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ERM

PROSPECTUS

for the offer of 57,142,858
Shares at \$1.75
per Share in ERM Power

Global Co-ordinator



Joint Lead Managers



RBS

RBS Morgans

Important Information

Offer

The Offer contained in this Prospectus is an invitation to acquire fully paid ordinary shares in ERM Power Limited ('ERM Power' or the 'Company') ('Shares').

Lodgement and listing

This Prospectus is dated 17 November 2010 and a copy was lodged with ASIC on that date. No Shares will be issued on the basis of this Prospectus after the date that is 13 months after 17 November 2010.

ERM Power will, within seven days after the date of this Prospectus, apply to ASX for admission to the official list of ASX and quotation of Shares on ASX. Neither ASIC nor ASX takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

Note to Applicants

The information in this Prospectus is not financial product advice and does not take into account your investment objectives, financial situation or particular needs.

It is important that you read this Prospectus in its entirety before deciding whether to invest. In particular, you should consider the risk factors relevant to ERM Power. You should carefully consider these risks in light of your personal circumstances and seek professional guidance before deciding whether to invest in Shares. Some of the key risk factors that should be considered by prospective investors are set out in Section 6. There may be risk factors in addition to these that should be considered in light of your personal circumstances.

You should also consider the assumptions underlying the Forecast Financial Information and the risk factors that could affect ERM Power's business, financial condition and results of operations.

No person named in this Prospectus, nor any other person, guarantees the performance of ERM Power or the repayment of capital or any return on investment.

No offering where offering would be illegal

The Offer is available to Australian residents. The Offer is not extended to any investor outside Australia, other than to institutional investors as part of the Institutional Offer. The distribution of this Prospectus in jurisdictions outside Australia may be restricted by law. Seek advice on and observe any restrictions. This Prospectus is not an offer in any place where, or to any person to whom, it would not be lawful to make the Offer.

In particular, this Prospectus may not be distributed into the United States. The Shares have not been registered under the US Securities Act of 1933 (as amended) and will not be offered or sold in the United States. For details of selling restrictions that apply to the Shares in certain jurisdictions outside of Australia, please refer to Section 10.13.

Financial Information presentation and amounts

This Prospectus includes Forecast Financial Information based on the assumptions of the Directors. The basis of preparation and presentation of the Forecast Financial Information, to the extent relevant, is consistent with the basis of preparation and presentation for the Historical Financial Information. The Forecast Financial Information presented in this Prospectus is unaudited.

The Historical Financial Information is derived from the statutory results of operations and financial position of ERM Power, as adjusted to reflect the effect of the Offer. Refer to Section 8 for a further description of the basis of presentation of the Historical Financial Information. The FY2008 and FY2009 consolidated financial statements were audited by Deloitte, who issued an unqualified opinion on FY2008 and a qualified opinion on FY2009. The FY2010 consolidated financial statements were audited by PricewaterhouseCoopers, who has issued an unqualified opinion on FY2010. The nature of the FY2009 qualification was in respect of accounting for both the deliverable and non-deliverable electricity commodity contracts as derivative financial instruments in accordance with AASB 139. Further information on the nature of the qualification and the restatement of the FY2009 comparatives (in the FY2010 financial statements) is set out in Section 8.2.

The Historical Financial Information and the Forecast Financial Information in this Prospectus should be read in conjunction with, and are qualified by reference to, the information set out in Section 8.

To assist investors to understand ERM Power, supplementary financial information is presented on a proportionately consolidated basis and does not form part of the Historical Financial Information or Forecast Financial

Information. Proportionate consolidation is not consistent with Australian Accounting Standards as set out in Sections 1.2 and 8.2.

All financial amounts contained in this Prospectus are expressed in Australian currency unless otherwise stated. Any discrepancies between totals and sums and components in tables and figures contained in this Prospectus are due to rounding.

Disclaimer

No person is authorised to give any information or to make any representation in connection with the Offer which is not contained in this Prospectus. Any information not so contained may not be relied upon as having been authorised by ERM Power, the Joint Lead Managers or any other person in connection with the Offer. You should rely only on information in this Prospectus.

This Prospectus contains forward looking statements which are identified by words such as 'may', 'could', 'believes', 'estimates', 'expects', 'intends' and other similar words that involve risks and uncertainties. Such statements are not statements of fact and there can be no certainty of outcome in relation to the matters to which the statements relate. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements. Those risks, uncertainties, assumptions and other important factors are not all within the control of ERM Power and cannot be predicted by ERM Power. None of ERM Power, its officers, any persons named in this document with their consent or any person involved in the preparation of this document makes any representation, assurance or guarantee as to the accuracy or likelihood of fulfilment of any forward looking statement or any outcomes expressed or implied in any forward looking statements. Forward looking statements, including the Forecast Financial Information in Section 8, are subject to various risk factors that could cause ERM Power's actual results to differ materially from the results expressed or anticipated in these statements. These risk factors are set out in Section 6.

Exposure period

ERM Power will not process Application Forms during the seven day period after the date of lodgement of this Prospectus with ASIC. This period may be extended by ASIC for a further seven days. Application Forms received during the exposure period will not be processed until after the expiry of that period. No preference will be given to Application Forms received during the exposure period.

Obtaining a copy of this Prospectus

A paper copy of the Prospectus is available free of charge to any person in Australia by calling the ERM Power Offer Information Line on 1800 882 147 (within Australia) or +61 2 8280 7924 (outside Australia) between 8:30am and 7:30pm (Sydney time), Monday to Friday.

This Prospectus is also available to Australian resident investors in electronic form on the Offer website, www.empower.com.au/offer. Applications may only be made on the Application Form attached to this Prospectus or on a printed copy of the electronic version downloaded in its entirety.

Defined terms and abbreviations

Defined terms and abbreviations used in this Prospectus are explained in Section 11. Unless otherwise stated or implied, references to times in this Prospectus are to Sydney time.

Photographs and diagrams

Photographs used in this Prospectus without descriptions are only for illustration. The people shown are not endorsing this Prospectus or its contents. Diagrams used in this Prospectus may not be drawn to scale. The assets depicted in photographs in this Prospectus are not assets of ERM Power unless otherwise stated.

Privacy

If you complete an Application Form, you will be providing personal information to ERM Power and the Share Registry. The Corporations Act requires information about you to be included in ERM Power's share register, which is publicly available. ERM Power collects, holds and will use that information to assess your application and to communicate and provide services to you as a Shareholder. ERM Power may disclose information to its agents, service providers (such as the Share Registry) and government bodies. You may access, correct and update the personal information that we hold about you by contacting the Share Registry.

This document is important and should be read in its entirety.

Important Dates

| | |
|--|------------------|
| Prospectus date | 17 November 2010 |
| Retail Offer (Priority Offer and Broker Firm Offer) opens – 9:00am (Sydney time) | 25 November 2010 |
| Priority Offer closes – 5:00pm (Sydney time) | 3 December 2010 |
| Broker Firm Offer closes – 5:00pm (Sydney time) | 8 December 2010 |
| Retail and institutional settlement | 9 December 2010 |
| Basis of Share allocation announced | 9 December 2010 |
| Issue and allotment of Shares | 10 December 2010 |
| Deferred settlement trading expected to commence on ASX | 10 December 2010 |
| Expected dispatch of holding statements | 14 December 2010 |
| Shares expected to commence trading on ASX on a normal settlement basis | 15 December 2010 |

Note: This timetable is indicative only. All dates and times are in reference to Sydney time. ERM Power, in consultation with the Joint Lead Managers, may vary the times and dates, without notice. Investors are encouraged to submit their Application Form as soon as possible after the Offer opens.

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Offer Summary

Key Offer Statistics

| | |
|--|-----------------|
| Offer Price per Share | \$1.75 |
| Shares offered under this Prospectus | 57.1 million |
| Gross proceeds from the Offer | \$100.0 million |
| Total Shares on issue following the Offer | 159.8 million |
| Market capitalisation (at the Offer Price) | \$279.6 million |
| Net debt | \$97.6 million |
| Enterprise value ¹ | \$377.2 million |
| Gearing ² | 25.9% |

Summary of Financials

| | Audited FY2010A | Forecast FY2011F | Forecast FY2012F |
|--|--------------------|---------------------|---------------------|
| Total revenue | \$418.4 million | \$478.9 million | \$690.9 million |
| EBITDAIF (including profit of associate) ³ | \$68.7 million | \$45.7 million | \$62.4 million |
| Profit/(Loss) before income tax | \$(21.1) million | \$37.1 million | \$55.0 million |
| NPAT ⁴ | \$(15.8) million | \$26.5 million | \$39.0 million |
| Net fair value (gain)/loss on financial instruments designated at fair value through profit and loss net of tax effect | \$26.1 million | \$(23.0) million | \$(13.9) million |
| Underlying NPAT ⁵ | \$10.3 million | \$3.5 million | \$25.2 million |
| Earnings per Share ⁶ | n/a | 16.6 cents | 24.4 cents |
| Underlying earnings per Share ⁷ | n/a | 2.2 cents | 15.7 cents |
| Dividends per Share ⁸ | n/a | 3.5 cents | 7.7 cents |

Summary of Forecast Investment Metrics

| | Forecast FY2011F | Forecast FY2012F |
|--|---------------------|---------------------|
| Enterprise value/EBITDAIF | 8.3 times | 6.0 times |
| Annualised dividend yield (at the Offer Price) | 4.0% | 4.4% |

¹ Reflects market capitalisation at the Offer Price plus pro forma net debt of \$97.6 million as at 30 June 2010.

² Gearing is calculated as (net debt/enterprise value).

³ EBITDAIF varies significantly year on year due to timing of receipt of development fees and asset sales and growth in electricity sales. Refer to Sections 1.2 and 8.3.1 and 8.4 for further details of the composition of EBITDAIF.

⁴ NPAT includes the impact of an increase/decrease in the fair value of existing financial instruments. For further information, refer to Section 8.

⁵ References to Underlying NPAT in this Prospectus exclude the marked to market changes recognised on financial instruments and onerous contracts. The concept of Underlying NPAT is not consistent with Australian Accounting Standards. For further information, refer to Section 8.

⁶ Based on 159.8 million Shares outstanding. This amount excludes 11.8 million Options outstanding.

⁷ Calculation of underlying EPS is based on Underlying NPAT and based on 159.8 million Shares outstanding.

⁸ No guarantee can be given about the payment of dividends, the level of franking of such dividends or the payout ratio for any future period. These matters depend on ERM Power's underlying cash flow requirements, profitability and its financial and taxation position at the time.

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Chairman's Letter

17 November 2010

Dear Investor,

On behalf of the Directors, it is my pleasure to invite you to join me, together with the management and staff, as a Shareholder of ERM Power Limited.

Founded in 1980 as a specialist energy advisory firm, ERM Power has transitioned and grown through market deregulation and government privatisation to become Australia's largest private energy sector Company⁹, with FY2010 revenues of \$418.4 million, forecast to grow to \$690.9 million in FY2012.

ERM Power offers Shareholders direct exposure to the forecast growth of the Australian electricity industry through businesses spanning electricity sales, generation and gas procurement.

Our generation business was established in the mid-1990s to capture opportunities arising from the deregulation of the Australian electricity industry. Since then, ERM Power has led this sector, lead managing the development of six gas-fired power stations. This represents a total of 2,669 MW¹⁰ of installed generation capacity or 29% of all new scheduled generation commissioned across Australia over the last five years. ERM Power is operator of three of these six power stations and retains an effective ownership¹¹ in two.

As the dominant form of new electricity generation in Australia over the last decade, I strongly believe gas-fired generation will continue to represent the most affordable, low emission solution in Australia for at least the next decade. ERM Power is well positioned to capture a significant share of future generation development as a result of our professional competencies in long-range planning and development approvals, our 'bank' of strategic land holdings and our track record for delivering projects on time and on budget.

The electricity sales business ('ERM Sales'), established in 2007 in response to privatisation of the Queensland retail electricity sector, sells electricity predominantly to large business customers such as railways, coal mines, refineries, airports, government agencies and other industrial and commercial enterprises. As one of the leading suppliers to the business customer market in Queensland, ERM Sales is now also growing its market share in other States, benefiting from strong electricity demand growth across Australia.

An important part of ERM Power's business is the visibility of future earnings and performance derived from forward contracts. Wholesale electricity generation off-take is typically contracted 10 to 20 years out from commissioning, while the terms for electricity sales contracts currently average 2.5 years. By way of example, as at 30 September 2010, ERM Sales has \$57.4 million of expected gross margin covered by existing sales contracts representing 94% of the forecast gross margin for FY2011, 62% for FY2012 and \$13.7 million beyond the Forecast Period.

⁹ BRW 'Top 500 Private Companies' 26 August 2010, Vol 32 No. 33

¹⁰ Based on AEMO Winter Aggregate Scheduled and Semi Scheduled Generation Capacity (for Qld, NSW, Vic, Tas, NT and SA) and ESAA 2010 (for WA)

¹¹ 12.5% interest in Oakey power station and 50% interest in Neerabup power station

ERM Power offers Shareholders direct exposure to the forecast growth of the Australian electricity industry through businesses spanning electricity sales, generation and gas procurement.

In recent years, the Company has expanded its gas procurement business through select investments in exploration opportunities offering the potential for future integration with ERM Power's generation projects and retained assets. With minimal capital expenditure, the gas business has secured access to 11,600 km² of exploration acreage and participated in a successful gas and condensate discovery in the Perth Basin, in close proximity to gas pipelines and the Neerabup power station in which ERM Power has a 50% interest.

The significant growth that ERM Power has achieved over the last five years has, I believe, been driven by the strategic insight and execution capability of its management team. As the Company's founder, I am proud to say that ERM Power has achieved this growth safely and responsibly, providing solid foundations for sustained prosperity. A listing on ASX will provide ERM Power with greater access to equity capital markets and a sustainable capital structure that will allow the Company to pursue identified growth opportunities.

I am also privileged to have on the Board four outstanding independent Non-Executive Directors to oversee the continued corporate development of ERM Power, and to ensure continued sound governance in the interests of all Shareholders.

Information about the Offer and ERM Power's business is set out in this Prospectus, which I encourage you to read carefully and in full. A detailed summary of the key risks to ERM Power's businesses is set out in Section 6, which I encourage you to read and understand prior to making an investment decision.

On behalf of the Board and management I commend the Offer to you and look forward to welcoming you as a Shareholder.

Yours sincerely,



Trevor St Baker

Chairman

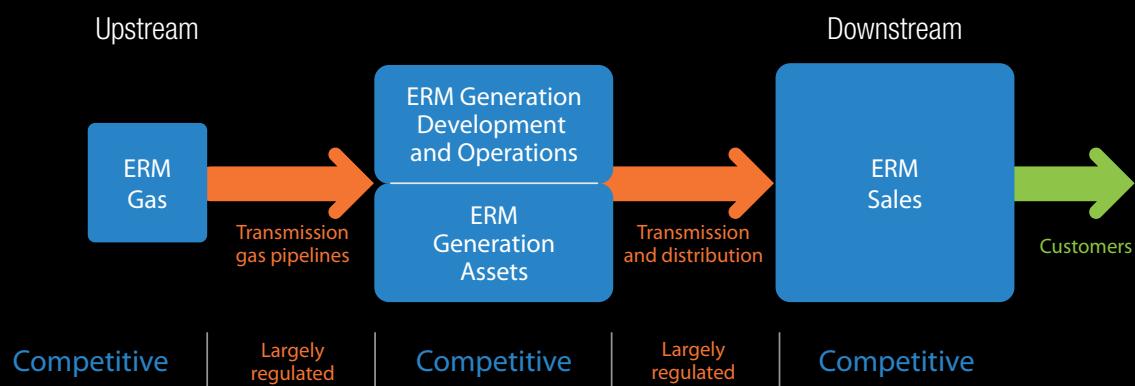
KEY INVESTMENT HIGHLIGHTS

EXPOSURE TO THE GROWING AUSTRALIAN ENERGY MARKET

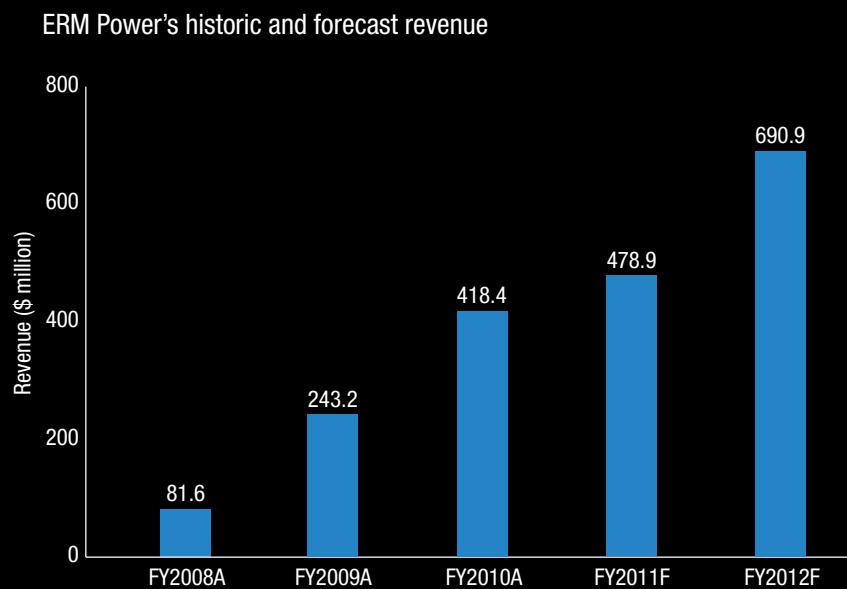
Electricity sales business focused on the larger end of the **business customer** market

Focus on low emission **gas-fired generation** assets with long term contracts

Integrated business operating in the competitive elements of the market



Organically grown business with a **strong foundation** for continued growth



KEY INVESTMENT HIGHLIGHTS

IDEALLY POSITIONED TO BENEFIT FROM CHANGING INDUSTRY CONDITIONS

ERM Power's existing and planned **gas-fired power stations** are well placed to:

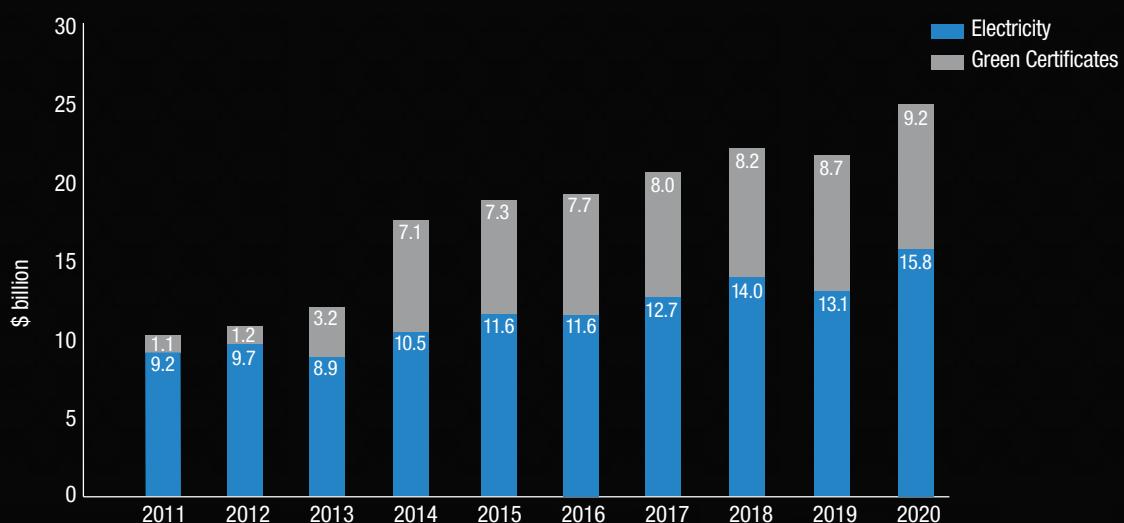
- provide support for intermittent **renewable energy sources** e.g. wind, solar
- benefit from policies supporting **lower greenhouse emission targets**

Investment
Opportunities
for
Renewable
Energy



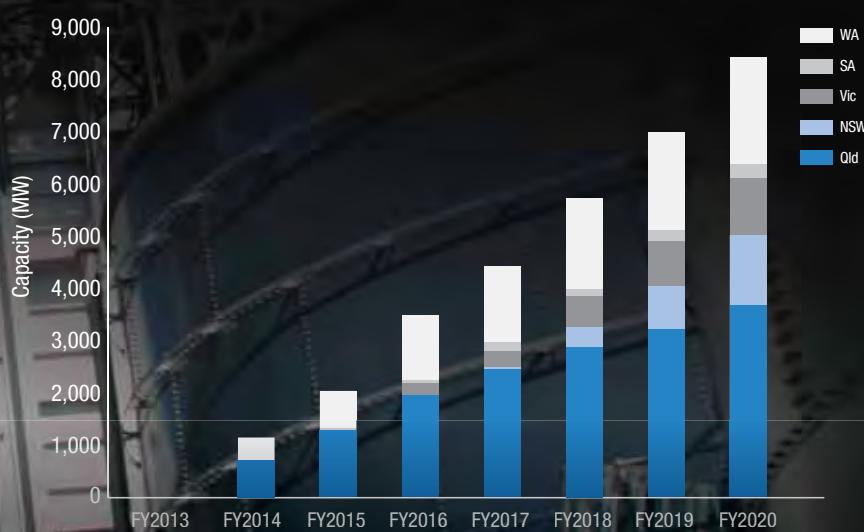
Strong growth forecast in the electricity market

Forecast electricity market turnover (excluding transmission and distribution charges)[†]



Approximately 8,500 MW of new generation capacity likely to be required over the next decade

Cumulative new system capacity requirements in the NEM and WEM[‡]



[†] Source: Electricity: AEMO 2010 ESOO, IMO 2010 SOO and Industry Expert's Report;

Green Certificates (Carbon): Modelling a Voluntary Generator Retirement Policy, ACIL Tasman, 12 March 2010 (Figure 8 Policy case), IMO 2010 SOO and ABARE (www.abare.gov.au/publications_html/data/data/data.html) for calculated emissions intensity and Australia's Low Pollution Future, Commonwealth of Australia (Chart 3.4);

Green Certificates (RECs): Renewable Energy (Electricity) Amendment Bill 2009 (Cwth), Renewable Energy (Electricity) (Charge) Amendment Bill 2009 (Cwth) and McLennan Magasanik Associates 'Impact of Changes to the Design of the Expanded Renewable Energy Target, May 2010' (page 24);

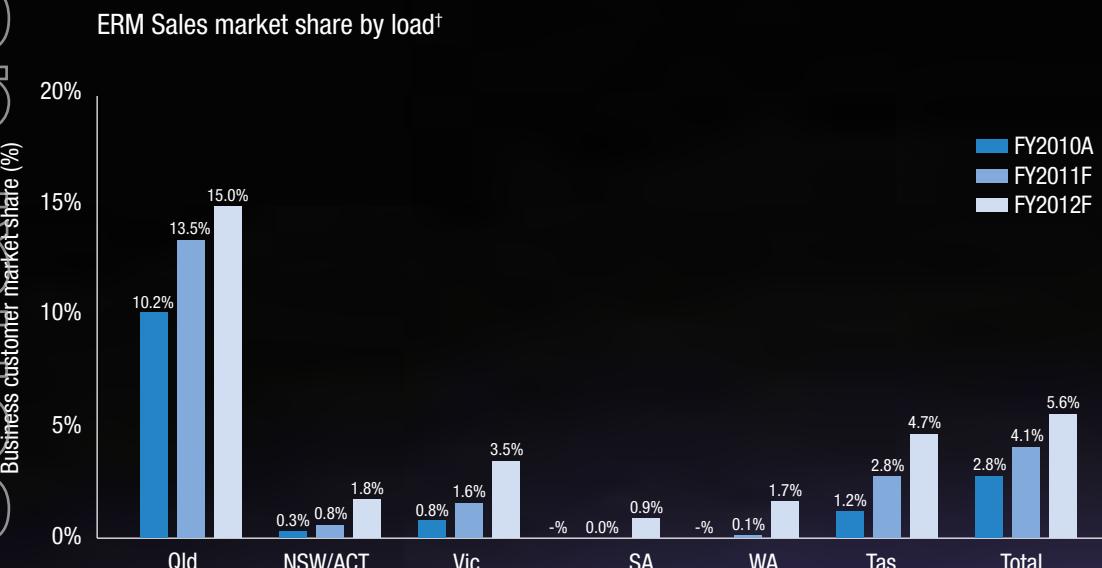
Green Certificates exclude State-based schemes (NGACs, GECs etc).

[‡] Source: Data compiled from National Transmission Statement for the National Electricity Market 2009, Volume 2 Appendix F, page 15, also refer pp.3-9 – 3-11 (with data adjusted by AEMO 2010 ESOO -AEMO's contribution to peak demand factors for wind for each State, refer AEMO 2010 SOO Table 5-38, page 133).

KEY INVESTMENT HIGHLIGHTS

ERM SALES – A RAPIDLY GROWING ELECTRICITY SALES BUSINESS

\$57.4 million of expected gross margin covered by existing sales contracts



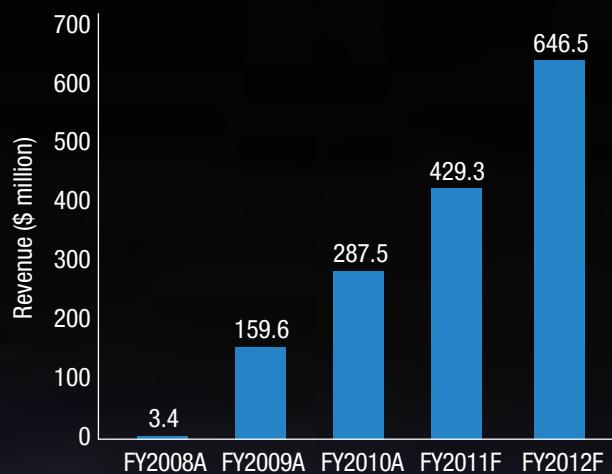
Strong market share in Queensland and growing presence in other States

[†] Source: Industry Expert's Report in Appendix 1 – Section 5.3, Table 13 with extrapolation of 2010/11 figures based on constant growth in business energy consumption between 2009/10 and 2011/12 estimates.

Strong growth potential with forecasts already substantially covered by existing sales contracts

Scalable business with predominantly fixed overhead costs

ERM Sales' historic and forecast revenue



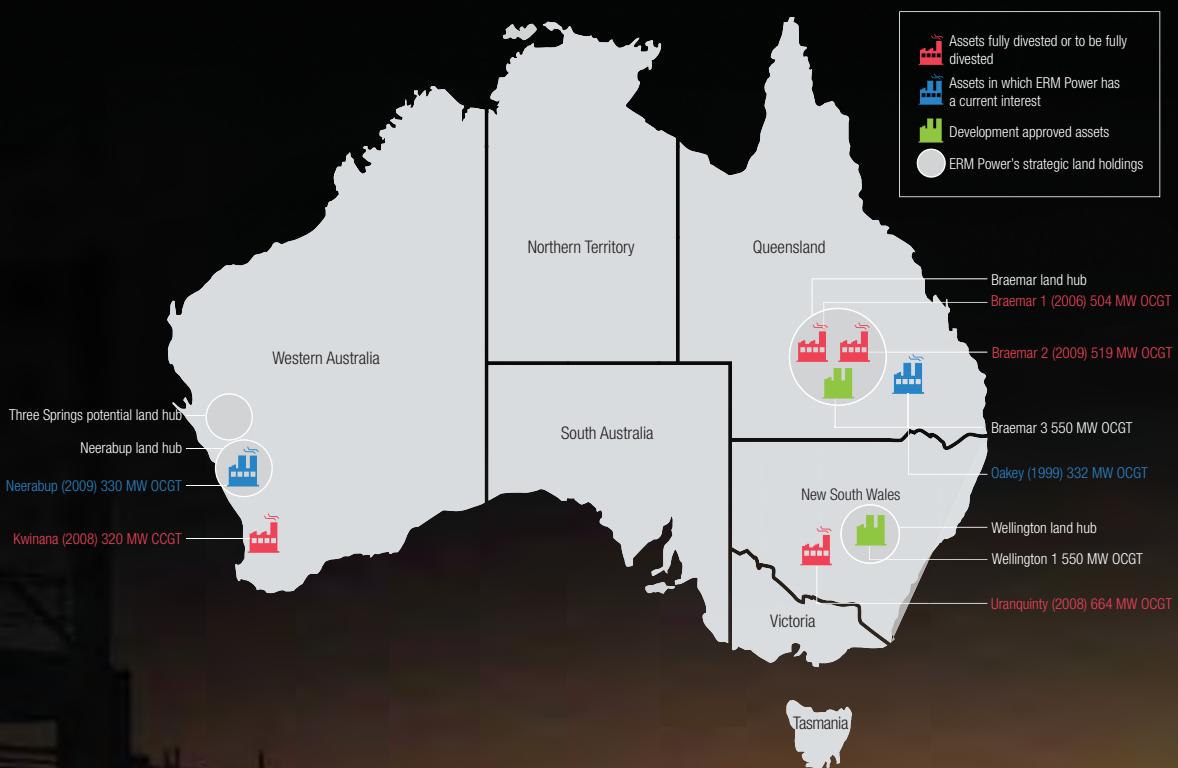
94% of FY2011
and 53% of FY2012
forecast load already
covered by existing
sales contracts

Customers include



KEY INVESTMENT HIGHLIGHTS

AUSTRALIA'S LEADING DEVELOPER OF GAS-FIRED POWER STATIONS[†]



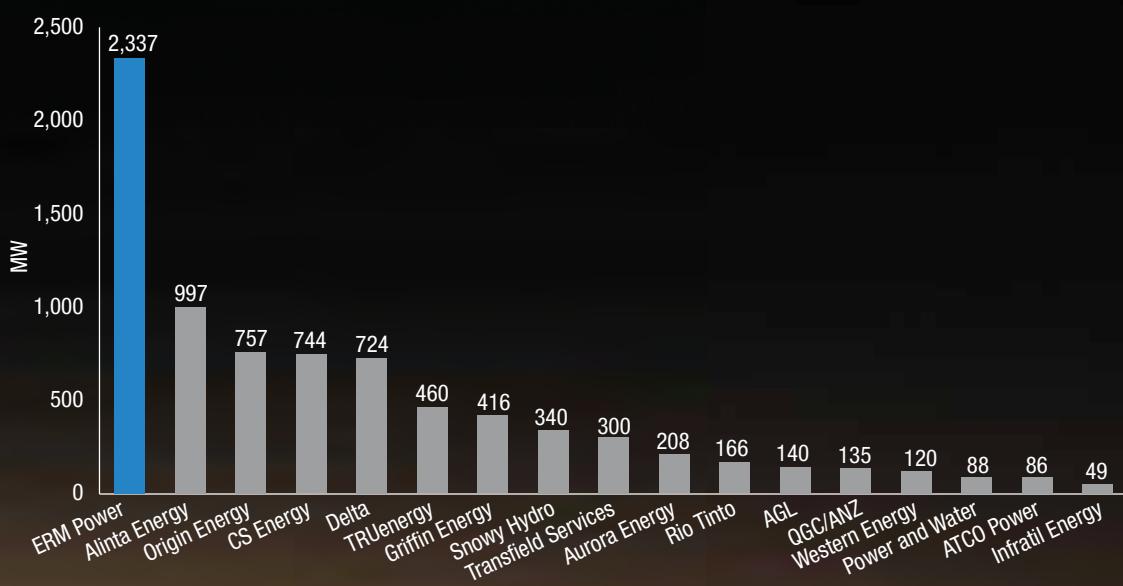
100% track record of completing projects once a development is approved

Excellent safety record
– approximately 5 million man hours without a single permanent injury

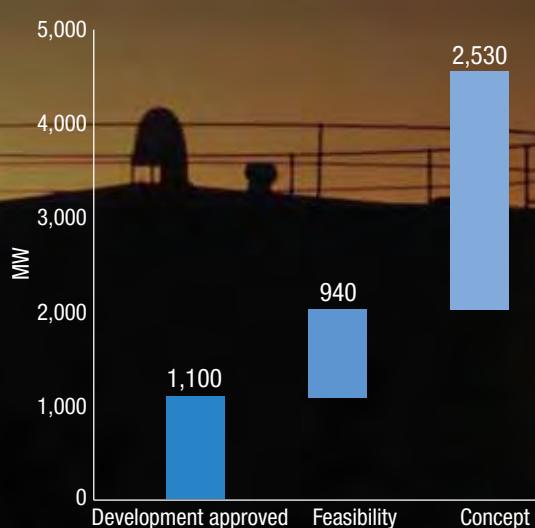
[†] Note: Power station project sizes set out in the diagram are based on current or expected AEMO Winter Aggregate Scheduled and Semi Scheduled Generation Capacity (for Qld, NSW, Vic, Tas, NT and SA) or generation capacity of registered facilities published by IMO (for WA).

Led and managed the development of **29%** of Australia's scheduled generation capacity commissioned over the last five years

Scheduled generation capacity commissioned since 2005 by lead developer[‡]



ERM Power's generation development pipeline^{††}



Development pipeline of 11 gas-fired generation projects totalling 4,570 MW^{††} of new capacity supported by a strategic land portfolio

[‡] Source: Based on AEMO Website: Winter Aggregate Scheduled and Semi Scheduled Generation Capacity (for Qld, NSW, Vic, Tas, NT and SA) and ESAA 2010 (for WA). Note: Scheduled capacity (MW) figures per entity do not relate to historical or current ownership interests in the commissioned generation capacity.

^{††} MW capacity is based on expected AEMO Winter Aggregate Scheduled and Semi Scheduled Generation Capacity (for Qld, NSW, Vic, Tas, NT and SA) or expected generation capacity based on registered facilities published by IMO (for WA).

KEY INVESTMENT HIGHLIGHTS

QUALITY GAS-FIRED GENERATION ASSETS

ERM Power has **retained ownership** interests in two gas-fired peaking power stations[†]

Supported by long term off-take agreements with **creditworthy counterparties**

Strategically located in close proximity to energy resources and infrastructure in high growth regions

Each power station is expected to have a **significant useful life** following completion of the initial off-take agreement

† ERM Power's interests include a 12.5% interest in the Oakey power station and a 50% interest in the Neerabup power station. ERM Power has fully divested its ~30% interest in the Kwinana power station in FY2011 and has contracted to fully divest its remaining 25.05% interest in the Braemar 2 power station by 30 June 2011. Refer to Section 10.7 for further details.



Oakey

Location Darling Downs, 150 km west of Brisbane, Queensland

Commission date December 1999

Type Peaker (< 5% expected ACF)

Capacity[‡] 332 MW

ERM Power ownership 12.5%

Operator/Manager Contact Energy

Technology Open Cycle Gas Turbine (dual fuel)

Pipeline n/a



Neerabup

Location 40 km north of Perth, Western Australia

Commission date October 2009

Type Peaker (< 7% expected ACF)

Capacity[‡] 330 MW

ERM Power ownership 50%

Operator/Manager ERM Power

Technology Open Cycle Gas Turbine

Pipeline 30 km high pressure gas pipeline linepack

[‡] Source: Oakey capacity (MW) based on AEMO Winter Aggregate Scheduled Generation Capacity and Neerabup based on ESAA 2010 Generation Capacity.

KEY INVESTMENT HIGHLIGHTS

EXPERIENCED MANAGEMENT AND STRONG GOVERNANCE

Extensive experience operating and trading in major gas and electricity markets in Australia

Proven track record in development, financing, delivery and management of power generation assets

Custom built IT systems covering forecasting, planning, gas supply management, electricity, wholesale trading and electricity sales

Diverse skills base – operations, trading, dispatch, commercial and business management, IT support and finance

Specialists in forecasting, planning
and delivery of utility scale
energy solutions

Strong corporate governance – experienced, proven and majority independent Board



Pictured from left to right: Antonino Mario (Tony) Iannello, Peter Jans, Brett Heading, Philip St Baker, Trevor St Baker, Martin Greenberg, Tony Bellas

Key Risks

Key risks associated with an investment in ERM Power include the following:

Spot market price risk

ERM Sales is exposed to spot market price risk where there is a mismatch between fixed price electricity sales volumes and volumes under hedge contracts. This exposure can arise from being either short hedge cover, or long hedge cover. Where ERM Sales enters into long term wholesale contracts to fix the price of electricity (such as the B2 Swap described in Section 10.5.6), it will have exposure to the extent the price of electricity is less than the fixed price under that contract and it has not hedged that exposure.

Contracting risk

ERM Sales' ability to enter into new sales contracts is not certain, nor are the sales prices and volumes that may apply to those contracts. Unlike mass market customers, many of the larger business customers will put their electricity supply contracts out to tender when their previous electricity supply contract expires. Additionally, when an existing ERM Sales contract expires, there is no guarantee that the customer contract will be renewed, nor any certainty regarding the sales prices and volumes that may apply to any such contract renewals.

Load volume risk

The contracts which ERM Sales enters into with its customers are not take-or-pay contracts. Customers only pay for the electricity they actually use. Forecast loads are used as the basis for hedging decisions. Variations between forecast and actual loads will give rise to spot market price risk. Details about the historical accuracy of ERM Sales' forecasts of electricity consumption are set out in Figure 36 in Section 5.2.8.

Growth

ERM Power's ability to grow its business depends, to a large degree, on its ability to secure new electricity sales customers at gross margins consistent with those achieved in the past as well as identify new generation projects and successfully develop and construct its existing pipeline of projects. Any number of factors may affect ERM Power's ability to manage its future growth successfully.

Project risk

ERM Power derives revenue from fees earned from development projects. If future projects are delayed or cancelled, then the fees associated with those projects may be delayed, reduced or may not be received at all. In particular, the Forecast Financial Information anticipates that development fees, land sale proceeds and delivery profits for the Braemar 3 power station will accrue in FY2012.

Gas supply risk

Power station owners enter into gas supply contracts. All gas contracts carry delivery risk which exposes the owners to the difference between any liquidated damages recoverable from the supplier of that gas and the cost to the owners of being short of gas.

Gas supply contracts also carry volume risk, being the difference between the required volume and the volume contracted. A shortfall in volume supplied will reduce the margin on electricity dispatched by the power station or may require the power station's owners to procure additional supply in the market at higher prices or arrange suitable hedging or cover for the commercial risk at a cost.

In addition, if ERM Power is not able to procure the necessary gas supply agreements for future generation development projects or for current projects (once existing arrangements expire), this may affect the viability of those projects.

Off-take demand risk

To secure financing for future generation projects, depending on the size of the project, ERM Power may need to secure off-take arrangements. Delays or a failure to secure those arrangements may delay future projects or prevent them from proceeding. This risk is particularly relevant to the proposed Braemar 3 and Wellington 1 power station projects (refer to Section 5.4.7). Also, any failure to renew off-take contracts for current generation assets or to recontract that capacity could adversely affect ERM Power's return on those assets. The current off-take arrangements for Oakey are due to end in 2014.

Electricity prices

Volatility in electricity prices as a result of factors such as weather, generator competitive behaviour, retail competitive behaviour, plant reliability, market regulation and the level of economic activity can have a significant effect on ERM Power's revenues and prudential capital requirements and therefore its financial performance.

Dependence upon key personnel

ERM Power depends on the talent and experience of its personnel. An inability to retain or recruit key personnel and the loss of key personnel to a competitor may adversely affect ERM Power's business.

Failure of trading systems

Despite having policies, procedures, systems and processes in place to manage risks associated with its trading operations, there can be no guarantee that ERM Power's current or future trading and risk management systems, or the skill and expertise of its employees, will be effective in preventing financial losses in excess of its risk limits.

Ability to pass on increased costs

ERM Power's generation assets are typically contracted under long term off-take agreements, while its operating costs are predominantly fixed. Unexpected increases in variable costs such as labour, insurance and maintenance may not be capable of being 'passed through' to off-takers or other customers.

Plant operations

ERM Power derives a component of its revenue from selling generation capacity and energy from power stations. Should those power stations suffer disruption of any kind; for example, as a result of equipment failures, information technology system failures, external service failures, force majeure events or planned outages taking longer than expected, this may cause a reduction in electricity generation and operational requirements and result in a mismatch of exposures under hedging and off-take contracts.

Refer to Section 6 for a more detailed summary of risks relevant to ERM Power. These risk factors may affect the operating performance, financial performance or financial position of ERM Power.

PERSONAL
POWER



ERM Power aspires to be the electricity supplier of choice to Australia's larger business customers through a differentiated service offering tailored to the specific needs of the customer.

1. Investment Overview

1.1 Company overview

ERM Power's business was founded as a specialist Australian energy advisory firm in 1980, transitioned to a generation developer in the mid 1990s and has evolved to become one of Australia's largest private integrated energy companies. ERM Power develops, has ownership interests in, and operates low emission gas-fired power stations, sells electricity to the larger end of the business customer market, and has a small but complementary gas business focused on procurement of long term gas supplies.

ERM Power aspires to be the electricity supplier of choice to Australia's larger business customers through a differentiated service offering tailored to the specific needs of the customer. ERM Power is also pursuing a strategy of continuing to capitalise on generation development opportunities and exploiting greater vertical integration to support electricity sales.

ERM Power has four key business units – ERM Sales, ERM Generation Assets, ERM Generation Development and Operations and ERM Gas, which are detailed below in Figure 1.

ERM Sales

ERM Sales currently sells electricity (which includes a pricing component for any required Green Certificates) to the larger end of the business customer market, sourcing its electricity requirements from the National Electricity Market ('NEM'). One of ERM Sales' competitive advantages is the ability

to provide its customers with a tailored offering, achieved primarily through ERM Sales' customer-centric focus and custom built systems. ERM Sales conducts its business in accordance with a risk management framework. From January 2011, ERM Sales plans to commence operations in the Western Australia Wholesale Electricity Market ('WEM').

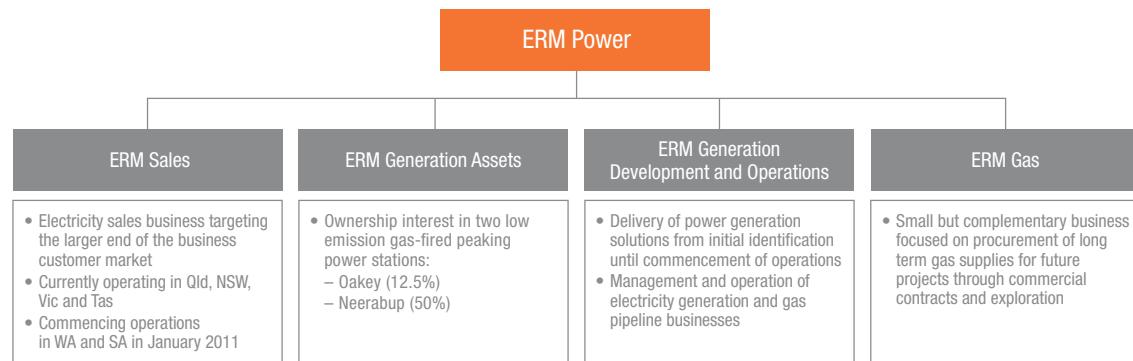
ERM Generation Assets

ERM Power has an ownership interest in two low emission gas-fired peaking power stations strategically located close to energy resources and infrastructure and forecast high electricity demand growth regions. These power stations are fully contracted through long term off-take contracts, have long term non-recourse project debt facilities in place and are expected to have a significant useful operating life after current off-take arrangements end.

ERM Generation Development and Operations

ERM Generation Development and Operations is responsible for the delivery of power generation solutions, from the initial concept through to development and operations. Over the last five years, ERM Power has led the development of five major gas-fired power stations, in three States and in two different electricity markets. The business is also responsible for the management and operation of electricity generation and gas pipelines including the Neerabup, Braemar 2 and Kwinana power stations. ERM Power has a land bank around key energy hubs in Australia's high growth regions and is targeting development of more than 4,500 MW¹² of additional generation and

Figure 1 – ERM Power's integrated business



¹² MW capacity is based on expected AEMO Winter Aggregate Scheduled and Semi Scheduled Generation Capacity (for Qld, NSW, Vic, Tas, NT and SA) or expected generation capacity based on registered facilities published by IMO (for WA).

1. Investment Overview (cont.)

up to approximately 1,300 km of gas pipeline over the next decade. The business has 1,100 MW¹³ of generation already development approved, in the form of the proposed Braemar 3 and Wellington 1 power station projects, and is ready to commit to development once the electricity sales market dictates.

ERM Gas

ERM Gas is a small but complementary business focused on procurement of long term gas supplies for future ERM Generation Development and Operations projects through commercial gas supply contracts and by involvement in exploration, including joint venture equity interests in approximately 11,600 km² of gas exploration acreage in Western Australia's on-shore Perth basin.

Management

ERM Power has a management team with extensive experience across the energy sector. These skills include energy forecasting and planning, development, financing, delivery and operation of utility scale power generation and gas pipeline assets and sale of electricity to large commercial, industrial and government customers. As Shareholders, ERM Power management have strong alignment with the Shareholders' interests.

For a more detailed overview of each of ERM Power's businesses, refer to Section 5.

1.2 Summary Financial Information

The following tables summarise ERM Power's historical consolidated income statements for FY2008, FY2009, FY2010 and pro forma forecast consolidated income statements for FY2011 and FY2012, as well as other relevant operating data for the same periods. The financial information presented in Table 1 is intended as a summary only and should be read in conjunction with the risk factors in Section 6, as well as the more detailed discussions of the Historical Financial Information and Forecast Financial Information in Section 8.

Proportionate Financial Information in this Prospectus is presented on a proportionately consolidated basis. Such information has been specifically identified and is for illustrative purposes only to provide an indication of the proportionate contribution to revenue and EBITDAIF from ERM Power's interest in Oakey, which in accordance with AAS is accounted for using the equity method. This Proportionate Financial Information is not a substitute for the Financial Information provided in Section 8, and a reconciliation is set out in Section 8. Proportionate consolidation is not consistent with the requirements of AAS and is not consistent with the accounting principles underlying the Financial Information in Section 8.

Braemar 2 power station

¹³ MW capacity is based on expected AEMO Winter Aggregate Scheduled and Semi Scheduled Generation Capacity (for Qld, NSW, Vic, Tas, NT and SA).

Table 1 – ERM Power's historical and forecast consolidated income statement – FY2008 to FY2012

| \$'000s | Historical FY2008A | Historical FY2009A | Historical FY2010A | Forecast FY2011F | Forecast FY2012F |
|--|-----------------------|-----------------------|-----------------------|---------------------|---------------------|
| Revenue and other income | 81,609 | 243,233 | 418,403 | 478,916 | 690,911 |
| Discount on acquisition ¹⁴ | 12,096 | - | - | - | - |
| Expenses | (17,055) | (225,570) | (351,041) | (434,893) | (630,330) |
| EBITDAIF (before profit of associate)¹⁵ | 76,650 | 17,663 | 67,362 | 44,023 | 60,581 |
| Share of profit of associate | 1,523 | 1,249 | 1,321 | 1,642 | 1,795 |
| EBITDAIF (including profit of associate) | 78,173 | 18,912 | 68,683 | 45,665 | 62,376 |
| Depreciation and amortisation | (230) | (5,076) | (12,722) | (10,806) | (8,808) |
| Goodwill impairment | - | (3,925) | - | - | - |
| EBITF | 77,943 | 9,911 | 55,961 | 34,859 | 53,568 |
| Net finance expense | (10,668) | (22,409) | (39,770) | (30,580) | (18,401) |
| Profit/(loss) before income tax and financial instruments | 67,275 | (12,498) | 16,191 | 4,279 | 35,167 |
| Net fair value gain/(loss) on financial instruments designated at fair value through profit and loss ¹⁶ | 18,480 | (29,043) | (37,262) | 32,837 | 19,847 |
| (Provision)/gain recognised on onerous contracts ¹⁷ | (9,567) | 9,567 | - | - | - |
| Profit/(loss) before income tax | 76,188 | (31,974) | (21,071) | 37,116 | 55,014 |
| Income tax | (19,589) | 5,518 | 5,318 | (10,642) | (15,966) |
| Net profit/(loss) after income tax | 56,599 | (26,456) | (15,753) | 26,474 | 39,049 |

Table 2 – Reconciliation to Underlying Net Profit after Income Tax – FY2008 to FY2012

| \$'000s | Historical FY2008A | Historical FY2009A | Historical FY2010A | Forecast FY2011F | Forecast FY2012F |
|--|-----------------------|-----------------------|-----------------------|---------------------|---------------------|
| Adjustments to show Underlying Net Profit/(Loss) after Income Tax | | | | | |
| Statutory net profit/(loss) after income tax | 56,599 | (26,456) | (15,753) | 26,474 | 39,049 |
| Net fair value gain/(loss) on financial instruments designated at fair value through profit and loss ¹⁶ | (18,480) | 29,043 | 37,262 | (32,837) | (19,847) |
| (Provision)/gain recognised on onerous contracts ¹⁷ | 9,567 | (9,567) | - | - | - |
| Income tax effect | 2,674 | (5,843) | (11,179) | 9,851 | 5,954 |
| Underlying Net Profit/(Loss) after Income Tax | 50,360 | (12,823) | 10,330 | 3,488 | 25,156 |

¹⁴ A discount on acquisition of \$12.1 million was recognised in FY2008 following the acquisition of ERM Holdings Pty Ltd from a majority shareholder. The consideration was at a discount to the fair value of the assets being acquired.

¹⁵ EBITDAIF (before profit of associate) excludes profits from ERM Power's ownership interest in Oakey.

¹⁶ ERM Sales services the electricity requirements of large customers through fixed priced forward electricity sales contracts. Electricity is provided to customers from a spot market regulated by governments and priced at prevailing spot market prices. To manage exposure to spot market prices, ERM Sales enters into electricity derivative transactions. The objective is to create an economic hedge for the fixed price forward electricity sales contracts. These positions are marked to market and shown as an unrealised gain or loss during a reporting period. In FY2008 an onerous contract provision was recognised as the prices of some ERM Sales' customer contracts were below the market price of electricity as at 30 June 2008. Historical net fair value gain/loss on financial instruments also include other realised and unrealised gains/losses on electricity derivative contracts, interest rate swaps, foreign exchange swaps and an option contract. The option contract relates to an option held by ERM Power allowing it to increase its interest in Kwinana from 30% to 50%; the value of which was written off in FY2010 following the decision to divest. These realised and unrealised gains, losses or provisions are excluded from Underlying Net Profit after Income Tax. The Forecast Financial Information does not assume that there are any fair value adjustments. The adjustments to Underlying NPAT in FY2011 and FY2012 are in respect of the unrealised losses/gains recognised prior to 30 June 2010 in relation to contracts which are realised in the respective forecast periods.

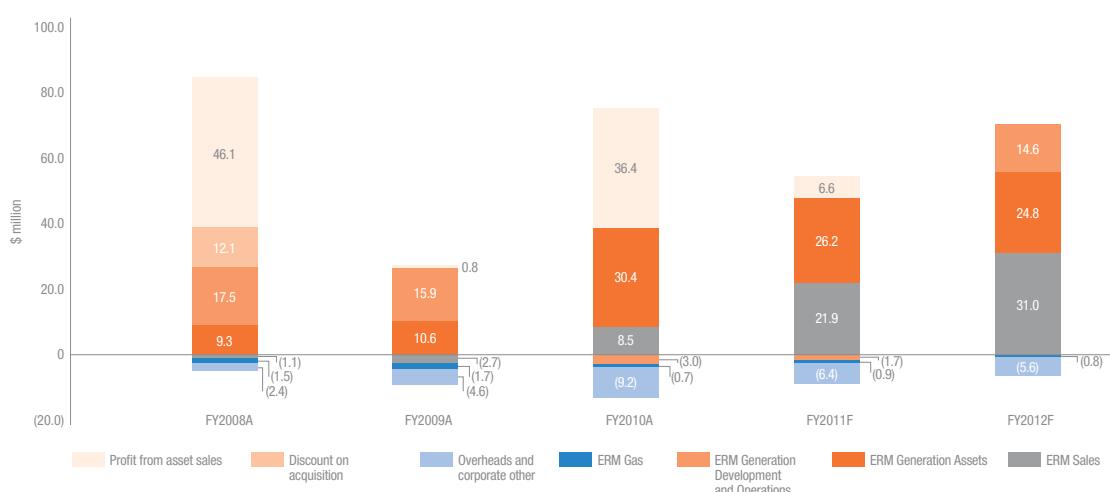
¹⁷ Onerous contract provision was taken in FY2008 as the price of ERM Sales' customer contracts were below the market price of electricity on 30 June 2008. The provision was reversed in FY2009 as the market price of electricity had decreased to a level below that of the customer contracts.

1. Investment Overview (cont.)

Table 3 – ERM Power's historical and forecast EBITDAIF on a proportionately consolidated and statutory basis

| \$'000s | Unaudited FY2008A | Unaudited FY2009A | Unaudited FY2010A | Forecast FY2011F | Forecast FY2012F |
|--|----------------------|----------------------|----------------------|---------------------|---------------------|
| Proportionate basis: | | | | | |
| ERM Sales | (1,133) | (2,654) | 8,465 | 21,908 | 30,955 |
| ERM Generation Assets | | | | | |
| Braemar 2 | 3 | 1,665 | 3,564 | - | - |
| Kwinana | 4,661 | 3,476 | 12,235 | 2,434 | - |
| Neerabup | 1,238 | 2,365 | 11,553 | 20,489 | 21,361 |
| Oakey | 3,443 | 3,083 | 3,063 | 3,320 | 3,412 |
| ERM Generation Development and Operations (excluding profit from asset sales) | 17,530 | 15,924 | (3,043) | (1,699) | 14,650 |
| ERM Gas | (1,451) | (1,669) | (733) | (905) | (782) |
| Overheads | (3,921) | (5,158) | (9,161) | (6,427) | (5,602) |
| Corporate other | 1,541 | 598 | (54) | - | - |
| Total proportionate EBITDAIF before asset sales | 21,911 | 17,630 | 25,889 | 39,120 | 63,993 |
| Discount on acquisition | 12,096 | - | - | - | - |
| Profit from asset sales | 46,086 | 798 | 36,379 | 6,600 | - |
| Total proportionate EBITDAIF | 80,093 | 18,428 | 62,268 | 45,720 | 63,993 |
| Statutory basis: | | | | | |
| Remove Oakey EBITDAIF | (3,443) | (3,083) | (3,063) | (3,320) | (3,412) |
| Add Oakey NPAT | 1,523 | 1,249 | 1,321 | 1,642 | 1,795 |
| Add Kwinana 20% minority EBITDAIF | - | 2,317 | 8,157 | 1,623 | - |
| Total statutory EBITDAIF (after profit of associate) | 78,173 | 18,912 | 68,683 | 45,665 | 62,376 |

Figure 2 – Relative contribution to proportionately consolidated EBITDAIF



Adjustments made from the proportionately consolidated income statements to statutory income statements for EBITDAIF include:

- The removal of EBITDAIF and the addition of NPAT in respect of Oakey, as ERM Power's ownership interest in Oakey is accounted for in the statutory income statements using the equity method (profits of associates);
- The addition of 20% of EBITDAIF in respect of Kwinana, being that amount associated with the minority interest holder's ownership interest in Kwinana.

The relative contribution of each business unit to ERM Power's proportionately consolidated EBITDAIF, which is not in accordance with AAS, is outlined in Figure 2 on the opposite page.

As shown in Figure 2 and Table 3 (on the opposite page), the EBITDAIF varies year on year due to a number of factors including:

- the growth in electricity sales;
- the irregular timing of land sales, development, delivery and operations revenue; and
- divestment of assets and associated profit from sales on assets.

Furthermore, the make-up of ERM Power's EBITDAIF has changed since FY2008 and is expected to continue to change as significant growth is forecast in ERM Sales.

Refer to Section 8 for further details.

This summary is not intended to provide full details of the investment opportunity. You should read this Prospectus in full to make an informed investment decision.

1.3 Dividend policy

The Directors intend to pay dividends bi-annually after the respective period results are published. The Directors expect to pay a fully franked dividend of 3.5 cents per Share for FY2011 and 7.7 cents per Share for FY2012 equating to an annualised dividend yield of 4.0% and 4.4% respectively based on the implied market capitalisation at the Offer Price. The final decision to pay a dividend will be made subject to achieving the forecast results and other considerations with reference to the underlying cash flow requirements of the business.

Following the Forecast Period, ERM Power will target a progressive dividend policy with consideration of current and future cash flow and growth capital requirements. When determining the dividend payable, the Directors will take into consideration any significant non-recurring items in respect of either earnings or capital expenditure including equity funding requirements for growth capital expenditure. Refer to Section 8.10 for further information on ERM Power's dividend policy.

1.4 Enquiries

All questions relating to this Prospectus should be directed to the ERM Power Offer Information Line on 1800 882 147 (within Australia) or +61 2 8280 7924 (outside Australia) between 8:30am and 7:30pm (Sydney time), Monday to Friday. This Prospectus and information about the Offer are also available on the ERM Power Offer website at www.empower.com.au/offer. If you are unclear in relation to any matter or are uncertain as to whether ERM Power is a suitable investment for you, you should seek professional advice.

2. Key Questions

2.1 Overview of the Offer

| Topic | Summary | More information |
|---|--|--------------------|
| What is being offered? | The Offer is an initial public offering ('IPO') of 57.1 million fully paid ordinary shares in ERM Power. | Section 3.1 |
| What is the Offer size? | <p>The Offer size is \$100.0 million.</p> <p>The Offer represents 35.8% of ERM Power's expected issued capital on listing (on a fully diluted basis).</p> | Section 3.1 |
| What is the Offer Price? | The Offer Price is \$1.75 per Share. | Section 3.1 |
| What will the market capitalisation of ERM Power be on completion of the Offer? | On completion of the Offer, the market capitalisation of ERM Power will be \$279.6 million at the Offer Price (being the total number of Shares on issue after the Offer multiplied by the Offer Price). | Offer Summary |
| Who is the issuer of this Prospectus? | ERM Power. | Inside front cover |
| Are Existing Shareholders retaining any Shares following the Offer? | Directors and Senior Management will retain all of the Existing Shares held by them at the date of this Prospectus. | Section 3.4 |
| What is the purpose of the Offer? | <p>The purpose of the Offer is to:</p> <ul style="list-style-type: none"> • achieve a listing of ERM Power on ASX; • improve access to capital markets, providing additional financial flexibility to pursue identified and potential growth opportunities; and • provide a liquid market for the Shares and an opportunity to invest in ERM Power. | Section 3.2 |
| What will the proceeds of the Offer be used for? | <p>The proceeds of the Offer will be used to:</p> <ul style="list-style-type: none"> • capitalise ERM Power to unlock the growth potential of the ERM Sales business and enable it to further penetrate its target markets; • fund a portion of ERM Power's equity investment in the proposed development of Braemar 3 power station; • fund repayment of the Director Loan; and • pay the costs of the Offer. | Section 3.3 |
| Is the Offer underwritten? | <p>\$70.0 million of the Offer proceeds is underwritten by the Underwriters. Cornerstone Investors have agreed to subscribe for a further \$30.0 million under the Offer. Further details of the Underwriting Agreement are set out in Section 10.5.1.</p> | Section 10.5.1 |
| Who are the Cornerstone Investors? | <p>The Cornerstone Investors are:</p> <ul style="list-style-type: none"> • Ilwella Pty Ltd (ACN 003 220 371) • Gaffwick Pty Ltd (ACN 010 584 522). | Section 10.5.2 |

2.1 Overview of the Offer (cont.)

| Topic | Summary | More information |
|---|--|------------------|
| How many shares will the Cornerstone Investors subscribe for? | Each Cornerstone Investor will subscribe for 8,571,429 Shares under the Offer at the Offer Price, raising \$30.0 million in Offer proceeds collectively. | Section 10.5.2 |
| What are the tax implications of investing in the Offer? | The tax consequences for investors will differ depending on their individual circumstances. Investors should consider seeking tax advice prior to making an investment in ERM Power. | Section 10.6 |

2.2 About ERM Power

| Topic | Summary | More information |
|---|--|---------------------------|
| What does ERM Power do? | ERM Power sells electricity to large commercial, industrial and government customers in most States. ERM Power also develops, has ownership interests in, and operates large scale low emission gas-fired power stations across Australia and has a small but complementary gas business focused on procurement of long term gas supplies. | Section 1.1 and Section 5 |
| What are the key risks of investing in ERM Power? | Potential investors should be aware that there are a number of risk factors specific to ERM Power, the industries in which it operates and the general business environment, in addition to the risks associated with any investment in the share market. These risk factors may be outside the control of ERM Power, the Board and Senior Management and may adversely impact the operating performance, financial performance or financial position of ERM Power. | Section 6 |
| What is ERM Power's dividend policy? | The Directors expect to pay a fully franked dividend of 3.5 cents per Share for FY2011 and 7.7 cents per Share for FY2012, equating to an annualised dividend yield of 4.0% and 4.4% respectively based on the implied market capitalisation at the Offer Price. The final decision to pay a dividend will be made with reference to the underlying cash flow requirements of the business. Following the Forecast Period, ERM Power will target a progressive dividend policy with consideration of current and future cash flow and growth capital requirements. When determining the dividend payable, the Directors will take into consideration any significant non-recurring items in respect of either earnings or capital expenditure including equity funding requirements for growth capital expenditure. | Section 8.10 |
| When will the dividends be paid? | It is intended that dividends will be paid to Shareholders twice yearly for the periods ending 30 June and 31 December. ERM Power intends to pay the dividends within four months of the end of each period. | Section 8.10 |

2. Key Questions (cont.)

2.2 About ERM Power (cont.)

| Topic | Summary | More information |
|--|--|-------------------------------|
| Who are the owners of ERM Power as at the date of this Prospectus and are they retaining an interest? | <p>ERM Power is majority-owned by its founder, Trevor St Baker. Trevor St Baker is not selling any Shares under the Offer. The remaining Existing Shares and Existing Options are predominantly held by Directors, Senior Management and other staff.</p> <p>Existing Shares and Existing Options held by Trevor St Baker, certain members of the St Baker family, Directors and Senior Management and other Existing Shareholders will be subject to escrow arrangements.</p> | Section 3.5 and Section 10.10 |
| Does ERM Power comply with the ASX Corporate Governance Council's <i>'Principles of Good Corporate Governance and Best Practice Recommendations'</i> ? | ERM Power complies with the principles and best practice recommendations, other than recommendation 2.2, which says that ERM Power should have an independent Chairman. The Board believes that it is in the best interests of ERM Power to have Trevor St Baker as its Chairman, acknowledging Trevor's standing and experience in the Australian electricity industry and his contributions to ERM Power's development over the past 30 years. | Section 7.3.6 |
| Is ERM Power exposed to interest rate variations? | A significant portion of ERM Power's current term facilities (including its share of project term facilities) are fixed with limited exposure to interest rate variations. To the extent that the interest rates on facilities are not fixed, ERM Power will be exposed interest rate rises. | Section 6.2 |
| Is ERM Power exposed to foreign exchange variations? | ERM Power does not currently have any material exposure to foreign exchange rate variations. However, changes in the AUD/EUR exchange rate may affect ERM Power's forecast cash flow in FY2012, as set out in the forecast sensitivity analysis in Section 8.8. | Section 8.8 |
| What are the funding arrangements for ERM Power's generation assets | <p>Each of ERM Power's current generation assets, the Oakey and Neerabup power stations, are project financed by non-recourse debt, meaning the security of project lenders does not extend beyond ERM Power's interest in the particular generation asset.</p> <p>ERM Power also raised funds for its equity investment in the Neerabup power station by a subsidiary of ERM Power issuing notes. Those notes are limited-recourse to ERM Power's interest in the Neerabup power station.</p> | Section 10.5.4 |

2.2 About ERM Power (cont.)

| Topic | Summary | More information |
|---|--|--|
| What financial covenants are associated with ERM Power's project finance? | <p>The project finance for ERM Power's current generation assets require that certain ratios are met, namely:</p> <ul style="list-style-type: none"> • a debt service coverage ratio ('DSCR'), being the ratio of net cash flow of the project to debt service required (principal, interest and other fees payable) for the relevant calculation period; and • a loan life coverage ratio ('LLCR'), being the ratio of the net present value of future net cash flow of the project to the principal outstanding under the facility. <p>If the DSCR or LLCR are under specified levels, project distributions may be restricted or an event of default may occur which allows a lender to demand repayment. Future power station projects, such as the proposed Braemar 3 and Wellington 1 power stations are likely to be project financed with similar requirements.</p> <p>The historical and forecast DSCR and LLCR for Neerabup and Oakey are set out in Sections 5.3.3 and 5.3.4.</p> | Section 5.3.3, Section 5.3.4 and Section 10.5.4 |
| What is ERM Power's debt profile? | <p>ERM Power has project finance facilities and corporate facilities which are described in Sections 6.2 and 8.9. The following ratios are provided to assist investors to understand ERM Power's ability to service those facilities. The ratios are pro-forma, meaning they are given as at 30 June 2010 assuming completion of the Offer.</p> <p>ERM Power's gearing, being net debt/enterprise value is 25.9%.¹⁸</p> <p>ERM Power's 'look through' gearing ratio, taking into account ERM Power's proportionate share of debt outstanding on the Oakey power station is 81.6%. This 'look through' ratio is equal to ERM Power's total liabilities (including ERM Power's proportionate share of off-balance sheet debt) divided by its total assets.</p> <p>ERM Power's net debt/EBITDAIF¹⁹ ratio is 1.42. The short-term debt/EBITDAIF ratio is 0.02. Given ERM Power's EBITDAIF varies significantly from year to year, investors should consider ratios comparing debt to EBITDAIF with caution.</p> | Section 6.2 and Section 8.9 |

¹⁸ Net debt is equal to ERM Power's total interest bearing liabilities less cash and cash equivalents. Short term debt is equal to interest bearing liabilities required to be classified as current under AAS. Enterprise value reflects market capitalisation at the Offer Price plus net debt.

¹⁹ EBITDAIF refers to ERM Power's earnings before interest, tax, depreciation, amortisation, goodwill impairment and net fair value gains/losses on financial instruments designated at fair value through profit and loss and gains/losses on onerous contracts.

2. Key Questions (cont.)

2.3 Applying for Shares

| Topic | Summary | More information |
|---|--|----------------------------------|
| Am I eligible to participate in the Offer? | <p>The Broker Firm Offer is open to retail investors in Australia who have received a firm allocation of Shares from their Broker. You should contact your Broker to determine whether they may allocate Shares to you under the Broker Firm Offer.</p> <p>The Priority Offer is open to investors nominated by ERM Power.</p> <p>The Institutional Offer is open to institutional investors in Australia and certain other overseas jurisdictions.</p> <p>Shares are not being offered to the general public.</p> | Section 3.7, and Section 3.8 |
| How do I apply for Shares under the Retail Offer? | You can apply for Shares under the Retail Offer by completing an Application Form accompanying this Prospectus. | Section 3.7 |
| What are the key dates of the Offer? | <p>The Retail Offer (comprising the Broker Firm Offer and the Priority Offer) opens at 9:00am (Sydney time) on 25 November 2010. The Priority Offer closes at 5:00pm (Sydney time) on 3 December 2010 and the Broker Firm Offer closes at 5:00pm (Sydney time) on 8 December 2010.</p> <p>This timetable is indicative only. ERM Power, in consultation with the Joint Lead Managers, may vary the dates and times of the Offer without notice.</p> <p>Investors are encouraged to submit their Application Forms as soon as possible after the Offer opens, as the Offer may close at any time without notice.</p> | Important Dates |
| What is the maximum/minimum application under the Offer? | <p>The minimum application for Broker Firm Applicants is as directed by the relevant Broker.</p> <p>The value of Shares that may be applied for under the Retail Offer is not subject to a maximum amount; however, ERM Power and the Joint Lead Managers reserve the right to scale back applications.</p> <p>Successful Applicants under the Priority Offer are guaranteed an allocation of Shares in the amount specified on their personalised invitation.</p> <p>ERM Power and the Joint Lead Managers also reserve the right to aggregate any applications which they believe may be multiple applications from the same person.</p> | Section 3.7 |
| When will confirmation of successful applications be sent? | Confirmations of successful applications, in the form of holding statements, are expected to be dispatched on or about 14 December 2010. | Section 3.15 and Important Dates |
| Can the Offer be withdrawn? | The Offer may be withdrawn by ERM Power in its absolute discretion. | Section 3.14 |
| Is there any brokerage, commission or stamp duty payable by Applicants? | No brokerage, commission or stamp duty is payable by Applicants on the acquisition of Shares under the Offer. | Section 3.11 |

2.4 Other

| Topic | Summary | More information |
|--|---|-------------------|
| What are the costs of the Offer? | The costs of the Offer to ERM Power are estimated to be approximately \$6.1 million (exclusive of GST). | Section 10.15 |
| How can further information be obtained? | <p>Further information can be obtained:</p> <ul style="list-style-type: none"> • by reading this Prospectus in its entirety; • by speaking to your professional adviser; • by calling the ERM Power Offer Information Line on 1800 882 147 (within Australia) or +61 2 8280 7924 (outside Australia) between 8:30am and 7:30pm (Sydney time), Monday to Friday; and • for Australian residents only, by visiting the ERM Power Offer website at www.empower.com.au/offer. | All Sections |
| Contact details | For further contact details, refer to the Corporate Directory. | Inside back cover |



Braemar 2 exhaust stacks and air intake valves

3. Details of the Offer

3.1 The Offer

The Offer is an initial public offering of 57.1 million fully paid ordinary shares in ERM Power at an Offer Price of \$1.75 per Share, representing gross proceeds of \$100.0 million. The Shares to be issued under the Offer represent approximately 35.8% of the 159.8 million Shares on issue at listing. Trevor St Baker will retain all of his Shares, which will represent about 53.0% of ERM Power's issued capital on completion of the Offer. Other Directors, Senior Management and other Existing Shareholders will hold approximately 11.3% of ERM Power's issued capital on completion of the Offer. The Existing Shares and Existing Options held by Trevor St Baker, certain members of the St Baker family, other Directors and Senior Management will be subject to escrow arrangements during the Forecast Period.²⁰ 25% of the Existing Shares held by other Existing Shareholders will also be subject to escrow arrangements during the Forecast Period. For further details of these escrow arrangements, refer to Section 10.10.

All Shares being offered under this Prospectus will be issued at the Offer Price and will rank equally with Existing Shares.

The Offer comprises the Retail Offer and the Institutional Offer.

The Joint Lead Managers, in consultation with ERM Power, will determine the allocation of Shares between the Retail Offer and the Institutional Offer, having regard to the allocation policy described in Sections 3.7 and 3.8.

The Joint Lead Managers have underwritten \$70.0 million of the Offer proceeds. In addition, the Cornerstone Investors have each agreed to subscribe for 8,571,429 Shares under the Offer at the Offer Price, raising \$30.0 million in Offer proceeds.

3.2 Purpose of the Offer

The purpose of the Offer is to:

- achieve a listing of ERM Power on ASX;
- improve access to capital markets, providing additional financial flexibility to pursue identified and potential growth opportunities; and
- provide a liquid market for the Shares and an opportunity to invest in ERM Power.

3.3 Use of Proceeds

The total gross proceeds of the Offer will be \$100.0 million, which is equal to the number of Shares issued under the Offer multiplied by the Offer Price.

²⁰ 25% of Existing Shares and Existing Options held by Directors and Senior Management (other than members of the St Baker family, Mitch Anderson and Graeme Walker), or their associated entities, will be released from escrow 3 business days after the release of ERM Power's financial results for the year ending 30 June 2011, provided that ERM Power's FY2011 financial forecasts are met and its FY2012 profit guidance meets or exceeds the FY2012 financial forecasts in this Prospectus. If these conditions are not satisfied, no Shares or Options will be released from escrow until 3 business days after the release of ERM Power's financial results for the year ending 30 June 2012. 100% of Existing Shares and Existing Options held by certain members of the St Baker family, or Mitch Anderson and Graeme Walker, or their associated entities, will be held in voluntary escrow for the entire Forecast Period.

²¹ Refer to Section 10.11 for further detail.

The proceeds of the Offer will be used to:

- capitalise ERM Power to unlock the growth potential of the ERM Sales business and enable it to further penetrate its target markets;
- fund a portion of ERM Power's equity investment in the proposed development of Braemar 3 power station;
- fund repayment of the Director Loan²¹; and
- pay the costs of the Offer.

Table 4 – Indicative sources and uses of funds

| Source | \$ million |
|---|--------------|
| Issue of New Shares | 100.0 |
| Total sources of funds raised | 100.0 |
| | |
| Use | \$ million |
| Prudential capital to support the growth of ERM Sales | 40.0 |
| Fund a portion of ERM Power's equity investment in the proposed Braemar 3 generation project* | 45.9 |
| Repayment of the Director Loan** | 8.0 |
| Costs of the Offer | 6.1 |
| Total uses of funds raised | 100.0 |

*Note: The Directors may apply the funds earmarked for the Braemar 3 power station (\$45.9 million) to repay amounts owing to Arrow Energy (\$51.6 million), which are otherwise due for repayment on settlement of the sale of ERM Power's interest in the Braemar 2 power station on 30 June 2011. Any amounts applied to repay indebtedness to Arrow Energy will result in a corresponding increase in settlement proceeds from the Braemar 2 sale. Accordingly, early repayment of the loans from Arrow Energy will not affect ERM Power's ability to fund its equity investment in the Braemar 3 power station (refer to Section 10.7 for further detail).

** Note: Trevor St Baker has indicated that, should ERM Power require funds to exercise its pre-emptive rights in respect of the Oakey power station (refer to Section 10.7), he would agree a deferral of the repayment of all or part of the Director Loan. ERM Power's current intention is to fund the exercise of its pre-emptive rights via a non-recourse bridge facility and would only seek alternative funding arrangements (including a deferral of the repayment of the Director's Loan) if the Board was satisfied that those arrangements would not affect the objectives described in this Prospectus.

Table 5 – Shares

| Shareholder | Pre Offer – ownership of Shares in ERM Power | Pre Offer – ownership of Shares in ERM Power (%) | At completion of the Offer – ownership of Shares in ERM Power | At completion of the Offer – ownership of Shares in ERM Power (%) |
|---|---|---|--|--|
| Trevor St Baker and his controlled entities | 84,631,588 | 82.5% | 84,631,588 | 53.0% |
| Other Directors and Senior Management (and their associated entities) | 9,587,510 | 9.3% | 9,587,510 | 6.0% |
| Other Existing Shareholders | 8,398,104 | 8.2% | 8,398,104 | 5.3% |
| New Shareholders pursuant to the Offer | - | - | 57,142,858 | 35.8% |
| Total | 102,617,202 | 100.0% | 159,760,060 | 100.0% |

Table 6 – Options

| Optionholder | Pre Offer – ownership of Options in ERM Power | Pre Offer – ownership of Options in ERM Power (%) | At completion of the Offer – ownership of Options in ERM Power | At completion of the Offer – ownership of Options in ERM Power (%) |
|---|--|--|---|---|
| Trevor St Baker and his controlled entities | - | - | - | - |
| Other Directors and Senior Management (and their associated entities) | 6,233,678 | 52.7% | 6,233,678 | 52.7% |
| Other Existing Shareholders | 5,593,840 | 47.3% | 5,593,840 | 47.3% |
| New Shareholders pursuant to the Offer | - | - | - | - |
| Total | 11,817,518 | 100.0% | 11,817,518 | 100.0% |

On completion of the Offer, the Board believes ERM Power will have sufficient working capital to achieve its objectives.

