ERM POWER

Annual Report 2015

CONTENTS

ERM Power Limited ABN 28 122 259 223 (ERM Power, Company, Group, we, our) was listed on the Australian Securities Exchange on 10 December 2010. This review is for the year ended 30 June 2015 with comparison against the previous corresponding period ended 30 June 2014 (previous year or previous period).

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

CHAIRMAN'S AND MANAGING DIRECTOR'S REPORT

RECORD RESULT

ERM Power delivered record electricity sales and earnings for the 2015 financial year (FY 2015) with underlying EBITDAIF[1] up 12% and underlying NPAT[1] up 23% from the previous year. The Company maintained its historically strong growth, leveraging the ERM Business Energy platform to improve market share in the Commercial and Industrial (C&I) market, as well as to expand in the Small to Medium Enterprise (SME) market and to initiate business in the United States (US). Key to the success of ERM Business Energy in FY 2015 was customer satisfaction, where we retained our market leading ranking for the fourth year in succession.[2]

The board approved dividends of 12.0 cents per share, unchanged from the previous year.

DYNAMIC ENVIRONMENT

This strong performance was achieved during a year of considerable dynamism and change for the business. We saw the appointment of Jon Stretch as Managing Director and CEO, the sale of our Western Australian gas interests, the acquisition of Texas-based electricity retailer Source Power & Gas (Source), and a new era for Oakey Power Station. Oakey is now vertically integrated within the business following the end of its long-term off-take contract. Our metering business served the first of its customers and we started a gas retailing trial. Our board expanded with the appointment of Albert Goller as a non-executive director.

Similarly, the external environment was challenging, both in an industry and a regulatory sense. Electricity consumption continued to decline and there was increased competitive pressure. The Federal Government repealed the carbon tax and reduced the Renewable Energy Target. In New South Wales, the Government announced the long-term lease of its electricity network and the buy-back of Petroleum Exploration Licences (PEL) and, in Queensland, the Government announced plans to merge its network and generation businesses.

CONSISTENT PERFORMANCE

Our electricity sales business increased sales volumes by 18% to a record 16.7 terawatt hours (TWh) including 0.6TWh from Source for the six months of ERM Power's ownership. This result was in line with our guidance of 16.1TWh for Australian retail sales and an excellent outcome in a market experiencing vigorous competition and flagging demand. The result demonstrated the continuing attractiveness of our value proposition and consolidated our ranking as Australia's second largest electricity retailer to large businesses.

Gross margins increased to $4.94 per megawatt hour (MWh) from $4.20/MWh in FY 2014 which reflected higher gross margins for the SME business and for Source.

1 Refer to Glossary of Management Discussion and Analysis.

2 Utility Market Intelligence (UMI) survey of major retail electricity retailers by independent research company NTF Group in 2014 (19th year of Survey). Research based on survey of 300 business electricity customers between November 2014 and January 2015. Four major electricity retailers benchmarked.

The quality of our service offering was evidenced by ERM Business Energy being ranked number one for customer satisfaction for the fourth successive year in the independent Utility Market Intelligence (UMI) survey.[2] Customer satisfaction increased to 93% in 2014 from 87% the previous year. This was more than 30 percentage points higher than the next retailer and is one of the key factors in ERM Business Energy's high customer recontracting rate.

GROWTH OPPORTUNITIES

Electricity sales look set to continue to grow with 34.3TWh of forward contracted sales at 30 June 2015, 15% higher than at the same time last year.

In the SME market we achieved profitability earlier than expected and will continue to expand that business. The number of customer sites increased by more than 60% over the year and sales volumes and margins were higher than anticipated. Unit costs were lower than expected as economies of scale began to be realised. These results were driven mainly by sales to multi-site customers but we are also beginning to penetrate the single site segment, which remains a future growth opportunity.

In January, we announced a modest investment in the acquisition of Source to provide a low risk entry point into the US market. At 8 to 10 times the size of the Australian market, the US represents a potential avenue of growth for our business energy offering. The customer service oriented proposition we have delivered in Australia will underpin the establishment of a competitive position in the US market and we expect Source to contribute to group profit in the 2016 calendar year.

ASSET OPTIMISATION

Generation earnings fell 8% as a result of the Oakey off-take contract expiring on 31 December 2014. Oakey operated as a merchant facility from 1 January 2015, providing hedge product to both our own electricity business and to third parties, and taking advantage of spot market opportunities. Oakey's revenue increased as it operated more often in the first quarter of calendar 2015 when prices hit near record levels. This did not translate into correspondingly higher earnings due to the sale of hedge products. However, this positive performance in volatile conditions highlighted the benefits of vertically-integrated dispatch control.

We remain confident about the value of Oakey, which was purchased below replacement value and is positioned to benefit from growth in south-east Queensland.

Oakey and Neerabup Power Stations continued to operate with high availability and reliability and no environmental breaches. Neerabup, which increased revenue and earnings, is in the early years of a long-term contract and is expected to grow in value as it continues to operate and meet its debt servicing obligations.

Our excellent safety record was maintained with no lost time or permanent injuries to our employees and no reportable environmental incidents or breaches of environmental licence conditions at Oakey and Neerabup. We contributed to the communities in which we operated through local partnership and sponsorship programs.

We retained development approval for a number of power station sites in Queensland, New South Wales and Western Australia but market conditions continued to deteriorate due to falling energy demand. As a result, we recognised $43 million before tax in impairments associated with development projects, our New South Wales gas assets and the sale of our Western Australian gas assets.

The NSW Government's Petroleum Exploration Licence (PEL) buy-back program along with our decision to end gas exploration activities prompted us to sell two of our three NSW PELs to the Government.

SHAPING THE FUTURE

On behalf of the board we would like to thank our employees for their hard work and our management team for their leadership. In particular we wish to pay tribute to the contribution of former Managing Director and CEO, Philip St Baker, who stepped down in October 2014.

Under his leadership ERM Power established an electricity sales business, expanded in generation, transitioned from private ownership to a public listing, and moved into electricity metering and gas retailing. Finally, we wish to acknowledge the support of our fellow directors.

We are determined to maintain our success and, over the balance of FY 2016, aim to:

- continue our drive toward the number one position in our primary Commercial and Industrial market in Australia;
- continue to grow and build scale in the Small Business market through profitable sales channels;
- integrate our culture, systems and processes at Source to position our US business for further growth;
- exceed the expectations of our customers by enhancing our value proposition and increasing our focus on product and service innovations; and
- leverage the flexibility of Oakey for internal hedging and external wholesale market opportunities.

We remain committed to maximising shareholder value and realising our aspiration to be the preferred energy supplier to businesses across Australia and our chosen markets in the US.

Tony Bellas
Chairman

Jon Stretch
Managing Director and CEO

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED 30 JUNE 2015

1. FY 2015 RESULTS OVERVIEW

	FY 2015	FY 2014	FY 2013
Underlying EBITDAIF[1] ($m)	**94.4**	84.6	78.4
Underlying NPAT[1] ($m)	**32.3**	26.3	20.0
Statutory NPAT attributable to equity holders ($m)	**65.9**	(23.9)	36.5
Electricity sold (TWh)	**16.7**	14.1	11.1
Final dividend (cents per share)	**6.0**	6.0	6.0
Underlying EPS (cents per share)	**13.4**	11.6	11.4

Underlying EBITDAIF[1] up 12% to $94.4m

Underlying EBITDAIF for the year was $94.4m compared to $84.6m in the previous year. Most of this growth was from our electricity sales business. SPG Energy Group LLC (Source) contributed a small positive EBITDAIF result under our ownership.

Underlying NPAT[1] up 23% to $32.3m

Underlying NPAT was $32.3m compared to $26.3m in the previous year. Statutory NPAT was $65.9m and differs to underlying NPAT largely due to the unrealised net fair value movement in financial instruments offset by the impairment of the power station project developments and gas assets, which are excluded from the underlying NPAT result.

Continued strong growth and profitability in Electricity Sales

Electricity Sales continued to grow strongly, up 18% to 16.7TWh, from 14.1TWh in the previous year, which included six months' sales, of 0.6TWh, in the US by Source since its acquisition by ERM Power. Profitable growth and continued high levels of service were achieved throughout FY 2015 and remain a focus going forward.

The 31% increase in Electricity Sales underlying EBITDAIF, of $58.5m, was contributed to by both the SME Australian business and by ERM Power's US acquisition, Source, as well as increased gross margins and earnings per MWh sales in the Australian C&I retail sales business.

Sales volumes to SME customers doubled compared to the previous year, with more than 11,500 new customer sites contracted during the year, taking the total new SME customers contracted as at 30 June 2015 to 29,238. The SME business exceeded the break-even point this year by slightly less than $5m.

Forward contracted electricity sales for our Australian business were 31.1TWh at 30 June 2015. This represents an increase of 5% from 29.7TWh at 30 June 2014.

Forward contracted electricity sales for our US business were 3.2TWh at 30 June 2015.

1 Refer Non-IFRS Financial Information on page 15 for definition.

Steady result for Generation

The Generation business continued to deliver steady financial results with underlying EBITDAIF of $47.4m, down 8% from $51.3m in the previous year. The decrease in earnings is a result of the Oakey Power Station (Oakey) off-take contract expiring on 31 December 2014 and Oakey operating as a merchant facility, with a combination of spot market exposure and sales to our retail electricity sales business and third parties from 1 January 2015.

While the Neerabup Power Station's (Neerabup) earnings will remain relatively stable, going forward we expect to see more volatility in Oakey's earnings with more exposure to the spot electricity market, but with upside opportunity as well as downside risk, which ERM Power is well placed to manage.

Both Oakey and Neerabup operated safely and with outstanding availability during the year.

Impairment of power station project development costs and gas assets

An impairment loss has been recognised at 30 June 2015 for our power station project development assets and NSW gas assets as a result of declining energy demand and reflecting a decision to delay further development at this time. Including the impairment loss recognised in the first half of the financial year on sale of our WA gas assets, total impairment losses of $43.0m before tax were recognised for the year.

Final dividend of 6.0 cents per share to be paid on 7 October 2015

A partially franked final dividend of 6.0 cents per share has been declared and will be paid on 7 October 2015. The record date is 11 September 2015. The Company's shares will trade ex-dividend from 9 September 2015. The franking percentage is 33%.

FY 2016 Outlook

During FY 2016 ERM Power expects to continue to grow the C&I business, achieve further scale in the SME business, establish the foundations of the US business and operate Oakey on a merchant basis. Our expectation for FY 2016 is to achieve a total load across our Australian and US electricity sales businesses of between 20.0 and 21.5TWh, and to secure SME sites under contract in the range of 37,500 to 41,000 in Australia. As a result of changing and developing opportunities and expected competitive pressure in the electricity sales environment, underlying EBITDAIF and underlying NPAT guidance is not provided at this time. An update on guidance will be provided at the Annual General Meeting in October 2015.

2. GROUP OVERVIEW

ERM Power Limited is a diversified energy company that operates electricity sales and electricity generation businesses in Australia and the United States.

We are licensed to sell electricity in all Australian states and territories and are the 4th largest seller[2] of electricity by volume in Australia and the second largest to our target business market. We are now also licensed in several markets in the US with the acquisition of Source in January 2015. In Australia we focus on providing a specialised electricity retail service to business customers, with this segment of the market comprising approximately 70% of all contestable electricity sold. In the US, we retail electricity to more than 20,000 customers, mainly in the Texas market, but expanding into other markets across the US north-east.

We own 497MW of low emission gas-fired peaking power stations, comprising 100% of the 332MW Oakey Power Station and 50% of the 330MW Neerabup Power Station, both of which we operate. We have developed more than 2,000MW of gas-fired power generation.

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

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

Electricity sales	Generation	Other (Metering and Corporate)
Strategic priorities	*Strategic priorities*	*Strategic priorities*
– Increase earnings – Increase market penetration – Expand and develop new offerings in existing markets – Improve gross margins in each segment – Enter new energy markets and segments – Maintain leading customer satisfaction position with customers	– Increase earnings – Exploit merchant opportunities – Utilise industry expertise in operating power stations and gas pipelines – Investment opportunities	– Increase earnings – Optimise existing capital – Identify and pursue investment opportunities that have strategic and commercial value – Grow our electricity metering business
Key performance indicators and operating metrics	*Key performance indicators and operating metrics*	*Key performance indicators and operating metrics*
– Earnings – Sales (load sold) – Gross margin in $ per MWh – Operating cost in $ per MWh – Collection rate – Billing accuracy – Customer satisfaction – Capital efficiency – Market diversification	– Safety – Earnings – Reliability – Availability – Operating income – Fuel and operating costs	– Earnings – Overhead costs – Capital efficiency – Penetration of electricity metering market

2 Based on published competitor results for business electricity load sold.

3. REVIEW OF OPERATING RESULTS

3.1 Summary of Group financial results

$m	FY 2015	FY 2014	Change	Change %
Revenue	**2,325.6**	2,075.7	249.9	12%
Expenses	**(2,231.2)**	(1,991.1)	(240.1)	-12%
Underlying EBITDAIF	**94.4**	84.6	9.8	12%
Significant items (refer appendix A1.1)	**(7.7)**	(10.4)	2.7	26%
Statutory EBITDAIF	**86.7**	74.2	12.5	17%
Depreciation and amortisation	**(20.3)**	(18.0)	(2.3)	-13%
Net fair value gain / (loss) on financial instruments	**97.7**	(115.6)	213.3	N/A
Share of associate profit (net of tax)	**0.7**	–	0.7	N/A
Impairment expense	**(43.0)**	–	(43.0)	N/A
Finance expense	**(27.3)**	(29.3)	2.0	7%
Profit / (loss) before tax	**94.5**	(88.7)	183.2	N/A
Tax (expense) / benefit	**(28.6)**	65.6	(94.2)	N/A
Statutory net profit / (loss) after tax (NPAT)	**65.9**	(23.1)	89.0	N/A
Non-controlling interest	**–**	(0.8)	0.8	N/A
Add back:				
Net fair value (gain) / loss on financial instruments after tax	**(68.3)**	80.9	(149.2)	N/A
Share of associate profit (net of tax)	**(0.7)**	–	(0.7)	N/A
Significant items (refer appendix A1.1)	**35.4**	(30.7)	66.1	N/A
Underlying NPAT	**32.3**	26.3	6.0	23%
Underlying EPS (cents per share)	**13.4**	11.6	1.8	16%
Dividends paid in period (cents per share)	**12.0**	11.5	0.5	4%

Group statutory EBITDAIF for the year was $86.7m compared to $74.2m in the previous year, an increase of 17%. The increase is primarily attributable to the electricity sales business. Further detail is provided in the following sections of this report.

Depreciation and amortisation expense increased $2.3m to $20.3m with the completion of software development work and amortisation of customer contracts valued as part of the business combination with Source. Finance expense decreased by $2.0m largely attributable to the repayment of the Oakey term debt towards the end of the previous year.

A total impairment expense of $43.0m has been recognised during the year. An impairment expense of $3.8m was recognised on the sale of WA gas assets to Empire Oil & Gas NL (Empire). An additional $10.4m impairment expense was recognised in respect of our East Coast gas interests following a decision to surrender two of the licenses back to the government and scale back development of the remaining one. An impairment expense of $28.8m was recognised in respect of the Group's power station development assets following a decision to stop further spending on these assets given the current wholesale market conditions.

The tax benefit in the previous year includes a one off permanent adjustment of $39.1m resulting from the reset of the Oakey tax base on achievement of 100% ownership following the acquisition of the remaining minority interest. Excluding this adjustment, the effective tax rate is similar in both years.

Underlying NPAT increased from $26.3m to $32.3m largely as a result of earnings from the electricity sales business.

Dividends paid during the year per share were fully franked and slightly higher than the prior year.

3.2 Operating division results

3.2.1 Electricity sales

	FY 2015	FY 2014	Change	Change %
Sales load (TWh)	**16.7**	14.1	2.6	18%
Total revenue excluding interest income ($m)	**2,203.3**	1,992.4	210.9	11%
Contestable revenue ($m)	**1,110.5**	1,118.7	(8.2)	-1%
Gross margin ($m)	**82.7**	59.1	23.6	40%
Interest income ($m)	**3.2**	3.4	(0.2)	-6%
Operating expenses ($m)	**(27.4)**	(17.9)	(9.5)	-53%
Underlying EBITDAIF ($m)	**58.5**	44.6	13.9	31%
Gross margin ($ per MWh)	**4.94**	4.20	0.74	18%
Operating expenses ($ per MWh)	**1.64**	1.27	0.37	-29%

FY 2015 performance

Overall retail sales grew 18% to 16.7TWh, from 14.1TWh in the previous year, including sales of 0.6TWh by our US acquisition, Source, in the six months since completion of the acquisition in January 2015.

Revenue figures have two components, contestable and pass-through. Contestable is the component on which we earn a margin and pass-through (being network costs) on which we do not. Contestable revenue per MWh reduced approximately 16% during the year following the repeal of the carbon tax.

Electricity Sales revenue for the year increased by 11% over the previous year, from $1,992.4m to $2,203.3m. The increase in electricity sales revenue was not proportional to the increase in volume due to the removal of the carbon tax in July 2014, as evidenced by the small 1% fall in Contestable Electricity Sales revenue to $1,110.5m, from $1,118.7m in the previous year.

Contracted forward sales of 34.3TWh at 30 June 2015 places us in a strong position to continue to deliver growth in electricity sold, although we expect competitive pressure to continue into FY 2016. We will continue to focus on profitable load growth rather than pure market share, concentrating on our strong customer value proposition for business energy customers.

Gross margin per MWh improved from $4.20 in the previous year to $4.94. The increase reflects the better-than-expected performance of our SME business, with higher gross margins, and also the higher gross margin for the load sold for the first time this year in the favourable half-year trading months in the US market since acquisition of Source in January 2015.

Operating costs per MWh increased reflecting higher operating costs in our early stage US business. Operating costs in our SME business continued to decrease on a per unit basis as the business continued to build economies of scale, whilst C&I operating costs remained steady.

C&I market – Australia

During the year we grew to be the clear second largest retailer in our primary target C&I market.

We expect to maintain or better our existing high recontracting rate, and continue to increase our C&I market sales share, which is consistent with our now 4th year "best in class" customer satisfaction rating. This is despite the continued increase in retail competition in the C&I market in FY 2016, with no intention of trading growth for profitability.

SME market – Australia

Progress in the SME market is ahead of expectations with 29,238 sites now under contract representing an average growth rate of just under 1,000 sites per month over the year. The business exceeded break even for the financial year with EBITDAIF slightly less than $5m.

Currently our primary markets are NSW, Victoria and South Australia. We have offerings in Queensland, Tasmania and the Australian Capital Territory which are restricted by continuing regulation.

US market

In January 2015 we acquired Source, an early stage electricity retailer based in Texas with 20,000 customers and currently retailing an annualised load of 1.4TWh. Load sold since the date of acquisition was 0.6TWh.

Source was acquired for US$7.8m with a further A$1.2m spent on transaction and integration costs during the period. The acquisition provides us with entry into the US market through an existing business that is anticipated to generate incremental earnings in FY 2016.

Operational performance

Our billing accuracy exceeded 99.96% for the year and our billing collection rate exceeded 99.90%.

3.2.2 Generation

$m	FY 2015	FY 2014	Change	Change %
Revenue and other income				
Oakey	**74.3**	35.7	38.6	108%
Neerabup	**32.7**	29.9	2.8	9%
Generation development and operations	**4.7**	7.9	(3.2)	-41%
Total revenue	**111.7**	73.5	38.2	52%
EBITDAIF				
Oakey	**22.8**	28.8	(6.0)	-21%
Neerabup	**25.1**	23.7	1.4	6%
Generation development and operations	**(1.1)**	(0.7)	(0.4)	-57%
Total EBITDAIF	**46.8**	51.8	(5.0)	-10%
Significant items (refer Appendix A1.1)	**0.6**	(0.5)	1.1	N/A
Underlying EBITDAIF	**47.4**	51.3	(3.9)	-8%

FY 2015 performance

Revenue for Oakey increased substantially with the station running frequently during the first quarter of calendar 2015, with near record spot prices in Queensland. As part of Oakey's operating strategy, it had sold hedge products for that quarter and therefore the increased revenue did not directly translate to an increase in EBITDAIF. The performance of Oakey in these changed and volatile market conditions in Queensland was however very positive, and demonstrated the positive opportunities for Oakey with its present vertically-integrated dispatch control.

Generation development and operations revenue and EBITDAIF was down slightly following the operator agreement with Kwinana concluding on 30 September 2014. Revenue and EBITDAIF from Neerabup increased principally as a result of additional energy sales.

Underlying EBITDAIF for the year was $47.4m, down 8% from $51.3m in the previous corresponding year. The Generation business contributed almost half of the Group underlying EBITDAIF for the year.

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

Generation development activities

With the average electricity demand in the National Electricity Market (NEM) lower than it was over a decade ago, and additional renewable generation coming into service as a result of the Renewable Energy Target (RET), there is currently a material surplus of generation capacity. As a result of the excess capacity and wholesale prices being insufficient to maintain economic viability of the available generators, a number of non-renewable power stations across the NEM are scheduled for closure. Looking further into the future, with additional renewable generation required to meet the RET, and continued advances in energy end use efficiency and disruptive technologies, our new gas fired power station generation projects are not currently required. As a result our generation group has ceased material activities on the existing gas fired power generation development projects, and an impairment loss of $28.8m has been recognised to write the value of capitalised development costs down to nil. Further activity on power station development will be considered on a case by case basis to support our retail business.

