.9)	(5.8)	(2.1)
Purchase of share investments	(1.5)	(2.7)	1.2
Sale of Metgasco and Empire Oil shares	11.8	-	11.8
Other	(4.0)	(5.0)	1.0
<b>Total investing cash flow</b>	<b>(23.8)</b>	<b>(23.7)</b>	<b>(0.1)</b>
Net draw down / (repayment) of borrowings	(21.7)	(103.4)	81.7
Finance costs	(26.9)	(25.8)	(1.1)
Dividends paid	(27.9)	(27.7)	(0.2)
<b>Total financing cash flows</b>	<b>(76.5)</b>	<b>(156.9)</b>	<b>80.4</b>
Effect of exchange rate changes on cash and cash equivalent	-	0.4	(0.4)
Total net change in cash	19.6	(36.0)	55.6
Opening cash	172.8	208.8	(36.0)
<b>Closing cash</b>	<b>192.5</b>	<b>172.8</b>	<b>19.7</b>

Operating cash flow before working capital changes was \$6.8m lower than the prior year as a result of a decrease in earnings. Working capital changes were \$17.5m lower than the prior year principally as a result of timing related to network, wholesale and counterparty settlements and changes in the volume of renewable energy certificates held in inventory.

Accounts receivable and accrued income increased with the increase in load both in Australia and the US.

Working capital changes and resultant operating cash flows can fluctuate extensively intra-month and between balance dates in our electricity sales businesses both in Australia and the US 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.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2016

Net finance costs remained consistent with the prior year while investment cash flows were marginally higher with the net cash acquisition cost of Greensense Pty Ltd and Lumaed Pty Ltd of \$7.9m and greater intangible asset purchases of \$18.0m offset by reduced spend on gas assets of \$1.3m and sale proceeds of \$11.8m from the sales of investments in Metgasco and Empire during the year. Purchases of property, plant and equipment, intangible assets and customer acquisition costs were \$12.4m higher during the year. The increase was mostly attributable to initial capital expenditure for the planned Oakey Power Station maintenance and higher customer acquisition costs during the year.

### 2.4 Balance sheet and capital structure

#### 2.4.1 Balance sheet

\$m	30 June 2016	30 June 2015	Change
Inventory	22.1	36.4	(14.3)
Receivables and accrued income	330.6	232.4	98.2
Payables, provisions and accrued expenses	(367.0)	(279.2)	(87.8)
Other assets	5.4	6.3	(0.9)
<b>Net working capital</b>	<b>(8.9)</b>	<b>(4.1)</b>	<b>(4.8)</b>
PPE and intangibles	470.3	439.7	30.6
Investments	1.6	15.1	(13.5)
Provisions and other liabilities	(27.4)	(3.1)	(24.3)
<b>Net capital employed</b>	<b>435.6</b>	<b>447.6</b>	<b>(12.0)</b>
Net tax balances	(93.9)	(13.3)	(80.6)
Net derivative balances	158.7	(45.7)	204.4
Net financial debt	(29.0)	(68.9)	39.9
<b>Total net assets</b>	<b>471.4</b>	<b>319.7</b>	<b>151.7</b>

Net assets increased substantially during the year principally as a result of an increase in net derivative balances, which included the positive mark to market carrying value of the electricity swap contract entered into with Sunset Power International Pty Ltd in respect of the Vales Point Power Station. At 30 June 2016 this contract made up approximately 48% of the net derivative balance shown above.

Receivables and accrued income includes an amount of \$14.9m in respect of a loan made to Empire, which was repaid in August 2016. Part of the increase relates to favourable wholesale counterparty accrued income at 30 June 2016.

Net working capital overall decreased whilst property, plant and equipment and intangibles increased primarily as a result of the finalisation of the Source purchase price acquisition (PPA) and subsequent recognition of a trailing commission broker provision for the acquisition of customers contracts and the associated intangible asset.

The net deferred tax liability increased at 30 June 2016 principally as a result of the increase in value of derivative contracts.

#### 2.4.2 Net debt

\$m	30 June 2016	30 June 2015	Change
Neerabup free cash	13.7	9.9	3.8
Other free cash	53.6	35.5	18.1
<b>Total free cash</b>	<b>67.3</b>	<b>45.4</b>	<b>21.9</b>
Neerabup restricted cash	9.1	8.6	0.5
Other restricted cash	116.1	118.8	(2.7)
<b>Total restricted cash</b>	<b>125.2</b>	<b>127.4</b>	<b>(2.2)</b>
<b>Total cash</b>	<b>192.5</b>	<b>172.8</b>	<b>19.7</b>
Neerabup debt (non-recourse)	193.6	198.0	(4.4)
Other debt	27.9	43.7	(15.8)
<b>Total borrowings</b>	<b>221.5</b>	<b>241.7</b>	<b>(20.2)</b>
<b>Net debt / (cash) on balance sheet</b>	<b>29.0</b>	<b>68.9</b>	<b>(39.9)</b>
<i>Net financial debt / (cash) excluding Neerabup net debt</i>	<i>(143.7)</i>	<i>(110.6)</i>	<i>(33.1)</i>

Total borrowings decreased by \$20.2m at 30 June 2016 with less drawn on the receivables working capital facility at 30 June 2016 and continued repayment of the Neerabup term debt. Net debt on balance sheet reduced by \$39.9m with more free cash held.



# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2016

Excluded from this net debt figure is certain non-cash backed guarantees provided under banking facilities as detailed in note 27 of the annual financial report. Non cash backed guarantees were higher than the prior year with prudential support of \$150m posted with AEMO at 30 June 2016 compared to \$80m at 30 June 2015. This was the result of unusually high wholesale electricity prices in Australia in June and a decision by management to utilise lower cost guarantee facilities rather than available reallocation facilities to fund these prudential requirements.

Restricted cash remained at similar levels to the prior year. This reflects decreases from our new facilities offset by a combination of higher margining requirements driven by more volatile wholesale prices and additional cash held in restricted accounts under the Australian receivables facility and the US sleeving facility.

Overall the Group has strong liquidity with significant unused finance facilities at 30 June 2016 equivalent to an increase in overall liquidity of approximately \$100m arising from a capital efficiency program of work, with the Vales Point swap agreement signed and the finalisation of a A\$150m unsecured senior bank guarantee facility with Liberty International Underwriters Singapore.

### 2.4.3 Dividend strategy and history

An unfranked final dividend of 6.0 cents per share for FY2016 was declared on 25 August 2016 equating to an annualised pre-tax dividend yield of 14.3% at 30 June 2016.

At the present time the company has no franking credits and tax losses in Australia and accordingly does not anticipate being in a position to frank dividends until these losses are utilised. For the year ended 30 June 2016 the Group utilised approximately one third of its available tax losses in Australia.

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.

## 3 SAFETY, ENVIRONMENT AND COMMUNITY

### 3.1 Safety

ERM Power's 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. One lost time injury occurred when a contractor at Neerabup Power Station recorded a trip injury.

### 3.2 Environment

ERM Power's key environmental value is to care for people and the planet, and 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 the power stations is low in comparison to other technologies, with little domestic fresh water used in the operation of the stations. There were no unexpected changes in water usage at Oakey or Neerabup during the year.

### 3.3 Community

ERM Power is proud to contribute to the communities in which it operates through partnership and sponsorship programs. The Company is committed to building positive and long lasting relationships that harness community spirit, build local skills and leverage combined expertise to deliver tangible outcomes. This is evidenced in ERM Power's participation in the Vinnies CEO Sleepout and long-term sponsorship of indigenous programs in schools and the performing arts.



# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 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 YEAR ENDED 30 JUNE 2016

### 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.

FY2016

\$m	Business Energy AU	Business Energy US	Generation	Other	Group
<b>Statutory EBITDAF</b>	<b>56.9</b>	<b>(0.5)</b>	<b>35.6</b>	<b>(19.3)</b>	<b>72.7</b>
<i>Significant items</i>					
a) New business establishment costs	-	0.5	-	0.4	0.9
b) Unrealised foreign exchange loss	-	-	0.3	0.2	0.5
c) Effective interest revenue on associate loan	-	-	-	(1.0)	(1.0)
d) Staff rationalisation and retirement costs	-	-	-	2.4	2.4
e) Provision for onerous contract	-	-	-	1.9	1.9
f) Counterparty administration	0.4	-	-	-	0.4
g) Loss on sale of Associate investment	-	-	-	3.4	3.4
Total significant items	0.4	0.5	0.3	7.3	8.5
<b>Underlying EBITDAF</b>	<b>57.3</b>	<b>0.0</b>	<b>35.9</b>	<b>(12.0)</b>	<b>81.2</b>
 <b>Statutory NPAT</b>	 <b>61.6</b>	 <b>(1.2)</b>	 <b>(3.4)</b>	 <b>(21.2)</b>	 <b>35.8</b>
<i>Significant items</i>					
EBITDAF adjustments (above)	0.4	0.5	0.3	7.3	8.5
h) Financing establishment costs	-	-	-	0.4	0.4
i) Tax effect on non-deductible acquisition costs	-	-	-	0.3	0.3
j) Tax effect on sale of shares	-	-	-	4.5	4.5
Tax effect of above adjustments	(0.1)	(0.2)	(0.1)	(2.2)	(2.6)
Total significant items	0.3	0.3	0.2	10.3	11.1
Fair value (gain) / loss on financial instruments net of tax	(31.9)	(4.9)	8.2	1.3	(27.3)
Associate profit after tax	-	-	-	(0.4)	(0.4)
<b>Underlying NPAT</b>	<b>30.0</b>	<b>(5.8)</b>	<b>5.0</b>	<b>(10.0)</b>	<b>19.2</b>

- a) Costs incurred in respect of identifying, establishing and integrating new businesses started and new companies acquired.
- b) Unrealised foreign exchange losses on foreign currencies held.
- c) Recognition of Empire loan at present value and interest revenue unwind.
- d) Costs associated with rationalisation and retirement of staff.
- e) Impairment of the contract to sublease Brisbane office space.
- f) Default by a wholesale counterparty that went into administration.
- g) Loss recognised on disposal of Empire shares held.
- h) Costs incurred for the establishment of the unsecured senior bank guarantee facility with Liberty International Underwriters Singapore.
- i) Tax impact of non-deductible acquisition costs for Source in FY2015.
- j) De-recognition of deferred tax asset upon sale of Metgasco and Empire shares.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

FY2015

\$m	Business Energy AU	Business Energy US	Generation	Other	Group
<b>Statutory EBITDAF</b>	<b>53.7</b>	<b>0.8</b>	<b>46.8</b>	<b>(14.6)</b>	<b>86.7</b>
<i>Significant items</i>					
a) New business establishment costs	0.2	-	-	2.0	2.2
b) Unrealised foreign exchange gain	-	-	-	(0.2)	(0.2)
c) Arbitration costs	-	-	0.6	-	0.6
d) Staff rationalisation cost	-	-	-	1.5	1.5
e) Effective interest revenue on associate loan	-	-	-	(0.2)	(0.2)
f) Swap termination payment	3.8	-	-	-	3.8
Total significant items	4.0	-	0.6	3.1	7.7
<b>Underlying EBITDAF</b>	<b>57.7</b>	<b>0.8</b>	<b>47.4</b>	<b>(11.5)</b>	<b>94.4</b>
 <b>Statutory NPAT</b>	 <b>96.4</b>	 <b>-</b>	 <b>(5.9)</b>	 <b>(24.6)</b>	 <b>65.9</b>
<i>Significant items</i>					
EBITDAF adjustments (above)	4.0	-	0.6	3.1	7.7
g) Impairment of development and gas assets	-	-	26.9	16.1	43.0
Tax effect of above adjustments	(1.2)	-	(8.3)	(5.8)	(15.3)
Total significant items	2.8	-	19.2	13.4	35.4
Fair value (gain) / loss on financial instruments net of tax	(67.8)	(0.7)	(0.5)	0.7	(68.3)
Associate profit after tax	-	-	-	(0.7)	(0.7)
<b>Underlying NPAT</b>	<b>31.4</b>	<b>(0.7)</b>	<b>12.8</b>	<b>(11.2)</b>	<b>32.3</b>

- a) Costs incurred in respect of establishing our metering business and acquiring and integrating Source.
- b) Unrealised foreign exchange gains on foreign currency held.
- c) Costs net of contributions received in respect of the Neerabup contractor arbitration.
- d) Costs associated with changes and rationalisation of staff.
- e) Recognition of Empire loan at present value and interest revenue unwind.
- f) Final negotiated payment made in January 2015 as part of arrangement for bringing forward termination date of counterparty swap by 4 years to 30 June 2015.
- g) Impairment of gas and power station development assets.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### A1.2 Reconciliation of movements in cash and cash equivalents

\$m	FY2016	FY2015	Change	%
<b>Operating activities</b>				
EBITDAF	68.4	81.5	(13.1)	(16%)
Interest income	4.3	5.2	(0.9)	(17%)
Share based payments	2.6	1.3	1.3	100%
Provision for onerous contract	1.8	-	1.8	N/A
Sale of equity accounted investment	3.4	-	3.4	N/A
Net change in working capital	39.4	56.8	(17.4)	(31%)
Net tax paid	-	(0.6)	0.6	N/A
<b>Net operating cash flows</b>	<b>119.9</b>	<b>144.2</b>	<b>(24.3)</b>	<b>(17%)</b>
<b>Development investing activities</b>				
Capital expenditure - development projects	-	(1.6)	1.6	N/A
Capital expenditure - gas exploration	-	(1.3)	1.3	N/A
Capital expenditure - other PPE and Intangibles	(26.2)	(12.3)	(13.9)	113%
<b>Net capital expenditure cash flows</b>	<b>(26.2)</b>	<b>(15.2)</b>	<b>(11.0)</b>	<b>72%</b>
<b>Financing and other investing activities</b>				
Repayment of project borrowings	(5.9)	(5.1)	(0.8)	16%
Loan to Empire	-	(1.5)	1.5	N/A
Net drawdown / (repayment) of electricity sales borrowings	(15.8)	(96.8)	81.0	(84%)
Sale of shares	11.8	-	11.8	N/A
Purchase of shares	(1.5)	(2.7)	1.2	(44%)
Payment for acquisition of subsidiary, net of cash acquired	(7.9)	(5.8)	(2.1)	36%
Dividends paid	(27.9)	(27.7)	(0.2)	1%
Net interest paid	(26.9)	(25.8)	(1.1)	4%
<b>Other financing and investing cash flows</b>	<b>(74.1)</b>	<b>(165.4)</b>	<b>91.3</b>	<b>(55%)</b>
<b>Net increase in cash</b>	<b>19.6</b>	<b>(36.4)</b>	<b>56.0</b>	<b>N/A</b>
Effect of exchange rate changes on cash and cash equivalents	0.1	0.4	(0.3)	(75%)
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>19.7</b>	<b>(36.0)</b>	<b>55.7</b>	<b>N/A</b>
<b>Closing cash balances</b>				
Free cash held in ERM Power	53.6	32.6	21.0	64%
Free cash held in projects	13.7	12.8	0.9	7%
<b>Total free cash</b>	<b>67.3</b>	<b>45.4</b>	<b>21.9</b>	<b>48%</b>
Restricted cash	125.2	127.4	(2.2)	(2%)
<b>Total closing cash balances</b>	<b>192.5</b>	<b>172.8</b>	<b>19.7</b>	<b>11%</b>

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### A1.3 Power station assets

\$m	FY2016	FY2015	Change	%
<b>Oakey power station 100%</b>				
PPE	216.6	219.1	(2.5)	(1%)
Net tangible assets	225.3	226.9	(1.6)	(1%)
Borrowings	-	-	-	-
\$m	FY2016	FY2015	Change	%
<b>Oakey power station 100%</b>				
EBITDAF including interest income	11.2	22.8	(11.6)	(51%)
EBIT	3.4	14.9	(11.5)	(77%)
Interest expense	-	-	-	-
Depreciation	(7.9)	(7.9)	-	-
\$m	FY2016	FY2015	Change	%
<b>Neerabup power station 50%</b>				
PPE	164.8	169.6	(4.8)	(3%)
Net tangible assets	(3.8)	(8.0)	4.2	(52%)
Borrowings	193.6	198.0	(4.4)	(2%)
\$m	FY2016	FY2015	Change	%
<b>Neerabup power station 50%</b>				
EBITDAF including interest income	25.6	25.1	0.5	2%
EBIT	21.2	20.7	0.5	2%
Interest expense	(16.5)	(16.9)	0.4	(2%)
Depreciation	(4.4)	(4.4)	-	-

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### A1.4 Supplementary information

\$m unless otherwise stated	FY2016	FY2015	FY2014	FY2013	FY2012
Revenue	2,763.3	2,316.4	2,076.5	1,569.6	937.9
EBITDAF including interest income	72.7	86.7	74.2	69.8	85.4
Underlying EBITDAF	81.2	94.4	84.6	78.4	70.1
Statutory NPAT attributable to equity holders	35.8	65.9	(23.9)	36.5	34.2
Underlying NPAT	19.2	32.3	26.3	20.0	13.9
Operating cash flow before working capital changes	80.6	87.4	71.8	64.0	61.1
Load sold (TWh)	20.5	16.7	14.1	11.1	8.3
Shares on issue (millions of shares)	245.8	242.0	239.3	203.3	168.3
Share price (\$ per share)	0.84	2.32	1.82	2.50	2.00
Market capitalisation <sup>1</sup>	206.5	561.4	435.5	508.3	336.6
Weighted average shares (number of shares)	244.7	241.1	226.3	175.7	164.7
Statutory EPS (cents per share)	14.63	27.4	(10.6)	20.8	20.7
Underlying EPS (cents per share)	7.8	13.4	11.6	11.4	8.4
Dividends paid in period (cents per share)	12.0	12.0	11.5	9.5	7.5
Franking %	17%	100%	100%	100%	100%
Annual pre-tax dividend yield <sup>2</sup>	14.3%	5.2%	6.3%	3.8%	3.8%
CFPS (cents per share) <sup>3</sup>	32.9	36.3	31.7	36.4	37.1

<sup>1</sup> Based on share price at balance date and shares on issue.

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

<sup>3</sup> 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 YEAR ENDED 30 JUNE 2016

### A1.5 Historical figures

\$m Unless indicated	FY2016	FY2015	FY2014	FY2013	FY2012
<b>Interest income by business division</b>					
Electricity sales Australia	2.5	3.2	3.3	2.9	3.6
Electricity sales US	-	-	-	-	-
Generation	0.5	0.6	0.8	0.7	1.0
Other	1.3	1.4	2.2	2.3	2.8
<b>Total interest income</b>	<b>4.3</b>	<b>5.2</b>	<b>6.3</b>	<b>5.9</b>	<b>7.4</b>
<b>Electricity sales Australia division statistics<sup>1</sup></b>					
Load (TWh)	18.1	16.1	14.1	11.1	8.3
Underlying gross margin	76.1	76.1	59.1	51.7	36.8
Underlying operating expenses	(21.2)	(21.5)	(17.9)	(12.5)	(8.7)
Underlying gross margin \$ per MWh	4.20	4.72	4.20	4.67	4.45
Underlying operating expenses \$ per MWh	(1.17)	(1.34)	(1.27)	(1.13)	(1.06)
Underlying EBITDAF before interest income	54.8	54.6	41.3	39.1	27.3
<b>Electricity sales US division statistics<sup>1</sup></b>					
Load (TWh)	2.4	0.6	-	-	-
Underlying gross margin	15.4	6.7	-	-	-
Underlying operating expenses	(15.4)	(5.9)	-	-	-
Underlying gross margin \$ per MWh	6.45	10.01	-	-	-
Underlying operating expenses \$ per MWh	(6.45)	(8.85)	-	-	-
Underlying EBITDAF before interest income	0.0	0.8	-	-	-
<b>Gas division statistics</b>					
Exploration expenditure capitalised	-	1.6	2.9	7.4	2.6
Development expenditure capitalised	-	-	1.3	8.3	-
Underlying EBITDAF before interest income	-	1.2	0.9	(0.8)	(1.0)
<b>Generation division statistics<sup>1</sup></b>					
Oakey	11.5	22.7	28.6	28.5	26.9
Neerabup	25.1	25.2	23.1	21.3	23.1
Generation development and operations	(1.2)	(1.1)	(1.2)	(2.2)	(2.9)
Underlying EBITDAF before interest income	35.4	46.8	50.5	47.6	47.1
<b>Corporate division statistics<sup>1</sup></b>					
Total revenue	3.5	2.7	1.6	1.5	2.6
Total expenses	(15.5)	(16.6)	(16.0)	(15.0)	(13.3)
Underlying EBITDAF before interest income	(12.0)	(13.9)	(14.4)	(13.5)	(10.7)

<sup>1</sup> Excluding significant items – refer to A1.1 for further details.

# ERM Power Limited

## Management Discussion and Analysis (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 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 tax
ERCOT	Electric Reliability Council of Texas
1H	First half of financial year
2H	Second half of financial year
FY	Financial year ended or ending 30 June
GWh	Gigawatt hours is a unit of energy representing one billion watt hours
IFRS	International Financial Reporting Standards
MWh	Megawatt hours is a unit of energy representing one million watt hours
NEM	The National Electricity Market
NPAT	Net profit after tax
PJM	Pennsylvania, Jersey, Maryland Power Pool
Sleeving	Credit sleeving through intermediary to trade and hedge with third parties.
SME	Small to Medium Enterprise
Source	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 YEAR ENDED 30 JUNE 2016

In accordance with the Corporations Act 2001, the directors of ERM Power Limited ("Company") report on the Company and the consolidated entity ERM Power Group ("Group"), being the Company and its controlled entities, for the year ended 30 June 2016 ("the year").

### 1. PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were:

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

### 2. OPERATING RESULTS FOR THE YEAR

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

### 3. REVIEW OF OPERATIONS

A review of the operations of the Group can be found in the MD&A on pages 2 to 20.

### 4. BUSINESS STRATEGIES AND PROSPECTS

A review of the business strategies and prospects of the Group can be found in the MD&A on pages 2 to 20.

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

#### 5.1 Purchase of Greensense Pty Ltd

On 6 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.

#### 5.2 Purchase of LumaLED Pty Ltd

On 7 March 2016 the Group acquired LumaLED Pty Ltd (LumaLED) for \$3.7m including a payment of up to \$0.7m which is contingent on first-year earnings. LumaLED specialises in energy-efficient lighting for industrial and commercial businesses. It develops and distributes LED products throughout Australia.

#### 5.3 Bank guarantee Facility with Liberty International Underwriters

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.

#### 5.4 Long term Electricity Swap Contract

On 22 February 2016 finalised an agreement with Sunset Power International Pty Ltd (Sunset) providing ERM with access to the respective hedge volumes under the agreement out to 31 December 2022. Further details are contained in Note 30 of the financial report.

### 6. EVENTS AFTER BALANCE DATE

On 12 August 2016 the loan of \$14.9m to Empire Oil & Gas NL (Empire) was repaid ahead of the scheduled repayment date of 31 August 2016.

Since 30 June 2016 there have been no other matters or circumstances not otherwise dealt with in the Financial Report that have significantly or may significantly affect the Group.

### 7. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Apart from the matters referred to in the MD&A on pages 2 to 20, information as to other likely developments in the operations of the Group and the expected results of those operations in subsequent financial years has not been included in this report because the directors believe this could result in unreasonable prejudice to the Group.

# ERM Power Limited

## Directors' Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 8. PROCEEDINGS ON BEHALF OF THE COMPANY

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

### 9. DIVIDENDS

Subsequent to year end, the directors have declared a final dividend in respect of the 2016 financial year as follows:

Amount:	6.0 cents per share
Franking:	Unfranked
Date Payable:	6 October 2016

The dividend has not been provided for in the 2016 financial statements.

