

# ANNUAL REPORT 2017

# EFFICIENT ENERGY

# FUELLING GROWTH

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### ABOUT ERM POWER

ERM Power is an Australian energy company operating electricity sales, generation and energy solutions businesses. The Company has grown to become the second largest electricity provider to commercial businesses and industrials in Australia by load<sup>1</sup>, and is the only energy retailer licensed to sell electricity in all Australian states as well as the Northern Territory and the Australian Capital Territory. A growing range of energy solutions products and services are being delivered, including lighting and energy efficiency software and data analytics, to the Company's existing and new customer base. ERM Power also sells electricity in several markets in the United States. The Company operates 662 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland. [www.ermpower.com.au](http://www.ermpower.com.au)

<sup>1</sup> Based on ERM Power analysis of latest published information.

## FINANCIAL HIGHLIGHTS

For FY2017, ERM Power's underlying EBITDAF was \$78.4m, up 5%. Our industry is changing and we are transforming the business to take advantage of the growing need for new energy solutions in a dynamic and competitive market.

### SALES GROWTH

Record Australian electricity sales of 18.5TWh.  
US electricity sales more than doubled to 3.8TWh.

### OPPORTUNITY AND INVESTMENT

Accelerating investment in Energy Solutions and the US Business, taking opportunity in a dynamic market.

The Large-scale Generation Certificate (LGC) strategy results in a one-off tax charge of \$37.1m, contributing to an underlying NPAT loss of (\$26.3)m.

### UNDERLYING EBITDAF

**\$78.4** MILLION

### UNDERLYING NPAT LOSS

**(\$26.3)** MILLION

### DIVIDENDS

**3.5c** PER SHARE

### ELECTRICITY SALES UP 12% TO

**22.3** TWH

Total declared dividend for FY2017 was 7c per share, fully franked.

# CHAIRMAN AND MANAGING DIRECTOR'S REPORT

ERM Power has delivered a strong set of results in financial year 2017, taking strategic opportunities and investing for growth and diversification in a disrupting energy market.

Policy uncertainty and challenging market conditions have not constrained the Company in creating opportunities to deliver for customers and shareholders. Our clear and consistent business strategy accounts for an industry in transition, harnessing and rewarding our deep industry expertise, innovative approach and well-timed execution.

FY2017 earnings increased by 5% to \$78.4m (underlying EBITDAF), with positive results across the business.

## STRATEGIC GROWTH

ERM Power's strategy capitalises on the Company's strong, enduring customer relationships and industry-leading customer satisfaction to deliver an expanded, integrated value proposition to businesses seeking to take control of their energy costs.

We are proud of ERM Power's history of self-disruption and reinvention, with 2017 demonstrating our continued focus on strategic business transformation.

It has been a critical year for our growing Energy Solutions business, with existing, acquired and new business capability now delivering results through one integrated and focussed team. Revenue more than doubled compared with the previous period, underpinned by increased opportunities in metering and demand response. The Company continues to invest in new capabilities and initiatives, such as our National Schools Program, responding to a clear customer need.

Our US retail business, Source Power & Gas, is also delivering growth as it continues to apply and adapt the ERM Power approach to the US market. Load sold through the US market more than doubled to 3.8TWh. Importantly, contracted forward electricity sales increased substantially from 10.8TWh to 16.7TWh. This demonstrates the success of our comprehensive broker engagement plan and significant investment in new systems, processes and people.

In April 2017, we were pleased to announce the sale of the non-core residential electricity retailing component of our US business. This allows exclusive focus on our core and growing business customer base in line with the broader ERM Power Group strategy. The residential business sold for US\$12m, comfortably exceeding the original acquisition price of the entire business in 2015.

Both our US electricity retail and Australian Energy Solutions businesses are in investment phase, and will remain that way in financial year 2018. We are confident they are on track to become material profit contributors in the medium term.

ERM Power's generation assets had a strong year, maximising merchant generation opportunities. Earnings increased by \$4.3m for Oakey Power Station in Queensland, and \$2.1m for Neerabup Power Station in Western Australia.

The Australian electricity sales business increased load to 18.5TWh, up 0.4TWh from the prior year. Forward contract load grew 13% from 25.3TWh to 28.6TWh, which is a positive outcome in a highly competitive market.

## SUPPORTING RENEWABLE ENERGY

ERM Power is committed to playing its part in the transition to a less emission-intensive energy sector, and this year, executed a progressive strategy to cost-effectively support renewable energy development.

For the 2016 compliance year, the Company chose to achieve compliance with the Renewable Energy Target scheme by paying the Clean Energy Regulator \$123m, in lieu of surrendering 1.9 million Large-scale Generation Certificates (LGCs). This enabled the sale of existing LGC inventory into the market while prices were high, with the Company reaching agreements to procure lower cost LGCs in the future.

We were pleased to announce a renewable offtake agreement with Hamilton Solar Farm in Queensland (58MW, currently under construction) and continue to work with developers of new renewable energy assets, such as Nexif Energy Australia Pty Ltd on their Lincoln Gap Wind Farm project.

“

ERM Power has delivered a strong set of results in financial year 2017, taking strategic opportunities and investing for growth and diversification in a disrupting energy market.

### LEADING CUSTOMER SERVICE

In the Australian market, the 2016 Utility Market Intelligence survey<sup>1</sup> reported 94% of ERM Power's large business customers are satisfied – the highest level of customer satisfaction recorded since the survey began in 1997. This marks the sixth consecutive year that ERM Power has out-ranked all other retailers in this survey.

In the US market, the 2016 Energy Research Consulting Group's survey<sup>2</sup> of energy broker satisfaction also demonstrates our strong focus on customer needs and relationships, with Source Power & Gas placing third out of over 50 retailers. Since acquisition in 2015, Source Power & Gas broker recognition rate has tripled, with 62% of surveyed brokers now saying they do business with Source.

### HIGHLY ENGAGED PEOPLE

It takes great people to deliver great results. ERM Power's second employee engagement and enablement survey again demonstrated our people are well-positioned to deliver continued business success.

The Company's 2017 engagement score was consistent with the highest performing organisations in the world, and its enablement score was five percentage points above the global high-performing norm<sup>3</sup>. ERM Power also ranked above the global high-performing norms in critical areas such as confidence in leadership, clarity of business strategic direction and customer focus.

On behalf of the Board, we would like to thank ERM Power's staff and management team, whose innovative thinking, belief in our strategy, and focussed work ethic are the foundation of our success. We also thank our shareholders, many of whom are staff, for your support as we continue to progress our strategy at this exciting time of industry transition.

To our customers, thank you for supporting us, inspiring us, and challenging us to do more for your business. We look forward to helping you in new and exciting ways in the coming year.

We thank our fellow Directors, and in particular acknowledge ERM Power founder Trevor St Baker, who announced his resignation from the Board in July 2017. Trevor's ongoing commitment and guidance to the Company has been invaluable. We'd also like to take this opportunity to thank Martin Greenberg, who also stepped down from the Board in October 2016, for his service and contribution and we welcome Georganne Hodges and Phil St Baker to the Board.

ERM Power is at an exciting juncture in its transformation. We look forward to continuing to grow and prosper in a transforming market which presents us plenty of opportunity.



**Tony Bellas**  
Chairman



**Jon Stretch**  
Managing Director and  
Chief Executive Officer

<sup>1</sup> Utility Market Intelligence survey of large customers of major electricity retailers by independent research company NTF Group from 2011 – 2016.

<sup>2</sup> Energy Research Consulting Group's (ERCG) survey of Aggregators, Brokers and Consultants (ABC) Study December 2016. Research based on survey of over 120 ABCs, which represents ~72% of brokered US power sales.

<sup>3</sup> Korn Ferry Hay Group Employee Engagement and Enablement Survey, February 2017.

# BOARD OF DIRECTORS' PROFILES



**Anthony (Tony) Bellas**

*MBA, BEc, DipEd, FCPA, FAICD.  
Independent Non-Executive Chair*

Age: 63

Director since 1 December 2009; Chair since 21 October 2011  
7.5 years' service

**Skills and experience:** Tony brings over 25 years of policy and operational experience in the energy industry to the business. Tony was previously CEO of the Seymour Group, one of Queensland's largest private investment and development companies. Prior to joining the Seymour Group, Tony held the position of CEO of Ergon Energy, a Queensland Government-owned corporation involved in electricity distribution and retailing. Before that, he was CEO of CS Energy, also a Queensland Government-owned corporation and the State's largest electricity generation company, operating over 3,500MW of gas-fired and coal-fired plant at four locations.

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

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

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

|                                     |                   |
|-------------------------------------|-------------------|
| NOVONIX Limited                     | Since August 2015 |
| Shine Corporate Ltd                 | Since March 2013  |
| Corporate Travel Management Limited | Since June 2010   |

**Special Responsibilities**

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



**Albert Goller**

*Master's Degree in Information & Telecommunications  
Independent Non-Executive Director*

Age: 66

Director since 1 January 2015  
2.5 years' service

**Skills and experience:** Albert brings considerable management and marketing expertise, garnered through a very successful executive career in Germany, Canada, the USA and Australia at the global multinational conglomerate Siemens AG. He was Chair and Managing Director of Siemens Ltd in Australia between 2002 and 2012.

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

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

**Special Responsibilities**

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



### Georganne Hodges

*Bachelor of Business Administration in Accounting from Baylor University, CPA (Texas), Member of National Association of Corporate Directors (NACD)  
Independent Non-Executive Director*

Age: 52

Director since 26 October 2016  
<1 year's service

**Skills and experience:** Georganne brings over 25 years of wholesale and retail energy experience, including extensive industry experience across the energy value chain leading the finance, accounting and other back office operations of medium to large North American wholesale and retail energy companies.

She is currently CFO for energy refining and marketing company Motiva Enterprises, based in Houston Texas and a board member for Big Brothers Big Sisters Lone Star, a non-profit volunteer youth mentoring organisation.

Prior to mid-2016 Georganne was Chief Financial Officer and Treasurer for Spark Energy Incorporated (Nasdaq: SPKE), a US natural gas and electricity supplier serving residential and commercial customers in 16 states, where from 2013 she was responsible for corporate financial reporting, risk management, accounting, financial planning and analysis, treasury, tax and internal controls. During her time there, she successfully completed the company's initial public offering as well as several acquisitions. Prior to joining Spark Energy, Georganne served as Vice President Finance for US company Direct Energy's retail energy business from August 2009 to October 2012 and in various other senior financial roles prior to that. Georganne began her finance career in 1987 with Arthur Andersen, where she audited companies across the energy value chain.

Georganne also holds memberships in the Houston Chapter of CPAs and the Women's Energy Network.

#### Special Responsibilities

Member of the Audit & Risk Committee.



### Antonino Mario (Tony) Iannello

*BCom, FCPA, SFFSIA, Harvard Business School Advanced Management Program, FAICD  
Independent Non-Executive Director*

Age: 59

Director since 19 July 2010  
7 years' service

**Skills and experience:** Tony brings to the business more than 30 years of banking and energy experience. Tony is a director of the listed companies shown below and Non-Executive Chair of D'Orsogna Ltd. He was previously Chair of HBF Health Ltd, MG Kailis Group of Companies, a director of the Water Corporation of Western Australia and a member of The Murdoch University Senate. Prior to embarking on a career as a non-executive director, Tony was the Managing Director of Western Power Corporation until its separation into four separate businesses. Previously he held a number of senior executive positions at BankWest.

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

Empire Oil & Gas NL (Chair) Since November 2013

AusNet Services Limited June 2006 – July 2015

Energia Minerals Limited March 2010 – October 2014

#### Special Responsibilities

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



**Philip St Baker**

*BEng, MAICD*  
*Non-Executive Director*

Age: 49

Director since 14 July 2017  
<1 year's service

**Skills and experience:** Philip is an experienced entrepreneur active in Australia and the USA. He was previously Managing Director of ERM Power for eight years to 2014 overseeing the development of power generation assets (over \$2 billion in value), and the creation and expansion of ERM Power's retail business. Prior to that Philip had a 16-year career with BHP Billiton gaining international experience in the resources sector including mining, processing, smelting and refining.

In 2014 Philip received the Ernst & Young Queensland Entrepreneur of the Year Award for Listed Companies and was a nominee for the Australian Entrepreneur of the Year. Philip is also a member of State Advisory Board of Queensland for the Starlight Children's Foundation.

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

NOVONIX Limited (MD & CEO) Since August 2015

**Special Responsibilities**

Member of the Remuneration & Nomination Committee.



**Wayne St Baker**

*FAICD, GDBA, Dip. Mech.Eng.*  
*Non-Executive Director*

Age: 70

Director since 1 March 2016  
1.5 years' service

**Skills and experience:** Wayne brings to the business more than 40 years' experience as a chair, executive director and non-executive director of listed and private companies in Australia and SE Asia across the industrial sector.

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





### Jon Stretch

*BSc (Melb), MAICD  
Managing Director & CEO*

Age: 53

Director since 2 February 2015  
2.5 years' service

**Skills and experience:** Jon joined ERM Power as Managing Director and Chief Executive Officer (MD & CEO) on 2 February 2015. He also plays an advocacy role in the broader energy industry speaking at various events, such as the Australian Energy Week, and in July 2017 was appointed as a board member of the Australian Energy Council.

Jon is an experienced chief executive with broad international experience in the information technology (IT), telecommunications and industrial sectors. His background in systems and process engineering, and business-to-business (B2B) and business-to-consumer (B2C) sales and marketing has enabled him to lead business transformation and growth in Australia and internationally.

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

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

### Special Responsibilities

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

# EXECUTIVE TEAM



**Mitch Anderson**

*Executive General Manager,  
Business Energy (US)*

*BS (Finance), MBA*

Mitch leads Source Power & Gas, based in Houston in the United States. As the head of the US operations Mitch is responsible for planning, implementing and integrating the strategy for Source. He formerly led ERM Business Energy (AU). Mitch has more than 24 years' experience in energy retailing and trading across Australia, the United States and New Zealand.



**Michelle Barry**

*Executive General Manager,  
Corporate Affairs*

*BBus*

Michelle is responsible for ERM Power's investor relations, human resources, regulatory affairs and communications programs. Michelle has more than 20 years' experience in media, strategy and corporate affairs roles across the energy and financial services sectors in Australia and the United Kingdom.



**Gregg Buskey**

*Executive General Manager,  
Corporate Finance & Strategy*

*BE (Electrical), PhD, GAICD*

Gregg is responsible for strategy development and corporate financing activities, both critical to the business strategy underpinning ERM Power's growth and business plans. Gregg has more than 12 years' experience in the energy industry and prior to that worked in robotics.



**Phil Davis**

*Group General Counsel and Company  
Secretary*

*LLB, AGIA, GAICD*

Phil heads up the company's in-house legal team and supports the Board as Company Secretary. Phil has practiced as a lawyer for more than 17 years in Australia and the United Kingdom, in the corporate, construction, property, energy and resource sectors.



**David Guiver**

*Executive General Manager, Trading  
GAICD*

David leads a team of energy trading specialists who source competitively priced energy risk management products. David's team is also responsible for the commercial operations of the Company's power station assets. David has over 20 years' experience in electricity trading and retailing.



**Megan Houghton**

*Executive General Manager,  
Energy Solutions*

*BCom, BA (Economics), GAICD*

Megan is responsible for the Company's Energy Solutions business, which delivers integrated energy management solutions to business, government and industrial customers. Megan has over 20 years' experience in consulting, government, energy and water utilities leading business strategy, growth and transformation.



### **Derek McKay**

*Chief Information Officer  
Executive General Manager, Generation  
MBA, BE (Mech), GAICD*

Derek manages teams across ERM Power's two gas-fired peaking power stations, and the company's technology strategy, including infrastructure support and software development. Derek has more than 25 years' experience in the Australian gas and electricity industries.



### **Steve Rogers**

*Executive General Manager,  
Business Energy (AU)  
BComm, MAICD*

Steve leads the retailing business in Australia, which is responsible for the acquisition, retention and growth of the commercial and industrial and SME customer base. Prior to joining the Company, Steve held a number of commercial roles in the utilities sector, and started his career as an accountant. He has more than 15 years' experience in the energy industry.



### **James Spence**

*Chief Financial Officer  
BSc, CA*

James is responsible for ERM Power's group financial operations and risk management. James has experience in energy retailing businesses in Australia, the US and the United Kingdom. He has held CFO roles in Australia and North America.

# OPERATING AND FINANCIAL REVIEW

## FOR THE YEAR ENDED 30 JUNE 2017

### FINANCIAL YEAR HIGHLIGHTS

ERM Power delivered a strong set of results for financial year 2017. In a year characterised by energy policy uncertainty and market disruption, the Company took strategic opportunities to deliver record sales. The highlights included:

- » Statutory NPAT from continuing operations of \$0.1m
- » Underlying NPAT loss of (\$26.3)m<sup>(i)</sup>
- » Underlying EBITDAF growth of 5% to \$78.4m
- » Underlying EBIT of \$40.6m
- » Record Australian retail sales volume of 18.5TWh
- » Australian retail gross margin of \$4.11/MWh
- » Solid generation performance
- » US sales volumes more than doubling to 3.8TWh
- » Energy Solutions reported revenue of \$12.2m
- » Secured further well priced financing with increased tenor
- » Declared a fully franked final dividend of 3.5cps

### STRATEGY OVERVIEW

#### Efficient Energy Fuelling Business and Prosperity

ERM Power's strategy focusses on meeting the growing range of energy needs for business, commercial and industrial customers in Australia and the United States (US).

An advocate for businesses relying heavily on energy to fuel their success, ERM Power helps customers more effectively manage their energy consumption and costs through retail electricity contracts and an expanding portfolio of energy solutions.

ERM Power's consistent, clear strategy recognises the fundamental changes in the industry and centres on taking opportunities in a disrupting marketplace. The Company is achieving growth through diversification. The strategy capitalises on the Company's strong, enduring customer relationships and industry-leading customer value, satisfaction and retention, underpinned by a progressive and innovative culture.

ERM Power has a history of self-disruption and reinvention to take advantage of emerging opportunities. It is now driving change in the energy market, concentrating on the vital demand side of the energy equation to help businesses take control of their own energy costs.

By broadening its relationships beyond retailing and into energy management solutions, ERM Power is enabling businesses to make simpler, smarter energy choices. The Company's market insights, deep knowledge of how businesses consume energy and expertise in analysing and leveraging data enables it to identify consumption levers and develop tailored energy management

strategies and plans. These deliver competitive advantage and environmental benefits through greater efficiencies, while helping businesses extract greater value from their investments.

ERM Power's diversification strategy has seen it replicate its successful Australian retail business model in the US, through energy retailer Source Power & Gas. Based in Houston, Texas, Source Power & Gas is now expanding its reach in the US market, offering ERM Power significant growth opportunities.

Underpinning the Company's long-term strategy is its ability to flex and adapt to changes in the market, while delivering leading-edge products and services, aimed at sustained high performance and sustainable shareholder returns.

### REVIEW OF OPERATING AND FINANCIAL RESULTS

#### SUMMARY OF GROUP FINANCIAL RESULTS

##### Overview

| Key financial measures<br>(\$m unless otherwise stated) <sup>1</sup> | FY2017        | FY2016        |
|--|---------------|---------------|
| Underlying EBITDAF<br>continuing operations                          | 78.4          | 74.7          |
| Underlying EBIT<br>continuing operations                             | 40.6          | 49.8          |
| Underlying NPAT<br>continuing operations                             | (26.3)        | 18.4          |
| Statutory NPAT<br>continuing operations                              | 0.1           | 35.0          |
| Net (cash) / debt  | (55.7)        | 29.0          |
| Dividends paid (cents per share)                                     | 9.5           | 12.0          |
| Dividends paid (franking %)  | 36.8%         | 16.3%         |
| Underlying (loss) / earnings<br>per share (cents)                    | (10.8)        | 7.6           |
| <b>Key operational measures</b>                                      | <b>FY2017</b> | <b>FY2016</b> |
| Electricity sold (TWh)<br>continuing operations                      | 22.3          | 19.9          |
| Forward contracted electricity sales<br>(TWh) continuing operations  | 45.3          | 36.1          |

(i) Impacted by one-off tax charge of \$37.1m related to the commercial green scheme strategy.

<sup>1</sup> Underlying earnings comparatives restated to exclude discontinued operation. Refer to note 31 of the annual financial statements for further information.

## REVIEW AND HIGHLIGHTS OF DIVISIONS

**AUSTRALIAN RETAIL****\$4.11/MWH**

Underlying Gross Margin

**US RETAIL****\$5.00/MWH**

Underlying Gross Margin

**ENERGY SOLUTIONS****\$12.2 MILLION  
REVENUE**

Revenue growth of 139%

**GENERATION****18% INCREASE**

Underlying EBITDAF

## OPERATING AND FINANCIAL REVIEW (CONT.)

Underlying EBITDAF for the Group increased \$3.7m on prior year EBITDAF of \$74.7m. Increased EBITDAF from our generation assets and our US operations were offset by higher costs in our Energy Solutions business as we continued to scale up operations and invest for growth in this segment.

Earnings from our Australian Business Energy operations improved in the second half, ahead of expectations, following an improvement in general market conditions and a wholesale counterparty exiting administration, as referenced in the ASX announcement on 30 March 2017. Additionally, we are seeing a sustained improvement in the contribution from the Vales Point offtake agreement following the uplift in NSW wholesale prices. Overall, earnings from our Australian Business Energy operations were \$2m lower than the prior year.

Based on the rising cost of Large-scale Generation Certificates (LGCs) during FY2017 and optionality allowed in the scheme, ERM Power made a commercial decision to sell certificates rather than surrender approximately 1.9m certificates during the year. This resulted in payment of a shortfall charge of \$65 per certificate and realisation of a profit on sale of the certificates. The shortfall charge is not tax deductible and accordingly has resulted in a permanent tax difference of \$37.1m and utilisation of available tax losses.

The election to pay the shortfall charge has provided the Group with the optionality to purchase and subsequently surrender approximately 1.9m LGCs prior to February 2020. The election, which is a flexibility allowed for in the scheme, has provided the Group with a chance to bridge the disconnect between the annual LGC surrender cycle and the longer-duration commitment needed by renewables developers to underpin their project revenue.

During the year, the Group made a decision to divest of the residential electricity retailing business in the US. Accordingly, the earnings from residential customers and sale proceeds are included in discontinued operations and excluded from the underlying earnings figures above and throughout this report. Sale proceeds were US\$12m.

Statutory NPAT from continuing operations was \$0.1m and differs to underlying NPAT largely due to the unrealised net fair value movement in financial instruments, which are excluded from the underlying NPAT result.

### Performance summary

| \$m   | FY2017        | FY2016      | Change        | %           |
|---|---------------|-------------|---------------|-------------|
| Business Energy   |               |             |               |             |
| Australia   | 53.4          | 55.4        | (2.0)         | (4%)        |
| Business Energy US  | 0.2           | (3.2)       | 3.4           | N/A         |
| Generation  | 41.7          | 35.4        | 6.3           | 18%         |
| Corporate and other                                       | (16.9)        | (12.9)      | (4.0)         | (31%)       |
| <b>Underlying EBITDAF continuing operations</b>           | <b>78.4</b>   | <b>74.7</b> | <b>3.7</b>    | <b>5%</b>   |
| Significant items   | –             | (9.5)       | 9.5           | N/A         |
| <b>Statutory EBITDAF continuing operations</b>            | <b>78.4</b>   | <b>65.2</b> | <b>13.2</b>   | <b>20%</b>  |
| Depreciation and amortisation                             | (37.8)        | (24.8)      | (13.0)        | 52%         |
| Net fair value gain on financial instruments              | 37.1          | 39.5        | (2.4)         | (6%)        |
| Share of associate (loss) / profit (net of tax)           | (0.3)         | 0.4         | (0.7)         | N/A         |
| Finance income  | 3.6           | 4.3         | (0.7)         | (16%)       |
| Finance expense   | (29.3)        | (27.6)      | (1.7)         | 6%          |
| <b>Profit before tax</b>                                  | <b>51.7</b>   | <b>57.0</b> | <b>(5.3)</b>  | <b>(9%)</b> |
| Tax expense   | (51.7)        | (22.0)      | (29.7)        | 135%        |
| (Loss) / profit from discontinued operations              | (1.1)         | 0.8         | (1.9)         | N/A         |
| <b>Statutory net (loss) / profit after tax</b>            | <b>(1.1)</b>  | <b>35.8</b> | <b>(36.9)</b> | <b>N/A</b>  |
| Add back:   |               |             |               |             |
| Net fair value gain on financial instruments (net of tax) | (26.6)        | (27.3)      | 0.7           | (3%)        |
| Share of associate loss / (profit) (net of tax)           | 0.3           | (0.4)       | 0.7           | N/A         |
| Loss / (profit) from discontinued operations              | 1.1           | (0.8)       | 1.9           | N/A         |
| Significant items (net of tax)                            | –             | 11.1        | (11.1)        | N/A         |
| <b>Underlying NPAT continuing operations</b>              | <b>(26.3)</b> | <b>18.4</b> | <b>(44.7)</b> | <b>N/A</b>  |

Underlying EBITDAF for the year was \$78.4m compared to \$74.7m in the previous year. The key drivers of the \$3.7m increase were as follows:

- » Business Energy Australia earnings decreased \$2m on the comparative period. Gross margin per MWh sold was broadly in line with the prior year whilst operating costs increased slightly on higher load sold and the accrual of staff bonuses.
- » Business Energy US EBITDAF increased \$3.4m to \$0.2m, excluding discontinued operations. This result reflects improved economies of scale in operating costs and increased load sold of 3.8TWh, which was more than double the prior year. Realised gross margins of A\$5.0/MWh were below the prior year with lower than expected contribution from margin optimisation activities and significant costs incurred from hedging activities.
- » Generation earnings increased overall by \$6.3m to \$41.7m, including a \$4.3m increase for Oakey, a \$2.1m increase for Neerabup and a small increase in generation operation expenses. Earnings were higher on the prior year primarily through merchant generation opportunities arising from high wholesale market prices in both Western Australia and Queensland.
- » Net corporate and other costs increased by \$4m. This included the recognition of lease costs within depreciation and finance expense on adoption of AASB 16 *Leases* at 1 July 2016. Operating spend as part of the investment in the growth of the Energy Solutions business increased by \$6.8m and saw a resulting 139% increase in revenue. Corporate costs increased as a result of increased staff costs and performance bonuses, which were not paid in the prior year.

Underlying NPAT was a loss of \$26.3m compared to a profit of \$18.4m in the previous period. The key drivers of the \$44.7m decrease were as follows:

- » Net after tax impact of EBITDAF movements of \$2.4m;
- » A permanent tax difference resulting from the Clean Energy Regulator shortfall charge of \$37.1m. The decision to meet a portion of our 2016 LGC surrender requirements by way of payment of a shortfall charge to the Clean Energy Regulator resulted in an additional permanent tax difference as the shortfall charge is not tax deductible;
- » After tax impact of net finance cost increase of \$1.5m. Sleeving fees in our US operation on a per MWh basis reduced during the period but overall increased as a result of higher load sold; and
- » After tax impact of increased depreciation of \$8.8m. Depreciation increased \$6.1m as a result of higher load sold in our US operation and the associated customer contract amortisation charge. Depreciation also increased on early adoption of AASB 16 *Leases* with \$2.9m of pre-tax lease costs previously classified within EBITDAF and prospectively classified within depreciation under the new accounting standard. Depreciation across other parts of the business increased by \$3.9m.

## DIVISIONAL PERFORMANCE REVIEW

### Electricity sales

|                                | Business Energy Australia |                     | Business Energy US |                     | Total     |           |
|--------------------------------|---------------------------|---------------------|--------------------|---------------------|-----------|-----------|
|                                | FY2017                    | FY2016 <sup>2</sup> | FY2017             | FY2016 <sup>3</sup> | FY2017    | FY2016    |
| <b>Continuing operations</b>   |                           |                     |                    |                     |           |           |
| Load sold (TWh)                | 18.5                      | 18.1                | 3.8                | 1.8                 | 22.3      | 19.9      |
| Contestable revenue (\$'000)   | 1,477,818                 | 1,299,380           | 275,549            | 119,116             | 1,753,367 | 1,418,496 |
| Gross margin (\$'000)          | 76,025                    | 76,006              | 19,125             | 10,939              | 95,150    | 86,945    |
| Opex (\$'000)                  | (22,666)                  | (20,586)            | (18,957)           | (14,091)            | (41,623)  | (34,677)  |
| Underlying EBITDAF (\$'000)    | 53,359                    | 55,420              | 168                | (3,152)             | 53,527    | 52,268    |
| Significant items (\$'000)     | –                         | (363)               | –                  | (469)               | –         | (832)     |
| Statutory EBITDAF (\$'000)     | 53,359                    | 55,057              | 168                | (3,621)             | 53,527    | 51,436    |
| <b>Discontinued operations</b> |                           |                     |                    |                     |           |           |
| Underlying EBITDAF (\$'000)    | –                         | –                   | (4,902)            | 3,145               | (4,902)   | 3,145     |
| <b>Earnings \$ / MWh</b>       |                           |                     |                    |                     |           |           |
| Underlying gross margin        | 4.11                      | 4.20                | 5.00               | 6.21                | N/A       | N/A       |
| Underlying opex                | (1.23)                    | (1.14)              | (4.96)             | (7.99)              | N/A       | N/A       |

2 FY2016 figures restated to exclude Energy Solutions earnings now included in Corporate and other.

3 Restated to exclude discontinued operations.

## OPERATING AND FINANCIAL REVIEW (CONT.)

## DIVISIONAL PERFORMANCE REVIEW (CONT.)

## Electricity sales (cont.)

|  | 2H<br>FY2017 | 1H<br>FY2017 | 2H<br>FY2016 | 1H<br>FY2016 | 2H<br>FY2015 | 1H<br>FY2015 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Underlying gross margin \$/ MWh</b> |              |              |              |              |              |              |
| Australia                              | 7.24         | 0.73         | 3.93         | 4.49         | 5.37         | 4.07         |
| US – continuing operations             | 3.95         | 6.56         | 6.86         | 5.31         | 9.89         | –            |
| <b>Underlying Opex \$/ MWh</b>         |              |              |              |              |              |              |
| Australia                              | (1.26)       | (1.19)       | (1.08)       | (1.21)       | (1.32)       | (1.36)       |
| US – continuing operations             | (4.72)       | (5.29)       | (7.30)       | (8.94)       | (12.05)      | –            |
| <b>Load sold (TWh)</b>                 |              |              |              |              |              |              |
| C&I Australia                          | 9.2          | 8.5          | 8.8          | 8.7          | 8.0          | 7.8          |
| SME Australia                          | 0.4          | 0.4          | 0.3          | 0.3          | 0.2          | 0.1          |
| US – continuing operations             | 2.3          | 1.5          | 1.0          | 0.8          | 0.4          | –            |
| <b>Underlying EBITDAF (\$'000)</b>     |              |              |              |              |              |              |
| Australia                              | 57,437       | (4,078)      | 25,970       | 29,450       | 33,176       | 21,357       |
| US – continuing operations             | (1,776)      | 1,944        | (442)        | (2,710)      | (966)        | –            |
| US – discontinued operations           | (2,007)      | (2,895)      | 1,718        | 1,427        | 1,746        | –            |
|  | 53,654       | (5,029)      | 27,246       | 28,167       | 33,956       | 21,357       |

Figures above are rounded

## Australian business

## Gross margin

During the year gross margin per MWh reduced by \$0.09 on the prior year. The business has seen some margin compression, with the roll through into FY2017 of customer contracts written during FY2016 when intense competitive behaviour was apparent. An improvement in operating conditions during the second half of the year, better than expected conditions through the peak summer period and a wholesale counter-party exiting administration contributed to a significantly higher than expected gross margin for the year. There was also significant benefit from the Vales Point offtake agreement.

Included within gross margin are the net proceeds from the sale of LGCs. These proceeds have been offset by the Clean Energy Regulator shortfall charge of \$65 per certificate on a shortfall position of approximately 1.9m certificates. As disclosed previously, ERM Power elected to pay the shortfall charge and take up the 3 year optionality period available under the scheme to potentially acquire certificates through either the market or through securing certificates directly through new renewable generators to assist with obtaining financial close of such projects. As at 30 June 2017 market prices were trading at \$80 and \$67 per certificate for calendar 2018 and 2019. ERM Power has a further 2.5 years available under the optionality period to acquire and surrender certificates.

Also included within gross margin were timing variances from portfolio optimisation activities including the early settlement of electricity futures contracts. As part of our risk management and trading strategy these contracts were realised ahead of the contracted expiry date. Portfolio optimisation of positions for both black electricity and environmental commodity products is a normal part of operations and may involve early settlement of derivative financial instruments, which may be positive or negative. If these instruments do not qualify for hedge accounting, any realised gain or loss is recognised immediately in profit and loss regardless of the original settlement date.

## Operations

The Australian electricity sales business saw SME load grow by 19% and C&I load sold increase by 2% for a total of 18.5TWh, up 0.4TWh from the prior year. Forward contract load grew 13% from 25.3TWh to 28.6TWh reflecting our continued strong competitive position in the market.

The rapidly increasing wholesale cost of electricity has highlighted the importance of a tight linkage between retail and wholesale prices and ERM Power has been well placed as competitors adjust their strategies. Further, continued product and service improvements have continued to allow ERM Power to successfully demonstrate a compelling customer proposition beyond a simple price comparison. ERM Power achieved a 21 year survey record score of 94% customer satisfaction in the annual NTF Group UMI survey<sup>4</sup> of C&I electricity customers. This was a result achieved in a market where customers were struggling with rapidly increasing wholesale costs of energy and re-enforced our position as a trusted partner in helping our customers manage their energy costs. This represented the sixth year in a row in which the survey results demonstrated ERM Power's leadership in customer satisfaction and service. Operationally ERM Power continued to maintain its industry leading position across all key measures including billing timeliness and accuracy.

The UMI survey measures numerous categories including value for money, billing accuracy, timeliness and quality of bills and associated data, quality of account management, service responsiveness, understanding of customers energy requirements, our engineering and technical knowledge, meaningful data provision and quality of energy efficiency insights. ERM Power's scores were the highest in all categories, clearly demonstrating the high standards of consistent customer service we strive to achieve.

The recontracting rate in FY2017 improved from 67% to 69%. Contract length rebounded a little in FY2017 to an average length of 1.9 years as some customers sought longer term contracts to mitigate any further wholesale price increases. Conversely a large proportion of customers still avoided locking in long tenure contracts at perceived high wholesale prices with an assumption

<sup>4</sup> Refer glossary for further details.



that they will fall. This contrasting set of views highlights the value of our STEP online platform to customers looking to spread the timing risk of their energy purchases. The proportion of our customers (by load) using the platform has increased to 38% with strong interest from customers looking for alternatives. We expect this trend to continue with the added benefit that average contract lengths achieved on the product are materially higher at 2.5 years in FY2017.

Progress in the SME market slowed with 39,830 sites under contract at 30 June 2017, a small increase on the number of sites under contract at 30 June 2016. This reduction in growth was influenced by the general market convention of setting prices annually in the mass market, leading to most live market offers being significantly disconnected to the rapidly increasing cost of wholesale energy. In contrast to the general market, ERM Power always ensures market offers reference the current electricity cost stack and hence suffered from significant price differential relative to others. This disconnect can work in ERM Power's favour in a falling market.

Operating costs in the Australian business increased by \$2.1m, largely due to the accrual of staff bonuses in FY2017.

## US business

### Gross margin

The US gross margin from continuing operations was significantly below expectations for the year at A\$5/MWh. Revenue rates increased with more load sold in the PJM market and an increase in underlying wholesale prices. Cost of sales were higher than expected in the second half due to a number of factors (including a number of weather events and congestion) that were not adequately managed internally through our risk management and trading processes. In order to better manage these market challenges, the US operations have invested in enhancing systems, people and processes during FY2017. In FY2018 the operations will also have in place a new wholesale supply agreement, which started on 1 August. The changes are expected to improve the operations going forward and combined with an exit from the residential market and continued diversification both across markets and customer types, should see margins stabilise. For FY2018 we are providing a gross margin outlook of ~A\$5.00/MWh with risks both to upside and downside. Our main growth region is PJM where over 50% of our new business has been written. In PJM due to backward sloping energy and capacity prices, the booked margin is low at the front-end of the contract and increases at the back end of the contract.

As a result, our FY18 margins are impacted in total by approximately A\$1/MWh. This will also impact FY2019. Our medium term gross margin view is in the range A\$6.50-\$7.50/MWh.

### Operations

Total electricity load sold from continuing operations was 3.8TWh, more than double the prior year. Additionally, load sold of 0.8TWh (0.6TWh FY2016) related to the residential business, which was sold during the year. The results of the residential business are shown as discontinued operations.

Forward electricity sales increased substantially from 10.8TWh at 30 June 2016 to 16.7TWh at 30 June 2017. The significant increase in forward contracted load reflects the maturation of the business into new territories in PJM, continued working of a comprehensive broker engagement plan and significant investment in new systems, processes and people.

## Sale of the US residential business

The Group had monitored the performance of the residential business since acquisition and determined during the year that a sale of the residential customer contracts would yield the most value to the Group. The business was sold for US\$12m with the sale completed in June. The decision to divest the residential business enables the business to preserve capital that would otherwise be required to build the necessary scale and diversification to generate an adequate economic return and to mitigate risk. At a smaller scale the residential operations carries with it risk and poor economies of scale and this was observed in the current year as the operations made an EBITDAF loss of \$4.9m.

Earnings from the discontinued operations includes a proportionate share of cost of sales and directly attributable operating, financing and depreciation expenses, which would not be incurred following sale of the residential customer contracts. A large portion of operating costs are fixed and will therefore be retained in continuing operations going forward. Goodwill associated with the residential business of A\$5m was written off as part of the sale.

## Generation

| \$m                                      | FY2017 | FY2016 | Change | %     |
|--|--------|--------|--------|-------|
| <b>External revenue and other income</b> |        |        |        |       |
| Oakey                                    | 96.4   | 62.3   | 34.1   | 55%   |
| Neerabup                                 | 34.2   | 31.1   | 3.1    | 10%   |
| Generation development and operations    | 1.3    | 2.7    | (1.4)  | (52%) |
|  | 131.9  | 96.1   | 35.8   | 37%   |
| <b>Underlying EBITDAF</b>                |        |        |        |       |
| Oakey                                    | 15.8   | 11.5   | 4.3    | 37%   |
| Neerabup                                 | 27.2   | 25.1   | 2.1    | 8%    |
| Generation development and operations    | (1.3)  | (1.2)  | (0.1)  | (8%)  |
|  | 41.7   | 35.4   | 6.3    | 18%   |

Underlying EBITDAF for the period was \$41.7m, up 18% from \$35.4m in the prior year.