The Offer is expected to result in net cash proceeds of \$93.9 million after Offer costs. With the exception of the repayment of the Director Loan and certain indebtedness to Arrow Energy, the remaining \$40.0 million will be held in cash and progressively invested or utilised over the Forecast Period.

Table 4 below details the indicative sources and uses of funds.

3.4 Shareholding structure

The shareholding structure of ERM Power before and after completion of the Offer is set out in Table 5 and Table 6 (above).

There are currently 10.3 million Options with an exercise price of \$0.806 and 1.5 million Options with an exercise price of \$2.25, which will together represent 7.4% of ERM Power's issued share capital (on a fully diluted basis) at completion of the Offer.

3.5 Escrow arrangements

Approximately 62.2% of ERM Power's issued capital on listing will be subject to escrow until the release of ERM Power's FY2011 results with 61.7% continuing in escrow until the release of ERM Power's FY2012 results. These arrangements will generally restrict the ability of those Shares to be traded on ASX or for the Shareholder to otherwise dispose of, create a security interest in, or transfer effective ownership or control of the restricted Shares.

Further details of the escrow arrangements are set out in Section 10.10.

3. Details of the Offer (cont.)

3.6 Structure of the Offer

The Offer comprises:

- the Retail Offer (refer to Section 3.7), consisting of the:
 - Broker Firm Offer, which is open to investors in Australia who have received a firm allocation of Shares from their Broker; and
 - Priority Offer, which is open to investors nominated by ERM Power in its sole discretion; and
- the Institutional Offer (refer to Section 3.8), which consists of an invitation to certain institutional investors in Australia and a number of overseas jurisdictions to apply for Shares.

The allocation of Shares between the Retail Offer and the Institutional Offer will be agreed between the Joint Lead Managers and ERM Power having regard to the allocation policy described in Sections 3.7 and 3.8.

3.7 The Retail Offer

3.7.1 Broker Firm Offer

Who can apply in the Broker Firm Offer?

The Broker Firm Offer is open to retail investors in Australia who have received a firm allocation of Shares from their Broker. You should contact your Broker to determine whether they may allocate Shares to you under the Broker Firm Offer.

How do I apply in the Broker Firm Offer?

You should contact your Broker for information about how to submit your broker firm Application Form which accompanies this Prospectus and for payment instructions.

Your Broker will act as your agent and it is your Broker's responsibility to ensure that your Application Form and Application Monies are submitted before 5:00pm (Sydney time) on the Closing Date or any earlier closing date as determined by your Broker.

ERM Power, the Joint Lead Managers and the Share Registry take no responsibility for any acts or omissions on the part of your Broker in connection with your application.

Allocations under the Broker Firm Offer

It is a matter for each Broker as to how they allocate Shares amongst their clients, and they (and not ERM Power or the Joint Lead Managers) will be responsible for ensuring that Australian retail investors who have received a firm allocation from them receive the relevant Shares.

Applicants under the Broker Firm Offer will be able to confirm their allocations through the Broker from whom

they received those allocations. However, investors who sell Shares before receiving an initial statement of holding do so at their own risk, even if they have obtained details of their holding from their Broker.

3.7.2 Priority Offer

Who can apply in the Priority Offer?

The Priority Offer is open to investors nominated by ERM Power. If you are a Priority Offer Applicant, you should have received a personalised invitation to apply for Shares in the Priority Offer.

How do I apply in the Priority Offer?

You should complete the personalised Application Form which will accompany the copy of the Prospectus sent to you after the commencement of the Retail Offer.

You may apply for an amount up to the amount indicated on your personalised invitation. Any amount applied for in excess of this may be refunded in full (without interest) or accepted in part or full.

Applications under the Priority Offer for an amount less than the amount indicated on your personalised invitation must be for a minimum of \$2,000 worth of Shares and in multiples of \$500 worth of Shares thereafter.

Applications under the Priority Offer may only be made by completing and returning your personalised Application Form with an accompanying cheque, bank draft or money order for the Application Monies to the Share Registry or by paying by BPAY®. Cheques, bank drafts or money orders must be drawn on an Australian branch of a financial institution in Australian dollars and be made payable to 'ERM Power Share Offer Account' and crossed 'Not Negotiable'. Cash will not be accepted. Receipts for payments will not be issued. You should ensure that sufficient funds are held in the relevant account(s) to cover your cheque(s).

Applicants that choose to pay by BPAY® should follow the instructions set out on the Application Form. It is the responsibility of the Applicant to ensure payments are received by the Closing Date.

If the amount of your cheque(s) or BPAY® payment for Application Monies (or the amount for which those cheque(s) or BPAY® payment clear in time for allocation) is insufficient to pay for the amount you have applied for in your Application Form, you may be taken to have applied for such lower amount as your cleared Application Monies will pay for (and to have specified that amount in your Application Form) or your application may be rejected.

There are instructions set out on the Application Form to help you complete it. Application Monies (either via post and accompanied by a valid and properly completed Application Form or via BPAY®) must be received by the Share Registry by the Closing Date. You should check the processing cut-off time for BPAY® transactions with your bank, credit union or building society to ensure your payment will be received by the Share Registry in time.

Where to send your Application Form under the Priority Offer

If you are a Priority Offer Applicant and are not paying by BPAY®, your completed Application Form, together with a cheque, bank draft or money order for the Application Monies, should be mailed to the Share Registry, as set out below, to be received by the Closing Date:

By mail:

ERM Power Initial Public Offer
c/- Link Market Services Limited
Locked Bag 3415
Brisbane Qld 4001

By delivery:

ERM Power Initial Public Offer
c/- Link Market Services Limited
Level 15, 324 Queen Street
Brisbane Qld 4000

Allocations under the Priority Offer

Priority Offer Applicants who are Successful Applicants are guaranteed an allocation of Shares in the amount specified on their personalised invitation or such lesser amount validly applied for. Allocations in excess of the amounts indicated on the personalised invitations will be at the absolute discretion of ERM Power.

3.7.3 Acceptance of applications under the Retail Offer

An application under the Retail Offer is an offer by you to ERM Power to subscribe for or acquire Shares in the amount specified in the Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement document) and the Application Form. To the extent permitted by law, an application by an Applicant is irrevocable.

An application may be accepted in respect of the full amount, or any amount lower than that specified in the Application Form, without further notice to the Applicant. Acceptance of an application will give rise to a binding contract on allocation of Shares to Successful Applicants conditional on the quotation of Shares on ASX and settlement.

The Joint Lead Managers, in consultation with ERM Power, reserve the right to reject any application which is not correctly completed or which is submitted by a person who they believe is ineligible to participate in the Retail Offer, or to waive or correct any errors made by the Applicant in completing their application.

If an application is rejected or accepted in part only, the relevant part of the Application Monies will be refunded. No interest will be paid on any Application Monies refunded.

3.7.4 Application Monies and refunds

If the amount of your cheque(s) or BPAY® payment for Application Monies (or the amount for which those cheque(s) or BPAY® payment clear in time for allocation) is insufficient to pay for the amount you have applied for in your Application Form, you may be taken to have applied for such lower amount as your cleared Application Monies will pay for (and to have specified that amount in your Application Form) or your application may be rejected.

Application Monies will be refunded (in full or in part) in Australian dollars where an application is rejected, an Applicant is allocated a lesser dollar amount of Shares than the amount applied for or the Offer is withdrawn or cancelled. No interest will be paid on any Application Monies refunded. No refunds pursuant to rounding will be provided. Refund cheques will be sent as soon as practicable following completion of the Offer or as otherwise applicable in the circumstances outlined above.

3.7.5 Announcement of allocation policy

ERM Power expects to announce the final allocation policy under the Retail Offer on or about 9 December 2010. Applicants in the Retail Offer will be able to call the ERM Power Offer Information Line on 1800 882 147 (within Australia) or +61 2 8280 7924 (outside Australia) from 15 December 2010 to confirm their allocations. However, if you sell Shares before receiving a holding statement, you do so at your own risk, even if you have obtained details of your holding from your broker or the ERM Power Offer Information Line.

3.8 Institutional Offer

The Institutional Offer consists of an invitation to certain institutional investors in Australia and certain overseas jurisdictions to apply for Shares.

Institutional investors will be advised of the application procedures by the Joint Lead Managers.

3. Details of the Offer (cont.)

The allocation of Shares among bidders in the Institutional Offer will be determined by the Joint Lead Managers in consultation with ERM Power. The Joint Lead Managers will have absolute discretion regarding the basis of allocation of Shares, and there is no assurance that any bidder will be allocated any Shares, or the number of Shares for which it has bid.

The allocation policy will be influenced by, but not constrained by, the following factors:

- the number of Shares bid for by particular bidders;
- the timeliness of the bid by particular bidders; and
- any other factors that the Joint Lead Managers, in consultation with ERM Power, consider appropriate, in their sole discretion.

3.9 ASX admission and quotation

ERM Power will apply to ASX within seven days after the date of this Prospectus to be admitted to ASX, and for official quotation of the Shares. Acceptance of the application by ASX is not a representation by ASX of the merits of ERM Power or the Shares, or an endorsement of the Offer.

Allotment of Shares under the Offer is expected to occur on 10 December 2010. Following the allotment of Shares, Successful Applicants will receive a holding statement setting out the number of Shares issued to them under the Offer. It is expected that holding statements will be dispatched by standard post on or about 14 December 2010. It is the responsibility of Applicants to determine their holding prior to trading in Shares.

ERM Power, the Joint Lead Managers and the Share Registry disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial holding statement, whether on the basis of a confirmation of allocation provided by any of them, through the ERM Power Offer Information Line or through a Broker.

Official quotation of Shares, if granted, will commence as soon as practicable after the issue of initial holding statements to Successful Applicants. If ASX does not grant permission for official quotation of the Shares within three months of the date of this Prospectus, all Application Monies received will be refunded without interest as soon as practicable in accordance with requirements of the Corporations Act.

It is expected that Shares will be quoted and commence to trading on a deferred settlement basis on ASX on or about 10 December 2010, with normal settlement trading expected to commence on or about 15 December 2010.

3.10 Underwriters to the Offer

\$70.0 million of the Offer proceeds have been underwritten by MCAL, RBS and RBS Morgans. Details of the Underwriting Agreement, including the circumstances in which the Underwriters may terminate their obligations, are set out in Section 10.5.1.

Cornerstone Investors have agreed to subscribe for the remaining \$30.0 million, as set out in Section 10.5.2.

3.11 Brokerage, commission and stamp duty

No brokerage, commission or stamp duty is payable by Applicants upon acquisition of the Shares under the Offer. Various fees are payable in relation to the Offer by ERM Power. Details are set out in Section 10.15.

3.12 Taxation

The Australian taxation consequences of any investment in Shares will depend upon the investor's particular circumstances. Investors should make their own enquiries concerning the taxation consequences of an investment in ERM Power. If you are in doubt, you should consult your professional adviser.

Section 10.6 sets out further information in relation to tax.

3.13 Jurisdiction

This document does not constitute an offer of securities in any jurisdiction in which it would be unlawful. Shares may not be offered or sold in any country outside Australia except to the extent described in Section 10.13.

No person is authorised to provide any information or make any representations other than those contained in this Prospectus and, if given or made, such information or representations will not be relied upon as having been authorised by ERM Power, the Joint Lead Managers or Broker or any other person, nor will any such persons have any liability or responsibility in relation to such information or representations.

3.14 Discretion regarding the Offer

The Offer may be withdrawn by ERM Power. If the Offer does not proceed, all Application Monies will be returned to Applicants (without interest).

ERM Power, in consultation with the Joint Lead Managers, reserve the right to vary the times and dates without notice. Investors are encouraged to submit their Application Form as soon as possible after the Offer opens.

3.15 CHESS and holding statements

ERM Power intends to apply to participate in CHESS and, in accordance with the Listing Rules and the ASX Settlement and Operating Rules, will maintain an electronic CHESS sub-register and an electronic issuer sponsored sub-register.

Following the issue of Shares to Successful Applicants, Shareholders will receive an initial statement of holding that sets out the number of Shares that have been allocated to them under the Offer.

This holding statement will also provide details of a Shareholder's HIN in the case of a holding on the CHESS sub-register, or SRN in the case of a holding on the issuer

sponsored sub-register. Shareholders will be required to quote their HIN or SRN, as appropriate, in all dealings with a stockbroker or the Share Registry.

3.16 Enquiries

If you require assistance, you should contact the ERM Power Offer Information Line on 1800 882 147 (within Australia) or +61 2 8280 7924 (outside Australia). The ERM Power Offer Information Line will be open from 8:30am to 7:30pm (Sydney time), Monday to Friday, until 15 December 2010. If you require advice as to whether to invest in ERM Power, you should seek advice from your professional adviser.



Kwinana power station

4. Industry Overview

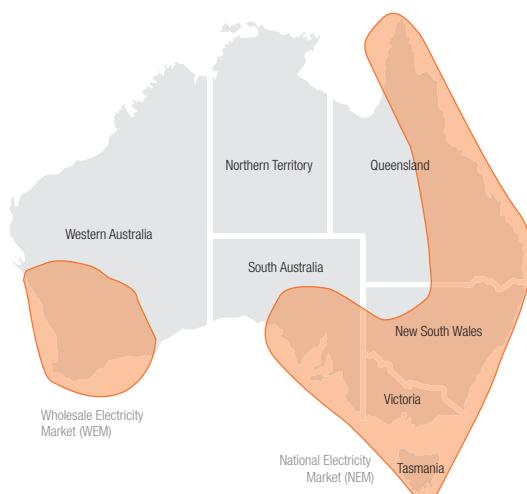
4.1 Introduction

ERM Power operates in the National Electricity Market ('NEM') and the South West Interconnected System ('SWIS') component of the Western Australia Wholesale Electricity Market ('WEM').

4.2 Australia's Electricity Markets

Australia has two principal wholesale electricity markets: the NEM, which covers the majority of the eastern seaboard States plus South Australia, and the WEM, which covers the south-western corner of Western Australia. Indicative coverage of the markets and regional structure is illustrated in Figure 3.

Figure 3 – Australia's electricity markets



Note: Regional outlines are indicative only

Source: Industry Expert's Report (refer to Appendix 1, Section 2)

4.2.1 Market growth

The Australian electricity market turnover (excluding transmission and distribution charges) is approximately \$10 billion²² in size and is expected to more than double over the next 10 years (see Figure 4 on the following page). The market for electricity is often segregated by power generated from non-renewable fuel sources and that which is produced by low emissions renewable generation technologies such as wind. The growth will include the modest predictable organic growth in real electricity demand, with the most significant

growth forecast being attributed to associated Green Certificates²³ such as Renewable Energy Certificates ('RECs').

Electricity market turnover from Green Certificates does not reflect in wholesale electricity market pool prices, as Green Certificates are transacted separately from the wholesale electricity markets.

The Australian Energy Market Operator ('AEMO') and Independent Market Operator ('IMO') forecast 10-year electricity demand for the NEM and the WEM respectively. Their analysis, a summary of which is presented in Table 7, illustrates continued demand growth, primarily in the States of Queensland and Western Australia, two of ERM Power's major development States along with New South Wales. The AEMO and IMO analysis also indicates that growth in annual maximum demand 'capacity' is expected to exceed growth in consumption 'energy', primarily due to growth in household use of air-conditioning, heating and plasma televisions.

The loads in the NEM and WEM are consequently forecast to continue to become 'peakier' markets, creating an ongoing requirement for additional open-cycle gas generation to maintain an optimal generation mix and provide sufficient flexibility to ensure blackouts are avoided at times of the highest demand.

Table 7 – Forecast annual energy and seasonal maximum demand 'capacity' growth rates for the next 10 years

| Region | 10-year energy growth rate | 10% POE winter MD growth rate | 10% POE summer MD growth rate |
|-------------------|----------------------------------|-------------------------------------|-------------------------------------|
| Queensland | 3.9% | 4.2% | 4.1% |
| New South Wales | 1.8% | 2.3% | 2.3% |
| Victoria | 1.0% | 1.3% | 2.0% |
| South Australia | 0.9% | 1.4% | 1.4% |
| Tasmania | 0.6% | 1.0% | 1.0% |
| Western Australia | 4.0% | 3.4% | 4.6% |

Source: AEMO 2010 ESOO and IMO (WA) 2010 ESOO

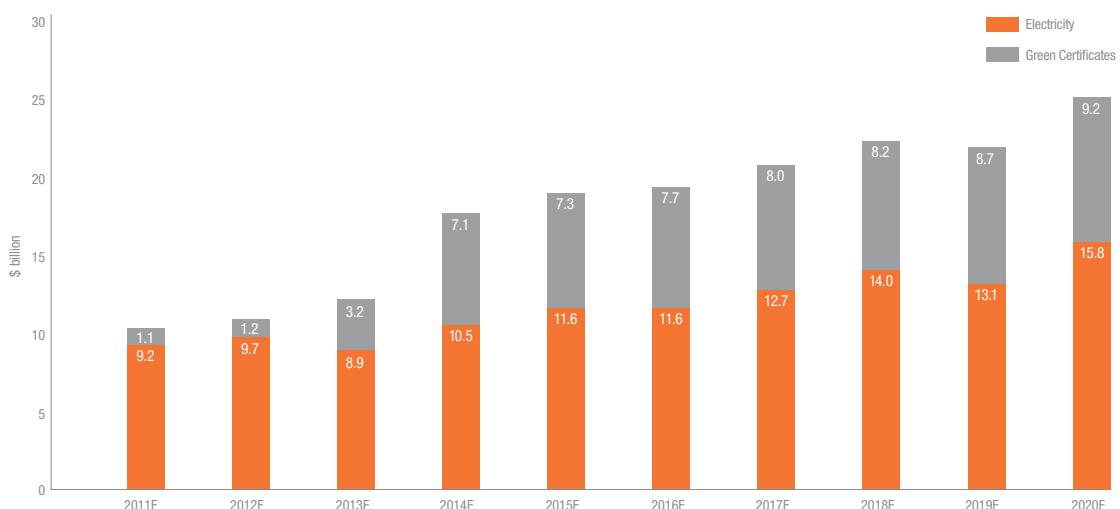
MD = maximum demand, POE = probability of exceedance

Energy Growth and Summer MD Growth forecasts to 2019/20, Winter MD Growth forecast to 2020

²² Refer to data source under Figure 4 for basis of calculation.

²³ Assumes a carbon price profile as modelled by Commonwealth Treasury to achieve a 5% emissions reduction by 2020 under a CPRS.

Figure 4 – Forecast electricity market turnover (excluding transmission and distribution charges)



Source:

Electricity: AEMO 2010 ESOO, IMO 2010 SOO and Industry Expert's Report

Green Certificates (Carbon): Modelling a Voluntary Generator Retirement Policy, ACIL Tasman, 12 March 2010 (Figure 8 Policy case), IMO 2010 SOO and ABARE (www.abare.gov.au/publications_html/data/data/data.htm) for calculated emissions intensity and Australia's Low Pollution Future, Commonwealth of Australia (Chart 3.4)

Green Certificates (RECs): Renewable Energy (Electricity) Amendment Bill 2009 (Cwth), Renewable Energy (Electricity) (Charge) Amendment Bill 2009 (Cwth) and McLennan Magasanik Associates 'Impact of Changes to the Design of the Expanded Renewable Energy Target, May 2010' (page 24)

Green Certificates exclude State-based schemes (NGACs, GECs etc)

Based on these forecasts, significant investment in new generating capacity will be required each year to meet demand growth and scheduled retirement of existing power stations over the next decade. In the absence of significant new investment in coal-fired generation capacity, the Directors believe that gas-fired generation will meet a significant proportion of this new capacity as it represents the most economic form of peak and intermediate baseload generation in the merit order if a carbon price is introduced.

4.3 National Electricity Market

The role of market operator and system operator of the NEM is carried out by the AEMO.

AEMO manages the spot market which operates as a real-time gross energy pool in which all generators and retailers participate. This consists of an energy-only spot market with associated ancillary services. The spot market functions 24 hours per day, seven days a week.

Scheduled NEM generators are required to submit offers to AEMO indicating the volumes of electricity they are prepared to produce for specified prices. AEMO issues dispatch instructions to generators on a least cost basis. The pool prices for each half-hour trading interval ('TI') are determined on the basis of the marginal dispatch offer to satisfy demand for that TI.

AEMO calculates the financial liability of all market participants on a daily basis and settles transactions for all trades in the NEM every week. AEMO has strict prudential arrangements and a robust risk management program in place including the requirements for the deposit of bank guarantees and security deposits against an established maximum credit limit for each market customer.

The NEM is a significant market in terms of trade volume and value. In FY2010, the NEM delivered 218,000 GWh of power to end users, with a wholesale market value of around \$8.5 billion.

4. Industry Overview (cont.)

4.3.1 Market participants

The NEM has approximately 150 registered market participants. The table below lists the major participants in each segment.

Table 8 – Major participants in each market segment of the NEM

| NEM region | Generation | Transmission | Distribution | Retail |
|-----------------|---|----------------------------|--|--|
| New South Wales | Macquarie Generation, Delta Electricity, Eraring Energy, Snowy Hydro, Origin Energy, TRUenergy | Transgrid, EnergyAustralia | EnergyAustralia, Integral Energy, Country Energy, ActewAGL | EnergyAustralia, Country Energy, Integral Energy, Origin Energy, AGL Energy, TRUenergy |
| Queensland | Stanwell Corporation, CS Energy, Tarong Energy, Origin Energy, Intergen, ERM Power, Alinta Energy | PowerLink | Energex, Ergon Energy | Origin Energy, Ergon Energy, AGL Energy, ERM Power |
| Victoria | International Power, Snowy Hydro, GEAC, TRUenergy, Ecogen, Pacific Hydro | SP AusNet | PowerCor, SP AusNet, United Energy, CitiPower, Jemena | AGL Energy, Origin Energy, TRUenergy, Country Energy, Simply Energy |
| South Australia | AGL Energy, Alinta Energy, International Power, Origin Energy, TRUenergy | ElectraNet | ETSA Utilities | AGL Energy, Origin Energy, TRUenergy, Simply Energy |
| Tasmania | Hydro Tasmania, Aurora Energy | Transend | Aurora Energy | Aurora Energy, ERM Power |

Source: Industry Expert's Report (refer to Table 1, Appendix 1, Section 2.1.1)

The generation segment is comprised of a mix of government and private sector companies. The transmission and distribution segments are largely comprised of government-owned corporations, with the exception of Victoria and South Australia, where these are privately-owned regulated monopolies. The retail segment is largely a private sector business, with the exception of incumbent retailers in New South Wales (which is currently being privatised) and Tasmania.

4.3.2 NEM generation

Figure 5 on the opposite page illustrates the installed capacity and generation by fuel type in each State. In the three largest States of New South Wales/Australian Capital Territory, Victoria and Queensland, the vast majority of the current generation is provided by coal-fired plants as this fuel type, in the absence of a carbon impost, represents the most cost effective form of baseload generation. However, under the expected scenario of a near term carbon impost,

the Industry Expert expects the generation supply mix to change significantly to favour gas-fired generation as coal-fired generators are displaced as the most cost-effective source of generation supply.

ABARE reports (in its March 2010 report on energy projections for Australia) that by 2030, ignoring the impact of any carbon pollution reduction scheme, coal-fired generation in Australia will reduce from the level of 72% of total generation in 2007/08, to 43% by 2030, and that gas-fired generation will increase to 37%. Renewables comprised 7% of total generation in 2007/08 and the Government has announced a commitment to increase this to 20% by 2020, with ABARE predicting this level to drop back to 19% in 2030²⁴.

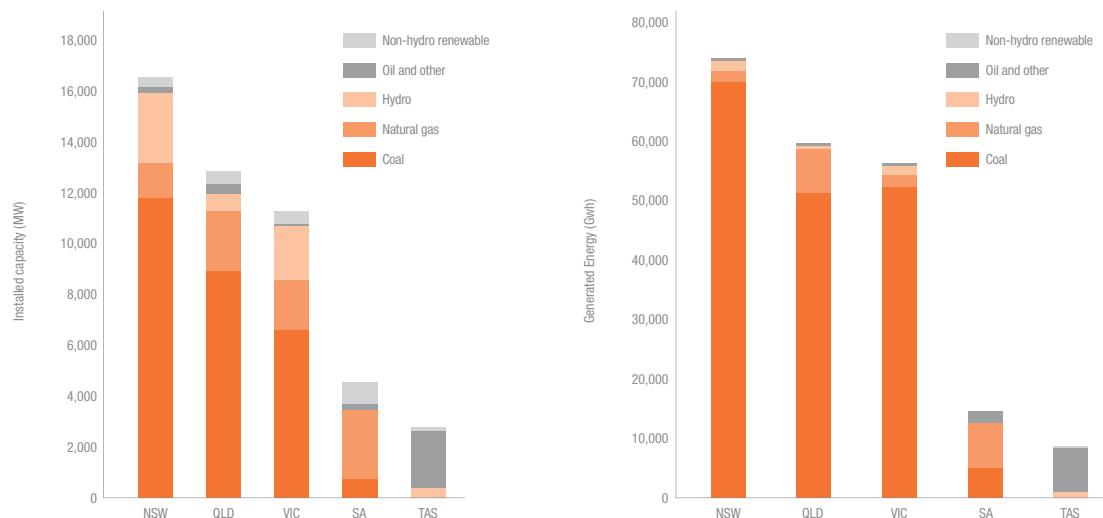
4.3.3 Historic market price

Figure 6 illustrates the historical monthly average regional reference prices (spot prices) for each region since the commencement of the NEM. The price paths are

²⁴ ABARE, "Australian energy projections to 2029/30 (Research Report 10.02)" March 2010.

characterised by stable periods followed by periods of price spikes, typically during peak summer and winter demand periods. In 2007, the impacts of drought in eastern Australia resulted in the curtailment of output from hydro and a number of coal-fired stations. This resulted in prices reaching record levels. Since then, good rainfall in most catchment areas has resulted in prices trending down. Ongoing price spikes originating from South Australia since 2008, due to intermittency of the increasing wind generation installed in the State, have resulted in abnormally volatile prices in recent years, as illustrated in Figure 6 below.

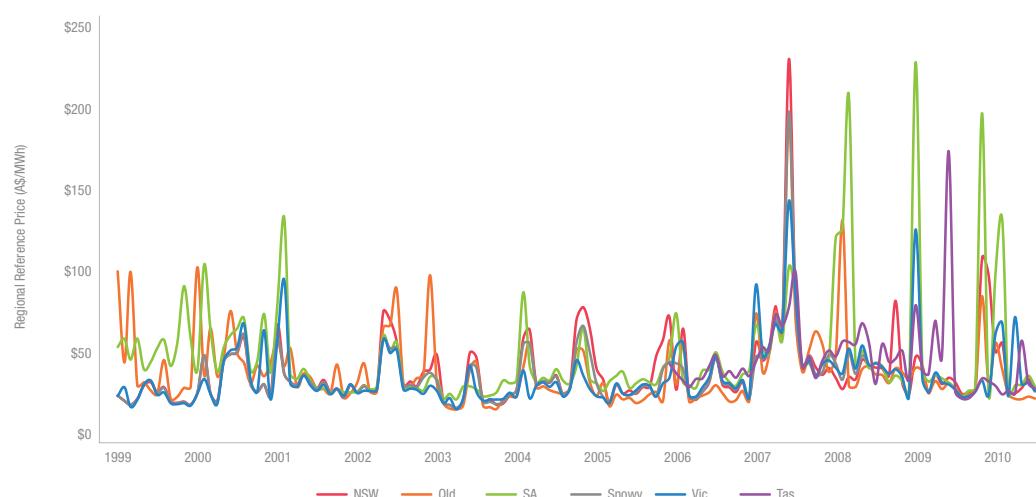
Figure 5 – Installed capacity (left) and generated energy (right) by fuel type



Note: Installed capacity is as at 30 June 2009 and includes total principal generation only. Generation for the 2008/09 financial year, the last reported by AEMO

Source: Industry Expert's Report (refer to Figure 3, Appendix 1, Section 2.1.2) based on data from ESAA, Electricity Australia 2010 and ESAA Gas Australia 2010

Figure 6 – Monthly average spot price for NEM regions: January 1999 to June 2010



Note: Monthly time-weighted average spot prices (RRP) at each region's reference node. Snowy region was abolished in mid 2008

Source: Industry Expert's Report (refer to Figure 4, Appendix 1, Section 2.1.3) based on AEMO market data

4. Industry Overview (cont.)

4.3.4 Market price outlook

The Industry Expert expects prices to rise in the NEM over coming years as a result of the assumed introduction of carbon pricing, which adds a significant new cost element for fossil fuel generators, particularly coal-fired generators (refer Figure 7).

4.4 Wholesale Electricity Market

The WEM is the market operating in the SWIS. The SWIS is the largest interconnected electricity network in Western Australia. It consists of about 88,000 km of transmission lines stretching from Kalbarri, north of Perth, to Albany in the south and to Kalgoorlie in the east.

The WEM was established to provide a platform for buyers and sellers to trade wholesale electricity and became operational on 21 September 2006.

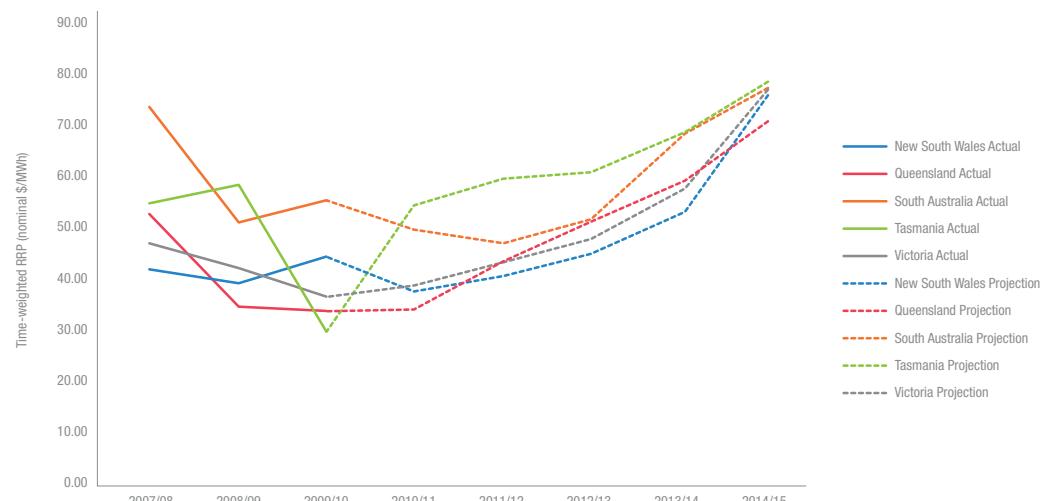
4.4.1 Market overview and structure

The WEM operates as a day-ahead, energy only net pool market and a separate capacity market managed by the IMO. The vast majority of energy and capacity is sold under bilateral contracts between generators and retailers. The Short Term Energy Market ('STEM') provides a means by which participants can trade around these bilateral positions on a short term basis.

Only IMO-accredited generation can be offered for electricity sales in the WEM. IMO assigns capacity credit each August for two years hence, to approximately 15% reserve above the IMO maximum demand forecast for the relevant summer following those two years. Preference in the capacity accreditation is given to existing and bilaterally contracted capacity. Any non-bilaterally contracted capacity assigned capacity credits must be bid into the STEM, and receives a reserve capacity payment from IMO.

The WEM includes explicit capacity pricing which is determined each year through a reserve capacity auction, or determined by IMO if no auction occurs. The bulk of assigned capacity credits are priced according to the negotiated bilateral contract. Bilateral contracts are often bundled (energy plus capacity). Bilateral contracts are generally formed between market generators and market customers (energy retailers) for the supply of energy or capacity or a bundled combination of the two. These contracts include all forms of energy and capacity contracts between market participants and are not standardised. The terms and conditions in these contracts are negotiated and agreed between the contract counterparties. The details of the bilateral contracts including price are not available in the public domain.

Figure 7 – NEM pool price projection 2010/11 to 2014/15



Note: While actual prices are influenced by stochastic events such as weather conditions and forced outages of plant, the projection is normalised for these events and represents a median price outcome. Scenario includes an assumed carbon price commencing in July 2013 of \$10/tonne, with prices in subsequent years approximately equivalent to prices modelled by Commonwealth Treasury under the CPRS-5 scenario in its 2008 report Australia's Low Pollution Future

Source: Industry Expert's Report (refer to Figure 5, Appendix 1, Section 2.1.4)

4.4.2 Market participants

The WEM is a relatively small market, and is still dominated by the legacy State-owned generator, Verve Energy, and legacy State-owned retailer Synergy. Since the commencement of the market, several private sector entities have entered the generation sector, namely Alinta Energy with gas-fired cogeneration and peaking units, Griffin Energy with coal-fired baseload units and ERM Power with the Kwinana gas-fired CCGT baseload and the Neerabup gas-fired OCGT peaker.

In the SWIS retail sector, only customers consuming at least 50 MWh annually (representing around 60% of the market) are contestable. Small non-contestable customers are serviced by Synergy which retains a regulated monopoly over these customers. Western Power is a State-owned regulated monopoly which is responsible for transmission and distribution network services which are a regulated monopoly.

4.4.3 Historic market price

Unlike the NEM, the WEM relies heavily on bilateral contracts which are not visible to parties outside the transaction. Therefore prices for the vast majority of energy traded are not observable. The primary visible market prices are the spot price outcomes resulting from the STEM and regulated capacity prices. However, the STEM only trades a very small proportion of energy utilised in the SWIS and its price is not necessarily reflective of wholesale prices in general.

Figure 8 below shows the historical performance of the STEM since the market commenced. STEM prices have been reasonably stable with the exception of the period June-September 2008. This period corresponds with the gas supply disruption at Varanus Island which caused gas shortages throughout Western Australia. During this period more expensive liquid fuels were often relied upon for peaking duties.

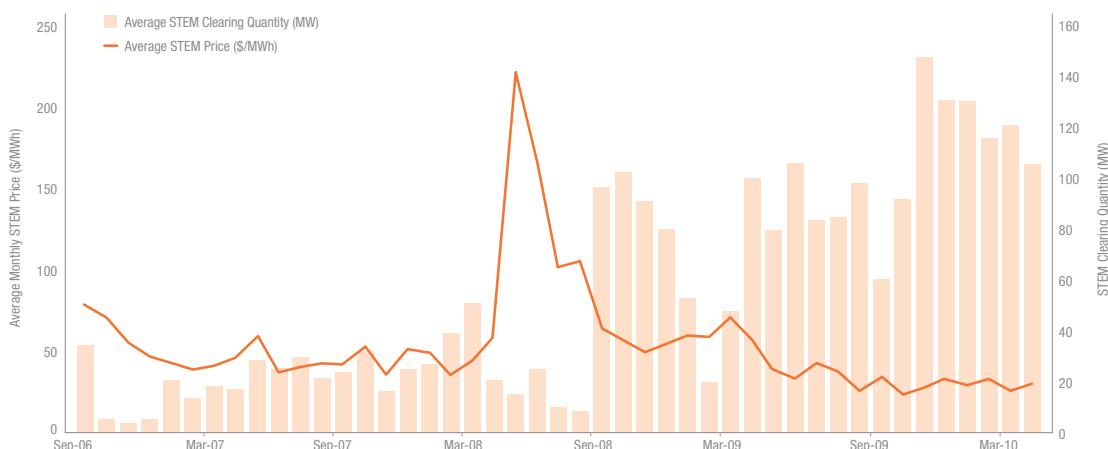
Table 9 – Major players in each market segment of the WEM

| WEM region | Generation | Transmission | Distribution | Retail |
|------------|---|---------------------------|---------------------------|--------------------------------------|
| SWIS | Verve Energy, Alinta Energy, Griffin Energy, ERM Power [†] | Western Power Corporation | Western Power Corporation | Synergy, Alinta Energy, Perth Energy |

[†] ERM Power operates the Kwinana and Neerabup power stations on behalf of their owners

Source: Industry Expert's Report (refer to Table 7, Appendix 1, Section 2.2.2)

Figure 8 – Average monthly STEM outcomes since market start



Source: Industry Expert's Report (refer to Figure 6, Appendix 1, Section 2.2.3) – ACIL Tasman based on IMO data

4. Industry Overview (cont.)

Over the last 18 months STEM prices have been relatively low as a result of the commissioning of over 720 MW of new intermediate/baseload capacity combined with lower electricity demand in the SWIS as a result of the fallout of the global financial crisis and the resultant slump in commodity prices.

4.4.4 Market price outlook

ACIL Tasman projects energy prices in the WEM to remain relatively flat at around \$50 per MWh over the period 2010/11 to 2012/13 after rising from lows of around \$30 per MWh. Energy prices rise notably from 2013/14 due to the assumed commencement of carbon pricing.

In the longer-term, prices in the WEM are expected to continue to be heavily influenced by carbon prices. Overall energy costs in the WEM are expected to be significantly higher than those in the NEM due to higher prevailing coal and gas prices and also the 'peakier' demand in the system.

4.5 Impact of carbon emissions reduction regulations

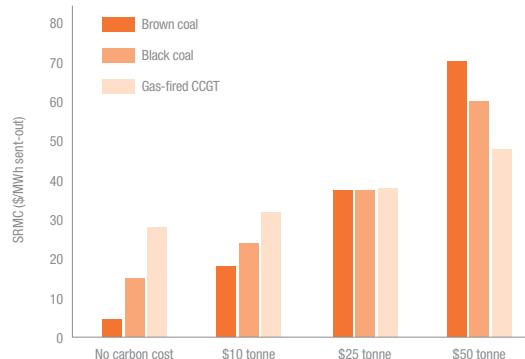
Environmental policies to reduce greenhouse gas emissions and improve energy efficiency have had, and will continue to have, a material impact on the operation of the NEM and WEM.

4.5.1 Carbon pricing policies

The likely timing and form of any carbon pricing policy in Australia is very uncertain and represents a key factor which will influence the future generation mix. ERM Power believes that some form of explicit carbon pricing policy is likely in the medium to long term. In general terms carbon pricing generally enhances the competitive position of gas relative to coal-fired technologies as shown in Figure 9. While carbon prices increase the cost of generation for all fossil fuelled plants, their effects upon gas-fired generation plant are estimated to be one-third to one-half the effects upon coal-fired generation plant, thereby increasing the attractiveness of gas-fired generation.

Figure 9 illustrates the electricity pool price increase that would occur for the median-priced existing black coal-fired generation to pass through the cost of a \$25/tonne and

Figure 9 – Marginal generating costs at varying levels of carbon prices



Note: Based on emission intensities of 1.3, 0.9 and 0.4 tonnes CO₂ per MWh for brown coal, black coal and CCGT generation respectively. Illustrative example only

Source: Industry Expert's Report (refer to Figure 9, Appendix 1, Section 2.3.1)

\$50/tonne CO₂ carbon tax, of the order of \$22/MWh and \$45/MWh respectively, with the resulting net pool benefit for baseload gas-fired generation being of the order of \$12/MWh and \$25/MWh.

4.5.2 Enhanced renewable energy target

The Australian Government has implemented the Enhanced Renewable Energy Target ('ERET') to achieve its policy objective of generating 20% of Australia's electricity from renewable sources by 2020. Legislation to this effect was initially passed by the Commonwealth Parliament in August 2009.

Whilst a range of renewable generation sources will be assisted by the ERET, the primary technology that is expected to benefit from the policy is wind generation. Owing to its intermittent nature, a significant increase in wind generation is likely to affect the operation of both the NEM and the WEM by requiring increased amounts of flexible 'back-up' generation to be available during periods of low wind intensity. This requirement will enhance the opportunities for developers of OCGT generation in the advent of a carbon impost, which is generally seen as the lowest cost technology to provide this 'back-up' generation.

4.5.3 State-based schemes

Two major State-based emissions reduction schemes also affect the operation of the NEM. The Queensland Gas Scheme (more commonly known as the ‘GEC Scheme’ after the Gas Electricity Certificates that are central to the operation of the scheme) commenced in 2005 with the intention of ensuring that 13% of that State’s electricity is generated using gas. In 2008, the Queensland Government increased the target for 2010 and 2011 to 15%, and provided for the target to be increased to 18% in the future. This scheme has seen substantial growth in gas-fired generation in Queensland in line with mandated proportions of gas-fired generation required to be purchased by electricity retailers. A market in GECs has been created, with the market price depending on the supply/demand for GECs. This represents an effective subsidy for gas-fired generation. In 2009/10, gas-fired generation accounted for around 14% of Queensland’s total generation.

In 2003, the New South Wales Government introduced a ‘baseline-and-credit’ greenhouse reduction certificate trading scheme known as the Greenhouse Gas Abatement Scheme (‘GGAS’). Amongst other things, this scheme subsidised electricity generation in the NEM which had a lower emissions intensity than the NSW average. Credits known as NSW Greenhouse Gas Abatement Certificates, or ‘NGAC’, are traded in a market. The price of NGACs varies with the supply and demand for NGACs by retailers to meet statutory mandated proportions of NGACs relative to their retail electricity sales.

In 2006, the NSW Government extended the operation of the GGAS from 2012 to 2021. The NSW Government also announced that the scheme would cease operating on commencement of a national emissions trading scheme. Given the Australian Government’s failure to achieve passage of the Carbon Pollution Reduction Scheme (‘CPRS’), the GGAS will continue operating until present circumstances change.

4.6 New generation requirements

In general, there are four principal drivers for new generation requirements in both the NEM and the WEM:

1. growth in peak demand requirements driven by increased use of power intensive appliances, such as air-conditioning, and general load growth;
2. replacement of retiring aged generation assets as they reach their technical design life;
3. displacement of existing generation based on either commercial performance or other considerations such as environmental factors; and
4. transmission system support.

The generation plant mix of baseload, intermediate (shoulder) and peak generation plant depends on system peak demands that have to be met relative to typical daytime (shoulder) and overnight (off-peak) power demands.

Based on demand forecasts and with reserve allowance to meet prescribed reliability standards, AEMO and IMO determine ‘Capacity for Reliability’ levels for each State, as illustrated in Figure 10 – Figure 15. New generation capacity is required to meet the difference between these levels and existing installed capacity.

ERM Power’s forward planning takes account of commercial opportunities likely to arise in advance of the supply-demand balance reaching critical marginal levels. A tightening balance is typically reflected in higher average spot electricity prices and firmer forward contract prices. The resulting generation requirements for each State are also illustrated in Figure 10 – Figure 15 (on following page).

Based on the AEMO and IMO forecasts, approximately 8,500 MW of additional generation capacity will be required by 2019/20 as shown in Figure 16 (on page 51).

The capacity requirements for 2010/11 and 2011/12 have already been met by projects recently commissioned or currently under construction, such as the Braemar 2 project in Queensland which was developed and is currently operated by ERM Power and Origin’s Mortlake project in Victoria.

4. Industry Overview (cont.)

Figure 10 – Queensland

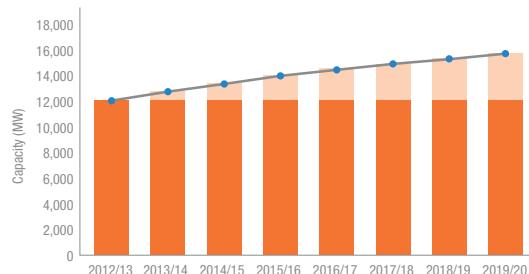


Figure 11 – South Australia

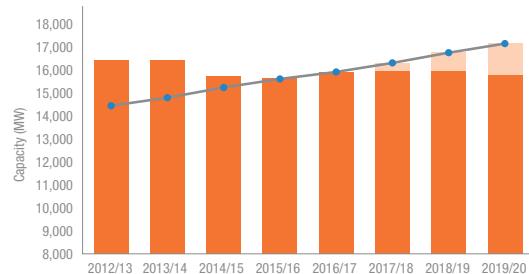


Figure 12 – New South Wales/Australian Capital Territory



Figure 13 – Tasmania

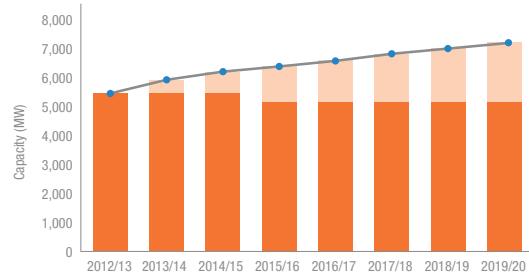


Figure 14 – Victoria

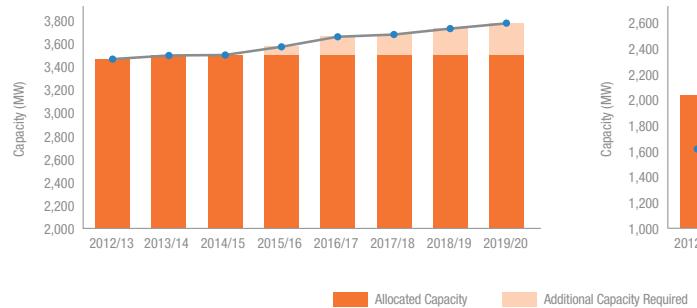
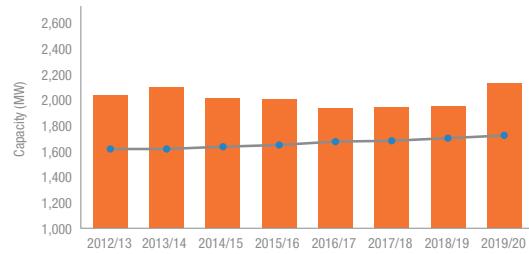


Figure 15 – Western Australia



Source: AEMO 2010 ESOO (for Qld, NSW, Vic and SA) and IMO (for WA) 2010.

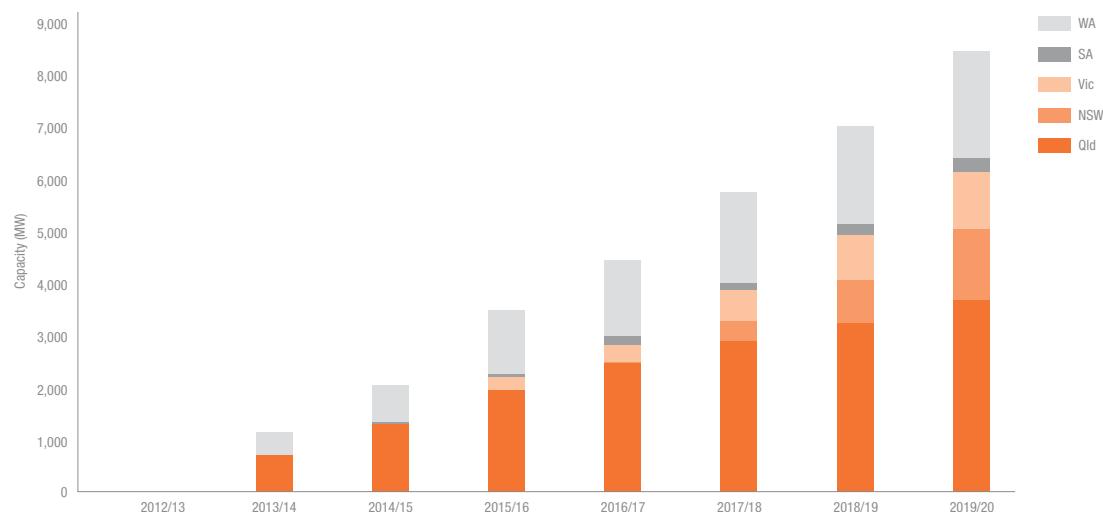
4.6.1 Outlook for gas-fired generation

In the absence of a carbon price or nationally mandated emission abatement or gas-energy certificate trading scheme, coal-fired generation is the most economical baseload generation in Australia. Coal-fired generation currently represents around 59% of total generating capacity and produces over 84% of total electricity generation in the NEM. Gas-fired generation is suitable

as peaking generation, and may also be the most economical form of baseload generation if carbon pricing is introduced. Figure 17 (on following page) below illustrates that a significant proportion of new capacity is expected to be derived from gas-fired generation sources.

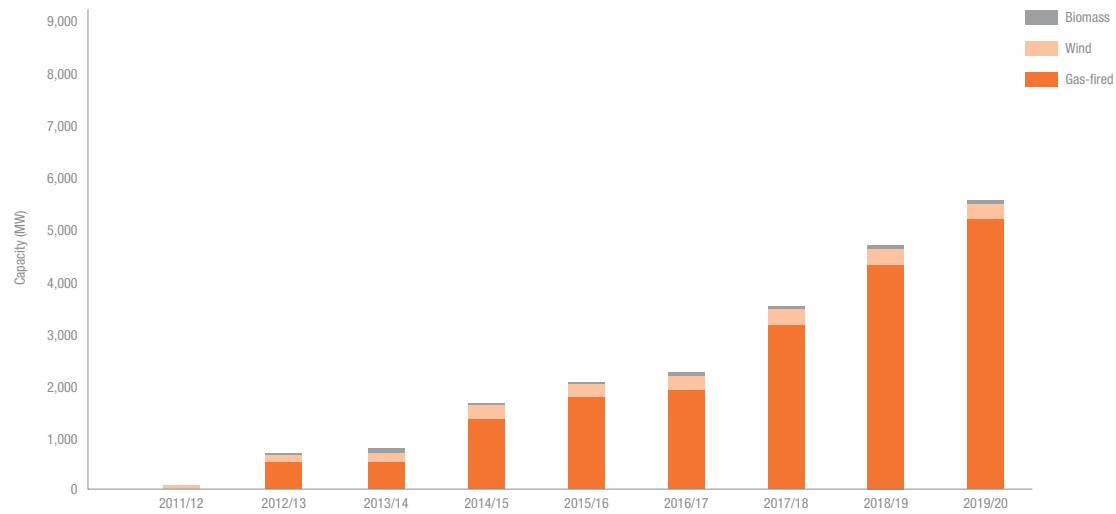
Other specific factors such as gas monetisation strategies for ramp gas (related to proposed Queensland LNG projects) can influence the generation fuel mix.

Figure 16 – Cumulative new capacity requirements in the NEM and WEM



Source: AEMO 2010 ESOO (for Qld, NSW, Vic and SA) and IMO (for WA) 2010

Figure 17 – Cumulative new firm capacity requirements by generation type in the NEM



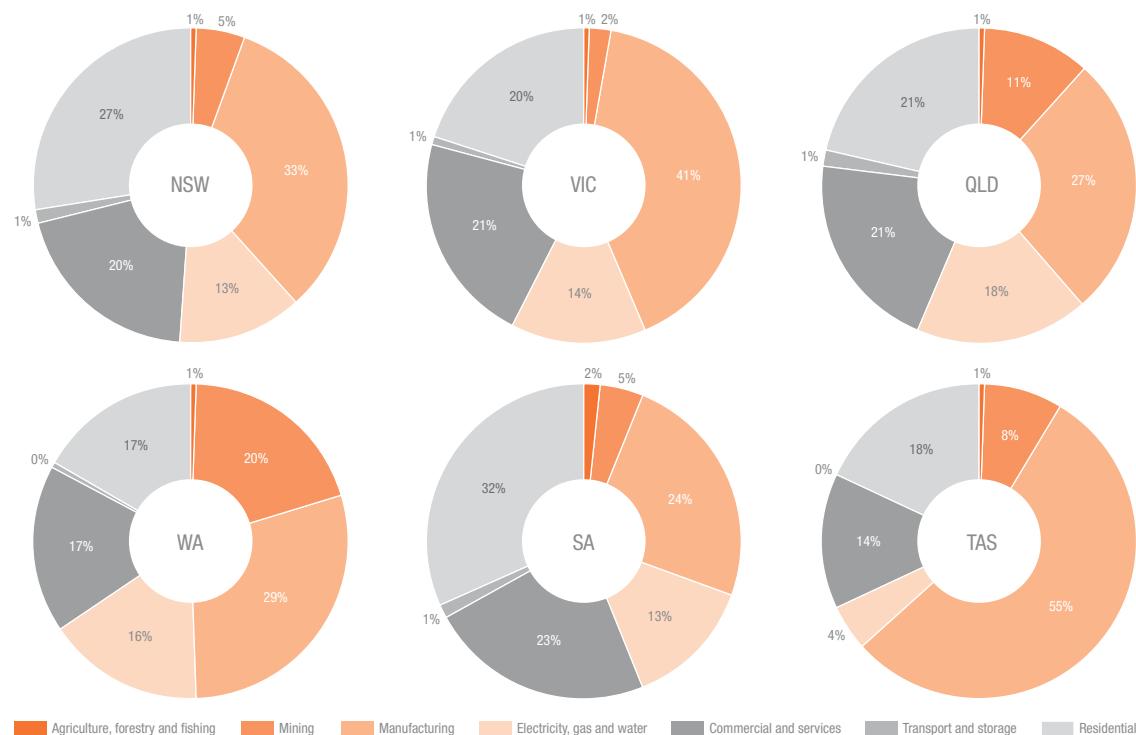
Source: Data compiled from National Transmission Statement for the National Electricity Market 2009, Volume 2 Appendix F, page 15, also refer pp.3-9 – 3-11 (with data adjusted by AEMO 2010 ESOO AEMO's contribution to peak demand factors for wind for each State, refer AEMO 2010 SOO Table 5-38, page 133)

4. Industry Overview (cont.)

4.7 Business customer market

As a fundamental input in a modern economy, electricity demand is spread across all sectors of the economy as illustrated in Figure 18. On average, around 25% of electricity in Australia is consumed by households with manufacturing accounting for almost 40%.

Figure 18 – Electricity consumption by sector for 2008/09



Note: Includes data for whole State, not just NEM and SWIS

Source: Industry Expert's Report (refer to Figure 12, Appendix 1, Section 5)

4.7.1 Current retailers

Retailers to the business customer markets include the major private sector mass market electricity retailers, AGL, Origin and TRUenergy, and remaining Government-owned retailers in New South Wales (which are currently undergoing a sale process), Tasmania and Western Australia, and also a number of niche retailers. Table 10 (on the following page) sets out a list of retailers in each of the NEM and WEM regions.

4.7.2 Market size and growth

At a retail level, there are currently around 10 million electricity end-users in Australia as detailed in Table 11 (on the following page). Residential customers make up 88% of customer numbers, but only account for 29% of energy consumption. By comparison, the remaining non-residential customers, business users, represent only 12% of customers, but account for approximately 71% of energy consumption. Business customers include small-to-medium enterprises which, like residential customers, may not have time-of-day metering.

Table 10 – Retailers in the business customer market

| New South Wales | Queensland | Victoria | South Australia | Tasmania | Western Australia |
|------------------------|-----------------|------------------------|------------------------|----------------|------------------------|
| ActewAGL Retail | AGL Energy | AGL Energy | AGL Energy | Aurora Energy | Alinta Energy |
| AGL Energy | Country Energy | Australian Power & Gas | Aurora Energy | Country Energy | ERM Power [†] |
| Alinta Energy Services | EnergyAustralia | Country Energy | Country Energy | ERM Power | Perth Energy |
| Aurora Energy | ERM Power | ERM Power | ERM Power [†] | TRUenergy | Synergy |
| Australian Power & Gas | Integral Energy | Origin Energy | Momentum Energy | | |
| Country Energy | Origin Energy | Red Energy | Origin Energy | | |
| EnergyAustralia | Powerdirect | Simply Energy | Red Energy | | |
| ERM Power | Qenergy | TRUenergy | SA Electricity | | |
| Integral Energy | TRUenergy | Victoria Electricity | Simply Energy | | |
| Origin Energy | | | TRUenergy | | |
| Red Energy | | | | | |
| TRUenergy | | | | | |

[†] ERM Power intends to commence electricity sales operations in Western Australia and South Australia in January 2011

Note: Not all of these retailers may be actively marketing to the larger end of the business customer market

Source: Industry Expert's Report (refer to Table 11, Appendix 1, Section 5.2) with ERM Power added to Western Australia and South Australia

Table 11 – Customer numbers and consumptions by customer class 2008/09

| | NSW/ACT | Vic | Qld | SA | WA | Tas | TOTAL |
|--------------------------|------------------|------------------|------------------|----------------|------------------|----------------|------------------|
| Customer numbers | | | | | | | |
| Residential | 3,000,551 | 2,190,588 | 1,697,545 | 708,242 | 909,680 | 233,237 | 8,739,843 |
| Business | 394,817 | 315,256 | 211,191 | 99,311 | 141,654 | 36,319 | 1,198,548 |
| Total | 3,395,368 | 2,505,844 | 1,908,736 | 807,553 | 1,051,334 | 269,556 | 9,938,391 |
| Consumption (GWh) | | | | | | | |
| Residential | 22,146 | 12,503 | 12,670 | 4,348 | 5,877 | 1,652 | 59,196 |
| Business | 49,148 | 31,335 | 34,441 | 8,418 | 9,622 | 9,057 | 142,021 |
| Unmetered | 380 | 376 | 304 | 112 | 34 | 25 | 1,231 |
| Total | 71,675 | 44,214 | 47,414 | 12,878 | 15,533 | 10,734 | 202,448 |

Source: ESAA 2010. Unmetered consumption refers to public lighting

5. Company Overview

5.1 Company overview

ERM Power's business was founded as a specialist Australian energy advisory firm in 1980, transitioned to a generation developer in the mid 1990s and has evolved to become one of Australia's largest private integrated energy companies. ERM Power develops, has ownership interests in, and operates low emission gas-fired power stations, sells electricity to the larger end of the business customer market, and has a small but complementary gas business focused on procurement of long term gas supplies. Figure 19 below illustrates ERM Power's integrated business.

The relative contribution of each business unit to ERM Power's proportionately consolidated EBITDAIF is outlined in Figure 20.

ERM Power aspires to be the electricity supplier of choice to Australia's larger business customers through a differentiated service offering tailored to the specific needs of the customer. ERM Power is also pursuing a strategy of continuing to capitalise on generation development opportunities and exploiting greater vertical integration to support electricity sales.

Further detail on each of ERM Power's business units is set out in this Section.

Figure 19 – ERM Power's integrated business

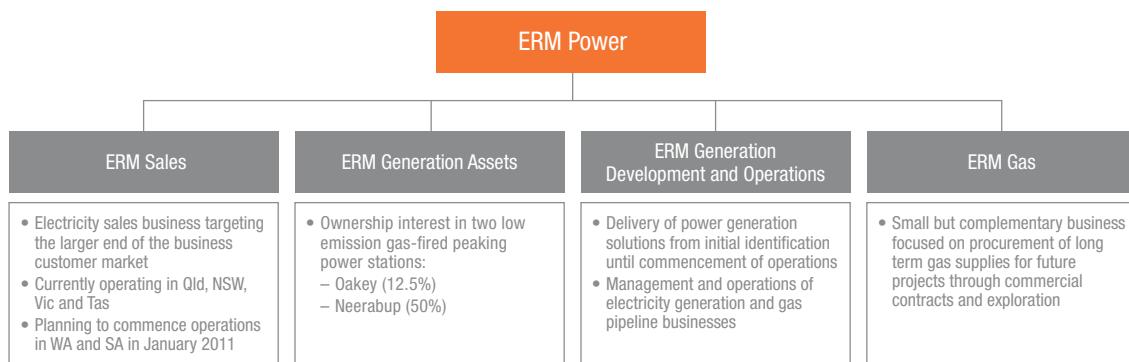
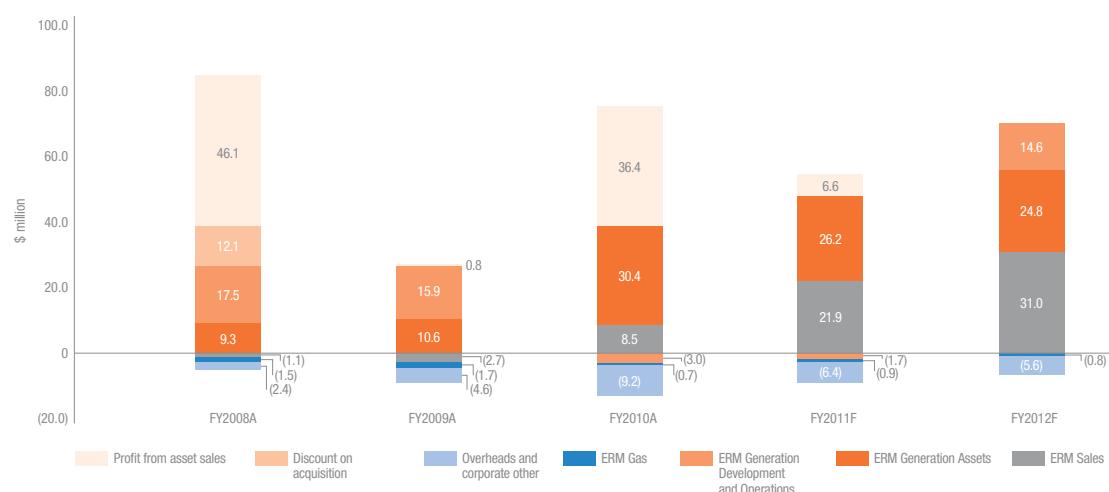


Figure 20 – Relative contribution to proportionately consolidated EBITDAIF



5.2 ERM Sales

5.2.1 Overview

ERM Power's electricity sales business, ERM Sales, was established in 2007 to strengthen the ERM Power business model in a consolidating market and to provide a direct path to deliver competitive power solutions to the end use customer.

ERM Sales:

- has achieved strong growth since inception, with sales revenue increasing from \$3.4 million in FY2008 to \$287.5 million in FY2010 and revenues forecast to grow to \$646.5 million in FY2012 (refer to Figure 21);
- currently targets the larger end of the business customer market. The business customer market represents approximately 70% of the total Australian electricity consumption;
- is currently one of the largest electricity providers (by load) to Queensland's business customer market, with a 10.2% market share; and
- has existing sales contracts (as at 30 September 2010) which cover approximately:
 - 94% of forecast load and 94% of forecast gross margin for FY2011;

- 53% of forecast load and 62% of forecast gross margin for FY2012; and
- \$13.7 million of gross margin beyond FY2012.

Figure 22 illustrates ERM Sales' historic load and a breakdown of the forecast load.

5.2.2 Business description

ERM Sales sells electricity (which includes a pricing component for any required Green Certificates) to customers at the larger end of the business customer market, sourcing its electricity requirements from the NEM. From January 2011, ERM Sales also plans to sell electricity to customers in the WEM. To manage its risk position, ERM Sales enters into financial contracts with electricity generators or other counterparties to hedge its price risk. See Section 5.2.8 for further detail.

ERM Sales secures customer contracts through an extensive network of brokers and consultants acting on behalf of customers, as well as through direct relationships with its larger customers. ERM Sales has a scalable business model with predominantly fixed overhead costs and a customised operating platform in place.

Figure 21 – ERM Sales' historic and forecast revenue

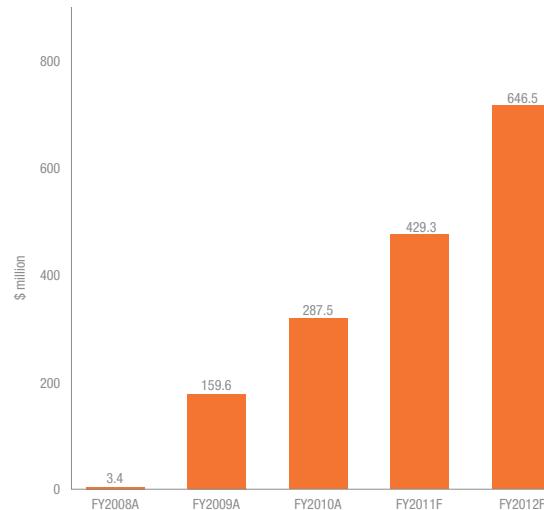
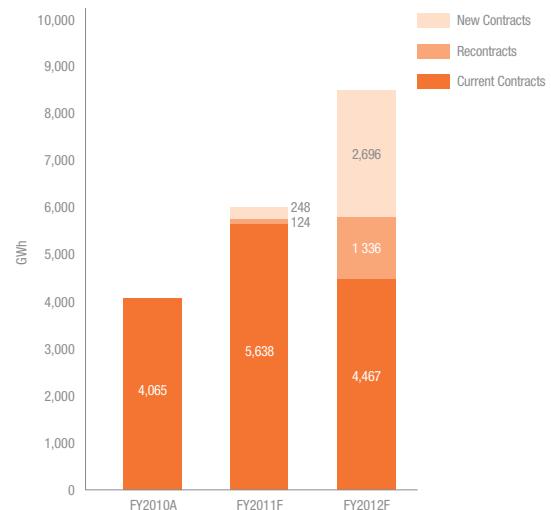


Figure 22 – ERM Sales' historic and forecast load



Note: Forecast recontracting is based on historical recontracting rates

5. Company Overview (cont.)

Figure 23 below is a graphical depiction of the ERM Sales business model (as it occurs in the NEM) and the interaction between ERM Sales and other parties within the NEM.

One of ERM Sales' competitive advantages is the ability to provide customers with a tailored offering. This is achieved primarily through ERM Sales' customer-centric focus, working together with each customer to deliver a tailored product based on the customer's needs. ERM Sales' custom built systems also enable customers to monitor and analyse their electricity usage on a daily basis.

ERM Sales is required to satisfy prudential capital requirements with a range of counterparties. For further details on these requirements, refer to Section 5.2.7.

ERM Sales' growth has been significantly restricted by prudential capital constraints. Historically, this has prevented ERM Sales from tendering for some larger contracts, particularly in New South Wales and Victoria. ERM Sales has only priced approximately 32% of the sales enquiries brought to it by external brokers and consultants in the last 12 months. Part of the proceeds of the Offer will be used to provide additional prudential capital which ERM Sales requires to support the expansion of its business. With the additional working capital, ERM Sales expects to be in a position to tender for a larger number of contracts.

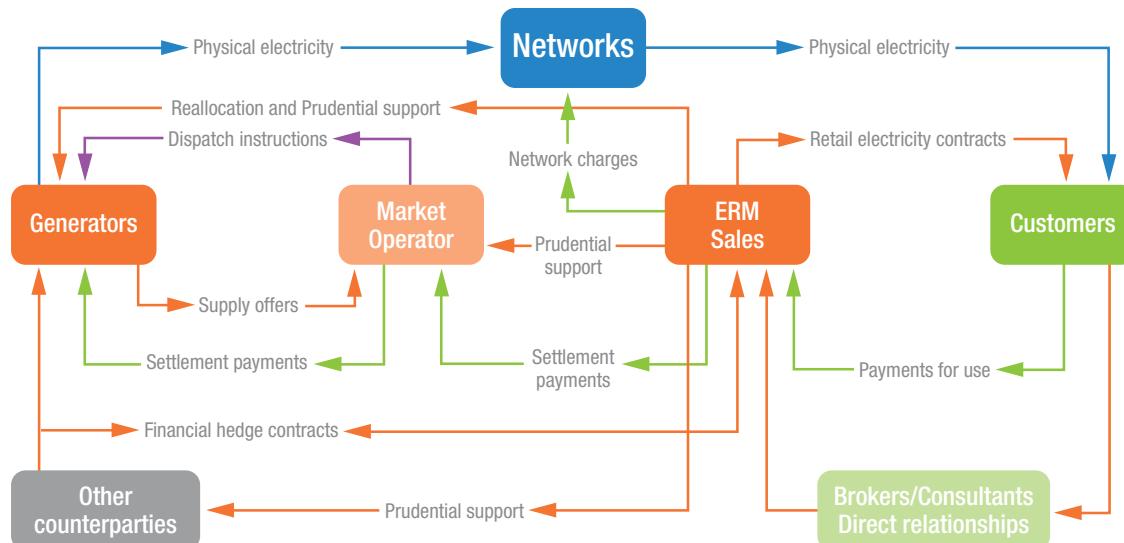
5.2.3 Target market

ERM Sales seeks to differentiate itself from its major competitors by focusing on the larger end of the business customer market, typically targeting customers who spend more than \$50,000 per annum on electricity. The business customer market comprises only 12% of all Australian electricity customers by number, but accounts for around 70% of Australia's total electricity market by load. Unlike mass market customers, being households and small to medium enterprises ('SMEs'), larger business customers demand more detailed products broken down into various sub-components such as peak and off-peak electricity and RECs with network and AEMO charges separately passed through at cost.

Prices, terms and conditions offered to ERM Sales' customers are negotiable. Prices are not regulated, as may be the case with residential customers. The average duration of the current sales contracts between ERM Sales and its customers is approximately 2.5 years, with the majority of ERM Sales' customers on contracts of between one and three years. ERM Sales has recontracted 89% of expiring load over its history.

ERM Sales is currently one of the largest electricity providers (by load) to business customers in Queensland, supplying

Figure 23 – ERM Sales' business model (NEM)



electricity to approximately 10.2% of the Queensland business customer market and to approximately 2.8% of the Australian business customer market. ERM Sales forecasts that it will have a 5.6% share (by load) of the Australian business customer market by June 2012.

ERM Sales currently operates in Queensland, Victoria, New South Wales and Tasmania, and will commence operations in Western Australia and South Australia in January 2011.

Because ERM Sales targets the larger end of the business customer market, there is no need to operate call centres or advertise its services. ERM Sales' business model and the scalability of its existing customised operating platform, means it will not require significant capital expenditure in systems, assets or marketing in order to expand its business.

Figure 24 below shows ERM Sales' estimated current and forecast market share of the Australian business customer market, on a State by State basis.

ERM Sales believes the forecast market share growth in the various States is reasonable in light of its current prudential and working capital constraints which will be addressed by the Offer and the growth it has achieved in the NEM generally, and the Queensland region in particular, since inception in 2007, as illustrated in Figure 25 to the right. The primary driver for growth will be increased quoting activity in New South Wales and Victoria as a result of the increased prudential capital capacity arising from the Offer.

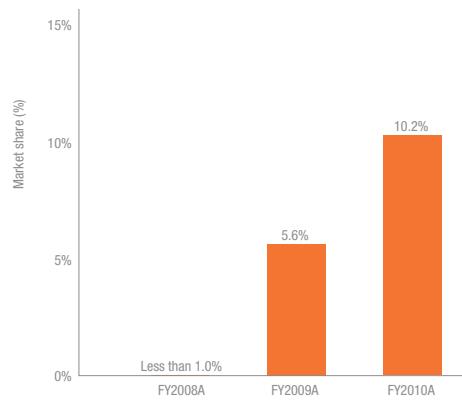
5.2.4 Customers

ERM Sales categorises customers according to their electricity requirements:

- Platinum customers: >100 GWh per annum
- Gold customers: 20 – 100 GWh per annum
- Silver customers: 5 – 20 GWh per annum
- Bronze customers: 0.5 – 5 GWh per annum

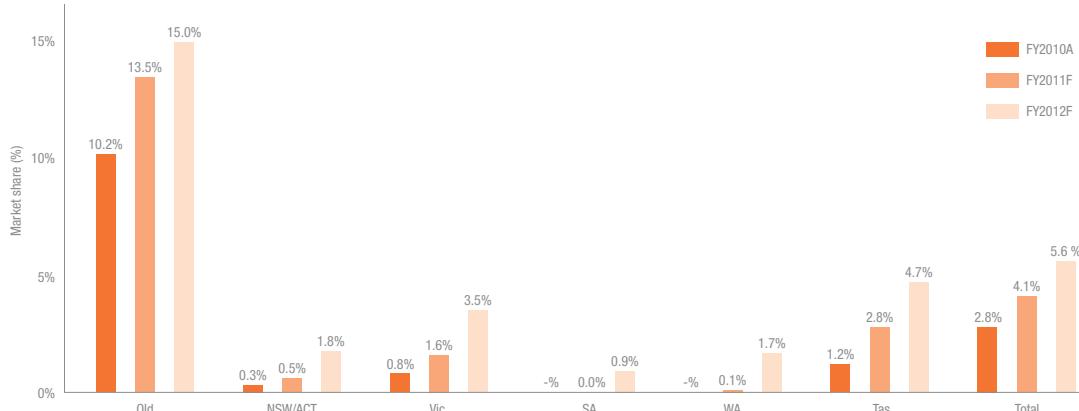
ERM Sales' customers' average load is currently more than 15,000 MWh per annum compared to the average household load of less than 10 MWh per annum.

Figure 25 – ERM Sales' market share growth (by load) of the business customer market in Queensland



Source: Industry Expert's Report in Appendix 1 – Section 5.3, Table 13, ESAA 2009

Figure 24 – ERM Sales' estimated current and forecast market share of the business customer market by load



Source: Industry Expert's Report in Appendix 1 – Section 5.3, Table 13 with extrapolation of 2010/11 figures based on constant growth in business energy consumption between 2009/10 and 2011/12 estimate

5. Company Overview (cont.)

Between June 2008 and June 2010, ERM Sales' sales contracts (by number) increased from 25 to 278. As at 30 September 2010, ERM Sales had 347 sales contracts serving 1,284 billable customer connections, and is forecasting the total number of sales contracts to increase to 870 by June 2012, as shown in Figure 26 below. Figure 26 illustrates the consistent growth achieved to date, which is expected to continue over the forecast period. Bronze customers are expected to comprise a significant proportion of the increase in customer numbers as ERM Sales continues to expand and diversify its customer base.

As shown in Figure 27 below, while platinum customers represent a low proportion of ERM Sales' customers by number, they represent a significant proportion of total customer demand by load. ERM Sales expects to grow and diversify its customer base (as demonstrated by the expected increase in the number of bronze customers, as shown in Figure 26 below), thereby reducing reliance on platinum customers.