During the year the Company paid an interim unfranked dividend of 6.0 cents per share (2015: 6.0 cents fully franked), together with a partially franked final dividend of 6.0 cents per share in respect of the previous year.

### 10. DIRECTORS AND COMPANY SECRETARIES

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

Anthony (Tony) Bellas	Independent Non-Executive Chair
Trevor St Baker	Non-Executive Deputy Chair and Founder
Albert Goller	Independent Non-Executive Director
Martin Greenberg	Independent Non-Executive Director
Antonino (Tony) Iannello	Independent Non-Executive Director
Wayne St Baker	Non-Executive Director (appointed 1 March 2016)
Jonathan (Jon) Stretch	Managing Director and CEO

#### Information on Directors and Company Secretaries

**Anthony Bellas** MBA, BEc, DipEd, FCPA, FAIM, FAICD.

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

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

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

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

GraphiteCorp Limited	Since August 2015
Shine Corporate Ltd	Since March 2013
Corporate Travel Management Limited	Since June 2010

#### *Special Responsibilities*

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

# ERM Power Limited

## Directors' Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

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

In 1980 Trevor founded companies which have evolved into ERM Power. For the first 15 years, as principal of ERM Consultants Pty Ltd, Trevor created a successful boutique energy consulting and advisory firm. In the late 1990's, as Executive Chair of Energy Resource Managers Pty Ltd, Trevor established one of Australia's first private power development companies, developing firstly the Oakey power station in Queensland, and then a further five new gas-fired power stations in Western Australia, NSW and Queensland.

Trevor plays an active role in the broader energy industry with current positions including alternate director on the Board of Queensland Resources Council Ltd, director roles on the Boards of the Energy Policy Institute of Australia Limited, Sunset Power Pty Ltd, St Baker Energy Holdings Pty Ltd, as well as new-start energy R&D companies: Kortek Industries Pty Ltd, United States company Nth Degree Technologies Worldwide Inc., Southern Cross Printed Electronics Limited, Tritium Pty Ltd (of which he is Chair) and SMR Nuclear Technology Pty Ltd.

### *Special Responsibilities*

Member of the Nomination Committee and Chair of the operating committee of NewGen Neerabup Partnership.

### **Albert Goller**

Albert was appointed as a director in January 2015, bringing considerable management and marketing expertise, garnered through a very successful executive career in Germany, Canada, the USA and Australia at the global multinational conglomerate Siemens AG. He was Chair and Managing Director of Siemens Ltd in Australia between 2002 and 2012.

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

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

### *Special Responsibilities*

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

### **Martin Greenberg** BBus, DipCom, FCPA, JP, FAICD

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

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

### *Special Responsibilities*

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

# ERM Power Limited

## Directors' Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

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

Tony is a director of the listed companies shown below and Non-Executive Chair of D'Orsogna Ltd. He was previously Chair of HBF Health Ltd, MG Kallias Group of Companies, a director of the Water Corporation of Western Australia and a member of The Murdoch University Senate. Prior to embarking on a career as a non-executive director, Tony was the Managing Director of Western Power Corporation until its separation into four separate businesses. Previously he held a number of senior executive positions at BankWest.

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

Empire Oil & Gas NL (Chair)	Since November 2013
AusNet Services Limited	June 2006 – July 2015
Energia Minerals Limited	March 2010 – October 2014

### *Special Responsibilities*

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

**Wayne St Baker** FAICD, GDBA, Dip. Mech.Eng.

Wayne was reappointed as a director on 1 March 2016, bringing to the business more than 40 years' experience as a chair, executive director and non-executive director of listed and private companies in Australia and SE Asia across the industrial sector.

Wayne is currently a non-executive director of ProComp Energy Machinery Co. Ltd (China). From March 2010 to April 2016 he was a non-executive director of CAPS Australia, and until 2009 was the Managing Director of Champion Compressors, enabling the company to expand from a small private service and sales company to become a publicly listed manufacturer and market leader in Australia and Asia. Wayne has held global business development roles for divisions of United Technology Corporation (USA). Wayne was previously a non-executive director on the ERM Power Board between July 2007 and June 2010.

**Jon Stretch** BSc (Melb), MAICD

Jon joined ERM Power as Managing Director and Chief Executive Officer (MD & CEO) on 2 February 2015. He is an experienced chief executive with broad international experience in the information technology (IT), telecommunications and industrial sectors.

Jon's background in systems and process engineering, and business-to-business (B2B) and business-to-consumer (B2C) sales and marketing has enabled him to lead business transformation and growth in Australia and internationally.

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

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

### *Special Responsibilities*

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

# ERM Power Limited

## Directors' Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### Company Secretary

Phil Davis LLB, GAICD, AGIA

Phil Davis joined ERM Power in December 2007 and was appointed Group General Counsel and Company Secretary in October 2015. During this time his roles and responsibilities have covered the whole of ERM Power's business including generation, sales, gas activities, compliance and corporate governance. Phil has practiced as a lawyer for more than 17 years in the corporate, construction, property, energy and resource sectors.

Phil has advised ERM Power throughout its transition from a private power station developer to an integrated energy company listed on the Australian Securities Exchange.

### Former Company Secretary

Peter Jans LLB (Hons), MA, MAICD

Peter joined the Group in July 2007 and was appointed as Company Secretary from March 2008 until October 2015. He is a member of the Queensland Law Society, Barrister and a Solicitor of the Supreme Court of Victoria and a Solicitor of the Supreme Court of Queensland and the High Court of Australia. He has practised as a lawyer for over 30 years in the corporate, property, international investment, energy and resource sectors. After an active career in private practice, Peter became General Counsel of CS Energy in the late 1990s and was involved in major electricity generation projects, including Callide C, Swanbank E and Kogan Creek. Peter was General Counsel and Company Secretary of Queensland Gas Company Limited from April 2005 until July 2007, during which period the company transformed from junior explorer to a major gas producer.

## 11. MEETINGS OF DIRECTORS

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

	Board meetings		Meetings of committees							
			Audit & Risk		Nomination		Remuneration		HSES	
	A	B	A	B	A	B	A	B	A	B
Tony Bellas	14	14	5	6	3	3	3	4	2	4
Trevor St Baker	10	11 <sup>2</sup>	**	**	2	3	**	**	**	**
Albert Goller	13	14	6	6	3	3	4	4	**	**
Martin Greenberg	14	14	6	6	3	3	4	4	**	**
Tony Iannello	13	14	6	6	3	3	4	4	**	**
Wayne St Baker <sup>1</sup>	6	6	**	**	**	**	**	**	**	**
Jon Stretch	14	14	**	**	**	**	**	**	3	4

1. Appointed 1 March 2016

2. Trevor St Baker did not attend three Board meetings held during the year as required under s195 of the Corporations Act 2001: a director of a public company who has a material personal interest in a matter to be considered should not be present at the meeting, nor vote on the matter being considered.

A = number of meetings attended

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

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

# ERM Power Limited

## Directors' Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 12. DIRECTORS' INTERESTS

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

	Ordinary shares
Tony Bellas	106,250
Trevor St Baker	63,516,907
Albert Goller	270,000
Martin Greenberg	571,794
Tony Iannello	202,839
Wayne St Baker	1,685,290
Jon Stretch	1,446,216

### 13. ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's environmental obligations are regulated by relevant federal, state and local government ordinances. During the year ended 30 June 2016, the Group did not experience any reportable environmental incidents, nor were there any breaches of any environmental licence conditions.

### 14. INDEMNIFICATION AND INSURANCE OF OFFICERS

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

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

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

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

### 15. AUDITOR'S INDEPENDENCE DECLARATION

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

### 16. NON AUDIT SERVICES

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

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

Other agreed-upon procedures in relation to the entity and any other entity in the consolidated Group

2016	2015
\$	\$
<b>134,400</b>	162,000

### 17. ROUNDING OF AMOUNTS

The amounts contained in this report and in the financial report have been rounded to the nearest thousand dollars (where rounding is applicable) under the option available to the Group and the Company under ASIC Class Order 98/100. The Group and the Company are entities to which the class order applies.

# ERM Power Limited

## Directors' Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 18. REMUNERATION REPORT

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

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

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

Tony Bellas

**Chairman**

25 August 2016

# ERM Power Limited

## Remuneration Report

FOR THE YEAR ENDED 30 JUNE 2016

The directors present the Remuneration Report for ERM Power Limited ("Company") and its consolidated entities ("Group") for the year ended 30 June 2016.

### 1. REMUNERATION FRAMEWORK

#### 1.1 Role of the Remuneration Committee

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

The Committee oversees governance procedures and policy on remuneration including:

- General remuneration practices,
- Performance management,
- Equity plans and incentive schemes, and
- Recruitment and termination.

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

- Attract, develop and retain first class director and executive talent,
- Create a high performance culture by driving and rewarding executives for achievement of the Group's strategy and business objectives, and
- Link incentives to the creation of shareholder value.

In undertaking its role, the Committee may seek the advice of external remuneration consultants who provide analysis to ensure remuneration levels are set to reflect the market for comparable roles.

In reviewing remuneration levels for FY2016 and FY2017, the committee referred to the benchmarking analysis provided by Hay Group Pty Limited in May 2015, the process for reporting this information to the Committee was outlined in the FY2015 Remuneration Report.

#### 1.2 Key Management Personnel

Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly and include directors of the Company.

The term KMP refers to the following persons who were KMPs during the entire financial year unless otherwise indicated.

##### Non-Executive Directors

Tony Bellas  
Trevor St Baker  
Albert Goller  
Martin Greenberg  
Tony Iannello  
Wayne St Baker (appointed 1 March 2016)

##### Senior Executives

Jonathan (Jon) Stretch	MD & CEO
William (Mitch) Anderson	Executive General Manager (EGM) Business Energy (US)
Gregg Buskey	EGM Corporate Finance & Strategy
David Guiver	EGM Trading
Derek McKay	EGM Generation, Gas & Metering
Stephen (Steve) Rogers	EGM Business Energy (AU)
Alastair (James) Spence (appointed 28 September 2015)	Chief Financial Officer (CFO)
Peter Jans (until 1 October 2015)	Group General Counsel & Company Secretary
Graeme Walker (until 28 September 2015)	CFO

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



# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 2. REMUNERATION

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

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

Fees received by each non-executive director comprise a base fee together with additional fees dependent on the various offices they hold as set out in Table 1, with superannuation contributions made at the rates and limits prescribed from time to time by legislation. Non-executive directors do not receive any performance-related remuneration or retirement allowances outside of statutory superannuation entitlements. The accounting value of fees paid to each non-executive director is shown in Table 2.

**Table 1**

<b>Non-executive Director Fees (excluding superannuation)</b>	<b>FY2016</b>	<b>FY2015</b>
	<b>\$</b>	<b>\$</b>
Chair	190,000	190,000
Non-executive directors	108,000	108,000
Deputy Chair (in addition to above fee)*	30,000	N/A
<b>Additional fees</b>		
Strategy Lead*	25,000	N/A
Audit Committee - chair	20,000	20,000
Audit Committee - member	10,000	10,000
Remuneration Committee - chair	10,000	10,000
Remuneration Committee - member	5,000	5,000
Representation on non-wholly owned subsidiary Boards	25,000 each	25,000 each

\* Effective 1 July 2015

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

Table 2 – Directors' Fees

		Short-term benefits			Post-employment benefits	Total remuneration per income statement
		Cash salary and fees	Additional fees <sup>1</sup>	Non-monetary benefits <sup>2</sup>	Superannuation entitlement	
FY		\$	\$	\$	\$	\$
Tony Bellas	2016	205,000	-	8,848	19,308	233,156
	2015	205,000	75,000	10,712	18,783	309,495
Trevor St Baker	2016	188,000	-	14,487	16,554	219,041
	2015	139,705	45,000	22,509	14,572	221,786
Albert Goller <sup>3</sup>	2016	123,000	-	1,080	11,685	135,765
	2015	58,943	10,000	-	5,600	74,543
Martin Greenberg	2016	133,000	-	-	12,635	145,635
	2015	133,000	45,000	-	14,172	192,172
Tony Iannello	2016	128,000	-	-	12,160	140,160
	2015	128,000	45,000	-	13,816	186,816
Wayne St Baker <sup>4</sup>	2016	36,000	-	-	3,420	39,420
	2015	-	-	-	-	-
<b>Total</b>	<b>2016</b>	<b>813,000</b>	<b>-</b>	<b>24,415</b>	<b>75,762</b>	<b>913,177</b>
	<b>2015</b>	<b>664,648</b>	<b>220,000</b>	<b>33,221</b>	<b>66,943</b>	<b>984,812</b>

Table 2 Notes:

1. Special exertion fees are in accordance with the ERM Power Limited constitution as were outlined in the FY2015 Remuneration Report.
2. Non-monetary benefits include health assessments, car parking benefits and associated FBT.
3. Appointed 1 January 2015.
4. Appointed 1 March 2016.

## 2.2 Remuneration policy of MD & CEO and Senior Executives and link to performance

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

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

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

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

- Base pay and benefits, including superannuation for Australian employees, or retirement contributions for US employees,
- Short term and long term incentives, and
- Other discretionary cash or equity based incentives.

In accordance with the objective of ensuring that executive remuneration is aligned to Group performance without encouraging undue risk-taking, a significant portion of executive's target pay is at risk. The Board considers this combination an effective way to align incentives to shareholder value (refer section 2.2.2). Short term incentives (STIs) are focused on achieving annual profit and operational targets, whilst long term incentives (LTIs) are focused on alignment with growth in shareholder returns assessed over a three year period, as well as encouraging talent retention.

Table 3 sets out the current named Senior Executives' target remuneration mix for FY2016. It reflects the STI opportunity for the current year that would be available if the performance conditions are satisfied at target, and the value of the LTI as determined by the 10 day volume weighted average price (VWAP) of the Company's shares as awarded at the beginning of the period.

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

**Table 3 – FY2016 Executive Target Remuneration Mix**

	Base pay and superannuation or retirement benefit	Target short term incentive	Target long term incentive	Total target remuneration
MD & CEO	40.3%	30.2%	29.5%	100%
CFO	54.5%	18.2%	27.3%	100%
Other Senior Executives	56.6%	16.3%	27.1%	100%

### 2.2.1 Base salary and benefits

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

In January 2016, the Company enacted a basic safe harbor 401k retirement plan for the Group's US employees, by matching employee contributions on the first 3% of deferred compensation plus a 50% match on deferrals between 3% and 5%, up to the employee elective deferral limits which for calendar 2016 was US\$18,000 or US\$24,000 for those aged 50 or over at the end of the calendar year.

For Australian employees, superannuation is included in fixed remuneration up to the maximum superannuation contribution base set by the relevant legislation.

For FY2016, consistent with the process for all employees, fixed remuneration was increased by CPI for Senior Executives, applied prorate if there had been a change in role and associated remuneration during the prior period, with the exception of the MD & CEO who maintained the same fixed remuneration as granted at commencement of employment, one Senior Executive receiving an additional increase in order to align remuneration with the median level of comparative roles, and the benefit of the US retirement scheme as applied to the EGM Business Energy (US).

### 2.2.2 Incentive Schemes

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

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

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

For shareholders, benefits associated with the incentive schemes include:

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

For employees, benefits associated with the incentive schemes include:

- Provision of clear targets, stretch targets and structures for achieving rewards,
- Recognition and reward for achievement, capability and experience, and
- Delivery of reward for contribution to growth in shareholder wealth.

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

- Financial measures – including underlying net profit after tax (underlying NPAT), underlying earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains/losses on financial Instruments designated at fair value through profit and loss, excluding significant items (underlying EBITDAF), and/or operating cash flow, etc.
- Zero harm – safety and environment performance measures, including lost time injury frequency rates, medically treated injury frequency rates and environmental measures.
- Market based – total shareholder return (TSR), earnings per share, share price improvement, etc.

### Malus and Clawback

During FY2016, the Company introduced malus and clawback provisions to its incentive schemes. Under these provisions, awards will lapse, be forfeit or a participant may be required to reimburse the Company all or part of the cash received as net proceeds on the sale of any award if, in the opinion of the Board:

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

### **Short term incentives**

STIs are provided to most employees. The awarding of STIs is based on performance against Key Performance Indicators (KPIs) or targets across three components; individual, team and corporate. Each of these components is allocated a weighting and include both targets and stretch targets that are set at the beginning of each financial year. The MD & CEO's targets and the corporate targets are set by the Board, whilst the individual and team targets are set under the direction of the MD & CEO. The Committee is responsible for determining the STI to be paid based on an assessment of whether the KPIs are met. To assist in this assessment, the Committee receives detailed reports on performance from management. The Committee has the discretion to adjust STIs downwards in light of unexpected or unintended circumstances.

At the end of each financial year, achievement of targets is measured and applied against the target participation rate determined for each individual. These participation rates range between 10% and 30% of annual average base salary, with the potential to achieve up to 150% of these levels (i.e. 15% to 45%) for employees other than the MD & CEO and CFO, whose maximum for the FY2016 STI was 100% and 50% respectively (see Table 4 below). STI payments may be offered by way of cash and/or equity at the election of the Board. Any equity normally vests immediately.

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

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

During the reporting period Jon Stretch's FY2015 STI was paid as per his contractual arrangements agreed on commencement of employment and advised to the ASX on 30 October 2014. As per Table 7, half was paid in cash following the release of the FY2015 financial results and the remaining half in equity as approved at the 2015 Annual General Meeting and which vested on 30 June 2016.

Corporate targets for FY2016 included the following elements and weightings as set by the remuneration committee at the beginning of the reporting period, which aligned to the Group's strategic and business objectives with the following factors and weightings to be considered:

Weighting	KPI
40%	Profit delivery against the approved business plan.
30%	Positioning of the Company through growth in customer numbers and increases in: <ul style="list-style-type: none"> <li>• C&amp;I Sales Gross Margin,</li> <li>• SME Sales Growth, and</li> <li>• US Sales.</li> </ul>
10%	Oakey Power Station optimization.
20%	Execution of Board approved strategies and effective governance and management processes.

- No deductions if all safety and compliance targets and other governance standards are met.

For FY2016, the Committee exercised its discretion and withheld all performance-based STI awards for both Senior Executives and other employees within the Group. This is consistent with the Company's strategy of aligning reward to performance. During the Group's transformation and investment

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

in new businesses, management recognises the ongoing commitment of employees to the medium-term strategy for growth and will consider other means of remuneration in FY2017 in the form of long-term incentives to support retention and alignment to business outcomes.

Table 4 provides details of the STI outcomes for current KMP in the reporting period and the comparatives for the FY2015 STI paid in the reporting period.

**Table 4 – STI Achievement**

	FY2016 STI		FY2015 STI Paid in FY2016	
	Actual	Maximum	Actual	Maximum
Jon Stretch	0%	100%	100%	100%
Mitch Anderson	0%	45%	27%	45%
Gregg Buskey	0%	45%	32%	45%
Dave Guiver	0%	45%	37%	45%
Derek McKay	0%	45%	30%	45%
Steve Rogers	0%	45%	32%	45%
James Spence <sup>1</sup>	0%	50%	N/A	N/A

1. Appointed 28 September 2015.

### Long term incentives

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

For Australian employees, LTIs are provided to selected employees in the form of units in the Company's Long Term Incentive Share Trust (LTIST) as established in 2010. The corresponding equity is issued into the LTIST and units may vest subject to satisfaction of performance and service conditions. During the vesting period, the units are held beneficially on behalf of the participants, and thus the participant enjoys many of the same benefits as the holder of ordinary shares; with entitlement to dividends and the right to direct the trustee as to how to cast their vote at a meeting of members, although participants are not eligible for the Dividend Reinvestment Plan.

For US employees, a "Phantom Equity Plan" has been established to emulate, as much as possible, the Australian LTIST plan, however no equity is actually issued. Instead, US participants are given an award of "phantom shares", based on the relevant ASX:EPW market value of shares as at the grant date. The number of phantom shares will convert to a cash salary payment after the expiry of the performance period at which time the value to be paid is determined based on the market value of shares at the end of the performance period, with the same performance and service criteria as Australian participants. No dividend or voting rights are associated with the phantom shares.

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

Subject to Board discretion, the following will apply to LTI awards on termination of employment:

Circumstance	Potential benefit/treatment
Death, serious injury, disability or serious illness that results in the employee leaving ERM Power "prematurely".	All LTI units will vest.
Resignation or termination for cause.	All unvested LTI units will be forfeit.
Redundancy, retirement or termination by mutual agreement.	The leaver will continue to be a participant in the LTI plan for unvested LTI units until the end of the performance period. If the participant dies prior to vesting, the LTI units will immediately vest (subject to limits outlined in Corporations Act 2001 as they relate to Termination Payments).

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

The LTI target rate determined for each individual is based on a percentage of annual average salary, and for the reporting period it was based on awards of 75% for the MD & CEO as approved by shareholders at the 2015 AGM, and 50% for executive KMP (pro-rata for commencement during the period).

LTI issues made in the reporting period will vest subject to continuation of employment through to 30 June 2018 and total security holder return (TSR) performance. The TSR vesting condition will be determined by the Company's relative TSR performance over the three year period commencing 1 July 2015, measured against the TSR performance of a comparator group being those companies in the Standard & Poor's (S&P) ASX 300 index at the beginning of the performance period. At the end of the three year period, vesting is determined on the following basis:

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

The performance hurdle will only be satisfied where the TSR value is positive. If the TSR value is negative, the performance hurdle will not be satisfied, and the underlying shares in the LTIST will not vest.

Table 7 details the equity allocated to KMP in the reporting period, and for which the allocation to the MD & CEO was approved by shareholders at the 2015 Annual General Meeting. For accounting purposes, LTIs are shown at fair value as determined by the accounting standards and expensed over the performance period.

The Committee is responsible for assessing performance and the LTIs to be paid. To assist in this assessment, the Committee receives detailed independent reports from Orient Capital Pty Ltd calculating the TSR performance and ranking against the comparator group. For the FY2013 LTI award the Company's TSR was determined to be 47.42%, falling in the 84th percentile of the comparator group which in accordance with the vesting conditions resulted in 100% vesting.

The TSR for the FY2014 LTI, for which the three year performance period expired on 30 June 2016, was significantly affected by the falls in the Company's share price in October 2015 and June 2016. In August 2016 the Committee determined that the TSR vesting conditions required at the date of grant have not been met, and the FY2014 LTIs will be forfeited by all participants. This forfeiture will be shown in the FY2017 Remuneration Report.

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

We aim to align our Senior Executive remuneration to our strategic and business objectives and the creation of shareholder wealth. Table 5 below shows the Group's financial performance over the last five financial years as required by the Corporations Act 2001, together with the proportion of performance-based LTI vesting for KMP which metric is designed to align the interests of Senior Executives to the Company's shareholders. There will not always be a direct correlation between the statutory key performance measures and total variable remuneration awarded to Senior Executives due to the remuneration mix (see Table 3), which consists of a mixed focus (STI and LTI) on annual profit and operational targets set by the Board, and the ranking of TSR performance against peers.