High market prices in WA enabled additional merchant revenue to be generated by Neerabup whilst Oakey performed more favourably in the second half of FY2017 than in the same period of the prior year.

The major maintenance at Oakey was completed successfully in June with further maintenance scheduled on the second unit during FY2018. Capital expenditure costs incurred for the first unit during the year were \$13m with further costs of approximately \$10-\$12m expected to be incurred on the second unit during FY2018.

## Power station operating performance

Neerabup Power Station had an exceptional operating performance during FY2017 with an availability of 99.3%. In response to favourable market conditions, the power station operated 5.5% of the time, compared to 3.7% in FY2016.

## OPERATING AND FINANCIAL REVIEW (CONT.)

Oakey Power Station's reduction in annual availability, from 99.1% in FY2016 to 90.86% in FY2017, was due to the planned major maintenance completed during the year. The power station operated 4.5% of the time, compared to 17.75% in FY2016. The reduction in operation was due to changes in market conditions.

There were no Lost Time Injuries at Neerabup or Oakey Power Station during the year, continuing ERM Power's track record of exceptional safety performance in power station operations.

### Corporate and other

#### Energy Solutions

| \$m  | FY2017       | FY2016       | Change       | %             |
|--|--------------|--------------|--------------|---------------|
| Revenue (including internal segment sales) | 12.2         | 5.1          | 7.1          | 139%          |
| Gross margin                               | 6.6          | 2.8          | 3.8          | 136%          |
| Operating expenses                         | (10.9)       | (4.1)        | (6.8)        | 166%          |
| <b>Underlying EBITDAF</b>                  | <b>(4.3)</b> | <b>(1.3)</b> | <b>(3.0)</b> | <b>(231%)</b> |

The Energy Solutions business has more than doubled its revenue over the past year and is on track to deliver similar growth in FY2018. This performance was underpinned by lighting sales more than doubling, a 30% growth in Powermetric meter numbers and 40% growth in capacity available for demand response initiatives, growth in Power Factor Correction solutions together with completing the integration of the two companies acquired in the second half of the prior year, Lumaled and Greensense. Operating costs increased with a full year of ownership of these businesses as well as an acceleration of investments in people and processes to assist with further scaling revenue and gross margin going forward.

The acceleration in investment has been in response to the increase in electricity prices during FY2017, which has been a catalyst for more customers to investigate and implement solutions to lower their energy costs through either technology, use of data to improve efficiency or both. Leading into FY2018 the focussed business model is now supported by a new structure and expanded team capability with a greater emphasis on data analytics and digital capability to design and deliver integrated solutions involving multiple products for customers.

#### Corporate

| \$m                       | FY2017        | FY2016        | Change       | %           |
|---------------------------|---------------|---------------|--------------|-------------|
| External revenue          | 2.9           | 1.5           | 1.4          | 93%         |
| Expenses                  | (15.5)        | (13.1)        | (2.4)        | 18%         |
| <b>Underlying EBITDAF</b> | <b>(12.6)</b> | <b>(11.6)</b> | <b>(1.0)</b> | <b>(9%)</b> |

Net corporate and other EBITDAF overall decreased on the prior year by \$1m. Revenue increased on the prior year as a result of increased software licence sales.

The early adoption of AASB 16 Leases resulted in lease costs of approximately \$2.7m being recognised as a depreciation expense and \$0.8m being recognised as a finance expense. Lease costs overall did not reduce but under the accounting policy change, these were required to be recorded within depreciation and finance costs. This change was applied prospectively from 1 July 2016.

Excluding the change in lease costs, underlying expenses increased \$4.1m principally as a result of increased staff costs and accrued performance bonuses for FY2017, which were not incurred in the prior year.

### CASH FLOW, BALANCE SHEET AND DIVIDENDS

| \$m  | FY2017       | FY2016       | Change      |
|--|--------------|--------------|-------------|
| <b>Cash flow</b>   |              |              |             |
| Operating cash flow before working capital changes           | 66.2         | 80.6         | (14.4)      |
| Net working capital changes                                  | 85.5         | 39.3         | 46.2        |
| <b>Operating cash flow</b>                                   | <b>151.7</b> | <b>119.9</b> | <b>31.8</b> |
| Total investing cash flow                                    | (19.8)       | (23.8)       | 4.0         |
| Net repayment of borrowings                                  | (23.7)       | (21.7)       | (2.0)       |
| Net repayment of leases                                      | (4.1)        | –            | (4.1)       |
| Finance costs  | (28.7)       | (26.9)       | (1.8)       |
| Dividends paid   | (22.5)       | (27.9)       | 5.4         |
| Effect of exchange rate changes on cash and cash equivalents | (0.8)        | –            | (0.8)       |
| <b>Net change in cash</b>                                    | <b>52.1</b>  | <b>19.6</b>  | <b>32.5</b> |

| \$m  | 30 June 2017 | 30 June 2016 | Change       |
|--|--------------|--------------|--------------|
| <b>Balance sheet</b>                           |              |              |              |
| Net assets                                     | 565.9        | 471.4        | 94.5         |
| Net working capital                            | (73.0)       | (8.9)        | (64.1)       |
| Net capital employed including working capital | 369.4        | 435.6        | (66.2)       |
| Net derivative balances                        | 305.3        | 158.7        | 146.6        |
| <b>Net debt</b>                                |              |              |              |
| Neerabup free cash                             | 17.0         | 13.7         | 3.3          |
| Other free cash                                | 109.1        | 53.6         | 55.5         |
| <b>Total free cash</b>                         | <b>126.1</b> | <b>67.3</b>  | <b>58.8</b>  |
| Neerabup restricted cash                       | 12.0         | 9.1          | 2.9          |
| Other restricted cash                          | 106.5        | 116.1        | (9.6)        |
| <b>Total restricted cash</b>                   | <b>118.5</b> | <b>125.2</b> | <b>(6.7)</b> |
| <b>Total cash</b>                              | <b>244.6</b> | <b>192.5</b> | <b>52.1</b>  |

|                              |              |              |               |
|------------------------------|--------------|--------------|---------------|
| Neerabup debt (non-recourse) | 188.9        | 193.6        | (4.7)         |
| Other debt                   | –            | 27.9         | (27.9)        |
| <b>Total borrowings</b>      | <b>188.9</b> | <b>221.5</b> | <b>(32.6)</b> |

|   |               |             |               |
|---|---------------|-------------|---------------|
| <b>Net (cash) / debt on balance sheet</b> | <b>(55.7)</b> | <b>29.0</b> | <b>(84.7)</b> |
|---|---------------|-------------|---------------|

|  |         |         |        |
|--|---------|---------|--------|
| <i>Net financial debt / (cash) excluding Neerabup net debt</i> | (215.6) | (141.8) | (73.8) |
|--|---------|---------|--------|

#### Dividends

|                                  |       |       |       |
|----------------------------------|-------|-------|-------|
| Dividends paid (cents per share) | 9.5   | 12.0  | (2.5) |
| Franking percentage              | 36.8% | 16.3% | 20.5% |

### Cash flow

Operating cash flow before working capital changes of \$66.2m was \$14.4m lower than the prior year as a result of tax payments made during the year following utilisation of prior year tax losses. This was offset by increased earnings before finance and depreciation costs. Working capital changes were higher than the prior year with an increase in broker margin cash posted in the Group's favour as well as timing related to wholesale and counterparty settlements and the need to procure a higher proportion of green certificates due to inclining emissions scheme liabilities at 30 June 2017, with corresponding increases in the underlying certificate prices.

Investing cash flows include the receipt of \$14.9m in August 2016 from the sale of Western Australia joint venture gas interests to Empire Oil & Gas NL in February 2015. Offsetting this, intangible asset payments increased as cash spent on customer acquisition costs in our US business increased on the previous period as a result of higher load, which had an effective average acquisition cost of approximately A\$2.50 per MWh during the year. Australian customer acquisition costs decreased on the previous period as the acquisition of SME customers slowed during the period. Also during the year, \$4.5m was invested in start-up electricity retailer 1st Energy Pty Ltd and a further \$1m in Energy Locals Pty Ltd.

Investing cash flow increased with the incurrence of the costs associated with the Oakey major maintenance. Offsetting this was the sale proceeds received from the sale of the US residential business.

Finance costs remained consistent with the previous period whilst lease payments under adoption of AASB 16 *Leases* are shown separately on a prospective basis in the cash flow statement. Dividend payments reduced following the reduction of the dividend paid to 3.5 cents per share fully franked.

Free cash increased \$58.8m primarily due to a reduction in restricted cash following the replacement of the Macquarie Bank finance facility with the ANZ facility. An increase in cash posted to restricted broker margin accounts saw restricted cash remain at similar levels to the prior year.

### Balance sheet

Net assets increased substantially during the year. The increase was principally as a result of an increase in net derivative balances following a sharp increase in forward market prices. Net working capital overall decreased due to both an increase in the LGC scheme liability and an increase in net wholesale counterparty settlements accrued at 30 June 2017.

Property, plant and equipment and intangibles increased primarily as a result of initial spend on the Oakey major maintenance and continued customer acquisition spend in both the Australian and US electricity sales operations.

In January the Group secured a \$290m facility with ANZ providing for A\$240m of three year funding of either cash or bank guarantees and a further A\$50m of 18 month funding for additional bank guarantees secured against the Australian Retail business. The facility replaces the existing funding through Macquarie Bank Limited.

### Dividends

A fully franked final dividend of 3.5 cents per share for FY2017 was declared on 24 August 2017. An interim dividend of 3.5 cents per share was paid on 6 April 2017. Based on the share price at 30 June 2017, total dividends paid during FY2017 equate to a gross dividend yield of 9.2%.

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

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

### NON-IFRS FINANCIAL INFORMATION

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

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

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

All profit measures refer to continuing operations of the Group unless otherwise noted.

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

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

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

## OPERATING AND FINANCIAL REVIEW (CONT.)

## APPENDICES

## A1.1 Reconciliation of underlying EBITDAF and underlying NPAT

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

FY2017

| \$m  | Business<br>Energy AU | Business<br>Energy US | Generation  | Corporate<br>and other | Group         |
|--|-----------------------|-----------------------|-------------|------------------------|---------------|
| <b>Statutory EBITDAF continuing operations</b>               | <b>53.4</b>           | <b>0.2</b>            | <b>41.7</b> | <b>(16.9)</b>          | <b>78.4</b>   |
| <i>Significant items</i>                                     | -                     | -                     | -           | -                      | -             |
| <b>Underlying EBITDAF continuing operations</b>              | <b>53.4</b>           | <b>0.2</b>            | <b>41.7</b> | <b>(16.9)</b>          | <b>78.4</b>   |
| <b>Statutory NPAT continuing operations</b>                  | <b>16.8</b>           | <b>(19.3)</b>         | <b>18.8</b> | <b>(16.2)</b>          | <b>0.1</b>    |
| <i>Significant items</i>                                     |                       |                       |             |                        |               |
| EBITDAF adjustments (above)                                  | -                     | -                     | -           | -                      | -             |
| Total significant items                                      | -                     | -                     | -           | -                      | -             |
| Fair value (gain) / loss on financial instruments net of tax | (25.4)                | 9.0                   | (10.3)      | -                      | (26.7)        |
| Associate loss after tax                                     | -                     | -                     | -           | 0.3                    | 0.3           |
| <b>Underlying NPAT continuing operations</b>                 | <b>(8.6)</b>          | <b>(10.3)</b>         | <b>8.5</b>  | <b>(15.9)</b>          | <b>(26.3)</b> |

**A1.1 Reconciliation of underlying EBITDAF and underlying NPAT (cont.)**

FY2016

| \$m  | Business<br>Energy AU | Business<br>Energy US | Generation   | Other         | Group       |
|--|-----------------------|-----------------------|--------------|---------------|-------------|
| <b>Statutory EBITDAF continuing operations</b>   | <b>55.0</b>           | <b>(3.7)</b>          | <b>35.1</b>  | <b>(21.2)</b> | <b>65.2</b> |
| <i>Significant items</i>   |                       |                       |              |               |             |
| a) New business establishment costs  | –                     | 0.5                   | –            | 0.4           | 0.9         |
| b) Unrealised foreign exchange loss  | –                     | –                     | 0.3          | 0.2           | 0.5         |
| c) Staff rationalisation and retirement costs  | –                     | –                     | –            | 2.4           | 2.4         |
| d) Provision for onerous contract  | –                     | –                     | –            | 1.9           | 1.9         |
| e) Counterparty administration   | 0.4                   | –                     | –            | –             | 0.4         |
| f) Loss on sale of associate investment  | –                     | –                     | –            | 3.4           | 3.4         |
| Total significant items  | 0.4                   | 0.5                   | 0.3          | 8.3           | 9.5         |
| <b>Underlying EBITDAF continuing operations</b>  | <b>55.4</b>           | <b>(3.2)</b>          | <b>35.4</b>  | <b>(12.9)</b> | <b>74.7</b> |
| <b>Statutory NPAT continuing operations</b>  | <b>61.6</b>           | <b>(2.0)</b>          | <b>(3.4)</b> | <b>(21.2)</b> | <b>35.0</b> |
| <i>Significant items</i>   |                       |                       |              |               |             |
| EBITDAF adjustments (above)  | 0.4                   | 0.5                   | 0.3          | 8.3           | 9.5         |
| g) Effective interest revenue on associate loan  | –                     | –                     | –            | (1.0)         | (1.0)       |
| h) Financing establishment costs   | –                     | –                     | –            | 0.4           | 0.4         |
| i) Tax effect on non-deductible acquisition costs  | –                     | –                     | –            | 0.3           | 0.3         |
| j) Tax effect on sale of shares  | –                     | –                     | –            | 4.5           | 4.5         |
| Tax effect of above adjustments  | (0.1)                 | (0.2)                 | (0.1)        | (2.2)         | (2.6)       |
| Total significant items  | 0.3                   | 0.3                   | 0.2          | 10.3          | 11.1        |
| Fair value (gain) / loss on financial instruments net of tax   | (31.9)                | (4.9)                 | 8.2          | 1.3           | (27.3)      |
| Associate profit after tax   | –                     | –                     | –            | (0.4)         | (0.4)       |
| <b>Underlying NPAT continuing operations</b>   | <b>30.0</b>           | <b>(6.6)</b>          | <b>5.0</b>   | <b>(10.0)</b> | <b>18.4</b> |
| a) Costs incurred in respect of identifying, establishing and integrating new businesses started and new companies acquired.               |                       |                       |              |               |             |
| b) Unrealised foreign exchange losses on foreign currencies held.  |                       |                       |              |               |             |
| c) Costs associated with rationalisation and retirement of staff.  |                       |                       |              |               |             |
| d) Impairment of the contract to sublease Brisbane office space.   |                       |                       |              |               |             |
| e) Default by a wholesale counterparty that went into administration.  |                       |                       |              |               |             |
| f) Loss recognised on disposal of Empire shares held.  |                       |                       |              |               |             |
| g) Recognition of Empire loan at present value and interest unwind.  |                       |                       |              |               |             |
| h) Costs incurred for the establishment of the unsecured senior bank guarantee facility with Liberty International Underwriters Singapore. |                       |                       |              |               |             |
| i) Tax impact of non-deductible acquisition costs for Source in FY2015.  |                       |                       |              |               |             |
| j) De-recognition of deferred tax asset upon sale of Metgasco and Empire shares.   |                       |                       |              |               |             |

## OPERATING AND FINANCIAL REVIEW (CONT.)

## A1.2 Historical figures

| \$m<br>Unless indicated   | FY2017        | FY2016        | FY2015        | FY2014        | FY2013        |
|---|---------------|---------------|---------------|---------------|---------------|
| <b>Interest income by business division</b>                                       |               |               |               |               |               |
| Electricity sales Australia   | 2.7           | 2.5           | 3.2           | 3.3           | 2.9           |
| Electricity sales US  | –             | –             | –             | –             | –             |
| Generation  | 0.5           | 0.5           | 0.6           | 0.8           | 0.7           |
| Other   | 0.4           | 1.3           | 1.4           | 2.2           | 2.3           |
| <b>Total interest income</b>  | <b>3.6</b>    | <b>4.3</b>    | <b>5.2</b>    | <b>6.3</b>    | <b>5.9</b>    |
| <b>Electricity sales Australia division statistics<sup>1,2</sup></b>              |               |               |               |               |               |
| Load (TWh)  | 18.5          | 18.1          | 16.1          | 14.1          | 11.1          |
| Underlying gross margin   | 76.0          | 76.0          | 76.1          | 59.1          | 51.7          |
| Underlying operating expenses   | (22.7)        | (20.6)        | (21.5)        | (17.9)        | (12.5)        |
| Underlying gross margin \$ per MWh  | 4.11          | 4.20          | 4.72          | 4.20          | 4.67          |
| Underlying operating expenses \$ per MWh  | (1.23)        | (1.14)        | (1.34)        | (1.27)        | (1.13)        |
| <b>Underlying EBITDAF</b>   | <b>53.4</b>   | <b>55.4</b>   | <b>54.6</b>   | <b>41.3</b>   | <b>39.1</b>   |
| <b>Electricity sales US division statistics<sup>1</sup> continuing operations</b> |               |               |               |               |               |
| Load (TWh)  | 3.8           | 1.8           | 0.4           | –             | –             |
| Underlying gross margin   | 19.1          | 10.9          | 4.4           | –             | –             |
| Underlying operating expenses   | (19.0)        | (14.1)        | (5.4)         | –             | –             |
| Underlying gross margin \$ per MWh  | 5.00          | 6.21          | 9.9           | –             | –             |
| Underlying operating expenses \$ per MWh  | (4.96)        | (7.99)        | (12.1)        | –             | –             |
| <b>Underlying EBITDAF</b>   | <b>0.2</b>    | <b>(3.2)</b>  | <b>(1.0)</b>  | <b>–</b>      | <b>–</b>      |
| <b>Generation division statistics<sup>1</sup></b>                                 |               |               |               |               |               |
| Oakey   | 15.8          | 11.5          | 22.7          | 28.6          | 28.5          |
| Neerabup  | 27.2          | 25.1          | 25.2          | 23.1          | 21.3          |
| Generation development and operations   | (1.3)         | (1.2)         | (1.1)         | (1.2)         | (2.2)         |
| <b>Underlying EBITDAF</b>   | <b>41.7</b>   | <b>35.4</b>   | <b>46.8</b>   | <b>50.5</b>   | <b>47.6</b>   |
| <b>Corporate division statistics<sup>1</sup></b>                                  |               |               |               |               |               |
| Total revenue   | 2.9           | 1.5           | 2.7           | 1.6           | 1.5           |
| Total expenses  | (15.5)        | (13.1)        | (16.6)        | (16.0)        | (15.0)        |
| <b>Underlying EBITDAF</b>   | <b>(12.6)</b> | <b>(11.6)</b> | <b>(13.9)</b> | <b>(14.4)</b> | <b>(13.5)</b> |
| <b>Energy Solutions<sup>1</sup></b>   |               |               |               |               |               |
| Revenue (includes internal segment sales)   | 12.2          | 5.1           | –             | –             | –             |
| Gross margin  | 6.6           | 2.8           | –             | –             | –             |
| Operating expenses  | (10.9)        | (4.1)         | –             | –             | –             |
| <b>Underlying EBITDAF</b>   | <b>(4.3)</b>  | <b>(1.3)</b>  | <b>–</b>      | <b>–</b>      | <b>–</b>      |

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

2 FY2016 figures restated to exclude Energy Solutions earnings now included in Corporate and other.

## MARKET OVERVIEW

### Australia

The energy industry is at a critical juncture. The trilemma of energy sustainability, security and affordability has been mounting for a decade. Politics has prevailed over policy. A lack of enduring national energy policy has shaped a poor energy investment climate over many years.

Australian businesses and households are now feeling the impact of 10 years of inaction and inertia.

A wake-up call came on 28 September 2016 when 850,000 South Australian consumers lost electricity supply. The widely reported “system black” event made the trilemma difficult to ignore any longer.

The Council of Australian Governments (COAG) Energy Council commissioned Australia’s Chief Scientist Dr Alan Finkel to undertake an independent review into the future security of the National Electricity Market (NEM). This process had not long begun before state and federal governments began developing and announcing their own action plans. This was a frustrating demonstration of the core problem at hand – disparate and hurried policy making.

ERM Power has been a strong voice on these issues, through formal submissions, presentations, government relations activities and utilising partnerships such as the Australian Energy Council.

The Company’s clear message is that only enduring national energy policy will see Australia through this transition.

Progress on the Finkel Review has been positive and ERM Power is cautiously optimistic of meaningful action. The COAG Energy Council has adopted 49 of the 50 recommendations. The most controversial continues to be debated.

While progress is positive, change will take time.

Meanwhile, the market continues to operate, while taking into account the heightened risks. While wholesale volatility and prices increased markedly during FY2016 and FY2017, the Company is well placed to derive value from such an environment. ERM Power’s role as a retailer is to shield customers from price volatility as much as possible, which brings growing opportunities in energy solutions and poses new opportunities in portfolio optimisation.

As hedging liquidity falls, the cost of managing price risks rises, making this a difficult time for many customers whose energy costs are representing a growing portion of their cost base.

ERM Power is responding to this environment and taking strategic opportunity by continuing to develop and deliver energy solutions that help businesses maximise their energy investment, using data analytics, technology and deep customer insights.

While the policy and market environment for the coming year is far from certain, ERM Power is in a strong position to support Australian businesses through this time of transition.

### United States

Source Power & Gas, ERM Power’s Houston-based energy retailing business, serves Commercial and Industrial (C&I) customers in the ERCOT and PJM energy markets. These markets cover Texas and 13 other states in the north east and mid west of the country.

ERCOT and PJM alone have over 500 million MWh of available C&I load, which is at least six times bigger than Australia’s C&I market, providing significant growth opportunities for ERM Power.

Source operates in two of the six major competitive electricity markets, and will be expanding into the Illinois portion of the Midcontinent market (MISO) in 2018. It has longer-term visions to expand into both New York (NYISO) and New England (ISO-NE), growing its available market.

The influx of cheaper domestic natural gas in the United States has driven the development of new more efficient gas fired power stations in both ERCOT and PJM. Combined with the rapid growth of renewables in both markets, and increasing environmental regulation of coal-fueled plant, there has been a reduction in the market share of coal-fired generation. As a result of the high market share of gas-fired generation, the electricity market prices are highly correlated with the price of natural gas. Both PJM and ERCOT regions saw an extremely mild winter in FY2017 and a mild start to summer, which has meant a build-up of gas storage, resulting in lower gas and electricity prices.

The PJM and ERCOT electricity markets incorporate more complex nodal pricing models than the Australian electricity markets. The hedging of electricity price and volume risks are managed through transactions based on defined electricity trading ‘hubs’ combined with other products to manage local transmission constraints. Source Power & Gas actively manages these ‘basis’ risks with liquid market products both on exchanges and through bilaterally negotiated agreements.

Both PJM and ERCOT have relatively stable regulatory environments, and Source has the resources and expertise to keep abreast of rule changes that can impact the markets.

OPERATING AND FINANCIAL REVIEW (CONT.)

MATERIAL BUSINESS RISKS

Group risks

ERM Power recognises that risk is an inherent part of its business. Risk arises from both the external environment in which the Company operates, and its own business and investment decisions. ERM Power does not seek to eliminate these risks; rather it looks to manage and mitigate them, and use them to create opportunity, ensuring the potential range of outcomes is acceptable.

Risk Management Framework

Effective risk management requires that risk assessment and decision making is introduced into all functions of the business and through all stages of decision making, whether it be strategy, planning, delivery of projects or operation of assets.

All ERM Power staff are responsible for, and empowered to, take ownership of risk management within their function and for their level of responsibility. This organisation-wide adoption of risk management principles and practices is encouraged and promoted by the ERM Power Board and the executive team. Final accountability and authority for the Risk Management Framework Policy and decisions rests with the Board.

ERM Power’s Risk Management Framework Policy is publicly available on the Company’s website.



Material business risks

ERM Power has an Enterprise Risk Committee which regularly reviews business risks, potential impacts and mitigation programs. These risks are summarised below.

| Risk                                   | Potential Impacts   | Mitigation  |
|--|---|---|
| Industry risk                          | An evolving industry structure and technological changes in the generation and delivery of energy pose risks and opportunities for the business model.  | <ul style="list-style-type: none"> <li>» Business model includes diversification of service and product offerings and geography of operations.</li> <li>» Business model allows for incorporating commercial opportunities arising from an evolving industry.</li> </ul>  |
| Regulatory changes                     | Government policy and regulatory changes create investment and price uncertainty and can result in restrictions or changes to product and service offerings and price structures.                         | <ul style="list-style-type: none"> <li>» ERM Power has a strong voice in the industry and responds to the regulatory environment via written submissions, participation on industry groups and by representation to regulators, policy makers and politicians, thus influencing outcomes.</li> <li>» Strategy supports new and strategic commercial opportunities which leverage regulatory and policy change.</li> </ul> |
| Commodity price                        | ERM Power is exposed to fluctuations in wholesale market electricity and environmental commodity prices. This can increase cost of procuring energy to meet customer contract requirement.                | <ul style="list-style-type: none"> <li>» 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.</li> <li>» Hedging program includes severe weather event mitigation.</li> </ul>   |
| Liquidity in energy derivative markets | Lack of liquidity in the energy derivative market can impact: <ul style="list-style-type: none"> <li>» accurate pricing of retail contracts; and</li> <li>» hedging of retail contracted load.</li> </ul> | <ul style="list-style-type: none"> <li>» The Group employs a diverse and dynamic trading strategy which is highly responsive to market dynamics.</li> <li>» ERM Power forms strategic trading relationships with energy generators.</li> </ul>  |



| Risk  | Potential Impacts   | Mitigation  |
|---|---|---|
| Cyber security  | A cyber security event may lead to a disruption to operations, a privacy breach, data corruption and theft of commercially sensitive information. | » The Group's approach to cyber security leverages industry best practice.  |
| Power station failure   | Prolonged outage of Oakey Power Station would lead to loss of revenue and coincide with potential high cost of servicing derivative hedges.       | <ul style="list-style-type: none"> <li>» The Group undertakes a preventive maintenance program.</li> <li>» Established contingency plans.</li> <li>» Employ fire protection systems.</li> <li>» Excellent availability record based on maintenance and training.</li> </ul>   |
| Credit risk   | ERM Power could suffer financial losses if a debtor or wholesale counterparty fails to meet contractual obligations.                              | <p>The Group seeks to limit its exposure to credit risks by preferentially contracting with high credit quality wholesale counterparties. This is achieved by:</p> <ul style="list-style-type: none"> <li>» conducting appropriate due diligence on counterparties before entering into arrangements with them;</li> <li>» where appropriate obtaining collateral with a value in excess of counterparty obligations to the Group; and</li> <li>» for derivative counterparties, using primarily high credit quality counterparties.</li> </ul> |
| Attracting and retaining talent as ERM Power and industry evolves | An inability to attract and retain talent could impact the Company's future performance.  | » The Company has a robust HR framework in place which included leadership development and succession planning, career pathway support, a focus on engagement and enablement and a competitive remuneration program.  |

## OPERATING AND FINANCIAL REVIEW (CONT.)

## OUTLOOK AND FUTURE PROSPECTS

The outlook for FY2018 is shown in the table below.

|  | FY2017 actual | FY2018 outlook |                                    |
|--|---------------|----------------|------------------------------------|
| <b>Australia Retail</b>                  |               |                |                                    |
| » Sales volume                           | 18.5 TWh      | ~19 TWh        | With upside potential              |
| » Gross margin                           | \$4.11 / MWh  | ~\$4.40 / MWh  | With upside potential              |
| » Opex                                   | \$22.7m       | ~\$23m         |                                    |
| <b>US Retail<sup>(i)</sup></b>           |               |                |                                    |
| » Sales volume                           | 3.8 TWh       | ~7.5 TWh       |                                    |
| » Gross margin                           | A\$5.00 / MWh | ~A\$5.00 / MWh | Risk on upside & downside          |
| » Opex                                   | A\$4.96 / MWh | ~A\$3.20 / MWh |                                    |
| <b>Generation EBITDAF<sup>(ii)</sup></b> |               |                |                                    |
| » Oakey                                  | \$15.8m       | \$14-16m       |                                    |
| » Neerabup                               | \$27.2m       | ~\$26m         |                                    |
| <b>Energy Solutions EBITDAF</b>          | (\$4.3)m      | ~(\$4.5)m      | Expected EBITDA positive in FY2020 |
| <b>Corporate &amp; Other costs</b>       | (\$12.6)m     | ~(\$15.5)m     |                                    |

As the Australian energy market continues to disrupt and transform, ERM Power is reinventing itself to take advantage of emerging opportunities.

A focus on smart energy management solutions in the Australian market will create a strategic differentiator for the Company as businesses increasingly look for ways to reduce their energy consumption, to improve commercial, social and environmental outcomes.

As ERM Power's electricity retailing business matures, it will increasingly extend its customer relationships into energy management solutions that enable businesses to extract greater value from their energy investments.

Against this backdrop, and the opportunity to redefine itself as an expert in integrated energy management, the Company is accelerating its investment in its Energy Solutions business, underpinned by market insights, deep knowledge of how businesses consume energy and powerful data analytics.

ERM Power's diversification strategy has seen it replicate its successful Australian retail business model in the US, through energy retailer Source Power & Gas. Based in Houston, Texas, Source is now expanding its reach in the US market, offering ERM Power significant growth opportunities in a market that is at least six times larger than Australia.

The Company's generation assets are an important part of its diversified offering. Gas has a critical role to play in the transition to a lower-emission electricity sector, highlighting the value of ERM Power's two gas-fired peaking power stations – Oakey Power Station in Queensland, and Neerabup Power Station in Western Australia.

ERM Power will continue to execute on its clear, robust strategy to create a high performing business that delivers shareholder value and makes a positive contribution to the communities in which it operates.

(i) US\$ converted at US\$0.75:A\$1.00 for FY2018 outlook.

(ii) FY2018 outlook includes \$1.5 million generation overhead expenditure.

## GLOSSARY

|   |  |                           |  |
|---|--|---------------------------|--|
| <b>\$m</b>                              | Millions of dollars  | <b>UMI Survey</b>         | Utility Market Intelligence (UMI) survey of major retail electricity retailers by independent research company NTF Group in 2016. Research based on survey of 300 business electricity customers between November 2016 and January 2017. Four major electricity retailers benchmarked  |
| <b>C&amp;I</b>                          | Commercial and Industrial  | <b>Underlying EBITDAF</b> | EBITDAF excluding significant items  |
| <b>Contestable Revenue</b>              | Contestable revenue is the electricity sales revenue component on which we earn a margin and excludes pass-through items such as network charges   | <b>Underlying EBIT</b>    | EBIT after excluding the unrealised mark to market changes in the fair value of financial instruments, impairment and gains / losses on onerous contracts and other significant items. Underlying EBIT excludes any profit or loss from associates   |
| <b>EBITDAF</b>                          | Earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit and loss. EBITDAF excludes any profit or loss from associates | <b>Underlying NPAT</b>    | Statutory net profit after tax attributable to equity holders of the Company after excluding the after tax effect of unrealised mark to market changes in the fair value of financial instruments, impairment and gains / losses on onerous contracts and other significant items. Underlying NPAT excludes any profit or loss from associates |
| <b>EBIT</b>                             | Earnings before interest and tax   | <b>US or USA</b>          | United States of America   |
| <b>ERCOT</b>                            | Electric Reliability Council of Texas  |                           |  |
| <b>1H</b>                               | First half of financial year   |                           |  |
| <b>2H</b>                               | Second half of financial year  |                           |  |
| <b>FY</b>                               | Financial year ended or ending 30 June   |                           |  |
| <b>GWh</b>                              | Gigawatt hours is a unit of energy representing one billion watt hours   |                           |  |
| <b>IFRS</b>                             | International Financial Reporting Standards  |                           |  |
| <b>MWh</b>                              | Megawatt hours is a unit of energy representing one million watt hours   |                           |  |
| <b>NEM</b>                              | The National Electricity Market  |                           |  |
| <b>NPAT</b>                             | Net profit after tax   |                           |  |
| <b>PJM</b>                              | Pennsylvania, Jersey, Maryland Power Pool  |                           |  |
| <b>Sleeving</b>                         | Credit sleeving through intermediary to trade and hedge with third parties   |                           |  |
| <b>SME</b>                              | Small to Medium Enterprise   |                           |  |
| <b>Source Power &amp; Gas or Source</b> | SPG Energy Group LLC   |                           |  |
| <b>TWh</b>                              | Terawatt hours is a unit of energy representing one thousand gigawatt hours (GWh)  |                           |  |

# CORPORATE RESPONSIBILITY

## CORPORATE GOVERNANCE STATEMENT

### COMPLIANCE WITH ASX CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

ERM Power Limited's (Company) board (Board) and management are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the ERM Power Group (Group) in this statement.

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year ending 30 June 2017 (reporting period). The Company complies with all of the ASX Corporate Governance Principles and Recommendations (Principles and Recommendations).

This Corporate Governance statement was approved by the Board and is current as at 24 August 2017.

#### Principle 1 – Lay solid foundations for management and oversight

##### The role of the Board and management

The Board is responsible for governance and provides overall strategic guidance for the Group and effective oversight of management.

The role of the Board and ability to delegate to management has been formalised in the Company's Board Charter. The Board Charter, along with other charters and policies of the Company, can be found on the Company's website.

As set out in the Board Charter, the responsibilities of the Board include:

- » oversight of financial and capital management;
- » reporting to shareholders in accordance with the requirements of the Corporations Act or other relevant law;
- » providing strategic guidance to the Group including contributing to the development of and approving the corporate strategy;
- » appointment, performance assessment and, if necessary, removal of the Managing Director (MD);
- » ratifying the remuneration, succession plans, appointment and/or removal of the members of the Executive Team including the Chief Financial Officer and the Company Secretary;
- » reviewing and approving business plans, the annual budget and financial plans including capital structure and financing arrangements;
- » determining the dividend policy and approval of dividends;

- » recommendations to shareholders regarding the appointment of auditors;
- » reviewing and ratifying policies and systems of risk management, codes of conduct, legal compliance and corporate governance; and
- » approving and monitoring policies in regards to environmental, employment and occupational, health and safety matters as well as relationships with other stakeholders, including the community at large.

The Board has delegated to the MD responsibility for the day to day affairs, financial performance, and operation of the Group, and the authority to control all affairs in relation to all matters other than those responsibilities reserved by the Board in the Board Charter.

The MD has made further delegations to senior executives related to the Company's day to day affairs, within the Board approved delegations and is accountable to the Board for the exercise of those delegated powers.

##### Appointments to the Board

Prior to appointment of any proposed director, appropriate background and other checks are undertaken and considered before the Remuneration & Nomination Committee will recommend a candidate(s) for consideration by the Board as a whole. New directors are issued with a formal letter of appointment that sets out the key terms and conditions of their appointment, and the appointment is subject to signed acceptance of the Company's Board governance protocols. These protocols outline their director's duties, conduct expected of directors, meeting procedures, rights and responsibilities, and the Board's expectations regarding time commitment.

The Company provides security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a non-executive director in the AGM notice of meeting.

##### The Company Secretary

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board, including agendas, Board papers and minutes, advising the Board and its committees on governance matters, monitoring that the Board and committee policies and procedures are followed, communication with regulatory bodies and the ASX and statutory and other filings.

##### Gender Diversity

ERM Power is committed to building a workplace which supports and encourages diversity. The Company's Diversity Policy, available on the website, outlines the commitment to fostering a corporate culture that promotes opportunity and embraces diversity. This helps build an inclusive culture where individuals are encouraged to draw on their unique set of skills, experience and background, contributing to an environment of high performance. ERM Power regularly undertakes diversity reporting to monitor

progress towards this commitment and to track progress against achievement of measurable objectives as set by the Board.

The Remuneration & Nomination Committee has responsibility for diversity at all levels of the Company, including the Board. This is actively supported by the Executive Team.

A number of strategic initiatives were implemented during FY2017 in support of the diversity objectives. An overview of these initiatives is outlined in Table 1.

**Table 1 – Progress against objectives FY2017**

| Measurable Objective  | Progress  |
|---|---|
| 1. Initiate formal talent identification and succession planning                        | <ul style="list-style-type: none"> <li>» Succession plans have been formalised for all executive and key positions across the organisation</li> <li>» Personalised development plans have been implemented for talent identified as potential successors to key or executive positions</li> <li>» An organisational-wide talent review was conducted to inform learning and development needs and workforce planning</li> <li>» A Leadership Development program has been established to build leadership talent</li> </ul> |
| 2. Ensure a woman is on the shortlist for all vacant roles                              | <ul style="list-style-type: none"> <li>» Females were included on the shortlist for 75% of permanent and fixed term vacancies during FY2017</li> <li>» Available opportunities were actively promoted internally with females encouraged to apply</li> <li>» Broader channels explored to find talent</li> </ul>  |
| 3. Undertake gender pay equity reviews annually   | <ul style="list-style-type: none"> <li>» Analysis of gender remuneration differences was undertaken</li> <li>» Reducing identified gender pay gaps for comparable roles was consciously considered in the FY2017 annual remuneration review process</li> </ul>  |
| 4. Sponsor 'women in the industry' events and facilitate 'women in leadership' training | <ul style="list-style-type: none"> <li>» ERM Power sponsored an International Women's Day event with 'Women in Energy' in Melbourne in February 2017</li> <li>» EGMs facilitated a number of forums for female leaders across ERM Power</li> </ul>  |
| 5. Aim to achieve 65% female representation among new hires by 2018                     | <ul style="list-style-type: none"> <li>» During the reporting period 46% of new hires in permanent and fixed term roles across the Group were female</li> </ul>   |

| Measurable Objective  | Progress   |
|---|--|
| 6. Actively support flexible working arrangements                     | <ul style="list-style-type: none"> <li>» Part-time workers represent 10% of ERM Power's Australian workforce (77% of ERM Power's part time workforce are female)</li> </ul>  |
| 7. Build the program of communicating policies which support equality | <ul style="list-style-type: none"> <li>» Diversity &amp; Inclusion workshops and information sessions on unconscious bias reinforced the business imperative of diversity</li> <li>» All-staff meetings are held regularly in which policies, approaches and successes are shared</li> </ul> |
| 8. Appoint a female director to the Board by 2017                     | <ul style="list-style-type: none"> <li>» Georganne Hodges was appointed to the Board on 26 October 2016</li> </ul>   |

At the end FY2017 women represented 41% of the employees across the Group, a reduction of 2% from the comparative period as shown below:

|                                | Female |                  |        |
|--------------------------------|--------|------------------|--------|
|                                | FY2017 | FY2016           | Change |
| Board (excluding the MD)       | 14%    | 0%               | 14%    |
| Senior executives <sup>1</sup> | 19%    | 14%              | 5%     |
| ERM Power Group <sup>2</sup>   | 41%    | 43% <sup>3</sup> | (2%)   |

Reporting requirements were introduced on 1 April 2013 which incorporated a revised workplace profile and a reporting questionnaire for each of the 'gender equality indicators' (GEIs). A copy of the Company's public report for the year ended 31 March 2017 was lodged with the Workplace Gender Equality Agency (WGEA) and is available on the Company's website at [www.ermpower.com.au/investor-centre/financial-reports/](http://www.ermpower.com.au/investor-centre/financial-reports/). The WGEA report is specific to the Australian workforce.

