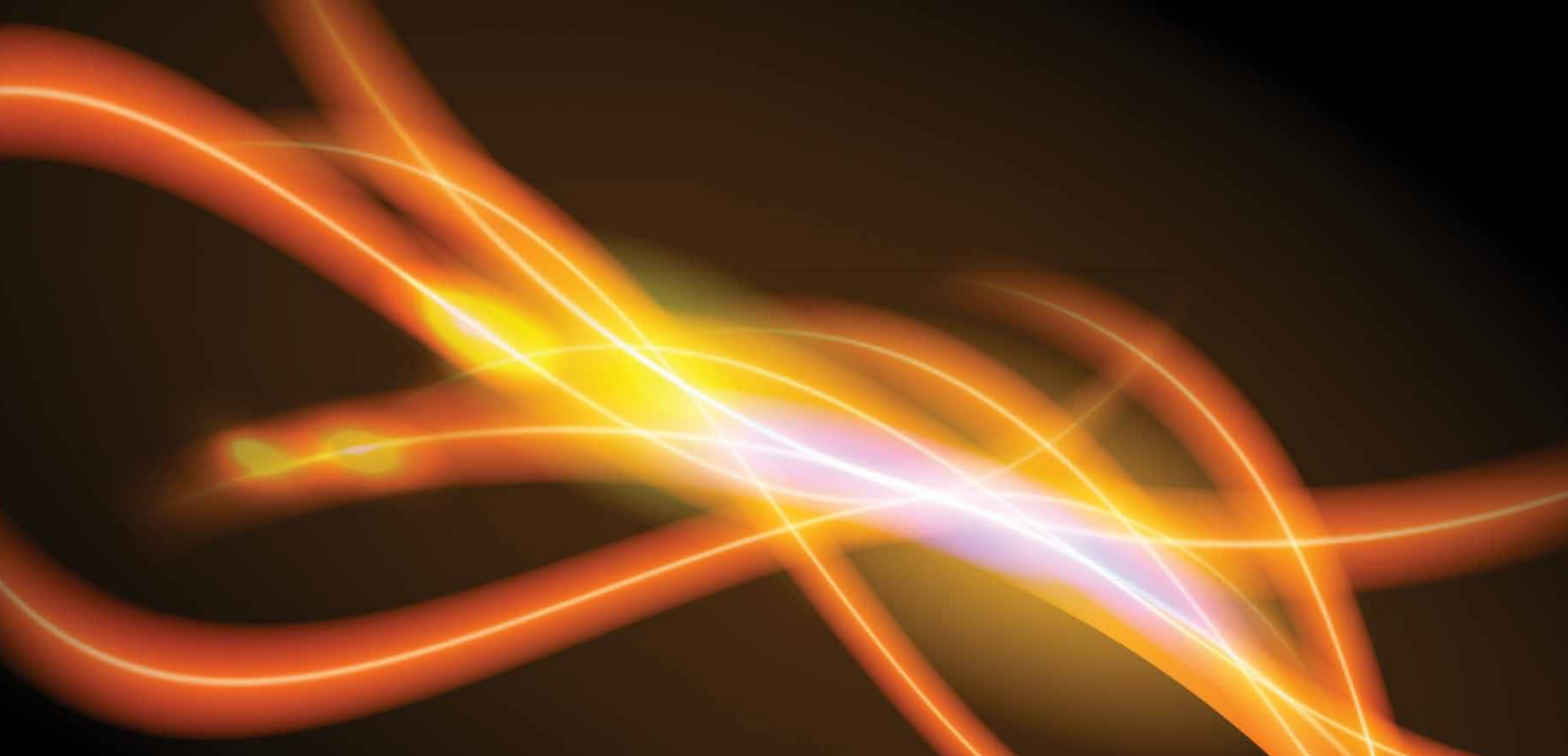

BUSINESS ELECTRICITY CAN BE BETTER. MUCH BETTER. ERM POWER HAS BEEN A QUIET ACHIEVER IN THE ENERGY INDUSTRY FOR MORE THAN 30 YEARS. WE SPECIALISE IN SELLING ELECTRICITY TO BUSINESS CUSTOMERS AND HAVE GROWN TO BECOME ONE OF THE NATION'S LARGEST SELLERS OF ELECTRICITY. BUT WE DON'T JUST SELL ELECTRICITY. WE OFFER UNRIVALLED CUSTOMER SERVICE AND VALUE FOR MONEY. IT'S WHAT MAKES US DIFFERENT. IT'S WHAT MAKES US BETTER.

NO.1 FOR CUSTOMER SATISFACTION IN ELECTRICITY

ERM POWER

ANNUAL REPORT 2012

ABOUT ERM POWER

ERM Power (ASX code: EPW) is a diversified energy company which operates electricity sales, generation and gas exploration and procurement businesses in Australia.

THE ENERGY YOUR BUSINESS NEEDS.

CONTENTS

CHAIRMAN'S AND MANAGING DIRECTOR'S REPORT

SUCCESSFUL YEAR

In preparing this report we have reflected on the success of the ERM Power group (Group) over the last 12 months and the dynamic nature of the external environment over the same period. It has been a challenging time with significant regulatory and market changes affecting all energy market participants. Yet over this period the Group has prospered, exceeding its prospectus forecasts for revenue, EBITDAIF[1] and underlying net profit after tax[1] for the second successive year, which is testimony to the strategy set by the board, the execution of the business plan by management and the experience and expertise of our people. There is no better demonstration of our success than the expansion of our electricity sales business which is forecast to become the fourth[2] largest electricity retailer in the National Electricity Market in FY2013 after just five years of operations.

CHALLENGING ENVIRONMENT

A clear demonstration of the pace of change in the energy market is the fact that demand for electricity is weaker than many would have expected. This can be attributed to a range of factors including sluggish industrial activity in some parts of the economy, higher electricity costs, greater consciousness of the need to reduce energy consumption to lower costs and help the planet, and increased introduction of rooftop solar power. This has had a major impact on generation development with market participants reviewing the timing of the need for new power stations on the eastern seaboard of Australia. Another major challenge is the Federal Government's carbon pricing scheme which a year ago was clouded by uncertainty but is now law and expected to have a significant impact across the Australian economy.

However, we are well positioned to prosper in this carbon-constrained environment with gas-fired generation which has half the emissions of equivalent coal-fired generation producing the same amount of energy. We have development or environmental approval for four generation projects in Queensland, New South Wales, and Western Australia that are well located near gas supplies, electricity and gas infrastructure and growing markets.

EARNINGS DRIVERS

A major contributor to earnings was our electricity sales business, which boosted electricity sales volumes, revenue and profits as it continued to expand around Australia with a service offering focussed on large commercial and industrial customers. The business increased its market share, particularly outside Queensland, diversifying its customer base and accounted for 4%[3] of all electricity sales by volume in Australia in July 2012. The quality of our service and product offering was confirmed when independent research ranked ERM Power the No 1 electricity retailer for customer service to business.

The Group also seized the opportunity to increase our effective interest in the Oakey power station in Queensland from 12.5% to 83.33% and become the operator of the power station. This transaction has created significant value for shareholders as the additional interest was purchased for less than half the replacement cost of an equivalent new power station and without the construction risk. Some of this value was recognised as a $19 million gain associated with the discount on acquisition which, when coupled with recurring earnings from the Oakey and Neerabup power stations, made our generation business a major contributor to earnings in FY2012.

As a peaking power station that is rarely required to operate, Oakey will be in near-new condition when the current off-take agreement ends in December 2014, providing a range of options to extract full value from this asset. The project debt is scheduled to be repaid in FY2015. The acquisition is consistent with the strategy of strengthening our business model by increasing our vertical integration capability.

Another major milestone was achieved with our gas business moving closer to becoming a profit contributor in its own right. Important in this regard was the signing of an agreement for the sale of gas from the Red Gully and Gingin West fields in exploration permit EP 389 in Western Australia to Alcoa.

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1 Refer to non-IFRS measures on page 19 for definitions

2 Based on ERM Power's forecast league table for volume of electricity sold in the National Electricity Market for FY2013. The analysis draws on 2011 SRES scheme liability data, ERM Power signed contracts and broad assumptions about the market and participants. This is not an independently verified forecast

3 Based on ERM Power's actual electricity sales in FY2012 and our analysis of the volume of actual electricity sold in the National Electricity Market in FY2012.

PEOPLE AND COMMUNITY

We had another safe operating year with no lost time injuries or recordable environmental incidents and maintained our record of no permanent injuries over more than 30 years of operations. We also maintained an active engagement with the community through sponsorships, donations and partnerships with a focus on education, sport and the arts.

On behalf of the board we would like to thank the management team and all employees for their contribution to the growth and success of the Group in the face of challenges over the last 12 months. We also want to acknowledge our fellow directors for their support and guidance over this period and thank ERM Power's founder, Trevor St Baker, for his valuable contribution as Deputy Chairman of the Board and a consultant to the executive team.

Finally, it is important to recognise all other stakeholders including customers, shareholders, suppliers and community members for the important role they have played during our second year as a listed company.

OUTLOOK

The future remains bright with our electricity sales business forecasting to maintain its strong growth, supported by a first ever marketing campaign and further expansion of the business into the small to medium enterprise (SME) market; our generation business expected to remain a major earnings contributor; and our gas business moving closer to becoming a profit centre in its own right. The Group remains committed to creating value for shareholders as we pursue our aspiration of being the preferred energy supplier to business in Australia.

Tony Bellas
Chairman

Philip St Baker
Managing Director and CEO

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED 30 JUNE 2012

1. REPORT ON FINANCIAL PERFORMANCE

1.1. REVENUE – $938 MILLION, UP 71% ON PRIOR YEAR

Revenues and other income for the year were $937.9 million, an increase of $388.1 million (71%) over the prior year of $549.8 million.

This continuing growth was mainly due to the strong growth of our electricity sales business and the acquisition of an increased interest in the Oakey power station ("Oakey"), and its consolidation in the Group's accounts. This increased interest was acquired at a discount reflecting the controlling interest it provided to ERM Power.

Our electricity sales business has continued its strong growth with sales revenue for the year up 73% over the prior year, increasing from $486.7 million to $842.4 million. This revenue figure is 30% above the forecast of $646.5 million in the Company's prospectus dated 17 November 2010 ("Prospectus"). Revenue increased as a result of growth in customers and load, increases in environmental legislation and increased network costs, which we pass directly through to our business customers.

Revenue from our generation business was 61% over the prior year, increasing from $55.8 million to $90.1 million, and also 85% above the Prospectus forecast of $48.6 million. The Prospectus had accounted for the sale of our interest in Kwinana and the financial close of a new power station, but not the acquisition of 236 MW of additional generating capacity from Oakey which provided ERM Power with the controlling interest in, and consolidation of Oakey.

REVENUE	2012A	2011A $ million	2012P	% change on P
Electricity sales	**842.4**	486.7	646.5	30%
Other	**95.5**	63.1	44.4	115%
Total Revenues	**937.9**	549.8	690.9	36%

(A = actual, P = Prospectus)

1.2. STATUTORY PROFIT – $34.2 MILLION, UP FROM $16.2 MILLION IN PRIOR YEAR

Statutory Profit (net profit after tax and minority interests) for the year was $34.2 million, compared to $16.2 million in the prior year.

Key factors in this improvement include strong growth in the profit of our electricity sales business, a gain from the acquisition of a controlling interest in Oakey, and the consolidation of Oakey's financial results for the first time from this year. Oakey was previously equity accounted as an investment in an associate.

The purchase of the additional 50% interest in Oakey in the first half of the year produced a gain of $19 million arising from the acquisition of a controlling interest in the asset. Accounting standards preclude the recognition of any further gain from the subsequent ownership increase during the year. This outcome is similar to the Prospectus forecast for generation development which had anticipated the Braemar 3 development financial close in the second half of the year.

The improvement in statutory profit also includes an unrealised gain of $5.5 million before tax in the fair value of financial instruments in the current year, compared to an unrealised gain of $14.2 million in the prior year.

STATUTORY PROFIT	2012A	2011A $ million	2012P	% change on P
Statutory Profit	**34.2**	16.2	39.0	(12%)
Which includes unrealised changes in financial instruments before tax	**5.5**	14.2	19.8	

(A = actual, P = Prospectus)

1.3. FINAL DIVIDEND – 4.5 CENTS PER SHARE FULLY FRANKED, UP FROM 3.5 CENTS IN PRIOR YEAR

A fully franked final dividend of 4.5 cents per share has been declared and will be paid on 16 October 2012. Record date is 17 September 2012. The Company's shares will trade ex-dividend from 11 September 2012. This dividend is higher than the Prospectus forecast by 15%, higher than the dividend paid in respect of the prior year by 29%, and higher than the interim dividend paid in the year.

DIVIDENDS	2012A	2011A cents per share	2012P	% change on P
Interim (fully franked)	**4.0**	Nil	3.8	5%
Final (fully franked)	**4.5**	3.5	3.9	15%

1.4. EBITDAIF – $85.4 MILLION, UP 84% ON PRIOR YEAR

EBITDAIF[1] for the year at $85.4 million was almost double the prior year figure of $46.4 million. This result is 37% above the Prospectus forecast.

Our electricity sales business increased its EBITDAIF by 38% to $30.9 million, from $22.5 million, and EBITDAIF from our generation assets reached $70 million, up 142% from $28.9 million in the prior year (including profit of associate in the prior year only).

EBITDAIF	2012A	2011A $ million	2012P	% change on P
Electricity sales	**30.9**	22.5	31.0	0%
Other	**54.5**	23.9	31.4	73%
Total EBITDAIF	**85.4**	46.4	62.4	37%

(A = actual, P = Prospectus)

1.5. UNDERLYING PROFIT – $30.3 MILLION, UP FROM $6.3 MILLION IN THE PRIOR YEAR

Underlying Profit for the year at $30.3 million exceeded the Prospectus forecast of $25.2 million by $5.1 million (20%). This result was a $24 million (381%) increase compared to $6.3 million in the prior year.

This is a result of the 84% increase in EBITDAIF to $85.4 million from $46.4 million in the prior year. Our electricity sales business increased its EBITDAIF by 38% to $30.9 million, from $22.5 million, and EBITDAIF from our generation business reached $63.4 million, up 119% from $29.0 million in the prior year. Corporate costs were $2.3 million higher than the prior year due primarily to a few extra staff for ASX environment, higher performance based bonus payments, and less utilisation of corporate staff in support of generation development.

The year and the prior year had some differences in the portfolio of generation assets with the acquisition of further interests in Oakey during the year. In addition, the interest in the Kwinana power station was disposed of in the prior year, as disclosed in the Prospectus. Underlying Profit includes an after tax gain of $19 million recognised as the result of the discounted price paid for the controlling interest in Oakey and the full consolidation of Oakey's results for the first time.

UNDERLYING PROFIT	2012A	2011A $ million	2012P	% change on P
Underlying Profit	**30.3**	6.3	25.2	20%

(A = actual, P = Prospectus)

1.6. UNDERLYING EARNINGS PER SHARE – 18.4 CENTS, UP FROM 15.7 CENTS IN PROSPECTUS

Underlying earnings per share of 18.4 cents (based on Underlying Profit for the year) was an increase of 13.9 cents per share on the prior year underlying earnings per share of 4.5 cents. The result was also 2.7 cents per share higher than the Prospectus forecast of 15.7 cents per share, on a weighted average capital base of 165 million shares for the year.

UNDERLYING EARNINGS PER SHARE	2012A	2011A cents per share	2012P	% change on P
Underlying earnings per share	**18.4**	4.5	15.7	17%

(A = actual, P = Prospectus)

1.7. RECONCILIATION OF STATUTORY PROFIT, UNDERLYING PROFIT AND EBITDAIF

The directors believe that EBITDAIF and Underlying Profit provide the most meaningful indicators of the Company's underlying business performance. Underlying Profit is Statutory Profit after excluding the after tax effect of unrealised marked to market changes in the fair value of financial instruments. A reconciliation of EBITDAIF to Statutory Profit, showing the impact of fair value adjustments to arrive at Underlying Profit, is provided in Appendix 1.

Our electricity sales business is required to value its forward electricity purchase contracts at market prices at each reporting date. Changes between reporting dates are recognised as unrealised gains or losses in the particular reporting period. These fair value gains net of tax are the only adjustments made to Statutory Profit to arrive at underlying profit for each of the years presented. The market values of corresponding sales contracts to which these purchase contracts relate are not permitted to be recognised, unless they are onerous. At 30 June 2012 the sales contracts had an unrealised marked to market value of $135.5 million[1].

[1] This figure has not been subject to audit or review

1.8. OPERATING CASH FLOW – $1 BILLION IN RECEIPTS

Cash in-flows for the year from operating activities included $1 billion in receipts from customers, including GST.

Net cash flow from operating activities for the year was $39.7 million compared to $109.1 million in the prior year. The prior year included cash received on the sale of the interest in the Braemar 2 power station whilst the current year includes a higher cash outlay in respect of environmental certificates held as inventory for surrender early in the new year.

The major cash outflows during the year included $63 million paid for a 50% interest in Oakey on 1 July 2011. The purchase was funded by $16 million from corporate facilities and the balance from cash balances. Cash held in the project was $12 million at that date.

In January 2012, Oakey's holding company conducted a share buy-back, increasing our controlling interest from 62.5% to 83.3% at a cost of $31 million, inclusive of transaction costs. This was funded by $20 million drawn down as project borrowings and a further $11 million from cash balances.

The reconciliation of EBITDAIF to operating cash flows, together with a summary of cash flows, is shown in Appendix 2.

1.9. DEPRECIATION AND AMORTISATION – $17.9 MILLION

Depreciation and amortisation charges for the year are $7.9 million higher than the prior year, at $17.9 million, and higher than the Prospectus forecast of $8.8 million, reflecting the increase in the generation asset portfolio from the acquisition of the controlling interest in Oakey.

The current year charges are for the 50% (165 MW) beneficial interest in the Neerabup power station ("Neerabup") and the depreciation on the full consolidation of Oakey for the first time, whilst the prior year charges and Prospectus forecasts included depreciation for the share of Neerabup and Kwinana (part period) only. Depreciation and amortisation charges across the remainder of the Group amounted to $1.2 million, reflecting the minimal assets employed in those other businesses.

DEPRECIATION AND AMORTISATION	2012A	2011A $ million	2012P	% change on P
Depreciation and Amortisation	**17.9**	10.0	8.8	103%

(A = actual, P = Prospectus)

1.10. FINANCE EXPENSES – $29.5 MILLION, DOWN FROM $29.8 MILLION IN THE PRIOR YEAR

Finance expenses for the year at $29.5 million include the consolidation of Oakey's debt for the first time. This was not part of the Prospectus forecast.

The limited recourse interest expenses on the Neerabup and Oakey project debt facilities, which are covered by contract revenues from sovereign and investment rated corporations, represented 78% of the total Group finance costs for the year.

FINANCE EXPENSES	2012A	2011A $ million	2012P	% change on P
Finance Expenses	**29.5**	29.8	18.4	60%

(A = actual, P = Prospectus)

1.11. DEBT – $49.4 MILLION CORPORATE DEBT, PLUS $259.1 MILLION LIMITED RECOURSE DEBT

As at 30 June 2012, Group debt comprised corporate facilities of $49.4 million and limited recourse project facilities of $259.1 million, amounting to total Group debt of $308.5 million net of capitalised transaction costs.

The project debt facilities are in respect of the Neerabup partnership (50% interest) and Oakey (83.3% interest). These facilities consist of term debt at both power stations and working capital facilities at Neerabup, supported by contract revenues from sovereign and investment rated corporations. The convertible notes are in respect of the equity interest in Neerabup. All of these facilities are recourse only to the respective projects.

The total project debt on Oakey at 30 June 2012 was $53.8 million after 12 years of its 15 year full debt amortisation, supported by long term off-take contracts. Oakey will be fully debt free in the 2015 financial year. The estimated replacement cost of Oakey is $320 million based on a conservative $1 million per MW for new build plant. This represents significant opportunity to refinance if required.

The total project and working capital debt on Neerabup, excluding convertible notes, is $161.3 million. This 18 year term project debt is supported by a 20 year off-take contract with the West Australian Government owned electricity retailer, Synergy. Neerabup was commissioned in 2009 at a total cost for the power station, gas compression station and pipeline of $436 million.

The combined limited recourse project debt on Oakey and Neerabup represents gearing of less than 50% of their estimated values with the financing arrangements fully amortised by contracted revenues.

The Group has $49.4 million in corporate non project debt. This comprises $16 million borrowed to finance part of the Oakey acquisition, and which is repayable at the end of the 2013 financial year, with the balance representing the drawdown on the Macquarie receivables financing facility. The Macquarie facilities have recourse only to our electricity sales business.

DEBT	2012A	2011A
	$ million	
Corporate	**49.4**	4.4
Recourse to projects only	**259.1**	207.3
Total Debt	**308.5**	211.7

(A = actual)

2. OUTLOOK

We look forward to continued strong growth in our electricity sales business, leveraging maximum value from the Oakey power station acquisition and maintaining preparedness with short lead-time new generation developments in Queensland and Western Australia especially to respond to commitments for expanded generation capability to meet new resource developments under construction and planned in those States. We also look forward to the commencement of production at our gas and condensate development in Western Australia, and progressing our gas interests in the Eastern States.

2.1. ELECTRICITY SALES

Our electricity sales business was recently independently rated the number one business energy retailer for service and value and is forecast to become the fourth largest seller of electricity in the National Electricity Market this year. We have committed funds to build our national market share from the current 4% to 10%, or more within the next three to four years. We expect high growth rates to continue as we consolidate our position in the large commercial and industrial customer segment and as we go deeper into the market by expanding into the small to medium enterprise customer segment in 2013. Additionally we have launched our first marketing campaign to raise awareness of our brand and of the quality of its service offering to prospective business energy customers which have not yet considered us as their electricity retailer.

2.2. GENERATION

We expect our generation business to continue to perform strongly over the long term by delivering value from existing assets and developing and/or acquiring low cost high value long term assets in the future, as we have in the past. With our 83.3% interest in Oakey forecast to be debt free in 2015 we are well positioned to fund opportunities as they arise.

We are well positioned for development opportunities in the medium term that we anticipate in both Queensland and Western Australia driven by LNG and mining projects. As a rapidly growing vertically integrated energy company we are well positioned to play a role in government electricity generation asset sales in New South Wales and Queensland if they arise.

2.3. GAS

We expect our gas business to move into production and sales this financial year whilst also significantly expanding its exploration activities in Western Australia and New South Wales.

The gas supply agreement with Alcoa included a prepayment to fund the construction of the Red Gully production facility which is on track to deliver gas in 2013. This year we will be stepping up our exploration activities in Western Australia in pursuit of prospects and prospective areas already identified on our acreage positions. Additionally we are well advanced for a well-priced entry to gas exploration in New South Wales through farm-in agreements and investment in the Clarence Moreton Basin.

All of our gas activities are targeted at building an east and west coast gas position that will create supply options for our generation development and energy sales businesses. The regions we have selected are all prospective for future generation development and we are undertaking feasibility work to assess the possible expansion of our sales business into gas sale. We are also preparing our gas business for possible listing on the ASX within 1 to 2 years.