Figure 26 – ERM Sales' historic and forecast customer numbers by category

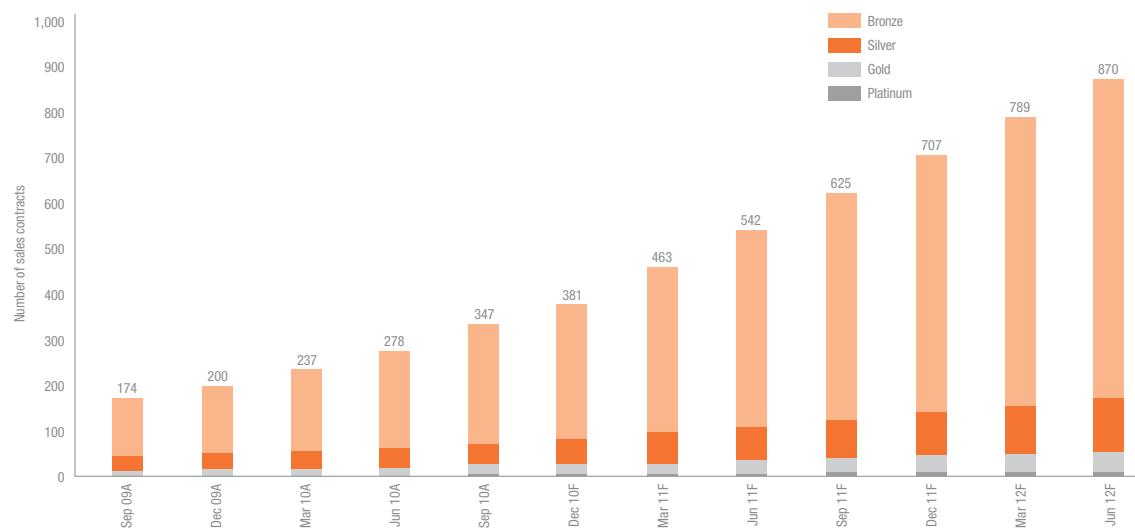


Figure 27 – ERM Sales' historic and forecast customer demand by category

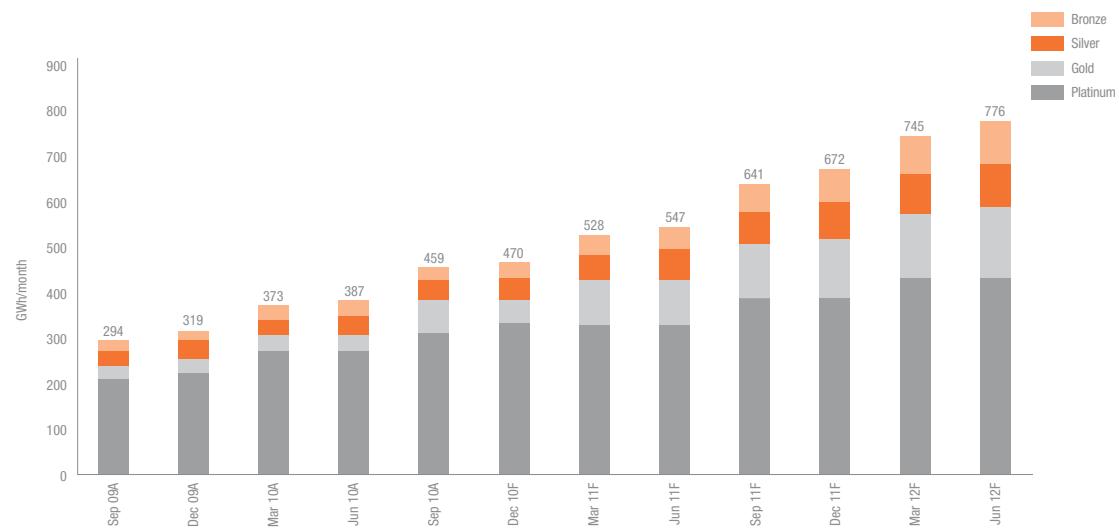


Figure 28 below illustrates the number of new contracts signed by ERM Sales over the period October 2008 to September 2010.

Figure 29 below identifies some of ERM Sales' customers.

As illustrated in Figure 30 below, ERM Sales' customers operate in a wide range of industries including manufacturing, mining, education, healthcare, major infrastructure, retailing and consumer staples.

ERM Sales is also expected to reduce reliance on its Queensland customer base by expanding its market share in Victoria, New South Wales, Tasmania, South Australia and Western Australia. With the additional prudential capital provided by the Offer, ERM Sales expects that the composition of its customers (by load) from Queensland will decrease from 87.4% in FY2010 to 67.4% in FY2012 (refer to Figure 31 on the following page).

Figure 28 – New contracts signed

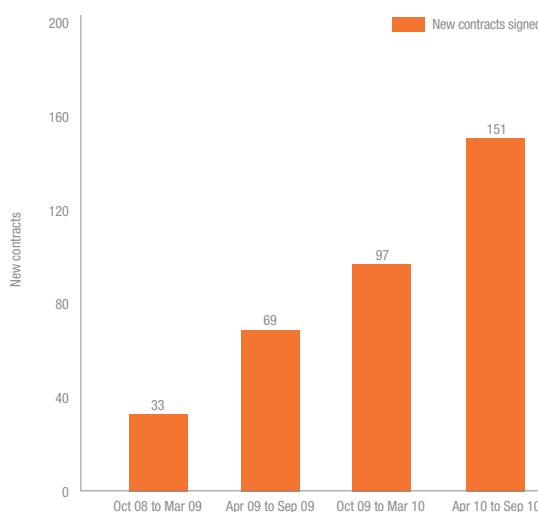


Figure 30 – ERM Sales' customer load by industry (FY2010)

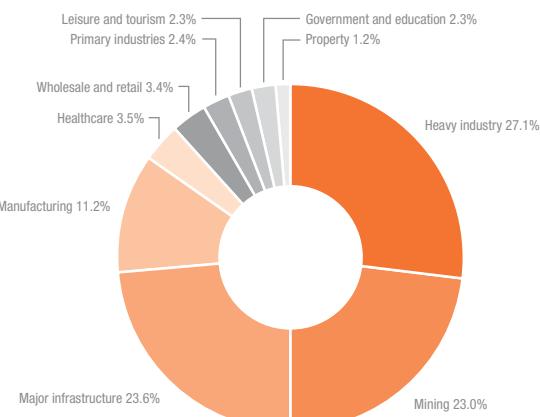


Figure 29 – ERM Sales' indicative sample of customers



5. Company Overview (cont.)

ERM Sales has a billed revenue collection rate of 99.95% since inception. Under the terms of payment which ERM Sales has agreed with its customers, over 74% of customer revenue is required to be paid within 14 days and the remaining customer revenue within 30 days.

5.2.5 Operating performance

As at 30 September 2010, ERM Sales had entered into sales contracts representing approximately 94% of FY2011 forecast gross margin and approximately 62% of FY2012 forecast gross margin.

The additional gross margin necessary to meet the remaining uncontracted FY2012 forecast is expected to come from a combination of re-contracting existing customers (approximately 33% of uncontracted gross margin) and contracts with new customers (approximately 67% of uncontracted gross margin), as shown in Figure 32 below.

Figure 32 below details the ERM Sales historic gross margin and a breakdown of forecast gross margins.

Additionally, as at 30 September 2010, ERM Sales has existing sales contracts which represent gross margin of \$13.7 million beyond the Forecast Period.

Figure 31 – ERM Sales' customer load by State (FY2010 to FY2012F)

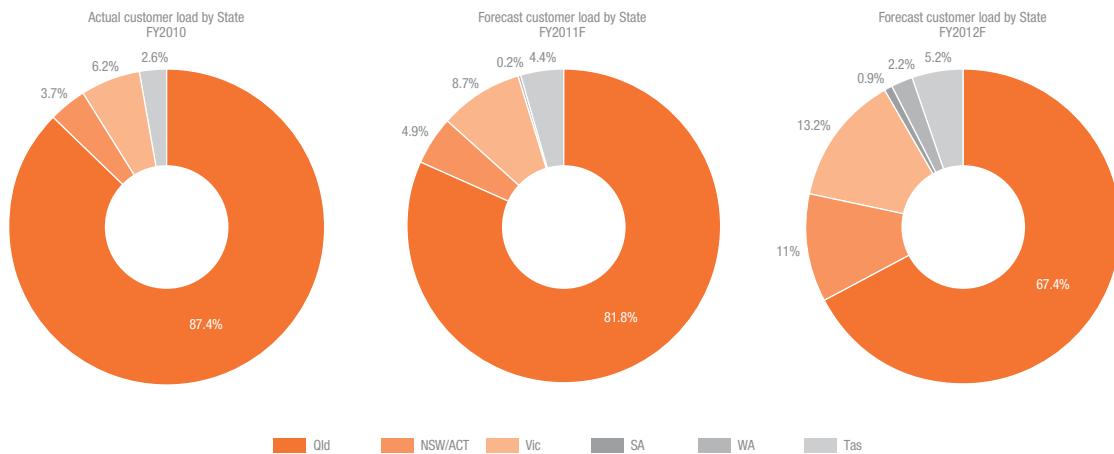


Figure 32 – ERM Sales' historic and forecast gross margins

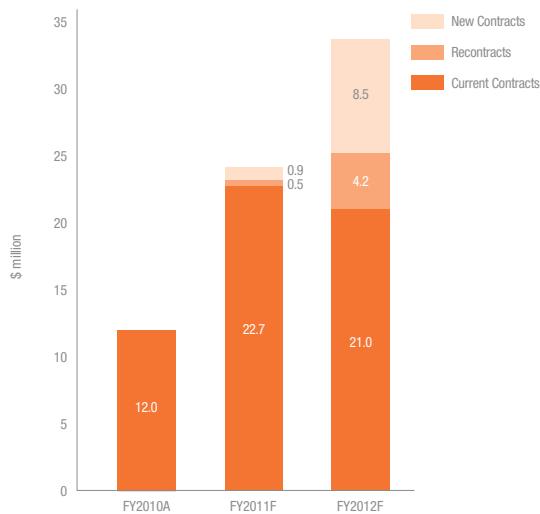
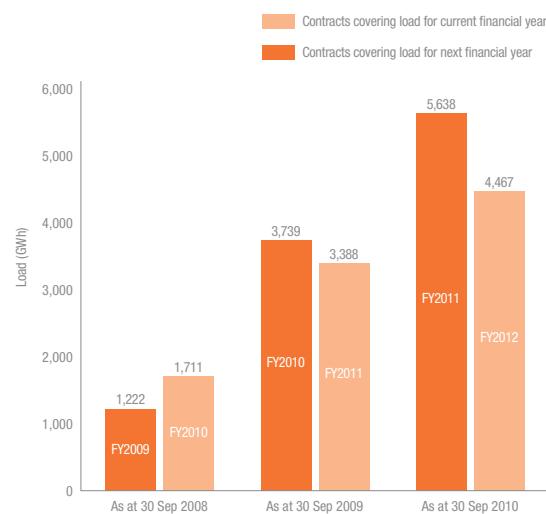


Figure 33 – ERM Sales' forward contract history (by load GWh)



5.2.6 ERM Sales summary financial information

The historical and forecast consolidated income statement and gross margin and EBITDAIF for ERM Sales is outlined below in Table 12 and Table 13.

From FY2008 to FY2010, ERM Sales' revenue increased from \$3.4 million to \$287.5 million. This growth was driven by an increase in sales volumes over that period from approximately 12 GWh to 4,065 GWh as a consequence of growing customer numbers. ERM Sales' revenue for September 2010 was \$33.2 million.

ERM Sales' historic trading results, particularly for FY2009, were negatively impacted by the volatility in electricity prices. ERM Sales adopted a long hedge position, particularly during its early growth phase, as a prudent approach to risk mitigation. Electricity spot prices in Queensland have

trended lower over the past three years. As a consequence, ERM Sales incurred losses when it net settled against low spot prices for the excess hedged volumes, being the difference between its hedged position and actual volumes of electricity consumed by customers. The FY2009 result was also negatively impacted by the global financial crisis. A number of customers experienced unexpected closures and decreased plant utilisation during this time, which decreased the amount of electricity they purchased

Revenue growth in FY2010 reflected an 81% increase in the volume of electricity sold compared to the previous year, to 4,065 GWh. While the majority of that revenue growth reflected continued expansion of ERM Sales' business in Queensland, it also reflected increased customer numbers in New South Wales, Victoria and Tasmania.

Table 12 – Historical and forecast consolidated income statement

Statutory presentation – ERM Sales

| \$'000s | FY2008A | FY2009A | FY2010A | Forecast FY2011F | Forecast FY2012F |
|-----------------------|---------|-----------|-----------|------------------|------------------|
| Revenue ²⁵ | 3,404 | 159,601 | 287,500 | 429,326 | 646,464 |
| Expenses | (4,537) | (162,255) | (279,035) | (407,418) | (615,509) |
| EBITDAIF | (1,133) | (2,654) | 8,465 | 21,908 | 30,955 |
| EBIT | (1,712) | (2,792) | 8,104 | 21,608 | 30,655 |

Table 13 – Gross Margin and EBITDAIF – ERM Sales

| \$'000s | FY2008A | FY2009A | FY2010A | Forecast FY2011F | Forecast FY2012F |
|--------------------------|---------|-----------|-----------|------------------|------------------|
| Sales volumes (GWh) | 12 | 2,241 | 4,065 | 6,010 | 8,499 |
| Electricity revenue | 3,164 | 158,498 | 286,316 | 426,678 | 643,070 |
| Electricity expenses | (1,767) | (158,400) | (274,276) | (402,579) | (609,399) |
| Electricity gross margin | 1,397 | 99 | 12,040 | 24,099 | 33,671 |
| Interest revenue | 240 | 1,103 | 1,184 | 2,649 | 3,394 |
| Operating costs | (2,770) | (3,855) | (4,759) | (4,839) | (6,110) |
| EBITDAIF | (1,133) | (2,654) | 8,465 | 21,908 | 30,955 |

The growth experienced by ERM Sales has been constrained by prudential capital requirements (refer to Section 5.2.7 for further details). To address these constraints, approximately \$40.0 million of the Offer proceeds will be available to meet the prudential capital requirements needed to support ERM Sales' forecast revenue growth. Revenue is expected to increase by 49% in FY2011 to \$429.3 million and by a further 51% in FY2012 to \$646.5 million. This revenue growth is expected to be

driven by higher volumes as a result of continued expansion of ERM Sales' existing business in Queensland, New South Wales and Victoria, as well as a small contribution from the new markets of Western Australia and South Australia.

ERM Sales' load forecasts are based on historic rates for contracting new customers and a recontracting rate consistent with the historical recontracting rate for existing customers. An increased rate in bidding for new customers

²⁵ Revenue includes interest revenue

5. Company Overview (cont.)

is assumed in the forecast, enabled by the additional capital that will be available on completion of the Offer. To date, ERM Sales has only priced approximately 38% of the opportunities made available to it, as a result of capital constraints.

Electricity volumes are forecast to increase to 6,010 GWh in FY2011, of which 5,638 GWh (94%) based on historic usage, is already covered by existing sales contracts as at 30 September 2010. Of the \$24.1 million in forecast gross margin for FY2011, 94% (or \$22.7 million) is already covered by existing sales contracts. Almost 20% of forecast FY2011 load is expected to be sourced from customers outside of Queensland.

Electricity volumes are forecast to increase to 8,499 GWh in FY2012 of which 4,467 GWh (53%) based on historic usage, is already covered by existing sales contracts as at 30 September 2010. Of the \$33.7 million in gross margin forecast for FY2012, 62% (or \$21.0 million) is already covered by existing sales contracts. Approximately 33% of the additional gross margin required to meet the FY2012 forecast is expected to come from re-contracting existing customers. The remaining 67% is forecast to come from new customers based on historical win rates for attracting new business.

The geographic diversification of ERM Sales' customer base is expected to continue in FY2012, with 32.6% of total forecast FY2012 load expected to be derived from contracts with customers outside of Queensland.

Margins on volumes yet to be contracted are forecast to be in line with historical performance. For further information on the Forecast Financial Information and the assumptions underlying those forecasts, refer to Section 8.

5.2.7 Prudential and working capital requirements

ERM Sales has both prudential and working capital requirements to ensure its obligations with its counterparties can be met and to meet the short term cash flow

requirements of the business. Table 14 below summarises the historic and forecast prudential and working capital requirements of ERM Sales.

Prudential capital requirements

About \$40.0 million of the Offer proceeds are expected to be used to strengthen ERM Sales' prudential capital base to enable it to pursue further growth. This capital will be used primarily for cash backed credit support. In the future, ERM Sales may seek to address its prudential capital requirements through new bank facilities. If ERM Sales is able to do this, the level of cash backing will be reduced.

As at 30 June 2010, ERM Sales had approximately \$28 million set aside to comply with AEMO and counterparty prudential capital requirements. It is forecast that ERM Sales will require \$65 million by 30 June 2012 to support its growth profile. Of this amount, assuming operating conditions remain constant, only \$55 million is required to support FY2012 electricity sales and purchase volumes and maintain FY2012 volumes on a sustainable basis. The \$10 million in additional prudential support is associated with further volume growth beyond the Forecast Period.

ERM Sales is required to place prudential capital with a range of counterparties to electricity derivatives contracts to ensure it can meet its future obligations. These counterparties fall into four groups:

- AEMO, responsible for the monitoring and operation of the NEM;
- Over the Counter ('OTC') providers of electricity derivatives;
- Sydney Futures Exchange ('SFE') through which ERM Sales purchases the balance of its derivatives book not purchased OTC; and
- Network service providers supplying electricity transmission and distribution services.

AEMO requires that all electricity retailers provide prudential support to cover the market for non-payment of electricity purchases from the NEM. The level of prudential support

Table 14 – Prudential and working capital requirements – ERM Sales

| \$'000s | FY2008A | FY2009A | FY2010A | Forecast FY2011F | Forecast FY2012F |
|---------------------------------|---------|---------|---------|------------------|------------------|
| Prudential capital requirements | 3,384 | 20,383 | 28,720 | 38,312 | 64,826 |
| Working capital requirements | 300 | 4,481 | 8,115 | 10,493 | 14,568 |

required is determined by AEMO and based on a number of factors, including average customer consumption in each region, average prices, price volatilities and average reallocations. These AEMO requirements contribute to around half of ERM Sales' total prudential requirements.

Many OTC derivative counterparties require prudential support to not only cover their perceived risk of non-payment in respect of amounts owing under the derivatives contracts, but to also cover negative changes in the market value of open contract positions. Levels of credit support required by OTC counterparties will vary given they are based on a negotiated outcome; however, the amount of prudential support required is generally linked to the contract volumes, duration of the contracts, contract prices and current market prices. These requirements comprise a substantial portion of the remaining prudential requirements.

In a similar manner to the OTC contracts, the SFE also requires prudential support sufficient to cover both the initial margins and any variation margins on the contracts.

Network service providers receive payment from retailers for transmitting the power notionally from the pool to the end user point ('NMI'). If required, prudential support covers the network service providers for non-payment of transmission and distribution charges.

Working capital requirements

ERM Sales also has a working capital finance facility with NAB ('Working Capital Facility') which presently has a maximum facility limit of \$20.0 million. While the majority of ERM Sales' intra month working capital requirements, being the normal timing differences between payments to creditors and receipts from debtors, are funded out of operating free cash flow, the Working Capital Facility is available to provide additional working capital needs that may arise from time to time. The Working Capital Facility is not used for prudential support.

The Working Capital Facility operates in a similar fashion to a bank overdraft facility with a variable limit. The variable limit is set each month based on the amounts invoiced to specific approved debtors. Once the facility is funded on this basis, ERM Sales then determines the amount it wishes to draw-down from the funded facility limit, if any.

Based on the invoices for the June 2010 monthly billing period, the current list of approved debtors represents a funded facility limit of \$10.4 million or approximately 39%

of total monthly invoiced charges. Based on ERM Sales' customer payment terms and payment history, the Working Capital Facility is usually fully repaid by the end of each month.

Table 14 represents ERM Sales' maximum estimated working capital requirements for the month ending 30 June of each financial year. As at 30 June 2010, ERM Sales' working capital requirements amounted to \$8.1 million.

ERM Sales is currently funding its working capital requirements from retained operating free cash flow. ERM Sales expects to utilise the Working Capital Facility over the Forecast Period to meet working capital requirements of the business from time to time, particularly over the intensive working capital periods of December to March.

5.2.8 Comprehensive risk management policies

Risk management policy

ERM Sales conducts its business in accordance with its corporate governance and risk management framework, as detailed in its Retail Policy Manual ('RPM'). The RPM addresses broad corporate governance matters, such as delegations of authority, business conduct, conflicts of interest, compliance, insider trading, whistleblower protection and enterprise risk management and more specific policy matters covering market risk management, credit risk management, and commodity sales and trading policies.

The commodity sales and trading policies define the scope of ERM Sales' permitted operational transactions, including things such as permitted strategies, products, and markets.

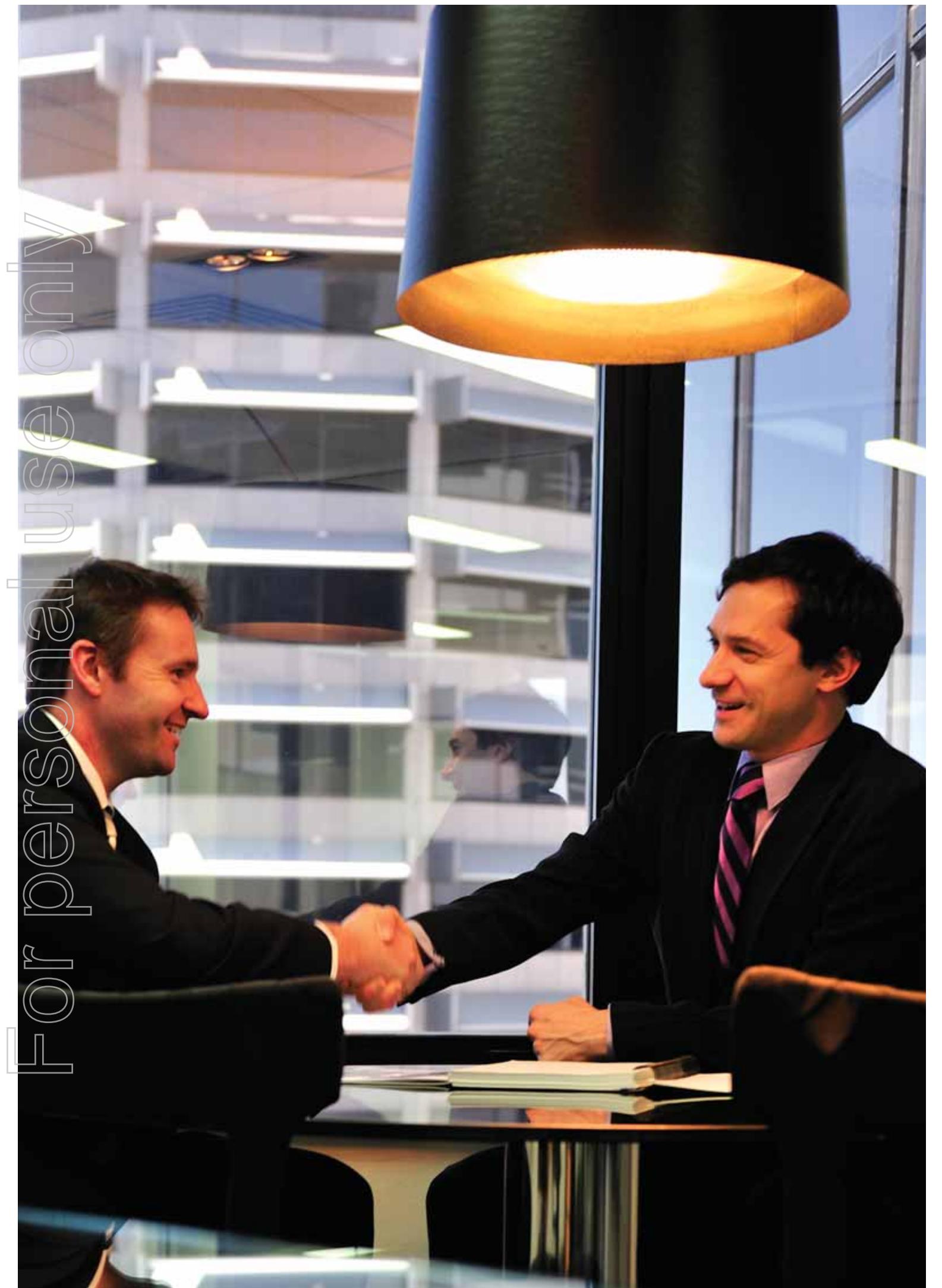
Customers and counterparties

ERM Sales routinely enters into forward electricity contracts for the purchase and sale of electricity in the NEM. These contracts comprise both deliverable and non-deliverable contracts.

Physically deliverable electricity contracts

ERM Sales has physically deliverable electricity sales and purchase contracts with a variety of large corporate, industrial and government entities across a diverse range of industry segments. As at 30 September 2010, ERM Sales serviced 1,284 individual metering points.

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5. Company Overview (cont.)

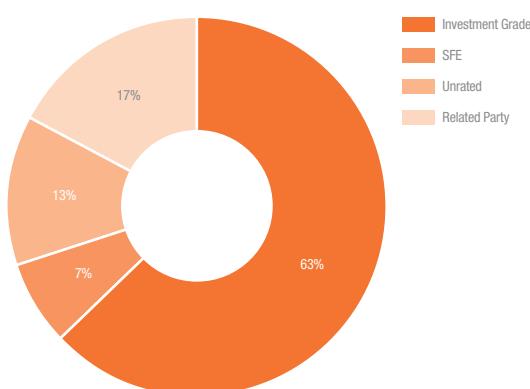
ERM Sales' physically deliverable electricity contracts range in duration from one month rolling recontracting arrangements through to longer term contracts of up to seven years. More typical contract durations, however, tend to be between one and three years. The current average contract duration is approximately 2.5 years. Delivery under all physically deliverable electricity sales contracts occurs by purchasing the electricity from the NEM spot market in order to meet the delivery obligations under the customer sales contracts.

Non-deliverable electricity contracts

Entering into physically deliverable electricity contracts, without any other contract arrangements in place to manage the resulting spot market exposure, would subject ERM Sales to significant price risk (refer Section 6 for further details on market risk). ERM Sales manages this exposure by entering into a variety of non-deliverable electricity derivative contracts.

ERM Sales has agreements in place with a number of wholesale counterparties and has brokerage arrangements to facilitate trading in electricity futures contracts on the Sydney Futures Exchange. Figure 34 shows the current relative proportion of non-deliverable electricity contract volumes allocated between counterparties based on a classification of their credit position.

Figure 34 – Non-deliverable electricity contracts by load (FY2011 and FY2012)



Credit risk management

ERM Sales' credit risk management policy aims to reduce the exposure to a financial loss arising as a result of payment default by customers. The policy requires that an acceptable credit assessment be obtained from an external credit rating agency on all customers who are forecast to consume greater than 2 GWh of electricity per annum. An internal credit assessment may be undertaken in limited circumstances for unrated entities which are forecast to consume between 2 GWh and 10 GWh of electricity per annum.

Where a prospective customer has been granted credit approval, a credit limit will be established for that customer based on three months expected invoice charges. Where a prospective customer would otherwise be declined credit approval, the customer may provide an unconditional guarantee or letter of credit from an organisation with a credit rating of BBB- or better, in order to be granted a credit limit.

A trading limit is set at a level equal to 75% of that customer's approved credit limit and the customer's credit exposure is monitored against this trading limit on a weekly basis and at month end. Trading with a customer may only be undertaken up to this credit limit.

Market risk management

ERM Sales' core business strategy is to enter into short to medium term forward commodity contracts with customers for the sale and physical delivery of electricity. All electricity to be delivered under the sales contracts is purchased from the NEM spot market and delivered to each counterparty's premises by the relevant network distribution business.

These physical electricity transactions create a natural exposure to market price risks which arise due to fluctuations in the NEM spot market. In accordance with its market risk management policy, ERM Sales enters into non-physical contracts to economically hedge the sales contracts within the limits defined in the policy. To the extent that these hedge volumes match load sold to customers, the combined transactions operate to ensure that there is a contracted profit margin between the cost of buying electricity and the price at which the electricity is sold to customers.

To the extent that the physical sales contracts are not economically hedged, or where ERM Sales has purchased too much hedge cover, the business is exposed to the short term fluctuations of the spot price. To help manage this risk, the business focuses on accurately forecasting customer usage so that these exposures can be accurately predicted and optimised in order to minimise the probability of losses and maximise the probability of gains. This forecasting is performed in respect of each customer site in half hour increments.

The market risk management policy is designed to ensure that ERM Sales operates within specified risk limits to ensure that risks are managed in an acceptable manner and protect ERM Sales' overall capital position.

Volume exposure

A key focus of ERM Sales' market risk management policy is the prevention of major losses as a result of exposure to adverse spot price events, such as where high spot prices occur for an extended period of time and the business is unhedged.

Electricity exposure calculations are based on the difference between the aggregate forecast positions arising from physically delivered electricity contracts (the sales contracts) and the aggregate positions arising from the non-deliverable electricity contracts (the hedge contracts). The exposure limits are classified between peak and off-peak time periods, and then segregated between long and short exposures.

The actual exposure in each of these categories is calculated as an average weekly exposure and then analysed against the applicable limits, with each region having its own set of limits, together with an overall portfolio limit. The volumetric exposure limits are also structured by time periods with tighter limits applying in the near term than in the long term. The objective of the tiered limit structure is to allow larger positions to be taken in the longer dated periods for the purpose of taking advantage of anticipated movements in wholesale forward prices.

Capital at risk

The capital at risk metric is designed to ensure that ERM Sales maintains an appropriate level of capital adequacy to be able to absorb the impact of adverse changes in both the forward and spot market prices. The measure analyses the net capital position after taking into account known sources of available capital, together with both known and potential uses of capital.

Portfolio management

All electricity transactions, both physically deliverable and non-deliverable, are undertaken in accordance with ERM Sales' policies with respect to delegations, credit, sales, trading and risk management. The positions are aggregated into regional portfolios and managed on that basis.

As mentioned above, ERM Sales enters into physically deliverable electricity sale contracts with a variety of entities throughout the NEM. ERM Sales only contracts with the larger business customers and is exposed to volume risk to the extent that these customers consume more or less electricity than forecast.

The forecast electricity consumption is netted against the contracted volumes of ERM Sales' hedge book in order to determine the level of forecast net exposure to market prices. These volumetric net exposure limits form the base level metric for measuring and managing market risk exposure. ERM Sales manages this exposure using a range of different hedging instruments to maximise the effectiveness and efficiency of the portfolio.

For all platinum customers, ERM Sales negotiates the terms of a hedge before making an offer to the customer. Upon receiving confirmation of the customer sales contract, the pre-negotiated hedge is executed, eliminating any forecast market price risk. For smaller customers, ERM Sales bases the customer offers on the prevailing market price of the time with an added premium for potential volatility in the market price. Many customers may be hedged with the same wholesale contract in this manner.

Below is a summary of the major hedging instruments that may be used by ERM Sales:

| Instrument | Description |
|------------|---|
| Swaps | Under a standard swap contract based on a fixed volume of electricity, the buyer (typically an electricity retailer) agrees to pay the seller the difference between the strike price and the spot price, if the spot price is less than the strike price, multiplied by the contract volume. Conversely, if the spot price is higher than the strike price, the seller pays the buyer the price difference multiplied by the contract volume. Swaps do not involve the payment of an option premium. |
| | Of particular importance to ERM Sales, in terms of its volume and term, is the ISDA agreement with the owners of Braemar 2 to fix the price of electricity ('B2 Swap'). Refer to Section 10.5.6 for further detail. |
| Caps | Caps are contracts where the buyer (e.g. an electricity retailer) pays a premium in return for the right to receive payments whenever the spot price on the NEM exceeds the cap strike price (on a specified volume of electricity). The payments made under a cap contract are calculated as the NEM spot price minus the strike price in each applicable half hour. Strike prices on cap contracts are generally set at high levels as these contracts are typically used by electricity retailers to provide protection against periods of unexpectedly high spot prices on the NEM. |
| Collars | A collar is a combination of a cap contract and a floor contract written at different strike prices. If the spot price is higher than the cap price, the seller pays the buyer the difference between the cap price and the spot price multiplied by the contract volume of electricity. If the spot price is lower than the floor price, the buyer pays the seller the difference multiplied by the contract volume. If the spot price is between the cap and the floor price, no payments are made. |
| Options | These are contracts where the buyer has the right at a specified point in time to exercise (at their discretion) an underlying contract such as a cap or swap, in exchange for an option fee. Examples include captions (an option to buy a cap) and swaptions (an option to buy a swap). |
| Futures | Electricity futures contracts are standardised and centrally cleared instruments traded on the SFE and ASX. Futures contracts are based on a fixed 1 MW volume of electricity for a specified quarterly period and are structured as net cash settled contracts for difference. Settlement amounts for futures contracts are based on the difference between the contract strike price and the average spot price for the relevant quarterly contract period. If the average spot price is less than the strike price, the buyer of a contract agrees to pay the difference between the strike price and the average spot price, multiplied by the contract volume. Conversely, if the average spot price is higher than the strike price, the buyer receives the price difference multiplied by the contract volume. Unlike swaps and other over the counter instruments, futures contracts can be closed out at any time by buying or selling them on the relevant exchange at the prevailing market price. |

ERM Sales' overall portfolio hedging strategy is premised on maximising trading margins based on volumes that are highly probable to be transacted under the physically deliverable contracts, while allowing sufficient flexibility to be able to maximise profits and minimise any losses that may otherwise arise from load variability and/or spot price fluctuations. ERM Sales aims to achieve this by using a base level of swap contracts, which when combined with other instruments that provide for greater flexibility such as caps, allows the overall volumes of physical electricity to vary while still managing price risk.

5. Company Overview (cont.)

There are a number of events that could potentially occur that may impact on the performance of the portfolio either positively or negatively. These are summarised in the table below:

| Positive events | Negative events |
|--|--|
| Long exposure when spot prices are high. This could arise as a result of: | Short exposure when spot prices are high. This could arise as a result of: |
| <ul style="list-style-type: none"> deliberate strategy to carry long exposure during periods when there is a high probability of high prices; intentional long exposure created specifically during periods of high prices via calling on physical load curtailment or physical standby generation arrangements; unintentional long exposure created by a situation of simultaneous high prices and an unplanned disruption to power at customer sites. | <ul style="list-style-type: none"> unexpected high usage by customers potentially due to weather events in the case of weather sensitive load; deliberate strategy to carry a short exposure when there is a high probability of low prices. |
| Short exposure when spot prices are low. This could arise as a result of: | Long exposure when spot prices are low. This could arise as a result of: |
| <ul style="list-style-type: none"> deliberate strategy to carry short exposure during periods when there is a high probability of low prices; unexpected high usage by customers. | <ul style="list-style-type: none"> unexpected low usage by customers. This can be caused by major storms such as cyclones or by economic events such as recessions. |

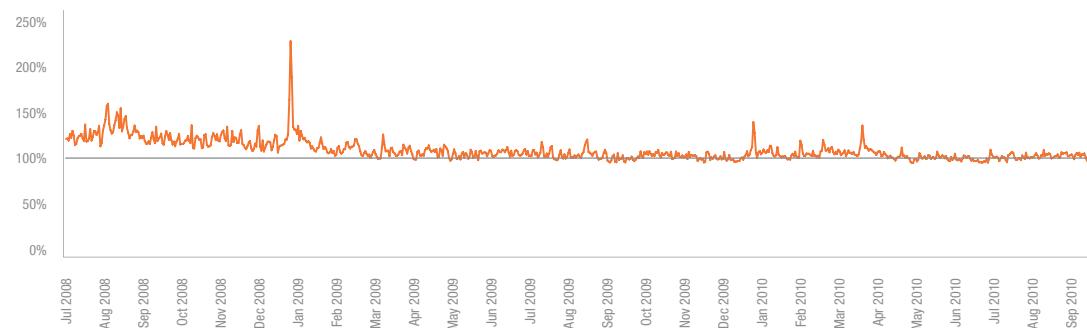
ERM Sales' retail policy manual sets out a framework to limit the impact of negative events, such as those described above. The following Section sets out ERM Sales' track record in this regard.

Historic hedging position and forecast accuracy

Since it commenced operations, ERM Sales has, on average, maintained a 5.6% net long position. To the extent that ERM Sales' hedging position is long, this excess hedge volume is effectively exposed to market price fluctuations by being net settled against the relevant spot market price. On the other hand, to the extent that ERM Sales' hedging position is short, the deficit in hedged volume must be purchased from the relevant spot market at the prevailing spot market price.

These long and short positions may result in either a profit or a loss, depending on the prevailing spot price at the time. Figure 35 shows ERM Sales' actual daily positions from 1 July 2008 to 30 September 2010 (noting that before 1 July 2008 the portfolio was statistically insignificant).

Figure 35 – Daily net hedge position



The spikes in the chart in December 2008 and December 2009 were both on Christmas Day when electricity demand by large customers is significantly reduced. The spike in March 2010 was a result of cyclone Ului which hit Queensland at this time, disrupting mining and transportation services throughout central Queensland and impacting the operations of a number of ERM Sales' industrial customers. Despite the significant reduction in demand on Christmas day each year, it remains more economic to include this day in the standard hedging products rather than exclude it from the contracts.

In order to accurately manage ERM Sales' long or short exposures to spot market prices, it is imperative that the customer's electricity consumption is able to be forecast

with a high degree of accuracy. ERM Sales has a dedicated forecasting team with purpose built systems to focus on this activity and ensure that forecasts are available on which to base risk management decisions. As ERM Sales' business continues to grow and the number of customers increases across a greater diversity of geographic locations and industries, the accuracy of the customer forecasts generally continues to improve as the impact of variations in any specific forecast become statistically less significant to the portfolio as a whole.

Figure 36 illustrates the increasing accuracy of ERM Sales' forecasting over the past two years as its portfolio has grown and diversified. The spike in March 2010 was as a result of cyclone Ului (see description above).

Figure 36 – Daily forecast accuracy

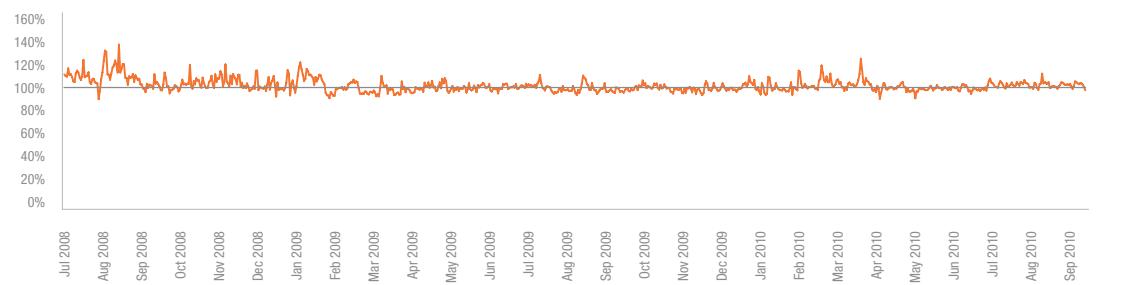


Figure 37 shows the impact on ERM Sales' earnings as a result of its exposure to spot market prices. The analysis is provided for each trading day since 1 July 2008. The worst daily loss as a result of spot market exposure recorded by ERM Sales during this period was \$111,120 which occurred on 3 November 2009 as a result of an unexpected increase in customer load which coincided with simultaneous

extreme price events in New South Wales and Queensland. The highest daily gain as a result of spot market exposure during the same period was \$542,487 which occurred on 20 November 2009 as a result of simultaneous extreme price events occurring in New South Wales and Queensland at the same time as a planned long exposure and unexpected reduced customer demand.

Figure 37 – Daily earnings from spot exposure



5.2.9 Electricity and emissions product trading

ERM Sales generally undertakes electricity and emissions product trading to hedge its spot market exposures, but may also undertake electricity and emissions product trading:

- to adjust overall exposures in order to continue to satisfy the risk limits specified in the policy; and
- to participate in arbitrage trading, where such transactions will yield a positive margin contribution with no change in overall exposure.

5.2.10 Operations and people

ERM Sales has built scalable and adaptable systems that serve the strategy of the business and customers' needs. Before any new contract is signed, the operational aspects are considered to ensure the business can deliver

all customer requirements with timeliness and accuracy.

In addition, ERM Sales retains the majority of its support functions in-house.

5.2.11 Product offering

In addition to providing customers with a price for conventional electricity products hedged against peak and off-peak pool prices, ERM Sales also includes a pricing component for any required Green Certificates. Currently there are six statutory schemes in Australia. The creation of certificates is governed via the rules of each specific scheme. These certificates must be obtained and surrendered by electricity retailers and other regulated persons, who need to meet the statutory targets. The current six schemes include:

- Renewable Energy Target ('RET') is the only scheme which has a national focus which is designed to ensure that 20% of Australia's electricity supply will come from



- renewable sources by 2020. Each MWh of electricity generated from an eligible source enables the creation of one Renewable Energy Certificate ('RECs');
- Queensland Gas Scheme is a Queensland based initiative which has been established to boost the State's gas industry and therefore reduce greenhouse gas emissions through increased use of gas-fired generation, which enables producers to create Gas Electricity Certificates ('GECs');
 - Greenhouse Gas Abatement Scheme ('GGAS') which is one of two NSW initiatives that aim to reduce greenhouse gas emissions associated with the production and use of electricity. It achieves this by using project-based activities to offset the production of greenhouse gas emissions in order to create NSW Greenhouse Abatement Certificates ('NGACs');

- Energy Saving Scheme ('ESS') is a second New South Wales-based initiative which encourages energy saving activities in order to create Energy Saving Certificates ('ESCs');
- Victorian Energy Efficiency Target is a Victorian based initiative which encourages the uptake of energy efficient technology in order to create Victorian Energy Efficiency Certificates ('VEECs'); and
- Residential Energy Efficiency Scheme ('REES') is a South Australian based initiative which encourages the installation of energy efficient technology in order to create energy credits.

5. Company Overview (cont.)

5.3 ERM Generation Assets

5.3.1 Overview

ERM Power currently has an ownership interest in two gas-fired peaking power stations:

- a 12.5% interest in the 332 MW Oakey power station in Queensland; and
- a 50% interest in the 330 MW Neerabup power station in Western Australia.

In addition, ERM Power has contracted to fully divest its 25.05% interest in the Braemar 2 power station by 30 June 2011 and has recently divested its 30% interest in the Kwinana power station. Refer to Section 10.7 for further details on the divestment of Braemar 2 and Kwinana.

Both of the power stations in which ERM Power currently has an interest are strategically located close to energy resources and infrastructure and forecast high electricity

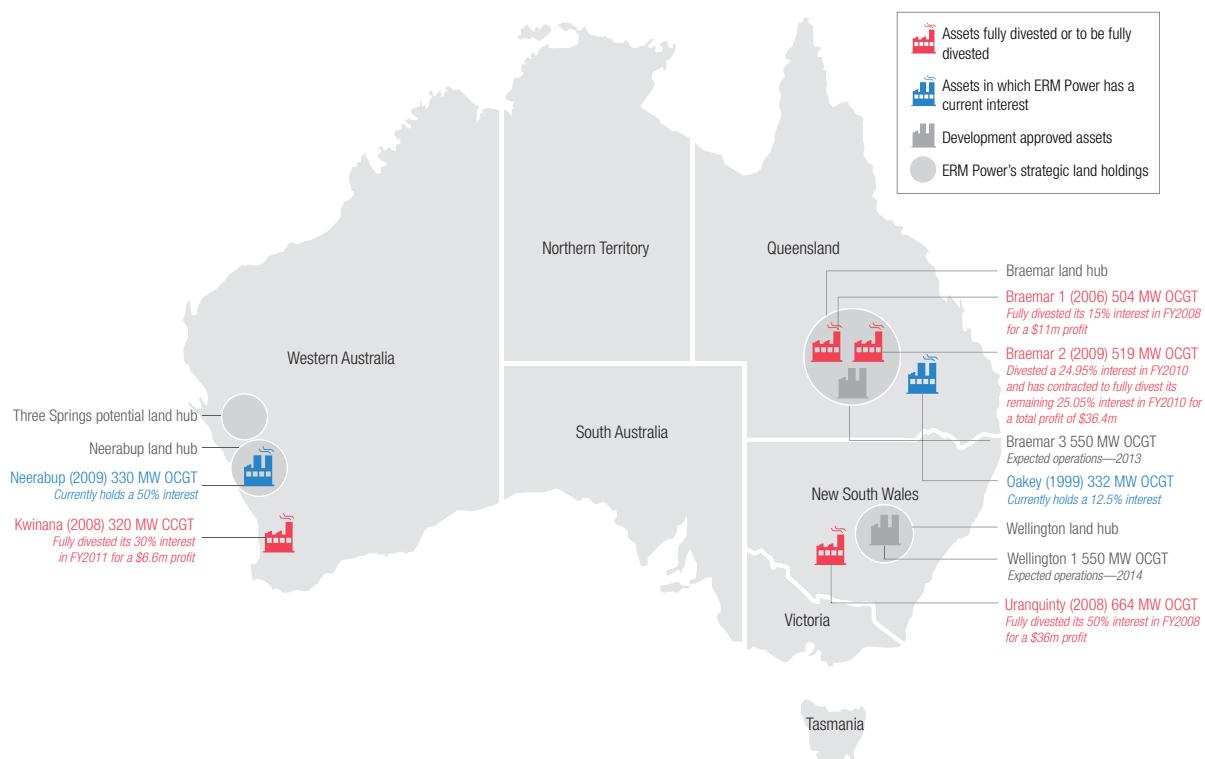
demand growth regions. ERM Power has maintained an interest in these generation assets for strategic reasons including the recontracting, redevelopment and optimisation opportunities.

Oakey and Neerabup are both fully contracted through long term off-take contracts (2014 for Oakey and 2029 for Neerabup) and have long term non-recourse project debt facilities in place. Both Oakey and Neerabup are expected to have a significant useful operating life following the completion of their initial off-take arrangements.

5.3.2 ERM Generation Assets summary financial information

To assist investors in obtaining a comprehensive understanding of ERM Power, supplementary financial information is presented below, which sets out selected financial information for ERM Generation Assets on a proportionately consolidated basis.

Figure 38 – Existing power stations and advanced development projects



Note: Development approved projects denoted by grey icon, ERM Power intends to retain a 50% interest in these projects post completion. Power station project sizes are based on current or expected AEMO Winter Aggregate Scheduled and Semi-Scheduled Generation Capacity

Financial information in this Section and certain financial information in other Sections of this Prospectus is presented on a proportionately consolidated basis. Such information has been specifically identified in this Prospectus and is for illustrative purposes only, so as to provide an indication of the proportionate contribution to revenue and EBITDAIF from ERM Power's investments, including ERM Power's equity accounted investments which under Australian

accounting standards are accounted for using the equity method. This information is not provided as a substitute for the financial information in Section 8. Proportionate consolidation is not consistent with the requirements of AAS and is not consistent with the accounting principles underlying the statutory financial information in Section 8.

The pro forma historical and forecast consolidated income statement is outlined below in Table 15.

Table 15 – Pro forma historical and forecast consolidated income statement – ERM Generation Assets (ERM Power's proportionate interest)

| \$'000s | FY2008A | FY2009A | FY2010A | Forecast FY2011F | Forecast FY2012F |
|----------|---------|----------|----------|------------------|------------------|
| Revenue | 10,724 | 33,209 | 62,449 | 37,388 | 29,060 |
| Expenses | (1,380) | (22,621) | (32,033) | (11,145) | (4,287) |
| EBITDAIF | 9,345 | 10,589 | 30,416 | 26,243 | 24,773 |
| EBITF | 8,938 | 6,652 | 20,653 | 16,120 | 15,849 |

The above financial information reflects a contribution from Kwinana until its effective sale date of 1 October 2010 and from Braemar 2 until the end of FY2010, excluding the proceeds on sale of those assets.

Given its highly contracted nature, the generation business produces predictable revenues and operational cash flows. Over 99% of FY2011 and FY2012 forecast revenue is covered by existing contracts and expected IMO capacity payments.

For a detailed discussion of the key factors underlying the historic performance and forecast future performance of ERM Power's interests in Oakey and Neerabup, refer to Sections 5.3.3 and 5.3.4.

Refer to Section 8.11 for a description of the adjustments made to reconcile the proportionate representation to the statutory representation in accordance with AAS.

5.3.3 Oakey power station

Overview

Oakey power station ('Oakey') is a 332 MW peaking power station situated in the Darling Downs, 150 km west of Brisbane, Queensland. The power station is located close to the Roma to Brisbane gas pipeline and a number of coal seam gas fields which provide ready access to gas fuel.

The development of Oakey was led by ERM Power and the plant was commissioned in December 1999 with a long term 15 year off-take contract. The off-take contract has been structured such that the plant is only dispatched in times of peak electricity demand, such as in the height of summer. As such the plant has had a low annual usage factor, on average less than 5%, and is expected to have a significant useful life at completion of the initial off-take agreement.

Key facts

| | |
|-----------------------------------|--|
| Location | Darling Downs, 150 km west of Brisbane, Queensland |
| ERM Power ownership ²⁶ | 12.5% |
| Commission date | December 1999 |
| Type | Peaker |
| Capacity (MW) | 332 |
| Technology | Open Cycle, 2 x Siemens V94.2 OCGTs (dual fuel) |
| Operator/Manager | Contact Energy |

²⁶ ERM Power holds an indirect 12.5% interest in Oakey Power Holdings, the holding company of Oakey. This interest in Oakey Power Holdings is held by ERM Oakey on trust for the ERM Power Trust. ERM Power holds 50% of the sole beneficiary of the ERM Power Trust, Queensland Electricity Investors Pty Ltd.



Ownership structure

Oakey Power Holdings is the entity that owns Oakey. ERM Oakey owns 25% of the shares in Oakey Power Holdings on trust for the ERM Power Trust. ERM Power holds 50% of the sole beneficiary of the ERM Power Trust, and hence has an effective 12.5% interest in Oakey.

Alinta Oakey Pty Ltd (a subsidiary of Alinta) owns 50% of the shares in Oakey Power Holdings and the remaining 25% of the shares are held by Contact Energy. Pursuant to its arrangements with Babcock and Brown International Group ('BBIG'), Alinta is currently seeking to divest its 50% interest in Oakey, subject to the pre-emptive rights of existing shareholders.

On 5 November 2010, Alinta Oakey Pty Ltd issued a pre-emptive rights offer to the other shareholders in Oakey Power Holdings. ERM Power owns its interest in Oakey with another investor (Oakey Co-owner) and both ERM Power and the Oakey Co-owner are currently assessing the pre-emptive rights offer. More information on the pre-emptive rights offer issued by Alinta Oakey Pty Ltd is set out in Section 10.7.

Off-take

Oakey Power Holdings originally entered into a 15 year Power Purchase Agreement ('Oakey PPA') with Enertrade, a Queensland State Government-owned corporation, which expires at the end of 2014. In 2007, AGL acquired the Oakey PPA from Enertrade. Under the Oakey PPA, Oakey Power Holdings must ensure the power station can meet a guaranteed generation output. AGL pays a monthly charge for the dispatch rights, a set charge for each use of the station and for all fuel used at the station (on a cost pass-through basis).

Fuel supply

Oakey can be operated on both natural gas and distillate liquid fuel. Most of the operation to date has been fuelled by natural gas which is currently supplied by AGL under a gas supply agreement that expires at the same time as the Oakey PPA, at the end of 2014. Oakey has two on-site tanks which can store distillate, which is used to fuel the power station if gas is not available to the power station when dispatch is called by AGL. As at September 2010, these on-site tanks contained approximately 1.75 million litres of fuel oil distillate with a value of approximately \$2.0 million.

Table 16 – Oakey historical and forecast financial information (based on ERM Power's 12.5% ownership interest)

| \$'000s | FY2008A | FY2009A | FY2010A | Forecast FY2011F | Forecast FY2012F |
|--|---------|---------|---------|------------------|------------------|
| Revenue | 4,822 | 4,035 | 4,131 | 4,036 | 4,148 |
| EBITDAIF | 3,443 | 3,083 | 3,063 | 3,320 | 3,412 |
| Capex | - | - | - | - | - |
| Net cash flow after project debt service | 1,350 | 640 | 466 | 521 | 522 |
| Distributions to ERM Power | 1,350 | 640 | 466 | 521 | 522 |

Operation and maintenance

Oakey is operated by Contact Energy, pursuant to an Operations and Maintenance Agreement ('OMA') which terminates at the same time as the Oakey PPA in 2014. Under the terms of the OMA, Contact Energy provides the services required for the safe and efficient operation and maintenance of Oakey.

Pro forma historical and forecast financial information

Table 16 above details ERM Power's share of the Oakey historical and forecast financial information on a proportionate basis, based on its 12.5% ownership interest.

Because Oakey is a peaking power station, the majority of revenue has historically related to the receipt of capacity charges, with a small amount of revenue generated from an energy usage charge. All of the revenue forecast in FY2011 and FY2012 is capacity related and reflects a monthly capacity charge of \$2.6 million (i.e. no energy usage or start revenue is reflected in the forecasts).

No major maintenance is scheduled for Oakey in FY2011 or FY2012, which is in line with expectations having regard to the low number of hours which the plant has operated and is expected to operate over the Forecast Period.

5. Company Overview (cont.)

The financial information in Table 16 is shown on a proportionately consolidated basis and is provided to illustrate the underlying financial aspects of the business. ERM Power uses the equity accounting method to account for Oakey in its statutory accounts and accordingly only the distributions to ERM Power are shown in the statutory accounts in line with AAS accounting requirements.

Project financing

A term facility and letter of credit are in place for Oakey. The terms of these facilities are summarised below:

| Facility size (100%) | Facility use | Term | Amount outstanding – 100% as at 30 June 2010 | Amount outstanding – ERM Power's 12.5% share as at 30 June 2010 |
|---|---|-------------------------------|--|---|
| \$143.1 million term facility | Refinance initial term facility | December 2014 | \$63.5 million | \$7.9 million |
| \$4.3 million letter of credit facility | Security to AGL for Oakey Power Holdings' obligations under the PPA | December 2014 (linked to PPA) | \$4.3 million | \$0.5 million |

The term facility has a maturity date of December 2014 which coincides with the end of the PPA with AGL and will be paid out at that time. The interest rate is fixed at 8.33% per annum for the term of the facility. The facility is a non-recourse senior debt facility, which is secured by a mortgage over the project site, mortgages by Alinta Oakey, Contact Energy and ERM Oakey over their shares in Oakey Power Holdings and a fixed and floating charge over each of Oakey Power Holdings and Oakey Power Constructions Pty Ltd (a subsidiary of Oakey Power Holdings).

Distributions from Oakey Power Holdings cannot be made if the Debt Service Coverage Ratios ('DSCR') and Loan Life Coverage Ratios ('LLCR') ratios, calculated quarterly on a rolling 12 month basis, are at or below 1.10 and 1.20 respectively. It is an event of default if the LLCR falls below 1.10.

The table below summarises the historic and forecast DSCR and LLCR ratios for Oakey.

| Oakey covenant levels | FY2008A | FY2009A | FY2010A | Forecast FY2011F | Forecast FY2012F |
|-----------------------|---------|---------|---------|------------------|------------------|
| DSCR | 1.25 | 1.20 | 1.31 | 1.24 | 1.27 |
| LLCR | 1.30 | 1.50 | 1.50 | 1.56 | 1.68 |

As at 30 September 2010, the reserve account balances were:

- Debt service reserve account balance of \$8.5 million; and
- Maintenance reserve account balance of \$2.3 million.



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5.3.4 Neerabup power station

Overview

Neerabup power station ('Neerabup') is a 330 MW peaking power station located in the town of Neerabup, approximately 40 km north of Perth, Western Australia. The power station incorporates a 30 km high pressure gas pipeline and gas compressor station that provides connection to the Dampier to Bunbury Natural Gas Pipeline and linepack storage of gas for use as required.

Neerabup was commissioned in October 2009 with a long term, 20 year off-take contract with Synergy, a Western Australian State Government-owned corporation. The off-take contract is structured such that the plant is only dispatched in times of peak electricity demand and high prices, and as such, the plant is only expected to have a low ACF of less than 7%.

Key facts

| | |
|---------------------|---|
| Location | 40 km north of Perth, Western Australia |
| ERM Power ownership | 50% |
| Commission date | October 2009 |
| Type | Peaker |
| Capacity (MW) | 330 |
| Technology | Open Cycle, 2 x Siemens 165 MW OCGTs |
| Pipeline | 30 km high pressure gas pipeline linepack |
| Operator/Manager | ERM Power |
| Surplus Land | 5 ha (zoned industrial) |

5. Company Overview (cont.)

Ownership structure

ERM Power has a 50% interest in Neerabup. The remaining 50% interest is held by ANZ Specialist Asset Management ('ANZSAM') on behalf of the Energy Infrastructure Trust, which is managed by Infrastructure Capital Group ('ICG').

The interests of ANZSAM and ERM Power are held through subsidiaries that operate Neerabup as a partnership known as the NewGen Neerabup partnership ('NewGen Neerabup').

Off-take

Neerabup has a 20 year off-take agreement, expiring in 2029, between NewGen Neerabup and Western Australia's major electricity retailer, Synergy. The off-take agreement consists of two parts, as set out below.

1. A bilateral agreement for Unit 1 energy and capacity sales ('Unit 1 Bilateral Agreement') under an arrangement that combines the concepts of both a tolling arrangement and a financial hedge. Synergy provides all gas required to satisfy its electricity nominations and pays capacity and energy payments to Neerabup for tolling or being available to toll gas.
2. An 'evergreen option' ('Unit 2 Capacity Option') for Synergy to enter into a bilateral agreement for Unit 2 energy and capacity, with the project partners selling capacity to the IMO and energy into the STEM until Synergy exercises the option. Prior to option exercise Synergy fully underwrites any capacity income risk for NewGen Neerabup. The option gives Synergy the right to enter into a bilateral agreement for Unit 2 at a predetermined energy and capacity price.

Fuel supply

Given the tolling nature of the off-take agreement with Synergy, Synergy provides the gas which is utilised at the facility to meet NewGen Neerabup's contractual obligations.

Operation and maintenance

Operations and maintenance for Neerabup are undertaken under an operations and maintenance agreement between NewGen Neerabup and ERM Power Generation which expires in 2029, but which may be terminated by NewGen Neerabup with 60 business days written notice.

Pro forma historical and forecast financial information

Table 17 below details ERM Power's share of the Neerabup historical and forecast financial information on a proportionate basis, based on its 50% ownership interest.

Neerabup contributed eight months of revenue in FY2010, following completion of its construction and the commencement of operations in October 2009.

NewGen Neerabup receives revenue pursuant to the off-take arrangements described above. The price paid by Synergy for electricity comprises a capacity charge plus a start-up charge, an energy charge and a variable operating charge for the amount of energy generated at the power station (if any) and delivered to Synergy.

Neerabup is a peaking power station (historical ACF of less than 0.5%). Accordingly, the majority of historical revenue relates to the receipt of capacity charges.

The forecast revenues of \$24.0 million in FY2011 and \$24.9 million in FY2012 are primarily capacity related but include a small amount of revenue from electricity nominations (\$0.1 million in FY2011 and \$0.2 million in FY2012) reflective of the peaking nature of the power station.

Given its recent commissioning and low number of operating hours, no major maintenance is scheduled for the Neerabup power station in FY2011 or FY2012.

Table 17 – Neerabup historical and forecast financial information (based on ERM Power's 50% ownership interest)

| \$'000s | FY2009A | FY2010A | Forecast FY2011F | Forecast FY2012F |
|--|---------|---------|------------------|------------------|
| Revenue | - | 13,578 | 23,969 | 24,912 |
| EBITDAIF | - | 11,553 | 20,489 | 21,361 |
| Capex | - | - | - | - |
| Net cash flow after project debt service | - | 1,700 | 2,815 | 3,846 |

Project financing

The project finance facilities for Neerabup are governed by a syndicated facility agreement and include working capital facility. Letter of credit facilities are also in place. The key terms of these facilities are summarised below:

| Facility size (100%) | Facility use | Term | Amount outstanding – 100% as at 30 June 2010 | Amount outstanding – ERM Power's 50% share as at 30 June 2010 |
|---|--|---|--|---|
| \$339.0 million term facility | Refinance construction facility and fund debt service reserve account (amortised on a 20 year basis) | 10 year tenor expiring on December 2019 with 20 year amortisation profile | \$336.1 million | \$168.1 million ²⁷ |
| \$5.0 million working capital facility | Fund normal working capital requirements | | \$3.0 million | \$1.5 million |
| \$6.7 million letter of credit facility | Provide securities to third parties for the partners' obligations in relation to the project (IMO and Western Power) | | \$6.7 million | \$3.4 million |

The interest rate for the term facility is BBSY plus 1.20%. Interest rate exposure is predominantly hedged with 96% of gross interest rate exposure and over 99.5% of net interest rate exposure hedged until maturity of the senior debt in 2019. Further detail in relation to ERM Power's interest rate hedging can be found in Section 6.2.

Distributions from Neerabup cannot be made if the DSCR and LLCR ratios, calculated quarterly on a rolling 12 month basis are at or below 1.15 and 1.20 respectively. It is an event of default if the DSCR falls below 1.10; however, there is a cure period in which to rectify the default by contributing additional equity.

The table below summarises the historic and forecast DSCR and LLCR ratios for Neerabup.

The Neerabup debt repayment profile was structured to maintain a forecast DSCR level of 1.30 over the life of the loan. The actual cash flow timing has differed from that assumed in the original model, due to a lower number

of operating hours than originally forecast. This has resulted in a lower actual DSCR in FY2010, FY2011 and FY2012, but the DSCR is still forecast to be above the required covenant levels.

ERM Power's equity notes

To assist ERM Power fund its initial equity contribution for Neerabup, a subsidiary of ERM Power issued notes ('Notes') to ANZSAM. The Notes have a \$40.0 million face value and are limited-recourse to ERM Power's 50% interest in NewGen Neerabup. Coupon payments are made from project equity distributions and ERM Power receives its share of all project distributions post ERM Power's equity note coupon payments and full funding of the coupon reserve account.

In FY2011 and FY2012, Neerabup is forecast to make sufficient distributions to shareholders such that, together with the current reserve account funding, the equity notes will be fully covered (refer to Table 18 on the following page).

| Neerabup covenant levels | FY2009A | FY2010A | Forecast FY2011F | Forecast FY2012F |
|--------------------------|---------|---------|------------------|------------------|
| DSCR | n/a | 1.20 | 1.17 | 1.21 |
| LLCR | n/a | 1.34 | 1.37 | 1.38 |

²⁷ Amount shown on balance sheet using the present value method is \$165.9 million.

5. Company Overview (cont.)

Table 18 – Neerabup historical and forecast distributions to ERM Power and equity note cash flows

| \$'000s | FY2009A | FY2010A | Forecast FY2011F | Forecast FY2012F |
|---|---------|---------------------|------------------|------------------|
| Net cash flow after project debt service due to ERM Power | - | 1,700 | 2,815 | 3,846 |
| Note coupon payments | - | (663) ²⁸ | (3,681) | (4,000) |
| Coupon reserve account movements | - | 663 | 866 | 154 |
| Net distributions to ERM Power | - | 1,700 | - | - |

A coupon interest rate of BBSY plus 4% is calculated on the amounts outstanding under the Notes. The Notes mature on 11 February 2023; however, they may be redeemed at any time on or after 30 September 2010, subject to a series of ratchet multipliers of the face value of the Notes depending on when redemption occurs. The ratchet multipliers represent a portion of deferred interest owing to ANZSAM. ERM Power's accounting policy accrues for this deferred interest quarterly and accordingly ERM Power's income statement will show an interest expense higher than the actual coupon payments made. As ERM Power's debt is accounted for using the fair value method, the amount of debt outstanding on its balance sheet will differ from the amount outstanding as at 30 June 2010 (the amount against which interest is calculated).

| Facility | Facility use | Term | Amount outstanding (as at 30 June 2010) |
|-------------------|---|---------------|--|
| Note subscription | Partly finance ERM Power's equity contribution to the project | February 2023 | \$40.0 million ²⁹ |



Laying of a segment of the Neerabup gas pipeline (total 30kms)

²⁸ Part-year post conversion coupon payment.

²⁹ Amount shown on balance sheet using the present value method is \$39.9 million.

5.4 Generation Development and Operations

5.4.1 Overview

ERM Generation Development and Operations is responsible for the delivery of power generation solutions from the initial concept through to development and operations. The development business utilises ERM Power's capabilities across a wide range of disciplines to identify, design, build and operate gas-fired power stations.

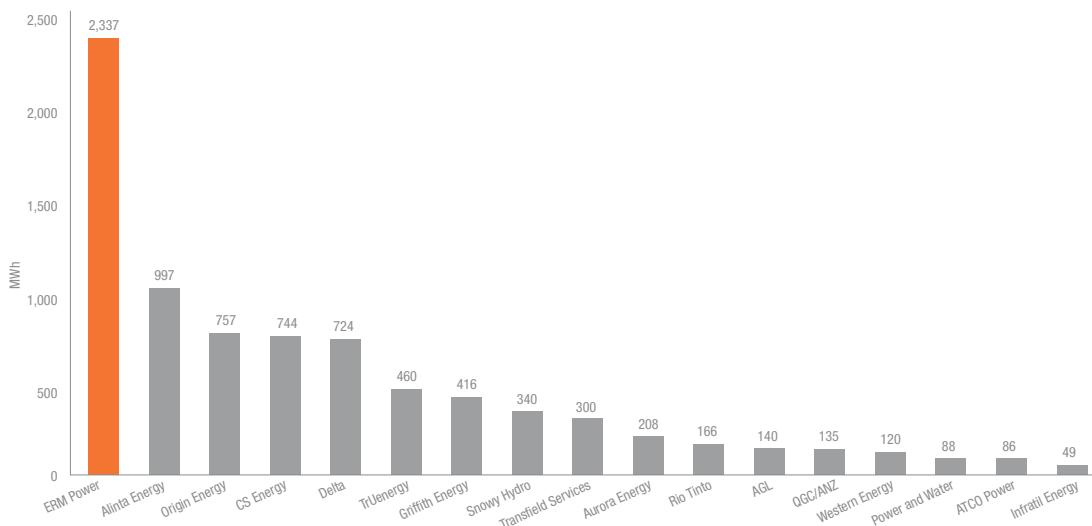
ERM Power has an extensive track record of successfully bringing projects to market, having led and managed the development and construction of 2,337 MW³⁰ new power projects in the last five years, 29% of Australia's scheduled generation capacity commissioned during that period (refer Figure 39 below).

ERM Power:

- has led and managed the development of 2,669 MW³⁰ new power projects since 1999 (refer to Table 19);
- has brought into operation more than 290 km of high pressure gas pipelines, 18 km of high voltage power transmission lines, a major electrical sub-station and two gas compression plants;
- has raised nearly \$1 billion in non-recourse project finance;
- has a strategic portfolio of land near key markets, providing capacity to meet future generation demand;
- partners with industry leading companies to implement its development strategy (e.g. Siemens); and
- provides services to joint ventures where ERM Power is a partner and also to third parties where ERM has divested its interest or for other strategic reasons.

ERM Power expects to continue to be at the forefront of gas-fired generation development in Australia with the 550 MW Braemar 3 project in Queensland and the 550 MW Wellington 1 project in New South Wales both well progressed.³¹

Figure 39 – Scheduled generation capacity commissioned since 2005 by lead developer



Source: Based on AEMO Winter Aggregate Scheduled and Semi Scheduled Generation Capacity (for Qld, NSW, Vic, Tas, NT and SA) and ESAA 2010 (for WA). Note: Scheduled capacity (MW) figures per entity do not relate to historical or current ownership interests in the commissioned generation capacity.

³⁰ Based on AEMO Winter Aggregate Scheduled and Semi Scheduled Generation Capacity (for Qld, NSW, Vic, Tas, NT and SA) and ESAA 2010 (for WA).

³¹ MW capacity is based on expected AEMO Winter Aggregate Scheduled and Semi Scheduled Generation Capacity.

Table 19 below details ERM Power's generation development history and key facts for each power station development, including effective ownership interests at financial close, currently retained and expected at IPO.

ERM Power has divested or will divest its interests in the following power stations:

- Braemar 1 power station – Fully divested its 15% interest in FY2008 for a profit of \$10.6 million.
- Uranquinty power station – Fully divested its 50% interest in FY2008 for a profit of \$35.6 million.
- Kwinana power station – Fully divested its 30% interest in FY2011 for a profit of \$6.6 million. Refer to Section 10.7 for further details on the Kwinana divestment.

- Braemar 2 power station – Divested a 24.95% interest in FY2010 and has contracted to fully divest its remaining 25.05% interest in FY2011 for a total profit of \$36.4 million (profit recognised in FY2010). Refer to Section 10.7 for further details on the Braemar 2 divestment.

ERM Generation Development and Operations has provided \$113.7 million in EBITDAIF in the last three years, of which \$30.4 million was from fees for services, (excludes the \$12.1 million contribution to EBITDAIF for a discount on acquisition of ERM Holdings Pty Ltd from a majority Shareholder (consideration was a discount to the fair value of the asset acquired), which was non-recurring in nature) and \$83.3 million associated with early asset divestment during construction or within two years of operation, to fund other growth and diversification opportunities of the ERM Power group.

Table 19 – ERM Power's generation development history (and ownership %)

| Project | Type | % at financial close | % retained at 30 June 2010 | % post divestments | Financial close date | Commercial operations date | Pipeline/linepack (approx.) | MW ³² (total) | MW (ERM Power) |
|--------------|------|----------------------|----------------------------|--------------------|----------------------|----------------------------|-----------------------------|--------------------------|----------------|
| Oakey | OCGT | 10% | 12.5% | 12.5% | Nov 1997 | Jan 2000 | - | 332 | 42 |
| Braemar 1 | OCGT | 12.5% | - | - | Apr 2005 | Aug 2006 | 150 km | 504 | - |
| Kwinana | CCGT | 25% | 30% | - | Feb 2006 | Oct 2008 | - | 320 | - |
| Uranquinty | OCGT | 30% | - | - | Jul 2007 | Jan 2009 | - | 664 | - |
| Neerabup | OCGT | 50% | 50% | 50% | Feb 2008 | Oct 2009 | 30 km | 330 | 165 |
| Braemar 2 | OCGT | 50% | 25.05% | - | Jul 2008 | Jul 2009 | 110 km | 519 | - |
| Total | | | | | | | 290 km | 2,669 | 207 |

* ERM Power's ownership interest increased to 15% before divestment



Oakey, Qld (1999)



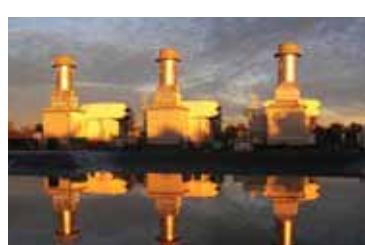
Braemar 1, Qld (2006)



Kwinana, WA (2008)



Uranquinty, NSW (2008)



Braemar 2, Qld (2009)



Neerabup, WA (2009)

³² Source: Based on AEMO Winter Aggregate Scheduled and Semi Scheduled Generation Capacity (Qld, NSW, Vic, Tas and SA) and ESAA 2010 for WA.

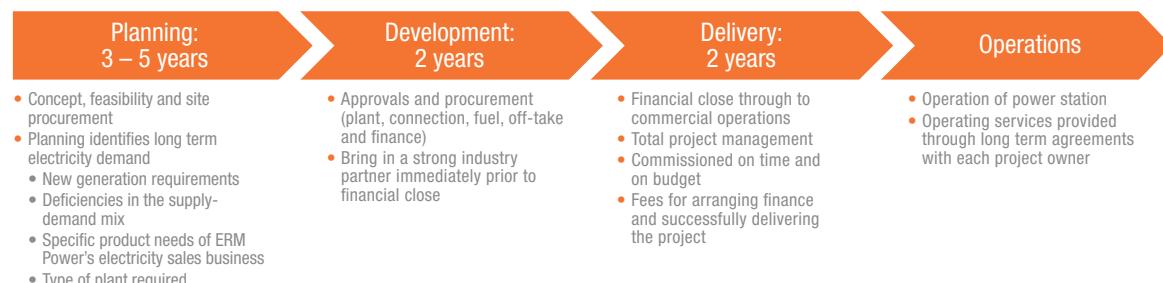
© 2009 SGS Inspection Services, Inc.



5. Company Overview (cont.)

5.4.2 Generation development strategy

ERM Power's project development cycle typically involves the following steps:



5.4.3 Planning

Critical to ERM Power's development strategy is its long term electricity supply-demand planning. ERM Power identifies deficiencies in the electricity supply-demand mix, market specific needs, new generation requirements and the optimal plant types to fulfil these needs. This long term planning process enables ERM Power to identify power generation opportunities up to 10 years into the future, ensuring that ERM Power is well positioned to deliver generation projects to meet growth in electricity demand.

A key component of ERM Power's competitive advantage in generation development is its land bank around key energy hubs in high growth regions of Australia, close to existing fuel sources and infrastructure. ERM Power identifies land holdings based on the site's long term demand potential and transmission capacity. The strategic acquisition of land, some of which was acquired in the 1990s, provides ERM Power with capacity to take advantage of future generation development opportunities.

ERM Power has established three land hubs:

- at Braemar (owned by ERM Land Holdings) in Southern Queensland, 40 km west of Dalby;
- at Wellington (secured under an option to purchase by ERM Land Holdings), 50 km south of Dubbo in Central New South Wales; and
- at Neerabup (secured under a contract of sale by NewGen Power Neerabup Pty Ltd, a company owned 50% by each of the holding companies of the partners of NewGen Neerabup), 40 km north of Perth in Western Australia.

ERM Power has also recently secured an option to purchase a strategic land position at Three Springs in Western Australia for future development, creating a potential fourth hub. The acquisition of land at Three Springs is subject to a mortgagee's consent.

Currently, ERM Power's hubs have space for:

- at least three further projects beyond Braemar 3 (at Braemar, Queensland);
- two further projects beyond Wellington 1 (at Wellington, New South Wales); and
- one further project beyond Neerabup 1 (at Neerabup, Western Australia) (note: this land will be owned by NewGen Power Neerabup Pty Ltd).