Power station operating performance

During the first six months of the year Oakey operated for less than 3% of the time whilst still subject to the AGL offtake agreement. During the remainder of the year Oakey was able to take advantage of additional gas supplies being brought on line in readiness for the LNG industry in Queensland. The increased gas availability, and higher than expected electricity market volatility, resulted in the power station operating for 32% of the time. Oakey maintained its outstanding availability and overall performance record, with a forced outage rate of 0.2% and an overall availability of 98.5% during the year.

Neerabup operated for 4.1% of the year and also maintained its outstanding availability and overall performance record with a forced outage rate of 0.01% and availability of 99.93%.

Safety

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

3.2.3 Gas

$m	FY 2015	FY 2014	Change	Change %
Exploration expenditure capitalised	1.6	2.9	(1.3)	-45%
Development expenditure capitalised	–	1.3	(1.3)	-100%
EBITDAIF	1.5	0.9	0.6	67%

FY 2015 performance

In February 2015 we sold our WA joint venture gas interests, including our interest in the Red Gully gas and condensate project, to Empire. Assets sold were impaired to the extent of the expected sale proceeds resulting in an impairment loss of $3.8m. The sale was vendor financed by us and we now hold a receivable asset with a face value of $14.8m at 30 June 2015. As part of the transaction, we acquired an additional equity interest in Empire taking our total shareholding to 18.8% as at 30 June 2015.

During the year we also surrendered two NSW exploration licences to the NSW government. We continue to retain an interest in one NSW gas exploration licence as well as a passive interest in Metgasco Limited. These remaining gas assets are being impacted by regulatory uncertainty in NSW and as such we intend to invest only the required minimum expenditure in the remaining exploration licence. Given the continued uncertainty over whether investment conditions will materially improve, the sole remaining NSW exploration licence has been impaired. Total impairment charges recognised during the year in respect of NSW gas exploration licences were $10.4m.

3.2.4 Corporate and other

$m	FY 2015	FY 2014	Change	Change %
Revenue	**3.6**	3.8	(0.2)	-5%
Expenses	**(16.6)**	(15.8)	(0.8)	-5%
Underlying EBITDAIF	**(13.0)**	(12.0)	(1.0)	-8%
Significant items (refer appendix A1.1)	**(3.1)**	(8.1)	5.0	62%
Total corporate EBITDAIF	**(16.1)**	(20.1)	4.0	20%

FY 2015 financial performance

Corporate revenue was consistent with FY 2014, with additional revenue from metering following commencement of operations in September 2014. Excluding significant items, expenses overall increased by $0.8m. Underlying corporate expenses as a proportion of underlying operational EBITDAIF remained steady at 15% in the current year.

Expenditure on significant items included Source acquisition expenses and staff rationalisation costs. The prior year significant item costs include costs associated with the Macquarie Generation bid.

3.3 Cash flow

$m	FY 2015	FY 2014	Change
EBITDAIF net of non-cash items	**88.0**	76.0	12.0
Tax paid	**(0.6)**	(4.2)	3.6
Operating cashflow before working capital changes	**87.4**	71.8	15.6
Working capital changes	**56.8**	(79.5)	136.3
Operating cashflow	**144.2**	(7.7)	151.9
Investing cashflow	**(23.7)**	(20.0)	(3.7)
Financing cashflow	**(156.9)**	26.9	(183.8)
Total net change in cash	**(36.4)**	(0.8)	(35.6)
Effect of exchange rate changes on cash and cash equivalents	**0.4**	–	0.4
Net decreases in cash and cash equivalents	**(36.0)**	(0.8)	(35.2)

Operating cash flow for the year, excluding changes in working capital, was $87.4m compared to $71.8m in the previous year. Tax paid reduced as a result of Oakey joining the ERM Power tax consolidation group in FY 2014.

The reconciliation of EBITDAIF to operating cash flows, together with a summary of cash flows, is shown in Appendix A1.2 and an explanation for the working capital changes is set out below.

Investing cash flow for FY 2015 includes a cash outlay of $5.8m to acquire Source, net of cash acquired. The acquisition of shares in Empire was $2.7m compared to $5.4m in the prior year and by excluding this item, the investing cash flows remained consistent.

Net financing cash outflows increased as more working capital debt was paid down with available cash and the prior year included net proceeds of $83.7 from capital raisings.

3.3.1 Working capital changes

$m	FY 2015	FY 2014	Change
Decrease / (increase) in assets			
Renewable energy certificates	**30.3**	(29.0)	59.3
Diesel and gas inventory	**1.1**	(0.1)	1.2
Customer accounts receivable and accrued income	**(15.9)**	(42.8)	26.9
Prepaid expenses	**3.9**	(2.7)	6.6
Transfer from / (to) broker margin account	**8.3**	(27.1)	35.4
Increase / (decrease) in liabilities			
Network and other trade payables	**39.5**	34.5	5.0
Wholesale and electricity market payables	**(16.2)**	(8.2)	(8.0)
Emissions trading scheme liability	**5.8**	(4.1)	9.9
Net change in working capital	**56.8**	(79.5)	136.3

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

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

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

During the year there was a $36.1m working capital timing benefit from deferring the purchase of environmental certificates until the second half of calendar 2015 to cover emissions trading scheme liabilities (consisting of an increase in the liability of $5.8m and a reduction in certificates to cover this liability of $30.3m) which settle in the first quarter of each financial year. Where available, forward sales contracts are utilised for the purchase of these certificates rather than buying and holding inventory through the year. The liability for surrendering these certificates is recognised in earnings progressively as customers use electricity.

A further net timing benefit of $39.5m arose during the year as a result of cash payment of network purchases and other trade payables falling after 30 June 2015. A similar benefit of $34.5m arose in the prior year.

Customer cash receipt timing, the timing of wholesale and electricity market payables and other working capital movements resulted in a net timing disadvantage of $27.1m in the year. In the prior year, these components resulted in a timing disadvantage of $53.8m.

A further $5.8m working capital timing benefit has resulted during the year from the movements in the futures exchange broker cash accounts ($27.1m timing disadvantage in the prior year).

3.4 Capital structure

3.4.1 Net debt

$m	FY 2015	FY 2014	Change
Term debt – recourse to Neerabup Power Station only	**151.3**	156.3	(5.0)
Convertible notes – recourse to Neerabup Power Station only	**40.0**	40.0	–
Convertible notes redemption premium*	**7.8**	6.5	1.3
Capitalised borrowing costs**	**(1.1)**	(1.2)	0.1
Total Neerabup debt	**198.0**	201.6	(3.6)
Electricity sales working capital facility	**33.2**	129.9	(96.7)
Electricity sales environmental certificate financing	**10.5**	–	10.5
	241.7	331.5	(89.8)

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

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

Net debt at 30 June 2015 decreased from the position at 30 June 2014 as the Group used operating cash flow to pay down the electricity sales working capital facility that fluctuates month by month. In November 2014 the electricity sales financing facilities were increased from $300m to $355m to fund future growth in the electricity sales business.

The acquisition of Source in January 2015 was fully funded from internal cash reserves.

An additional financial liability relating to a sale and repurchase agreement for renewable energy certificates was recognised during the year. This arrangement settles in February 2017.

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

To consider the risk of the Company's capital structure it is appropriate to segregate the Neerabup project debt from the rest of the Group. The table below illustrates the gearing and interest cover for the Group. When the Neerabup assets and associated non-recourse debt are excluded the Group had no net debt at 30 June 2014 or 30 June 2015.

The interest cover ratio improved during the year as a result of the repayment of the Oakey debt in the prior year and improved EBITDAIF.

$m	FY 2015	FY 2014	Change
Capital Risk Management			
Current borrowings	**42.1**	138.0	(95.9)
Non-current borrowings	**199.6**	193.5	6.1
Total debt	**241.7**	331.5	(89.8)
Cash and cash equivalents	**(172.8)**	(208.8)	36.0
Net debt	**68.9**	122.7	(53.8)
Total equity excluding reserves	**362.1**	323.5	38.6
Total capital	**431.0**	446.2	(15.2)
Gearing percentage	**16%**	27%	-11%
Gearing percentage excluding Neerabup	**0%**	0%	0%
EBITDA interest cover ratio	**3.18**	2.54	0.64

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.

3.4.2 Dividend strategy and history

A partially franked final dividend of 6.0 cents per share for FY 2015 was declared on 21 August 2015 equating to an annualised pre-tax dividend yield of 5.2% at 30 June 2015. The dividend franking percentage will be 33%.

We have 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.

4. BUSINESS STRATEGIES AND FUTURE PROSPECTS

4.1 Electricity sales

The immediate strategies for our Australian operations are as follows:

- Continued growth in the C&I market with achievement of load targets a key focus, but not at the expense of margin;
- Continued delivery on operational excellence and business category expertise as a differentiator in a competitive market,
- Expansion and refinement of product and service offering as the market matures and customer expectations increase;
- Concentration on growth and improving economies of scale in the SME market to drive continued expansion of our profitable channels to market; and
- Continued trial of gas retailing over the 2015 calendar year with first customers served in January 2015.

The immediate strategies for our US operations are as follows:

- To integrate ERM Power culture and processes across Source,
- To improve and increasingly automate the operating systems of Source to enable rapid growth; and
- To continue to grow in existing markets by adding additional sales channels.

4.2 Generation

Neerabup is in the early years of its long term off-take and project financing arrangements and will continue to operate and self-fund its debt servicing obligations. It will continue to take advantage of merchant energy market opportunities when not being fully utilised under its off-take agreement.

Oakey's long term off-take agreement finished in December 2014. Oakey is now operating as a merchant facility undertaking electricity and gas transactions with both our own electricity sales business and with third parties.

Following a change in the pricing strategies of a number of large Queensland generators, the volatility of electricity prices in Queensland during the 2014/2015 summer was much higher than anticipated, with electricity spot market prices reaching the maximum price cap of $13,500/MWh on numerous occasions. This creates both challenges and opportunities for a peaking plant like Oakey, with the accompanying wide range of potential earnings for a merchant peaking plant.

We continue to minimise expenditure on our generation development activities while market conditions do not currently justify new entrant generation.

4.3 Other

Metering

We obtained the necessary accreditation from the Australian Electricity Market Operator in September 2014 and commenced providing metering services. The metering business also received ISO9001 accreditation during the year.

By the end of the year we had installed approximately 1,200 electricity meters at sites across the NEM.

5. SAFETY, ENVIRONMENT AND COMMUNITY

5.1 Safety

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

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.

Our employees did not incur any lost time or permanent injuries during the year. This is an excellent achievement.

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

5.2 Environment

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

During the year we did not experience any reportable environmental incidents, nor were there any breaches of any environmental licence conditions at Oakey or Neerabup.

During the year Oakey and Neerabup's carbon dioxide emissions were in line with expectations and the carbon emission intensity of the facilities were less than the average carbon emissions intensity in each state.

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

5.3 Community

We are proud to contribute to the communities in which we operate through partnership and sponsorship programs. We are committed to building positive and long lasting relationships that harness community spirit, build local skills and leverage combined expertise to deliver tangible outcomes.

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. EBITDAIF – Earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit and loss and gains / losses on onerous contracts. EBITDAIF excludes any profit or loss from associates.
2. Underlying EBITDAIF – EBITDAIF 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 EBITDAIF 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 audited.

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.

The directors believe that underlying EBITDAIF 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.

During the year the Group changed the definition of underlying NPAT to exclude significant items. In prior years these items were shown as adjusting items to underlying earnings measures. The change was made to reflect how financial information is reported to senior management and the Managing Director and CEO.

APPENDICES

A1.1 Reconciliation of underlying EBITDAIF 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 EBITDAIF 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 EBITDAIF and underlying NPAT are shown in the tables below.

FY 2015

$m	Electricity sales	Generation	Other	Group
Statutory EBITDAIF	**54.5**	**46.8**	**(14.6)**	**86.7**
Significant items				
a) New business establishment costs	0.2	–	2.0	2.2
b) Unrealised foreign exhange gain	–	–	(0.2)	(0.2)
c) Arbitration costs	–	0.6	–	0.6
d) Staff rationalisation costs	–	–	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
Underlying EBITDAIF	**58.5**	**47.4**	**(11.5)**	**94.4**
Statutory NPAT	**96.4**	**(5.9)**	**(24.6)**	**65.9**
Significant items				
EBITDAIF 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	(68.5)	(0.5)	0.7	(68.3)
Associate profit after tax	–	–	(0.7)	(0.7)
Underlying NPAT	**30.7**	**12.8**	**(11.2)**	**32.3**

a) Costs incurred in respect of establishing our metering business and acquiring and integrating Source.

b) Unrealised foreign exchange gains on funds held in a US dollar bank account.

c) Costs net of contributions received in respect of the Neerabup contractor arbitration.

d) Costs associated with changes and rationalisation of staff.

e) 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.

FY 2014

$m	Electricity sales	Generation	Other	Group
Statutory EBITDAIF	**41.8**	**51.8**	**(19.4)**	**74.2**
Significant items				
a) New business establishment costs	2.8	–	1.1	3.9
b) Macquarie Generation bid costs	–	–	6.1	6.1
c) Arbitration costs	–	(0.5)	–	(0.5)
d) Legal fees in relation to Empire Oil action	–	–	0.9	0.9
Total significant items	2.8	(0.5)	8.1	10.4
Underlying EBITDAIF	**44.6**	**51.3**	**(11.3)**	**84.6**
Statutory NPAT	**(58.9)**	**52.0**	**(17.0)**	**(23.9)**
Significant items				
EBITDAIF adjustments (above)	2.8	(0.5)	8.1	10.4
e) Oakey term debt repayment costs	–	1.6	–	1.6
f) Tax effect of Oakey minority interest buyout	–	(39.1)	–	(39.1)
Tax effect of above adjustments	(0.8)	(0.3)	(2.5)	(3.6)
Total significant items	2.0	(38.3)	5.6	(30.7)
Fair value loss on financial instruments net of tax	80.9	–	–	80.9
Underlying NPAT	**24.0**	**13.7**	**(11.4)**	**26.3**

a) Costs incurred in respect of developing our capability to retail gas, serve the SME market and establish our metering business.

b) Costs in respect of the bid for the Macquarie Generation assets.

c) Costs net of contributions received in respect of the Neerabup contractor arbitration.

d) Legal fees incurred in respect of changing the board of Empire.

e) Accelerated amortisation of capitalised debt establishment costs and swap break fee resulting from early repayment of Oakey term debt.

f) Tax benefit resulting from buyout of Oakey minority interest resulting in the reset of tax cost base upon entry to ERM Power tax consolidated group.

FY 2013

$m	Electricity sales	Generation	Other	Group
Statutory EBITDAIF	**38.3**	**43.5**	**(12.0)**	**69.8**
Significant items				
a) New business establishment costs	3.4	–	–	3.4
b) Restructuring costs	0.3	0.4	0.1	0.8
c) Arbitration costs	–	4.4	–	4.4
Total significant items	3.7	4.8	0.1	8.6
Underlying EBITDAIF	**42.0**	**48.3**	**(11.9)**	**78.4**
Statutory NPAT	**42.4**	**4.4**	**(10.2)**	**36.6**
Significant items				
EBITDAIF adjustments (above)	3.7	4.8	0.1	8.6
d) Prospective depreciation adjustment	–	(2.4)	–	(2.4)
Tax effect of above adjustments	(1.1)	(0.7)	(0.1)	(1.9)
Total significant items	2.6	1.7	–	4.3
Fair value gain on financial instruments net of tax	(20.9)	–	–	(20.9)
Underlying NPAT	**24.1**	**6.1**	**(10.2)**	**20.0**

a) Costs incurred in respect of developing our capability to sell electricity to SME customers and advertising and branding expenditure in respect of the advertising campaign and brand launch earlier in the financial year.

b) Staff rationalisation costs.

c) Costs in respect of the Neerabup contractor arbitration.

d) Revision to the estimated useful lives of certain components of the power generation assets, which was applied prospectively from 1 July 2012.

A1.2 Reconciliation of movements in cash and cash equivalents

$m	FY 2015	FY 2014	Change	Change %
Operating Activities				
EBITDAIF	**86.7**	74.2	12.5	17%
Share-based payments	**1.3**	1.9	(0.6)	-32%
Net change in working capital	**56.8**	(79.6)	136.4	N/A
Net tax paid	**(0.6)**	(4.2)	3.6	86%
Net operating cash flows	**144.2**	(7.7)	151.9	N/A
Development Investing Activities				
Capital expenditure – development projects	**(1.6)**	(1.9)	0.3	16%
Capital expenditure – gas development	**–**	(1.7)	1.7	100%
Capital expenditure – gas exploration	**(1.3)**	(3.0)	1.7	57%
Capital expenditure – other PPE and Intangibles	**(12.3)**	(8.2)	(4.1)	-50%
Net capital expenditure cash flows	**(15.2)**	(14.8)	(0.4)	-3%
Financing and other Investing Activities				
Repayment of minority interest borrowings	**–**	(1.5)	1.5	100%
Repayment of project borrowings	**(5.1)**	(44.9)	39.8	89%
Loan to Empire Oil & Gas NL	**(1.5)**	(2.0)	0.5	25%
Net (repayment) / drawdown of Electricity Sales borrowings	**(96.8)**	70.8	(167.6)	N/A
Proceeds from issue of shares	**–**	83.7	(83.7)	-100%
Purchase of shares	**(2.7)**	(5.4)	2.7	50%
Dividends paid	**(27.7)**	(23.7)	(4.0)	-17%
Payment for acquisition of subsidiary, net of cash aquired	**(5.8)**	–	(5.8)	-100%
Net cash cost of additional interest acquired in Oakey	**–**	(30.0)	30.0	100%
Net interest paid	**(25.8)**	(25.3)	(0.5)	-2%
Other financing and investing cash flows	**(165.4)**	21.7	(187.1)	N/A
Net decrease in cash	**(36.4)**	(0.8)	(35.6)	N/A
Effect of exchange rate changes on cash and cash equivalents	**0.4**	–	0.4	100%
Net decreases in cash and cash equivalents	**(36.0)**	(0.8)	(35.2)	N/A
Closing cash balances				
Free cash held in ERM Power	**32.6**	24.1	8.5	35%
Free cash held in projects	**12.8**	5.0	7.8	156%
Total free cash	**45.4**	29.1	16.3	56%
Restricted cash	**127.4**	179.7	(52.3)	-29%
Total closing cash balances	**172.8**	208.8	(36.0)	-17%

A1.3 Power station assets

$m	FY 2015	FY 2014	Change	Change %
Oakey power station (100% interest)				
Property, plant and equipment	**219.1**	226.8	(7.7)	-3%
Net tangible assets	**226.9**	240.8	(13.9)	-6%
Borrowings	–	–	–	0%
EBITDA	**22.8**	28.8	(6.0)	-21%
EBIT	**14.9**	21.0	(6.1)	-29%
Interest expense	**–**	(3.3)	3.3	100%
Depreciation	**(7.9)**	(7.8)	(0.1)	-1%

$m	FY 2015	FY 2014	Change	Change %
Neerabup power station (50% interest)				
Property, plant and equipment	**169.6**	173.9	(4.3)	-2%
Net tangible liabilities	**(8.0)**	(8.6)	0.6	7%
Borrowings	**198.0**	201.6	(3.6)	-2%
EBITDA	**25.1**	23.0	2.1	9%
EBIT	**20.7**	18.7	2.0	11%
Interest expense	**(16.9)**	(17.4)	0.5	3%
Depreciation	**(4.4)**	(4.3)	(0.1)	-2%

A1.4 Supplementary information

$m unless otherwise indicated	FY2015	FY2014	FY2013	FY2012	FY2011
Revenue	**2,326.1**	2,076.5	1,569.6	937.9	549.8
EBITDAIF	**86.7**	74.2	69.8	85.4	45.0
Underlying EBITDAIF	**94.4**	84.6	78.4	70.1	40.3
Statutory NPAT attributable to equity holders	**65.9**	(23.9)	36.5	34.2	16.2
Underlying NPAT	**32.3**	26.3	20.0	13.9	1.5
Operating cash flow before working capital changes	**87.4**	71.8	64.0	61.1	42.5
Load sold (TWh)	**16.7**	14.1	11.1	8.3	5.6
Shares on issue (millions of shares)	**242.0**	239.3	203.3	168.3	162.1
Share price ($ per share)	**2.32**	1.82	2.50	2.00	1.57
Market capitalisation[1]	**561.4**	435.5	508.3	336.6	254.6
Weighted average shares (number of shares)	**241.1**	226.3	175.7	164.7	138.4
Statutory EPS (cents per share)	**27.4**	(10.6)	20.8	20.7	11.7
Underlying EPS (cents per share)	**13.4**	11.6	11.4	8.4	1.1
Dividends paid in period (cents per share)	**12.0**	11.5	9.5	7.5	–
Franking %	**100%**	100%	100%	100%	–
Annual pre-tax dividend yield[2]	**5.2%**	6.3%	3.8%	3.8%	–
CFPS[3] (cents per share)	**36.3**	31.7	36.4	37.1	30.7