3. SIGNIFICANT DEVELOPMENTS

3.1. CONTROL OF THE 332 MW OAKEY POWER STATION

ERM Power took a controlling interest and operational responsibility for Oakey, increasing our effective interest from 12.5% at 1 July 2011 to 83.3% during the year. The effective interest is now 277 MW of Oakey's total 332 MW capacity[2].

Oakey is a 332 MW two unit peaking power station with dual fuel capacity (gas and distillate). It is located on the Roma to Brisbane gas pipeline, 150km west of Brisbane, an area which continues to be a high electricity demand growth region of Australia. The remaining interest is held by a long-standing private investor.

On 1 July 2011, we increased our effective interest in Oakey to 62.5% when we completed the acquisition of a 50% interest from Alinta Energy for $63 million. This acquisition took our effective generation interest from 42 MW to 208 MW. The purchase price for this additional 166 MW interest was less than the replacement cost of the asset, which is in near new condition due to the fact that it is a peaking power station that has operated less than 5% of the time over its 12 years of operation. The purchase price reflects the value obtained from acquiring control of this asset.

On 18 January 2012, this interest was further increased to 83.3%. The further 69 MW (20.8%) interest was acquired at a similar pro rata cost to the earlier 50% purchase.

In the current year, we have accordingly added 235 MW of capacity to our generation portfolio (total share in Oakey now 277 MW) at a significant discount to the cost of new generation capacity, and without the construction risk and delayed commencement of returns of an equivalent new power station. The Oakey acquisition was not included in the Prospectus forecast for the year, which had assumed we would expand our physical generation through the development to the financial close of the Braemar 3 project in Queensland during the year.

ERM Power has the skills, experience and complementary businesses to exploit substantial upside from this asset over the short, medium and long term. The expiry of its off-take contract in December 2014 provides us with substantial vertically integrated wholesale hedge product and risk minimisation between our generation and electricity sales businesses. Opportunities include, but are not limited to:

- Recontracting;
- Refinancing;
- Divestment;
- A combination of the above; or
- Vertical integration.

The acquisition of the additional interests in Oakey is consistent with our strategy of building a portfolio of high quality low emission power generation assets and insurance products in high growth regions.

Under the terms of Oakey's limited recourse debt facility, all of its debt will be repaid from contracted off-take revenues in the 2015 financial year providing ERM Power with an 83.3% interest in an unencumbered 332 MW power station and a natural peak hedge product for our electricity sales business.

3.2. ELECTRICITY SALES BUSINESS NO 1 FOR OVERALL CUSTOMER SATISFACTION IN SURVEY

During the year, ERM Power participated in the independent Utility Market Intelligence survey ("UMI Survey") for the first time. This survey has been conducted on the retail electricity industry in Australia each year for the last 16 years by NTF Group. The survey covered 597 business electricity customers, ~ 100 from each of six major participating electricity retailers.

The survey rated ERM Power at No 1 for customer service to business in electricity. The findings showed that we were the best performing retailer in 8 out of 9 service categories and 11 out of 12 account management categories. The two exceptions were no personnel based in Victoria (since remedied) and lack of presence in the gas retailing business.

The survey revealed that only 2% of our competitors' customers were aware of our presence in this market. This is a reflection on having not broadly marketed our services, relying instead on direct relationships and a large network of brokers and consultants who act on behalf of large customers. As a result, in July 2012 we launched our first marketing campaign targeted at those business executives who make decisions on the purchase of electricity. As part of the campaign, the Group branding was refreshed and our website relaunched.

[2] Based on current or expected AEMO Winter Aggregate Scheduled and Semi Scheduled Generation Capacity, or generation capacity of registered facilities published by IMO (for WA)

4. OPERATIONAL REVIEW

4.1. ELECTRICITY SALES AT 8.3 TWH, UP 46% ON THE PRIOR YEAR

Our electricity sales business achieved sales volumes of 8.3 TWh for the year compared to 5.6 TWh in the prior year, as it continued to grow strongly in its fifth year of operation as an electricity retailer focused on commercial and industrial customers.

Revenue for the year increased by 73% to $842.4 million and EBITDAIF by 38% to $30.9 million, compared with the prior year.

The increase in revenue was attributable to both increased penetration in states other than Queensland, and to the growth in network charges which are passed through to our customers without any transaction margin. Sales in states other than Queensland grew from 1.1 TWh to 3.7 TWh in the year and represent 45% of total sales for the year, compared to 20% in the prior year.

ELECTRICITY SALES	2012A	2011A $ million	2012P	% change on P
Revenue	**842.4**	486.7	646.5	30%
EBITDAIF	**30.9**	22.5	31.0	0%

(A = actual, P = Prospectus)

HIGHLIGHTS:

Highlights of our electricity sales business include:

- Compound annual EBITDAIF growth of 48% over the past three years;
- Compound annual electricity load growth of 412% over the past three years;
- Only electricity retailer licensed in all states and territories in Australia;
- Survey indicates customers are three times more likely to be “very satisfied” with our service than our competitors’ service;
- Billing collections of 99.96% of revenue since the business commenced; and
- Issued 99.94% of historical bills accurately.

Our electricity sales business grew strongly in the year establishing itself as a significant competitor in business electricity retailing across Australia. During the year, ERM Power participated in the independent Utility Market Intelligence survey (“UMI Survey”) for the first time. This survey has been conducted on the retail electricity industry in Australia each year for the last 16 years by NTF Group. The survey covered 597 business electricity customers, ~ 100 from each of the six major participating electricity retailers. The UMI Survey showed that ERM Power significantly outperformed our competitors in terms of customer satisfaction, ranking first in 19 out of 21 customer service and account management categories and three times the ‘very satisfied” rating of the other five competitors across the 21 categories.

The business continued to focus on its traditional base of commercial and industrial (“C&I”) customers. We are significantly increasing our sales loads and revenue, strengthening our business through continued diversification of our customer base, and laying the groundwork for future growth to small and medium enterprise businesses by recruiting additional sales and support staff and enhancing information technology systems.

EDITDAIF of $30.9 million was achieved matching the Prospectus forecast despite slightly lower than forecast sales due to mild and wet weather. Electricity gross margins averaged $4.36 per MWh compared to $3.96 per MWh in the Prospectus, a 10% increase but still a fraction of the margins charged for the smaller customer regulated market. Overheads increased as the business added capability for future growth. During the year the business also focussed on developing an industry leading, customer focused demand response program which is resulting in savings for customers in energy and network costs, and greater customer loyalty.

CUSTOMER GROWTH

The success of our business model was demonstrated during the year building market share across Australia as sales increased in New South Wales, the Australian Capital Territory, Victoria, Tasmania, South Australia and Western Australia, while consolidating the major market position in Queensland. We remain the only national retailer competing in every tradable, contestable electricity market in Australia.

In FY2013 we expect the business to become the fourth largest electricity retailer in the National Electricity Market by volume[3]. In FY2012 the business accounted for about 4% of all electricity sold in Australia’s traded electricity markets during the year compared with 2.5% for the prior year. Market shares range from 1.5% in South Australia to 9.5% in Queensland, leaving considerable room for growth. This year’s results were driven by both strong growth in new

[3] ERM Power’s forecast league table for volume of electricity sold in the National Electricity Market (NEM) for FY2013. The analysis draws on 2011 SRES scheme liability data, ERM Power signed contracts and broad assumptions about the market and participants. This is not an independently verified forecast.

customer contracts and high levels of recontracting. There were 4,545 active customer meters in June 2012, compared to 2,059 a year earlier, an increase of 121%. We maintained our high level of customer retention with a lifetime load retention rate of 81% and a lifetime contract retention rate of 72%.

We continue to enjoy strong forward contracting growth, providing high visibility of future sales performance:

- As at 1 July 2012, contracted electricity sales for FY2013 already represent growth of 13% with several selling months still to go.
- As at 1 July 2012, more than 25 TWh of future sales were contracted, more than three times the electricity sales for FY2012.
- High visibility in sales growth. As at 1 July 2012, the level of sales contracted for the next three years was as follows:
  - FY2013 9.3 TWh
  - FY2014 6.9 TWh
  - FY2015 4.1 TWh

This growth in future sales has increased since ERM Power listed in December 2010 when it sourced $40 million for prudential capital requirements. This capital provided for the return to rapid sales growth achieved in the early years of developing the business before capital constraints slowed the pace of growth. The business remains selective and commercially focused on winning new business as evidenced by a win rate of around 20% of deals quoted.

NATIONAL EXPANSION AND PORTFOLIO DIVERSIFICATION

The major reason for our IPO in 2010 was to fund the expansion of our electricity sales business across Australia and to that end we have far exceeded our expectations with over 100% growth in sales in the last two years. Growth in the largest markets of New South Wales and Victoria has far exceeded expectations with these two states representing 42% of all electricity we sold in FY2012, almost double what was projected in our prospectus and up from 10% in FY2010.

We have also achieved significant diversification in the type of customers we have where today we have almost an equal portfolio balance between mining and infrastructure, manufacturing and heavy industry, government education and healthcare, and retail property and businesses.

CAPITAL MANAGEMENT

One of the challenges faced by all participants in the electricity industry is to have sufficient capital for both prudential and working capital requirements to ensure obligations with counterparties can be met, and to meet short term cash flow requirements. These requirements are prone to change not only as the business grows, but also with changes in legislation such as the constantly changing renewable schemes and the introduction of the carbon tax. In order to meet these challenges we utilise a suite of tools including tripartite agreements, reallocation, intermediation and other specialised electricity products to manage our hedge positions, optimise our capital position and protect or enhance our margins.

The IPO raised $40 million for capital requirements and in order to support further growth we have entered into $150 million in financing facilities with Macquarie Bank. These facilities provide improved capital efficiency and opportunities for growth, and have increased working capital availability. The facilities include receivables financing, bank guarantees for prudential support to the Australian Energy Market Operator and third party obligations, and a suite of electricity industry specific financing facilities. The facilities provide part of the foundation for future growth.

MARKET RESEARCH

The success of our electricity sales business has been based on industry leading customer service, as confirmed by the results of the UMI Survey. This survey revealed that ERM Power, having become one of the top six retailers, was rated at number one for customer service to business in electricity, by a large margin.

We were the best performing retailer in 8 of 9 service categories and 11 of 12 account management categories. As we do not yet retail gas, we did not finish first in the "multi-utility" service category for obvious reasons. The one account management category we failed to win was for not having a physical presence in other capital cities, something we have since addressed. The survey reported that 37% of our customers were very satisfied, compared with 14% for the next best utility. The survey reported that 86% were very satisfied, satisfied, compared to the 63% for the next best.

High quality customer service is a significant contributor to the high recontracting level. The survey revealed that only 2% of competitors' customers nominated ERM Power as a second choice. This is a reflection on having not broadly marketed our services, relying instead on our long standing reputation in the electricity sector among larger corporations and industry advisers, and or the reputations of our personnel.

MARKETING CAMPAIGN

During the year, a marketing communications agency was appointed to develop our first formal marketing campaign in order to raise our profile with customers not previously reached through traditional channels. The marketing campaign commenced in July 2012 and is expected to lead to an increase in the number of deals presented and help drive future growth by lifting presence and profile in the energy market. The campaign involves a brand evolution and a full suite of initiatives including advertising, direct mail and website upgrade, targeting the full range of small and medium enterprises, as well as our current larger commercial and industrial customer base.

NEW MARKETS

The business continued to develop its demand response ("DR") capability during the year with a team dedicated to both help customers use power more efficiently and cost effectively, and enhance portfolio risk management. Although still in its infancy, the DR program now has more than 50 MW in the portfolio and will provide benefits to both our customers and ourselves. Our customers will benefit from lower energy and network costs and we will benefit from customer loyalty and lower costs of sales.

We are also leveraging the benefits of full ownership of Sage Utility Systems by focussing the software development and consulting business on further development of our world class meter data, energy management and billing system. Sage was acquired last year, cementing a relationship that dated back to 2007, when Sage was appointed to develop the IT systems for the infant electricity sales business. Over that period Sage developed most of our energy management systems including the customer web portal, which allows customers to manage their electricity consumption and billing online and provides them with information about the wholesale electricity market. Customer communication on their electricity usage will continue to be a feature of our expansion into the smaller business customer market.

4.2. GENERATION

ERM Power is a successful developer, owner and operator of power stations across Australia. We have led the development of six power stations representing approximately 5% of Australia's total power generation capacity. All six power stations have been gas-fired and we have an excellent track record of delivering projects safely, on time and on budget.

We have divested our interest in four of these power stations and today we have a beneficial interest of 442 MW in two high quality power stations.

We are also experienced at operating power generation and gas pipeline assets and have a custom built operating platform including trading systems covering gas and electricity markets on the east and west coasts of Australia. We currently operate three gas-fired power stations totalling 982 MW.

We maintain an exceptional safety record with no lost-time injuries from any staff or contractors on the managed facilities during commercial operation.

Our generation assets comprise an 83.3% effective interest in Oakey (332 MW) in Queensland, and a 50% partnership interest in Neerabup (330 MW) in Western Australia. We operate both of these power stations.

Revenue for the year increased by 61% to $90.1 million and EBITDAIF by 118% to $63.4 million compared to the prior year [4]. The interest in Oakey was consolidated for the first time from 1 July 2011, having been equity accounted previously. The prior year also included a contribution from Kwinana until it was sold in October 2010.

We have maintained our interest in Neerabup and increased our interest in Oakey, as both of these are high quality generation assets with minimal fuel risk that deliver solid and predictable returns. Equity value in both assets will increase with the amortising of respective limited recourse debt from long term contract revenues with expanding refinancing opportunities over time. Both assets are expected to maintain their value and provide for future strategic value-add opportunities with expansion, recontracting, redevelopment and as vertically integrated hedge products for our electricity sales business.

GENERATION	2012A	2011A $ million	2012P	% change on P
Revenue	**90.1**	55.8	48.6	85%
EBITDAIF	**63.4**	29.0	39.4	61%

(A = actual, P = Prospectus)

OPERATING PERFORMANCE

ERM Power has service agreements with Neerabup, Oakey (from 18 January 2012) and Kwinana for the comprehensive management of those businesses. All power stations performed reliably and safely with no lost time injuries. The operations team successfully managed Kwinana's first major scheduled maintenance outage. It also took over operations of Oakey and successfully completed the transfer of employees, equipment, systems and procedures.

OAKEY

This 332 MW dual liquid/gas-fired open-cycle peaking power station is located on the Darling Downs, 150km west of Brisbane, adjacent to the Roma to Brisbane gas pipeline, and in Queensland's growing coal seam gas corridor.

[4] Revenue and EBITDAIF comprise generation assets and generation development and operations segment results as separately disclosed in the prospectus and in note 2 of the annual financial statements for the year ended 30 June 2012.

ERM Power led the development of Oakey with commissioning occurring safely and on time in December 1999.

We hold an 83.33% effective interest in Oakey with the remaining interest held by a long standing private investor. We also operate and financially manage the power station.

Oakey typically runs during times of peak electricity demand when Queensland's power needs are greatest. The commensurate low level of operation means Oakey should have an extended useful life.

Oakey receives steady cash flows under a power purchase agreement ('PPA') with AGL that expires in FY2015. At that time, ERM Power's interest in Oakey will constitute an 83.33% investment in a debt free peaking power station located in Queensland's coal seam gas corridor. In addition, because Oakey has operated for less than 5% per annum, it will still be in near new condition. Its replacement cost is estimated to be in the order of $320 million.

We will consider all options after the PPA expiry including providing product to our electricity sales business or entering into another long term contract with a third party.

In terms of its off-take agreement, Oakey receives a monthly fee in return for being available to operate at times of high (peak) power prices in the NEM when required by the off-taker, in addition to receiving operating fees when it does operate. The off-taker is the 'virtual operator' providing the fuel to operate and receiving the electricity pool price for the output. During the year Oakey was called to operate less than the previous year and performed in line with expectations, safely and reliably, and with no performance or availability penalties. The power station's record of no lost time injuries over its 12 year life was maintained.

NEERABUP

This 330 MW gas-fired open-cycle peaking power station is located 30km north of Perth and includes a 30km high pressure gas line-pack pipeline connected to the Dampier to Bunbury Natural Gas Pipeline. ERM Power led the development, financing and construction of the power station with completion occurring safely and on time in October 2009 for a total project cost of $436 million.

We hold a 50% partnership interest in Neerabup with the remaining interest held by Energy Infrastructure Trust. We also operate and financially manage the power station.

Neerabup typically operates during times of peak electricity demand, delivering power when the Western Australia South West Interconnected System ("SWIS") needs it most.

Neerabup's revenue is underpinned by a 20 year financial tolling arrangement with the state government owned electricity retail corporation, Synergy. Neerabup retains dispatch control allowing for further commercial dispatch upside above the underpinning Synergy revenues.

In terms of its off-take agreement and the regulated operating regime in the SWIS, Neerabup receives a monthly fee in return for being available to operate, in addition to receiving operating fees when called upon to operate. This off-take agreement is a bilateral contract hedge and the off-taker provides the fuel to the operation when called. During the year Neerabup was called to operate more frequently than forecast. It also provided support services to Kwinana during its scheduled maintenance shutdown and was called upon to operate by the system controller on a number of occasions. The power station operated reliably and safely with no lost time injuries for the year.

GENERATION DEVELOPMENT

Over the last year we have adapted our traditional generation development strategy into a multi-faceted strategy that better supports our rapidly growing electricity sales business while also responding to reduced demand growth trends, traditional development opportunities in the west and growing opportunities in demand response.

Today our electricity sales business is the fourth largest seller of electricity in the National Electricity Market (NEM) behind Origin Energy, TRU Energy and AGL Energy. Additionally these large competitors have actively increased vertical integration through acquisition of generators and gen-traders, building their own generation and by adopting a "build your own if required" development model.

In this context our east coast development strategy has changed to primarily focus on supporting our electricity sales business through positioning with physical capability to build base, peak and renewable products should it be more economical to build rather than to buy product and pursuit of opportunities to acquire well priced generation assets. Our 2012 acquisition of Oakey is a good example and we anticipate New South Wales privatisation opportunities in the medium term where we are well positioned to play a role as a potential new entrant generator with a large retail load to compliment a large wholesale generation position.

In Western Australia the electricity market is less mature and still dominated by government owned corporations and as such we regard it as prospective for our traditional development business model where we build power stations to supply product to others on long term contracts.

BRAEMAR 3 PROJECT

Plans are well advanced for an open-cycle, gas-fired power station of up to 550 MW in capacity and an 80km high pressure underground gas pipeline at our Braemar land hub, 215km west of Brisbane, Queensland. This site is adjacent to the QLD-NSW high voltage transmission interconnector 330/275 kV substation, and the Braemar 1 and Braemar 2 power stations developed by ERM Power.

Establishing the power station adjacent to an existing substation provides the optimum efficiency of transfer into the national electricity supply network and minimises the requirement for new transmission lines and easements. The site is also located in the centre of the Surat Basin which has emerged as a significant resource for coal seam gas.

The site for Braemar 3 forms part of our extensive land bank in the area. Existing infrastructure associated with this land bank should provide opportunities for future developments, with the rapid expansion of coal seam gas activity in the region expected to provide a competitive and secure supply of gas.

Braemar 3 will be developed in response to market signals supporting the need for new peak generation in Queensland. The site has both a development approval and a Powerlink transmission connection agreement.

ERM Power is the lead developer and will be lead project manager, construction manager and financial arranger for Braemar 3.

WELLINGTON 1 PROJECT

Plans are well advanced for the establishment of a gas-fired power station of up to 660 MW in capacity at Wellington, 260km north west of Sydney in New South Wales. The proposed power project will use the best available technology to produce electricity efficiently and cleanly to help meet the future energy needs of New South Wales, whilst contributing to a reduction in the state's carbon emissions intensity.

Development approval for the $700 million project, including a 100km gas pipeline to Alectown, has been granted by the New South Wales Government. We are presently progressing a further development approval for a pipeline from Wellington to Young.

Wellington 1 will be connected to the Moomba-Sydney gas pipeline at Young and is near emerging coal seam gas fields in the Gunnedah Basin. The power station will be located adjacent to Transgrid's existing 330kV/132kV substation providing for optimum efficiency of transfer into the national electricity supply network and minimising the requirement for new transmission lines and easements.

Wellington 1 will be developed in response to market signals supporting the need for new peak generation in New South Wales.

ERM Power is the lead developer and will be project manager, construction manager and financial arranger for Wellington 1.

THREE SPRINGS PROJECT

The proposed Three Springs 330 MW open-cycle gas-fired power station located 270km north of Perth is being developed to service the West Australian Electricity Market needs. It will provide additional capacity to the South West Interconnected System and reliable electricity to industry and households in Western Australia. The project is also well positioned to the growing mid-west minerals province which has the potential for up to 400 MW of load growth in that region over the next three years.

We secured an option over a strategic land parcel at Three Springs in September 2010. This land has space for at least two generation sites and was chosen for its ideal positioning next to Western Power's future 330kV substation. This substation will be a major distribution point for electricity to the mid-west region's growing mining community.

We have been in communication with local landowners, indigenous groups and regional councils, ensuring full disclosure and transparency of development plans. The project received environmental approval from the Western Australian Government in September 2011, with the other necessary approvals progressing to ensure the project is ready for the Western Australian Energy Market when required.

ERM Power is the lead developer and will be the project manager, construction manager and financial arranger for Three Springs. We own 100% of the project, and plan to retain at least 50% and operate the power station.

BRAEMAR 4 PROJECT

Braemar 4 will be a 500 MW intermediate load power station located at Braemar, 215km west of Brisbane. Braemar 4 would be the fourth power station developed on our land hub at Braemar.

Development approval was granted by Western Downs Regional Council in January 2012.

VICTORIA

ERM Power has positioned itself for potential changes in the electricity supply/demand mix in Victoria caused by future coal-fired power station closures. We have secured an option to buy land in the Latrobe Valley and are completing feasibility assessments on an additional peaking power station site in western Victoria.

4.3. GAS

ERM Power continued to implement a strategy of increasing the value of acreage in the onshore Perth Basin of Western Australia through targeted exploration, commercialisation, and farm-in and farm-out activities. After drilling two discovery wells in succession during 2010 and 2011, including the largest gas flow recorded from a Jurassic era reservoir in onshore Western Australia, we moved towards first production. We have signed an agreement for the sale of gas to Alcoa, and are planning to sell the condensate to the BP refinery at Kwinana from the Red Gully and Gingin West fields in exploration permit EP 389. Farm-in activities and seismic data analysis continued in other prospects.

GAS	2012A	2011A $ million	2012P	% change on P
EBITDAIF	**(1.0)**	(0.5)	(0.8)	(25%)

(A = actual, P = Prospectus)

RED GULLY DEVELOPMENT (EP 389)

The joint venture participants in the Red Gully and Gingin West gas and condensate discoveries in exploration permit EP 389 approved the joint development of these two fields during the year. We have a 21.25% joint venture interest. The operator is Empire Oil and Gas ("Empire") with a 68.75% interest.