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

Table 5 – Shareholder Wealth Financial Data

		Year ended 30 June 2016	Year ended 30 June 2015	Year ended 30 June 2014	Year ended 30 June 2013	Year ended 30 June 2012
		Actual	Actual	Actual	Actual	Actual
Revenue and other income	(\$m)	<b>2,763.3</b>	2,316.4	2,076.5	1,569.6	937.9
EBITDAF <sup>1</sup>	(\$m)	<b>68.4</b>	81.5	67.9	63.9	78.0
Statutory NPAT <sup>2</sup> attributable to equity holders	(\$m)	<b>35.8</b>	65.9	(23.9)	36.5	34.2
Underlying NPAT <sup>3</sup>	(\$m)	<b>19.2</b>	32.3	26.3	20.0	13.9
Basic earnings / (loss) per Share	(cents)	<b>14.6</b>	27.4	(10.6)	20.8	20.7
Underlying earnings per share	(cents)	<b>7.8</b>	13.4	11.6	11.4	8.4
Dividend per share	(cents)	<b>12.0</b>	12.0	12.0	10.5	8.5
Closing share price at 30 June	(\$)	<b>0.84</b>	2.32	1.82	2.50	2.00
3 year Total Shareholder Return	%	<b>(51.2)</b>	47.4	32.8	N/A	N/A
LTI vesting	%	<b>0.0</b>	100.0	77.9	N/A	N/A

1. Earnings before net interest costs, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit and loss. EBITDAF excludes any profit or loss from associates.
2. Statutory net profit after tax attributable to equity holders of the Company.
3. Underlying NPAT excludes the after tax effect of unrealised marked to market changes in the fair value of financial instruments, impairment and gains / losses on onerous contracts and other significant items. Underlying NPAT excludes any profit or loss from associates.
4. TSR outcomes are provided by an external supplier. The basic calculation of TSR is:

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

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

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

**Table 6 - Executive Remuneration**

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

Expensed in Income Statement												Supplementary Information <sup>12</sup>			
		Short term benefits				Post-employment benefits	Long term benefits			Termination Benefits <sup>6</sup>	Total remuneration per income statement <sup>12</sup>	Less: Accounting accruals	Add: STI vesting in current year <sup>13</sup>	Add: Long term equity vesting	Total remuneration vested
		Base salary-cash <sup>6</sup>	Non monetary benefits and annual leave accrual <sup>7</sup>	Other Benefits <sup>8</sup>	Short-term incentive <sup>9</sup>	Super-annuation / retirement entitlement <sup>10</sup>	Long-term Incentive Plan	Other equity based benefits <sup>11</sup>	LSL Accrual						
Jon Stretch <sup>1</sup> (MD & CEO)	2016	A\$ 780,692	26,010	139	151,175	19,308	144,139	595,123	1,671	-	1,718,257	(916,046)	317,675 <sup>c&amp;e</sup>	-	1,119,886
(2015 part-year for KMP appointment on 2 Feb 2015)	2015	A\$ 323,942	24,531	25,570	166,500	9,392	-	-	595	-	550,530	(191,626)	-	-	358,904
Mitch Anderson <sup>2</sup>	2016	US\$ 410,400	36,383	20,707	-	7,278	13,763	-	-	-	488,531	(29,351)	108,000 <sup>c</sup>	-	567,180
	2016	A\$ -	(19,313)	20,905	-	-	105,829	-	(49,124)	-	58,297	(36,159)	-	117,927	140,065
	2015	US\$ 166,667	24,021	-	45,000	-	-	-	-	-	235,688	(57,821)	-	-	177,867
	2015	A\$ 265,347	23,228	103,594	75,161	25,208	100,351	-	7,286	-	600,175	(198,222)	117,468 <sup>e</sup>	100,834	620,255
Gregg Buskey <sup>3</sup>	2016	A\$ 355,592	(3,926)	-	-	19,308	109,603	-	14,427	-	495,004	(118,371)	22,294 <sup>e</sup>	65,041	463,968
(2015 part-year for KMP appointment on 14 April 2015)	2015	A\$ 73,034	874	-	22,294	4,056	17,543	-	1,102	-	118,903	(41,438)	-	-	77,465
David Guiver <sup>3</sup>	2016	A\$ 361,752	13,547	-	-	19,308	83,766	50,110	17,817	-	546,300	(161,678)	27,351 <sup>e</sup>	65,562	477,535
(2015 part-year for KMP appointment on 14 April 2015)	2015	A\$ 77,727	5,867	-	27,351	4,056	13,300	10,542	3,837	-	142,680	(60,397)	-	-	82,283
Derek McKay	2016	A\$ 441,022	23,578	-	-	19,308	137,327	50,110	14,617	-	685,962	(209,813)	123,162 <sup>e</sup>	117,927	717,238
	2015	A\$ 418,964	(4,017)	-	123,162	30,577	89,561	38,199	15,881	-	712,327	(259,749)	102,101 <sup>e</sup>	100,834	655,513
Steve Rogers <sup>3</sup>	2016	A\$ 361,752	3,524	-	-	19,308	83,137	50,110	11,417	-	529,248	(144,626)	23,655 <sup>e</sup>	54,307	462,584
(2015 part-year for KMP appointment on 14 April 2015)	2015	A\$ 77,727	1,499	-	23,655	4,056	12,281	8,058	3,820	-	131,096	(48,814)	-	-	82,282
James Spence	2016	A\$ 366,201	15,165	50,421	-	14,481	37,414	29,652	751	-	514,085	(80,910)	-	-	433,175
(2016 part-year for KMP appointment on 28 Sept 2015)	2015	A\$ -	-	-	-	-	-	-	-	-	-	-	-	-	-
Peter Jans <sup>4</sup>	2016	A\$ 114,083	(1,015)	-	-	4,827	78,840	-	12,762	-	209,497	(90,587)	193,151 <sup>e</sup>	118,176	430,237
(2016 part-year for KMP cessation on 1 Oct 2015)	2015	A\$ 431,313	9,700	-	193,151	28,934	90,806	-	17,304	-	771,208	(310,961)	102,317 <sup>e</sup>	101,047	663,611
Graeme Walker (CEO)	2016	A\$ -	-	-	-	-	-	-	-	-	-	-	109,281 <sup>e</sup>	-	109,281
Graeme Walker (CFO) <sup>5</sup>	2016	A\$ 114,083	10,249	-	51,338	4,827	163,990	-	16,223	-	360,710	(240,645)	196,201 <sup>e</sup>	106,200	422,466
Graeme Walker (CEO)	2015	A\$ 182,135	-	-	109,281	17,303	13,419	-	-	-	322,138	(122,700)	-	-	199,438
Graeme Walker (CFO)	2015	A\$ 321,340	32,921	-	144,863	20,493	88,880	-	14,464	-	622,961	(278,760)	95,513 <sup>e</sup>	85,392	525,106
Philip St Baker (Former MD & CEO to 31 October 2014)	2016	A\$ -	-	-	-	-	-	-	-	-	-	-	-	-	-
	2015	A\$ 242,846	40,570	-	72,854	33,653	(385,673)	-	(46,871)	481,572	438,951	319,693	318,412 <sup>c&amp;e</sup>	246,472	1,323,528



# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### Table 6 Notes

1. Appointed 2 February 2015.
2. Transferred to US on 1 February 2015 with relocation expenses met by the Group. Existing LTI awards will continue to be expensed in Australia, whilst new LTI awards under the Phantom Equity Plan will be expensed and paid in US\$. Australian entitlement to LSL reversed.
3. Appointed as KMP on 14 April 2015. FY2015 remuneration expensed in that period whilst serving in previous role/s prior to the appointment as KMP is not disclosed, although award received during that time which will vest in a future period, are disclosed in Table 7.
4. Ceased as KMP (Group General Counsel & Company Secretary) on 1 October 2015. Only the compensation related to the services rendered whilst a KMP is disclosed.
5. Ceased as KMP (CFO) on 28 September 2015. Only the compensation related to the services rendered whilst a KMP is disclosed.
6. Each Senior Executive is employed under an on-going employment contract, for which the termination benefits are payable at the option of the Company in lieu of notice. The notice periods (by the employee or the Company) in respect of each of the executives listed is 6 months with the following exceptions:
  - Peter Jans and Graeme Walker: 9 months by the Company in certain circumstances.
  - Jon Stretch: 3 months by the Company in certain circumstances.
7. Non-monetary benefits include salary continuance insurance premiums paid for Australian employees, health insurance coverage for US residents, executive health assessments, use of company vehicle, car parking and other benefits associated with FBT.
8. Other benefits include one-off relocation expenses in regards to international relocations, and professional tax advice in respect of changes in residency.
9. No STIs in respect of FY2016 have been accrued. Jon Stretch's FY2015 STI payment by way of cash was accrued in FY2015. The balance awarded by way of equity was expensed at fair value as required under AASB2 in FY2016 after shareholder approval at the 2015 AGM.
10. During FY2015 Australian base salaries were increased but offset by an equivalent reduction in superannuation contributions to maintain total fixed remuneration.
11. Other equity benefits refer to the accounting expense of retention and commencement awards which will vest subject to service and performance conditions.
12. The amounts shown are as expensed in the income statement but which may not reflect the benefit actually received by the executive in that year. In accordance with AASB2, equity benefits include a portion of the value of equity that has not vested during the financial year as well as the present value of expected dividends over the vesting period. The amount included as remuneration does not necessarily reflect the benefit (if any) that may ultimately be realised by the executive if vesting occurs. Supplementary Information is provided to reflect the value of vested remuneration actually received by the executive in that year, with equity values based on the fair value as at the date of grant.  
Note: the 2015 comparative for Jon Stretch and Mitch Anderson has been restated due to Other Benefits (relocation expenses) incorrectly backed out as an "accounting accrual" to determine Total Remuneration Vested for the period.
13. STIs awarded during the period for prior year performance. Payments made in cash ("c") or equity ("e").

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

**Table 7 - Terms and conditions of equity grants and long term benefits**

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

	Award <sup>1</sup>	Service and performance criteria	Grant date	Nature of compensation	Fair Value at Grant Date		Equity balance at the start of the year	% Granted as compensation		Vested		Forfeit		Equity balance at the end of the year	Financial Year award may vest	Maximum Total Value of award that may vest <sup>11</sup>
					Total \$	per unit		Number	%	Number	%	Number	%			
Jon Stretch	STI 2015	Note 2	15/09/2015	Cash	A \$166,667				100%						2016	A \$ -
	STI 2015	Note 2	30/10/2015	Equity	A \$151,008	\$ 1.97		76,654	100%	76,654	100%				2016	A \$ -
	Performance Rights	Note 3	31/10/2014	Cash or Equity	A \$600,001	\$ 1.57		383,216	100%					383,216	2017	A \$ 4,878
	LTIST 2015	Note 6	30/10/2015	Equity	A \$159,665	\$ 1.14		140,057	100%					140,057	2018	A \$ 95,694
	LTIST 2016	Note 7	30/10/2015	Equity	A \$320,015	\$ 1.26		253,980	100%					253,980	2019	A \$239,847
Miltch Anderson	STI 2015	Note 2	11/09/2015	Cash	US \$108,000				60%						2016	US \$ -
	LTIST 2013	Note 4	26/10/2012	Equity	A \$117,927	\$ 1.51	78,149			78,149	100%				2016	A \$ -
	LTIST 2014	Note 5	8/11/2013	Equity	A \$132,586	\$ 1.99	66,626							66,626	2017	A \$ -
	LTIST 2015	Note 6	13/11/2014	Equity	A \$145,685	\$ 1.15	126,683							126,683	2018	A \$ 55,391
	LTIST 2016	Note 7	14/03/2016	Phantom Shares	A \$150,885	\$ 1.48		101,949	100%					101,949	2019	US \$ 63,520
Gregg Buskey	STI 2015	Note 2	11/09/2015	Equity	A \$104,328	\$ 2.17		48,031	71%	48,031	71%				2016	A \$ -
	LTIST 2013	Note 4	26/10/2012	Equity	A \$ 65,041	\$ 1.51	43,102			43,102	100%				2016	A \$ -
	LTIST 2014	Note 5	8/11/2013	Equity	A \$ 89,377	\$ 1.99	44,913							44,913	2017	A \$ -
	LTIST 2015	Note 6	13/11/2014	Equity	A \$105,034	\$ 1.15	91,334							91,334	2018	A \$ 39,935
	LTIST 2016	Note 7	8/07/2015	Equity	A \$108,376	\$ 1.44		75,261	100%					75,261	2019	A \$ 72,715
David Guiver	STI 2015	Note 2	11/09/2015	Equity	A \$120,932	\$ 2.17		55,675	82%	55,675	82%				2016	A \$ -
	LTIST 2013	Note 4	26/10/2012	Equity	A \$ 65,562	\$ 1.51	43,447			43,447	100%				2016	A \$ -
	LTIST 2014	Note 5	8/11/2013	Equity	A \$ 62,715	\$ 1.99	31,515							31,515	2017	A \$ -
	LTIST 2015	Note 6	13/11/2014	Equity	A \$ 62,168	\$ 1.15	54,059							54,059	2018	A \$ 23,637
	Performance Rights	Note 8	19/08/2013	Cash or Equity	A \$250,000	\$ 2.71	92,285							92,285	2019	A \$106,791
	LTIST 2016	Note 7	8/07/2015	Equity	A \$110,254	\$ 1.44		76,565	100%					76,565	2019	A \$ 73,975
Derek McKay	STI 2015	Note 2	11/09/2015	Equity	A \$123,162	\$ 2.17		56,702	67%	56,702	67%				2016	A \$ -
	LTIST 2013	Note 4	26/10/2012	Equity	A \$117,927	\$ 1.51	78,149			78,149	100%				2016	A \$ -
	LTIST 2014	Note 5	8/11/2013	Equity	A \$112,533	\$ 1.99	56,549							56,549	2017	A \$ -
	LTIST 2015	Note 6	13/11/2014	Equity	A \$132,247	\$ 1.15	114,997							114,997	2018	A \$ 50,281
	LTIST 2016	Note 7	8/07/2015	Equity	A \$134,412	\$ 1.44		93,342	100%					93,342	2019	A \$ 90,185
	Performance Rights	Note 8	24/09/2014	Cash or Equity	A \$250,002	\$ 1.79	140,057							140,057	2020	A \$161,693
Steve Rogers	STI 2015	Note 2	11/09/2015	Equity	A \$104,589	\$ 2.17		48,151	71%	48,151	71%				2016	A \$ -
	LTIST 2013	Note 4	26/10/2012	Equity	A \$ 54,307	\$ 1.51	35,989			35,989	100%				2016	A \$ -
	LTIST 2014	Note 5	8/11/2013	Equity	A \$ 61,057	\$ 1.99	30,682							30,682	2017	A \$ -
	LTIST 2015	Note 6	13/11/2014	Equity	A \$ 62,168	\$ 1.15	54,059							54,059	2018	A \$ 23,637
	LTIST 2016	Note 7	8/07/2015	Equity	A \$110,254	\$ 1.44		76,565	100%					76,565	2019	A \$ 73,975
	Performance Rights	Note 8	24/09/2014	Cash or Equity	A \$250,002	\$ 1.79	140,057							140,057	2020	A \$161,693
James Spence	Commencement Award (1)	Note 9	2/10/2015	Equity	A \$ 28,375	\$ 1.21		23,450	100%					23,450	2017	A \$ 8,416
	Commencement Award (2)	Note 9	2/10/2015	Equity	A \$ 31,189	\$ 1.33		23,450	100%					23,450	2018	A \$ 21,495
	LTIST 2016	Note 7	8/07/2015	Equity	A \$122,234	\$ 1.39		87,938	100%					87,938	2019	A \$ 84,820
Peter Jans <sup>12</sup>	STI 2015	Note 2	11/09/2015	Equity	A \$193,152	\$ 2.17		88,924	100%	88,924	100%				2016	A \$ -
	LTIST 2013	Note 4	26/10/2012	Equity	A \$118,176	\$ 1.51	78,314			78,314	100%				2016	A \$ -
	LTIST 2014	Note 5	8/11/2013	Equity	A \$112,769	\$ 1.99	56,668							56,668	2017	A \$ -
	LTIST 2015 (3)	Note 6	3/02/2015	Equity	A \$ 6,307	\$ 1.15	5,484							5,484	2018	A \$ -
	LTIST 2015 (1)	Note 6	13/11/2014	Equity	A \$132,526	\$ 1.15	115,240							115,240	2018	A \$ -
	LTIST 2016	Note 7	8/07/2015	Equity	A \$139,080	\$ 1.44		96,583	100%					96,583	2019	A \$ -
Graeme Walker <sup>12</sup>	STI 2016	Note 10	11/01/2016	Equity	A \$102,675	\$ 1.54		66,772	100%	66,772	100%				2016	A \$ -
	STI 2015	Note 2	11/09/2015	Equity	A \$254,144	\$ 2.17		117,004	100%	117,004	100%				2016	A \$ -
	LTIST 2013	Note 4	26/10/2012	Equity	A \$106,200	\$ 1.51	70,378			70,378	100%				2016	A \$ -
	LTIST 2014	Note 5	8/11/2013	Equity	A \$109,450	\$ 1.99	55,000							55,000	2017	A \$ -
	LTIST 2015 (3)	Note 6	3/02/2015	Equity	A \$ 7,735	\$ 1.15	6,726							6,726	2018	A \$ -
	LTIST 2015 (2)	Note 6	13/11/2014	Equity	A \$ 56,252	\$ 1.15	48,915							48,915	2018	A \$ -
	LTIST 2015 (1)	Note 6	13/11/2014	Equity	A \$128,852	\$ 1.15	112,045							112,045	2018	A \$ -
	LTIST 2016	Note 7	8/07/2015	Equity	A \$139,080	\$ 1.44		96,583	100%					96,583	2019	A \$ -

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

Table 7 Notes

1. There have been no alterations in terms or conditions since grant date.
2. Jon Stretch's FY2015 STI was paid as per contractual arrangements agreed on commencement of employment and advised to the ASX on 30 October 2014. Half was paid in cash following the release of the FY2015 financial results and the remaining half in equity as approved at the 2015 Annual General Meeting. Other KMP FY2015 STI was accrued in FY2015 and awarded in FY2016 (Refer Table 4).
3. Performance rights awarded as per contractual arrangements agreed on commencement of employment, advised to the ASX at the time and approved by shareholders at the 2015 AGM. Vesting on 4 July 2016 and satisfied at the Board's discretion, in cash or equity, at a value based on the number of Performance Rights held, multiplied by the higher of either the notional issue price, or the 10 day VWAP prior to the date of vesting, giving a minimum value of \$600,000. FY2015 STI for all other executives was accrued in FY2015 and paid in FY2016. The percentage relates to the actual amount awarded against the maximum (see Table 4).
4. LTI FY2013 TSR was determined to be 47.42%, falling in the 84th percentile of the comparator group, which in accordance with the vesting conditions resulted in 100% vesting.
5. LTI FY2014 vesting is subject to continuation of employment through to 30 June 2016 and TSR performance measured against the TSR performance of a comparator group being those companies in the Standard & Poor's (S&P) ASX 300 index at the beginning of the performance period. On 17 August 2016 the Committee determined that the TSR vesting conditions required at the date of grant had not been met, and the LTI FY2014 awards will be forfeited by all participants.
6. LTI FY2015 vesting is subject to continuation of employment through to 30 June 2017 and TSR performance measured against the TSR performance of a comparator group being those companies in the Standard & Poor's (S&P) ASX 300 index at the beginning of the performance period.
7. LTI FY2016 vesting is subject to continuation of employment through to 30 June 2018 and TSR performance measured against the TSR performance of a comparator group being those companies in the Standard & Poor's (S&P) ASX 300 index at the beginning of the performance period.
8. Performance Rights granted under an employee retention strategy, subject to a 5 year vesting period and satisfied, at the Board's discretion, in cash or shares, subject to continuous full-time employment with the Company. The vesting value will be the number of Performance Rights held, multiplied by the higher of either the notional issue price, or the 10 day VWAP prior to the date of vesting.
9. Commencement award of \$100,000 of units in the Long Term Incentive Share Trust. Vesting subject to continued employment to each vesting date. 50% to vest on the first anniversary of the commencement date, and 50% to vest on the second anniversary of the commencement date. Fair value as determined by AASB2 and expensed over the vesting period.
10. Full value of FY2016 STI awarded as part of retirement benefits prorate to cessation of employment on 31 December 2015.
11. The maximum value yet to vest for Australian awards has been determined as the amount of fair value as at grant date that is yet to be expensed in a future accounting period. The maximum value yet to vest for the US award has been determined as the amount that may be expensed in a future accounting period based on the closing share price and exchange rate as at 30 June 2016. The minimum value yet to vest is nil, as equity will be forfeited if the vesting conditions are not met.
12. As per the rules of the LTI plan, and subject to Board approval, for redundancy, retirement or termination by mutual agreement the leaver will continue to be a participant in the LTI plan for unvested LTI units until the end of the performance period; however the remaining expense for the unvested award is recognised in the year of departure.

### 3. Additional Disclosures

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

##### 3.1.1 Unissued shares

As at the date of this report, there were 1,267,786 options on issue, exercisable into fully paid ordinary shares. The options do not carry any entitlement to participate in any share issue of the Company.

Expiry date	Quantity	Exercise price
1 November 2017	1,025,080	275 cents
8 November 2017	242,706	275 cents

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

The number of shares and options held at the date of this report by each director of the Company are disclosed in Section 12 of the Directors' Report.

No options were granted to directors or any of the five highest remunerated officers of the Group during the reporting period or since the end of FY2016, other than the performance rights issued to Jon Stretch as approved by shareholders at the 2015 AGM.

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

**Table 8 – Rights and Option Holdings**

	<i>Balance at the start of the year</i>		<i>Granted as compensation</i>	<i>Options Exercised</i>	<i>Appointment or cessation as KMP</i>	<i>Balance at the end of the year</i>	
	<i>Vested and exercisable</i>	<i>Unvested</i>				<i>Vested and exercisable</i>	<i>Unvested</i>
Jon Stretch <sup>1</sup>	-	-	383,216	-	-	-	383,216
Mitch Anderson	106,364	-	-	-	-	106,364	-
Gregg Buskey	61,634	-	-	-	-	61,634	-
David Guiver	55,228	92,285	-	-	-	55,228	92,285
Derek McKay	106,364	140,057	-	-	-	106,364	140,057
Steve Rogers	45,410	140,057	-	-	-	45,410	140,057
James Spence	-	-	-	-	-	-	-
Peter Jans <sup>2</sup>	106,590	-	-	-	(106,590)	-	-
Graeme Walker <sup>2</sup>	92,700	-	-	-	(92,700)	-	-

1. Performance Rights approved by shareholders at the 2015 AGM.

2. Ceased as KMP during the year and therefore balances at the end of the year do not necessarily reflect holdings as a non-KMP.

The numbers of shares in the Company held during the financial year by each director and other disclosed executives of the Group, including their related parties, are set out in Tables 9 and 10 below:

**Table 9 – Non-executive director's share holdings**

<i>Non-executive directors<sup>1</sup></i>	<i>Balance at the start of the year</i>	<i>Appointment or cessation as KMP</i>	<i>Other Changes<sup>3</sup></i>	<i>Balance at the end of the year</i>
Tony Bellas	106,250		-	106,250
Trevor St Baker	75,040,647		(11,523,740)	63,516,907
Albert Goller	100,000		170,000	270,000
Martin Greenberg	571,794		-	571,794
Tony Iannello	139,946		62,893	202,839
Wayne St Baker <sup>2</sup>	-	1,645,290	40,000	1,685,290

1. No shares were held nominally other than by Trevor St Baker for which the balances above include 3,025,242.

2. Appointed on 1 March 2016.

3. On and off market movements, dividend reinvestment plan etc.

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

Table 10 – Executive's share holdings

Executives <sup>1</sup>	Balance at the start of the year		Granted as compensation	Forfeit	Appointment or cessation as KMP	Other Changes <sup>4</sup>	Balance at the end of the year	
	Vested	Unvested					Vested	Unvested
Jon Stretch	-	-	470,691	-	-	320,000	396,654	394,037
Mitch Anderson	1,146,949	271,458	-	-	-	279,157	1,504,255	193,309
Gregg Buskey	142,408	179,349	123,292	-	-	(91,127)	142,414	211,508
David Guiver	174,615	129,021	132,240	-	-	(93,510)	180,227	162,139
Derek McKay	371,734	249,695	150,044	-	-	(49,996)	456,589	264,888
Steve Rogers	104,213	120,730	124,716	-	-	(35,989)	152,364	161,306
James Spence <sup>2</sup>	-	-	134,838	-	-	82,792	82,792	134,838
Peter Jans <sup>3</sup>	53,337	255,706	185,507	-	(494,550)	-	-	-
Graeme Walker <sup>3</sup>	94,905	293,064	213,587	-	(601,556)	-	-	-

1. No equity was held nominally by the named executives.
2. Appointed as KMP on 28 September 2015
3. Ceased as KMP during the year and therefore the balances at the end of the year do not necessarily reflect holdings as a non-KMP.
4. On and off market movements, dividend reinvestment plan etc.