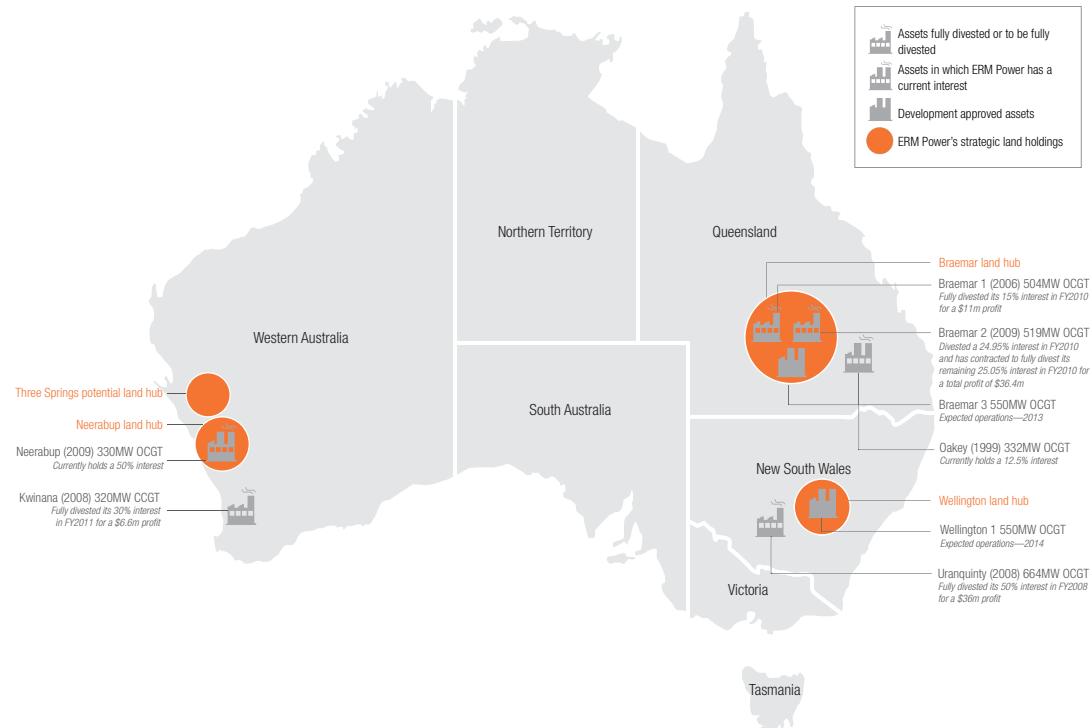
In addition, the recently secured option on a strategic land position at Three Springs, in Western Australia, has space for two projects.

For further details on ERM Power's project pipeline, refer to Section 5.4.6.

ERM Power intends to further enhance the strategic land bank portfolio, focusing on locations and sites in regions where electricity market fundamentals are strong.

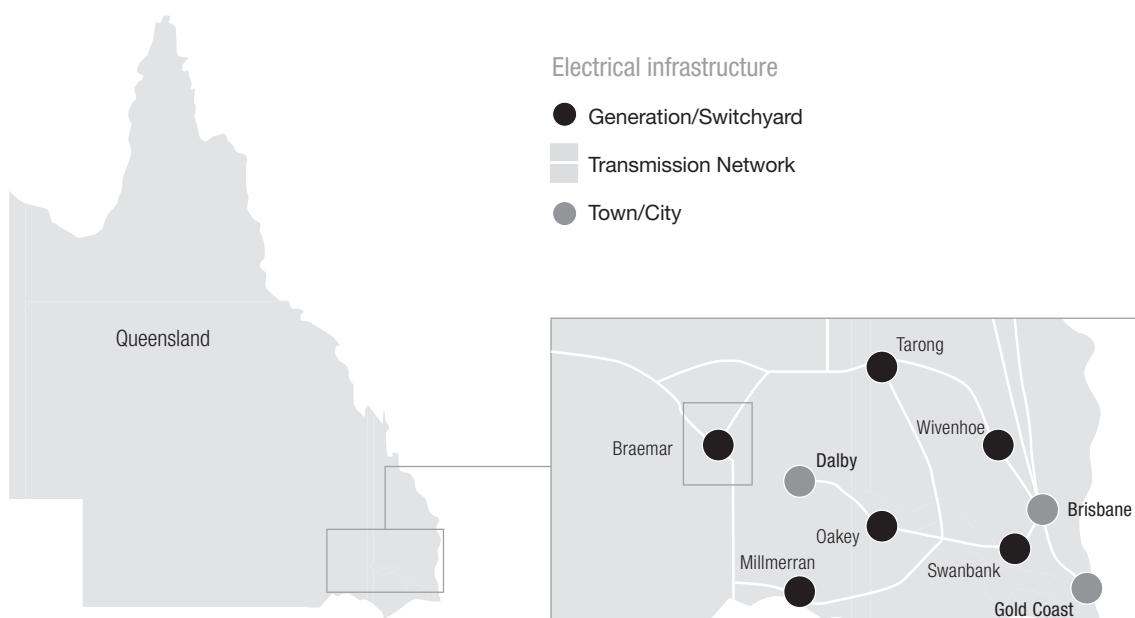
Figure 40 below illustrates ERM Power's four strategic land hubs. Further graphical illustrations of these land hubs are displayed in the pages following.

Figure 40 – Strategic land hubs



Construction of Braemar 2 power station

ERM Power's Braemar (Qld) land hub

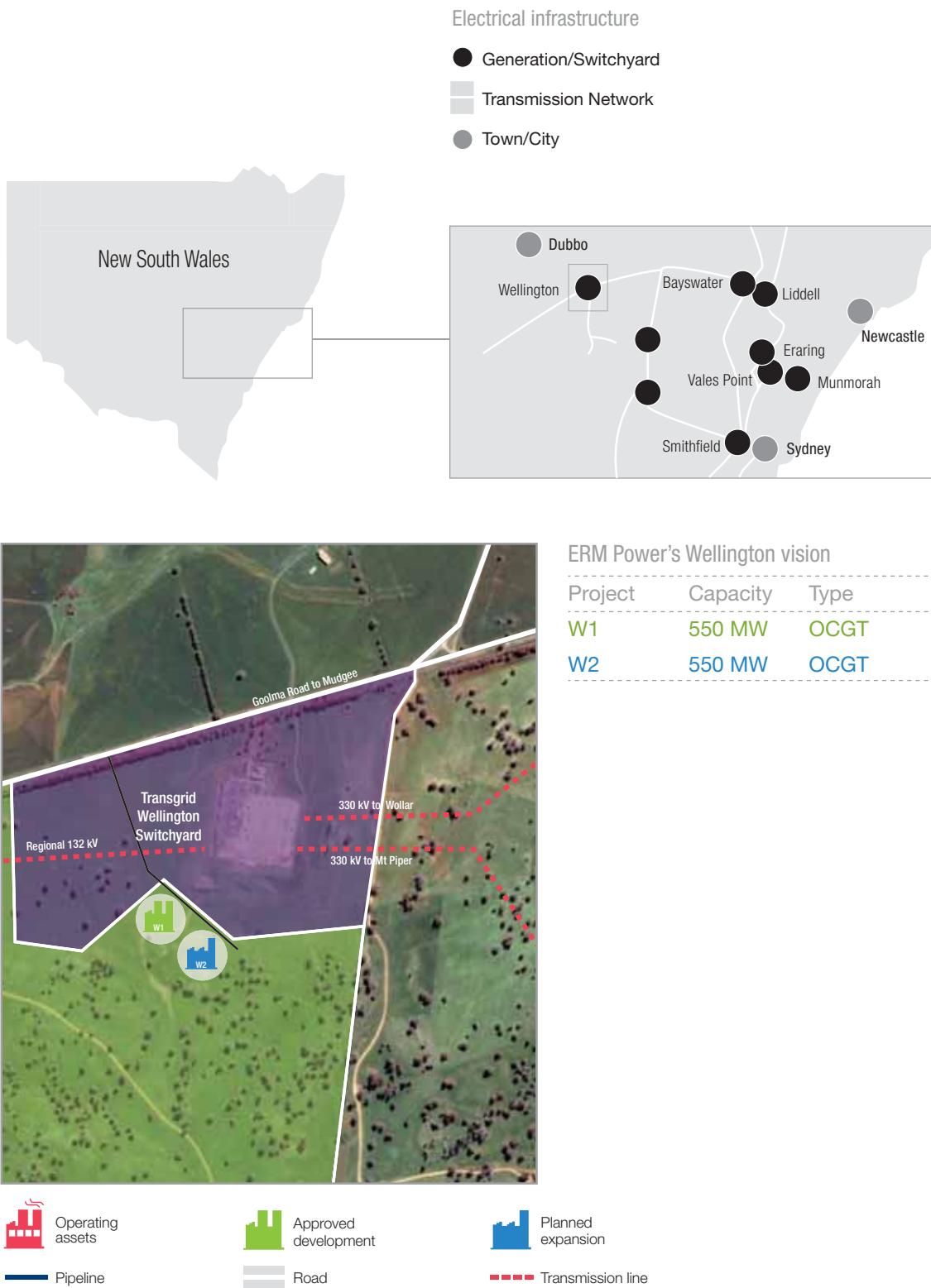


ERM Power's Braemar vision

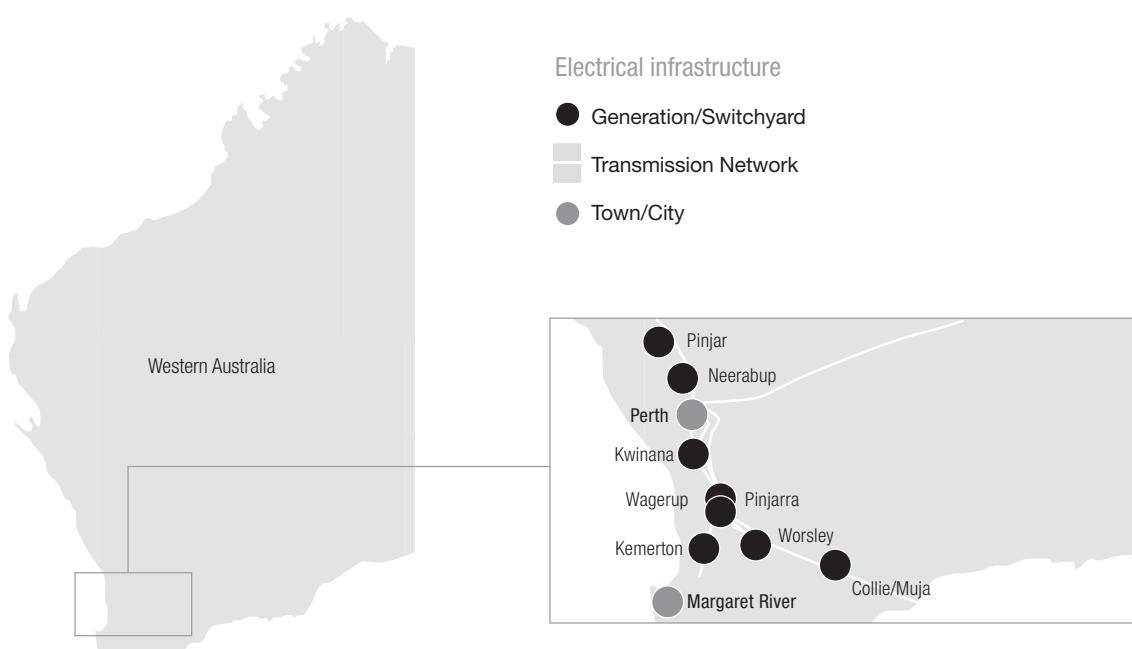
| Project | Capacity | Type |
|---------|----------|------|
| B1 | 504 MW | OCGT |
| B2 | 519 MW | OCGT |
| B3 | 550 MW | OCGT |
| B4 | 550 MW | OCGT |
| B5 | 550 MW | OCGT |



ERM Power's Wellington (NSW) land hub



ERM Power's Neerabup (WA) land hub



ERM Power's Neerabup vision

Project Capacity Type

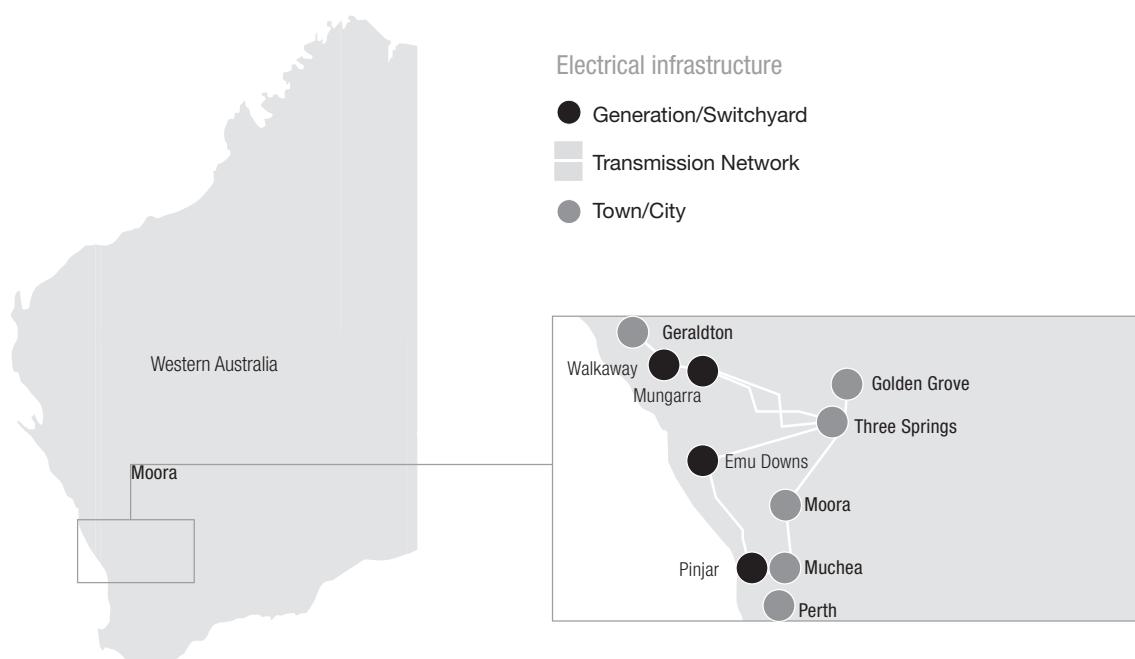
N1 330 MW OCGT*

N2 330 MW OCGT*

* Land is owned by the Neerabup project partnership.



ERM Power's Three Springs (WA) potential land hub



ERM Power's Three Springs vision

| Project | Capacity | Type |
|---------|----------|------|
| T1 | 330 MW | OCGT |



5. Company Overview (cont.)

5.4.4 Development

ERM Power's generation development team has had significant success, having led the development of 29% of all new scheduled power generation capacity commissioned in Australia in the last five years. This team is responsible for taking projects from conception, through feasibility, obtaining the various development and environmental approvals, negotiating plant procurement contracts, fuel supply, off-take contracts and obtaining project construction and term finance from domestic and international financial institutions. The team has 100% record of completing projects once a development approval has been granted.

On the successful financial close of a project, that is obtaining project finance from the relevant banks and other financial institutions, ERM Power receives from the project, in addition to full cost recovery of its business development costs, a success fee which is calculated based on the total estimated project costs.

5.4.5 Project delivery

ERM Power's project delivery team has delivered five projects in the last five years, all safely without a permanent injury and all on or ahead of schedule. Four of those five projects were on or under budget with one being 2%

Table 20 – ERM Power's key projects (generation development)

| Project | Status | State | Land | Type | Pipeline (linepack) | Size | Fuel |
|--------------|----------------------|-------|----------------------|----------|------------------------|------------------------|------|
| Braemar 3 | Development approved | Qld | Owned [†] | Shoulder | 40 – 80 km | 550 MW | Gas |
| Wellington 1 | Development approved | NSW | Secured [‡] | Peaker | 115 – 215 km | 550 MW | Gas |
| Total | | | | | 155 – 295 km | 1,100 MW ^{§3} | |

† Owned land – represents strategic land holdings held by ERM Power.

‡ Secured land – represents strategic land holdings which ERM Power has secured under executed option agreements with the current land owners to contract to purchase that land.

over budget. This team provides project and construction management services for ERM Power's development projects. During the delivery phase of each project, the project delivery team takes responsibility for administration of all of the project agreements, manages the relationship with the project's lenders and owners and reports to a specially established project board.

ERM Power earns fees from the delivery and management of project construction from the respective project companies established for each power station development.

5.4.6 Project pipeline

ERM Power is targeting development of more than 4,500 MW^{§3} of new generation and up to approximately 1,300 km of gas pipelines over the next decade, with 1,100 MW^{§4} of generation already development approved. Table 20 – Table 22 provide a summary of ERM Power's key development projects (which are described in more detail in Section 5.4.7), ERM Power's future generation development opportunities and ERM Power's future gas pipeline projects, respectively.

^{§3} MW estimated capacity is based on expected AEMO Winter Aggregate Scheduled and Semi Scheduled Generation Capacity (for Qld, NSW, Vic, Tas, NT and SA) or expected generation capacity of registered facilities published by IMO (for WA).

^{§4} MW size is based on expected AEMO Winter Aggregate Scheduled and Semi Scheduled Generation Capacity.

Table 21 – ERM Power's future opportunities (generation development)

| Project | Status | State | Land | Type | Estimated capacity | Fuel |
|-------------------------|-------------|-------|----------------------|--------------|------------------------------|------|
| Small Power Project 1 | Feasibility | n/a | n/a | Intermediate | 30 MW | Gas |
| Small Power Project 2 | Feasibility | n/a | n/a | Intermediate | 30 MW | Gas |
| Neerabup 2 | Feasibility | WA | Secured [#] | Peaker | 330 MW | Gas |
| Braemar 4 | Feasibility | Qld | Owned [#] | Shoulder | 550 MW | Gas |
| Wellington 2 | Concept | NSW | Secured [#] | Peaker | 550 MW | Gas |
| Braemar 5 | Concept | Qld | Owned [#] | Shoulder | 550 MW | Gas |
| Victoria 1 | Concept | Vic | Identified | Peaker | 550 MW | Gas |
| NSW | Concept | NSW | Identified | Shoulder | 550 MW | Gas |
| MidWest (Three Springs) | Concept | WA | Secured [#] | Shoulder | 330 MW | Gas |
| Total | | | | | 3,470 MW³⁵ | |

[#] Owned land – represents strategic land holdings held by ERM Power.

[‡] Secured land – represents strategic land holdings which ERM Power has secured under executed option agreements with the current land owners to contract to purchase that land, except in the case of Neerabup 2, where the land will be held by NewGen Power Neerabup Pty Ltd (ERM Power 50% interest).

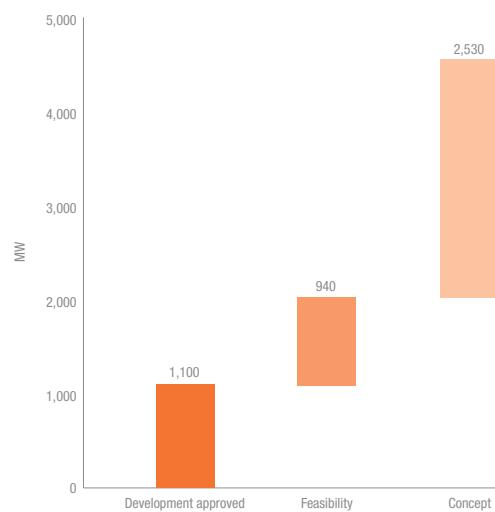
Table 22 – ERM Power's gas pipeline projects (associated with generation development)

| Project | Status | State | Land | Length |
|-------------------------|----------------------|-------|------------|------------|
| Braemar to Tara | PPLA* | Qld | Identified | 40 – 80 km |
| Wallumbilla to Kenya | Concept | Qld | Identified | 140 km |
| Kenya to Goondiwindi | PPLA* | Qld | Identified | 204 km |
| Goondiwindi to Narrabri | Concept | NSW | Identified | 230 km |
| Narrabri to Wellington | Concept | NSW | Identified | 265 km |
| Coolah to Wellington | PEA ^Δ | NSW | Identified | 115 km |
| Wellington to Alectown | Development approved | NSW | Identified | 100 km |
| Wellington to Young | EA [#] | NSW | Identified | 203 km |

*PPLA is a Petroleum Pipeline Licence Application #EA is an Environmental Application ^ΔPEA is a Preliminary Environmental Application by others by agreement

Figure 41 – ERM Power's generation development opportunities

Figure 41 illustrates the different stages and the potential size (by load) of generation development opportunities which are available to ERM Power.



³⁵ MW estimated capacity is based on expected AEMO Winter Aggregate Scheduled and Semi Scheduled Generation Capacity (for Qld, NSW, Vic, Tas, NT and SA) or expected generation capacity of registered facilities published by IMO (for WA).



5.4.7 Key projects

Braemar 3

The Braemar 3 power station development ('Braemar 3') is a proposed open cycle gas-fired power station of up to 550 MW capacity at Braemar, which is in close proximity to the Queensland coal seam gas industry and is a hub of generation supply for south-east Queensland. The site for Braemar 3 forms part of ERM Power's existing extensive land bank in the area. The Braemar 3 project received development approval in 2010.

ERM Power is the lead developer, project manager, construction manager and financial arranger for the project. ERM Power currently owns 100% of the project and is targeting to retain at least 50% after introducing an equity partner prior to financial close. ERM Power also expects to be the operator.

ERM Power has executed an engineering procurement and construction contract with a Siemens and John Holland joint venture and long term maintenance agreement with Siemens.

In addition, ERM Power has also executed a connection and access agreement with PowerLink Queensland ('PowerLink'). PowerLink's Braemar substation, located adjacent to ERM Power's land holdings, provides a high degree of transmission security, being on the main interconnector between Queensland and New South Wales.

Existing infrastructure associated with the Braemar site is expected to provide low-cost opportunities for future developments, with the rapid expansion of coal seam gas activity in the region expected to provide a competitive and secure supply of gas.

ERM Power is targeting financial close for Braemar 3 by December 2011 with commissioning expected to occur by December 2013.

ERM Power's expected equity investment in Braemar 3 is \$63.6 million, with \$45.9 million funded from Offer proceeds and the remaining \$17.7 million expected to be funded from internally generated cash flow.



Key facts

| | |
|------------------------------|--|
| Location | Darling Downs, adjacent to Braemar 1 and 2 |
| ERM Power ownership | Currently 100% |
| Cost estimate (\$ million) | 530 |
| Targeted financial close | Q2 FY2012 |
| Targeted commission date | Q2 FY2014 |
| Capacity (MW) ³⁶ | 550 |
| Technology ³⁶ | 2 x 275 MW open cycle gas turbines, designed for future conversion to combined cycle operation |
| Transmission | Site is adjacent to PowerLink 330/275 kV substation |
| Linepack | 40 – 80 km of high pressure underground gas pipeline with > 25 TJ usable linepack and potential connections with Braemar 2 linepack/pipeline and Roma-Brisbane pipeline to provide access to additional gas sources and increased storage capacity |
| Expected project gearing: | |
| Senior debt | 70% |
| Equity mezzanine financing | 6% |
| Target retained ownership | 50% |
| Project manager and operator | ERM Power |

³⁶ MW capacity is based on expected AEMO Winter Aggregate Scheduled and Semi Scheduled Generation Capacity.



Wellington 1

The Wellington 1 power station development ('Wellington 1') is a proposed open-cycle gas-fired power plant of up to 660 MW capacity combined with an integrated high pressure gas pipeline. A development approval was granted by the NSW Government in March 2009. The proposed power station is strategically located near emerging gas reserves in that region, as well as being close to the largest load growth region in NSW. This region represents approximately 30% of the NEM load and supplies the key growth centres of Sydney, Newcastle and Wollongong.

ERM Power is the lead developer, project manager, construction manager and financial arranger for the project. ERM Power currently owns 100% of the project and is targeting to retain at least 50% after introducing an equity partner prior to financial close. ERM Power also expects to be the operator.

ERM Power has signed a non-binding memorandum of understanding with Eastern Star Gas to supply Wellington 1 with up to 20 PJ per annum for 20 years from the date that supply commences. ERM Power expects that part of the off-take from the power station will be contracted to ERM Sales to meet its expected requirements in the NSW electricity market.

ERM Power is targeting financial close for Wellington 1 by September 2012 with commissioning expected to occur by September 2014. While the targeted financial close date is scheduled for Q1 FY2013, there is a possibility that the Wellington 1 project may be delivered in the Forecast Period. Refer to Section 8.8 for a sensitivity analysis.

ERM Power will assess all funding options, including additional capital raisings, to fund its equity investment in Wellington 1, closer to the targeted financial close date.



Key facts

| | |
|------------------------------|--|
| Location | 4 km north of Wellington, NSW |
| ERM Power ownership | Currently 100% |
| Cost estimate (\$m) | 681 |
| Targeted financial close | Q1 FY2013 |
| Targeted commission date | Q1 FY2015 |
| Capacity (MW) ³⁷ | 550 |
| Technology ³⁷ | 2 x 275 MW open cycle gas turbines, designed for future conversion to combined cycle operation |
| Transmission | TransGrid is currently completing a second 330 kV transmission line to Wellington substation, providing a high level of transmission security and export capability |
| Linepack | 115 – 215 km of high pressure underground gas pipeline with > 25 TJ usable linepack. The station is positioned for access to either gas from the Moomba-Sydney pipeline or from emerging coal seam gas from Gunnedah basin, and is well sited to benefit from either a proposed Queensland-Hunter Valley Pipeline or an alternative Queensland to Moomba-Sydney Pipeline via Wellington pipeline proposal currently being planned by ERM Power |
| Estimated project gearing | 70% |
| Target retained ownership | 50% |
| Project manager and operator | ERM Power |

³⁷ MW capacity is based on expected AEMO Winter Aggregate Scheduled and Semi Scheduled Generation Capacity.

5. Company Overview (cont.)

Small Power Projects

ERM Power is also pursuing the development of small scale power projects of up to 30 MW capacity to be located in close proximity to the current known and emerging gas industry in Queensland and New South Wales. At present, three sites have been identified in northern New South Wales and Queensland.

The development of the small scale power projects is based on the concept of ERM Power owning 100% of the project and ERM Sales purchasing 100% of the electricity generated from the project, thereby providing a natural hedge to their expected electricity sales positions.

Generally, these small scale power projects of up to 30 MW capacity can be simply ‘plugged’ into the NEM without the need for any major associated infrastructure.

5.4.8 Advisory Services

From time to time, ERM Power provides advisory or planning services to entities for projects in which ERM Power does not have an ownership interest. In particular, ERM Power is providing advisory services to a syndicate that proposes to bid on the contractual rights to trade electricity generated by New South Wales state-owned generators (Gentrader contracts) that are being sold as part of the New South Wales government’s energy reform strategy. If the syndicate that ERM Power is advising is successful in securing a Gentrader contract, ERM Power expects that it will enter into a services agreement with the syndicate to provide ongoing advisory, planning and operations services.

ERM Power’s founder, Trevor St Baker, in his personal capacity, proposes to hold a minority (non-controlling) interest in the syndicate that is bidding on the Gentrader contracts. The majority member of the syndicate is a financial investor. ERM Power has considered the offering by the New South Wales government and does not intend to bid on the Gentrader contracts nor does ERM Power wish to have an interest in a bidding syndicate as that opportunity is not consistent with its business strategy. Given the arrangements will not be competitive or otherwise detrimental to ERM Power, Trevor St Baker’s involvement has been sanctioned by the independent Directors. Any services provided by ERM Power to the bidding syndicate will be on arm’s length terms approved by the independent Directors.

Except for his proposed involvement in a bidding syndicate for Gentrader contracts, Trevor St Baker does not plan to pursue ventures within the energy industry other than

through ERM Power. Trevor has no intention of undertaking such activities in his personal capacity and has undertaken to ERM Power that, while he is a Director or substantial Shareholder, any such activities would not be competitive or otherwise detrimental to ERM Power and will require the independent Directors’ prior approval.

5.4.9 ERM Power Generation

ERM Power Generation is ERM Power’s operation services company. ERM Power Generation specialises in the management and operation of electricity generation and gas pipeline businesses across Australia, both ERM Power projects and businesses of unrelated industry participants. The operating services are provided through long term agreements with each project owner and include:

- power station and gas pipeline operations and maintenance;
- wholesale gas and electricity trading and commercial management;
- asset optimisation and long term asset planning and management; and
- overall business management and reporting to joint venture owners.

ERM Power Generation currently has service agreements with the Braemar 2, Neerabup and Kwinana power stations for comprehensive management of those respective businesses. See Section 10.5.6 for further detail on ERM Power’s operating services agreements.

Since 2005, ERM Power Generation has successfully mobilised and operated four projects with 1,673 MW of capacity from gas-fired power stations and high pressure gas pipelines totalling 290 km.

ERM Power Generation has a custom built operating platform including trading systems covering both the NEM and WEM electricity markets and achieves substantial operational efficiencies via centralised trading and asset management functions across multiple projects.

ERM Power Generation maintains an exceptional safety record, with no lost time injuries from any staff or contractors on the managed facilities during commercial operation.

ERM Power Generation has experience trading gas and electricity in major Australian markets. This enables ERM Power to actively manage the commercial risks associated with respective generation businesses under its management through a well equipped trading facility that manages market risks, fuel supplies and optimises the dispatch of the power stations in Australia’s electricity markets.

Table 23 – Pro forma historical and forecast consolidated income statement – ERM Generation Development and Operations

| \$'000s | FY2008A | FY2009A | FY2010A | Forecast FY2011F | Forecast FY2012F |
|------------------------------------|---------|----------|----------|------------------|------------------|
| Development and operations revenue | 24,676 | 37,457 | 9,836 | 3,382 | 19,535 |
| Profit from asset sales | 46,086 | 798 | 36,379 | 6,600 | - |
| Discount on acquisition | 12,096 | - | - | - | - |
| Total revenue | 82,858 | 38,255 | 46,215 | 9,982 | 19,535 |
| Expenses | (7,146) | (21,533) | (12,879) | (5,080) | (4,885) |
| EBITDAIF | 75,712 | 16,722 | 33,336 | 4,901 | 14,650 |
| EBITF | 75,712 | 16,518 | 33,211 | 4,889 | 14,638 |

5.4.10 ERM Generation Development and Operations summary financial information

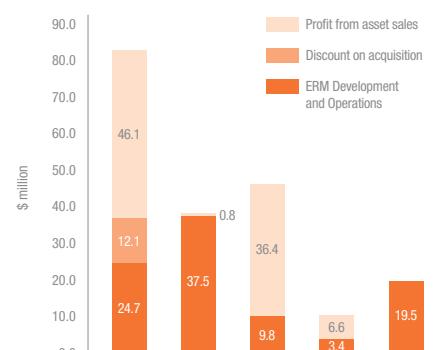
ERM Generation Development and Operations is engaged in three principal operating activities:

- Generation development** – managing the development of new generation projects. This comprises the development of the project from the initial planning and approval phase through to financial close. Revenue primarily represents success fees, proceeds from the sale of ERM Power's interest in the project and revenue from the sale of land (ERM Power has historically acquired strategic land banks for future power station developments which is then sold to the project owners at financial close).
- Project management** – managing the development and construction of the project from financial close through to commercial operations. Revenues are generated from fees charged to the project owners for managing the construction process and are typically based on a schedule of hourly rates.
- Operations** – managing the ongoing commercial operation of the commissioned generation asset.

The pro forma historical and forecast consolidated income statement is outlined in Table 23. Figure 42 alongside illustrates the breakdown of consolidated revenue for ERM Generation Development and Operations.

The FY2012 forecast assumes that ERM Power will maintain a 50% ownership interest in Braemar 3. As a result only 50% of the development fees and delivery profits are included in the FY2012 EBITDAIF (with the remaining 50% reducing the accounting cost of ERM Power's 50% interest

Figure 42 – Pro forma historical and forecast consolidated revenue



in Braemar 3). Accordingly, forecast FY2012 revenue and EBITDAIF in the table above reflects only 50% of the total forecast success fees expected to be received on a cash basis from the project vehicle. To illustrate the impact of the adjustments required as a result of ERM Power maintaining a 50% interest in Braemar 3, the income statement for development on a stand-alone basis is also shown below in Table 24.

Business development

Revenues in FY2008 reflected a profit on the sale of ERM Power's 15% interest in Braemar 1 and proceeds from the sale of ERM Power's 50% interest in the Uranquinty development totalling \$46.1 million. Refer to Section 5.4.1 for further details on the profits earned on the sale of interests in power stations. An additional \$12.1 million was recorded as a discount on acquisition following the acquisition of ERM Holdings Pty Ltd from a majority shareholder (consideration was at a discount to the fair



Braemar 2 substation

Table 24 – Pro forma forecast stand-alone income statement – ERM Generation Development and Operations

| \$'000s | Forecast FY2011F | Forecast FY2012F |
|----------|---------------------|---------------------|
| Revenue | 10,488 | 38,208 |
| Expenses | (5,587) | (6,429) |
| EBITDAIF | 4,901 | 31,779 |
| EBIT | 4,889 | 31,767 |

value of the assets being acquired). FY2009 included \$18.3 million in financial close fees for Braemar 2. FY2010 revenue includes \$36.4 million in profit on disposal of ERM Power's interest in Braemar 2.

No development fees are assumed in FY2011, but the sale of ERM Power's 30% interest in Kwinana is expected to contribute \$6.6 million in profit on disposal. The FY2012 forecast assumes receipt of development fees of \$36.4 million on a 100% basis (\$18.2 million on a 50% basis) relating to financial close on the proposed Braemar 3 development and proceeds from the associated sale of the land on which Braemar 3 is to be constructed. Wellington 1 is currently expected to reach financial close after FY2012 and therefore no development fees for this project have been included in the forecast financials. For the financial impact on ERM Power if Wellington 1 reaches financial close within FY2012, refer to the sensitivities in Section 8.8.

Project management

Historical revenues also reflect project management fees received in relation to Kwinana, Uranquinty, Neerabup and Braemar 2 development projects. No project management revenue is forecast in FY2011; however, the FY2012 forecast assumes receipt of project management fees of \$2.6 million relating to the proposed Braemar 3 development.

Operations

ERM Power currently manages the operation of Braemar 2, Kwinana and Neerabup on behalf of the owners of those assets. Forecast FY2011 and FY2012 revenues assume receipt of operating fees in accordance with the Operating Services Agreements in place for each of those assets. Fees for operating Kwinana and Neerabup are received on a fixed fee plus bonus basis, whereas fees for the operation of Braemar 2 are based on an agreed schedule of rates. The forecasts assume that ERM Power will cease operating Braemar 2 from 1 July 2011, after the disposal of its remaining interest in Braemar 2.

5.5 ERM Gas

5.5.1 Overview

ERM Power is a large gas buyer in the Australian market. It has established a small, complementary and developing gas business focused on the procurement of long term gas supplies for future generation development projects through commercial contracts and exploration, including equity interests in approximately 11,600 km² of gas exploration acreage in Western Australia's on-shore Perth basin, in the vicinity of Neerabup. ERM Gas continues to review and analyse other exploration acreage opportunities throughout Queensland, New South Wales and Victoria.

ERM Power has signed a non-binding memorandum of understanding with Eastern Star Gas to supply Wellington 1 with up to 20 PJ per annum for 20 years from the date that supply commences.

ERM Gas holds EP 467 and has entered into a farm-in agreement to access a number of exploration permits in the on-shore Perth Basin held by Empire Oil Company (WA) Limited, a wholly owned subsidiary of Empire Oil & Gas NL ('Empire Oil & Gas'). These exploration permits contain a range of natural gas, oil and shale gas prospects in close proximity to infrastructure and markets. The table below sets out the tenements in which ERM Gas currently has an interest:

| Tenement | Holder | Status | Expiry date | Area |
|----------|---|-----------------|------------------|-----------------------|
| EP 389 | <ul style="list-style-type: none"> Empire Oil & Gas – 68.75% Wharf Resources – 10.0% ERM Gas – 21.25%³⁸ | Pending renewal | 24 December 2009 | 2,052 km ² |
| EP 416 | <ul style="list-style-type: none"> Empire Oil & Gas – 85% Allied Oil and Gas – 10% ERM Gas – 5% | Active | 15 August 2011 | 962 km ² |
| EP 426 | <ul style="list-style-type: none"> Empire Oil & Gas – 42.22% ERM Gas – 27.78% Allied Oil and Gas – 10% Norwest Energy – 20% | Term extended | 15 August 2011 | 3,568 km ² |
| EP 432 | <ul style="list-style-type: none"> Empire Oil & Gas – 77.5% Wharf Resources – 10% ERM Gas – 12.5% | Active | 10 April 2011 | 1,257 km ² |
| EP 440 | <ul style="list-style-type: none"> Empire Oil & Gas – 87.5% ERM Gas – 12.5% | Active | 13 March 2011 | 2,170 km ² |
| EP 454 | <ul style="list-style-type: none"> Empire Oil & Gas – 87.5% ERM Gas – 12.5%³⁹ | Active | 25 February 2013 | 966 km ² |
| EP 467 | <ul style="list-style-type: none"> ERM Gas – 100% | Active | 30 November 2015 | 661 km ² |

In addition, ERM Gas (60%) together with Empire Oil & Gas (40%) are the preferred applicants for exploration permits for petroleum over Area L08-6 and Area L08-7.

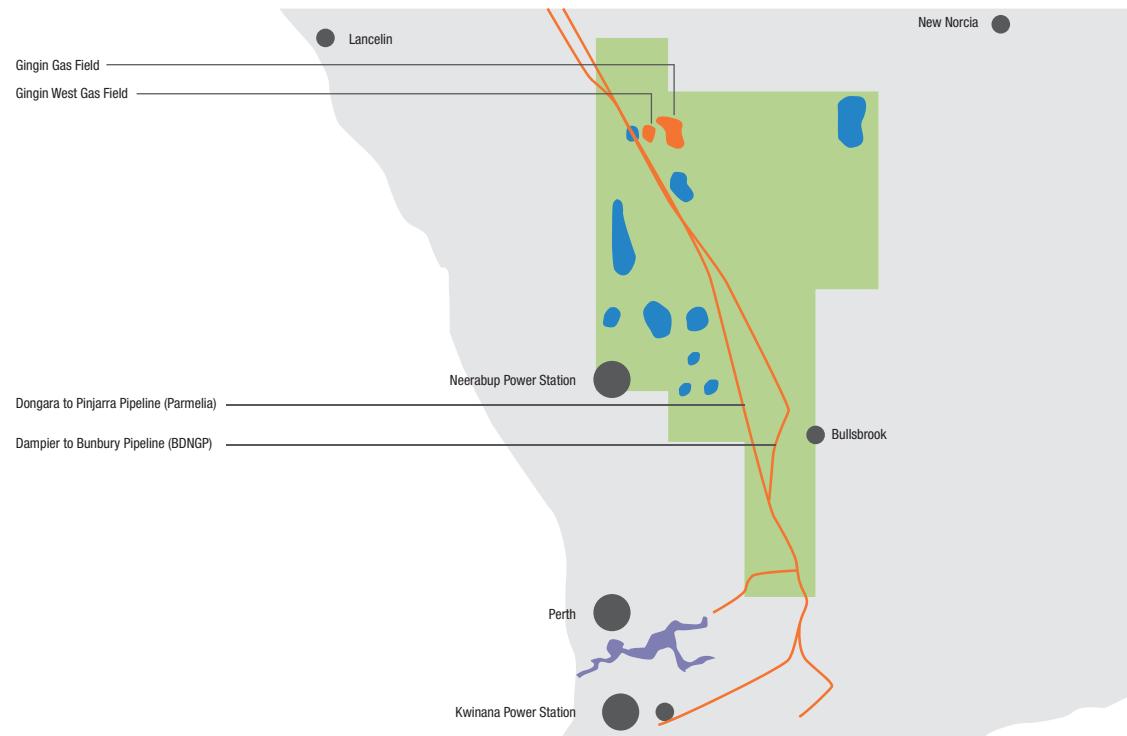
³⁸ ERM Gas is registered as the holder of a 12.5% interest in EP 389 and has agreed to purchase an 8.75% interest in EP 389 from Sunset Power.

See Section 10.11 for further details. ERM Gas and Empire Oil & Gas have also entered into a term sheet with Cottesloe Oil & Gas Pty Ltd to negotiate a farm-in agreement under which ERM Gas would farm out an 8.85% interest in EP 389 to Cottesloe and hold a 12.4% interest in EP 389 after the proposed farm-out.

³⁹ ERM Gas has exercised an option to increase equity to 25% in this tenement by funding the seismic approval process. ERM Gas has a further option to increase participation to 50% by funding a seismic acquisition program.

5. Company Overview (cont.)

Figure 43 – ERM Gas' exploration acreage – EP 389



5.5.2 EP 389 (Gingin gas field)

ERM Gas holds a 21.25%⁴⁰ interest in the Gingin West 1 well, which is located on EP 389, 80 km north of Perth, in the Perth basin, located 45 km from the NewGen Neerabup gas compressor station and linepack facility.

Participants in the EP 389 joint venture are:

- Empire Oil & Gas (the operator) (68.75%);
- ERM Gas (21.25%); and
- Wharf Resources Plc (10.0%).

On 13 April 2010, the EP 389 joint venture partners announced that the Gingin West 1 well flowed 7.66 million cubic feet of gas per day ('MMCFD') and 301 barrels of condensate per day ('BCPD') with a 38/64 inch choke. This equates to 40 barrels of condensate (light crude oil) per 1 million cubic feet of gas. The maximum gas flow rate was 8.06 MMCFD.

The Gingin West 1 discovery demonstrated strong gas and condensate flow during flow test and is considered by Empire Oil & Gas to be the closest onshore gas and condensate discovery to Perth, Western Australia.

The joint venture partners intend to undertake an extended production test of the discovery while the production licence for the Gingin West 1 well is processed. The joint venture partners are targeting the commencement of production of gas and condensate from the Gingin West 1 well in the second half of CY2011.

It is proposed that gas will be transported in either the DBNGP or the Dongara to Pinjara natural gas pipeline.

Gingin West 1 natural gas is condensate rich and, if production proceeds, the EP 389 joint venture is proposing to enter into a crude oil contract for condensate sale to the BP Kwinana Refinery in Western Australia. The BP Kwinana

⁴⁰ ERM Gas is registered as the holder of a 12.5% interest in EP 389 and has agreed to purchase an 8.75% interest in EP 389 from Sunset Power. See Section 10.11 for further details. ERM Gas and Empire Oil & Gas have also entered into a term sheet with Cottesloe Oil & Gas Pty Ltd to negotiate a farm-in agreement under which ERM Gas would farm out an 8.85% interest in EP 389 to Cottesloe and hold a 12.4% interest in EP 389 after the proposed farm-out.

Refinery is located approximately two hours by road from the Gingin West 1 site. The condensate has been assayed by BP in Singapore as part of the normal process necessary for BP to obtain a thorough knowledge of the condensate. A draft condensate sales agreement is expected to be presented by BP in the near future.

Empire Oil & Gas and the EP 389 joint venture are currently designing the plant and equipment for the Gingin West natural gas pipeline connection and the site storage and loadout facilities to enable trucking of condensate to the BP Kwinana Refinery.

ERM Power expects to spend \$2.4 million on the development of the Gingin West 1 well over the Forecast Period. In parallel, the EP 389 joint venture is progressing with approvals and procurement of long lead items for the second well, Red Gully 1, targeting the Gingin West A block prospect with an anticipated spud date in January 2011. The Gingin West A prospect is expected to be significantly larger than the size of Gingin West B, and success in this well would enhance the economics of the Gingin development.

5.5.3 ERM Gas summary financial information

The pro forma historical and forecast consolidated income statement and capital expenditure statement are outlined below in Table 25 and Table 26.

Over the past three years ERM Power's gas activities have focussed on due diligence, farm-ins, and work program capital expenditures. Capital expenditures increased in FY2010 as a consequence of ERM Power's Western Australia work program obligations for tenements under the Empire farm-in agreement. These costs were primarily related to the drilling, completion and flow-testing of the Gingin West 1 prospect, which led to a new gas (and associated condensate) discovery in the Perth Basin.

Forecast capital expenditure for FY2011 and FY2012 comprises \$7.7 million in expenditure allocated for ERM Power's obligations under both farm-ins and work obligations for ERM Power's tenement interests and \$2.4 million for the commercialisation of the Gingin West 1 gas discovery. While Gingin is now undergoing commercialisation activities, ERM Power has not assumed any revenues associated with gas and condensate sales in the Forecast Period.

Table 25 – Pro forma historical and forecast consolidated income statement – ERM Gas

| \$'000s | FY2008A | FY2009A | FY2010A | Forecast FY2011F | Forecast FY2012F |
|----------|---------|---------|---------|------------------|------------------|
| Revenue | - | - | - | - | - |
| Expenses | (1,451) | (1,669) | (733) | (905) | (782) |
| EBITDAIF | (1,451) | (1,669) | (733) | (905) | (782) |
| EBIT | (1,451) | (1,669) | (733) | (905) | (782) |

Table 26 – Pro forma capital expenditure statement – ERM Gas

| \$'000s | FY2008A | FY2009A | FY2010A | Forecast FY2011F | Forecast FY2012F |
|--|---------|---------|---------|------------------|------------------|
| Total capital expenditure | (2,475) | (900) | (3,475) | (5,443) | (4,629) |
| represented by: | | | | | |
| – tenement exploration obligations ⁴¹ | | | | (3,090) | (4,629) |
| – commercialisation of Gingin West 1 | | | | (2,353) | - |

⁴¹ Additional capital expenditure may be required for future approved work programs to maintain ERM Power's tenement interests and a decision not to fund this additional expenditure may involve partial or full relinquishment in that specific tenement.

5. Company Overview (cont.)

5.5.4 Strategy and growth opportunities

ERM Gas is currently well placed to take advantage of opportunities in Western Australia with ERM Power's interests in the existing Neerabup power station. In addition to the development of the Gingin West 1 well and the adjacent proposed Red Gully 1 well on EP 389, recent seismic interpretation on EP 454 and further analysis by ERM Gas' geophysics and reservoir experts has identified a large on-shore gas prospect. ERM Gas is currently evaluating the opportunity to exercise its option to increase its equity interest to 50% in EP 454 by paying for a seismic acquisition program. While it is in the early stages of exploration, ERM Gas is positive about the potential of EP 454.

An extension of the ERM Gas strategy to the east coast will be the longer term focus of ERM Gas. ERM Gas plans to build an expanded portfolio of gas interests and to de-risk those interests through the application of rigorous technical and geological work. ERM Power's generation development business is expected to benefit from the ERM Gas business as a result of more informed site identification and improved fuel supply negotiations.

ERM Power has deliberately limited the capital invested in its gas business to ensure it remains small, strategic and complementary. Following the Offer, ERM Power will have greater financial flexibility to support the gas business by developing acreage and in particular, commercialising the Gingin discovery. If further success in exploration occurs, ERM Power will look to keep additional capital expenditure to a minimum, and will consider sell-downs and farm-outs

of its interests so as not to materially change the risk profile of ERM Power. In addition to the \$2.4 million of capital expenditure expected to be spent on the commercialisation of Gingin West 1, ERM Power has allocated \$7.7 million over the next two years towards its obligations under both farm-ins and work obligations for its tenement interests. This additional expenditure is expected to be funded from internally generated cash flows from ERM Power's business during that period.



Gingin West 1 gas and condensate discovery flow test

5.6 Corporate overheads

Corporate overheads comprise the corporate cost centre for ERM Power including head office costs, support divisions and corporate transactions. The historical and forecast consolidated income statement is outlined below in Table 27.

In FY2008, ERM Power was constructing three power station projects and had reached or was finalising financial close of two power stations. The historic period to FY2010 is reflective of the transition phase of ERM Power. In particular the reported FY2010 amount of \$9.2 million reflects a number of one-off, non-recurring items including \$2.6 million associated with bonuses and incentive schemes and \$1.2 million associated with abnormal legal costs. Taking these items into consideration the underlying overheads amount was \$5.3 million, in line with historical and forecast financials. The step up in expenses in FY2011 reflects additional costs associated with being a listed company. Corporate overhead costs above are shown net of cost allocations to the various business units of ERM Power. The \$0.8 million cost reduction in FY2012, compared to FY2011, is attributable to additional head office cost allocation to ERM Generation Development and Operations. This is due to the deployment of associated employee cost in respect of Braemar 3 which is assumed to achieve financial close in FY2012. Prior to reallocation of costs, the gross overhead costs in FY2012 are comparable to FY2011.

Table 27 – Historical and forecast consolidated income statement – overheads

| \$'000s | FY2008A | FY2009A | FY2010A | Forecast FY2011F | Forecast FY2012F |
|----------|---------|---------|-----------------------|---------------------|---------------------|
| Revenue | - | - | - | - | - |
| Expenses | (3,921) | (5,158) | (9,161) ⁴² | (6,427) | (5,602) |
| EBITDAIF | (3,921) | (5,158) | (9,161) | (6,427) | (5,602) |
| EBIT | (4,112) | (5,634) | (9,562) | (6,427) | (5,602) |

⁴² Includes \$3.8 million in abnormal as set out above. Normalised overheads amount in FY2010 is \$5.3 million.

5.7 Community

As a generator of cleaner power, ERM Power strives to create projects that are beneficial for Shareholders and the communities in which it operates. ERM Power has developed key relationships and sponsorship programs in local communities through resource donations, event sponsorship, staff volunteering and local employment. This provides ongoing opportunities for local residents and groups where ERM Power's projects are based.

In the Dalby area where the Braemar power station projects are based, ERM Power has worked with the local community on a variety of initiatives, such as sponsoring the Darling Downs School music visits to Queensland Orchestra concerts in Toowoomba.

ERM Power works with local communities and neighbouring towns from the moment the assessment stage of a project is complete. This is to ensure they are consulted about the development, construction and operational phases of ERM Power projects. As a result, stakeholders are informed and have the ability to provide feedback. ERM Power strives to work with the local communities as much as possible to minimise potential impacts.

Indigenous communities are key stakeholders in ERM Power's developments. ERM Power maintains open dialogue with elders/leaders from the start of projects. ERM Power seeks their guidance on how to navigate cultural sites.

6. Risk Factors

6.1 Introduction

ERM Power's business is subject to risk factors, both specific to its business activities and of a general nature, which may either individually or in combination, materially and adversely affect the future operating and financial performance of ERM Power and the value of an investment in ERM Power. Many of these risks are outside the control of ERM Power, its Directors and management. There can be no guarantee that ERM Power will achieve its stated objectives or that any forward looking statements or forecasts will eventuate. An investment in ERM Power should be considered in light of relevant risks, both general and specific.

This Section identifies the areas that the Board believes to be the major risks associated with an investment in ERM Power. This is not an exhaustive list of the risks associated with an investment in ERM Power and should be considered in conjunction with other information disclosed in this Prospectus.

Before deciding whether to invest in ERM Power, you should:

- read this Prospectus in its entirety;
- consider the assumptions underlying the Directors' forecasts, the sensitivity analysis and the risk factors that could affect the operational and financial performance of ERM Power;
- consider an investment in ERM Power in light of your own personal circumstances; and
- seek professional advice.

6.2 Specific investment risks

Spot market price risk

ERM Sales is exposed to spot market price risk where there is a mismatch between fixed price electricity sales volumes and volumes under hedge contracts. This exposure can arise from being either short hedge cover, or long hedge cover. For example, where ERM Sales enters into long term wholesale contracts to fix the price of electricity, such as the B2 Swap described in Section 10.5.6, it will have exposure to the extent that it has not hedged its position and where the price of electricity falls below the fixed price under that contract.

Contracting risk

The average duration of the sales contracts between ERM Sales and its customers is currently approximately 2.5 years. Unlike mass market customers, many of the larger business customers will put their electricity supply contracts out to tender when their previous electricity supply contract expires. There is no certainty regarding the ability of ERM Sales to enter into new sales contracts, nor any certainty regarding the sales prices and volumes that may apply to any new contracts that are executed. Additionally, when an existing ERM Sales contract expires, there is no guarantee that the customer contract will be renewed, nor any certainty regarding the sales prices and volumes that may apply to any such contract renewals.

ERM Sales' financial performance will be affected by its level of recontracting of existing customers and any decrease in the recontracted electricity sales price or volumes of electricity.

Load volume risk

The contracts which ERM Sales enters into with its customers are not take-or-pay contracts. Customers only pay for the electricity which they actually use. There is a risk that there may be a mismatch between actual customer demand for any period and the hedge volumes that ERM Sales has entered to hedge customer demand. Forecast loads are used as the basis for hedging decisions and variations between forecast and actual loads will give rise to spot market price risk.

Growth

A key factor in your decision to invest in ERM Power may be the value you attribute to its growth prospects. ERM Power's ability to grow its business depends, to a large degree, on its ability to secure new electricity sales customers as well as identify new generation projects and successfully develop and construct its existing pipeline of projects. Any number of factors may affect ERM Power's ability to manage its future growth successfully.

Project risk

ERM Power derives revenue from fees earned from development projects. If ERM Power's pipeline of potential projects, as described in this Prospectus, is delayed or projects are cancelled, then the fees associated with those projects will also be delayed or not realised. Similarly, ERM Power may earn 'performance fees' over and above base fees, which are tied to its performance on the project (e.g. additional fees payable if the project meets the financial, quality and time requirements consistent with the business case). Those performance fees may not be paid in circumstances where the project is not delivered in accordance with the original business case.

Contracting, recontracting and renewal – gas supply and off-take

ERM Power and its subsidiaries have contracts with a number of counterparties as detailed in this Prospectus. There is a risk that contracts may not be secured or renewed or that capacity will not be recontracted which may negatively affect ERM Power and its operating and financial performance.

Gas supply

ERM Power enters into gas supply contracts for its power station projects. All gas contracts have the risk of non-performance by the seller and ERM Power may be exposed to the difference between liquidated damages recoverable from the gas supplier and the cost to ERM Power of being short of gas.

Gas supply contracts also carry volume risk, being the difference between the required volume and the volume contracted. A shortfall in volume supplied may result in a requirement to contract additional supply in the market at higher prices or arrange suitable hedging for the commercial risk at a cost. A contractual oversupply can lead to the carrying costs of 'banking' some of the contracted gas or potentially a loss caused by having to sell off volumes of gas at less than the purchase price of that gas supply.

In addition, there is a risk that ERM Power may not be able to procure appropriate gas supply agreements for future generation development projects or for current projects (once existing gas supply arrangements expire). Depending on the circumstances, this may affect the economics of the project and the ability of ERM Power to successfully execute the development of the project.

Off-take demand

ERM Power's ability to deliver future generation projects is dependent on ERM Power securing debt and equity financing for those projects, which in turn is reliant on ERM Power securing off-take agreements. Delays in securing off-take arrangements, or failure to secure those arrangements, may therefore delay completion of those projects or prevent them from proceeding. This risk is particularly relevant to the proposed Braemar 3 and Wellington 1 projects (refer to Section 5.4.7).

Also, any failure to renew off-take contracts for current generation assets or to recontract that capacity could adversely affect ERM Power's return on those assets.

The current off-take arrangements for Oakey are due to end in 2014 and the off-take arrangements for Neerabup will end in 2029. In the case of Oakey, all project debt on Oakey is expected to have been fully repaid at that time.

Electricity prices

The forecast revenues from ERM Sales and power projects in which ERM Power has an interest are derived from electricity pool prices. ERM Power is from time to time subject to movements in the electricity pool prices of the relevant markets in which it operates. Electricity prices are volatile, given the uncertainty in the factors which drive demand for, and supply of, electricity, such as weather, generator competitive behaviour, retail competitive behaviour, plant reliability, actions of the market operator, changes in the market rules and level of economic activity. Movements in electricity prices can have a significant effect on ERM Power's revenues and prudential capital requirements and therefore its financial performance.

Dependence upon key personnel

ERM Power depends on the talent and experience of its personnel. It is necessary that appropriately skilled personnel are available to support the management workload as it arises. Recent growth in demand has increased the competition amongst employers for engaging and retaining employees.

Inability to retain or recruit key personnel can have a negative effect on ERM Power's business. Additionally, any key personnel who leave to work for a competitor may be particularly damaging to ERM Power's business.

6. Risk Factors (cont.)

Failure of trading systems

ERM Power has implemented policies, procedures, systems and processes to manage risks associated with its trading operations, which include, but are not limited to, the decision to enter into contracts, the pricing of those contracts, record keeping, contract management procedures, and management of market and trading risk. These trading and risk management systems rely on the skill and expertise of a limited number of employees, and may change or evolve over time. There can be no guarantee that ERM Power's current or future trading and risk management systems will be effective in preventing the occurrence of situations which result in financial losses, including financial losses that may be above its risk limits.

Ability to pass on increased costs

While ERM Power's operating costs are largely fixed or predictable, there remains the risk of unexpected increases in variable operating costs including labour, insurance and maintenance, which may adversely affect ERM Power's operating and financial performance. For example, general inflationary pressure may increase the cost of operations and those additional costs may not be capable of being passed on to customers.

Key agreements in respect of ERM Power's generation assets, such as power purchase agreements and tradeable purchase agreements, are generally long term contracts. Where such agreements do not contain appropriate 'pass through' provisions or where those provisions do not allow for a variation in circumstances where ERM Power's operating costs have increased, ERM Power may not be able to pass on additional costs to off-takers or other customers, which will affect the profitability of those generation assets. Those costs might be the result of regulatory changes (such as a carbon cost), increases to network tariffs or other market costs. ERM Power is currently in dispute with Synergy regarding the ability to pass on increased costs from network tariff increases under the tradeable purchase agreement that is in place for Neerabup, the details of which is set out in Section 10.8.

Plant operations

A significant proportion of ERM Power's revenues and profitability are derived from selling generation capacity and energy from power stations. Should ERM Power's power stations suffer disruption of any kind, for example, as a result of equipment failures, information technology system

failures, external service failures, force majeure events or planned outages taking longer than expected, this may result in reduced operations and production of electricity, and result in a mismatch of exposures under hedging and off-take contracts. This could have an adverse effect on ERM Power's operating and financial performance.

ERM Power also derives revenue from operating power stations.

Interest rates

ERM Power's financial performance may be adversely affected by interest rate increases.

Table 28 on the following page sets out ERM Power's exposure to interest rate movements both at a corporate level and at the project level in respect of the generation assets in which ERM Power has an interest.

The majority of debt, which is non-recourse project finance, is fixed. Accordingly, the project economics will not be affected by interest rate rises. ERM Power's equity notes in respect of the Neerabup project have a floating rate. Accordingly, the distributable cash flow from Neerabup power station will decrease as the BBSY increases. Table 18 (on page 78), which sets out the historical and forecast distributions from Neerabup to ERM Power, assumes a BBSY of 6% per annum.

Any future borrowings will be at the discretion of the Board and, in respect of the generation assets in which ERM Power has an interest, the asset co-owners.

Credit and contractual risk

ERM Power and its subsidiaries are parties to sales contracts and hedge contracts, representing a significant proportion of ERM Power's forecast revenues, with a number of energy wholesalers and other counterparties. Whilst these counterparties presently have strong credit ratings, there can be no assurance that these credit ratings will continue in the future and that these counterparties will be able to meet their future contractual financial obligations to ERM Power. Should these counterparties not be able to meet their future contractual financial obligations then ERM Power's operating and financial performance could be adversely affected.

Construction risk

New power stations under construction are exposed to risks associated with the project not being completed on time, on budget or in accordance with specifications.

Table 28 – ERM Power's current exposure to interest rate movements

| Facility | Share of outstanding debt at 30 June 2010 | Interest rate exposure | Interest rate at 30 June 2010 |
|------------------------------|---|------------------------|-------------------------------|
| Oakey project | | | |
| Project term facility | \$7.9 million | fixed | 8.33% |
| Neerabup project | | | |
| Project term facility | | | |
| • hedged component | \$161.4 million | fixed | 8.39% |
| • unhedged component | \$6.7 million | BBSY + 1.2% | 6.17% |
| ERM Power's equity notes | \$40.0 million | BBSY + 4.0% | 8.97% |
| Corporate debt | | | |
| Arrow loan | \$25.1 million | fixed | 12.3 |
| NAB Working Capital Facility | - | BBSY + 2.85% | 7.582% |

Whilst a large proportion of construction costs are contractually fixed with external contractors, given the inherent complexity in the construction of power stations and the use of specialised technology, there remains the risk of increased costs and timing delays which may delay or reduce the expected cash flows on a project and consequently impact ERM Power's operating and financial performance.

Taxation

There are specific tax laws that may operate to deny tax depreciation deductions in connection with the use or control of assets by tax exempt end users, such as government entities. A deduction may be denied in circumstances where the taxpayer lacks the requisite 'economic interest' in the relevant asset. Those laws are relevant to the owners of infrastructure assets, including power stations.

Professional negligence (reputational risk)

A risk for ERM Power, as for all professional service providers, is a successful claim for professional negligence. Professional indemnity insurance may be taken out on a project specific basis, to cover liabilities in the event of a claim of negligence. Any claims for professional negligence, whether or not they are successful, could damage ERM Power's reputation, making it more difficult to find suitable investment partners in the future.

Regulatory environment

The electricity markets in which ERM Power operates are highly regulated by the various state and federal governments. ERM Power must comply with the relevant

regulations and, as a consequence, its ongoing operations are subject to regulatory changes. Changes to the way in which the market is regulated could adversely affect the business or financial performance of ERM Power by the imposition of additional capital and/or operational obligations on ERM Power.

Generation demand

Mismatches between medium and long term supply and demand of generation affects ERM Power's generation development business. There is a risk that over the longer term, generation development by ERM Power and its competitors may outpace growth in demand for such generation, resulting in an oversupply of generation.

Competition

Competition in the industries in which ERM Power operates may increase. For example, competitors of ERM Sales (including larger competitors) might price contracts below cost to win customers from ERM Sales. Such occurrences may negatively affect ERM Power's future profitability, planned growth and market share within the industry.

Financing

ERM Power, through its interest in each of its generation projects, has significant borrowings, including both senior project lending and equity financing, that represent a large proportion of its total assets. In addition, ERM Power also borrows through corporate facilities. Some of these borrowings are structured with bullet repayments (such that all principal owing is required to be repaid on a certain date).

6. Risk Factors (cont.)

Continued debt financing in such cases is contingent on the availability of a new borrowing facility to replace facilities extinguished by a bullet repayment. There is a refinancing risk that a replacement debt facility will not be available or will not be available on terms as attractive to ERM Power or its joint venture partners as the previous borrowing facility.

The generation assets in which ERM Power has an interest are funded by non-recourse project debt. Those arrangements often involve reserving obligations on the borrower and may result in cash being 'locked up' for periods of time or being 'swept' and applied to mandatory repayment of debt. Any such arrangement will affect the project's ability to make cash distributions which restricts the availability of that cash to ERM Power.

Non-recourse project debt typically involves the financier taking security over the assets of the borrower. If the borrower breaches its obligations under the project finance arrangement, the financier may be able to enforce its security. Ultimately, this may result in the disposal of an asset which is likely to have a material adverse effect on ERM Power.

Further, ERM Power's ability to make new acquisitions, investments and its ability to develop new generation projects may depend on it obtaining new capital at competitive rates in a timely manner. Failure to do so may limit ERM Power's ability to grow and may adversely affect ERM Power's financial condition and its ability to pay distributions.

The gearing of ERM Power will change over time, particularly as new power station projects reach financial close. The estimated project gearing of Braemar 3 and Wellington 1 is 76% and 70% respectively, which is expected to increase the overall gearing of ERM Power on a consolidated basis.

Joint ownership of assets

ERM Power has entered into a number of partnerships in relation to its ownership of assets. Structures of this type impose constraints that do not exist where the asset is fully owned. In most cases, ERM Power cannot make business decisions without having consulted with (and, in many cases, obtained the unanimous agreement of) the other owners. ERM Power's ability to sell its interest in these assets is subject to pre-emptive rights. Disagreements between co-owners and delays in the approval process may adversely affect the value of those assets.

In particular, ERM Power owns its interest in Oakey with another investor ('Oakey Co-owner'), through a sole beneficiary company of the ERM Power Trust. Decisions as to the distribution of income from the ERM Power Trust by the sole beneficiary company and certain other decisions affecting ERM Power's investment in Oakey are by majority and therefore require the sanction of the Oakey Co-owner.

Additionally, Trevor St Baker (ERM Power's chairman) and a representative of the Oakey Co-owner are the sole principals of the ERM Power Trust and are also the shareholders of the trustee (ERM Oakey) that holds the interest in Oakey. If Mr St Baker was to pass away, the other investor's representative would become the sole principal of the ERM Power Trust and have the right to replace the trustee of that trust, which could be an entity not controlled by ERM Power. Any changes to the trustee of the ERM Power Trust are subject to consent from other Oakey owners and ERM Power would still retain its indirect 12.5% interest if this occurred. ERM Power intends to restructure the Oakey ownership arrangements so that Trevor St Baker is replaced as principal of the ERM Power Trust and shareholder of ERM Oakey with entities owned by ERM Power.

In the context of ERM Gas, where ERM Gas is not the operator or where its equity interest in a tenement is low, ERM Gas is subject to the commercial drivers and capabilities of others.

Concentration of shareholding

Following completion of the Offer, Trevor St Baker will hold approximately 53.0% of the Shares and, accordingly, will be in a position to exert significant influence over the outcome of matters relating to ERM Power, including the election of Directors and the approval of transactions. The interests of Trevor St Baker may differ from the interests of ERM Power and investors who purchase Shares in the Offer.

The sale of Shares in the future by Trevor St Baker (following expiry of the escrow period as detailed in Section 10.10), or the perception that such sales might occur, could adversely affect the market price of the Shares. Alternatively, the absence of any sale of Shares by Trevor St Baker may cause or at least contribute to a diminution in the liquidity of the market for the Shares.

Concentration of investments

ERM Power's focus on gas-fired generation assets and associated infrastructure gives rise to some degree of concentration risk, which means that performance of those

assets depend on the overall conditions of the industry in which they operate, to a greater degree than an entity which has a more diversified portfolio of investments.

Intellectual property

ERM Power's ability to fully leverage its innovation and expertise depends upon its ability to use and protect its intellectual property and any improvements to it. Such intellectual property may not be capable of being legally protected, it may be the subject of unauthorised disclosure or unlawfully infringed, or ERM Power may incur substantial costs in asserting or defending its intellectual property rights.

Litigation

Litigation risks relating to ERM Power, its subsidiaries or assets include, but are not limited to, contractual claims, native title claims, tenure disputes, environmental claims, occupational health and safety claims, employee claims, regulatory disputes, legal actions from special interest groups, as well as third party losses resulting from power station disruptions.

Environmental

State and national environmental legislation and regulations affect the operations of ERM Power and its subsidiaries and assets. These regulations set standards regarding certain aspects of health and environmental quality, provide for penalties and other liabilities for violation of such standards and establish in certain circumstances, obligations to remediate current facilities and locations where operations are, or were previously conducted. There is a risk that such liabilities could be imposed on ERM Power, its subsidiaries and assets.

Health, safety and environment

As the operator of power stations, high pressure gas pipelines and associated equipment, there are inherent risks to people and equipment. These include major safety incidents, general operational hazards, failure to comply with policies, terrorism and general health and safety. The consequences include injuries, loss of life, environmental harm and disruption to business activities. Laws and regulations may become more complex and stringent or the subject of increasingly strict interpretation or enforcement. The terms of licences may include more stringent requirements. Failure to comply with applicable legal requirements or recognised international standards may give rise to significant liabilities and may lead to suspended operations and increased costs.

Climate change

ERM Power's operations do generate greenhouse gas emissions and there is an increasing opinion that energy consumption is a contributor to global warming, greenhouse effects and potentially climate change. A number of governments or governmental bodies, including the Australian Government, have introduced or are contemplating regulatory change in response to the potential impacts of climate change and greenhouse gas emissions. These regulatory mechanisms could have a material adverse effect on ERM Power's operations or development projects. While the terms of any climate change legislation are unclear, the regulation of greenhouse gas emissions may become more stringent in the future which could see changes in the demand for energy produced by ERM Power projects and returns that ERM Power can generate on its assets.

Licences and permits

A number of ERM Power's subsidiaries and assets have been granted or are required to hold specific licences or permits (or both). There is a risk that a particular asset does not have, might not obtain, or might lose, licences or permits necessary for it to operate. The conditions of those licences and permits may change over time, or new licences or permits may be required. The cost of complying with and obtaining licences or permits (or both) may affect ERM Power.

Native title

ERM Power's proposed development site for Wellington 1 and associated pipeline infrastructure, and ERM Gas' exploration acreage are located in areas which are the subject of claims or applications for native title determinations. Native title decisions have the potential to increase costs and cause delays (e.g. in the grant of petroleum tenements and other licences).

Foreign exchange

Foreign exchange risk arises from ERM Power entering into commercial transactions that are denominated in currencies other than Australian dollars. ERM Power is primarily exposed to foreign currency risk through the acquisition of power station plant and equipment, particularly under long term agreements for the acquisition or replacement of parts that are denominated in foreign currency, although in the context of ERM Power's business, that exposure is currently immaterial. Foreign exchange movements may increase the Australian dollar cost of such expenditure where exposure has not been effectively hedged.

6. Risk Factors (cont.)

6.3 General investment risks

Price of Shares may fluctuate

The price of the Shares on ASX may rise and fall due to numerous factors including:

- general economic conditions including inflation, interest rates, and exchange rates;
- changes to government policy, legislation or regulation;
- variations in the prices of other listed stocks in general, or more particularly for gas, utility, electricity, utility services or development stocks;
- inclusion or removal from major market indices;
- the nature of competition in the markets in which ERM Power operates; and
- other general operational and business risks.

It is the nature of equity markets that a company's share price is subject to wide fluctuations, which may not reflect the underlying value of the company.

Trading in Shares

Prior to the Offer there has been no public market for the Shares. Once the Shares are quoted on ASX, there can be no assurance that an active trading market will develop for the Shares. There may be relatively few potential buyers or sellers of the Shares on ASX at any given time. This may increase the volatility of the market price of the Shares. The price of the Shares might rise or fall and they might trade at prices above or below the Offer Price.

Taxation

Any change to the current taxation regime in Australia or an interpretation of Australian taxation laws by the Australian Taxation Office that is contrary to ERM Power's view of those laws may increase the amount of tax paid by ERM Power or affect the treatment of tax losses that may have otherwise reduced the tax payable by ERM Power. ERM Power obtains external expert advice on the application of the tax laws to its operations. ERM Power is not currently in dispute with any revenue authority in respect to any taxation matter.

Personal tax liabilities are the responsibility of each individual investor. ERM Power is not responsible for taxation or penalties incurred by investors.

Accounting standards

Australian accounting standards are set by the Australian Accounting Standards Board ('AASB') and are outside the Directors' and ERM Power's control. Changes to accounting standards issued by AASB or changes to the commonly held views on the application of those standards could materially impact the volatility of ERM Power's reported earnings and adversely affect the financial performance and position reported in ERM Power's financial statements.

Force majeure

Force majeure events including natural disasters, sabotage, the outbreak of international hostilities and acts of terrorism may cause an adverse change in investor sentiment with respect to the stock market more generally or ERM Power specifically. Some force majeure events are uninsurable.

Cautionary statement

Statements contained in this Prospectus may be forward looking statements.

Forward looking statements can be identified by the use of forward looking terminology such as, but not limited to, 'may', 'will', 'expect', 'anticipate', 'estimate', 'would be', 'believe', or 'continue' or the negative or other variations of comparable terminology. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties are set out above. The Directors' expectations, beliefs and projections are expressed in good faith and are believed to have a reasonable basis. There can be no assurance, however, that their expectations, beliefs or projections will result, be achieved, or be accomplished. Such statements (none of which is intended as a guarantee of performance) are subject to certain assumptions, risks and uncertainties, which could cause their actual future results, achievements or transactions to differ materially from those projected or anticipated. Accordingly, you should not to place undue reliance on these forward looking statements.

Longeronson@CSN



The ERM Power team at Braemar 2

USE ONLY
PERSONAL



Pictured from left to right: Antonino Mario (Tony) Iannello, Peter Jans, Brett Heading, Philip St Baker, Trevor St Baker, Martin Greenberg, Tony Bellas

**Founded 30 years ago,
ERM Power's business has
grown to become one of
Australia's largest private
integrated energy companies.**

7. Board, Management and Corporate Governance

7.1 Board of Directors

Trevor St Baker

Non-Executive Chairman

Trevor St Baker founded ERM Power's business in 1980, consulting to major energy and resource companies on energy planning and forecasting, whilst also undertaking a number of Australian Aid projects in the energy sector internationally, on behalf of the Australian Government. Trevor has led the development of the group from its beginnings as an energy consulting practice into the integrated energy company it is today. Trevor has been Executive Chairman since July 2006 and was appointed Non-Executive Chairman in June 2009. He has been a Director of Oakey Power Holdings since 2000, Chairman of NewGen Power Kwinana since 2005 until its divestment in October 2010, Chairman of NewGen Neerabup since 2007 and Chairman of NewGen Braemar 2 since 2008.

Trevor has more than 50 years' experience in the electricity industry, beginning his career as a cadet engineer with the Electricity Commission of New South Wales in 1957, before establishing Queensland's first generation planning department for the Southern Electric Authority of Queensland in the early 1970s and later working to establish the Resources Division of the State Electricity Commission of Queensland, managing the deregulation of power station coal procurement in Queensland.

Trevor holds a Bachelor of Engineering degree from the University of NSW and a Bachelor of Arts degree (major in Economics and Psychology) from the University of Sydney. He is also a graduate of the Australian Administrative Staff College of Mt Eliza in Victoria. In June 2010, Trevor accepted the position of Non-Executive Chairman of Master Electricians Australia. He is a member of the Institute of Company Directors, a Fellow of the Australasian Institute of Mining & Metallurgy, a Fellow of the Institution of Engineers Australia and a Fellow of the Institute of Energy. He is the ERM Power representative on the Electricity Supply Association of Australia and is on the Board and Executive Committee of the National Generators' Forum. He also recently co-founded, and is Managing Director of, the Trevor St Baker and Richard Wilkes Indigenous Scholarship Foundation.

Philip St Baker

Managing Director and CEO

Phil commenced with ERM Power in September 2005 and was appointed Managing Director and CEO in July 2006. Over the last five years, Phil has leveraged his extensive experience to transform ERM Power from an emerging power development company into one of Australia's largest private integrated energy companies. Phil is also Chairman of the ERM Sales and ERM Gas subsidiary Boards and Chairman of the Health, Safety, Environment and Sustainability Committee of the ERM Power Board.

Phil has over 20 years of diversified international experience in the resources and energy industry including exploration, mining, processing, smelting, refining, power and gas.

Prior to joining ERM Power, Phil had a 15 year career with BHP, where he progressed to the role of Global Maintenance Manager, supporting BHP's 100+ businesses worldwide. For five years, Phil led an international team tasked with facilitating operational business improvement across the entire company. Prior roles also include Vice President of Queensland Nickel QNI and CEO of NewGen Power.

Phil holds a Bachelor of Engineering (Mechanical) degree from Queensland University of Technology and is a member of the Australian Institute of Company Directors.



ERM Power employees monitoring electricity generation dispatch and NEM pricing screens

Martin Greenberg

Independent Non-Executive Director

Martin was appointed as a Non-Executive Director in July 2007, bringing to ERM Power his strong finance credentials and 35 years of business experience.

Martin is currently the Managing Director of Apollan Investments Group, a Sydney-based company specialising in venture capital, corporate finance, securities, and general investment. He is also the current Chairman of Selector Funds Management Ltd, AI Medics Pty Ltd and Liquid Capital Management (Australasia) Pty Ltd.