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

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

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

A1.5 Historical figures

$m unless indicated	FY2015	FY2014	FY2013	FY2012	FY2011
Interest income by business division					
Electricity sales	**3.2**	3.3	2.9	3.6	2.6
Generation	**0.6**	0.8	0.7	1.0	0.7
Other	**1.4**	2.2	2.3	2.8	1.3
Total interest income	**5.2**	6.3	5.9	7.4	4.6
Electricity sales division statistics					
Load (TWh)	**16.7**	14.1	11.1	8.3	5.6
Total revenue excluding interest revenue	**2,203.3**	1,992.4	1,490.1	838.8	484.1
Contestable revenue	**1,110.5**	1,118.7	894.4	521.9	341.3
Gross margin[1]	**82.7**	59.1	51.7	36.8	26.8
Operating expenses[1]	**(27.4)**	(17.9)	(12.5)	(8.7)	(6.9)
Gross margin ($) per MWh[1]	**4.94**	4.20	4.67	4.45	4.79
Operating expenses ($) per MWh[1]	**(1.64)**	(1.27)	(1.13)	(1.06)	(1.24)
EBITDAIF[1]	**58.5**	44.6	42.0	30.9	22.5
Gas division statistics					
Exploration expenditure capitalised	**1.6**	2.9	7.4	2.6	4.9
Development expenditure capitalised	**–**	1.3	8.3	–	–
EBITDAIF	**1.5**	0.9	(0.8)	(1.0)	(0.5)
Generation division statistics					
Revenue					
Oakey	**74.3**	35.7	39.2	34.0	–
Neerabup	**32.7**	29.9	26.6	28.9	26.2
Generation Development and operations	**4.7**	7.9	6.9	8.1	29.6
Total revenue	**111.7**	73.5	72.7	71.0	55.8
Expenses					
Oakey[2]	**22.8**	28.8	28.8	27.4	1.4
Neerabup	**25.1**	23.7	21.7	23.6	21.5
Generation Development and operations	**(1.1)**	(0.7)	(7.0)	(6.7)	6.1
Discount on acquisition	**–**	–	–	19.1	–
EBITDAIF	**46.8**	51.8	43.5	63.4	29.0
Corporate division statistics					
Revenue					
Interest revenue[1]	**1.4**	2.2	2.3	2.8	1.3
Other revenue[1]	**2.2**	1.6	1.5	2.6	6.0
Total Revenue[1]	**3.6**	3.8	3.8	5.4	7.3
Expenses[1]	**(16.6)**	(15.8)	(15.0)	(13.3)	(11.9)
EBITDAIF[1]	**(13.0)**	(12.0)	(11.2)	(7.9)	(4.6)

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

2 Accounted for as an associate in FY 2011.

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.
EBITDAIF	Earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit and loss and gains / losses on onerous contracts. EBITDAIF excludes any profit or loss from associates.
EBIT	Earnings before interest and taxes
1H	First half of financial year
FY	Financial year ended or ending 30 June
GWh	Gigawatt hours is a unit of energy representing one billion watt hours
IFRS	International Financial Reporting Standards
MWh	Megawatt hours is a unit of energy representing one million watt hours
NEM	The National Electricity Market
NPAT	Net profit after tax
Oakey Tax Benefit	Tax benefit resulting from buyout of Oakey minority interest allowing reset of tax cost base upon entry to ERM Power tax consolidated group
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 2014 (19th year of Survey). Research based on survey of 300 business electricity customers between November 2014 and January 2015. Four major electricity retailers benchmarked.
Underlying EBITDAIF	EBITDAIF 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

DIRECTORS' REPORT

In accordance with the *Corporations Act 2001*, the directors of ERM Power Limited ("Company") report on the Company and the consolidated entity ERM Power Group ("Group"), being the Company and its controlled entities, for the year ended 30 June 2015 ("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
- gas production and exploration.

2. OPERATING RESULTS FOR THE YEAR

A review of the operating results of the Group can be found in the Management Discussion and Analysis (MD&A) on pages 4 to 15.

3. REVIEW OF OPERATIONS

A review of the operations of the Group can be found in the MD&A on pages 4 to 15.

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 4 to 15.

5. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

5.1 Purchase of Source

On 23 January 2015 the Group acquired SPG Energy Group LLC (Source) for US$7.8m. Source is a Texas based electricity retailer with approximately 20,000 customers and had an annualised load of 1.4TWh.

5.2 Investment in Empire Oil & Gas NL accounted for as an associate

During December 2014, the Group acquired additional shares in Empire Oil & Gas NL (Empire) through a transaction to consolidate joint venture oil and gas assets into 100% ownership by Empire. This brought the Group's total shareholding and voting rights up to 19.4%. The Group participated in an Empire rights issue in April 2015 and at 30 June 2015 had a shareholding of 18.8%. In addition, a member of the Group's key management personnel continues to serve on Empire's board of directors and the Group has also granted substantial vendor finance to Empire in order to support its business operations. Given the shareholding of 18.8%, and provision of vendor finance, the directors are of the view that the Group is deemed to have significant influence over Empire.

5.3 Impairment of Gas Exploration Tenements and Power Station Development assets

A total impairment expense of $43.0m has been recognised during the year. An impairment expense of $3.8m was recognised on the consolidation of oil and gas assets with Empire referred to above. An additional $10.4m impairment charge was recognised in respect of our East coast gas interests following a decision to surrender two of the licenses to the government and scale back development of the remaining exploration licence. An impairment charge of

$28.8m was recognised in respect of the Group's power station development assets following a decision to stop further expenditure on development at this time given the current wholesale market conditions. The decision to stop further expenditure on development of these assets was made after a strategic review of the business.

6. EVENTS AFTER BALANCE DATE

Since 30 June 2015 there have been no matters or circumstances not otherwise dealt with in the Financial Report that have significantly or may significantly affect the Group.

7. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Apart from the matters referred to in the MD&A on pages 4 to 15, information as to other likely developments in the operations of the Group and the expected results of those operations in subsequent financial years has not been included in this report because the directors believe this could result in unreasonable prejudice to the Group.

8. PROCEEDINGS ON BEHALF OF THE COMPANY

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

9. DIVIDENDS

Subsequent to year end, the directors have declared a final dividend in respect of the 2015 financial year as follows:

Amount:	6.0 cents per share
Franking:	Partially franked (Franking 33%)
Date Payable:	7 October 2015

The dividend has not been provided for in the 2015 financial statements.

During the year the Company paid an interim fully franked dividend of 6.0 cents per share (2014: 6.0 cents), together with a fully franked final dividend of 6.0 cents per share in respect of the previous year.

10. SHARE OPTIONS

10.1 Unissued shares

As at the date of this report, there were 1,451,612 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	1,208,906	275 cents
8 November 2017	242,706	275 cents

10.2 Shares issued on exercise of options

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

11. DIRECTORS AND COMPANY SECRETARIES

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

Anthony (Tony) Bellas	Independent Non-Executive Chairman
Trevor St Baker	Non-Executive Deputy Chairman and Founder
Albert Goller	Independent Non-Executive Director (appointed 1 January 2015)
Martin Greenberg	Independent Non-Executive Director
Antonino (Tony) Iannello	Independent Non-Executive Director
Jonathan (Jon) Stretch	Managing Director and CEO (appointed 2 February 2015)
Philip St Baker	Managing Director and CEO (ceased as Managing Director on 21 August 2014, and as CEO on 31 October 2014)

Information on Directors and Company Secretaries

Anthony (Tony) Bellas

MBA, BEc, DipEd, ASA, FAIM, MAICD

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

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

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

Other listed company directorships in the last three years:

Shine Corporate Ltd	Since March 2013
Corporate Travel Management Limited	Since June 2010
Guilford Coal Limited	December 2010 – June 2012

Special Responsibilities

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

Trevor St Baker

BEng, BA, FAusIMM, FIEAust, FAIE, MAICD

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

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

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

Special Responsibilities
Member of the Nomination Committee, and Chairman of the operating committee of NewGen Neerabup Partnership, and a member of the Audit and Risk Committee until 3 March 2015.

Albert Goller

MAICD

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 Chairman 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, GAICD

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

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

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

Antonino (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.

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

Other listed company directorships in the last three years:

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

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

Jonathan (Jon) Stretch

BSc (Melb), MAICD

Jon joined ERM Power as Managing Director and Chief Executive Officer (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
Chairman of the Health, Safety, Environment and Sustainability Committee, the Workplace Health & Safety Committee, the Group Operational Risk Committee and the Group IT Steering Committee.

Former Managing Director
Philip St Baker

BEng, MAICD

Philip was appointed as Managing Director and CEO in July 2006 and ceased employment with the Company on 31 October 2014.

Special Responsibilities
Until his departure, Phil held the additional positions of Chairman of the Heath, Safety, Environment and Sustainability Committee, the Group Operational Risk Committee and the Group IT Steering Committee.

Company Secretaries

Peter Jans

LLB (Hons), MA, MAICD

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

Phil Davis

LLB, GAICD, AGIA

Phil joined ERM Power as Legal Counsel in December 2007 and was appointed joint Company Secretary on 17 December 2014. During this time Phil's role and responsibility has covered the whole of ERM Power's business including generation, sales, gas activities, compliance and corporate governance.

Phil has practiced as a lawyer for over 15 years in the corporate, construction, property, energy and resource sectors. After beginning his career in private practice, Phil has worked as in-house counsel for General Electric Corporation and Lend Lease Construction (formerly Bilfinger Berger Australia) and was involved in a number of major construction projects in Australia and the UK. Phil has been a senior member of the legal team for the past 7 years during ERM Power's transition from a private power station developer to an integrated energy company listed on the Australian Securities Exchange.

Former Company Secretary
Graeme Walker

BCom, CA, CA(SA), FAICD

Graeme was appointed Chief Financial Officer, responsible for the financial management and control of the Group in April 2009. Graeme assumed the additional roles as joint Company Secretary from December 2009 to December 2014, as well as Acting CEO from November 2014 to January 2015. Graeme is retiring from the Company in December 2015.

12. MEETINGS OF DIRECTORS

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

	Board meetings		Meetings of committees					
			Audit & Risk		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
Tony Bellas	20	20	7	7	3	3	3	3
Trevor St Baker	19	20	5[1]	5[1]	3	3	**	**
Albert Goller	7	7	2	2	1	1	1	1
Martin Greenberg	20	20	7	7	3	3	3	3
Tony Iannello	18	20	7	7	3	3	3	3
Jon Stretch	6	6	**	**	**	**	**	**
Philip St Baker	3	3	**	**	**	**	**	**

1 Trevor St Baker stepped down from the Audit and Risk Committee on 3 March 2015.

A = number of meetings attended.

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

** = Not a member of the relevant committee.

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

13. DIRECTORS' INTERESTS

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

	Ordinary shares
Tony Bellas	106,250
Trevor St Baker	75,040,647
Albert Goller	100,000
Martin Greenberg	571,794
Tony Iannello	139,946
Jon Stretch	Nil

14. ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's environmental obligations are regulated by relevant federal, state and local government ordinances. During the year ended 30 June 2015, the Group did not experience any reportable environmental incidents, nor were there any breaches of any environmental licence conditions.

15. INDEMNIFICATION AND INSURANCE OF OFFICERS

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

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

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

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

16. AUDITOR'S INDEPENDENCE DECLARATION

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

17. NON AUDIT SERVICES

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

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

	2015 $	2014 $
Other agreed-upon procedures in relation to the entity and any other entity in the consolidated Group[1]	**162,000**	1,196,808

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

18. ROUNDING OF AMOUNTS

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

19. REMUNERATION REPORT

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

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

Tony Bellas
Chairman

21 August 2015

REMUNERATION REPORT

The directors present the Remuneration Report for ERM Power Limited ("Company") and its consolidated entities ("Group") for the year ended 30 June 2015.

1. REMUNERATION FRAMEWORK

1.1 Role of the Remuneration Committee

The remuneration committee ensures that the remuneration of directors and senior executives is consistent with market practice and is sufficient to ensure that the Company can attract, develop and retain the best individuals. The committee reviews the remuneration of the Managing Director and 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 Company's remuneration philosophy and strategy continues to be focused to:

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

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

During the period, Geoff Nunn & Associates Pty Ltd (Geoff Nunn) was engaged to review and provide recommendations on the remuneration of two key executives, being the Chief Financial Officer (CFO) and Group General Counsel & Company Secretary. Geoff Nunn was paid $8,602 for this service and was not otherwise engaged by the Company for the provision of any other services during the period.

The services of Hay Group Pty Limited (Hay Group) were also employed during the period to provide benchmarking analysis and review the remuneration framework of the non-executive directors (NEDs), MD&CEO and all senior executives. Whilst Hay Group did not act as a Remuneration Consultant for the purposes of the Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011, it provided benchmarking information and data to provide a frame of reference against which the committee could evaluate current remuneration levels.

Hay Group was separately engaged by the MD&CEO for the benchmarking of senior executives reporting to him, who then provided the report to the remuneration committee for reference.

The following arrangements were made for the Geoff Nunn report and Hay Group reports (for the NED and MD & CEO's reviews):

- Consultants were engaged by, and reported directly to, the chair of the remuneration committee. These agreements for the provision of remuneration consulting services were executed by the chair of the remuneration committee under delegated authority from the board.
- Consultants were permitted to speak to management throughout the engagement to understand company processes, practices and other business issues and obtain management perspectives. However, they were not permitted to provide any member of management with copies of their draft or final reports that contained remuneration recommendations.
- Reports containing remuneration recommendations were provided by the consultants directly to the chair of the remuneration committee, who then shared that information with members of the key management personnel as required.

The board is satisfied that the remuneration recommendations for the purposes of the Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011 were made free from undue influence from any members of the key management personnel (KMP).

1.2 Key Management Personnel

The Company's former MD&CEO, Philip St Baker resigned on 30 October 2014. Graeme Walker, the Company's CFO was the interim CEO until the appointment of Jon Stretch to the position of MD&CEO in February 2015. The terms of Jon Stretch's employment were released to the ASX on 30 October 2014.

Key Management Personnel 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 (appointed 1 January 2015)

Martin Greenberg

Tony Iannello

Senior Executives

Jonathan (Jon) Stretch (appointed 2 February 2015)	MD&CEO
Philip St Baker (until 31 October 2014)	Former MD&CEO
William (Mitch) Anderson	Executive General Manager (EGM) Business Energy (US)
Gregg Buskey (from 14 April 2015)(i)	EGM Corporate Finance & Strategy
David Guiver (from 14 April 2015)(i)	EGM Trading
Peter Jans	Group General Counsel & Company Secretary
Derek McKay	EGM Generation, Gas & Metering
Stephen (Steve) Rogers (from 14 April 2015)(i)	EGM Business Energy (AU)
Graeme Walker	Chief Financial Officer (Acting CEO Nov 2014 – Jan 2015)

(i) Subsequent to the appointment of the new MD&CEO, management changes were made resulting in three additional executives being appointed as KMP in April 2015.

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 is sought from remuneration consultants to ensure directors' fees are appropriate and in line with the market. The latest 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

Non-Executive Director Fees (excluding superannuation)	FY 2015 $	FY 2014 $
Chairman	**190,000**	185,000
Non-executive directors	**108,000**	105,000
Additional fees		
Audit Committee – chairman	**20,000**	20,000
Audit Committee – member	**10,000**	10,000
Remuneration Committee – chairman	**10,000**	10,000
Remuneration Committee – member	**5,000**	5,000
Representation on non-wholly owned subsidiary boards	**25,000 each**	25,000 each

Table 2 – Directors' Fees

		Short-term benefits			Post-employment benefits	
		Cash salary and fees $	Additional fees[1] $	Non-monetary benefits[2] $	Super-annuation entitlement $	Total remuneration per income statement $
Tony Bellas	**2015**	**205,000**	**75,000**	**10,712**	**18,783**	**309,495**
	2014	200,000	–	10,510	17,775	228,285
Trevor St Baker	**2015**	**139,705**	**45,000**	**22,509**	**14,572**	**221,786**
	2014	152,500	–	21,739	14,106	188,345
Albert Goller[3]	**2015**	**58,943**	**10,000**	**–**	**5,600**	**74,543**
	2014	–	–	–	–	–
Martin Greenberg	**2015**	**133,000**	**45,000**	**–**	**14,172**	**192,172**
	2014	130,000	–	–	12,025	142,025
Tony Iannello	**2015**	**128,000**	**45,000**	**–**	**13,816**	**186,816**
	2014	125,000	–	–	11,562	136,562
Brett Heading[4]	**2015**	**–**	**–**	**–**	**–**	**–**
	2014	53,826	–	–	–	53,826
Total	**2015**	**664,648**	**220,000**	**33,221**	**66,943**	**984,812**
Total	**2014**	**661,326**	**–**	**32,249**	**55,468**	**749,043**

1 Special exertion fees are in accordance with ERM Power Limited constitution. Fees are for additional services outside of the scope of ordinary duties related to the Macquarie Generation bid and Empire action during FY 2014 and the transition of the new MD&CEO, acquisition of Source and other strategic matters during FY 2015. A total of $100,000 relates to FY 2014 and $120,000 to FY 2015.

2 Non-monetary benefits include car parking benefits and associated FBT.

3 Appointed 1 January 2015.

4 Resigned on 12 December 2013.

2.2 Remuneration of MD&CEO and Senior Executives

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

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

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

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

In accordance with the objective of ensuring that executive remuneration is aligned to Group performance without encouraging undue risk-taking, a significant portion of executives target pay is at risk. Long-term incentives are assessed over a three year period and are designed to promote long-term growth in shareholder returns as well as encouraging talent retention. The remuneration target is for a fixed remuneration level around the mean and a total remuneration close to or above the 75th percentile of comparator groups on achieving strong performance. Table 3 sets out the current named senior executives' target remuneration mix for the 2015 financial year.

Table 3 – Executive Target Remuneration Mix

	Base pay and super-annuation	Target short term incentive	Target long term incentive	Total target remuneration
MD&CEO	36.4%	36.4%	27.2%	100%
Other Senior Executives	53.2%	22.2%	24.6%	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. Remuneration is also reviewed on promotion or change of role. There are no guaranteed base salary increases included in executive service agreements.

Increases in base salary for the 2015 financial year were based on the expanded role and increased responsibilities assumed by senior executives in line with the growth of the Company. Graeme Walker received the equivalent of the prior CEO's remuneration during the three month period in which he served as interim CEO. The Geoff Nunn remuneration consultant's report identified gaps in both the CFO and Group General Counsel & Company Secretary's remuneration to comparative benchmarking resulting in a re-evaluation of base salary for these positions during the year.

During the year, the Company amended its approach to superannuation contributions. Total fixed annual salary is comprised of both base salary and superannuation contributions. The mix between these two components was amended such that the Company will only contribute up to the maximum superannuation contribution base set by the relevant legislation, but total fixed annual salary for the year was not affected. Table 5 at the end of this section provides details of total remuneration expensed during the financial year on behalf of each of the named executives.

2.2.2 Incentive Schemes

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

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

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

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.

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 gains / losses on financial Instruments and onerous contracts (underlying EBITDAIF), and / or operating cash flow (OCF), 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.

Short term incentives

STIs are provided to most employees. They have three components; individual, team and corporate. Each of these components is allocated a weighting and include both targets and stretch targets that are set at the beginning of each financial year. The 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 remuneration committee is responsible for determining the STI to be paid based on an assessment of whether the KPIs are met. To assist in this assessment, the committee receives detailed reports on performance from management. The committee has the discretion to adjust short-term incentives downwards in light of unexpected or unintended circumstances.

At the end of each financial year, achievement of targets is measured and applied against the target rate determined for each individual. These rates range between 10% and 40% of annual average base salary, with the potential to achieve up to 150% of these levels (i.e. 15% to 60%). 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) – subject to board discretion entitlement to pro rata STI for the year.
- Termination (with cause) – STI is not awarded

STIs have previously been calculated and paid following adoption of the Group's annual financial results with individual allocations to KMP not having been determined prior to release of the Remuneration Report for the current year. This has resulted in the reporting of STIs lagging a year behind the reporting of the financial results for the relevant year.

For FY 2015, the Remuneration Committee has determined the allocation of STI's prior to publication to enable allocations to be included on an accruals basis. Table 5 has been restated on an accruals basis to show an amount expensed for the current year's STI, including the comparative period FY 2014, with the realised values for the awards vesting to the executives for the relevant financial year shown in the supplementary information, and additional detail on all performance awards granted outlined in Table 6.

The former MD&CEO was paid a 30% pro rata FY 2015 STI being 75% of the target opportunity on his departure in October 2014, as assessed by the remuneration committee against the following KPIs being met:

- Financial performance targets as previously agreed at the beginning of the period;
- The operations of the Company remaining safe and compliant with legal and regulatory obligations;
- Mentoring of the key management personnel of the Company continuing up to departure; and
- Assistance to the board with transition and succession processes.

Corporate targets for FY 2015 included the following elements and weightings as set by the remuneration committee at the beginning of the financial year, which aligned to the Group's strategic and business objectives. The corporate KPI targets for the 2015 STI were determined to have been achieved, with 100% awarded. In making this assessment, the committee applied the following factors and weightings in its considerations;

- 40% Profit delivery against guidance expectations;
- 30% Positioning of the Company by increases in customer growth;
- 10% Oakey power station optimisation;
- 20% Execution of board approved strategies and effective management processes; and
- No deductions as all safety and compliance targets and other governance standards had been met.

An accrual has been made for the FY 2015 STIs, which are intended to be awarded as equity to senior executives. Jon Stretch's FY 2015 STI has been set at 100% (pro rata for the 5 month period to 30 June 2015) given the limited ability for him to impact results for the financial year. This was part of his contractual arrangements agreed on commencement of employment and advised to the ASX at the time. Half will be paid in cash following the release of the FY 2015 financial results, with the remaining half in equity to be approved at the 2015 Annual General Meeting to vest on 30 June 2016 (subject to continuing employment at 2 February 2016).