The joint venture participants have agreed to sell gas from these fields to Alcoa of Australia. Alcoa will purchase 15 PJ of gas in two tranches, prepaying $25 million for the first tranche to fund the development of gas and condensate processing facilities, including a pipeline connecting to the Dampier to Bunbury Natural Gas Pipeline ("DBNGP"). The majority of the total gas contract relates to the second tranche, which will be paid for on delivery of gas.

Major capital equipment was procured in early 2012 and field fabrication commenced in the third quarter. Deliveries of gas are scheduled to begin in 2013.

The production facilities under development are well located for condensate sales, being adjacent to the Brand Highway and only two hours by road from the BP Kwinana Refinery. Condensate sales do not form part of the Alcoa agreement and the joint venture participants will receive additional revenue from those sales. Condensate production is associated with and directly proportional to the scheduled gas delivery.

Empire has estimated the combined fields could contain 20 to 30 billion cubic feet of recoverable gas, plus associated condensate[5/6]. The fields are located about 80km north of Perth, less than 3km from the DBNGP and about 50km north of Neerabup. An application has been lodged to acquire further 3D seismic data over EP 389 to define prospects adjacent to the existing discoveries. Any future exploration success could be readily commercialised via the Red Gully processing facility.

GARIBALDI (EP 454)

We increased our interest in exploration permit EP 454 from an initial 12.5% to 50% by funding a seismic program in the permit, which is about 220km north of Perth, 40km from the DBNGP, and 50km south of ERM Power's Three Springs generation development site. The survey confirmed an extensive Permian era structure, Garibaldi, which is the subject of further studies.

Empire has estimated that the Garibaldi prospect has 40 billion cubic feet of potential recoverable gas[6].

The joint venture interest in the shallow Cretaceous era rights of EP 454 is being farmed down to joint venture participant Empire, which will increase its interest in these rights (the Yarragadee Rights) from 50% to 83.33% by drilling the Charger 1 well.

ORIGIN FARM-IN (EP 426)

Origin Energy will earn a 40% interest in petroleum exploration permits EP 426 and EP 368 by operating and funding 80% of the costs of a 100km^2 3D seismic survey. Our interest in EP 426 will fall to 13.89% from 27.78% upon completion of the survey. We do not have any joint venture interest in EP 368. The farm-in will lead to a greater understanding of the North Erregulla prospect that straddles the border between the two tenements and will reduce our capital obligation in respect of this tenement.

Empire considers the North Erregulla prospect to be the largest untested Permian fault block remaining in the North Perth Basin and has calculated that the structure has the potential for recoverable oil of 22 million barrels in the Dongara sandstone and 3 million barrels in the Arranoo sandstone[6]. There is also the potential to trap 100 billion cubic feet of gas in the deeper Irwin River Coal Measures and High Cliff Sandstone. The North Erregulla survey should be completed in early 2013.

SHALE GAS (EP 432)

We are farming up our interest in respect of the northern 12 graticular blocks (known as Area A) of exploration permit EP 432 by funding 60% of operator Empire's share of the costs of the Black Arrow 1 exploration well. Empire has estimated the Black Arrow structure has the potential for recoverable oil in the Arranoo Sandstone of 10 million barrels[6]. Our interest in EP 432 will increase from 12.5% to 47.5% upon completion of the drilling of the well. The farm-in also allows the joint venture to evaluate the deeper Permian aged Carynginia Formation and the Irwin River Coal Measures for natural gas in conventional sandstone reservoirs and unconventional large shale gas plays. The joint venture is interested in investigating the shale gas potential of Area A. Major international and other Australian companies are exploring for shale gas in Western Australia

[5] 1 billion cubic feet = approximately 1 petajoule

[6] Based on Empire Oil and Gas NL website at 17 August 2012

with significant work underway in tenements near EP 432. ERM Power will retain its 12.5% interest in the remainder (known as Area B) of the permit which contains the Cooljarloo and Woolka oil prospects identified in the earlier 3D seismic program funded by ERM Power on entry into the permit.

4.4 CORPORATE

Corporate costs were $2.3 million higher than the prior year due primarily to a few extra staff for ASX environment, higher performance based bonus payments, and less utilisation of corporate staff in support of generation development.

CORPORATE	2012A	2011A $ million	2012P	% change on P
EBITDAIF	**(7.9)**	(4.6)	(5.6)	(41%)

(A = actual, P = Prospectus)

5. CARBON

In November 2011, The Australian federal parliament passed the Clean Energy Future Act ("CEF"), which introduced a tax on carbon dioxide emissions from July 2012. Under the CEF, as defined today, carbon will have an annual fixed price for the first three years, starting at $23 per tonne on 1 July 2012 and escalating at 5% for the subsequent two years. After 1 July 2015, the price will be set by the market under a flexible price mechanism with a price floor ($15 per tonne) and ceiling ($20 per tonne above the expected international price at 1 July 2015) which will apply in the first three years of the flexible price period. The price floor will escalate in subsequent years.

As a developer, owner and operator of low emission gas-fired generation assets, a successful gas explorer and a seller of electricity and gas we are not directly adversely impacted by the carbon tax. Our gas and generation businesses are expected to benefit from a carbon price as gas-fired generation has substantially lower emissions than coal fired generation. Our electricity sales business will not be disadvantaged as carbon emission costs are incurred in the generation sector and we have price adjustment clauses in our sales contracts. The carbon package is considered to be marginally beneficial to our proposed gas-fired generation projects but is not expected to materially impact on the supply demand balance in the short to medium term. The potential closure of 2,000 MW of high emissions coal plants in the NEM by 2020 is expected to create additional new development opportunities.

As a company dedicated to providing long term energy solutions to business customers we have lobbied strenuously against a tax on a primary business input and for a more measured climate change response more in line with global action.

6. SAFETY AND ENVIRONMENT

6.1. ORGANISATIONAL SAFETY – ACHIEVING "ZERO HARM"

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

In FY2012 ERM Power employees achieved the safety vision of "Zero Harm" by not incurring any recordable injuries at all during the year. Two minor medical treatment injuries were incurred by contractors employed by ERM Power in FY2012. There were no permanent injuries or lost time injuries.

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

PATHWAY TO ACHIEVING 'ZERO HARM'

Empower Employees to personally address any potentially unsafe activity or working environment.

Safety meetings are used to communicate information about any potential hazards in the workplace. All employees in the organisation participate in safety meetings.

Incident reporting of all incidents, no matter how small. This includes any near misses, ensuring employees and contractors learn how to improve.

Safety inductions and specific hazard training prepare employees and contractors for working in a 'zero harm' environment.

Audits and inspections provide a mechanism to continually improve and reduce potential hazards.

Job observations identify any potential weakness in procedures and involve employees across the organisation.

Mandatory alcohol testing of all employees and contractors on all occasions prior to entry to operational facilities prevents access to those unfit for work.

Performance Incentives for every person including a commitment to safety.

Emergency Preparedness is practiced regularly through emergency exercises, seeking continual improvement.

6.2. ENVIRONMENTAL MANAGEMENT – CARING FOR PEOPLE AND THE PLANET

ERM Power is proud to be a leader in producing cleaner electricity for Australia. ERM Power is committed to developing and operating gas-fired power station and gas facilities in an environmentally responsible manner. ERM Power's key environmental value is to care for people and the planet. ERM Power's environmental performance is measured by recording the number of environmental incidents in a year, reporting carbon emission and water usage efficiency.

In FY2012 ERM Power did not experience any environmental incidents and nor were there any breaches of any environmental licence conditions.

In FY2012 ERM Power's Neerabup and Oakey Power Station's carbon dioxide production rate (CO_2/MWh), otherwise referred to as Greenhouse Gas Intensity, was less than the average carbon emissions in each state.

Power stations developed by ERM Power are cooled by air or sea water and use little domestic fresh water. This is in contrast to many of Australia's coal fired power stations that use significant amounts of fresh water. ERM Power has estimated the power stations it has developed will use approximately 9 billion litres less water over their working lives than the average of the Australian electricity generation sector.

7. 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 by providing financial support and contributing skills, expertise and knowledge through these programs. We made donations to, or otherwise supported, a range of charities and arts, sporting and other community organisations and events. We continued to support indigenous education, together with our partners.

7.1. ARTS

We sponsored the Queensland Music Festival's ("QMF") Opera at Jimbour on the Darling Downs in Queensland (attended by more than 8,000 people), and QMF performances by Randy Newman and Paul Kelly in Brisbane. We also provided tickets for secondary school students to attend performances by the Queensland Symphony Orchestra in Toowoomba, Rockhampton and the Gold Coast, and by the Camerata of St John's Chamber Orchestra and Queensland Ballet in Toowoomba.

7.2. INDIGENOUS EDUCATION

Together with our partners, we support indigenous students in communities near our projects in Western Australia through the St Baker Wilkes Indigenous Scholarship Foundation.

ERM Power and Infrastructure Capital Group ("ICG"), the manager of Energy Infrastructure Trust, funded a scholarship to student Isaiah Jetta Bolton to support his final year education costs at the Western Australian College of Agriculture Cunderdin and made a donation to the Boordiya Kidz program in Western Australia that is transforming the lives of indigenous children through education. ERM Power and ICG jointly own Neerabup.

7.3. SPORT

We sponsored the Perth based Wembley Downs Tennis Club team in Australia's new National Tennis League, a girls team from the Brisbane All Hallows School, which represented Australia at the International School Sport Federation World Schools Cross Country Championship in Malta, and an U11 team from Moggill Football Club in Brisbane which competed in the VW Junior Masters Tournament in Sydney.

7.4. OTHER

We also supported a range of other organisations and fund raising events including:

- Premier's Disaster Relief Appeal in Queensland;
- Leukaemia Foundation World's Greatest Shave;
- Bravehearts White Balloon Day for child protection;
- Vinnies CEO Sleep out assisting homeless people;
- Rio Tinto Ride to Conquer Cancer;
- McIntyre Centre Equestrian Foundation for Disabled Children in Brisbane;
- Opti-MINDS Creative Sustainability Challenge, a problem solving competition among students in the Toowoomba region of Queensland;
- Dalby Daycare Centre and Stuart Street Kindergarten Kids on Art Show in Queensland; and
- Liam's Challenge, a charity raising funds for the Brisbane Royal Children's Hospital to treat children with Inflamed Bowel Disease.

We also engaged with the Wellington community in New South Wales though sponsorship of the Wellington Eisteddfod and Wellington Race Club.

APPENDIX 1

RECONCILIATION OF EBITDAIF AND UNDERLYING PROFIT WITH STATUTORY PROFIT

$ million	2012	2011
EBITDAIF (incl. profit of associate 2011 only)	**85.4**	46.4
Other Statutory Items		
Interest expense	**(29.5)**	(29.8)
Tax	**(6.9)**	(4.6)
Depreciation and amortisation	**(17.9)**	(10.0)
Fair value of financial instruments	**5.5**	14.2
Less total statutory items	**(48.8)**	(30.2)
Statutory Profit after tax	**36.6**	16.2
Reconciling items (1)		
Fair value of financial instruments	**(5.5)**	(14.2)
Tax effect on reconciling items	**1.6**	4.3
Less total reconciling items	**(3.9)**	(9.9)
Underlying Profit after tax	**32.7**	6.3
Less: non-controlling interest share	**(2.4)**	-
Underlying Profit after tax attributable to equity holders of the Company	**30.3**	6.3

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

The Group enters into hedging arrangements that provide protection from electricity spot price risk, and also interest rate exposure. In respect of the financial instruments that provide the electricity price hedges, a Group subsidiary routinely enters into forward sales contracts ("Contracts") related to the provision of electricity in the Australian National Electricity Market ("NEM") and the Western Australian Wholesale Electricity Market ("WEM"). The Contracts are exclusively entered into with large industrial, commercial and government entities under term contracts. All of the electricity provided under these contracts is traded in the NEM spot market and the WEM. The subsidiary also enters into a variety of electricity derivative transactions ("Derivatives"), the objective of which is to create an economic hedge for the Contracts. Accounting standards have been interpreted to preclude recognition of the marked to market value of the Contracts in the financial statements and, as a result, only the unrealised after tax effect of the Derivatives is reflected in profit and loss.

APPENDIX 2

RECONCILIATION OF EBITDAIF TO OPERATING CASH FLOWS AND SUMMARY OF CASH FLOWS

$ million	2012	2011
Operating Activities		
EBITDAIF (including profit of associate)	**85.4**	46.4
Discount on acquisition	**(19.1)**	-
Interest received	**(6.5)**	(4.5)
Share-based payments	**0.6**	0.3
Net change in working capital	**(14.9)**	71.1
Disposal profit on Kwinana	**-**	(4.7)
Distributions from Oakey	**-**	0.5
Net tax paid	**(5.8)**	-
Net operating cash flows (1)	**39.7**	109.1
Project Investing Activities		
Capital expenditure – projects	**(7.9)**	(13.1)
Capital expenditure – exploration	**(2.5)**	(4.9)
Net capital expenditure cash flows	**(10.4)**	(18.0)
Drawdown of project borrowings	**20.0**	-
Repayment of project borrowings	**(18.4)**	(3.3)
Net project cash flows outflows	**(8.8)**	(21.3)
Financing and other Investing Activities		
Repayment of corporate borrowings	**-**	(8.0)
Repayment of other borrowings	**-**	(25.1)
Drawdown of corporate borrowings	**11.2**	4.4
Net drawdown of electricity sales borrowings (2)	**34.2**	-
Proceeds from issue of shares	**1.3**	93.9
Purchase of Metgasco shares	**(9.7)**	-
Net proceeds from asset sales – Kwinana	**-**	8.9
Kwinana cash reserve account balance on disposal	**-**	(10.2)
Dividends paid	**(8.4)**	-
Net cash cost of additional interests acquired in Oakey	**(82.1)**	-
Net cash acquired on SAGE acquisition	**-**	0.4
Net interest paid	**(24.1)**	(28.2)
Other financing and investing cash (outflows) / inflows	**(77.6)**	36.1
Net (decrease) / increase in cash	**(46.7)**	123.9
Closing cash balances		
Free cash held in ERM Power	**38.3**	105.1
Free cash held in projects	**3.1**	5.1
Total free cash	**41.4**	110.2
Restricted cash	**98.2**	76.2
Total closing cash balances	**139.6**	186.4

[1] Net operating cash flows in the prior year include deferred settlement proceeds on the sale of the Braemar 2 power station received during the year ended 30 June 2011.

[2] Draw down and repayments on electricity sales receivables financing facility are shown net in above table and presented on a separate basis in the statutory cash flow statement.

NON-IFRS FINANCIAL MEASURES

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

The non-IFRS financial measures include but are not limited to:

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

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

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2012

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 2012 ("the year").

1. PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were:

- Electricity sales to business;
- Generation of electricity; and
- Gas exploration and procurement.

2. OPERATING RESULTS FOR THE YEAR

2.1. REVENUE

Revenues and other income for the year were $937.9 million, an increase of $388.1 million (71%) over the previous corresponding period ("prior year") of $549.8 million.

This continuing growth was mainly due to the strong growth of our electricity sales business and the acquisition of an increased interest in the Oakey power station ("Oakey"), and its consolidation in the Group's accounts. This increased interest was acquired at a discount reflecting the controlling interest it provided to ERM Power.

Our electricity sales business has continued its strong growth with sales revenue for the year up 73% over the prior year, increasing from $486.7 million to $842.4 million. This revenue figure is 30% above the forecast of $646.5 million in the Company's prospectus dated 17 November 2010 ("Prospectus"). Revenue increased as the result of growth in customers and load, and also because of increases from environmental legislation and increased network costs, which we pass directly through to our business customers.

Revenue from our generation business was 61% over the prior year, increasing from $55.8 million to $90.1 million, and also 85% above the Prospectus forecast of $48.6 million. The Prospectus had accounted for the sale of our interest in Kwinana and the financial close of a new power station, but not the acquisition of 236 MW of additional generating capacity from Oakey which provided ERM Power with the controlling interest in, and consolidation of Oakey.

2.2. STATUTORY PROFIT

Statutory Profit (net profit after tax and minority interests) for the year was $34.2 million, compared to $16.2 million in the prior year.

Key factors in this improvement include strong growth in the profit of our electricity sales business, a gain from the acquisition of a controlling interest in Oakey, and the consolidation of Oakey's financial results for the first time from this year. Oakey was previously equity accounted as an investment in an associate.

The purchase of the additional 50% interest in Oakey in the first half of the year produced a gain of $19 million arising from the acquisition of a controlling interest in the asset. Accounting standards preclude the recognition of any further gain from the subsequent ownership increase during the year. This outcome is similar to the Prospectus forecast for generation development which had anticipated the Braemar 3 development financial close in the second half of the year.

The improvement in statutory profit also includes an unrealised gain of $5.5 million before tax in the fair value of financial instruments in the current year, compared to an unrealised gain of $14.2 million in the prior year.

2.3. UNDERLYING PROFIT

Underlying Profit[1] for the year at $30.3 million exceeded the Prospectus forecast of $25.2 million by $5.1 million (20%). This result was a $24 million (381%) increase compared to $6.3 million in the prior year.

This is a result of the 84% increase in EBITDAIF[1] to $85.4 million from $46.4 million in the prior year. Our electricity sales business increased its EBITDAIF by 37% to $30.9 million, from $22.5 million, and EBITDAIF from our generation business reached $63.4 million, up 119% from $29.0 million in the prior year. Corporate costs were $2.3 million higher than the prior year due primarily to a few extra staff for ASX environment, higher performance based bonus payments, and less utilisation of corporate staff in support of generation development.

The year and the prior year had some differences in the portfolio of generation assets with the acquisition of further interests in Oakey during the year. In addition, the interest in the Kwinana power station was disposed of in the prior year, as disclosed in the Prospectus. Underlying Profit includes an

[1] Refer to non-IFRS measures on page 19 for definitions

after tax gain of $19 million recognised as the result of the discounted price paid for the controlling interest in Oakey and the full consolidation of Oakey's results for the first time.

2.4. UNDERLYING EARNINGS PER SHARE

Underlying earnings per share of 18.4 cents (based on Underlying Profit for the year) was an increase of 13.9 cents per share on the prior year underlying earnings per share of 4.5 cents. The result was also 2.7 cents per share higher than the Prospectus forecast of 15.7 cents per share, on a weighted average capital base of 165 million shares for the year.

2.5. RECONCILIATION OF STATUTORY PROFIT, UNDERLYING PROFIT AND EBITDAIF

The directors believe that EBITDAIF and Underlying Profit provide the most meaningful indicators of the Company's underlying business performance. Underlying Profit is Statutory Profit after excluding the after tax effect of unrealised marked to market changes in the fair value of financial instruments. A reconciliation of EBITDAIF to Statutory Profit, showing the impact of fair value adjustments to arrive at Underlying Profit, is provided in Appendix 1 of the document titled Mangement Discussion and Analysis ("MD&A") which accompanies this report.

Our electricity sales business is required to value its forward electricity purchase contracts at market prices at each reporting date. Changes between reporting dates are recognised as unrealised gains or losses in the particular reporting period. These fair value gains net of tax are the only adjustments made to Statutory Profit to arrive at Underlying Profit for each of the years presented. The market values of corresponding sales contracts to which these purchase contracts relate are not permitted to be recognised, unless they are onerous. At 30 June 2012 the sales contracts had an unrealised marked to market value of $135.5 million[2].

2.6. OPERATING CASH FLOW

Cash in-flows for the year from operating activities included $1 billion in receipts from customers, including GST.

Net cash flow from operating activities for the year was $39.7 million compared to $109.1 million in the prior year. The prior year included cash received on the sale of the interest in the Braemar 2 power station whilst the current year includes a higher cash outlay in respect of environmental certificates held as inventory for surrender early in the new year.

The major cash outflows during the year included $63 million paid for a 50% interest in Oakey on 1 July 2011. The purchase was funded by $16 million from corporate facilities and the balance from cash balances. Cash held in the project was $12 million at that date.

In January 2012, Oakey's holding company conducted a share buy-back, increasing our controlling interest from 62.5% to 83.3% at a cost of $31 million, inclusive of transaction costs. This was funded by $20 million drawn down as project borrowings and a further $11 million from cash balances. The reconciliation of EBITDAIF to operating cash flows, together with a summary of cash flows, is shown in Appendix 2 of the MD&A.

3. REVIEW OF OPERATIONS

A review of the operations of the Group can be found in the MD&A.

4. BUSINESS STRATEGIES AND PROSPECTS

We look forward to continued strong growth in our electricity sales business, leveraging maximum value from the Oakey acquisition and maintaining preparedness with short lead-time new generation developments in Queensland and Western Australia especially to respond to commitments for expanded generation capability to meet new resource developments under construction and planned in those States. We also look forward to the commencement of production at our gas and condensate development in Western Australia, and progressing our gas interests in the Eastern States.

4.1. ELECTRICITY SALES

Our electricity sales business was recently independently rated the number one business energy retailer for service and value and is forecast to become the fourth largest seller of electricity in the National Electricity Market this year. We have committed funds to build our national market share from the current 4% to 10%, or more within the next three to four years. We expect high growth rates to continue as we consolidate our position in the large commercial and industrial customer segment and as we go deeper into the market by expanding into the small to medium enterprise customer segment in 2013. Additionally we have launched our first marketing campaign to raise awareness of our brand and of the quality of its service offering to prospective business energy customers which have not yet considered us as their electricity retailer.

[2] This figure has not been subject to audit or review

4.2. GENERATION

We expect our generation business to continue to perform strongly over the long term by delivering value from existing assets and developing and/or acquiring low cost high value long term assets in the future, as we have in the past. With our 83.3% interest in Oakey forecast to be debt free in 2015 we are well positioned to fund opportunities as they arise.

We are well positioned for development opportunities in the medium term that we anticipate in both Queensland and Western Australia driven by LNG and mining projects. As a rapidly growing vertically integrated energy company we are well positioned to play a role in government electricity generation asset sales in New South Wales and Queensland if they arise.

4.3 GAS

We expect our gas business to move into production and sales this financial year whilst also significantly expanding its exploration activities in Western Australia and New South Wales.

The gas supply agreement with Alcoa included a prepayment to fund the construction of the Red Gully production facility which is on track to deliver product this year. This year we will be stepping up our exploration activities in Western Australia in pursuit of prospects and prospective areas already identified on our acreage positions. Additionally we are well advance for a well-priced entry to gas exploration in New South Wales through farm-in agreements and investment in the Clarence Moreton Basin.

All of our gas activities are targeted at building an east and west coast gas position that will create supply options for our generation development and energy sales businesses. The regions we have selected are all prospective for future generation development and we are undertaking feasibility work to assess the possible expansion of our sales business into gas sale. We are also preparing our gas business for possible listing on the ASX within 1 to 2 years.

5. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

5.1. CONTROL OF THE 332 MW OAKEY POWER STATION

ERM Power took a controlling interest and operational responsibility for Oakey, increasing our effective interest from 12.5% at 1 July 2011 to 83.3% during the year. The effective interest is now 277 MW of Oakey's total 332 MW capacity[3].