From 1986 to 1999, Martin was a Director of Babcock & Brown, an international investment bank. Prior to this he was a Director of Morgan Grenfell Australia Limited and before that a Senior Vice President with Security Pacific Group in London.

Martin has been a director of several public companies in Australia and New Zealand, and has an extensive range of national and international contacts and experience, accumulated over the past 35 years.

Martin holds a Bachelor of Business degree and a Diploma of Commerce from the University of Technology, Sydney. He is a Fellow CPA and a Justice of the Peace.

Tony Bellas

Independent Non-Executive Director

Tony joined ERM Power as a Non-Executive Director in December 2009, bringing to the business almost 25 years' policy and operational experience within the energy industry.

Tony is Chairman of the Audit and Risk Committee of the ERM Power Board.

He holds a number of other directorships with Corporate Travel Management Ltd (Non-Executive Chairman) and Australian Water Queensland Pty Ltd. Tony was also a Non-Executive Director of Watpac Limited until October 2010. 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 in Queensland and before that, was CEO of CS Energy, also a Queensland Government-owned corporation and the State's largest electricity generation company, operating over 3,500 MW of gas-fired and coal-fired plant at four locations around Queensland.

Tony also had a long career with Queensland Treasury, reaching the position of Deputy Under Treasurer, where he had oversight over a number of related treasury operations. 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 has an MBA from Queensland University of Technology, and a Bachelor of Economics and a Diploma in Education from the University of Queensland. He is a fellow of the Australian Institute of Management, and a member of the Australian Institute of Company Directors and CPA Australia.



Antonino Mario (Tony) Iannello

Independent Non-Executive Director

Tony joined ERM Power as a Non-Executive Director in July 2010, bringing to the business more than 30 years' banking and energy experience. Tony is the Chairman of the Nominations Committee and the Remuneration Committee of the ERM Power Board.

Tony is currently the Chairman of HBF Health Ltd, MG Kailis Group and ASX-listed companies Aviva Corporation Ltd and Energia Minerals Limited. He is also a Director of SP Ausnet Limited, a major ASX-listed energy network company in Victoria. 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.

Tony holds a Bachelor of Commerce degree from The University of Western Australia. He is a Fellow CPA, a Fellow of the Australian Institute of Company Directors, a Senior Fellow of the Financial Services Institute of Australasia and a graduate of the Harvard Business School Advanced Management Program.

Brett Heading

Independent Non-Executive Director

Brett joined ERM Power as a Non-Executive Director in October 2010, bringing extensive experience as a corporate lawyer and company director.

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

Brett has been a director of a number of listed and unlisted companies. He is currently the Chairman of ASX-listed companies Trinity Limited and ChemGenex Pharmaceuticals Limited and is also a Director of Trinity Funds Management Limited and Wilson HTM Foundation Limited. Brett has also held roles on Federal Government boards, having been a longstanding member of the Takeovers Panel (1998 to 2009) and the Board of Taxation (2000 to 2009).

Brett holds a Bachelor of Commerce and a Bachelor of Laws (Hons) from the University of Queensland. He is a Fellow of the Australian Institute of Company Directors.

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Pictured from left to right: Wayne Moulday, Tony Clark, Mitch Anderson, Andrew St Baker, Derek McKay, Philip St Baker, Graeme Walker, Peter Jans, Matthew Forrest, Kelvin Askew

ERM Power's management team has extensive experience across the energy sector and are Shareholders in the business.

7. Board, Management and Corporate Governance (cont.)

7.2 Senior Management

Philip St Baker

Managing Director and CEO

Please see Section 7.1 for further detail.

Peter Jans

Group General Counsel and Company Secretary

Peter joined ERM Power in July 2007. Peter's role and responsibility covers the whole of ERM Power's broader business plans and portfolios, including business development, construction and operations, sales and gas activities. Peter is responsible for all aspects of ERM Power's legal dealings, and for compliance and corporate governance.

Peter has practised as a lawyer for over 30 years in the corporate, property, international investment, energy and resource sectors. After an active career in private practice, Peter became General Counsel of CS Energy in the late 1990s and was involved in major electricity generation projects, including Callide C, Swanbank E and Kogan Creek.

Peter was General Counsel and Company Secretary of Queensland Gas Company Limited from April 2005 until July 2007, during which period the company transformed from junior explorer to a major gas producer.

Peter holds a Bachelor of Laws degree with Honours and a Master of Arts. He is a member of the Institute of Chartered Secretaries, a member of the Queensland Law Society, Barrister and a Solicitor of the Supreme Court of Victoria and a Solicitor of the Supreme Court of Queensland and the High Court of Australia.

Graeme Walker

Chief Financial Officer

Graeme joined ERM Power in April 2009 and is responsible for the financial management and control of ERM Power.

He has served as CFO of a number of major ASX-listed companies in the resources sector, including Normandy Mining Limited and Ampolex Limited, where he was involved in significant growth and corporate activity. He subsequently provided consulting services to a number of companies, advising on financial and commercial matters, as well as interim management. During this time he was also involved in the listing of a number of resource companies, such as Kasbah Resources Limited and Iberian Resources Limited, as a Non-Executive Director.

Graeme holds a Bachelor of Commerce degree from the University of Cape Town in South Africa. He is a member of the Institute of Chartered Accountants in Australia and of the Australian Institute of Company Directors.

Mitch Anderson

Chief Executive Officer – ERM Sales

Mitch joined ERM Power in April 2007 and has been responsible for the development and management of ERM Power's electricity sales business.

Mitch has almost 20 years' experience in energy retailing and trading. His roles have ranged from financial analysis to risk management, trading, retail operations, and sales. Mitch is a former General Manager both in operations and sales for Ergon Energy and Contact Energy. In addition, he has held business development, risk and corporate mergers and acquisitions roles for companies in New Zealand and the United States.

Mitch holds a Masters in Business Administration from the University of Southern California and a Bachelor of Science degree from California State University. Mitch is an AFMA Accredited Individual and a responsible officer for ERM Sales.

Derek McKay

Chief Executive Officer – Generation Operations

Derek joined ERM Power in September 2007 and is responsible for the management of ERM Power's generation assets, power stations and gas pipelines.

Derek is an experienced energy market executive who over the past 18 years has developed an in-depth understanding of the Australian gas and electricity industries.

Derek joined ERM Power from a similar role at Enertrade where, as the General Manager of Trading and Operations, he managed Enertrade's physical assets including high pressure gas pipelines, generation, and gas compression and processing facilities.

Derek holds a Bachelor of Engineering degree (Mechanical) from the University of Technology, Sydney and a Graduate Certificate of Management, Graduate Diploma of Management and MBA from Deakin University.

Kelvin Askew

7. Board, Management and Corporate Governance (cont.)

Chief Executive Officer – ERM Gas

Kelvin joined ERM Power in February 2006, and is responsible for the development and management of ERM Power's gas business.

With more than 30 years in the energy industry, Kelvin has acquired a comprehensive range of gas industry experience spanning from operations, exploration and sales to transmission pipeline projects, major purchase contracts, retail and gas trading. Kelvin's responsibilities have also included regulatory affairs, pipeline access arrangements, design and implementation of gas allocation systems and risk management.

Kelvin has held senior positions in international and local energy companies such as Duke Energy, PG&E, Enertrade and Energex and in dedicated gas pipeline owner companies.

Kelvin holds an Associate Diploma of Information Technology (Applied Business Computing).

Wayne Moulday

Executive General Manager – Generation Development

Wayne joined ERM Power in May 2006 and is responsible for the development and management of ERM Power's Generation Development business.

Wayne has more than 15 years' experience in the power generation industry. During this time, he has held senior positions in operations, consulting, construction, mergers and acquisitions and project development.

Wayne is responsible for progressing ERM Power's new project concepts from their inception through to financial close.

With national and international project development experience, Wayne has played leading roles in many merger and acquisition activities within the global energy industry.

Wayne has also been involved in developing the Uranquinty, Neerabup and Braemar 2 power stations.

Wayne holds a Bachelor of Engineering degree (Mechanical) (First Honours) from the University of Technology, Sydney.

Tony Clark

Executive General Manager – Project Delivery

Tony joined ERM Power in April 2007 and is responsible for the delivery of generation projects from financial close to commercial operation. During this tenure, Tony has overseen the successful delivery of the Uranquinty, Braemar 2 and Neerabup projects.

Tony has over 20 years' experience working in the power and minerals processing industries focusing on the development and construction of projects in these sectors.

Prior to joining ERM Power, Tony worked in senior project management roles with Stanwell Corporation, WorleyParsons, and ABB Engineering Construction. He has experience on all sides of the power industry including owner developer, consultant, and contractor. In addition to ERM Power's projects, Tony has been involved in the construction or refurbishment of a number of Australia's power stations including Stanwell, Collie, Valley Power and Kareeya power stations.

Tony holds a Master of Commercial Law from Melbourne University, a Master of Business Administration from Deakin University/APESMA, and a Master of Engineering and Bachelor of Engineering from the Queensland University of Technology.

Matthew Forrest

Executive General Manager – Investments

Matthew joined ERM Power in May 2005 and was responsible for the delivery of the Braemar 1 and Kwinana power stations from financial close to commercial operation. Today Matthew is responsible for the ongoing management of ERM Power's investment in power assets.

Matthew has 20 years' experience in various industries including power generation, petrochemical, and mining. He has held general management positions with Burns and Roe Worley (now WorleyParsons), HRL Services, and ETRS Pty Ltd.

Matthew holds a Bachelor of Engineering degree (Mechanical) and a Master of Engineering Science degree in Metallurgical Engineering, both degrees from the University of Queensland.

Andrew St Baker

Executive General Manager – Commercial

Andrew first joined ERM Power's business in March 1993 and was a partner and director until September 2004.

Through this period, Andrew was responsible for company finances, site procurement and the management of commercial property development and investment, as the Company transitioned from consultancy to development, opened its first power station at Oakey and procured strategic land holdings and approvals for subsequent generation development (now realised) at Braemar.

Andrew returned to ERM Power in May 2006 as a senior executive after developing property in a private capacity during 2005 and has been actively involved with the subsequent growth and diversification of the Company. Today Andrew fulfils a specialist corporate development role focused on the optimisation and structuring of commercial arrangements, corporate transactions and capital raising. Additionally Andrew serves as a director of subsidiary ERM Gas.

Andrew has a Post-graduate Diploma in Project Management from Queensland University of Technology, is a Graduate of the Australian Institute of Company Directors and prior to joining ERM Power had eight years business experience with international property advisers, CBRE.

7.3 Corporate Governance

7.3.1 Board responsibility

Responsibility for ERM Power's governance rests with the Board. The Board's guiding principle in meeting this responsibility is to act honestly, conscientiously and fairly, in accordance with the law, in the interests of Shareholders (with a view to building sustainable value for them), employees and other stakeholders. The Board is specifically responsible for establishing the delegated limits of authority for ERM Power's executive employees and attending to matters reserved for Board decision-making.

The Board's broad function is to:

- oversee the development of ERM Power's corporate strategy through constructive engagement with senior management;
- review and approve strategic plans and performance objectives consistent with ERM Power's strategy and to review the assumptions and rationale underlying the strategic plans and performance objectives; and
- monitor the implementation of plans to give effect to ERM Power's strategy.

Power and authority in certain areas is specifically reserved to the Board, consistent with its function as outlined above. These areas include:

- the composition of the Board including appointment and retirement or removal of Directors;
- ratifying the appointment and, if appropriate, removal of the Chief Financial Officer and the Company Secretary;
- monitoring performance of executives and ensuring that appropriate resources are available;
- reviewing the effectiveness of Shareholder communications;
- approving and maintaining environmental, employment and occupational, health and safety policies;
- reviewing and approving annual financial reports;
- reviewing, approving and monitoring the progress of major capital expenditure, capital management, major acquisitions and divestitures and material commitments;
- making recommendations to Shareholders for the appointment and removal of external auditors; and
- approving, reviewing, ratifying and monitoring ERM Power's systems of internal compliance, risk management and control.

7. Board, Management and Corporate Governance (cont.)

7.3.2 Board composition

The Board comprises a Non-Executive Chairman, four Non-Executive Directors who are also independent, and a Managing Director. The Board has an Audit and Risk Committee, Remuneration Committee and Nominations Committee, all of which are chaired by an independent Non-Executive Director and a Health, Safety, Environment and Sustainability Committee that is chaired by the Managing Director. The Board and Board committees are administered by the Company Secretary, Peter Jans, who is also the Group General Counsel.

Separate functioning boards exist for ERM Sales, ERM Developments, ERM Gas and all project joint venture entities.

7.3.3 Board charter and policy

ERM Power has adopted a charter (which will be reviewed and amended from time to time as the Board considers appropriate) to give formal recognition of the Board's role and responsibilities and to specify how ERM Power is governed so as to promote ERM Power and protect the interests of Shareholders, employees, customers and the broader community.

The Board charter is available on ERM Power's website at www.ermpower.com.au.

To complement the Board charter, ERM Power has adopted a securities trading policy, an audit and risk committee charter, a remuneration committee charter, a nominations committee charter and a health, safety, environment and sustainability committee charter and policy.

7.3.4 Securities trading policy

A securities trading policy has been adopted by the Board to provide guidance to Directors of ERM Power, those employees who report directly to the Managing Director, and other employees of ERM Power and its subsidiaries, where they are contemplating dealing in ERM Power's securities or the securities of entities with whom ERM Power may have dealings. The securities trading policy is designed to ensure that any trading in ERM Power's securities is in accordance

with the law and minimises the possibility of misperceptions arising in relation to Directors' and employees' dealings in ERM Power's securities or securities of other entities.

The policy is directed at dealing in ERM Power's securities by the Directors and employees, dealings through entities or trusts controlled by a relevant person, or in which they have an interest, and encouraging family or friends to so deal. It also extends to addressing dealings in the securities of other entities that may be transacting with, or be counterparties of, ERM Power.

Any non-compliance with the policy will be regarded as an act of serious misconduct. The securities trading policy is available on ERM Power's website at www.ermpower.com.au.

7.3.5 Board committees

Audit and Risk Committee

The Audit and Risk Committee oversees the structure and management systems that ensure the integrity of ERM Power's financial reporting. Committee members have financial expertise and understand the industries in which ERM Power operates. The Committee meets at least two times per year. An agenda is prepared, and papers circulated to Committee members before each meeting. ERM Power's external auditors may attend committee meetings.

The Audit and Risk Committee reviews ERM Power's annual financial reports and makes recommendations to the Board on adopting financial statements. The Committee provides additional assurance to the Board with regard to the quality and reliability of financial information, financial controls and financial risk management. The Committee has the authority to seek information from any employee and obtain advice from external advisers.

The Committee reviews the independence of the external auditor, including the nature and level of non-audit services provided, and reports on this issue to the Board.

Tony Bellas (Chairman), Martin Greenberg and Tony Iannello comprise the Audit and Risk Committee and the Committee's charter is available on ERM Power's website at www.ermpower.com.au.

Nominations Committee

The Nominations Committee provides advice and makes recommendations to the Board to ensure that it is comprised of individuals who are best able to discharge the responsibilities of Directors having regard to the law and the highest standards of governance. It does this by:

- assessing the skills required by the Board and the extent to which the required skills are represented on the Board;
- establishing processes for:
 - the review of the individual Directors and the Chairman, and the Board as a whole; and
 - the identification of suitable candidates for appointment to the Board as additional members or to succeed existing members; and
- making recommendations to the Board on Directors' appointments or Board and Committee structure.

Tony Iannello (Chairman), Martin Greenberg, Tony Bellas and Brett Heading (ERM Power's independent Non-Executive Directors) comprise the Nominations Committee. The Committee's charter is available on ERM Power's website at www.empower.com.au.

Remuneration Committee

The Remuneration Committee ensures that the remuneration of senior executives is consistent with market practice and sufficient to ensure that ERM Power can attract, develop and retain valued employees. The Committee reviews remuneration for the Managing Director and senior executives against company and individual performance and makes recommendations to the Board.

The Committee also oversees supporting governance procedures and company policy on remuneration, including:

- general remuneration practices;
- performance management;
- share and option plans and incentive schemes;
- superannuation; and
- recruitment and termination.

The Board, through the Remuneration Committee, ensures that executive remuneration is at a level which will attract, retain and develop talented people who will deliver value to Shareholders.

In undertaking its work, the Remuneration Committee may seek the advice of external remuneration consultants.

Tony Iannello (Chairman), Martin Greenberg, Tony Bellas and Brett Heading (ERM Power's independent Non-Executive Directors) comprise the Remuneration Committee. A copy of the Committee's charter is available on ERM Power's website at www.empower.com.au.

Health, Safety, Environment and Sustainability Committee

The Board is responsible for setting the policies and processes for compliance with all workplace health and safety and environmental and sustainability ('HSES') policies.

To facilitate ERM Power's HSES policies, the Board has established a Health, Safety, Environment and Sustainability Committee. The primary function of the Committee is to assist the Board in enabling ERM Power to operate its businesses safely, responsibly and sustainably. The Committee is responsible for overseeing and monitoring the promotion, establishment and integration across ERM Power of the principles of safety, environmental responsibility and sustainability as the foundations of good management and good business.

In particular, the Committee has oversight of and review of:

- ERM Power's actions to meet its obligations to maintain the health and safety of its people;
- the social, environmental and ethical impact of ERM Power's policies and practices;
- initiatives to enhance ERM Power's sustainable business practices and reputation as a responsible corporate citizen;
- integration of HSES policies in the formulation of ERM Power's corporate strategy, risk management framework, and people and culture priorities; and
- ERM Power's compliance with all relevant legal obligations on the matters within the Committee's responsibilities.

Philip St Baker (Chairman) and other Senior Management comprise the Health, Safety, Environment and Sustainability Committee. A copy of the Committee's charter and policy is available on ERM Power's website at www.empower.com.au.

7. Board, Management and Corporate Governance (cont.)

7.3.6 Compliance with ASX Corporate Governance Principles and Recommendations

The ASX document, ‘Corporate Governance Principles and Recommendations’ ('Guidelines') was published by the ASX Corporate Governance Council with the aim of enhancing the credibility and transparency of Australia’s capital markets.

The Board has assessed ERM Power’s current practice against the Guidelines and outlines its assessment below:

Principle 1 – Lay solid foundations for management and oversight

The role of the Board and delegation to management has been formalised in ERM Power’s Board charter. The charter will be reviewed and amended from time to time taking into consideration practical experience gained in operating as a listed company. ERM Power complies with this principle of the Guidelines.

Principle 2 – Structure the Board to add value

ERM Power has a six-member Board comprising a Non-Executive Chairman, four independent Non-Executive Directors and a Managing Director. Together, the Directors have a broad range of experience, expertise, skills, qualifications and contacts relevant to ERM Power and its business.

Directors' independence

Recommendation 2.1 of the Guidelines says that the majority of the Board should be independent Directors. ERM Power’s policy is to have not less than half its Board constituted by independent Non-Executive Directors to ensure that the Board discharges its responsibilities and holds management accountable for ERM Power’s performance.

Four of ERM Power’s Directors are independent. Accordingly, ERM Power complies with recommendation 2.1.

Role of the Chairman

The Chairman leads the Board and oversees the Board organisation and facilitates its effective operation. He arranges for Directors to receive Board and committee papers before meetings and for all Directors to have an opportunity to contribute to Board deliberations. The Chairman’s role and responsibilities are separate from those of the Managing Director.

Recommendation 2.2 of the Guidelines says that the Company’s chairman should be independent. Trevor St Baker, the Non-Executive Chairman, is not independent and accordingly, the Board will not comply with recommendation 2.2. The Board believes that it is in the best interests of ERM Power to have Trevor St Baker as its Chairman, acknowledging Trevor’s standing and experience in the Australian electricity industry and his contributions to ERM Power’s development over the past 30 years.

Meetings

The Board schedules a minimum of six meetings a year. If required, additional unscheduled meetings are held to deal with urgent matters. An agenda is prepared for each Board meeting by the Company Secretary to ensure operational, financial, strategic, regulatory and major risk areas are addressed. Executive management also provides the Board each month with an operations report, a health, safety, environment and sustainability report, financial reports and reports on all major projects under construction and, as appropriate, on other company and operational matters.

Principle 3 – Promote ethical and responsible decision making

All Directors and employees are expected to act with a high level of integrity. Consistent with ERM Power’s statement of commitments, principles and values, the Board has developed and implemented policies governing director and employee conduct in pursuit of ERM Power’s objectives.

The Board promotes and monitors compliance with its policies and is committed to protecting those who report breaches in good faith. A summary of the Director and employee code of conduct is available on ERM Power’s website at www.ermpower.com.au. The Board charter has been supplemented with a detailed code of conduct for transactions in securities of ERM Power.

The purpose of these codes is to guide Directors and employees in the performance of their duties and to define the circumstances in which both they and management, and their respective associates, are permitted to deal in securities. Both codes have been designed with a view to ensuring the highest ethical and professional standards, as well as compliance with legal obligations, and therefore compliance with the Guidelines.

The Guidelines were amended on 30 June 2010 to include, amongst other things, a recommendation that companies establish a policy concerning diversity. Those amendments formally commence operation on 1 January 2011. ERM Power is planning the adoption of a diversity policy. A summary of that policy will be available on ERM Power's website when it is adopted.

Principle 4 – Safeguard integrity in financial reporting

The Audit and Risk Committee has been established with its own charter and consists of Tony Bellas (Chairman), Martin Greenberg and Tony Iannello. The Audit and Risk Committee complies with recommendation 4.2 of the Guidelines, which recommends that the Committee have at least three members, the majority of which must be independent.

Principle 5 – Make timely and balanced disclosure

ERM Power's current practice on disclosure is consistent with the Guidelines. The Board has adopted a continuous disclosure policy and procedures are in place to ensure compliance with ASX Listing Rule disclosure requirements.

The Board's continuous disclosure policy is available on ERM Power's website at www.empower.com.au.

Principle 6 – Respect the rights of shareholders

ERM Power is committed to providing regular communication to Shareholders about the financial performance of ERM Power and its business and operations. Annual reports are to be provided to Shareholders, except those who request not to receive a copy.

The Board will communicate with Shareholders regularly and clearly by electronic means as well as by traditional methods. Shareholders are encouraged to attend and participate at general meetings. ERM Power's auditor will attend the annual general meeting and will be available to answer Shareholders' questions. ERM Power's policies comply with the Guidelines in relation to the rights of Shareholders.

Principle 7 – Recognise and manage risks

The Board has an overarching policy governing ERM Power's approach to risk oversight and management and internal control systems. The Board is responsible for ensuring that there are appropriate policies in relation to risk management and internal control systems.

ERM Power's policies are designed to identify, assess, address and monitor strategic, operational, legal, reputational, commodity and financial risks to enable it to achieve its business objectives. Where appropriate, certain risks are covered by insurance or by Board-approved policies for hedging of interest rates, foreign exchange rates and commodities. In this respect, ERM Power complies with best practice recommendation 7.1.

Board, executive and business unit level controls are designed to safeguard company and stakeholders' interests in respect of those risks mentioned above. The Chief Financial Officer is responsible for reporting to the Board and the Audit and Risk Committee about the management of ERM Power's material business risks. ERM Power seeks to maintain strong controls across all corporate and operational activities in accordance with best practice recommendation 7.2.

Principle 8 – Remunerate fairly and responsibly

The Remuneration Committee ensures that remuneration is consistent with current market practices and that ERM Power can attract, retain and develop valued employees. In this regard, ERM Power complies with best practice recommendation 8.1.

In accordance with best practice recommendation 8.2, the Remuneration Committee is comprised of ERM Power's four independent Non-Executive Directors with Tony Iannello acting as Chairman.

Remuneration of Directors and executives will be fully disclosed in ERM Power's 2011 annual report.

8. Financial Information

8.1 Introduction

This Section of the Prospectus contains a summary of the Historical and Forecast Financial Information of ERM Power (together, the 'Financial Information').

The Historical Financial Information of ERM Power comprises:

- the historical consolidated income statements for the years ended 30 June 2008 (FY2008), 30 June 2009 (FY2009) and 30 June 2010 (FY2010);
- the historical consolidated balance sheet and pro forma consolidated balance sheet as at 30 June 2010; and
- the historical consolidated cash flow statements for FY2008, FY2009 and FY2010.

The Forecast Financial Information of ERM Power comprises:

- the pro forma forecast consolidated income statements for the years ending 30 June 2011 (FY2011) and 30 June 2012 (FY2012); and
- the pro forma forecast consolidated cash flow statements for FY2011 and FY2012.

Also summarised in this Section of the Prospectus is:

- the basis of preparation and presentation of the Financial Information (see Section 8.2);
- management discussion and analysis of the Historical Financial Information (see Section 8.4) and Forecast Financial Information (see Section 8.6);
- the Directors' best estimate assumptions underlying the pro forma Forecast Financial Information (see Section 8.7);
- an analysis of the sensitivity of FY2011 and FY2012 NPAT and net operating cash flow to changes in key assumptions (see Section 8.8); and
- a discussion of liquidity and financing resources for ERM Power (see Section 8.9).

8.2 Basis of preparation and presentation of the Financial Information

The Financial Information included in this Section has been prepared and presented in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards ('AAS') (including the Australian Accounting Interpretations), except where otherwise disclosed. AAS comply with the recognition and measurement principles of the International Financial Reporting Standards as issued by the International Accounting Standards Board.

Certain significant accounting policies relevant to the Financial Information are discussed in Section 8.12 of this Prospectus.

The Financial Information is presented in an abbreviated form and does not contain all of the disclosure provided in an annual report prepared in accordance with the Corporations Act.

Preparation of the Historical Financial Information

The Historical Financial Information has been derived from the audited consolidated financial statements of ERM Power for FY2008, FY2009 and FY2010. The FY2008 and FY2009 consolidated financial statements were audited by Deloitte, who issued an unqualified opinion on FY2008 and a qualified opinion in respect of FY2009. The FY2010 consolidated financial statements have been audited by PricewaterhouseCoopers, who has issued an unqualified opinion in respect of FY2010 and on the restated FY2009 comparatives.

The nature of the FY2009 qualification is as follows:

ERM Sales, a subsidiary of ERM Power, routinely enters into forward sales contracts related to the provision of electricity in the NEM. The contracts are entered into exclusively with large industrial, commercial and government entities. All of the electricity provided under these contracts is traded in the NEM spot market. ERM Sales also enters into a variety of electricity derivative transactions, the objective of which is to create an economic hedge for the contracts.

For the financial year ended 30 June 2009, the accounting policies of ERM Power and ERM Sales treated both the contracts and derivatives as being within the scope of AASB 139 requiring, in the case of the contracts (which were treated as 'non-financial items' under AASB 139), that they be accounted for as if they were financial instruments.

The audit reports on the Group's and ERM Sales' financial statements for the financial year ended 30 June 2009 included a qualification on the basis that the contracts did not qualify as financial instruments. After further consultation and consideration, the conclusion was reached that the accounting treatment adopted at 30 June 2009 was not in line with the application of AASB 139 and as a result, the FY2009 comparatives in the 30 June 2010 financial statements have been restated to derecognise the contracts as financial instruments (the FY2010 financial statements have been prepared on the same basis). In addition the FY2009 comparatives in the 30 June 2010 financial statements include certain other adjustments not related to the above restatement.

Preparation of Forecast Financial Information

The pro forma Forecast Financial Information has been based upon the best estimate assumptions of the Directors. The Directors believe that they have prepared the Forecast Financial Information with due care and attention, and consider all best estimate assumptions when taken as a whole to be reasonable at the time of preparing this Prospectus.

The Forecast Financial Information has been prepared on the basis of various assumptions, including the best estimate assumptions set out in Section 8.7. This information is intended to assist investors in assessing the reasonableness and likelihood of the assumptions occurring, and is not intended to be a representation that the assumptions will occur.

The timing of actual events and the magnitude of their impact might differ from that assumed in preparing the Forecast Financial Information, and this may have a material positive or negative effect on ERM Power's actual financial performance or financial position. The best estimate assumptions set out in Section 8.7 should be reviewed in conjunction with the sensitivity analysis set out in Section 8.8, the risk factors set out in Section 6 and other information set out in this Prospectus.

The basis of preparation and the presentation of the Forecast Financial Information, to the extent relevant, is consistent with the basis of the preparation and presentation for Historical Financial Information.

Presentation of the Proportionate Financial Information

To assist investors in obtaining a more comprehensive understanding of ERM Power, supplementary financial information is presented on a proportionately consolidated basis ('Proportionate Financial Information') in Section 5 and Section 8.11. The proportionately consolidated financial information has been specifically identified in this Prospectus and is for illustrative purposes only so as to provide an indication of the proportionate contribution to revenue and EBITDAIF from ERM Power's equity accounted investments, which under AAS are accounted for using the equity method. This information is not provided as a substitute for the audited financial information provided in this Section. Proportionate consolidation is not consistent with the requirements of AAS and is not consistent with the accounting principles underlying the audited financial information in this Section.

For this reason the Proportionate Financial Information presented in this Section does not form part of the financial information covered by the Investigating Accountant's Report in Section 9 of this Prospectus.

Underlying Net Profit after Income Tax

Underlying Net Profit after Income Tax is presented in this Prospectus for illustrative purposes only so as to show the realised profit or loss of ERM Power. Underlying Net Profit after Income Tax is not consistent with the requirements of AAS and is not consistent with the accounting principles underlying the audited financial information in this Section. An adjustment has been made to statutory profit/loss to exclude the unrealised marked to market loss or gain and onerous contract provision to show the underlying realised profit or loss of ERM Power. ERM Sales services the electricity requirements of large customers through fixed priced forward electricity sales contracts. Electricity is provided to customers from a spot market regulated by governments and priced at prevailing spot market prices. In order to manage exposure to spot market prices, various electricity derivative transactions are entered into by ERM Sales, the objective of which is to create an economic hedge for the fixed price forward electricity sales contracts. These positions are marked to market and shown as an unrealised gain or loss during a reporting period. In FY2008, an onerous contract provision was recognised as the prices of some ERM Sales' customer contracts were below the market price of electricity as at 30 June 2008. Historical net fair value gain/loss on financial instruments also include other realised and unrealised gains/losses on electricity derivative contracts, interest rate swaps, foreign exchange swaps and an option contract. The option contract relates to an option held by ERM Power allowing it to increase its interest in the Kwinana generation asset from 30% to 50%; the value of which was written off in FY2010 following the decision to divest. These realised and unrealised gains, losses or provisions are excluded from Underlying Net Profit after Income Tax.

The Forecast Financial Information does not assume that there are any fair value adjustments. The adjustments to Underlying NPAT in FY2011 and FY2012 are in respect of the unrealised losses/gains recognised prior to 30 June 2010 in relation to contracts which are realised in the respective forecast periods.

For this reason the Underlying Net Profit after Income Tax presented in this Prospectus does not form part of the financial information covered by the Investigating Accountant's Reports in Section 9 of this Prospectus.

8. Financial Information (cont.)

8.3 Historical Financial Information

8.3.1 Historical consolidated income statements

The Historical Financial Information below has been derived from the audited consolidated financial statements of ERM Power for FY2008, FY2009 and FY2010.

Set out below in Table 29 is ERM Power's historical consolidated income statements for FY2008, FY2009 and FY2010, together with a reconciliation to Underlying Net Profit after Income Tax (Table 30).

Table 29 – Historical consolidated income statements for FY2008, FY2009 and FY2010

| \$'000s | FY2008A | FY2009A | FY2010A |
|--|---------------|-----------------|-----------------|
| Revenue and other income | 81,609 | 243,233 | 418,403 |
| Discount on acquisition ⁴³ | 12,096 | - | - |
| Expenses | (17,055) | (225,570) | (351,041) |
| EBITDAIF (before profit of associate)⁴⁴ | 76,650 | 17,663 | 67,362 |
| Share of profit of associate | 1,523 | 1,249 | 1,321 |
| EBITDAIF (including profit of associate) | 78,173 | 18,912 | 68,683 |
| Depreciation and amortisation | (230) | (5,076) | (12,722) |
| Goodwill impairment | - | (3,925) | - |
| EBITF | 77,943 | 9,911 | 55,961 |
| Net finance expense | (10,668) | (22,409) | (39,770) |
| Profit/(loss) before income tax and financial instruments | 67,275 | (12,498) | 16,191 |
| Net fair value gain/(loss) on financial instruments designated at fair value through profit and loss ⁴⁵ | 18,480 | (29,043) | (37,262) |
| (Provision)/gain recognised on onerous contracts ⁴⁶ | (9,567) | 9,567 | - |
| Profit/(loss) before income tax | 76,188 | (31,974) | (21,071) |
| Income tax | (19,589) | 5,518 | 5,318 |
| Net profit/(loss) after income tax | 56,599 | (26,456) | (15,753) |

Table 30 – Reconciliation to Underlying Net Profit after Income Tax for FY2008, FY2009 and FY2010

| \$'000s | Unaudited FY2008A | Unaudited FY2009A | Unaudited FY2010A |
|--|----------------------|----------------------|----------------------|
| Adjustments to show Underlying Net Profit/(Loss) after Income Tax | | | |
| Statutory net profit/(loss) after income tax | 56,599 | (26,456) | (15,753) |
| Net fair value gain/(loss) on financial instruments designated at fair value through profit and loss ⁴⁵ | (18,480) | 29,043 | 37,262 |
| Provision)/gain recognised on onerous contracts ⁴⁶ | 9,567 | (9,567) | - |
| Income tax effect | 2,674 | (5,843) | (11,179) |
| Underlying Net Profit/(Loss) after Income Tax | 50,360 | (12,823) | 10,330 |

⁴³ A discount on acquisition of \$12.1 million was recognised in FY2008 following the acquisition of ERM Holdings Pty Ltd from a majority shareholder. The consideration was at a discount to the fair value of the assets being acquired.

⁴⁴ EBITDAIF (before profit of associate) excludes profits from ERM Power's ownership interest in Oakey.

⁴⁵ ERM Sales services the electricity requirements of large customers through fixed priced forward electricity sales contracts. Electricity is provided to customers from a spot market regulated by governments and priced at prevailing spot market prices. To manage exposure to spot market prices, ERM Sales enters into electricity derivative transactions. The objective is to create an economic hedge for the fixed price forward electricity sales contracts. These positions are marked to market and shown as an unrealised gain or loss during a reporting period. In FY2008 an onerous contract provision was recognised as the prices of some ERM Sales' customer contracts were below the market price of electricity as at 30 June 2008. Historical net fair value gain/loss on financial instruments also include other realised and unrealised gains/losses on electricity derivative contracts, interest rate swaps, foreign exchange swaps and an option contract. The option contract relates to an option held by ERM Power allowing it to increase its interest in Kwinana from 30% to 50%; the value of which was written off in FY2010 following the decision to divest. These realised and unrealised gains, losses or provisions are excluded from Underlying Net Profit after Income Tax. The Forecast Financial Information does not assume that there are any fair value adjustments. The adjustments to Underlying NPAT in FY2011 and FY2012 are in respect of the unrealised losses/gains recognised prior to 30 June 2010 in relation to contracts which are realised in the respective forecast periods.

⁴⁶ Onerous contract provision was taken in FY2008 as the prices of ERM Sales' customer contracts were below the market price of electricity on 30 June 2008. The provision was reversed in FY2009 as the market price of electricity had decreased to a level below that of the customer contracts.

8.3.2 Historical and pro forma consolidated balance sheet

Set out below in Table 31 is ERM Power's pro forma balance sheet as at 30 June 2010 which has been derived by making certain pro forma adjustments, in relation to the Offer and the sale of Kwinana, to the audited 30 June 2010 balance sheet.

Table 31 – Historical consolidated balance sheet and pro forma consolidated balance sheet

| As at 30 June 2010 \$'000s | Audited | Pro forma adjustments | | Pro forma |
|---------------------------------------|----------------|-----------------------|----------------|----------------|
| | | Kwinana sale | Offer | |
| Current assets | | | | |
| Cash and cash equivalents | | | | |
| Cash at bank and on hand | 20,046 | (11,500) | 85,942 | 94,488 |
| Restricted cash | 39,432 | - | - | 39,432 |
| Trade and other receivables | 103,747 | (9,084) | - | 94,663 |
| Inventories | 800 | - | - | 800 |
| Derivatives and financial instruments | 409 | - | - | 409 |
| Other current assets | 8,286 | (3,478) | - | 4,808 |
| Kwinana assets | - | 232,275 | - | 232,275 |
| Total current assets | 172,720 | 208,213 | 85,942 | 466,875 |
| Non-current assets | | | | |
| Cash and cash equivalents | | | | |
| Restricted cash | 3,032 | - | - | 3,032 |
| Trade and other receivables | 2,607 | - | - | 2,607 |
| Property, plant and equipment | 392,607 | (191,036) | - | 201,571 |
| Exploration and evaluation costs | 6,569 | - | - | 6,569 |
| Deferred tax assets | 61,065 | (11,362) | - | 49,703 |
| Investment in associate | 17,675 | - | - | 17,675 |
| Intangible assets | 5,815 | (5,815) | - | - |
| Total non-current assets | 489,371 | (208,213) | - | 281,158 |
| Total assets | 662,091 | - | 85,942 | 748,033 |
| Current liabilities | | | | |
| Trade and other payables | 51,356 | (8,027) | - | 43,329 |
| Borrowings | 7,973 | - | (7,973) | - |
| Borrowings – non-recourse | 5,001 | (3,501) | - | 1,500 |
| Derivatives and financial instruments | 39,601 | - | - | 39,601 |
| Other current liabilities | 1,122 | (5) | - | 1,117 |
| Kwinana liabilities | - | 216,720 | - | 216,720 |
| Total current liabilities | 105,053 | 205,187 | (7,973) | 302,267 |
| Non-current liabilities | | | | |
| Borrowings | 25,140 | - | - | 25,140 |
| Borrowings – non-recourse | 393,208 | (185,268) | - | 207,940 |
| Derivatives and financial instruments | 47,260 | (4,963) | - | 42,297 |
| Deferred tax liabilities | 46,149 | (14,956) | - | 31,193 |
| Provisions | 36 | - | - | 36 |
| Total non-current liabilities | 511,793 | (205,187) | - | 306,606 |
| Total liabilities | 616,846 | - | (7,973) | 608,873 |
| Net assets | 45,245 | - | 93,915 | 139,160 |
| Equity | | | | |
| Contributed equity | 60,573 | - | 93,915 | 154,488 |
| Reserves | (21,412) | 6,527 | - | (14,885) |
| Retained earnings | (7,161) | - | - | (7,161) |
| Minority interest | 13,245 | (13,245) | - | - |
| Kwinana equity | - | 6,718 | - | 6,718 |
| Total equity | 45,245 | - | 93,915 | 139,160 |

8. Financial Information (cont.)

Kwinana divestment

ERM Power has agreed to dispose of its 30% interest in Kwinana to ANZSAM. The effective date of the divestment is 1 October 2010.

Kwinana is shown in the FY2010 audited balance sheet as 50% proportionately consolidated, with a 20% minority interest. The pro forma adjustment derecognises the Kwinana investment and reallocates it effectively to asset

held for sale under 'current assets – Kwinana assets' and 'current liabilities – Kwinana liabilities'.

Refer to Section 10.7 for further details.

Offer

The \$93.9 million in net proceeds from the issue of Shares can be reconciled against the gross offer proceeds of \$100.0 million as follows:

Table 32 – Reconciliation of gross and net offer proceeds

| | |
|--|------------------------|
| Gross offer proceeds | \$100.0 million |
| less costs of the Offer associated with new equity | \$6.1 million |
| Net proceeds/increase in contributed equity | \$93.9 million |

Refer to Section 3.3 for details on the use of proceeds of the Offer.

The net proceeds of the Offer of \$93.9 million are to be applied to repay the Director Loan of \$8.0 million, with the remaining \$85.9 million to be held in cash or used to repay debt (refer to Section 8.6).

8.3.3 Historical consolidated cash flow statement

Set out below in Table 33 are ERM Power's historical consolidated cash flow statements for FY2008, FY2009 and FY2010.

Table 33 – Historical consolidated cash flow statements for FY2008, FY2009 and FY2010

| \$'000s | FY2008A | FY2009A | FY2010A |
|---|-----------------|-----------------|-----------------|
| EBITDAIF (before profit of associate) | 76,650 | 17,663 | 67,362 |
| Non-cash items | (12,096) | (6,638) | - |
| Change in working capital | (40,704) | (30,111) | (11,600) |
| Disposals of power station interests | (46,084) | (798) | (36,379) |
| Tax paid | - | (4,234) | (9,112) |
| Net operating cash flows | (22,234) | (24,118) | 10,271 |
| Distributions to shareholders | (2,072) | (12,328) | - |
| Net surplus operating cash flows | (24,306) | (36,446) | 10,271 |
| Proceeds from issue of shares | 276 | - | - |
| Proceeds from borrowings | 390,683 | 258,925 | 194,701 |
| Plant and equipment and exploration expenditure | (195,218) | (197,434) | (44,448) |
| Net capital expenditure cash flows | 195,741 | 61,491 | 150,253 |
| Repayment of borrowings | (61,687) | (35,415) | (222,572) |
| Net project cash flows | 134,054 | 26,076 | (72,319) |
| Acquisitions | (11,470) | (8,834) | - |
| Proceeds from disposal of power station interests | 70,969 | 2,000 | 18,863 |
| Net interest paid | (1,836) | (15,771) | (39,025) |
| Financing and investing cash flows | 57,663 | (22,605) | (20,162) |
| Net increase/(decrease) in cash | 167,411 | (32,975) | (82,210) |

Table 34 below provides a reconciliation from the historical consolidated cash flow statements for FY2008, FY2009 and FY2010 as above to free cash flow.

Table 34 – Statutory to free cash flow

| \$'000s | FY2008A | FY2009A | FY2010A |
|---|----------------|-----------------|-----------------|
| Opening cash balances | | | |
| Free cash | 124 | 18,859 | 7,814 |
| Restricted cash | 6,600 | 155,276 | 136,906 |
| Total opening cash balances | 6,724 | 174,135 | 144,720 |
| Net increase/(decrease) in cash | | | |
| Free cash | 18,735 | (11,045) | 12,232 |
| Restricted cash | 148,676 | (21,930) | (94,442) |
| Actual cash movements | 167,411 | (32,975) | (82,210) |
| Movements in exchange rates on FX balance | - | 3,560 | - |
| Movement in balance sheet cash | 167,411 | (29,415) | (82,210) |
| Closing cash balances | | | |
| Free cash | 18,859 | 7,814 | 20,046 |
| Restricted cash | 155,276 | 136,906 | 42,464 |
| Total closing cash balances | 174,135 | 144,720 | 62,510 |

8.4 Management discussion and analysis of Historical Financial Information

The discussion and analysis below relates to the Historical Financial Information in Section 8.3 and should be read in conjunction with the description of the basis upon which the Historical Financial Information has been prepared (Section 8.2) and the pro forma adjustments described in Section 8.3. The analysis below is a brief discussion of the main factors which affected ERM Power's operating and financial performance in FY2008, FY2009 and FY2010. For further detail on the key factors underlying the historical performance of each of ERM Power's underlying businesses, refer to the respective businesses' management discussion and analysis in Section 5.

The description below is a summary only and does not purport to capture all of the factors that affected ERM Power's historical operating and financial performance, nor all those that are expected to affect the operating and financial performance in future periods. The information in this Section of the Prospectus should also be read in conjunction with the risk factors set out in Section 6 and other information contained in this Prospectus.

Revenue and operating expenses

Over the FY2008 to FY2010 period, revenue increased from \$81.6 million to \$418.4 million representing a compound annual growth rate ('CAGR') of 126% p.a. This substantial growth was primarily driven by the expansion of ERM Sales' business as a consequence of increased customer numbers and electricity load.

As a result of this rapid growth, the proportionate contribution of ERM Sales to total revenue increased from 4% in FY2008 to 69% in FY2010.

ERM Power's proportionate share of generation revenue increased from \$10.7 million in FY2008 to \$33.3 million in FY2009 and \$62.4 million in FY2010. During this period, the Braemar 2, Neerabup and Kwinana power stations were commissioned. The higher revenue number in FY2010 compared to FY2009 primarily reflects an initial nine month contribution from Neerabup, which was commissioned in October 2009 and a full year contribution from Kwinana (compared to only nine months in FY2009), along with additional amounts recorded from Braemar 2 (which was commissioned in July 2009) prior to it being contractually divested.

8. Financial Information (cont.)

The increase in operating costs over the FY2008 to FY2010 period was broadly in line with revenue growth. This was largely a result of variable cost increases resulting from ERM Sales purchases supporting the growth in electricity load.

EBITDAIF

The FY2008 to FY2010 period saw rapid growth in the electricity sales business (which made its first positive contribution to EBITDAIF in FY2010), together with the expansion of the generation portfolio through the commissioning of Neerabup and Kwinana.

FY2008 EBITDAIF (including profit of associate) included \$46.1 million profit from the sale of the Uranquinty and Braemar 1 power stations and a \$12.1 million discount on acquisition following the acquisition of ERM Holdings Pty Ltd from a majority shareholder (consideration was at a discount to the fair value of the assets being acquired).

The EBITDAIF contribution from generation and electricity sales business in FY2009 both increased compared to FY2008. However, total EBITDAIF (including profit of associate) in FY2009 of \$18.9 million was lower than FY2008 as asset disposals in FY2009 were less than FY2008.

FY2010 EBITDAIF (including profit of associate) of \$68.7 million includes a \$36.4 million gain from the sale of Braemar 2 power station.

Depreciation and amortisation

The increase in depreciation and amortisation over the FY2008 to FY2010 period reflects the progressive commissioning of Kwinana in FY2009 and Neerabup in FY2010.

Net borrowing

Over the FY2008 to FY2010 period the net borrowing costs of ERM Power increased substantially from \$10.7 million in FY2008 to \$39.8 million in FY2010. This change reflected the debt funding associated with ERM Power's investment in the Neerabup and Kwinana power stations (which is non-recourse finance at the project level).

Capital expenditure

\$437.1 million of capital expenditure was incurred over the FY2008 to FY2010 period. \$208.2 million of this was required to complete the development and construction of Kwinana with \$200.4 million expended on Neerabup. \$254.3 million was spent on Braemar 2 but is not shown under capital expenditure as the asset was accounted for as 'held for sale' in the 2009 balance sheet. \$14.9 million was capitalised to future project development and land acquisitions and \$6.6 million expended on gas exploration. No maintenance capital expenditure was required on existing power stations.

Cash flow

Operating cash flow reflected the build-up in working capital in the business with the cash flows from generation assets and ERM Sales resulting in a \$10.3 million surplus in 2010.

The period saw significant activity in the construction of new power generation facilities (Kwinana, Braemar 2 and Neerabup), together with the disposal of interests in the Uranquinty, Braemar 1 and Braemar 2 power stations. A significant driver in the cash flows over the period is the effect of the drawdown of non-recourse project financings to partly fund the construction of power station assets, with the balance funded from equity. Net interest also reflects this increase in activity.

8.5 Forecast Financial Information

Table 35 below and Table 37 on the following page set out the Directors' pro forma forecast consolidated income statements and pro forma forecast consolidated cash flow statements for FY2011 and FY2012.

The information in the tables should be read together with the best estimate assumptions underlying the Directors' forecast in Section 8.7, the sensitivity analysis in Section 8.8, the risk factors in Section 6 and other information contained in this Prospectus.

Table 35 – Pro forma forecast consolidated income statements for FY2011 and FY2012

| \$'000s | Forecast FY2011F | Forecast FY2012F |
|--|---------------------|---------------------|
| Revenue and other income | 478,916 | 690,911 |
| Expenses | (434,893) | (630,330) |
| EBITDAIF (before profit of associate)⁴⁷ | 44,023 | 60,581 |
| Share of profit of associate | 1,642 | 1,795 |
| EBITDAIF (including profit of associate) | 45,665 | 62,376 |
| Depreciation and amortisation | (10,806) | (8,808) |
| EBITF | 34,859 | 53,568 |
| Net finance expense | (30,580) | (18,401) |
| Profit/(loss) before income tax and financial instruments | 4,279 | 35,167 |
| Net fair value gain/(loss) on financial instruments designated at fair value through profit and loss ⁴⁸ | 32,837 | 19,847 |
| Profit/(loss) before income tax | 37,116 | 55,014 |
| Income tax | (10,642) | (15,966) |
| Net profit/(loss) after income tax | 26,474 | 39,049 |

Table 36 – Reconciliation to Underlying Net Profit after Income Tax for FY2011 and FY2012

| \$'000s | Forecast FY2011F | Forecast FY2012F |
|--|---------------------|---------------------|
| Adjustments to show underlying Net Profit/(Loss) after Income Tax | | |
| Statutory net profit after income tax | 26,474 | 39,049 |
| Net fair value gain/(loss) on financial instruments designated at fair value through profit and loss ⁴⁸ | (32,837) | (19,847) |
| Income tax effect | 9,851 | 5,954 |
| Underlying Net Profit/(Loss) after Income Tax | 3,488 | 25,156 |

⁴⁷ EBITDAIF (before profit of associate) excludes profits from ERM Power's ownership interest in the Oakey power station.

⁴⁸ ERM Sales services the electricity requirements of large customers through fixed priced forward electricity sales contracts. Electricity is provided to customers from a spot market regulated by governments and priced at prevailing spot market prices. To manage exposure to spot market prices, ERM Sales enters into electricity derivative transactions. The objective is to create an economic hedge for the fixed price forward electricity sales contracts. These positions are marked to market and shown as an unrealised gain or loss during a reporting period. The Forecast Financial Information does not assume that there are any fair value adjustments. The adjustments to Underlying Net Profit after Income Tax in FY2011 and FY2012 are in respect of the unrealised losses/gains recognised prior to 30 June 2010 in relation to contracts which are realised in the respective forecast periods.

8. Financial Information (cont.)

Table 37 – Pro forma forecast consolidated cash flow statements for FY2011 and FY2012

| \$'000s | Forecast FY2011F | Forecast FY2012F |
|---|---------------------|---------------------|
| EBITDAIF (before profit of associate) | 44,023 | 60,581 |
| EBITDAIF consolidation adjustment ⁴⁹ | - | 18,218 |
| Change in working capital | (2,888) | 1,844 |
| Disposal profit on Kwinana | (6,600) | - |
| Distributions from minority interest in Oakey | 521 | 522 |
| Tax paid | (1,114) | (6,222) |
| Net operating cash flows | 33,942 | 74,943 |
| Distributions to shareholders | - | (11,742) |
| Net surplus operating cash flows | 33,942 | 63,201 |
| | | |
| Proceeds from issue of shares | 93,915 | - |
| Proceeds from project borrowings | - | 53,944 |
| Capital expenditure – projects | (25,400) | (123,595) |
| Capital expenditure – exploration | (5,443) | (4,630) |
| Net capital expenditure cash flows | 63,072 | (74,280) |
| Repayment of project borrowings | (3,390) | (3,215) |
| Repayment of corporate borrowings | (7,973) | - |
| Net project cash flows | 51,709 | (77,495) |
| | | |
| Net proceeds from asset sales – Braemar 2 | 40,840 | - |
| Net proceeds from asset sales – Kwinana | 9,900 | - |
| Kwinana balance sheet adjustments | (8,793) | - |
| Net interest paid | (28,329) | (16,812) |
| Financing and investing cash flows | 13,618 | (16,812) |
| | | |
| Net increase/(decrease) in cash | 99,270 | (31,106) |

⁴⁹ The EBITDAIF consolidation adjustment relates to 50% of the development fees received on financial close of Braemar 3 which are not included in the consolidated revenue of ERM Power as a result of its expected retained 50% ownership in Braemar 3.

Table 38 below provides a reconciliation of the forecast consolidated cash flow statements for FY2011 and FY2012 as above to free cash flow.

Table 38 – Statutory to free cash flow

| \$'000s | Forecast FY2011F | Forecast FY2012F |
|--|---------------------|---------------------|
| Opening cash balances | | |
| Free cash available to ERM Power | 4,938 | 69,220 |
| Free cash held in projects | 15,108 | 8,069 |
| Total statutory free cash | 20,046 | 77,290 |
| Restricted cash | 42,464 | 84,490 |
| Total opening cash balances | 62,510 | 161,780 |
| Net increase/(decrease) in cash | | |
| Free cash available to ERM Power | 64,283 | (24,608) |
| Free cash held in projects | (7,039) | 238 |
| Restricted cash | 42,026 | (6,736) |
| Total net increase/(decrease) in cash | 99,270 | (31,106) |
| Closing cash balances | | |
| Free cash available to ERM Power | 69,220 | 44,612 |
| Free cash held in projects | 8,069 | 8,308 |
| Total statutory free cash | 77,290 | 52,921 |
| Restricted cash | 84,490 | 77,754 |
| Total closing cash balances | 161,780 | 130,674 |

8.6 Management discussion and analysis of Forecast Financial Information

The discussion and analysis below relates to the Forecast Financial Information in Section 8.5 and should be read in conjunction with the description of the basis upon which the Forecast Financial Information has been prepared (Section 8.2) and the pro forma adjustments in Section 8.3. The analysis below is a brief discussion of the main factors which are forecast to affect ERM Power's operating and financial performance in FY2011 and FY2012.

The information in this Section should also be read in conjunction with the risk factors in Section 6 and other information in this Prospectus. The timing of actual events and the magnitude of their impact may differ from that assumed in preparing the Forecast Financial Information and this may have a materially positive or negative effect on ERM Power's actual financial performance or financial position.

For further detail on the key factors underlying the forecast trends in each of ERM Power's underlying businesses refer

to the respective businesses' management discussion and analysis in Section 5.

Revenue and operating expenses

ERM Power's total revenues are expected to increase to \$478.9 million in FY2011 and \$690.9 million in FY2012, representing a CAGR of 29% p.a. over the Forecast Period. Continued growth in ERM Sales is expected to be the primary driver of this increase in revenue.

Revenue from ERM Sales is expected to increase from \$429.3 million in FY2011 to \$646.5 million in FY2012 as a consequence of continued expansion of this business in existing markets of Queensland, New South Wales, Victoria and Tasmania and entering the new markets of South Australia and Western Australia.

Revenue contributions of \$37.4 million and \$29.1 million are also expected from Generation for FY2011 and FY2012 respectively, with the decrease driven by the disposal of Kwinana from 1 October 2010.

8. Financial Information (cont.)

No development projects are expected to reach financial close in FY2011; however, fees from the development of the Braemar 3 power station are expected to contribute \$18.2 million of revenue in FY2012. The sale of ERM Power's interest in Kwinana in early FY2011 will contribute a further \$6.6 million in revenue.

Operating costs are forecast to grow in line with revenue growth increasing to \$630.3 million in FY2012. The operating cost increases are largely a result of substantial increases in variable costs associated with increased purchases by ERM Sales in support of the electricity load growth. Fixed costs are expected to remain relatively constant over the period.

EBITDAIF

FY2011 EBITDAIF (including profit of associate) is forecast to be \$45.7 million notwithstanding negative EBITDAIF (including profit of associate) contributions expected from Development and Operations, as ERM Power does not expect to commission any new generation in FY2011.

Forecast FY2012 EBITDAIF is expected to increase by 37% on FY2011 to \$62.4 million as a consequence of increasing ERM Sales volumes and the forecast financial close of the Braemar 3 development in December 2011, partly offset by the absence of Kwinana EBITDAIF following its disposal.

Depreciation and amortisation

Depreciation and amortisation is expected to decrease in FY2011 to \$10.8 million. The increase resulting from Neerabup's full year contribution of depreciation is offset by the disposal of Kwinana. Total depreciation and amortisation is forecast to decrease to \$8.8 million in FY2012.

Net borrowing

The net borrowing costs for the forecast period are projected to fall due to the absence of Kwinana's project debt and equity notes, the absence of any corporate debt and the interest income resulting from the receipt of the Offer proceeds.

Capital expenditure

Total capital expenditure is forecast to be \$159.1 million over the Forecast Period.

Forecast capital expenditure of \$30.8 million in FY2011 includes \$9.2 million of development costs for the proposed Braemar 3 and Wellington 1 power station developments, \$0.8 million for site acquisitions, \$15.0 million for a Small Power Project, \$2.4 million for the commercialisation of the

Gingin West 1 gas discovery, \$3.1 million for committed gas tenement exploration programs and \$0.3 million for ERM Sales systems.

Capital expenditure is forecast to increase to \$128.2 million in FY2012 primarily as a consequence of the expected commencement of construction activity for the Braemar 3 power station. No maintenance capital expenditure is forecast for the generation assets.

Cash flow

Operating cash flow is forecast to increase from \$33.9 million in FY2011 to \$74.9 million in FY2012 reflecting the continued growth in profitability of ERM Sales, financial close of Braemar 3 power station in December 2011, and the absence of Kwinana's operating cash flow following its disposal.

Financial close of Braemar 3 is expected to result in a significant increase in capital expenditure from \$30.8 million in FY2011 to \$128.2 million in FY2012 which is partially offset by \$53.9 million of debt financing being drawdown. Interest costs for FY2012 are expected to be substantially lower than FY2011 reflecting the absence of Kwinana's term facility and Notes.

If ERM Power decides to make an early repayment of amounts owing to Arrow Energy, out of the Offer proceeds, then ERM Power expects to receive \$66.0 million on 30 June 2011 for the sale of its remaining 25.05% interest in Braemar 2 to Arrow Energy. If the loan is not repaid until settlement of the sale of ERM Power's interest in Braemar 2, ERM Power expects to receive a net receivable of \$37.6 million reflecting a total receivable of \$66.0 million for ERM Power's interest less amounts owing to Arrow Energy under the loan facility as at 30 June 2011 of \$28.4 million.

ERM Power received a net receivable of \$2.9 million in relation to the sale of Kwinana, representing a purchase price of \$39.9 million less \$36.0 million attributable to early redemption of the Kwinana Notes and \$1.0 million in interest accrued to the date of completion of the sale in October 2010.

The Offer is expected to result in net cash proceeds of \$93.9 million after payment of Offer costs. With the exception of \$8.0 million to fund the repayment of the Director Loan, the remaining \$85.9 million will be in cash and progressively invested or utilised over the Forecast Period. Dividends will be paid to Shareholders in accordance with ERM Power's dividend policy.

8.7 Best estimate assumptions underlying the Forecast Financial Information

The Forecast Financial Information is based upon various best estimate assumptions, including those set out below, which should be read in conjunction with the Investigating Accountant's Report in Section 9, the Company Overview in Section 5, and the risk factors set out in Section 6.

General assumptions

In preparing the Forecast Financial Information, the following general best estimate assumptions have been adopted:

- no material change in the competitive operating environment;
- notwithstanding ERM Power's investment objectives, no material business acquisitions or disposals other than those disclosed in this Prospectus;
- ERM Power raises gross proceeds of \$100.0 million from the Offer;
- no material environmental costs or legal claims;
- no significant change in the legislative regimes (including taxation) and regulatory environment in the jurisdictions in which ERM Power or its key customers or suppliers operate;
- no changes in applicable AAS, other mandatory professional reporting requirements or the Corporations Act which have a material effect on ERM Power's financial performance, cash flows, financial position, accounting policies, financial reporting or disclosure;
- no change to ERM Power's funding or capital structure other than as set out in this Prospectus;
- no significant amendment to any material agreement or arrangement relating to ERM Power's operations or projects. The parties to those agreements and arrangements are assumed to comply with the terms of all material agreements and arrangements;
- retention of key personnel; and
- none of the risks listed in Section 6 will have a material adverse impact on the operations of ERM Power.

Specific assumptions

Set out below are specific best estimate assumptions that have been adopted in preparing the Forecast Financial Information:

ERM Sales

- Sales volumes
 - ERM Sales' forecast volumes (6,010 GWh in FY2011 and 8,499 GWh in FY2012) are based

on existing contracts which account for 94% of FY2011 volumes and 53% of FY2012 volumes. Of the forecast volumes in FY2012 which are currently uncontracted, 33% is expected to be sourced from existing customers through recontracting and 67% from new customers. Recontracting rates are assumed to be consistent with historical experience. Forecast sales volumes from new customers are based on historical averages depending on customer size.

- Sales growth
 - The majority of new customer growth is expected to be won in regions in which ERM Sales already has a presence.
 - ERM Sales' ability to quote for new work has historically been restricted by its working capital constraints and in particular prudential capital requirements. Part of the Offer proceeds will be applied to meet the prudential capital requirements needed to support ERM Sales' forecast revenue growth. Win rates for new customers are assumed to be in line with historical performance.
- Electricity prices
 - A forward curve consistent with pricing on the Sydney Futures Exchange for calendar years 2011 and 2012 (for the relevant states) has been used as the basis for forecast electricity prices (including Green Certificates), resulting in average prices for FY2011 of \$70.99 MWh and in FY2012 of \$75.66 MWh (electricity, Green Certificates and network charges).
- Gross margin
 - Gross profit is forecast to increase by 86.6% to \$24.1 million in FY2011 and a further \$9.6 million (39.7%) in FY2012, with the average gross margin percentage increasing by 110 bps from 4.5% in FY2010 to 5.6% in the FY2011 forecast. The gross margin percentage is forecast at 5.2% in FY2012. The increase in forecast gross profit and gross margin percentages primarily reflects:
 - the full year effect of new customers won in FY2010;
 - customer growth through the availability of additional working capital, allowing ERM Sales to increase its quoting ratios;
 - increased customer penetration in regions in which ERM Sales already has a presence;
 - a larger proportion of customer mix represented by smaller customers; and

8. Financial Information (cont.)

- higher gross margins being realised in FY2011 and FY2012 as a result of steadily falling electricity and Green Certificate prices (see explanation below).
- Margin percentages on volumes yet to be contracted are forecast to be in line with historical performance. During FY2009 and FY2010, ERM Sales was able to take advantage of steadily falling electricity and Green Certificate prices to secure relatively high gross margin percentages on sales contracts executed in that time relative to what was priced into the contracts. These gross margins will be mainly realised in the earnings of FY2011 and FY2012 and may not be sustained in future years if electricity prices do not continue to fall. No material change in the competitive operating environment has been assumed when considering forecast margins.
- Forward wholesale electricity prices impact ERM Sales' uncontracted forecast gross margin due to gross margin being the margin multiplied by the forward wholesale electricity price at the time of contracting the sale and purchasing the cover.
- Given customer contracts do not incorporate take-or-pay arrangements, ERM Sales is exposed to the risk that customers may not utilise and therefore purchase forecast volumes. This is also referred to as volume risk. Volume risk may have either a positive or negative impact on financial results depending on the pool price from time to time. Despite the potential for this impact to be either positive or negative, the forecast results include a volume risk provision which reduces gross margin by 60 basis points equating to 11% of total gross margin (based on FY2010 experience).
- Forecast development fees for Braemar 3 are based on historical experience and mature discussions with the Braemar 3 prospective partner, Siemens Project Ventures, and further supported by a draft Development Services Agreement. Timing of receipt of these fees is based on financial close in Q2 FY2012.
- Included in the development fee for Braemar 3 is revenue from the sale of land (ERM holds a strategic portfolio of land near key markets, providing capacity to meet future generation demand). The land revenue forecast included within the development fee for Braemar 3 is consistent with the draft land sale agreement which has been negotiated with prospective partner, Siemens Project Ventures.
- Braemar 3 total project capital cost of \$530.0 million is based on an existing EPC contract with Siemens Energy and John Holland and an existing connection agreement with Powerlink.
- Financial close on the Wellington 1 development is not assumed to fall within the Forecast Period.

Other

- Gas exploration and development costs are based on work program obligations for current tenements and estimated development costs associated with bringing Gingin West into production. No revenue from gas or condensate sales has been reflected in the forecasts.
- Net interest costs are based on the assumptions outlined in the generation discussion in Section 5 (reflecting interest costs associated with term facilities and convertible notes in accordance with facility/notes agreements). Interest on cash deposits is assumed to earn 5% p.a. Net interest expense in FY2011 and FY2012 is \$30.6 million and \$18.4 million respectively. The interest reduction in FY2012 reflects: (i) the sale of Kwinana, (ii) the repayment of the Arrow Loan and (iii) the repayment of the Director Loan. ERM Sales revenue includes interest income of approximately \$3.0 million in FY2011 and FY2012 earned on its restricted cash balances.
- ERM Power has \$65.5 million (as at 30 June 2010) of carry forward losses available for tax purposes. This amount is forecast to be fully utilised over the Forecast Period such that ERM Power will be in a tax paying position. An effective tax rate of 30% has been assumed in FY2011 and FY2012 after taking into account carry forward losses.

Operating expenses

- ERM Sales' operating expenses (fixed overhead) is forecast to be \$4.8 million in FY2011 (comparable with FY2010) and \$6.1 million in FY2012. The step up in operating cost in FY2012 is reflective of management's expectation around increased activity, thereby increasing the need for additional sales and trading personnel.

Generation Development and Operations

- Braemar 3
 - Financial close for Braemar 3 is expected to be achieved in Q2 FY2012; this timing expectation is driven by ERM Power's assessment of market signals and is further supported by the Industry Expert's opinion on the expected timing of commercial operations for Braemar 3 (report contained in Appendix 1).

8.8 Sensitivity Analysis

The Forecast Financial Information is based on a number of estimates and assumptions that are subject to business, economic and competitive uncertainties and contingencies, many of which are beyond the control of ERM Power and the Directors and management, and upon assumptions with respect to future business decisions, which are subject to change.

ERM Power's financial performance is exposed to the following key variables:

ERM Sales

- The gross margin sensitivity reflects the profit impact of a 50bps change in ERM Sales gross margin compared to average gross margin of 5.6% and 5.2% forecast in FY2011 and FY2012 respectively. The sensitivity is calculated on uncontracted forecast margins.
- Profits will be impacted if forecast revenue growth from new business (uncontracted load) for ERM Sales differs to that forecast. The sensitivity considers the profit impact of a 5% reduction or increase in actual sales growth compared to the forecasts. Forecast operating cash flows will also be impacted by changes in associated prudential capital requirements.
- The electricity price sensitivity illustrates the profit impact of a 5% movement in wholesale electricity prices due to market price fluctuations, calculated on uncontracted load during the forecast period.

Table 39 – Sensitivity analysis

| Assumptions | Movement | NPAT impact (\$ million) | | Cash flow impact (\$ million) | |
|--|----------------------|-------------------------------------|----------------|--|----------------|
| | | FY2011F | FY2012F | FY2011F | FY2012F |
| ERM Sales' gross margin % | +/- 50 bps | +/- 0.1 | +/- 0.9 | +/- 0.1 | +/- 0.9 |
| Electricity sales growth | +/- 5% ⁵⁰ | +/- 0.1 | +/- 0.5 | +/- (0.4) | +/- (1.5) |
| Electricity prices | +/- 5% ⁵⁰ | +/- 0.1 | +/- 0.5 | +/- 0.1 | +/- 0.5 |
| ERM Sales volume risk to gross margin | +/- 25 bps | +/- 0.7 | +/- 1.0 | +/- 0.7 | +/- 1.0 |
| Wellington 1 project financial close early into FY2012 | n/a | Nil | + 11.9 | Nil | - 45.1 |
| Braemar 3 project financial close late into FY2013 | n/a | Nil | - 10.5 | Nil | + 29.3 |
| Interest rate movements | +/- 100 bps | +/- 0.7 | +/- 0.7 | +/- 0.7 | +/- (1.0) |
| Foreign exchange (Euro) | +/- 0.06€/A\$ | Nil | Nil | Nil | +/- (2.0) |
| Gas prices ⁵¹ | +/- \$1/GJ | Nil | Nil | Nil | Nil |

⁵⁰ These sensitivities are relative sensitivities. Using electricity sales growth as an example, a +/-5% variation is to be interpreted as resulting in the base assumption electricity sales growth x 1.05 or 0.95 respectively.

⁵¹ Changes in gas prices are expected to have no impact on the forecasts given (i) ERM Power's gas requirements are purchased at fixed prices under take-or-pay contracts, and (ii) no gas sales revenue from the gas assets are included in the Forecast Period.

- ERM Sales' is exposed to volume risk as its customer contracts are not take-or-pay contracts. This impact can be either positive or negative; an allowance reducing gross margin by 60 basis points is already included in the forecasts. The sensitivity illustrates the impact of a further 25bps movement in the volume risk assumption.

Other

- A delay in reaching financial close on Braemar 3 may push back earnings and capital spending into subsequent years. Conversely, reaching financial close on Wellington 1, or another project early, may bring forward earnings into FY2012 but would also bring forward the need for additional capital.
- The interest rate sensitivity provides an indication of the expected change in profit if interest rates change by 100bps. An upwards movement in interest rates has a positive NPAT impact (and vice versa) driven by the high levels of cash on deposit at ERM Power, particularly after the initial raising, and cash on deposit associated with ERM Sales and Generation. This is partly offset by the unhedged portion of the Generation interest rate exposure.
- Foreign exchange movements will impact the cost of power stations which will impact on the cash required for investment activities. The foreign exchange sensitivity illustrates the impact of a 6 cent change in the Euro/A\$ rate (based off an exchange rate of Euro/A\$ rate of 64 cents as reflected in the forecasts).

8. Financial Information (cont.)

Set out in Table 39 (on previous page) is a summary of the sensitivity of the FY2011 and FY2012 forecast NPAT and net operating cash flows to changes in a number of key variables described above. The changes in the key variables are set out in the sensitivity analysis and are not intended to be indicative of the complete range of variations that may be experienced. For the purpose of analysis, the effect of the changes in key assumptions on the FY2011 and FY2012 forecast statutory NPAT of \$26.5 million and \$39.0 million respectively and net operating cash flows of \$33.9 million and \$74.9 million respectively, are set out in Table 39.

Care should be taken in interpreting these sensitivities. The estimated impact of changes in each of the variables has been calculated in isolation from changes in other variables to illustrate the likely impact on the FY2011 and FY2012 forecast NPAT and net operating cash flows. In practice, changes in variables may offset each other or be additive, and it is likely that ERM Power would take further measures in response to any other adverse change in one variable to minimise the net effect on ERM Power's NPAT and net operating cash flows.

Table 40 – ERM Power summary of pro forma financing facilities

| | Proportionate debt outstanding (\$ million) | Pro forma debt outstanding (\$ million) | Description | Maturity |
|---|---|---|--|------------------|
| Non-recourse to ERM Power | | | | |
| Neerabup term facility (50%) | 168.1 | 168.1 | 20 year amortisation profile with maturity bullet in year 10 | 2019 |
| Neerabup working capital (50%) | 1.5 | 1.5 | | 2019 |
| Neerabup Notes | 39.9 | 39.9 | Interest only with 50% uplift on maturity | 2023 |
| Oakey project debt (12.5%) | 7.9 | - | 15 year amortisation with nil bullet at maturity | 2014 |
| Total non-recourse debt | 217.4 | 209.4 | | |
| Recourse to ERM Power | | | | |
| NAB Working Capital Facility | - | - | - Working capital facility to support retail business. Currently approved limit of \$20.0 million is sufficient to support growth until June 2012. Facility is repaid in full every month. | Rolling 12 month |
| Arrow Loan | 25.1 | 25.1 | - Repaid on completion of the Offer or on receipt of Braemar 2 sale proceeds | 2011 |
| Director Loan | - | - | - Repaid on receipt of Offer proceeds | 2011 |
| Total debt recourse to ERM Power | 25.1 | 25.1 | | |
| Total debt outstanding (pro forma) | 242.5 | 234.6 | | |

8.9 Financing and Liquidity

ERM Power has utilised a number of non-recourse project finance facilities to fund its investment in its generation assets and in some instances, has issued notes which are recourse only to ERM Power's equity investment in the respective power stations. All term debt entered into is structured so that it is capable of being fully amortised over the life of the off-take contracts.

The terms of these facilities are outlined below in Table 40. A summary of ERM Power's pro forma and proportionate debt outstanding as at 30 June 2010 is outlined below.

The summary below excludes Letter of Credit facilities for Neerabup and Oakey.

ERM Power intends to utilise \$8.0 million of the Offer proceeds to repay the Director Loan, which is described in Section 10.11. Under the terms of the sale of ERM Power's 25.05% interest in Braemar 2, ERM Power expects to receive \$66.0 million of which \$28.4 million will be used to repay the Arrow Loan resulting in net proceeds of \$37.6 million. However, the Directors may elect to repay the Arrow Loan from the Offer proceeds, in which case the repayment

amount is approximately \$26.6 million and ERM Power will receive the full proceeds on the sale of Braemar 2. Refer to Section 10.7 for more information.

8.10 Dividends

ERM Power expects to pay a fully franked dividend of 3.5 cents per Share for FY2011 and 7.7 cents per Share for FY2012 equating to an annualised dividend yield of 4.0% and 4.4% respectively based on the implied market capitalisation at the Offer Price. The final decision to pay a dividend will be made with reference to the underlying cash flow requirements of the business and is subject to the requirements of the Corporations Act.

Following the Forecast Period, ERM Power will target a progressive dividend policy with consideration of current and future cash flow and growth capital requirements. When determining the dividend payable, the Directors will take into consideration any significant non-recurring items in respect of either earnings or capital expenditure including equity funding requirements for growth capital expenditure.

Despite the intentions set out in this Section, no guarantee can be given about the level of payment of dividends or the level of franking of such dividends.

8.11 Proportionate Financial Information – Reconciliation of Proportionately Consolidated Financial Information to Historical and Forecast Financial Information

ERM Power's Historical Financial Information and Forecast Financial Information represented on a proportionately consolidated basis (as set out in Section 5) is shown in Table 41 below. Appropriate adjustments are then set out to reconcile the below proportionate representation to the statutory representation in accordance with AAS.

Adjustments made from the proportionately consolidated income statements to statutory income statements for EBITDAIF include:

- the removal of EBITDAIF and the addition of NPAT in respect of Oakey, as ERM Power's ownership interest in Oakey is accounted for in the statutory income statements using the equity method (profits of associates);
- the addition of 20% of EBITDAIF in respect of Kwinana, being that amount associated with the minority interest holder's ownership interest in the Kwinana.