The FY 2014 STI was paid in the current year. Based on the achievements of the Group's results for year ending 2014, the remuneration committee awarded 85% of the target opportunity to the former MD&CEO which was paid via the grant of units in the short term incentive share trust as approved by shareholders at the 2014 annual general meeting. The corporate award for the 2014 STI applied to all participants for FY 2014 was 93.1%. In making this assessment, the committee applied the following factors and weightings in its considerations:

- 40% – improvement of underlying NPAT and earnings per share (excluding Macquarie generation bid costs);
- 20% – continuing strong growth in the electricity sales business;
- 20% – successful execution of strategic initiatives;
- 10% – restructure of the Group's gas businesses, and streamlining board reporting activities; and
- 10% – improvement of stock liquidity and investor base.

Table 4 provides details of the STIs to be awarded to KMPs for the current financial year and the comparatives for the 2014 STI paid in the current year. FY 2014 STI awards were made prior to Gregg Buskey, David Guiver and Steve Rogers' being appointed as KMP members.

Table 4 – STI Achievement

	2015 STI Paid in FY 2015		2014 STI Paid in FY 2015	
	Actual	Maximum	Actual	Maximum
Jon Stretch	50%	50%	–	–
Philip St Baker	30%	60%	34%	60%
Mitch Anderson	27%	45%	26%	45%
Gregg Buskey	32%	45%	–	–
David Guiver	37%	45%	–	–
Peter Jans	45%	45%	27%	45%
Derek McKay	30%	45%	27%	45%
Steve Rogers	32%	45%	–	–
Graeme Walker (CFO)	45%	45%	26%	45%
(Acting CEO)	60%	60%	–	–

Long term incentives

LTIs are provided to selected employees in the form of equity via the Company's Long Term Incentive Share Trust (LTIST). LTI issues were made in the 2015 financial year with vesting subject to continuation of employment through to 30 June 2017 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 2014, 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, TSR vesting is granted on the following basis:

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

The LTI target rate determined for each individual is based on a percentage of annual average base salary, and for the 2015 financial year it was based on the maximum awards of 50% for executive KMP (except for the MD&CEO) and 30% for other selected senior executives. The corresponding equity is issued into the LTIST and will vest subject to evaluation of the performance conditions assessed after 30 June 2017.

Subject to shareholder approval, a pro rata FY 2015 LTI award will be made to the current MD&CEO on the same TSR vesting criteria as above, measured against the performance of the comparator group being those companies in the S&P ASX 300 index from commencement of employment on 2 February 2015 to 30 June 2017.

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.

Subject to board discretion, the following will apply to LTI awards on termination:

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)

Table 6 details the equity allocated to executive KMP in the current financial year, and for which the allocation to the former MD&CEO was approved by shareholders at the 2014 Annual General Meeting. For accounting purposes, long term incentives are expensed over the performance period and incorporated within table 5.

Table 5 – Executive Remuneration

			Expensed in Income Statement											Supplementary Information[9]				
			Short term benefits				Post-employment benefits	Long term benefits										
			Base salary cash[4]	Non monetary benefits and annual leave accrual[5]	Other Benefits[6]	Short-term incentive[7]	Super-annuation entitlement	Long-term Incentive Plan	Other equity benefits[8]	LSL Accrual	Termination Benefits	Total remuneration per income statement[9]	Less: Relocation and accounting accruals	Add: STI vesting in current year[10]		Add: Long term equity vesting	Total remuneration vested
Jon Stretch[1] MD&CEO	2015	A$	323,942	24,531	25,570	166,500	9,392	–	–	595	–	550,530	(217,196)	–	-	–	333,334
	2014	A$	–	–	–	–	–	–	–	–	–	–	–	–	-	–	–
Phillip St Baker[2] Former MD&CEO	2015	A$	242,846	40,570	–	72,854	33,653	(385,673)	–	(46,871)	481,572	438,951	319,693	318,412	c&e	246,472	1,323,528
	2014	A$	660,031	45,286	–	245,558	61,053	346,992	5,795	19,904	–	1,384,619	(657,461)	257,961	c	94,388	1,079,507
Mitch Anderson	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	(301,816)	117,468	e	100,834	516,661
	2014	A$	439,725	33,875	–	117,468	40,675	126,255	2,518	17,223	–	777,739	(260,109)	121,293	e	41,367	680,290
Gregg Buskey[3]	2015	A$	73,034	874	–	22,294	4,056	17,543	–	1,102	–	118,903	(41,438)	–	-	–	77,465
	2014	A$	–	–	–	–	–	–	–	–	–	–	–	–	-	–	–
David Guiver[3]	2015	A$	77,727	5,867	–	27,351	4,056	13,300	10,542	3,837	–	142,680	(60,397)	–	-	–	82,283
	2014	A$	–	–	–	–	–	–	–	–	–	–	–	–	-	–	–
Peter Jans	2015	A$	431,313	9,700	–	193,151	28,934	90,806	–	17,304	–	771,208	(310,961)	102,317	e	101,047	663,611
	2014	A$	374,004	8,610	–	102,317	34,595	121,649	2,523	10,146	–	653,844	(242,953)	118,974	c	41,454	571,319
Derek McKay	2015	A$	418,964	(4,017)	–	123,162	30,577	89,561	38,199	15,881	–	712,327	(259,749)	102,101	e	100,834	655,513
	2014	A$	373,216	24,758	–	102,101	34,522	121,393	2,518	9,785	–	668,293	(257,882)	119,459	c&e	41,367	571,237
Steve Rogers[3]	2015	A$	77,727	1,499	–	23,655	4,056	12,281	8,058	3,820	–	131,096	(48,814)	–	-	–	82,282
	2014	A$	–	–	–	–	–	–	–	–	–	–	–	–	-	–	–
Graeme Walker																	
(CEO)	2015	A$	182,135	–	–	109,281	17,303	13,419	–	–	–	322,138	(122,700)	–	-	–	199,438
(CFO)	2015	A$	321,340	32,921	–	144,863	20,493	88,880	–	14,464	–	622,961	(278,760)	95,513	e	85,392	525,106
	2014	A$	363,000	4,007	–	95,513	33,578	108,600	2,194	15,781	–	622,673	(223,803)	109,231	e	36,050	544,151

1 Appointed 2 February 2015.
2 Resigned on 31 October 2014. Negative values in long term benefits reflect the reversal of accounting accruals resulting from forfeiture of LTI awards (as shown in Table 6) and unearned long service leave.
3 Appointed as KMP on 14 April 2015. Remuneration related to previous role/s received prior to the appointment as KMP is not disclosed. A pro rata amount is shown for long term and short term incentives and other equity based benefits awarded prior to appointment as KMP.
4 Each executive is employed under an on-going employment contract, for which the termination benefits are payable at the option of the Company in lieu of notice. 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.

5 Non-monetary benefits include salary continuance insurance premiums paid for Australian employees, health insurance coverage for US residents, use of company vehicle, car parking and other benefits associated with FBT.
6 Other benefits include one-off relocation expenses in regards to international relocations, and professional tax advice in respect of changes in residency.
7 Short term incentives in respect of FY 2015 were not paid by the date of this report. Accounting accruals are shown for individual short term incentive allocations to the KMPs which are yet to be paid (with the exception in FY 2015 of Philip St Baker who received a pro rata FY 2015 cash payment of $72,584). Jon Stretch has a fixed FY 2015 STI of 50%, which is payable in cash after the release of the financial results.
8 Other equity benefits refer to the accounting value of retention awards which will vest subject to service and performance conditions.
9 The amounts shown are as expensed in the income statement may not reflect the benefit actually received by the executive in that year. In accordance with AASB2, 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.
10 Short term incentives awarded in the current year for prior year performance. Payments made in cash ("c") or equity ("e").

Table 6 – Terms and conditions of equity grants

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

	Award[1]	Service and performance criteria	Grant date	Nature of compensation	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 that award that may vest[9] $
					Total $	per unit	Unvested	Number	%	Number	%	Number	%	Unvested		
Philip St Baker	STIST 2015 prorata	Note 2	31/10/14	Cash	72,854	–	–	–	–	–	100%	–	–	–	2015	–
	STIST 2014	Note 3	13/11/14	Equity	245,558	$1.93	–	127,470	100%	–	–	–	–	–	2015	–
	LTIST 2014	Note 5	8/11/13	Equity	371,342	$1.99	186,604	–	–	–	–	186,604	100%	–	–	–
	LTIST 2013	Note 6	26/10/12	Equity	360,314	$1.51	238,777	–	–	–	–	238,777	100%	–	–	–
	LTIST 2012	Note 7	29/11/11	Equity	316,396	$1.33	238,726			185,968	78%	52,758	22%	–	2015	–
Mitch Anderson	STIST 2014	Note 3	11/09/14	Equity	117,468	$1.93	–	60,978	100%	60,978	100%	–	–	–	2015	–
	LTIST 2015	Note 4	13/11/14	Equity	145,685	$1.15	–	126,683	100%	–	–	–	–	126,683	2018	110,933
	LTIST 2014	Note 5	8/11/13	Equity	132,586	$1.99	66,626	–	–	–	–	–	–	66,626	2017	50,286
	LTIST 2013	Note 6	26/10/12	Equity	117,927	$1.51	78,149	–	–	–	–	–	–	78,149	2016	–
	LTIST 2012	Note 7	29/11/11	Equity	129,440	$1.33	97,665	–	–	76,082	78%	21,583	22%	–	2015	–
Gregg Buskey	LTIST 2015	Note 4	13/11/14	Equity	105,034	$1.15	–	91,334	100%	–	–	–	–	91,334	2018	79,979
	LTIST 2014	Note 5	8/11/13	Equity	89,377	$1.99	44,913	–	–	–	–	–	–	–	2017	33,898
	LTIST 2013	Note 6	26/10/12	Equity	65,041	$1.51	43,102	–	–	–	–	–	–	–	2016	–
David Guiver	Performance Rights	Note 8	19/08/13	Cash or Equity	250,000	$2.71	92,285	–	–	–	–	–	–	–	2019	156,900
	LTIST 2015	Note 4	13/11/14	Equity	62,168	$1.15	–	54,059	100%	–	–	–	–	54,059	2018	47,338
	LTIST 2014	Note 5	8/11/13	Equity	62,715	$1.99	31,515	–	–	–	–	–	–	–	2017	23,786
	LTIST 2013	Note 6	26/10/12	Equity	65,562	$1.51	43,447	–	–	–	–	–	–	–	2016	–
Peter Jans	STIST 2014	Note 3	11/09/14	Equity	102,317	$1.93	–	53,113	100%	53,113	100%	–	–	–	2015	–
	LTIST 2015 (3)	Note 4	3/02/15	Equity	6,307	$1.15	–	5,484	100%	–	–	–	–	5,484	2018	5,251
	LTIST 2015 (1)	Note 4	13/11/14	Equity	132,526	$1.15	–	115,240	100%	–	–	–	–	115,240	2018	100,913
	LTIST 2014	Note 5	8/11/13	Equity	112,769	$1.99	56,668	–	–	–	–	–	–	56,668	2017	42,771
	LTIST 2013	Note 6	26/10/12	Equity	118,176	$1.51	78,314	–	–	–	–	–	–	78,314	2016	–
	LTIST 2012	Note 7	29/11/11	Equity	129,713	$1.33	97,871	–	–	76,242	78%	21,629	22%	–	2015	–

	Award[1]	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 that award that may vest[9] $
					Total $	per unit	Unvested	Number	%	Number	%	Number	%	Unvested		
Derek McKay	STIST 2014	Note 3	11/09/14	Equity	102,101	$1.93	–	53,001	100%	53,001	100%	–	–	–	2015	–
	Performance Rights	Note 8	24/09/14	Cash or Equity	250,002	$1.79	–	140,057	100%	–	–	–	–	140,057	2020	211,803
	LTIST 2015	Note 4	13/11/14	Equity	132,247	$1.15	–	114,997	100%	–	–	–	–	114,997	2018	100,700
	LTIST 2014	Note 5	8/11/13	Equity	112,533	$1.99	56,549	–	–	–	–	–	–	56,549	2017	42,681
	LTIST 2013	Note 6	26/10/12	Equity	117,927	$1.51	78,149	–	–	–	–	–	–	78,149	2016	–
	LTIST 2012	Note 7	29/11/11	Equity	129,440	$1.33	97,665	–	–	–	–	21,583	22%	–	2015	–
Steve Rogers	Performance Rights	Note 8	24/09/14	Cash or Equity	250,002	$1.79	–	140,057	100%	–	–	–	–	140,057	2020	211,803
	LTIST 2015	Note 4	13/11/14	Equity	62,168	$1.15	–	54,059	100%	–	–	–	–	54,059	2018	47,338
	LTIST 2014	Note 5	8/11/13	Equity	61,057	$1.99	30,682	–	–	–	–	–	–	–	2017	23,157
	LTIST 2013	Note 6	26/10/12	Equity	54,307	$1.51	35,989	–	–	–	–	–	–	–	2016	–
Graeme Walker	STIST 2014	Note 3	11/09/14	Equity	95,513	$1.93	–	49,581	100%	49,581	100%	–	–	–	2015	-
	LTIST 2015 (3)	Note 4	3/02/15	Equity	7,735	$1.15	–	6,726	100%	–	–	–	–	6,726	2018	6,440
	LTIST 2015 (2)	Note 4	13/11/14	Equity	56,252	$1.15	–	48,915	100%	–	–	–	–	48,915	2018	42,834
	LTIST 2015 (1)	Note 4	13/11/14	Equity	128,852	$1.15	–	112,045	100%	–	–	–	–	112,045	2018	98,115
	LTIST 2014	Note 5	8/11/13	Equity	109,450	$1.99	55,000	–	–	–	–	–	–	55,000	2017	41,512
	LTIST 2013	Note 6	26/10/12	Equity	106,200	$1.51	70,378	–	–	–	–	–	–	70,378	2016	–
	LTIST 2012	Note 7	29/11/11	Equity	109,617	$1.33	82,708	–	–	64,430	78%	18,278	22%	–	2015	–

1 There have been no alterations in terms or conditions since grant date

2 See Remuneration Report section 2.2.2 for pro rata STI award to Philip St Baker.

3 See Remuneration Report section 2.2.2 Short term incentives.

4 See Remuneration Report section 2.2.2 Long term incentives. LTIST 2015 vesting is subject to continuation of employment through to 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.

5 See FY 2014 Remuneration Report section 2.2.2 Long term incentives. LTIST 2014 vesting is subject to continuation of employment through to 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.

6 See FY 2013 Remuneration Report section 2.2.2 Long term incentives. LTIST 2013 vesting is subject to continuation of employment through to June 2015 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 The FY 2012 LTI achieved an average vesting percentage of 77.9%, under the following vesting conditions:

a) 50% was subject total security holder return (TSR) performance against a comparator group as disclosed in the FY 2013 Annual Report, placing in the 68th percentile and resulting in vesting of 86.5%; and

b) 50% was subject to vesting on satisfaction of earnings per share (EPS) growth performance for which the board exercised its discretion to excise Macquarie Generation bid costs, resulting in a vesting of 69.3%.

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 The maximum value yet to vest has been determined as the amount of fair value as at grant date that is yet to be expensed in a future accounting period. The minimum value of deferred shares yet to vest is nil, as equity will be forfeited if the vesting conditions are not met.

3. ADDITIONAL REMUNERATION DISCLOSURES

3.1 Details of shares, options and rights

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

No options were issued, lapsed nor exercised during FY 2015, however performance rights were issued to Derek McKay under the Company's employee retention strategy.

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

Table 7 – Rights and Option Holdings

	Balance at the start of the year					Balance at the end of the year	
Executives	Vested and exercisable	Unvested	Granted as compensation	Options Exercised	Other Changes[3]	Vested and exercisable	Unvested
Philip St Baker[1]	242,706	–	–	–	(242,706)	–	–
Mitch Anderson	106,364	–	–	–	–	106,364	–
Gregg Buskey[2]	–	–	–	–	61,634	61,634	–
David Guiver[2]	–	–	–	–	147,513	55,228	92,285
Peter Jans	106,590	–	–	–	–	106,590	–
Derek McKay	106,364	–	140,057	–	–	106,364	140,057
Steve Rogers[2]	–	–	–	–	185,467	45,410	140,057
Graeme Walker	92,700	–	–	–	–	92,700	–

1 Philip St Baker resigned on 31 October 2014 and therefore the balance at the end of the year does not necessarily reflect his holdings as a non-KMP.

2 Appointed as KMP on 14 April 2015.

3 Ceasing or starting as KMP member.

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

Table 8 – Share holdings

Non-executive directors[1]	Balance at the start of the year	Other Changes[2]	Balance at the end of the year
Tony Bellas	106,250	–	106,250
Trevor St Baker	85,610,647	(10,570,000)	75,040,647
Albert Goller	–	100,000	100,000
Martin Greenberg	571,794	–	571,794
Tony Iannello	131,644	8,302	139,946

1 No shares were held nominally other than by Trevor St Baker for which the balances above include 1,025,242 held nominally at the beginning of the year, and 3,025,242 at the end of the year.

2 On and off market movements, dividend reinvestment plan, cessation or starting as KMP, etc.

Table 8 – Share holdings (cont.)

	Balance at the start of the year					Balance at the end of the year[4]	
Executives	Vested	Unvested	Granted as compensation	Forfeit	Other Changes[3]	Vested	Unvested
Philip St Baker[1]	5,111,227	664,107	127,470	(478,139)	(5,424,665)	–	–
Mitch Anderson	1,059,889	242,440	187,661	(21,583)	(50,000)	1,146,949	271,458
Gregg Buskey[2]	–	–	–	–	321,757	142,408	179,349
David Guiver[2]	–	–	–	–	303,636	174,615	129,021
Peter Jans	23,912	232,853	173,837	(21,629)	(99,930)	53,337	255,706
Derek McKay	305,801	232,363	167,998	(21,583)	(63,150)	371,734	249,695
Steve Rogers[2]	–	–	–	–	224,943	104,213	120,730
Graeme Walker	65,834	208,176	217,267	(18,278)	(85,030)	94,905	293,064

1 Philip St Baker resigned on 31 October 2014 and therefore the balance at the end of the year does not necessarily reflect his holdings as a non-KMP.

2 Appointed as KMP on 14 April 2015.

3 On and off market movements, dividend reinvestment plan, cessation or starting as KMP, etc.

4 No equity was held nominally at the end of the reporting period by the named executives.

3.2 Loans to directors and employees

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

Aggregate amounts	Balance at the start of the year $	Interest paid and payable for the year $	Interest not charged $	Balance at the end of the year $	Number in Group at the end of the year
FY 2015	**670,444**	**15,047**	**–**	**57,322**	**1**

Individuals with loans above $100,000 during the financial year	Balance at the start of the year $	Interest paid and payable for the year $	Interest not charged $	Balance at the end of the year $	Highest indebtedness during the year $
Philip St Baker	308,368	5,983	–	–	312,909
Mitch Anderson	203,568	4,825	–	–	206,567
Other individuals with loans below $100,000 during the year	158,508	4,239	–	57,322	N/A
FY 2015 Total	670,444	15,047	–	57,322	

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

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

3.3 Other transactions with key management personnel

During the period the Company entered into a number of transactions with key management personnel or their related entities as outlined in note 32 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 key management person; or
- were trivial or domestic in nature.

3.4 Share price and consequences of performance on shareholder wealth

The Company's shares were listed on the ASX in December 2010 at a listing price of $1.75. Table 9 shows selected Group financial data for the current and previous years, and the effect of the Group's performance on shareholder value.

Table 9 – Shareholder Wealth Financial Data

		Year ended 30 June 2015 Actual	Year ended 30 June 2014 Actual	Year ended 30 June 2013 Actual	Year ended 30 June 2012 Actual	Year ended 30 June 2011 Actual
Revenue and other income	($m)	**2,326.1**	2,076.5	1,569.6	937.9	549.8
EBITDAIF[1]	($m)	**86.7**	74.2	69.8	85.4	45.0
Statutory NPAT[2] attributable to equity holders	($m)	**65.9**	(23.9)	36.5	34.2	16.2
Underlying NPAT[3]	($m)	**32.3**	26.3	20.0	13.9	1.5
Basic earnings / (loss) per Share	(cents)	**27.4**	(10.6)	20.8	20.7	11.7
Underlying earnings per share	(cents)	**13.4**	11.6	11.4	8.4	1.1
Dividend per share	(cents)	**12.0**	12.0	10.5	8.5	3.5
Closing share price at 30 June	($)	**2.32**	1.82	2.50	2.00	1.57

1 Earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit and loss and gains / losses on onerous contracts. EBITDAIF excludes any profit or loss from associates.

2 Statutory net profit after tax attributable to equity holders of the Company.

3 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.

During the year the Group changed the definition of underlying NPAT to exclude significant items. In prior years these items were shown as adjusting items to underlying earnings measures. The change was made to reflect how financial information is reported to senior management and the Managing Director and CEO.

3.5 Voting and comments received at the 2014 Annual General Meeting

The Company's Remuneration Report for the 2014 financial year was approved by shareholders at the 2014 Annual General Meeting (AGM) by a show of hands. The Company did not receive any specific feedback at the AGM or during the year on its remuneration practices.

CORPORATE GOVERNANCE STATEMENT

COMPLIANCE WITH ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

ERM Power Limited's ("Company") 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 2015 ("reporting period"). The Company complies with all of the ASX Corporate Governance Principles and Recommendations ("Principles and Recommendations"), with one exception noted in Recommendation 6 related to its website.