Oakey is a 332 MW two unit peaking power station with dual fuel capacity (gas and distillate). It is located on the Roma to Brisbane gas pipeline, 150km west of Brisbane, an area which continues to be a high electricity demand growth region of Australia. The remaining interest is held by a long-standing private investor.

On 1 July 2011, we increased our beneficial interest in Oakey to 62.5% when we completed the acquisition of a 50% interest from Alinta Energy for $63 million. This acquisition took our beneficial generation interest from 42 MW to 208 MW. The purchase price for this additional 166 MW interest was less than the replacement cost of the asset, which is in near new condition due to the fact that it is a peaking power station that has operated less than 5% of the time over its 12 years of operation. The purchase price reflects the value obtained from acquiring control of this asset.

On 18 January 2012, this interest was further increased to 83.3%. The further 69 MW (20.8%) interest was acquired at a similar pro rata cost to the earlier 50% purchase.

In the current year, we have accordingly added 235 MW of capacity to our generation portfolio (total share in Oakey now 277 MW) at a significant discount to the cost of new generation capacity, and without the construction risk and delayed commencement of returns of an equivalent new power station. The Oakey acquisition was not included in the Prospectus forecast for the year, which had assumed we would expand our physical generation through the development to the financial close of the Braemar 3 project in Queensland during the year.

ERM Power has the skills, experience and complementary businesses to exploit substantial upside from this asset over the short, medium and long term. The expiry of its off-take contract in December 2014 provides us with substantial vertically integrated wholesale hedge product and risk minimisation between our generation and electricity sales businesses. Opportunities include, but are not limited to:

- Recontracting;
- Refinancing;
- Divestment;
- A combination of the above; or
- Vertical integration.

The acquisition of the additional interests in Oakey is consistent with our strategy of building a portfolio of high quality low emission power generation assets and insurance products in high growth regions.

[3] Based on current or expected AEMO Winter Aggregate Scheduled and Semi Scheduled Generation Capacity, or generation capacity of registered facilities published by IMO (for WA)

Under the terms of Oakey's limited recourse debt facility, all of its debt will be repaid from contracted off-take revenues in the 2015 financial year providing ERM Power with an 83.3% interest in an unencumbered 332 MW power station and a natural peak hedge product for our electricity sales business.

5.2. ELECTRICITY SALES BUSINESS NO 1 FOR OVERALL CUSTOMER SATISFACTION IN SURVEY

During the year, ERM Power participated in the independent Utility Market Intelligence survey for the first time. This survey has been conducted on the retail electricity industry in Australia each year for the last 16 years by NTF Group. The survey covered 597 business electricity customers, ~ 100 from each of six major participating electricity retailers.

The survey rated ERM Power at No 1 for customer service to business in electricity. The findings showed that we were the best performing retailer in eight out of nine service categories and 11 out of 12 account management categories. The two exceptions were no personnel based in Victoria (since remedied) and lack of presence in the gas retailing business.

The survey revealed that only 2% of our competitors' customers were aware of our presence in this market. This is a reflection on having not broadly marketed our services, relying instead on direct relationships and a large network of brokers and consultants who act on behalf of large customers. As a result, in July 2012 we launched our first marketing campaign targeted at those business executives who make decisions on the purchase of electricity. As part of the campaign, the Group branding was refreshed and our website relaunched.

6. EVENTS AFTER BALANCE DATE

Since 30 June 2012 there have been no other matters or circumstances not otherwise dealt with in the Financial Report that have significantly or may significantly affect the Group.

7. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Apart from the matters referred to in item 4 above, 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 declared a final dividend in respect of the 2012 financial year as follows:

Amount:	4.5 cents per share
Franking:	Fully franked
Date Payable:	16 October 2012

The dividend has not been provided for in the 2012 financial statements.

During the year the Company paid an interim fully franked dividend of 4 cents per share (2011: Nil), together with a fully franked final dividend of 3.5 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 10,027,974 options on issue, exercisable into fully paid ordinary shares. The options do not carry any entitlement to participate in any share issue of the Company. In respect of those options with a 2017 expiry date, the options lapse on termination of employment, unless otherwise determined by the board.

Expiry date	Quantity	Exercise price
6 June 2013	8,388,868	80.6 cents
30 June 2013	100,000	80.6 cents
1 November 2017	1,296,400	275 cents
8 November 2017	242,706	275 cents

10.2. SHARES ISSUED ON EXERCISE OF OPTIONS

1,580,341 ordinary shares were issued during the year on the exercise of options at an exercise price of $0.806 per share. The options were issued in June 2008. No amounts are unpaid on any of the shares.

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[1]
Trevor St Baker	Non-Executive Deputy Chairman and Founder[2]
Martin Greenberg	Independent Non-Executive Director
Brett Heading	Independent Non-Executive Director
Antonino (Tony) Iannello	Independent Non-Executive Director
Philip St Baker	Managing Director and CEO

[1] Tony Bellas replaced Trevor St Baker as Chairman on 21 October 2011

[2] Trevor St Baker was appointed Deputy Chairman on 22 February 2012

INFORMATION ON DIRECTORS AND COMPANY SECRETARIES

Anthony Bellas MBA, BEc, DipEd, CPA, FAIM, MAICD.

Tony was appointed as Chairman of the Company on 21 October 2011, having served as director since December 2009. He brings almost 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 Australian Water Queensland Pty Ltd, Gasfields Water Management Pty Ltd, Loch Explorations Pty Ltd, QIP Coal Pty Ltd, West Bengal Resources (Australia) Pty Ltd and the Endeavour Foundation.

Other listed company directorships in the last three years

Corporate Travel Management Limited	Since June 2010
Guilford Coal Limited	(December 2010 - June 2012)
Watpac Limited	(December 2007 - October 2010)

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 was Executive Chairman of the Company from January 2000, until he was appointed Non-Executive Chairman in June 2009. Currently the Non-Executive Deputy Chairman, Trevor continues to provide mentoring and strategic planning assistance to senior executives of the Group.

Trevor founded the Group in 1980 as a development company (Energy Resource Managers Pty Ltd) and an energy consulting practice (E.R.M. Consultants Pty Ltd). These companies consulted to major energy and resource companies on energy development planning including the undertaking of a number of international Australian aid projects in the energy sector on behalf of the Australian Government. Trevor has more than 50 years of national and international energy industry experience including the establishment of Queensland's first Generation Planning Department for the Southern Electric Authority of Queensland in the early 1970s. He later worked on establishing the Resources Division of the State Electricity Commission of Queensland, managing the deregulation of power station coal procurement in Queensland and negotiating coal supply contracts for Queensland power stations up to 1980.

Trevor is the Company's member representative, Chairman of National Generators Forum Limited, a director of Master Electricians Australia Limited, and a director on the board of Queensland Resources Council Ltd. He also co-founded St Baker Wilkes Indigenous Educational Foundation Limited, of which he is the Chairman.

Trevor has been a Director of Oakey Power Holdings Pty Ltd since 2000 and chairman of the operating committee of NewGen Neerabup Partnership since 2007.

Special Responsibilities

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

Martin Greenberg BBus, DipCom, FCPA, JP, MAICD

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

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

Special Responsibilities

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

Brett Heading BCom, LLB (Hons), FAICD

Brett was appointed as a director in October 2010 bringing extensive experience as a corporate lawyer and company director.

Brett has specialised in corporate law for 25 years, including mergers and acquisitions, capital raising, ASX listings and advising boards of listed and unlisted public companies and government-owned corporations. He has been a partner of McCullough Robertson Lawyers since 1985 and was appointed Chairman of Partners in 2004.

Brett has been a director of the listed companies shown below and a number of unlisted companies. He has also held roles on Federal Government boards, having been a longstanding member of the Takeovers Panel (1998 to 2009) and the Board of Taxation (2000 to 2009).

Other listed company directorships in the last three years

CBio Limited	Since February 2012
Trinity Limited	Since August 2009
ChemGenex Pharmaceuticals Limited	(June 2002 - July 2011)
Australian Agricultural Company Limited	(June 2008 - June 2009)

Special Responsibilities

Member of the Remuneration Committee and Nomination Committee.

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

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

He is a director of the listed companies shown below. He is the Non-Executive Chairman of HBF Health Ltd, MG Kailis Group, and Intium Energy Ltd, and a director of St Baker Wilkes Indigenous Educational Foundation Limited and a member of The Murdoch University Senate. Prior to embarking on a career as a non-executive director, Tony was the Managing Director of Western Power Corporation until its separation into four separate businesses. Previously he held a number of senior executive positions at BankWest.

Other listed company directorships in the last three years

Energia Minerals Limited	Since March 2010
SP Ausnet*	Since June 2006
Aviva Corporation Limited	(February 2008 - November 2010)

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

Special Responsibilities

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

Philip St Baker BEng, MAICD

Phil was appointed as Managing Director and CEO in July 2006 and has leveraged his extensive experience in transforming ERM Power from an emerging power development business into one of Australia's leading diversified energy businesses. Phil has more than 20 years of international experience in the resources and energy industry including exploration, mining, processing, smelting, refining, power and gas. Previously, Phil had a 15 year career with BHP, where he progressed to the role of Global Maintenance Manager, supporting BHP's 100+ businesses worldwide. For five years, Phil led an international team tasked with facilitating operational business improvement across the entire group. Prior roles also include Vice President of Queensland Nickel QNI and CEO of NewGen Power.

Special Responsibilities

Chairman of Oakey Power Holdings Pty Ltd and chairman of the Heath, Safety, Environment and Sustainability Committee.

Company Secretaries

Peter Jans LLB (Hons), MA

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

Special Responsibilities

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

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

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

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

12. MEETINGS OF DIRECTORS

The number of meetings of the board of directors and each board committee held during the financial year, and the numbers of meetings attended by each director are in the table below.

			Meetings of committees					
	Board meetings		Audit & Risk		Nomination		Remuneration	
	A	B	A	B	A	B	A	B
Tony Bellas	13	14	6	7	2	2	8	8
Trevor St Baker	13	14	5	5	1	1	**	**
Martin Greenberg	13	14	7	7	2	2	8	8
Brett Heading	13	14	**	**	1	2	8	8
Tony Iannello	14	14	7	7	2	2	8	8
Philip St Baker	14	14	**	**	**	**	**	**

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 four 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	Options to acquire ordinary shares
Tony Bellas	100,000	-
Trevor St Baker	85,752,905	-
Martin Greenberg	571,794	354,726
Brett Heading	14,285	-
Tony Iannello	114,285	-
Philip St Baker	4,496,299	1,076,576

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 2012, the Group did not experience any reportable environmental incidents and 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:	2012 $	2011 $
Investigating accountants' report	-	630,000
Due diligence services	-	60,000
Other agreed-upon procedures in relation to the entity and any other entity in the consolidated Group	**70,000**	115,002
	70,000	805,002

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 98/0100. 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

M Greenberg

Director

21 August 2012

REMUNERATION REPORT
FOR THE YEAR ENDED 30 JUNE 2012

The directors present the Remuneration Report for ERM Power Limited ("Company") and its consolidated entities ("Group") for the year ended 30 June 2012.

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 sufficient to ensure that the Company can attract, develop and retain the best individuals. The committee reviews the remuneration of the Managing Director and senior executives against the market, and against Group and individual performance. It also reviews 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 Company's strategy and business objectives; and
- Link incentives to the creation of shareholder value.

In undertaking its work, the committee seeks the advice of external remuneration consultants who provide analysis to ensure remuneration levels are set to reflect the market for comparable roles. In February 2012, the committee employed the services of Ernst & Young ("EY") to provide benchmarking analysis and review the remuneration framework of the Managing Director and senior executives. No remuneration recommendations were made by EY in relation to any of the Key Management Personnel as defined by the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011* for FY2012.

1.2. KEY MANAGEMENT PERSONNEL

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

NON-EXECUTIVE DIRECTORS

Tony Bellas	Brett Heading
Trevor St Baker	Tony Iannello
Martin Greenberg	

SENIOR EXECUTIVES

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

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 June 2012. Non-Executive directors' fees are determined within an aggregate fee pool limit of $800,000, which limit was approved by shareholders at the annual general meeting held on 7 June 2010.

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

Table 1 – Directors' Fees Structure

Non-Executive Director Fees (excluding superannuation)	2012[1]	2011
Chairman	**160,000**	205,000
Non-Executive directors	**105,000**	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
Chairman of partnership committee or subsidiary	**N/A**	10,000
Representation on non wholly owned subsidiary boards	**25,000 each**	N/A

1. 2012 fee changes implemented on 22 October 2011

Table 2 – Directors' Fees

		Short-term benefits		Post-employment benefits	Long term equity based benefits		
		Cash salary and fees $	Non-monetary benefits[1] $	Superannuation entitlement $	Options[2] $	Total remuneration per income statement	% related to the value of options
Tony Bellas[3]	**2012**	**161,371**	**2,016**	**14,523**	**-**	**177,910**	**-**
	2011	154,815	-	13,933	-	168,748	-
Trevor St Baker[3]	**2012**	**183,226**	**7,891**	**16,490**	**-**	**207,607**	**-**
	2011	229,792	-	20,681	-	250,473	-
Martin Greenberg	**2012**	**126,774**	**-**	**11,410**	**-**	**138,184**	**-**
	2011	131,049	-	11,794	5,301	148,144	4%
Brett Heading[4]	**2012**	**127,001**	**-**	**-**	**-**	**127,001**	**-**
	2011	78,905	-	-	-	78,905	-
Tony Iannello[5]	**2012**	**125,000**	**-**	**11,250**	**-**	**136,250**	**-**
	2011	132,715	-	11,944	-	144,659	-
Total	**2012**	**723,372**	**9,907**	**53,673**	**-**	**786,952**	**-**
	2011	727,276	-	58,352	5,301	790,929	-

1 Non monetary benefits include car parking benefits and FBT.

2 The accounting expense relates to options granted in June 2008, which vested in November 2010.

3 Tony Bellas replaced Trevor St Baker as Chairman on 21 October 2011.

4 Appointed on 12 October 2010.

5 Appointed on 19 July 2010.

2.2 REMUNERATION OF MANAGING DIRECTOR AND SENIOR EXECUTIVES

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

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

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

- Base pay and benefits, including superannuation;
- Short term and long term incentives; and
- Other cash or equity based discretionary incentives.

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

In accordance with the objective of ensuring that executive remuneration is aligned to Group performance, a significant portion of executives target pay is at risk. The remuneration target is for a fixed remuneration level around the mean and a total remuneration close to or above the 75th percentile of comparator groups on achieving strong performance. Table 3 sets out the executives' target remuneration mix for the 2012 financial year.

2.2.1. BASE SALARY AND BENEFITS

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

External remuneration consultants provide analysis and advice to ensure executive remuneration is set at levels that reflect the market for comparable positions. Remuneration is reviewed annually to ensure that it is competitive with the market. Remuneration is also reviewed on promotion or change of role. There are no guaranteed base salary increases included in executive service agreements.

Tables 5 at the end of this section provides details of total remuneration during the financial year to the Managing Director and each of the named executives.

2.2.2. INCENTIVE SCHEMES

Variable remuneration is in the form of short ("STI") and long term ("LTI") incentives which represent at risk remuneration. STIs are paid annually against agreed objective 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 STI or LTI 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.

Table 3 – Executive Target Remuneration Mix

	Base pay and superannuation	Target short term incentive	Target long term incentive	Total target remuneration
Managing Director and CEO	52%	19%	29%	100%
Other Senior Executives	61%	17%	22%	100%

For shareholders, benefits associated with the incentive schemes include:

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

For employees, benefits associated with the incentive schemes include:

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

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

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

SHORT TERM INCENTIVES

STIs are provided to most employees. They have three components; individual, team and corporate. Each of these components is allocated a weighting and include both targets and stretch targets that are set at the beginning of each financial year. The Managing Director's targets and the corporate targets are set by the board, whilst the individual and team targets are set under the direction of the Managing Director.

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

STIs are calculated and paid following adoption of the Group's annual financial results. Payment may be offered by way of cash and/or equity at the election of the board. Any equity, provided through an equity incentive plan, vests immediately. STIs can be paid to employees who ceased employment during the year on a pro-rata basis at the discretion of the board.

Table 4 provides details of the STIs paid to KMPs in the current financial year following the outcome of 2011 results and for which an equity allocation to the Managing Director, Philip St Baker, was approved by shareholders at the 2011 Annual General Meeting.

Table 4 – STI Achievement

	2011 STI	
	Actual	Maximum
Philip St Baker	52%	60%
Mitch Anderson	40%	45%
Peter Jans	40%	45%
Derek McKay	40%	45%
Graeme Walker	38%	45%

The corporate target for the 2012 financial year included the following elements and weightings;

- 40% profit delivery against the prospectus forecasts;
- 30% positioning of the company;
- With the balance equally weighted across the application of best practice, talent management and strategy execution; and
- Deductions of up to 30% may apply if safety or compliance targets are not met.

Although a general provision has been made for incentive payments for FY2012, to be paid in FY2013, the allocation of payments to specific individuals and the form, whether to be taken in cash or equity, has not yet been determined. Any equity grants to Philip St Baker will be subject to shareholder approval at the 2012 Annual General Meeting.

LONG TERM INCENTIVES

LTIs are provided to selected employees in the form of equity via the Company's Long Term Incentive Share Trust ("LTIST"). The equity will only vest if certain performance measures are met and the employees are still employed at the end of the vesting period.

The first LTI issue was made in the 2012 financial year with vesting subject to continuation of employment through to 30 June 2014 and achievement of the following equally weighted performance measures:

- Underlying earnings per share ("EPS") growth performance; and
- Total security holder return ("TSR") performance.

The underlying EPS vesting condition was determined by the board for each of the next three years, based on statutory EPS excluding the marked to market changes recognised on financial instruments and onerous contacts, and measured as the average over those three years. The TSR vesting condition is measured against the TSR performance of a comparator group over the same three year period. The comparator group comprises companies of comparable market capitalisation together with additional selected companies from the energy and utilities sector. For the LTI offered in 2012, the comparator group consists of the following entities: [ASX: Company Name]

AGK:	AGL Energy	IFN:	Infigen Energy
ALS:	Alesco	IFZ:	Infratil (ASX)
ANG:	Austin Engineering	LNG:	Liquefied Natural Gas
APA:	APA Group	MEO:	Meo Australia
APK:	Australian Power & Gas	MIO:	Miclyn Express Offshore
AWE:	Awe	MLD:	Maca
AZZ:	Antares Energy	MPO:	Molopo Energy
BUL:	Blue Energy	MSF:	MSF Sugar
CCC:	Continental Coal	NDO:	Nido Petroleum
CIF:	Challenger Infrastructure Fund	NXS:	Nexus Energy
CNX:	Carbon Energy	ORG:	Origin Energy (ex Boral)
COE:	Cooper Energy	RES:	Resource Generation
COK:	Cockatoo Coal	RIA:	Rialto Energy
CUE:	Cue Energy Resources	ROC:	Roc Oil Company
CVN:	Carnarvon Petroleum	RRS:	Range Resources
DLS:	Drillsearch Energy	SEA:	Sundance Energy Australia
DTE:	Dart Energy	SKI:	Spark Infrastructure Group
DUE:	Duet Group	SPN:	SP Ausnet
DYL:	Deep Yellow	SSN:	Samson Oil & Gas
EGO:	Empire Oil & Gas	SXY:	Senex Energy
ENV:	Envestra	TAP:	Tap Oil
GDY:	Geodynamics	TFC:	TFS
HDF:	Hastings Diversified Utilities Fund	TOE:	Toro Energy
HUN:	Hunnu Coal	WOR:	Worley Parsons
HZN:	Horizon Oil	WTP:	Watpac

Any company which is not listed on the last day of the performance period is removed from the comparator group for the purposes of the TSR calculation.

At the end of the three year period, vesting is granted on the following basis:

EPS: Less than 17cps = 0%; 17 to 22cps = between 50% and 100% (linear); 22cps and higher = 100%.

TSR: Less than or equal to 50^{th} percentile = 0%; 50^{th} to less than or equal to 75^{th} percentile = 50% to 100% (linear); 75^{th} percentile and higher = 100%.

The LTI target rate determined for each individual is based on a percentage of annual average fixed remuneration, and for financial year 2012 was based on the maximum awards of 60% for the Managing Director, 40% for other executive KMP and 30% for other senior executives. The corresponding equity is issued into the LTIST and will vest subject to satisfaction of the performance conditions assessed following adoption of the Group's annual financial results for the third year.

Early vesting may occur in the following circumstances, subject to compliance with the listing rules, and the achievement of any relevant performance hurdles:

- On a change of control of ERM Power which shall be determined by a material change in the composition of the board, such change being initiated as a result of a change of ownership of the ERM Power's 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; and
- On termination of employment due to redundancy, death or permanent disability, or in circumstances that the board determines appropriate.

Table 7 details the long term incentive allocated to executive KMP in the current financial year and for which the allocation to Philip St Baker was approved by shareholders at the 2011 Annual General Meeting. This long term incentive is, for accounting purposes, expensed over the vesting period to June 2014.

Table 5 - Executive Remuneration

		Expensed in Income Statement								Supplementary Information[5]		
		Short term benefits			Post-employment benefits	Long term benefits		Total remuneration[5]	% related to the value of options	Less: Long term benefits and annual leave accounting accruals	Add: Vested Other equity-based payments	Total remuneration vested
		Base salary-cash	Non monetary benefits[3] and annual leave accrual	Short-term incentive[4]	Super-annuation entitlement	Other equity benefits[5]	LSL Accrual[6]					
		$	$	$	$	$	$	$		$	$	$
Philip St Baker [1, 2]	**2012**	**582,569**	**4,459**	**259,215[e]**	**52,431**	**145,544**	**4,404**	**1,048,622**	**1%**	**(142,214)**	**-**	**906,408**
	2011	494,400	(41,117)	193,024[4]	44,496	59,253	-	750,056	3%	(16,692)	37,384	770,748
Mitch Anderson [2]	**2012**	**357,500**	**45,424**	**128,863[c]**	**32,175**	**61,331**	**17,490**	**642,783**	**1%**	**(103,073)**	**-**	**539,710**
	2011	325,000	1,444	126,551[e]	29,250	31,029	-	513,273	3%	(27,100)	29,897	516,070
Peter Jans [2]	**2012**	**358,255**	**12,202**	**130,763[c]**	**32,243**	**61,460**	**2,904**	**597,827**	**1%**	**(74,345)**	**-**	**523,482**
	2011	325,686	19,276	143,994[e]	29,312	27,937	-	546,205	2%	(44,991)	20,488	521,702
Derek McKay [2]	**2012**	**357,500**	**510**	**128,863[c]**	**32,175**	**61,331**	**3,366**	**583,745**	**1%**	**(62,726)**	**-**	**521,019**
	2011	325,000	20,938	106,736[e]	29,250	24,799	-	506,723	2%	(43,516)	11,208	474,414
Graeme Walker [2]	**2012**	**302,752**	**5,696**	**108,408[e]**	**27,248**	**52,726**	**1,873**	**498,703**	**1%**	**(58,193)**	**-**	**440,510**
	2011	283,250	394	109,989[e]	25,493	18,356	-	437,482	1%	(16,784)	-	420,699

[1] Managing Director & CEO.