Table 41 – Historical and forecast EBITDAIF represented on a proportionate consolidated basis

| \$'000s | Unaudited FY2008A | Unaudited FY2009A | Unaudited FY2010A | Forecast FY2011F | Forecast FY2012F |
|--|----------------------|----------------------|----------------------|---------------------|---------------------|
| Proportionate basis: | | | | | |
| ERM Sales | (1,133) | (2,654) | 8,465 | 21,908 | 30,955 |
| ERM Generation Assets | | | | | |
| Braemar 2 | 3 | 1,665 | 3,564 | - | - |
| Kwinana | 4,661 | 3,476 | 12,235 | 2,434 | - |
| Neerabup | 1,238 | 2,365 | 11,553 | 20,489 | 21,361 |
| Oakey | 3,443 | 3,083 | 3,063 | 3,320 | 3,412 |
| ERM Generation Development and Operations (excluding profit from asset sales) | 17,530 | 15,924 | (3,043) | (1,699) | 14,650 |
| ERM Gas | (1,451) | (1,669) | (733) | (905) | (782) |
| Overheads | (3,921) | (5,158) | (9,161) | (6,427) | (5,602) |
| Corporate other | 1,541 | 598 | (54) | - | - |
| Total proportionate EBITDAIF before asset sales | 21,911 | 17,630 | 25,889 | 39,120 | 63,993 |
| Discount on acquisition | 12,096 | - | - | - | - |
| Profit from asset sales | 46,086 | 798 | 36,379 | 6,600 | - |
| Total proportionate EBITDAIF | 80,093 | 18,428 | 62,268 | 45,720 | 63,993 |
| Statutory basis: | | | | | |
| Remove Oakey EBITDAIF | (3,443) | (3,083) | (3,063) | (3,320) | (3,412) |
| Add Oakey NPAT | 1,523 | 1,249 | 1,321 | 1,642 | 1,795 |
| Add Kwinana 20% minority EBITDAIF | - | 2,317 | 8,157 | 1,623 | - |
| Total statutory EBITDAIF (after profit of associate) | 78,173 | 18,912 | 68,683 | 45,665 | 62,376 |

8. Financial Information (cont.)

8.12 Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the Financial Information are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Principles of consolidation

Subsidiaries

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern their financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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

The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets acquired, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of non-controlling shareholders in the acquiree is initially measured at their proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

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

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

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

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting. The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the consolidated financial statements by reducing the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the investment. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Jointly controlled entities

Jointly controlled entities are those entities over whose activities the entity has joint control, established by a contractual agreement. In the consolidated financial statements, investments in jointly controlled entities,

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

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with financial institutions, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, net of any bank overdrafts. These assets are stated at nominal values. Cash that is reserved and its use specifically restricted for maintenance and/or debt servicing under the Group's borrowing agreements is defined as restricted cash. Restricted cash is shown in the balance sheet according to the timing of its release. Accordingly, cash that cannot be applied or used within the next 12 months is shown as a non-current asset. All other cash and cash equivalents are shown as current assets.

Trade and other receivables

All trade and other debtors are recognised initially at fair value and subsequently measured at amortised cost using the original effective interest method less allowances for

doubtful debts. Collectability is reviewed on an ongoing basis. An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect all amounts due according to original terms. The amount of the allowance is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate. The amount of the impairment loss is recognised in the statement of comprehensive income. Trade receivables are due for settlement no more than 30 days from the date of invoice.

Other receivables – project costs incurred

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

'Other receivables – project costs incurred' are measured at cost less accumulated impairment losses. The recovery of these costs usually occurs at financial close of a project at which time these costs are transferred to a development vehicle.

Inventories

Renewable energy certificates

Renewable energy certificates held by the Group are traded with other parties and 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. Subsequent measurement is at fair value less costs to sell, with unrealised gains and losses arising from changes in fair value being recognised in the statement of comprehensive income in the period of the change.

8. Financial Information (cont.)

Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value plus transaction costs directly attributable to the acquisition or issue of the investment.

Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements.

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the

risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Impairment of financial assets

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

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

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

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

Effective interest method

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

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

Derivative financial instruments

The Group routinely enters into forward contracts for the purchase and sale of electricity in the NEM. These contracts comprise both deliverable and non-deliverable contracts.

The electricity purchase and sale contracts are exclusively entered into with industrial, commercial and government entities under term contracts. All of the electricity related to these contracts is traded in the NEM spot market.

The Group also enters into a variety of non-deliverable electricity derivative sales and purchase transactions as part of an overall strategy to generate profits from its electricity commodity trading activities. The Group manages all of its electricity purchase and sales contracts as part of its overall commodity trading strategy.

All these contracts, with the exception of the forward sales contracts, meet the definition of a derivative in AASB 139 and therefore are accounted for as financial instruments.

Deliverable sales contracts are not accounted for as derivative financial instruments in line with current interpretations of AASB 139. Revenue from these contracts is recognised in accordance with the Group's revenue recognition policy.

All derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into, and are subsequently remeasured to their fair value each balance date. Derivatives are carried in the statement of financial position as assets when the fair value is positive and as liabilities when the fair value is negative. The resulting gain or loss arising from the revaluation is recognised in the statement of comprehensive income immediately.

Hedge accounting

The Group designates interest rate swaps and forward foreign exchange contracts as cash flow hedges.

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception

of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

Cash flow hedge

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

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

Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price. The fair value of financial instruments that are not traded in an active market is determined using a variety of valuation techniques and assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other

8. Financial Information (cont.)

techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward exchange contracts is determined using market exchange rates and published forward margins at the balance sheet date. The nominal value less estimated credit adjustments of trade receivables and payables is assumed to approximate their fair value. For disclosure purposes the fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Property, plant and equipment

Items of property, plant and equipment are initially measured at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance expenses are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

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

Leasehold improvements the lesser of the remaining lease term and the life of the asset

Motor vehicles 3 – 10 years

Plant and equipment 20 – 33 years

IT equipment 3 – 5 years

Furniture and fittings 5 years

Capital work in progress comprises costs incurred to date on construction of power generation plant. The assets'

residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of comprehensive income.

Capitalised work in progress

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

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

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

Software

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

Impairment of assets

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

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

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

Trade and other payables

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

Provisions

Onerous contracts

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

Other financial liabilities

Other financial liabilities, including borrowings, are initially recognised at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Employee benefits

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

Long service leave

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

Bonus plans

A liability for employee benefits in the form of bonus plans is 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, or the amount of the benefit has been determined before the time of completion of the annual report. 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.

8. Financial Information (cont.)

Equity-based compensation benefits

Equity-based compensation benefits are provided to employees via ERM Power's Deferred Employee Share Plan, Deferred Non-Executive Directors' Share Plan and Employee Share Option Plan. Some employees have also been issued with employee options and granted shares.

The fair value of employee options or shares issued to employees for no cash consideration 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 options or shares. When the shares are issued, or the options exercised, the value is transferred to contributed equity.

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

Assets available for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Revenue recognition

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

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

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

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

Cost of sales

Cost of sales is recognised as those costs directly attributable to the goods sold and includes the purchase of electricity, materials and associated distribution expenses.

Purchases of electricity

Purchases of electricity are based upon spot prices for electricity as established by the AEMO and the outcomes of derivative financial instruments entered into for the purpose of risk management.

Borrowings

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

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

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

Borrowings are removed from the balance sheets when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Borrowing costs

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

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

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

Taxation

Income tax

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

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

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

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

8. Financial Information (cont.)

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

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

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

Tax consolidation legislation

ERM Power and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity ERM Power, 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 stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, ERM Power 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.

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.

Contributed equity

Ordinary shares

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

Dividends

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

9. Investigating Accountant's Report



The Directors
ERM Power Limited
Level 5, 123 Eagle Street
Brisbane, QLD 4000

17 November 2010

PricewaterhouseCoopers
Securities Ltd
ACN 003 311 617
ABN 54 003 311 617
Holder of Australian Financial
Services Licence No 244572

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123 Eagle Street
BRISBANE QLD 4000
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Dear Directors

**Subject: Investigating Accountant's Report on Historical and Forecast Financial Information
and Financial Services Guide**

We have prepared this report on certain pro forma historical and forecast financial information of ERM Power Limited (the Company) for inclusion in a prospectus dated on or about 17 November 2010 (the Prospectus) relating to the issue of shares in the proposed initial public offer and listing on the Australian Securities Exchange (the Offer).

Expressions defined in the Prospectus have the same meaning in this report.

The nature of this report is such that it should be given by an entity which holds an Australian financial services licence under the Corporations Act 2001. PricewaterhouseCoopers Securities Ltd, which is wholly owned by PricewaterhouseCoopers, holds the appropriate Australian financial services licence. This report is both an Investigating Accountant's Report, the scope of which is set out below, and a Financial Services Guide, as attached at Appendix A.

Scope

The Directors have requested PricewaterhouseCoopers Securities Ltd to prepare this investigating accountant's report (the Report) covering the following information:

- (i) the historical consolidated income statements of the Company for the years ended 30 June 2008, 30 June 2009 and 30 June 2010 as set out in Table 29 of the Prospectus;
- (ii) the historical consolidated balance sheet of the Company as at 30 June 2010 and the pro forma consolidated balance sheet of the Company as at 30 June 2010 (the Pro Forma Balance Sheet) which assumes completion of the proposed transactions disclosed in Table 31 of the Prospectus (the pro Forma Transactions);
- (iii) the historical consolidated cash flow statements for the years ended 30 June 2008, 30 June 2009 and 30 June 2010 as disclosed in Table 33 of the prospectus, collectively, the Historical Financial Information); and
- (iv) the pro forma forecast consolidated income statements for the years ending 30 June 2011 and June 2012 as disclosed in Table 35 of the prospectus,

9. Investigating Accountant's Report (cont.)



- (v) the pro forma forecast consolidated cash flow statements for the years ended 30 June 2011 and 30 June 2012 as disclosed in Table 37 of the prospectus,
collectively, the Forecast Financial Information or the Forecasts).
the Historical Financial Information and the Forecasts are collectively referred to as the "Financial Information").

This Report has been prepared for inclusion in the Prospectus. We disclaim any assumption of responsibility for any reliance on this Report or on the Financial Information to which this Report relates for any purposes other than the purpose for which it was prepared.

Scope of review of Historical Financial Information

The Historical Financial Information set out in Section 8 of the Prospectus has been derived from the audited financial statements of the Company.

The Historical Financial Information incorporates such pro forma transactions and adjustments as the Directors considered necessary to present the Historical Financial Information on a basis consistent with the Forecasts (Pro Forma Transactions). The Directors are responsible for the preparation of the Historical Financial Information, including the determination of the Pro Forma Transactions and adjustments.

We have conducted our review of the Historical Financial Information in accordance with Australian Auditing Standards applicable to review engagements. We made such inquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- an analytical review of the audited financial performance of the Company for the relevant historical period,
- a review of work papers, accounting records and other documents,
- a review of the adjustments made to the Historical Financial Information,
- a review of the assumptions (which include the Pro Forma Transactions) used to compile the Pro Forma Balance Sheet,
- a comparison of consistency in application of the recognition and measurement principles under Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Company disclosed in Section 8 of the Prospectus, and
- enquiry of Directors of the Company, management and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Historical Financial Information.



Review statement on Historical Financial Information

Based on our review of the Historical Financial Information, which is not an audit, nothing has come to our attention which causes us to believe that:

- the Pro Forma Balance Sheet has not been properly prepared on the basis of the Pro Forma Transactions
- the Pro Forma Transactions do not form a reasonable basis for the Pro Forma Balance Sheet
- the Historical Financial Information, as set out in Section 8 of the Prospectus, does not present fairly:
 - (a) the historical consolidated historical income statements of the Company for the years ended 30 June 2008, 30 June 2009 and 30 June 2010; and
 - (b) the historical consolidated cash flow statements of the Company for the years ended 30 June 2008, 30 June 2009 and 30 June 2010; and
 - (c) the historical consolidated balance sheet and Pro Forma Balance Sheet of the Company as at 30 June 2010, assuming completion of the Pro Forma Transactions

in accordance with the recognition and measurement principles prescribed under Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Company disclosed in Section 8 of the Prospectus.

Scope of review of Forecasts

The Directors are responsible for the preparation and presentation of the Forecasts, including the best estimate assumptions (which include the Pro Forma Transactions) on which they are based.

Our review of the best estimate assumptions underlying the Forecasts was conducted in accordance with Australian Auditing Standards applicable to review engagements. Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures as we considered necessary to form an opinion as to whether anything has come to our attention which causes us to believe that:

- (a) the best estimate assumptions do not provide a reasonable basis for the Forecasts;
- (b) in all material respects, the Forecasts are not properly prepared on the basis of the best estimate assumptions and presented fairly in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies of the Company disclosed in Section 8 of the Prospectus; or
- (c) the Forecasts are unreasonable.

9. Investigating Accountant's Report (cont.)



The Forecasts have been prepared by the Directors to provide investors with a guide to the Company's potential future financial performance based upon the achievement of certain economic, operating, development and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of Forecasts. Actual results may vary materially from the Forecasts and the variation may be materially positive or negative. Accordingly, investors should have regard to the description of investment risks set out in Section 6 of the Prospectus.

Our review of the Forecasts and the best estimate assumptions upon which the Forecasts are based is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards. A review of this nature provides less assurance than an audit. We have not performed an audit and we do not express an audit opinion on the Forecasts included in the Prospectus.

Review statement on the Forecasts

Based on our review of the Forecasts, which is not an audit, and the reasonableness of the best estimate assumptions giving rise to the Forecasts, nothing has come to our attention which causes us to believe that:

- (a) the best estimate assumptions set out in Section 8 of the Prospectus do not provide a reasonable basis for the Forecasts;
- (b) in all material respects, the Forecasts are not properly prepared on the basis of the best estimate assumptions and presented fairly in accordance with the recognition and measurement principles prescribed in Australian Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies of the Company disclosed in Section 8 of the Prospectus; or
- (c) the Forecasts are unreasonable.

The best estimate assumptions set out in Section 8 of the Prospectus are subject to significant uncertainties and contingencies often outside the control of the Company. If events do not occur as assumed, actual results and distributions achieved by the Company may vary significantly from the Forecasts. Accordingly, we do not confirm or guarantee the achievement of the Forecasts, as future events, by their very nature, are not capable of independent substantiation.

Subsequent events

Apart from the matters dealt with in this Report, and having regard to the scope of our Report, to the best of our knowledge and belief no material transactions or events outside of the ordinary course of business of the Company have come to our attention that would require comment on, or adjustment to, the information referred to in our Report or that would cause such information to be misleading or deceptive.

Independence or disclosure of interest

PricewaterhouseCoopers Securities Ltd does not have any interest in the outcome of the Offer other than the preparation of this Report and participation in due diligence procedures for which normal professional fees will be received.



Liability

PricewaterhouseCoopers Securities Ltd has consented to the inclusion of this Report in the Prospectus in the form and context in which it is included. The liability of PricewaterhouseCoopers Securities Ltd is limited to the inclusion of this Report in the Prospectus. PricewaterhouseCoopers Securities Ltd makes no representation regarding, and has no liability for, any other statements or other material in, or any omissions from, the Prospectus except references to PricewaterhouseCoopers Securities Ltd to which we have consented in writing.

Financial Services Guide

We have included our Financial Services Guide as Appendix A to our Report. The Financial Services Guide is designed to assist retail clients in their use of any general financial product advice in our Report.

Yours Faithfully

A handwritten signature in black ink, appearing to read "Wim Blom".

Wim Blom
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

PricewaterhouseCoopers is committed to providing our clients with the very best service. We would appreciate your feedback or suggestions for improvement. You can provide this feedback by talking to your engagement partner, calling us within Australia on 1300 792 111 or visiting our website <http://www.pwcfeedback.com.au/>

9. Investigating Accountant's Report (cont.)



Appendix A – Financial Service Guide

PRICEWATERHOUSECOOPERS SECURITIES LTD FINNACIAL SERVICES GUIDE

PricewaterhouseCoopers
Securities Ltd
ACN 003 311 617
ABN 54 003 311 617
Holder of Australian Financial
Services Licence No 244572

Riverside Centre
123 Eagle Street
BRISBANE QLD 4000
GPO Box 150
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DX 77 Brisbane
Australia
Telephone +61 7 3257 5000
Facsimile +61 7 3257 5999

This Financial Services Guide is dated 17 November 2010

1. About us

PricewaterhouseCoopers Securities Ltd (ABN 54 003 311 617, Australian Financial Services Licence no 244572) ("PwC Securities") has been engaged by ERM Power Limited ("ERM") to provide a report in the form of an Investigating Accountants Report in relation to the issue of shares in the proposed initial public offering and listing on the Australia Securities Exchange (the "Report") for inclusion in the Prospectus dated on or about 17 November 2010.

You have not engaged us directly but have been provided with a copy of the Report as a retail client because of your connection to the matters set out in the Report.

2. This Financial Services Guide

This Financial Services Guide ("FSG") is designed to assist retail clients in their use of any general financial product advice contained in the Report. This FSG contains information about PwC Securities generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the Report, and how complaints against us will be dealt with.

3. Financial services we are licensed to provide

Our Australian financial services licence allows us to provide a broad range of services, including providing financial product advice in relation to various financial products such as securities, interests in managed investment schemes, derivatives, superannuation products, foreign exchange contracts, insurance products, life products, managed investment schemes, government debentures, stocks or bonds, and deposit products.

4. General financial product advice

The Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

You should consider your own objectives, financial situation and needs when assessing the suitability of the Report to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.



5. Fees, commissions and other benefits we may receive

PwC Securities charges fees to produce reports, including this Report. These fees are negotiated and agreed with the entity who engages PwC Securities to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this Report the estimate of our fees is approximately \$550,000 (exclusive of GST out of pocket expenses) estimated as at 30 September 2010.

Directors or employees of PwC Securities, PricewaterhouseCoopers, or other associated entities, may receive partnership distributions, salary or wages from PricewaterhouseCoopers.

6. Associations with issuers of financial products

PwC Securities and its authorised representatives, employees and associates may from time to time have relationships with the issuers of financial products. For example, PricewaterhouseCoopers may be the auditor of, or provide financial services to, the issuer of a financial product and PwC Securities may provide financial services to the issuer of a financial product in the ordinary course of its business. PricewaterhouseCoopers was the auditor of ERM for the year ended 30 June 2010.

Complaints

Complaints
If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner. In addition, a copy of our internal complaints handling procedure is available upon request.

If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Service ("FOS"), an external complaints resolution service. FOS can be contacted by calling 1300 780 808. You will not be charged for using the FOS service.

7. Contact Details

PwC Securities can be contacted by sending a letter to the following address:

Wim Blom
Authorised Representative of
PricewaterhouseCoopers Securities Ltd

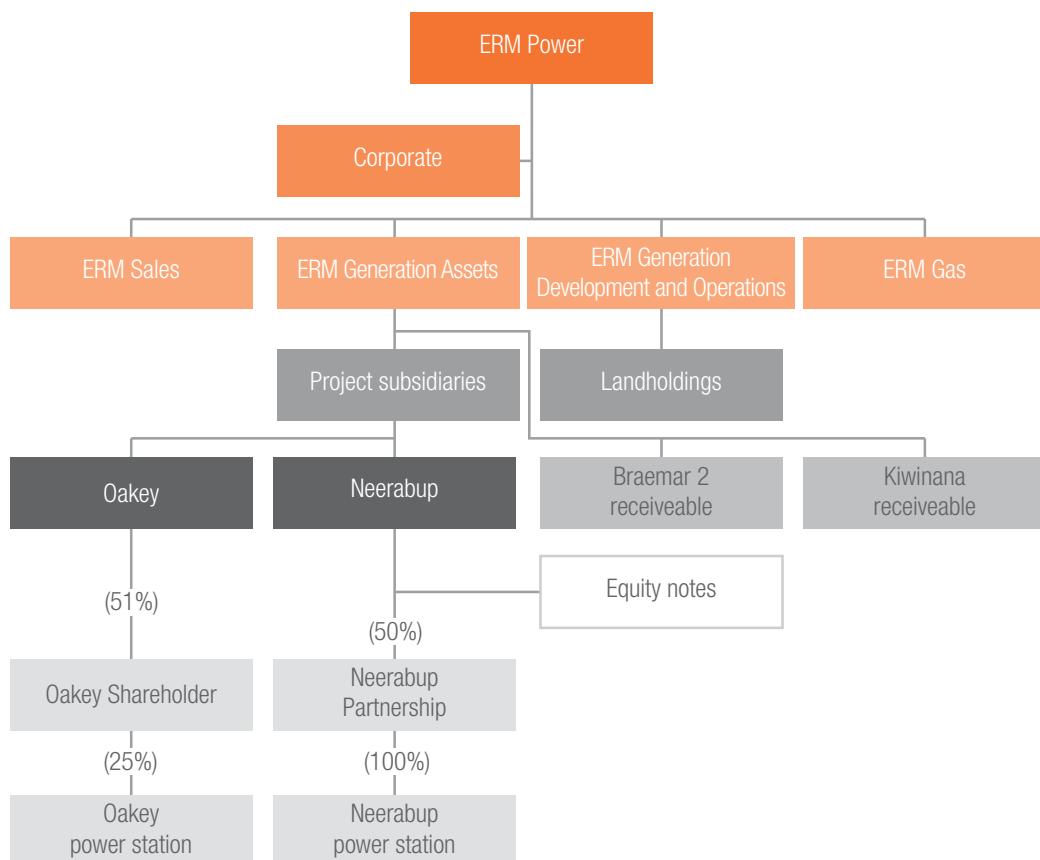
Riverside Centre
123 Eagle Street
BRISBANE QLD 4000
GPO Box 150
BRISBANE QLD 4001
DX 77 Brisbane

10. Additional Information

10.1 Business Structure

ERM Power was registered in Victoria on 18 October 2006 and currently employs or contractually retains about 114 people.

A summary of ERM Power's simplified business structure is set out below.



10.2 Constitution

Below is a summary of the key provisions of ERM Power's Constitution. This summary is not exhaustive, nor does it constitute a definitive statement of a Shareholder's rights and obligations.

Shares

The Directors are entitled to issue and cancel Shares in the capital of ERM Power, grant Options over unissued shares and settle the manner in which fractions of a Share are to be dealt with. The Directors may decide the persons to whom and the terms on which Shares are issued or Options are granted as well as the rights and restrictions that attach to those Shares or Options.

The Constitution also permits the issue of preference shares on terms determined by the Directors.

ERM Power may also sell a Share that is part of an unmarketable parcel of shares in accordance with the procedure set out in the Constitution.

Variation of class rights

The rights attached to any class of Shares may, unless their terms of issue state otherwise, only be varied with the consent in writing of members holding at least three-quarters of the Shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of Shares of that class.

Share certificates

Subject to the requirements of the Corporations Act, the Listing Rules or the ASX Settlement and Operating Rules, ERM Power need not issue share certificates if the Directors so decide.

Calls

The Directors may, from time to time, call upon Shareholders for unpaid monies on their shares. The Directors must give Shareholders notice of a call at least 30 business days before the amount called is due, specifying the time and place of payment. If such a call is made, Shareholders are liable to pay the amount of each call by the time and at the place specified.

A call is deemed to have been made when a Directors' resolution passing the call is made or on such later date fixed by the Board. A call may be revoked or postponed at the discretion of the Directors.

Forfeiture and lien

ERM Power may forfeit Shares in relation to any call or other amount payable in respect of Shares which remains unpaid following any notice to that effect sent to a Shareholder. Forfeited Shares become the property of ERM Power and the Directors may sell, reissue or otherwise dispose of the Shares as they think fit.

A person whose Shares have been forfeited may still be required to pay ERM Power all calls and other amounts owing in respect of the forfeited Shares (including interest) if the Directors so determine.

ERM Power has a first and paramount lien for unpaid calls, instalments and related interest and any amount it is legally required to pay in relation to a Shareholder's Shares. The lien extends to all distributions relating to the Shares, including dividends.

ERM Power's lien over Shares will be released if it registers a transfer of the Shares without giving the transferee notice of its claim.

Share transfers

Shares may be transferred by any method permitted by the Corporations Act, the Listing Rules or the ASX Settlement Operating Rules or by a written transfer in any usual form or in any other form approved by the Directors. The Directors may refuse to register a transfer of Shares where it is not

in registrable form, ERM Power has a lien over any of the Shares to be transferred or where it is permitted to do so by the Listing Rules or the ASX Settlement Operating Rules.

General meetings

Each Shareholder, Director and auditor is entitled to receive notice of and attend any general meeting of ERM Power. Two Shareholders must be present to constitute a quorum for a general meeting and no business may be transacted at any meeting except the election of a chair and the adjournment of the meeting, unless a quorum is present.

Voting rights

Subject to any rights or restrictions attached to any Shares or class of shares, on a show of hands each Shareholder present has one vote and, on a poll, one vote for each fully paid Share held, and for each partly paid Share, a fraction of a vote equivalent to the proportion to which the Share has been paid up. Voting may be in person or by proxy, attorney or representative.

Remuneration of Directors

Each Director is entitled to such remuneration from ERM Power for his or her services as decided by the Directors but the total amount provided to all Directors for their services as Directors must not exceed in aggregate the amount fixed by ERM Power in general meeting (see Section 10.9). The remuneration of a Director (who is not the Managing Director or an executive Director) must not include a commission on, or a percentage of, profits or operating revenue.

Remuneration may be provided in such manner that the Directors decide, including by way of non-cash benefits. Directors who devote special attention to the business of ERM Power or who otherwise perform services which are outside their ordinary duties as directors may be paid extra remuneration.

Directors are also entitled to be paid all travelling and other expenses they incur in attending to ERM Power's affairs, including attending and returning from general meetings or Board meetings, or meetings of any committee engaged in ERM Power's business.

10. Additional Information (cont.)

Interests of Directors

A Director who has a material personal interest in a matter that is being considered by the Board must not be present at a meeting while the matter is being considered nor vote on the matter, unless the Corporations Act allows otherwise.

Election of Directors

There must be a minimum of three Directors and the maximum number of Directors is to be fixed by the Directors, but may not be more than 12 unless ERM Power in general meeting resolves otherwise.

At every annual general meeting, subject to the Constitution, one third of the Directors (to the nearest whole number and excluding the Managing Director) must retire from office and may offer themselves for re-election. If the number of Directors is five or less, then two of the Directors must retire from office at each annual general meeting.

No Director, other than the Managing Director, may hold office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected or re-elected.

With respect to the retirement of Directors, the Directors longest in office since last being elected must retire. If a number of Directors were elected on the same day, the Directors to retire shall (in default of agreement between them) be determined by ballot.

Dividends

If the Directors determine that a final or interim dividend is payable, it will (subject to the terms of issue on any Shares or class of Shares) be paid on all Shares proportionate to the amount for the time being paid on each Share.

Dividends may be paid by cash, electronic transfer or any other method as the Board determines.

The Directors may capitalise and distribute the whole or part of the amount from time to time standing to the credit of any reserve account or otherwise available for distribution to Shareholders. Such capitalisation and distribution must be in the same proportions which the Shareholders would be entitled to receive if distributed by way of a dividend.

Subject to the Listing Rules, the Directors may pay a dividend out of any fund or reserve or out of profits derived from any particular source.

Proportional takeover bids

ERM Power may prohibit registration of transfers purporting to accept an offer made under a proportionate takeover bid unless a resolution of ERM Power has been passed approving the proportional takeover bid in accordance with the provisions of the Constitution.

The rules in the Constitution relating to proportional takeover bids will cease on the third anniversary of the adoption of the Constitution or unless renewed by a special resolution of Shareholders.

Indemnities and insurance

ERM Power must indemnify current and past Directors and other executive officers ('Officers') of ERM Power on a full indemnity basis and to the full extent permitted by law against all liabilities incurred by the Officer as a result of their holding office in ERM Power or of a related body corporate.

ERM Power may also, to the extent permitted by law, purchase and maintain insurance, or pay or agree to pay a premium for insurance, for each Officer against any liability incurred by the Officer as a result of their holding office in ERM Power or of a related body corporate.

10.3 Dividend Reinvestment Plan

A dividend reinvestment plan ('DRP') has been adopted by ERM Power. If the Directors activate the DRP in the future, Shareholders who elect to participate will be able to reinvest in Shares the dividends they are entitled to receive in respect of some or all of their Shares, rather than receiving those dividends in cash.

10.4 Employee Incentive Plans

ERM has established the following equity incentive plans to assist in the attraction, motivation and retention of its executives and employees:

- Short Term Incentive Share Trust ('STIST');
- Long Term Incentive Option Trust ('LTIOT'); and
- Long Term Incentive Share Trust ('LTIST').

ERM also previously implemented a share/loan incentive plan, an option plan and a deferred share plan for employees. Those plans have been discontinued.

Short Term Incentive Share Trust ('STIST')

Objective

The objective of the STIST plan is to award short term incentive bonuses to eligible employees and executives through the provision of Shares to a trust, the STIST. The bonuses are determined after assessing the achievement of individual, business unit and company targets set at the beginning of each financial year.

Eligibility

Eligible participants in the plan are those employees and executives (including Executive Directors) who are invited by ERM Power to receive a short term incentive bonus under the STIST plan.

Operation

Shares will be acquired by a trustee who will hold those Shares on behalf of participants. The Shares will be acquired by the trustee either subscribing for new Shares or purchasing the Shares on market. The Shares will not be subject to vesting conditions.

Participants hold their interest in the STIST by holdings 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 of the STIST how to exercise its vote in the case of a poll at a meeting of ERM Power.

On cessation of employment, participants have six months to withdraw from the STIST. A participant may withdraw by instructing the trustee to sell the underlying Shares on their behalf or transferring title to the Shares to the participant. Otherwise, a participant may request the sale of Shares held for them by the trustee at any time, provided they sell at least \$2,000 worth of Shares at any one time.

Share issue price under STIST plan

The issue price of Shares acquired by the STIST after the admission of ERM Power to the official list of ASX will be the volume weighted average price at which the Shares traded on ASX on the 20 business days preceding the date of award of the bonus, or such other period as determined by the Directors.

Shares issued under STIST plan

At the date of this Prospectus, 1,147,972 Shares have been issued under the STIST plan.

Long Term Incentive Option Trust ('LTIOT')

Objective

The objective of the LTIOT is to award long term incentives to eligible employees and executives through the provision of Options to a trust, the LTIOT.

Eligibility

Participation in the LTIOT plan is open to senior employees (including Executive Directors) who are invited by the Board.

Operation

Options will be granted by ERM Power to a trustee who will hold those Options on behalf of participants.

The terms upon which the Options will vest are set out in individual letters of offer. Those vesting conditions may be a combination of service and performance hurdles, as determined by the Directors.

Participants hold their interest in the LTIOT by holdings units, where one unit represents one Option. Participants are issued units at the prevailing market value of the Options. If the participant's employment ceases prior to the Options vesting, the participant's units in the LTIOT will be forfeited.

On cessation of employment, participants have six months to withdraw from the LTIOT. A participant may withdraw by instructing the trustee to exercise the Options which have vested and sell the underlying Shares on their behalf or instructing the trustee to exercise the Options and transfer title to the underlying Shares to the participant. A participant may otherwise request that the trustee exercise vested Options on their behalf. The participant may direct that Shares issued on exercise of Options be sold or retained. If the Shares are sold, then the participant's units in the LTIOT will be cancelled and the participant will receive the sale proceeds (net of any outstanding loans). The LTIOT may loan participants the exercise price of the options.

10. Additional Information (cont.)

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

- On a change of control of ERM Power, being a material change in the composition of the Board initiated as a result of a change of ownership of Shares and the purchaser of the Shares requiring (or agreeing with other Shareholders to require) that change in Board composition, or in other circumstances that the Board determines appropriate.
- On termination of employment due to redundancy, death or permanent disability, or in circumstances that the Board determines appropriate.

Option exercise price under LTIOT plan

The exercise price of Options granted under the LTIOT plan after the admission of ERM Power to the office list of ASX will be the volume weighted average price at which Shares trade on ASX on the 20 business days preceding the offer date. If, prior to the exercise of an Option, ERM Power enters into a reorganisation of capital, the terms of the Options are to be reconstructed to the extent necessary to comply with any Listing Rules applying to a reorganisation of capital.

Options issued under LTIOT plan

At the date of this Prospectus, 1,539,106 Options have been issued under the LTIOT plan with an exercise price of \$2.25. Subject to the continuation of employment of the participants, all of those Options will vest in September 2012.

Long Term Incentive Share Trust ('LTIST')

Objective

The objective of the LTIST plan is to award initial long term incentives to eligible employees and executives through the provision of Shares to a trust, the LTIST.

Eligibility

Participation in the LTIST plan is open to senior employees (including Executive Directors) who are invited by the Board.

Operation

Shares will be acquired by a trustee who will hold those Shares on behalf of participants. The Shares will be acquired by the trustee either subscribing for new Shares or purchasing Shares on market. The terms upon which

the Shares will vest under the LTIST plan are set out in individual letters of offer. Those vesting conditions may be a combination of service and performance hurdles, as determined by the Directors.

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

On cessation of employment, participants have six months to withdraw from the LTIST. A participant may withdraw by instructing the trustee to sell the underlying Shares which have vested at that time on their behalf or transferring title to the vested Shares to the participant.

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

Share issue price under LTIST plan

The issue price of Shares acquired by the LTIST after the admission of ERM Power to the official list of ASX will be the volume weighted average price at which the Company's Shares traded on ASX on the 20 business days preceding the date a participant is allocated Shares under the plan.

Shares issued under LTIST plan

At the date of this Prospectus, 513,072 Shares have been issued under the LTIST plan. Subject to continuation of employment of the participants, 33% of those Shares vest in September 2012 and 67% vest in September 2013.

Discontinued plans

Share/Loan Incentive Plan ('SLP')

In 2007 and 2008, ERM Power made offers to certain senior executives to participate in the SLP. ERM Power provided loans to participants to enable them to subscribe for Shares. The loans are interest bearing with recourse limited to the value of the Shares. The loans are repayable in the event of termination of employment or otherwise between seven and 10 years from the date of advance. As at 31 October 2010 there were eleven participants in this plan holding a total of 4,363,342 Shares with an aggregate outstanding loan balance of \$3,109,231.

Employee Option Plan ('EOP')

In June 2008, ERM Power made offers to certain employees to participate in the EOP and granted Options with a five year exercise period and an exercise price of \$0.806. At the date of this prospectus there are 10,278,412 Options on issue under the EOP. There are no performance conditions attached to the Options issued under the EOP.

Deferred Employee Share Plan ('DESP')

In June and July 2009, ERM Power allotted shares via an incentive bonus salary sacrifice into the DESP. Shares issued under this plan vested immediately. Participants may not dispose of any Shares held by the trustee on their behalf without having submitted a notice of withdrawal of Shares and such notice having been approved by the Board. As at 31 October 2010 there were 57 participants in the plan holding a total of 1,736,440 Shares.

10.5 Material Contracts

10.5.1 Underwriting Agreement

ERM Power and the Underwriters have entered into the Underwriting Agreement. In accordance with the terms of the Underwriting Agreement, the Underwriters have agreed to manage the Offer and to underwrite the application for Shares under the Offer by subscribing for any Shares the subject of the Offer for which valid applications are not received, other than Shares subscribed for by the Cornerstone Investors.

The Underwriters obligations under the Underwriting Agreement are subject to various conditions precedent, including the Cornerstone Investors submitting valid applications for Shares for total proceeds of \$30.0 million (refer to Section 10.5.2).

Fees and costs

ERM Power must pay the Underwriters a fee of 3% (comprising an underwriting fee 1.5% and a management fee of 1.5%) of the underwritten Offer proceeds (\$70.0 million) and pay MCAL a co-ordination fee of 0.5% of the underwritten Offer proceeds (\$70.0 million). ERM Power may, at its discretion, also pay the Underwriters a performance fee of 0.5% of the total Offer proceeds (\$100.0 million).

ERM Power must also pay the Underwriters a management fee of 1% of the component of the Offer proceeds that is not underwritten (\$30.0 million).

In addition to the fees described above, ERM Power has agreed to pay the Underwriters for reasonable out of pocket expenses (including legal fees) in relation to the Offer.

Termination

As is normal for agreements of this nature, an Underwriter may terminate its obligations under the Underwriting Agreement if certain events occur before the Shares are issued ('Unqualified Termination Events'). In respect of the occurrence of certain other events, an Underwriter's ability to terminate is limited to circumstances in which the Underwriter is of the opinion that the event has had or could be expected to have a material adverse effect on certain factors including (but not limited to) the financial condition of ERM Power, the ability of that Underwriter to market or promote the Offer or the price or likely price at which the Shares are likely to trade on ASX ('Qualified Termination Events').

The Unqualified Termination Events include (but are not limited to):

- (a) (**index fall**) the S&P/ASX 200 Index published by ASX closes at 10% below its level as at 5:00pm on the date of the Underwriting Agreement for at least two consecutive business days;
- (b) (**supplementary prospectus**) any Underwriter forms the view (acting reasonably) that a supplementary prospectus must be lodged with ASIC;
- (c) (**material adverse change**) a material adverse change, or any development involving a prospective material adverse change occurs in relation to ERM Power and its related bodies corporate;
- (d) (**offer documents**) the Underwriters form a view (acting reasonably) that:
 - (i) there is an omission from the Prospectus or any supplementary prospectus of material required by the Corporations Act to be included;
 - (ii) an Offer Document (defined in the Underwriting Agreement to mean any documents issued or published by or on behalf of the Company in respect of the Offer, including the Prospectus, the Application Forms, any supplementary prospectus, any written materials that are presented or provided to prospective investors (including roadshow presentations) and any Publication (defined in the Underwriting Agreement to include media statements, announcements and other similar materials)) contains a statement which is misleading or deceptive (whether by inclusion or omission); or

10. Additional Information (cont.)

- (iii) an Offer Document (as defined above) does not contain all information required to comply with Chapter 6D and Chapter 7 of the Corporations Act.

(This termination right does not apply to materials published or made by or on behalf of any of the Underwriters or their affiliates except to the extent such materials rely upon information in any Offer Document or Publication, as agreed or approved by the Company and the relevant failure was caused by reliance on that information).

- (e) **(material adverse change in financial markets)** any of the following occurs:

- (i) any material adverse change or disruption to the political conditions or financial markets of Australia, the United Kingdom, the United States of America, Hong Kong or Singapore or the international financial markets or a general moratorium on commercial banking activities is declared in those countries; or
- (ii) trading on ASX, the London Stock Exchange, the New York Stock Exchange, the Hong Kong Stock Exchange or the Singapore Exchange is suspended or limited in a material respect for one day on which that exchange is open for trading,

the effect of which is such as to make it, in the reasonable judgment of the Underwriters, impractical to promote the Offer or to enforce contracts to issue and allot the Shares;

- (f) **(conduct)** ERM Power or any of its Directors or officers engage in any fraudulent conduct or activity or breach the Corporations Act;

- (g) **(insolvency)** ERM Power or any of its related bodies corporate becomes insolvent;

- (h) **(timetable)** any event specified in the Offer timetable is delayed for more than one business day without the prior written approval of that Underwriter;

- (i) **(debt facilities)**

- (i) ERM Power breaches, or defaults under, any provision, undertaking, covenant or ratio of a material debt or financing arrangement; or
- (ii) there occurs an event of default, or review event (which gives a lender acceleration or repayment rights) under or with respect to such financing arrangement; and

- (j) **(future matters)** any statement in the Prospectus which relates to a future matter is or becomes incapable of being met in the projected timeframe or, in the reasonable opinion of the Underwriters, is unlikely to be met in the projected timeframe.

The Qualified Termination Events include (but are not limited to):

- (a) **(hostilities)** in respect of any one or more of Australia, the United States of America, any member state of the European Union, Indonesia, Japan, Russia, the People's Republic of China, North Korea or South Korea: (i) hostilities not presently existing commence, (ii) a major escalation in existing hostilities occurs, (iii) a declaration is made of a national emergency or war, or (iv) a terrorist act is perpetrated;
- (b) **(change in law)** there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of the Commonwealth of Australia or any State or Territory of Australia a new law, or the Government of Australia or any State or Territory of Australia or the Reserve Bank of Australia adopts or announces a proposal to adopt a new policy;
- (c) **(material contracts)** any contract, deed or other agreement which is material to the making of an informed investment decision in relation to the Shares is terminated, rescinded, amended (without prior written consent of the Underwriters) or found to be void or voidable;
- (d) **(legal proceedings)** the commencement of legal proceedings against ERM Power or any Director or any regulatory inquiry or public action against a Director or announcement that such action may be taken; and
- (e) **(supplementary prospectus)** ERM Power lodges a supplementary prospectus.

Representations, warranties and undertakings

The Underwriting Agreement contains various representations and warranties made by ERM Power and the Underwriters, which are customary in such an agreement. ERM Power also provides certain undertakings under the Underwriting Agreement regarding the conduct of ERM Power prior to, and for limited periods of time following the Shares being issued.

Indemnity

ERM Power agrees to indemnify the Underwriters, each of their respective related bodies corporate and affiliates and each of their respective officers, directors, employees, representatives, agents and advisers against all losses, liabilities, claims, damages, costs, charges and expenses whatsoever (including reasonable legal costs on a full indemnity basis) incurred or suffered directly or indirectly arising out of or in connection with the Offer or the Underwriting Agreement, other than losses caused directly by the gross negligence, wilful default, wilful misconduct or fraud of the indemnified party or the Underwriter, except to the extent that the breach is caused or contributed to by ERM Power, its related bodies corporate or their directors, offices, advisors, agents or employees.

10.5.2 Bond Facility

On 8 November 2010 ERM Power entered into a bond facility agreement with the Cornerstone Investors. Under the facility agreement, the Cornerstone Investors have agreed to make a \$30.0 million facility available to ERM Power to draw-down prior to 30 December 2010. The purpose of the facility is to provide ERM Power funding in the event that the IPO is not completed. If the IPO is not completed prior to 30 December 2010 and ERM Power draws on this facility ERM Power will pay a commitment fee of 10% of the facility limit (\$3.0 million) (Commitment Fee) which is offset against an establishment fee and part of the interest over the term of the facility. If an IPO occurs prior to 30 December 2010 and the facility is undrawn, the Cornerstone Investors agree to subscribe for \$30.0 million of Shares under the Offer at the Offer Price. In those circumstances, Trevor St Baker, through a controlled entity, has agreed to pay the Commitment Fee, at his cost.⁵² The Cornerstone Investors are not associated with Trevor St Baker.

Ironstone Capital Pty Ltd ACN 127 122 150 will be paid a management fee of 3.5% of the \$30.0 million of subscription proceeds received from the Cornerstone Investors.

10.5.3 Ownership of generation assets

For each of ERM Power's current generation assets, ERM Power, or a subsidiary of ERM Power, has entered into shareholders agreements or partnership agreements that regulate the rights and obligations of the owners of those assets.

⁵² Trevor St Baker can also satisfy this obligation by transferring Shares equal in value to the Commitment Fee (at the Offer Price).

Those ownership agreements generally cover the following matters:

- Appointment of directors (in the case of a project entity) or members of a management committee (in the case of a partnership). ERM Power's right to appoint directors or members of a management committee is generally commensurate with its ownership interests in the asset.
- Pre-emptive rights. ERM Power, or its subsidiary, will be required to offer its interest in the relevant power station for sale to its equity partner before it can dispose of that interest to a third party. Exceptions to the pre-emptive rights include disposals to a related entity, disposals consented to by the equity partner or disposals by way of security in favour of the financiers of the relevant power station.
- Change of control restrictions. The ownership agreements entered into by ERM Power restrict a change of control of ERM Power or its subsidiaries. The change of control restrictions are subject to certain exceptions and the IPO is not expected to breach any change of control restrictions in ownership agreements entered into by ERM Power.
- Matters requiring special or unanimous approvals. The ownership agreements for each of ERM Power's generation assets require certain decisions to be approved by a special resolution (between 60% to 80% majority) or unanimous resolution of partners or shareholders (as relevant). Those decisions generally cover matters such as:
 - changes to the share capital of project entities, including shares issues;
 - acquisitions, disposals, investments, borrowings and settlement of claims above specified monetary thresholds;
 - undertaking activities outside the ordinary course of business;
 - making distributions other than in accordance with the agreed distribution policy;
 - entering, varying or terminating material agreements (only applicable to Neerabup); and
 - refinancing the power station (only applicable to Neerabup).

10. Additional Information (cont.)

Because ERM Power does not currently hold interests in its generation assets above 50%, the special or unanimous approval requirements restrict ERM Power's ability to make certain decisions in respect of those assets without the agreement of its equity partner:

- Material breach provisions. There are consequences under the ownership agreements where ERM Power, or its subsidiary, breaches the ownership agreement, suffers an insolvency-related event, undergoes a prohibited change of control or undertakes a prohibited disposal of its interest without following the pre-emptive rights provisions. Material breaches of an ownership agreement can require ERM Power to make an offer to dispose of its interest in the generation asset to its equity partner for 90% of its value (in the case of Oakey) or fair market value (in the case of Neerabup and Braemar 2).

Oakey Power Holdings shareholders agreement

As a result of the ownership structure of Oakey Power Holdings (which owns Oakey), an investor who acquires legal or beneficial ownership of shares in ERM Power that causes the investor's relevant interest in ERM Power to be 20% or more may also obtain a relevant interest in ERM Oakey that may cause a material breach of the Oakey Power Holdings shareholders agreement, unless the other owners of Oakey consent to that acquisition. If a material breach occurs, ERM Power may be forced to sell its interest in Oakey to other shareholders of Oakey Power Holdings at 90% of its market value.

The Offer will not give rise to such rights; however, a subsequent acquisition of Shares, whether on-market or otherwise, may trigger those rights.

10.5.4 Generation assets

Project debt facilities

ERM Power's generation assets are financed by non-recourse project debt facilities. The agreements entered into by the subsidiaries of ERM Power and its equity partner (the project entities) for those facilities generally contain the following terms:

- Warranties and undertakings. The project entities will give various warranties and undertakings to the financiers. Undertakings include providing accounts and reports to financiers on a regular basis, notifying the financiers if certain events occur, not undertaking

actions that could damage the value of the generation asset or the security held by the financiers, undertakings related to the operation of the power station and complying with agreements related to the power station, maintaining adequate insurance and not making distributions unless allowed to do so under the facility agreement. The extent of the undertakings mean that many actions, such as agreeing to enter into or amend an agreement related to the power station, cannot be done without the financier's consent.

- Change of control restrictions. The facility agreements typically contain restrictions on changes of control of the project entities. Generally, where ERM Power and its equity partner continue to control the project vehicles, no change of control will occur under the facility agreement and the IPO is not expected to breach any change of control restrictions under the project debt facilities.
- Distributions. The facility agreements require that a proceeds account is established into which all operating revenue and other specified amounts must be deposited. The project entities must use the proceeds account to pay for certain capital and operating expenses and can only make distributions out of the balance held in the proceeds account if an event of default is not subsisting, balances in other project accounts are at the required levels, and specified debt service coverage ratios and loan life coverage ratios are being met. Therefore, if the ratios specified in the facility agreements are not being met, distributions cannot be made from the generation assets, which affects the cash flow that ERM Power receives from those assets.
- Events of default. Unremedied breaches of the warranties and undertakings contained in the facility agreements can give rise to an event of default. Various other matters will also give rise to an event of default, such as insolvency-related events, defaults under agreements entered into by the project entities where there are material adverse consequences for that default, events that materially adversely affect the ability of the project to carry on its business or the rights of a financier or the enforceability of some security, or otherwise where there is an unremedied breach of the facility agreement that has materially adverse consequences. If an event of default occurs, the financiers may demand immediate repayment of the project facilities.

- Security. The financiers hold security over the generation assets and shares in the project entities. However, as the facilities are non-recourse, the security does not extend beyond ERM Power's interest in the particular generation asset.

Equity financing agreements

ERM Power has entered into agreements with ANZSAM to raise capital through the issue of notes in order to fund ERM Power's equity interest in the Neerabup power station ('Notes').

The terms of the Notes include the following:

- Warranties and undertakings. The entities issuing the notes (subsidiaries of ERM Power) give various warranties and undertakings to ANZSAM, such as providing accounts and reports to ANZSAM on a regular basis, notifying ANZSAM if certain events occur, not undertaking certain actions without ANZSAM's consent, undertakings related to maintaining ERM Power's interest in the relevant power station and restrictions on the ability to undertake debt refinancing. The extent of the undertakings mean that many actions, such as agreeing to vary certain agreements entered into by the Note issuer, voting shares held by the note issuer in certain ways or making certain types of distributions, cannot be done without ANZSAM's consent.

- Change of control restrictions. The agreements under which ANZSAM subscribed for the notes contain restrictions on changes of control. Generally, where ERM Power continues to have capacity to determine the outcome of decisions about the Note issuer, financial and operating policies in accordance with the Corporations Act, no change of control will occur. There is a specific carve-out for a change of control as a result of an IPO.
- Early redemption. ANZSAM may require the early redemption of its Notes if an event of default or change of control occurs. An event of default includes breaches of the Note subscription agreements or the warranties and representations given in those agreements, as well as cross defaults in respect of other financial indebtedness. Where the Notes are not redeemed as required by ANZSAM or on maturity, the Notes can be converted into shares in the Note issuer. If the value of the existing shares in the Note issuer held by ERM Power is less than \$500,000, ANZSAM can also acquire the other outstanding shares in the issuer entities for nominal value, effectively taking ownership of ERM Power's entire interest in the relevant power station.

ERM Power may redeem the Notes prior to their maturity. ERM Power is required to pay ANZSAM an amount greater than the face value of the notes depending on when they are redeemed, as set out in the following table:

| Date redeemed | 1 October 2010 to 30 September 2012 | 1 October 2012 to 30 September 2014 | 1 October 2014 to 30 September 2016 | 1 October 2016 to 11 February 2023 |
|--|-------------------------------------|-------------------------------------|-------------------------------------|------------------------------------|
| % of face value of notes payable on redemption | 120% | 130% | 140% | 150% |
| Amount repayable on redemption | \$48.0 million | \$52.0 million | \$56.0 million | \$60.0 million |

10. Additional Information (cont.)

10.5.5 Corporate facilities

ERM Power has entered into the following agreements:

- Credit support facility agreement. Arrow Energy has provided a \$25.0 million facility that allows for a cash backed letter of credit in favour of ERM Sales. It is expected that the facility will be discharged by a \$25.0 million charged deposit account in Arrow Energy's name being released to Arrow Energy, either by ERM Power using proceeds from completion of the sale of ERM Power's interest in Braemar 2, or up to \$25.0 million of the Offer proceeds, to replace the letter of credit.
- Facility agreement. Arrow Energy has separately lent \$24.0 million to ERM Power which will be repaid by set-off from proceeds payable to ERM Power on completion of the sale of ERM Power's interest in Braemar 2 to Arrow Energy (expected 30 June 2011) or from the Offer proceeds.
- Corporate facilities. NAB has provided ERM Power with several corporate facilities that have a combined limit of approximately \$3.0 million. A review event occurs for these facilities where there is a change in the persons that control ERM Power (such an event will not occur as a result of the Offer).
- ERM Sales facility. NAB has provided ERM Sales with a debtor finance and bank guarantee facility, the combined limit of which is \$55.0 million. A review event occurs under this facility if there is a change in the persons who control ERM Sales (such an event will not occur as a result of the Offer).

10.5.6 Key operating agreements

ERM Power (or its subsidiaries) have entered into various operating agreements that are customary for the generation assets that ERM Power has an interest in. These agreements include:

- Connection and access agreements – under which the relevant power stations are connected and given access to the relevant transmission grid for electricity generated at those power stations.
- Operator services agreements (or other similar agreement) – for the provision of operation and trading services to each of ERM Power's current power stations. The obligations of the operator under these agreements generally includes:

- operation of the relevant power station (including the employment of appropriately qualified personnel);
- daily routine maintenance of all generation plant and auxiliary equipment;
- recommending major repairs, replacements and capital improvements;
- developing and maintaining health and safety and environmental procedures for the relevant power station;
- maintaining, renewing and replacing any government approvals or authorisations necessary for the continued operation of the relevant power station; and
- developing and maintaining security procedures and programs necessary for the purpose of maintaining appropriate insurances for the relevant power station.

ERM Power is the operator of Neerabup, Kwinana and Braemar 2. Contact Energy is the operator of Oakey.

- Gas supply agreements – under which gas is supplied to the relevant power stations.
- Gas transportation agreements – under which the transportation of gas to the relevant power station is secured.
- Revenue contracts – for the sale of electricity generated by the power station, such as power purchase agreements, tradeable purchase agreements or other off-take arrangements.

The following information is a summary of the key contracts relating to fuel supply and revenue contacts for ERM Power's generation assets and also contains more specific information about the operator services agreements in respect of those assets.

Oakey power station

Oakey Power Holdings has entered into a power purchase agreement ('Oakey PPA') with AGL that expires in 2014. Under the Oakey PPA, Oakey Power Holdings must ensure the Oakey power station can meet a guaranteed generation output, which is exclusively made available to AGL and which AGL can then dispatch according to its requirements.

Oakey Power Holdings has also agreed to purchase gas from AGL under a gas supply agreement, with that gas being used to generate output required by AGL under the Oakey PPA.

Contact Energy operates and maintains Oakey under an operations and maintenance agreement. Under the agreement, Contact Energy provides such services as may be required for the safe and efficient operation and maintenance of Oakey in accordance with an agreed budget and business plan. The operations and maintenance agreement for Oakey terminates on the expiry of the Oakey PPA.

Neerabup power station

Neerabup has entered into a tradeable purchase agreement ('Neerabup TPA') with Synergy that has a 20 year term and comprises a bilateral agreement for energy and capacity sales under which Neerabup must provide Synergy with quantities of energy to meet nominations made by Synergy in consideration for payment of a contract charge. Synergy can make electricity nominations for each trading day which must be equivalent to the quantity of gas Synergy also nominates to supply for that trading day. In this way, the Neerabup TPA operates like a tolling arrangement but energy nominations can be delivered to Synergy from either the Neerabup power station or by procuring energy from the market. Synergy also has the right to assign specified proportions of its off-take obligations to third parties, provided those parties satisfy prescribed credit rating criteria.

The bilateral agreement with Synergy only covers one unit of the Neerabup power station. Synergy has an option to enter into a bilateral agreement for the second unit of Neerabup. Neerabup cannot enter into third party bilateral agreements for the second unit without first giving Synergy a right to exercise its option.

Gas is supplied to Neerabup under the Neerabup TPA with Synergy.

ERM Power Generation has been appointed to provide operation, maintenance and other similar services for Neerabup pursuant to a 20 year operation, maintenance and services agreement. ERM Power Generation's appointment as operator of Neerabup continues until the expiry of the Neerabup TPA in 2029, but may be terminated by NewGen Neerabup with 60 business days written notice.

Kwinana power station

ERM Power recently completed the divestment of its interest in Kwinana in FY2011. Refer to Section 10.7 for further details.

Despite the recent divestment, the operation of Kwinana continues to be subcontracted to ERM Power Generation under an operator services agreement that has a term expiring in 2015. The operator services agreement can be terminated earlier by the owners of Kwinana giving 90 days written notice (such notice may only be given on or after 30 June 2011), or if certain force majeure or default events occur. ERM Power Generation undertakes general operator and trading services relating to Kwinana under the operating services agreement whereas specialised operator services (including insurance, legal, environmental and engineering services) which are beyond the reasonable capability of ERM Power Generation are excluded from the agreement. ERM Power Generation continues to manage the provision of those specialised services by contracting with relevant experts.

Braemar 2 power station

ERM Power expects to complete the divestment of its interest in Braemar 2 in FY2011. Refer to Section 10.7 for further details.

Braemar 2 has entered into an off-take agreement with Origin for cap products and a swap agreement with ERM Sales, with each agreement expiring in 2019. Braemar 2 has the ability to terminate the swap with ERM Sales in certain circumstances, including where it exercises an option to cause Origin to enter into an additional electricity price cap.

The Braemar 2 power station sources its gas under a 12 year gas sale agreement with Arrow Energy (with an option to extend for a further six years), a gas sale agreement with Arrow Tipton and Beach Petroleum that expires in 2022 and a gas sale agreement with Origin that expires at the end of the Origin off-take agreement.

10. Additional Information (cont.)

Gas is also supplied to Braemar 2 under an interruptible gas supply agreement with Arrow Energy. Braemar 2 is paid a reservation charge and other daily charges under the agreement and can interrupt the supply and taking of gas for any month by giving 60 days' notice.

ERM Power Generation has been appointed to provide management and operation services for the operating life of Braemar 2. However, as part of the sale of ERM Power's remaining interest in Braemar 2 to Arrow, ERM Power Generation may cease to act as the operator.

ERM Sales

ERM Sales routinely enters into electricity retail sales agreements with its customers. The terms of those agreements vary from customer to customer; however, will generally comprise such things as the term of the contract (usually one to three years), the pricing structure, payment terms, inclusion of emission products, metering arrangements, billing processes and provisions which allow ERM Sales to pass through certain charges or increases in costs.

ERM Sales also enters into metering services agreements (with accredited metering services providers under the National Electricity Rules), network agreements (with entities that hold distribution licences) and retail and wholesale brokerage agreements.

ERM Sales enters into a number of ISDA agreements with various electricity generators. Of particular importance to ERM Sales, in terms of its volume and term and, therefore, potential exposure to electricity pool prices, is the ISDA agreement with the owners of Braemar 2 to fix the price of electricity ('B2 Swap'). The B2 Swap is a 10 year agreement that expires on 30 June 2019, if not terminated earlier. ERM Sales has the option to extend the term of the B2 Swap for an additional two years from 30 June 2019, if the agreement has not been terminated.

NewGen Braemar 2 may terminate the B2 Swap in certain circumstances, including where it exercises an option to cause Origin to enter into additional electricity price caps. If NewGen Braemar 2 does not exercise that option by 30 December 2011, a review event occurs under the Braemar

2 project debt facility, which entitles the financiers to review pricing and, subject to certain conditions, potentially recall the project loan facility. If NewGen Braemar 2 does exercise the option or Origin subsequently exercises a call option to enter into price caps, ERM Power expects the B2 Swap will be terminated on 30 June 2012; however, there is no guarantee of this occurring. Subject to lender consent, NewGen Braemar 2 also has the right to terminate the B2 Swap by giving ERM Sales 12 months notice at any time after 30 June 2011, if the B2 Swap has not already been terminated.

The B2 Swap commenced on 1 July 2009 with a notional quantity of 75 MWh (which is equal to 150 MWh of capacity) during peak periods (7:00am to 10:00am Brisbane time) on each day at the following fixed prices:

| Year | Price |
|-----------------------------|---------------------------|
| 1 July 2009 to 30 June 2011 | \$55.00 per MWh |
| Each year thereafter until | Previous years' price |
| 2021 (if extended) | escalated at 2% per annum |

The B2 Swap is currently out of the money for ERM Sales and will continue to be until the spot price of electricity increases to the level of the fixed price set out in the above table. Given the term of the B2 Swap, ERM Sales could incur losses if the B2 Swap was to remain on foot, ERM Sales had not on-sold the position under the B2 Swap with a positive margin and where electricity prices remained below the fixed prices under the B2 Swap.

There is also a \$25.0 million letter of credit in favour of NewGen Braemar 2 that supports ERM Sales' credit position under the B2 Swap. That letter of credit is currently cash backed by funds placed in a deposit made available under the credit support facility agreement with Arrow Energy. On completion of the Braemar 2 divestment, ERM Power expects that the funds under deposit will be released to Arrow Energy and ERM Power will provide similar cash backing for the letter of credit from the proceeds of the Braemar 2 divestment. If the B2 Swap is subsequently terminated, any cash balance would be released to ERM Power.

10.6 Australian taxation considerations

Set out below is an overview of the Australian tax implications for Australian residents and non-residents who acquire Shares under the Offer.

The taxation consequences of an investment in ERM Power will depend upon your particular circumstances. You should make your own enquiries about the taxation consequences of an investment in ERM Power. If you are in doubt, you should consult your accountant, stockbroker, lawyer or other professional adviser.

Tax considerations for Australian residents

Capital gains or losses

Australian income tax laws impose tax on capital gains (CGT). Resident Shareholders who hold Shares on capital account may become liable to pay CGT if they make a capital gain when they dispose of Shares (or another CGT event has occurred in respect of those Shares).

Generally:

- the Shareholder will be taken to have acquired Shares under the Offer when these are issued to the Shareholder and to have disposed of them when they transfer (or agree to transfer) them to another person (although tax laws also deem a disposal to have occurred in other circumstances);
- the capital gain or loss will be calculated as the sale price of the Shares (or, in some cases, market value) minus the acquisition price of the Shares and other amounts included in the Shareholder's cost base for the Shares (e.g. transaction costs);
- if the calculation results in a negative number, a capital loss has been made. A capital loss cannot be offset against ordinary taxable income but may be offset against current capital gains or carried forward and offset against future capital gains.

If the Shares are held for at least 12 months, the Shareholder may be entitled to a CGT discount (e.g. if the Shareholder is an individual or a trust, the capital gain may be discounted by 50% before tax is calculated or if the Shareholder is a complying superannuation fund or a similar entity, the discount is 33% but non-trustee companies are not entitled to this form of discount). The net taxable

capital gain after permitted offsets (e.g. capital losses) and discounts is added to the Shareholder's other assessable income.

Revenue gains or losses

Profits or losses in respect of Shares acquired for the purpose of share trading are likely to be treated for tax purposes as revenue gains or losses without the concessions available under the CGT provisions. Shareholders who hold Shares for a share trading purpose should seek independent professional advice as the issues are complex.

Dividends

Generally:

- dividends on Shares will be assessable income of the Shareholder in the tax year in which they are paid (or deemed to be paid) to the Shareholder (e.g. a dividend will be deemed to be paid where additional Shares are issued under a dividend reinvestment plan);
- if the dividend carries a franking credit, the dividend paid (or deemed to be paid) plus the franking credit will be included in the Shareholder's assessable income;
- the Shareholder will be entitled to offset the franking credit against tax payable by the Shareholder (provided the Shareholder is a qualifying person);
- a qualifying person is a Shareholder who satisfies the holding period rule (i.e. has held the Shares on which the dividend is paid 'at risk' for at least 45 days) and the related payments rule;
- individuals and complying superannuation funds and some other taxpayers are entitled to a refund of any part of the franking credits that exceed their tax payable; and
- special rules apply to Shareholders who are trusts or partnerships.

Tax considerations for non-residents

The comments below are subject to the provisions of any applicable tax treaties and double taxation agreements that Australia may have with the country in which a Shareholder is resident. Non-resident Applicants should seek their own independent professional advice in relation to the tax consequences in the country of their residence and any other relevant jurisdictions in respect of an investment in ERM Power.

10. Additional Information (cont.)

Capital gains or losses

Shareholders who are foreign residents (or trustees of foreign trusts) may not be subject to Australian CGT (nor be able to offset capital losses) on the disposal of all or some of their Shares (or where another CGT event has occurred in respect of those Shares).

Non-resident Shareholders should obtain their own independent professional advice about the tax consequences, including CGT, of acquiring Shares and any subsequent transfer (or agreement to transfer) all or some of those Shares to another person.

Revenue gains or losses

Profits or losses in respect of Shares acquired for the purpose of share trading are likely to be treated for tax purposes as revenue gains or losses without the concessions available under the CGT provisions. Non-resident Shareholders who hold Shares for a share trading purpose should obtain their own independent professional advice as the issues are complex.

Dividends

Generally, dividends paid (or deemed to be paid) to non-resident Shareholders will be subject to a final withholding tax unless the dividend is fully franked. The rate of dividend withholding tax rate is 30% unless Australia has a double taxation agreement with the country in which the Shareholder is a resident (in which case, the rate of dividend withholding tax is usually reduced to 15%). Non-resident Shareholders should obtain their own independent professional advice in relation to the tax consequences of receiving (or being deemed to receive) dividends on Shares.

10.7 Recent and potential transactions

Oakey

On 2 December 2009, Alinta entered into arrangements with Babcock & Brown International Pty Ltd and various of its related entities (Babcock Entities), to terminate certain agreements between the two groups and to settle outstanding debts and fees payable to the Babcock Entities. Securityholders of Alinta approved the arrangements on 22 February 2010. As part of those arrangements, Babcock & Brown International Pty Ltd (Babcock) was appointed as Alinta's agent to realise its 50% interest in the Oakey power station, with the net proceeds of sale to pass

to the Babcock Entities. Public disclosure in respect of those arrangements indicate that, should the sale not be completed by 31 December 2010, the Babcock Entities have the right to acquire Alinta's interest in the Oakey power station by 31 October 2011 at a nominated purchase price of its own determination. Should the Babcock Entities not take up the option to acquire, Alinta's interest in Oakey power station will revert to it.

On 5 November 2010, Alinta issued a transfer notice to ERM Oakey, Contact Energy and Oakey Power Holdings (Transfer Notice). Pursuant to the Transfer Notice, Alinta offers ERM Oakey and Contact Energy all of Alinta's shares in Oakey Power Holdings, being 62 shares in Oakey Power Holdings representing 50% of the issued capital of Oakey Power Holdings (OPH Shares) for about \$64.0 million and otherwise on the terms set out in the Transfer Notice. ERM Oakey's and Contact Energy's respective proportion of the OPH Shares are 31 OPH Shares each, representing 25% of Oakey Power Holding's issued share capital, for a sale price of about \$32.0 million.

Pursuant to the shareholders agreement in respect of Oakey Power Holdings (Shareholders Agreement), ERM Oakey may elect to purchase all or part of its proportion of OPH Shares. The final date to give such an election is 26 November 2010 and completion of the transaction is likely to occur late December 2010. If ERM Oakey acquired all of its proportion of OPH Shares, its ownership interest in Oakey Power Holdings would increase from 25% to 50% (ERM Power's economic interest in the Oakey power station would increase from 12.5% to 25%). ERM Oakey and Contact Energy may also elect to acquire additional OPH Shares above their respective proportions. For example, ERM Oakey could elect to acquire all of the OPH Shares. In those circumstances, if Contact Energy did not accept the offer in respect of any OPH Shares, ERM Oakey's ownership interest would increase from 25% to 75% (ERM Power's economic interest in the Oakey power station would increase from 12.5% to 37.5%). If not all OPH Shares are accepted by ERM Oakey or Contact Energy (or both), Alinta may elect to transfer the accepted OPH Shares to the relevant accepting shareholders on the terms of the Transfer Notice or it may sell all the OPH Shares to a third party on terms no more favourable to the third party than those in the Transfer Notice.

Although the Directors have not made a final decision to accept the offer of OPH Shares, ERM Power's management

team is actively progressing discussions with the co-owner of ERM Oakey and negotiations with potential financiers to fund the acquisition.

The funding for the acquisition will likely be via a limited recourse bridge facility (limited to the ERM Power's ownership interest in ERM Oakey, possibly via an indirect wholly-owned beneficiary of the ERM Power Trust).⁵³ Accordingly, the balance sheet effect of the acquisition by ERM Oakey of its proportion of OPH Shares would be to increase non-current debt by about \$16.0 million and increase its equity investment in associates by a corresponding amount.⁵⁴ This would increase ERM Power's net debt to \$113.6 million (from \$97.6 million) and its gearing ratio to 28.9% (from 25.9%). Given the net cash flow (after project debt servicing) of ERM Power's existing 12.5% interest in the Oakey power station (refer to Table 16 in Section 5.3.3), it is likely that any funding facility will require all free cash flow from ERM Power's existing and future funded interests in the Oakey power station to be locked-up or used to service interest payments and that some component of the interest and fees in respect of the facility may be capitalised for the term of the facility. Any lock-up of cash flow from ERM Oakey will not affect ERM Power's ability to make the dividend payments forecast for FY2011 and FY2012.

The profit and loss effect of the acquisition by ERM Oakey of its proportion of OPH Shares is summarised below:

- higher profit from associates (incremental increase estimated at \$0.8 million for FY2011 and \$1.8 million for FY2012);
- higher interest charges (assuming the purchase price of \$16.0 million is debt funded, assume an increase of \$1.6 million for FY2011 and \$3.2 million for FY2012).

Given the stage of negotiations with the potential financier the interest and fees applicable to any facility are not known and may be higher than estimated above. ERM Power's intention is to refinance the facility in the short-term, relying on the relatively low level of project financing debt for the Oakey power station. The ability to refinance will be subject to the

approval of co-investors in the Oakey power station. The profit and loss effect above assumes the acquisition of OPH Shares would settle on 31 December 2010; hence a 6 month impact in FY2011 and a full year FY2012. The profit and loss effect will differ in FY2011 depending on the timing of completion of the transaction.⁵⁵ ERM Power may elect to fund a small portion of the acquisition with equity rather than debt.

If ERM Oakey accepts the offer, it might do so in respect of all or part of its proportion of the OPH Shares and it may offer to acquire additional OPH Shares. The Directors currently expect that, if management is able to secure finance for the acquisition on reasonable terms, the Directors will support ERM Oakey offering to acquire OPH Shares. The Directors consider the acquisition of OPH Shares to be advantageous to ERM Power in the medium to long term. As described in Section 5.3.3, the Oakey PPA expires at the end of 2014, while the power station is expected to have a useful life of 15-20 years thereafter, giving the owners of the Oakey power station at that time the flexibility to recontract the capacity. Also, the project finance debt in respect of the Oakey power station is scheduled to be repaid in full by December 2014, at which time the asset will be unencumbered and the free cash flow from Oakey Power Holdings will increase substantially.

The Shareholders Agreement reserves certain important matters, including the issue of shares, the approval of distributions, entry into or variation of certain key agreements, amendments to the budget or the ability to make certain decisions in relation to the project funding to the 'majority approval' of shareholders of Oakey Power Holdings, defined as shareholders holding greater than 60% of the shares on issue. Accordingly, the acquisition by ERM Oakey of sufficient shares to obtain a 'majority approval' would provide significant additional flexibility to capitalise on the opportunities in respect of the Oakey power station. Similarly, a failure to take up its respective proportion of the OPH Shares may give Contact Energy a comparable advantage.

Kwinana divestment

ERM Power has recently disposed of its 30% interest in

⁵³ ERM Power may elect to fund all or part of the purchase price from internally generated cash flow and other facilities available to it. If necessary to secure funding, Trevor St Baker has indicated that he would agree a deferral of the repayment of all or part of the Director Loan, which is otherwise to be repaid out of the proceeds of the Offer (refer to Section 10.11 for further details on the Director Loan). ERM Power would source funding for these alternative means to the extent that the Board was satisfied that those arrangements would not affect the objectives described in this Prospectus.

⁵⁴ Net debt is ERM Power's total interest bearing liabilities, less cash and cash equivalents.

⁵⁵ If ERM Power acquired all the OPH Shares, non-current debt would increase by about \$32 million, increasing ERM Power's net debt to \$129.6 million (from \$97.6 million) and its gearing ratio to 31.7% (from 25.9%). The profit and loss effect would be an incremental increase in profit from associates, estimated at \$1.6 million for FY2011 (assuming a 6 month contribution) and \$3.6 million for FY2012 and a higher interest charge (\$3.2 million in FY2011 and \$6.4 million in FY2012 on the basis set out above).

Kwinana to a subsidiary of ANZSAM.

The consideration paid to ERM Power for its interest in Kwinana was \$39.9 million less the amounts that would have been payable by ERM Power to redeem the notes that were issued to ANZSAM to fund ERM Power's equity interest in Kwinana. The redemption amount for the notes (including interest) was approximately \$36.9 million, leaving net proceeds of approximately \$2.9 million paid to ERM Power on completion of the sale.

ERM Power entered into a share sale agreement for the Kwinana divestment and has given ANZSAM's subsidiary various warranties in respect of Kwinana and the entities through which ERM Power's ownership interest in Kwinana was held.

Braemar 2 divestment

ERM Power has agreed to dispose of its remaining 25.05% interest in Braemar 2. On 30 September 2010, ERM Power exercised its put option to sell its interest to a subsidiary of Arrow Energy and has subsequently entered into a share sale agreement. Completion of the sale of its remaining interest in Braemar 2 is expected to occur on 30 June 2011.

ERM Power was originally a 50% equity partner in Braemar 2 and disposed of a 24.95% interest to Arrow Energy in September 2009 for \$45.0 million. The consideration payable to ERM Power for its remaining 25.05% interest in the Braemar 2 power station is \$66.0 million, less any distributions that ERM Power receives from Braemar 2 before completion.

If the amount owing to Arrow Energy under a facility agreement is not repaid from the Offer proceeds, Arrow Energy may set off the outstanding balance (expected to be \$28.4 million as at 30 June 2011) against the proceeds of \$66.0 million to repay the facility agreement, leaving net proceeds of approximately \$37.6 million to be paid to ERM Power on completion. In addition, if the \$25.0 million cash backing to a letter of credit that supports ERM Sales' credit position under the B2 Swap is not replaced by ERM Power using the Offer proceeds, up to \$25.0 million of the proceeds from the Braemar 2 divestment will be used to replace that letter of credit, which is currently supported by cash in an account made available by Arrow Energy.

ERM Power has given Arrow Energy various warranties in respect of Braemar 2 and the partnership that owns Braemar 2. The sale of ERM Power's interest in Braemar 2 is not subject to any conditions precedent.

Service provider acquisition

ERM Power is currently in negotiations with the shareholders of a private company that provides services to support ERM Power's business, with a view to ERM Power purchasing the entire issued share capital of that company. If the acquisition does proceed, ERM Power will issue Shares equal to the value of \$2,000,000 (subject to various completion adjustments) to the shareholders of the company as consideration for the acquisition. The number of Shares to be issued as consideration for the acquisition will be determined by calculating the 10 day VWAP of the Shares immediately prior to completion of the acquisition. If the acquisition proceeds, it is currently proposed that 50% of the Shares issued to the shareholders of the company will be held in escrow until the date that is 3 business days following the release of ERM Power's financial results for the period ending 30 June 2012. Although the acquisition is in advanced stages of negotiation, there can be no guarantee that the acquisition will proceed.

10.8 Disputes and litigation

Neerabup balance of plant contract

Conneq Infrastructure Services (Australia) Pty Limited (formerly Bilfinger Berger Services (Australia) Pty Limited (Conneq) served a notice of dispute on the NewGen Neerabup Partnership on 27 August 2010 in relation to a liquidated damages claim made by the NewGen Neerabup Partnership and also alleging several breaches of the balance of plant contract. The notice of dispute claims that Conneq is not liable to pay a sum of approximately \$12.0 million levied against it by the NewGen Neerabup Partnership as liquidated damages for certain delays under the balance of plant contract. The notice also alleges that the NewGen Neerabup Partnership has failed to pay Conneq a sum of approximately \$770,000 and also claims the sum of approximately \$8.0 million for delay costs.

Within the next two months, the parties are scheduled to hold a number of meetings of the senior representatives of each entity for the purpose of conducting good faith negotiations with the view to resolving the dispute. These meetings are contemplated by the dispute resolution process prescribed within the contract. If the meetings do not result in a settlement of the dispute then either party can refer the matter to arbitration.

Neerabup tradeable purchase agreement

The Economic Regulation Authority of Western Australia recently approved a 12.9% increase of Western Power's transmission tariffs from 1 March 2010, which has resulted in an increase in the monthly network access fees for Synergy and Neerabup.

NewGen Neerabup has given Synergy a change in law notice under the Neerabup TPA asserting that the tariff increase falls within the change in law provisions of the relevant agreements, such that a portion of the increase in the transmission tariff costs can be passed on to Synergy under the relevant tradeable purchase agreement. The Neerabup TPA is summarised in Section 10.5.6.