This Corporate Governance statement was approved by the board of directors and is current as at 21 August 2015.

Recommendation 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;

- 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;
- 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 Managing Director 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 Managing Director 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.

Diversity

The Company's Diversity Policy is available on the Company's website and outlines the commitment to fostering a corporate culture that embraces diversity which includes, but is not limited to gender, age, ethnicity and cultural background. The Diversity Policy also provides for the board to determine measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them.

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).

The Company has made the following progress towards achieving the measurable objectives as set by the board:

Measurable Objective	Progress
Ensure diversity programs reflect the company's policy and approach to diversity and ensure that they are communicated to all employees.	• The Company's new HR Framework was introduced on 1 July 2014. The Framework is a comprehensive guide for managers on key policy and process administration and specifically references diversity compliance. • The Framework is available to all managers on the company intranet. • HR policies and procedures are communicated to all new starters during their induction. • HR policies and procedures are available to all employees on the Company intranet. • Reporting requirements such as the annual Workplace Gender Equality Agency submission have fostered diversity based conversations within the Executive Management Group including discussion regarding targets for women in executive roles.
Review all recruitment remuneration processes to ensure they are free from gender bias and encourage greater female participation and opportunity.	• The Remuneration policy and process forms part of the Framework and are compliant with diversity requirements. • Remuneration is benchmarked against market expectations for similar roles in similar industries. • The benchmarking process is non gender related and is conducted annually. • External consultants are used annually to benchmark executive and above positions and this is a non-gender related process. • A review of gender remuneration reveals any differences to be related to factors such as experience, tenure and complexity of the role.
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.	• The Framework includes reference to Leadership Development and Succession Planning goals. These programs are not gender dependent and progress on a meritorious basis. • A management training program was initiated during the reporting period for all managers, irrespective of seniority or gender. • A consequence of this initiative has been better visibility of female talent.

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.	• A review of the recruitment process for the reporting period reveals the following results that reinforce a gender neutral hiring process.

	Male		Female		Unknown	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Applicants	**64%**	60%	**30%**	22%	**6%**	18%
Interviews	**56%**	54%	**44%**	45%	**–**	–
Offers	**50%**	49%	**50%**	51%	**–**	–

- Attraction processes applied via the Preferred Supplier Agreement (PSA) for recruitment agencies have generated an increase by 8% of female applicants over the previous reporting period. Although the proportion of males interviewed increased slightly, the resulting offers remain gender neutral.

The proportion of women employed by the Company and at senior executive levels at the end of the reporting period is shown below:

	Female		
	FY 2015	**FY 2014**	**Change**
Board (excluding the MD)	**0%**	0%	0%
Senior executives[1]	**12%**	12%	0%
Total Group	**40%**	35%	5%

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 2015 that was lodged with the Workplace Gender Equality Agency is available on the Company's website.

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 2014 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. During the reporting period the formal board evaluation process was supplemented with a skills gap analysis for the board as a whole, which is discussed in Recommendation 2 below.

Senior executive performance evaluations

The performance of all senior executives, including the Managing Director, 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 Managing Director'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 Managing Director (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.

1 Senior executives include the CEO, other executives/general managers and senior managers as defined by the Workplace Gender Equality Agency (WGEA) management categories.

Recommendation 2 – Structure the board to add value

At the end of the reporting period, the Company had a six member board comprising an independent non-executive Chair, three independent non-executive directors, a fourth non-executive director 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, period in office, and details of their skills, experience and special expertise are set in the Directors' Report.

In accordance with Recommendation 2.1 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[2] were 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 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. Executive management also provide the board each month with an operations report, a health, safety, environment and sustainability report, financial reports and reports on the progress of strategic projects and, as appropriate, on 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 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;
- establishing processes for the review of the individual directors and the Chairman specifically, and the board as a whole;
- 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; and
- making recommendations to the board on directors' appointments or board and committee structures.

Each year one-third of the board, other than the Managing Director, retires in accordance with the constitution, and is eligible for re-election by shareholders at the Annual General Meeting (AGM). At the Company's AGM to be held on 29 October 2015, Trevor St Baker and Tony Iannello will be retiring and standing for re-election, and Albert Goller standing for election. The board unanimously supports the re-election of Trevor St Baker and Tony Iannello and election of Albert Goller.

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.

Board skills matrix, induction and professional development

During the reporting period, the board undertook a skills gap analysis with the assistance of an external organisation. The analysis identified the following gaps and rectification strategies:

- Gender diversity – a skilled female director would be very beneficial and positive to the board;
- Legal – Australian Institute of Company Directors course, further professional development; and
- Strategy and Innovation & Technology – the Company's new Managing Director who began on 2 February 2015 has a particular focus on these areas.

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 managing director attended three days of a course run by the Australian Institute of Company Directors.

The Company continues to undertake a detailed induction process for new directors.

Recommendation 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.

2 Appointed with effect from 1 January 2015.

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.

Recommendation 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 (Chairman, and not Chair of the board), Tony Iannello and Albert Goller[3]. Trevor St Baker, who is not independent, was a member of the Audit and Risk Committee until 3 March 2015. The Audit and Risk Committee Charter is available on the Company's website and contains information on the procedures for the selection and appointment of external auditors and for the rotation of external audit engagement partners.

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 Chief Executive Officer / Managing Director and Chief Financial Officer provide a formal statement in accordance with section 295A of the *Corporations Act 2001* (Cth) with 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.

Recommendation 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.

Recommendation 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, except in one regard, as the names, photographs and brief biographical information for each its senior executives do not currently appear on the Company's website. Following the appointment in February 2015 of the new Managing Director, some reorganisational refinements were made to the role of senior executives to better reflect the business focus in key areas. The Company is in the process of updating its website with the names, photographs and brief biographical information for each of its senior executives.

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 Managing Director 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 Managing Director occasionally presents at investment conferences organised by brokers and which are attended by institutional investors.

The Company held one general meeting during the reporting period, the AGM on 30 October 2014. 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.

3 Appointed 3 March 2015.

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.

Recommendation 7 – Recognise and manage risk

The board, through the Audit and Risk Committee, has an overarching policy governing the Company's approach to risk oversight and management and internal control systems, the Risk Management Framework Policy 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.

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 those risks mentioned above. 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 about the management of the Company's material business risks, and the board has received a report from the Chief Financial Officer that as at 30 June 2015 its material business risks are being managed effectively.

The Company undertakes regular reviews of business units for major risks and the Risk Management Framework Policy, including during the reporting period, and seeks to maintain strong controls across all corporate and operational activities, 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.

Economic, environmental and social sustainability risks

The Company has material exposures to economic, environmental and social sustainability risks, and responsibility for oversight of these matters is held by the board and the Health, Safety, Environment & Sustainability 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. The Company has implemented energy efficiency measures at the power stations and continues to look for further energy efficient measures.

The Company it is an active participant in local communities through the support of schools and charitable groups. It undertakes extensive consultation with those communities that might be impacted by its activities, and during the reporting period it took members of the Wellington, NSW community to visit the Oakey Power Station to better understand noise impacts of gas-fired power stations.

The Company has an indigenous scholarship and support program with The Armidale School and Geelong Grammar, and an academic award sponsorship with the Oakey State School.

The Company also supports South East Queensland regional school students through a cultural outreach program with the Queensland Symphony Orchestra, enabling school students to attend concerts, where access may otherwise be limited.

Recommendation 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 (Chairman), Tony Bellas, Martin Greenberg and Albert Goller[4]. 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 Recommendation 1 above.

The remuneration of non-executive directors is structured separately from that of the Managing Director and the Executive Management Team. The Managing Director 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 within the "Investor Centre" tab, under "ASX Announcements" or within the "About Us" tab under "Governance". More information on ERM Power's Corporate Governance can be found in these locations.

4 Appointed 3 March 2015.

ERM POWER LIMITED
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

CONTENTS

The financial statements were authorised for issue by the directors on 21 August 2015. 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 the inside back cover. 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 16 to 21. The Directors' Report does not form part of the annual financial statements.

ABN 28 122 259 223

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Auditor's Independence Declaration

As lead auditor for the audit of ERM Power Limited for the year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Michael Shewan
Partner
PricewaterhouseCoopers

Brisbane
21 August 2015

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ERM POWER LIMITED
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 $'000	2014 $'000
CONTINUING OPERATIONS			
Revenue	5	**2,324,297**	2,075,548
Other income		**1,777**	989
Total revenue		**2,326,074**	2,076,537
Expenses	6	**(2,239,339)**	(2,002,299)
EBITDAIF		**86,735**	74,238
Depreciation and amortisation		**(20,288)**	(18,044)
Impairment expense	18/19/20	**(42,952)**	–
Net fair value gain / (loss) on financial instruments designated at fair value through profit or loss	7	**97,689**	(115,568)
Results from operating activities		**121,184**	(59,374)
Share of net profit of associates accounted for using the equity method		**692**	–
Finance expense	8	**(27,293)**	(29,284)
Profit / (loss) before income tax		**94,583**	(88,658)
Income tax (expense) / benefit	9	**(28,646)**	65,583
Statutory profit / (loss) for the year		**65,937**	(23,075)
Non-controlling interest		–	(822)
Statutory profit / (loss) for the year attributable to equity holders of the Company		**65,937**	(23,897)
		Cents	**Cents**
Statutory earnings / (loss) per share based on earnings attributable to the ordinary equity holders of the Company			
Basic earnings / (loss) per share	35	**27.35**	(10.56)
Diluted earnings / (loss) per share	35	**27.34**	(10.56)

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 2015

	Note	2015 $'000	2014 $'000
Statutory profit / (loss) for the year		**65,937**	(23,075)
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to profit and loss			
Changes in the fair value of cash flow hedges (net of tax)	26	**(1,647)**	107
Exchange differences on translation of foreign subsidiaries	26	**1,134**	–
Items that will not be reclassified subsequently to profit and loss			
Changes in the fair value of financial assets at fair value through other comprehensive income (net of tax)	26	**367**	(2,750)
Other comprehensive loss for the year, net of tax		**(146)**	(2,643)
Non-controlling interest		**–**	–
Other comprehensive loss for the year attributable to equity holders of the Company		**(146)**	(2,643)
Total comprehensive income / (loss) for the year		**65,791**	(25,718)
Non-controlling interest		**–**	(822)
Total comprehensive income / (loss) for the year attributable equity holders of the Company		**65,791**	(26,540)

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 2015

	Note	2015 $'000	2014 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	11	**172,836**	208,829
Trade and other receivables at amortised cost	13	**218,305**	202,357
Inventories	14	**36,433**	56,396
Other assets	15	**6,341**	10,721
Derivative financial instruments	17	**11,367**	2,133
Total Current Assets		**445,282**	480,436
Non-Current Assets			
Trade and other receivables at amortised cost	13	**14,094**	682
Financial assets at fair value through other comprehensive income	16	**3,463**	7,636
Investments accounted for using the equity method	30(e)	**11,647**	–
Derivative financial instruments	17	**5,901**	837
Property, plant and equipment	18	**396,856**	435,691
Exploration and evaluation costs	19	–	15,313
Gas assets	20	–	16,308
Deferred tax assets	9	**4,961**	9,789
Intangible assets	21	**42,813**	10,924
Total Non-Current Assets		**479,735**	497,180
TOTAL ASSETS		**925,017**	977,616
LIABILITIES			
Current Liabilities			
Trade and other payables	22	**279,239**	243,168
Current tax liabilities	9	–	564
Borrowings	23	**33,183**	129,949
Borrowings – limited recourse	23	**8,912**	8,079
Derivative financial instruments	17	**20,289**	81,743
Provisions	24	**2,032**	2,014
Total Current Liabilities		**343,655**	465,517
Non-Current Liabilities			
Borrowings	23	**10,500**	–
Borrowings – limited recourse	23	**189,109**	193,518
Derivative financial instruments	17	**42,697**	40,479
Deferred tax liabilities	9	**18,271**	–
Provisions	24	**1,069**	897
Total Non-Current Liabilities		**261,646**	234,894
TOTAL LIABILITIES		**605,301**	700,411
NET ASSETS		**319,716**	277,205
EQUITY			
Contributed equity	25	**326,816**	322,337
Reserves	26	**(42,391)**	(46,283)
Retained earnings		**35,291**	1,151
TOTAL EQUITY		**319,716**	277,205

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 2015

	Note	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 July 2013		233,291	(34,776)	50,820	249,335	22,508	271,843
Loss for the period		–	–	(23,897)	(23,897)	822	(23,075)
Other comprehensive loss		–	(2,643)	–	(2,643)	–	(2,643)
Total comprehensive (loss) / income for the year		–	(2,643)	(23,897)	(26,540)	822	(25,718)
Transactions with owners in their capacity as owners:							
Dividends paid	10	2,040	–	(25,772)	(23,732)	–	(23,732)
Issue of shares and share options exercised pursuant to employee incentive scheme	25/26	6,064	(2,498)	–	3,566	–	3,566
Contribution of equity from capital raising	25	84,700	–	–	84,700	–	84,700
Transaction costs arising on share issue (net of tax)	25	(1,680)	–	–	(1,680)	–	(1,680)
Purchase of treasury shares	25	(2,078)	–	–	(2,078)	–	(2,078)
Share based payment expense	27	–	1,890	–	1,890	–	1,890
Cash flow hedges transferred to profit and loss (net of tax)	26	–	348	–	348	–	348
Transactions with non-controlling interests	30(d)	–	(8,604)	–	(8,604)	(23,330)	(31,934)
Balance at 30 June 2014		322,337	(46,283)	1,151	277,205	–	277,205
Profit for the period		**–**	**–**	**65,937**	**65,937**	**–**	**65,937**
Other comprehensive loss		**–**	**(146)**	**–**	**(146)**	**–**	**(146)**
Total comprehensive income / (loss) for the year		**–**	**(146)**	**65,937**	**65,791**	**–**	**65,791**
Transactions with owners in their capacity as owners:							
Dividends paid	**10**	**1,233**	**–**	**(28,935)**	**(27,702)**	**–**	**(27,702)**
Issue of shares and share options exercised pursuant to employee incentive scheme	**25/26**	**3,721**	**(81)**	**–**	**3,640**	**–**	**3,640**
Issue of ordinary shares as consideration for a business combination (net of transaction costs and tax)	**25/31**	**444**	**–**	**–**	**444**	**–**	**444**
Purchase of treasury shares	**25**	**(919)**	**–**	**–**	**(919)**	**–**	**(919)**
Share based payment expense	**27**	**–**	**1,257**	**–**	**1,257**	**–**	**1,257**
Acquisition of associate (net of tax)	**30(e)**	**–**	**2,862**	**(2,862)**	**–**	**–**	**–**
Balance at 30 June 2015		**326,816**	**(42,391)**	**35,291**	**319,716**	**–**	**319,716**

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 2015

	Note	2015 $'000	2014 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**2,555,608**	2,191,919
Payments to suppliers and employees (inclusive of goods and services tax)		**(2,424,227)**	(2,175,123)
Transfer from / (to) broker margin account		**8,354**	(27,121)
Interest received		**5,154**	6,857
Income tax paid		**(643)**	(4,183)
Net cash flows from / (used in) operating activities	12	**144,246**	(7,651)
Cash flows from investing activities			
Payments for gas exploration and evaluation		**(1,285)**	(2,962)
Payments for gas development assets		**(38)**	(1,670)
Payments for plant and equipment		**(3,679)**	(1,755)
Payments for intangible assets		**(10,221)**	(8,315)
Purchase of shares in listed companies		**(2,744)**	(5,377)
Net cash acquired as part of acquiring non-controlling interest		**–**	62
Payment for acquisition of subsidiary, net of cash acquired	31	**(5,784)**	–
Net cash flows used in investing activities		**(23,751)**	(20,017)
Cash flows from financing activities			
Proceeds from borrowings including receivables financing facility		**2,513,666**	2,594,290
Repayments of borrowings including receivables financing facility		**(2,610,432)**	(2,524,911)
Repayments of borrowings – limited recourse		**(5,079)**	(44,919)
Loans to investees	13(ii)	**(1,495)**	(2,000)
Payment for acquisition of non-controlling interest	30(d)	**–**	(30,000)
Finance costs		**(25,840)**	(25,496)
Dividends paid	10	**(27,702)**	(23,730)
Issue of shares on capital raising net of transaction costs	25	**–**	83,636
Net cash flows (used in) / from financing activities		**(156,882)**	26,870
Net decrease in cash and cash equivalents		**(36,387)**	(798)
Cash and cash equivalents at the beginning of the year		**208,829**	209,627
Effect of exchange rate changes on cash and cash equivalents		**394**	–
Cash and cash equivalents at the end of the year	11	**172,836**	208,829

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 2015

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ERM POWER LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

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 16 to 21.

This report was authorised for issue by the directors on 21 August 2015.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

Compliance with IFRS

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

Historical cost convention

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

Early adoption of Australian Accounting Standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2014.

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 following key Accounting Standards and amendments to Accounting Standards became applicable in the current financial year:

- ***AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities***

AASB 2012-3 amends AASB 132 *Financial Instruments: Presentation* to clarify that to set off an asset with a liability:

- the right of set-off must be available and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy
- certain gross settlement mechanisms (such as through a clearing house) may be equivalent to net settlement
- master netting arrangements where the legal right of offset is only enforceable on the occurrence of a future event (such as default of the counterparty) continue to not meet the requirements for netting.

AASB 2012-3 is required to be retrospectively applied. Application in the current period did not have a material impact on the financial position nor performance of the Consolidated Entity.

Other than the above amendment 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 2014.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2015 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(b) Principles of consolidation (cont.)

Subsidiaries (cont.)
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 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has joint operations but no joint ventures.

Joint operations
The Group recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings. Details of the joint operation are set out in note 30.

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

(c) Parent entity financial information

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(c) Parent entity financial information (cont.)

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(f) Cash and cash equivalents

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

Cash that is reserved and its use specifically restricted for maintenance and / or debt servicing under the Group's borrowing agreements is defined as restricted cash. Cash that is on deposit with counterparties as security deposits and cash that is on deposit with financial institutions as security for bank guarantees issued to various counterparties as credit support, is defined as restricted cash, with a corresponding disclosure in contingent liabilities in Note 29. 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 less allowances for doubtful debts. Collectability is reviewed on an ongoing basis. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect any amounts due according to original terms. The amount of the allowance is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate. The amount of the impairment loss is recognised in the income statement.

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

(h) Inventories

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

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

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

Renewable energy certificates held for trading are held at fair value through profit and loss.

(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.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(i) Financial assets (cont.)

(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.

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

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

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

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

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(j) Capitalised work in progress

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

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

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

(k) Derivative financial instruments

Subsidiaries in the Group's electricity sales segment routinely enter 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.

These subsidiaries also enter 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(y). Derivatives are initially recognised at fair value on the date the derivative contract is entered into, and are subsequently remeasured to their fair value at each balance date. Derivatives are carried in the statement of financial position as assets when the fair value is positive and as liabilities when the fair value is negative. The resulting gain or loss arising from the revaluation is recognised in the income statement in the period it arises.

Hedge accounting

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

Cash flow hedge

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

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

(l) Fair value estimation

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(m) Property, plant and equipment

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

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

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

Depreciation

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

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

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

(n) Gas assets

Exploration and evaluation costs

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

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

Farm-outs

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

Development assets

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(n) Gas assets (cont.)

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

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

(o) Intangible assets

Goodwill
Goodwill is measured as described in note 1(q). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is 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 and is recorded at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method over the estimated useful lives. Depending on the individual software, the estimated useful life ranges between and 10 years.

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

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.

(p) Impairment of assets

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(q) Business combinations

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

The excess of the consideration transferred, the amount of any non-controlling interest in the 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.

(r) Trade and other payables

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

(s) Provisions

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

(t) Other financial liabilities

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

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

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

(u) Employee benefits

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(u) Employee benefits (cont.)

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 27 for further details.

(v) Assets held for sale

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

(w) Earnings per share

Basic earnings per share are calculated by dividing:

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

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

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

(x) Contributed equity

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

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

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

(y) Revenue recognition

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

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

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

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

(z) Cost of sales

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(aa) Borrowings

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

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

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

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

(bb) Borrowing costs

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

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

(cc) Leases

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

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

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

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

(dd) Income tax

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

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

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

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(dd) Income tax (cont.)

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

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

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

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

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

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

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

(ee) Goods and services tax (GST)

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

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

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

(ff) Dividends

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

(gg) Rounding of amounts

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(hh) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 reporting periods. Unless stated otherwise below, the Group is currently in the process of assessing the impact of these standards and amendments and is yet to decide whether to early adopt any of the new and amended standards.

AASB 9 Financial Instruments (2014) *(effective from 1 January 2018).*

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement rules and also introduced a new impairment model. These latest amendments now complete the new financial instruments standard.

Following the changes approved by the AASB in December 2014, the group no longer expects any impact from the new classification, measurement and derecognition rules on the Group's financial assets and financial liabilities.

There will also be no impact on the Group's accounting for 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 new hedging rules align hedge accounting more closely with the Group's risk management practices. As a general rule it will be easier to apply hedge accounting going forward as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation.

The new impairment model is an expected credit loss (ECL) model which may result in the earlier recognition of bad or doubtful debts if they were to occur. The Group does not anticipate that its impairment provisions will be affected by the new rules.

The Group has adopted hedge accounting for some derivative financial instruments from 1 July 2015.