#### Board, committee and director performance evaluations

Through the Remuneration & Nomination Committee, the directors periodically review the performance of the whole Board and Board committees. An external facilitator was last engaged to conduct a full Board performance review in November 2016. The model referenced key principles and guidelines, including the Australian Standard AS 8000 – Good Governance Principles and the ASX and APRA guidelines. The Board identified opportunities for improvement in the areas of diversity, succession planning, involvement in long-term strategy and business plans, and effective risk management.

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

<sup>2</sup> Excluding non-executive directors.

<sup>3</sup> Incorrectly reported as 47% in FY2016.

## CORPORATE RESPONSIBILITY (CONT.)

### Senior executive performance evaluations

The performance of all senior executives, including the MD, is reviewed annually against:

- a) a set of personal, financial and non-financial goals;
- b) company goals; and
- c) adherence to the Company's policies, commitments, values and principles.

The Remuneration & Nomination Committee reviews and makes recommendations to the Board concerning the fixed remuneration and incentive packages of the MD and all senior executives who report directly to the MD (the "Executive Team") with reference to external benchmarking indicators. Performance reviews for the Executive Team were conducted during the reporting period in accordance with this process.

Further information on executive remuneration is contained in the Remuneration Report.

At the time of joining the Company, directors and senior executives are provided with letters of appointment, together with key Company documents and information setting out their term of office, duties, rights and responsibilities, and entitlements on termination.

### Principle 2 – Structure the Board to add value

At the end of the reporting period, the Company had a seven-member Board comprising an independent non-executive Chair, three independent non-executive directors, two non-executive directors and a Managing Director, which accords with Recommendations 2.4 and 2.5. The Company seeks to have directors with a broad range of experience, expertise, skills, qualifications and an understanding of, and competence to deal with, current and emerging issues of the Company's business. The Company's succession plans are designed to maintain an appropriate balance of skills, experience and expertise on the Board. The director's profiles and details of their skills, experience and special expertise are set out in the Directors' Report.

#### The Chair

The principal role of the Chair is to provide leadership to the Board, to ensure the Board works effectively and discharges its responsibilities, and to encourage a culture of openness and debate fostering a high-performing and collegial team. The Chair will not be the same person as the CEO to ensure there is effective Board oversight of management's activities.

The Chair:

- » represents the Board to the shareholders and communicates the Board's position;
- » serves as the primary link between the Board and management; and
- » sets the agenda for each Board meeting in consultation with the MD and Company Secretary and is responsible for ensuring that all directors are adequately briefed in relation to issues addressed at Board meetings.

The Board is conscious of the time commitment required of directors and the Chair in particular. The Board is satisfied that the Chair makes sufficient time available to serve the Group effectively and that none of his other commitments interfere with the discharge of his responsibilities to the Group.

### Director's Independence

In accordance with Recommendation 2.3 of the Principles and Recommendations, the Board considers each director's independence on a regular basis and formed the view that for the reporting period, Tony Bellas, Georganne Hodges, Tony Iannello and Albert Goller were independent. The Board considered the skills and experience, and endorsed the appointment of Philip St Baker on 14 July 2017 as nominee director for the St Baker family interests on the retirement of Trevor St Baker. As son of Trevor St Baker, who remains a substantial shareholder in the Company, and having ceased in an executive capacity with the company within the prior three year period, Philip is not considered to be independent. In defining the characteristics of an independent director, the Board uses the Principles and Recommendations, together with its own consideration of the Company's operations and businesses and appropriate materiality thresholds in any relationship that could materially interfere, or be perceived as interfering with the exercise of an unfettered independent judgement in relation to matters concerning the Company. The Board considers that the independent directors do not have any interests, positions, associations or relationships of the type described in Box 2.3 of Recommendation 2.3.

The Board schedules a minimum of six meetings a year. If required, additional unscheduled meetings are held to deal with urgent matters. An agenda is prepared for each Board meeting by the Company Secretary to ensure operational, financial, strategic, regulatory and major risk areas are addressed. The MD also provides the Board each month with a report which outlines the activities of the Group over the preceding period. This report includes: financial progress against key KPIs; business unit activity; a health, safety, environment and sustainability report; and reports on the progress of strategic projects, funding, corporate affairs, and, as appropriate, other Company and operational matters. All directors have unfettered access to any of the Company's records and information they consider necessary to fulfil their responsibilities, and the Board may invite external advisers to attend Board meetings where necessary or desirable.

The Audit & Risk Committee, Remuneration & Nomination Committee and the Health, Safety, Environment & Sustainability Committee each have a charter which sets out roles and responsibilities, composition, structure, membership requirements and operation. These are available on the Company's website.

A list of the members of each committee and their attendance at committee meetings is set out in the Directors' Report.

### The Remuneration & Nomination Committee

The Remuneration and Nomination committees were merged in October 2016 to form the Remuneration & Nomination Committee which provides advice and makes recommendations to the Board to ensure that it is comprised of individuals who are best able to discharge the responsibilities of directors, having regard to the law and the highest standards of governance by:

- » assessing the skills required by the Board and the extent to which the required skills are represented on the Board having regard to the Board skills matrix and the attributes of existing directors and potential candidates;
- » establishing processes for evaluating the performance of the Board as a whole, its committees and individual directors;

- » establishing processes for the identification of suitable candidates for appointment to the Board as additional members or to succeed existing members and reviewing Board succession plans;
- » reviewing and reporting, at least annually, on the relative proportion of women and men on the Board;
- » making recommendations to the Board on directors' appointments or Board and committee structures; and
- » ensuring there are plans in place to manage the succession of the CEO and other senior executives.

Each year one third of the Board, other than the MD, retires in accordance with the constitution, and is eligible for re-election by shareholders at the Annual General Meeting (AGM). Any director appointed to fill a casual vacancy since the previous AGM must submit themselves to shareholders for election at the next AGM. Philip St Baker, having been appointed by the Board on 14 July 2017, will stand for election at the 2017 AGM.

Prior to each AGM the Remuneration & Nomination Committee evaluates any new directorship nominations, and evaluates the performance of those directors retiring by rotation, the results of which form the basis of the Boards' recommendation to shareholders.

We will provide our shareholders with information relevant to a director's election or re-election in the notice of meeting for the 2017 AGM.

#### Board skills matrix, induction and professional development

In June 2016, the Board updated its Board skills matrix, and identified the following 11 criteria to be considered when reviewing the diversity of skills and experience that the Board currently has or is looking to achieve in its membership.

| Skills & Experience   | Description  |
|-----------------------|--|
| 1. Strategy           | Track record of developing and implementing a successful strategy (strategy development & strategy execution).   |
| 2. Going global       | Experience to enter into global markets/ jurisdictions.  |
| 3. Going retail       | Business experience in SME retail markets dependent on optimising customer lifetime value (acquisition cost + cost to serve + duration served) through 'mass market' strategies. |
| 4. Financial acumen   | Experience in financial accounting and reporting, corporate finance, risk management, and internal financial controls.   |
| 5. Electricity/energy | Experience across the energy retail value chain.   |
| 6. Legal              | Strong commercial legal skills with an understanding of publicly listed company obligations.   |

| Skills & Experience                              | Description   |
|--|---|
| 7. Executive management                          | Experience in evaluating performance of senior management and oversee strategic human capital planning. Experience in organisational change and management programs.    |
| 8. Solutions business                            | Experience in the entire product line/ solution 'bundle' life cycle from strategic planning to tactical activities.   |
| 9. Information strategy                          | Experience in using information as a core product and solution differentiator, and experience in using information and systems as a strategic asset to grow businesses. |
| 10. External communications                      | Experience in using external communications to influence political, public sector, financial market and investor stakeholders.  |
| 11. Wholesale energy markets and risk management | Experience of wholesale energy markets including up to date knowledge of sophisticated risk management practices.   |

The names and details of the experience and qualifications of each director of the Company as at the date of this Report can be found on pages 4 to 7 of the Annual Financial Report. The Board believes it currently has an appropriate mix of these skills and experiences amongst its directors to enable the Board to operate effectively.

In respect to gender, the appointment of Georganne Hodges in October 2016 adds to the diversity on the Board. Other aspects considered in maintaining and contributing to diverse viewpoints in Board discussions and to assist in avoiding unconscious bias include tenure and age of directors<sup>4</sup>:

| Tenure    | No. of directors | Age   | No. of directors |
|-----------|------------------|-------|------------------|
| 0-2 years | 3                | 45-55 | 3                |
| 2-7 years | 2                | 55-65 | 2                |
| >7 years  | 2                | >65   | 2                |

Directors are encouraged to engage in professional development activities to develop and maintain the skills and knowledge needed to perform their role as directors effectively. Where required, the Company provides information concerning key developments in the Group and the industry, and environments within which it operates, including site visits to the Group's operations, updates to relevant policies, discussion of relevant legal developments, corporate governance updates and other matters of interest for directors.

The Company continues to undertake a detailed induction process for new directors which includes: discussions with existing directors and senior executives on operational issues and the future strategic direction of the Company; the provision of key materials such as the Code of Business Conduct and the Company's Security Trading Policy; together with site visits where appropriate.

4 As at the date of this report.

## CORPORATE RESPONSIBILITY (CONT.)

### Principle 3 – Act ethically and responsibly

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

In particular, the Code of Business Conduct (the Code) and the Securities Trading Policy apply to all directors and employees. The Company encourages employees to report known or suspected instances of inappropriate conduct, including breaches of the Code or the Securities Trading Policy. There are policies in place to protect employees from any reprisal, discrimination or being personally disadvantaged as a result of their reporting of a concern.

A copy of the Code and the Securities Trading Policy are available on the Company's website along with other corporate governance policies of the Company.

The purpose of these documents is to guide directors and employees in the performance of their duties, set appropriate restrictions on the trading of securities by directors, employees and their associates, and to the Company's employees who wish to report in good faith inappropriate behaviour or wrongful acts without fear of retaliation or punishment.

All directors of the Company also agree to comply with the Board governance protocols which outline, amongst other matters, the directors' duties and the conduct expected of them as directors.

### Principle 4 – Safeguard integrity in corporate reporting

The Company has an Audit & Risk Committee compliant with Recommendation 4 which consists of the four independent non-executive directors, Tony Bellas, Martin Greenberg (as Chair until his retirement), Tony Iannello (as Chair on the retirement of Martin Greenberg), Albert Goller and Georganne Hodges since her appointment in October 2016. The Audit & Risk Committee Charter is available on the Company's website and includes review of:

- (i) risk matters;
- (ii) internal processes in preparation of financial statements and key accounting judgements;
- (iii) internal control processes; and
- (iv) audit related issues.

The Audit & Risk Committee 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 & Risk Committee monitors the adequacy, integrity and effectiveness of management processes that support financial reporting. It also maintains and oversees a sound system of internal controls based on the adoption by the Board of a risk-based approach to the identification, assessment, monitoring and management of risks that are significant to the fulfilment of the Company's business objectives.

The qualifications of the members of the Audit & Risk Committee and their attendance at meetings of the Committee are set out in the Directors' Report.

When presenting financial statements for Board approval, the MD and Chief Financial Officer provide a formal statement in accordance with section 295A of the *Corporations Act 2001 (Cth)*. This includes an assurance that the statement is founded upon a sound system of risk management and internal control that is operating effectively in all material respects in relation to financial reporting risks.

The Company's auditor will attend the AGM and will be available to answer shareholders' questions.

### Principle 5 – Make timely and balanced disclosure

The Company's practice on disclosure is consistent with the Principles and Recommendations. The Board strictly adheres to the Company's Continuous Disclosure Policy and procedures that are in place to ensure compliance with ASX Listing Rule disclosure requirements.

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

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

### Principle 6 – Respect the rights of security holders

The Company is committed to providing regular communication to shareholders about the performance of the Group and its business and operations.

The Company's website contains extensive information on its operations and corporate governance, and all announcements to the ASX are posted on the Company's website. The Company attempts to keep its website as current and informative as possible for shareholders and other stakeholders, including updates on its operations and biographical information for each of its directors and senior executives.

The Company has an investor relations program involving two-way interactions with institutional investors (including buy-side analysts), sell-side analysts, financial media and other members of the investment community, which for the reporting period included:

- » "Roadshows" after the full year and half results involving face-to-face and one-on-one or group meetings in Sydney and Melbourne. The meetings begin with an opening presentation from the MD and continue with questions and answers.
- » Teleconference/s on the day of the results with investors and analysts as a group, involving a presentation and questions and answers, and otherwise as necessary; also one-on-ones with individual investors or analysts/brokers, organised proactively or in response to requests.
- » Meetings – face-to-face throughout the year in Brisbane, Sydney and Melbourne.
- » Conferences – The MD occasionally presents at investment conferences organised by brokers and which are attended by institutional investors.
- » Filmed presentations and Q&A sessions – The MD participates in filmed presentations and Q&A sessions which are available to view on various online platforms.



The Company held one general meeting during the reporting period, the AGM on 26 October 2016. The explanatory memorandum in the notice of meeting sets out the process whereby shareholders may attend and ask questions, including written questions submitted prior to the meeting.

The Board has not considered it necessary to hold general meetings outside of Brisbane, the location of its head office. The Board considers the makeup of the Company's share register and monitors investor feedback as to whether the use of telecommunications during general meetings would be useful to investors, and is satisfied that the current process sufficiently encourages participation by shareholders.

The Company give Security holders the option to receive communications from, and send communications to, the Company and its security registry electronically. Annual reports are able to be accessed by shareholders via the Company's website, with a hardcopy able to be mailed out on request.

The Company's policies and procedures, and in particular the Shareholder Communication Policy, comply with the Principles and Recommendations in relation to the rights of shareholders.

#### **Principle 7 – Recognise and manage risk**

The composition of the Audit & Risk Committee was previously outlined under Principle 4 above and complies with Recommendation 7.1.

The Board, through the Audit & Risk Committee, has an overarching Risk Management Framework Policy governing the Company's approach to risk oversight and management and internal control systems which is available on the Company's website. The Board is also responsible for ensuring that there are other appropriate policies in relation to risk management and internal control systems.

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.

Board, executive and business unit level controls are designed to safeguard Company and stakeholders' interests in respect of these risks. The Company has an Enterprise Risk Register that contains the most significant risk events identified for the organisation, a framework for quantifying those risk events and a risk mitigation plan for each risk. The Risk Register is designed to provide assurance to the Board and management on the strength of the Company's risk management practices and operationally to ensure that managers across the Group manage risks under their area of control. The Risk Register is reviewed and updated on a quarterly basis by a management committee to address the evolving requirements of the business. The Chief Financial Officer is responsible for reporting to the Board and the Audit & Risk Committee and to provide assurance that the Company is not unduly exposed to risks it is not consciously willing to accept.

The Company undertakes regular reviews of business units for major risks and the Risk Management Framework Policy. During the reporting period:

- » a revised risk appetite framework was established, cascading through each business area by setting financial risk tolerance targets for activities within the business; and

- » the risk management framework for both the Australian and US businesses were revised with additional daily risk reporting obligations introduced.

The Company does not have a dedicated internal audit function, but periodically engages external consultants to perform internal control reviews.

Any material exposures to economic, environmental and social sustainability risks are incorporated into the Enterprise Risk Register as summarised on pages 22-23. Responsibility for oversight of these matters is held by the Board, management's Enterprise Risk Committee, and the Health, Safety, Environment & Sustainability Committee. The Health, Safety, Environment & Sustainability Committee Charter and Policy can be found on the Company's website.

The Company is an owner and operator of two gas-fired power stations in Australia and maintains risk management systems to ensure strict compliance with all environmental conditions. During the reporting period there were no non-compliances with the planning or environmental conditions of the power stations.

#### **Principle 8 – Remunerate fairly and responsibly**

In compliance with Recommendation 8.1, the Remuneration Committee was comprised of the Company's four independent non-executive directors: Tony Iannello (Chair), Tony Bellas, Martin Greenberg and Albert Goller until 26 October 2016. Tony Bellas assumed the Chair of the combined Remuneration & Nomination Committee on 26 October 2016, and Georganne Hodges replaced Martin Greenberg as the fourth independent director. Trevor St Baker was a member of the Remuneration & Nomination Committee from 26 October 2016 until his resignation on 14 July 2017. Their attendance at meetings of the relevant committees is set out in the Directors' Report. The Remuneration & Nomination Committee Charter can be found on the Company's website.

The Remuneration & Nomination Committee reviews and reports, at least annually, on the relative proportion of women and men in the workforce at all levels of the Group. These proportions are contained in the commentary on Principle 1 above.

The remuneration of non-executive directors is structured separately from that of the MD and the Executive Team. The MD and the Executive Team are remunerated by way of a mix of fixed and variable remuneration in a manner that motivates them to pursue the long term growth and success of the Group.

The Securities Trading Policy contains a prohibition against directors and employees altering the economic benefit derived by the director or employee in relation to an equity-based incentive award or grant made by the Company.

Detailed information on remuneration of directors and senior executives is contained in the Remuneration Report.

*All information referred to in this Corporate Governance Statement as being on the Company's website can be found at the web address: [www.ermpower.com.au](http://www.ermpower.com.au) within the "Investor Centre" tab, under "ASX Announcements" or within the "About Us" tab under "Governance". More information on the Company's Corporate Governance can be found in these locations.*

CORPORATE RESPONSIBILITY (CONT.)

CORPORATE SOCIAL RESPONSIBILITY

Leadership

Approach

ERM Power has demonstrated industry leadership in a year of complex and dynamic policy challenges. With a 20 percent share (by load) of the Australian business electricity market and market-leading customer satisfaction, the Company’s credibility in public policy is founded on customer advocacy and insights, deep knowledge of industry processes, diverse business interests and a direct approach.

Operating in this highly regulated sector, anticipating and influencing public policy is critical to successful business strategy development and execution. ERM Power executives and regulatory specialists actively participate in advocacy and government relations opportunities, sitting on various consultative forums, writing regulatory submissions and engaging with strategic stakeholders. ERM Power also utilises peak bodies, including the Australian Energy Council, the Australian Industry Group and the Energy Efficiency Council to amplify its voice across the sector.

Policy environment in 2017

The ‘system black’ event in South Australia in September 2016, followed by the Hazelwood Power Station closure, created a sense of urgency for policy makers concerned about system security, sustainability and affordability. Dr Alan Finkel’s independent review of security and reliability of the National Electricity Market was still underway as state and federal governments began announcing plans to address the problem as they saw it. Meanwhile, the Australian Competition and Consumer Commission began its inquiry into retail prices, and regular consultations with the Australian Energy Market Commission and jurisdictional policy makers continued to require attention.

Against this backdrop, ERM Power took opportunities to effectively inform and influence policy makers towards conditions favourable to enduring national energy policy which supports the community, investors, customers and the business.

ERM Power’s key policy principles

Whether discussing day-to-day obligations or the sector’s future more broadly, ERM Power maintains a strong principled approach to advocacy. Priority principles are:

- » Enduring, bipartisan, national energy policy, to support greater investment certainty;
- » An efficient and orderly transition to a low-emissions energy sector, recognising gas-fired electricity generation as a vital support to intermittent renewables;
- » Competitive and technology neutral policies, to provide an even playing field to meet sectoral objectives; and
- » Supporting both supply and demand-side measures to improve market efficiency and reliability at lowest cost, to support customers.

These are integral to creating a sustainable energy market into the future.

CASE STUDY: SUNSTATE CEMENT LIMITED

Sunstate Cement Limited is an energy-intensive business, with flexible operations. The company’s Operations Manager, Michael Fullelove, said: ‘I was tired of paying a premium for electricity because we were locking into a full year contract price that had to account for a year’s worth of market volatility but not the seasonal nature of our business’.

ERM Business Energy approached Mr Fullelove about the new Strategically Timed Energy Procurement Online (STEP Online). Developed in response to customer and broker feedback, STEP Online offered Sunstate Cement Limited the option to purchase smaller parcels of energy at market pricing throughout the contract term. This enabled them to manage risks more effectively to keep costs down.

“ERM understands what’s important to our business, and has delivered a solution that meets our needs where others couldn’t.”

– Michael Fullelove, Operations Manager Sunstate Cement Ltd, ERM Business Energy customer since 2013

Customers

ERM Power’s reputation speaks for itself when it comes to customer focus. In the Australian market, the 2016 Utility Market Intelligence survey<sup>1</sup> reported 94% of ERM Power’s large business customers are satisfied – the highest level of customer satisfaction recorded since the survey began in 1997. This marks the sixth consecutive year that ERM Power has out-ranked other retailers in this survey.

In the US market, the 2016 Energy Research Consulting Group’s survey<sup>2</sup> of energy broker satisfaction also demonstrates ERM Power’s strong focus on customer needs and relationships, by placing third out of over 50 retailers. Since acquisition in 2015, Source Power and Gas’s broker recognition rate has tripled, with 62% of surveyed brokers now saying they do business with Source.

ERM Power delivers industry-leading service by understanding what is important to businesses and helping them make the most of every kilowatt-hour.

1 Utility Market Intelligence survey of large customers of major electricity retailers by independent research company NTF Group from 2011 – 2016.

2 Energy Research Consulting Group’s (ERCG) survey of Aggregators, Brokers and Consultants (ABC) Study December 2016. Research based on survey of over 120 ABCs, which represents ~72% of brokered US power sales.



ERM Power's culture drives high performance.

## Workplace

### 2017 Employee Engagement and Enablement Survey

Highly engaged and enabled people create high-performing organisations. ERM Power's second formal employee engagement and enablement survey, carried out in 2017, again demonstrated staff as well positioned to deliver continued business success.

- » Employee engagement is a measure of the extent to which an employee is willing to strive for company success. ERM Power's 2017 engagement score was consistent with the highest performing organisations in the world.<sup>3</sup>
- » Employee enablement represents how empowered employees feel in their roles and whether they have the tools and support to reach their potential. ERM Power's enablement score was five percentage points above the global high-performing norm.

ERM Power's staff also measured above the global high-performing norms in critical areas such as confidence in leadership, clarity of business strategic direction and customer focus. Both the 2015 and 2017 surveys identified opportunities to further improve the workplace experience e.g performance management and inter-office collaboration. Comprehensive programs address those areas in collaboration with staff across the business.

### Supporting staff wellness

Workplace initiatives, policies and facilities that support personal wellness are vital to enabling staff to maintain strong commitment, and help support personal and work balance.

ERM Power offers staff a wide range of support including an Employee Assistance Program; compulsory online training on workplace health and safety, including workplace behaviour; and a number of wellness programs.



The ERM Power team helping the gas-fired Neerabup Power Station, Western Australia.

## Safety

Safety is the top priority across ERM Power's locations. Safety measures are reported to the Board each month, including any first-aid treatment, near misses, and lost-time injuries.

Safety is the first Key Performance Indicator (KPI) for all power station personnel. On-site staff participate in regular safety briefings, plan job observations, safety procedure reviews, and drug and alcohol testing. All corporate staff complete regular online workplace health and safety training modules, and participate in monthly briefings.

In 2017, ERM Power again celebrated an excellent safety record. Across both Neerabup and Oakey Power Stations, there were no lost-time injuries, including during the major gas turbine and generator overhaul at Oakey Power Station.

<sup>3</sup> Korn Ferry Hay Group Employee Engagement and Enablement Survey, February 2017.

CORPORATE RESPONSIBILITY (CONT.)



ERM Power values the different perspectives that diversity brings to its business.

**Diversity**

A workforce representative of the community better supports diversity of thought, creative problem solving and the development of products and services. ERM Power recognises this may include, but not be limited to, diversity of gender, age, physical abilities, ethnicity and cultural background. Board and employee diversity is the responsibility of the Remuneration and Nomination Committee and is a focus for the executive team.

ERM Power has made good progress towards its diversity targets set in 2016, and continues to assess and refine its approach to attracting and retaining high-performing staff.

Recognising that leadership starts at the top of an organisation, ERM Power complemented the Board’s existing skill and experience-base with the appointment of independent non-executive director Georganne Hodges on 26 October 2016. Georganne has extensive experience across the US energy sector, and brings fresh perspectives to develop ERM Power’s future in both the Australian and US markets. Additionally, Executive General Manager Energy Solutions Megan Houghton joined the executive team in November 2016, adding broad, senior leadership skills and expertise in energy management.

ERM Power continues to support gender diversity through a range of objectives, initiatives and policies, including:

- » Annual gender pay equity reviews;
- » Increased focus on achieving merit-based female shortlistings for vacant role appointments;
- » Paid parental leave entitlements;

- » Flexible work arrangements;
- » Sponsoring Women In Energy; and
- » Formal talent identification and succession planning.

ERM Power’s report for the Workplace Gender Equality Agency (WGEA) is a comprehensive review of gender diversity in ERM Power’s Australian workforce, and is available on the website, along with the company-wide Gender Diversity Policy.

**Community**

ERM Power seeks to engage with and give back to the communities in which it operates. In 2016/17, ERM Power launched its ‘Power of Giving’ sponsorship program as a formal channel for community support and engagement. The program includes dollar-matching for staff-initiated charitable group activities, and for regular contributions to the St Vincent de Paul Society (Vinnies) (the chosen charity for 2016/17) made through payroll-giving. Staff are also encouraged to utilise volunteer leave to support charitable causes.

Initiatives supported by ERM Power staff in 2017 include:

- » \$59,000 raised through the Vinnies CEO Sleepout in Brisbane. CEO Jon Stretch is a CEO Sleepout ambassador, helping Vinnies tackle homelessness.
- » Staff donated nearly 600 food items to Vinnies through Operation I Can.
- » Over \$6,000 was raised towards the Movember Foundation, supporting important men’s health projects globally.



1 ERM Power staff across the country supported Operation I Can to donate nearly 600 food items to Vinnies for Anti Poverty Week.

2 Source Power & Gas staff spent the day supporting the Houston Food Bank during their annual day of service.

3 ERM Power's MD and CEO, Jon Stretch, was the highest fundraiser in Brisbane in his second Vinnies CEO Sleepout in 2017. Jon is pictured here with Lord Mayor of Brisbane Graham Quirk (left) and Vinnies QLD CEO Peter Maher (right).

4 Staff continually look for ways to improve efficiency at the gas-fired Oakey Power Station.

- » A team of 16 ERM Power staff participating in the Bridge to Brisbane fun run raised over \$4,000 for the Children's Hospital Foundation.
- » Staff at Neerabup Power Station donated \$5,000 to the Black Dog Institute, to support research and education in mental health issues.
- » ERM Power continues its long-term support of indigenous education programs at The Armidale School in New South Wales and Geelong Grammar School in Victoria.
- » US staff helped the Houston Food Bank provide more than 19,620 meals to Gulf region residents during their fourth annual 9/11 day of service.
- » US staff also assisted the Buffalo Bayou Partnership in their annual effort to remove noxious weeds and trash from this important natural habitat.

**Environment**

As a diversified energy company, ERM Power recognises the potential for its business to both burden and protect the natural environment. This influences how the Company runs its business, as well as the products and services offered to customers.

**Supporting renewable energy**

ERM Power is committed to playing its part in the transition to a less emission-intensive energy sector.

The Renewable Energy Target requires electricity retailers like ERM Power to acquire regulatory certificates from renewable energy generators. Retailers may achieve compliance under the scheme by either surrendering the required number of certificates to the Clean Energy Regulator, or by paying a charge for the shortfall in surrendered certificates. Scheme legislation provides a three-year window whereby a retailer may surrender certificates and receive a refund for any charge previously paid.

For the 2016 compliance year, ERM Power chose to achieve compliance by paying the Clean Energy Regulator \$123 million, in lieu of surrendering 1.9 million Large-scale Generation Certificates (LGCs). This was a considered strategic decision, made in full compliance with scheme legislation, and allowed the Company to more cost-effectively invest in renewable energy projects.

We were pleased to announce a renewable offtake agreement with Hamilton Solar Farm in Queensland (58MW, currently under construction) and continue to work with developers of new renewable energy assets, such as Nexif Energy Australia Pty Ltd on their Lincoln Gap Wind Farm project. ERM Power is proud to provide practical support for renewable generation in Australia.

This year the company also announced a Memorandum of Understanding with Osaka-based Sumitomo Electric Industries and the Guided Innovation Alliance to help identify potential trial opportunities for concentrated solar PV, battery and smart grid technologies.

**CORPORATE RESPONSIBILITY (CONT.)**



ERM Power considers it both a business opportunity and a social responsibility to enable customers to lower their carbon footprint through smarter energy usage.

**Energy solutions**

ERM Power considers it both a business opportunity and a social responsibility to enable customers to lower their carbon footprint through smarter energy usage.

The Company helps customers meet their environmental commitments by offering Government-accredited renewable energy under the GreenPower Program. This allows customers to make voluntary contributions above and beyond what otherwise would have occurred.

With its growing Energy Solutions business, ERM Power customers can receive a comprehensive energy assessment and tailored solution design to help them meet their environmental objectives. Whether it be education and behavioural change, demand response programs, or new equipment investments, ERM Power helps customers manage their energy consumption and carbon footprint in simpler, smarter ways.

**Power Station Environmental Compliance**

As operators at Oakey and Neerabup Power Stations, ERM Power is responsible for ensuring compliance with environmental license conditions. The Company regularly monitors and reports on a broad range of environmental factors, including air and water quality, waste management, emissions of greenhouse gases and other pollutants, pest control, and chemical use.

During the year there were no reportable environmental incidents, nor were there any breaches of any environmental licence conditions at either plant.

As peaking power stations, operation and output varies significantly each year as the Company responds to market signals. Accordingly, greenhouse gas emissions from the power stations can also vary significantly. ERM Power maintains high efficiency standards to manage both operational and environmental impact.

ERM Power continually looks for ways to become more efficient and effective in its operations. For example, the major gas turbine overhaul at Oakey Power Station in November 2016 provided the opportunity for a lighting upgrade, with the Company's lighting business, LumaLed, installing high efficiency LEDs to improve site safety and energy efficiency.

**FY2016 Environmental Snapshot<sup>1</sup>**

| <b>Power Station</b>   | <b>Generation (GWh)</b> | <b>Scope 1 Emissions (tCO2-e)</b> | <b>Environmental incidents</b> | <b>Water discharge strategy</b>   |
|------------------------|-------------------------|-----------------------------------|--------------------------------|---|
| Oakey Power Station    | 520.3                   | 331,427                           | Nil                            | Discharge reused for farmland irrigation (salinity neutralised if required) |
| Neerabup Power Station | 112.8                   | 69,332                            | Nil                            | Nil discharge – waste water is evaporated to brine.                         |

<sup>1</sup> FY2016 is the latest period for reporting under the National Greenhouse and Energy Reporting Act.

# DIRECTORS' REPORT

## FOR THE YEAR ENDED 30 JUNE 2017

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 2017 ("the year"). The information appearing on the preceding pages forms part of this Director's Report.

### 1. PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were:

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

### 2. OPERATING RESULTS FOR THE YEAR

A review of the operating results of the Group can be found in the operating and financial review on pages 10 to 25.

### 3. REVIEW OF OPERATIONS

A review of the operations of the Group can be found in the operating and financial review on pages 10 to 25.

### 4. BUSINESS STRATEGIES AND PROSPECTS

A review of the business strategies and prospects of the Group can be found in the operating and financial review on pages 10 to 25.

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

In January 2017 the Group announced the finalisation of an A\$290m facility with ANZ, which is secured against ERM's Australian Retail business, providing for A\$240m of three-year funding of either cash or bank guarantees and a further A\$50m of 18-month funding for additional bank guarantees. The facility replaced the existing facility with Macquarie Bank.

### 6. EVENTS AFTER BALANCE DATE

In July 2017 the Company finalised an amendment to the existing surety guarantee facility with Liberty International Underwriters Singapore, and an associated Fronting Bank Facility agreement with the Commonwealth Bank of Australia. The amendment allows for an increase in the facility by \$100m to \$250m and extends the tenor to July 2020.

In July 2017 the Group elected to terminate the existing sleeving arrangement used as part of the US electricity sales operations and entered into a new arrangement with a different supplier. The early termination election required a payment of US\$3.8m to the previous supplier, which was paid in July 2017.

Since 30 June 2017 there have been no other matters or circumstances not otherwise dealt with in the Financial Report that have significantly or may significantly affect the Group.

### 7. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Apart from the matters referred to in the Operating and financial review on pages 10 to 25, information as to other likely developments in the operations of the Group and the expected results of those operations in subsequent financial years has not been included in this report because the directors believe this could result in unreasonable prejudice to the Group.

### 8. PROCEEDINGS ON BEHALF OF THE COMPANY

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

### 9. DIVIDENDS

Subsequent to year end, the directors have declared a final dividend in respect of the 2017 financial year as follows:

|               |                     |
|---------------|---------------------|
| Amount:       | 3.5 cents per share |
| Franking:     | 100% franked        |
| Date Payable: | 10 October 2017     |

The dividend has not been provided for in the 2017 financial statements.

During the year the Company paid an interim fully franked dividend of 3.5 cents per share (2016: 6.0 cents unfranked), together with an unfranked final dividend of 6.0 cents per share in respect of the previous year.

### 10. DIRECTORS

The following persons were directors of the Company during the whole of the financial year and up to the date of this report unless otherwise indicated:

|                          |  |
|--------------------------|--|
| Anthony (Tony) Bellas    | Independent Non-Executive Chair                                |
| Trevor St Baker          | Non-Executive Deputy Chair and Founder (resigned 14 July 2017) |
| Albert Goller            | Independent Non-Executive Director                             |
| Martin Greenberg         | Independent Non-Executive Director (resigned 26 October 2016)  |
| Georganne Hodges         | Independent Non-Executive Director (appointed 26 October 2016) |
| Antonino (Tony) Iannello | Independent Non-Executive Director                             |
| Philip St Baker          | Non-Executive Director (appointed 14 July 2017)                |
| Wayne St Baker           | Non-Executive Director   |
| Jonathan (Jon) Stretch   | Managing Director and Chief Executive Officer (MD & CEO)       |

Information on the current directors can be found in the Board of Directors section on pages 4 to 7. This information includes the qualifications, experience, other directorships and special responsibilities of each director in office as at the date of this report.

## DIRECTORS' REPORT (CONT.) FOR THE YEAR ENDED 30 JUNE 2017

### 11. MEETINGS OF DIRECTORS

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

|  | Board meetings |    | Meetings of committees |    |  |    |                           |    |                         |    |      |    |
|--|----------------|----|------------------------|----|--|----|---------------------------|----|-------------------------|----|------|----|
|  |                |    | Audit & Risk           |    | Remuneration & Nomination <sup>1</sup> |    | Remuneration <sup>1</sup> |    | Nomination <sup>1</sup> |    | HSES |    |
|  | A              | B  | A                      | B  | A                                      | B  | A                         | B  | A                       | B  | A    | B  |
| Tony Bellas                                    | 13             | 13 | 6                      | 6  | 2                                      | 2  | 2                         | 2  | 1                       | 1  | 2    | 4  |
| Trevor St Baker                                | 12             | 13 | **                     | ** | 1                                      | 2  | **                        | ** | 1                       | 1  | **   | ** |
| Albert Goller                                  | 13             | 13 | 6                      | 6  | 2                                      | 2  | 2                         | 2  | 1                       | 1  | **   | ** |
| Martin Greenberg<br>(resigned on 26 Oct 2016)  | 5              | 5  | 2                      | 2  | **                                     | ** | 2                         | 2  | 1                       | 1  | **   | ** |
| Georganne Hodges<br>(appointed on 26 Oct 2016) | 7              | 8  | 4                      | 4  | **                                     | ** | **                        | ** | **                      | ** | **   | ** |
| Tony Iannello                                  | 13             | 13 | 6                      | 6  | 2                                      | 2  | 2                         | 2  | 1                       | 1  | **   | ** |
| Wayne St Baker                                 | 13             | 13 | **                     | ** | **                                     | ** | **                        | ** | **                      | ** | **   | ** |
| Jon Stretch                                    | 11             | 13 | **                     | ** | **                                     | ** | **                        | ** | **                      | ** | 3    | 4  |

<sup>1</sup> The Remuneration and Nomination committees were combined on 26 October 2016

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

### 12. DIRECTORS' INTERESTS

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

|                  | Ordinary shares | Options to acquire ordinary shares |
|------------------|-----------------|------------------------------------|
| Tony Bellas      | 106,250         | 0                                  |
| Albert Goller    | 270,000         | 0                                  |
| Georganne Hodges | 0               | 0                                  |
| Tony Iannello    | 202,839         | 0                                  |
| Philip St Baker  | 6,252,564       | 242,706                            |
| Wayne St Baker   | 1,625,290       | 0                                  |
| Jon Stretch      | 1,939,520       | 0                                  |

### 13. COMPANY SECRETARY

#### Phil Davis

LLB, GAICD, AGIA

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

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

1. The Remuneration and Nomination committees were combined on 26 October 2016.



## 14. ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group's environmental regulation and performance can be found in the Corporate Responsibility Report on pages 35 to 36.

## 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*.

| <b>Amounts received or due and receivable by PricewaterhouseCoopers Australia for non-audit services:</b> | <b>2017</b> | <b>2016</b> |
|---|-------------|-------------|
|   | <b>\$</b>   | <b>\$</b>   |

|   |               |         |
|---|---------------|---------|
| Other procedures in relation to the entity and any other entity in the consolidated Group | <b>93,328</b> | 134,400 |
|---|---------------|---------|

## 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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Group and the Company are entities to which the instrument applies.

## 19. REMUNERATION REPORT

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

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



**Tony Bellas**  
Chairman

24 August 2017

# REMUNERATION REPORT

## FOR THE YEAR ENDED 30 JUNE 2017

The directors present the Remuneration Report for ERM Power Limited ("Company") and its consolidated entities ("Group") for the year ended 30 June 2017.