[2] Each executive is employed under an on-going employment contract that can be terminated on 6 months (Managing Director - 12 months) notice by either party. At the option of the Company payment may be made in lieu of notice. No notice of termination is required where termination is for cause.

[3] Non monetary benefits include salary continuance insurance premiums, car parking benefits and FBT.

[4] The short term incentive paid relates to performance in the previous year. Payments were made in cash ("c") or equity ("e"). The Managing Director's payment in 2011 was a combination of $80,005 in cash and $113,019 in equity.

[5] The amounts shown are as expensed in the income statement but do not reflect the benefit actually received by the executive in that year. In accordance with AASB 2, these amounts 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 vested remuneration actually received by the executive in that year.

[6] No accrual for long service leave was made prior to the 2012 financial year.

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 KMP in the current or a future reporting period are as follows:

Grant date	Nature of compensation		Service and performance criteria	Changes in terms or conditions since grant Date	% Paid in FY2012	% Vested in FY2012	% Forfeited in FY2012	Vesting
Nov-12	2011 STI	Equity or Cash	See Remuneration Report Section 2.2.2	N/A	100%	100%	-	Nov-12
Nov-12	Long term incentive	LTIST	See Remuneration Report Section 2.2.2	N/A	100%	-	-	Jun-14
Nov-10	Other Incentive	IPO Retention	Service condition only	N/A	0%	0%	0%	3 business days after 2012 Financial Statements are signed
Nov-10	Other Incentive	IPO Retention	Service condition only	N/A	0%	0%	0%	3 business days after 2013 Financial Statements are signed
Jun-08	Other Incentive	June 2008 Option Plan[1]	Service condition only	See Note 1	0%	0%	0%	Nov-10

[1] The exercise price of Options was halved in November 2010 given a 2:1 share split, in accordance with ASX Listing Rule 6.22.

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

Table 7 – Long Term Equity Benefits

		Expensed in income statement[2]				Supplementary Information[2]			
		Long term incentive	Other incentives		Remuneration per income statement	Long term incentive	Other incentives		Long term equity benefits vesting
			IPO retention	June 2008 option plan			IPO retention	June 2008 option plan	
		$	$	$	$	$	$	$	$
Philip St Baker[1]	2014	122,335	5,796	-	128,131	316,396	94,388	-	410,784
	2013	122,335	40,489	-	162,824	-	72,508	-	72,508
	2012	**71,725**	**73,819**	**-**	**145,544**	**-**	**-**	**-**	**-**
	2011	-	46,792	12,461	59,254	-	-	37,384	37,384
Mitch Anderson	2014	50,048	2,518	-	52,566	129,440	41,367	-	170,807
	2013	50,048	17,576	-	67,625	-	31,779	-	31,779
	2012	**29,343**	**31,988**	**-**	**61,331**	**-**	**-**	**-**	**-**
	2011	-	21,063	9,966	31,029	-	-	29,897	29,897
Peter Jans	2014	50,154	2,523	-	52,677	129,713	41,454	-	171,167
	2013	50,154	17,613	-	67,767	-	31,844	-	31,844
	2012	**29,405**	**32,055**	**-**	**61,460**	**-**	**-**	**-**	**-**
	2011	-	21,107	6,829	27,937	-	-	20,488	20,488
Derek McKay	2014	50,048	2,518	-	52,566	129,440	41,367	-	170,807
	2013	50,048	17,576	-	67,625	-	31,779	-	31,779
	2012	**29,343**	**31,988**	**-**	**61,331**	**-**	**-**	**-**	**-**
	2011	-	21,063	3,736	24,799	-	-	11,208	11,208
Graeme Walker	2014	42,384	2,194	-	44,578	109,617	36,050	-	145,667
	2013	42,384	15,317	-	57,701	-	27,694	-	27,694
	2012	**24,850**	**27,876**	**-**	**52,726**	**-**	**-**	**-**	**-**
	2011	-	18,356	-	18,356	-	-	-	-

[1] Managing Director & CEO

[2] The amounts shown are or will be expensed in the relevant income statement but do not reflect the benefit actually received, or to be received by the executive in each respective year. In accordance with AASB 2, these amounts represent 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 each executive if vesting occurs. Supplementary information is provided to reflect the maximum vested long term equity benefit receivable by each executive.

3. ADDITIONAL REMUNERATION DISCLOSURES

3.1. 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 8 shows selected Group financial data for the current and previous years, compared to the Company's prospectus dated 17 November 2010 ("Prospectus"), and the effect of the Group's performance on shareholder value.

Table 8 – Shareholder Wealth Financial Data

		Year ended 30 June 2012 Actual	Year ended 30 June 2011 Actual	Year ended 30 June 2012 Prospectus Forecast	Year ended 30 June 2011 Prospectus Forecast
Revenue and other income	($'000)	**937,926**	549,814	690,911	478,916
EBITDAIF	($'000)	**85,390**	46,407	62,376	45,665
Net Profit After Tax	($'000)	**34,156**	16,176	39,049	26,474
Underlying Net Profit After Tax	($'000)	**30,311**	6,245	25,156	3,488
Basic Earnings per Share	(cents)	**20.7**	11.7	24.4	16.6
Underlying Earnings per Share	(cents)	**18.4**	4.5	15.7	2.2
Dividend per share	(cents)	**8.5**	3.5	7.7	3.5
Closing share price at 30 June	($)	**2.00**	1.57	-	-

3.2. DETAILS OF OPTION GRANTS

No options were issued during financial year 2012. Options held by KMP neither vested nor lapsed during the period.

3.3. SHARES ISSUED ON THE EXERCISE OF REMUNERATION OPTIONS

Details of ordinary shares issued as result of the exercise of remuneration options to key management personnel during the financial year are set out in Table 9. No amounts are unpaid on any shares issued on the exercise of options.

Table 9 – KMP Options exercised

Key Management Personnel	Date of exercise	Exercise price	Number of ordinary shares issued on exercise	Value at exercise date[1]
Mitch Anderson	29/02/2012	$0.806	470,000	$377,880
Derek McKay	21/03/2012	$0.806	100,000	$84,400

1. The value of options exercised is calculated as the market price of the Company's shares on the Australian Securities Exchange as at the close of trading on the date the options were exercised, after deducting the exercise price.

3.4. LOANS TO DIRECTORS AND EMPLOYEES

Information on loans to directors and employees including amounts, interest rates and repayment terms are set out in the financial statements.

3.5. VOTING AND COMMENTS RECEIVED AT THE 2011 ANNUAL GENERAL MEETING

The Company received more than 95% of "yes" votes on its remuneration report for the 2011 financial year. The Company did not receive any specific feedback at the AGM or through 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. The Company complies with all of the ASX Corporate Governance Principles and Recommendations ("Guidelines").

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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, can be found on the Company's website. The charter is reviewed and amended from time to time taking into consideration practical experience gained in operating as an ASX listed company. The Company complies with this Principle of the Guidelines.

The Managing Director has made delegations to senior executives related to the Company's day to day affairs, within set limits and which delegations may be withdrawn or amended by the Managing Director at any time, within Legal, Financial, Electricity Sales, Operational, Gas, Project Development, Asset Optimisation and Project Delivery areas.

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.

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 recommends the Managing Director's package and incentive payments. The Remuneration Committee also approves the fixed remuneration and incentive packages for all senior executives (the "Executive Management Team") with reference to external benchmarking indicators. Further information on senior executive remuneration is contained in the Remuneration Report.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

In October 2011 Tony Bellas replaced the Company's founder, Trevor St Baker as Chairman of the Board of Directors of the Company. The Company now has a six member board comprising an independent non-executive Chairman, three independent non-executive directors, a fifth non-executive director and a Managing Director. 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.

Principle 2.1 of the Guidelines states that the majority of the board should be independent directors. The board considers each director's independence on a regular basis and formed the view that for the FY12 reporting period, Tony Bellas, Martin Greenberg, Brett Heading and Tony Iannello were independent. In defining the characteristics of an independent director, the board uses the Guidelines, 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. Despite being a partner of a law firm that provides material professional advice to ERM Power and its related entities, the board nevertheless considers Brett Heading to be independent as he has not been directly involved in the provision of any legal advice, or the management of any legal matters involving the Company.

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 major projects under construction 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. Committee meeting minutes are tabled at the following board meeting.

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 structure.

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, on 31 October 2012, Tony Bellas and Tony Iannello will be retiring and standing for re-election. The board unanimously supports their re-election.

Prior to the AGM each year 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. The board's recommendation on the re-election of Tony Bellas and Tony Iannello will be included in the Notice convening the AGM.

Every year, through the Nomination Committee, the directors review the performance of the whole board and board committees. The review considers a director's expertise, skill and experience, along with his/her understanding of the Company's business, preparation for meetings, relationships with other directors and management, awareness of ethical and governance issues, and overall contribution. This year a full review was undertaken covering the board's activities and work program, time commitments, meeting efficiency and board contribution to Company strategy, monitoring, compliance and governance.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

The board strongly encourages ethical and responsible decision making and has implemented policies to achieve this while in pursuit of the Company's objectives.

A Code of Business Conduct ("the Code") has been fully endorsed by the board and applies to all directors and employees. The Company encourages employees to report known or suspected instances of inappropriate conduct, including breaches of the Code. There are policies in place to protect employees from any reprisal, discrimination or being personally disadvantaged as a result of their reporting of a concern.

A copy of the Code as well as 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.

The board has adopted a Diversity Policy which is available on the Company's website with the following measurable objectives:

- Ensure diversity programs reflect the Company's policy and approach to diversity and ensure they are communicated to all employees;
- Review all recruitment and remuneration practices to ensure they are free from gender bias and encourage greater female participation and opportunity;

- 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; and
- 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.

As at the end of the FY12 reporting period, there was no female participation on the board or in senior executive positions (out of approximately 17). The percentage of women employed by the Company as a whole organisation was 26% compared to 21.5% at the end of the previous financial year.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Company has an Audit and Risk Committee compliant with Principle 4 which consists of four non-executive directors, Tony Bellas, Martin Greenberg (Chairman), Tony Iannello and Trevor St Baker, three of which are independent directors. The 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 the 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.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

The Company's current practice on disclosure is consistent with the Guidelines. The board has adopted a Continuous Disclosure Policy and procedures are in place to ensure compliance with ASX Listing Rule disclosure requirements.

The Continuous Disclosure Policy and the Shareholder Communication Policy are available on the Company's website.

All material presentations by the Company are released to the ASX and posted on the Company's website.

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

The Company is committed to providing regular communication to shareholders about the financial performance of ERM Power and its business and operations. 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 board will communicate with shareholders regularly and clearly by electronic means as well as by traditional methods. Shareholders are encouraged to attend and participate at general meetings. The Company's auditor will attend the annual general meeting and will be available to answer shareholders' questions. The Company's policies comply with the Guidelines in relation to the rights of shareholders.

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 any update on its current projects.

The Shareholder Communication Policy is available on the Company's website.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISKS

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 Principle 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 2012 its material business risks are being managed effectively.

The Company undertakes reviews of projects and business units for major risks and seeks to maintain strong controls across all corporate and operational activities in compliance with Principle 7.2.

When presenting financial statements for board approval, the 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.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

The Remuneration Committee ensures that remuneration is consistent with current market practices and that the Company can attract, retain and develop valued employees. In this regard, the Company complies with Principle 8.1. 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 ERM Power group, excluding the board (which is the responsibility of the Nomination Committee). These proportions are contained in Principle 3 above.

In compliance with Principle 8.2, the Remuneration Committee is comprised of the Company's four independent non-executive directors (Tony Bellas, Martin Greenberg, Brett Heading and Tony Iannello) with Tony Iannello as Chairman. Their attendance at meetings of the committee is set out in the Directors' Report.

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 ERM Power 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.

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 "Investors and Media" tab, under "ASX Announcements" or within the "About us" tab, under "Governance". More information on ERM Power's Corporate Governance is also located on the website.

ERM POWER
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

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The financial statements were authorised for issue by the Directors on 21 August 2012. The Directors have the power to amend and reissue the financial statements.

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

The Group's functional and presentation currency is Australian dollars (AUD). ERM Power Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is set out on page 49.

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' report.

ABN 28 122 259 223

AUDITOR'S INDEPENDENCE DECLARATION
FOR THE YEAR ENDED 30 JUNE 2012

pwc

Auditors' Independence Declaration

As lead auditor for the audit of ERM Power Limited for the year ended 30 June 2012, 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.

Timothy J Allman
Partner
PricewaterhouseCoopers

Brisbane
21 August 2012

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ERM POWER LIMITED
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
CONTINUING OPERATIONS			
Revenue	5	**918,060**	544,563
Other income		**798**	513
Discount on acquisition	37	**19,068**	-
Net gain on disposal of interests in assets	36	**-**	4,738
Total revenue		**937,926**	549,814
Expenses	6	**(852,536)**	(504,843)
		85,390	44,971
Depreciation and amortisation		**(17,908)**	(9,977)
Net fair value gain on financial instruments designated at fair value through profit or loss	7	**5,492**	14,187
Results from operating activities		**72,974**	49,181
Finance expense	8	**(29,466)**	(29,793)
Share of profit of associates, net of income tax	18	**-**	1,436
Profit before income tax		**43,508**	20,824
Income tax expense	9	**(6,941)**	(4,605)
Profit for the year		**36,567**	16,219
Non-controlling interest		**(2,411)**	(43)
Profit for the year attributable to equity holders of the Company		**34,156**	16,176
Earnings per share based on earnings attributable to the ordinary equity holders of the Company		**Cents**	Cents
Basic earnings per share	39	**20.74**	11.72
Diluted earnings per share	39	**20.34**	11.35

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 2012

	Note	2012 $'000	2011 $'000
Profit for the year		**36,567**	16,219
Other comprehensive income			
Changes in the fair value of cash flow hedges net of tax	28	**(16,964)**	3,393
Changes in the fair value of available for sale financial assets net of tax	28	**(2,671)**	-
Other comprehensive income for the year, net of tax		**(19,635)**	3,393
Non-controlling interest		**(96)**	330
Other comprehensive income for the year attributable to equity holders of the Company		**(19,539)**	3,063
Total comprehensive income for the year		**16,932**	19,612
Total comprehensive income for the year attributable to:			
Equity holders of the Company		**14,617**	19,239
Non-controlling interest		**2,315**	373
		16,932	19,612

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

ERM POWER LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 $'000	2011 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	11	**136,369**	184,264
Trade and other receivables	13	**86,900**	45,181
Inventories	14	**45,632**	3,139
Other assets	15	**10,925**	4,486
Derivative financial instruments	17	**13,763**	499
Total Current Assets		**293,589**	237,569
Non-Current Assets			
Cash and cash equivalents	11	**3,246**	2,091
Trade and other receivables	13	**1,605**	2,556
Available for sale financial assets	16	**5,855**	-
Derivative financial instruments	17	**9**	43
Investment in associates accounted for using the equity method	18	**-**	18,541
Property, plant and equipment	20	**445,780**	205,751
Exploration and evaluation costs	21	**13,985**	11,435
Deferred tax assets	9	**15,604**	10,029
Intangible assets	22	**2,368**	2,587
Total Non-Current Assets		**488,452**	253,033
TOTAL ASSETS		**782,041**	490,602
LIABILITIES			
Current Liabilities			
Trade and other payables	23	**131,993**	63,035
Current tax liabilities	9	**1,279**	-
Borrowings	24	**49,366**	-
Borrowings – limited recourse	24	**22,622**	4,719
Derivative financial instruments	25	**13,297**	27,091
Provisions	26	**1,394**	1,079
Total Current Liabilities		**219,951**	95,924
Non-Current Liabilities			
Borrowings	24	**-**	4,400
Borrowings – limited recourse	24	**236,490**	202,575
Derivative financial instruments	25	**75,330**	29,954
Deferred tax liabilities	9	**68,176**	-
Provisions	26	**338**	50
Total Non-Current Liabilities		**380,334**	236,979
TOTAL LIABILITIES		**600,285**	332,903
NET ASSETS		**181,756**	157,699
EQUITY			
Contributed equity	27	**166,660**	160,239
Reserves	28	**(36,313)**	(11,555)
Retained earnings		**30,859**	9,015
Capital and reserves attributable to owners of ERM Power Limited		**161,206**	157,699
Non-controlling interest		**20,550**	-
TOTAL EQUITY		**181,756**	157,699

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 2012

	Note	Contributed equity $'000	Reserves $'000	Retained earnings	Total	Non-controlling interests	Total equity
Balance at 1 July 2010		60,573	(21,412)	(7,161)	32,000	13,245	45,245
Profit for the period		-	-	16,176	16,176	43	16,219
Other comprehensive income		-	3,063	-	3,063	330	3,393
Total comprehensive income for the year		-	3,063	16,176	19,239	373	19,612
Transactions with owners in their capacity as owners:							
Disposal of joint interest in partnership net of tax	36	-	6,517	-	6,517	(13,618)	(7,101)
Issue of shares and share options pursuant to employee incentive scheme	27	4,470	-	-	4,470	-	4,470
Contribution of equity from IPO net of transactions costs	27	93,760	-	-	93,760	-	93,760
Issue of shares on acquisition of SAGE	27	2,334	-	-	2,334	-	2,334
Purchase of treasury shares	27	(898)	-	-	(898)	-	(898)
Share based payment expense	29	-	277	-	277	-	277
Balance at 30 June 2011		160,239	(11,555)	9,015	157,699	-	157,699
Profit for the period		**-**	**-**	**34,156**	**34,156**	**2,411**	**36,567**
Other comprehensive income		**-**	**(19,539)**	**-**	**(19,539)**	**(96)**	**(19,635)**
Total comprehensive income for the year		**-**	**(19,539)**	**34,156**	**14,617**	**2,315**	**16,932**
Transactions with owners in their capacity as owners:							
Dividends paid	10	**3,900**	**-**	**(12,312)**	**(8,412)**	**-**	**(8,412)**
Issue of shares and share options exercised pursuant to employee incentive scheme	27	**4,226**	**-**	**-**	**4,226**	**-**	**4,226**
Purchase of treasury shares	27	**(1,705)**	**-**	**-**	**(1,705)**	**-**	**(1,705)**
Share based payment expense	29	**-**	**649**	**-**	**649**	**-**	**649**
Non-controlling interest on acquisition of subsidiaries	37	**-**	**-**	**-**	**-**	**42,918**	**42,918**
Acquisition of controlling share in subsidiaries	38	**-**	**-**	**-**	**-**	**(30,551)**	**(30,551)**
Transactions with non-controlling interests	38	**-**	**(5,868)**	**-**	**(5,868)**	**5,868**	**-**
Balance at 30 June 2012		**166,660**	**(36,313)**	**30,859**	**161,206**	**20,550**	**181,756**

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 2012

	Note	2012 $'000	2011 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of applicable goods and services tax)		**1,000,393**	644,967
Payments to suppliers and employees (inclusive of goods and services tax)		**(954,865)**	(536,434)
Dividends received		**-**	570
Income tax paid		**(5,831)**	-
Net cash flows from operating activities	12	**39,697**	109,103
Cash flows from investing activities			
Payments for exploration and evaluation		**(2,550)**	(4,866)
Payments for plant and equipment		**(7,888)**	(13,143)
Cash loss on disposal of joint interests	36	**-**	(1,264)
Purchase of shares in Metgasco Limited		**(9,656)**	-
Net cash (paid) / acquired as part of business combination	37	**(51,050)**	417
Net cash flows used in investing activities		**(71,144)**	(18,856)
Cash flows from financing activities			
Proceeds from borrowings including receivables financing facility		**596,426**	4,400
Repayments of borrowings including receivables financing facility		**(551,018)**	(33,086)
Proceeds from borrowings – limited recourse		**20,000**	-
Repayments of borrowings – limited recourse		**(18,358)**	(3,438)
Transactions with non-controlling interests	38	**(31,011)**	-
Finance costs		**(30,727)**	(32,696)
Interest received		**6,533**	4,488
Dividends paid	10	**(8,412)**	-
Issue of shares on initial public offering	27	**-**	100,000
Transaction costs on initial public offering share issue	27	**-**	(6,240)
Cash received on exercise of share options	27	**1,274**	170
Net cash flows (used in) / from financing activities		**(15,293)**	33,598
Net (decrease) / increase in cash and cash equivalents		**(46,740)**	123,845
Cash and cash equivalents at the beginning of the year		**186,355**	62,510
Cash and cash equivalents at the end of the year	11	**139,615**	186,355
Non-cash investing and financing activities	12	**-**	2,334

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 2012

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

ERM Power Limited is incorporated and domiciled in Australia. Its registered office and place of business is Level 5, Riverside Centre, 123 Eagle Street, Brisbane, Queensland, 4000.

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

This report was authorised for issue by the Directors on 21 August 2012.

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.

(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).

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 2011.

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.

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.

(B) PRINCIPLES OF CONSOLIDATION

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of ERM Power Limited as at 30 June 2012 and the results of all its subsidiaries for the year then ended.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern their financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. 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 balance sheet respectively.

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(B) PRINCIPLES OF CONSOLIDATION (CONT.)

and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of ERM Power Limited.

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.

Jointly controlled entities

Jointly controlled entities are those entities over whose activities the entity has joint control, established by a contractual agreement. In the consolidated financial statements, investments in jointly controlled entities, including partnerships, are accounted for using the proportionate consolidation method of accounting.

The proportionate interests in the assets, liabilities, income and expenses of a jointly controlled entity are incorporated in the financial statements under the appropriate headings. Transactions and balances between the Group and jointly controlled entities are eliminated to the extent of the Group's proportionate interests.

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 30 has been prepared on the same basis as the consolidated financial statements, except as set out below:

(I) INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE ENTITIES

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

(II) FINANCIAL GUARANTEES

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

(III) SHARE-BASED PAYMENTS

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(C) PARENT ENTITY FINANCIAL INFORMATION (CONT.)

(IV) TAX CONSOLIDATION LEGISLATION

ERM Power Limited 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, ERM Power Limited 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

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

Transactions and balances

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

(F) CASH AND CASH EQUIVALENTS

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

Cash that is reserved and its use specifically restricted for maintenance and / or debt servicing under the Group's borrowing agreements is defined as restricted cash. Restricted cash is shown at the balance date according to the timing of its release. Accordingly, cash that cannot be applied or used within the next 12 months is shown as a non-current asset. All other cash and cash equivalents are shown as current assets.

(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

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(H) INVENTORIES (CONT.)

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

(I) FINANCIAL ASSETS

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

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

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity investments', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Further information on the categories of financial assets held by the Group during the financial year is provided below.

Financial assets at fair value through profit or loss

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

- Has been acquired principally for the purpose of selling in the near future;
- Is a derivative that is not designated and effective as a hedging instrument.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest income is recognised by applying the effective interest rate.