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. The Group will make a more detailed assessment of the impact over the next twelve months.

AASB 2014-3 Accounting for Acquisitions of Interests in Joint Operations *(effective from 1 January 2016).*

The amendment to AASB 11 clarifies the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business.

AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation *(effective from 1 January 2016).*

The amendments clarify that a revenue-based method of depreciation or amortisation is generally not appropriate.

AASB 2014-9 Equity Method in Separate Financial Statements
(effective from 1 January 2016).

The amendments allow entities to use the equity method in their separate financial statements to measure investments in subsidiaries, joint ventures and associates.

AASB 2014-10 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
(effective from 1 January 2016).

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 2015-1 Annual Improvements 2012-2014
(effective from 1 January 2016).

Amendments to clarify minor points in various accounting standards, including AASB 5, AASB 7, AASB 119 and AASB 134.

AASB 2015-2 Disclosure Initiative: Amendments to AASB 101
(effective from 1 January 2016).

The amendments clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users.

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.

2. SEGMENT REPORT

	Electricity Sales(i)		Generation Assets		Other		Total	
$'000	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Revenue								
Non-statutory revenue	**2,206,418**	1,995,724	**114,839**	72,625	**7,017**	10,882	**2,328,274**	2,079,231
Other income	**105**	–	**34**	855	**1,638**	134	**1,777**	989
Intersegment sales elimination	**–**	–	**(3,159)**	–	**(818)**	(3,683)	**(3,977)**	(3,683)
Total segment revenue	**2,206,523**	1,995,724	**111,714**	73,480	**7,837**	7,333	**2,326,074**	2,076,537
Expenses	**(2,152,009)**	(1,953,916)	**(64,928)**	(21,687)	**(22,402)**	(26,696)	**(2,239,339)**	(2,002,299)
EBITDAIF(ii)	**54,514**	41,808	**46,786**	51,793	**(14,565)**	(19,363)	**86,735**	74,238
Depreciation and amortisation	**(4,587)**	(1,787)	**(12,242)**	(12,132)	**(3,459)**	(4,125)	**(20,288)**	(18,044)
Impairment expense	**–**	–	**(26,879)**	–	**(16,073)**	–	**(42,952)**	–
Net fair value gain / (loss) on financial instruments designated at fair value through profit or loss	**98,091**	(115,568)	**663**	–	**(1,065)**	–	**97,689**	(115,568)
Results from operating activities	**148,018**	(75,547)	**8,328**	39,661	**(35,162)**	(23,488)	**121,184**	(59,374)
Share of net profit of associates accounted for using the equity method	**–**	–	**–**	–	**692**	–	**692**	–
Finance expenses	**(10,251)**	(8,496)	**(16,951)**	(20,721)	**(91)**	(67)	**(27,293)**	(29,284)
Profit / (loss) before income tax	**137,767**	(84,043)	**(8,623)**	18,940	**(34,561)**	(23,555)	**94,583**	(88,658)
Income tax (expense) / benefit							**(28,646)**	65,583
Statutory profit / (loss) after tax							**65,937**	(23,075)
Non-controlling interest							**–**	(822)
Statutory profit / (loss) after tax attributable to equity holders of the Company							**65,937**	(23,897)
Underlying NPAT(iii)							**32,347**	26,320

(i) Segment non-statutory revenue for Electricity sales in 2015 includes $66.8m from the SPG Energy Group in Texas, United States acquired in January 2015.

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

(iii) 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, gas and condensate sales, 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.

2. SEGMENT REPORT (CONT.)

The directors believe that EBITDAIF, underlying EBITDAIF 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		2015	2014
Statutory profit / (loss) after tax attributable to equity holders of the Company		**65,937**	(23,897)
Adjusted for the following items:			
Net unrealised change in fair value of financial instruments designated at fair value through profit or loss after tax		**(68,328)**	80,898
Share of net profit of associates accounted for using the equity method		**(692)**	–
Other significant items			
New business establishment costs	(i)	**2,216**	3,964
Unrealised foreign exchange gain	(ii)	**(164)**	–
Arbitration costs net of proceeds	(iii)	**605**	(471)
Staff rationalisation costs	(iv)	**1,540**	–
Effective interest revenue on associate loan	(v)	**(307)**	–
Swap termination payment	(vi)	**3,772**	–
Impairment of gas assets	(vii)	**14,165**	–
Impairment of power station development assets	(viii)	**28,787**	–
Macquarie Generation bid and other corporate costs	(ix)	**–**	6,065
Legal fees in relation to Empire Oil action	(x)	**–**	905
Oakey term debt repayments	(xi)	**–**	1,608
Tax effect of Oakey minority interest buyout	(xii)	**–**	(39,131)
Tax benefit on other significant items	(xiii)	**(15,184)**	(3,621)
Underlying NPAT all segments		**32,347**	26,320

(i) Costs incurred in respect of establishing our metering business and acquiring and integrating Source.
(ii) Unrealised foreign exchange gains on funds held in a US dollar bank account.
(iii) Costs net of contributions received in respect of the Neerabup contractor arbitration.
(iv) Costs associated with change of managing director and rationalisation of staff.
(v) Recognition of 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) Costs in respect to the bid for the Macquarie Generation assets and other corporate costs.
(x) Legal fees incurred in respect of changing the board of Empire Oil & Gas NL.
(xi) Accelerated amortisation of capitalised debt establishment costs and swap break fee resulting from the early repayment of the Oakey term debt.
(xii) Tax benefit resulting from buyout of Oakey minority interest resulting in the reset of tax cost base upon entry to ERM Power tax consolidated group.
(xiii) Tax effect of the above other significant items.

During the year the Group changed the definition of underlying earnings to exclude significant items. In prior periods these items were shown as adjusting items to underlying earnings measures. The change was made to reflect how financial information is reported to senior management and the Managing Director who is the chief operating decision maker.

2. SEGMENT REPORT (CONT.)

	Electricity Sales		Generation Assets		Other		Total	
$'000	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Assets[(i)]								
Total segment assets	**417,983**	413,492	**419,799**	459,029	**82,274**	95,306	**920,056**	967,827
Current and deferred tax assets							**4,961**	9,789
Total assets							**925,017**	977,616
Liabilities								
Total segment liabilities	**337,246**	447,446	**237,072**	239,109	**12,712**	13,292	**587,030**	699,847
Current and deferred tax liabilities							**18,271**	564
Total liabilities							**605,301**	700,411

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:	**Products and services:**
Electricity Sales	Electricity sales to business customers in Australian and the United States of America
Generation Assets	Gas-fired power generation assets and delivery of power generation solutions, from the initial concept through to development and operations
Other	Gas, Metering and Corporate

(i) The total of non-current assets other than financial instruments and deferred tax assets, broken down by location of the assets is $442.2m for Australia and $26.7m 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.

3. FINANCIAL RISK MANAGEMENT

A. Financial risk management objectives

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

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

(a) Market risk

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

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

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
2015		
Net profit / (loss) – unrealised mark to market of electricity derivative contracts	**33,029**	**(79,281)**
Other Components of Equity increase / (decrease)	**–**	**–**
2014		
Net profit / (loss) – unrealised mark to market of electricity derivative contracts	40,132	(51,472)
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.

3. FINANCIAL RISK MANAGEMENT (CONT.)

A. Financial risk management objectives (cont.)

(a) Market risk (continued)

Electricity generation sensitivity

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

	Increase by 10% $'000	Decrease by 10% $'000
2015		
Net profit / (loss)	**2,018**	**(2,018)**
Other Components of Equity increase / (decrease)	**–**	**–**
2014		
Net profit / (loss)	161	(161)
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
2015		
Net profit / (loss)	**895**	**(895)**
Other equity increase / (decrease)	**6,252**	**(6,252)**
2014		
Net profit / (loss)	173	(173)
Other equity increase / (decrease)	6,847	(6,847)

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.

3. FINANCIAL RISK MANAGEMENT (CONT.)

A. Financial risk management objectives (cont.)

(b) Credit risk

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

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

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

Concentrations of credit risk

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

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

	Total $'000	< 30 days $'000	31–60 days $'000		> 60 days $'000	
			Impaired(i)	PDNI(ii)	Impaired(i)	PDNI(ii)
2015						
Consolidated						
Trade receivables	**31,234**	**29,075**	**16**	**1,983**	**276**	**176**
Loan receivables	**–**	**–**	**–**	**–**	**–**	**–**
Other receivables(iii)	**14,795**	**14,333**	**–**	**–**	**–**	**462**
	46,029	**43,408**	**16**	**1,983**	**276**	**638**
2014						
Consolidated						
Trade receivables	19,872	18,370	253	535	617	967
Loan receivables	2,043	–	–	1,043	–	1,000
Other receivables(iii)	1,689	322	–	–	–	1,367
	23,604	18,692	253	1,578	617	3,334

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

(i) Impaired balance represents account balances deemed to be irrecoverable by the Group at balance date. A provision for doubtful debts has been provided for.

(ii) Past due not impaired (PDNI) represents account balances outstanding for greater than 30 days but are still considered to be recoverable in the ordinary course of business. Included in the Group's trade receivable balance are debtors with a carrying amount of $2.6m (2014: $2.9m) which are past due at balance date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not have any collateral over these balances.

(iii) 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.

3. FINANCIAL RISK MANAGEMENT (CONT.)

A. Financial risk management objectives (cont.)

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets. Information regarding undrawn finance facilities available as at 30 June 2015 is contained in Note 23.

Maturities of financial liabilities

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

Financial liabilities	≤1 year $'000	1 to 5 years $'000	>5 years $'000	Discount $'000	Total $'000
Consolidated					
2015					
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(i)	**8,912**	**24,031**	**178,322**	**(13,244)**	**198,021**
Derivatives	**27,267**	**26,216**	**9,503**	**-**	**62,986**
	348,601	**60,747**	**187,825**	**(13,244)**	**583,929**
2014					
Trade payables	180,087	–	–	–	180,087
Other payables	63,081	–	–	–	63,081
Interest bearing liabilities	129,949	–	–	–	129,949
Interest bearing liabilities – limited recourse(i)	8,079	23,411	184,853	(14,746)	201,597
Derivatives	88,183	24,635	9,404	–	122,222
	469,379	48,046	194,257	(14,746)	696,936

(i) Recourse limited to assets of the Neerabup Partnership and Oakey Power Holdings Pty Ltd (2014 only). Refer note 23 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.

3. FINANCIAL RISK MANAGEMENT (CONT.)

C. Fair value of financial assets and liabilities

The Group holds the following financial instruments:

		Consolidated	
		2015 $'000	2014 $'000
Financial assets	**Note**	**Carrying value**	**Carrying value**
Derivative financial instruments	17	**17,268**	2,970
Equity investments	16	**3,463**	7,636
Loans and receivables	13	**46,029**	23,604
Cash and cash equivalents	11	**172,836**	208,829
		239,596	243,039
Financial liabilities			
Derivative financial instruments	17	**62,986**	122,222
Other financial liabilities at amortised cost	22/23	**520,943**	574,714
		583,929	696,936

	Consolidated	
	2015 $'000	2014 $'000
Financial assets by category	**Carrying value**	**Carrying value**
Financial assets at fair value through profit or loss	**17,268**	2,970
Amortised cost financial assets	**218,865**	232,433
Financial assets at fair value through other comprehensive income	**3,463**	7,636
	239,596	243,039

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

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

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

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

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

3. FINANCIAL RISK MANAGEMENT (CONT.)

C. Fair value of financial instruments (cont.)

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 2015 and 30 June 2014.

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

As at 30 June 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Electricity derivatives contracts	–	2,970	–	2,970
Financial assets at fair value through other comprehensive income	7,636	–	–	7,636
Total assets	7,636	2,970	–	10,606
Liabilities				
Electricity derivatives contracts	–	89,067	–	89,067
Interest rates swaps	–	33,155	–	33,155
Total liabilities	–	122,222	–	122,222

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 2015 and 30 June 2014 there were no transfers between the fair value hierarchy levels.

3. FINANCIAL RISK MANAGEMENT (CONT.)

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 2015 and 30 June 2014. The column 'net exposure' shows the impact on the Group's balance sheet if all set-off rights were exercised.

The below table provides a reconciliation of the Group's gross financial assets and liabilities offset to those presented on the consolidated statement of financial position as at 30 June 2015 and as at 30 June 2014.

As at 30 June 2015

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

As at 30 June 2014

					Related amounts not offset		
$'000	Gross carrying amount (before offsetting)	Gross amounts offset	Cash collateral and futures margin deposits	Net amount presented	Financial instruments[i]	Cash collateral	Net exposure
Financial assets							
Electricity derivatives contracts	37,675	(34,705)	–	2,970	(1,548)	–	1,422
Total	37,675	(34,705)	–	2,970	(1,548)	–	1,422
Financial liabilities							
Electricity derivatives contracts	156,396	(34,705)	(32,624)	89,067	(1,548)	(7,061)	80,458
Interest rate swaps	33,155	–	–	33,155	–	–	33,155
Total	189,551	(34,705)	(32,624)	122,222	(1,548)	(7,061)	113,613

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

3. FINANCIAL RISK MANAGEMENT (CONT.)

E. Capital risk management

The Group manages its capital so that it will be able to continue as a going concern while maximising the return to stakeholders through an appropriate mix of debt and equity. This approach is consistent with prior years. The capital structure of the Group as at balance date consists of total corporate facilities, as listed in note 23, total limited recourse facilities as listed in note 23 and equity, comprising issued capital, reserves and retained earnings as listed in notes 25 and 26.

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

The Group is required to provide prudential credit support to various parties which it does through the provision of bank guarantees or cash collateral. It also has a working capital facility in place which is settled each month. A large percentage of the Group debt is in the form of limited recourse project finance provided directly to power stations in which the Group has an interest. During the financial year ended 30 June 2015 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.

	Consolidated	
	2015 $'000	2014 $'000
Current borrowings	**42,095**	138,028
Non-current borrowings	**199,609**	193,518
Total debt	**241,704**	331,546
Cash and cash equivalents	**(172,836)**	(208,829)
Net debt	**68,868**	122,717
Total equity excluding reserves	**362,107**	323,488
Total capital	**430,975**	446,205
Gearing percentage[(i)]	**16%**	27%
Gearing percentage[(i)] excluding Neerabup	**0%**	0%
EBITDA Interest cover ratio	**3.18**	2.54

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

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 27.

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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT.)

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

Recoverability of exploration costs

All exploration, evaluation and development costs are capitalised to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves and active or significant operations in relation to the area are continuing. Exploration and evaluation assets are reclassified as development assets at the point in which technical feasibility and commercial viability of extracting gas are demonstrated or a petroleum lease is granted. Exploration and evaluation assets are assessed for impairment and any impairment loss recognised before reclassification. As at 30 June 2015 the Group has one remaining NSW gas tenement interest. The remaining gas asset interest is being impacted by regulatory uncertainty in NSW and as such, the Group intends to invest only the required minimum expenditure on the remaining exploration licence. Given the continued uncertainty over whether investment conditions will materially improve, the sole remaining NSW exploration licence has been impaired to a value of nil on a value in use basis and assuming the asset has no value to other participants in the industry. The impairment loss is recognised in the other segment.

Fair value of financial instruments

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

Joint arrangements

The Group has classified its investments in the NewGen Neerabup Partnership and various gas interests as joint operations. The partners of the Partnership are jointly and severally liable for the liabilities of the partnership and under the partnership agreement are entitled to a proportionate share of Partnership's assets. The gas joint arrangements are not controlled through a separate vehicle and have accordingly been classified as joint operations.

Investment in Empire accounted for as an associate

During December 2014, the Group acquired additional shares in Empire through a transaction to consolidate joint venture oil and gas assets into 100% ownership by Empire. This brought the Group's total shareholding and voting rights up to 19.4%. The Group participated in an Empire rights issue in April 2015 and at 30 June 2015 had a shareholding of 18.8%. In addition, a member of the Group's key management personnel continues to serve on Empire's board of directors and the Group has also granted substantial vendor finance to Empire in order to support its business operations. Given the shareholding of 18.8%, and provision of vendor finance, the directors are of the view that the Group is deemed to have significant influence over Empire.

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 of generation development assets

The Group has impaired the value of generation development assets as a result our generation group ceasing material activities on the existing gas fired power generation development projects. The decision to cease material activities is based upon the current surplus generation capacity and low wholesale prices. An impairment loss of $28.8m has been recognised in the generation and other segments 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.

5. REVENUE

	Consolidated	
	2015 $'000	2014 $'000
Revenue from Continuing Operations		
Sale of electricity	**2,204,128**	1,992,410
Electricity generation revenue	**104,115**	63,703
Operations income and project fees	**3,969**	6,533
Gas production and condensate income	**3,426**	3,624
Interest income	**5,217**	6,292
Consulting and other revenue	**3,442**	2,986
	2,324,297	2,075,548

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

6. EXPENSES

	Consolidated	
	2015 $'000	2014 $'000
Cost of electricity sales	**2,120,916**	1,931,696
Cost of electricity generation	**52,788**	7,909
Employee benefits expense	**39,289**	32,793
Other expenses	**26,346**	29,901
	2,239,339	2,002,299
Included in the above employee benefits and other expenses are:		
Rental expenses relating to operating leases	**3,788**	3,684
Defined contribution superannuation expense	**2,491**	2,431
Equity settled share based payment compensation	**1,257**	1,890

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

	Consolidated	
	2015 $'000	2014 $'000
Unrealised		
Electricity and gas derivative contracts	**97,689**	(115,568)
	97,689	(115,568)

In the absence of hedge accounting, the Group's electricity derivatives are designated at fair value through profit or loss. The corresponding fair value movement in the value of customer contracts is not recognised for accounting purposes. Further information regarding the sensitivity and market risk of these instruments is contained in Note 3(A)(a).

8. FINANCE EXPENSE

	Consolidated	
	2015 $'000	2014 $'000
Borrowing costs – bank loans	**13,000**	16,619
Borrowing costs – receivables financing facility	**6,595**	5,308
Borrowing costs – convertible notes	**3,911**	4,039
Other borrowing costs	**3,787**	3,318
	27,293	29,284

9. INCOME TAX

	Note	Consolidated 2015 $'000	2014 $'000
(a) Income tax expense / (benefit)			
Income tax comprises:			
Current tax expense		**73**	3,249
Deferred tax expense / (benefit)		**28,288**	(69,419)
Adjustment to current and deferred tax of prior periods		**285**	587
Income tax expense / (benefit)		**28,646**	(65,583)
Deferred income tax included in income tax expense comprises:			
Decrease / (increase) in deferred tax assets		**33,779**	(34,675)
Decrease in deferred tax liabilities		**(5,206)**	(34,157)
Deferred income tax expense / (benefit)		**28,573**	(68,832)
(b) Numerical reconciliation of prima facie tax benefit to prima facie tax			
Profit / (loss) from continuing operations		**94,583**	(88,658)
Income tax expense / (benefit) calculated at 30%		**28,375**	(26,597)
Effect of expenses that are not deductible in determining taxable profit		**328**	286
Oakey acquisition	(i)	**–**	(39,131)
Other permanent differences		**(439)**	(728)
Adjustment to deferred tax of prior periods		**285**	587
Difference in overseas tax rates		**97**	–
Income tax expense / (benefit)		**28,646**	(65,583)
(c) Amounts recognised directly in other comprehensive income			
Decrease / (increase) in equity due to current and deferred amounts charged directly to equity during the period:			
Net tax effect of amounts charged to cash flow hedge reserve		**706**	(195)
Net tax effect of amounts charged to fair value reserve		**(157)**	1,179
Net tax effect of amounts charged to share capital		**–**	720
		549	1,704

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

9. INCOME TAX (CONT.)

	Consolidated 2015 $'000	Consolidated 2014 $'000
(d) Current tax liabilities		
Current tax payables	–	564
Income tax payable	–	564
(e) Recognised deferred tax assets and deferred tax liabilities		
Deferred tax assets		
Carried forward income tax losses	**12,219**	18,825
Derivative financial instruments	**21,528**	45,865
Employee provisions	**4,023**	2,702
Financial assets at fair value through other comprehensive income	**2,857**	4,240
Investment in associates	**1,018**	–
Other items	**2,967**	1,285
	44,612	72,917
Set-off of deferred tax liabilities	**(39,651)**	(63,128)
Net deferred tax assets	**4,961**	9,789
Deferred tax liabilities		
Property, plant and equipment	**(55,471)**	(55,831)
Capitalised gas exploration costs	**–**	(4,594)
Gas assets	**–**	(2,148)
Goodwill	**(302)**	–
Other items	**(2,149)**	(555)
	(57,922)	(63,128)
Set-off of deferred tax assets	**39,651**	63,128
Net deferred tax liabilities	**(18,271)**	–

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.