### STRUCTURE OF THIS REPORT

The Remuneration Report is divided into the following sections:

1. Key Management Personnel
2. Remuneration governance
3. Senior executive remuneration framework
4. FY2017 executive remuneration outcomes and the link to company performance
5. Non-executive Directors' fees
6. Tables for executive remuneration and equity grants
7. Other remuneration disclosures

### 1. KEY MANAGEMENT PERSONNEL

For the purpose of this report Key Management Personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. They include all non-executive directors of the Board in addition to the following senior executives:

|  |  |
|--|--|
| Jonathan (Jon) Stretch                         | Managing Director and Chief Executive Officer (MD & CEO) |
| William (Mitch) Anderson                       | Executive General Manager (EGM) Business Energy (US)     |
| Gregg Buskey                                   | EGM Corporate Finance & Strategy                         |
| David Guiver                                   | EGM Trading  |
| Megan Houghton<br>(appointed 21 November 2016) | EGM Energy Solutions                                     |
| Derek McKay                                    | Chief Information Officer (CIO) and EGM Generation       |
| Stephen (Steve) Rogers                         | EGM Business Energy (AU)                                 |
| Alastair (James) Spence                        | Chief Financial Officer (CFO)                            |

The only changes to KMP from the end of the reporting period up to the date of this Remuneration Report were the appointment of Philip St Baker and the resignation of Trevor St Baker as directors of the Company on 14 July 2017.

### 2. REMUNERATION GOVERNANCE

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

The Committee oversees governance procedures and policy on remuneration including:

- » general remuneration practices;
- » performance management;
- » equity plans and incentive schemes; and
- » recruitment and termination.

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

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

In undertaking its role, the Committee may seek the advice of external remuneration consultants who provide analysis to ensure remuneration levels are set to reflect the market for comparable roles. In reviewing remuneration levels for FY2017, the Committee referred to the benchmarking analysis provided by Hay Group Pty Limited in May 2015. The process for reporting this information to the Committee was outlined in the FY2015 Remuneration Report.

### 3. SENIOR EXECUTIVE REMUNERATION FRAMEWORK

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

- » competitiveness and reasonableness;
- » acceptability to shareholders;
- » performance linkage/alignment of executive remuneration; and
- » transparency.

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

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

1. base pay and benefits, including superannuation for Australian employees, or retirement contributions for US employees;
2. short term and long term incentives; and
3. other discretionary cash or equity based incentives.

In accordance with the objective of ensuring that executive remuneration is aligned to Group performance without encouraging undue risk taking, a significant portion of executive's target pay is at risk. The Board considers this combination an effective way to align incentives to shareholder value (refer section 3.2). Short term incentives (STIs) are focused on achieving annual profit and operational targets, whilst long term incentives (LTIs) are focused on alignment with growth in shareholder returns assessed over a three-year period, as well as encouraging talent retention.

### 3.1 Base salary and benefits

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

For Australian employees, superannuation is included in fixed remuneration up to the maximum superannuation contribution base set by the relevant legislation, while the Company contributes to the basic safe harbor 401K retirement plan for the Group's US employees.

### 3.2 Incentive schemes

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

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

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

For shareholders, benefits associated with the incentive schemes include:

- » focus on performance improvement at all levels of the Group, with year-on-year earnings growth a core component;
- » focus on sustained growth in shareholder wealth, consisting of 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 may include, but are not limited to, a range of measures such as:

- » financial measures – including underlying net profit after tax (underlying NPAT), underlying earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains/losses on financial instruments designated at fair value through profit and loss, excluding significant items (underlying EBITDAF), operating cash flow, etc.;
- » zero harm – safety and environment performance measures, including lost time injury frequency rates, medically treated injury frequency rates and environmental measures; and
- » market based – Total Shareholder Return (TSR), earnings per share, share price improvement, etc.

#### Malus and Clawback

The Company has malus and clawback provisions whereby awards will lapse, be forfeit or a participant may be required to reimburse the Company all or part of the cash received as net proceeds on the sale of any award if, in the opinion of the Board:

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

#### 3.2.1 Short term incentives

STIs are provided to most employees. The awarding of STIs is based on performance against KPIs or targets across three components; individual, team and corporate. Each of these components is allocated a weighting and include both targets and stretch targets that are set at the beginning of each financial year. The MD & CEO's targets and the corporate targets are set by the Board, whilst the individual and team targets are set under

## REMUNERATION REPORT (CONT.) FOR THE YEAR ENDED 30 JUNE 2017

the direction of the MD & CEO. The Committee is responsible for determining the STI to be awarded based on an assessment of whether the KPIs are met. To assist in this assessment, the Committee receives detailed reports on performance from management. The Committee has the discretion to not award and to adjust STIs downwards in light of unexpected or unintended circumstances.

At the end of each financial year, achievement of targets is measured and applied against the target participation rate determined for each individual. These participation rates range between 10% and 40% of annual average base salary, with the potential to achieve up to 150% of these levels (i.e. 15% to 60%) for employees other than the MD & CEO and CFO, whose maximum participation rate for the FY2017 STI was 150% and 112.5% respectively. STI awards may be offered by way of cash and/or equity at the election of the Board. Any equity award normally vests immediately.

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

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

### 3.2.2 Long term incentives

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

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

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

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

The following will apply to LTI awards on termination of employment.

| Circumstance   | Potential benefit/treatment  |
|--|--|
| Death, serious injury, disability or serious illness that results in the employee leaving ERM Power "early". | All LTI units will vest.   |
| Resignation or termination for cause.  | All unvested LTI units will be forfeit.  |
| Redundancy, retirement or termination by mutual agreement.   | The leaver will continue to be a participant in the LTI program for unvested LTIs. If the participant subsequently dies prior to vesting, the LTI units would immediately vest, per above (and subject to limits outlined in the <i>Corporations Act 2001</i> as they relate to Termination Payments). |

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

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

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

The Committee is responsible for assessing performance and the LTIs to be awarded. To assist in this assessment, the Committee receives detailed independent reports from Orient Capital Pty Ltd calculating the TSR performance and ranking against the comparator group.

## 4. FY2017 SENIOR EXECUTIVE REMUNERATION OUTCOMES AND THE LINK TO COMPANY PERFORMANCE

### 4.1 Senior executive remuneration mix

For FY2017, the remuneration for senior executives was reviewed in June 2016 in the context of the prior benchmarking report of May 2015.

The fixed remuneration for the MD & CEO and the CFO was not increased, and had not been increased since their initial appointments on 2 February 2015 and 28 September 2015 respectively, however:

- » the limit of 100% placed on the MD & CEO's target STI opportunity at commencement of employment was aligned to the maximum opportunity of 150% of target which applies to other executive and employees of the Company; and
- » the CFO's STI and LTI target percentages were both increased to 75% from 50%.

Consistent with the process for other employees, fixed remuneration was increased by CPI for most of the other senior executives; however a review of each individual's experience, performance and change in roles and responsibilities resulted in some receiving a higher increase.

In recognition of the growing importance of Energy Solutions to the Company and its customers, the new position of EGM Energy Solutions was created during the period, with Megan Houghton joining the executive team on 21 November 2016.

Table 4.1 sets out the current named senior executives' target remuneration mix for FY2017. It reflects the STI opportunity available if the performance conditions were satisfied at target, and the value of the LTI as determined by the 10-day volume weighted average price (VWAP) of the Company's shares as awarded at the beginning of the period.

Table 4.1 – FY2017 Senior Executive Target Remuneration Mix

|                         | Base pay and superannuation or retirement benefit | Target short term incentive | Target long term incentive | Total target remuneration |
|-------------------------|---|-----------------------------|----------------------------|---------------------------|
| MD & CEO                | 37%   | 36%                         | 27%                        | 100%                      |
| CFO                     | 40%   | 30%                         | 30%                        | 100%                      |
| Other senior executives | 57%   | 16%                         | 27%                        | 100%                      |

ERM Power aims to align senior executive remuneration to strategic and business objectives and the creation of shareholder wealth. There will not always be a direct correlation between the statutory key performance measures and total variable remuneration awarded to senior executives due to the remuneration mix (see Table 4.1), which consists of a mixed focus on annual profit, operational targets, people and engagement goals set by the Board, and the ranking of TSR performance against peers.

### 4.2 Short Term Incentives

ERM Power has a stated and agreed corporate strategy from which the company's FY2017 Balanced Scorecard was derived. The scorecard has three dimensions:

1. people – engagement and enablement;
2. financial and operational; and
3. strategic imperatives.

The below measures are assessed based on outcomes for FY2017 and an achievement % is allocated, with the achievement % scaled from a threshold of 80% of target against each measure. A 0% outcome is assigned if the achievement is below 80% of target and a maximum outcome of 150% of the base weighting is possible for target overachievement.

## REMUNERATION REPORT (CONT.) FOR THE YEAR ENDED 30 JUNE 2017

Table 4.2 – FY2017 Corporate Targets – Balanced Scorecard

| Measure  | Target  | Weighting   | Achievement                       | Outcome     | Commentary   |
|--|---|-------------|-----------------------------------|-------------|--|
| <b>People – engagement and enablement</b>                        |   |             |                                   |             |  |
| Performance Management   | Improve by three points <sup>1</sup>                                      | 10%         | 69                                | 15%         | » Outcome reflects exceedance of target  |
| Learning & Development   | Improve by two points <sup>1</sup>  | 10%         | 60                                | 15%         |  |
| <b>Financial and Operational</b>                                 |   |             |                                   |             |  |
| Load AU & US   | 22.8TWh <sup>2</sup>  | 10%         | 22.3TWh <sup>2</sup>              | 5%          | » Outcome reflects under-achievement against target  |
| EBITDAF  | \$69.2m <sup>2</sup>  | 20%         | \$78.4m <sup>2</sup>              | 30%         | » Result excludes residential sale proceeds  |
| Average adjusted net debt <sup>3</sup>                           | (\$189)m  | 10%         | (\$185)m                          | 15%         | » Outcome includes additional 5% for facility switch to ANZ, increased Liberty limit and sleever replacement |
| <b>Strategic Imperatives</b>                                     |   |             |                                   |             |  |
| Energy Solutions: Integrate and deliver on business strategies   | Positioned to budget significant revenue increase for FY2018 <sup>4</sup> | 10%         | Target not fully met <sup>4</sup> | 5%          | » Revenue uplift of 50% and positioned for growth  |
| Energy Solutions: Establish business cases for new opportunities | Two clear business cases  | 10%         | Target over-achieved              | 15%         | » Development of new revenue streams   |
| US: Build, transform and deliver robust profitable growth        | Forward book growth at June 2017 <sup>4</sup>                             | 10%         | Target not fully met <sup>4</sup> | 5%          | » Good growth but target not fully met   |
| US: Build highly satisfied broker and customer bases             | Ranked 4th or higher (ERCG broker satisfaction survey)                    | 10%         | Ranked 3rd                        | 15%         | » Outcome reflects exceedance of target  |
| <b>Total</b>   |   | <b>100%</b> |                                   | <b>120%</b> |  |

1. Hay Group Employee Engagement and Enablement Survey, July 2015 and February 2017.

2. Adjusted for discontinued business.

3. Adjusted net debt incorporates guarantees posted, security deposits and marketable inventory on hand.

4. Specific target commercially sensitive.

For senior executives, the awarding of STIs is weighted evenly based on performance against the individual's targets and the corporate targets shown above, other than the MD & CEO whose STI is based on the corporate target alone. The table below provides details of the STI outcomes for current executive KMP in the reporting period and the comparatives for the FY2016 STI.

Table 4.3 – STI Achievement

|                             | FY2017 STI <sup>1</sup> |        |         | FY2016 STI <sup>1</sup> |        |         |
|-----------------------------|-------------------------|--------|---------|-------------------------|--------|---------|
|                             | Actual                  | Target | Maximum | Actual                  | Target | Maximum |
| Jon Stretch                 | 120%                    | 100%   | 150%    | 0%                      | 100%   | 100%    |
| Mitch Anderson              | 26%                     | 30%    | 45%     | 0%                      | 30%    | 45%     |
| Gregg Buskey                | 39%                     | 30%    | 45%     | 0%                      | 30%    | 45%     |
| David Guiver                | 40%                     | 30%    | 45%     | 0%                      | 30%    | 45%     |
| Megan Houghton <sup>2</sup> | 36%                     | 30%    | 45%     | N/A                     | N/A    | N/A     |
| Derek McKay                 | 37%                     | 30%    | 45%     | 0%                      | 30%    | 45%     |
| Steve Rogers                | 35%                     | 30%    | 45%     | 0%                      | 30%    | 45%     |
| James Spence                | 90%                     | 75%    | 112.5%  | 0%                      | 50%    | 50%     |

1. Percentage of base salary, other than for James Spence, which is a percentage of fixed annual remuneration (base salary plus superannuation).

2. Appointed 21 November 2016.

### 4.3 Long Term Incentives

The table below shows the Group's financial performance over the last five financial years as required by the *Corporations Act 2001*, together with the proportion of performance-based LTI vesting metric which is designed to align the interests of senior executives to the Company's shareholders.

**Table 4.4 – Shareholder Wealth Financial Data**

|  |         | Year ended<br>30 June 2017 | Year ended<br>30 June 2016 | Year ended<br>30 June 2015 | Year ended<br>30 June 2014 | Year ended<br>30 June 2013 |
|--|---------|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|  |         | Actual                     | Actual                     | Actual                     | Actual                     | Actual                     |
| Revenue and other income                                   | (\$m)   | <b>3,126.9<sup>1</sup></b> | 2,763.3                    | 2,316.4                    | 2,076.5                    | 1,569.6                    |
| EBITDAF <sup>2</sup>                                       | (\$m)   | <b>78.4<sup>1</sup></b>    | 68.4                       | 81.5                       | 67.9                       | 63.9                       |
| Statutory NPAT <sup>3</sup> attributable to equity holders | (\$m)   | <b>(1.1)</b>               | 35.8                       | 65.9                       | (23.9)                     | 36.5                       |
| Underlying NPAT <sup>4</sup>                               | (\$m)   | <b>(26.3)<sup>1</sup></b>  | 19.2                       | 32.3                       | 26.3                       | 20.0                       |
| Basic (loss) / earnings per share                          | (cents) | <b>(0.4)</b>               | 14.8                       | 27.4                       | (10.6)                     | 20.8                       |
| Underlying (loss) / earnings per share                     | (cents) | <b>(10.8)<sup>1</sup></b>  | 7.9                        | 13.4                       | 11.6                       | 11.4                       |
| Dividend per share   | (cents) | <b>7.0</b>                 | 12.0                       | 12.0                       | 12.0                       | 10.5                       |
| Closing share price at 30 June                             | (\$)    | <b>1.20</b>                | 0.84                       | 2.32                       | 1.82                       | 2.50                       |
| 3 year Total Shareholder Return <sup>5</sup>               | %       | <b>(18.4)</b>              | (51.2)                     | 47.4                       | 32.8                       | N/A                        |
| LTI vesting  | %       | <b>0.0</b>                 | 0.0                        | 100.0                      | 77.9                       | N/A                        |

1. Excludes discontinued operations.

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

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

4. Underlying NPAT excludes the after tax effect of unrealised mark to market changes in the fair value of financial instruments, impairment and gains / losses on onerous contracts and other significant items. Underlying NPAT excludes any profit or loss from associates.

5. TSR outcomes are provided by an external supplier. The basic calculation of TSR is:

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

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

Table 6.2 details the LTI equity allocated, forfeited and vested to KMP in the reporting period. For accounting purposes, LTIs are shown at fair value as determined by the accounting standards and expensed over the performance period.

- » The LTI which was awarded in FY2014 for which the three-year performance period expired on 30 June 2016 was forfeited during the period. The three-year performance period had been significantly affected by the falls in the Company's share price in October 2015 and June 2016.
- » In August 2017 the Committee determined the FY2015 LTI for which the three-year performance period expired on 30 June 2017 will also be forfeited, which result will be shown in FY2018 Remuneration Report.
- » LTI granted during the period – The FY2017 LTI target rate determined for each individual is based on a percentage of annual average salary, and for the reporting period it was based on awards of 75% for the MD & CEO as approved by shareholders at the 2016 AGM, 75% for the CFO and 50% for other executive KMP.

## REMUNERATION REPORT (CONT.) FOR THE YEAR ENDED 30 JUNE 2017

### 5. NON-EXECUTIVE DIRECTORS' FEES

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

Fees received by each non-executive director comprise a base fee together with additional fees dependent on the various offices they hold as set out in Table 5.1, with superannuation contributions made at the rates and limits prescribed from time to time by legislation.

Table 5.1

| Non-executive Director Fees<br>(excluding superannuation) | FY2017<br>\$   | FY2016<br>\$   |
|---|----------------|----------------|
| Chair   | 190,000        | 190,000        |
| Non-executive directors                                   | 108,000        | 108,000        |
| Deputy Chair (in addition to above fee)                   | 30,000         | 30,000         |
| <b>Additional fees</b>                                    |                |                |
| Strategy Lead   | 25,000         | 25,000         |
| Audit & Risk Committee – chair                            | 20,000         | 20,000         |
| Audit & Risk Committee – member                           | 10,000         | 10,000         |
| Remuneration & Nomination<br>Committee* – chair           | 10,000         | 10,000         |
| Remuneration & Nomination<br>Committee* – member          | 5,000          | 5,000          |
| Representation on non-wholly<br>owned subsidiary Boards   | 25,000<br>each | 25,000<br>each |

\* The Remuneration and Nomination Committees were combined on 25 October 2016. The Nomination Committee previously attracted no fees.

Although there were no increases in base or additional fees for FY2017, the change from the prior year in individual directors' cash salary and fees reflect the change in committee composition on the resignation of Martin Greenberg. On 26 October 2016 Tony Iannello assumed the chair of the Audit & Risk Committee, whilst Tony Bellas assumed the chair vacated by Tony Iannello on the Remuneration & Nomination Committee.

The accounting value of fees paid to each non-executive director is shown in Table 5.2.

Table 5.2

|                               | FY   | Short-term benefits           |   | Post-employment benefits            |  | Total<br>remuneration<br>per income statement<br>\$ |
|-------------------------------|------|-------------------------------|---|-------------------------------------|--|---|
|                               |      | Cash salary<br>and fees<br>\$ | Non-monetary<br>benefits <sup>1</sup><br>\$ | Superannuation<br>entitlement<br>\$ |  |   |
| Tony Bellas                   | 2017 | 208,413                       | 8,795                                       | 19,799                              |  | 237,007   |
|                               | 2016 | 205,000                       | 8,848                                       | 19,308                              |  | 233,156   |
| Trevor St Baker               | 2017 | 191,413                       | 13,243                                      | 18,184                              |  | 222,840   |
|                               | 2016 | 188,000                       | 14,487                                      | 16,554                              |  | 219,041   |
| Albert Goller <sup>2</sup>    | 2017 | 123,000                       | –   | 11,685                              |  | 134,685   |
|                               | 2016 | 123,000                       | 1,080                                       | 11,685                              |  | 135,765   |
| Martin Greenberg <sup>3</sup> | 2017 | 42,750                        | –   | 4,061                               |  | 46,811  |
|                               | 2016 | 133,000                       | –   | 12,635                              |  | 145,635   |
| Georganne Hodges <sup>4</sup> | 2017 | 87,257                        | 1,800                                       | 934                                 |  | 89,991  |
|                               | 2016 | –                             | –   | –                                   |  | –   |
| Tony Iannello                 | 2017 | 131,413                       | 1,080                                       | 12,484                              |  | 144,977   |
|                               | 2016 | 128,000                       | –   | 12,160                              |  | 140,160   |
| Wayne St Baker <sup>5</sup>   | 2017 | 108,000                       | –   | 10,260                              |  | 118,260   |
|                               | 2016 | 36,000                        | –   | 3,420                               |  | 39,420  |
| <b>Total</b>                  | 2017 | 892,246                       | 24,918                                      | 77,407                              |  | 994,571   |
|                               | 2016 | 813,000                       | 24,415                                      | 75,762                              |  | 913,177   |

1. Non-monetary benefits include foreign tax advice, health assessments, car parking benefits and associated FBT related items.

2. Appointed 1 January 2015.

3. Resigned 26 October 2016.

4. Appointed 26 October 2016.

5. Appointed 1 March 2016.



## 6. TABLES FOR EXECUTIVE REMUNERATION AND EQUITY GRANTS

Table 6.1 – Executive KMP Remuneration

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

|   | Short term benefits           |   | Long term benefits                    |                             |                                   |   | Total remuneration per income statement <sup>10</sup> | Less: Accounting accruals | Add: STI vesting in current year <sup>11</sup> | Add: Long term equity vesting | Total remuneration vested |                          |                                    |             |
|---|-------------------------------|---|---------------------------------------|-----------------------------|-----------------------------------|---|---|---------------------------|--|-------------------------------|---------------------------|--------------------------|------------------------------------|-------------|
|   | Short term benefits           |   | Post-employment benefits <sup>7</sup> | Long term benefits          |                                   | Total remuneration per income statement <sup>10</sup> |   |                           |  |                               |                           |                          |                                    |             |
|   | Base salary cash <sup>4</sup> | Non-monetary benefits and annual leave accrual <sup>5</sup> |                                       | Other Benefits <sup>6</sup> | Short-term incentive <sup>7</sup> |   |   |                           |  |                               |                           | Long-term Incentive Plan | Other equity benefits <sup>9</sup> | LSL Accrual |
| Jon Stretch   | 2017                          | A\$ 780,384   | 16,743                                | 7,713                       | 936,461                           | 19,616  | 300,257   | 4,878                     | 1,592  | 2,067,644                     | (1,256,742)               | -                        | 600,001                            | 1,410,903   |
| (MD & CEO)  | 2016                          | A\$ 780,692   | 26,010                                | 139                         | 151,175                           | 19,308  | 144,139   | 595,123                   | 1,671  | 1,718,257                     | (916,046)                 | 317,675 <sup>e,g</sup>   | -                                  | 1,119,886   |
| Mitch Anderson <sup>1</sup>   | 2017                          | A\$ 554,224   | 15,928                                | -                           | 145,483                           | 14,141  | 185,351   | -                         | -  | 915,127                       | (314,493)                 | -                        | -                                  | 600,634     |
|   | 2016                          | A\$ 563,504   | 30,643                                | 49,337                      | -                                 | 9,993   | 124,726   | -                         | (49,124)                                       | 729,079                       | (76,459)                  | 136,949 <sup>c</sup>     | 117,927                            | 907,496     |
| Gregg Buskey  | 2017                          | A\$ 365,000   | (37,066)                              | 46,327                      | 142,350                           | 19,616  | 110,360   | -                         | 15,500   | 662,087                       | (229,443)                 | -                        | -                                  | 432,644     |
|   | 2016                          | A\$ 355,592   | (3,926)                               | -                           | -                                 | 19,308  | 109,603   | -                         | 14,427   | 495,004                       | (118,371)                 | 22,294 <sup>e</sup>      | 65,041                             | 463,968     |
| David Guiver  | 2017                          | A\$ 380,000   | (2,463)                               | -                           | 151,050                           | 19,616  | 96,092  | 49,973                    | 16,907   | 711,175                       | (309,168)                 | -                        | -                                  | 402,007     |
|   | 2016                          | A\$ 361,752   | 13,547                                | -                           | -                                 | 19,308  | 83,766  | 50,110                    | 17,817   | 546,300                       | (161,678)                 | 27,351 <sup>e</sup>      | 65,562                             | 477,535     |
| Megan Houghton<br>(2017 part-year for KMP appointment on 21 Nov 2016)       | 2017                          | A\$ 236,486   | 5,683                                 | -                           | 84,003                            | 13,968  | -   | 72,666                    | 484  | 413,290                       | (161,844)                 | -                        | -                                  | 251,446     |
|   | 2016                          | A\$ -   | -                                     | -                           | -                                 | -   | -   | -                         | -  | -                             | -                         | -                        | -                                  | -           |
| Derek McKay   | 2017                          | A\$ 447,614   | (21,825)                              | -                           | 164,498                           | 19,616  | 137,151   | 49,973                    | 16,371   | 813,398                       | (343,015)                 | -                        | -                                  | 470,383     |
|   | 2016                          | A\$ 441,022   | 23,578                                | -                           | -                                 | 19,308  | 137,327   | 50,110                    | 14,617   | 685,962                       | (209,813)                 | 123,162 <sup>e</sup>     | 117,927                            | 717,238     |
| Steve Rogers  | 2017                          | A\$ 367,164   | (64)                                  | -                           | 126,672                           | 19,616  | 94,894  | 49,973                    | 13,558   | 671,813                       | (282,447)                 | -                        | -                                  | 389,366     |
|   | 2016                          | A\$ 361,752   | 3,524                                 | -                           | -                                 | 19,308  | 83,137  | 50,110                    | 11,417   | 529,248                       | (144,626)                 | 23,655 <sup>e</sup>      | 54,307                             | 462,584     |
| James Spence<br>(2016 part-year for KMP appointment on 28 Sept 2015)        | 2017                          | A\$ 480,384   | 913                                   | -                           | 450,000                           | 19,616  | 112,411   | 63,354                    | 990  | 1,127,668                     | (624,975)                 | -                        | 52,059                             | 554,752     |
|   | 2016                          | A\$ 366,201   | 15,165                                | 50,421                      | -                                 | 14,481  | 37,414  | 29,652                    | 751  | 514,085                       | (80,910)                  | -                        | -                                  | 433,175     |
| Peter Jans <sup>2</sup><br>(2016 part-year for KMP cessation on 1 Oct 2015) | 2017                          | A\$ -   | -                                     | -                           | -                                 | -   | -   | -                         | -  | -                             | -                         | -                        | -                                  | -           |
|   | 2016                          | A\$ 114,083   | (1,015)                               | -                           | -                                 | 4,827   | 78,840  | -                         | 12,762   | 209,497                       | (90,587)                  | 193,151 <sup>e</sup>     | 118,176                            | 430,237     |
| Graeme Walker (CFO) <sup>3</sup>  | 2017                          | A\$ -   | -                                     | -                           | -                                 | -   | -   | -                         | -  | -                             | -                         | -                        | -                                  | -           |
|   | 2016                          | A\$ -   | -                                     | -                           | -                                 | -   | -   | -                         | -  | -                             | -                         | -                        | -                                  | -           |
| Graeme Walker (CEO)   | 2016                          | A\$ -   | -                                     | -                           | -                                 | -   | -   | -                         | -  | -                             | -                         | -                        | -                                  | 109,281     |
| Graeme Walker (CFO)   | 2016                          | A\$ 114,083   | 10,249                                | -                           | 51,338                            | 4,827   | 163,990   | -                         | 16,223   | 360,710                       | (240,645)                 | 196,201 <sup>e</sup>     | 106,200                            | 422,466     |

Refer to page 50 for table 6.1 notes

**REMUNERATION REPORT (CONT.)  
FOR THE YEAR ENDED 30 JUNE 2017**

**Table 6.2 – Terms and conditions of equity grants and long term benefits**

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

| Award <sup>1</sup> | Service and performance criteria | Grant Date | Nature of compensation | Fair Value at Grant Date |          | % Granted as compensation |         | Vested   |         | Forfeit | Equity balance at the end of the year |   | Financial Year award may vest | Maximum Total Value of award that may vest <sup>10</sup> |
|--------------------|----------------------------------|------------|------------------------|--------------------------|----------|---------------------------|---------|----------|---------|---------|---------------------------------------|---|-------------------------------|--|
|                    |                                  |            |                        | Total \$                 | per unit | Unvested                  | Number  | Unvested | Number  |         | Unvested                              | % |                               |  |
| Jon Stretch        | Performance Rights               | 31/10/14   | Cash or Equity         | A\$600,001               | \$1.57   | 383,216                   | -       | -        | -       | 383,216 | 100%                                  | - | 2017                          | A\$-   |
|                    | STIST                            | 7/7/16     | Equity                 | A\$600,001               | \$0.92   | -                         | 655,525 | 100%     | 655,525 | -       | -                                     | - | 2017                          | A\$-   |
|                    | LTIST 2015                       | 30/10/15   | Equity                 | A\$159,665               | \$1.14   | 140,057                   | -       | -        | -       | -       | 140,057                               | - | 2018                          | A\$-   |
|                    | LTIST 2016                       | 30/10/15   | Equity                 | A\$320,015               | \$1.26   | 253,980                   | -       | -        | -       | -       | 253,980                               | - | 2019                          | A\$119,923   |
|                    | LTIST 2017                       | 26/10/16   | Equity                 | A\$430,685               | \$0.68   | -                         | 633,361 | 100%     | -       | -       | 633,361                               | - | 2020                          | A\$346,045   |
| Mitch Anderson     | LTIST 2014                       | 8/11/13    | Equity                 | A\$132,586               | \$1.99   | 66,626                    | -       | -        | -       | 66,626  | 100%                                  | - | 2017                          | A\$-   |
|                    | LTIST 2015                       | 13/11/14   | Equity                 | A\$145,685               | \$1.15   | 126,683                   | -       | -        | -       | -       | 126,683                               | - | 2018                          | A\$-   |
|                    | LTI 2016                         | 14/3/16    | Phantom Shares         | US\$60,598               | \$0.59   | 101,949                   | -       | -        | -       | -       | 101,949                               | - | 2019                          | US\$20,513   |
|                    | LTI 2017                         | 7/7/16     | Phantom Shares         | US\$174,403              | \$0.56   | -                         | 312,229 | 100%     | -       | -       | 312,229                               | - | 2020                          | US\$116,268  |
| Gregg Buskey       | LTIST 2014                       | 8/11/13    | Equity                 | A\$89,377                | \$1.99   | 44,913                    | -       | -        | -       | 44,913  | 100%                                  | - | 2017                          | A\$-   |
|                    | LTIST 2015                       | 13/11/14   | Equity                 | A\$105,034               | \$1.15   | 91,334                    | -       | -        | -       | -       | 91,334                                | - | 2018                          | A\$-   |
|                    | LTIST 2016                       | 8/7/15     | Equity                 | A\$108,376               | \$1.44   | 75,261                    | -       | -        | -       | -       | 75,261                                | - | 2019                          | A\$36,358  |
|                    | LTIST 2017                       | 1/7/16     | Equity                 | A\$112,569               | \$0.57   | 197,490                   | 100%    | -        | -       | -       | 197,490                               | - | 2020                          | A\$78,502  |
| David Guiver       | LTIST 2014                       | 8/11/13    | Equity                 | A\$62,715                | \$1.99   | 31,515                    | -       | -        | -       | 31,515  | 100%                                  | - | 2017                          | A\$-   |
|                    | LTIST 2015                       | 13/11/14   | Equity                 | A\$62,168                | \$1.15   | 54,059                    | -       | -        | -       | -       | 54,059                                | - | 2018                          | A\$-   |
|                    | Performance Rights               | 19/8/13    | Cash or Equity         | A\$250,000               | \$2.71   | 92,285                    | -       | -        | -       | -       | 92,285                                | - | 2019                          | A\$56,818  |
|                    | LTIST 2016                       | 8/7/15     | Equity                 | A\$110,254               | \$1.44   | 76,565                    | -       | -        | -       | -       | 76,565                                | - | 2019                          | A\$36,988  |
|                    | LTIST 2017                       | 1/7/16     | Equity                 | A\$117,195               | \$0.57   | -                         | 205,606 | 100%     | -       | -       | 205,606                               | - | 2020                          | A\$81,728  |
| Megan Houghton     | Commencement Award (1)           | 24/11/16   | Equity                 | A\$96,888                | \$1.11   | -                         | 87,681  | 100%     | -       | -       | 87,681                                | - | 2018                          | A\$48,444  |
|                    | Commencement Award (2)           | 24/11/16   | Equity                 | A\$96,888                | \$1.11   | -                         | 87,681  | 100%     | -       | -       | 87,681                                | - | 2019                          | A\$72,666  |

| Award <sup>1</sup> | Service and performance criteria | Grant Date | Nature of compensation | Fair Value at Grant Date |          | % Granted as compensation |         | Vested   |        | Forfeit |      | Equity balance at the end of the year | Financial Year award may vest | Maximum Total Value of award that may vest <sup>10</sup> |
|--------------------|----------------------------------|------------|------------------------|--------------------------|----------|---------------------------|---------|----------|--------|---------|------|---------------------------------------|-------------------------------|--|
|                    |                                  |            |                        | Total \$                 | per unit | Unvested                  | Number  | Unvested | Number | Number  | %    |                                       |                               |  |
| Derek McKay        | Note 6                           | 8/11/13    | Equity                 | A\$112,533               | \$1.99   | 56,549                    | -       | -        | -      | 56,549  | 100% | -                                     | 2017                          | A\$-   |
|                    | Note 3                           | 13/11/14   | Equity                 | A\$132,247               | \$1.15   | 114,997                   | -       | -        | -      | -       | -    | 114,997                               | 2018                          | \$-  |
|                    | Note 4                           | 8/7/15     | Equity                 | A\$134,412               | \$1.44   | 93,342                    | -       | -        | -      | -       | -    | 93,342                                | 2019                          | \$45,092   |
|                    | Note 5                           | 1/7/16     | Equity                 | A\$138,048               | \$0.57   | -                         | 242,190 | 100%     | -      | -       | -    | 242,190                               | 2020                          | \$96,271   |
| Performance Rights | Note 7                           | 24/9/14    | Cash or Equity         | A\$250,002               | \$1.79   | 140,057                   | -       | -        | -      | -       | -    | 140,057                               | 2020                          | \$111,720  |
| Steve Rogers       | Note 6                           | 8/11/13    | Equity                 | A\$61,057                | \$1.99   | 30,682                    | -       | -        | -      | 30,682  | 100% | -                                     | 2017                          | A\$-   |
|                    | Note 3                           | 13/11/14   | Equity                 | A\$62,168                | \$1.15   | 54,059                    | -       | -        | -      | -       | -    | 54,059                                | 2018                          | A\$-   |
|                    | Note 4                           | 8/7/15     | Equity                 | A\$110,254               | \$1.44   | 76,565                    | -       | -        | -      | -       | -    | 76,565                                | 2019                          | A\$36,988  |
|                    | Note 5                           | 1/7/16     | Equity                 | A\$113,237               | \$0.57   | -                         | 198,661 | 100%     | -      | -       | -    | 198,661                               | 2020                          | A\$78,968  |
| Performance Rights | Note 7                           | 24/9/14    | Cash or Equity         | A\$250,002               | \$1.79   | 140,057                   | -       | -        | -      | -       | -    | 140,057                               | 2020                          | A\$111,720   |
| James Spence       | Commencement Award (1)           | 13/8/15    | Equity                 | A\$52,059                | \$2.22   | 23,450                    | -       | -        | 23,450 | 100%    | -    | -                                     | 2017                          | A\$-   |
|                    | Commencement Award (2)           | 13/8/15    | Equity                 | A\$52,059                | \$2.22   | 23,450                    | -       | -        | -      | -       | -    | 23,450                                | 2018                          | A\$11,112  |
|                    | LTIST 2016                       | 13/8/15    | Equity                 | A\$122,234               | \$1.39   | 87,938                    | -       | -        | -      | -       | -    | 87,938                                | 2019                          | A\$42,410  |
|                    | LTIST 2017                       | 1/7/16     | Equity                 | A\$231,307               | \$0.57   | -                         | 405,801 | 100%     | -      | -       | -    | 405,801                               | 2020                          | A\$161,306   |

Refer to page 50 for table 6.2 notes

## REMUNERATION REPORT (CONT.) FOR THE YEAR ENDED 30 JUNE 2017

### Notes for Table 6.1:

1. Transferred to US on 1 February 2015 with relocation expenses met by the Group. Existing LTI awards will continue to be expensed in Australia, whilst new LTI awards under the Phantom Equity Plan and other remuneration is expensed and paid in US\$. Australian entitlement to LSL was reversed in FY2016. Executive remuneration is reported in A\$ using the average exchange rates of A\$1=US\$0.7545 for FY2017, and A\$1=US\$0.7283 for FY2016.
2. Ceased as KMP (Group General Counsel & Company Secretary) on 1 October 2015. Only the compensation related to the services rendered whilst a KMP is disclosed.
3. Ceased as KMP (CFO) on 28 September 2015. Only the compensation related to the services rendered whilst a KMP is disclosed.
4. Each senior executive is employed under an on-going employment contract, for which the termination benefits are payable at the option of the Company in lieu of notice. The notice periods (by the employee or the Company) in respect of each of the executives listed is 6 months, however for Jon Stretch the Company has an additional right of termination in certain circumstances by providing 3 months' written notice.
5. Non-monetary benefits include salary continuance insurance premiums paid for Australian employees, health insurance coverage for US residents, executive health assessments, use of company vehicle, car parking and other benefits associated with FBT.
6. Other benefits include cashed out annual leave, one-off relocation expenses in regards to international relocations, and professional tax advice in respect of changes in residency.
7. Jon Stretch's FY2015 STI payment by way of equity was expensed at fair value as required under AASB2 in FY2016 after shareholder approval at the 2015 AGM.
8. Australian superannuation entitlements and US 401K retirement plan contributions.
9. Other equity benefits refer to the accounting expense of retention and commencement awards which will vest subject to service conditions.
10. The amounts shown are as expensed in the income statement but which may not reflect the benefit actually received by the executive in that year. In accordance with AASB2, equity benefits include a portion of the value of equity that has not vested during the financial year as well as the present value of expected dividends over the vesting period. The amount included as remuneration does not necessarily reflect the benefit (if any) that may ultimately be realised by the executive if vesting occurs. Supplementary Information is provided to reflect the value of vested remuneration actually received by the executive in that year, with equity values based on the fair value as at the date of grant.
11. STIs awarded during the period for prior year performance. Awards made in cash ("c") or equity ("e").