### 3.2 Loans to KMP

Details of loans made to KMP or close members of the family of a member of the KMP, or an entity over which the KMP has control or significant influence, are set out below:

Aggregate amounts	Balance at the start of the year \$	Interest paid and payable for the year \$	Interest not charged \$	Balance at the end of the year \$	Number in Group at the end of the year
FY 2016	57,322	2,963	-	47,998	1

The above loan represents an employee shareholder loan that was offered to certain senior executives in 2007 and 2008 to participate in a share loan incentive plan which enabled them to subscribe for shares. The loan is subject to a loan deed and is interest bearing at the FBT benchmark rates with recourse limited to the value of the shares. The loan is repayable in the event of cessation of employment or otherwise ten years from the date of advance.

The amount shown for interest not charged in the table above represent the difference between the amount paid and payable for the year and the amount of interest that would have been charged on an arm's-length basis.

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

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

### 3.3 Other transactions with KMP

During the period the Company entered into certain transactions with KMP or their related entities as outlined in note 31 of the Financial Statements. The Board is satisfied that those transactions:

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

# ERM Power Limited

## Remuneration Report (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### **3.4 Voting and comments received at the 2015 Annual General Meeting**

81.8% of proxies received prior to the 2015 Annual General Meeting (AGM) were received in favour of the FY2015 Remuneration Report. The Company responded to queries regarding the operation of its incentive plans at the AGM and the FY2015 Remuneration Report was approved by shareholders by a show of hands.



**ERM Power Limited**

**Annual Financial Statements**

**for the year ended 30 June 2016**

# ERM Power Limited

## Annual Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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

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

*The Group's functional and presentation currency is Australian dollars (AUD). ERM Power Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is set out on page 52.*

*A description of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report on pages 21 to 27. The Directors' Report does not form part of the annual financial statements.*

ABN 28 122 259 223





## Auditor's Independence Declaration

As lead auditor for the audit of ERM Power Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. no contraventions of any applicable code of professional conduct in relation to the audit.

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

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

Michael Shewan  
Partner  
PricewaterhouseCoopers

Brisbane  
25 August 2016

# ERM Power Limited

## Consolidated Income Statement

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
<b>CONTINUING OPERATIONS</b>			
Revenue	5	2,762,538	2,314,585
Other income		807	1,777
<b>Total revenue</b>		<b>2,763,345</b>	<b>2,316,362</b>
Expenses	6	(2,689,630)	(2,234,844)
Sale of equity accounted investment	28(d)	(3,422)	-
Provision for onerous contract		(1,898)	-
<b>EBITDAF</b>		<b>68,395</b>	<b>81,518</b>
Depreciation and amortisation		(25,229)	(20,288)
Impairment expense	19	-	(42,952)
Net fair value gain on financial instruments designated at fair value through profit or loss	7	39,483	97,689
<b>Results from operating activities</b>		<b>82,649</b>	<b>115,967</b>
Share of net profit of associates accounted for using the equity method		402	692
Finance income	8	4,281	5,217
Finance expense	8	(29,124)	(27,293)
<b>Profit before income tax</b>		<b>58,208</b>	<b>94,583</b>
Income tax expense	9	(22,399)	(28,646)
<b>Statutory profit for the year attributable to equity holders of the Company</b>		<b>35,809</b>	<b>65,937</b>
		<b>Cents</b>	<b>Cents</b>
<b>Statutory earnings per share based on earnings attributable to the ordinary equity holders of the Company</b>			
Basic earnings per share	33	14.63	27.35
Diluted earnings per share	33	14.63	27.34

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

# ERM Power Limited

## Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
<b>Statutory profit for the year</b>		<b>35,809</b>	65,937
<b>Other comprehensive income / (loss)</b>			
<i>Items that may be reclassified subsequently to profit and loss</i>			
Changes in the fair value of cash flow hedges (net of tax)	24	<b>137,193</b>	(1,647)
Exchange differences on translation of foreign subsidiaries	24	<b>1,569</b>	1,134
<i>Items that will not be reclassified subsequently to profit and loss</i>			
Changes in the fair value of financial assets at fair value through other comprehensive income (net of tax)	24	<b>(334)</b>	367
<b>Other comprehensive income / (loss) for the year attributable to equity holders of the Company, net of tax</b>		<b>138,428</b>	(146)
<b>Total comprehensive income for the year attributable equity holders of the Company</b>		<b>174,237</b>	65,791

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

# ERM Power Limited

## Consolidated Statement of Financial Position

AS AT 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	11	192,467	172,836
Trade and other receivables at amortised cost	13	330,596	218,305
Inventories	14	22,082	36,433
Current tax assets	9	94	-
Other assets		5,333	6,341
Derivative financial instruments	16	158,698	11,367
<b>Total Current Assets</b>		<b>709,270</b>	<b>445,282</b>
<b>Non-Current Assets</b>			
Trade and other receivables at amortised cost	13	32	14,094
Financial assets at fair value through other comprehensive income	15	150	3,463
Investments accounted for using the equity method	28(c)/28(d)	1,500	11,647
Derivative financial instruments	16	51,429	5,901
Property, plant and equipment	17	391,266	396,856
Deferred tax assets	9	6,036	4,961
Intangible assets	18	79,041	42,813
<b>Total Non-Current Assets</b>		<b>529,454</b>	<b>479,735</b>
<b>TOTAL ASSETS</b>		<b>1,238,724</b>	<b>925,017</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	20	367,043	279,239
Borrowings	21	27,861	33,183
Borrowings – limited recourse	21	9,332	8,912
Derivative financial instruments	16	6,838	20,289
Provisions	22	10,999	2,032
<b>Total Current Liabilities</b>		<b>422,073</b>	<b>343,655</b>
<b>Non-Current Liabilities</b>			
Borrowings	21	-	10,500
Borrowings – limited recourse	21	184,305	189,109
Derivative financial instruments	16	44,599	42,697
Deferred tax liabilities	9	99,917	18,271
Provisions	22	16,427	1,069
<b>Total Non-Current Liabilities</b>		<b>345,248</b>	<b>261,646</b>
<b>TOTAL LIABILITIES</b>		<b>767,321</b>	<b>605,301</b>
<b>NET ASSETS</b>		<b>471,403</b>	<b>319,716</b>
<b>EQUITY</b>			
Contributed equity	23	332,355	326,816
Reserves	24	103,413	(42,391)
Retained earnings		35,635	35,291
<b>TOTAL EQUITY</b>		<b>471,403</b>	<b>319,716</b>

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

# ERM Power Limited

## Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2016

	Note	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
<b>Balance at 1 July 2014</b>		322,337	(46,283)	1,151	277,205
Profit for the period		-	-	65,937	65,937
Other comprehensive loss		-	(146)	-	(146)
<b>Total comprehensive income / (loss) for the year</b>		-	(146)	65,937	65,791
<b>Transactions with owners in their capacity as owners:</b>					
Dividends paid	10	1,233	-	(28,935)	(27,702)
Issue of shares pursuant to employee incentive scheme	23/24	3,721	(81)	-	3,640
Issue of ordinary shares as consideration for a business combination (net of transaction costs and tax)	23/29	444	-	-	444
Purchase of treasury shares	23	(919)	-	-	(919)
Share based payment expense	25	-	1,257	-	1,257
Acquisition of associate (net of tax)	28(d)	-	2,862	(2,862)	-
<b>Balance at 30 June 2015</b>		326,816	(42,391)	35,291	319,716
Profit for the period		-	-	35,809	35,809
Other comprehensive income		-	138,428	-	138,428
<b>Total comprehensive income for the year</b>		-	138,428	35,809	174,237
<b>Transactions with owners in their capacity as owners:</b>					
Dividends paid	10	1,479	-	(29,367)	(27,888)
Issue of shares pursuant to employee incentive scheme	23/24	7,718	(1,287)	-	6,431
Purchase of treasury shares	23	(3,658)	-	-	(3,658)
Share based payment expense	25	-	2,565	-	2,565
Sale of financial assets (net of tax)		-	6,098	(6,098)	-
<b>Balance at 30 June 2016</b>		332,355	103,413	35,635	471,403

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# ERM Power Limited

## Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 \$'000	2015 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		2,986,028	2,555,608
Payments to suppliers and employees		(2,929,978)	(2,424,227)
Transfer from broker margin account		60,412	8,354
Interest received		3,474	5,154
Income tax paid		(22)	(643)
<b>Net cash flows from operating activities</b>	12	<b>119,914</b>	<b>144,246</b>
<b>Cash flows from investing activities</b>			
Payments for gas exploration and evaluation		-	(1,285)
Payments for gas development assets		-	(38)
Payments for plant and equipment		(8,263)	(3,679)
Payments for intangible assets		(18,045)	(10,221)
Purchase of share investments		(1,500)	(2,744)
Sale of share investments		11,849	-
Payment for acquisition of subsidiary, net of cash acquired	29	(7,870)	(5,784)
<b>Net cash flows used in investing activities</b>		<b>(23,829)</b>	<b>(23,751)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings including receivables financing facility		2,749,935	2,513,666
Repayments of borrowings including receivables financing facility		(2,765,720)	(2,610,432)
Repayments of borrowings – limited recourse		(5,912)	(5,079)
Loans to investees		-	(1,495)
Finance costs		(26,910)	(25,840)
Dividends paid	10	(27,888)	(27,702)
<b>Net cash flows used in financing activities</b>		<b>(76,495)</b>	<b>(156,882)</b>
Net increase / (decrease) in cash and cash equivalents		19,590	(36,387)
Cash and cash equivalents at the beginning of the year		172,836	208,829
Effect of exchange rate changes on cash and cash equivalents		41	394
<b>Cash and cash equivalents at the end of the year</b>	11	<b>192,467</b>	<b>172,836</b>

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

# ERM Power Limited

## Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2016

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# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

The Company is incorporated and domiciled in Australia. Its registered office and place of business is Level 52, 111 Eagle Street, Brisbane, Queensland 4000.

A description of the nature of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report on pages 21 to 27.

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

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### (a) Basis of preparation

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

##### *Compliance with IFRS*

The consolidated financial statements of the Group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

##### *Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative financial instruments) at fair value through profit and loss and other comprehensive income.

##### *Early adoption of Australian Accounting Standards*

The Group 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. 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.

##### *Critical accounting estimates*

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

##### *Changes in accounting policies*

The Group has not had to change its accounting policies as the result of new or revised accounting standards which became effective for the annual reporting period commencing on 1 July 2015.

The Group has reclassified interest income from revenue to finance income.



# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

#### (b) Principles of consolidation

##### *Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2016 and the results of all its subsidiaries for the year then ended.

Control of an entity exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

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

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

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

##### *Changes in ownership interests*

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

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

##### *Associates*

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

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

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

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

##### *Joint arrangements*

Under AASB 11 investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has joint operations but no material joint ventures.

##### *Joint operations*

The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. Details of the joint operation are set out in note 28.

##### *Employee share trusts*

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

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

#### (c) Parent entity financial information

The financial information for the parent entity, ERM Power Limited, disclosed in note 26 has been prepared on the same basis as the consolidated financial statements, except as set out below:

##### (i) Investments in subsidiaries, associates and joint arrangements

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

##### (ii) Financial Guarantees

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

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

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

##### (iv) Tax consolidation legislation

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

The head entity ERM Power Limited, and the controlled entities in the tax consolidated group, account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

#### (d) Segment reporting

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

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

#### (e) Foreign currency translation

##### *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

##### *Transactions and balances*

Foreign currency transactions are translated into the functional currency at the rate of exchange at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

##### *Group companies*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

#### (f) Cash and cash equivalents

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

Cash that is reserved and its use specifically restricted for maintenance and / or debt servicing under the Group's borrowing agreements is defined as restricted cash. Cash that is on deposit with counterparties as security deposits and cash that is on deposit with financial institutions as security for bank guarantees issued to various counterparties as credit support, is defined as restricted cash, with a corresponding disclosure in contingent liabilities in Note 27. Cash collateral held in broker accounts to facilitate wholesale price hedging on the Sydney Futures Exchange is classified as restricted cash unless it is eligible for offset against the corresponding derivative liability.

#### (g) Trade and other receivables

All trade and other debtors are recognised initially at fair value and subsequently measured at amortised cost using the original effective interest method. Collectability is reviewed on an ongoing basis. For trade receivables, the company applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which requires the use of the lifetime expected loss provision for all trade receivables. The amount of the impairment loss is recognised in the income statement.

#### (h) Inventories

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

##### *Renewable energy certificates*

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

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

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

#### (i) Financial assets

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

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

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

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

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

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

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

##### *Impairment of financial assets*

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

For trade receivables only, the company applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Accounting policies applied prior to 1 July 2015:

The Company has applied AASB 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

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

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

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

##### *Effective interest method*

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

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

##### *Recognition of day one gain or loss*

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

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

#### (j) Derivatives and hedging activities

The Group routinely enters into forward sales contracts (Contracts) related to the provision of electricity. The Contracts are exclusively entered into with industrial, commercial, financial and government entities under term contracts. All of the electricity provided under these Contracts is traded in spot markets.

The Group also enters into a variety of electricity derivative transactions (Derivatives) as part of an overall strategy to hedge the exposure to Contract prices. Contracts and Derivatives are managed as part of an overall commodity trading strategy.

Revenue from the Contracts is recognised in accordance with the revenue recognition policy in note 1(v). Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

The Group designates their derivatives as hedges of foreign exchange risk associated with the cash flows of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the economic relationship between hedging instruments and hedged items including whether the hedging instrument is expected to offset changes in cash flows of hedged items. The company documents its risk management objective and strategy for undertaking various hedge transactions at the inception of each hedge relationship.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 16. Movements in the hedging reserve in shareholders' equity are shown in note 7. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

#### *Cash flow hedges that qualify for hedge accounting*

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

When option contracts are used to hedge forecast transactions, the company designates only the intrinsic value of the option contract as the hedging instrument.

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

When forward contracts are used to hedge forecast transactions, the company generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised within other comprehensive income in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains and losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- The gain or loss relating to the effective portion of the intrinsic value of option contracts is treated as follows: Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred aligned time value of the option contracts are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss (for example, through cost of sales).
- The gain or loss relating to the effective portion of the spot component of forward contracts is treated as follows: Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred aligned forward points are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss (for example, through cost of sales).

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

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

#### *Derivatives that do not qualify for hedge accounting*

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

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

#### (j) Derivatives and hedging activities (continued)

Derivatives that do not qualify for hedge accounting include the following types of transactions:

Energy Market Activities – Trading

Derivative instruments are entered into for risk management or profit making purposes, but are classified as held for trading when they do not meet requirements for hedge accounting as set out by the Australian Accounting Standards. The instruments include futures, bilateral written options, SFE traded caps and swaps and other risk management derivatives. The contracts are measured at fair value and the resultant gains or losses are recognised in profit and loss.

Energy Market Activities – Non-Trading

Contracts are entered into with individual parties in the normal course of business in order to economically hedge exposure to fluctuations in electricity prices. These derivative instruments may not meet the requirements for hedge accounting as set out by the Australian Accounting Standards. The instruments include OTC swaps, options, swaptions, caps and risk management assets. Settlements of the contracts require exchanges of cash for the difference between the contracted and spot market prices. The contracts are measured at fair value and the resultant gains or losses are recognised in profit and loss.

#### (k) Fair value estimation

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

Refer to note 3 for further details.

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

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

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

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

*Depreciation*

Land and capital work in progress are not depreciated. Depreciation on the other assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Leasehold improvements the lesser of the remaining lease term and the life of the asset
- Motor vehicles 3 – 8 years
- Plant and equipment 1 – 50 years
- IT Equipment 1 – 3 years
- Furniture and equipment 1 – 10 years

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

#### (m) Intangible assets

*Goodwill*

Goodwill is measured as described in note 1(o). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

*Software*

Computer software is either purchased or developed within the organisation to support business operations and generate customer revenue. Software assets are recorded at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method over an estimated useful lives. Depending on the individual software, the estimated useful life ranges between 3 and 10 years.

*Customer acquisition costs*

The direct costs of establishing customer contracts are recognised as an asset when the customer contract is expected to provide a future economic benefit to the Group. Direct costs are amortised over an average contract term of 3 years.

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

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



# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

#### (n) Impairment of assets

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

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

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

#### (o) Business combinations

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

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

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

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

#### (p) Trade and other payables

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

#### (q) Provisions

##### *Onerous contracts*

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

##### *Trailing commission payments*

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

#### (r) Other financial liabilities

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

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

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

#### (s) Employee benefits

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

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

##### *Long service leave*

Long service leave liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to balance date. Consideration is given to expected future wage and salary levels, projected employee movements and periods of service. Expected future payments are discounted using market yields at balance date on government bonds with terms to maturity that match, as closely as possible, the estimated future cash flows.

##### *Bonus plans*

Liabilities for employee benefits in the form of bonus plans are recognised in liabilities when it is probable that the liability will be settled and there are formal terms in place to determine the amount of the benefit.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

#### (s) Employee benefits (continued)

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

Equity-based compensation benefits are provided to employees via employee and executive equity plans.

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

The fair value of options at grant date is determined using the Black Scholes method that takes into account the value of the underlying share at grant date, the term of the vesting period, exercise price and expiry date. The assessed fair value of shares granted to employees is allocated equally over the period from issue to the actual or expected vesting date. Refer to note 25 for further details.

#### (t) Earnings per share

Basic earnings per share are calculated by dividing:

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

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

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

#### (u) Contributed equity

##### *Ordinary shares*

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

#### (v) Revenue recognition

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

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

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

All revenue is stated net of goods and services tax

#### (w) Finance income

Interest revenue is recognised on a time proportional basis taking into account the interest rates applicable to the financial assets.

#### (x) Cost of sales

Cost of sales is recognised as those costs directly attributable to the goods sold and includes the costs of electricity, materials and associated distribution expenses. Electricity costs are based upon spot prices for electricity and the outcomes of derivative financial instruments entered into for the purpose of risk management refer to note 3.

#### (y) Borrowings

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

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

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

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



# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

#### (z) Borrowing costs

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

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

#### (aa) Leases

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

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

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

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

#### (bb) Income tax

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

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

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

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

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

#### (cc) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables at the balance date.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

#### (dd) Dividends

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

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

#### (ee) Rounding of amounts

The Group is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that class order to the nearest thousand dollars, or in certain cases, the nearest dollar.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods. Unless stated otherwise below, the Group is currently in the process of assessing the impact of these standards and amendments and is yet to decide whether to early adopt any of the new and amended standards.

**AASB 15 Revenue from Contracts with Customers** (effective from 1 January 2018).

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (e.g. 1 July 2017), i.e. without restating the comparative period.

The Group will only need to apply the new rules to contracts that are not completed as of the date of initial application.

Management is currently assessing the impact of the new rules and has not identified any areas that are likely to be affected by the new standard.

**AASB 16 Leases** (effective from 1 January 2019).

The AASB has issued a new standard for the accounting treatment of leases which will replace AASB 117.

AASB 16 will primarily affect the accounting by lessees and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for almost all lease contracts. Operating lease expenses will be replaced by interest and depreciation and the timing of expenses will change. The accounting by lessors, however, will not significantly change.

Early adoption is allowed if the new revenue standard has also been applied.

Implementation of the new lease accounting standard will have an impact on disclosures. Management is currently assessing the impact of the new rules.

**AASB 2014-10 Sale or contribution of assets between an investor and its associate or joint venture** (effective from 1 January 2018).

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting depends on whether the contributed assets constitute a business or an asset.

**AASB 2016-1 IASB issues narrow scope amendments to IAS 12 Income taxes** (effective from 1 January 2017).

The amendments to AASB 112 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They do not change the underlying principles for the recognition of deferred tax assets.

**AASB 2016-2 IASB issues narrow scope amendments to IAS 7 Statement of cash flows** (effective from 1 January 2017).

The amendment to AASB 107 introduces additional disclosures that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment requires disclosure of changes arising from:

- cash flows, such as drawdowns and repayments of borrowings, and
- non-cash changes, such as acquisitions, disposals and unrealised exchange differences.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 2. SEGMENT REPORT

	Business Energy Australia		Business Energy US <sup>(i)</sup>		Generation Assets		Other		Total	
\$'000	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
External revenue to customers	2,430,218	2,136,574	233,484	66,775	96,130	106,654	3,513	6,359	2,763,345	2,316,362
Internal segment revenue	-	-	-	-	9,383	6,690	1,792	818	11,175	7,508
Segment revenue	2,430,218	2,136,574	233,484	66,775	105,513	113,344	5,305	7,177	2,774,520	2,323,870
Expenses	(2,375,765)	(2,086,014)	(233,960)	(65,995)	(70,434)	(67,123)	(20,646)	(23,220)	(2,700,805)	(2,242,352)
Sale of equity accounted investment	-	-	-	-	-	-	(3,422)	-	(3,422)	-
Provision for onerous contract	-	-	-	-	-	-	(1,898)	-	(1,898)	-
EBITDAF <sup>(iii)</sup>	54,453	50,560	(476)	780	35,079	46,221	(20,661)	(16,043)	68,395	81,518
Depreciation and amortisation	(5,876)	(3,831)	(4,858)	(756)	(12,246)	(12,242)	(2,249)	(3,459)	(25,229)	(20,288)
Impairment expense	-	-	-	-	-	(26,879)	-	(16,073)	-	(42,952)
Net fair value gain / (loss) on financial instruments designated at fair value through profit or loss	45,537	96,990	7,598	1,101	(11,730)	663	(1,922)	(1,065)	39,483	97,689
Results from operating activities	94,114	143,719	2,264	1,125	11,103	7,763	(24,832)	(36,640)	82,649	115,967
Share of net profit of associates accounted for using the equity method	-	-	-	-	-	-	402	692	402	692
Finance income	2,482	3,174	-	-	515	565	1,284	1,478	4,281	5,217
Finance expenses	(8,524)	(9,180)	(3,762)	(1,071)	(16,509)	(16,951)	(329)	(91)	(29,124)	(27,293)
Profit / (loss) before income tax	88,072	137,713	(1,498)	54	(4,891)	(8,623)	(23,475)	(34,561)	58,208	94,583
Income tax expense									(22,399)	(28,646)
Statutory profit for the year attributable to equity holders of the Company									35,809	65,937
Underlying NPAT <sup>(iii)</sup>									19,189	32,347

<sup>(i)</sup> As a result of the growth in US operations during FY2016, the Group has changed its internal organisation and composition of its reportable segments. Accordingly, the Group has restated the operating segment information for the year ended 30 June 2015.

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

<sup>(iii)</sup> 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.

Revenue in the Other segment comprises interest, consulting, energy solutions, metering and other income. Sales between segments are carried out at arm's length and are eliminated on consolidation.