Available for sale financial assets

Available for sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income. On disposal of the investment accumulated changes in fair value are recognised in profit and loss.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(I) FINANCIAL ASSETS (CONT.)

profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Effective interest method

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

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

(J) CAPITALISED WORK IN PROGRESS

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

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

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

(K) DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Revenue from the Contracts is recognised in accordance with the revenue recognition policy in note 1(x). 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 and forward foreign exchange contracts 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(L) FAIR VALUE ESTIMATION

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

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

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

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

(M) PROPERTY, PLANT AND EQUIPMENT

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

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

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

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 – 6 years;
- Plant and equipment 1 – 30 years;
- IT Equipment 1 – 3 years; and
- 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.

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 extraction 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(N) INTANGIBLE ASSETS

Goodwill

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

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

Software

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

(O) 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.

(P) 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.

(Q) 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.

(R) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(S) 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.

(T) EMPLOYEE BENEFITS

Wages and salaries, annual leave and sick leave

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

Long service leave

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

Bonus plans

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

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

Equity-based compensation benefits

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

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

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

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

Refer to note 29 for further details.

(U) ASSETS AVAILABLE 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.

(V) 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 conversation of all dilutive potential ordinary shares.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(W) 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.

(X) 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 sheet date, sales and receivables include an amount of sales delivered to customers but not yet billed and recognised as accrued income.

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.

(Y) 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

Electricity costs are based upon spot prices for electricity as established by the Australian Energy Market Operator (AEMO) and the outcomes of derivative financial instruments entered into for the purpose of risk management (refer to note 1(k)).

(Z) 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 balance sheets 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(AA) 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.

(BB) 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.

(CC) INCOME TAX

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

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

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

(DD) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(EE) 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.

(FF) 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.

(GG) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2012 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*, AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective for annual reporting periods beginning on or after 1 January 2013). AASB 9 *Financial Instruments* addresses the classification, measurement and de-recognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013* but is available for early adoption.

* In December 2011, the IASB delayed the application date of IFRS 9 to 1 January 2015. The AASB is expected to make an equivalent amendment to AASB 9 shortly.

AASB 1053 *Application of Tiers of Australian Accounting Standards and* AASB 2010-2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (effective 1 July 2013). On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. ERM Power Limited is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

AASB 2010-8 *Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets* (effective from 1 January 2012). In December 2010, the AASB amended AASB 112 Income Taxes to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The amendment is not expected to have any impact on the Group.

AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in other Entities and revised* AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* (effective 1 January 2013). In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. The AASB is expected to issue equivalent Australian standards shortly.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and separate financial statements*, and Interpretation 12 *Consolidation – special purpose entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent / principal relationships.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(GG) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (CONT.)

Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 128.

Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept.

AASB 13 *Fair value measurement* (effective 1 January 2013). AASB 13 was released in September 2011. AASB 13 explains how to measure fair value and aims to enhance fair value disclosures.

Revised AASB *119 Employee Benefits*, AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* and AASB 2011-11 Amendments *to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* (effective 1 January 2013). In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all re-measurements of defined benefit liabilities / assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities / assets and could affect the timing of the recognition of termination benefits. The amendments will have to be implemented retrospectively. Since the Group does not have any defined benefit obligations, the amendments will not have any impact on the Group's financial statements.

AASB 2011-9 *Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income* (effective 1 July 2012). In September 2011, the AASB made an amendment to AASB 101 *Presentation of Financial Statements* which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any of the items recognised in the balance sheet or the profit or loss in the current period.

AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013). In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the financial statements. The amendments apply from 1 July 2013 and cannot be adopted early. The Corporations Act requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

AASB 2011-6 *Amendments to Australian Accounting Standards – Extending Relief from Consolidation, the Equity Method and Proportionate Consolidation – Reduced Disclosure Requirements* AASB 2011-6 provides relief from consolidation, the equity method and proportionate consolidation to not-for-profit entities and entities reporting under the reduced disclosure regime under certain circumstances. They will not affect the financial statements of the Group. The amendments apply from 1 July 2013 respectively.

2. SEGMENT REPORT

	Electricity Sales		Generation Assets		Generation Development and Operations		Other		Total	
$'000	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Non-statutory revenue	**842,395**	486,715	**62,915**	46,650	**9,329**	12,780	**5,325**	1,890	**919,964**	548,035
Other income	**-**	-	**21**	450	**9**	-	**768**	2,077	**798**	2,527
Discount on acquisition	**-**	-	**19,068**	-	**-**	-	**-**	-	**19,068**	-
Net gain on disposal of interests in assets	**-**	-	**-**	-	**-**	-	**-**	4,738	**-**	4,738
Intersegment sales elimination	**-**	-	**-**	-	**(1,229)**	(4,096)	**(675)**	(1,390)	**(1,904)**	(5,486)
Total segment revenue	**842,395**	486,715	**82,004**	47,100	**8,109**	8,684	**5,418**	7,315	**937,926**	549,814
Less Expenses	**(811,447)**	(464,257)	**(11,990)**	(19,628)	**(14,746)**	(8,545)	**(14,353)**	(12,413)	**(852,536)**	(504,843)
EBITDAIF [(i)]	**30,948**	22,458	**70,014**	27,472	**(6,637)**	139	**(8,935)**	(5,098)	**85,390**	44,971
Share of profit of associates, net of income tax	**-**	-	**-**	1,436	**-**	-	**-**	-	**-**	1,436
Depreciation and amortisation	**(174)**	(266)	**(16,721)**	(8,799)	**(15)**	(101)	**(998)**	(811)	**(17,908)**	(9,977)
Finance expenses	**(3,591)**	(715)	**(23,352)**	(23,924)	**(1)**	(2)	**(2,522)**	(5,152)	**(29,466)**	(29,793)
Underlying profit before income tax	**27,183**	21,477	**29,941**	(3,815)	**(6,653)**	36	**(12,455)**	(11,061)	**38,016**	6,637
Income tax expense attributed to underlying profit									**(5,294)**	(349)
Non-controlling interest									**(2,411)**	(43)
Underlying profit after tax attributable to equity holders of the Company									**30,311**	6,245
Impact of items excluded from underlying profit:										
Net fair value gains on financial instruments designated as fair value through profit or loss									**5,492**	14,187
Tax credit on items excluded from underlying profit									**(1,647)**	(4,256)
Statutory profit after tax attributable to equity holders of the Company									**34,156**	16,176
Non-controlling interest									**2,411**	43
Statutory profit after tax									**36,567**	16,219

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

2. SEGMENT REPORT (CONT.)

	Electricity Sales		Generation Assets		Generation Development and Operations		Other		Total	
$'000	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Assets										
Segment assets	**227,919**	104,035	**368,452**	199,463	**6,027**	5,511	**164,039**	153,023	**766,437**	462,032
Investments accounted for using the equity method	**-**	-	**-**	18,541	**-**	-	**-**	-	**-**	18,541
Total segment assets	**227,919**	104,035	**368,452**	218,004	**6,027**	5,511	**164,039**	153,023	**766,437**	480,573
Current and deferred tax assets									**15,604**	10,029
Total assets									**782,041**	490,602
Liabilities										
Total segment liabilities	**201,366**	94,918	**303,369**	226,670	**1,541**	1,527	**24,554**	9,788	**530,830**	332,903
Current and deferred tax liabilities									**69,455**	-
Total liabilities									**600,285**	332,903

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 large commercial, industrial and government customers
Generation Assets	Gas-fired power generation assets
Generation, Development and Operations	Delivery of power generation solutions, from the initial concept through to development and operations
Other	Gas, Corporate

All segment activity takes place in Australia.

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, interest rate and foreign currency 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, interest rate swaps and foreign exchange contracts, 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. The Group holds the following financial instruments:

	CONSOLIDATED	
	2012 $'000	2011 $'000
Financial assets		
Derivative financial instruments	**13,772**	542
Available for sale financial assets	**5,855**	-
Loans and receivables	**6,733**	3,688
Cash and cash equivalents	**139,615**	186,355
	165,975	190,585
Financial liabilities		
Derivative financial instruments	**88,627**	57,045
Other financial liabilities at amortised cost	**440,471**	274,729
	529,098	331,774

(a) MARKET RISK

Electricity pool price risk

Group

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 revenue from fluctuations in electricity pool prices.

ERM Power Retail Pty Ltd, one of the subsidiaries of the Group, routinely enters into forward sales contracts for the provision of electricity. The Group is exposed to a market risk of price fluctuations between the fixed price of these contracts and the relevant spot price of the electricity pool at the time of usage. The majority of this exposure to fluctuations in wholesale market electricity prices is managed through the use of various types of hedging contracts. The hedge portfolio consists predominantly of swaps, caps, futures and sales contracts. 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 does not similarly recognise the fair value of the sales contracts that form the other side of the economic hedging relationship.

The following table summarises 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.

The impact disclosed below summarises the sensitivity on the mark to market of electricity derivatives contracts only and does not include any corresponding movement in the value of customer contracts.

3. FINANCIAL RISK MANAGEMENT (CONT.)

A. FINANCIAL RISK MANAGEMENT OBJECTIVES (CONT.)

(a) MARKET RISK (CONT.)

Electricity sales sensitivity

	Increase by 10% $'000	Decrease by 10% $'000
2012		
Net profit / (loss)	**61,518**	**(61,402)**
Equity increase / (decrease)	**-**	**-**
2011		
Net profit / (loss)	35,191	(35,420)
Equity increase / (decrease)	-	-

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

Electricity generation sensitivity

	Increase by 10% $'000	Decrease by 10% $'000
2012		
Net profit / (loss)	**51**	**(51)**
Equity increase / (decrease)	**-**	**-**
2011		
Net profit / (loss)	77	(77)
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 cash deposits. The risk is managed by entering into interest rate swap contracts. 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.

3. FINANCIAL RISK MANAGEMENT (CONT.)

A. FINANCIAL RISK MANAGEMENT OBJECTIVES (CONT.)

(a) MARKET RISK (CONT.)

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
2012		
Net profit / (loss)	**(21)**	**21**
Other equity increase / (decrease)	**-**	**-**
2011		
Net profit / (loss)	632	(632)
Other equity increase / (decrease)	-	-

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

Foreign exchange risk

The Group may undertake certain transactions denominated in foreign currencies, related to capital expenditure, which result in exposure to exchange rate fluctuations. Exchange rate exposures may be managed utilising forward foreign exchange contracts. For unhedged foreign exchange exposures, there would be no material impact on the Group net profit or equity as a result of a 10% change in the Australian dollar against the USD or EURO with all other variables held constant as at balance date.

(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.

3. FINANCIAL RISK MANAGEMENT (CONT.)

A. FINANCIAL RISK MANAGEMENT OBJECTIVES (CONT.)

(b) CREDIT RISK (CONT.)

The Group minimises concentrations of credit risk in relation to other receivables by entering into partnership arrangements with appropriately qualified partners in order to secure project financing for completion of the project.

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)	>1 year
2012						
Consolidated						
Trade receivables	**4,272**	**4,068**	**5**	**150**	**370**	**54**
Other receivables (iii)	**2,461**	**-**	**-**	**-**	**-**	**2,461**
	6,733	**4,068**	**5**	**150**	**370**	**2,515**
2011						
Consolidated						
Trade receivables	479	479	8	-	-	-
Other receivables (iii)	3,209	-	-	-	-	3,209
	3,688	479	8	-	-	3,209

The majority of year end debtors relate to electricity. All of these trade receivables have been paid subsequent to year end.

(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 deemed to be 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 $154,570 (2011 $Nil) 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.

(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 2012 is contained in Note 24.

3. FINANCIAL RISK MANAGEMENT (CONT.)

A. FINANCIAL RISK MANAGEMENT OBJECTIVES (CONT.)

(c) LIQUIDITY RISK (CONT.)

Maturities of financial liabilities

The table below analyse 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. For foreign exchange contracts, the cash flows have been estimated using forward foreign exchange rates at the balance date.

Financial liabilities	≤1 year $'000	1 to 5 years $'000	>5 years $'000	Discount $'000	Total $'000
Consolidated					
2012					
Trade payables	**88,230**	**-**	**-**	**-**	**88,230**
Other payables	**43,763**	**-**	**-**	**-**	**43,763**
Interest bearing liabilities	**49,366**	**-**	**-**	**-**	**49,366**
Interest bearing liabilities – limited recourse [(i)]	**26,342**	**93,216**	**159,997**	**(20,443)**	**259,112**
Derivatives	**25,793**	**62,834**	**-**	**-**	**88,627**
	233,494	**156,050**	**159,997**	**(20,443)**	**529,098**
2011					
Trade payables	41,777	-	-	-	41,777
Other payables	21,258	-	-	-	21,258
Interest bearing liabilities	5,900	-	-	-	5,900
Interest bearing liabilities – limited recourse [(i)]	3,219	23,996	197,547	(18,968)	205,794
Derivatives	27,091	29,954	-	-	57,045
	99,245	53,950	197,547	(18,968)	331,774

[(i)] Recourse limited to assets of the Neerabup Partnership and Oakey Power Holdings Pty Ltd. Refer note 24 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.

C. 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.

Interest rate swap contracts-cash flow hedges

The Neerabup partnership and Oakey Power Holdings Pty Ltd have limited recourse, variable interest rate project finance in place. This variable interest has been swapped into fixed.

3. FINANCIAL RISK MANAGEMENT (CONT.)

C. FINANCIAL INSTRUMENTS USED BY THE GROUP (CONT.)

Swaps currently in place for the Neerabup partnership cover approximately 97% (2011 96%) of the variable loan principal outstanding and are timed to expire as each loan repayment falls due. The fixed interest rate is 7.189% (2011 7.189%) and the variable rate is 1.2% above the BBSY rate which at the end of the reporting period was 3.58% (2011 5.00%).

Swaps currently in place for Oakey Power Holdings Pty Ltd cover approximately 100% (2011 nil) of the variable loan principal outstanding and are timed to expire as each loan repayment falls due. The fixed interest rate is 4.16% (2011 nil) and the variable rate is 2.75% above the BBSY rate which at the end of the reporting period was 3.58% (2011 5.00%).

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 values is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into profit or loss when the hedged interest expense is recognised. There was no hedge ineffectiveness in the current or prior year.

Electricity derivative contracts held for trading

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial asset mentioned in notes 17 and 25.

D. FAIR VALUE OF FINANCIAL INSTRUMENTS

The directors are of the opinion that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

The fair values of financial assets and financial liabilities are determined as follows:

- 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;
- The fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analyses; and
- 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 and sales contracts) is determined using valuation techniques. The Group uses a variety of methods, such as estimated discounted cash flows, and makes assumptions that are based on market conditions existing at each balance date. These amounts reflect the estimated amount which the Group would be required to pay or receive to terminate (or replace) the contracts at their current market rates at balance date.

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

3. FINANCIAL RISK MANAGEMENT (CONT.)

D. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT.)

The following table presents the Group's assets and liabilities measured and recognised at fair value at 30 June 2012.

As at 30 June 2012	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Electricity derivatives contracts	**-**	**13,772**	**-**	**13,772**
Available for sale financial assets	**5,855**	**-**	**-**	**5,855**
Total assets	**5,855**	**13,772**	**-**	**19,627**
Liabilities				
Electricity derivatives contracts	**1,879**	**45,145**	**-**	**47,024**
Derivatives used for hedging	**-**	**41,603**	**-**	**41,603**
Total liabilities	**1,879**	**86,748**	**-**	**88,627**

As at 30 June 2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Electricity derivatives contracts	-	542	-	542
Total assets	-	542	-	542
Liabilities				
Electricity derivatives contracts	1,061	38,615	-	39,676
Derivatives used for hedging	-	17,369	-	17,369
Total liabilities	1,061	55,984	-	57,045

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. The fair value of forward exchange contracts is determined using forward exchange market rates at the end of the reporting period.

LEVEL 3

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

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. The capital structure of the Group as at balance date consists of total corporate facilities, as listed in note 24, total limited recourse facilities as listed in note 24 and equity, comprising issued capital, reserves and retained earnings as listed in notes 27 and 28.

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.

The quantitative analysis of each of these categories of capital is provided in their respective notes to the accounts.

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.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 1(o). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations, where applicable. These calculations require the use of assumptions. At 30 June 2012 the Group did not carry any goodwill.

Impact of Carbon Tax on carrying value of assets

Directors are of the view that the Clean Energy Futures Act passed by the Australian Federal Parliament in November 2011 will not have any negative impact on the recoverability of any assets of the Group.

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 29.

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. The probability of expected future economic benefits is assessed using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset. In this assessment, greater weighting is given to available external evidence.

Exploration and evaluation assets are reclassified as development assets at the point in which technical feasibility and commercial viability of extracting gas are demonstrated or a petroleum lease is granted. Exploration and evaluation assets are assessed for impairment and any impairment loss recognised before reclassification.

Fair value of financial instruments

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

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.

5. REVENUE

	CONSOLIDATED	
	2012 $'000	2011 $'000
Revenue from Continuing Operations		
Sale of electricity	**838,753**	483,631
Electricity generation revenue	**61,887**	47,055
Operations income and project fees	**8,325**	9,200
Sale of gas	**7**	30
Interest income	**7,460**	4,647
Consulting income	**1,628**	-
	918,060	544,563

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

6. EXPENSES

	CONSOLIDATED	
	2012 $'000	2011 $'000
Cost of electricity sales	**788,669**	458,627
Cost of electricity generation	**18,535**	14,865
Employee benefits expense	**25,566**	20,158
Other expenses	**19,766**	11,193
	852,536	504,843
Included in the above are:		
Rental expenses relating to operating leases	**1,477**	1,309
Foreign exchange (gains) and losses	**-**	8
Defined contribution superannuation expense	**2,186**	1,723
Equity settled share based payment compensation	**649**	277

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

	CONSOLIDATED	
	2012 $'000	2011 $'000
Unrealised		
Electricity derivative contracts	**5,492**	20,602
	5,492	20,602
Realised		
Interest rate swaps	**-**	(6,415)
	-	(6,415)
	5,492	14,187

In the absence of hedge accounting, the Group's electricity derivatives are designated at fair value through profit or loss.

8. FINANCE EXPENSE

	CONSOLIDATED	
	2012 $'000	2011 $'000
Borrowing costs – bank loans	**19,721**	18,447
Borrowing costs – receivables financing facility	**2,107**	-
Borrowing costs – convertible notes	**4,344**	8,953
Other borrowing costs	**3,294**	2,393
	29,466	29,793

9. INCOME TAX

	CONSOLIDATED	
	2012 $'000	2011 $'000
(A) INCOME TAX EXPENSE		
Income tax comprises:		
Current tax expense / (benefit)	**5,418**	(231)
Deferred tax expense	**1,345**	3,738
Under provided in prior years	**178**	1,098
Income tax expense	**6,941**	4,605
Deferred income tax included in income tax expense comprises:		
Decrease in deferred tax asset	**1,238**	26,509
Increase / (decrease) in deferred tax liabilities	**107**	(21,491)
Prior year over provision of deferred tax expense	**-**	(1,280)
Deferred income tax expense	**1,345**	3,738
(B) NUMERICAL RECONCILIATION OF PRIMA FACIE TAX BENEFIT TO PRIMA FACIE TAX		
Profit from continuing operations	**43,508**	20,824
Income tax expense calculated at 30%	**13,052**	6,247
Effect of permanent differences on Kwinana disposal	**-**	398
Effect of expenses that are not deductible in determining taxable profit	**17**	119
Other permanent differences [1]	**(6,306)**	(3,257)
Under provided in prior year	**178**	1,098
Income tax expense	**6,941**	4,605

[1] Includes tax effect of discount on acquisition of Oakey Power Station during the year ended 30 June 2012. Refer note 37 for further details

9. INCOME TAX (CONT.)

	CONSOLIDATED	
	2012 $'000	2011 $'000
(C) AMOUNTS RECOGNISED DIRECTLY IN OTHER COMPREHENSIVE INCOME		
(Increase) / decrease in equity due to current and deferred amounts charged directly to equity during the period:		
Net tax effect of amounts charged to cash flow hedge reserve	**(7,228)**	1,607
Net tax effect of amounts charged to transactions with non-controlling interests reserve	**(443)**	-
Net tax effect of amounts charged to fair value reserve	**(1,145)**	-
Net tax effect of amounts charged to non-controlling interest	**(42)**	-
	(8,858)	1,607
(D) TAX LOSSES		
Tax losses for which deferred tax asset is recognised in the current period	**11,600**	771
Potential tax benefit at 30%	**3,480**	231
(E) CURRENT TAX LIABILITIES		
Current tax payables	**1,279**	-
Income tax payable	**1,279**	-
(F) RECOGNISED DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES		
Deferred tax assets		
Carried forward tax losses	**14,459**	10,979
Capitalised borrowing costs	**-**	210
Derivative financial instruments	**22,467**	17,189
Employee provisions	**1,799**	1,519
Fixed assets	**-**	3,516
Available for sale financial assets	**1,145**	-
Other	**803**	42
	40,673	33,455
Set-off of deferred tax liabilities	**(25,069)**	(23,426)
Net deferred tax assets	**15,604**	10,029
Deferred tax liabilities		
Property, plant and equipment	**(87,236)**	(18,695)
Capitalised exploration costs (Gas)	**(4,196)**	(3,660)
Other	**(1,813)**	(1,071)
	(93,245)	(23,426)
Set-off of deferred tax assets	**25,069**	23,426
Net deferred tax liabilities	**68,176**	-

9. INCOME TAX (CONT.)

TAX CONSOLIDATION

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

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

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

9. INCOME TAX (CONT.)

Deferred Tax Assets: Movements – Consolidated	Carried forward tax losses $'000	Capitalised borrowing costs $'000	Derivative financial instruments $'000	Employee provisions $'000	Project development costs $'000	Fixed assets cost adjustments $'000	Available for sale financial assets $'000	Other $'000	Total $'000
At 1 July 2010	28,787	1,050	26,434	382	893	3,516	-	3	61,065
(Charged) / credited									
- to profit or loss	(17,808)	(840)	(8,144)	1,137	(893)	-	-	39	(26,509)
- to other comprehensive income	-	-	(1,101)	-	-	-	-	-	(1,101)
At 30 June 2011	**10,979**	**210**	**17,189**	**1,519**	**-**	**3,516**	**-**	**42**	**33,455**
(Charged) / credited									
- to profit or loss	3,480	(210)	(1,992)	280	-	(3,516)	-	720	(1,238)
- to other comprehensive income	-	-	7,270	-	-	-	1,145	-	8,415
- acquisition of subsidiary	-	-	-	-	-	-	-	41	41
At 30 June 2012	**14,459**	**-**	**22,467**	**1,799**	**-**	**-**	**1,145**	**803**	**40,673**

Deferred Tax Liabilities: Movements – Consolidated	Receivables and accrued income $'000	Capitalised exploration costs $'000	Property, plant and equipment $'000	Other $'000	Total $'000
At 1 July 2010	(14,540)	(1,905)	(29,704)	-	(46,149)
Charged / (credited)					
- to profit or loss	14,540	(1,755)	9,777	(1,071)	21,491
- to other comprehensive income	-	-	1,232	-	1,232
At 30 June 2011	**-**	**(3,660)**	**(18,695)**	**(1,071)**	**(23,426)**
Charged / (credited)					
- to profit or loss	-	(536)	1,460	(1,031)	(107)
- to other comprehensive income	-	-	-	443	443
- acquisition of subsidiary	-	-	(70,001)	(154)	(70,155)
At 30 June 2012	**-**	**(4,196)**	**(87,236)**	**(1,813)**	**(93,245)**

10. DIVIDENDS PAID AND PROPOSED

During the year ended 30 June 2012, the company paid a fully franked final dividend for the year ended 30 June 2011 of 3.5 cents per share and an interim dividend for the year ended 30 June 2012 of 4.0 cents per share (2011 Nil).