Synergy has rejected NewGen Neerabup's assertion that the tariff increase is a change in law under the tradeable purchase

agreements. The Neerabup TPA contains a process for resolving any disputes between the parties regarding changes of law by referring the dispute to an expert.

Other than as set out above, at the date of this Prospectus, none of ERM Power or its subsidiaries is involved in any material legal proceedings and the Directors are not aware of any material legal proceedings pending or threatened against any of them.

10.9 Interests of Directors

Relevant interests in Shares

Directors are not required to hold Shares. The Directors or their associates will have a relevant interest in the following Shares immediately prior to the allotment of Shares under this Prospectus:

| Director | Registered holder | Ownership of Shares in ERM Power | Ownership of Shares in ERM Power (%) calculated at completion of the Offer |
|------------------|---|---|---|
| Trevor St Baker | Energy Resource Managers Holdings Pty Ltd as trustee for the Energy Resource Managers Trust | 43,549,488 | 42.4% |
| | Sunset Power Pty Ltd as trustee for the St Baker Family Trust | 20,438,364 | 19.9% |
| | Sunset Power A Pty Ltd as trustee for the Sunset Power Trust A | 5,160,934 | 5.0% |
| | Sunset Power B Pty Ltd as trustee for the Sunset Power Trust B | 5,160,934 | 5.0% |
| | Sunset Power C Pty Ltd as trustee for the Sunset Power Trust C | 5,160,934 | 5.0% |
| | Sunset Power D Pty Ltd as trustee for the Sunset Power Trust D | 5,160,934 | 5.0% |
| | Total | 84,631,588 | 82.5% |
| Martin Greenberg | Apollan Pty Ltd as trustee for the Hopetoun Trust | 494,522 | 0.5% |
| | Apollan Pty Ltd as trustee for the Greenberg Super Fund | 50,000 | 0.0% |
| | Martin Greenberg | 27,272 | 0.0% |
| | Total | 571,794 | 0.6% |
| Philip St Baker | Philip & Peta St Baker as trustees for the P&P St Baker Family Trust | 3,142,220 | 3.1% |
| | Monte Vista Holdings Pty Ltd as trustee for Ouray Super Fund | 561,212 | 0.5% |
| | Philip M St Baker | 291,302 | 0.3% |
| | Total | 3,994,734 | 3.9% |
| Tony Bellas | - | - | - |
| Tony Iannello | - | - | - |
| Brett Heading | - | - | - |
| | Overall total | 89,198,116 | 55.8% |

10. Additional Information (cont.)

Relevant interests in Options

The following Directors will have a relevant interest in the following Options on the allotment of Shares under this Prospectus:

| Director | Registered holder | Options | Lapse | Exercise price | % |
|----------------------|-------------------|--------------------|---------------------------|-------------------|--------------|
| Martin Greenberg | Martin Greenberg | 354,726 | 6 June 2013 | \$0.806 | 3.0% |
| Philip St Baker | Philip St Baker | 833,870 242,706 | 6 June 2013 1 Nov 2017 | \$0.806 \$2.25 | 9.1% |
| Overall total | | 1,431,302 | | | 12.1% |

Details of the terms on which Options are issued are set out in Section 10.4.

Recent dealings in Shares

There have been no recent dealings in Shares by Directors.

Remuneration

ERM Power's Constitution limits the aggregate Directors' fees (excluding the salary of an Executive Director) to the amount determined by ERM Power at general meeting. ERM Power has resolved in general meeting that such remuneration will not exceed \$800,000 per annum.

The base fee (excluding superannuation) payable to the Chairman is \$200,000 per annum and the base fee (excluding superannuation) for each other Non-Executive Director is between \$125,000 and \$135,000 per annum, which includes the fees payable for participation on ERM Power's board committees (refer to Section 7.3.5). In addition, ERM Power has agreed to pay Mr Bellas a fee of \$30,000 (excluding GST) for his role on the due diligence committee in connection with the Offer and Mr Greenberg and Mr Iannello a fee of \$10,000 (excluding GST) for the additional work required by them in connection with the Offer. Sunset Power, an entity controlled by the Chairman, also receives fees under a consulting agreement which is summarised in Section 10.11.

The remuneration for FY2011 for the Managing Director, Philip St Baker, is set out as follows:

Managing Director fixed remuneration

- Base salary \$494,400
- Superannuation \$44,496

Managing Director at risk remuneration (subject to performance conditions)

- Short term incentive – up to 60% (maximum) of base salary paid in cash or securities as determined by the Directors;

- Long term incentive – up to 60% (maximum) of base salary paid in securities with vesting conditions determined by the Directors.

The long term incentives issued in FY2011 comprise 80,904 units in the LTIST (each representing a Share) and 242,706 units in the LTIOT (each representing an Option). Shares issued under the LTIST plan will vest in two allotments, with 33% vesting in September 2012 and 67% vesting in September 2013. The Options issued under the LTIOT vest in September 2012, have an exercise price of \$2.25 and lapse seven years after the date of grant.

See Section 10.4 for a description of the STIST, LTIST and LTIOT plans.

Philip St Baker's employment can be terminated by ERM Power with 12 months notice or without notice in the event of misconduct. Philip St Baker may terminate with three months notice.

Other than set out above or elsewhere in this Prospectus:

- no Director or proposed Director has, or has had in the two years before lodgement of this Prospectus, any interest in the formation or promotion of ERM Power, or the Offer, or in any property proposed to be acquired by ERM Power in connection with its formation or promotion or the Offer; and
- no amounts have been paid or agreed to be paid and no benefit has been given or agreed to be given, to any Director or proposed Director either to induce him or her to become, or to qualify him or her as a Director, or otherwise for services rendered by him or her in connection with the promotion or formation of ERM Power or the Offer.

10.10 Voluntary Escrow Agreements

Voluntary escrow agreements will apply to the following Existing Shareholders and Option holders:

| Existing Shareholders and Option holders | Escrow period | Security type | Existing Shares/ Options subject to escrow at date of Prospectus* | | % of Shares/ Options at date of Prospectus | Existing Shares/ Options subject to escrow at completion of the Offer* | % of Shares/ Options at completion of the Offer |
|--|--|----------------|---|-----------|--|--|---|
| | | | Shares | Options | | | |
| Trevor St Baker (or his associated entities) | Forecast Period | Shares | 84,631,588 | - | 82.5% | 84,631,588 | 53.0% |
| Other Directors and Senior Management (or their associated entities) | Release of FY2011 results (subject to ERM Power meeting forecasts) | Shares | 793,281 | 899,619 | 0.8% 7.6% | 793,281 899,619 | 0.5% 7.6% |
| | Forecast Period | Shares | 8,794,229 | 5,324,058 | 8.6% 45.1% | 8,794,229 5,324,058 | 5.5% 45.1% |
| Other Existing Shareholders of ERM Power – certain members of St Baker family (or their associated entities) | Forecast Period | Shares | 4,018,032 | 170,000 | 3.9% 1.4% | 4,018,032 170,000 | 2.5% 1.4% |
| Other Existing Shareholders of ERM Power | Forecast Period | Shares | 1,095,018 | - | 1.1% | 1,095,018 | 0.7% |
| Total number of Existing Shares and Options subject to voluntary escrow | | Shares | 99,332,148 | | 96.8% | 99,332,148 | 62.2% |
| | | Options | 6,393,678 | | 54.1% | 6,393,678 | 54.1% |

* Subject to rounding.

All of the Existing Shares and Existing Options held by Trevor St Baker, Philip St Baker, Graeme Walker, Mitch Anderson, Andrew St Baker and certain other members of the St Baker Family (or their associated entities) will be subject to escrow for the Forecast Period.

Existing Shares and Existing Options held by other Directors and Senior Management (other than certain members of the St Baker family, Mitch Anderson and Graeme Walker) (or their associated entities) will be subject to escrow for the Forecast Period with 25% of those Shares and Options to be released from escrow 3 business days after the release of ERM Power's financial results for the year ending 30 June 2011, provided that ERM Power's FY2011 financial forecasts are met and provided that ERM Power's FY2012 profit guidance meets or exceeds the FY2012 financial forecasts in this Prospectus. If these conditions are not satisfied, no Shares or Options will be released from escrow at this time and those securities will continue to be subject to voluntary escrow for the Forecast Period.

25% of Existing Shares held by other Existing Shareholders will be subject to escrow for the Forecast Period.

The escrow agreements restrict the ability of Existing Shareholders to dispose of, create any security interest in or transfer effective ownership or control of, the restricted Shares or Options. However, the escrow arrangements will allow Existing Shareholders to accept into a successful takeover bid (being a takeover bid that is accepted by at least half of non-escrowed Shareholders) and do not restrict a potential bidder building a pre-bid stake (by allowing Existing Shareholders to enter into binding pre-bid acceptance commitments).

The escrow agreements entered into by entities associated with Trevor St Baker permit those entities to grant security interests over the restricted Shares in certain limited circumstances (subject to Board approval), provided that:

- the total value of any facility secured must not exceed \$20.0 million;
- the facility must be provided by a bona fide third party lender; and
- the maximum loan to value ratio under the facility must not exceed 25%.

10. Additional Information (cont.)

The Board will not approve any arrangement that may be competitive or otherwise detrimental to ERM Power.

The escrow agreement entered into by Sunset Power (an entity associated with Trevor St Baker) also contains terms that allow Arrow Energy to deal with the Shares held by Sunset Power if Arrow Energy exercises its rights under a share mortgage that Sunset Power has granted Arrow Energy over its Shares. That share mortgage was granted as security for the credit support facility agreement between ERM Power and Arrow Energy (see Section 10.5.5 for a summary of the credit support facility agreement).

10.11 Related Party Transactions

Acquisition of interest in EP 389

On 16 September 2010, ERM Gas agreed to purchase an 8.75% interest in EP 389 from Sunset Power Holdings. Sunset Power Holdings is controlled by Trevor St Baker. Sunset Power Holdings was paid consideration of approximately \$1,048,233 for the 8.75% interest and ERM Power incurs any costs in relation to EP 389 from 16 September 2010. On registration of the transfer, ERM Gas will have a 21.25% interest in EP 389.

The 8.75% interest in EP 389 was originally farmed out by ERM Gas to Sunset Power Holdings in April 2010. The consideration payable for the reacquisition of EP 389 is based on the cash calls paid by Sunset Power Holdings in relation to EP 389 (\$986,670) and interest charges (as if that cash had been lent to ERM Gas).

Director Loan

The consideration payable for the 8.75% interest in EP 389 has been lent by Sunset Power Holdings to ERM Gas.

Other entities related to Trevor St Baker have also made loans to ERM Power. These loans were made to satisfy an obligation under the credit support facility agreement with Arrow Energy, which required that distributions made to entities associated with Trevor St Baker (for example, when ERM Power paid a dividend) be immediately loaned back to ERM Power. This requirement no longer applies so any future distributions by ERM Power to its Shareholders can be retained by the entities associated with Trevor St Baker.

The loan in respect of the 8.75% interest in EP 389 is repayable on the earlier of seven years from the first advance, 10 business days from when Sunset Power Holdings demands repayment or when ERM Gas elects to make an early repayment. The other loans are repayable on repayment or termination of the credit support facility agreement with Arrow Energy described in Section 10.5.5, which is expected to occur by 30 June 2011.

These loans ('Director Loan') all accrue interest at the rate of BBSY plus 4%.

A total of \$8.0 million of the Offer proceeds will be used to repay the Director Loan.

Consulting agreement with Sunset Power

ERM Power has entered into a consulting agreement for Sunset Power to provide mentoring services and advice to ERM Power's planning group on a range of planning functions until 30 June 2011, including in relation to:

- modelling of generation capital and operating costs;
- transmission and gas pipeline planning;
- strategic industry analysis;
- incorporating the impact of renewable technologies and regulatory changes into the planning framework; and
- options for the commercialisation of new generation development and alternative off-take structures and associated risk analysis.

Sunset Power is controlled by Trevor St Baker. The consulting agreement may be terminated by giving 30 days written notice or immediately if Sunset Power breaches the agreement.

ERM Power pays Sunset Power a fee of \$3,500 per day for services provided (up to a maximum of 70 days per annum). Sunset Power is also entitled to be reimbursed for all reasonable expenses incurred in providing these services.

Trevor St Baker is prohibited from competing with ERM Power during the term of the consulting agreement and for a period of 12 months thereafter.

Trevor has separately undertaken to ERM Power that, while he is a Director or substantial Shareholder, he will not pursue activities in the energy industry that will be competitive or otherwise detrimental to ERM Power and any such activities will require the independent Directors' prior approval.

Loans to related parties under employee incentive plans

Loans have been made to entities associated with Andrew St Baker and Philip St Baker under ERM Power's Share/Loan Incentive Plan ('SLP'), summarised in Section 10.4. Andrew and Philip are related parties of ERM Power by virtue of being Trevor St Baker's children (Philip is also related to ERM Power because he is a Director). The amounts outstanding as at 31 October 2010 are approximately \$182,844 and \$712,000 in respect of Andrew and Philip respectively. These loans are interest bearing and repayable in the event of termination of employment or otherwise seven years from the date of advance.

10.12 ASIC Relief

ASIC has modified section 609 of the Corporations Act such that ERM Power does not obtain a relevant interest in Shares held by entities associated with Trevor St Baker by virtue of the voluntary escrow arrangements (summarised in Section 10.10).

10.13 Foreign Selling Restrictions

This document does not constitute an offer of securities in any jurisdiction in which it would be unlawful. Shares may not be offered or sold in any country outside Australia except to the extent permitted below.

Hong Kong

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies Ordinance (Cap. 32) of Hong Kong (the ‘Companies Ordinance’), nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the ‘SFO’). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the New Shares have not been and will not be offered or sold in Hong Kong by means of any document, other than:

- to ‘professional investors’ (as defined in the SFO); or
- in other circumstances that do not result in this document being a ‘prospectus’ (as defined in the Companies Ordinance) or that do not constitute an offer to the public within the meaning of that ordinance.

No advertisement, invitation or document relating to the Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors (as defined in the SFO and any rules made under that ordinance). No person allotted Shares may sell, or offer to sell, such Shares in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such Shares.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

Singapore

This document and any other materials relating to the Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of Shares, may not be issued, circulated or distributed, nor may the Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the ‘SFA’), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of the Company’s shares, (ii) an ‘institutional investor’ (as defined in the SFA) or (iii) a ‘relevant person’ (as defined under section 275(2) of the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to on-sale restrictions in Singapore and comply accordingly.

Switzerland

The Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ('SIX') or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or

10. Additional Information (cont.)

the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering material relating to the Shares may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering material relating to the Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of Shares will not be supervised by, the Swiss Financial Market Supervisory Authority (FINMA).

This document is personal to the recipient only and not for general circulation in Switzerland.

United Kingdom

Neither the information in this document nor any other document relating to the Offer has been delivered for approval to the Financial Services Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the Financial Services and Markets Act 2000, as amended ('FSMA')) has been published or is intended to be published in respect of the Shares. This document is issued on a confidential basis to 'qualified investors' (within the meaning of section 86(7) of FSMA). This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of s.21 FSMA) received in connection with the issue of the Shares has only been communicated, and will only be communicated, in the United Kingdom in circumstances in which s.21(1) FSMA does not apply to the Company.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005 ('FPO'); (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO; or (iii) to whom it may otherwise be lawfully communicated (together 'relevant persons'). The investments to which this document relates are available only to, and any invitation, offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

United States

This document has been prepared for distribution in Australia and may not be released or distributed in the United States. This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Any securities described in this document have not been, and will not be, registered under the US Securities Act and may not be offered or sold in the United States except in transactions exempt from, or not subject to, registration under the US Securities Act and applicable United States state securities laws.

10.14 Interests of Experts and Advisers

ERM Power has engaged the following experts and advisers:

- Macquarie Capital Advisers Limited ACN 123 199 548, RBS Equity Capital Markets (Australia) Limited ACN 000 757 111 and RBS Morgans Corporate Limited ACN 010 539 607 have acted as Joint Lead Managers and Underwriters to the Offer. The fees payable to each are set out in Section 10.5.1.
- Ironstone Capital Pty Ltd ACN 127 122 150 will be paid a management fee of 3.5% of the \$30.0 million of subscription proceeds received from the Cornerstone Investors.
- McCullough Robertson has acted as legal adviser to ERM Power in relation to the Offer and has performed work in relation to due diligence enquiries. McCullough Robertson will be paid about \$0.75 million (excluding GST) in respect of these services up to the date of this Prospectus. Further amounts may be payable to McCullough Robertson in accordance with its normal-time based rates. Brett Heading, a Director, is Chairman of Partners at McCullough Robertson.
- PricewaterhouseCoopers Securities Ltd ACN 003 311 617 has acted as Investigating Accountant to the Offer and has prepared the Investigating Accountant's Report in Section 9 and performed work in relation to due diligence enquiries. PricewaterhouseCoopers Securities Ltd will be paid about \$0.55 million (excluding GST) in respect to these services up until the date of this Prospectus. PricewaterhouseCoopers is ERM Power's auditor.
- ACIL Tasman Pty Ltd ACN 102 652 148 has prepared the Industry Expert's Report in Appendix 1. ACIL Tasman Pty Ltd will be paid about \$0.08 million (excluding GST) in respect of the preparation of that report.

Except as set out in this Prospectus, no person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus:

- has any interest or has had any interest during the last two years, in the formation or promotion of ERM Power, or in property acquired or proposed to be acquired by ERM Power in connection with its formation or promotion, or the Offer; and
- no amount has been paid or agreed to be paid, and no benefit has been given, or agreed to be given, to any such person in connection with the services provided by the person in connection with the formation or promotion of ERM Power, or the Offer.

10.15 Expenses of the Offer

The total expenses of the Offer payable by ERM Power including advisory, legal, accounting, tax, listing and administrative fees, underwriting fees, share registry fees and Prospectus design and printing costs are estimated to be about \$6.1 million (excluding GST). Approximately \$6.1 million (including GST) of those fees will be paid by ERM Power out of funds raised under the Offer.

10.16 Consents to be Named in Prospectus

Each person referred to below (Consenting Person) has given, and has not withdrawn, its written consent to be named in this Prospectus in the form and context in which it is named:

- Macquarie Capital Advisers Limited ACN 123 199 548;
- RBS Equity Capital Markets (Australia) Limited ACN 000 757 111;
- RBS Morgans Corporate Limited ACN 010 539 607;
- McCullough Robertson;
- PricewaterhouseCoopers;
- PricewaterhouseCoopers Securities Ltd ACN 003 311 617;
- Link Market Services Limited ABN 54 083 214 537;
- ACIL Tasman Pty Ltd ACN 102 652 148;
- Deloitte Touche Tohmatsu;
- Ironstone Capital Pty Ltd ACN 127 122 150;
- Ilwella Pty Ltd ACN 003 220 371; and
- Gaffwick Pty Ltd ACN 010 584 522.

None of the Consenting Persons has made any statement that is included in this Prospectus or any statement on which a statement made in this Prospectus is based, except as specified below. Each Consenting Person, to the maximum extent permitted by law, expressly disclaims, and takes no responsibility for, any part of this Prospectus, other than the reference to its name and a statement included in this Prospectus with the consent of that party, as specified below.

- PricewaterhouseCoopers Securities Ltd ACN 003 311 617 has given, and has not withdrawn, its written consent to the inclusion of the Investigating Accountant's Report in Section 9 (and to any references to that report in this Prospectus in the form and context in which such references are included);
- ACIL Tasman Pty Ltd ACN 102 652 148 has given, and has not withdrawn, its written consent to the inclusion of the Industry Expert's Report in Appendix 1 (and to any references to that report in this Prospectus in the form and context in which such references are included).

10.17 Authorisation of Prospectus

This Prospectus is issued by ERM Power. Each Director of ERM Power has consented to the lodgement of the Prospectus with ASIC.

Dated 17 November 2010



Philip St Baker

Managing Director

11. Glossary

| | |
|---------------------------------------|---|
| AAS | Australian Account Standards. |
| AASB | Australian Accounting Standards Board. |
| ABARE | Australian Bureau of Agricultural and Resource Economics. |
| ACF | the ratio of the actual output of a power plant and its output if it had operated at full capacity over the entire year. |
| ACIL Tasman | ACIL Tasman Pty Ltd ACN 102 652 148. |
| AEMO | Australian Energy Market Operator Limited ACN 072 010 327 (formerly National Electricity Market Management Company Limited). |
| AGL | AGL Energy Limited ACN 115 061 375 or its controlled entities. |
| Alinta | Alinta Energy Limited ACN 116 665 608 (formerly Babcock & Brown Power Limited). |
| ANZSAM | ANZ Specialist Asset Management Limited ACN 098 827 671. |
| Apache | Apache Energy Limited ACN 009 301 964. |
| Applicant | a person or entity who submits an Application Form. |
| Application Form | an application form attached to this Prospectus. |
| Application Monies | the money received by the Company pursuant to the Offer, being the Offer Price multiplied by the number of Shares applied for. |
| Arrow Energy | Arrow Energy Limited ACN 078 521 936 or its controlled entities. |
| Arrow Loan | a loan from Arrow Energy to ERM Power of which \$25.1 million was outstanding as at 30 June 2010. |
| Arrow Tipton | Arrow (Tipton) Pty Ltd ACN 114 927 507. |
| ASIC | Australian Securities and Investments Commission. |
| ASX | ASX Limited ACN 008 624 691 or the exchange operated by it. |
| ASX Settlement | ASX Settlement Pty Ltd ACN 008 504 532. |
| ASX Settlement Operating Rules | the ASX Settlement Operating Rules, being the operating rules of the settlement facility operated by ASX Settlement. |
| B2 Swap | the ISDA agreement between ERM Sales and NewGen Braemar 2, described in Section 10.5.6. |
| Baseload | generating power plant that is normally operated to take all or part of the minimum load of a system, and which produces electricity at an essentially constant rate. |
| BBSY | bank bill swap bid rate. |
| Board | the board of directors of ERM Power. |
| BOP | balance of plant. |
| Braemar 1 | the Braemar 1 power station, a 504 MW power station, situated approximately 30 km west of Dalby, Queensland. |

| | |
|------------------------------|---|
| Braemar 2 | means the Braemar 2 power station, a 519 MW power station, situated approximately 30 km west of Dalby, Queensland. |
| Braemar 3 | the proposed 550 MW Braemar 3 power station, to be situated approximately 30 km west of Dalby, Queensland. |
| Broker | an ASX participating organisation. |
| Broker Firm Offer | the invitation to retail investors in Australia who have received a firm allocation of Shares from their Broker, as described in Section 3.7. |
| CAGR | compound annual growth rate. |
| CCGT | combined-cycle gas turbine. |
| CHESS | Clearing House Electronic Sub-register System, operated by ASX Settlement. |
| Closing Date | 3 December 2010 in respect of the Priority Offer and 8 December 2010 in respect of the Broker Firm Offer or such other date on which the Offer closes. |
| Company | ERM Power. |
| Contact Energy | Contact Energy Limited ABN 080 480 477. |
| Constitution | the constitution of ERM Power. |
| Cornerstone Investors | Ilwella Pty Ltd ACN 003 220 371 and Gaffwick Pty Ltd ACN 010 584 522, who have each agreed to subscribe for 8,571,429 Shares under the Offer. |
| Corporations Act | Corporations Act 2001 (Cth). |
| CO₂ | carbon dioxide. |
| CPRS | carbon pollution reduction scheme. |
| CY | the calendar year ended or ending 31 December. |
| DBNGP | Dampier to Bunbury natural gas pipeline. |
| degrees | degrees Celsius. |
| Directors | the directors of ERM Power. |
| Director Loan | means the loans to ERM Power (or its subsidiaries) by entities related to Trevor St Baker (ERM Power's Chairman), described in Section 10.11. |
| DRP | dividend reinvestment plan. |
| DSCR | debt service cover ratio as defined under the relevant project finance facility agreement, which is generally described as the ratio of net cash flow of the project to debt service required (principal, interest and other fees payable) for the relevant calculation period. |
| EBITDAIF | earnings before interest, tax, depreciation, amortisation, goodwill impairment and net fair value gains/losses on financial instruments designated at fair value through profit and loss and gains/losses on onerous contracts. |
| EBITF | earnings before interest, tax and net fair value gains/losses on financial instruments designated at fair value through profit and loss and gains/losses on onerous contracts. |

11. Glossary (cont.)

| | |
|---------------------------------------|---|
| Empire Oil & Gas | Empire Oil Company (WA) Limited ACN 009 475 423 a wholly owned subsidiary of Empire Oil & Gas NL. |
| Enertrade | Queensland Power Trading Corporation. |
| ERET | Enhanced Renewable Energy Target. |
| EPS | ERM Power's earnings per Share. |
| ERM Gas | ERM Gas Pty Ltd ACN 126 836 799, ERM Power's gas business focussed on procurement of long term gas supplies for future projects through commercial contracts and exploration. |
| ERM Generation Assets | ERM Power's business of owning interests in gas-fired power stations, currently comprised of interests in Oakey and Neerabup. |
| ERM Land Holdings | ERM Land Holdings Pty Ltd ACN 083 762 056, the entity that holds ERM Power's strategic land holdings. |
| ERM Oakey | E.R.M Oakey Power Pty Ltd ACN 075 130 022, the entity that holds ERM Power's interest in the Oakey power station. |
| ERM Power | ERM Power Limited ACN 122 259 223 ('ERM Power' and 'Company' shall have a corresponding meaning). |
| ERM Power Generation | ERM Power Generation Pty Ltd ACN 117 443 035, ERM Power's operation services company that manages and operates electricity generation and gas pipeline businesses. |
| ERM Sales | ERM Power Retail Pty Ltd ACN 126 175 460, ERM Power's electricity sales business targeting the larger end of the business customer market. |
| ESAA | Energy Supply Association of Australia. |
| ESOO | Electricity Statement of Opportunities, published by AEMO or IMO. |
| Existing Options | Options issued by ERM Power under the Employee Option Plan ('EOP') and the Long Term Incentive Option Trust ('LTIOT') as set out in Section 10.4. |
| Existing Shares | Shares issued by ERM Power prior to the date of this Prospectus. |
| Existing Shareholders | the holders of Shares in ERM Power prior to the date of this Prospectus. |
| Financial Information | the Historical Financial Information and the Forecast Financial Information. |
| Forecast Financial Information | the forecast financial information for the Forecast Period, set out in Section 8. |
| Forecast Period | the period from 1 July 2010 to 30 June 2012. |
| FY | the financial year ended or ending 30 June. |
| GEC | Gas Electricity Certificate issued under a scheme implemented in Queensland via the Clean Energy Policy. |
| GJ | gigajoules. |
| Green Certificates | includes certificates such as GECs, NGACs, RETs, ESCs, VEECs, REEs and Green Power. |
| Group | ERM Power and each of its subsidiaries. |

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| GW | gigawatt. |
| GWh | gigawatt hours. |
| HIN | holder identification number. |
| Historical Financial Information | the historical financial information for the Historical Financial Periods. |
| Historical Financial Periods | FY2008, FY2009 and FY2010. |
| IFRS | International Financial Reporting Standards. |
| IMO | Independent Market Operator, a body corporate established under the Electricity Industry Act 2004 (WA) that is responsible for the administration and operation of the Western Australian Wholesale Electricity Market in accordance with the WA Market Rules. |
| Industry Expert | ACIL Tasman Pty Ltd ACN 102 652 148. |
| Industry Expert's Report | the report prepared by the Industry Expert contained in Appendix 1. |
| Infrastructure Capital Group | Infrastructure Capital Group Limited ACN 094 815 513 as manager for the Energy Infrastructure Trust. |
| Institutional Offer | the invitation to Institutional Investors in Australia, described in Section 3.8. |
| Intermediate | generating power plant that operates between the extremes of baseload and peaking power plants, curtailing their output in periods of low demand. |
| Investigating Accountant | PricewaterhouseCoopers Securities Ltd ACN 003 311 617. |
| Investigating Accountant's Report | the report on Financial Information prepared by the Investigating Accountant contained in Section 9. |
| IPO | initial public offering. |
| ISDA | means the International Swaps and Derivatives Association. |
| Joint Lead Managers | Macquarie Capital Advisers Limited ACN 123 199 548, RBS Equity Capital Markets (Australia) Limited ACN 000 757 111 and RBS Morgans Corporate Limited ACN 010 539 607. |
| km | kilometre. |
| km² | square kilometre. |
| kV | kilo volt. |
| Kwinana | means the Kwinana power station, a 320 MW baseload power station located approximately 30 km south of Perth, Western Australia. |
| Listing Rules | listing rules of ASX. |
| LLCR | loan life coverage ratio as defined in the relevant project finance facility agreement, which is generally described as the ratio of the net present value of future net cash flow of the project to the principal outstanding under the facility. |

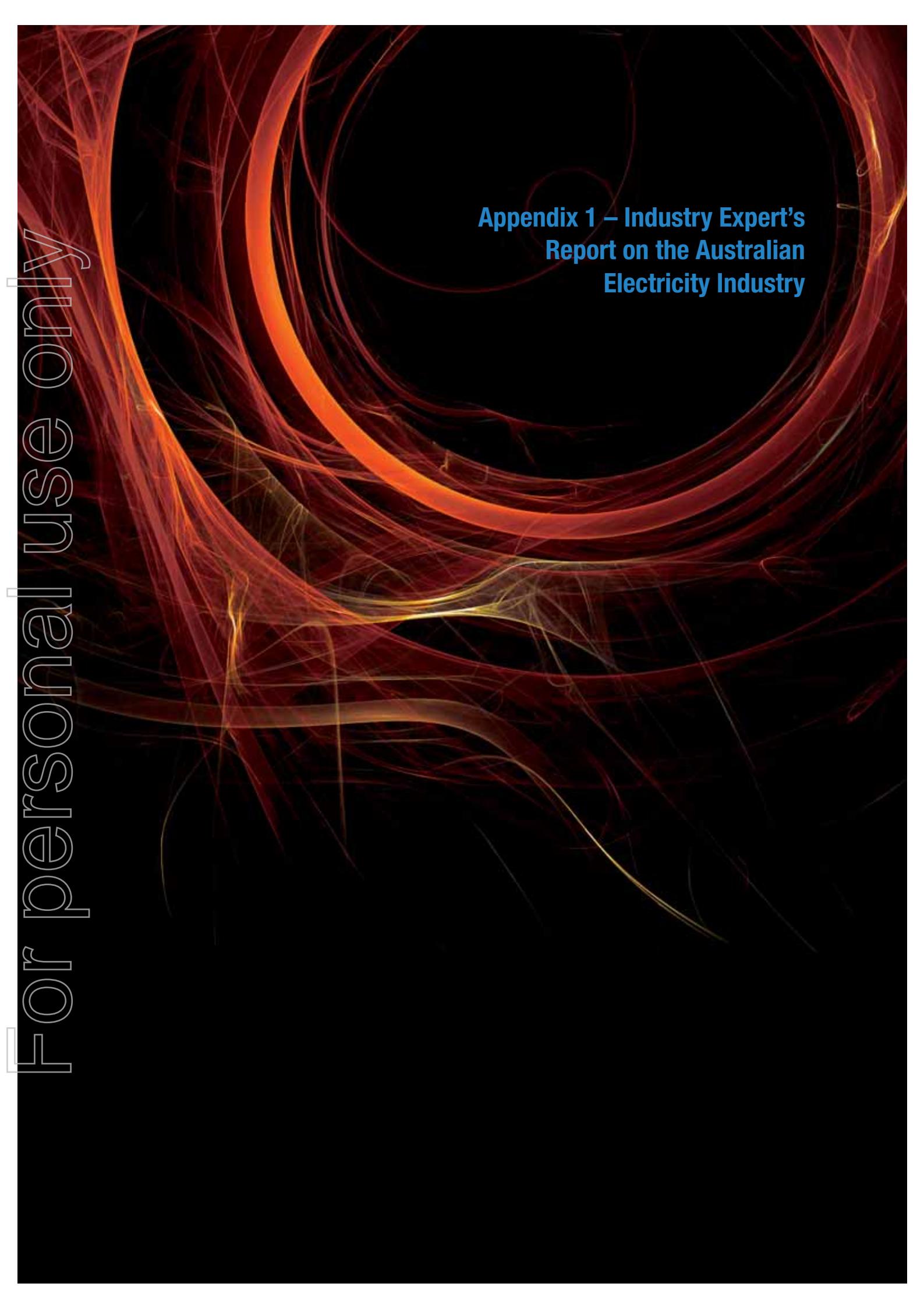
11. Glossary (cont.)

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| LTIOT | Long Term Incentive Option Trust. |
| LTIST | Long Term Incentive Share Trust. |
| MCAL | Macquarie Capital Advisers Limited ACN 123 199 548. |
| MW | megawatt. |
| MWh | megawatt hours. |
| NAB | National Australia Bank ACN 004 044 937. |
| NEM | National Electricity Market. |
| Neerabup | means the Neerabup power station, a 330 MW peaking power station located in the town of Neerabup, approximately 40 km north of Perth, Western Australia. |
| NewGen Braemar 2 | means the partnership between ERM Braemar 2 Pty Ltd and Arrow Southern Generation Pty Ltd, which owns Braemar 2. |
| NewGen Neerabup | means the partnership between ERM Neerabup Pty Ltd ACN 126 964 583 and EIT Neerabup Power Pty Ltd ACN 128 916 478, which owns Neerabup. |
| NewGen Power Kwinana | means the partnership between ERM Kwinana Power Pty Ltd ACN 115 348 171 and Summit Kwinana Power Pty Ltd ACN 116 803 779, which owns Kwinana. |
| New Shares | new Shares to be issued by ERM Power under the Offer. |
| NGAC | NSW Greenhouse Gas Abatement Certificates. |
| NPAT | net profit after tax. |
| Oakey | means the Oakey power station, a 332 MW peaking power station situated in the Darling Downs, 150 km west of Brisbane, Queensland. |
| Oakey Power Holdings | Oakey Power Holdings Pty Ltd ACN 075 260 794. |
| OCGT | open-cycle gas turbine. |
| Offer | the offer of Shares under this Prospectus, comprising the Institutional Offer and the Retail Offer. |
| Offer Price | \$1.75 per Share. |
| Option | an option to acquire a Share in ERM Power. |
| Origin | Origin Energy Limited ACN 000 051 696. |
| Peaker | generating power plant used to supply electricity during peak demand times. |
| Personnel | employees and professional service contractors of ERM Power. |
| PJ | petajoules. |
| POE | the probability, as a percentage, that a certain level (for example, maximum demand) will be met or exceeded in a particular period of time. |
| Powerlink | Powerlink, the Queensland state government corporation that owns, operates and maintains Queensland's high voltage electricity transmission network. |
| PPA | Power Purchase Agreement. |

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| Priority Offer | the invitation to certain investors in Australia by ERM Power in its sole discretion, described in Section 3.7. |
| Proportionate Financial Information | the supplementary financial information presented on a proportionately consolidated basis in Section 1.2, Section 5 and Section 8.11. |
| Prospectus | this prospectus. |
| RBS | RBS Equity Capital Markets (Australia) Limited ACN 000 757 111. |
| RBS Morgans | RBS Morgans Corporate Limited ACN 010 539 607. |
| RECs | Renewable Energy Certificates produced when generating electricity from eligible renewable generators under the ERET. |
| Retail Offer | the Broker Firm Offer and the Priority Offer. |
| Santos | Santos Limited ACN 007 550 923. |
| Senior Management | the senior managers of ERM Power named in Section 7.2. |
| SFE | Sydney Future Exchange. |
| Shareholders | holders of Shares in ERM Power. |
| Share Registry | Link Market Services ABN 54 083 214 537. |
| Shares | fully paid Shares in ERM Power. |
| Shoulder | generating power plant used to supply electricity during the top 20-30% of demand periods. |
| Siemens | Siemens Ltd ACN 004 347 880. |
| Siemens Project Ventures | Siemens Project Ventures GMBH. |
| Small Power Project | a small scale power project of up to 30 MW. |
| SOO | Statement of Opportunities. |
| SRN | security holder reference number. |
| STEM | Short Term Energy Market, used mainly for trading uncontracted energy that is generated beyond the bilateral contract arrangements between generators and retailers or loads in the SWIS. |
| STIST | Short Term Incentive Share Trust. |
| Successful Applicant | means an Applicant who is issued Shares under this Prospectus. |
| Sunset Power | Sunset Power Pty Ltd ACN 101 619 658, an entity controlled by Trevor St Baker. |
| Sunset Power Holdings | Sunset Power Holdings Pty Ltd ACN 122 179 766, an entity controlled by Trevor St Baker. |
| SWIS | South West Interconnected System. |
| Synergy | Electricity Retail Corporation ABN 71 743 446 839, trading as Synergy. |
| TJ | terajoules. |

11. Glossary (cont.)

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|-------------------------------|--|
| Underlying NPAT | represents NPAT but excludes the impact of an increase/decrease in the fair value of financial instruments and onerous contracts. Refer Section 8.2 for further details. |
| Underwriters | Macquarie Capital Advisers Limited ACN 123 199 548, RBS Equity Capital Markets (Australia) Limited ACN 000 757 111 and RBS Morgans Corporate Limited ACN 010 539 607. |
| Underwriting Agreement | the agreement entered into between the Underwriters and ERM Power, under which the Underwriters agree to underwrite the Offer. |
| Uranquinty | the Uranquinty power station, a 664 MW power station, located in Uranquinty, New South Wales. |
| US Securities Act | US Securities Act of 1933 (as amended). |
| WA Market Rules | the Wholesale Electricity Market Rules established under the Electricity Industry (Wholesale Electricity Market) Regulations 2004 (WA). |
| Wellington 1 | the proposed 550 MW Wellington 1 power station to be situated in Wellington, New South Wales. |
| WEM | the Western Australia Wholesale Electricity Market. |
| Western Power | Western Power, the electricity networks corporation owned by the Western Australia Government. |
| you | the investors under this Prospectus. |



Appendix 1 – Industry Expert’s Report on the Australian Electricity Industry

For personal use only

For personal use only

Final report

Industry expert report

For inclusion in the Prospectus relating
to the IPO of ERM Power

Prepared for ERM Power Pty Ltd

8 September 2010



ACIL Tasman

Economics Policy Strategy

Disclaimer and liability

In conducting the analysis in this report ACIL Tasman has endeavoured to use what it considers is the best information available at the date of publication, including information supplied by the addressee. Although ACIL Tasman exercises reasonable care when making forecasts or predictions, factors in the process, such as future market behaviour, are inherently uncertain and cannot be forecast or predicted reliably.

In the production and use of this report as an independent expert report within a prospectus, ACIL Tasman's liability is governed by the relevant provisions of the *Corporations Act 2001* (Cth).

In giving this report, ACIL Tasman is not operating under an Australian financial services licence. ACIL Tasman has no direct or indirect interest in ERM Power Limited, any of its related bodies corporate, their businesses or the outcome of the initial public offering. This report has been prepared by ACIL Tasman strictly in the role of an independent expert. ACIL Tasman will receive standard consulting fees for the preparation of this report.

ACIL Tasman Pty Ltd

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Contributing team members:

Paul Balfe
Guy Dundas

Glossary

| | |
|----------------------------|--|
| 2P | Proven and probable (reserves of natural gas or other hydrocarbons) |
| AEMO | Australian Energy Market Operator |
| AER | Australian Energy Regulator |
| Base load generator | Generating plant that is normally operated to take all or part of the minimum load of a system, and which produces electricity at an essentially constant rate. |
| Carbon capture and storage | Any of a number of approaches designed to reduce greenhouse gas emissions by capturing carbon dioxide produced by fossil-fuelled electricity generators, transporting the captured gas using high pressure pipelines and storing it in any one of a variety of geological or ocean sites. Carbon capture and storage technologies are currently at the experimental and demonstration phase. |
| Capacity credit | A notional unit of capacity equal to one megawatt that can be traded between market participants under the Western Australian Wholesale Electricity Market Rules |
| CCGT | Combined cycle gas turbine |
| CCS | Carbon capture and storage |
| COAG | Council of Australian Governments |
| Cogeneration | A generating facility that produces electricity and another form of useful thermal energy such as heat or steam that is used for industrial, commercial, heating or cooling purposes. |
| CPRS | Carbon Pollution Reduction Scheme: a form of emissions trading scheme which has been proposed for Australia |
| CSG | Coal seam gas: production of natural gas (predominantly methane) from underground coal seams |
| DBNPG | Dampier to Bunbury Natural Gas Pipeline, Western Australia |
| Decommissioned plant | Generating plant that has been permanently taken offline. |
| DSM | Demand-side management: entails actions that reduce the quantity of energy consumed by end users, particularly during peak periods |
| Embedded generator | A generating unit connected directly to a distribution network and with no direct connection to the transmission network. |
| ERET | Enhanced Renewable Energy Target |
| ESG | Eastern Star Gas Limited |
| esaa | The Electricity Supply Association of Australia |
| ETS | Emissions trading scheme |
| GEC scheme | Gas Electricity Certificate scheme implemented in Queensland via the Clean Energy Policy |
| GGAS | Greenhouse Gas Abatement Scheme introduced in NSW in 2003 which provides subsidies for generation with a lower emissions intensity than the NSW average |
| GJ | Gigajoule = a unit of energy equal to 10^9 joules |
| GOC | Government-owned corporation |
| Greenhouse gases | Gases that absorb and emit infrared radiation thereby potentially contributing to global warming. Greenhouse gases include water vapour, carbon dioxide, methane, nitrous oxide, hydrochlorofluorocarbons, ozone, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride. |
| GWh | Gigawatt hours = a unit of energy equal to 10^9 watt hours |
| IMO | The Independent Market Operator (Western Australia). The IMO is responsible for the administration and operation of the WA wholesale electricity market in accordance with market Rules. |
| Interconnector | A transmission system which connects the electricity transmission networks of adjacent states. |
| Joule | The SI unit of energy, equal to the work done by a force of one newton when its point of application moves through a distance of one meter in the direction of the force. One joule of electrical energy is equal to the work done when a current of one ampere is passed through a resistance of one ohm for one second. |
| kPa | Kilopascal = a unit of pressure equal to 10^3 pascal. One pascal is defined as a force of one newton applied over an area of one square metre. |
| kV | Kilovolt = a unit of electromotive force equal to 10^3 volts |
| kW | Kilowatt = a unit of energy equal to 10^3 watts |
| Linepack | Gas stored within a high pressure transmission pipeline. Linepack gas can be used to enhance operational flexibility of gas-fired generation |
| LNG | Liquefied natural gas is natural gas (predominantly methane, CH4) that has been converted temporarily to liquid form for ease of storage or transport by cooling it to approximately minus 162 degrees Celsius. |



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| | |
|----------------------------|---|
| Market generator | An electricity generator which has at least one generating unit classified as a market generating unit and which is also registered with AEMO as a market generator. |
| MOU | Memorandum of Understanding |
| MRCP | Maximum Reserve Capacity Price: the maximum price for capacity credits as set by the IMO |
| MW | Megawatt = a unit of power equal to 10^6 watts |
| MWh | Megawatt hours = a unit of energy equal to 10^6 watt hours |
| NEM | The National Electricity Market which covers the interconnected Queensland, New South Wales, Victoria, South Australia and Tasmanian electricity markets. |
| NEMMCO | National Electricity Market Management Company, superseded by AEMO on 1 July 2009. |
| NGACs | NSW Greenhouse Abatement Certificates created under the NSW GGAS |
| OCGT | Open cycle gas turbine |
| Peak generator | Generating plant used to supply electricity during peak demand times (usually gas-fired but includes plant operating on liquid fuel such as distillate). |
| PJ | Petajoule = a unit of energy equal to 10^{15} joules |
| Pool price | The half-hourly average of the five-minute interval wholesale price of electricity in the NEM. |
| PPA | Power purchase agreement: a long-term agreement for the off-take of electricity at pre-determined prices |
| RECs | Renewable Energy Certificates produced when generating electricity from eligible renewable generators under the ERET |
| Reserve Capacity Mechanism | Centralised mechanism administered by the IMO in Western Australia to ensure that sufficient capacity is available in the WEM |
| RET | Renewable Energy Target |
| Retired plant | Generating plant that is no longer in use and has been decommissioned. |
| RRP | Regional reference price, also known as the pool price |
| Shoulder generator | Generating plant used to supply electricity during the top 20–30% of demand periods. |
| SOO | Statement of Opportunities publication, prepared by AEMO, which provides an outlook for the supply-demand balance for the NEM system. |
| Spot price | Five-minute interval price of electricity in the NEM. |
| STEM | Short-term energy market: formal trading market for energy in the WEM |
| SWIS | Western Australian South West Interconnected System |
| Tcf | Trillion (10^12) cubic feet |
| Transmission network | High voltage transmission assets that transport electricity between generators and distribution networks. Transmission networks do not include the connection assets which form part of a transmission system. |
| Transmission system | The combination of a transmission network and connection assets which are connected to other transmission systems or to a distribution system. |
| Volt | The SI derived unit of electric potential or electromotive force, defined as the difference of potential between two points of a conducting wire carrying a constant current of one ampere, when the power dissipated between these points is one watt. |
| Watt | The SI derived unit of power, defined as one joule per second and equal to the power in a circuit in which a current of one ampere flows across a potential difference of one volt. |
| WEM | Wholesale electricity market which has the same geographic coverage as the SWIS in Western Australia |

1 Introduction and background

ACIL Tasman has been engaged by ERM Power Ltd (ERM) to produce an industry expert report for its forthcoming Initial Public Offering (IPO).

The scope for the industry expert report covers the existing business operations of ERM, the market context in which it conducts those operations and the outlook for the sector in general and for ERM in particular. Within this context ACIL Tasman has held several meetings with senior management of ERM and gained insights into the company's current market position and business strategy going forward.

1.1 Purpose of this report

This report or a summary thereof is intended to be included in ERM's prospectus document. As the electricity sector is significantly more complex than most other product markets, this report seeks to explain as plainly as possible the workings and drivers for both the east and west coast electricity markets in which ERM operates.

1.2 Qualifications

ACIL Tasman, one of Australia's largest specialist economics consulting firms, has extensive experience in policy development, market analysis and the provision of economic and commercial advice to public and private sector clients across a wide range of industry sectors, both in Australia and internationally. The scope of the firm's analytical and advisory services to the electricity sector encompasses the entire supply chain and includes market advisory and forecasting, regulatory assistance and asset due diligence.

Qualifications of the two principal report authors – Owen Kelp and Paul Balfe – are presented below.

Owen Kelp

Owen Kelp BBus(Eco), GDip(AppFin) is a Senior Consultant in ACIL Tasman's Brisbane office. Owen has over 10 years experience consulting to the electricity and gas sectors across a diverse range of projects.

Owen holds a Bachelor of Business with majors in Economics and Finance from the Queensland University of Technology and a Graduate Diploma of Applied Finance and Investment from the Financial Services Institute of Australasia (FINSIA).

Paul Balfe

Paul Balfe is a graduate of the University of Queensland (BSc (Hons 1) Geology and Mineralogy 1976; MBA 1988). He has over 25 years experience working in the mining and energy sector in Australia as a geologist, government administrator and consultant. He commenced his career working as a petroleum and coal geologist with the Geological Survey of Queensland. Subsequently he held various managerial roles in energy resource development in the Queensland Department of Mines & Energy (QDME).



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In 1995 he left the position of Director of Energy in QDME to join ACIL Economics & Policy, a national firm with a substantial consultancy practice in the area of energy markets and energy policy. Over the past 15 years, Mr Balfe has consulted extensively on energy industry matters, particularly policy reform issues, market analysis, gas pipeline developments, acquisitions and disposals, and project commercial analysis.

1.3 Report structure

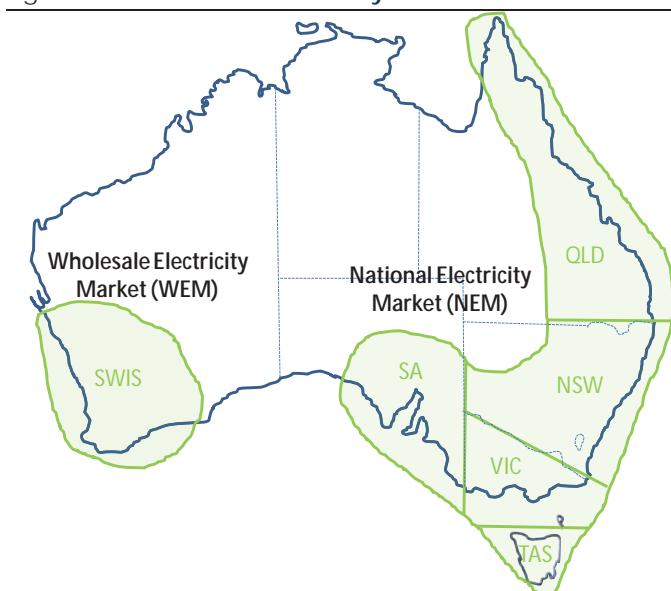
The remainder of this report is structured as follows:

- Section 2 provides an overview of Australia's electricity markets, their structure, a review of historical outcomes, discussion of participants and some commentary on market outlook. It also discusses major policy developments such as the Enhanced Renewable Energy Target and the possible introduction of an emissions trading scheme or carbon tax in the future.
- Section 3 discusses ERM's existing business operations and its position within the marketplace.
- Section 4 provides an overview of ERM's current near-term and long-term generation expansion plans. These are examined in the context of electricity demand growth in each region and the requirement and drivers for additional generation capacity.
- Section 5 discusses the outlook for the commercial/industrial electricity retail market in which ERM operates.
- Finally, Section 6 summarises the opportunities and risks identified by ACIL Tasman regarding ERM's existing business and expansion plans.

2 Australian electricity markets

Australia has two principal wholesale electricity markets: the National Electricity Market (NEM), which covers the majority of the eastern seaboard states plus South Australia and the Wholesale Electricity Market (WEM) which covers the south-western corner of Western Australia. Indicative coverage of the markets and regional structure is shown in Figure 1.

Figure 1 Australia's electricity markets



The NEM delivers electricity to market customers on an interconnected power system that stretches from Port Douglas in North Queensland to Tasmania. It currently comprises five regions: Queensland, New South Wales, Victoria, South Australia and Tasmania.¹ Tasmania joined the NEM in 2005.

There are some remote regions of Queensland and South Australia which are not connected to this high voltage network and hence remain outside of the NEM. Mt Isa in Queensland is one such example.

The WEM comprises a single isolated region – the South-West Interconnected System (SWIS) which covers the area from Kalbarri in the north to Albany in the south and Kalgoorlie in the east.

2.1 National Electricity Market

The National Electricity Market (NEM) commenced operating on 13 December 1998. Its development was guided by a 1990s Industry Commission report that recommended a major restructure of the electricity industry. The reforms led to the disaggregation of the vertically-integrated, government-owned electricity authorities into separate generation, transmission, distribution and retail businesses in each state. The goals of the reform process were to increase competition in the industry through private sector participation and to provide greater choice for end-use electricity consumers.

Queensland and New South Wales have corporatised the individual sectors of their electricity supply industry (while largely keeping them as government-owned entities); Victoria has fully privatised its

¹ The Snowy region (containing the Snowy Mountains Hydro-Electric Scheme) was abolished from 1 July 2008. Output from Snowy Hydro is now split between NSW and VIC regions.



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electricity industry, and the electricity supply businesses in South Australia are currently operated by private companies under long-term lease arrangements. Generation assets in Tasmania are government-owned.

The National Electricity Market Management Company Limited (NEMMCO) was established under the National Electricity Code in May 1996 to implement, administer and operate the wholesale NEM. It had the dual roles of market operator and system operator. These roles have since been taken over by the Australian Energy Market Operator (AEMO) which was established by the Council of Australian Governments (COAG) in 2009. AEMO is responsible for market and system operation, national transmission planning and system security.

AEMO runs the spot market which operates as a real-time gross pool in which all generators and retailers participate. This consists of an energy-only spot market with associated ancillary services. The spot market functions for 24 hours per day, 7 days a week with 5 minute dispatch intervals and 30 minute trading intervals.

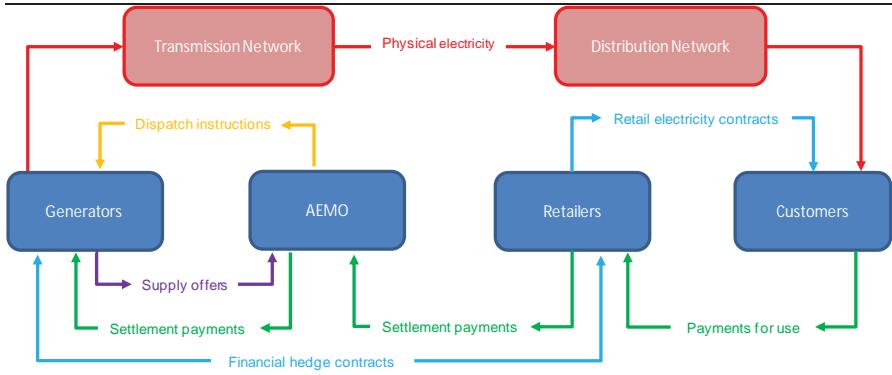
Scheduled NEM generators are required to submit offers to AEMO indicating the volume of electricity they are prepared to produce for a specified price. These offers are submitted on a daily basis (although they can be continuously revised throughout the day), while participating loads have the option of submitting purchase bids. AEMO issues dispatch instructions to generators (and loads where necessary) on a least-cost basis and calculates the regional reference prices for each region every 5 minutes. The average price in each region across each 30 minute interval becomes the reference price for that trading period.

At times, the technical capacity of the transmission network may determine which generators are scheduled to meet demand. In such a situation, generators may be scheduled out of price order to meet demand in the particular area affected by the technical capacity constraint (i.e. higher-cost generators may be dispatched in preference to some lower-cost generators as the transmission network is physically unable to deliver the energy generated by those lower-cost generators).

AEMO calculates the financial liability of all market participants on a daily basis and settles transactions for all trade in the NEM every week. This involves AEMO collecting all money due for electricity purchased from the pool from market customers, and paying generators for the electricity they have produced. The spot price is the basis for all these financial transactions and settlement operates four-weeks in arrears. AEMO has strict prudential arrangements and a robust risk management program including requirements for the deposit of bank guarantees and security deposits against an established maximum credit limit for each market customer.

Figure 2 shows the primary interactions of each participant category. AEMO, as market operator essentially acts as intermediary between generators and market customers (e.g. retailers).

Figure 2 Interaction between participant categories in the NEM



The NEM spot price is capped at a maximum of \$12,500/MWh and has a floor price of minus \$1,000/MWh. As such, the NEM is one of the most volatile commodity markets in the world and this can cause significant risk to physical market participants. Generators face a risk that prices will be below expectations which may negatively affect earnings, while retailers risk prices being above levels expected when fixed-price contracts were struck with customers.

These risks are managed through the use of hedge contracts which set electricity prices in advance. A reasonably liquid financial derivative market exists to provide risk management tools to participants. While these hedge products provide a means of locking in future prices, they do not give rise to the physical delivery of electricity. Hedging tools and strategies include:

- long-term power purchase agreements (PPAs)
- tailored bilateral or over-the-counter (OTC) hedge contracts
- exchange-traded futures, caps and options
- internal hedges through vertical integration (generation and retail businesses).

The NEM is a significant market in terms of trade volume and value. In 2009–10 financial year the NEM delivered 218,000 GWh of power to end users, with a wholesale market value of around \$8.5 billion. It is widely regarded as one of the most efficient and successful wholesale electricity markets in the world.

2.1.1 Market participants

There are currently around 150 registered market participants in the NEM. These include 80 market generators (including scheduled and non-scheduled), 51 market customers, 11 transmission service providers, 17 distribution service providers and 13 traders. Table 1 lists the major players in each segment.

The generation sector is made up of a mix of government and private sector entities. Transmission and distribution is largely made up of government-owned corporations (except for VIC and SA where these are privately-owned regulated monopolies). The electricity retail market is largely a private sector business, with the exception of incumbent NSW retailers (currently being privatised) and Tasmania.



Table 1 Major players in each market segment of the NEM

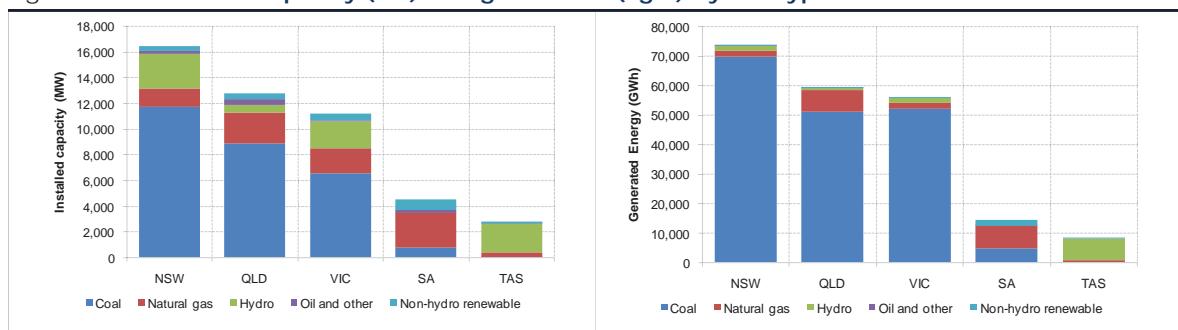
| NEM Region | Generation | Transmission | Distribution | Retail |
|------------|--|----------------------------|--|--|
| NSW | Macquarie Generation, Delta Electricity, Eraring Energy, Snowy Hydro, Origin Energy, TRUenergy | Transgrid, EnergyAustralia | EnergyAustralia, Integral Energy, Country Energy, ActewAGL | EnergyAustralia, Country Energy, Integral Energy, Origin Energy, AGL Energy, TRUenergy |
| QLD | Stanwell Corporation, CS Energy, Tarong Energy, Origin Energy, Intergen, Arrow Energy, Alinta Energy | PowerLink | Energex, Ergon Energy | Origin Energy, Ergon Energy, AGL Energy, ERM Power |
| VIC | International Power, Snowy Hydro, GEAC, TRUenergy, Ecogen, Pacific Hydro | SP AusNet | PowerCor, SP AusNet, United Energy, CitiPower, Jemena | AGL Energy, Origin Energy, TRUenergy, Country Energy, Simply Energy |
| SA | AGL Energy, Alinta Energy, International Power, Origin Energy, TRUenergy | ElectraNet | ETSA Utilities | AGL Energy, Origin Energy, TRUenergy, Simply Energy |
| TAS | Hydro Tasmania, Aurora Energy | Transend | Aurora Energy | Aurora Energy |

Data source: ACIL Tasman

2.1.2 NEM generation

Figure 3 shows the installed capacity and generation by fuel type for each region. Across all regions, coal makes up around 59% of installed capacity, but accounts for over 84% of generation. Coal-fired power dominates electricity production in the NSW, QLD and VIC regions due to its low cost. Natural gas, while accounting for 19% of installed capacity, accounts for only 9% of generation. This is a result of the higher cost of natural gas as a fuel source relative to coal. There is around 7,700 MW of hydro power installed (16% of total capacity) in the NEM, concentrated in the Snowy Mountains Hydro Scheme and Tasmanian systems. Hydro accounts for around 5% of generated energy and is used mainly for peaking duties. Installed capacity of non-hydro renewable plant – predominately wind generation – is growing, but currently accounts for only around 1% of NEM energy.

Figure 3 Installed capacity (left) and generation (right) by fuel type



Note: Installed capacity as at 30 June 2009. Includes total principal generation only. Generation for the 2008–09 financial year.

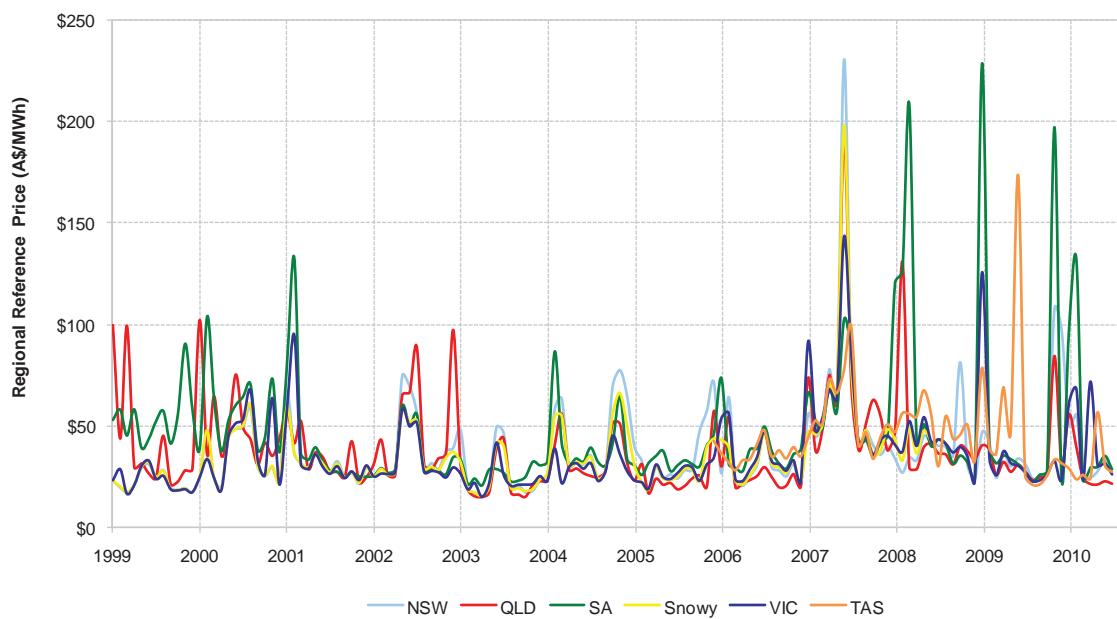
Data source: ACIL Tasman based on data from Electricity Supply Association of Australia (esaa) 'Electricity Gas Australia 2010'.

2.1.3 Wholesale market outcomes to date

Figure 4 shows the historical monthly average regional reference prices (spot prices) for each region since the commencement of the NEM. The price paths are characterised by stable periods followed by

periods of price spikes, typically during peak summer and winter demand periods. In 2007 the impacts of drought in eastern Australia resulted in the curtailment of output from hydro and a number of coal-fired stations. This resulted in prices reaching record levels. With good rainfall since in most catchment areas, prices have trended down. Ongoing price spikes originating mainly from South Australia since 2008 have resulted in abnormally volatile prices in recent years.

Figure 4 Monthly average spot price for NEM regions: January 1999 to June 2010



Note: Monthly time-weighted average spot prices (RRP) at each regions reference node. Snowy region was abolished in mid 2008.

Data source: ACIL Tasman based on AEMO market data

New South Wales

NSW is the largest NEM region with a peak demand of around 14,000 MW and annual energy approaching 80,000 GWh. It is connected to the QLD region via two interconnectors: the Queensland to NSW Interconnector (QNI) and the smaller Directlink line; and to Victoria via the VIC–NSW Interconnector.

In March 2009 the NSW Government announced it would privatise its retailers (Integral Energy, Country Energy and EnergyAustralia) and also contract the right to sell electricity produced by state-owned generators to the private sector (known as 'gentrader' contracts). The gentrader bundles consist of output from:

- Macquarie Generation (Bayswater and Liddell power stations: 4,640 MW)
- Eraring Energy (Eraring power station and Shoalhaven hydro-electric system: 3,120 MW)
- Delta Western (Mount Piper and Wallerawang power stations: 2,400 MW)
- Delta Coastal (Vales Point, Munmorah and Colongra power stations: 2,588 MW).



After a significantly delayed start, the sale process is currently under way and is expected to be finalised toward the end of 2010.

Table 2 Summary statistics of market outcomes for NSW: 2004–05 to 2009–10

| Financial year | Time-weighted RRP | | Demand-weighted RRP | | Annual energy | | Peak demand | | Average demand | | Minimum demand | |
|----------------|-------------------|----------|---------------------|----------|---------------|----------|-------------|----------|----------------|----------|----------------|----------|
| | \$/MWh | % change | \$/MWh | % change | GWh | % change | MW | % change | MW | % change | MW | % change |
| 2004–05 | 39.33 | | 45.33 | | 74,433 | | 12,884 | | 8,497 | | 5,182 | |
| 2005–06 | 37.25 | -5.3% | 43.06 | -5.0% | 76,508 | 2.8% | 13,188 | 2.4% | 8,758 | 3.1% | 5,397 | 4.1% |
| 2006–07 | 58.72 | 57.6% | 67.28 | 56.2% | 78,013 | 2.0% | 13,306 | 0.9% | 8,906 | 1.7% | 5,498 | 1.9% |
| 2007–08 | 41.66 | -29.1% | 44.55 | -33.8% | 78,289 | 0.4% | 13,812 | 3.8% | 8,913 | 0.1% | 5,619 | 2.2% |
| 2008–09 | 38.85 | -6.7% | 42.80 | -3.9% | 78,700 | 0.5% | 14,274 | 3.3% | 8,984 | 0.8% | 5,632 | 0.2% |
| 2009–10 | 44.19 | 13.7% | 52.39 | 22.4% | 77,687 | -1.3% | 13,765 | -3.6% | 8,868 | -1.3% | 5,636 | 0.1% |
| CAGR | | | | | | 0.9% | | 1.3% | | 0.9% | | 1.7% |

Note: All prices are in nominal dollars. Demand and energy expressed on an 'as-generated' basis. CAGR represents the compound average growth rate over the period.

Data source: ACIL Tasman based on AEMO market data

Queensland

Queensland has historically been the lowest priced region in the NEM, driven by low coal and gas costs and periods of oversupply. Queensland is a significant net exporter of power to NSW and is the second largest region in terms of annual energy. While annual energy has grown more strongly than in the southern states, peak demand has not grown as strongly as forecast because of relatively mild summers in recent years.

Table 3 Summary statistics of market outcomes for QLD: 2004–05 to 2009–10

| Financial year | Time-weighted RRP | | Demand-weighted RRP | | Annual energy | | Peak demand | | Average demand | | Minimum demand | |
|----------------|-------------------|----------|---------------------|----------|---------------|----------|-------------|----------|----------------|----------|----------------|----------|
| | \$/MWh | % change | \$/MWh | % change | GWh | % change | MW | % change | MW | % change | MW | % change |
| 2004–05 | 28.96 | | 30.72 | | 49,440 | | 8,232 | | 5,644 | | 3,827 | |
| 2005–06 | 28.11 | -2.9% | 31.41 | 2.2% | 51,052 | 3.3% | 8,295 | 0.8% | 5,844 | 3.5% | 4,024 | 5.2% |
| 2006–07 | 52.14 | 85.5% | 57.24 | 82.2% | 51,192 | 0.3% | 8,589 | 3.5% | 5,844 | 0.0% | 3,940 | -2.1% |
| 2007–08 | 52.34 | 0.4% | 58.07 | 1.4% | 51,337 | 0.3% | 8,082 | -5.9% | 5,844 | 0.0% | 4,037 | 2.5% |
| 2008–09 | 34.00 | -35.0% | 36.33 | -37.4% | 52,591 | 2.4% | 8,677 | 7.4% | 6,004 | 2.7% | 4,100 | 1.6% |
| 2009–10 | 33.30 | -2.1% | 37.43 | 3.0% | 53,150 | 1.1% | 8,891 | 2.5% | 6,067 | 1.1% | 4,197 | 2.4% |
| CAGR | | | | | | 1.5% | | 1.6% | | 1.5% | | 1.9% |

Note: All prices are in nominal dollars. Demand and energy expressed on an 'as-generated' basis. CAGR represents the compound average growth rate over the period.

Data source: ACIL Tasman based on AEMO market data

Victoria

Victoria is a complex region with interconnections to NSW, SA and TAS. Peak demand in the state has grown strongly (averaging 3.2% per annum), whilst energy growth has been relatively subdued. Victorian price outcomes are a function of the cost of Victorian-based generators and also prices in neighbouring regions.

Table 4 Summary statistics of market outcomes for VIC: 2004–05 to 2009–10

| Financial year | Time-weighted RRP | | Demand-weighted RRP | | Annual energy | | Peak demand | | Average demand | | Minimum demand | |
|----------------|-------------------|----------|---------------------|----------|---------------|----------|-------------|----------|----------------|----------|----------------|----------|
| | \$/MWh | % change | \$/MWh | % change | GWh | % change | MW | % change | MW | % change | MW | % change |
| 2004–05 | 27.62 | | 28.80 | | 49,671 | | 8,413 | | 5,670 | | 3,821 | |
| 2005–06 | 32.45 | 17.5% | 36.10 | 25.4% | 50,433 | 1.5% | 8,680 | 3.2% | 5,773 | 1.8% | 3,780 | -1.1% |
| 2006–07 | 54.80 | 68.9% | 60.55 | 67.7% | 51,366 | 1.8% | 8,886 | 2.4% | 5,864 | 1.6% | 3,966 | 4.9% |
| 2007–08 | 46.79 | -14.6% | 50.61 | -16.4% | 52,205 | 1.6% | 9,701 | 9.2% | 5,943 | 1.4% | 3,981 | 0.4% |
| 2008–09 | 41.82 | -10.6% | 49.10 | -3.0% | 51,991 | -0.4% | 10,415 | 7.4% | 5,935 | -0.1% | 4,004 | 0.6% |
| 2009–10 | 36.28 | -13.2% | 42.12 | -14.2% | 51,097 | -1.7% | 9,858 | -5.3% | 5,833 | -1.7% | 3,882 | -3.0% |
| CAGR | | | | | | 0.6% | | 3.2% | | 0.6% | | 0.3% |

Note: All prices are in nominal dollars. Demand and energy expressed on an 'as-generated' basis. CAGR represents the compound average growth rate over the period.

Data source: ACIL Tasman based on AEMO market data

South Australia

South Australia is a reasonably small region with around 13,500 GWh of annual energy and a peak demand of just over 3,000 MW. The region's reliance on gas for around 50% of generation volumes and a relatively peaky demand results in it having some of the highest prices in the NEM. The region has experienced the highest growth in peak demand (averaging 3.7% per annum) driven by air-conditioning use during summer periods. Energy has grown by a more moderate 1% per annum due to low industrial growth rates and also the construction of non-scheduled wind farms.²

Table 5 Summary statistics of market outcomes for SA: 2004–05 to 2009–10

| Financial year | Time-weighted RRP | | Demand-weighted RRP | | Annual energy | | Peak demand | | Average demand | | Minimum demand | |
|----------------|-------------------|----------|---------------------|----------|---------------|----------|-------------|----------|----------------|----------|----------------|----------|
| | \$/MWh | % change | \$/MWh | % change | GWh | % change | MW | % change | MW | % change | MW | % change |
| 2004–05 | 36.16 | | 39.44 | | 12,744 | | 2,604 | | 1,455 | | 842 | |
| 2005–06 | 37.84 | 4.6% | 44.13 | 11.9% | 12,746 | 0.0% | 2,873 | 10.3% | 1,459 | 0.3% | 768 | -8.8% |
| 2006–07 | 51.62 | 36.4% | 58.81 | 33.3% | 13,342 | 4.7% | 2,854 | -0.7% | 1,523 | 4.4% | 784 | 2.2% |
| 2007–08 | 73.51 | 42.4% | 101.15 | 72.0% | 13,307 | -0.3% | 3,080 | 7.9% | 1,515 | -0.5% | 834 | 6.4% |
| 2008–09 | 50.98 | -30.6% | 68.58 | -32.2% | 13,505 | 1.5% | 3,331 | 8.2% | 1,542 | 1.8% | 847 | 1.6% |
| 2009–10 | 55.31 | 8.5% | 82.51 | 20.3% | 13,402 | -0.8% | 3,121 | -6.3% | 1,530 | -0.8% | 815 | -3.9% |
| CAGR | | | | | | 1.0% | | 3.7% | | 1.0% | | -0.6% |

Note: All prices are in nominal dollars. Demand and energy expressed on an 'as-generated' basis. CAGR represents the compound average growth rate over the period.

Data source: ACIL Tasman based on AEMO market data

Tasmania

Tasmania is the smallest NEM region with only 10,000 GWh of annual energy. Dispatch is dominated by hydro and therefore prices to some degree are a function of inflows (rainfall and snow melt) to these storages. The region tends to utilise the subsea Basslink interconnector to import low cost power from Victoria overnight, while exporting hydro output into Victoria during higher priced peak periods. Both energy and peak demand have been stagnant over the last five years.

² Non-scheduled wind farms (as with other non-scheduled generators) do not participate in the NEM's central dispatch process and, therefore, their output is effectively treated as a reduction in demand.



Table 6 Summary statistics of market outcomes for TAS: 2005–06 to 2009–10

| Financial year | Time-weighted RRP | | Demand-weighted RRP | | Annual energy | | Peak demand | | Average demand | | Minimum demand | |
|----------------|-------------------|----------|---------------------|----------|---------------|----------|-------------|----------|----------------|----------|----------------|----------|
| | \$/MWh | % change | \$/MWh | % change | GWh | % change | MW | % change | MW | % change | MW | % change |
| 2005–06 | 56.85 | | 59.45 | | 9,916 | | 1,676 | | 1,135 | | 769 | |
| 2006–07 | 49.56 | -12.8% | 50.86 | -14.4% | 10,186 | 2.7% | 1,744 | 4.1% | 1,163 | 2.4% | 830 | 7.9% |
| 2007–08 | 54.68 | 10.3% | 56.54 | 11.2% | 10,339 | 1.5% | 1,753 | 0.5% | 1,177 | 1.2% | 691 | -16.7% |
| 2008–09 | 58.48 | 6.9% | 61.92 | 9.5% | 10,142 | -1.9% | 1,760 | 0.4% | 1,158 | -1.6% | 751 | 8.6% |
| 2009–10 | 29.37 | -49.8% | 30.38 | -50.9% | 10,037 | -1.0% | 1,679 | -4.6% | 1,146 | -1.0% | 769 | 2.5% |
| CAGR | | | | | | 0.3% | | 0.0% | | 0.2% | | 0.0% |

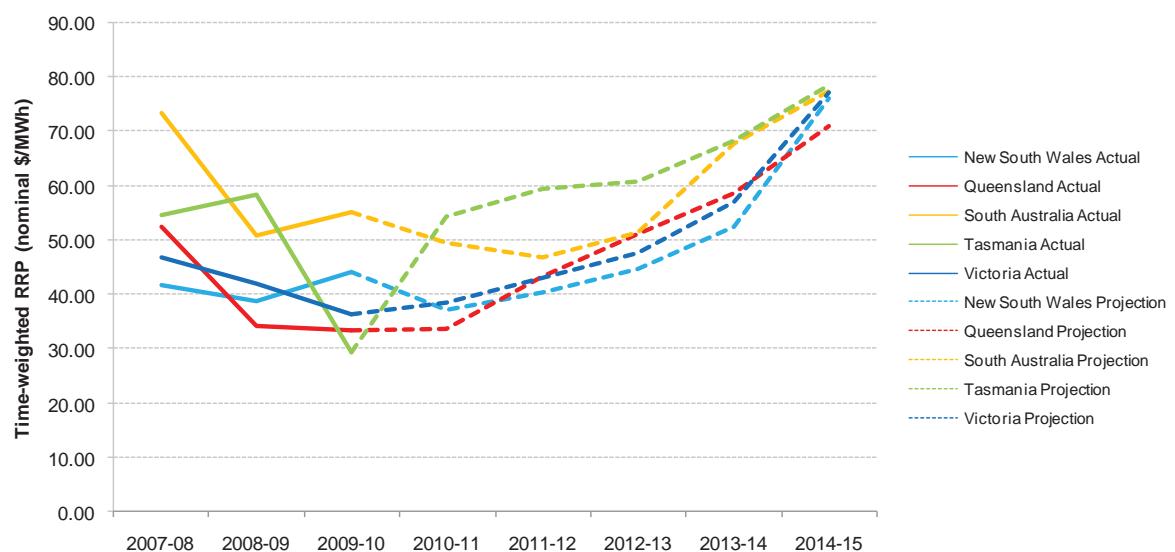
Note: All prices are in nominal dollars. Demand and energy expressed on an 'as-generated' basis. CAGR represents the compound average growth rate over the period. Tasmania only joined the NEM in 29 May 2005 which is why data for 2004–5 is omitted from this table.