No single customer amounts to 10% or more of the consolidated entity's total external revenue for either the current or comparative period. All segment activity takes place in Australia and the United States of America.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 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:

\$'000	2016	2015
<b>Statutory profit after tax attributable to equity holders of the Company</b>	<b>35,809</b>	<b>65,937</b>
<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	<b>(27,258)</b>	(68,328)
Share of net profit of associates accounted for using the equity method	<b>(402)</b>	(692)
<b>Other significant items</b>		
New business identification, integration and establishment costs (i)	<b>915</b>	2,216
Unrealised foreign exchange loss / (gain) (ii)	<b>501</b>	(164)
Arbitration costs net of proceeds (iii)	-	605
Staff rationalisation costs (iv)	<b>2,366</b>	1,540
Effective interest revenue on associate loan (v)	<b>(965)</b>	(307)
Swap termination payment (vi)	-	3,772
Impairment of gas assets (vii)	-	14,165
Impairment of power station development assets (viii)	-	28,787
Loss on sale of associate (ix)	<b>3,422</b>	-
Provision for onerous contract (x)	<b>1,898</b>	-
Financing establishment costs (xi)	<b>370</b>	-
Wholesale counterparty default (xii)	<b>363</b>	-
Tax effect on non-deductible acquisition costs (xiii)	<b>317</b>	-
De-recognition of capital loss deferred tax asset (xiv)	<b>4,538</b>	-
Tax benefit on other significant items (xv)	<b>(2,685)</b>	(15,184)
<b>Underlying NPAT all segments</b>	<b>19,189</b>	<b>32,347</b>

- (i) Costs incurred in respect of identifying, establishing and integrating new businesses started and new companies acquired.
- (ii) Unrealised foreign exchange losses / (gains) on funds held in US dollar and EURO bank accounts.
- (iii) Costs net of contributions received in respect of the Neerabup contractor arbitration.
- (iv) Costs associated with change of managing director (2015 only) and rationalisation of staff.
- (v) Recognition of Empire Oil & Gas NL shares (Empire) loan at present value and interest revenue unwind.
- (vi) Final negotiated payment made in January 2015 as part of arrangement for bringing forward termination date of counterparty swap by 4 years to 30 June 2015.
- (vii) Impairment of Western Australian and New South Wales gas assets.
- (viii) Impairment of power station development assets.
- (ix) Loss on the sale of share interests in Empire.
- (x) Impairment of the contract to sublease office space.
- (xi) Costs incurred for the establishment of the unsecured senior bank guarantee facility with Liberty International Underwriters Singapore.
- (xii) Default by a wholesale counterparty that went into administration.
- (xiii) Tax impact of non-deductible acquisition costs for Source in FY2015.
- (xiv) Derecognition of deferred tax asset upon sale of Metgasco Limited and Empire shares.
- (xv) Tax effect of the above other significant items.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 2. SEGMENT REPORT (continued)

	Business Energy Australia		Business Energy US		Generation Assets		Other		Total	
\$'000	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
<b>Assets</b>										
Total segment assets	645,222	355,563	91,983	62,420	425,660	419,799	69,823	82,274	1,232,688	920,056
Deferred tax assets									6,036	4,961
<b>Total assets</b>									<b>1,238,724</b>	<b>925,017</b>
<b>Liabilities</b>										
Total segment liabilities	333,646	295,273	70,350	41,973	247,661	237,072	15,747	12,712	667,404	587,030
Current and deferred tax liabilities									99,917	18,271
<b>Total liabilities</b>									<b>767,321</b>	<b>605,301</b>

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

The total of non-current assets other than financial instruments and deferred tax assets, broken down by location of the assets is \$442.0m for Australia and \$50.3m for the United States.

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 Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 3. FINANCIAL RISK MANAGEMENT

#### (a) Financial risk management objectives

The Group's activities are exposed to a variety of financial risks, including market risk (commodity price and interest rate), credit risk and liquidity risk. The Group's overall risk management strategy focuses on the unpredictability of markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses a variety of derivative financial instruments such as electricity derivatives and interest rate swaps to hedge against certain risk exposures.

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

#### (i) Market risk

##### *Electricity pool price risk*

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

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

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

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

##### *Electricity sales sensitivity*

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

	Increase by 10% \$'000	Decrease by 10% \$'000
<b>2016</b>		
Net profit / (loss) – unrealised mark to market of electricity derivative contracts	148,110	(61,409)
Other Components of Equity increase / (decrease)	60,774	(96,795)
<b>2015</b>		
Net profit / (loss) – unrealised mark to market of electricity derivative contracts	33,029	(79,281)
Other Components of Equity increase / (decrease)	-	-

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

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### (a) Financial risk management objectives (continued)

##### (i) Market risk (continued)

##### *Electricity generation sensitivity*

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

	Increase by 10% \$'000	Decrease by 10% \$'000
<b>2016</b>		
Net profit / (loss)	4,747	(4,747)
Other Components of Equity increase / (decrease)	-	-
<b>2015</b>		
Net profit / (loss)	2,018	(2,018)
Other Components of Equity increase / (decrease)	-	-

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

##### *Interest rate risk*

The Group is exposed to interest rate risk on the funds it borrows at floating interest rates and on cash deposits. The risk is managed by entering into interest rate swap contracts for project term debt. The sensitivity analysis to net profit (being profit before tax) and equity has been determined based on the exposure to interest rates at the balance date and assumes that there are concurrent movements in interest rates and parallel shifts in the yield curves. A sensitivity of 100 basis points has been selected as this is considered reasonable given the current level of short term and long term interest rates.

At balance date, if interest rates had been 100 basis points higher / lower and all other variables were held constant, the impact on the Group would be:

	Increase by 100bps \$'000	Decrease by 100bps \$'000
<b>2016</b>		
Net profit / (loss)	1,118	(1,118)
Other equity increase / (decrease)	5,598	(5,598)
<b>2015</b>		
Net profit / (loss)	895	(895)
Other equity increase / (decrease)	6,252	(6,252)

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

##### *Foreign exchange risk*

The Group operates a US electricity retail business and is exposed to foreign currency translation risk in respect of the investment. There is no debt in respect of this investment and there are no cross currency transactions that expose the Group to further foreign exchange risk.

##### (ii) Credit risk

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

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

The credit quality of all financial assets is consistently monitored in order to identify any potential adverse changes. At 30 June 2016 there was an increased credit exposure created by high wholesale prices and significant positive mark to market valuations, which management continues to monitor.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### (a) Financial risk management objectives (continued)

##### (ii) Credit risk (continued)

##### *Concentrations of credit risk*

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

The company applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. The loss allowance provision as at 30 June 2016 is determined as follows; the expected credit losses below also incorporates forward looking information.

	Total \$'000	< 30 days \$'000		31-60 days \$'000		61-120 days \$'000		> 120 days \$'000	
		Trade	Other <sup>(i)</sup>	Trade	Other <sup>(i)</sup>	Trade	Other <sup>(i)</sup>	Trade	Other <sup>(i)</sup>
<b>2016</b>									
<b>Consolidated</b>									
Expected loss rate		1%	-	2.5%	-	10%-25%	-	75%	-
Gross carrying amount	53,675	33,157	15,130	3,704	-	657	10	969	48
Loss allowance provision	(1,298)	(898)	-	(65)	-	(69)	-	(266)	-
Net receivables	<u>52,377</u>	<u>32,259</u>	<u>15,130</u>	<u>3,639</u>	<u>-</u>	<u>588</u>	<u>10</u>	<u>703</u>	<u>48</u>
<b>2015</b>									
<b>Consolidated</b>									
Expected loss rate		1%	-	1%	-	34%	-	74%	-
Gross carrying amount	46,627	29,381	14,333	1,999	-	150	22	302	440
Loss allowance provision	(598)	(306)	-	(16)	-	(51)	-	(225)	-
Net receivables	<u>46,029</u>	<u>29,075</u>	<u>14,333</u>	<u>1,983</u>	<u>-</u>	<u>99</u>	<u>22</u>	<u>77</u>	<u>440</u>

The majority of year-end debtors relate to electricity sales customers.

<sup>(i)</sup> Other receivables are neither past due or impaired and relate principally to employee shareholder loans, which are subject to loan deeds and the vendor finance loan to Empire.



# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### (a) Financial risk management objectives (continued)

##### (iii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets. Information regarding undrawn finance facilities available as at 30 June 2016 is contained in Note 21.

##### *Maturities of financial liabilities*

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

Financial liabilities	≤1 year \$'000	1 to 5 years \$'000	>5 years \$'000	Discount \$'000	Total \$'000
<b>Consolidated</b>					
<b>2016</b>					
Trade payables	277,599	-	-	-	277,599
Other payables	89,444	-	-	-	89,444
Interest bearing liabilities	27,861	-	-	-	27,861
Interest bearing liabilities – limited recourse <sup>(i)</sup>	9,332	23,620	172,400	(11,715)	193,637
Derivatives	13,868	25,840	11,729	-	51,437
	<b>418,104</b>	<b>49,460</b>	<b>184,129</b>	<b>(11,715)</b>	<b>639,978</b>
<b>2015</b>					
Trade payables	210,823	-	-	-	210,823
Other payables	68,416	-	-	-	68,416
Interest bearing liabilities	33,183	10,500	-	-	43,683
Interest bearing liabilities – limited recourse <sup>(i)</sup>	8,912	24,031	178,322	(13,244)	198,021
Derivatives	27,267	26,216	9,503	-	62,986
	<b>348,601</b>	<b>60,747</b>	<b>187,825</b>	<b>(13,244)</b>	<b>583,929</b>

<sup>(i)</sup> Recourse limited to assets of the Neerabup Partnership. Refer note 21 for further details.

#### (b) Significant accounting policies

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

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### (c) Fair value of financial assets and liabilities

The carrying amounts and estimated fair values of all the Group's financial instruments recognised in the financial statements are materially the same, with the exception of the following:

	Note	CONSOLIDATED	
		2016 \$'000 Carrying value	2016 \$'000 Fair value
<b>Financial assets</b>			
Electricity and gas derivative financial instruments	(i)	<b>209,924</b>	241,331
		<b>209,924</b>	241,331

(i) The carrying value of derivative financial assets recognised excludes a day one gain on certain electricity derivatives. In accordance with the Groups accounting policy a day one gain has not been recognised with the day one value of certain instruments entered into initially valued at the transaction price, which is the best indicator of fair value. Any gain subsequently realised is progressively recognised as the instruments are settled. The measurement of the instruments at 30 June 2016 excludes the remaining balance of the deferred day one gain of \$31.4m. At inception the day one gain was \$31.9m. The movement in the day one gain balance relates to settlement of derivatives through profit and loss during the year.

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

#### *Cash and cash equivalents*

The carrying amount is fair value due to the asset's liquid nature.

#### *Derivative financial instruments*

The fair value of derivative instruments included in hedging assets and liabilities is calculated using quoted prices. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods, such as discounted cash flows, and makes assumptions that are based on market conditions existing at each balance date. These amounts reflect the estimated amount which the Group would be required to pay or receive to terminate (or replace) the contracts at their current market rates at balance date.

#### *Equity investments*

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

#### *Other financial assets*

Due to their short-term nature, the carrying amounts of loans, receivables, and cash and cash equivalents approximate their fair value.

#### *Other financial liabilities at amortised cost*

The Group holds various trade payables and borrowings at period end. Due to the short-term nature of the trade payables the carrying value of these are assumed to approximate their fair value. The fair value of borrowings is not materially different then the carrying amounts as the interest rates are close to current market rates or are short-term in nature.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### (c) Fair value of financial assets and liabilities (continued)

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

The following tables present the Group's assets and liabilities measured and recognised at fair value at 30 June 2016 and 30 June 2015.

#### As at 30 June 2016

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Electricity and gas derivatives	1,889	208,035	-	209,924
Foreign exchange derivative contract	-	203	-	203
Financial assets at fair value through other comprehensive income	150	-	-	150
<b>Total assets</b>	<b>2,039</b>	<b>208,238</b>	<b>-</b>	<b>210,277</b>
<b>Liabilities</b>				
Electricity and gas derivatives	4,534	5,275	-	9,809
Interest rates swaps	-	41,628	-	41,628
<b>Total liabilities</b>	<b>4,534</b>	<b>46,903</b>	<b>-</b>	<b>51,437</b>

#### As at 30 June 2015

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Assets</b>				
Electricity and gas derivatives	-	15,345	-	15,345
Embedded derivative contract	-	1,923	-	1,923
Financial assets at fair value through other comprehensive income	3,463	-	-	3,463
<b>Total assets</b>	<b>3,463</b>	<b>17,268</b>	<b>-</b>	<b>20,731</b>
<b>Liabilities</b>				
Electricity and gas derivatives	13,095	14,383	-	27,478
Interest rates swaps	-	35,508	-	35,508
<b>Total liabilities</b>	<b>13,095</b>	<b>49,891</b>	<b>-</b>	<b>62,986</b>

#### Level 1

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

#### Level 2

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

#### Level 3

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

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. For the years ending 30 June 2016 and 30 June 2015 there were no transfers between the fair value hierarchy levels.

#### (d) Offsetting of financial assets and financial liabilities

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

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 30 June 2016 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 Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### (d) Offsetting of financial assets and financial liabilities (continued)

The below table provides a reconciliation of the Group's gross derivative financial assets and liabilities offset to those presented on the consolidated statement of financial position as at 30 June 2016 and as at 30 June 2015.

As at 30 June 2016

\$'000	Gross carrying amount (before offsetting)	Gross amounts offset	Cash collateral and futures margin deposits received	Net amount presented	Related amounts not offset Financial instruments <sup>(i)</sup>	Cash collateral	Net exposure
<b>Financial assets</b>							
Electricity and gas derivatives contracts	248,844	(29,431)	(9,489)	209,924	(1,022)	(1,889)	207,013
Foreign exchange derivative contract	203	-	-	203	-	-	203
<b>Total</b>	<b>249,047</b>	<b>(29,431)</b>	<b>(9,489)</b>	<b>210,127</b>	<b>(1,022)</b>	<b>(1,889)</b>	<b>207,216</b>
<b>Financial liabilities</b>							
Electricity and gas derivatives contracts	39,240	(29,431)	-	9,809	(1,022)	-	8,787
Interest rate swaps	41,628	-	-	41,628	-	-	41,628
<b>Total</b>	<b>80,868</b>	<b>(29,431)</b>	<b>-</b>	<b>51,437</b>	<b>(1,022)</b>	<b>-</b>	<b>50,415</b>

As at 30 June 2015

\$'000	Gross carrying amount (before offsetting)	Gross amounts offset	Cash collateral and futures margin deposits paid	Net amount presented	Related amounts not offset Financial instruments <sup>(i)</sup>	Cash collateral	Net exposure
<b>Financial assets</b>							
Electricity and gas derivatives contracts	32,745	(17,400)	-	15,345	(3,339)	-	12,006
Embedded derivative contract	1,923	-	-	1,923	-	-	1,923
<b>Total</b>	<b>34,668</b>	<b>(17,400)</b>	<b>-</b>	<b>17,268</b>	<b>(3,339)</b>	<b>-</b>	<b>13,929</b>
<b>Financial liabilities</b>							
Electricity and gas derivatives contracts	69,148	(17,400)	(24,270)	27,478	(3,339)	(260)	23,879
Interest rate swaps	35,508	-	-	35,508	-	-	35,508
<b>Total</b>	<b>104,656</b>	<b>(17,400)</b>	<b>(24,270)</b>	<b>62,986</b>	<b>(3,339)</b>	<b>(260)</b>	<b>59,387</b>

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

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 3. FINANCIAL RISK MANAGEMENT (continued)

#### (e) Capital risk management

The Group manages its capital so that it will be able to continue as a going concern while maximising the return to stakeholders through an appropriate mix of debt and equity. This approach is consistent with prior years. The capital structure of the Group as at balance date consists of total corporate facilities, as listed in note 21, total limited recourse facilities as listed in note 21 and equity, comprising issued capital, reserves and retained earnings as listed in notes 23 and 24.

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

The Group is required to provide prudential credit support to various parties which it does through the provision of bank guarantees or cash collateral. It also has a working capital facility in place which is settled each month. A large percentage of the Group debt is in the form of limited recourse project finance provided directly to power stations in which the Group has an interest. During the financial year ended 30 June 2016 the entity complied with all applicable debt covenants.

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

	<b>CONSOLIDATED</b>	
	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Current borrowings	<b>37,193</b>	42,095
Non-current borrowings	<b>184,305</b>	199,609
Total debt	<b>221,498</b>	241,704
Cash and cash equivalents	<b>(192,467)</b>	(172,836)
Net debt	<b>29,031</b>	68,868
Total equity excluding reserves	<b>367,990</b>	362,107
Total capital	<b>397,021</b>	430,975
Gearing percentage <sup>(i)</sup>	<b>7%</b>	16%
Gearing percentage <sup>(i)</sup> excluding Neerabup	<b>0%</b>	0%
EBITDAF Interest cover ratio	<b>2.35</b>	2.98

<sup>(i)</sup> Gearing percentage is calculated as net debt divided by total capital. Net debt is calculated as total interest-bearing borrowings less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt less reserves attributable to fair value adjustments.

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

##### *Share-based payment transactions*

The Company measures the cost of shares and options issued to employees and third parties by reference to the fair value of the equity instruments at the date at which they are granted. Details regarding the terms and conditions upon which the instruments were granted and methodology for determining fair value at grant date are available in note 25.

##### *Deferred tax assets*

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

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

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

##### *Fair value of financial instruments*

The fair value of financial assets and financial liabilities are estimated for recognition and measurement and for disclosure purposes. Management uses its judgement in selecting appropriate valuation techniques for financial instruments not quoted in active markets. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices and rates. Refer to note 3 for further details of valuation methods used by the Group to determine fair value.

##### *Joint arrangements*

The Group has classified its investments in the NewGen Neerabup Partnership. The partners of the Partnership are jointly and severally liable for the liabilities of the partnership and under the partnership agreement are entitled to a proportionate share of Partnership's assets.

##### *Purchase price allocation*

AASB 3 *Business Combinations* requires the recognition of fair value estimates of assets and liabilities acquired. By the nature of these estimates, judgements are made on the allocation of the purchase consideration.

##### *Impairment*

At 30 June 2016 the Group has tested goodwill for impairment and made critical judgements with respect to assumptions used in the value in use assessment. These assumptions are set out in Note 19. In 2015, the Group impaired the value of generation development assets as a result of our generation group ceasing material activities on the existing gas fired power generation development projects. A critical judgement was made to write the value of capitalised development costs down to nil on a value in use basis and based on the assumption that the assets hold no value to other participants in the industry.

#### CONSOLIDATED

2016	2015
\$'000	\$'000

### 5. REVENUE

#### *Revenue from Continuing Operations*

Sale of electricity	2,662,268	2,204,128
Electricity generation revenue	88,397	99,620
Operations income and project fees	2,418	3,969
Gas production and condensate income	-	3,426
Consulting and other revenue	9,455	3,442
	<b>2,762,538</b>	<b>2,314,585</b>

Refer to note 2 for further information regarding transactions between entities within the Group that have been eliminated on consolidation.

#### CONSOLIDATED

2016	2015
\$'000	\$'000

### 6. EXPENSES

Cost of electricity sales	(i)	2,559,836	2,116,421
Cost of electricity generation		59,144	52,788
Employee benefits expense		42,710	39,289
Other expenses		27,940	26,346
		<b>2,689,630</b>	<b>2,234,844</b>

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

Rental expenses relating to operating leases	3,889	3,788
Defined contribution superannuation expense	2,264	2,491

(i) Includes total net realised gains on the settlement of derivative financial instruments of \$214.8m (2015: \$61.9m loss).

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

**CONSOLIDATED**  
**2016**                  2015  
**\$'000**                  \$'000

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

#### Unrealised

Electricity and gas derivative contracts  
Hedge ineffectiveness

<b>36,524</b>	97,689
<b>2,959</b>	-
<b>39,483</b>	97,689

The Group accounts for certain derivative financial instruments as cash flow hedges with corresponding unrealised value movements recognised in the cash flow hedge reserve. Any unrealised gain or loss on other instruments that are not hedge accounted and any ineffective portion of hedge accounted instruments is recognised directly in profit or loss. Refer note 16 for further information.

Further information regarding the sensitivity and market risk of derivative financial instruments is contained in Note 3(a)(i).

**CONSOLIDATED**  
**2016**                  2015  
**\$'000**                  \$'000

### 8. NET FINANCE EXPENSE

#### Finance income

Interest income

<b>4,281</b>	5,217
<b>4,281</b>	5,217

#### Finance costs

Borrowing costs – bank loans  
Borrowing costs – receivables financing facility  
Borrowing costs – convertible notes  
Other borrowing costs

<b>12,662</b>	13,000
<b>6,056</b>	6,595
<b>3,845</b>	3,911
<b>6,561</b>	3,787
<b>29,124</b>	27,293

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

CONSOLIDATED  
2015                      2015  
\$'000                      \$'000

### 9. INCOME TAX

#### (a) Income tax expense

Income tax comprises:

Current tax expense

194                      73

Deferred tax expense

21,887                      28,288

Adjustment to current and deferred tax of prior periods

318                      285

**Income tax expense**

**22,399                      28,646**

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

Profit from continuing operations

58,208                      94,583

Income tax expense calculated at 30%

17,462                      28,375

Other income taxes

194                      73

Net effect of expenses / (income) that are not deductible / (non-assessable) in determining taxable profit

(135)                      (111)

Capital loss not recognised

4,538                      -

Adjustment to deferred tax of prior periods

318                      285

Difference in overseas tax rates

22                      24

**Income tax expense**

**22,399                      28,646**

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

(Increase) / decrease in equity due to current and deferred amounts charged directly to equity during the period:

Net tax effect of amounts charged to cash flow hedge reserve

(58,797)                      706

Net tax effect of amounts charged to fair value reserve

(243)                      (157)

**(59,040)                      549**

#### (d) Current tax assets

Current tax receivables:

94                      -

Income tax receivable

94                      -



# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 9. INCOME TAX (continued)

#### (e) Recognised deferred tax assets and deferred tax liabilities (continued)

Movements in temporary differences - consolidated	Opening balance	Recognised in income statement	Acquisition of controlled entities	Currency translation differences	Recognised in equity	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2016</b>						
Carried forward income tax losses	12,219	650	-	(1,048)	-	11,821
Net derivative financial liabilities	21,528	(21,528)	-	-	-	-
Employee provisions	4,023	(1,220)	4	21	-	2,828
Financial assets at fair value through other comprehensive income	2,857	(2,614)	-	-	(243)	-
Associates	1,018	(1,018)	-	-	-	-
Other items	2,967	1,162	977	201	-	5,307
<b>Deferred tax assets</b>	<b>44,612</b>	<b>(24,568)</b>	<b>981</b>	<b>(826)</b>	<b>(243)</b>	<b>19,956</b>
Set-off deferred tax liabilities						(13,920)
<b>Net deferred tax assets</b>						<b>6,036</b>
Net derivative financial assets	-	9,119	-	502	(58,797)	(49,176)
Property, plant and equipment	(55,471)	(5,414)	-	(116)	-	(61,001)
Goodwill	(302)	(728)	-	148	-	(882)
Other items	(2,149)	(614)	-	(15)	-	(2,778)
<b>Deferred tax liabilities</b>	<b>(57,922)</b>	<b>2,363</b>	<b>-</b>	<b>519</b>	<b>(58,797)</b>	<b>(113,837)</b>
Set-off deferred tax assets						13,920
<b>Net deferred tax liabilities</b>						<b>(99,917)</b>

Movements in temporary differences - consolidated	Opening balance	Recognised in income statement	Acquisition of controlled entities	Currency translation differences	Recognised in equity	Closing balance
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2015</b>						
Carried forward tax losses	18,825	(6,609)	-	3	-	12,219
Net derivative financial liabilities	45,865	(29,962)	4,735	184	706	21,528
Employee provisions	2,702	1,318	-	3	-	4,023
Financial assets at fair value through other comprehensive income	4,240	-	-	-	(1,383)	2,857
Associates	-	(208)	-	-	1,226	1,018
Other items	1,285	1,682	-	-	-	2,967
<b>Deferred tax assets</b>	<b>72,917</b>	<b>(33,779)</b>	<b>4,735</b>	<b>190</b>	<b>549</b>	<b>44,612</b>
Set-off deferred tax liabilities						(39,651)
<b>Net deferred tax assets</b>						<b>4,961</b>
Property, plant and equipment	(55,831)	358	-	2	-	(55,471)
Capitalised gas exploration costs	(4,594)	4,594	-	-	-	-
Gas assets	(2,148)	2,148	-	-	-	-
Goodwill	-	(298)	-	(4)	-	(302)
Other items	(555)	(1,596)	-	2	-	(2,149)
<b>Deferred tax liabilities</b>	<b>(63,128)</b>	<b>5,206</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(57,922)</b>
Set-off deferred tax assets						39,651
<b>Net deferred tax liabilities</b>						<b>(18,271)</b>

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 9. INCOME TAX (continued)

#### Tax consolidation

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

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

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

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
(f) Tax losses		
Unused capital tax losses for which no deferred tax asset has been recognised	15,127	-
Potential tax benefit at 30%	4,538	-

The unused capital losses were incurred from the disposal of capital investments that are not likely to be recouped in the foreseeable future.