After 30 June 2012 the following dividends were proposed by the directors. The dividends have not been provided for and there are no income tax consequences.

	Cents per share	Total amount $'000	Franked	Date of payment
Final ordinary	4.5	7,573	7,573	16/10/2012

	2012 $'000	2011 $'000
Franking credits available to shareholders in subsequent years	**8,374**	13,595

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.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries 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, will be a reduction in the franking account of $3,245,690.

11. CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2012 $'000	2011 $'000
Current		
Non-restricted cash at bank and cash on hand	**41,405**	110,153
Restricted cash	**94,964**	74,111
	136,369	184,264
Non-current		
Restricted cash	**3,246**	2,091
	3,246	2,091
Total cash and cash equivalents	**139,615**	186,355
Restricted cash	**98,210**	76,202
Non-restricted cash	**41,405**	110,153
	139,615	186,355

The cash and cash equivalents are bearing interest at rates between nil and 5.4%.

11. CASH AND CASH EQUIVALENTS (CONT.)

RESTRICTED CASH

Restricted cash deposits are held as cash-backed guarantees in respect of coupon payments due for the convertible notes issued and to provide credit support for the Group's electricity derivative contracts. The restricted cash deposits, held on term deposit, are bearing interest at rates between 4.25% and 5.4%.

	CONSOLIDATED	
	2012 $'000	2011 $'000
Term deposits	**36,741**	68,072
Other restricted cash deposits	**61,469**	8,130
	98,210	76,202

12. (A) RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

		CONSOLIDATED	
	Note	2012 $'000	2011 $'000
Net profit after tax		**36,567**	16,219
Adjustments for:			
Depreciation and amortisation of non-current assets		**17,908**	9,977
Interest income		**(6,533)**	(4,647)
Share based payment expense		**649**	277
Share of associate's net profit		**-**	(1,436)
Business combination transaction costs	37	**729**	-
Discount on acquisition of controlling interest in subsidiary	37	**(19,068)**	-
Net fair value (gains) / losses on financial instruments and inventory		**(5,492)**	(14,187)
Finance costs		**29,466**	29,793
Gain on disposal of assets		**-**	(4,738)
Transfers to / (from) provisions:			
Employee entitlements		**(614)**	(12)
Changes in assets and liabilities net of business combination and divestment of Kwinana:			
(Increase) / decrease in trade and other receivables		**(38,519)**	51,612
(Increase) / decrease in other assets		**(6,256)**	(1,159)
(Increase) / decrease in inventories		**(41,167)**	(1,667)
(Increase) / decrease in deferred tax assets		**(5,577)**	18,631
(Decrease) / increase in deferred tax liabilities		**6,877**	(9,913)
(Decrease) / increase in current tax liability		**(409)**	(46)
(Decrease) / increase in trade and other payables		**71,136**	20,399
Net cash provided by operating activities		**39,697**	109,103

12. (B) NON-CASH INVESTING AND FINANCING ACTIVITIES

	Note	CONSOLIDATED 2012 $'000	2011 $'000
Issue of shares – SAGE acquisition	27	-	2,334
		-	2,334

DISCLOSURE OF FINANCING FACILITIES

Refer to note 24 for information regarding financing facilities.

13. TRADE AND OTHER RECEIVABLES

	Note	CONSOLIDATED 2012 $'000	2011 $'000
Current			
Trade receivables	(i)	**4,272**	479
Other receivables		**374**	199
Amounts receivable from employee shareholders	(ii)	**482**	454
		5,128	1,132
Accrued income	(iii)	**81,772**	44,049
		86,900	45,181
Non-current			
Amounts receivable from employee shareholders	(ii)	**1,605**	2,101
Amount receivable from external party		-	455
		1,605	2,556

(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 $374,238 (2011 $7,857) 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) Employee shareholder loans are subject to loan deeds and interest is charged at the FBT benchmark rate.

(iii) Accrued income represents electricity amounts due to be invoiced on 1 July.

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

	CONSOLIDATED	
	2012 $'000	2011 $'000
Renewable energy certificates [1]	**43,922**	3,081
Gas in storage	**34**	58
Diesel fuel [1]	**1,676**	-
	45,632	3,139

[1] Renewable energy certificates and diesel fuel are pledged as security against outstanding bank loan and receivables finance facilities at 30 June 2012

15. OTHER ASSETS

	CONSOLIDATED	
	2012 $'000	2011 $'000
Current		
Prepayments	**1,548**	1,337
Security and other deposits [1]	**9,377**	3,149
	10,925	4,486

[1] Refer to Note 31 for further details regarding security deposits

16. AVAILABLE FOR SALE FINANCIAL ASSETS

	CONSOLIDATED	
	2012 $'000	2011 $'000
Non-current		
Shares held in listed entities [1]	**5,855**	-
	5,855	-

[1] Shares held in Metgasco Limited representing a 7.9% share of that company at 30 June 2012

17. DERIVATIVE FINANCIAL INSTRUMENTS – ASSETS

	CONSOLIDATED	
	2012 $'000	2011 $'000
Current		
Electricity derivatives	**13,763**	499
	13,763	499
Non-current		
Electricity derivatives	**9**	43
	9	43

Refer to note 3 for further information regarding financial instruments used by the Group

Refer to note 25 for Derivative Financial Instruments - Liabilities

18. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

				Ownership interest	
Investments in Associates	Principal activity	Place of incorporation	Reporting date	2012 %	2011 %
Oakey Power Holdings Pty Ltd ('Oakey")	Power generation	ACT	30 June	-	12.5

Oakey was consolidated from 1 July 2011. In the year ended 30 June 2011, the Group accounted for its investment in Oakey as an associate because the Group had the ability to exercise significant influence over the investment due to its voting power via representation on the Oakey board of directors and key decision making committees.

		CONSOLIDATED	
	Note	2012 $'000	2011 $'000
Movements in carrying amounts			
Carrying amount at the beginning of the financial year		**18,541**	17,675
Dividend received / receivable		-	(570)
Share of profit after tax		-	1,436
Purchase of associate	37	**(18,541)**	-
Carrying amount at the end of the financial year		-	18,541
Share of associate's profit or losses			
Revenue		-	4,296
Profit before income tax		-	2,052
Income tax expense		-	(616)
Profit after income tax		-	1,436
Summarised financial information of associate not adjusted for percentage ownership			
Current assets		-	7,524
Non-current assets		-	105,080
Total assets		-	112,604
Current liabilities		-	14,775
Non-current liabilities		-	62,998
Total liabilities		-	77,773
Net assets		-	34,831
Share of associate's expenditure commitments			
Capital commitments		-	-
Lease commitments		-	-
		-	-

19. INVESTMENTS IN CONTROLLED ENTITIES

Name	Place of incorporation	Percentage of equity interest held by the Company	
		2012 %	2011 %
DIRECT HOLDINGS			
ERM Braemar 3 Power Pty Ltd	QLD	**100**	100
ERM Financial Services Pty Ltd	QLD	**100**	100
ERM Gas Pty Ltd	QLD	**100**	100
ERM Holdings Pty Ltd	QLD	**100**	100
ERM Neerabup Holdings Pty Ltd	QLD	**100**	100
ERM Neerabup Power Pty Ltd	VIC	**100**	100
ERM Oakey Power Holdings Pty Ltd (formerly Redbank Oakey Pty Ltd)	NSW	**100**	-
ERM Power Developments Pty Ltd	VIC	**100**	100
ERM Power Executive Option Plan Managers Pty Ltd	NSW	**100**	100
ERM Power Generation Pty Ltd	VIC	**50**	50
ERM Power Retail Pty Ltd	VIC	**100**	100
ERM Power Services Pty Ltd	VIC	**100**	100
ERM Power Utility Systems Pty Ltd	QLD	**100**	100
INDIRECT HOLDINGS			
Braemar 3 Holdings Pty Ltd	QLD	**100**	100
Elrex Pty Ltd	NSW	**100**	-
ERM Braemar 3 Pty Ltd	QLD	**100**	100
ERM Gas WA01 Pty Ltd	VIC	**100**	100
ERM Land Holdings Pty Ltd	QLD	**100**	100
ERM Neerabup Pty Ltd	VIC	**100**	100
ERM Power Generation Pty Ltd	VIC	**100**	100
MetroWest Convenience Store Pty Ltd	QLD	**100**	100
Oakey Power Holdings Pty Ltd	ACT	**100**	-
Oakey Power Pty Ltd	ACT	**100**	-
Oakey Power Finance Pty Ltd	ACT	**100**	-
Oakey Power Operations Pty Ltd	ACT	**100**	-
Oakey Power Constructions Pty Ltd	ACT	**100**	-
Private Power Investors Pty Ltd	ACT	**100**	-
SAGE Utility Systems Pty Ltd	VIC	**100**	100

20. PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED 2012 $'000	CONSOLIDATED 2011 $'000
Plant and equipment		
Cost	**480,393**	190,136
Accumulated depreciation and impairment	**(78,460)**	(10,554)
Net carrying amount	**401,933**	179,582
Land		
Carrying amount at cost	**21,091**	9,830
Furniture and equipment		
Cost	**3,673**	2,498
Accumulated depreciation and impairment	**(2,536)**	(2,035)
Net carrying amount	**1,137**	463
Motor vehicles		
Cost	**115**	87
Accumulated depreciation and impairment	**(77)**	(87)
Net carrying amount	**38**	-
Capital work in progress [(i)]	**21,581**	15,876
Total property, plant and equipment – net carrying amount	**445,780**	205,751

[(i)] Capital work in progress relates to capitalised costs for power station projects.

Each of the Group's current generation assets, the Oakey and Neerabup power stations, are 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. Those notes are limited-recourse to the Group's interest in the Neerabup power station.

Refer note 24 for details regarding recourse and limited recourse borrowings of the Group

	Note	CONSOLIDATED 2012 $'000	CONSOLIDATED 2011 $'000
Reconciliations			
Plant and equipment			
Net of accumulated depreciation and impairment at start of year		**179,582**	375,633
Additions		**371**	2,009
Acquired through business combination	37	**238,690**	-
Disposals		**-**	(189,266)
Depreciation		**(16,710)**	(8,794)
Net of accumulated depreciation and impairment at end of year		**401,933**	179,582

20. PROPERTY, PLANT AND EQUIPMENT (CONT.)

Reconciliations (Cont.)

	Note	CONSOLIDATED 2012 $'000	2011 $'000
Land			
At start of year		**9,830**	3,776
Additions		**-**	6,054
Disposals		**(47)**	-
Acquired through business combination	37	**11,308**	-
At end of year		**21,091**	9,830
Furniture and equipment			
Net of accumulated depreciation and impairment at start of year		**463**	900
Additions		**1,172**	97
Acquired through business combination	37	**-**	4
Depreciation		**(498)**	(538)
Net of accumulated depreciation and impairment at end of year		**1,137**	463
Motor vehicles			
Net of accumulated depreciation and impairment at start of year		**-**	20
Acquired through business combination	37	**45**	-
Depreciation		**(7)**	(20)
Net of accumulated depreciation and impairment at end of year		**38**	-

21. EXPLORATION AND EVALUATION COSTS

	CONSOLIDATED 2012 $'000	2011 $'000
Exploration and evaluation costs		
Cost (gross carrying amount)	**13,985**	11,435
Accumulated amortisation and impairment	**-**	-
Net carrying amount	**13,985**	11,435

Reconciliations

Net of accumulated amortisation and impairment at start of year	**11,435**	6,569
Additions	**2,550**	4,866
Net of accumulated amortisation and impairment at end of year	**13,985**	11,435

22. INTANGIBLE ASSETS

	Note	CONSOLIDATED 2012 $'000	2011 $'000
Software			
Cost (gross carrying amount)		**4,493**	4,021
Accumulated amortisation and impairment		**(2,125)**	(1,434)
Net carrying amount		**2,368**	2,587
Total intangible assets – net carrying amount		**2,368**	2,587
Reconciliations			
Goodwill			
Net of accumulated amortisation and impairment at start of year		**-**	5,815
Disposals		**-**	(5,815)
Net of accumulated amortisation and impairment at end of year		**-**	-
Software [1]			
Net of accumulated depreciation and impairment at start of year		**2,587**	1,198
Additions		**473**	129
Acquired through business combination	37	**-**	1,882
Amortisation		**(692)**	(622)
Net of accumulated depreciation and impairment at end of year		**2,368**	2,587

[i] In the prior year software was classified within property, plant and equipment

23. TRADE AND OTHER PAYABLES

	CONSOLIDATED 2012 $'000	2011 $'000
Current		
Trade creditors and accruals	**88,230**	41,777
Other creditors	**43,763**	21,258
	131,993	63,035

The Group's normal payment terms range from 7 to 30 days.

24. BORROWINGS

	Note	CONSOLIDATED 2012 $'000	2011 $'000
Current			
Secured			
Bank loans - Receivables financing facility	(i)	**34,208**	-
		34,208	-
Unsecured			
Other loans - related parties	(ii)	**5,053**	-
Other loans	(ii)	**10,105**	-
		15,158	-
Secured - limited recourse			
Bank loan - Neerabup working capital facility	(iii)	**1,500**	1,500
Bank loans - Neerabup term facility (current portion)	(iv)	**3,720**	3,219
Bank loans - Oakey term facility (current portion)	(v)	**17,402**	-
		22,622	4,719
Total current borrowings		**71,988**	4,719
Non-current			
Unsecured			
Other loans - related parties	(ii)	**-**	4,400
		-	4,400
Secured - limited recourse			
Bank loans - Neerabup term facility	(iv)	**156,051**	159,552
Bank loans - Oakey term facility	(v)	**36,472**	-
Convertible notes	(vi)	**43,967**	43,023
		236,490	202,575
Total non-current borrowings		**236,490**	206,975
Total borrowings		**308,478**	211,694

24. BORROWINGS (CONT.)

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) Loans in relation to funding of additional 50% interest in Oakey acquisition (one third at 30 June 2012 from a director related entity). Loans are interest bearing at 12% per annum.

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

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

(v) Amounts drawn down on a limited recourse term debt facility in respect of the Oakey Power Station. This debt has recourse to the assets of Oakey Power Holdings Pty Ltd only.

(vi) Convertible notes are redeemable by the issuer from 30 September 2010 until maturity in February 2023. Notes have a coupon rate that is variable based on BBSY plus 4%. The notes are accounted for using the effective interest method at 10.5% (2011 10.55%). 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	
	2012 $'000	**2011 $'000**
Total facilities – bank loans	**296,155**	187,578
Facilities used at balance date – bank loans	**269,363**	166,234
Facilities unused at balance date – bank loans	**26,792**	21,344

25. DERIVATIVE FINANCIAL INSTRUMENTS – LIABILITIES

	CONSOLIDATED	
	2012 $'000	**2011 $'000**
Current		
Electricity derivatives	**13,297**	27,091
	13,297	27,091
Non-current		
Electricity derivatives	**33,727**	12,585
Interest rate swaps	**41,603**	17,369
	75,330	29,954

Refer to note 3 for further information regarding financial instruments used by the Group.

26. PROVISIONS

	CONSOLIDATED	
	2012 $'000	**2011 $'000**
Current		
Employee benefits – annual leave	**1,394**	1,079
	1,394	1,079
Non-current		
Employee benefits - long service leave	**338**	50
	338	50
Movements in provisions		
Carrying amount at start of the year	**1,129**	1,158
Additional provision recognised and charged to profit and loss	**1,720**	862
Amounts used during the year	**(1,117)**	(891)
	1,732	1,129

27. CONTRIBUTED EQUITY

		CONSOLIDATED		CONSOLIDATED	
	Note	**2012 Number of shares**	**2011 Number of shares**	**2012 $'000**	**2011 $'000**
Issued ordinary shares – fully paid	27(a)	**168,295,039**	162,140,656	**169,263**	161,137
Treasury shares	27(b)	**(1,650,796)**	(513,072)	**(2,603)**	(898)
		166,644,243	161,627,584	**166,660**	160,239
(A) MOVEMENT IN ORDINARY SHARE CAPITAL					
At the beginning of the period		**162,140,656**	50,454,354	**161,137**	60,573
Issue of shares – employee incentive scheme		**1,989,747**	1,656,786	**2,952**	4,300
Issue of shares – dividend reinvestment plan		**2,584,295**	-	**3,900**	-
Exercise of options		**1,580,341**	202,999	**1,274**	170
Issue of shares – SAGE acquisition		**-**	1,368,854	**-**	2,334
Share split 2:1		**-**	51,314,805	**-**	-
Issue of shares - initial public offering (net of transaction costs)		**-**	57,142,858	**-**	93,760
At the end of the period		**168,295,039**	162,140,656	**169,263**	161,137

(B) TERMS AND CONDITIONS OF CONTRIBUTED EQUITY

Ordinary shares

During the year ended 30 June 2011, the Company conducted an initial public offering raising $100 million from the issue of 57,142,858 ordinary fully paid shares at $1.75 per share.

27. CONTRIBUTED EQUITY (CONT.)

(B) TERMS AND CONDITIONS OF CONTRIBUTED EQUITY (CONT.)

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. Details of shares and options issued under employee share schemes are provided at note 29.

28. RESERVES

	Note	CONSOLIDATED 2012 $'000	2011 $'000
Cash flow hedge reserve		**(29,026)**	(12,158)
Fair value reserve		**(2,671)**	-
Transactions with non-controlling interests		**(5,868)**	-
Share based payment reserve		**1,252**	603
		(36,313)	(11,555)
Movements			
Cash flow hedge reserve			
Balance at the beginning of the year		**(12,158)**	(24,615)
Revaluation – gross		**(24,096)**	4,165
Revaluation – deferred tax		**7,228**	(1,249)
Sale of interest in jointly controlled entity – net of tax	36	**-**	9,541
Balance at the end of the year		**(29,026)**	(12,158)
Fair value reserve			
Balance at the beginning of the year		**-**	-
Revaluation – gross		**(3,816)**	-
Revaluation – deferred tax		**1,145**	-
Balance at the end of the year		**(2,671)**	-
Share option reserve			
Balance at the beginning of the year		**603**	327
Share based payment expense		**649**	276
Balance at the end of the year		**1,252**	603
Transactions with non-controlling interests reserve			
Balance at the beginning of the year		**-**	-
Acquisition of additional ownership in Oakey Power Holdings Pty Ltd	38	**(5,868)**	-
Balance at the end of the year		**(5,868)**	-

28. 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 available for sale financial assets, are recognised in other comprehensive income, as described in note 1 (i) and accumulated in a separate reserve within equity. Amounts are reclassified to profit or loss when the associated assets are sold or impaired.

(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; and
- The issue of shares held by the LTIST and LTIOT Employee Share Trusts to employees.

Refer to note 29 for details of the employee share and option incentive schemes.

29. SHARE BASED PAYMENTS

(A) SHORT TERM INCENTIVES

During the year eligible employees received ordinary shares as a short term incentive bonus by way of an offer to participate in the Short Term Incentive Share Trust. The number of shares issued to participants during the year was 806,904. The shares vested immediately on issue with the cost provided for in the 2011 financial year.

(B) 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 senior employees (including Executive Directors) who are invited by the Board.

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

Participants hold their interest in the LTIST through units, where one unit represents one share. Participants are issued units at the prevailing market value of the shares. A participant may instruct the trustee how to exercise its vote in the case of a poll at a meeting of ERM Power. If the participant's employment ceases prior to the shares vesting, the participant's units in the LTIST are forfeited.

Early vesting may occur in the following circumstances, subject to the participant achieving any relevant performance hurdles, as set out below:

- On termination of employment due to redundancy, death or permanent disability, or in circumstances that the Board determines appropriate; and
- On a change of control of ERM Power, 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.

29. SHARE BASED PAYMENTS (CONT.)

(B) LONG TERM INCENTIVES (CONT.)

2012 financial year grant

The number of units allocated under the plan during the 2012 financial year was 1,144,270. The underlying shares in the LTIST are subject to the following vesting conditions:

- 50% are subject to vesting on satisfaction of total security holder return (TSR) performance; and
- The remaining 50% are subject to vesting on satisfaction of earnings per share (EPS) growth performance.

Performance against each of these measures is tested over a three year vesting period. The assessed fair value at grant date was $1.33 per share. The fair value is independently determined using a Monte Carlo simulation (using a Black-Scholes framework). The model inputs for restricted shares granted included:

- Share price at grant date: $1.50;
- Exercise price: Nil;
- Expected price volatility of the Company's shares: 30%;
- Risk free interest rate: 3.19%;
- Expected vesting date: 3 years after issue; and
- Dividend yield: 6%.

2011 financial year grant

The number of units allocated under the plan during the 2011 financial year was 513,072. During the 2012 financial year, 13,894 have been subject to early vesting and 6,546 have lapsed due to cessation of employment prior to vesting. Subject to continuation of employment, 33% of the unvested units will vest in September 2012 with the balance to vest in September 2013. The value of the shares at grant date was $1.75 per share with the expense to be allocated over the vesting periods. The units issued are not subject to performance conditions.

II. LTIOT

2012 financial year grant

No options were granted during the year ended 30 June 2012.

2011 financial year grant

Participants were issued units at the prevailing market value of the options. If the participant's employment ceases prior to the options vesting, their units will be forfeited.

Early vesting may occur in the same circumstances as the LTIST, subject to achieving any relevant performance hurdles.

Set out below are summaries of units granted under the plan with vesting being subject to continuation of employment in September 2012:

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
1/11/2010	1/11/2017	$2.75	1,296,400	-	19,638	-	1,276,762	41,674
8/11/2010	8/11/2017	$2.75	242,706	-	-	-	242,706	-
Total			**1,539,106**	**-**	**19,638**	**-**	**1,519,468**	**41,674**

The weighted average remaining contractual life of options outstanding at the end of the period is 5.3 years.

29. SHARE BASED PAYMENTS (CONT.)

(B) LONG TERM INCENTIVES (CONT.)

Fair value of options granted

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.

The model inputs for options granted during the year ended 30 June 2011 included:

- Share price at grant date: $1.75;
- Exercise price: $2.75;
- Expected price volatility of the Company's shares: 28.1%;
- Risk free interest rate: 5.69%; and
- Expected vesting date: 3 years after issue.

Employee Option Plan 2008

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

Details of the options, which vested in the financial year ended 30 June 2011, are summarised below.

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
6/06/2008	6/06/2013	$0.806	9,819,209	-	-	1,430,341	8,388,868	8,388,868
30/06/2008	30/06/2013	$0.806	250,000	-	-	150,000	100,000	100,000
Total			**10,069,209**	**-**	**-**	**1,580,341**	**8,488,868**	**8,488,868**

The weighted average share price from 1 July 2011 to 30 June 2012 was $1.6853 (2011 $1.8388)

(C) OTHER AWARDS

The Company may offer awards outside of the standard incentive plans. In June 2012, 261,782 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 $1.91 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 20 day VWAP at the vesting date.