### Notes for Table 6.2:

1. There have been no alterations in terms or conditions since grant date.
2. Performance rights awarded as per contractual arrangements agreed on commencement of employment, advised to the ASX at the time and approved by shareholders at the 2015 AGM. Vesting on 4 July 2016 and satisfied at the Board's discretion in equity, at a value based on the number of Performance Rights held, multiplied by the higher of either the notional issue price, or the 10 day VWAP prior to the date of vesting, giving a minimum value of \$600,000.
3. LTI FY2015 vesting was subject to continuation of employment through to 30 June 2017 and TSR performance measured against the TSR performance of a comparator group being those companies in the Standard & Poor's (S&P) ASX 300 index at the beginning of the performance period. On 17 August 2017 the Committee determined that the TSR vesting conditions required at the date of grant had not been met, and the LTI FY2015 awards were forfeited by all participants.
4. LTI FY2016 vesting is subject to continuation of employment through to 30 June 2018 and TSR performance measured against the TSR performance of a comparator group being those companies in the Standard & Poor's (S&P) ASX 300 index at the beginning of the performance period.
5. LTI FY2017 vesting is subject to continuation of employment through to 30 June 2019 and TSR performance measured against the TSR performance of a comparator group being those companies in the Standard & Poor's (S&P) ASX 300 index at the beginning of the performance period.
6. LTI FY2014 TSR was determined to be -51.2%, which in accordance with the vesting conditions resulted in 100% of the LTI FY2014 being forfeited.
7. Performance Rights granted under an employee retention strategy, subject to a 5 year vesting period and satisfied, at the Board's discretion, in cash or shares, subject to continuous full-time employment with the Company. The vesting value will be the number of Performance Rights held, multiplied by the higher of either the notional issue price, or the 10 day VWAP prior to the date of vesting.
8. Commencement award of \$200,000 of units in the Long Term Incentive Share Trust. Vesting subject to continued employment to each vesting date. 50% to vest in November 2017 with the balance to vest in November 2018. Fair value as determined by AASB2 and expensed over the vesting period.
9. Commencement award of \$100,000 of units in the Long Term Incentive Share Trust. Vesting subject to continued employment to each vesting date. 50% vested on the first anniversary of the commencement date, and the remaining 50% are to vest on the second anniversary of the commencement date. Fair value as determined by AASB2 and expensed over the vesting period. Fair value at Grant Date corrected from that reported in the FY2016 Remuneration Report.
10. The maximum value yet to vest for Australian awards has been determined as the amount of fair value as at grant date that is yet to be expensed in a future accounting period. The maximum value yet to vest for the US award has been determined as the amount that may be expensed in a future accounting period based on the closing share price and exchange rate as at 30 June 2017. The minimum value yet to vest is nil, as equity will be forfeited if the vesting conditions are not met.

## 7. OTHER REMUNERATION DISCLOSURES

### 7.1 Details of shares, options and rights

#### Unissued shares

As at the date of this report, there were 1,142,070 options on issue, exercisable into fully paid ordinary shares. The options do not carry any entitlement to participate in any share issue of the Company.

| Expiry date     | Quantity | Exercise price |
|-----------------|----------|----------------|
| 1 November 2017 | 899,364  | 275 cents      |
| 8 November 2017 | 242,706  | 275 cents      |

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

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

No options were granted to directors or any of the five highest remunerated officers of the Group during the reporting period or since the end of FY2017.

#### Rights and Option Holdings

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

**Table 7.1 – Executive rights and option holdings**

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

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

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

**Table 7.2 – Non-executive director's share holdings**

|  | Balance at the start of the year | Appointment or cessation as KMP | Other Changes <sup>3</sup> | Balance at the end of the year |
|--|----------------------------------|---------------------------------|----------------------------|--------------------------------|
| <b>Non-executive directors<sup>1</sup></b> |                                  |                                 |                            |                                |
| Tony Bellas                                | 106,250                          | –                               | –                          | 106,250                        |
| Trevor St Baker                            | 63,516,907                       | –                               | (20,000)                   | 63,496,907                     |
| Albert Goller                              | 270,000                          | –                               | –                          | 270,000                        |
| Martin Greenberg <sup>2</sup>              | 571,794                          | (571,794)                       | –                          | –                              |
| Georganne Hodges <sup>2</sup>              | –                                | –                               | –                          | –                              |
| Tony Iannello                              | 202,839                          | –                               | –                          | 202,839                        |
| Wayne St Baker                             | 1,685,290                        | –                               | (60,000)                   | 1,625,290                      |

1. No shares were held nominally other than by Trevor St Baker for which the balances above include 3,075,242.

2. Georganne was appointed and Martin resigned on 26 October 2016.

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

## REMUNERATION REPORT (CONT.) FOR THE YEAR ENDED 30 JUNE 2017

Table 7.3 – Executive's share holdings

| Executives <sup>1</sup>     | Balance at the start of the year |          | Received on vesting of performance rights | Granted as compensation | Forfeit  | Appointment or cessation as KMP | Other Changes <sup>3</sup> | Balance at the end of the year |           |
|-----------------------------|----------------------------------|----------|---|-------------------------|----------|---------------------------------|----------------------------|--------------------------------|-----------|
|                             | Vested                           | Unvested |   |                         |          |                                 |                            | Vested                         | Unvested  |
| Jon Stretch                 | 396,654                          | 394,037  | 655,525                                   | 633,361                 | –        | –                               | –                          | 1,052,179                      | 1,027,398 |
| Mitch Anderson              | 1,504,255                        | 193,309  | –   | –                       | (66,626) | –                               | (164,435)                  | 1,339,820                      | 126,683   |
| Gregg Buskey                | 142,414                          | 211,508  | –   | 197,490                 | (44,913) | –                               | 2                          | 142,416                        | 364,085   |
| David Guiver                | 180,227                          | 162,139  | –   | 205,606                 | (31,515) | –                               | –                          | 180,227                        | 336,230   |
| Megan Houghton <sup>2</sup> | –                                | –        | –   | 175,362                 | –        | –                               | –                          | –                              | 175,362   |
| Derek McKay                 | 456,589                          | 264,888  | –   | 242,190                 | (56,549) | –                               | –                          | 456,589                        | 450,529   |
| Steve Rogers                | 152,364                          | 161,306  | –   | 198,661                 | (30,682) | –                               | –                          | 152,364                        | 329,285   |
| James Spence                | 82,792                           | 134,838  | –   | 405,801                 | –        | –                               | 112,750                    | 218,992                        | 517,189   |

1. No equity was held nominally by the named executives.

2. Appointed on 21 November 2016.

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

### 7.2 Loans to KMP

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

| Aggregate amounts | Balance at the start of the year<br>\$ | Interest paid and payable for the year<br>\$ | Interest not charged<br>\$ | Balance at the end of the year<br>\$ | Number in Group at the end of the year |
|-------------------|--|--|----------------------------|--------------------------------------|--|
| FY 2017           | 47,998                                 | 2,407  | –                          | 40,679                               | 1                                      |

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

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

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

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

### 7.3 Other transactions with KMP

During the period the Company entered into certain transactions with KMP or their related entities as outlined in note 35 of the Financial Statements. The Board is satisfied that those transactions:

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

### 7.4 Voting and comments received at the 2016 Annual General Meeting

The Company responded to queries regarding the operation of its incentive plans at the AGM and the FY2016 Remuneration Report was approved by shareholders receiving more than 97% of "yes" votes when put to a poll.

# ERM POWER LIMITED

# ANNUAL FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2017

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The financial statements were authorised for issue by the directors on 24 August 2017. 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 presentation currency is Australian dollars (AUD). All subsidiaries operating in Australia have a functional currency of AUD and all subsidiaries operating in the United States have a functional currency of US Dollars (USD). 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 120.

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report on pages 37 to 39. The Directors' Report does not form part of the annual financial statements.

ABN 28 122 259 223

**ERM POWER LIMITED**  
**AUDITORS' INDEPENDENCE DECLARATION**  
**FOR THE YEAR ENDED 30 JUNE 2017**



**Auditor's Independence Declaration**

As lead auditor for the audit of ERM Power Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Michael Shewan  
Partner  
PricewaterhouseCoopers

Brisbane  
24 August 2017



# ERM POWER LIMITED

## CONSOLIDATED INCOME STATEMENT

### FOR THE YEAR ENDED 30 JUNE 2017

|   | Note | 2017<br>\$'000   | 2016<br>\$'000 |
|---|------|------------------|----------------|
| <b>CONTINUING OPERATIONS</b>  |      |                  |                |
| Revenue   | 4    | 3,126,087        | 2,690,252      |
| Other income  |      | 819              | 807            |
| <b>Total revenue</b>  |      | <b>3,126,906</b> | 2,691,059      |
| Expenses  | 5    | (3,048,553)      | (2,620,489)    |
| Sale of equity accounted investment   |      | –                | (3,422)        |
| Provision for onerous contract  |      | –                | (1,898)        |
| <b>EBITDAF</b>  |      | <b>78,353</b>    | 65,250         |
| Depreciation and amortisation   |      | (37,753)         | (24,810)       |
| Net fair value gain on financial instruments designated at fair value through profit or loss                                  | 6    | 37,080           | 39,483         |
| <b>Results from operating activities</b>  |      | <b>77,680</b>    | 79,923         |
| Share of net (loss) / profit of associates and joint ventures accounted for using the equity method                           |      | (298)            | 402            |
| Finance income  | 7    | 3,611            | 4,281          |
| Finance expense   | 7    | (29,259)         | (27,639)       |
| <b>Profit before income tax</b>   |      | <b>51,734</b>    | 56,967         |
| Income tax expense  | 8    | (51,675)         | (21,965)       |
| Profit from continuing operations   |      | 59               | 35,002         |
| (Loss) / profit from discontinued operation (attributable to equity holders of the Company)                                   | 31   | (1,132)          | 807            |
| <b>Statutory (loss) / profit for the year attributable to equity holders of the Company</b>                                   |      | <b>(1,073)</b>   | 35,809         |
| <b>Statutory earnings per share based on continuing operations attributable to the ordinary equity holders of the Company</b> |      |                  |                |
|   |      | <b>Cents</b>     | <b>Cents</b>   |
| Basic earnings per share  | 1    | 0.02             | 14.49          |
| Diluted earnings per share  | 1    | 0.02             | 14.30          |
| <b>Statutory (loss) / earnings per share based on earnings attributable to the ordinary equity holders of the Company</b>     |      |                  |                |
|   |      | <b>Cents</b>     | <b>Cents</b>   |
| Basic earnings per share  | 1    | (0.44)           | 14.82          |
| Diluted earnings per share  | 1    | (0.43)           | 14.63          |

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 3 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 2017

|   | Note | 2017<br>\$'000 | 2016<br>\$'000 |
|---|------|----------------|----------------|
| <b>Statutory (loss) / profit for the year</b>   |      | <b>(1,073)</b> | 35,809         |
| <b>Other comprehensive income / (loss)</b>  |      |                |                |
| <i>Items that may be reclassified subsequently to profit and loss</i>                                       |      |                |                |
| Changes in the fair value of cash flow hedges (net of tax)  | 27   | <b>116,574</b> | 137,193        |
| Exchange differences on translation of foreign subsidiaries   | 27   | <b>(1,137)</b> | 1,569          |
| Other comprehensive income arising from discontinued operations   | 3    | <b>(205)</b>   | –              |
| <i>Items that will not be reclassified subsequently to profit and loss</i>                                  |      |                |                |
| Changes in the fair value of financial assets at fair value through other comprehensive income (net of tax) | 27   | <b>(142)</b>   | (334)          |
| <b>Other comprehensive income for the year attributable to equity holders of the Company, net of tax</b>    |      | <b>115,090</b> | 138,428        |
| <b>Total comprehensive income for the year attributable to equity holders of the Company</b>                |      | <b>114,017</b> | 174,237        |
| Total comprehensive income for the year attributable to equity holders of the Company arises from:          |      |                |                |
| Continuing operations   |      | <b>115,354</b> | 173,430        |
| Discontinued operations   | 31   | <b>(1,337)</b> | 807            |
|   |      | <b>114,017</b> | 174,237        |

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

# ERM POWER LIMITED

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

### AS AT 30 JUNE 2017

|   | Note      | 2017<br>\$'000   | 2016<br>\$'000   |
|---|-----------|------------------|------------------|
| <b>ASSETS</b>   |           |                  |                  |
| <b>Current Assets</b>   |           |                  |                  |
| Cash and cash equivalents   | 24        | 244,616          | 192,467          |
| Trade and other receivables at amortised cost                     | 10        | 360,947          | 330,596          |
| Inventories   | 11        | 42,257           | 22,082           |
| Current tax assets  |           | –                | 94               |
| Other assets  |           | 6,180            | 5,333            |
| Derivative financial instruments                                  | 13        | 325,161          | 158,698          |
| <b>Total Current Assets</b>                                       |           | <b>979,161</b>   | <b>709,270</b>   |
| <b>Non-Current Assets</b>   |           |                  |                  |
| Trade and other receivables at amortised cost                     | 10        | –                | 32               |
| Financial assets at fair value through other comprehensive income | 12        | 15               | 150              |
| Investments accounted for using the equity method                 | 29(c)/(d) | 6,702            | 1,500            |
| Derivative financial instruments                                  | 13        | 81,445           | 51,429           |
| Property, plant and equipment                                     | 15        | 391,386          | 391,266          |
| Deferred tax assets   | 21        | 13,850           | 6,036            |
| Intangible assets   | 16        | 89,378           | 79,041           |
| Leased assets   | 18        | 14,381           | –                |
| <b>Total Non-Current Assets</b>                                   |           | <b>597,157</b>   | <b>529,454</b>   |
| <b>TOTAL ASSETS</b>   |           | <b>1,576,318</b> | <b>1,238,724</b> |
| <b>LIABILITIES</b>  |           |                  |                  |
| <b>Current Liabilities</b>  |           |                  |                  |
| Trade and other payables  | 19        | 464,314          | 367,043          |
| Current tax liabilities   |           | 18,088           | –                |
| Borrowings  | 25        | –                | 27,861           |
| Borrowings – limited recourse                                     | 25        | 8,264            | 9,332            |
| Lease liabilities   | 18        | 3,605            | –                |
| Derivative financial instruments                                  | 13        | 33,889           | 6,838            |
| Provisions  | 20        | 14,811           | 10,999           |
| <b>Total Current Liabilities</b>                                  |           | <b>542,971</b>   | <b>422,073</b>   |
| <b>Non-Current Liabilities</b>                                    |           |                  |                  |
| Borrowings – limited recourse                                     | 25        | 180,653          | 184,305          |
| Lease liabilities   | 18        | 18,375           | –                |
| Derivative financial instruments                                  | 13        | 67,453           | 44,599           |
| Deferred tax liabilities  | 21        | 178,380          | 99,917           |
| Provisions  | 20        | 22,606           | 16,427           |
| <b>Total Non-Current Liabilities</b>                              |           | <b>467,467</b>   | <b>345,248</b>   |
| <b>TOTAL LIABILITIES</b>  |           | <b>1,010,438</b> | <b>767,321</b>   |
| <b>NET ASSETS</b>   |           | <b>565,880</b>   | <b>471,403</b>   |
| <b>EQUITY</b>   |           |                  |                  |
| Contributed equity  | 26        | 335,012          | 332,355          |
| Reserves  | 27        | 220,877          | 103,413          |
| Retained earnings   |           | 9,991            | 35,635           |
| <b>TOTAL EQUITY</b>   |           | <b>565,880</b>   | <b>471,403</b>   |

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

## ERM POWER LIMITED

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 30 JUNE 2017

|  | Note  | Contributed equity<br>\$'000 | Reserves<br>\$'000 | Retained earnings<br>\$'000 | Total equity<br>\$'000 |
|--|-------|------------------------------|--------------------|-----------------------------|------------------------|
| <b>Balance at 1 July 2015</b>                                |       | 326,816                      | (42,391)           | 35,291                      | 319,716                |
| Profit for the period  |       | –                            | –                  | 35,809                      | 35,809                 |
| Other comprehensive income                                   |       | –                            | 138,428            | –                           | 138,428                |
| <b>Total comprehensive income for the year</b>               |       | –                            | 138,428            | 35,809                      | 174,237                |
| <b>Transactions with owners in their capacity as owners:</b> |       |                              |                    |                             |                        |
| Dividends paid   | 2     | 1,479                        | –                  | (29,367)                    | (27,888)               |
| Issue of shares pursuant to employee incentive scheme        | 26/27 | 7,718                        | (1,287)            | –                           | 6,431                  |
| Purchase of treasury shares                                  | 26    | (3,658)                      | –                  | –                           | (3,658)                |
| Share based payment expense                                  | 33    | –                            | 2,565              | –                           | 2,565                  |
| Sale of financial assets (net of tax)                        |       | –                            | 6,098              | (6,098)                     | –                      |
| <b>Balance at 30 June 2016</b>                               |       | 332,355                      | 103,413            | 35,635                      | 471,403                |
| Impact of change in accounting policy                        | 38    | –                            | –                  | (732)                       | (732)                  |
| Loss for the period  |       | –                            | –                  | (1,073)                     | (1,073)                |
| Other comprehensive income                                   |       | –                            | 115,090            | –                           | 115,090                |
| <b>Total comprehensive income for the year</b>               |       | –                            | 115,090            | (1,805)                     | 113,285                |
| <b>Transactions with owners in their capacity as owners:</b> |       |                              |                    |                             |                        |
| Dividends paid   | 2     | 1,301                        | –                  | (23,839)                    | (22,538)               |
| Issue of shares pursuant to employee incentive scheme        | 26/27 | 5,909                        | (1,153)            | –                           | 4,756                  |
| Purchase of treasury shares                                  | 26    | (4,553)                      | –                  | –                           | (4,553)                |
| Share based payment expense                                  | 33    | –                            | 3,527              | –                           | 3,527                  |
| <b>Balance at 30 June 2017</b>                               |       | 335,012                      | 220,877            | 9,991                       | 565,880                |

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 2017

|   | Note | 2017<br>\$'000  | 2016<br>\$'000 |
|---|------|-----------------|----------------|
| <b>Cash flows from operating activities</b>                       |      |                 |                |
| Receipts from customers   |      | 3,488,152       | 2,986,028      |
| Payments to suppliers and employees                               |      | (3,394,711)     | (2,929,978)    |
| Transfer from broker margin account                               |      | 69,181          | 60,412         |
| Interest received   |      | 3,475           | 3,474          |
| Income tax paid   |      | (14,405)        | (22)           |
| <b>Net cash flows from operating activities</b>                   | 9    | <b>151,692</b>  | 119,914        |
| <b>Cash flows from investing activities</b>                       |      |                 |                |
| Payments for plant and equipment                                  |      | (16,084)        | (8,263)        |
| Payments for intangible assets                                    |      | (24,302)        | (18,045)       |
| Proceeds on disposal of gas assets                                |      | 14,921          | –              |
| Purchase of shares in non-listed companies                        |      | (5,500)         | (1,500)        |
| Proceeds on sale of discontinued operations                       |      | 11,183          | –              |
| Sale of share investments   |      | –               | 11,849         |
| Payment for acquisition of subsidiary, net of cash acquired       | 30   | –               | (7,870)        |
| <b>Net cash flows used in investing activities</b>                |      | <b>(19,782)</b> | (23,829)       |
| <b>Cash flows from financing activities</b>                       |      |                 |                |
| Proceeds from borrowings including receivables financing facility |      | 478,665         | 2,749,935      |
| Repayments of borrowings including receivables financing facility |      | (496,026)       | (2,765,720)    |
| Repayments of borrowings – limited recourse                       |      | (6,332)         | (5,912)        |
| Lease repayments – principle                                      |      | (3,201)         | –              |
| Lease repayments – interest                                       |      | (879)           | –              |
| Finance costs – other   |      | (28,720)        | (26,910)       |
| Dividends paid  | 2    | (22,538)        | (27,888)       |
| <b>Net cash flows used in financing activities</b>                |      | <b>(79,031)</b> | (76,495)       |
| Net increase in cash and cash equivalents                         |      | 52,879          | 19,590         |
| Cash and cash equivalents at the beginning of the year            |      | 192,467         | 172,836        |
| Effect of exchange rate changes on cash and cash equivalents      |      | (730)           | 41             |
| <b>Cash and cash equivalents at the end of the year</b>           | 24   | <b>244,616</b>  | 192,467        |

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

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#### Definitions

The directors believe that EBITDAF, underlying EBITDAF and underlying NPAT provide the most meaningful indicators of the Group's underlying business performance. The directors utilise underlying NPAT as a measure to assess the performance of the segments.

These earnings measures are referenced throughout the notes to the financial statements. A reconciliation to statutory earnings is provided in note 3.

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

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

All profit measures refer to continuing operations of the Group unless otherwise stated.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 1: FINANCIAL PERFORMANCE

#### 1. EARNINGS PER SHARE

|  | Consolidated          |         |
|--|-----------------------|---------|
|  | 2017                  | 2016    |
|  | Cents per share       |         |
| <b>Basic (loss) / earnings per share</b>   |                       |         |
| From continuing operations attributable to the ordinary equity holders of the Company                            | 0.02                  | 14.49   |
| From discontinued operation  | (0.46)                | 0.33    |
| Total basic (loss) / earnings per share attributable to the ordinary equity holders of the Company               | (0.44)                | 14.82   |
| <b>Diluted (loss) / earnings per share</b>   |                       |         |
| From continuing operations attributable to the ordinary equity holders of the Company                            | 0.02                  | 14.30   |
| From discontinued operation  | (0.45)                | 0.33    |
| Total diluted (loss) / earnings per share attributable to the ordinary equity holders of the Company             | (0.43)                | 14.63   |
| <b>Underlying (loss) / earnings per share</b>  |                       |         |
| From continuing operations attributable to the ordinary equity holders of the Company                            | (10.77)               | 7.61    |
|  | Number of shares '000 |         |
| Weighted average number used in calculating basic and underlying earnings per share                              | 244,161               | 241,601 |
| Weighted average number used in calculating diluted earnings per share   | 251,323               | 244,806 |
|  | \$'000                |         |
| Statutory profit attributable to the ordinary equity holders of the Company from continuing operations           | 59                    | 35,002  |
| Underlying (loss) / profit attributable to the ordinary equity holders of the Company from continuing operations | (26,291)              | 18,382  |

#### Calculation methodology

Basic earnings per share and underlying earnings per share are calculated by dividing the profit measure attributable to owners of the Company, by the weighted average number of ordinary shares outstanding during the financial year and excluding treasury shares.

Diluted earnings per share are calculated the same way as basic earnings per share including the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

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.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 1: FINANCIAL PERFORMANCE

#### 2. DIVIDENDS PAID AND PROPOSED

|                              | Cents<br>per share | Total amount<br>\$'000 | Franking<br>percentage | Date of<br>payment |
|------------------------------|--------------------|------------------------|------------------------|--------------------|
| 2016 Final dividend paid     | 6.0                | 15,014                 | 0%                     | 6 October 2016     |
| 2017 Interim dividend paid   | 3.5                | 8,825                  | 100%                   | 6 April 2017       |
| 2017 Final dividend proposed | 3.5                | 8,845                  | 100%                   | 10 October 2017    |

The final dividend proposed is subject to variations in the number of shares up to record date. This dividend has not been recognised as a liability as at 30 June 2017 and will be recognised in subsequent consolidated financial statements.

Franking credits available at 30 June 2017 are \$10.9m (2016: \$0.3m).



# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 1: FINANCIAL PERFORMANCE

### 3. SEGMENT REPORT

|   | Business Energy<br>Australia |               | Business Energy<br>US |                | Generation<br>Assets |                | Other           |                 | Total           |               |
|---|------------------------------|---------------|-----------------------|----------------|----------------------|----------------|-----------------|-----------------|-----------------|---------------|
|   | 2017                         | 2016          | 2017                  | 2016           | 2017                 | 2016           | 2017            | 2016            | 2017            | 2016          |
| \$'000  |                              |               |                       |                |                      |                |                 |                 |                 |               |
| External revenue to customers   | 2,647,784                    | 2,428,521     | 336,674               | 161,198        | 131,855              | 96,130         | 10,593          | 5,210           | 3,126,906       | 2,691,059     |
| Internal segment revenue  | -                            | -             | -                     | -              | 13,932               | 9,383          | 4,681           | 1,792           | 18,613          | 11,175        |
| Segment revenue and other income  | 2,647,784                    | 2,428,521     | 336,674               | 161,198        | 145,787              | 105,513        | 15,274          | 7,002           | 3,145,519       | 2,702,234     |
| Expenses  | (2,594,425)                  | (2,373,464)   | (336,506)             | (164,819)      | (104,077)            | (70,434)       | (32,158)        | (22,947)        | (3,067,166)     | (2,631,664)   |
| Sale of equity accounted investment   | -                            | -             | -                     | -              | -                    | -              | -               | (3,422)         | -               | (3,422)       |
| Provision for onerous contract  | -                            | -             | -                     | -              | -                    | -              | -               | (1,898)         | -               | (1,898)       |
| <b>EBITDAF</b>  | <b>53,359</b>                | <b>55,057</b> | <b>168</b>            | <b>(3,621)</b> | <b>41,710</b>        | <b>35,079</b>  | <b>(16,884)</b> | <b>(21,265)</b> | <b>78,353</b>   | <b>65,250</b> |
| Depreciation and amortisation   | (7,610)                      | (5,876)       | (10,564)              | (4,439)        | (14,107)             | (12,246)       | (5,472)         | (2,249)         | (37,753)        | (24,810)      |
| Net fair value gain / (loss) on financial instruments designated at fair value through profit or loss | 36,276                       | 45,537        | (13,849)              | 7,598          | 14,653               | (11,730)       | -               | (1,922)         | 37,080          | 39,483        |
| <b>Results from operating activities</b>  | <b>82,025</b>                | <b>94,718</b> | <b>(24,245)</b>       | <b>(462)</b>   | <b>42,256</b>        | <b>11,103</b>  | <b>(22,356)</b> | <b>(25,436)</b> | <b>77,680</b>   | <b>79,923</b> |
| Share of net (loss) / profit of associates and joint ventures accounted for using the equity method   | -                            | -             | -                     | -              | -                    | -              | (298)           | 402             | (298)           | 402           |
| Finance income  | 2,746                        | 2,482         | -                     | -              | 468                  | 515            | 397             | 1,284           | 3,611           | 4,281         |
| Finance expenses  | (7,784)                      | (8,524)       | (4,772)               | (2,277)        | (15,855)             | (16,509)       | (848)           | (329)           | (29,259)        | (27,639)      |
| <b>Profit / (loss) before income tax</b>  | <b>76,987</b>                | <b>88,676</b> | <b>(29,017)</b>       | <b>(2,739)</b> | <b>26,869</b>        | <b>(4,891)</b> | <b>(23,105)</b> | <b>(24,079)</b> | <b>51,734</b>   | <b>56,967</b> |
| Income tax expense  | -                            | -             | -                     | -              | -                    | -              | -               | -               | (51,675)        | (21,965)      |
| Profit from continuing operations   | -                            | -             | -                     | -              | -                    | -              | -               | -               | 59              | 35,002        |
| (Loss) / profit from discontinued operation (attributable to equity holders of the Company)           | -                            | -             | -                     | -              | -                    | -              | -               | -               | (1,132)         | 807           |
| <b>Statutory (loss) / profit for the year attributable to equity holders of the Company</b>           | <b>(1,073)</b>               | <b>35,809</b> | <b>(1,073)</b>        | <b>35,809</b>  | <b>(1,073)</b>       | <b>35,809</b>  | <b>(1,073)</b>  | <b>35,809</b>   | <b>(1,073)</b>  | <b>35,809</b> |
| <b>Underlying NPAT</b>  | <b>(26,291)</b>              | <b>18,382</b> | <b>(26,291)</b>       | <b>18,382</b>  | <b>(26,291)</b>      | <b>18,382</b>  | <b>(26,291)</b> | <b>18,382</b>   | <b>(26,291)</b> | <b>18,382</b> |

All segment activity takes place in Australia and the United States of America.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 1: FINANCIAL PERFORMANCE

### 3. SEGMENT REPORT (CONT.)

| \$'000   | 2017            | 2016     |
|--|-----------------|----------|
| <b>Statutory (loss) / profit after tax attributable to equity holders of the Company</b>                               | <b>(1,073)</b>  | 35,809   |
| <i>Adjusted for the following items:</i>   |                 |          |
| Net unrealised change in fair value of financial instruments designated at fair value through profit or loss after tax | <b>(26,648)</b> | (27,258) |
| Share of net loss / (profit) of associates and joint ventures accounted for using the equity method                    | <b>298</b>      | (402)    |
| (Loss) / profit from discontinued operation (attributable to equity holders of the company)                            | <b>1,132</b>    | (807)    |
| <b>Other significant items</b>   |                 |          |
| New business identification, integration and establishment costs   | (i) –           | 915      |
| Unrealised foreign exchange loss   | (ii) –          | 501      |
| Staff rationalisation costs  | (iii) –         | 2,366    |
| Effective interest revenue on associate loan   | (iv) –          | (965)    |
| Loss on sale of associate  | (v) –           | 3,422    |
| Provision for onerous contract   | (vi) –          | 1,898    |
| Financing establishment costs  | (vii) –         | 370      |
| Wholesale counterparty default   | (viii) –        | 363      |
| Tax effect on non-deductible acquisition costs   | (ix) –          | 317      |
| De-recognition of capital loss deferred tax asset  | (x) –           | 4,538    |
| Tax benefit on other significant items   | (xi) –          | (2,685)  |
| <b>Underlying NPAT all segments</b>  | <b>(26,291)</b> | 18,382   |

- (i) Costs incurred in respect of identifying, establishing and integrating new businesses started and new companies acquired.
- (ii) Unrealised foreign exchange losses on funds held in US dollar and EURO bank accounts.
- (iii) Costs associated with rationalisation of staff.
- (iv) Recognition of Empire Oil & Gas NL shares (Empire) loan at present value and interest revenue unwind.
- (v) Loss on the sale of share interests in Empire.
- (vi) Impairment of the contract to sublease office space.
- (vii) Costs incurred for the establishment of the unsecured senior bank guarantee facility with Liberty International Underwriters Singapore.
- (viii) Default by a wholesale counterparty that went into administration.
- (ix) Tax impact of non-deductible acquisition costs for Source in FY2015.
- (x) Derecognition of deferred tax asset upon sale of Metgasco Limited and Empire shares.
- (xi) Tax effect of the above other significant items.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 1: FINANCIAL PERFORMANCE

### 3. SEGMENT REPORT (CONT.)

| \$'000                               | Business Energy Australia |         | Business Energy US |        | Generation Assets |         | Other         |        | Total            |           |
|--------------------------------------|---------------------------|---------|--------------------|--------|-------------------|---------|---------------|--------|------------------|-----------|
|                                      | 2017                      | 2016    | 2017               | 2016   | 2017              | 2016    | 2017          | 2016   | 2017             | 2016      |
| <b>Assets</b>                        |                           |         |                    |        |                   |         |               |        |                  |           |
| Total segment assets                 | <b>899,581</b>            | 644,124 | <b>145,413</b>     | 91,983 | <b>429,303</b>    | 425,660 | <b>88,171</b> | 70,921 | <b>1,562,468</b> | 1,232,688 |
| Deferred tax assets                  |                           |         |                    |        |                   |         |               |        | <b>13,850</b>    | 6,036     |
| <b>Total assets</b>                  |                           |         |                    |        |                   |         |               |        | <b>1,576,318</b> | 1,238,724 |
| <b>Liabilities</b>                   |                           |         |                    |        |                   |         |               |        |                  |           |
| Total segment liabilities            | <b>405,829</b>            | 333,856 | <b>143,576</b>     | 70,350 | <b>230,464</b>    | 247,661 | <b>34,101</b> | 15,537 | <b>813,970</b>   | 667,404   |
| Current and deferred tax liabilities |                           |         |                    |        |                   |         |               |        | <b>196,468</b>   | 99,917    |
| <b>Total liabilities</b>             |                           |         |                    |        |                   |         |               |        | <b>1,010,438</b> | 767,321   |

#### Segment description

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 segments 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.

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:   |
|---------------------------|--|
| Business Energy Australia | Electricity sales to business customers in Australia   |
| Business Energy US        | Electricity sales to business and residential customers in the United States of America  |
| Generation Assets         | Gas-fired power generation assets and delivery of power generation solutions, from the initial concept through to development and operations |
| Other                     | Gas, Metering, Data Analytics, Lighting Solutions and Corporate  |

The total of non-current assets other than financial instruments and deferred tax assets, broken down by location of the assets is \$440m for Australia (2016: \$442m) and \$60.9m for the United States (2016: \$50.3m).

Segment assets and liabilities are measured in the same way as in the financial statements. Both assets and liabilities are allocated based on the operations of the segment and the physical location of the asset. The Group's current and deferred tax balances are not considered to be a part of a specific segment but are managed by the Group's central corporate function.

All revenue from generation assets and other operations is earned in Australia.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 1: FINANCIAL PERFORMANCE

#### 4. REVENUE

Revenue is recognised when performance obligations under relevant customer contracts are completed. Performance obligations may be completed at a point in time or over time.

In the following table revenue is disaggregated by major product or service line and by timing of revenue recognition. Revenue recognised in the Business Energy US segment is entirely generated within the US market whilst revenue recognised in all other segments is generated in Australia.

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

As noted in Note 38(i) the Consolidated Entity has elected to early adopt AASB 15 *Revenue from Contracts with Customers*.

| \$'000                                 | Business Energy Australia |           | Business Energy US |         | Generation Assets |        | Other        |       | Total            |           |
|--|---------------------------|-----------|--------------------|---------|-------------------|--------|--------------|-------|------------------|-----------|
|  | 2017                      | 2016      | 2017               | 2016    | 2017              | 2016   | 2017         | 2016  | 2017             | 2016      |
| <b>Major product / service lines</b>   |                           |           |                    |         |                   |        |              |       |                  |           |
| Sale of electricity                    | <b>2,495,553</b>          | 2,206,384 | <b>336,675</b>     | 161,198 | –                 | –      | –            | –     | <b>2,832,228</b> | 2,367,582 |
| Electricity generation                 | –                         | –         | –                  | –       | <b>99,026</b>     | 87,208 | –            | –     | <b>99,026</b>    | 87,208    |
| Commodity product sales                | <b>152,234</b>            | 222,137   | –                  | –       | <b>30,241</b>     | 5,475  | –            | –     | <b>182,475</b>   | 227,612   |
| Energy solutions products and services | –                         | –         | –                  | –       | –                 | –      | <b>7,548</b> | 3,204 | <b>7,548</b>     | 3,204     |
| Consulting fees                        | –                         | –         | –                  | –       | <b>264</b>        | 282    | <b>785</b>   | 1,182 | <b>1,049</b>     | 1,464     |
| Other revenue                          | –                         | –         | –                  | –       | <b>2,139</b>      | 3,143  | <b>1,622</b> | 39    | <b>3,761</b>     | 3,182     |
|  | <b>2,647,787</b>          | 2,428,521 | <b>336,675</b>     | 161,198 | <b>131,670</b>    | 96,108 | <b>9,955</b> | 4,425 | <b>3,126,087</b> | 2,690,252 |
| <b>Timing of revenue recognition</b>   |                           |           |                    |         |                   |        |              |       |                  |           |
| Recognised at a point in time          | <b>152,234</b>            | 222,137   | –                  | –       | <b>131,670</b>    | 96,108 | <b>7,238</b> | 3,350 | <b>291,142</b>   | 321,595   |
| Recognised over time                   | <b>2,495,553</b>          | 2,206,384 | <b>336,675</b>     | 161,198 | –                 | –      | <b>2,717</b> | 1,075 | <b>2,834,945</b> | 2,368,657 |
|  | <b>2,647,787</b>          | 2,428,521 | <b>336,675</b>     | 161,198 | <b>131,670</b>    | 96,108 | <b>9,955</b> | 4,425 | <b>3,126,087</b> | 2,690,252 |

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 1: FINANCIAL PERFORMANCE

#### 4. REVENUE (CONT.)

##### Recognition and measurement

##### i) Sale of electricity

Revenue is recognised at the amount of consideration to which the Group is entitled, excluding amounts collected on behalf of third parties (i.e. duties and sales taxes). Using the practical expedient, the Group recognises revenue in respect to electricity sales over time as there is a right to invoice when the customers have consumed the performance obligation of electricity supply. Electricity sales revenue from customer sales contracts is recognised on measurement of electrical consumption (KWh) at the metering point, as specified in each contractual agreement, and is billed monthly in arrears. The transaction price is the contracted price for the electricity consumed during the period. When the consideration receivable is subject to variability, such as prompt payment discount or estimated meter reads, an assessment is performed to determine whether it is highly probable that the receivables or accrued income will be received. At each balance date, sales and receivables include an amount of sales delivered to customers but not yet billed and recognised as accrued income.

##### ii) Electricity generation

Electricity generation revenue is recognised from the generation of electricity at the point when the electricity has been supplied or the off-take performance obligation has been met and there will not be a significant reversal of revenue. Revenue received from off-take agreements provides a fixed revenue stream for the respective power station. Revenue on these contracts is recognised on a daily basis over the contract term. The transaction price is the contracted price for the electricity generated and sold during the period. At each balance date, sales and receivables include an amount of revenue for which performance obligations have been met under the respective contracts but have not yet settled. These amounts are recognised as accrued income. ERM Power has elected to apply the practical expedient available under AASB 15 to not disclose any future unsatisfied performance obligations under respective off-take agreements.

##### iii) Energy solutions products and services

Energy solutions products and services includes the sale of products and services such as lighting solutions, data analytics and energy monitoring, metering and demand response income. Revenue is apportioned to these contracts based on the estimated stand-alone selling price of goods or services provided. Revenue from customer sales contracts is recognised at the point that relevant performance obligations are satisfied, which will vary dependent on the product or service provided and may include product installation or access to energy management software. For any contracts that are recurring in nature such as annual subscriptions, an income in advance liability is recorded within accrued expenses for revenue received in advance and revenue is recognised over the term of the contract.

##### iv) Consulting fees and other revenue

Revenue is apportioned to these contracts based on the estimated stand-alone selling price of goods or services provided. Consulting fee revenue and other income are recognised at the point that relevant performance obligations are satisfied. For any contracts that are recurring in nature such as annual licences, a liability is recorded for revenue received in advance and revenue is recognised over the term of the contract.

##### v) Renewable energy certificates

Revenue from the sale of renewable energy certificates is recognised when the relevant contractual performance obligations have been met. These performance obligations will generally include transfer of scheme certificates from the scheme registry of the seller to the scheme registry of the buyer. The stand-alone selling price for certificates sold is referenced within each sales contract. Sale of renewable energy certificates is included in commodity product sales.

##### vi) Sale of gas

Revenue from the sale of gas to wholesale market counterparties is recognised at the point at which the title passes to the buyer. Sale of gas revenue is included in commodity product sales.

For further information on contract assets and liabilities, refer to notes 10 and 19.

#### Key judgments and estimates

##### Accrued income receivable

Revenue from the sale of electricity is estimated where a customer invoice has not been raised at balance date. Where an invoice is raised shortly after balance date or customer meter data is available, this data is used to form the estimate of revenue. Where an invoice is not raised immediately after balance date and customer meter data is not available the revenue estimate is derived from an estimate of average daily electricity usage based on historical patterns as well as average pricing. Further information is contained in Note 10.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 1: FINANCIAL PERFORMANCE

#### 4. REVENUE (CONT.)

##### Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2017<br>\$'000 | 2016<br>\$'000 |
| <i>Revenue recognised that was included in the contract liability balance at the beginning of the period</i> |                |                |
| Energy solutions products and services   | 315            | –              |
| Other revenue  | 10             | –              |
|  | 325            | –              |

#### 5. EXPENSES

|                                 | Consolidated   |                |
|---------------------------------|----------------|----------------|
|                                 | 2017<br>\$'000 | 2016<br>\$'000 |
| Cost of electricity sales       | 2,761,178      | 2,324,275      |
| Cost of electricity generation  | 55,680         | 24,826         |
| Cost of commodity products sold | 143,425        | 199,303        |
| Employee benefits expense       | 54,421         | 41,580         |
| Share based payments            | 3,527          | 2,565          |
| Other expenses                  | 30,322         | 27,940         |
|                                 | 3,048,553      | 2,620,489      |

*Included in the above employee expense is:*

|   |       |       |
|---|-------|-------|
| Defined contribution superannuation expense | 3,255 | 2,264 |
|---|-------|-------|

##### Recognition and measurement

Cost of sales is recognised as those costs directly attributable to the goods or services sold and includes the costs of electricity, materials and associated distribution expenses. Electricity costs are based upon spot prices for electricity and the outcomes of derivative financial instruments entered into for the purpose of risk management (refer to note 22). Included within cost of sales are total net realised gains on the settlement of derivative financial instruments (2017: \$576.1m, 2016: \$214.8m).