9. INCOME TAX (CONT.)

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

Movements in temporary differences – consolidated	Opening balance $'000	Recognised in income statement $'000	Acquisition of controlled entities $'000	Currency translation differences $'000	Recognised in equity $'000	Closing balance $'000
2015						
Deferred tax assets						
Carried forward income 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
Investment in Associates	–	(208)	–	–	1,226	1,018
Other items	1,285	1,682	–	–	–	2,967
	72,917	(33,779)	4,735	190	549	44,612
Deferred tax liabilities						
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)
	(63,128)	5,206	–	–	–	(57,922)
2014						
Deferred tax assets						
Carried forward tax losses	19,079	(254)	–	–	–	18,825
Net derivative financial liabilities	11,320	34,740	–	–	(195)	45,865
Employee provisions	2,716	(14)	–	–	–	2,702
Financial assets at fair value through other comprehensive income	3,061	–	–	–	1,179	4,240
Other items	362	203	–	–	720	1,285
	36,538	34,675	–	–	1,704	72,917
Deferred tax liabilities						
Capitalised gas exploration costs	(3,734)	(860)	–	–	–	(4,594)
Gas assets	(2,645)	497	–	–	–	(2,148)
Property, plant and equipment	(89,042)	33,211	–	–	–	(55,831)
Other items	(1,860)	1,305	–	–	–	(555)
	(97,281)	34,153	–	–	–	(63,128)

9. INCOME TAX (CONT.)

(f) Unrecognised temporary differences

	Consolidated 2015 $'000	Consolidated 2014 $'000
Temporary difference relating to investments in subsidiaries for which deferred tax liabilities have not been recognised:		
Foreign currency translation	340	–
Undistributed earnings	5	–
Unrecognised deferred tax liabilities relating to the above temporary differences	345	–

Temporary differences of $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 2015, the Company paid a fully franked final dividend for the year ended 30 June 2014 of 6.0 cents per share and an interim dividend for the year ended 30 June 2015 of 6.0 cents per share (2014: 6.0 cents).

	2015 $'000	2014 $'000
Franking credits available to shareholders in subsequent years	**2,106**	14,134

The franking account balance is adjusted for:

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

After 30 June 2015 the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

	Cents per share	Total amount $'000	Franked $'000	Date of payment
Final proposed ordinary share dividend estimated based upon shares on issue at 30 June 2015	6.0	14,521	4,792	7 October 2015

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries not included within the tax consolidated group were paid as dividends. The impact on the franking account of the dividend recommended by the directors since the end of the reporting period, but not recognised as a liability at the reporting date, is forecast to be a reduction in the franking account of $2,053,723.

11. CASH AND CASH EQUIVALENTS

	Consolidated	
	2015 $'000	2014 $'000
Current		
Restricted cash	**127,431**	179,768
Non-restricted cash at bank and cash on hand	**45,405**	29,061
Total cash and cash equivalents	**172,836**	208,829

The cash and cash equivalents are bearing interest at rates between nil and 3.42%.

Restricted cash

Cash that is reserved and its use specifically restricted for maintenance and/or debt servicing under the Group's borrowing agreements is defined as restricted cash. Cash that is on deposit with counterparties as security deposits and cash that is on deposit with financial institutions as security for bank guarantees issued to various counterparties as credit support, is defined as restricted cash, with a corresponding disclosure in contingent liabilities in Note 29. 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 2015 $33.2m cash collateral held in broker accounts has been offset against the corresponding liability (2014: $38.9m).

The restricted cash deposits, held on term deposit, are bearing interest at rates between 3.00% and 3.42%.

	Consolidated	
	2015 $'000	2014 $'000
Term deposits	**122,391**	156,230
Other restricted cash deposits	**5,040**	23,538
	127,431	179,768

12. RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

	Consolidated	
	2015 $'000	2014 $'000
Net profit / (loss) after tax	**65,937**	(23,075)
Adjustments for:		
Depreciation and amortisation of non-current assets	**20,288**	18,044
Impairment of non-current assets	**42,952**	–
Share based payment expense	**1,257**	1,890
Net unrealised fair value (gains) / losses on financial instruments and inventory	**(97,689)**	115,568
Share of profits of associates	**(692)**	–
Net exchange differences	**(164)**	–
Finance costs	**27,293**	29,284
Transfers to provisions:		
Employee entitlements	**190**	503
Changes in assets and liabilities (net of business combination):		
Increase in trade and other receivables	**(15,913)**	(42,789)
Decrease / (increase) in other assets	**3,970**	(2,738)
Decrease / (increase) in inventories	**31,448**	(29,089)
Decrease / (increase) in deferred tax assets	**33,779**	(34,675)
Decrease / (increase) broker margin account offset against liabilities	**8,354**	(27,121)
Decrease in deferred tax liabilities	**(5,206)**	(34,157)
Decrease in current tax liability	**(570)**	(934)
Increase in trade and other payables	**29,012**	21,638
Net cash provided by / (used in) operating activities	**144,246**	(7,651)

Disclosure of financing facilities

Refer to note 23 for information regarding financing facilities.

13. TRADE AND OTHER RECEIVABLES AT AMORTISED COST

		Consolidated	
	Note	2015 $'000	2014 $'000
Current			
Trade receivables	(i)	**31,234**	19,872
Loan receivables	(ii)	**–**	2,043
Other receivables		**575**	324
Amounts receivable from employee shareholders	(iii)	**126**	683
		31,935	22,922
Accrued income	(iv)	**186,370**	179,435
		218,305	202,357
Non-current			
Other receivables	(v)	**13,780**	–
Amounts receivable from employee shareholders	(iii)	**314**	682
		14,094	682

(i) Trade receivables are non-interest bearing and are generally on 30-day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. An allowance of $598,674 (2014: $884,653) has been recognised as an expense for the current year for specific debtors for which such evidence exists. The amount of the allowance / impairment loss is measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

(ii) Credit Facility provided to Empire at a fixed interest rate of 10.38% per annum. Termination of the loan was on 30 April 2015.

(iii) Employee shareholder loans are subject to loan deeds and interest is charged at either the Division 7A or the FBT benchmark rates.

(iv) Accrued income represents electricity amounts due to be invoiced after 30 June 2015.

(v) 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 WA Gas assets. Refer to note 32 for further details.

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.

14. INVENTORIES

	Note	Consolidated 2015 $'000	2014 $'000
Renewable energy certificates	(i)(ii)	**24,046**	54,315
Renewable energy certificates recognised under sale and repurchase arrangement	(iii)	**10,500**	–
Gas in storage		**96**	42
Diesel fuel		**1,791**	2,039
		36,433	56,396

(i) Renewable energy certificates are pledged as security against outstanding bank loan and receivables finance facilities at 30 June 2015.

(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 a sale and repurchase arrangement. The corresponding liability is included within borrowings at 30 June 2015. Refer to Note 23.

15. OTHER ASSETS

		Consolidated 2015 $'000	2014 $'000
Current			
Prepayments		**1,894**	2,235
Security and other deposits	(i)	**4,447**	8,486
		6,341	10,721

(i) Refer to Note 29 for further details regarding security deposits.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Consolidated 2015 $'000	2014 $'000
Non-current		
Shares held in listed entities	**3,463**	7,636
	3,463	7,636

All shares held in listed entities as at 30 June 2015 have been classified as fair value through other comprehensive income because they are investments that the Group intends to hold for the long-term.

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

Refer note 1(b) for further details.

17. DERIVATIVE FINANCIAL INSTRUMENTS

		Consolidated	
	Note	2015 $'000	2014 $'000
Current assets			
Electricity derivatives		**11,346**	2,133
Gas derivatives		**21**	–
		11,367	2,133
Non-current assets			
Electricity derivatives		**3,978**	837
Embedded derivative	(i)	**1,923**	–
		5,901	837
Current liabilities			
Electricity derivatives		**12,442**	81,743
Gas derivatives		**7,847**	–
		20,289	81,743
Non-current liabilities			
Electricity derivatives		**2,788**	7,324
Gas derivatives		**4,401**	–
Interest rate swaps		**35,508**	33,155
		42,697	40,479

(i) A subsidiary of ERM Power Limited'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 WA 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. Refer to note 32 for further details.

Derivative financial instruments used by the Group

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

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

Interest rate swap contracts – cash flow hedges

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

Swaps currently in place for the Neerabup partnership cover approximately 97% (2014: 98%) of the variable loan principal outstanding and are timed to expire as each loan repayment falls due. The fixed interest rate is 7.189%% (2014: 7.189%) and the variable rate is 1.1% above the BBSY rate which at the end of the reporting period was 2.47% (2014: 2.72%).

Swaps in place for Oakey Power Holdings Pty Ltd were terminated in December 2013.

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

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

Electricity and gas derivative contracts

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

17. DERIVATIVE FINANCIAL INSTRUMENTS (CONT.)

Derivative financial instruments designated as cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to impact profit or loss and the fair value of the related hedging instruments.

	Consolidated	
	2015 $'000	2014 $'000
Liabilities		
Interest rate swaps		
12 months or less	**6,979**	6,440
1-2 years	**6,198**	5,711
2-5 years	**12,828**	11,600
More than 5 years	**9,503**	9,404
	35,508	33,155

18. PROPERTY, PLANT AND EQUIPMENT

Consolidated	Note	Land $'000	Capital work in progress $'000	Plant and equipment $'000	Furniture, fittings and improvements $'000	Total $'000
2015						
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	31	**–**	**–**	**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**
2014						
Cost		23,109	26,735	482,535	10,530	542,909
Accumulated depreciation and impairment		–	–	(102,483)	(4,735)	(107,218)
Net carrying amount at 30 June 2014		23,109	26,735	380,052	5,795	435,691
Opening net carrying amount at 1 July 2013		22,835	26,851	390,599	6,107	446,392
Additions		268	1,518	473	655	2,914
Transfers		6	(1,634)	1,065	563	–
Disposals		–	–	(27)	–	(27)
Depreciation		–	–	(12,058)	(1,530)	(13,588)
Closing net carrying amount at 30 June 2014		23,109	26,735	380,052	5,795	435,691

(i) The Group has recognised impairment losses on its power station development assets following a decision to stop further spending on these assets given the current wholesale market conditions.

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

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

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

19. EXPLORATION AND EVALUATION COSTS

		Consolidated	
	Note	2015 $'000	2014 $'000
Cost (gross carrying amount)		**10,306**	15,313
Accumulated amortisation and impairment		**(10,306)**	–
Net carrying amount		**–**	15,313

Reconciliations

	Note	2015 $'000	2014 $'000
Net of accumulated amortisation and impairment at start of year		**15,313**	12,448
Additions		**1,610**	2,865
Disposals		**(5,632)**	–
Impairment	(i)	**(11,291)**	–
Net of accumulated amortisation and impairment at end of year		**–**	15,313

(i) In September 2014 the Group entered into an agreed term sheet to sell its WA petroleum tenement interests, including the associated licences, rights, benefits, liabilities and obligations to Empire. The value of the assets were written down to the sale proceeds less costs of disposal. The sales proceeds have been calculated with reference to the purchase agreement and include a valuation for the top up payment. The top up payment is similar to a call option and accordingly management have valued this component using a Black-Scholes option pricing model. The total sales consideration at 27 February 2015 was $17.3m. Writing down the assets has resulted in a total impairment loss of $3.8m as disclosed in the Group's consolidated income statement.

An additional $10.4m impairment charge was recognised in respect of the Group's East Coast gas interests following a decision to surrender two of the licenses to the government and scale back development of the remaining NSW exploration licence.

20. GAS ASSETS

	Note	Consolidated 2015 $'000	2014 $'000
Assets in production			
Cost (gross carrying amount)		–	18,652
Accumulated amortisation and impairment		–	(2,344)
Net carrying amount		–	16,308
Reconciliations			
Net of accumulated amortisation and impairment at start of year		**16,308**	17,309
Additions		**38**	1,343
Transfers		**7**	–
Disposals		**(12,053)**	–
Amortisation		**(1,426)**	(2,344)
Impairment	(i)	**(2,874)**	–
Net of accumulated amortisation and impairment at end of year		–	16,308

(i) Refer to Note 19 for details of the impairment of the WA Gas assets.

21. INTANGIBLE ASSETS

Consolidated	Note	Goodwill $'000	Capital work in progress $'000	Software internally generated $'000	Software and other $'000	Customer acquisition costs $'000	Total $'000
2015							
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	31	**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**
2014							
Cost		–	4	7,560	3,817	4,930	16,311
Accumulated depreciation and impairment		–	–	(1,845)	(2,033)	(1,509)	(5,387)
Net carrying amount at 30 June 2014		–	4	5,715	1,784	3,421	10,924
Opening net carrying amount at 1 July 2013		–	1,130	1,052	1,673	1,996	5,851
Additions		–	4	4,171	461	2,549	7,185
Transfer		–	(1,130)	1,130	–	–	–
Amortisation			–	(638)	(350)	(1,124)	(2,112)
Closing net carrying amount at 30 June 2014		–	4	5,715	1,784	3,421	10,924

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

22. TRADE AND OTHER PAYABLES

	Note	Consolidated 2015 $'000	2014 $'000
Current			
Trade creditors and accruals	(i)	**210,823**	180,087
Other creditors		**68,416**	63,081
		279,239	243,168

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

23. BORROWINGS

	Note	Consolidated 2015 $'000	2014 $'000
Current			
Secured			
Bank loan – Receivables financing facility	(i)	**33,183**	129,949
		33,183	129,949
Secured – limited recourse			
Bank loan – Neerabup working capital facility	(ii)	**3,000**	3,000
Bank loan – Neerabup term facility (current portion)	(iii)	**5,912**	5,079
		8,912	8,079
Total current borrowings		**42,095**	138,028
Non-current			
Secured			
Bank loan – Inventory repurchase	(iv)	**10,500**	–
		10,500	–
Secured – limited recourse			
Bank loan – Neerabup term facility	(iii)	**141,302**	146,977
Convertible notes	(v)	**47,807**	46,541
		189,109	193,518
Total non-current borrowings		**199,609**	193,518
Total borrowings		**241,704**	331,546

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) Amounts drawn down on a limited recourse bank working capital facility by Neerabup Partnership. This debt has recourse to the assets of Neerabup Partnership only.

(iii) Amounts drawn down on a limited recourse term debt facility in respect of the Neerabup Partnership. This debt has recourse to the assets of Neerabup Partnership only.

(iv) Sale and repurchase agreement in respect of renewable energy certificates. The equivalent renewable energy certificate assets, over which the Group has the right of repurchase, are included within inventory at 30 June 2015.

(v) Convertible notes are redeemable by the issuer from 30 September 2010 until maturity in February 2023. Notes have a coupon rate that is variable based on BBSY plus 4%. The notes are accounted for using the effective interest method at 7.89% (2014: 8.79%). The notes can only be converted to shares in the issuing subsidiary upon failure to redeem them at maturity or other named event of default. The notes have recourse to the Group's 50% interest in the Neerabup partnership only.

Financing facilities available

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

	Consolidated 2015 $'000	2014 $'000
Total facilities – bank loans	**392,223**	356,343
Facilities used at balance date – bank loans	**233,897**	326,292
Facilities unused at balance date – bank loans	**158,326**	30,051

24. PROVISIONS

	Consolidated	
	2015 $'000	2014 $'000
Current		
Employee benefits – annual leave	**2,032**	2,014
	2,032	2,014
Non-current		
Employee benefits – long service leave	**1,069**	897
	1,069	897
Movements in provisions		
Carrying amount at start of the year	**2,911**	2,412
Additional provision recognised and charged to profit and loss	**1,770**	2,256
Amounts used during the year	**(1,580)**	(1,757)
	3,101	2,911

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.

25. CONTRIBUTED EQUITY

	Note	Consolidated 2015 Number of shares	Consolidated 2014 Number of shares	Consolidated 2015 $'000	Consolidated 2014 $'000
Issued ordinary shares – fully paid	25(a)	**242,021,217**	239,269,727	**332,134**	328,762
Treasury shares	25(b)	**(2,544,194)**	(2,916,707)	**(5,318)**	(6,425)
		239,477,023	236,353,020	**326,816**	322,337

(a) Movement in ordinary share capital

	Note	2015 Number of shares	2014 Number of shares	2015 $'000	2014 $'000
At the beginning of the period		**239,269,727**	203,332,935	**328,762**	237,837
Issue of shares – employee incentive scheme		**1,924,430**	1,404,304	**3,640**	3,566
Issue of shares – dividend reinvestment plan		**627,782**	840,130	**1,233**	2,040
Issue of shares – capital raising		**–**	33,692,358	**–**	84,700
Issue of shares – acquisition of subsidiary	31	**199,278**	–	**444**	–
Vesting and exercise of options		**–**	–	**–**	286
Vesting of shares – employee incentive scheme		**–**	–	**81**	2,212
Transfer to treasury shares		**–**	–	**(2,026)**	(199)
Transaction costs arising on share issue (net of tax)		**–**	–	**–**	(1,680)
At the end of the period		**242,021,217**	239,269,727	**332,134**	328,762

(b) Terms and conditions of contributed equity

Ordinary shares
During the year ended 30 June 2015, there were no capital raisings undertaken.

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

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

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

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

Treasury shares
Treasury shares are shares that are held in trust for the purpose of issuing shares under employee share incentive schemes. For details of shares and options issued under employee share schemes (see note 27).

26. RESERVES

	Note	Consolidated 2015 $'000	2014 $'000
Cash flow hedge reserve		**(24,855)**	(23,208)
Fair value reserve		**(6,664)**	(9,893)
Share based payment reserve		**2,398**	1,222
Transactions with non-controlling interests		**(14,404)**	(14,404)
Foreign currency translation reserve		**1,134**	–
		(42,391)	(46,283)
Movements			
Cash flow hedge reserve			
Balance at the beginning of the year		**(23,208)**	(23,595)
Revaluation – gross		**(2,353)**	153
Revaluation – deferred tax		**706**	(46)
Transfer to profit and loss (net of tax)		**–**	348
Transactions with non-controlling interests		**–**	(68)
Balance at the end of the year		**(24,855)**	(23,208)
Fair value reserve			
Balance at the beginning of the year		**(9,893)**	(7,143)
Revaluation – gross		**524**	(3,929)
Revaluation – deferred tax		**(157)**	1,179
Transfer to associate investment (net of tax effect)		**2,862**	–
Balance at the end of the year		**(6,664)**	(9,893)
Share based payment reserve			
Balance at the beginning of the year		**1,222**	1,830
Share based payments vested		**(81)**	(2,498)
Share based payment expense		**1,257**	1,890
Balance at the end of the year		**2,398**	1,222
Transactions with non-controlling interests reserve			
Balance at the beginning of the year		**(14,404)**	(5,868)
Transfer of non-controlling interest from cash flow hedge reserve	30(d)	**–**	68
Acquisition of additional ownership in Oakey Power Holdings Pty Ltd		**–**	(8,604)
Balance at the end of the year		**(14,404)**	(14,404)
Foreign currency translation reserve			
Balance at the beginning of the year		**–**	–
Currency translation differences – current period		**1,134**	–
Balance at the end of the year		**1,134**	–

26. RESERVES (CONT.)

(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 27 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.

27. SHARE BASED PAYMENTS

(a) Long term incentives

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

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

	FY 2015 grant	FY 2014 grant
Assessed fair value per share at grant date	**$1.15**	$1.99
Number of units allocated under the plan during the financial year	**512,336**	787,098
Share price at grant date	**$1.75**	$2.64
Exercise price	**Nil**	Nil
Expected price volatility of the Company's shares based on historic volatility	**34.4%**	34.8%
Risk free interest rate	**2.79%**	2.84%
Expected vesting date	**3 years after issue**	3 years after issue
Dividend yield	**5.35%**	5.53%
Proportion subject to vesting on satisfaction of total security holder return (TSR) performance	**100%**	100%

27. SHARE BASED PAYMENTS (CONT.)

(a) Long term incentives (cont.)

ii. LTIOT 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 – LTIOT

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	1,235,088	–	26,182	–	1,208,906	1,208,906
2011	8/11/2010	8/11/2017	$2.75	242,706	–	–	–	242,706	242,706
Total				**1,477,794**	**–**	**26,182**	**–**	**1,451,612**	**1,451,612**

The weighted average remaining contractual life of options outstanding at the end of the period is 2.3 years.

(b) Other awards

The Company may offer awards outside of the standard incentive plans. In September 2014, 280,114 (August 2013: 92,285) Performance Rights were granted as part of an employee retention strategy. The Performance Rights are subject to a 5 year vesting period and will be satisfied, at the board's discretion, in cash or shares, subject to continuous full-time employment with the Company. The notional share price at grant date was $1.785 (August 2013: $2.709) per share. The vesting value will be the number of Performance Rights held, multiplied by the higher of either the notional issue price, or the 10 day VWAP at the vesting date.

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

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

	Consolidated	
	2015 $'000	2014 $'000
Shares issued under long term employee share scheme	**1,257**	1,890
	1,257	1,890

28. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

	Consolidated	
	2015 $'000	2014 $'000
Statement of financial position		
Current Assets	**205,848**	203,766
Total Assets	**367,256**	365,684
Current Liabilities	**10,388**	9,259
Total liabilities	**11,503**	9,259
Net assets	**355,753**	356,425
Shareholders' equity		
Contributed equity	**331,690**	328,762
Treasury shares	**(5,318)**	(6,425)
Fair value reserves	**(6,664)**	(9,894)
Share option reserve	**2,398**	1,222
Retained earnings	**33,647**	42,760
Total equity	**355,753**	356,425
Profit for the year	**22,685**	61,839
Other comprehensive income / (loss)	**367**	(2,750)
Total comprehensive income	**23,052**	59,089

(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 2015.

(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 2015.

29. COMMITMENTS AND CONTINGENCIES

	Consolidated	
	2015 $'000	2014 $'000
(a) Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date, not provided for but payable (including share of associates and joint ventures):		
– not later than one year	**2,625**	3,492
– later than one year and not later than five years	**1,090**	–
– later than five years	**–**	–
	3,715	3,492

	2015 $'000	2014 $'000
(b) Lease expenditure commitments		
Operating leases (non-cancellable):		
Minimum lease payments		
– not later than one year	**4,671**	2,787
– later than one year and not later than five years	**17,929**	17,573
– later than five years	**12,288**	16,935
Aggregate lease expenditure contracted for at balance date	**34,888**	37,295

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.