#### (g) Unrecognised temporary differences

Temporary difference relating to investments in subsidiaries for which deferred tax liabilities have not been recognised:

Foreign currency translation	811	340
Undistributed earnings	-	5
Unrecognised deferred tax liabilities relating to the above temporary differences	811	345

Temporary differences of \$0.8m (2015: \$0.3m) have arisen as a result of the translation of the financial statements of the Group's subsidiary in the US. However, a deferred tax liability has not been recognised as the liability will only eventuate in the event of disposal of the subsidiary, and no such disposal is expected in the foreseeable future.

### 10. DIVIDENDS PAID AND PROPOSED

During the year ended 30 June 2016, the Company paid a partially franked final dividend for the year ended 30 June 2015 of 6.0 cents per share and an unfranked interim dividend for the year ended 30 June 2016 of 6.0 cents per share (2015: 6.0 cents).

	2016	2015
	\$'000	\$'000
Franking credits available to shareholders in subsequent years	33	2,106

After 30 June 2016 the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

	Cents per share	Total amount	Unfranked	Date of payment
		\$'000	\$'000	
Final proposed ordinary share dividend estimated based upon shares on issue at 30 June 2016	6.0	14,750	14,750	6 October 2016

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

CONSOLIDATED  
2016                  2015  
\$'000                  \$'000

### 11. CASH AND CASH EQUIVALENTS

#### Current

Restricted cash	125,150	127,431
Non-restricted cash at bank and cash on hand	67,317	45,405
Total cash and cash equivalents	<u>192,467</u>	<u>172,836</u>

The cash and cash equivalents are bearing interest at rates between nil and 3.10%.

#### Restricted cash

Cash that is reserved and its use specifically restricted for maintenance and/or debt servicing under the Group's borrowing agreements is defined as restricted cash. Cash that is on deposit with counterparties as security deposits and cash that is on deposit with financial institutions as security for bank guarantees issued to various counterparties as credit support, is defined as restricted cash, with a corresponding disclosure in contingent liabilities in Note 27. Cash collateral held in broker accounts to facilitate wholesale price hedging on the Sydney Futures Exchange is classified as restricted cash unless it is eligible for offset against the corresponding derivative liability. As at 30 June 2016 \$27.2m cash collateral held in broker accounts has been offset against the corresponding liability (2015: \$33.2m).

The restricted cash deposits, held on term deposit, are bearing interest at rates between 2.35% and 3.10%.

CONSOLIDATED  
2016                  2015  
\$'000                  \$'000

Term deposits	91,033	122,391
Other restricted cash deposits	34,117	5,040
	<u>125,150</u>	<u>127,431</u>

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

CONSOLIDATED  
2016                      2015  
\$'000                      \$'000

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

Net profit after tax	35,809	65,937
<i>Adjustments for:</i>		
Depreciation and amortisation of non-current assets	25,229	20,288
Impairment of non-current assets	-	42,952
Onerous contract	1,898	-
Share based payment expense	2,565	1,257
Net unrealised fair value gains on financial instruments and inventory	(39,483)	(97,689)
Loss on sale of equity accounted investment	3,422	-
Share of profits of associates	(402)	(692)
Net exchange differences	500	(164)
Finance costs	29,124	27,293
<i>Transfers to provisions:</i>		
Employee entitlements	328	190
Onerous contract	(48)	-
Deferred consideration	(659)	-
<i>Changes in assets and liabilities (net of business combinations):</i>		
Increase in trade and other receivables	(96,583)	(15,913)
Decrease in other assets	712	3,970
Decrease in inventories	13,832	31,448
Decrease in deferred tax assets	24,568	33,779
Decrease broker margin account offset against liabilities	60,412	8,354
Decrease in deferred tax liabilities	(2,363)	(5,206)
Increase / (decrease) in current tax liability	67	(570)
Increase in trade and other payables	60,986	29,012
Net cash provided by operating activities	<b>119,914</b>	<b>144,246</b>

#### Disclosure of financing facilities

Refer to note 21 for information regarding financing facilities.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

	Note	CONSOLIDATED	
		2016 \$'000	2015 \$'000
<b>13. TRADE AND OTHER RECEIVABLES AT AMORTISED COST</b>			
<b>Current</b>			
Trade receivables	(i)	37,189	31,234
Other receivables	(ii)	15,156	701
		<b>52,345</b>	31,935
Accrued income	(iii)	278,251	186,370
		<b>330,596</b>	218,305
<b>Non-current</b>			
Other receivables	(ii)	32	14,094
		<b>32</b>	14,094

(i) Trade receivables are non-interest bearing and are generally on 30-day terms.

(ii) Other receivables includes the present value carrying amount of a \$14.9m loan granted by a subsidiary of ERM Power Limited to Empire as a consequence of selling the Group's Western Australian Gas assets. Refer to note 30 for further details.

(iii) Accrued income represents electricity amounts due to be invoiced after 30 June 2016 and wholesale counterparty settlements due to be accrued and received after 30 June 2016.

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

### Impaired receivables and receivables past due

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

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

	Note	CONSOLIDATED	
		2016	2015
		\$'000	\$'000
<b>14. INVENTORIES</b>			
Work in progress		109	-
Stock on hand		317	-
Renewable energy certificates	(i)(ii)	9,322	24,046
Renewable energy certificates recognised under sale and repurchase arrangement	(iii)	10,500	10,500
Gas in storage		54	96
Diesel fuel		1,780	1,791
		<b>22,082</b>	<b>36,433</b>

- (i) Renewable energy certificates are pledged as security against outstanding bank loan and receivables finance facilities at 30 June 2016.
- (ii) Renewable energy certificates designated as commodity broker trader inventory are measured at fair value less costs to sell.
- (iii) The Group has right of repurchase under sale and repurchase arrangement. The corresponding liability is included within borrowings at 30 June 2016. Refer to Note 21.

CONSOLIDATED  
2016      2015  
\$'000      \$'000

### 15. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

#### (a) Equity investments at fair value through other comprehensive income

Equity investments at fair value through other comprehensive income comprise of the following individual investments:

##### Non-current

##### Listed securities

Red Sky Energy Limited	150	150
Metgasco Limited	-	3,313
	<b>150</b>	<b>3,463</b>

All shares held in listed entities as at 30 June 2016 have been classified as fair value through other comprehensive income because they are investments that the Group intends to hold for the long-term.

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

Refer note 1(i) for further details.

#### (b) Disposal of equity interests

During the year ended 30 June 2016 the Company sold its shares in Metgasco Limited. The shares had a fair value of \$3.2m and the Company realised a loss of \$6.1m (net of tax) which is included in other comprehensive income. This loss was reclassified to retained earnings.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

	Note	CONSOLIDATED	
		2016	2015
		\$'000	\$'000
<b>16. DERIVATIVE FINANCIAL INSTRUMENTS</b>			
<b>Current assets</b>			
Electricity and gas derivatives		158,627	11,367
Foreign exchange derivatives		71	-
		<b>158,698</b>	<b>11,367</b>
<b>Non-current assets</b>			
Electricity and gas derivatives		51,296	3,978
Foreign exchange derivatives		133	-
Embedded derivative	(i)	-	1,923
		<b>51,429</b>	<b>5,901</b>
<b>Current liabilities</b>			
Electricity and gas derivatives		6,838	20,289
		<b>6,838</b>	<b>20,289</b>
<b>Non-current liabilities</b>			
Electricity and gas derivatives		2,971	7,189
Interest rate swaps		41,628	35,508
		<b>44,599</b>	<b>42,697</b>

- (i) The Group's fair value entitlement 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 Australian Gas assets. The top up payment is similar to a call option and accordingly management has valued this component using a Black-Scholes option pricing model.

### Derivative financial instruments used by the Group

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

### Derivative financial instruments designated as cash flow hedges

#### Interest rate swaps

	Carrying value	
	2016	2015
	\$'000	\$'000
<b>Liabilities</b>		
12 months or less	7,000	6,979
1-2 years	6,642	6,198
2-5 years	16,257	12,828
More than 5 years	11,729	9,503
	<b>41,628</b>	<b>35,508</b>

The Neerabup partnership has limited recourse, variable interest rate project finance in place. This variable interest has been swapped into fixed. Swaps currently in place for the Neerabup partnership cover approximately 97% (2015: 97%) of the variable loan principal outstanding and are timed to expire as each loan repayment falls due. The fixed interest rate is 7.189% (2015: 7.189%) and the variable rate is 1.1% above the BBSY rate which at the end of the reporting period was 2.44% (2015: 2.47%).

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

The gain or loss from re-measurement of hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into profit or loss when the hedged interest expense is recognised. There was no hedge ineffectiveness in the current or prior year and the movement of the fair value of the hedged item and instrument deferred in the hedge reserve was \$6.1m.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 16. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The above table indicates the periods in which the cash flows associated with cash flow hedges are expected to impact profit or loss and the fair value of the related hedging instruments. The notional amount of debt covered by the interest rate swap in place at 30 June 2016 was \$137.9m (2015: \$143.7m). During the year ended 30 June 2016 amounts accumulated to the cashflow hedge reserve of \$6.9m were settled and recognised in profit and loss

#### Electricity derivatives

	Assets		Liabilities		Nominal hedge volume <sup>(ii)</sup>	
	Carrying value <sup>(i)</sup>		Carrying value <sup>(i)</sup>			
	2016	2015	2016	2015	2016	2015
Net asset / (liability)	\$'000	\$'000	\$'000	\$'000	TWh	TWh
12 months or less	142,024	-	(5,226)	-	12	-
1-2 years	28,816	-	(513)	-	5	-
2-5 years	15,812	-	-	-	2	-
More than 5 years	5,548	-	-	-	1	-
	192,200	-	(5,739)	-	20	-

(i) Carrying value of hedging instruments only. For the year ended 30 June 2015 hedge accounting was not adopted for electricity derivatives and accordingly no values are shown for that year.

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

The Group uses cash flow hedges to mitigate the risk of variability in electricity prices. The following instruments are hedge accounted:

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

The above carrying value represents the total value of hedge instruments recognised on the Group's balance sheet at 30 June 2016 together with maturity of these instruments and associated nominal volume. The value of these instruments excluding the ineffective portion has been recognised in the cash flow hedge reserve. An additional unrealised gain of \$7.8m has also been deferred in the cash flow hedge reserve following the cessation of hedge accounting for this instrument.

Hedge rates for these instruments vary by product type, time period and region and range from \$10 to \$300 per MWh.

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

The movement in the hedged items for the year ended 30 June 2016 was \$200.1m. The movement in hedge instruments recognised in reserves for the year ended 30 June 2016 was \$197.2m. The difference in these amounts is a result of hedge ineffectiveness of which an amount of \$2.9m was recognised for the year ended 30 June 2016 (refer note 7). The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedge reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. Effectiveness is assessed against forecast electricity purchase requirements. Where the portfolio volume of the cash flow hedge contracts is in excess of forecast electricity purchase requirements for a particular time period an amount of ineffectiveness is recognised immediately in profit or loss.

During the year ended 30 June 2016 amounts accumulated to the cashflow hedge reserve of \$159.6m were settled and recognised as a gain in profit and loss.



# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 17. PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED		Land	Capital work in progress	Plant and equipment	Furniture, fittings and improvements	Total
		\$'000	\$'000	\$'000	\$'000	\$'000
<b>2016</b>						
Cost		22,963	5,288	486,068	12,841	527,160
Accumulated depreciation and impairment		(447)	-	(127,424)	(8,023)	(135,894)
Net carrying amount at 30 June 2016		22,516	5,288	358,644	4,818	391,266
Opening net carrying amount at 1 July 2015		22,516	104	369,319	4,917	396,856
Exchange differences		-	-	-	12	12
Acquisition of subsidiaries		-	-	191	-	191
Additions		-	5,288	1,561	1,414	8,263
Transfers		-	(104)	-	-	(104)
Depreciation		-	-	(12,427)	(1,525)	(13,952)
Closing net carrying amount at 30 June 2016		22,516	5,288	358,644	4,818	391,266
<b>CONSOLIDATED</b>	<b>Note</b>	<b>Land</b>	<b>Capital work in progress</b>	<b>Plant and equipment</b>	<b>Furniture, fittings and improvements</b>	<b>Total</b>
		\$'000	\$'000	\$'000	\$'000	\$'000
<b>2015</b>						
Cost		23,109	104	484,222	11,394	518,829
Accumulated depreciation and impairment		(593)	-	(114,903)	(6,477)	(121,973)
Net carrying amount at 30 June 2015		22,516	104	369,319	4,917	396,856
Opening net carrying amount at 1 July 2014		23,109	26,735	380,052	5,795	435,691
Exchange differences		-	-	2	10	12
Acquisition of subsidiary		-	-	58	112	170
Additions		-	1,720	1,331	628	3,679
Transfers		-	(157)	148	2	(7)
Depreciation		-	-	(12,272)	(1,630)	(13,902)
Impairment	(i)	(593)	(28,194)	-	-	(28,787)
Closing net carrying amount at 30 June 2015		22,516	104	369,319	4,917	396,856

(i) Refer to note 19 for further details.

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

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

Refer note 21 for details regarding recourse and limited recourse borrowings of the Group.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 18. INTANGIBLE ASSETS

CONSOLIDATED	Goodwill	Capital work in progress	Software internally generated	Software and other	Customer acquisition costs	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2016</b>						
Cost	32,568	1,304	18,095	5,981	45,347	103,295
Accumulated depreciation and impairment	-	-	(5,594)	(3,955)	(14,705)	(24,254)
Net carrying amount at 30 June 2016	32,568	1,304	12,501	2,026	30,642	79,041
Opening net carrying amount at 1 July 2015	24,195	6	9,128	1,901	7,583	42,813
Current period trailing commission sales <sup>(i)</sup>	-	-	-	-	22,967	22,967
Exchange differences	827	-	-	5	163	995
Acquisition of subsidiaries	7,546	-	1,496	30	678	9,750
Additions	-	1,298	4,047	863	7,481	13,689
Transfer	-	-	4	100	-	104
Amortisation	-	-	(2,174)	(873)	(8,230)	(11,277)
Closing net carrying amount at 30 June 2016	32,568	1,304	12,501	2,026	30,642	79,041
<b>CONSOLIDATED</b>	<b>Goodwill</b>	<b>Capital work in progress</b>	<b>Software internally generated</b>	<b>Software and other</b>	<b>Customer acquisition costs</b>	<b>Total</b>
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>2015</b>						
Cost	24,195	6	12,483	5,029	12,053	53,766
Accumulated depreciation and impairment	-	-	(3,355)	(3,128)	(4,470)	(10,953)
Net carrying amount at 30 June 2015	24,195	6	9,128	1,901	7,583	42,813
Opening net carrying amount at 1 July 2014	-	4	5,715	1,784	3,421	10,924
Exchange differences	1,148	-	-	15	79	1,242
Acquisition of subsidiary	23,047	-	-	410	1,929	25,386
Additions	-	6	4,919	189	5,107	10,221
Transfer	-	(4)	4	-	-	-
Amortisation	-	-	(1,510)	(497)	(2,953)	(4,960)
Closing net carrying amount at 30 June 2015	24,195	6	9,128	1,901	7,583	42,813

(i) Refer to note 22 for corresponding provision movement.

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

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 19. IMPAIRMENT OF NON-FINANCIAL ASSETS

#### (a) Impairment loss

In 2015, the Group recognised a total impairment loss of \$42.9m due to:

- a decision to stop further spending on power station development assets given the current wholesale market conditions (\$28.8m).
- a decision to surrender two of the Group's East Coast gas licenses to the government and scale back development of the remaining New South Wales exploration licence (\$10.4m).
- a write down of the Western Australian petroleum tenement interests (\$3.8m).

#### (b) Impairment tests for goodwill and indefinite life intangible assets

Goodwill is monitored by management at the level of the four operating segments identified in Note 2:

A segment-level summary of the goodwill allocation is presented below.

CONSOLIDATED	Business Energy Australia \$'000	Business Energy US \$'000	Generation Assets \$'000	Other <sup>(i)</sup> \$'000	Total \$'000
2016					
Goodwill	-	26,108	-	6,460	32,568
Indefinite life intangible assets	-	-	-	-	-
	-	26,108	-	6,460	32,568

(i) Other goodwill includes acquisition of Lumaed Pty Ltd and Greensense Pty Ltd.

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

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

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

At 30 June 2016 the Group did not have any indefinite life intangible assets. The Group had goodwill of \$32.6m of which 80% related to the Group's US operations. Management have utilised a value in use model to test goodwill for impairment at 30 June 2016 for the US operations. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. The remaining 20% of goodwill results from purchase price allocations of the Greensense and Lumaed acquisitions completed 3 – 6 months prior to 30 June 2016. Nothing has occurred in the period since acquisition to 30 June 2016 that would indicate these purchase price allocations do not represent fair value.

The following table sets out the key assumptions for determining the recoverable amount and testing impairment of the goodwill in the Group's US electricity retailing operation:

2016	Business Energy US
Pre-tax discount rate	15.55%
Years of cash flows included (FY2017 to FY2021)	5
Average gross margin US\$ per MWh	US\$5.30
Cumulative average growth rate of load sold	73%
Terminal value growth rate used	0%

Cumulative average growth rate across the forecast period assumed is supported by the rapid growth in signed customer load for the business. During the year ended 30 June 2016 signed customer load (forward booked load) has increased from 4.0TWh to 10.8TWh following investment in people, systems and capability.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

	Note	CONSOLIDATED	
		2016	2015
		\$'000	\$'000
<b>20. TRADE AND OTHER PAYABLES</b>			
<b>Current</b>			
Trade creditors and accruals	(i)	277,599	210,823
Other creditors		89,444	68,416
		<b>367,043</b>	<b>279,239</b>

(i) Trade payables are unsecured and are usually paid within 60 days of recognition.

	Note	CONSOLIDATED	
		2016	2015
		\$'000	\$'000
<b>21. BORROWINGS</b>			
<b>Current</b>			
<i>Secured</i>			
Bank loan - Receivables financing facility	(i)	17,361	33,183
Bank loan - Inventory repurchase	(ii)	10,500	-
		<b>27,861</b>	<b>33,183</b>
<i>Secured - limited recourse</i>			
Bank loan - Neerabup working capital facility	(iii)	3,000	3,000
Bank loan - Neerabup term facility (current portion)	(iv)	6,332	5,912
		<b>9,332</b>	<b>8,912</b>
<b>Total current borrowings</b>		<b>37,193</b>	<b>42,095</b>
<b>Non-current</b>			
<i>Secured</i>			
Bank loan - Inventory repurchase	(ii)	-	10,500
		<b>-</b>	<b>10,500</b>
<i>Secured - limited recourse</i>			
Bank loan - Neerabup term facility	(iv)	135,212	141,302
Convertible notes	(v)	49,093	47,807
		<b>184,305</b>	<b>189,109</b>
<b>Total non-current borrowings</b>		<b>184,305</b>	<b>199,609</b>
<b>Total borrowings</b>		<b>221,498</b>	<b>241,704</b>

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

- (i) Amounts drawn down on receivables financing facility secured against billed and unbilled electricity sales customer revenue receivables.
- (ii) Sale and repurchase agreement in respect of renewable energy certificates. The equivalent renewable energy certificate assets, over which the Group has the right of repurchase, are included within inventories at 30 June 2016.
- (iii) Amounts drawn down on a limited recourse bank working capital facility by Neerabup Partnership. This debt has recourse to the assets of Neerabup Partnership only.
- (iv) Amounts drawn down on a limited recourse term debt facility in respect of the Neerabup Partnership. This debt has recourse to the assets of Neerabup Partnership only.
- (v) 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 7.78% (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 Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 21. BORROWINGS (continued)

#### *Financing facilities available*

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

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
Total facilities - bank loans	381,425	392,223
Facilities used at balance date - bank loans	(213,213)	(233,897)
Facilities unused at balance date - bank loans	168,212	158,326

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000

### 22. PROVISIONS

#### Current

Employee benefits - annual leave	2,254	2,032
Onerous contract provision	328	-
Customer acquisition cost trailing commission provision	7,728	-
Deferred consideration	689	-
	10,999	2,032

#### Non-current

Employee benefits - long service leave	1,230	1,069
Onerous contract provision	1,522	-
Customer acquisition cost trailing commission provision	13,675	-
	16,427	1,069

#### Movements in provisions

Carrying amount at start of the year	3,101	2,911
Additional provision recognised and charged to profit and loss	3,841	1,770
Amounts used during the year	(1,676)	(1,580)
Current period trailing commission sales provision recognised <sup>(i)</sup>	22,967	-
Current period trailing commission sales paid	(4,272)	-
Exchange differences	112	-
Balances acquired through business combination	3,353	-
	27,426	3,101

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

- (i) Corresponding amount capitalised as an intangible asset.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

	Note	CONSOLIDATED		CONSOLIDATED	
		2016	2015	2016	2015
		Number of shares	Number of shares	\$'000	\$'000
<b>23. CONTRIBUTED EQUITY</b>					
Issued ordinary shares – fully paid	23(a)	<b>245,836,004</b>	242,021,217	<b>339,669</b>	332,134
Treasury shares	23(b)	<b>(3,370,583)</b>	(2,544,194)	<b>(7,314)</b>	(5,318)
		<b>242,465,421</b>	239,477,023	<b>332,355</b>	326,816

### (a) Movement in ordinary share capital

At the beginning of the period		<b>242,021,217</b>	239,269,727	<b>332,134</b>	328,762
Issue of new shares – employee incentive scheme		<b>2,952,134</b>	1,924,430	<b>6,430</b>	3,640
Issue of shares – dividend reinvestment plan		<b>862,653</b>	627,782	<b>1,479</b>	1,233
Issue of shares – acquisition of subsidiary	29	-	199,278	-	444
Transfer from share based payment reserve		-	-	<b>1,288</b>	81
Transfer to treasury shares		-	-	<b>(1,662)</b>	(2,026)
At the end of the period		<b>245,836,004</b>	242,021,217	<b>339,669</b>	332,134

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

#### Ordinary shares

During the year ended 30 June 2016, there were no capital raisings undertaken.

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

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

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

#### Treasury shares

Treasury shares are shares that are held in trust for the purpose of issuing shares under employee share incentive schemes. For details of shares and options issued under employee share schemes (see note 25).