Data source: ACIL Tasman based on AEMO market data

2.1.4 Market outlook

ACIL Tasman has been undertaking pool price projections for the NEM since its inception using a suite of modelling tools, including its NEM simulation model, *PowerMark*. Figure 5 shows the average time-weighted RRP projected for each region for the next five years, plotted with actual outcomes for the last three years. Prices are expected to increase over coming years, largely as a result of the assumed introduction of carbon pricing which will add a significant new cost element for fossil fuel generators and in particular for coal-fired generators.

Figure 5 NEM pool price projection 2010–11 to 2014–15



Note: While actual prices are influenced by stochastic events such as weather conditions and forced outages of plant, the projection is normalised for these events and represents a median price outcome. Scenario includes an assumed carbon price commencing in July 2013 of \$10/tonne, with prices in subsequent years approximately equivalent to prices modelled by Commonwealth Treasury under the CPRS-5 scenario in its 2008 report *Australia's Low Pollution Future*.

Data source: ACIL Tasman *PowerMark* modelling



2.2 Wholesale Electricity Market

The Wholesale Electricity Market (WEM) is the market that operates within the South West Interconnected System (SWIS) in Western Australia. The SWIS is the largest interconnected electricity network in Western Australia. It consists of about 88,000 km of transmission lines stretching from Kalbarri in the north to Albany in the south and to Kalgoorlie in the east.

The WEM became operational on 21 September 2006. It was established to provide a platform for buyers and sellers to trade wholesale electricity and was designed to:

- facilitate greater competition and private investment in the SWIS which would allow wholesale purchasers of energy (such as retailers) greater flexibility as to how and from whom they procure energy
- ensure that economically efficient, safe and adequate generation and demand side management (DSM) capacity is available to satisfy the increasing demand for electricity in the SWIS
- minimise the long term cost of supplying electricity to customers
- avoid discrimination in the SWIS against specific energy options or technologies (such as renewable energy/DSM versus coal)
- encourage measures to manage the amount of electricity used and when it is used.

The electricity reform process in WA had its beginnings in 1993 with the release of the Report of the Energy Board of Review (Carnegie Report). The report made important initial recommendations on the separation of the natural monopoly elements from the competitive elements of electricity supply and recommended light-handed control of the industry rather than industry specific regulations on business conduct. The Government of Western Australia later adopted those recommendations and established the Energy Implementation Group to oversee their implementation. This resulted in the split up of the State Energy Corporation of Western Australia into Western Power Corporation and Alinta Gas. The government privatised Alinta in 2000.

At the same time, the government began to implement a program of modest reform, progressively lowering the customer contestability threshold and making changes to network access arrangements.

In preparation for the wholesale electricity market, Western Power Corporation was disaggregated into four separate government-owned corporations in April 2006. These are:

- Verve Energy: generation
- Synergy: retail
- Western Power: transmission and distribution
- Horizon Power: regional operations outside the SWIS.

2.2.1 Market overview and structure

The WEM operates as a day-ahead, energy-only net pool market run by the Independent Market Operator (IMO). Most energy and capacity is sold under bilateral contracts between generators and retailers. The Short Term Energy Market (STEM) provides a means by which participants can trade

around these bilateral positions on a short-term basis. The WEM includes explicit capacity pricing, however bilateral contracts are often bundled (energy plus capacity).

Bilateral contracts are generally formed between market generators and market customers (retailers) for the supply of energy or capacity or a bundled combination of the two. These contracts include all forms of energy and capacity contracts between market participants and are not standardised. The terms and conditions in these contracts are negotiated and agreed between the contract counterparties. The details of the bilateral contracts including price are not available in the public domain.

The Reserve Capacity Mechanism is a centralised mechanism administered by the IMO to ensure that sufficient capacity is available or installed in the market so as to:

- meet system peak demand including capacity constraints that would result from the failure of the largest generator and capacity shortage that could result from frequency variations
- provide incentives for investors to build peaking plants and earn capacity payments that would cover their initial capital costs over time.

The Reserve Capacity Mechanism operates on a four-year cycle. The setting of capacity prices and the allocation of capacity credits is done early in the cycle to allow sufficient time for construction of new entrant capacity if required.

The IMO produces an annual Statement of Opportunities (SOO) report that examines the supply demand balance in the SWIS for the next ten years. The reserve capacity requirements for a capacity year (October to September) are set using the SOO.

Each market customer is allocated a share of the reserve capacity requirement and is required to procure sufficient capacity credits to cover this obligation. Credits can be obtained either through bilateral trade with a supplier (generator or DSM), or acquired through the IMO. The IMO will procure capacity credits for on-sale to market customers if the requirement for capacity credits is not met through bilateral trade.

The STEM is a daily forward market operated by the IMO that allows market participants to trade around their bilateral contract positions. The market allows sellers to offer energy into the market and buyers to bid for energy from the market. The STEM price is determined on a half-hourly basis and is the price where the consolidated generator offer (supply) curve intersects the consolidated retailer bid (demand) curve (or the bilateral contract quantity if this is greater than retailer bids in the STEM). It represents the marginal cost of energy in the spot market. STEM prices and generator scheduling are set on a day-ahead basis.

2.2.2 Market participants

The WEM is a relatively small market, still largely dominated by the incumbent generator (Verve Energy) and retailer (Synergy). Since the commencement of the market, several private companies have entered the generation sector, namely Alinta Energy with gas-fired cogeneration and peaking units, Griffin Energy with coal-fired base load units, ERM Power with the gas-fired NewGen Kwinana CCGT and the Neerabup peaking station and Perth Energy with the Kwinana Swift OCGT peaking station.

In the SWIS retail sector, only customers consuming at least 50 MWh annually (representing around 60% of the market) are contestable. Synergy retains a regulated monopoly over smaller customers. Western Power is responsible for transmission and distribution services which are a regulated monopoly.

Table 7 Major players in each market segment of the WEM

| WEM Region | Generation | Transmission | Distribution | Retail |
|------------|--|---------------------------|---------------------------|--------------------------------------|
| SWIS | Verve Energy, Alinta Energy, Griffin Energy, ERM Power, Perth Energy | Western Power Corporation | Western Power Corporation | Synergy, Alinta Energy, Perth Energy |

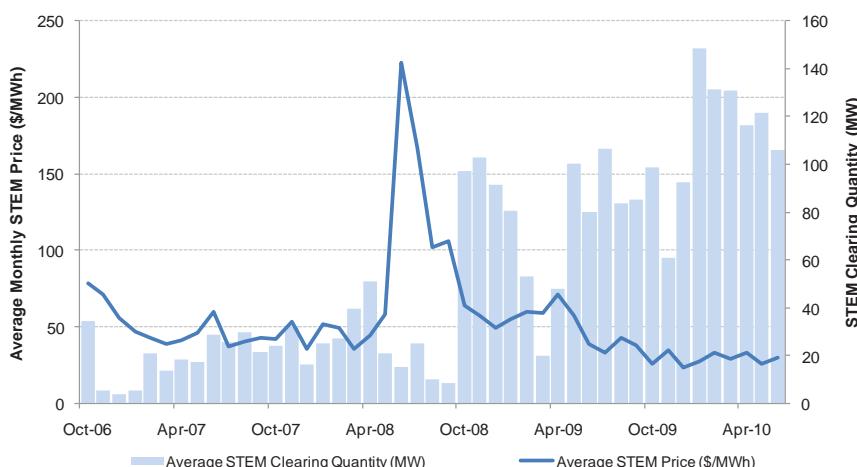
Data source: ACIL Tasman

2.2.3 Wholesale market outcomes to date

Unlike the NEM, the WEM relies heavily on bilateral contracts which are not visible to parties outside the transaction. Therefore prices for the majority of energy traded are not observable. The only visible prices are the spot prices resulting from the STEM and regulated capacity prices. However, the STEM only trades a very small proportion of energy on the SWIS and its price is not necessarily reflective of wholesale prices in general.

Figure 6 shows the historical performance of the STEM since the market commenced. STEM prices have been reasonably stable with the exception of the period June–September 2008, corresponding to the gas supply disruption at Varanus Island which caused gas shortages throughout WA. During this period more expensive liquid fuels were often relied on for peaking duties.

Figure 6 Average monthly STEM outcomes since market start



Data source: ACIL Tasman based on IMO data

Over the last 18 months STEM prices have been relatively low as a result of the commissioning of over 720 MW of new intermediate/base load capacity combined with lower electricity demand in the SWIS following the global financial crisis and the resultant slump in commodity prices.

Table 8 shows the average STEM prices, along with a peak demand and energy summary for the SWIS since the market's commencement. While the SWIS is a relatively small region with average demand of less than 2,000 MW, both energy and peak demand have grown strongly over the period. Average energy growth of 2.6% per annum and peak demand of 3.8% represents faster growth than any of the NEM regions.

Table 8 **Summary statistics of market outcomes for SWIS: 2006–07 to 2009–10**

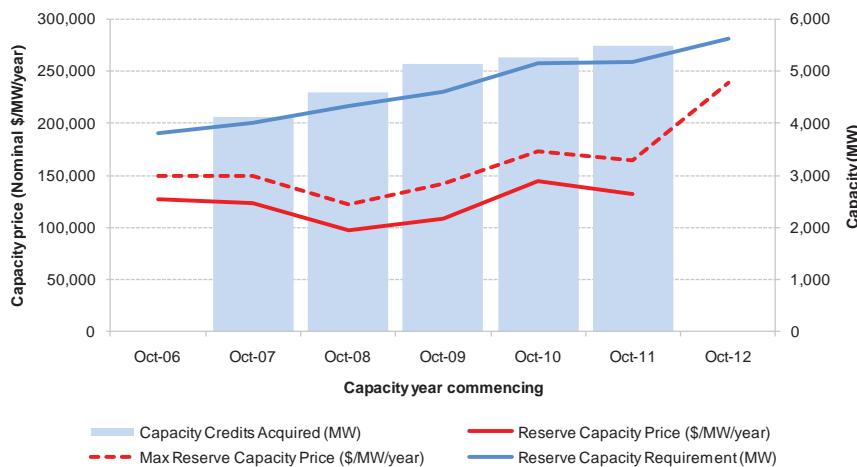
| Financial year | Time-weighted STEM | | Demand-weighted STEM | | Annual energy | | Peak demand | | Average demand | | Minimum demand | |
|----------------|--------------------|----------|----------------------|----------|---------------|----------|-------------|----------|----------------|----------|----------------|----------|
| | \$/MWh | % change | \$/MWh | % change | GWh | % change | MW | % change | MW | % change | MW | % change |
| 2006–07 | 55.49 | | 59.04 | | 16,017 | | 3,364 | | 1,828 | | 1,185 | |
| 2007–08 | 59.26 | 6.8% | 63.79 | 8.0% | 16,438 | 2.6% | 3,366 | 0.1% | 1,876 | 2.6% | 1,090 | -8.0% |
| 2008–09 | 73.89 | 24.7% | 78.91 | 23.7% | 16,618 | 1.1% | 3,515 | 4.4% | 1,897 | 1.1% | 1,250 | 14.7% |
| 2009–10 | 31.25 | -57.7% | 33.79 | -57.2% | 17,278 | 4.0% | 3,766 | 7.1% | 1,972 | 4.0% | 1,178 | -5.8% |
| CAGR | | | | | | 2.6% | | 3.8% | | 2.6% | | -0.2% |

Note: All prices are in nominal dollars. Demand and energy expressed on a 'sent-out' basis consistent with market settlement. CAGR represents the compound average growth rate over the period. The WEM commenced on 21 September 2006. Annual energy has been pro-rated for 2006–07. Demand-weighted STEM weighted by total system load, not STEM trade volumes.

Data source: ACIL Tasman based on IMO market data

The capacity prices in the WEM have been quite volatile as a result of changes to the regulated Maximum Reserve Capacity Price (MRCP). The MRCP sets the maximum price for capacity credits. These can be sourced either bilaterally or via the IMO. The actual price for capacity credits sourced from the IMO is set at 85% of the MRCP, with adjustments for capacity oversupply.³

Figure 7 **Historical capacity market outcomes**



Note: Outcomes for the 2012–13 reserve capacity cycle (Capacity Credits allocated and Reserve Capacity Price) have not yet been determined.

Data source: ACIL Tasman based on IMO data

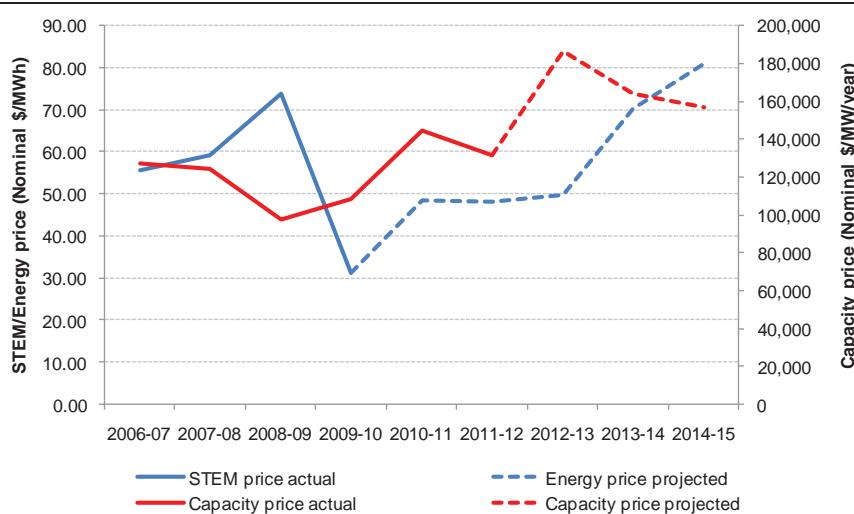
³ For example, if more capacity credits are allocated than the reserve capacity requirement, the capacity price is reduced by the percentage of oversupply.

Figure 7 shows the capacity credits allocated and prices set each year since the market commenced. Prices have risen from a low of \$97,800/MW/year in the 2008–09 capacity year⁴ and are expected to be in the range of \$180,000 to \$200,000/MW/year for 2012–13. The large increase in capacity prices anticipated for 2012–13 capacity year is due to a 41% increase in the MRCP allowed by the IMO to \$238,500/MW/year, which in turn reflects a steep rise in allowed costs for network connection.

2.2.4 Market outlook

ACIL Tasman models the WEM as if it operated as a gross pool (where all energy is traded on the spot market, not just energy net of contracts). Figure 8 shows the projected energy and capacity prices in the WEM over the period 2010–11 to 2014–15 modelled on this basis. These projections are shown in the context of the historical prices.

Figure 8 Actual and projected energy and capacity prices in the WEM



Note: Scenario includes an assumed carbon price commencing in July 2013 of \$10/tonne, with prices in subsequent years approximately equivalent to prices modelled by Commonwealth Treasury under the CPRS-5 scenario in its 2008 report *Australia's Low Pollution Future*. Historical STEM prices are not directly comparable to projected energy prices derived from the modelling.

Data source: IMO market data, ACIL Tasman PowerMark modelling

Energy prices are projected to remain relatively flat at around \$50/MWh over the period 2010–11 to 2012–13 after rising from lows of around \$30/MWh in 2009–10.⁵ Energy prices rise from 2013–14 due to the assumed commencement of carbon pricing. The energy price increase is also driven by higher gas prices which will begin to flow through to existing contract prices over this period.

Capacity prices are projected to peak in 2012–13 at a level of around \$185,000/MW/year, then to decline slightly due to additional capacity entering the market and also an assumed moderation in connection charges included in the MRCP.

⁴ Capacity years run from 1 October to 30 September.

⁵ Projected energy prices are modelled on a gross basis whereas actual STEM price outcomes are a net market outcome. The energy price projections are therefore not directly comparable to the actual STEM price outcomes.

In the longer-term, prices in the WEM are expected to be heavily influenced by carbon prices with a strong correlation between energy prices and carbon prices expected over the medium-term. Overall energy costs in the WEM are expected to be significantly higher than those in the NEM due to higher prevailing coal and gas prices and also the 'peakier' demand in the system.

2.3 Environmental policies

Environmental policies to reduce greenhouse gas emissions and improve energy efficiency have had, and will continue to have, a material impact on the operation of the NEM and WEM.

2.3.1 Carbon pricing policies

There are two primary policy instruments that can be used to place an explicit price on greenhouse gas emissions. These are an emission trading scheme (ETS) or a carbon tax. Either of these policies would materially affect the operation of the NEM and WEM by changing the relative cost of generating electricity with higher- and lower-emissions technologies and by increasing the overall price of electricity.

At the 2007 Australian federal election, both major political parties proposed introducing an emissions trading scheme. During 2008 and 2009 the Labor Government set out the design of its proposed emissions trading scheme, known as the Carbon Pollution Reduction Scheme (CPRS). However, legislation to implement the CPRS was twice defeated in the Senate during 2009. In December 2009 the new Leader of the Opposition announced his party's opposition to any form of emissions trading scheme or carbon tax.

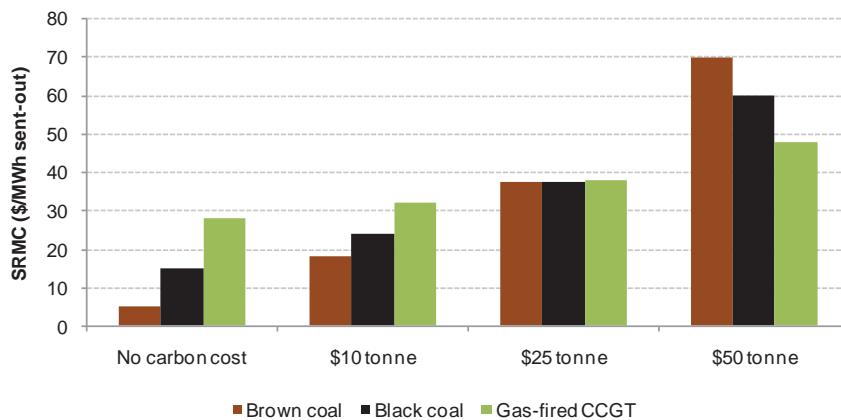
In April 2010 the government announced that it had deferred any consideration of the CPRS until late 2012, citing the blocking of the legislation in the Senate and the uncertain international climate change policy environment. With the change in leadership, the government in July 2010 reiterated its continuing support for the CPRS but argued that a 'community consensus for action' was required as a pre-condition for action while indicating an intention to 're-prosecute the case for a carbon price'.

During 2010 the Opposition announced an alternative 'direct action' climate change policy, whilst the Greens sought to negotiate the establishment of an interim fixed carbon price (broadly similar to a carbon tax) as a precursor to the introduction of an emissions trading scheme.

ACIL Tasman considers that some form of explicit carbon pricing policy is likely in the medium- to long-term. However, the impact of any such policy on the NEM and the WEM is difficult to predict given present uncertainties and will depend significantly on, amongst other things, domestic policy design, international developments, linkages between Australian and international policies, macroeconomic conditions, technological developments and relative fuel prices (in particular, the relative prices of domestic coal and natural gas).

In general terms, a carbon pricing would enhance the competitive position of gas relative to coal-fired technologies as shown in Figure 9. While carbon prices increase the cost of generation for all fossil-fuelled plant, its effects are two to three times more pronounced for coal-fired plant.

Figure 9 Marginal generating costs at vary levels of carbon prices



Note: Based on emission intensities of 1.3, 0.9 and 0.4 tonnes CO₂ per MWh for brown coal, black coal and CCGT respectively. Illustrative example only.

Data source: ACIL Tasman analysis

At the time of writing, the likely timing and form of any carbon pricing policy in Australia is very uncertain and represents a key risk in relation to the future generation mix.

2.3.2 Enhanced Renewable Energy Target

The Australian Government has implemented the Enhanced Renewable Energy Target (ERET) to achieve its policy objective of generating 20% of Australia's electricity from renewable sources by 2020. Legislation to this effect was initially passed by the Commonwealth Parliament in August 2009.

However, concerns expressed by a range of stakeholders prompted the government to change the ERET to place small-scale renewable sources (such as solar water heaters and rooftop photovoltaic solar panels) into a separate 'Small-scale Renewable Energy Scheme', to ensure that rapid take-up of these sources did not undermine investment in utility-scale renewable generation such as wind farms. Amendments implementing these changes were passed by the Commonwealth Parliament on 23 June 2010.

Market observers generally agree that, whilst a range of renewable generation sources will be assisted by the ERET, the primary technology that will benefit from the policy is wind generation. Owing to its intermittent nature, a significant increase in wind generation is likely to affect the operation of both the NEM and the WEM by requiring increased amounts of flexible 'back-up' generation to operate during periods of low wind. This requirement will enhance the opportunities for developers of open-cycle gas turbines which are generally seen as the least cost technology to provide these backup services.

2.3.3 State-based schemes

Two major state-based emissions reduction schemes also affect the operation of the NEM. The Queensland Gas Scheme (more commonly known as the 'GEC Scheme' after the Gas Electricity Certificates that are central to the scheme's operation) commenced in 2005 with the intention of ensuring that 13% of Queensland's electricity is generated using gas. In 2008 the Queensland

Government increased the target for 2010 and 2011 to 15%, and provided for the target to be further increased to 18% in the future. This scheme has seen substantial growth in gas-fired generation in Queensland due to the effective subsidy these generators receive. In 2009–10 gas-fired generation accounted for around 14% of Queensland's total generation.

In 2003 the NSW Government introduced a 'baseline-and-credit' emissions trading scheme known as the Greenhouse Gas Abatement Scheme (GGAS). This scheme subsidises electricity generators that operate in the NEM and have lower emission intensities than the NSW average by allowing them to create credits known as NSW Greenhouse Gas Abatement Certificates, or NGACs.

In 2006 the NSW Government extended the operation of the GGAS from 2012 to 2021, but also announced that the scheme would cease operating on commencement of a national emissions trading scheme. Given the Australian Government's failure so far to achieve passage of the CPRS, the GGAS will continue operating until 2021 unless present circumstances change.

2.3.4 Energy efficiency policy

State and national governments have recently implemented and proposed a range of energy efficiency policies and initiatives that support small-scale renewable energy sources, including through direct subsidies, regulation and mandatory reporting requirements.

Of particular note are the schemes implemented by the Victorian, South Australian and NSW governments that require wholesale electricity purchasers (such as retailers) to purchase certificates that are created by undertaking verified energy saving activities, indirectly subsidising such activities.

It is difficult to predict the extent to which current and proposed energy efficiency and small-scale renewable energy policies will succeed in reducing demand and changing demand patterns in the NEM and the WEM over the medium- to long-term.

3 ERM's existing business

3.1 Generation assets

ERM Power currently has interests in two power stations. These are a 12.5% interest in Oakey (QLD) and a 50% interest in Neerabup (SWIS). ERM Power also developed the Uranquinty (NSW), Braemar 1 and Braemar 2 (QLD), and Kwinana (SWIS) power stations, but has sold its interests in Braemar 1 and Uranquinty and has entered into binding agreements with Arrow Energy to sell down its 25% equity interest in Braemar 2. ERM Power has also agreed to dispose of its 30% interest in Kwinana to a subsidiary of ANZ Specialist Asset Management Limited. The sale of Kwinana is subject to various conditions precedent but with completion expected to be on, or about 1 December 2010.

3.1.1 Oakey Power Station

Oakey Power Station is a 332 MW plant located in western Queensland, adjacent to the Roma to Brisbane Gas Pipeline. It is a dual-fuel, open-cycle gas turbine (OCGT) power station that operates

during times of peak demand. It can run on either natural gas or distillate. However, natural gas supplied by AGL Energy under a gas sales agreement has been the predominant fuel used in the plant.

The station, which was commissioned in December 1999, was the first power station in Queensland to be developed on the basis of a government tender involving the private sector. ERM led the development of the project and was the contract manager for the first six years of operation.

ERM retains a 25% voting interest and 12.5% beneficial interest in the project (with the remaining 12.5% held by an ERM relationship investor). The other equity owners include Alinta Energy (50%) and Contact Energy (25%). Alinta Energy is currently seeking to sell its interest in Oakey pursuant to its agreement with Babcock & Brown International Group.

Oakey has a long-term PPA with AGL Energy that runs until the end of 2014. There are a number of options for recontracting the station after 2014, including an extension with AGL Energy or other counterparty on a similar basis. Oakey is expected to have 15–20 years of useful life remaining at the end of the AGL Energy contract.

3.1.2 Neerabup Power Station

The Neerabup power station is an integrated 330 MW OCGT power station and 30 km high-pressure gas pipeline network. The power station is located 30 km north of Perth near the town of Neerabup. It was completed in October 2009.

The project consists of 2 x 165 MW Siemens OCGT units, plus 30 km of large diameter, high pressure gas pipeline (26 inch diameter; 10,200 kPa maximum allowable operating pressure) providing 14 hours of usable linepack.

ERM led the project development and financing, was the project and construction manager, and is currently operator of the business. The power station is jointly owned by ERM Power (50%) and Energy Infrastructure Trust (50%); the Energy Infrastructure Trust is managed by the unlisted infrastructure investment funds, Infrastructure Capital Group.

The plant operates as a peaking plant utilised only during times of peak demand and high prices. Output and capacity from the plant is contracted to Synergy.

3.1.3 NewGen Kwinana Power Station

The NewGen Kwinana power station is a 320 MW gas-fired combined-cycle gas turbine (CCGT) power station, located 30 km south of Perth in the Kwinana Industrial Estate. The plant consists of an Alstom 13E2-based CCGT delivering 240 MW (160 MW from gas turbine, 80 MW from steam turbine) with an additional 80 MW of capacity available from supplementary duct firing. NewGen Kwinana was commissioned in October 2008.

ERM led the development, was the project and construction manager, and oversees the operation and trading of the business. ERM Power currently holds a 30% equity interest in Kwinana but has agreed to dispose of its 30% interest in Kwinana to a subsidiary of ANZ Specialist Asset Management Limited.

The sale of Kwinana is subject to various conditions precedent but with completion expected to be on, or about 1 December 2010.

3.1.4 Braemar 2 Power Station

Braemar 2 is an integrated 519 MW open-cycle, gas-fired power station and 110 km high-pressure gas pipeline. The power station was completed in June 2009. ERM Power currently holds a 25.05% interest in Braemar 2, but has a firm sales agreement with Arrow Energy for this share; settlement of the sale is to occur in Q3 2011.

3.2 Sales

ERM Power operates its own electricity sales business – ERM Sales. The business targets large commercial, industrial and government customers only. In 2009–10 ERM sold just over 4,000 GWh of energy to large users, predominantly in Queensland. ERM Sales currently sells energy in Queensland, Victoria, New South Wales and Tasmania and plans to commence sales into the South Australian and Western Australia markets in January 2011.⁶

ERM's diversification into retail represents a step toward vertically-integrated operations and offers significant synergies with the generation business: the retail arm represents a potential off-taker for new generation developments, while the links with generation may allow ERM Sales to better tailor products to meet customer needs.

3.3 Upstream gas exploration

ERM Power has recently entered the upstream gas industry taking prospective acreage in onshore Western Australia (Perth Basin). This position is in part a response to large increases in wholesale gas prices in Western Australia where prices for new gas contracts have risen from \$2–\$3/GJ at the wellhead to \$7–\$10/GJ in the space of a few years. This price rise is a result of a lack of uncontracted domestic gas production capacity and limited competition amongst producers.

ERM farmed in to a number of tenements held by Empire Oil and Gas in 2008. In April 2010 the Gingin West 1 exploration well in EP389 was drilled and completed. This well discovered gas and condensate in a location close to the existing Parmelia pipeline, the DBNGP and ERM's 50% owned Neerabup peaking power station. Commencement of production from the field is planned for 2011.

ERM holds three other exploration tenements in Western Australia (one outright and two jointly with Empire Oil and Gas). All together these tenements cover around 11,600 square kilometres. ERM also has an interest in a prospective shale gas asset, through one of the tenements with Empire Oil and Gas in Western Australia.

⁶ ERM's retail license application has recently been submitted to Western Australia's Economic Regulatory Authority.

4 Generation development

4.1 ERM's generation developments

ERM is Australia's leading developer of gas-fired generation assets, having developed around 30% of new generation capacity in Australia since 2005 and 5% or 2,669MW of Australia's total generation capacity. Since 1996, ERM has successfully delivered six new generation projects: Oakey (332MW); Braemar 1 (504MW); Braemar 2 (519MW); Kwinana (320MW); Uranquinty (664MW); and Neerabup (330MW).

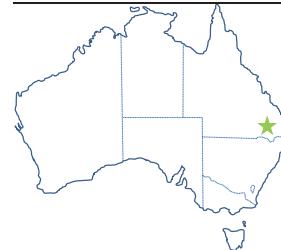
ERM currently has a development pipeline consisting of 11 projects (totalling around 4,570 MW of new capacity supported by a strategic land portfolio). This section provides an overview of ERM's proposed near-term generation projects—Braemar 3 and Wellington 1.

4.1.1 Braemar 3

ERM is planning to construct the next increment of capacity at Braemar—a new 550 MW open-cycle gas-fired power station and high pressure gas pipeline network. The Braemar 3 power station will be located 40 km southwest of Dalby in southern Queensland, adjacent to the QLD–NSW interconnector, Powerlink's 320kV/275 kV substation, and ERM's previously developed Braemar 1 and Braemar 2 power stations. The cost of construction is estimated at \$529 million.

ERM's development schedule anticipates that financial close of the project will occur in 2011–12, with operation expected prior to the 2013–14 peak summer period to coincide with forecast incremental demand requirements in Queensland.

Braemar 3 is presently a 100% owned ERM project. However, a joint venture partner may be introduced at some point in the future. ERM conceived the project, is the lead developer and project manager, and will be the construction manager, financial arranger, operator and trader of the Braemar 3 power station.



Braemar 3 is well-located, close to Powerlink's 320/275 kV substation and the QLD–NSW interconnect. It will have low constraint-risk access to both Queensland and NSW markets. It is also close to Bowen/Surat Basin coal seam gas production areas which provide a number of gas supply options. The power station is located adjacent to the Braemar 1 and 2 sites which may provide additional electricity and gas trading opportunities.

The development and timing of Braemar 3 will ultimately depend upon the demand for hedge contracts for peak/shoulder periods as well as the potential need for a ramp gas solution for competing CSG–LNG projects. ACIL Tasman considers that ERM's target commercial operation date of summer 2013–14 as not unreasonable. The site is fundamentally well located and the recent revisions to Queensland demand forecast by Powerlink (discussed in section 4.2) suggest that new capacity will be required ahead of 2014–15.

4.1.2 Wellington 1

Plans are well advanced for the establishment of a new OCGT power station at Wellington, 50 km south of Dubbo in central western NSW. The Wellington power station will comprise up to four gas-fired turbines in open-cycle configuration with a total capacity of between 550 MW and 660 MW. The power station will be located 4 km north of Wellington (approximately 250 km north-west of Sydney) and directly adjacent to TransGrid's existing 330 kV/132 kV high voltage substation.

ERM owns 100% of the project and will be the operator. The project is expected to cost about \$680 million to develop.

The project was given final approval by the NSW Department of Planning in March 2009 and designated as a critical infrastructure development. ERM's development schedule anticipates commencement of construction in 2012 with commissioning and commercial operations by the summer of 2013–14.



Wellington is located near the developing Gunnedah Basin coal seam gas province. ERM has signed a memorandum of understanding (MOU) with Eastern Star Gas Limited (ESG) to provide a long term contract for up to 20 PJ of gas per annum over a period of 20 years. ESG is to supply the gas from its Narrabri coal seam gas project. Gas supply under the MOU would be sufficient to sustain generation at Wellington for a capacity factor of up to about 30%.

According to the relevant announcement by ESG⁷, the structure of the gas contract under the MOU includes a base price plus a component with a linkage to wholesale electricity prices. ESG is planning to construct a pipeline from Narrabri to Wellington with a connection to the Central Ranges Pipeline. The pipeline to Wellington would have sufficient line pack for the station's operation.

Construction of the power station is scheduled to take 20–22 months, while the gas pipeline is scheduled to take 12–14 months. The power station is designed to allow future conversion to combined-cycle operation if justified by market conditions. ERM's proposed timing for the Wellington power station is around 12 months ahead of the forecast-adjusted reserve requirements for NSW (as discussed in section 4.2). However, ACIL Tasman's projected market prices (as shown in Figure 5) suggest entry around this time may be warranted. We therefore consider that the proposed timing of 2013–14 is not unreasonable.

ERM is also separately investigating the development of a 220 km pipeline to connect the Wellington power station to the Moomba to Sydney gas pipeline at Young. This pipeline would offer additional benefits in terms of operational flexibility for ERM and may provide a route to market for additional CSG production from the Gunnedah Basin. This link comprises part of a much larger concept of building an interstate gas pipeline between New South Wales and Queensland. ERM is undertaking a feasibility study for a 900 km, \$500 million pipeline project that would transport and store gas between

⁷ ASX release by Eastern Star Gas dated 14 May 2010: 'Gas Supply to Wellington Power Station'

Wambo in south-east Queensland and Wellington in north-east NSW. The pipeline would consist of four sections, to be developed in stages.

4.1.3 Longer-term plans

Over the next decade, ACIL Tasman estimates that Australia will require somewhere between 7,000 MW and 14,000 MW of new firm generating capacity to meet increasing demand requirements and replace retiring capacity. The amount of new capacity actually required will depend on a range of factors, including government policy on carbon pricing. ACIL Tasman considers it likely that a significant proportion of this new generation capacity will be gas-fired.

Consistent with this forecast new capacity requirement, ERM Power is considering a number of new projects, providing a development pipeline over at least the next decade. This development pipeline is detailed in

Table 9. These projects are all gas-fired. ERM Power is strategically positioned to capitalise on market opportunities as they emerge. The range of options available provides ERM Power with significant flexibility to respond to changing market conditions.

Table 9 ERM Power major project development pipeline

| Project | Status | State | Land | Type | Size | Fuel |
|-----------------------|----------------------|-------|------------|--------------|--------|------|
| Braemar 3 | Development Approved | QLD | Owned | Shoulder | 550 MW | Gas |
| Wellington 1 | Development Approved | NSW | Secured | Peaker | 550 MW | Gas |
| Small Power Project 1 | Feasibility | n/a | n/a | Intermediate | 30 MW | Gas |
| Small Power Project 2 | Feasibility | n/a | n/a | Intermediate | 30 MW | Gas |
| Neerabup 2 | Feasibility | WA | Owned | Peaker | 330 MW | Gas |
| Braemar 4 | Feasibility | QLD | Owned | Shoulder | 550 MW | Gas |
| Wellington 2 | Concept | NSW | Secured | Peaker | 550 MW | Gas |
| Braemar 5 | Concept | QLD | Owned | Shoulder | 550 MW | Gas |
| Victoria 1 | Concept | VIC | Identified | Peaker | 550 MW | Gas |
| NSW | Concept | NSW | Identified | Shoulder | 550 MW | Gas |
| Mid West | Concept | WA | Secured | Shoulder | 330 MW | Gas |

Data source: ERM Power

4.2 New generation requirements in target markets

In general there are four principal drivers for new generation requirements in both the NEM and WEM:

- growth in peak demand requirements driven by general load growth and increased penetration of power-intensive appliances such as air-conditioners
- replacement of existing generation assets as they reach the end of their technical design lives
- displacement of existing generation based on either commercial performance or other considerations such as environmental factors
- transmission system support.

Other specific factors such as gas monetisation strategies for ramp gas (related to the proposed CSG–LNG projects) may also bring forward demand for new generation.

Figure 10 shows the supply-demand balances for each of the NEM regions (except for Tasmania) over the period to 2019–20 under medium economic growth scenarios as reported by AEMO in the 2010 Statement of Opportunities (SOO) report. All mainland regions, are expected to see a reserve margin shortfall during this period, indicating that without new capacity, the reliability of the power system may be compromised during peak demand periods.

Figure 10 Supply-demand balances for NEM regions



Data source: AEMO 2010 SOO

Queensland is the first region to experience a capacity shortfall, as early as 2013–14. This large shortfall is attributable to new loads related to upstream processing facilities for CSG–LNG projects and new coal mining loads.⁸ Other factors, such as the announced⁹ retirement of Swanbank B power station in Queensland (480 MW) by 2012, have also increased the near-term projected supply-demand gap.

⁸ Powerlink, Annual Planning Review 2010, p14.

⁹ CS Energy media release, "Future of Swanbank B Power Station announced", 26 March 2010.

In total the NEM is projected to require, at a minimum, a further 6,400 MW of capacity in the period to 2019–20.

These figures should be interpreted as a minimum requirement as other factors are likely to result in additional capacity development over this period. These include the need for backup of intermittent wind generation by flexible plant such as OCGT and the potential for early retirement of incumbent coal plant as a result of carbon pricing, both of which may increase the new capacity requirement significantly. In addition, the commercial opportunity for new generation development generally arises prior to the actual reserve margin being threatened as retailers and end users look to hedge price risk in advance.

The SWIS has sufficient capacity to meet reserve requirements until 2012–13 when, in the absence of new plant or DSM being developed, a small shortfall of 8 MW is forecast (Figure 11). Over the period to 2014–15 the SWIS will require an additional 720 MW. Based on forecast demand growth and planned retirement of the Kwinana C power station, the total new capacity requirement to 2020–21 is estimated by the WA Independent Market Operator to be 2,275 MW. This equates to around half the capacity of the current generation fleet in the WEM.

Figure 11 Additional capacity requirement for the SWIS



Data source: IMO 2010 SOO

4.3 Outlook for gas-fired generation generally

In the short-to-medium term, ACIL Tasman expects the new entrant technologies for the NEM and WEM to be a combination of wind, OCGT and CCGT plant. The development of wind is being driven by the ERET (discussed in section 2.3.2). In the absence of major technology breakthroughs or large government subsidies to other renewable technologies, wind is likely to provide the bulk of the mandated renewable energy under the scheme.

Gas-fired OCGT and CCGT are likely to be the fossil fuel technologies of choice given their relatively low capital costs and emission intensities. OCGT developments, which are generally the lowest-cost technology for new firm capacity, will be driven by growth in peak demand and reserve margin



requirements. They will also play an important role in backing up intermittent wind generation.¹⁰ OCGT plant provides flexibility because, if market requirements change, it can be converted to CCGT by retrofitting a steam turbine at relatively low capital cost and with little loss of thermal efficiency.

CCGT developments will occur to meet growth in intermediate/base load energy requirements and to displace or replace coal-fired generation adversely affected by carbon pricing. The replacement of existing coal-fired capacity offers a potentially large opportunity for new gas-fired generation. Modelling undertaken by ACIL Tasman for the Energy Supply Association of Australia (esaa) in 2008 showed that under carbon prices at a level required to achieve a 10% reduction in emissions below year 2000 levels by 2020, around 6,600 MW of existing plant would be forced to retire. As shown in Table 10, most retiring plant would be Victorian coal-fired capacity. It is likely that much of the retiring plant would be replaced by base load/intermediate gas-fired plant.

Table 10 Existing plant retired to achieve a 10% reduction below year 2000 emission levels by 2020 (MW)

| | NSW | VIC | QLD | SA | NEM |
|-------------------|-----|-------|-----|-----|-------|
| Brown coal | | 4,335 | | | 4,335 |
| Black coal | 150 | | 890 | 770 | 1,810 |
| Natural gas steam | | 500 | | | 500 |
| Total | 150 | 4,835 | 890 | 770 | 6,645 |

Note: Retirements based on modelled commercial outcomes.

Data source: ACIL Tasman, 'The impact of an ETS on the Energy Supply Industry', a report to esaa, June 2008.

Current uncertainty in relation to carbon pricing is seeing developers opting for lower risk OCGT plant rather than CCGT. If an explicit price on carbon is introduced, a number of CCGT developments are likely to occur. CCGT plants have most of the operational advantages of OCGT, at a higher capital cost but with significantly improved thermal efficiency (around 50% compared to 32% for OCGT). The higher thermal efficiency of CCGT would be advantageous in an environment of rising gas prices and explicit carbon charges.

While coal-fired technologies arguably offer low priced base load electricity when compared with a gas-fired CCGT, the long lead times, commercial risks associated with carbon pricing and regulatory hurdles in gaining development approvals mean that the NEM is unlikely to see any new coal-fired capacity developed in the foreseeable future. The market region where new coal-fired capacity is most likely to emerge is the SWIS, where local gas prices currently approaching \$10/GJ would make CCGT uncompetitive with coal even under aggressive carbon prices. However, financing new coal plant is likely to prove challenging, even in the SWIS.

Carbon capture and storage (CCS) may offer a means to develop new coal capacity in a carbon constrained environment, but only once this technology is technically proven and commercially viable. Based on current cost projections, this is unlikely to occur for another 15 to 20 years. Governments may in the meantime fund medium scale CCS technology demonstration plants but these are unlikely to be large enough to have a material impact upon markets.

¹⁰ OCGT fast start and flexibility make it an ideal technology to support fluctuating wind output.



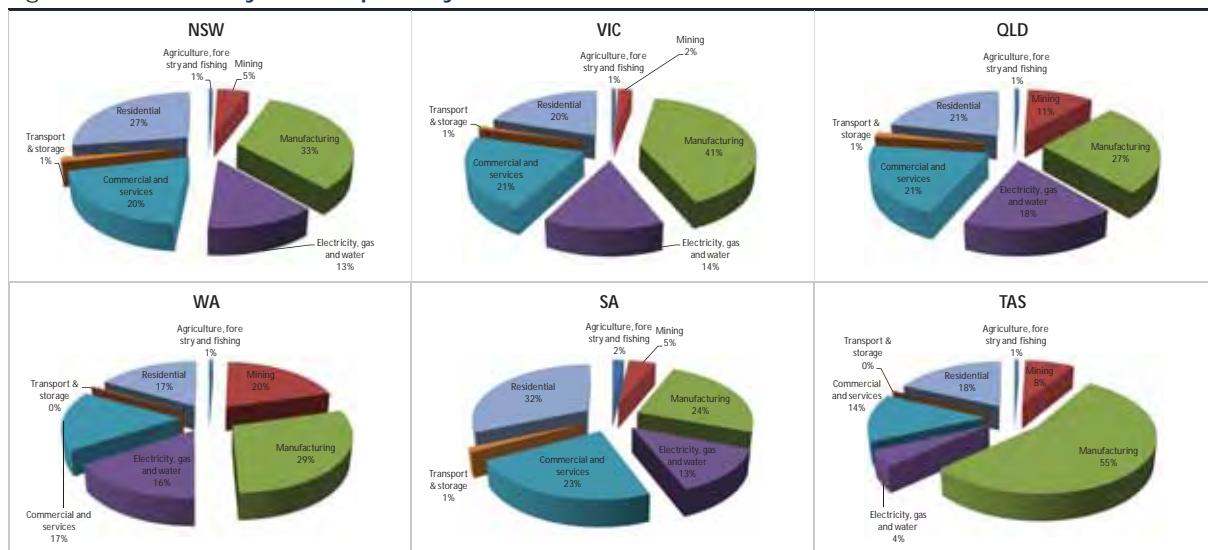
The level of development of gas-fired generation will, to some extent, depend upon the price and availability of gas to fuel new plants. In recent years, the success of coal seam gas exploration and development in Queensland has resulted in Eastern Australian proven and probable (2P) gas reserves increasing from around 10 Tcf in 2000 (comprised mostly of conventional gas reserves) to approximately 36 Tcf by mid-2010.¹¹ While some of this additional gas is now earmarked for export as LNG, ACIL Tasman does not foresee any shortfall of gas availability for domestic generation.

As there is no ready alternative to gas-fired technologies for bulk electricity generation in the short-to-medium term, any increases to prevailing gas prices are likely to flow through to higher wholesale electricity prices.

5 Commercial and industrial retail market

As a fundamental input in a modern economy, electricity demand is spread across all industries and applications as shown in Figure 12. On average for Australia, around 25% of electricity is consumed by households with manufacturing accounting for almost 40%. The end uses of electricity differ somewhat between states, depending upon the economic composition of the region and the location of energy-intensive industries.

Figure 12 Electricity consumption by sector for 2007–08



Note: Includes data for whole state, not just NEM and SWIS.

Data source: ACIL Tasman based on ABARE Energy update 2009 data.

¹¹ Note that 1 Tcf of natural gas (approximately 1,000 PJ) would be sufficient to fuel 1,600 MW of OCGT capacity running at 30% capacity factor for a period of 20 years.

5.1 Target market overview

ERM Sales targets commercial, industrial and government customers only. These customers are large electricity consumers (generally with an electricity consumption equivalent to an electricity cost of at least \$50,000 per annum). ERM Sales offers products such as electricity with any accompanying environmental certificates, environmental certificates (GECs, RECs and NGACs) and voluntary green electricity products.

Prices, terms and conditions offered to large customers for electricity supply are negotiated. Prices are not regulated as is the case with mass market customers.¹²

5.2 Current retailers

Retailers to these large loads include the mainstream mass market energy retailers such as AGL Energy, Origin Energy and TRUenergy plus a number of niche electricity retailers. Table 11 shows a list of retailers that are potential competitors to ERM Sales in each NEM region.

Table 11 **Retailers in the large customer market**

| New South Wales | Queensland | Victoria | South Australia | Tasmania | Western Australia |
|--------------------------|-----------------|------------------------|-----------------|----------------|-------------------|
| ActewAGL Retail | AGL Energy | AGL Energy | AGL Energy | Aurora Energy | Synergy |
| AGL Energy | Country Energy | Australian Power & Gas | Aurora Energy | Country Energy | Allinta Energy |
| Alinta Energy Services | EnergyAustralia | Country Energy | Country Energy | ERM Power | Perth Energy |
| Aurora Energy | ERM Power | ERM Power | Momentum Energy | TRUenergy | |
| Australian Power and Gas | Integral Energy | Origin Energy | Origin Energy | | |
| Country Energy | Origin Energy | Red Energy | Red Energy | | |
| EnergyAustralia | Powerdirect | Simply Energy | SA Electricity | | |
| ERM Power | Qenergy | TRUenergy | Simply Energy | | |
| Integral Energy | TRUenergy | Victoria Electricity | TRUenergy | | |
| Origin Energy | | | | | |
| Red Energy | | | | | |
| TRUenergy | | | | | |

Note: Not all of these retailers may be actively marketing to large customers.

Data source: ACIL Tasman

5.3 Market size and growth

At a retail level, there are currently around 10 million electricity end-users in Australia as detailed in Table 12. Residential customers make up 88% of customer numbers but account for only 29% of energy consumption. By comparison, business users account for only 12% of customers but around 70% of energy consumption. Business customers are generally characterised as high volume, low retail margin customers.

¹² All regions except Victoria have some form of regulated retail tariff caps for residential customers.

Table 12 Customer numbers and consumptions by customer class 2008–09

| | NSW/ACT | VIC | QLD | SA | WA | TAS |
|---------------------------------|---------------|------|---------------|------|---------------|---------------|
| Customer numbers | | | | | | |
| Residential | 3,000,551 | 88% | 2,190,588 | 87% | 1,697,545 | 89% |
| Business | 394,817 | 12% | 315,256 | 13% | 211,191 | 11% |
| Total | 3,395,368 | 100% | 2,505,844 | 100% | 1,908,736 | 100% |
| Consumption (GWh) 2008–9 | | | | | | |
| Residential | 22,146 | 31% | 12,503 | 28% | 12,670 | 27% |
| Business | 49,148 | 69% | 31,335 | 71% | 34,441 | 73% |
| Unmetered | 380 | 1% | 376 | 1% | 304 | 1% |
| | 71,675 | | 44,214 | | 47,414 | |
| | | | | | 12,878 | |
| | | | | | | 15,533 |
| | | | | | | 10,734 |

Note: Unmetered consumptions refers to public lighting.

Data source: esaa 'Electricity Gas Australia 2010'.

No forecasts are available specifically for growth in business customers. While business consumption may vary with the addition or loss of significant demand increments, it is reasonable to assume that growth in this category will be generally aligned with overall forecast energy growth for each region.

ERM Power has provided ACIL Tasman with its management forecasts of electricity load growth over the period 2010–11 through to 2011–12. The mid-case management forecasts project total sales to increase from 4,061 GWh (actual for 2009–10) to 8,499 GWh by 2011–12 (a 110% increase).

ACIL Tasman estimates that ERM's electricity sales market share of large customers is currently around 3% Australia-wide. In Queensland its market share is approximately 10%. Based on management's mid-case forecasts, this share is projected to grow to around 6% nationally by 2011–12.

Table 13 Estimated market shares for ERM Power Retail

| | 2009–10 | | | 2011–12 | | |
|--------------|-------------------------------|-----------------------------|-------------------------|-----------------------------------|-----------------------------|-------------------------|
| | ERM Power Retail Actual (GWh) | Total Business Energy (GWh) | Approx Market Share (%) | ERM Power Retail Projection (GWh) | Total Business Energy (GWh) | Approx Market Share (%) |
| NSW | 150 | 48,820 | 0.3% | 938 | 51,759 | 1.8% |
| VIC | 254 | 31,492 | 0.8% | 1,126 | 32,424 | 3.5% |
| QLD | 3,550 | 34,775 | 10.2% | 5,730 | 38,083 | 15.0% |
| SA | 0 | 8,476 | 0.0% | 78 | 9,024 | 0.9% |
| WA | 0 | 10,005 | 0.0% | 186 | 10,969 | 1.7% |
| TAS | 107 | 9,203 | 1.2% | 441 | 9,436 | 4.7% |
| Total | 4,061 | 142,772 | 2.8% | 8,499 | 151,695 | 5.6% |

Note: Business energy taken from esaa Electricity Gas Australia 2010. Growth rates assumed for business consumption align with forecast energy growth from 2010 Annual Planning Reports and 2010 IMO SOO.

Data source: ACIL Tasman analysis of ERM Power projections under the mid-case management forecasts

ERM has positioned itself as a successful niche retailer in the NEM by developing software and management systems that allow it to tailor products to better meet end user requirements. The growth in retail business forecast by management reflects a belief that ERM will be able to replicate its success in Queensland in other NEM regions and Western Australia. In order to achieve these forecasts, ERM will need to access reasonably priced wholesale electricity and to differentiate its product offering from its larger competitors. A key strategy in this market is to be creative in marketing innovative products to an increasingly sophisticated customer group.

6 Assessment of opportunities and risks

ERM Power has a successful track record in developing generation projects in the competitive NEM and WEM electricity markets. This has been leveraged into a rapidly growing niche electricity sales business and the company has also made its first inroads into the upstream end of the electricity supply chain through its gas exploration interests in Western Australia.

In reviewing ERM Power's operations and prospects, ACIL Tasman has identified a number of high-level market risks and opportunities faced by the firm. These are summarised in Table 14 and Table 15 respectively.

Table 14 Key market risks identified for ERM Power and mitigating factors

| Key risks | Response/mitigating factors |
|---|--|
| No explicit carbon pricing in the short-to-medium term <ul style="list-style-type: none"> Coal will still dominate base load power generation. Gas-fired generation will be largely limited to providing peak/shoulder operations in the short-to-medium term. Likely to have a slower uptake of gas in the generation mix. | <ul style="list-style-type: none"> Outside control of ERM Power. Uncertainty created by lack of carbon pricing is likely to result in generation proponents' preference for low capital cost technologies, in particular OCGT (as is the case now). Other 'direct action' measures (such as those proposed by the Victorian government) may still result in the retirement of the most emission intensive stations (e.g. Hazelwood in Victoria). Gas technology is still likely to be the lowest cost new entrant due to carbon price risk for new coal developments. As demand grows CCGT plants are therefore likely to be required. There is a market need for OCGT peaking plant irrespective of carbon pricing policies. |
| Gas supply/pricing risk <ul style="list-style-type: none"> Access to gas supplies is required for ERM Power to generate using OCGT running in peak/shoulder mode (capacity factors 5%-30%). In the absence of gas supplies being available OCGT role may be reduced to pure peak operation (1%-5% capacity factor) running on liquid fuels. Proposed CSG-based LNG projects in Queensland may divert a large quantity of gas offshore. Gas prices may rise from current low levels. | <ul style="list-style-type: none"> CSG-based LNG projects in Queensland may divert a large quantity of gas offshore. However, given the level of CSG resource that has been proved up in recent years – and the potential for shale gas production in the long-term – it is unlikely that domestic gas demand will go unmet. While gas prices may rise over coming years, given that gas-based generation is the only commercially viable non-coal technology currently available for non-subsidised entry in the NEM, wholesale gas and electricity prices are expected to move in tandem. |
| Increased government support for renewable technologies and/or nuclear energy in the long term <ul style="list-style-type: none"> Governments have shown a willingness to mandate that electricity consumers substantially subsidise renewable technologies, such as wind via the ERET. ERET target is currently set at 20% of the projected energy mix by 2020, but new policies could be more aggressive. Government policy toward nuclear energy may change in the longer term. | <ul style="list-style-type: none"> The only viable widely deployable renewable technology at the moment is wind power. There are limits to additional wind the system can accommodate due its intermittent nature. Wind entry acts to suppress average wholesale electricity prices, but its intermittency increases price volatility and results in increased demand for backup from firm generation. Gas-fired OCGT is ideally suited to this role. Other renewable technologies such as solar, geothermal and tidal are either at a very early stage of development, or are very expensive, or both. There is no evidence of a change in political attitudes toward nuclear energy at present. If such a change were to occur there would be a long lead time (probably 15–20 years) before nuclear power could be in operational in Australia. |
| Large uptake of demand-side management/energy efficiency programs <ul style="list-style-type: none"> Governments have focussed on DSM/EE strategies to reduce | <ul style="list-style-type: none"> DSM currently plays only a minor role in the NEM (arguably more significant in the WEM). |

| | |
|--|--|
| <p>emissions and peak demand.</p> <ul style="list-style-type: none"> There is potential for increased impact of DSM/EE on electricity demand growth as large end-users become more sophisticated (willing to reduce demand during price spikes) and mass market infrastructure is rolled out (e.g. smart meters). | <ul style="list-style-type: none"> DSM may reduce aggregate peak demand requirements over time, but will require more tailored electricity products to end users – an ERM Retail strong point. Energy efficiency programs offer potential to reduce electricity demand more generally, but potential may be overstated. Energy efficiency has less impact upon peak demands, which is where ERM's generation developments are targeted. |
| <p>Don't achieve forecast retail penetration</p> <ul style="list-style-type: none"> Risk that larger retailers respond to market share gained by ERM Sales . | <ul style="list-style-type: none"> Sales business seeks to gain market share through its innovative product offering and by being flexible and responsive to customer demands. Sales strategy is to target 'low hanging fruit' in each market for large, low margin loads. Management advises ERM Sales is currently only pricing less than half of tenders received, indicating growth potential. Small size and flexibility a key advantage of ERM over larger retail rivals. |

Table 15 Key market opportunities identified for ERM Power

| Key opportunities | Factors for success/impacts |
|---|---|
| <p>Explicit carbon pricing is introduced</p> <ul style="list-style-type: none"> Either through emissions trading scheme or carbon tax. | <ul style="list-style-type: none"> Gas is well placed to increase market share as a generation technology. ERM Power has a number of planned projects across all regions – able to respond to changing market conditions in any region. Proposals are mostly OCGT projects, but could be changed/converted to CCGT plants if market justification emerges under carbon pricing. Increase in gas requirements for higher capacity factor operational mode. Enhances vertical integration opportunities as ERM's generation gradually moves closer to off-take profile of retail customer base. Potential for significant increase in revenues from more MWh generated. |
| <p>Backup of intermittent renewable generation</p> <ul style="list-style-type: none"> Enhanced Renewable Energy Target to drive wind installations across the NEM and WEM. Accommodation of intermittent generation requires flexible underlying generation fleet to counter fluctuations in output. | <ul style="list-style-type: none"> Increased wind penetration is positive for OCGT plant which provides the lowest cost rapid-response firm capacity. Wind penetration in some regions (SA, VIC and SWIS in particular) is likely to result in increased demand for OCGT plant running at low capacity factors to accommodate system ramp rate requirements and may prompt acceleration of OCGT demand on these systems. ERM Power is well placed to respond having a number of potential projects under evaluation, and could be a front-runner for provision of these services. Increased price volatility which results from wind entry will also have a positive impact on pricing of hedge products. |
| <p>Transition to intermediate/base load operation</p> <ul style="list-style-type: none"> Long-term impact of shift from coal to gas for high capacity factor roles. | <ul style="list-style-type: none"> Displacement of coal from the merit order in favour of gas-fired plant due to lower emissions intensity (hence lower carbon-inclusive SRMC). All of ERM's OCGT projects incorporate flexibility for conversion to combined cycle operation. CCGT conversion represents a low risk, low cost option for moving to higher capacity factor. Having OCGT capacity already constructed allows a short lead time for conversion and may enable ERM to beat competition to the market. |
| <p>Vertical integrated operations</p> <ul style="list-style-type: none"> Increased vertical integration through the business given focus and growth in retail sales and development of upstream assets. | <ul style="list-style-type: none"> Other companies have had success with vertical integration – Origin Energy is the most widely cited example in Australia. Allows co-ordinated growth across various parts of the business to take advantage of synergies. Reduces cost of hedging (implicitly done internally). |

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Industry expert report

| | |
|--|---|
| | <ul style="list-style-type: none">Increases off-take options for new generation developments and creates options for sourcing wholesale power. |
| Niche retail operations <ul style="list-style-type: none">Focus on commercial/industrial sector for electricity sales. | <ul style="list-style-type: none">Low margin but high volume customers.Large revenues, with minimal system/call centre costs.Current market share only relatively small – significant scope for increased market penetration and growth in operations.Allows client-focussed service and product innovation.Flat base load off-take typical with this customer group lends itself toward higher capacity factor generation. |

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Your Guide to the Broker Firm Application Form

Please complete all relevant white sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross-referenced to each section of the form.

The Shares to which this Application Form relates are ERM Power Shares. Further details about the shares are contained in the Prospectus dated 17 November 2010 issued by ERM Power. The Prospectus will expire on 17 December 2011. While the Prospectus is current, ERM Power will send paper copies of the Prospectus, any supplementary document and the Application Form, free of charge on request.

The Australian Securities and Investment Commission requires that a person who provides access to an electronic Application Form must provide access, by the same means and at the same time, to the relevant Prospectus. This Application Form is included in the Prospectus.

The Prospectus contains important information about investing in the Shares. You should read the Prospectus before applying for Shares.

- A** Insert the number of Shares you wish to apply for. Applications must be for a minimum of A\$2,000 and thereafter in multiples of A\$500. You may be issued all of the Shares applied for or a lesser number.
 - B** Insert the relevant amount of Application Monies. To calculate your Application Monies, multiply the number of Shares applied for by the Offer Price. Amounts should be in Australian dollars. Please make sure the amount of your cheque or bank draft equals this amount.
 - C** Write the full name you wish to appear on the register of Shares. This must be either your own name or the name of a company. Up to three joint Applicants may register. You should refer to the table below for the correct registrable title.
 - D** Enter your Tax File Number (TFN) or exemption category. Business enterprises may alternatively quote their Australian Business Number (ABN). Where applicable, please enter the TFN or ABN for each joint Applicant. Collection of TFN(s) and ABN(s) is authorised by taxation laws. Quotation of TFN(s) and ABN(s) is not compulsory and will not affect your application. However, if these are not provided, ERM Power will be required to deduct tax at the highest marginal rate of tax (including the Medicare Levy) from payments.
 - E** Please enter your postal address for all correspondence. All communications to you from ERM Power and the Share Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.
 - F** If you are already a CHESS participant or sponsored by a CHESS participant, write your Holder Identification Number (HIN) here. If the name or address recorded on CHESS for this HIN is different to the details given on this Application Form, your Shares will be issued to ERM Power's issuer sponsored subregister.
 - G** Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your application.
 - H** Please complete the details of your cheque or bank draft in this section. The total amount of your cheque or bank draft should agree with the amount shown in section B.
- If you receive a firm allocation of Shares from your Broker, make your cheque payable to your Broker in accordance with their instructions.

CORRECT FORMS OF REGISTRABLE NAMES

Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name(s) of natural persons or companies. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms below.

| Type of Investor | Correct Form of Registration | Incorrect Form of Registration |
|--|--|--|
| Individual Use given names in full, not initials | Mrs Katherine Clare Edwards | K C Edwards |
| Company Use Company's full title, not abbreviations | Liz Biz Pty Ltd | Liz Biz P/L or Liz Biz Co. |
| Joint Holdings Use full and complete names | Mr Peter Paul Tranche & Ms Mary Orlando Tranche | Peter Paul & Mary Tranche |
| Trusts Use the trustee(s) personal name(s) | Mrs Alessandra Herbert Smith <Alessandra Smith A/C> | Alessandra Smith Family Trust |
| Deceased Estates Use the executor(s) personal name(s) | Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C> | Estate of late Harold Post or Harold Post Deceased |
| Minor (a person under the age of 18 years) Use the name of a responsible adult with an appropriate designation | Mrs Sally Hamilton <Henry Hamilton> | Master Henry Hamilton |
| Partnerships Use the partners' personal names | Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C> | Fred Smith & Son |
| Long Names | Mr Hugh Adrian John Smith-Jones | Mr Hugh A J Smith Jones |
| Clubs/Unincorporated Bodies/Business Names Use office bearer(s) personal name(s) | Mr Alistair Edward Lilley <Vintage Wine Club A/C> | Vintage Wine Club |
| Superannuation Funds Use the name of the trustee of the fund | XYZ Pty Ltd <Super Fund A/C> | XYZ Pty Ltd Superannuation Fund |

Put the name(s) of any joint Applicant(s) and/or account description using < > as indicated above in designated spaces at section C on the Application Form.

Corporate Directory

Company

ERM Power Limited (ACN: 122 259 223)

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Philip St Baker
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Brett Heading

Company Secretary

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Global Co-ordinator

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Joint Lead Managers

Macquarie Capital Advisers Limited

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PricewaterhouseCoopers Securities Ltd

Riverside Centre
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Auditor

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Legal Adviser

McCullough Robertson

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Brisbane Qld 4000

ERM Power Offer Information Line

Within Australia: 1800 882 147
Outside Australia: +61 2 8280 7924

The ERM Power Offer Information Line will be open on business days from 8:30am to 7:30pm (Sydney time)

ERM Power Website

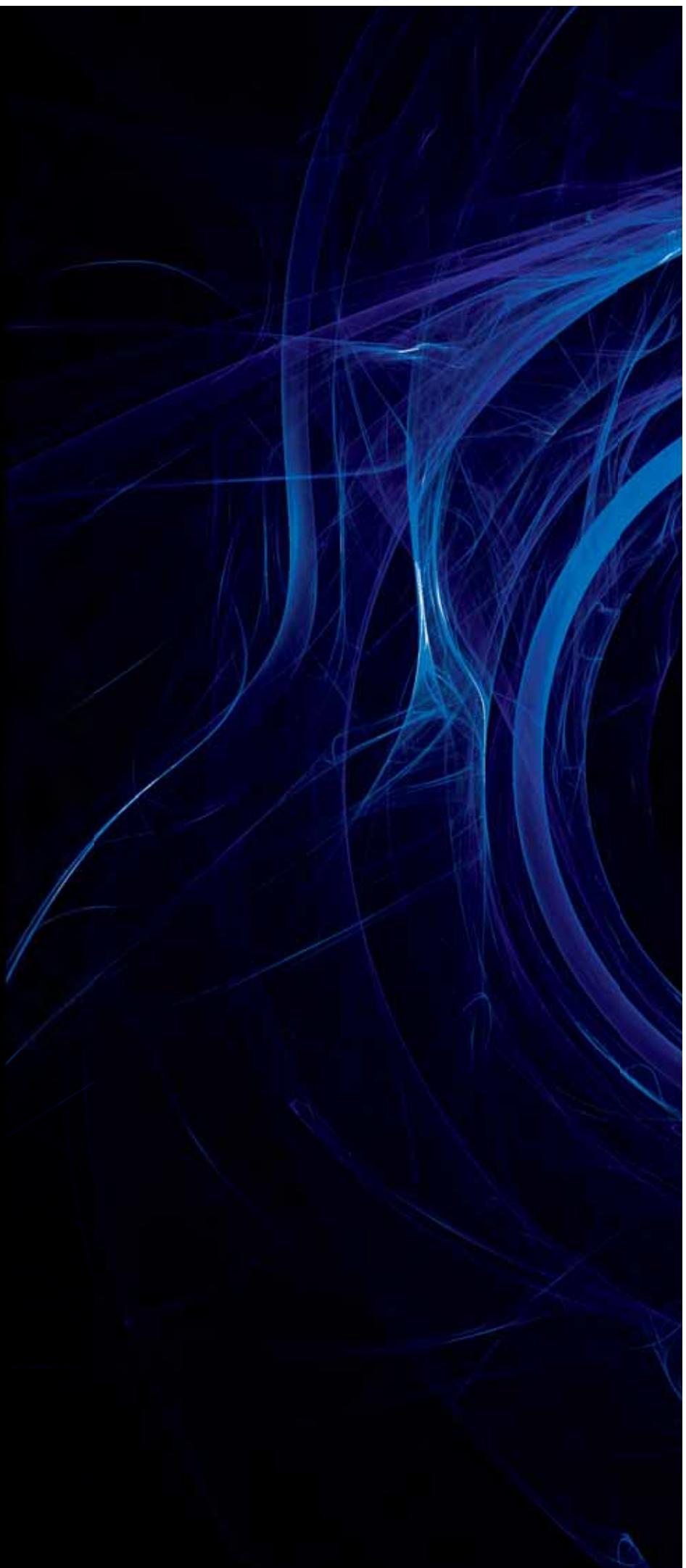
www.ermpower.com.au

Offer Website

www.ermpower.com.au/offer



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A

SRN/HIN:

Entitlement Number:

Nominated Entitlement:

[XXX]

Offer Opens:

25 November 2010

Offer Price per Share:

A\$1.75

Offer Closes

5:00pm (Sydney time):

3 December 2010

PRIORITY OFFER APPLICATION FORM

This Application Form relates to the Prospectus dated 17 November 2010 issued by ERM Power Limited ("ERM Power"). The Application Form should be read in conjunction with the Prospectus. Capitalised words and certain terms used in this Application Form have the meanings given to them in the Prospectus.

To meet the requirements of the Corporations Act, the Application Form must not be distributed unless accompanied by the Prospectus and any relevant supplementary document at the same time and by the same means.

By returning this Application Form, you are deemed to accept the Offer. There is no need to sign this Application Form.

This Application Form is important. If you are in doubt as how to deal with it, please contact your accountant, financial advisor, stockbroker, lawyer or other professional advisor without delay. You should read the Prospectus carefully and in full before completing this Application Form. Any person who gives another person access to the Application Form must at the same time and by the same means give the other person access to the Prospectus.

PAYMENT OPTIONS

If you wish to take up all or part of your Nominated Entitlement (as shown above), or take up all of your Nominated Entitlement and apply for additional Shares, you have two payment options detailed below.

Option 1: Paying by BPAY®

If paying by BPAY®, you do NOT need to complete or return the Acceptance Slip attached to this Application Form below. Payment must be received by the Registry by BPAY® by 5:00pm (Sydney time) on 3 December 2010. By paying by BPAY®, you will be deemed to have completed an Application Form for the number of Shares the subject of your Application Monies.

Your payment must be for a minimum of A\$2,000 and in multiples of \$500 thereafter.



Biller Code: 130278

Ref:

Telephone & Internet Banking – BPAY®

Contact your bank or financial institution to make this payment from your cheque, savings, debit or transaction account.

More info: www.bpay.com.au

® Registered to BPAY Pty Ltd ABN 69 079 137 518

Option 2: Paying by Cheque, Bank Draft or Money Order

If paying by cheque, bank draft or money order, complete and return the Acceptance Slip attached to this Application Form with your Application Monies.

Complete the number of Shares you wish to apply for at the Offer Price of A\$1.75 per Share.

Enter your cheque, bank draft or money order details. The amount of your Application Monies should be equal to the amount applied for in section B of the Acceptance Slip multiplied by the Offer Price of A\$1.75 per Share. Cheques, bank drafts or money orders must be drawn on an Australian branch of a financial institution in Australian currency, made payable to "ERM Power Share Offer Account" and crossed "Not Negotiable". Please ensure sufficient cleared funds are held in your account, as your cheque will be banked as soon as it is received. If you provide a cheque, bank draft or money order for an amount that is not equal to your application amount, ERM Power will round down the number of Shares that you are applying for to equal your payment. Your payment must be for a minimum of A\$2,000, and in multiples of \$500 thereafter.

Enter your contact telephone number at which we may contact you regarding your application for Shares, if necessary.

THIS IS A PERSONALISED FORM FOR THE APPLICANT RECORDED ABOVE.

Please detach and enclose with payment



ERM Power Limited

ACN 122 259 223

SRN/HIN:

Entitlement Number:

B

Number of Shares applied for

Price per Share

at **A\$1.75**

C

I/We lodge full Application Monies

A\$

D

Make your cheque, bank draft or money order payable to "ERM Power Share Offer Account" and crossed "Not Negotiable"

Drawer

Cheque Number

BSB Number

Account Number

Amount of Cheque

A\$.00

E

Telephone Number – Business Hours

Telephone Number – After Hours

Contact Name

GUIDE TO THE APPLICATION FORM

A Registration Name and Postal Address

Shares will be registered in the name(s) printed on the Application Form and the name(s) cannot be changed. If you wish to change your address for this holding, please contact Link Market Services Limited at the address below or alternatively you may call the ERM Power Share Offer Information Line on 1800 882 147 for an appropriate form, or download a change of address notification form from www.linkmarketservices.com.au.

B Number of Shares applied for

Please enter the number of Shares you wish to apply for. The application must be for a minimum of A\$2,000 and thereafter in multiples of A\$500.

C Application Monies

Insert the relevant amount of Application Monies. The Offer Price is A\$1.75 per Share. Amounts should be in Australian dollars. Please make sure the amount of your payment equals this amount.

Acknowledgements

By returning this Application Form, I/we agree to the following statements. I/We:

- have personally received a paper or electronic copy of the Prospectus that this Application Form accompanies and have read it in full;
- am/are at least 18 years of age if I/we am/are an individual(s);
- have completed this Application Form correctly;
- acknowledge that once ERM Power receives this Application Form, I/we may not withdraw it;
- apply for the number of Shares at the Australian dollar amount shown in section C of this Application Form;
- agree to being allotted the number of Shares that I/we apply for or a lower number allotted in a way allowed under the Prospectus;
- authorise ERM Power, the Joint Lead Managers and their respective officers or agents, to do anything on my/our behalf necessary for Shares

Link Market Services Limited advises that Chapter 2C of the *Corporations Act 2001* requires information about you as a securityholder (including your name, address and details of the securities you hold) to be included in the public register of the entity in which you hold securities. Information is collected to administer your securityholding and if some or all of the information is not collected then it might not be possible to administer your securityholding. Your personal information may be disclosed to the entity in which you hold securities. You can obtain access to your personal information by contacting us at the address or telephone number shown on this form. Our privacy policy is available on our website www.linkmarketservices.com.au

How to Lodge your Acceptance Slip and Application Monies

A reply paid envelope is enclosed for you to return your Acceptance Slip and Application Monies. No postage stamp is required if it is posted in Australia.

Acceptance Slip and Application Monies must be received by the Share Registry no later than the closing date shown overleaf. If paying by BPAY® you do not need to complete or return the Application Form. You should check the processing cut off-time for BPAY® transactions with your bank, credit union or building society to ensure your Application Monies will be received by the Share Registry by the close of the offer.

Mailing Address

ERM Power Initial Public Offer
C/- Link Market Services Limited
Locked Bag 3415
Brisbane QLD 4001

or

Hand Delivery

ERM Power Initial Public Offer
C/- Link Market Services Limited
Level 15, 324 Queen Street
Brisbane QLD 4000 (*Please do not use this address for mailing purposes*)

Make sure you send your Acceptance Slip and Application Monies allowing enough time for mail delivery, so Link Market Services Limited receives them no later than 5:00pm (Sydney time) on 3 December 2010. Please ensure sufficient cleared funds are held in your account, as your cheque will be banked as soon as it is received. ERM Power reserves the right not to process any Acceptance Slips and Application Monies received after the Closing Date.

If you require information on how to complete this Application Form please contact the ERM Power Offer Information Line on 1800 882 147 if calling within Australia or +61 2 8280 7924 if calling from outside of Australia.

D Application Monies

Please provide Application Monies as follows:

- the total Application Monies must be the same as the amount shown in section C;
- your cheque(s) bank draft(s) or money order(s) must be drawn on an Australian branch of a financial institution in Australian currency and made payable to "ERM Power Share Offer Account" and crossed "Not Negotiable";
- sufficient cleared funds should be held in your bank account, as any cheque(s) returned unpaid are likely to result in your application being rejected;
- cash payments will not be accepted; and
- receipts will not be issued for payments.

E Contact Details

Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your application.

to be allotted to me/us, including without limitation to sign any documents necessary for Shares to be allotted to me/us, and to act on instructions received by the Share Registry using the contact details in section E and my/our registered address;

- acknowledge that the information contained in the Prospectus is not investment advice or a recommendation that Shares are suitable to me/us, given my/our investment objectives, financial situation or particular needs;
- represent and warrant that I/we have received the Prospectus in Australia; and
- represent and warrant that I am/we are not in the United States and I am/we are not a United States person (and not acting for the account or benefit of a United States person), and I/we will not offer, sell or resell Shares in the United States to, or for the account or benefit of, any United States person.