Employee benefits expense includes movement in recognition and measurement of related liabilities such as annual leave and long service leave. Refer to note 20.

Share based payments 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.

##### Key judgments and estimates

###### 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 33.

The fair value of the equity instruments includes non-market vesting conditions. Management estimates the number of shares that are expected to be vested based on the probability of non-market vesting conditions being met.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 1: FINANCIAL PERFORMANCE

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

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2017<br>\$'000 | 2016<br>\$'000 |
| <b>Unrealised</b>                        |                |                |
| Electricity and gas derivative contracts | 37,160         | 36,524         |
| Hedge ineffectiveness                    | (80)           | 2,959          |
|  | <b>37,080</b>  | <b>39,483</b>  |

##### Recognition and measurement

The Group accounts for certain derivative financial instruments such as cash flow hedges with corresponding unrealised fair value movements recognised in the cash flow hedge reserve. Any unrealised gain or loss on other instruments that are not hedge accounted and any ineffective portion of hedge accounted instruments is recognised directly in profit or loss. Refer note 13 for further information on which derivative financial instruments are not hedge accounted.

##### Key judgments and estimates

###### Designation of instruments

The designation of instruments as either held for trading or hedging may affect the amount of fair value gains and losses recognised in profit and loss. Fair value movements on instruments held for trading are not deferred within the cash flow hedge reserve. Further information on the designation of financial instruments is contained in note 13.

###### Valuation of derivative financial instruments

The valuation of financial instruments may affect the amount of fair value movements recognised in profit and loss. Further information on the valuation of financial instruments is contained in note 23.

#### 7. NET FINANCE EXPENSE

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2017<br>\$'000 | 2016<br>\$'000 |
| <b>Finance income</b>                            |                |                |
| Interest income                                  | 3,611          | 4,281          |
|  | <b>3,611</b>   | <b>4,281</b>   |
| <b>Finance costs</b>                             |                |                |
| Borrowing costs – lease liabilities              | 879            | –              |
| Borrowing costs – bank loans                     | 12,054         | 12,662         |
| Borrowing costs – receivables financing facility | 3,418          | 6,056          |
| Borrowing costs – convertible notes              | 3,799          | 3,845          |
| Other borrowing costs                            | 9,109          | 5,076          |
|  | <b>29,259</b>  | <b>27,639</b>  |

##### Recognition and measurement

Interest revenue and expenses are recognised on a time proportional basis using the effective interest rate method applicable to financial assets and liabilities.

Other borrowing costs include the cost of credit sleeving in US operations.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 1: FINANCIAL PERFORMANCE

#### 8. INCOME TAX

|   | Note | Consolidated   |                |
|---|------|----------------|----------------|
|   |      | 2017<br>\$'000 | 2016<br>\$'000 |
| <b>(a) Income tax expense</b>                           |      |                |                |
| Income tax comprises:                                   |      |                |                |
| Current tax expense                                     |      | 32,971         | 194            |
| Deferred tax expense                                    |      | 20,846         | 21,887         |
| Adjustment to current and deferred tax of prior periods |      | (85)           | 318            |
| <b>Income tax expense</b>                               |      | <b>53,732</b>  | <b>22,399</b>  |

#### Income tax expense is attributable to:

|                                      |    |               |               |
|--------------------------------------|----|---------------|---------------|
| Profit from continuing operations    |    | 51,675        | 21,965        |
| Profit from discontinuing operations | 31 | 2,057         | 434           |
|                                      |    | <b>53,732</b> | <b>22,399</b> |

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

|  |     |               |               |
|--|-----|---------------|---------------|
| Profit from continuing operations  |     | 51,734        | 56,967        |
| Profit from discontinuing operations   | 31  | 925           | 1,241         |
|  |     | <b>52,659</b> | <b>58,208</b> |
| Income tax expense calculated at 30%   |     | 15,798        | 17,462        |
| Other income taxes   |     | 205           | 194           |
| Net effect of expenses / (income) that are not deductible / (non-assessable) in determining taxable profit (excluding Clean Energy Regular shortfall charge) |     | 1,919         | (135)         |
| Capital loss not recognised  |     | –             | 4,538         |
| Clean Energy Regulator shortfall charge  | (i) | 37,050        | –             |
| Adjustment to deferred tax of prior periods  |     | (85)          | 318           |
| Difference in overseas tax rates   |     | (1,155)       | 22            |
| <b>Income tax expense</b>  |     | <b>53,732</b> | <b>22,399</b> |

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

Increase in equity due to current and deferred amounts charged directly to equity during the period:

|  |  |                 |                 |
|--|--|-----------------|-----------------|
| Net tax effect of amounts charged to cash flow hedge reserve |  | (49,960)        | (58,797)        |
| Net tax effect of amounts charged to fair value reserve      |  | –               | (243)           |
|  |  | <b>(49,960)</b> | <b>(59,040)</b> |

(i) During the year, the Company took the commercial decision to incur a non-deductible charge of \$65 per certificate in lieu of surrendering 1.9m large-scale generation certificates. The total cost was \$123m before tax.



# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 1: FINANCIAL PERFORMANCE

#### 8. INCOME TAX (CONT.)

##### Recognition and measurement

Income tax or income tax benefit 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.

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.

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.

##### Key judgments and estimates

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 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.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 1: FINANCIAL PERFORMANCE

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

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2017<br>\$'000 | 2016<br>\$'000 |
| Net (loss) / profit after tax  | (1,073)        | 35,809         |
| <i>Adjustments for:</i>  |                |                |
| Depreciation and amortisation of non-current assets                            | 38,404         | 25,229         |
| Onerous contract   | –              | 1,898          |
| Share based payment expense  | 3,527          | 2,565          |
| Net unrealised fair value gains on financial instruments and inventory         | (34,541)       | (39,483)       |
| Loss on sale of equity accounted investment                                    | –              | 3,422          |
| Gain on the sale of discontinued operations                                    | (10,851)       | –              |
| Share of (loss) / profit of associates   | 298            | (402)          |
| Net exchange differences   | 96             | 500            |
| Finance costs  | 31,091         | 29,124         |
| <i>Transfers to provisions:</i>  |                |                |
| Employee entitlements  | 256            | 328            |
| Onerous contract   | –              | (48)           |
| Deferred consideration   | –              | (659)          |
| <i>Changes in assets and liabilities (net of business combinations):</i>       |                |                |
| Increase in trade and other receivables  | (40,936)       | (96,583)       |
| (Increase) / decrease in other assets  | (2,963)        | 712            |
| (Increase) / decrease in inventories   | (30,725)       | 13,832         |
| (Increase) / decrease in deferred tax assets recognised in profit or loss      | (169)          | 24,568         |
| Changes in broker margin account   | 69,181         | 60,412         |
| Increase / (decrease) in deferred tax liabilities recognised in profit or loss | 21,015         | (2,363)        |
| Increase in current tax liability  | 18,403         | 67             |
| Increase in trade and other payables   | 90,679         | 60,986         |
| Net cash provided by operating activities                                      | 151,692        | 119,914        |

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 10. TRADE AND OTHER RECEIVABLES AT AMORTISED COST

The majority of trade and other receivables relate to electricity sales customers. Trade receivables are non-interest bearing and are generally on 30-day terms. None of the non-current receivables are impaired or past due. The carrying amounts of non-current receivables are equal to the fair values.

|                             | Consolidated   |                |
|-----------------------------|----------------|----------------|
|                             | 2017<br>\$'000 | 2016<br>\$'000 |
| <b>Current</b>              |                |                |
| Trade and other receivables | 66,906         | 52,345         |
| Accrued income              | 294,041        | 278,251        |
|                             | <b>360,947</b> | <b>330,596</b> |
| <b>Non-current</b>          |                |                |
| Trade and other receivables | –              | 32             |
|                             | –              | 32             |

#### Recognition and measurement

All trade and other debtors are recognised initially at fair value and subsequently measured at amortised cost using the 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 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.

Collectability is reviewed on an ongoing basis. For trade receivables, the company applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which requires the use of the lifetime expected loss provision for all trade receivables. The amount of the impairment loss is recognised in the income statement.

Accrued income receivable represents electricity amounts due to be invoiced after 30 June 2017 and wholesale counterparty settlements due to be accrued and received after 30 June 2017.

#### Key judgments and estimates

##### Accrued income receivable

Accrued electricity sales revenue requires estimates of average daily usage based on historical patterns as well as average pricing and consumption pattern estimates where no actual meter data is available. A large portion of accrued income receivable is measured based on actual billed electricity in the following month whilst a smaller portion is based on estimated meter data where the customer meter is read less frequently.

#### 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 trade and other receivables recognised at balance date best represents the Group's maximum exposure to credit risk at balance date. The Group seeks to limit its exposure to credit risks as follows:

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

The credit quality of all financial assets is consistently monitored in order to identify any potential adverse changes. At 30 June 2017 there was an increased credit exposure created by high wholesale prices and significant positive mark to market valuations, which management continues to monitor.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 10. TRADE AND OTHER RECEIVABLES AT AMORTISED COST (CONT.)

##### Credit risk (continued)

##### Concentrations of credit risk

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

The company applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. The loss allowance provision as at 30 June 2017 is determined as follows; (the expected credit losses below also incorporates forward looking information).

|  | Total<br>\$'000 | < 30 days<br>\$'000 |                      | 31–60 days<br>\$'000 |                      | 61–120 days \$'000 |                      | > 120 days<br>\$'000 |                      |
|--|-----------------|---------------------|----------------------|----------------------|----------------------|--------------------|----------------------|----------------------|----------------------|
|  |                 | Trade               | Other <sup>(i)</sup> | Trade                | Other <sup>(i)</sup> | Trade              | Other <sup>(i)</sup> | Trade                | Other <sup>(i)</sup> |
| <b>2017</b>                              |                 |                     |                      |                      |                      |                    |                      |                      |                      |
| <b>Consolidated</b>                      |                 |                     |                      |                      |                      |                    |                      |                      |                      |
| Expected loss rate                       |                 | 0%–8%               | –                    | 30%                  | –                    | 50%–90%            | –                    | 100%                 | –                    |
| Gross carrying amount                    | 70,324          | 63,938              | 497                  | 2,659                | 23                   | 1,132              | 46                   | 1,428                | 601                  |
| Loss allowance provision <sup>(ii)</sup> | (3,418)         | (1,265)             | –                    | (418)                | –                    | (398)              | –                    | (1,337)              | –                    |
| Net receivables                          | 66,906          | 62,673              | 497                  | 2,241                | 23                   | 734                | 46                   | 91                   | 601                  |
| Accrued income                           | 294,041         | 294,041             | –                    | –                    | –                    | –                  | –                    | –                    | –                    |
| <b>2016</b>                              |                 |                     |                      |                      |                      |                    |                      |                      |                      |
| <b>Consolidated</b>                      |                 |                     |                      |                      |                      |                    |                      |                      |                      |
| Expected loss rate                       |                 | 1%                  | –                    | 2.5%                 | –                    | 10%–25%            | –                    | 75%                  | –                    |
| Gross carrying amount                    | 53,675          | 33,157              | 15,130               | 3,704                | –                    | 657                | 10                   | 969                  | 48                   |
| Loss allowance provision                 | (1,298)         | (898)               | –                    | (65)                 | –                    | (69)               | –                    | (266)                | –                    |
| Net receivables                          | 52,377          | 32,259              | 15,130               | 3,639                | –                    | 588                | 10                   | 703                  | 48                   |
| Accrued income                           | 278,251         | 278,251             | –                    | –                    | –                    | –                  | –                    | –                    | –                    |

(i) Other receivables are neither past due or impaired and relate principally to counterparty receivables, employee shareholder loans, which are subject to loan deeds and the vendor finance loan to Empire (for FY2016).

(ii) Of the above loss allowance provision, \$3.4m (2016: \$1.3m) relate to receivables arising from contracts with customers.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 11. INVENTORIES

|  | Note | Consolidated   |                |
|--|------|----------------|----------------|
|  |      | 2017<br>\$'000 | 2016<br>\$'000 |
| Work in progress   |      | 531            | 109            |
| Stock on hand  |      | 485            | 317            |
| Renewable energy certificates – at cost  |      | 38,115         | 9,322          |
| Renewable energy certificates – at fair value less cost to sell                | (i)  | 1,415          | –              |
| Renewable energy certificates recognised under sale and repurchase arrangement | (ii) | –              | 10,500         |
| Gas in storage   |      | 96             | 54             |
| Diesel fuel  |      | 1,615          | 1,780          |
|  |      | <b>42,257</b>  | <b>22,082</b>  |

(i) Renewable energy certificates designated as commodity broker trader inventory are measured at fair value less costs to sell.

(ii) The Group has right of repurchase under sale and repurchase arrangement. The corresponding liability is included within borrowings at 30 June 2016. Refer to Note 25. The liability was repaid during the year ended 30 June 2017.

#### Recognition and measurement

##### Renewable energy certificates

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

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

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

##### Other inventory

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

#### Key judgments and estimates

##### Renewable energy certificates held for trading

Renewable energy certificates that are designated as held for trading are initially recognised at cost and are subsequently recognised at fair value with movements in fair value taken up through profit and loss in the net fair value gain on financial instruments designated at fair value through profit and loss line until settlement at which time the gain or loss is recognised in cost of goods sold. Certificates are designated at the initial trade date on a deal by deal basis and segregated from other certificates held for the purposes of surrender under applicable renewable energy schemes.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

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

##### Equity investments at fair value through other comprehensive income

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

|                          | Consolidated   |                |
|--------------------------|----------------|----------------|
|                          | 2017<br>\$'000 | 2016<br>\$'000 |
| <b>Non-current</b>       |                |                |
| <i>Listed securities</i> |                |                |
| Red Sky Energy Limited   | 15             | 150            |
|                          | <b>15</b>      | <b>150</b>     |

All shares held in listed entities as at 30 June 2017 have been classified as fair value through other comprehensive income because they are investments that the Group intends to hold for the long-term.

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

#### 13. DERIVATIVE FINANCIAL INSTRUMENTS

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

|                                       | Consolidated   |                |
|---------------------------------------|----------------|----------------|
|                                       | 2017<br>\$'000 | 2016<br>\$'000 |
| <b>Current assets</b>                 |                |                |
| Electricity and commodity derivatives | 325,131        | 158,627        |
| Foreign exchange derivatives          | 30             | 71             |
|                                       | <b>325,161</b> | <b>158,698</b> |
| <b>Non-current assets</b>             |                |                |
| Electricity and commodity derivatives | 81,445         | 51,296         |
| Foreign exchange derivatives          | –              | 133            |
|                                       | <b>81,445</b>  | <b>51,429</b>  |
| <b>Current liabilities</b>            |                |                |
| Electricity and commodity derivatives | 33,889         | 6,838          |
|                                       | <b>33,889</b>  | <b>6,838</b>   |
| <b>Non-current liabilities</b>        |                |                |
| Electricity and commodity derivatives | 33,641         | 2,971          |
| Interest rate swaps                   | 33,812         | 41,628         |
|                                       | <b>67,453</b>  | <b>44,599</b>  |

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 13. DERIVATIVE FINANCIAL INSTRUMENTS (CONT.)

##### Recognition and measurement

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged and the type of hedge relationship designated.

The gain or loss from re-measurement of hedging instruments at fair value is recognised in other comprehensive income and deferred in equity in the hedging reserve, to the extent that the hedge is effective. It is reclassified into profit or loss when the hedged item is settled.

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

Derivatives that are not hedge accounted include futures, bilateral written options, market traded caps and swaps and any derivative held for trading purposes or to manage renewable certificate price risk including forward purchase agreements held for trading. All derivatives used in the Group's US Business Energy operations are not hedge accounted.

##### *Recognition of day one gain or loss on derivative financial instruments*

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

#### **Key judgments and estimates**

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

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 14. HEDGE ACCOUNTING

Contracts are entered into with individual parties in the normal course of business in order to economically hedge exposure to fluctuations in electricity prices, foreign currency and interest rates. These derivative instruments may meet the requirements for hedge accounting. The instruments include OTC swaps, options, swaptions, caps and other risk management instruments. Settlements of the contracts require exchange of cash for the difference between the contracted and spot market prices. The contracts are measured at fair value and the resultant gains or losses that effectively hedge designated risk exposures are deferred within the cash flow reserve.

##### Electricity derivatives used for hedging

The below carrying values represent the total value of hedge instruments used to hedge electricity price risk recognised on the Group's balance sheet together with maturity of these instruments and associated nominal volume. The value of these instruments excludes the ineffective portion that has not been recognised in the cash flow hedge reserve. An additional unrealised gain of \$1m has also been deferred in the cash flow hedge reserve following the cessation of hedge accounting for this instrument.

|                                | Assets<br>Carrying value <sup>(i)</sup> |                | Liabilities<br>Carrying value <sup>(i)</sup> |                | Nominal hedge volume <sup>(ii)</sup> |             |
|--------------------------------|---|----------------|--|----------------|--------------------------------------|-------------|
|                                | 2017<br>\$'000                          | 2016<br>\$'000 | 2017<br>\$'000                               | 2016<br>\$'000 | 2017<br>TWh                          | 2016<br>TWh |
| <b>Net asset / (liability)</b> |   |                |  |                |                                      |             |
| 12 months or less              | <b>316,631</b>                          | 142,024        | <b>(10,157)</b>                              | (5,226)        | <b>12</b>                            | 12          |
| More than 12 months            | <b>69,614</b>                           | 50,176         | <b>(15,219)</b>                              | (513)          | <b>4</b>                             | 8           |
|                                | <b>386,245</b>                          | 192,200        | <b>(25,376)</b>                              | (5,739)        | <b>16</b>                            | 20          |

(i) Carrying value of hedging instruments only.

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

The Group uses cash flow hedges to mitigate the risk of variability in electricity prices. The instruments that are hedge accounted include OTC swaps, options, swaptions, caps and other eligible risk management instruments used in the Group's Australian business energy operations.

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

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

The movement in the hedged items for the year ended 30 June 2017 was \$166.6m (2016: \$200.1m). The movement in hedge instruments recognised in reserves for the year ended 30 June 2017 was \$166.5m (2016: \$197.2m). The difference in these amounts is a result of hedge ineffectiveness of which an amount of \$0.1m (2016: \$2.9m) was recognised for the year ended 30 June 2017 (refer note 6). The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedge reserve within equity, limited to the cumulative change in fair value of the hedged item on a present value basis from the inception of the hedge. Effectiveness is assessed against forecast electricity purchase requirements. Where the portfolio volume of the cash flow hedge contracts is in excess of forecast electricity purchase requirements for a particular time period an amount of ineffectiveness is recognised immediately in profit or loss.

During the year ended 30 June 2017 amounts accumulated to the cash flow hedge reserve of \$453.2m were settled and recognised as a gain in profit and loss.



# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 14. HEDGE ACCOUNTING (CONT.)

##### Interest rate swaps used for hedging

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

Swaps currently in place for the Neerabup partnership cover approximately 97% (2016: 97%) of the variable loan principal outstanding and are timed to expire as each loan repayment falls due as set out below.

The fixed interest rate is 7.189% (2016: 7.189%) and the variable rate is 1.1% above the BBSY rate which at the end of the reporting period was 2.05% (2016: 2.44%).

There was no hedge ineffectiveness in the current or prior year and the movement of the fair value of the hedged item and instrument deferred in the hedge reserve was \$7.8m.

|                         | Carrying value |                |
|-------------------------|----------------|----------------|
|                         | 2017<br>\$'000 | 2016<br>\$'000 |
| <b>Swap liabilities</b> |                |                |
| 12 months or less       | 6,870          | 7,000          |
| 1–2 years               | 6,033          | 6,642          |
| 2–5 years               | 13,918         | 16,257         |
| More than 5 years       | 6,991          | 11,729         |
|                         | <b>33,812</b>  | <b>41,628</b>  |

The above table indicates the periods in which the cash flows associated with cash flow hedges are expected to impact profit or loss and the fair value of the related hedging instruments. The notional amount of debt covered by the interest rate swap in place at 30 June 2017 was \$131.8m (2016: \$137.9m). During the year ended 30 June 2017 amounts accumulated to the cash flow hedge reserve of \$7.0m (2016: \$6.9m) were settled and recognised in profit and loss.

##### Recognition and measurement of derivatives hedge accounted

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

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

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

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss.

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

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

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 15. PROPERTY, PLANT AND EQUIPMENT

| Consolidated                                | Land<br>\$'000 | Capital work in<br>progress<br>\$'000 | Plant and<br>equipment<br>\$'000 | Furniture,<br>fittings and<br>improvements<br>\$'000 | Total<br>\$'000 |
|---|----------------|---------------------------------------|----------------------------------|--|-----------------|
| <b>2017</b>                                 |                |                                       |                                  |  |                 |
| Cost  | 22,963         | 5,549                                 | 492,532                          | 11,483   | 532,527         |
| Accumulated depreciation and impairment     | (447)          | –                                     | (133,391)                        | (7,303)  | (141,141)       |
| Net carrying amount at 30 June 2017         | 22,516         | 5,549                                 | 359,141                          | 4,180  | 391,386         |
| Opening net carrying amount at 1 July 2016  | 22,516         | 5,288                                 | 358,644                          | 4,818  | 391,266         |
| Exchange differences                        | –              | –                                     | (5)                              | (5)  | (10)            |
| Additions                                   | –              | 5,442                                 | 9,897                            | 803  | 16,142          |
| Disposals                                   | –              | –                                     | (55)                             | –  | (55)            |
| Transfers                                   | –              | (5,181)                               | 5,095                            | 24   | (62)            |
| Depreciation                                | –              | –                                     | (14,435)                         | (1,460)  | (15,895)        |
| Closing net carrying amount at 30 June 2017 | 22,516         | 5,549                                 | 359,141                          | 4,180  | 391,386         |
| <b>2016</b>                                 |                |                                       |                                  |  |                 |
| Cost  | 22,963         | 5,288                                 | 486,068                          | 12,841   | 527,160         |
| Accumulated depreciation and impairment     | (447)          | –                                     | (127,424)                        | (8,023)  | (135,894)       |
| Net carrying amount at 30 June 2016         | 22,516         | 5,288                                 | 358,644                          | 4,818  | 391,266         |
| Opening net carrying amount at 1 July 2015  | 22,516         | 104                                   | 369,319                          | 4,917  | 396,856         |
| Exchange differences                        | –              | –                                     | –                                | 12   | 12              |
| Acquisition of subsidiary                   | –              | –                                     | 191                              | –  | 191             |
| Additions                                   | –              | 5,288                                 | 1,561                            | 1,414  | 8,263           |
| Transfers                                   | –              | (104)                                 | –                                | –  | (104)           |
| Depreciation                                | –              | –                                     | (12,427)                         | (1,525)  | (13,952)        |
| Closing net carrying amount at 30 June 2016 | 22,516         | 5,288                                 | 358,644                          | 4,818  | 391,266         |

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

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

Refer note 25 for details regarding recourse and limited recourse borrowings of the Group.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 15. PROPERTY, PLANT AND EQUIPMENT (CONT.)

##### Recognition and measurement

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.

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

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.

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.

##### Key judgments and estimates

###### 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                              | 8 years  |
| Power stations and power station components | 1–50 years   |
| Other plant and equipment                   | 1–15 years   |
| IT equipment                                | 1–3 years  |
| Furniture and fittings                      | 1–10 years   |

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 16. INTANGIBLE ASSETS

| Consolidated   | Goodwill<br>\$'000 | Capital work<br>in progress<br>\$'000 | Software<br>internally<br>generated<br>\$'000 | Software<br>and other<br>\$'000 | Customer<br>acquisition<br>costs<br>\$'000 | Total<br>\$'000 |
|--|--------------------|---------------------------------------|---|---------------------------------|--|-----------------|
| <b>2017</b>  |                    |                                       |   |                                 |  |                 |
| Cost   | 26,806             | 91                                    | 22,204  | 7,237                           | 71,188                                     | 127,526         |
| Accumulated depreciation and impairment  | –                  | –                                     | (8,683)                                       | (3,979)                         | (25,486)                                   | (38,148)        |
| Net carrying amount at 30 June 2017  | 26,806             | 91                                    | 13,521  | 3,258                           | 45,702                                     | 89,378          |
| Opening net carrying amount at 1 July 2016   | 32,568             | 1,304                                 | 12,501  | 2,026                           | 30,642                                     | 79,041          |
| Current period trailing commission sales <sup>(i)</sup>                                | –                  | –                                     | –   | –                               | 22,548                                     | 22,548          |
| Exchange differences   | (807)              | –                                     | –   | (50)                            | (1,060)                                    | (1,917)         |
| Additions  | –                  | 8                                     | 3,813   | 1,330                           | 9,302                                      | 14,453          |
| Assets included in a disposal group classified<br>as held for sale and other disposals | (4,955)            | –                                     | –   | –                               | (242)                                      | (5,197)         |
| Transfer   | –                  | (1,221)                               | 292   | 991                             | –  | 62              |
| Amortisation   | –                  | –                                     | (3,085)                                       | (1,039)                         | (15,488)                                   | (19,612)        |
| Closing net carrying amount at 30 June 2017  | 26,806             | 91                                    | 13,521  | 3,258                           | 45,702                                     | 89,378          |
| <b>2016</b>  |                    |                                       |   |                                 |  |                 |
| Cost   | 32,568             | 1,304                                 | 18,095  | 5,981                           | 45,347                                     | 103,295         |
| Accumulated depreciation and impairment  | –                  | –                                     | (5,594)                                       | (3,955)                         | (14,705)                                   | (24,254)        |
| Net carrying amount at 30 June 2016  | 32,568             | 1,304                                 | 12,501  | 2,026                           | 30,642                                     | 79,041          |
| Opening net carrying amount at 1 July 2015   | 24,195             | 6                                     | 9,128   | 1,901                           | 7,583                                      | 42,813          |
| Current period trailing commission sales <sup>(i)</sup>                                | –                  | –                                     | –   | –                               | 22,967                                     | 22,967          |
| Exchange differences   | 827                | –                                     | –   | 5                               | 163  | 995             |
| Acquisition of subsidiary  | 7,546              | –                                     | 1,496   | 30                              | 678  | 9,750           |
| Additions  | –                  | 1,298                                 | 4,047   | 863                             | 7,481                                      | 13,689          |
| Transfer   | –                  | –                                     | 4   | 100                             | –  | 104             |
| Amortisation   | –                  | –                                     | (2,174)                                       | (873)                           | (8,230)                                    | (11,277)        |
| Closing net carrying amount at 30 June 2016  | 32,568             | 1,304                                 | 12,501  | 2,026                           | 30,642                                     | 79,041          |

(i) Refer to note 20 for corresponding provision movement.

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

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 16. INTANGIBLE ASSETS (CONT.)

##### Recognition and measurement

###### Goodwill

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

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

###### Software

Computer software is either purchased or developed within the organisation to support business operations and generate customer revenue. Software assets are recorded at cost less accumulated amortisation and impairment losses.

###### Customer acquisition costs

The direct costs of establishing customer contracts are recognised as an asset when the customer contract is expected to provide a future economic benefit to the Group. Direct costs are amortised over an average contract term. In the event that a customer contract is not fulfilled and direct costs are not recoverable from the channel partner, a provision for impairment is recognised.

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

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

##### Key judgments and estimates

###### 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.

###### Amortisation

Amortisation of intangible assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

|  |  |
|--|--|
| Software                                   | 3–10 years   |
| Customer acquisition costs (Australia)     | Average contract term of 2 years (2016: 3 years)   |
| Customer acquisition costs (United States) | Over individual contract term as trailing fee paid |

#### 17. IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

At 30 June 2017 the Group did not have any indefinite life intangible assets. The Group had goodwill of \$26.8m of which 76% related to the Group's US operations.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 17. IMPAIRMENT OF NON-FINANCIAL ASSETS (CONT.)

##### Recognition and measurement

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.

Impairment losses recognised for goodwill are not reversed. Impairment losses recognised in prior periods for other assets are assessed at each reporting date for any indications that the impairment loss has decreased or may no longer exist. The impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount of the asset and is reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of amortisation or depreciation, had no impairment loss been recognised.

There were no material reversals of impairment in the current or prior year.

##### Key judgments and estimates

At 30 June 2017 the Group has tested goodwill for impairment and made critical judgements with respect to assumptions used in the value in use assessment. These assumptions are set out below.

| CGU                   | Goodwill allocation |                | Pre-tax discount rate |           | Years of cash flows included |               | Cumulative average growth rate <sup>(i)</sup> |           | Terminal growth rate |           |
|-----------------------|---------------------|----------------|-----------------------|-----------|------------------------------|---------------|---|-----------|----------------------|-----------|
|                       | 2017<br>\$'000      | 2016<br>\$'000 | 2017<br>%             | 2016<br>% | 2017<br>years                | 2016<br>years | 2017<br>%                                     | 2016<br>% | 2017<br>%            | 2016<br>% |
| Business              |                     |                |                       |           |                              |               |   |           |                      |           |
| Energy Australia      | -                   | -              | -                     | -         | -                            | -             | -   | -         | -                    | -         |
| Business              |                     |                |                       |           |                              |               |   |           |                      |           |
| Energy US             | 20,352              | 26,108         | 14.9%                 | 15.5%     | 5                            | 5             | 38.0%   | 73.2%     | 1.0%                 | 0%        |
| Generation            |                     |                |                       |           |                              |               |   |           |                      |           |
| Assets                | -                   | -              | -                     | -         | -                            | -             | -   | -         | -                    | -         |
| Other <sup>(ii)</sup> | 6,454               | 6,460          | 14.9%                 | N/A       | 5                            | N/A           | 39.2%   | N/A       | 2.5%                 | N/A       |

(i) Cumulative average growth rate is based on load sold for the Business Energy US segment and on revenue for the other CGU.

(ii) Other CGU goodwill includes the goodwill arising on the acquisition of Lumaed Pty Ltd and Greensense Pty Ltd. The acquisitions of these businesses were completed 15 – 18 months prior to 30 June 2017. No events or circumstances have occurred in the period since acquisition to 30 June 2017 to indicate that the transaction price is not still indicative of fair value and as such no impairment of the goodwill balance has been recognised.

Management have utilised a value in use model to test goodwill for impairment at 30 June 2017 for all CGUs. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Sensitivity analysis on reasonably possible changes to the discount rates or growth rates did not result in an outcome where impairment would be required other than for the Lumaed Pty Ltd and Greensense Pty Ltd goodwill included within the Other CGU. A decrease in the cumulative average growth rate of 39.2% forecast would result in impairment. Directors and management have considered the likelihood of this change and have not updated the impairment calculation given:

1. the strong revenue growth for the current year and early lifecycle stage of the Energy Solutions business;
2. the asset carrying values approximating the acquisition price for the businesses, which were acquired only 18 months earlier.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 18. LEASE ASSETS AND LIABILITIES

##### Right of use lease assets

|   | Consolidated   |                |
|---|----------------|----------------|
|   | 2017<br>\$'000 | 2016<br>\$'000 |
| Cost  | 17,278         | –              |
| Accumulated depreciation and impairment     | (2,897)        | –              |
| Net carrying amount at 30 June 2017         | 14,381         | –              |
| Adoption of AASB 16 <i>Leases</i>           | 14,408         | –              |
| Exchange differences                        | (23)           | –              |
| Additions                                   | 2,893          | –              |
| Amortisation                                | (2,897)        | –              |
| Closing net carrying amount at 30 June 2017 | 14,381         | –              |

The Group leases office premises in Brisbane, Sydney, Melbourne, Perth, Newcastle and Houston. Income from the sublease of the Group's office premises for the year ended 30 June 2017 is \$385,277 (2016: \$42,507).

##### Lease liabilities

|                                | Consolidated   |                |
|--------------------------------|----------------|----------------|
|                                | 2017<br>\$'000 | 2016<br>\$'000 |
| <b>Current</b>                 |                |                |
| Lease liabilities              | 3,605          | –              |
| <b>Non-current</b>             |                |                |
| Lease liabilities              | 18,375         | –              |
| <b>Total lease liabilities</b> | <b>21,980</b>  | <b>–</b>       |

##### Undiscounted lease payments to be received

|          |              |              |
|----------|--------------|--------------|
| 1 year   | 433          | 260          |
| 2 years  | 451          | 271          |
| 3 years  | 469          | 281          |
| 4 years  | 488          | 293          |
| 5 years  | 510          | 304          |
| >5 years | 204          | 460          |
|          | <b>2,555</b> | <b>1,869</b> |

Refer to Note 38(ii) for the early adoption of AASB 16 *Leases*, Note 7 for interest expense on the lease liabilities and the consolidated statement of cash flows for the total cash outflow for the leases.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 18. LEASE ASSETS AND LIABILITIES (CONT.)

##### Recognition and measurement

###### Leased assets

Leased assets are capitalised at the commencement date of the lease and comprise of the initial lease liability amount, initial direct costs incurred when entering into the lease less any lease incentives received.

On initial adoption of AASB 16 the Group has adjusted the right-of-use assets at the date of initial application by the amount of any provision for onerous leases recognised immediately before the date of initial application. Following initial application, an impairment review is undertaken for any right of use lease asset that shows indicators of impairment and an impairment loss is recognised against any right of use lease assets that is impaired.

###### Leased liabilities

The lease liability is measured at the present value of the fixed and variable lease payments net of cash lease incentives that are not paid at the balance date. Lease payments are apportioned between the finance charges and reduction of the lease liability using the incremental borrowing rate implicit in the lease to achieve a constant rate of interest on the remaining balance of the liability. Lease payments for buildings exclude service fees for cleaning and other costs.

Lease modifications are accounted for as a new lease with an effective date of the modification.

##### Key judgments and estimates

###### Amortisation

Amortisation of leased assets is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives being the lesser of the remaining lease term and the life of the asset.

#### 19. TRADE AND OTHER PAYABLES

|                              | Consolidated   |                |
|------------------------------|----------------|----------------|
|                              | 2017<br>\$'000 | 2016<br>\$'000 |
| <b>Current</b>               |                |                |
| Trade creditors and accruals | 344,335        | 277,599        |
| Other creditors              | 119,979        | 89,444         |
|                              | <b>464,314</b> | <b>367,043</b> |

##### Recognition and measurement

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.

##### Key judgments and estimates

###### Accrued electricity network costs

Accrued electricity network costs payable requires estimates of average daily usage where no meter data is available. This usage estimate is combined with a customer specific network tariff to estimate accrued network costs.



# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 20. PROVISIONS

|   | Consolidated   |                |
|---|----------------|----------------|
|   | 2017<br>\$'000 | 2016<br>\$'000 |
| <b>Current</b>  |                |                |
| Employee benefits – annual leave <sup>(i)</sup>                               | 2,167          | 2,254          |
| Onerous contract provision  | –              | 328            |
| Customer acquisition cost trailing commission provision                       | 12,644         | 7,728          |
| Deferred consideration  | –              | 689            |
|   | <b>14,811</b>  | <b>10,999</b>  |
| <b>Non-current</b>  |                |                |
| Employee benefits – long service leave  | 1,573          | 1,230          |
| Onerous contract provision  | –              | 1,522          |
| Customer acquisition cost trailing commission provision                       | 21,033         | 13,675         |
|   | <b>22,606</b>  | <b>16,427</b>  |
| <b>Movements in provisions</b>  |                |                |
| Carrying amount at start of the year  | 27,426         | 3,101          |
| Onerous contract provision derecognised on adoption of AASB16 <i>Leases</i>   | (1,850)        | –              |
| Additional provision recognised and charged to profit and loss                | 2,165          | 3,841          |
| Amounts used during the year  | (2,598)        | (1,676)        |
| Current period trailing commission sales provision recognised <sup>(ii)</sup> | 22,548         | 22,967         |
| Current period trailing commission sales paid                                 | (9,019)        | (4,272)        |
| Disposal group held for sale  | (242)          | –              |
| Exchange differences  | (1,013)        | 112            |
| Balances acquired through business combination                                | –              | 3,353          |
|   | <b>37,417</b>  | <b>27,426</b>  |

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

(ii) Corresponding amount capitalised as an intangible asset.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 20. PROVISIONS (CONT.)

##### Recognition and measurement

###### *Trailing commission payments*

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

###### *Employee benefits*

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 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 the G100 discount rate for corporate bonds at balance date that matches, as closely as possible, the estimated future cash flows.

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.

##### Key judgments and estimates

###### Employee benefits

Provisions for employee benefits include assumptions around expected future wage and salary levels and expected periods of service for the purposes of assessing the long service leave liability.