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### CONSOLIDATED

2016	2015
\$'000	\$'000

#### 24. RESERVES

Cash flow hedge reserve	112,338	(24,855)
Fair value reserve	(900)	(6,664)
Share based payment reserve	3,676	2,398
Transactions with non-controlling interests	(14,404)	(14,404)
Foreign currency translation reserve	2,703	1,134
	<b>103,413</b>	<b>(42,391)</b>

#### Movements

##### *Cash flow hedge reserve*

Balance at the beginning of the year	(24,855)	(23,208)
Revaluation - gross	195,990	(2,353)
Revaluation - deferred tax	(58,797)	706
Balance at the end of the year	<b>112,338</b>	<b>(24,855)</b>

##### *Fair value reserve*

Balance at the beginning of the year	(6,664)	(9,893)
Revaluation - gross	(91)	524
Revaluation - deferred tax	(243)	(157)
Transfer to associate investment (net of tax)	-	2,862
Transfer to retained earnings (net of tax)	6,098	-
Balance at the end of the year	<b>(900)</b>	<b>(6,664)</b>

##### *Share based payment reserve*

Balance at the beginning of the year	2,398	1,222
Share based payments vested	(1,287)	(81)
Share based payment expense	2,565	1,257
Balance at the end of the year	<b>3,676</b>	<b>2,398</b>

##### *Transactions with non-controlling interests reserve*

Balance at the beginning of the year	(14,404)	(14,404)
Balance at the end of the year	<b>(14,404)</b>	<b>(14,404)</b>

##### *Foreign currency translation reserve*

Balance at the beginning of the year	1,134	-
Currency translation differences – current period	1,569	1,134
Balance at the end of the year	<b>2,703</b>	<b>1,134</b>

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 24. RESERVES (continued)

#### (a) Cash flow hedge reserve

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

#### (b) Fair value reserve

Changes in the fair value and exchange differences arising on translation of investments, such as equities classified as fair value through other comprehensive income, are recognised in other comprehensive income, as described in note 1(i) and accumulated in a separate reserve within equity.

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

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

#### (d) Share based payment reserve

The share based payments reserve is used to recognise:

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

Refer to note 25 for details of the employee share and option incentive schemes.

#### (e) Foreign currency translation

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1(e) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

### 25. SHARE BASED PAYMENTS

#### (a) Long term incentives

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

#### (i) LTIST

Shares are acquired by a trustee who holds those shares on behalf of participants. The shares are acquired by the trustee either subscribing for new shares or purchasing shares on market.

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

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



# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 25. SHARE BASED PAYMENTS (continued)

#### (a) Long term incentives (continued)

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

	FY2016 grants	FY2015 grant
Assessed fair value per share at grant date	\$0.90 - \$1.44	\$1.15
Number of units allocated under the plan during the financial year	1,579,497	512,336
Share price at grant date	\$1.48 - \$2.22	\$1.75
Exercise price	Nil	Nil
Expected price volatility of the Company's shares based on historic volatility	33% - 35%	34.4%
Risk free interest rate	1.74% - 2.03%	2.79%
Expected vesting date	1 - 3 years after issue	3 years after issue
Dividend yield	5.4% - 8.1%	5.35%
Proportion subject to vesting on satisfaction of total security holder return (TSR) performance <sup>(i)</sup>	100%	100%

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

#### ii. LTIST and other option grants

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

#### 2011 financial year grant - LTIST

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

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

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

Financial year	Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Forfeited during the year	Options exercised during the year	Balance at end of the year	Vested and exercisable at end of the year
				Number	Number	Number	Number	Number	Number
2011	1/11/2010	1/11/2017	\$2.75	1,208,906	-	30,070	-	1,178,836	1,178,836
2011	8/11/2010	8/11/2017	\$2.75	242,706	-	-	-	242,706	242,706
<b>Total</b>				<b>1,451,612</b>	<b>-</b>	<b>30,070</b>	<b>-</b>	<b>1,421,542</b>	<b>1,421,542</b>

The weighted average remaining contractual life of options outstanding at the end of the period is 1.3 years.

#### (b) Other awards

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

Financial year	Grant Date	Vesting date	Number	Notional price
2016	21/12/15	06/01/19	468,232	\$1.538
2016	29/10/15	02/07/16	383,216	\$1.566
2015	23/09/14	23/09/19	280,114	\$1.785
2014	16/08/13	16/08/18	92,285	\$2.709

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

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

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000
Shares issued under long term employee share scheme	2,565	1,257
	<b>2,565</b>	<b>1,257</b>

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 26. PARENT ENTITY FINANCIAL INFORMATION

#### (a) Summary financial information

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

	2016 \$'000	2015 \$'000
<b>Statement of financial position</b>		
Current Assets	228,778	205,848
Total Assets	379,349	367,700
Current Liabilities	11,204	10,388
Total Liabilities	12,726	11,503
Net Assets	366,623	356,197
<i>Shareholders' equity</i>		
Contributed equity	339,669	332,134
Treasury shares	(7,314)	(5,318)
Fair value reserve	(900)	(6,664)
Share option reserve	3,676	2,398
Retained earnings	31,492	33,647
Total equity	366,623	356,197
<b>Profit for the year</b>	33,310	22,685
Other comprehensive (loss) / income	(333)	367
<b>Total comprehensive income</b>	32,977	23,052

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

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

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

The parent entity does not have any contingent liabilities at 30 June 2016.

#### (d) Contractual commitments for acquisition of property, plant and equipment

There are no contractual commitments for the acquisition of property, plant and equipment at 30 June 2016.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

CONSOLIDATED	
2016	2015
\$'000	\$'000

### 27. COMMITMENTS AND CONTINGENCIES

#### (a) Capital expenditure commitments

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

– not later than one year	11,905	2,625
– later than one year and not later than five years	6,227	1,090
– later than five years	-	-
	<b>18,132</b>	<b>3,715</b>

#### (b) Lease expenditure commitments

*Operating leases (non-cancellable):*

Minimum lease payments

– not later than one year	4,713	4,671
– later than one year and not later than five years	19,067	17,929
– later than five years	7,408	12,288
Aggregate lease expenditure contracted for at balance date	<b>31,188</b>	<b>34,888</b>

*Sub-lease payments:*

Future minimum lease payments expected to be received in relation to non-cancellable sub-leases of operating leases

<b>1,869</b>	-
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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 Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 27. 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.

	Note	CONSOLIDATED	
		2016 \$'000	2015 \$'000
Bank guarantees - Australian Energy Market Operator and other counterparties	(i)	173,903	125,767
Bank guarantees - Lease arrangements	(ii)	3,008	2,912
Futures margin deposits	(iii)	12,366	40,813
Security deposits	(iv)	1,005	4,369
Bank guarantees - Western Power	(v)	300	323
Bank guarantees - NSW exploration licence	(vi)	75	85
		<u>190,657</u>	<u>174,269</u>

- (i) The Group has provided bank guarantees in favour of the Australian Energy Market Operator to support its obligations to settle electricity purchases from the National Electricity Market. Bank guarantees have also been provided to various counterparties in relation to electricity derivatives. A portion of the guarantees are supported by term deposits. \$150m of the bank guarantees are supported by non-cash backed guarantees in 2016 (2015: \$80m).
- (ii) The Group has provided bank guarantees in relation to lease arrangements for premises in Brisbane, Sydney, Melbourne and Perth. These guarantees are supported by term deposits.
- (iii) Futures margin deposits represent cash lodged with the Group's futures clearing brokers. The deposits are in relation to various futures contracts on the Australian Securities Exchange and 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 New South Wales (NSW) Government in connection with its gas exploration licences in NSW. These guarantees are supported by term deposits.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 28. INTERESTS IN OTHER ENTITIES

#### (a) Subsidiary companies

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

Name	Place of incorporation	Percentage of equity interest held by the Company		Percentage of equity interest held by the non-controlling interests	
		2016 %	2015 %	2016 %	2015 %
Material operating subsidiaries					
ERM Financial Services Pty Ltd	QLD	100	100	-	-
ERM Gas Pty Ltd	QLD	100	100	-	-
ERM Holdings Pty Ltd	QLD	100	100	-	-
ERM Land Holdings Pty Ltd	QLD	100	100	-	-
ERM Neerabup Power Pty Ltd	VIC	100	100	-	-
ERM Neerabup Pty Ltd	VIC	100	100	-	-
ERM Power Developments Pty Ltd	VIC	100	100	-	-
ERM Power Generation Pty Ltd	VIC	100	100	-	-
ERM Power International Pty Ltd	QLD	100	100	-	-
ERM Power Investments Pty Ltd <sup>(i)</sup>	QLD	100	-	-	-
ERM Power Retail Pty Ltd	VIC	100	100	-	-
Greensense Pty Ltd <sup>(ii)</sup>	WA	100	-	-	-
Lumaled Pty Ltd <sup>(iii)</sup>	NSW	100	-	-	-
Oakey Power Holdings Pty Ltd	ACT	100	100	-	-
Powermetric Metering Pty Ltd	NSW	100	100	-	-
SAGE Utility Systems Pty Ltd	VIC	100	100	-	-
Source Power & Gas LLC <sup>(iv)</sup>	USA	100	100	-	-
Source Operations Group LLC <sup>(iv)</sup>	USA	100	100	-	-
SPG Energy Group LLC <sup>(iv)</sup>	USA	100	100	-	-
Other non-material subsidiaries					
Braemar 3 Holdings Pty Ltd	QLD	100	100	-	-
ERM Braemar 3 Pty Ltd	QLD	100	100	-	-
ERM Braemar 3 Power Pty Ltd	QLD	100	100	-	-
ERM Business Energy LLC <sup>(v)</sup>	USA	100	100	-	-
ERM Gas WA01 Pty Ltd	VIC	100	100	-	-
ERM Oakey Power Holdings Pty Ltd	NSW	100	100	-	-
E.R.M. Oakey Power Pty Ltd	QLD	100	100	-	-
ERM Power Services Pty Ltd	VIC	100	100	-	-
ERM Power Utility Systems Pty Ltd	QLD	100	100	-	-
ERM Wellington 1 Holdings Pty Ltd	QLD	100	100	-	-
Queensland Electricity Investors Pty Ltd	QLD	100	100	-	-
Richmond Valley Solar Thermal Pty Ltd	QLD	100	100	-	-

<sup>(i)</sup> Registered in May 2016.

<sup>(ii)</sup> Purchased 6 January 2016. Refer to note 29 for further details.

<sup>(iii)</sup> Purchased 7 March 2016. Refer to note 29 for further details.

<sup>(iv)</sup> Purchased 23 January 2015.

<sup>(v)</sup> Registered in December 2014.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

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

#### (a) Subsidiary companies (continued)

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

(b) Significant joint operations – power station projects	Principle place of business	Interest Held	
As at 30 June 2016 and 30 June 2015, the Group has the following interest in power station projects with other external parties:		2016	2015
		%	%
<b>Neerabup Power Station:</b>			
NewGen Power Neerabup Pty Ltd	QLD	50	50
NewGen Neerabup Pty Ltd	QLD	50	50
NewGen Neerabup Partnership	WA	50	50

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

	CONSOLIDATED	
	2016 \$'000	2015 \$'000
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	10,898	10,042
Trade and other receivables at amortised cost	3,780	3,125
Inventories	-	96
Other assets	419	430
<b>TOTAL CURRENT ASSETS</b>	<b>15,097</b>	<b>13,693</b>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	174,784	179,182
Intangible assets	10	17
<b>TOTAL NON-CURRENT ASSETS</b>	<b>174,794</b>	<b>179,199</b>
<b>TOTAL ASSETS</b>	<b>189,891</b>	<b>192,892</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	925	709
Borrowings – limited recourse	9,332	8,912
Provisions	52	45
<b>TOTAL CURRENT LIABILITIES</b>	<b>10,309</b>	<b>9,666</b>
<b>NON-CURRENT LIABILITIES</b>		
Borrowings – limited recourse	135,212	141,302
Derivative financial instruments	41,628	35,508
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>176,840</b>	<b>176,810</b>
<b>TOTAL LIABILITIES</b>	<b>187,149</b>	<b>186,476</b>
<b>NET ASSETS</b>	<b>2,742</b>	<b>6,416</b>

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

CONSOLIDATED  
2016                  2015  
\$'000                  \$'000

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

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

##### Capital expenditure commitments

Estimated capital expenditure contracted for at balance date, not provided for but payable

– not later than one year	25	-
– later than one year and not later than five years	-	-
– later than five years	-	-
	25	-

#### (c) Joint ventures

In June 2016 the Group made a 33% investment in Energy Locals Pty Ltd for \$1.5m, which provides a platform for members of communities to supply and charge each other energy.

#### (d) Interests in associate

Name of entity		Place of business/ country of incorporation	Principle Activity	Measurement method	% of ownership interest	
					2016	2015
Empire Oil & Gas NL	(i)	Australia	Gas production and exploration in Western Australia	Equity method	-	18.8

(i) The Group held 18.7% of Empire and had representation on its board of directors and a consequent ability to participate in the financial and operating decisions. In the opinion of the directors, ERM Power had significant influence and Empire was an associate of the Group. In June 2016, the Group sold 100% of its shareholding in Empire, realising a loss on disposal of \$3.4m.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 29. BUSINESS COMBINATION

#### (a) Prior year acquisition - SPG Energy Group LLC

On 23 January 2015, the Group acquired 100% of the issued share capital of SPG Energy Group LLC (Source), the head company of a consolidated group that operates as an electricity retailer in the US, Texas and the PJM market. The acquisition allows the Group to expand its electricity retailing business operations into these US markets.

At 30 June 2015 the fair value of the identifiable assets and liabilities was provisional. In 2016, the acquisition accounting was finalised as follows:

	Provisional fair value as previously reported	Adjustments <sup>(i)</sup>	Final fair value
	\$'000	\$'000	\$'000
Cash	3,867	-	3,867
Trade and other receivables	10,124	-	10,124
Plant and equipment	170	-	170
Intangible assets: customer contracts	1,929	678	2,607
Intangible assets: other	410	-	410
Other assets	1,312	-	1,312
Deferred tax assets	4,734	908	5,642
Trade payables	(22,553)		(22,553)
Derivative liabilities	(13,526)	-	(13,526)
Provision for future customer acquisition costs	-	(2,595)	(2,595)
Net identifiable assets acquired	(13,533)	(1,009)	(14,542)
Add: goodwill	23,047	1,009	24,056
Net assets acquired	9,514	-	9,514

(i) The provisional purchase price allocation has been adjusted to recognise a provision liability for trailing commission broker payments required to be made to third parties for customer referrals. A corresponding customer contract asset has been recognised and this asset is amortised through profit and loss over the life of the respective customer contracts. All post-acquisition trailing commission broker payments follow this same accounting treatment, which aligns with the accounting treatment applied to broker payments made in the Australian operations. This change to the purchase price allocation and subsequent amortisation of trailing broker commission costs has resulted in a reduction in operating costs of \$4.9m in FY2016 and a corresponding increase in depreciation of the same amount.

#### (b) Current year acquisition – Greensense Pty Ltd

On 6 January 2016, the Group acquired 100% of the issued share capital of Greensense Pty Ltd (Greensense). 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. The acquisition of Greensense allows the Group to offer services that will drive energy and water efficiency, reduce costs and showcase sustainability achievements to its retail electricity customer base.

The total purchase consideration was \$5.3m paid in cash with goodwill of \$3.8m recognised on acquisition.

#### (c) Current year acquisition – Lumaed Pty Ltd

On 7 March 2016 the Group acquired 100% of the issued share capital of Lumaed Pty Ltd (Lumaed). Lumaed specialises in energy-efficient lighting for industrial and commercial businesses. It develops and distributes LED products throughout Australia. The acquisition allows the Group to diversify its product offering to its electricity retail customers.

The total purchase consideration was \$3.7m with \$3.0m paid in cash and a further \$0.7m payable as contingent consideration under an earn-out arrangement with goodwill of \$2.6m recognised on acquisition.



# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 30. RELATED PARTY DISCLOSURES

#### Parent Company

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

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

Details of interests in subsidiaries are set out in note 28.

Details of interests in jointly controlled entities are set out in note 28.

#### Key management personnel

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

#### Transactions with St Baker Enterprises Pty Ltd and Sunset Power Pty Ltd

During the period the Company charged St Baker Enterprises Pty Ltd (a related party of Trevor St Baker, a Director) \$1,532,994 including GST (2015: \$413,332) for consulting and other services. The services were provided by ERM Power staff and the charges were at an arm's length market rate. At 30 June 2016 all invoiced amounts had been paid in full.

In the prior year the Company had a consulting agreement with Sunset Power Pty Ltd ("Sunset" a related party of Trevor St Baker) which expired on 30 June 2015 and was not renewed. No payments were made to Sunset under this agreement for the year ended 30 June 2016.

During the year the Company charged \$142,042 including GST (2015: \$nil) for consulting and other services to Sunset. The services were provided by ERM Power staff and the charges were at an arm's length market rate. At 30 June 2016 all invoiced amounts had been paid in full.

#### Transactions with Sunset Power International Pty Ltd

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

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

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

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

As at 30 June 2016 net assets of \$94m have been recognised in relation to the above transaction comprising the following:

MTM of electricity swaps of \$55.2m of which \$35.4m is current

MTM of electricity options of \$29.7m of which \$7.9m is current

Accrued income of \$9.1m

During the period ended 30 June 2016 total net receipts of \$15m were recognised in profit and loss for the year ended 30 June 2016 in respect of the swap agreement.

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

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

### 30. RELATED PARTY DISCLOSURES (continued)

#### Transactions with Empire Oil & Gas NL

In February 2015, a subsidiary of ERM Power granted a \$14.9m loan to Empire as a consequence of selling the Group's Western Australian 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 30 June 2016, the present value carrying amount of the loan is \$14.9m. The loan was subsequently repaid on 12 August 2016.

The subsidiary of ERM Power 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 Australian 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 \$0.80.
- Payment is adjusted to factor in only 70% of any value accretion above \$0.80.
- Payment date is the repayment date of the abovementioned loan.

As at 30 June 2016, the fair value of the financial asset is \$nil.

#### Other related party transactions

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

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

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

	CONSOLIDATED	
	2016	2015
	\$	\$
<b>Transactions with jointly operated entities:</b>		
Movements in net loans (repaid) / advanced	646	(34,508)
Current trade receivables balance	93,186	404,515
Current trade payables balance	-	-
Project fees and operations management fees	2,597,824	2,494,226

Refer note 28(b) for details of significant jointly controlled entities.

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

CONSOLIDATED  
2016                      2015  
\$                              \$

### 31. KEY MANAGEMENT PERSONNEL

#### Key management personnel compensation

Short-term employee benefits	4,716,281	4,853,723
Long-term employee benefits	40,561	17,418
Post-employment benefits	206,430	244,670
Termination benefits	-	481,572
Share-based payments	1,738,047	97,267
	<b>6,701,319</b>	<b>5,694,650</b>

Detailed remuneration disclosures are provided in the Remuneration Report.

Note                      CONSOLIDATED  
2016                      2015  
\$                              \$

### 32. AUDITORS' REMUNERATION

*Amounts received or due and receivable by PricewaterhouseCoopers Australia for:*

An audit or review of the financial report of the entity and any other entity in the Group	540,000	619,899
	<b>540,000</b>	<b>619,899</b>

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

Other agreed-upon procedures in relation to the entity and any other entity in the consolidated Group	134,400	162,000
	<b>134,400</b>	<b>162,000</b>
<b>Total remuneration of PricewaterhouseCoopers Australia</b>	<b>674,400</b>	<b>781,899</b>

*Amounts received or due and receivable by network firms of PricewaterhouseCoopers Australia for:*

An audit or review of the financial report of the entity and any other entity in the Group	148,128	184,896
<b>Total remuneration of network firms of PricewaterhouseCoopers Australia</b>	<b>148,128</b>	<b>184,896</b>

# ERM Power Limited

## Notes to the Consolidated Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2016

	CONSOLIDATED		CONSOLIDATED	
	2016	2015	2016	2015
	Number of	Number of	Cents	Cents
	shares	shares		
	'000	'000		
<b>33. EARNINGS PER SHARE</b>				
Basic earnings per share	<b>244,744</b>	241,078	<b>14.63</b>	27.35
Diluted earnings per share	<b>244,806</b>	241,142	<b>14.63</b>	27.34

### Reconciliation of weighted average number of ordinary shares

Weighted average number used in calculating basic earnings per share	<b>244,744</b>	241,078
Effect of share options on issue	<b>62</b>	64
Weighted average number used in calculating diluted earnings per share	<b>244,806</b>	241,142

### Information concerning earnings per share

#### Options

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

	CONSOLIDATED	
	2016	2015
	\$'000	\$'000

### Reconciliation of earnings used in calculating earnings per share

#### Basic earnings per share

Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share

From continuing operations	<b>35,809</b>	65,937
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#### Diluted earnings per share

Profit attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share

From continuing operations	<b>35,809</b>	65,937
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### 34. EVENTS AFTER THE REPORTING PERIOD

On 12 August 2016 the loan of \$14.9m to Empire Oil & Gas NL was repaid ahead of the scheduled repayment date of 31 August 2016.

Since 30 June 2016 there have been no other matters or circumstances not otherwise dealt with in the financial report that have significantly or may significantly affect the Group.

# ERM Power Limited

## Directors' Declaration

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

- (a) the financial statements and notes set out on pages 43 to 104 are in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the financial position of the consolidated entity as at 30 June 2016 and of its performance for the year then ended, and
  - ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the *Corporations Regulations 2001* and other mandatory professional reporting requirements.
- (b) the financial report complies with International Financial Reporting Standards as disclosed in note 1;
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors:



Tony Bellas  
Chairman  
25 August 2016



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

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

We have audited the accompanying financial report of ERM Power Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for ERM Power Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

### ***Directors' responsibility for the financial report***

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### ***Independence***

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

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
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T: +61 7 3257 5000, F: +61 7 3257 5999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.



### *Auditor's opinion*

In our opinion:

- (a) the financial report of ERM Power Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

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

We have audited the remuneration report included in pages 28 to 42 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's opinion*

In our opinion, the remuneration report of ERM Power Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*Michael Shewan*

Michael Shewan  
Partner

Brisbane  
25 August 2016

# Corporate Information

## Directors

A Bellas (Non-Executive Chair)  
T St Baker (Non-Executive Deputy Chair and Founder)  
A Goller  
M Greenberg  
A Iannello  
W St Baker  
J Stretch

## Company Secretary

P Davis

## Registered Office

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

## Internet Address

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

## Principal Place of Business

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

## Bankers

National Australia Bank Limited  
Macquarie Bank Limited

## Auditors

PricewaterhouseCoopers



## **CORPORATE GOVERNANCE STATEMENT**

### **COMPLIANCE WITH ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS**

ERM Power Limited's (Company) board (Board) and management are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the ERM Power Group (Group) in this statement.

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year ending 30 June 2016 (reporting period). The Company complies with all of the ASX Corporate Governance Principles and Recommendations (Principles and Recommendations).

This Corporate Governance statement was approved by the Board and is current as at 24 August 2016.

#### **Principle 1 – Lay solid foundations for management and oversight**

##### The role of the Board and management

The Board is responsible for governance and provides overall strategic guidance for the Group and effective oversight of management.

The role of the Board and ability to delegate to management has been formalised in the Company's Board Charter. The Board Charter, along with other charters and policies of the Company, can be found on the Company's website.

As set out in the Board Charter, the responsibilities of the Board include;

- oversight of financial and capital management;
- reporting to shareholders in accordance with the requirements of the Corporations Act or other relevant law;
- providing strategic guidance to the Group including contributing to the development of and approving the corporate strategy;
- appointment, performance assessment and, if necessary, removal of the Managing Director (MD);
- ratifying the remuneration, succession plans, appointment and/or removal of the members of the senior management team including the Chief Financial Officer and the Company Secretary;
- reviewing and approving business plans, the annual budget and financial plans including capital structure and financing arrangements;
- determining the dividend policy and approval of dividends;
- recommendations to shareholders regarding the appointment of auditors;
- reviewing and ratifying policies and systems of risk management, codes of conduct, legal compliance and corporate governance; and
- approving and monitoring policies in regards to environmental, employment and occupational, health and safety matters as well as relationships with other stakeholders, including the community at large.