29. COMMITMENTS AND CONTINGENCIES (CONT.)

(c) Contingent liabilities

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

		Consolidated	
	Note	2015 $'000	2014 $'000
Bank guarantees – Australian Energy Market Operator and other counterparties	(i)	**125,767**	153,592
Bank guarantees – Lease arrangements	(ii)	**2,912**	2,945
Futures margin deposits	(iii)	**40,813**	59,660
Security deposits	(iv)	**4,369**	8,019
Bank guarantees – Western Power	(v)	**323**	300
Bank guarantees – Neerabup / Contractor dispute	(vi)	**–**	1,750
Bank guarantees – AGL Hydro Partnership	(vii)	**–**	4,227
Bank guarantees – NSW exploration licence	(viii)	**85**	60
		174,269	230,553

(i) The Group has provided bank guarantees in favour of the Australian Energy Market Operator to support its obligations to settle electricity purchases from the National Electricity Market. Bank guarantees have also been provided to various counterparties in relation to electricity derivatives. A portion of the guarantees are supported by term deposits.

(ii) The Group has provided bank guarantees in relation to lease arrangements for premises in Brisbane, Sydney and Melbourne. These guarantees are supported by term deposits.

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

(iv) Security deposits represent interest bearing cash lodged as eligible credit support with various counterparties to the Group's electricity derivative contracts and may be retained by those counterparties in the event that the Group does not meet its contractual obligations.

(v) The Group has provided a bank guarantee in favour of Western Power. This can be called upon if the Neerabup partnership fails to pay its monthly transmission invoices.

(vi) The bank guarantee provided by the Group in favour of its partner in the NewGen Neerabup Partnership (NNP) under an indemnity agreement for a contractor dispute has now been returned as the dispute has been settled.

(vii) The bank guarantee provided in favour of the AGL Hydro Partnership in relation to the Oakey power station has now been returned as the off-take agreement has expired.

(viii) The Group has provided bank guarantees in favour of the NSW Government in connection with its gas exploration licences in NSW. These guarantees are supported by term deposits.

30. INTERESTS IN OTHER ENTITIES

(a) Subsidiary companies

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

Name	Place of incorporation	Percentage of equity interest held by the Company 2015 %	Percentage of equity interest held by the Company 2014 %	Percentage of equity interest held by the non-controlling interests 2015 %	Percentage of equity interest held by the non-controlling interests 2014 %
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(ii)	QLD	**100**	100	–	–
ERM Power Retail Pty Ltd	VIC	**100**	100	–	–
Oakey Power Holdings Pty Ltd(i)	ACT	**100**	100	–	–
Powermetric Metering Pty Ltd	NSW	**100**	100	–	–
SAGE Utility Systems Pty Ltd	VIC	**100**	100	–	–
Source Power & Gas LLC(iii)	USA	**100**	–	–	–
Source Operations Group LLC(iii)	USA	**100**	–	–	–
SPG Energy Group LLC(iii)	USA	**100**	–	–	–
Other non-material subsidiaries					
Braemar 3 Holdings Pty Ltd	QLD	**100**	100	–	–
Elrex Pty Ltd(i),(iv)	NSW	**100**	100	–	–
ERM Braemar 3 Pty Ltd	QLD	**100**	100	–	–
ERM Braemar 3 Power Pty Ltd	QLD	**100**	100	–	–
ERM Business Energy LLC(v)	USA	**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	–	–
Oakey Power Pty Ltd(i),(iv)	ACT	**–**	100	–	–
Oakey Power Finance Pty Ltd(i),(iv)	ACT	**–**	100	–	–
Oakey Power Operations Pty Ltd(i),(iv)	ACT	**–**	100	–	–
Oakey Power Constructions Pty Ltd(i),(iv)	ACT	**–**	100	–	–
Private Power Investors Pty Ltd(i),(iv)	ACT	**–**	100	–	–
Queensland Electricity Investors Pty Ltd	QLD	**100**	100	–	–
Richmond Valley Solar Thermal Pty Ltd	QLD	**100**	100	–	–

(i) Non-controlling interest purchased during the year ended 30 June 2014. Refer note 30(d) for further details.

(ii) Formally ERM Finance Pty Ltd.

(iii) Purchased during the year ended 30 June 2015. Refer to note 31 for further details.

(iv) Deregistered in July 2014.

(v) Registered in December 2014.

30. INTERESTS IN OTHER ENTITIES (CONT.)

(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.

	Principle place of business	Interest Held 2015 %	Interest Held 2014 %
(b) Significant joint operations – power station projects			
As at 30 June 2015 and 30 June 2014, the Group has the following interest in power station projects with other external parties:			
Neerabup Power Station:			
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 2015 $'000	Consolidated 2014 $'000
CURRENT ASSETS		
Cash and cash equivalents	**10,042**	10,488
Trade and other receivables	**3,125**	4,579
Inventories	**96**	42
Other assets	**430**	587
TOTAL CURRENT ASSETS	**13,693**	15,696
NON-CURRENT ASSETS		
Property, plant and equipment	**179,182**	183,662
Intangible assets	**17**	23
TOTAL NON-CURRENT ASSETS	**179,199**	183,685
TOTAL ASSETS	**192,892**	199,381
CURRENT LIABILITIES		
Trade and other payables	**709**	1,779
Borrowings – limited recourse	**8,912**	8,079
Provisions	**45**	51
TOTAL CURRENT LIABILITIES	**9,666**	9,909
NON-CURRENT LIABILITIES		
Borrowings – limited recourse	**141,302**	146,976
Derivative financial instruments	**35,508**	33,155
TOTAL NON-CURRENT LIABILITIES	**176,810**	180,131
TOTAL LIABILITIES	**186,476**	190,040
NET ASSETS	**6,416**	9,341

30. INTERESTS IN OTHER ENTITIES (CONT.)

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

	Consolidated 2015 $'000	Consolidated 2014 $'000
Capital expenditure commitments		
Estimated capital expenditure contracted for at balance date, not provided for but payable		
– not later than one year	–	73
– later than one year and not later than five years	–	–
– later than five years	–	–
	–	73

(c) Other joint operations

The consolidated entity also holds an interest in an unincorporated gas joint venture. The principal activities of this joint operations is gas exploration, development and production.

(d) Transactions with non-controlling interests

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

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

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

(e) Interests in associate

During December 2014, the Group acquired additional shares in Empire through a transaction to consolidate joint venture oil and gas assets into 100% ownership by Empire. This brought the Group's total shareholding and voting rights up to 19.4%. The Group participated in an Empire rights issue in April 2015 and at 30 June 2015 had a shareholding of 18.8%. In addition, a member of the Group's key management personnel continues to serve on Empire's board of directors and the Group granted substantial vendor finance to Empire in order to support its business operations. Given the shareholding of 18.8%, and provision of vendor finance, the directors are of the view that the Group is deemed to have significant influence over Empire. As such, Empire is an associate of the Group as at 30 June 2015 and, in the opinion of the directors, is material to the Group. Empire has share capital consisting solely of ordinary shares, which are held directly by the Group. The country of incorporation or registration is also its principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

Name of entity	Place of business/country of incorporation	% of ownership interest 2015	% of ownership interest 2014	Measurement method	Quoted fair value 2015 $'000	Carrying amount 2015 $'000
Empire Oil & Gas NL[(i)]	Australia	**18.8**	9.5	Equity method	**8,627**	**11,647**

(i) Empire Oil & Gas NL operates in gas production and exploration in WA.

30. INTERESTS IN OTHER ENTITIES (CONT.)

(e) Interests in associates (continued)

Empire holds petroleum and gas exploration assets located in the onshore Perth Basin of WA. The main focus of Empire's operations is the Red Gully Gas and Condensate Processing Facility. The Facility was the first dedicated gas and condensate rich processing facility constructed in the Onshore Perth Basin to treat Jurassic aged gas. It will treat the Gingin West-1 and Red Gully-1 gas and condensate to the specification required for entry into the Dampier to Bunbury Natural Gas Pipeline and the BP Kwinana Refinery.

The Group's proportionate share of Empire's earnings for the year ended 30 June 2015 was $0.7m.

	2015
Empire market capitalisation in number of shares	**10,204,953,594**
Share price at 30 June 2015 in $	**0.0045**
Empire market capitalisation in $	**45,922,291**
Group's share in %	**18.79**
Group's share in $ (millions)	**8.63**

31. BUSINESS COMBINATION

(a) Summary of acquisition

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 United States, Texas and the PJM market. The acquisition allows the Group to expand its electricity retailing business operations into these United States markets. Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	Consolidated 2015 $'000
Cash paid	**9,070**
Ordinary shares issued	**444**
Total purchase consideration	**9,514**

The fair value of the 199,278 shares issued as part of the consideration paid for Source (AU$444,490) was based on the 10 day VWAP shares traded on the ASX over the 10 days prior to the acquisition date ($2.23 per share).

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

	Fair value $'000
Cash	**3,867**
Trade and other receivables	**10,124**
Plant and equipment	**170**
Intangible assets: customer contracts	**1,929**
Intangible assets: other	**410**
Other assets	**1,312**
Deferred tax assets	**4,734**
Trade payables	**(22,553)**
Derivative liabilities	**(13,526)**
Net identifiable assets acquired	**(13,533)**
Add: goodwill	**23,047**
Net assets acquired	**9,514**

The goodwill is attributable to the established retail electricity sales operation. The acquired goodwill is deductible for tax purposes.

31. BUSINESS COMBINATION (CONT.)

(a) Summary of acquisition (continued)

There were no acquisitions in the year ending 30 June 2014.

(i) Acquired receivables

The fair value of acquired trade receivables is AU$11.2m. The gross contractual amount for trade receivables due is AU$11.3m, of which AU$115,203 is expected to be uncollectible.

(ii) Revenue and profit contribution

The acquired business contributed revenues of AU$66.8 m and net profit of AU$16,678 to the Group for the period from 23 January 2015 to 30 June 2015. If the acquisition had occurred on 1 July 2014, consolidated Group revenue and net profit for the year ended 30 June 2015 would have been AU$2,404.9m and AU$53.9m respectively. The consolidated Group net profit includes unrealised losses on financial instruments through profit and loss of AU$12.8m from the US business. These amounts include unaudited gains / losses on financial instruments through profit and loss and have been calculated using the subsidiary's results and adjusting them for:

- differences in the accounting policies between the Group and the subsidiary, and
- the additional amortisation that would have been charged assuming the fair value adjustments to intangible assets had applied from 1 July 2014, together with the consequential tax effects.

	Consolidated	
	2015 $'000	2014 $'000
b) Purchase consideration – cash outflow		
Outflow of cash to acquire subsidiary, net of cash acquired		
Cash consideration	9,070	–
Less: Balances acquired		
Cash	(3,867)	–
Plus: Acquisition-related costs	581	–
Net outflow of cash – investing activities	5,784	–

32. RELATED PARTY DISCLOSURES

Parent Company

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

Equity interests in subsidiaries and jointly controlled entities

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

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

Key management personnel

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

Transactions with related parties

Director related entity transactions

The Company had a consulting agreement with Sunset Power Pty Ltd (a related party of Trevor St Baker) which was extended to June 2015. Total consulting fees of $140,000 (2014: $150,000) excluding GST were paid to Sunset for the year ended 30 June 2015.

During the period the Company charged St Baker Enterprises Pty Ltd (a related party of Trevor St Baker) $413,332 including GST for consulting services. The services were provided by ERM Power Limited staff and the charges were at an arm's length market rate. At 30 June 2015 all invoiced amounts had been paid in full.

32. RELATED PARTY DISCLOSURES (CONT.)

Transactions with Empire Oil & Gas NL

During the year, ERM Power Limited employees were used on an ad-hoc basis to assist in Empire's business operations. Empire has paid ERM Power Limited various daily arms-length rates for these services consistent with each individuals skill set as well as any reasonable expenses incurred in providing these services.

Charges in respect of these appointments for the period ended 30 June 2015 were $190,006 excluding GST (2014: $641,169).

In February 2015, a subsidiary of ERM Power Limited granted a $14.9m loan to Empire as a consequence of selling the Group's WA 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 2015, the present value carrying amount of the loan is $13,781,747.

The subsidiary of ERM Power Limited is also entitled to an additional amount derived by reference to Empire's share price as part of the consideration received for the sale of the Group's WA 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 $0.08.
- Payment is adjusted to factor in only 70% of any value accretion above $0.08.
- Payment date is the repayment date of the abovementioned loan.

As at 30 June 2015, the fair value of the financial asset is $1,922,791.

Other related party transactions

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

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

During the year ended 30 June 2015, Andrew St Baker was employed by the Company on terms and conditions no more favourable than those that would have been adopted if dealing at arm's length with an unrelated person. Total payments for the year ended 30 June 2015 were $165,927 in cash salary and superannuation (2014: $301,579).

During the period a termination payment of $481,572 was paid to Philip St Baker under a deed of release on his resignation.

During the year ended 30 June 2015, the Company provided administrative support to the St Baker Wilkes Indigenous Educational Foundation Limited (SWIEF), of which Trevor St Baker was the co-founder and Chairman and Tony Iannello was a Director. SWIEF was the corporate trustee for two charitable funds which provide grants to indigenous students for ongoing secondary education. The value of the support provided was $1,514 (2014: $20,406).

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	
	2015 $	2014 $
Transactions with jointly controlled entities:		
Movements in net loans (repaid) / advanced	**(34,508)**	13,084
Current trade receivables balance	**404,515**	112,893
Current trade payables balance	**–**	(89,119)
Project fees and operations management fees	**2,494,226**	2,606,032

Refer note 30(b) for details of significant jointly controlled entities.

33. KEY MANAGEMENT PERSONNEL

	Consolidated 2015 $	Consolidated 2014 $
Key management personnel compensation		
Short-term employee benefits	**4,853,723**	3,683,044
Long-term employee benefits	**17,418**	72,839
Post-employment benefits	**244,670**	259,891
Termination benefits	**481,572**	–
Share-based payments	**97,267**	840,437
	5,694,650	4,856,211

Detailed remuneration disclosures are provided in the remuneration report.

34. AUDITORS' REMUNERATION

	Note	Consolidated 2015 $	Consolidated 2014 $
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		**619,899**	582,910
		619,899	582,910
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	(i)	**162,000**	1,196,808
		162,000	1,196,808
Total remuneration of PricewaterhouseCoopers Australia		**781,899**	1,779,718

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

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	**184,896**	–
Total remuneration of network firms of PricewaterhouseCoopers Australia	**184,896**	

35. EARNINGS PER SHARE

	Consolidated		Consolidated	
	2015 Number of shares '000	2014 Number of shares '000	2015 Cents	2014 Cents
Basic earnings / (loss) per share	**241,078**	226,328	**27.35**	(10.56)
Diluted earnings / (loss) per share	**241,078**	226,328	**27.34**	(10.56)

Reconciliation of weighted average number of ordinary shares

	2015	2014
Weighted average number used in calculating basic earnings per share	**241,078**	226,328
Effect of share options on issue	**64**	–
Weighted average number used in calculating diluted earnings per share	**241,142**	226,328

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	
	2015 $	2014 $
Reconciliation of earnings used in calculating earnings per share		
Basic earnings per share		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share		
From continuing operations	**65,937**	(23,897)
Diluted earnings per share		
Profit / (loss) attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share		
From continuing operations	**65,937**	(23,897)

36. EVENTS AFTER THE REPORTING PERIOD

Since 30 June 2015 there have been no other matters or circumstances not otherwise dealt with in the financial report that have significantly or may significantly affect the Group.

ERM POWER LIMITED
DIRECTORS' DECLARATION

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

(a) the financial statements and notes set out on pages 40 to 106 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 2015 and of its performance for the year then ended, and

ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the *Corporations Regulations 2001* and other mandatory professional reporting requirements.

(b) the financial report complies with International Financial Reporting Standards as disclosed in note 1;

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the directors:

Tony Bellas
Chairman
21 August 2015

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 2015, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for ERM Power Ltd (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*.

Auditor's opinion

In our opinion:

PricewaterhouseCoopers, ABN 52 780 433 757
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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF ERM POWER LIMITED

pwc

(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 2015 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 31 to 43 of the directors' report for the year ended 30 June 2015. 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 2015 complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of ERM Power Limited (the company) for the year ended 30 June 2015 included on ERM Power Limited's web site. The company's directors are responsible for the integrity of ERM Power Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

Michael Shewan
Partner

Brisbane
21 August 2015

ERM POWER LIMITED
SHARE AND SHAREHOLDER INFORMATION

TWENTY LARGEST SHAREHOLDERS

The following table sets out the 20 largest shareholders of ERM Power Limited (Company), when multiple holdings are grouped together, and the percentage each holds of the 242,838,026 shares on issue as at 20 August 2015.

Shareholders		Number of shares	% of issued shares
1	Energy Resource Managers Holdings Pty Ltd	43,549,489	17.93
2	J P Morgan Nominees Australia Limited	27,618,516	11.37
3	UBS Wealth Management Australia Nominees Pty Ltd	20,352,436	8.38
4	Ilwella Pty Limited	11,209,001	4.62
5	Gaffwick Pty Limited	11,203,266	4.61
6	National Nominees Limited	10,303,484	4.24
7	HSBC Custody Nominees (Australia) Limited	9,931,467	4.09
8	RBC Investor Services Australia Nominees Pty Ltd	8,673,764	3.57
9	Citicorp Nominees Pty Limited	8,230,348	3.39
10	Trinity Management Pty Ltd	6,144,274	2.53
11	Sunset Power C Pty Ltd	5,160,934	2.13
12	Sunset Power D Pty Ltd	5,160,934	2.13
13	BNP Paribas Noms Pty Ltd	4,149,669	1.71
14	Philip St Baker and Peta St Baker	3,273,070	1.35
15	Trevor and Judith St Baker Family Philanthropic Pty Ltd	3,025,242	1.25
16	Brispot Nominees Pty Ltd	2,820,345	1.16
17	WH and LL St Baker Pty Ltd	1,442,100	0.59
18	St Baker-Childs Investments Pty Ltd	972,043	0.40
19	Aust Executor Trustees Ltd	968,321	0.40
20	St Baker Investments Pty Ltd	905,170	0.37
Total		**185,093,873**	**76.22**

DISTRIBUTION OF SHARES

The following table summarises the distribution of shares as at 20 August 2015.

Shareholdings	Shareholders	% of issued shares
1 – 1,000	1,215	0.26
1,001 – 5,000	2,468	3.04
5,001 – 10,000	1,060	3.49
10,000 – 100,000	1,088	10.73
100,001 – and over	106	82.48
Total	**5,937**	**100.00**

The number of investors holding less than a marketable parcel of 227 shares was 249, holding 11,880 shares.

ERM POWER LIMITED
SHARE AND SHAREHOLDER INFORMATION

SUBSTANTIAL SHAREHOLDERS

The following table shows holdings of five per cent or more of voting rights as notified to the Company under the *Corporations Act 2001*, Section 671B.

Class of Securities	Identity of person or group	Date of notice received	Relevant interest in number of securities	Percentage of total voting rights
Ordinary Shares	Trevor Charles St Baker[1]	25/02/2015	75,040,647	31.05%

1 Trevor Charles St Baker controls each registered shareholder of Energy Resource Managers Holdings Pty Ltd as trustee for the Energy Resource Managers Trust, Sunset Power C Pty Ltd as trustee for Sunset Power Trust C, Sunset Power D Pty Ltd as trustee for the Sunset Power Trust D, Baygrove Pty Ltd as trustee for ERM Consultants STF S/F, Sunset Power Holdings Pty Ltd and Trevor and Judith St Baker Family Philanthropic Pty Ltd as trustee for the Trevor and Judith St Baker Family Foundation. Trevor is a joint registered holder of TC and JK St Baker as trustee for some family members. Trevor also controls the voting rights of shares held by nominee UBS Wealth Management Australia Nominees Pty Ltd held on behalf of Sunset Power A Pty Ltd as trustee for Sunset Power Trust A, Sunset Power B Pty Ltd as trustee for Sunset Power Trust B and Sunset Power Pty Ltd as trustee for the St Baker Family Trust.

VOTING RIGHTS

As a meeting of members, each member who is entitled to attend and vote may attend and vote in person or by proxy, attorney or representative. On a show of hands, every person present who is a member, proxy, attorney or representative shall have one vote and on a poll, every member who is present in person or by proxy, attorney or representative shall have one vote for each share held.

SECURITIES EXCHANGE LISTING

The Company's shares are traded on the Australian Securities Exchange under the symbol "EPW".

UNQUOTED SECURITIES

As at 20 August 2015, there were 1,451,612 options on issue, each exercisable into a fully paid ordinary share.

Expiry Date	Issue price of shares (cents)	Number under option	Number of holders
1 November 2017	275.0	1,208,906	21
8 November 2017	275.0	242,706	1

CORPORATE DIRECTORY

COMPANY

ERM Power Limited

DIRECTORS

Tony Bellas
(Non-Executive Chairman)

Trevor St Baker
(Non-Executive Deputy Chairman and Founder)

Albert Goller

Martin Greenberg

Tony Iannello

Jon Stretch
(Managing Director and CEO)

COMPANY SECRETARIES

Peter Jans
Phil Davis

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Macquarie Bank Limited

AUDITORS

PricewaterhouseCoopers

LAWYERS

McCullough Robertson

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