###### Trailing commission payments

Provisions for trailing commission payments include assumptions around forecast electricity usage for currently contracted customers acquired through a brokerage arrangement.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 21. DEFERRED TAX ASSETS AND LIABILITIES

##### Recognised deferred tax assets and deferred tax liabilities

| Movements in temporary differences<br>– consolidated                 | Opening<br>balance<br>\$'000 | Recognised<br>in income<br>statement<br>\$'000 | Acquisition<br>of controlled<br>entities<br>\$'000 | Currency<br>translation<br>differences<br>\$'000 | Recognised<br>in equity<br>\$'000 | Closing<br>balance<br>\$'000 |
|--|------------------------------|--|--|--|-----------------------------------|------------------------------|
| <b>2017</b>  |                              |  |  |  |                                   |                              |
| Carried forward income tax losses                                    | 11,821                       | (5,870)  | –  | (134)  | –                                 | 5,817                        |
| Employee provisions  | 1,361                        | 2,992  | –  | (1)  | –                                 | 4,352                        |
| Lease liabilities  | 2,022                        | 1  | –  | 3  | 4,636                             | 6,662                        |
| Other items  | 4,752                        | 3,046  | –  | (13)   | –                                 | 7,785                        |
| <b>Deferred tax assets</b>   | <b>19,956</b>                | <b>169</b>                                     | <b>–</b>   | <b>(145)</b>                                     | <b>4,636</b>                      | <b>24,616</b>                |
| Set-off deferred tax liabilities                                     |                              |  |  |  |                                   | (10,766)                     |
| <b>Net deferred tax assets</b>                                       |                              |  |  |  |                                   | <b>13,850</b>                |
| Net derivative financial assets                                      | (49,176)                     | (10,424)                                       | –  | (16)   | (49,960)                          | (109,576)                    |
| Property, plant and equipment  | (61,001)                     | (7,951)  | –  | (24)   | –                                 | (68,976)                     |
| Lease assets   | –                            | (50)   | –  | (2)  | (4,323)                           | (4,375)                      |
| Goodwill   | (882)                        | (799)  | –  | 31   | –                                 | (1,650)                      |
| Associates   | –                            | (72)   | –  | –  | –                                 | (72)                         |
| Other items  | (2,778)                      | (1,719)  | –  | –  | –                                 | (4,497)                      |
| <b>Deferred tax liabilities</b>                                      | <b>(113,837)</b>             | <b>(21,015)</b>                                | <b>–</b>   | <b>(11)</b>                                      | <b>(54,283)</b>                   | <b>(189,146)</b>             |
| Set-off deferred tax assets  |                              |  |  |  |                                   | 10,766                       |
| <b>Net deferred tax liabilities</b>                                  |                              |  |  |  |                                   | <b>(178,380)</b>             |
| <b>2016</b>  |                              |  |  |  |                                   |                              |
| Carried forward income tax losses                                    | 12,219                       | 650  | –  | (1,048)  | –                                 | 11,821                       |
| Net derivative financial liabilities                                 | 21,528                       | (21,528)                                       | –  | –  | –                                 | –                            |
| Employee provisions  | 2,467                        | (1,131)  | 4  | 21   | –                                 | 1,361                        |
| Financial assets at fair value through<br>other comprehensive income | 2,857                        | (2,614)  | –  | –  | (243)                             | –                            |
| Associates   | 1,018                        | (1,018)  | –  | –  | –                                 | –                            |
| Lease liabilities  | 1,556                        | 466  | –  | –  | –                                 | 2,022                        |
| Other items  | 2,967                        | 607  | 977  | 201  | –                                 | 4,752                        |
| <b>Deferred tax assets</b>   | <b>44,612</b>                | <b>(24,568)</b>                                | <b>981</b>   | <b>(826)</b>                                     | <b>(243)</b>                      | <b>19,956</b>                |
| Set-off deferred tax liabilities                                     |                              |  |  |  |                                   | (13,920)                     |
| <b>Net deferred tax assets</b>                                       |                              |  |  |  |                                   | <b>6,036</b>                 |
| Net derivative financial assets                                      | –                            | 9,119  | –  | 502  | (58,797)                          | (49,176)                     |
| Property, plant and equipment  | (55,471)                     | (5,414)  | –  | (116)  | –                                 | (61,001)                     |
| Goodwill   | (302)                        | (728)  | –  | 148  | –                                 | (882)                        |
| Other items  | (2,149)                      | (614)  | –  | (15)   | –                                 | (2,778)                      |
| <b>Deferred tax liabilities</b>                                      | <b>(57,922)</b>              | <b>2,363</b>                                   | <b>–</b>   | <b>519</b>                                       | <b>(58,797)</b>                   | <b>(113,837)</b>             |
| Set-off deferred tax assets  |                              |  |  |  |                                   | 13,920                       |
| <b>Net deferred tax liabilities</b>                                  |                              |  |  |  |                                   | <b>(99,917)</b>              |

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 21. DEFERRED TAX ASSETS AND LIABILITIES (CONT.)

##### Recognition and measurement

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.

Deferred tax assets and liabilities have not been recognised for the following items:

|   | Consolidated   |                |
|---|----------------|----------------|
|   | 2017<br>\$'000 | 2016<br>\$'000 |
| <b>Tax losses not recognised</b>  |                |                |
| Unused capital tax losses for which no deferred tax asset has been recognised | 15,127         | 15,127         |
| Potential tax benefit at 30%  | 4,538          | 4,538          |

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

##### Unrecognised temporary differences

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

|   |     |     |
|---|-----|-----|
| Foreign currency translation  | 476 | 811 |
| Undistributed earnings  | –   | –   |
| Unrecognised deferred tax liabilities relating to the above temporary differences | 476 | 811 |

Temporary differences of \$0.5m (2016: \$0.8m) have arisen as a result of the translation of the financial statements of the Group's subsidiary in the US. However, a deferred tax liability has not been recognised as the liability will only eventuate in the event of disposal of the subsidiary, and no such disposal is expected in the foreseeable future.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 2: OPERATING ASSETS AND LIABILITIES

#### 21. DEFERRED TAX ASSETS AND LIABILITIES (CONT.)

##### Tax consolidation

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

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

##### Key judgments and estimates

###### Deferred tax assets

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

# **ERM POWER LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **SECTION 3: CAPITAL AND FINANCIAL RISK MANAGEMENT**

## **22. FINANCIAL RISK MANAGEMENT**

### **Financial risk management objectives**

The Group's activities are exposed to a variety of financial risks, including:

- (a) Market risk (commodity price and interest rate),
- (b) Credit risk (refer Note 10), and
- (c) Liquidity risk.

The Group's overall risk management strategy focuses on the unpredictability of markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses a variety of derivative financial instruments such as electricity derivatives and interest rate swaps to hedge against certain risk exposures. Further details on these instruments are set out in notes 13 and 14.

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.

### **Market risk**

#### *Electricity pool price risk*

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

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

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

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 3: CAPITAL AND FINANCIAL RISK MANAGEMENT

## 22. FINANCIAL RISK MANAGEMENT (CONT.)

### Market risk (cont.)

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

#### Electricity sales sensitivity

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

|   | Increase by<br>10%<br>\$'000 | Decrease by<br>10%<br>\$'000 |
|---|------------------------------|------------------------------|
| <b>2017</b>   |                              |                              |
| Net profit / (loss) – unrealised mark to market of electricity derivative contracts | 96,862                       | (5,610)                      |
| Other Components of Equity increase / (decrease)                                    | 198,957                      | (167,269)                    |
| <b>2016</b>   |                              |                              |
| Net profit / (loss) – unrealised mark to market of electricity derivative contracts | 148,110                      | (61,409)                     |
| Other Components of Equity increase / (decrease)                                    | 60,774                       | (96,795)                     |

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

#### Electricity generation sensitivity

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

|  | Increase by<br>10%<br>\$'000 | Decrease by<br>10%<br>\$'000 |
|--|------------------------------|------------------------------|
| <b>2017</b>                                      |                              |                              |
| Net profit / (loss)                              | 3,687                        | (3,687)                      |
| Other Components of Equity increase / (decrease) | –                            | –                            |
| <b>2016</b>                                      |                              |                              |
| Net profit / (loss)                              | 4,747                        | (4,747)                      |
| Other Components of Equity increase / (decrease) | –                            | –                            |

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

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 3: CAPITAL AND FINANCIAL RISK MANAGEMENT

## 22. FINANCIAL RISK MANAGEMENT (CONT.)

### Market risk (cont.)

#### Interest rate risk

The Group is exposed to interest rate risk on the funds it borrows at floating interest rates and on cash deposits. The risk is managed by entering into interest rate swap contracts for project term debt. The sensitivity analysis to net profit (being profit before tax) and equity has been determined based on the exposure to interest rates at the balance date and assumes that there are concurrent movements in interest rates and parallel shifts in the yield curves. A sensitivity of 50 basis points has been selected as this is considered reasonable given the current level of short term and long term interest rates.

At balance date, if interest rates had been 50 basis points higher / lower and all other variables were held constant, the impact on the Group would be:

|                                    | Increase by<br>50bps<br>\$'000 | Decrease by<br>50bps<br>\$'000 |
|------------------------------------|--------------------------------|--------------------------------|
| <b>2017</b>                        |                                |                                |
| Net profit / (loss)                | 663                            | (663)                          |
| Other equity increase / (decrease) | 2,504                          | (2,504)                        |
| <b>2016</b>                        |                                |                                |
| Net profit / (loss)                | 559                            | (559)                          |
| Other equity increase / (decrease) | 2,799                          | (2,799)                        |

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

#### Foreign exchange risk

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

### 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 2017 is contained in Note 25.



# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 3: CAPITAL AND FINANCIAL RISK MANAGEMENT

## 22. FINANCIAL RISK MANAGEMENT (CONT.)

### Liquidity risk (cont.)

#### *Maturities of financial liabilities*

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

| Financial liabilities<br>Consolidated                          | ≤1 year<br>\$'000 | 1 to 5 years<br>\$'000 | >5 years<br>\$'000 | Discount<br>\$'000 | Total<br>\$'000 |
|--|-------------------|------------------------|--------------------|--------------------|-----------------|
| <b>2017</b>  |                   |                        |                    |                    |                 |
| Trade payables and accrued expenses                            | 344,335           | –                      | –                  | –                  | 344,335         |
| Other payables   | 119,979           | –                      | –                  | –                  | 119,979         |
| Leased liabilities   | 4,383             | 17,961                 | 2,010              | (2,374)            | 21,980          |
| Interest bearing liabilities – limited recourse <sup>(i)</sup> | 8,264             | 30,587                 | 159,603            | (9,537)            | 188,917         |
| Derivatives  | 40,758            | 53,592                 | 6,992              | –                  | 101,342         |
|  | <b>517,719</b>    | <b>102,140</b>         | <b>168,605</b>     | <b>(11,911)</b>    | <b>776,553</b>  |
| <b>2016</b>  |                   |                        |                    |                    |                 |
| Trade payables   | 277,599           | –                      | –                  | –                  | 277,599         |
| Other payables   | 89,444            | –                      | –                  | –                  | 89,444          |
| Interest bearing liabilities                                   | 27,861            | –                      | –                  | –                  | 27,861          |
| Interest bearing liabilities – limited recourse <sup>(i)</sup> | 9,332             | 23,620                 | 172,400            | (11,715)           | 193,637         |
| Derivatives  | 13,868            | 25,840                 | 11,729             | –                  | 51,437          |
|  | <b>418,104</b>    | <b>49,460</b>          | <b>184,129</b>     | <b>(11,715)</b>    | <b>639,978</b>  |

(i) Recourse limited to assets of the Neerabup Partnership. Refer note 29 for further details.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 3: CAPITAL AND FINANCIAL RISK MANAGEMENT

## 22. FINANCIAL RISK MANAGEMENT (CONT.)

### Capital risk management

The Group manages its capital so that it will be able to continue as a going concern while maximising the return to stakeholders through an appropriate mix of debt and equity. This approach is consistent with prior years. The capital structure of the Group as at balance date consists of total corporate facilities, as listed in note 25, total limited recourse facilities as listed in note 25 and equity, comprising issued capital, reserves and retained earnings as listed in notes 26 and 27.

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

The Group is required to provide prudential credit support to various parties which it does through the provision of bank guarantees or cash collateral. It also has a working capital facility in place which is settled each month. A large percentage of the Group debt is in the form of limited recourse project finance provided directly to power stations in which the Group has an interest. During the financial year ended 30 June 2017 the entity complied with all applicable debt covenants.

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

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2017<br>\$'000 | 2016<br>\$'000 |
| Gearing percentage <sup>(i)</sup>                    | 0%             | 7%             |
| Gearing percentage <sup>(i)</sup> excluding Neerabup | 0%             | 0%             |
| EBITDAF Interest cover ratio                         | 2.68           | 2.36           |

(i) Gearing percentage is calculated as net debt divided by total capital. Net debt is calculated as total interest-bearing borrowings less cash and cash equivalents.

Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt less reserves attributable to fair value adjustments.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 3: CAPITAL AND FINANCIAL RISK MANAGEMENT

#### 23. FAIR VALUE MEASUREMENT

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

The fair value of financial assets and financial liabilities must be estimated for recognition, measurement and disclosure purposes. The carrying amounts and estimated fair values of all the Group's financial instruments recognised in the financial statements are materially the same, with the exception of the following:

|  | Consolidated                     |                              |
|--|----------------------------------|------------------------------|
|  | 2017<br>\$'000<br>Carrying value | 2017<br>\$'000<br>Fair value |
| <b>Financial assets</b>                              |                                  |                              |
| Electricity and gas derivative financial instruments | 406,576                          | 434,989                      |
|  | <b>406,576</b>                   | <b>434,989</b>               |

The carrying value of derivative financial assets recognised excludes a day one gain on certain electricity derivatives. In accordance with the Group's accounting policy a day one gain has not been recognised with the day one value of certain instruments entered into initially valued at the transaction price, which is the best indicator of fair value. Any gain subsequently realised is progressively recognised as the instruments are settled. The measurement of the instruments at 30 June 2017 excludes the remaining balance of the deferred day one gain of \$28.4m. At inception the day one gain was \$31.9m. The movement in the day one gain balance relates to settlement of derivatives through profit and loss during the year.

##### Key judgments and estimates

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement and for disclosure purposes. The financial assets and liabilities held by the group and the fair value approach for each is outlined below:

| Financial asset and liability                        | Fair value approach  |
|--|--|
| <i>Cash and cash equivalents</i>                     | The carrying amount is fair value due to the asset's liquid nature.  |
| <i>Derivative financial instruments</i>              | The fair value of derivative instruments included in hedging assets and liabilities is calculated using quoted prices. The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods, such as discounted cash flows, and makes assumptions that are based on market conditions existing at each balance date. These amounts reflect the estimated amount which the Group would be required to pay or receive to terminate (or replace) the contracts at their current market rates at balance date.<br><br>Where the derivative instrument life extends beyond the period of available market data valuation techniques and assumptions are used in the fair value estimate. |
| <i>Other financial assets</i>                        | Due to their short-term nature, the carrying amounts of loans, receivables, and cash and cash equivalents approximate their fair value.  |
| <i>Other financial liabilities at amortised cost</i> | The Group holds various trade payables and borrowings at period end. Due to the short-term nature of the trade payables the carrying value of these are assumed to approximate their fair value. The fair value of borrowings is not materially different than the carrying amounts as the interest rates are close to current market rates or are short-term in nature.   |

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 3: CAPITAL AND FINANCIAL RISK MANAGEMENT

#### 23. FAIR VALUE MEASUREMENT (CONT.)

##### Fair value of financial assets and liabilities (cont.)

The following tables present the Group's assets and liabilities measured and recognised at fair value at 30 June 2017 and 30 June 2016.

| As at 30 June 2017  | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000 |
|---|-------------------|-------------------|-------------------|-----------------|
| <b>Assets</b>   |                   |                   |                   |                 |
| Electricity and commodity derivatives                             | 8,871             | 397,705           | –                 | 406,576         |
| Foreign exchange derivative contract                              | –                 | 30                | –                 | 30              |
| Financial assets at fair value through other comprehensive income | 15                | –                 | –                 | 15              |
| <b>Total assets</b>   | <b>8,886</b>      | <b>397,735</b>    | <b>–</b>          | <b>406,621</b>  |
| <b>Liabilities</b>  |                   |                   |                   |                 |
| Electricity and commodity derivatives                             | 7,983             | 59,547            | –                 | 67,530          |
| Interest rates swaps  | –                 | 33,812            | –                 | 33,812          |
| <b>Total liabilities</b>  | <b>7,983</b>      | <b>93,359</b>     | <b>–</b>          | <b>101,342</b>  |

| As at 30 June 2016  | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000 |
|---|-------------------|-------------------|-------------------|-----------------|
| <b>Assets</b>   |                   |                   |                   |                 |
| Electricity and commodity derivatives                             | 1,889             | 208,035           | –                 | 209,924         |
| Embedded derivative contract                                      | –                 | 203               | –                 | 203             |
| Financial assets at fair value through other comprehensive income | 150               | –                 | –                 | 150             |
| <b>Total assets</b>   | <b>2,039</b>      | <b>208,238</b>    | <b>–</b>          | <b>210,277</b>  |
| <b>Liabilities</b>  |                   |                   |                   |                 |
| Electricity and commodity derivatives                             | 4,534             | 5,275             | –                 | 9,809           |
| Interest rates swaps  | –                 | 41,628            | –                 | 41,628          |
| <b>Total liabilities</b>  | <b>4,534</b>      | <b>46,903</b>     | <b>–</b>          | <b>51,437</b>   |

##### Level 1

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

##### Level 2

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

##### Level 3

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

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. For the years ending 30 June 2017 and 30 June 2016 there were no transfers between the fair value hierarchy levels.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 3: CAPITAL AND FINANCIAL RISK MANAGEMENT

#### 23. FAIR VALUE MEASUREMENT (CONT.)

##### Offsetting of financial assets and financial liabilities

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

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset, as at 30 June 2017 and 30 June 2016. The column 'net exposure' shows the impact on the Group's balance sheet if all set-off rights were exercised.

The below table provides a reconciliation of the Group's gross derivative financial assets and liabilities offset to those presented on the consolidated statement of financial position as at 30 June 2017 and as at 30 June 2016.

##### As at 30 June 2017

| \$'000  | Gross carrying amount (before offsetting) | Gross amounts offset | Cash collateral and futures margin deposits received | Net amount presented | Related amounts not offset           |                 |                |
|---|---|----------------------|--|----------------------|--------------------------------------|-----------------|----------------|
|   |   |                      |  |                      | Financial instruments <sup>(i)</sup> | Cash collateral | Net exposure   |
| <b>Financial assets</b>                         |   |                      |  |                      |                                      |                 |                |
| Electricity and commodity derivatives contracts | 547,777                                   | (78,192)             | (63,009)   | 406,576              | (3,925)                              | (46,462)        | 356,189        |
| Foreign exchange derivative contract            | 30  | -                    | -  | 30                   | -                                    | -               | 30             |
| <b>Total</b>                                    | <b>547,807</b>                            | <b>(78,192)</b>      | <b>(63,009)</b>                                      | <b>406,606</b>       | <b>(3,925)</b>                       | <b>(46,462)</b> | <b>356,219</b> |
| <b>Financial liabilities</b>                    |   |                      |  |                      |                                      |                 |                |
| Electricity and commodity derivatives contracts | 145,948                                   | (78,192)             | (226)  | 67,530               | (3,925)                              | 1,340           | 64,945         |
| Interest rate swaps                             | 33,812                                    | -                    | -  | 33,812               | -                                    | -               | 33,812         |
| <b>Total</b>                                    | <b>179,760</b>                            | <b>(78,192)</b>      | <b>(226)</b>   | <b>101,342</b>       | <b>(3,925)</b>                       | <b>1,340</b>    | <b>98,757</b>  |

##### As at 30 June 2016

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

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

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 3: CAPITAL AND FINANCIAL RISK MANAGEMENT

#### 24. CASH AND CASH EQUIVALENTS

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2017<br>\$'000 | 2016<br>\$'000 |
| <b>Current</b>   |                |                |
| Restricted cash  | <b>118,465</b> | 125,150        |
| Non-restricted cash at bank and cash on hand                                       | <b>126,151</b> | 67,317         |
| Total cash and cash equivalents  | <b>244,616</b> | 192,467        |
| The cash and cash equivalents are bearing interest at rates between nil and 2.75%. |                |                |
| <b>Restricted cash</b>   |                |                |
| Term deposits  | <b>33,547</b>  | 91,033         |
| Other restricted cash deposits   | <b>84,918</b>  | 34,117         |
|  | <b>118,465</b> | 125,150        |

#### Restricted cash

Cash that is reserved and its use specifically restricted for maintenance and/or debt servicing under the Group's borrowing agreements is defined as restricted cash. Cash that is on deposit with counterparties as security deposits and cash that is on deposit with financial institutions as security for bank guarantees issued to various counterparties as credit support, is defined as restricted cash, with a corresponding disclosure in contingent liabilities in Note 34. Cash collateral held in broker accounts to facilitate wholesale price hedging on the Sydney Futures Exchange is classified as restricted cash unless it is eligible for offset against the corresponding derivative liability. As at 30 June 2017 \$96.4m cash collateral held in broker accounts has been offset against the corresponding asset or liability (2016: \$27.2m).

The restricted cash deposits, held on term deposit, are bearing interest at rates between 2.30% and 2.75%.

#### Recognition and measurement

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

Cash that is reserved and its use specifically restricted for maintenance and / or debt servicing under the Group's borrowing agreements is defined as restricted cash. Cash that is on deposit with counterparties as security deposits and cash that is on deposit with financial institutions as security for bank guarantees issued to various counterparties as credit support, is defined as restricted cash, with a corresponding disclosure in contingent liabilities in Note 34. Cash collateral held in broker accounts to facilitate wholesale price hedging on the Sydney Futures Exchange is classified as restricted cash unless it is eligible for offset against the corresponding derivative liability.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 3: CAPITAL AND FINANCIAL RISK MANAGEMENT

#### 25. BORROWINGS

|  | Note  | Consolidated   |                |
|--|-------|----------------|----------------|
|  |       | 2017<br>\$'000 | 2016<br>\$'000 |
| <b>Current</b>                                       |       |                |                |
| <i>Secured</i>                                       |       |                |                |
| Bank loan – Receivables financing facility           | (i)   | –              | 17,361         |
| Bank loan – Inventory repurchase                     | (ii)  | –              | 10,500         |
|  |       | –              | 27,861         |
| <i>Secured – limited recourse</i>                    |       |                |                |
| Bank loan – Neerabup working capital facility        | (iii) | 3,000          | 3,000          |
| Bank loan – Neerabup term facility (current portion) | (iv)  | 5,264          | 6,332          |
|  |       | 8,264          | 9,332          |
| <b>Total current borrowings</b>                      |       | <b>8,264</b>   | <b>37,193</b>  |
| <b>Non-current</b>                                   |       |                |                |
| <i>Secured – limited recourse</i>                    |       |                |                |
| Bank loan – Neerabup term facility                   | (iv)  | 130,190        | 135,212        |
| Convertible notes                                    | (v)   | 50,463         | 49,093         |
|  |       | 180,653        | 184,305        |
| <b>Total non-current borrowings</b>                  |       | <b>180,653</b> | <b>184,305</b> |
| <b>Total borrowings</b>                              |       | <b>188,917</b> | <b>221,498</b> |

Information on credit risk, fair value and interest rate risk exposure of the Group is provided at note 22.

- (i) Amounts drawn down on receivables financing facility secured against billed and unbilled electricity sales customer revenue receivables.
- (ii) Sale and repurchase agreement in respect of renewable energy certificates. The equivalent renewable energy certificate assets, over which the Group had the right of repurchase, are included within inventories at 30 June 2016.
- (iii) Amounts drawn down on a limited recourse bank working capital facility by Neerabup Partnership. This debt has recourse to the assets of Neerabup Partnership only.
- (iv) Amounts drawn down on a limited recourse term debt facility in respect of the Neerabup Partnership. This debt has recourse to the assets of Neerabup Partnership only.
- (v) Convertible notes are redeemable by the issuer from 30 September 2010 until maturity in February 2023. Notes have a coupon rate that is variable based on BBSY plus 4%. The notes are accounted for using the effective interest method at 7.78% (2016: 7.78%). The notes can only be converted to shares in the issuing subsidiary upon failure to redeem them at maturity or other named event of default. The notes have recourse to the Group's 50% interest in the Neerabup partnership only.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 3: CAPITAL AND FINANCIAL RISK MANAGEMENT

#### 25. BORROWINGS (CONT.)

##### *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   |                |
|--|----------------|----------------|
|  | 2017<br>\$'000 | 2016<br>\$'000 |
| Total facilities – bank loans                  | 391,463        | 381,425        |
| Facilities used at balance date – bank loans   | (179,020)      | (213,213)      |
| Facilities unused at balance date – bank loans | 212,443        | 168,212        |

##### **Recognition and measurement**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method, with interest expense recognized 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 discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

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.

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



# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 3: CAPITAL AND FINANCIAL RISK MANAGEMENT

#### 26. CONTRIBUTED EQUITY

|   | Note | Consolidated                |                             | Consolidated   |                |
|---|------|-----------------------------|-----------------------------|----------------|----------------|
|   |      | 2017<br>Number<br>of shares | 2016<br>Number<br>of shares | 2017<br>\$'000 | 2016<br>\$'000 |
| Issued ordinary shares – fully paid             |      | 252,708,202                 | 245,836,004                 | 346,621        | 339,669        |
| Treasury shares                                 |      | (7,648,455)                 | (3,370,583)                 | (11,609)       | (7,314)        |
|   |      | 245,059,747                 | 242,465,421                 | 335,012        | 332,355        |
| <b>Movement in ordinary share capital</b>       |      |                             |                             |                |                |
| At the beginning of the period                  |      | 245,836,004                 | 242,021,217                 | 339,669        | 332,134        |
| Issue of new shares – employee incentive scheme | 33   | 5,588,171                   | 2,952,134                   | 5,606          | 6,430          |
| Issue of shares – dividend reinvestment plan    |      | 1,284,027                   | 862,653                     | 1,301          | 1,479          |
| Transfer from share based payment reserve       |      | –                           | –                           | 304            | 1,288          |
| Transfer to treasury shares                     |      | –                           | –                           | (259)          | (1,662)        |
| At the end of the period                        |      | 252,708,202                 | 245,836,004                 | 346,621        | 339,669        |

#### Terms and conditions of contributed equity

##### Ordinary shares

During the year ended 30 June 2017, there were no capital raisings undertaken.

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company. Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

##### Treasury shares

Treasury shares are shares that are held in trust for the purpose of issuing shares under employee share incentive schemes. For details of shares and options issued under employee share schemes see note 33.

#### Recognition and measurement

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.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 3: CAPITAL AND FINANCIAL RISK MANAGEMENT

#### 27. RESERVES

| Consolidated<br>2016<br>\$'000             | Cash flow<br>hedge reserve | Fair value<br>reserve | Share based<br>payment<br>reserve | Transactions<br>with non-<br>controlling<br>interests | Foreign<br>currency<br>translation<br>reserve | Total    |
|--|----------------------------|-----------------------|-----------------------------------|---|---|----------|
| Balance at the beginning of the year       | (24,855)                   | (6,664)               | 2,398                             | (14,404)  | 1,134   | (42,391) |
| Revaluation – net                          | 195,990                    | (91)                  | –                                 | –   | –   | 195,899  |
| Revaluation – deferred tax                 | (58,797)                   | (243)                 | –                                 | –   | –   | (59,040) |
| Transfer to retained earnings (net of tax) | –                          | 6,098                 | –                                 | –   | –   | 6,098    |
| Share based payments vested                | –                          | –                     | (1,287)                           | –   | –   | (1,287)  |
| Share based payment expense                | –                          | –                     | 2,565                             | –   | –   | 2,565    |
| Currency translation differences           | –                          | –                     | –                                 | –   | 1,569   | 1,569    |
| Balance at the end of the year             | 112,338                    | (900)                 | 3,676                             | (14,404)  | 2,703   | 103,413  |

| Consolidated<br>2017<br>\$'000   | Cash flow<br>hedge reserve | Fair value<br>reserve | Share based<br>payment<br>reserve | Transactions<br>with non-<br>controlling<br>interests | Foreign<br>currency<br>translation<br>reserve | Total    |
|--|----------------------------|-----------------------|-----------------------------------|---|---|----------|
| Balance at the beginning of the year                                     | 112,338                    | (900)                 | 3,676                             | (14,404)  | 2,703   | 103,413  |
| Revaluation – net  | 166,534                    | (142)                 | –                                 | –   | –   | 166,392  |
| Revaluation – deferred tax   | (49,960)                   | –                     | –                                 | –   | –   | (49,960) |
| Share based payments vested  | –                          | –                     | (1,153)                           | –   | –   | (1,153)  |
| Share based payment expense  | –                          | –                     | 3,527                             | –   | –   | 3,527    |
| Reclassification to profit or loss on disposal of discontinued operation | –                          | –                     | –                                 | –   | (205)   | (205)    |
| Currency translation differences   | –                          | –                     | –                                 | –   | (1,137)                                       | (1,137)  |
| Balance at the end of the year   | 228,912                    | (1,042)               | 6,050                             | (14,404)  | 1,361   | 220,877  |

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 3: CAPITAL AND FINANCIAL RISK MANAGEMENT

#### 27. RESERVES (CONT.)

##### **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.

##### **Fair value reserve**

Changes in the fair value and exchange differences arising on translation of investments, such as equities classified as fair value through other comprehensive income, are recognised in other comprehensive income, as described in note 13 and accumulated in a separate reserve within equity.

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

This reserve is used to record the differences described in note 28 which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

##### **Share based payment reserve**

The share based payments reserve is used to recognise:

- » the grant date fair value of options issued to employees but not exercised
- » the grant date fair value of shares issued to employees
- » the issue of shares held by the LTIST and LTIOT employee share trusts to employees

##### **Foreign currency translation**

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 38(a) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 4: GROUP STRUCTURE

#### 28. PARENT ENTITY FINANCIAL INFORMATION

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

|  | 2017<br>\$'000 | 2016<br>\$'000 |
|--|----------------|----------------|
| <b>Statement of financial position</b> |                |                |
| Current assets                         | 319,351        | 228,778        |
| Total assets                           | 474,843        | 379,349        |
| Current liabilities                    | 30,093         | 11,204         |
| Total liabilities                      | 47,228         | 12,726         |
| Net assets                             | 427,615        | 366,623        |
| <i>Shareholders' equity</i>            |                |                |
| Contributed equity                     | 346,621        | 339,669        |
| Treasury shares                        | (11,609)       | (7,314)        |
| Fair value reserve                     | (1,042)        | (900)          |
| Share option reserve                   | 6,050          | 3,676          |
| Retained earnings                      | 87,595         | 31,492         |
| Total equity                           | 427,615        | 366,623        |
| <b>Profit for the year</b>             | <b>80,674</b>  | <b>33,310</b>  |
| Other comprehensive loss               | (142)          | (333)          |
| <b>Total comprehensive income</b>      | <b>80,532</b>  | <b>32,977</b>  |

#### Guarantees entered into by the parent entity

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

#### Contingent liabilities of the parent entity

At 30 June 2017, the parent entity has drawn on \$150m of non-cash backed financial guarantees under the Liberty International Underwriters Singapore Surety guarantee facility. The guarantee is drawn to support Australian energy market operational obligations as detailed in note 34(b).

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 4: GROUP STRUCTURE

#### 28. PARENT ENTITY FINANCIAL INFORMATION (CONT.)

##### **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 2017.

##### **Parent entity financial information**

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

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

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

##### *(ii) Financial Guarantees*

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

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

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

##### *(iv) Tax consolidation legislation*

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

The head entity ERM Power Limited, and the controlled entities in the tax consolidated group, account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right. In addition to its own current and deferred tax amounts, the Company also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 4: GROUP STRUCTURE

#### 29. INTERESTS IN OTHER ENTITIES

##### (a) Subsidiary companies

The Consolidated Entity consists of a number of wholly or majority owned subsidiaries as set out below. The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2017 as set out below and the results for the year then ended.

| Name   | Place of incorporation | Percentage of equity interest held by the Company |        | Percentage of equity interest held by the non-controlling interests |        |
|--|------------------------|---|--------|---|--------|
|  |                        | 2017 %  | 2016 % | 2017 %  | 2016 % |
| <b>Material operating subsidiaries</b>       |                        |   |        |   |        |
| ERM Financial Services Pty Ltd               | QLD                    | 100   | 100    | –   | –      |
| ERM Gas Pty Ltd                              | QLD                    | 100   | 100    | –   | –      |
| ERM Holdings Pty Ltd                         | QLD                    | 100   | 100    | –   | –      |
| ERM Land Holdings Pty Ltd                    | QLD                    | 100   | 100    | –   | –      |
| ERM Neerabup Power Pty Ltd                   | VIC                    | 100   | 100    | –   | –      |
| ERM Neerabup Pty Ltd                         | VIC                    | 100   | 100    | –   | –      |
| ERM Power Developments Pty Ltd               | VIC                    | 100   | 100    | –   | –      |
| ERM Power Generation Pty Ltd                 | VIC                    | 100   | 100    | –   | –      |
| ERM Power International Pty Ltd              | QLD                    | 100   | 100    | –   | –      |
| ERM Power Investments Pty Ltd <sup>(i)</sup> | QLD                    | 100   | 100    | –   | –      |
| ERM Power Retail Pty Ltd                     | VIC                    | 100   | 100    | –   | –      |
| Greensense Pty Ltd <sup>(ii)</sup>           | WA                     | 100   | 100    | –   | –      |
| Lumaled Pty Ltd <sup>(iii)</sup>             | NSW                    | 100   | 100    | –   | –      |
| Oakey Power Holdings Pty Ltd                 | ACT                    | 100   | 100    | –   | –      |
| Powermetric Metering Pty Ltd                 | NSW                    | 100   | 100    | –   | –      |
| SAGE Utility Systems Pty Ltd                 | VIC                    | 100   | 100    | –   | –      |
| Source Power & Gas LLC                       | USA                    | 100   | 100    | –   | –      |
| Source Operations Group LLC                  | USA                    | 100   | 100    | –   | –      |
| SPG Energy Group LLC                         | USA                    | 100   | 100    | –   | –      |
| ERM Power Trading LLC <sup>(iv)</sup>        | USA                    | 100   | –      | –   | –      |
| <b>Other non-material subsidiaries</b>       |                        |   |        |   |        |
| Braemar 3 Holdings Pty Ltd                   | QLD                    | 100   | 100    | –   | –      |
| ERM Braemar 3 Pty Ltd                        | QLD                    | 100   | 100    | –   | –      |
| ERM Braemar 3 Power Pty Ltd                  | QLD                    | 100   | 100    | –   | –      |
| ERM Business Energy LLC                      | USA                    | 100   | 100    | –   | –      |
| ERM Gas WA01 Pty Ltd                         | VIC                    | 100   | 100    | –   | –      |
| ERM Oakey Power Holdings Pty Ltd             | NSW                    | 100   | 100    | –   | –      |
| E.R.M. Oakey Power Pty Ltd                   | QLD                    | 100   | 100    | –   | –      |
| ERM Power Services Pty Ltd                   | VIC                    | 100   | 100    | –   | –      |
| ERM Power Utility Systems Pty Ltd            | QLD                    | 100   | 100    | –   | –      |
| ERM Wellington 1 Holdings Pty Ltd            | QLD                    | 100   | 100    | –   | –      |
| Queensland Electricity Investors Pty Ltd     | QLD                    | 100   | 100    | –   | –      |
| Richmond Valley Solar Thermal Pty Ltd        | QLD                    | 100   | 100    | –   | –      |

(i) Registered in May 2016.

(ii) Purchased 6 January 2016. Refer to note 30 for further details.

(iii) Purchased 7 March 2016. Refer to note 30 for further details.

(iv) Formed 21 September 2016.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 4: GROUP STRUCTURE

#### 29. INTERESTS IN OTHER ENTITIES (CONT.)

##### (a) Subsidiary companies (cont.)

###### Recognition and measurement

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control of an entity exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

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

###### Changes in ownership interests

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

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

###### 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.

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

As at 30 June 2017 and 30 June 2016, the Group has the following interest in power station projects with other external parties.

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

|                                | Principle place of business | Interest Held |        |
|--------------------------------|-----------------------------|---------------|--------|
|                                |                             | 2017 %        | 2016 % |
| <b>Neerabup Power Station:</b> |                             |               |        |
| NewGen Power Neerabup Pty Ltd  | QLD                         | 50            | 50     |
| NewGen Neerabup Pty Ltd        | QLD                         | 50            | 50     |
| NewGen Neerabup Partnership    | WA                          | 50            | 50     |

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

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 4: GROUP STRUCTURE

#### 29. INTERESTS IN OTHER ENTITIES (CONT.)

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

|   | Consolidated   |                |
|---|----------------|----------------|
|   | 2017<br>\$'000 | 2016<br>\$'000 |
| <b>CURRENT ASSETS</b>                         |                |                |
| Cash and cash equivalents                     | 11,985         | 10,898         |
| Trade and other receivables at amortised cost | 4,547          | 3,780          |
| Inventories                                   | 64             | –              |
| Other assets                                  | 528            | 419            |
| <b>TOTAL CURRENT ASSETS</b>                   | <b>17,124</b>  | <b>15,097</b>  |
| <b>NON-CURRENT ASSETS</b>                     |                |                |
| Property, plant and equipment                 | 170,241        | 174,784        |
| Intangible assets                             | 57             | 10             |
| <b>TOTAL NON-CURRENT ASSETS</b>               | <b>170,298</b> | <b>174,794</b> |
| <b>TOTAL ASSETS</b>                           | <b>187,422</b> | <b>189,891</b> |
| <b>CURRENT LIABILITIES</b>                    |                |                |
| Trade and other payables                      | 1,117          | 925            |
| Borrowings – limited recourse                 | 8,264          | 9,332          |
| Provisions                                    | 52             | 52             |
| <b>TOTAL CURRENT LIABILITIES</b>              | <b>9,433</b>   | <b>10,309</b>  |
| <b>NON-CURRENT LIABILITIES</b>                |                |                |
| Borrowings – limited recourse                 | 130,190        | 135,212        |
| Derivative financial instruments              | 33,812         | 41,628         |
| <b>TOTAL NON-CURRENT LIABILITIES</b>          | <b>164,002</b> | <b>176,840</b> |
| <b>TOTAL LIABILITIES</b>                      | <b>173,435</b> | <b>187,149</b> |
| <b>NET ASSETS</b>                             | <b>13,987</b>  | <b>2,742</b>   |

##### Capital expenditure commitments

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

|   |           |           |
|---|-----------|-----------|
| – not later than one year                           | 14        | 25        |
| – later than one year and not later than five years | –         | –         |
| – later than five years                             | –         | –         |
|   | <b>14</b> | <b>25</b> |

##### Recognition and measurement

###### Joint arrangements

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

###### Joint operations

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



# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 4: GROUP STRUCTURE

#### 29. INTERESTS IN OTHER ENTITIES (CONT.)

##### (c) Joint ventures

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

##### (d) Interests in associate

| Name of entity     | Place of business/country of incorporation | Principle Activity   | Measurement method | % of ownership interest |      |
|--------------------|--|--|--------------------|-------------------------|------|
|                    |  |  |                    | 2017                    | 2016 |
| 1st Energy Pty Ltd | Australia                                  | Electricity sales to business and residential customers in New South Wales | Equity method      | 30                      | —    |

During the 2017 financial year, the Group made a 30% investment in 1st Energy Pty Ltd (1st Energy) for \$4.5m. The Group has representation on its board of directors and a consequent ability to participate in the financial and operating decisions. In the opinion of the directors, ERM Power has significant influence and 1st Energy is an associate of the Group.

##### Recognition and measurement

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.

##### Key judgments and estimates

ERM Power has determined that it has significant influence, but not control or joint control, to govern the financial and operating policies of 1st Energy Pty Ltd and accordingly the investment is accounted for as an associate.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 4: GROUP STRUCTURE

#### 30. BUSINESS COMBINATION

During the year ended 30 June 2017 the Group did not acquire any businesses.