The Board has delegated to the MD responsibility for the day to day affairs, financial performance, and operation of the Group, and the authority to control all affairs in relation to all matters other than those responsibilities reserved by the Board in the Board Charter.

The MD has made further delegations to senior executives related to the Company's day to day affairs, within the Board approved delegations and is accountable to the Board for the exercise of those delegated powers.

#### Appointments to the Board

Prior to appointment of any proposed director, appropriate background and other checks are undertaken and considered before the Nomination Committee will recommend a candidate(s) for consideration by the Board as a whole. New directors are issued with a formal letter of appointment that sets out the key terms and conditions of their appointment, and the appointment is subject to signed acceptance of the Company's Board governance protocols. These protocols outline their director's duties, conduct expected of directors, meeting procedures, rights and responsibilities, and the Board's expectations regarding time commitment.

The Company provides security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a non-executive director in the AGM notice of meeting.

#### The Company Secretary

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board, including agendas, Board papers and minutes, advising the Board and its committees on governance matters, monitoring that the Board and committee policies and procedures are followed, communication with regulatory bodies and the ASX and statutory and other filings.

#### Gender Diversity

ERM Power is committed to building a workplace which supports and encourages diversity. The Company's Diversity Policy, available on the website, outlines the commitment to fostering a corporate culture that embraces diversity. This helps build understanding that each individual is unique and recognises that these differences include but aren't limited to gender, age, physical abilities, ethnicity and cultural background. Diversity reporting allows the Board to determine measurable objectives for achieving gender diversity and to assess annually both the objectives and progress.

Responsibility for diversity is included in the Nomination Committee charter (related to the Board) and the Remuneration Committee charter (related to diversity at all levels of the Company, excluding the Board).

In FY 2016, the Company made good progress on the objectives as set by the Board and that progress is detailed below in Table 1. For FY 2017, additional clear and measurable gender diversity objectives have been put in place and these are outlined in the next section.

**Table 1: Progress against objectives FY 2016**

<b>Measurable Objective</b>	<b>Progress</b>
Ensure diversity programs reflect the company's policy and approach to diversity and ensure that they are communicated to all employees.	<ul style="list-style-type: none"> <li>• The HR Framework, reviewed annually, is a comprehensive guide for leaders on key policy and process and specifically references diversity.</li> <li>• The Company commitment to leveraging the diverse backgrounds, experiences and perspectives of staff is reflected in policies and practice which are accessible and case studied for all employees via the intranet.</li> <li>• Additional practices and forums that address issues and inform staff on the Company's approach to diversity, respect and inclusion are referenced in the: <ul style="list-style-type: none"> <li>○ Code of Business Conduct</li> <li>○ New employee induction process</li> <li>○ Annual online compliance training</li> <li>○ Profiles of women in leadership</li> <li>○ Gender targets for participation at Board and senior management levels</li> <li>○ Gender targets in the recruitment process</li> </ul> </li> </ul>
Review all recruitment remuneration processes to ensure they are free from gender bias and encourage greater female participation and opportunity.	<ul style="list-style-type: none"> <li>• The Remuneration policy and process, which form part of the HR Framework, were reviewed to inform and support updated diversity targets.</li> <li>• Greater rigour has been applied around any out of cycle remuneration changes.</li> <li>• Remuneration is benchmarked annually against market expectations for similar roles in similar industries. It is non-gender related.</li> <li>• A review of gender remuneration reveals any differences to be related to factors such as experience, tenure and complexity of the role.</li> </ul>
Identify high talent women at low to middle management level and implement specific strategies to enhance the skills and experience of these people to prepare them for advancement.	<ul style="list-style-type: none"> <li>• The Company's commitment to recognising the importance of diversity extends to all areas of the business including talent development, skills enhancement, retention and mentoring and coaching programs.</li> <li>• The HR Framework includes Leadership Development and Succession Planning goals.</li> <li>• An annual leadership training program for all newly promoted or hired managers is in place with more than 70 staff attending tailored courses during the year.</li> <li>• Guidance from HR during recruitment supports recognition of candidate attributes and raises awareness of unconscious bias.</li> <li>• Improved commitment on reviewing and establishing KPIs, professional development plans and Manager Once Removed conversations has supported employee clarity on career progression as well as provided leaders with an opportunity to give structured guidance on achieving goals aligned to strategy.</li> <li>• The above have supported identification and development of female talent.</li> </ul>

**Table 1: Progress against objectives FY 2016**

Measurable Objective	Progress																																																		
Encourage female applicants for all roles, but specifically technical roles where representation is low, and seek at least one female candidate for the shortlist for each technical role.	<p>A review of the recruitment process for the reporting period reveals the following results that reinforce a gender-neutral hiring process. Women were offered 52% of roles in the year.</p> <table><tr><th></th><th colspan="3">Male</th><th colspan="3">Female</th><th colspan="3">Unknown</th></tr><tr><th></th><th>2016</th><th>2015</th><th>2014</th><th>2016</th><th>2015</th><th>2014</th><th>2016</th><th>2015</th><th>2014</th></tr><tr><td>Applicants</td><td>41%</td><td>64%</td><td>60%</td><td>31%</td><td>30%</td><td>22%</td><td>28%</td><td>6%</td><td>18%</td></tr><tr><td>Interviews</td><td>58%</td><td>56%</td><td>54%</td><td>42%</td><td>44%</td><td>45%</td><td>-</td><td>-</td><td>-</td></tr><tr><td>Offers</td><td>48%</td><td>50%</td><td>49%</td><td>52%</td><td>50%</td><td>51%</td><td>-</td><td>-</td><td>-</td></tr></table> <p><i>NB: data only available for Australia</i></p> <p>‘Unknown’ refers to those candidates who do not advise their gender at application time.</p>		Male			Female			Unknown				2016	2015	2014	2016	2015	2014	2016	2015	2014	Applicants	41%	64%	60%	31%	30%	22%	28%	6%	18%	Interviews	58%	56%	54%	42%	44%	45%	-	-	-	Offers	48%	50%	49%	52%	50%	51%	-	-	-
	Male			Female			Unknown																																												
	2016	2015	2014	2016	2015	2014	2016	2015	2014																																										
Applicants	41%	64%	60%	31%	30%	22%	28%	6%	18%																																										
Interviews	58%	56%	54%	42%	44%	45%	-	-	-																																										
Offers	48%	50%	49%	52%	50%	51%	-	-	-																																										

The proportion of women employed across the Group increased by 7% between FY 2015 and FY 2016 as shown below:

	Female		
	FY 2016	FY 2015	Change
Board (excluding the MD)	0%	0%	0%
Senior executives <sup>1</sup>	14%	12%	2%
<b>Total Group</b>	<b>47%</b>	<b>40%</b>	<b>7%</b>

Reporting requirements were introduced on 1 April 2013 which incorporated a revised workplace profile and a reporting questionnaire for each of the ‘gender equality indicators’ (GEIs). A copy of the Company’s public report for the year ended 31 March 2016 was lodged with the Workplace Gender Equality Agency and is available on the Company’s website at <http://www.ermpower.com.au/investor-centre/financial-reports/>. The WGEA report is specific to the Australian workforce.

#### FY 2017 Gender Diversity Targets

The Company recognises the value of a diverse and skilled workforce and is committed to creating and maintaining an inclusive and collaborative workplace environment. The Board and senior executives have reviewed progress against the measurable objectives and set updated targets, as follows, to support gender diversity in the year ahead:

- Initiate formal talent identification and succession planning;
- Ensure a woman is on the shortlist for all vacant roles;
- Undertake gender pay equity reviews annually;
- Sponsor ‘women in the industry’ events and facilitate ‘women in leadership’ training;
- Aim to achieve 65% female representation among new hires by 2018 (currently 57%);
- Actively support flexible working arrangements;
- Build the program of communicating policies which support equality; and
- Appoint a female director to the Board by 2017.

<sup>1</sup> Senior executives include the MD& CEO, other executives/general managers and senior managers as defined by the Workplace Gender Equality Agency (WGEA) management categories.

### Board, committee and director performance evaluations

Through the Nomination Committee, the directors periodically review the performance of the whole Board and Board committees. An external facilitator was engaged to conduct a full Board performance review in July 2015 which was based on a Board evaluation survey assessing Board performance in four “Areas of Focus”, being “Do, Enable, Facilitate and Act”. The model referenced key principles and guidelines, including the Australian Standard AS 8000 – Good Governance Principles and the ASX and APRA guidelines. The Board identified opportunities for improvement in the areas of diversity, succession planning and performance evaluation for the MD’s role, relationships with key stakeholder groups and management of related party matters.

### Senior executive performance evaluations

The performance of all senior executives, including the MD, is reviewed annually against:

- a) A set of personal, financial and non-financial goals;
- b) Company goals; and
- c) Adherence to the Company’s policies, commitments, values and principles.

The Remuneration Committee reviews and makes recommendations to the Board concerning the MD’s remuneration package and incentive payments. The Remuneration Committee also approves the fixed remuneration and incentive packages for all senior executives who report directly to the MD (the “Executive Management Team”) with reference to external benchmarking indicators. Performance reviews for the Executive Management Team were conducted during the reporting period in accordance with this process.

Further information on senior executive remuneration is contained in the Remuneration Report.

At the time of joining the Company, directors and senior executives are provided with letters of appointment, together with key Company documents and information setting out their term of office, duties, rights and responsibilities, and entitlements on termination.

### **Principle 2 – Structure the Board to add value**

At the end of the reporting period, the Company had a seven-member Board comprising an independent non-executive Chair, three independent non-executive directors, two non-executive directors and a Managing Director, which accords with Recommendations 2.4 and 2.5. The Company seeks to have directors with a broad range of experience, expertise, skills, qualifications and an understanding of, and competence to deal with, current and emerging issues of the Company’s business. The Company’s succession plans are designed to maintain an appropriate balance of skills, experience and expertise on the Board. The director’s profiles and details of their skills, experience and special expertise are set out in the Directors’ Report.

### The Chair

The principal role of the Chair is to provide leadership to the Board, to ensure the Board works effectively and discharges its responsibilities, and to encourage a culture of openness and debate fostering a high-performing and collegial team. The Chair will not be the same person as the CEO to ensure there is effective Board oversight of management’s activities.

The Chair:

- Represents the Board to the shareholders and communicates the Board's position,
- Serves as the primary link between the Board and management, and
- Sets the agenda for each Board meeting in consultation with the MD and Company Secretary and is responsible for ensuring that all directors are adequately briefed in relation to issues addressed at Board meetings.

The Board is conscious of the time commitment required of directors and the Chair in particular. The Board is satisfied that the Chair makes sufficient time available to serve the Group effectively and that none of his other commitments interfere with the discharge of his responsibilities to the Group.

#### Director's Independence

In accordance with Recommendation 2.3 of the Principles and Recommendations, the Board considers each director's independence on a regular basis and formed the view that for the reporting period, Tony Bellas, Martin Greenberg, Tony Iannello and Albert Goller were independent. The Board considered the skills and experience, and endorsed the appointment of Wayne St Baker on 1 March 2016 as nominee director for the St Baker family interests. As brother to Trevor St Baker who is a substantial shareholder in the Company, Wayne is not considered to be independent. In defining the characteristics of an independent director, the Board uses the Principles and Recommendations, together with its own consideration of the Company's operations and businesses and appropriate materiality thresholds in any relationship that could materially interfere, or be perceived as interfering with the exercise of an unfettered independent judgement in relation to matters concerning the Company. The Board considers that the independent directors do not have any interests, positions, associations or relationships of the type described in Box 2.3 of Recommendation 2.3.

The Board schedules a minimum of six meetings a year. If required, additional unscheduled meetings are held to deal with urgent matters. An agenda is prepared for each Board meeting by the Company Secretary to ensure operational, financial, strategic, regulatory and major risk areas are addressed. The MD & CEO also provides the Board each month with a report which outlines the activities of the Group over the preceding period. This report includes; financial progress against key KPIs, business unit activity, a health, safety, environment and sustainability report, and reports on the progress of strategic projects, funding, corporate affairs, and, as appropriate, other Company and operational matters. All directors have unfettered access to any of the Company's records and information they consider necessary to fulfil their responsibilities, and the Board may invite external advisers to attend Board meetings where necessary or desirable.

The Audit & Risk Committee, Remuneration Committee, Health, Safety, Environment & Sustainability Committee and Nomination Committee each has a charter which sets out its roles and responsibilities, composition, structure, membership requirements and operation. These are available on the Company's website.

A list of the members of each committee and their attendance at committee meetings is set out in the Directors' Report.

## The Nomination Committee

The Nomination Committee provides advice and makes recommendations to the Board to ensure that it is comprised of individuals who are best able to discharge the responsibilities of directors, having regard to the law and the highest standards of governance by:

- assessing the skills required by the Board and the extent to which the required skills are represented on the Board having regard to the Board skills matrix and the attributes of existing directors and potential candidates;
- establishing processes for evaluating the performance of the Board as a whole, its committees and individual directors;
- establishing processes for the identification of suitable candidates for appointment to the Board as additional members or to succeed existing members and reviewing Board succession plans;
- reviewing and reporting, at least annually, on the relative proportion of women and men on the Board;
- making recommendations to the Board on directors' appointments or Board and committee structures; and
- ensuring there are plans in place to manage the succession of the CEO and other senior executives.

Each year one third of the Board, other than the MD, retires in accordance with the constitution, and is eligible for re-election by shareholders at the Annual General Meeting (AGM). Any director appointed to fill a casual vacancy since the previous AGM must submit themselves to shareholders for election at the next AGM. Wayne St Baker, having been appointed by the Board on 1 March 2016, will stand for election at the 2016 AGM.

Prior to each AGM the Nomination Committee evaluates any new directorship nominations, and evaluates the performance of those directors retiring by rotation, the results of which form the basis of the Boards' recommendation to shareholders.

We will provide our shareholders with information relevant to a director's election or re-election in the notice of meeting for the 2016 AGM.

## Board skills matrix, induction and professional development

During the reporting period, the Board updated its Board skills matrix, and identified the criteria to be considered when reviewing the skills and experience that the Board currently has or is looking to achieve in its membership. The Board undertook a skills gap analysis against the Board skills matrix with the assistance of an external organisation. The analysis rated each skill for its importance and coverage for both the existing business and ability to pursue the Company's future strategies.

The Board acknowledges that a female director would be very beneficial and positive to the Board and has set a target to appoint a female director in 2017.

Other aspects considered in maintaining and contributing to diverse viewpoints in Board discussions and to assist in avoiding unconscious bias include tenure and age of directors:

<b>Tenure</b>	<b>No. of directors</b>	<b>Age</b>	<b>No. of directors</b>
0-3 years	3	50-60	2
4-7 years	2	61-70	4
>7 years	2	>70	1

Directors are encouraged to engage in professional development activities to develop and maintain the skills and knowledge needed to perform their role as directors effectively. During the reporting period, the independent Chair, two of the independent non-executive directors and the MD completed a five day course run by the Australian Institute of Company Directors.

The Company continues to undertake a detailed induction process for new directors which includes; discussions with existing directors and senior executives on operational issues and the future strategic direction of the Company, the provision of key materials such as the Code of Business Conduct and the Company's Security Trading Policy, together with site visits where appropriate.

### **Principle 3 – Promote ethical and responsible decision-making**

The Board strongly encourages ethical and responsible decision making and has implemented policies to achieve this while in pursuit of the Company's objectives.

In particular, the Code of Business Conduct (the Code) and the Securities Trading Policy apply to all directors and employees. The Company encourages employees to report known or suspected instances of inappropriate conduct, including breaches of the Code or the Securities Trading Policy. There are policies in place to protect employees from any reprisal, discrimination or being personally disadvantaged as a result of their reporting of a concern.

A copy of the Code and the Securities Trading Policy are available on the Company's website along with other corporate governance policies of the Company.

The purpose of these documents is to guide directors and employees in the performance of their duties, set appropriate restrictions on the trading of securities by directors, employees and their associates, and to the Company's employees who wish to report in good faith inappropriate behaviour or wrongful acts without fear of retaliation or punishment.

All directors of the Company also agree to comply with the Board governance protocols which outline, amongst other matters, the directors' duties and the conduct expected of them as directors.

### **Principle 4 – Safeguard integrity in financial reporting**

The Company has an Audit and Risk Committee compliant with Recommendation 4 which consists of the four independent non-executive directors, Tony Bellas, Martin Greenberg (as Chair, and not Chair of the Board), Tony Iannello and Albert Goller. The Audit and Risk Committee Charter is available on the Company's website and was updated during the period to realign the focus of the committee with appropriate emphasis on;

- (i) risk matters,
- (ii) the review of internal processes in preparation of financial statements and key accounting judgements,
- (iii) internal control processes, and
- (iv) audit related issues.

The Audit and Risk Committee reviews and discusses with management and the external auditors the half-yearly and annual financial reports including notes to the financial accounts and other disclosures, and recommends to the Board whether the financial reports should be approved.

The Audit and Risk Committee monitors the adequacy, integrity and effectiveness of management processes that support financial reporting. It also maintains and oversees a sound system of internal controls based on the adoption by the Board of a risk-based approach to the identification,



assessment, monitoring and management of risks that are significant to the fulfilment of the Company's business objectives.

The qualifications of the members of the Audit and Risk Committee and their attendance at meetings of the Committee are set out in the Directors' Report.

When presenting financial statements for Board approval, the MD and Chief Financial Officer provide a formal statement in accordance with section 295A of the *Corporations Act 2001 (Cth)*. This includes an assurance that the statement is founded upon a sound system of risk management and internal control that is operating effectively in all material respects in relation to financial reporting risks.

The Company's auditor will attend the AGM and will be available to answer shareholders' questions.

#### **Principle 5 – Make timely and balanced disclosure**

The Company's practice on disclosure is consistent with the Principles and Recommendations. The Board strictly adheres to the Company's Continuous Disclosure Policy and procedures that are in place to ensure compliance with ASX Listing Rule disclosure requirements.

The Continuous Disclosure Policy and the Shareholder Communication Policy are available on the Company's website.

All material presentations by the Company are released to the ASX and posted on the Company's website.

#### **Principle 6 – Respect the rights of security holders**

The Company is committed to providing regular communication to shareholders about the performance of the Group and its business and operations.

The Company's website contains extensive information on its operations and corporate governance, and all announcements to the ASX are posted on the Company's website. The Company attempts to keep its website as current and informative as possible for shareholders and other stakeholders, including updates on its operations.

The Company complies with Recommendation 6.1 with the names, photographs and brief biographical information for each of its senior executives added to the Company's website during the reporting period in April 2016.

The Company has an investor relations program involving two-way interactions with institutional investors (including buy-side analysts), sell-side analysts, financial media and other members of the investment community, which for the reporting period included:

- "Roadshows" after the full year and half results involving face-to-face, one-on-one or group meetings and lunches in Sydney and Melbourne. The meetings begin with an opening presentation from the MD and continue with questions and answers.
- Teleconference/s on the day of the results with investors and analysts as a group, involving a presentation and questions and answers, and otherwise as necessary; also one-on-ones with individual investors or analysts/brokers, organised proactively or in response to requests.
- Meetings – face-to-face throughout the year in Brisbane, Sydney and Melbourne.

- Conferences – The MD occasionally presents at investment conferences organised by brokers and which are attended by institutional investors.
- Filmed presentations and Q&A sessions – The MD participates in filmed presentations and Q&A sessions which are distributed through retail investor networks.

The Company held one general meeting during the reporting period, the AGM on 29 October 2015. The explanatory memorandum in the notice of meeting sets out the process whereby shareholders may attend and ask questions, including written questions submitted prior to the meeting.

The Board has not considered it necessary to hold general meetings outside of Brisbane, the location of its head office. The Board considers the makeup of the Company's share register and monitors investor feedback as to whether the use of telecommunications during general meetings would be useful to investors, and is satisfied that the current process sufficiently encourages participation by shareholders.

The Company give security holders the option to receive communications from, and send communications to, the Company and its security registry electronically. Annual reports are able to be accessed by shareholders via the Company's website, with a hardcopy able to be mailed out on request.

The Company's policies and procedures, and in particular the Shareholder Communication Policy, comply with the Principles and Recommendations in relation to the rights of shareholders.

#### **Principle 7 – Recognise and manage risk**

The Board, through the Audit and Risk Committee, has an overarching Risk Management Framework Policy governing the Company's approach to risk oversight and management and internal control systems which is available on the Company's website. The Board is also responsible for ensuring that there are other appropriate policies in relation to risk management and internal control systems. As mentioned under Principle 4, the Audit and Risk Committee Charter was updated during the reporting period to realign the focus of the committee with a greater emphasis on risk management.

The Company's policies are designed to identify, assess, address and monitor strategic, operational, legal, reputational, commodity and financial risks to enable it to achieve its business objectives. Where appropriate, certain risks are covered by insurance or by Board-approved policies for hedging of interest rates, foreign exchange rates and commodities. In this respect, the Company complies with Recommendation 7.1.

Board, executive and business unit level controls are designed to safeguard Company and stakeholders' interests in respect of these risks. Each executive management team member is responsible for communicating to their team the risk framework and structure required by the Board and the Audit and Risk Committee. The Chief Financial Officer is responsible for reporting to the Board and the Audit and Risk Committee and to provide assurance that the Company is not unduly exposed to risks it is not consciously willing to accept.

The Company undertakes regular reviews of business units for major risks and the Risk Management Framework Policy, including during the reporting period via an organisation-wide process to identify potential risk events (the Enterprise Risk Register), take mitigating actions if they occur and manage them within the Company's risk appetite, in compliance with Recommendation 7.2.

The Company does not have a dedicated internal audit function, but periodically engages external consultants to perform internal control reviews.

Any material exposures to economic, environmental and social sustainability risks are incorporated into the Enterprise Risk Register, and responsibility for oversight of these matters is held by the Board, the Health, Safety, Environment & Sustainability Committee and management's Enterprise Risk Committee. The Health, Safety, Environment & Sustainability Committee Charter and Policy can be found on the Company's website.

The Company is an owner and operator of two gas-fired power stations in Australia and maintains risk management systems to ensure strict compliance with all environmental conditions. During the reporting period there were no non-compliances with the planning or environmental conditions of the power stations.

### **Principle 8 – Remunerate fairly and responsibly**

In compliance with Recommendation 8.1, the Remuneration Committee was comprised of the Company's four independent non-executive directors; Tony Iannello (Chair), Tony Bellas, Martin Greenberg and Albert Goller. Their attendance at meetings of the Committee is set out in the Directors' Report. The Remuneration Committee Charter can be found on the Company's website.

The Remuneration Committee reviews and reports, at least annually, on the relative proportion of women and men in the workforce at all levels of the Group, excluding the Board (which is the responsibility of the Nomination Committee). These proportions are contained in the commentary on Principle 1 above.

The remuneration of non-executive directors is structured separately from that of the MD and the Executive Management Team. The MD and the Executive Management Team are remunerated by way of a mix of fixed and variable remuneration in a manner that motivates them to pursue the long term growth and success of the Group.

The Securities Trading Policy contains a prohibition against directors and employees altering the economic benefit derived by the director or employee in relation to an equity-based incentive award or grant made by the Company.

Detailed information on remuneration of directors and senior executives is contained in the Remuneration Report.

*All information referred to in this Corporate Governance Statement as being on the Company's website can be found at the web address: [www.ermpower.com.au](http://www.ermpower.com.au) within the "Investor Centre" tab, under "ASX Announcements" or within the "About Us" tab under "Governance". More information on the Company's Corporate Governance can be found in these locations.*