(D) 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	
	2012 $'000	2011 $'000
Options issued under employee option plans	**-**	167
Shares issued under long term employee share scheme	**649**	110
	649	277

30. PARENT ENTITY FINANCIAL INFORMATION

(A) SUMMARY FINANCIAL INFORMATION

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

	CONSOLIDATED	
Statement of financial position	**2012 $'000**	**2011 $'000**
Current Assets	**68,394**	212,917
Total Assets	**211,763**	286,467
Current Liabilities	**6,280**	71,848
Total liabilities	**20,823**	78,270
Net assets	**190,940**	208,197
Shareholders' equity		
Contributed equity	**169,263**	161,136
Treasury shares	**(2,603)**	(898)
Fair value reserve	**(2,671)**	-
Share option reserve	**1,252**	603
Retained earnings	**25,699**	47,356
Total equity	**190,940**	208,197
Loss for the year	**(9,830)**	(1,937)
Other comprehensive income	**(2,671)**	-
Total comprehensive loss	**(12,501)**	(1,937)

(B) GUARANTEES ENTERED INTO BY THE PARENT ENTITY

The Company has provided bank guarantees in relation to its lease arrangements for premises in Brisbane totalling $503,364 (2011 $522,000).

(C) CONTINGENT LIABILITIES OF THE PARENT ENTITY

The Company does not have any contingent liabilities at 30 June 2012.

(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 2012.

31. COMMITMENTS AND CONTINGENCIES

	CONSOLIDATED	
	2012 $'000	2011 $'000
(A) CAPITAL EXPENDITURE COMMITMENTS		
Estimated capital expenditure contracted for at balance date, not provided for but payable (including share of associates and joint ventures):		
– not later than one year	**1,262**	4,076
– later than one year and not later than five years	**-**	-
– later than five years	**-**	-
	1,262	4,076

	CONSOLIDATED	
	2012 $'000	2011 $'000
(B) LEASE EXPENDITURE COMMITMENTS		
Operating leases (non-cancellable):		
Minimum lease payments		
– not later than one year	**1,388**	1,272
– later than one year and not later than five years	**14,676**	1,649
– later than five years	**18,646**	-
Aggregate lease expenditure contracted for at balance date	**34,710**	2,921

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

(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	2012 $'000	2011 $'000
Bank guarantees - Australian Energy Market Operator and other counterparties	(i)	**85,860**	63,000
Bank guarantees - Lease arrangements	(ii)	**623**	522
Futures margin deposits	(iii)	**11,764**	2,732
Security deposits	(iv)	**9,246**	3,145
Bank guarantees - Western Power	(v)	**300**	300
Bank guarantees - Powerlink	(vi)	**2,200**	2,200
Bank guarantees - Neerabup / Contractor dispute	(vii)	**1,750**	-
Bank guarantees - AGL Hydro Partnership	(viii)	**4,227**	-
		115,970	71,899

31. COMMITMENTS AND CONTINGENCIES (CONT.)

(C) CONTINGENT LIABILITIES (CONT.)

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

(ii) The Group has provided bank guarantees in relation to lease arrangements for premises in Brisbane. The guarantee is secured by a registered charge over all assets and undertakings of the Company (being ERM Power Limited).

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

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

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

(vi) The Group has provided a bank guarantee in favour of Powerlink for $2.2m under a Connection Agreement.

(vii) The Group has provided a bank guarantee in favour of its partner in the Neerabup Partnership under an indemnity agreement for a contractor dispute. Conneq Infrastructure Services (Australia) Pty Limited (formerly Bilfinger Berger Services (Australia) Pty Limited (Conneq) served a notice of dispute on the NewGen Neerabup Partnership on 27 August 2010 in relation to a liquidated damages claim made by the NewGen Neerabup Partnership and also alleging several breaches of the balance of plant contract. The notice of dispute claims that Conneq is not liable to pay a sum of approximately $12.0 million levied against it by the NewGen Neerabup Partnership as liquidated damages for certain delays under the balance of plant contract. The notice also alleges that the NewGen Neerabup Partnership has failed to pay Conneq a sum of approximately $770,000 and also claims the sum of approximately $8.0 million for delay costs. The dispute is currently being progressed through arbitration in line with the dispute resolution provisions contained within the contract. Should the dispute settle in favour of the Partnership the Group expects to recognise the settlement proceeds as revenue. Should the dispute settle in favour of Conneq, the Group expects to recognise the settlement costs as an additional cost of constructing the Neerabup power station. These costs will be capitalised and depreciated.

(viii) The Group has provided a bank guarantee in favour of the AGL Hydro Partnership in the event that there are damages resulting from the Oakey power station failing an annual capacity test.

32. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	INTEREST HELD	
	2012 %	2011 %
As at 30 June 2012, the Group has the following interests in power station projects with other external parties:		
Name		
NewGen Power Neerabup Pty Ltd	**50**	50
NewGen Neerabup Pty Ltd	**50**	50
NewGen Neerabup Partnership	**50**	50
ERM Power Trust	**50**	50
Queensland Electricity Investors Pty Ltd	**50**	50

32. INTERESTS IN JOINTLY CONTROLLED ENTITIES (CONT.)

	CONSOLIDATED	
	2012 $'000	2011 $'000
Net assets employed in the jointly controlled entities are included in the financial statements as follows:		
CURRENT ASSETS		
Cash and cash equivalents	**8,965**	9,717
Trade and other receivables	**3,545**	3,471
Inventories	**33**	58
Other assets	**177**	226
TOTAL CURRENT ASSETS	**12,720**	13,472
NON-CURRENT ASSETS		
Investment in associates accounted for using the equity method	**-**	12,914
Property, plant and equipment	**192,714**	199,733
TOTAL NON-CURRENT ASSETS	**192,714**	212,647
TOTAL ASSETS	**205,434**	226,119
CURRENT LIABILITIES		
Trade and other payables	**540**	764
Borrowings	**5,220**	4,719
Provisions	**33**	20
TOTAL CURRENT LIABILITIES	**5,793**	5,503
NON-CURRENT LIABILITIES		
Borrowings	**156,051**	159,552
Derivative financial instruments	**40,778**	17,369
TOTAL NON-CURRENT LIABILITIES	**196,829**	176,921
TOTAL LIABILITIES	**202,622**	182,424
NET ASSETS	**2,812**	43,695

Capital expenditure commitments

Estimated capital expenditure contracted for at balance date, not provided for but payable		
– not later than one year	**66**	4,076
– later than one year and not later than five years	**-**	-
– later than five years	**-**	-
	66	4,076

33. 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.

Trevor St Baker and his related parties have a controlling shareholding in the Company at 30 June 2012.

Equity interests in subsidiaries

Details of interests in subsidiaries are set out in note 19.

Equity interests in associates

Details of interests in associates are set out in note 18.

Equity interests in jointly controlled entities

Details of interests in jointly controlled entities are set out in note 32.

Key management personnel

Disclosures relating to key management personnel are set out in note 34 and the Directors' Report.

		CONSOLIDATED	
Transactions with related parties	**Note**	**2012 $**	**2011 $**
Transaction type			
Loans from Directors			
Loans received	(i)	**800,000**	4,400,000
Loan repayments	(ii)	**-**	7,955,955
Interest and facility fees paid on director loans	(i)	**849,381**	-
Director related entity transactions			
Consulting fees	(iii)	**239,167**	304,447

(i) Loan of $5.2 million ($4.4 million advanced in the year ended 30 June 2011 and $0.8 million advanced on 4 July 2011) from a related entity of Trevor St Baker in relation to funding of additional 50% interest in Oakey acquisition. Loan is interest bearing at 12% per annum. Facility fees of $228,800 paid during the year ended 30 June 2012.

(ii) Loans of $8.0 million from a director related entity bearing interest at BBSY plus 4% were repaid during the year ended 30 June 2011.

(iii) ERM Power has a consulting agreement with Sunset Power Pty Ltd (a related party of Trevor St Baker). Under this agreement ERM Power pays Sunset Power Pty Ltd a fee of $3,500 per day for services provided (up to a maximum of 70 days per annum). Sunset Power Pty Ltd is also entitled to be reimbursed for all reasonable expenses incurred in providing these services. The consulting agreement may be terminated by giving 30 days written notice or immediately if Sunset Power breaches the agreement.

33. RELATED PARTY DISCLOSURES (CONT.)

Other related party transactions

During the year, Stephen St Baker and Andrew St Baker were 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 2012 were $462,394 (2011 $524,807).

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	
Transactions with jointly controlled entities	**2012 $**	**2011 $**
Net loans advanced / (repaid)	**(1,249,907)**	(4,582,604)
Current trade receivables	**86,671**	183,484
Current trade payables	**(29,619)**	(140,135)
Project fees	**219,286**	1,040,981
Operations management fees	**2,973,734**	5,548,633

34. KEY MANAGEMENT PERSONNEL DISCLOSURES

(A) KEY MANAGEMENT PERSONNEL COMPENSATION

	CONSOLIDATED	
	2012 $	**2011 $**
Short-term employee benefits	**2,782,978**	2,573,842
Post-employment benefits	**206,309**	212,026
Termination benefits	**-**	-
Share-based payments	**382,393**	761,662
	3,371,680	3,547,530

Detailed remuneration disclosures are provided in the remuneration report.

(B) EQUITY INSTRUMENTS DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

The number of shares and options held during the financial year by each director and other key management personnel of the Group are disclosed in the Directors Report.

34. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT.)

(C) LOANS TO KEY MANAGEMENT PERSONNEL.

Details of loans made to key management personnel of the Group, including their related parties, are set out below.

Total individual loans

$	Balance at the start of the year	Interest paid and payable for the year	Interest not charged	Balance at end of the year	Number in Group at the end of the year
2012	**1,246,996**	**88,604**	**-**	**1,167,039**	**4**
2011	1,163,642	83,354	-	1,246,996	4

Total 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 end of the year	Number in Group at the end of the year
2012	**1,166,570**	**83,181**	**-**	**1,088,869**	**3**
2011	1,088,089	74,481	-	1,166,570	3

The above loans include employee shareholder loans. In 2007 and 2008, ERM Power made offers to certain senior executives to participate in a share loan incentive plan. ERM Power provided loans to participants to enable them to subscribe for shares. The loans are subject to loan deeds and are interest bearing at the FBT benchmark rate with recourse limited to the value of the shares. The loans are repayable in the event of termination of employment or otherwise between seven and 10 years from the date of advance.

Key management personnel and their related parties with loans greater than $100,000 at 30 June 2012 and 30 June 2011 include Philip St Baker, Mitch Anderson and Andrew St Baker.

Further details regarding director loans and other director transactions are included in Note 33 and the Directors' Report.

35. AUDITORS' REMUNERATION

	CONSOLIDATED	
	2012 $	2011 $
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	**542,850**	525,000
	542,850	525,000
Amounts received or due and receivable by PricewaterhouseCoopers Australia for non-audit services:		
Investigating accounts report	**-**	630,000
Due diligence services	**-**	60,000
Other agreed-upon procedures in relation to the entity and any other entity in the consolidated Group	**70,000**	115,002
	70,000	805,002

36. SALE OF INTERESTS IN POWER STATION

Kwinana Power Station

In the prior year, the Group sold its 30% interest in the Kwinana power station. The Group sold all the shares of ERM BK Power Pty Ltd and ERM Oakey Power II Pty Ltd which were the holding companies for Kwinana group subsidiaries. The consideration received by the Group for its interest in Kwinana was $39.9 million less the convertible note liability outstanding at the date of sale of $31.0 million. Deferred interest of $6.0 million, payable on redemption of the notes, is included in finance expense.
A loss of $6.4 million in relation to the interest rate swaps entered into by the Kwinana partnership is included in net fair value gains on financial instruments.

37. BUSINESS COMBINATION

(A) PRIOR YEAR ACQUISITION – SAGE UTILITY SYSTEMS PTY LTD

On 31 March 2011, the Group purchased all of the share capital of SAGE Utility Systems Pty Ltd. At 30 June 2011 the fair values of the assets and liabilities acquired as well as any goodwill on acquisition, was provisional. Provisional fair values may be used for a period of 12 months from acquisition. The acquisition accounting was finalised during the year as follows:

	Provisional fair value as previously reported $'000	Adjustments $'000	Final fair value $'000
Provisional fair value of net identifiable assets acquired	502	1,882	2,384
Add: Provisional goodwill	1,882	(1,882)	-
Provisional net assets acquired	**2,384**	**-**	**2,384**

(B) CURRENT YEAR ACQUISITION – ACQUISITION OF ADDITIONAL 50% INTEREST IN THE OAKEY POWER STATION

On 1 July 2011 the Group acquired an additional 50% interest in Oakey Power Holdings Pty Ltd "OPH" taking the Group's total shareholding in OPH and interest in the Oakey Power Station from 12.5% to 62.5%.

The financial effects of the transaction had not been brought to account at 30 June 2011. The operating results and assets and liabilities of OPH and its wholly owned subsidiaries have been consolidated from 1 July 2011, the date at which the Group gained a controlling interest.

Details of the purchase consideration transferred and the provisional net fair values of the assets and liabilities acquired are:

	$'000
Purchase consideration	
Cash paid	62,533
Total purchase consideration	**62,533**
Acquisition of subsidiary net of cash acquired	
Cash balances acquired	12,212
Cash paid	(62,533)
Direct cash costs of acquisition	(729)
Net cash outflow	**(51,050)**

37. BUSINESS COMBINATION (CONT.)

(B) CURRENT YEAR ACQUISITION – ACQUISITION OF ADDITIONAL 50% INTEREST IN THE OAKEY POWER STATION (CONT.)

Acquisition related costs

$0.7 million of acquisition related costs are included in profit and loss for the period ended 30 June 2012 in expenses.

Revenue and profit contribution

The acquired business contributed revenues of $34 million and net profit of $8.7 million to the Group for the period from 1 July 2011 to 30 June 2012 excluding the minority interest share. In addition, the Group recognised revenue of $19 million representing a discount on the acquisition of the controlling interest.

The fair value of net identifiable assets acquired, discount on acquisition and non-controlling interests have only been determined provisionally at the time that the financial statements were authorised for issue.

Provisional fair values may be used for a period of 12 months from acquisition. During the 12 month period from acquisition date of 1 July 2011 the Group will continue to assess the fair value of identifiable assets and liabilities acquired, the minority interest as well as any goodwill on acquisition.

Details of the provisional fair values of the net assets and liabilities acquired are:

	Note	Carrying value at acquisition date $'000	Provisional fair value adjustments $'000	Provisional fair value at acquisition date $'000
Cash		12,212	-	12,212
Receivables		2,483	-	2,483
Inventory		1,750	-	1,750
Property, plant and equipment		81,135	168,908	250,043
Operating lease receivable	(i)	15,777	(15,777)	-
Deferred tax assets		41	-	41
Other assets		140	-	140
Current tax liability		(1,730)	-	(1,730)
Borrowings		(51,169)	-	(51,169)
Trade and other payables		(554)	-	(554)
Deferred tax liabilities		(24,216)	(45,939)	(70,155)
Provisional fair value of net assets		**35,869**	**107,192**	**143,061**
Less: provisional non-controlling interest at fair value	(ii)			(42,918)
Less: provisional acquisition date fair value of previously held equity interest of 12.5%	(iii)			(17,883)
Less: provisional discount on acquisition	(iv)			(19,727)
Total cost				**62,533**
Discount on acquisition				19,727
Less fair value adjustment on original 12.5% investment	(iii)			(659)
Total net discount on acquisition reflected in profit and loss				**19,068**

37. BUSINESS COMBINATION (CONT.)

(B) CURRENT YEAR ACQUISITION – ACQUISITION OF ADDITIONAL 50% INTEREST IN THE OAKEY POWER STATION (CONT.)

i. Operating lease receivable

The operating lease receivable represents a non-cash asset recognised to average revenue generated from a power purchase agreement over the life of the agreement.

ii. Non-controlling interest

In accordance with the Group's accounting policies, the Group elected to recognise the 37.5% non-controlling interest in OPH and its wholly owned subsidiaries at fair value. Fair value has been determined by the inclusion of a discount for lack of control in the per-share fair value of the non-controlling interest.

iii. Previously held equity interest

A provisional loss of $0.7 million has been recognised on the re-measurement of the acquisition date equity interest previously held, to fair value. This loss has been offset with the discount on acquisition and recognised within other income.

iv. Discount on acquisition

The provisional discount on acquisition of $19.7 million arose due to the sale price being limited through both a forced sale and pre-emptive rights. This has been recognised as other income.

38. TRANSACTIONS WITH NON-CONTROLLING INTERESTS

In January 2012, a wholly owned subsidiary of ERM Power Limited acquired an additional interest in Oakey Power Holdings Pty Ltd "OPH". At the same time, OPH conducted a share buyback and an unrelated private investor in OPH also increased its respective interest in OPH. The effect of the transaction was such that the non-controlling interest was reduced from 37.5% to 16.7% at a total cash cost of $31 million.

The carrying amount of the non-controlling interest in OPH on the date of the acquisition following the share buy-back was $19 million. The Group has recognised an increase in the non-controlling interest of $5.8 million and a decrease in equity attributable to ERM Power Limited of $5.8 million.

	CONSOLIDATED
	2012 $'000
Adjustment to non-controlling interest	(24,683)
Consideration paid inclusive of transaction costs net of tax	30,551
Excess of consideration paid recognised in the transactions with non-controlling interests reserve within equity	5,868

39. EARNINGS PER SHARE

	CONSOLIDATED		CONSOLIDATED	
	2012 Number ('000)	2011 Number ('000)	2012 Cents	2011 Cents
Basic earnings per share	**164,668**	138,421	**20.74**	11.72
Diluted earnings per share	**167,913**	142,880	**20.34**	11.35

Earnings per share are not diluted for net losses

Reconciliation of weighted average number of ordinary shares

Weighted average number used in calculating basic earnings per share	**164,668**	138,421
Effect of share options on issue	**3,245**	4,459
Weighted average number used in calculating diluted earnings per share	**167,913**	142,880

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.

40. EVENTS AFTER THE REPORTING PERIOD

Since 30 June 2012, there have been no other matters or circumstances not otherwise dealt with in the financial report that have significantly affected or may significantly affect the Group.

ERM POWER LIMITED
DIRECTORS' DECLARATION

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

   (a) the financial statements and notes set out on pages 43 to 103 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 2012 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:

M Greenberg
Director

21 August 2012

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 balance sheet as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for ERM Power Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the 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. These Auditing 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 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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
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pwc

Auditor's opinion

In our opinion:

(a) the financial report of ERM Power Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 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;* and

(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 attached remuneration report for the year ended 30 June 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers.

PricewaterhouseCoopers

Timothy J Allman
Partner

21 August 2012

ERM POWER LIMITED
SHARE AND SHAREHOLDER INFORMATION

TWENTY LARGEST SHAREHOLDERS

The following table sets out the 20 largest shareholders in ERM Power Limited ("the Company") (when multiple holdings are grouped together) and the percentage each holds as at 3 September 2012:

Shareholders		Number of shares	% of issued shares
1	Energy Resource Managers Holdings Pty Ltd	43,549,489	25.85
2	Sunset Power Pty Ltd	20,274,642	12.04
3	Citicorp Nominees Pty Limited	9,996,123	5.93
4	Gaffwick Pty Ltd	9,156,133	5.44
5	Ilwella Pty Limited	8,785,381	5.22
6	National Nominees Limited	5,515,353	3.27
7	Sunset Power A Pty Ltd	5,160,934	3.06
8	Sunset Power B Pty Ltd	5,160,934	3.06
9	Sunset Power C Pty Ltd	5,160,934	3.06
10	Sunset Power D Pty Ltd	5,160,934	3.06
11	HSBC Custody Nominees (Australia) Limited	4,000,746	2.37
12	Trinity Management Pty Ltd	3,822,392	2.27
13	Philip St Baker & Peta St Baker	3,310,159	1.97
14	St Baker Investments Pty Ltd	2,002,088	1.19
15	Andrew James St Baker & Cathryn Jeanne St Baker	1,918,096	1.14
16	BNP Paribas Noms Pty Ltd	1,838,476	1.09
17	AMP Life Limited	1,612,484	0.96
18	WH & LL St Baker Pty Ltd	1,597,100	0.95
19	St Baker-Childs Investments Pty Ltd	1,199,532	0.71
20	J P Morgan Nominees Australia Limited	1,030,141	0.61
Total		**140,252,071**	**83.25**

As at 3 September 2012 there were 168,445,039 shares on issue.

DISTRIBUTION OF SHARES

The following table summarises the distribution of shares as at 3 September 2012:

Ordinary Shares	Number of shareholders	% of issued shares
1 – 1,000	125	0.04
1,001 – 5,000	439	0.77
5,001 - 10,000	402	1.80
10,000 – 100,000	514	7.56
100,001 – and over	86	89.83
Total	**1,566**	**100.00**

The number of shareholders holding less than a marketable parcel of shares was 34 holding 2,415 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]	19/10/2011	84,993,327	51.86%
Ordinary Shares	Commonwealth Bank of Australia & its subsidiaries	01/02/2012	8,586,574	5.20%
Ordinary Shares	Gaffwick Pty Ltd	10/12/2010	8,571,429	5.37%
Ordinary Shares	Ilwella Pty Limited	10/12/2010	8,571,429	5.37%

[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 Pty Ltd as trustee for the St Baker Family Trust, Sunset Power A Pty Ltd as trustee for Sunset Power Trust A, Sunset Power B Pty Ltd as trustee for Sunset Power Trust B, Sunset Power C Pty Ltd as trustee for Sunset Power Trust C and Sunset Power D Pty Ltd as trustee for Sunset Power Trust D.

VOTING RIGHTS

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

SECURITIES EXCHANGE LISTING

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

VOLUNTARY ESCROW

98,679,437 shares that were subject to voluntary escrow as reported in the 2011 Annual Report, were released from escrow on 24 August 2012.

UNQUOTED SECURITIES

As at 3 September 2012, there were 9,867,974 options to acquire fully paid ordinary shares. The options do not carry any entitlement to participate in any share issue. All options expire on the earlier of their expiry date, or for those with a 2017 expiry date, termination of the holder's employment, or as otherwise determined by the board.

Expiry Date	Issue price of shares (cents)	Number under option	Number of holders
6 June 2013	80.6	8,228,868	45
30 June 2013	80.6	100,000	1
1 November 2017	275.0	1,296,400	24
8 November 2017	275.0	242,706	1

CORPORATE DIRECTORY

Company
ERM Power Limited
(ACN: 122 259 223)

Directors
Tony Bellas (Non-Executive Chairman)
Trevor St Baker (Non-Executive Deputy Chairman and Founder)
Martin Greenberg
Brett Heading
Tony Iannello
Philip St Baker (Managing Director)

Company Secretaries
Peter Jans
Graeme Walker

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National Australia Bank

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PricewaterhouseCoopers

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Freehills

Share Registry
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