##### (a) Prior year acquisition – Greensense Pty Ltd

On 6 January 2016, the Group acquired 100% of the issued share capital of Greensense Pty Ltd (Greensense). Greensense is an award winning technology business focused on improving the sustainability performance of commercial buildings. A leader in the rapidly developing area of cloud-based, big data and analytics, Greensense software is used by some of Australia's largest organisations across education, utilities, retail, government and commercial property. The acquisition of Greensense allows the Group to offer services that will drive energy and water efficiency, reduce costs and showcase sustainability achievements to its retail electricity customer base.

The total purchase consideration was \$5.3m paid in cash with goodwill of \$3.8m recognised on acquisition.

##### (b) Prior year acquisition – Lumaed Pty Ltd

On 7 March 2016 the Group acquired 100% of the issued share capital of Lumaed Pty Ltd (Lumaed). Lumaed specialises in energy-efficient lighting for industrial and commercial businesses. It develops and distributes LED products throughout Australia. The acquisition allows the Group to diversify its product offering to its electricity retail customers.

The total purchase consideration was \$3.7m with \$3.0m paid in cash and a further \$0.7m payable as contingent consideration under an earn-out arrangement with goodwill of \$2.6m recognised on acquisition.

##### Recognition and measurement

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

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

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

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

#### 31. DISCONTINUED OPERATION

In December 2016, the Group announced its intention to sell all residential customer contract assets in the US and initiated an active program to locate a buyer for these assets. The associated assets and liabilities were consequently presented as held for sale in the December 2016 half year financial statements.

The residential operation represents a major line of business in our US operations and the only residential electricity sales operation within the Group. Following the decision to divest of the associated assets of this business it has been classified as a discontinued operation.

An agreement was entered into with US Retailers LLC on 3 April 2017 (with an effective sale date of 9 June 2017) to sell the residential customer contracts, associated goodwill, customer data and prepayment assets. Financial information relating to the discontinued operation for the period to the date of disposal is set out below.

The comparative income statements and statements of comprehensive income of the Group have been restated to show discontinued operations separately from continuing operations.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 4: GROUP STRUCTURE

#### 31. DISCONTINUED OPERATION (CONT.)

##### (a) Financial performance and cash flow information

The financial performance and cash flow information presented reflects the operations for the period ended 9 June 2017 and the year ended 30 June 2016.

|  | Note  | Consolidated   |                |
|--|-------|----------------|----------------|
|  |       | 2017<br>\$'000 | 2016<br>\$'000 |
| Revenue  |       | 82,512         | 72,286         |
| Expenses   |       | (87,414)       | (69,141)       |
| EBITDAF  |       | (4,902)        | 3,145          |
| Gain on sale of customer contracts   | 31(b) | 10,851         | –              |
| Net fair value loss on financial instruments designated at fair value through profit or loss       |       | (2,542)        | –              |
| Depreciation   |       | (650)          | (419)          |
| Net finance costs  |       | (1,832)        | (1,485)        |
| Profit before tax  |       | 925            | 1,241          |
| Income tax expense   |       | (2,057)        | (434)          |
| <b>Net (loss) / profit from discontinued operations</b>  |       | <b>(1,132)</b> | <b>807</b>     |
| Exchange differences on translation of discontinued operations                                     |       | (205)          | –              |
| <b>Other comprehensive loss from discontinued operations</b>                                       |       | <b>(205)</b>   | <b>–</b>       |
| <b>Total comprehensive (loss) / income from discontinued operations</b>                            |       | <b>(1,337)</b> | <b>807</b>     |
| Net cash (outflow) / inflow from operating activities  |       | (8,219)        | 3,403          |
| Net cash inflow / (outflow) from investing activities  |       | 10,532         | (418)          |
| Net cash outflow from financing activities   |       | (1,832)        | (1,485)        |
| <b>Net increase in cash generated by the discontinued operation</b>                                |       | <b>481</b>     | <b>1,500</b>   |
| <b>(b) Details of the sale of the US Residential Customer Contract assets</b>                      |       |                |                |
| Consideration received or receivable:  |       |                |                |
| Cash   |       | 15,806         | –              |
| Total disposal consideration   |       | 15,806         | –              |
| Carrying amount of net assets sold   |       | (4,955)        | –              |
| <b>Gain on sale before income tax and reclassification of foreign currency translation reserve</b> |       | <b>10,851</b>  | <b>–</b>       |
| Reclassification of foreign currency translation reserve   |       | (205)          | –              |
| Income tax expense on gain   |       | (5,532)        | –              |
| <b>Gain on sale after income tax</b>   |       | <b>5,114</b>   | <b>–</b>       |

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 5: EMPLOYEE REMUNERATION

#### 32. KEY MANAGEMENT PERSONNEL

|  | Consolidated     |                  |
|--|------------------|------------------|
|  | 2017<br>\$       | 2016<br>\$       |
| <b>Key management personnel compensation</b> |                  |                  |
| Short-term employee benefits                 | 6,760,826        | 4,716,281        |
| Long-term employee benefits                  | 65,402           | 40,561           |
| Post-employment benefits                     | 223,212          | 206,430          |
| Share-based payments                         | 1,327,333        | 1,738,047        |
|  | <b>8,376,773</b> | <b>6,701,319</b> |

Detailed remuneration disclosures are provided in the Remuneration Report.

#### 33. SHARE BASED PAYMENTS

The Company provides benefits to employees (including the CEO and Senior Executives) of the Group in the form of share-based payments, whereby selected employees who are invited by the Board render services in exchange for shares or options or rights over shares.

The objective of the Long Term Incentive Scheme is to provide incentives to focus on long term shareholder returns. These incentive awards have been granted by way of offers to participate in both the Long Term Incentive Share Trust (LTIST) and the Long Term Incentive Option Trust (LTOT).

The expense arising from these transactions is shown in note 5.

The Group operates a number of share-based payment plans. A description of each type of share-based payment arrangement that existed at any time during the period is described below. The fair value of options and rights granted under equity-settled share based arrangements are measured at grant date and spread over the vesting period through a charge to employee benefit expense in the income statement and a corresponding increase in the share-based payments reserve in equity. The fair value of share based payments takes into account market performance conditions, but excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in the assumptions about the number of shares that are expected to be vested. Upon vesting, the relevant amount in the share-based payments reserve is transferred to contributed equity.

##### LTIST

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

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

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

Any shares listed under the LTIST without market based vesting conditions are valued at the external market price at the time of issue and are not valued using a Monte Carlo simulation or other methodology. During FY2017, 2,384,470 shares were issued to staff under a retention scheme with service vesting conditions requiring a maximum of 12 months service for 50% of the shares issued to vest and 2 years' service for 100% of the shares issued to vest. The market value of the shares issued ranged from \$1.05 – \$1.11.

At 30 June 2017, 7,648,455 shares remained outstanding not yet vested (2016: 3,370,583).

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 5: EMPLOYEE REMUNERATION

### 33. SHARE BASED PAYMENTS (CONT.)

#### LTIST (cont.)

##### Key judgments and estimates

##### Valuation of shares granted under LTIST

The fair value of shares granted under the LTIST with market based vesting conditions is determined using a Monte Carlo simulation (using a Black-Scholes framework). The model inputs for restricted shares granted are shown in the table below.

|   | FY2017 grants         | FY2016 grants         |
|---|-----------------------|-----------------------|
| Assessed fair value per share at grant date <sup>(i)</sup>  | \$0.57–\$0.68         | \$0.90–\$1.44         |
| Number of units allocated under the plan during the financial year <sup>(ii)</sup>                              | 2,829,195             | 1,579,497             |
| Share price at grant date   | \$0.84–\$1.13         | \$1.48–\$2.22         |
| Exercise price  | Nil                   | Nil                   |
| Expected price volatility of the Company's shares based on historic volatility                                  | 38%–39%               | 33%–35%               |
| Risk free interest rate   | 1.52%–1.74%           | 1.74%–2.03%           |
| Expected vesting date   | 2–3 years after issue | 1–3 years after issue |
| Dividend yield  | 10.6%–14.3%           | 5.4%–8.1%             |
| Proportion subject to vesting on satisfaction of total security holder return (TSR) performance <sup>(ii)</sup> | 100%                  | 100%                  |

(i) Valued using a Monte Carlo simulation.

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

#### LTIOT

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

Participants were issued units at the prevailing market value of the options. The assessed fair value at grant date of options granted during the year ended 30 June 2011 was 10.43 cents. The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option. Early vesting and the consequences of cessation of employment prior to vesting are identical to the LTIST as described above. Details of movements in each option plan are set out below.

| Financial year | Grant date | Expiry date | Exercise price | Balance at start of the year<br>Number | Granted during the year<br>Number | Forfeited during the year<br>Number | Options exercised during the year<br>Number | Balance at end of the year<br>Number | Vested and exercisable at end of the year<br>Number |
|----------------|------------|-------------|----------------|--|-----------------------------------|-------------------------------------|---|--------------------------------------|---|
| 2011           | 1/11/2010  | 1/11/2017   | \$2.75         | 1,178,836                              | –                                 | 216,962                             | –   | 961,874                              | 961,874   |
| 2011           | 8/11/2010  | 8/11/2017   | \$2.75         | 242,706                                | –                                 | –                                   | –   | 242,706                              | 242,706   |
| <b>Total</b>   |            |             |                | <b>1,421,542</b>                       | <b>–</b>                          | <b>216,962</b>                      | <b>–</b>                                    | <b>1,204,580</b>                     | <b>1,204,580</b>                                    |

The weighted average remaining contractual life of options outstanding at the end of the period is 0.3 years.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 5: EMPLOYEE REMUNERATION

#### 33. SHARE BASED PAYMENTS (CONT.)

##### Other awards

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

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

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 6: OTHER DISCLOSURE ITEMS

#### 34. COMMITMENTS AND CONTINGENCIES

##### (a) Capital expenditure commitments

|  | Consolidated   |                |
|--|----------------|----------------|
|  | 2017<br>\$'000 | 2016<br>\$'000 |
| 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  | 7,517          | 11,905         |
| – later than one year and not later than five years  | 138            | 6,227          |
| – later than five years  | –              | –              |
|  | <b>7,655</b>   | <b>18,132</b>  |

##### (b) Contingent liabilities

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

|  | Note  | Consolidated   |                |
|--|-------|----------------|----------------|
|  |       | 2017<br>\$'000 | 2016<br>\$'000 |
| Bank guarantees – Australian Energy Market Operator and other counterparties | (i)   | 208,162        | 173,903        |
| Bank guarantees – Lease arrangements   | (ii)  | 2,915          | 3,008          |
| Futures margin deposits  | (iii) | –              | 12,366         |
| Security deposits  | (iv)  | 1,345          | 1,005          |
| Bank guarantees – Western Power  | (v)   | 300            | 300            |
| Bank guarantees – NSW exploration licence                                    | (vi)  | –              | 75             |
|  |       | <b>212,722</b> | <b>190,657</b> |

(i) The Group has provided bank guarantees in favour of the Australian Energy Market Operator to support its obligations to settle electricity purchases from the National Electricity Market. Bank guarantees have also been provided to various counterparties in relation to electricity derivatives. A portion of the guarantees are supported by term deposits. \$150m of the bank guarantees are supported by non-cash backed guarantees in 2017 (2016: \$150m).

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

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

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

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

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

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 6: OTHER DISCLOSURE ITEMS

#### 35. RELATED PARTY DISCLOSURES

##### Transactions with St Baker Enterprises Pty Ltd and Sunset Power Pty Ltd

There were no transactions with St Baker Enterprises Pty Ltd during the year. In the prior year, the Company charged \$1,532,994 including GST for consulting and other services provided by ERM Power staff. The charges were at an arm's-length market rate and all invoiced amounts have been paid in full.

There were no transactions with Sunset Power Pty Ltd during the year. In the prior year, the Company charged \$142,042 including GST for consulting and other services provided by ERM Power staff. The charges were at an arm's-length market rate and all invoiced amounts have been paid in full.

##### Transactions with Sunset Power International Pty Ltd

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

The swap contract was entered into on 20 November 2015 and finalised in February 2016. The contract terms and conditions are no more favourable to SPI than those that it is reasonable to expect ERM would have adopted if dealing at arm's-length with an unrelated person and are not adverse to ERM. The components of the contract are as follows:

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

ERM have access to the respective hedge volumes under the agreement out to 31 December 2022. The total premiums payable for the option over the period 1 July 2017 to 31 December 2022 is \$5.3m.

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

As at 30 June 2017 net assets of \$224.5m have been recognised in relation to the above transaction comprising the following:

- » MTM of electricity swaps of \$150.8m of which \$133m is current<sup>(i)</sup>
- » MTM of electricity options of \$62.6m of which \$22.7m is current<sup>(i)</sup>
- » Accrued income of \$12.9m

During the period ended 30 June 2017 total net receipts of \$161.7m were recognised in profit and loss for the year ended 30 June 2017 in respect of the swap agreement.

Under the terms of the swap agreement SPI has posted a bank guarantee in favour of ERM for \$8.5m. The guarantee is accessible under a range of financial risk events.

(i) Refer Note 23 for details of fair value measurement.



# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 6: OTHER DISCLOSURE ITEMS

#### 35. RELATED PARTY DISCLOSURES (CONT.)

##### Other related party transactions

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

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

There is no allowance account for impaired receivables in relation to any outstanding balances, and no expense has been recognised in respect of impaired receivables due from related parties.

|   | Consolidated |            |
|---|--------------|------------|
|   | 2017<br>\$   | 2016<br>\$ |
| <b>Transactions with jointly operated and joint venture entities:</b> |              |            |
| Movements in net loans (repaid) / advanced                            | (382)        | 646        |
| Current trade receivables balance                                     | 93,618       | 93,186     |
| Project fees and operations management fees                           | 2,562,785    | 2,597,824  |
| Electricity derivatives settled                                       | 708          | –          |
| <b>Transactions with associates:</b>                                  |              |            |
| Accrued income balance  | 300,669      | –          |
| Electricity derivatives settled                                       | 1,479,873    | –          |

Refer note 29(b) for details of significant jointly controlled entities and note 29(d) for details of associates.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 6: OTHER DISCLOSURE ITEMS

#### 36. AUDITORS' REMUNERATION

|   | Consolidated   |            |
|---|----------------|------------|
|   | 2017<br>\$     | 2016<br>\$ |
| <i>Amounts received or due and receivable by PricewaterhouseCoopers Australia for:</i>                    |                |            |
| An audit or review of the financial report of the entity and any other entity in the Group                | 555,000        | 540,000    |
|   | <b>555,000</b> | 540,000    |
| <i>Amounts received or due and receivable by PricewaterhouseCoopers Australia for non-audit services:</i> |                |            |
| Other procedures in relation to the entity and any other entity in the consolidated Group                 | 93,328         | 134,400    |
|   | <b>93,328</b>  | 134,400    |
| <b>Total remuneration of PricewaterhouseCoopers Australia</b>   | <b>648,328</b> | 674,400    |
| <i>Amounts received or due and receivable by network firms of PricewaterhouseCoopers Australia for:</i>   |                |            |
| An audit or review of the financial report of the entity and any other entity in the Group                | 143,006        | 148,128    |
| <b>Total remuneration of network firms of PricewaterhouseCoopers Australia</b>                            | <b>143,006</b> | 148,128    |

#### 37. EVENTS AFTER THE REPORTING PERIOD

In July 2017 the Company finalised an amendment to the existing surety guarantee facility with Liberty International Underwriters Singapore, and an associated Fronting Bank Facility agreement with Commonwealth Bank of Australia. The amendment allows for an increase in the facility by \$100m to \$250m and extends the tenor to July 2020.

In July 2017 the Group elected to terminate the existing sleeving arrangement used as part of the US electricity sales operations and entered into a new arrangement with a different supplier. The early termination election required a payment of US\$3.8m to the previous supplier, which was paid in July 2017.

Since 30 June 2017 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.

#### 38. BASIS OF PREPARATION

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

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

A description of the nature of the Group's operations and of its principal activities is included in the review of operations and activities in the Directors' Report on pages 37 to 39.

This report was authorised for issue by the directors on 24 August 2017.

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

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*.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 6: OTHER DISCLOSURE ITEMS

#### 38. BASIS OF PREPARATION (CONT.)

##### Compliance with IFRS

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

##### Historical cost convention

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

##### Early adoption of Australian Accounting Standards

###### (i) *AASB 15 Revenue from Contracts with Customers*

The Group has elected to apply *AASB 15 Revenue from Contracts with Customers* as issued in December 2014 and *AASB 2016-3 Amendments to Australian Accounting Standards – Clarifications to AASB 15*. In accordance with the transition provisions in *AASB 15*, the new rules have been adopted retrospectively.

While *AASB 15* does not need to be applied until 1 January 2018, the Group has decided to adopt it early from 1 July 2016. There was no material difference between the previous carrying amount and the revised carrying amount of the trade receivables, other receivables and accrued income at 1 July 2015 to be recognised in opening retained earnings nor were there any changes in classification of the trade receivables, other receivables and accrued income.

As outlined above, there has been no material impact on adopting *AASB 15* and no restatement of the prior period has occurred.

The accounting policies for the Group's main types of revenue are explained in Note 4.

###### (ii) *AASB 16 Leases*

The Group has also early adopted *AASB 16 Leases* with a date of initial application of 1 July 2016. As a result, the Group's policies were amended to comply with *AASB 16* as issued in February 2016. *AASB 16* replaces *AASB 117 Leases* and results in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The lease liability is measured at the present value of the lease payments that are not paid at the balance date and is unwound over time using the interest rate implicit in the lease repayments. The right-of-use asset comprises the initial lease liability amount, initial direct costs incurred when entering into the lease less any lease incentives received. The asset is depreciated over the term of the lease. The new standard replaces the Group's operating lease expense with an interest and depreciation expense.

The weighted average incremental borrowing rate at the date of initial application was 4%. This has been applied to the liabilities recognised at transition date.

The Group has elected to apply the "Modified Retrospective Approach" when transitioning to the new standard. Under this approach, the Group will not be required to restate the comparative information for its operating leases and the cumulative effect of the initial application is adjusted against opening retained earnings. The Group has elected to measure the carrying amounts of the right of use assets as though the standard had applied from the commencement date of the leases. The opening balance adjustment to retained earnings was a reduction of \$0.7 million.

The Group leases office premises in Brisbane, Sydney, Melbourne, Perth, Newcastle and Houston.

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 6: OTHER DISCLOSURE ITEMS

#### 38. BASIS OF PREPARATION (CONT.)

The Group has changed the presentation of certain amounts on the balance sheet to reflect the terminology of AASB 16. In summary, the following adjustments were made to the amounts recognised on the balance sheet at the date of initial application (1 July 2016):

| \$'000                        | Note | AASB 117<br>carrying<br>amount<br>1 July 2016 | Adjustment | AASB 16<br>carrying<br>amount<br>1 July 2016 |
|-------------------------------|------|---|------------|--|
| Right of use leased assets    |      | –   | 14,408     | 14,408                                       |
| Trade and other payables      | i    | 367,043                                       | (4,891)    | 362,152                                      |
| Current lease liabilities     |      | –   | 2,925      | 2,925  |
| Current provisions            | ii   | 10,999  | (328)      | 10,671                                       |
| Non-current lease liabilities |      | –   | 19,270     | 19,270                                       |
| Non-current provisions        | ii   | 16,427  | (1,522)    | 14,905                                       |
| Deferred tax liability        |      | 99,917  | (314)      | 99,603                                       |

i. Reduction in the operating lease incentive liability.

ii. Elimination of the current and non-current portions of the onerous contract provision.

As outlined above, no restatement of the prior period has occurred. The overall earnings impact on adoption of AASB 16 at 30 June 2017 is an increase in EBITDAF of \$3.5m, and a corresponding increase in depreciation and amortisation of \$2.9m and finance expense of \$0.9m.

The difference between the operating lease commitments disclosed at 30 June 2016 under AASB 117 *Leases*, discounted using the incremental borrowing rate of 4% (\$27.5m) and the initial recognition of the lease liabilities under the new standard (\$21.5m) is due to leases being committed to but commencing after 1 July 2016, the exclusion of outgoing and cleaning costs and changes in operating lease assumptions.

#### *Changes in accounting policies*

The Group has not had to change its accounting policies as the result of new or revised accounting standards which became effective for the annual reporting period commencing on 1 July 2016.

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

#### **(a) Foreign currency translation**

##### **Functional and presentation currency**

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

##### **Transactions and balances**

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

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 6: OTHER DISCLOSURE ITEMS

#### 38. BASIS OF PREPARATION (CONT.)

##### (a) Foreign currency translation (cont.)

###### Group companies

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

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

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

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

##### (b) 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.

##### (c) Rounding of amounts

The Group is of a kind referred to in legislative instrument 2016/191, 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.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 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 2016-1 IASB issues narrow scope amendments to IAS 12 Income taxes (effective from 1 January 2017).*

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

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

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

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

# ERM POWER LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### SECTION 6: OTHER DISCLOSURE ITEMS

#### 38. BASIS OF PREPARATION (CONT.)

##### (d) New accounting standards and interpretations (cont.)

*AASB 2017-2 Annual improvements 2014-2106 cycle (effective from 1 January 2017).*

The amendment clarifies the scope of AASB 12.

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

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

*AASB 2016-5 Classification and Measurement of Share-based Payment Transactions (effective from 1 January 2018).*

Amendments were made to AASB 2 *Share-based Payment* which clarify how to account for cash-settled share-based payments with performance conditions, modifications that change a cash-settled arrangement to an equity-settled arrangement, and equity-settled awards that include a 'net settlement' feature which requires employers to withhold amounts to settle the employee's tax obligations.

*Interpretation 22 Foreign Currency Transactions and Advance Consideration (effective from 1 January 2018).*

The interpretation clarifies how to apply the standard on foreign currency transactions, AASB 121, when an entity pays or receives consideration in advance for foreign currency-denominated contracts.

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

## ERM POWER LIMITED DIRECTORS' DECLARATION

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

- (a) the financial statements and notes set out on pages 53 to 124 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 2017 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 38;
- (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 38 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

Signed in accordance with a resolution of the directors:



**Tony Bellas**  
Chairman  
24 August 2017

# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF ERM POWER LIMITED



### *Independent auditor's report*

To the shareholders of ERM Power Limited

### *Report on the audit of the financial report*

#### *Our opinion*

In our opinion:

The accompanying financial report of ERM Power Limited (the Company) and its controlled entities (together, the Group or ERM) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### **What we have audited**

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2017
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated income statement for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

#### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

#### **Independence**

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF ERM POWER LIMITED



### Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The Group operates across Australia and the United States of America, with its head office finance function based in Brisbane and its US finance function for the Source Power and Gas business based in Houston, United States of America.



### Materiality

- For the purpose of our audit we used overall Group materiality of \$2 million which represents approximately 2.5% of the Group's earnings before interest, tax, depreciation, amortisation and net fair value gains / losses on financial instruments designated at fair value through profit (EBITDAF).
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group EBITDAF as the benchmark because, in our view, it is the metric against which the performance of the Group is most commonly measured.
- We utilised a 2.5% threshold based on our professional judgement.

### Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- In establishing the overall approach to the Group audit, we determined the type of audit work that needed to be performed. Full scope audit procedures were performed over the Australian operations and the Source Power and Gas business, assisted by local component auditors in Houston.
- To be satisfied that sufficient audit evidence has been obtained on the Source Power and Gas business for our opinion on the Group financial report as a whole, the group audit engagement team had active dialogue throughout the year with the local component auditors in Houston, including issuing written instructions, receiving formal interoffice reporting, as well as attending final audit clearance meetings with local management in Houston.

# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF ERM POWER LIMITED



### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

#### Key audit matter

#### How our audit addressed the key audit matter

##### **Energy derivatives accounting treatment, valuation and disclosure**

(Refer to note 13 *Derivative financial instruments*)

The Group enters into various types of forward energy derivative instruments to manage exposure to fluctuations in electricity prices.

As at 30 June 2017, in the financial report, the energy derivative financial assets totaled \$407m, energy derivative financial liabilities totaled \$68m and net fair value gains / losses on energy derivatives impacting profit totaled \$37m.

Given the level of judgement and complexity involved with regard to accounting treatment and valuation of the energy derivatives, the financial size of ERM's derivatives and their material impact on the financial results, we considered this to be a key audit matter.

Some of the key areas of judgement by the Group and accounting complexity arising included:

- The designation, and resulting accounting treatment, of instruments as being hedge accounted or not hedge accounted.
- The classification of fair value gains or losses prior to settlement depending on whether the instrument is hedge accounted or not hedge accounted (i.e. the gain or loss on hedge accounted instruments is recognised in the Consolidated Statement of Comprehensive Income whereas the gain or loss on instruments which are not hedge accounted is recognised in the Consolidated Income Statement).
- The accounting treatment if instruments are settled at a date earlier than the original maturity date, as there is a difference in timing of the recognition of gains or losses in cost of sales dependent on whether the instrument is hedge accounted or not hedge accounted.
- The judgment applied in selecting the appropriate valuation techniques, and associated input assumptions, for each type of energy derivative financial instrument entered into by the Group.

For further details of the accounting policy adopted by the Group and the financial impact, refer to note 13, note 14, note 22 and note 23 in the financial report.

Our procedures in relation to energy derivatives' accounting treatment, valuation and disclosure included, amongst others:

- Obtained an understanding of the Group's internal risk management procedures and the systems and controls around the origination and maintenance of complete and accurate information relating to derivative contracts.
- Where appropriate performed tests of key controls relating to the settlement of derivative contracts.
- Tested a sample of derivative contracts at the year-end date by obtaining third party confirmations of the contract terms.
- Tested the valuation of a sample of derivative contracts at the year-end date where the Group used valuation models. Evaluated the valuation methodology and the incorporation of the contract terms and the key assumptions into the valuation models, including market observable future price assumptions and discount rates, with the assistance of PwC valuation experts.
- Independently recalculated the valuation of a sample of less complex instruments based on available market data.
- Evaluated the Group's assessment of credit risk assumptions applied in the valuation models as required by AASB 13 Fair Value Measurement.
- Assessed the Group's hedge designation documentation and effectiveness testing for a sample of derivatives.
- Evaluated the Group's assessment of the accounting treatment and classification of settled derivative agreements with a settlement date at a date earlier than the original settlement date.
- Assessed the disclosure in the financial statements and evaluated the completeness and accuracy thereof, with particular consideration given to requirements of AASB 9 *Financial Instruments* and AASB 7 *Financial Instruments: Disclosures*.

# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF ERM POWER LIMITED



### Key audit matter

#### Accounting for renewable energy schemes

(Refer to note 13 Derivative financial instruments and note 11 Inventory \$40m)

To meet their compliance obligations under various renewable energy target schemes, ERM are required to surrender environmental certificates when electricity is purchased from the National Electricity Market (NEM) to meet their customers' demand.

The Group holds forward purchase and sale agreements for environmental certificates (forward agreements) and environmental certificates (certificates) under various renewable energy schemes. These forward agreements and certificates may be designated as either held for surrender (own use) or held for trading.

The Group also accrues an environmental certificate liability that represents the best estimate of the expenditure required to acquire certificates required to be surrendered under the various schemes.

The key areas of judgement by the Group and accounting complexity arising in this area included:

- Designation of forward agreements as held for surrender or held for trading.
- Designation of certificates on hand as held for surrender or held for trading.
- The appropriate accounting treatment and valuation of the forward agreements and certificates depending on the designation.
- Calculation of the environmental certificate liability.

In addition, during the year the Group opted to meet a proportion of the Large scale Generation Certificates surrender requirements through the payment of a shortfall charge (the short surrender transaction) and realised profits on the sale of certificates.

Given the material financial impact of the above areas of judgment and accounting complexity and the short surrender transaction in the current period, we considered this to be a key audit matter.

### How our audit addressed the key audit matter

Our procedures in relation to renewable energy schemes included, on a sample basis, amongst others:

- Obtained an understanding of the Group's designation of the forward agreements and certificates, and evaluated this designation by testing it to associated documentation.

#### Certificates in inventory

##### Certificates designated as held for surrender

- Agreed the cost of certificates to supporting purchase invoices.
- Compared the cost of certificates to market prices obtained from broker quotes as at year end to assess whether the certificates are held at the lower of cost and net realisable value.

##### Certificates designated as held for trading

- Recalculated the fair value applied to the inventory by comparing it to the market price obtained from broker quotes.

#### Forward agreements

- Tested the valuation of trading contracts as at 30 June 2017 with the assistance of PwC valuation experts by comparing the forward curve to market observable inputs.

#### Environmental certificate liability

- Assessed the volume of environmental certificates required to meet the compliance obligation by comparing it to electricity purchased from NEM and various scheme terms.
- Recalculated the mathematical accuracy of the environmental certificate liability.
- Tested a sample of liability calculation inputs to supporting documentation (e.g. certificate purchase price documentation, forward purchase contract confirmation or spot price obtained from broker).

#### Short surrender transaction

- Agreed the shortfall charge paid and receipts from the sale of certificates to bank statements.
- Assessed the tax treatment related to the shortfall charge with the assistance of PwC tax specialists.

# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF ERM POWER LIMITED



### Key audit matter

### How our audit addressed the key audit matter

#### **Sunset Power International derivative agreement**

*(Refer to note 35 Related party disclosures \$225m and note 13 Derivative financial instruments)*

The Group entered into a significant long term electricity derivative contract with Vales Point power station in the 2016 financial year (the contract). The power station is 100% owned by Sunset Power International Pty Ltd, which is controlled by a related party of ERM.

The related party disclosures in Note 35 sets out the key terms of the arrangement.

Judgement is required by the Group in estimating the fair value of the derivative contract, due to the life of the contract extending beyond a period that forecast market data can be obtained. The fair value estimate also requires valuation techniques and assumptions that are specific to the derivative.

On inception of the contract, a difference was identified between the premiums paid for the contract and the estimated fair value of the contract. Refer to Note 23 for treatment of the difference (the day one gain).

Given the importance of the contract to the financial position and performance of the Group, the level of valuation judgement, and related party nature, we considered this to be a key audit matter.

We performed the following procedures, amongst others:

- Assessed the valuation of the derivative contract at the year-end date. Evaluated the valuation methodology and the incorporation of the contract terms and the key assumptions into the valuation model, including future price assumptions and discount rates, with the assistance of PwC valuation experts.
- Evaluated the Group's assessment of credit risk assumptions applied in the valuation model as required by AASB 13 Fair Value Measurement.
- Assessed whether the accounting treatment of the day one gain is consistent with that established at inception.
- Assessed the consistency of the related party disclosures with Australian Accounting Standards by agreeing the disclosures to contractual terms, the derivative valuation model and related documentation.

#### **Impairment assessment on the Group's goodwill**

*(Refer to note 16 \$27m and note 17)*

ERM Power Limited recognised \$27m of goodwill as at 30 June 2017. This goodwill is resulting from the acquisition in 2015 of Source Power and Gas (\$20m) and the acquisitions of Lumaed Pty Ltd (\$3m) and Greensense Pty Ltd (\$4m) in 2016. These acquisitions are as a result of ERM's strategy focused on growth through investing into other markets and energy solutions.

As noted in note 17 to the financial report, Lumaed Pty Ltd and Greensense Pty Ltd now form part of the Energy Solutions business.

Given the early stage of these businesses in their lifecycle, and the level of judgement by the Group involved in estimating the key assumptions in the discounted cash flow models used to assess whether goodwill is impaired (the models), we have determined that the carrying value of goodwill was a key audit matter.

No impairment charge has been recorded by the Group in the current financial year however, the models used to assess impairment are judgmental and highly sensitive to changes in key assumptions (including growth rates, margins and discount rates).

Our procedures in relation to the impairment assessment of goodwill included, on a sample basis, amongst others:

- Assessed the appropriateness of the Group's determination of cash generating units (CGUs), including the allocation of assets to CGUs.
- Tested the mathematical accuracy of the models.
- Evaluated the Group's key assumptions and estimates (including growth rates and margins) in relation to cash flow forecasts within the models by comparing them to signed contracts and Board approved budgets. Where appropriate we have used historical results to inform our assessment of key assumptions.
- Evaluated the discount rate and growth rate assumptions in the models with the support of PwC valuation specialists by comparing them to market observable inputs.
- Performed sensitivity analysis to assess the impact of any changes, that were viewed as reasonably possible, in key assumptions used in the models, including the discount rates, growth rates and margins.
- Where appropriate, with the assistance of PwC valuation specialists, we also performed a fair value less cost to sell assessment to provide additional audit evidence that goodwill was not impaired.

# INDEPENDENT AUDITOR'S REPORT

## TO THE MEMBERS OF ERM POWER LIMITED




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### *Other information*

The directors are responsible for the other information. The other information comprises the Operating and Financial Review, the Board of Directors and the Directors' Report included in the Group's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### *Responsibilities of the directors 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ERM POWER LIMITED



## *Report on the remuneration report*

### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 40 to 52 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of ERM Power Limited for the year ended 30 June 2017 complies with section 300A of the Corporations Act 2001.

### *Responsibilities*

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.

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

This auditor's report relates to the financial report of ERM Power Limited for the reporting period ended 30 June 2017 included on ERM Power Limited's web site. The directors of the Company are responsible for the integrity of ERM Power Limited's web site. We have not been engaged to report on the integrity of the web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communication they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

The PricewaterhouseCoopers logo is written in a cursive, handwritten style.

PricewaterhouseCoopers

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

Michael Shewan  
Partner

Brisbane  
24 August 2017

# ERM POWER LIMITED

## SHARE AND SHAREHOLDER INFORMATION

### TWENTY LARGEST SHAREHOLDERS

The following table sets out the 20 largest shareholders of ERM Power Limited (Company), when multiple holdings are grouped together, and the percentage each holds of the 254,396,467 shares on issue as at 28 August 2017.

| Shareholders   | Shares<br>#        | %            |
|--|--------------------|--------------|
| 1 St Baker Energy Holdings Pty Ltd                         | 43,549,489         | 17.12        |
| 2 J P Morgan Nominees Australia Limited                    | 21,288,327         | 8.37         |
| 3 HSBC Custody Nominees (Australia) Limited                | 13,594,561         | 5.34         |
| 4 Smartequity EIS Pty Ltd                                  | 12,624,454         | 4.96         |
| 5 Citicorp Nominees Pty Limited                            | 11,317,657         | 4.45         |
| 6 Ilwella Pty Limited                                      | 11,209,001         | 4.41         |
| 7 Sunset Power Pty Ltd                                     | 6,435,892          | 2.53         |
| 8 Gaffwick Pty Limited                                     | 6,396,664          | 2.51         |
| 9 Andrew St Baker & Cathryn St Baker                       | 4,466,087          | 1.76         |
| 10 CS Third Nominees Pty Limited                           | 4,408,771          | 1.73         |
| 11 St Baker-Childs Investments Pty Ltd                     | 4,054,228          | 1.59         |
| 12 Sandhurst Trustees Ltd                                  | 3,155,148          | 1.24         |
| 13 Trevor and Judith St Baker Family Philanthropic Pty Ltd | 3,025,242          | 1.19         |
| 14 Philip St Baker and Peta St Baker                       | 2,826,593          | 1.11         |
| 15 St Baker Sunset Holdings Pty Ltd                        | 2,622,185          | 1.03         |
| 16 Sunset Power A Pty Ltd                                  | 2,538,749          | 1.00         |
| 17 Sunset Power B Pty Ltd                                  | 2,538,749          | 1.00         |
| 18 Sunset Power C Pty Ltd                                  | 2,538,749          | 1.00         |
| 19 Sunset Power D Pty Ltd                                  | 2,538,749          | 1.00         |
| 20 St Baker Investments Pty Ltd                            | 2,282,185          | 0.90         |
| <b>Total</b>   | <b>163,411,480</b> | <b>64.24</b> |

### DISTRIBUTION OF SHARES

The following table summarises the distribution of shares as at 28 August 2017:

| Shareholdings      | Shareholders<br># | % of issued shares |
|--------------------|-------------------|--------------------|
| 1 – 1,000          | 1,221             | 0.25               |
| 1,001 – 5,000      | 2,755             | 3.22               |
| 5,001 – 10,000     | 1,359             | 4.19               |
| 10,000 – 100,000   | 1,590             | 15.78              |
| 100,001 – and over | 135               | 76.57              |
| <b>Total</b>       | <b>7,060</b>      | <b>100.00</b>      |

The number of investors holding less than a marketable parcel of 347 shares was 385, holding 35,210 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 <sup>1</sup> | 04/07/2016              | 63,516,907                                | 25.84%                            |

<sup>1</sup> Trevor Charles St Baker controls each registered shareholder of St Baker Energy Holdings Pty Ltd as trustee for the St Baker Energy Innovation Trust, Sunset Power A Pty Ltd as trustee for the Sunset Power Trust A, Sunset Power B Pty Ltd as trustee for the Sunset Power Trust B, Sunset Power C Pty Ltd as trustee for Sunset Power Trust C, Sunset Power D Pty Ltd as trustee for the Sunset Power Trust D, Baygrove Pty Ltd as trustee for ERM Consultants STF S/F, Sunset Power Pty Ltd as trustee for the St Baker Family Trust, Sunset Power Holdings Pty Ltd and Trevor and Judith St Baker Family Philanthropic Pty Ltd as trustee for the Trevor and Judith St Baker Family Foundation. Trevor is a joint registered holder of TC and JK St Baker as trustee for some family members.

### 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 under the symbol "EPW".

### UNQUOTED SECURITIES

As at 28 August 2017, there were 1,142,070 options on issue, each exercisable into a fully paid ordinary share.

| Expiry Date     | Issue price of shares (cents) | Number under option | Number of holders |
|-----------------|-------------------------------|---------------------|-------------------|
| 1 November 2017 | 275.0                         | 899,364             | 16                |
| 8 November 2017 | 275.0                         | 242,706             | 1                 |



# ERM POWER LIMITED

## CORPORATE INFORMATION

### ERM Power Limited

ABN 22 122 259 223

### Directors

Tony Bellas (Non-Executive Chair)  
Albert Goller  
Georganne Hodges  
Tony Iannello  
Philip St Baker  
Wayne St Baker  
Jon Stretch (Managing Director and CEO)

### Company Secretary

Phil Davis

### Head Office

(Registered Office and Principal Place of Business)

Level 52, One One One  
111 Eagle Street  
Brisbane QLD 4000

GPO Box 7152  
Brisbane Qld 4001  
Australia

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

### Website

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

### Auditors

PricewaterhouseCoopers

### Share Registry

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000

Telephone: 1300 554 474  
Facsimile: (02) 9287 0303

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