AUSTRALIAN POWER & GAS

ANNUAL REPORT 2011/12

Australian Power & Gas

OUR CORE VALUES

SIMPLE

HONEST

EMPOWERING

DYNAMIC

CONTENTS

HIGHLIGHTS

3.3¢

WHO WE ARE

Australian Power & Gas is an Australian company listed on the Australian Stock Exchange (ASX Code: APK). The Company was founded in 2006 and was listed on the ASX in January 2007.

WHAT WE DO

Australian Power & Gas provides electricity and gas to over 341,000 customer accounts in the eastern states of Australia. Our team of 89 professional, experienced staff manage business processes. Key partners provide customer acquisition and back office processes.

CORPORATE MISSION

Australian Power & Gas is focused on building an energy retailing business in the eastern Australian states with strong and sustainable earnings for its shareholders.

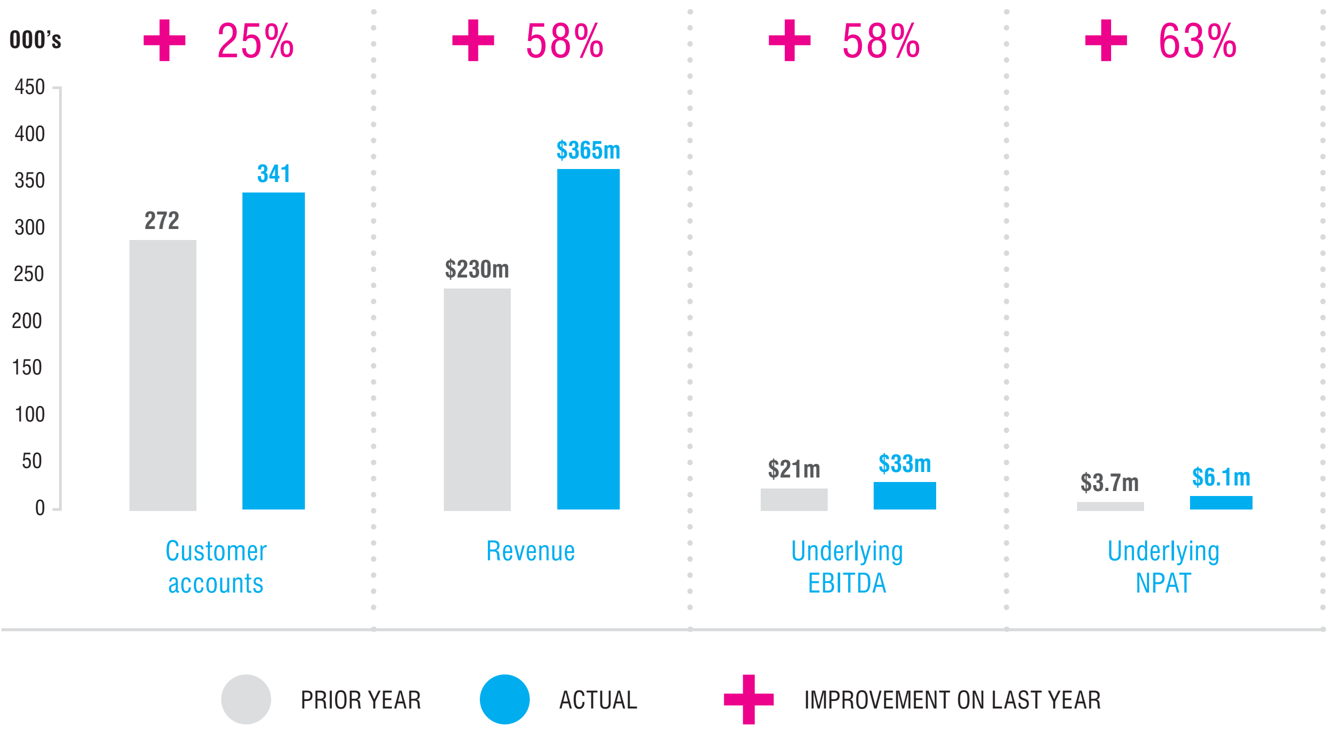
FINANCIAL SNAPSHOT

	2012 $m	2011 $m
Income statement		
Revenue	364.8	230.0
Underlying earnings before finance, amortisation & tax	33.4	21.5
Underlying net profit after tax	6.1	3.7
Underlying earnings per share (cps)	3.3	2.6
Dividend per share (cps)	0.8	0.5
Cash flow		
Underlying operating cash inflow / outflow	22.3	(1.7)
Cash on hand	18.3	19.9
Balance sheet		
Total assets	198.1	171.5
Total liabilities	148.7	120.3
Total equity	49.4	51.3

TOTAL EARNINGS PER SHARE

KEY ACHIEVEMENTS

Annual Increase – Customer accounts, Revenue, Underlying EBITDA & Underlying NPAT



CHAIRMAN'S COMMENTS

OUR BUSINESS IS WELL PLACED TO CONTINUE TO GROW, AS WE TAKE ADVANTAGE OF THE SIGNIFICANT POTENTIAL OF DIVERSIFYING IN DEREGULATED GROWTH MARKETS.

Dear Shareholder,

Our strategy since inception has been to build a substantial, carefully risk-managed retail energy business. The strong growth experienced over the 2012 financial year is testament to the success of that strategy and the benefits now starting to flow.

While the past 12 months presented a very challenging environment for all energy retailers, with major regulatory changes and a period of unseasonally mild weather, Australian Power & Gas performed well. The Company delivered strong growth across all key metrics. We now have a scalable platform in place from which to grow and leverage the significant potential of diversifying into deregulated growth markets.

KEY ACHIEVEMENTS

Over the 2012 financial year our customer base increased to over 341,000 net active accounts. This drove strong growth in revenue, up 57% to $364.8 million, with underlying* EBITDA up 58% to $33.4 million. Given the accounting requirements for hedge valuations, while the business generated a statutory loss after tax of $3.9 million, the true performance of the business can be seen from the 63% increase in underlying* profit after tax to $6.1 million.

SHAREHOLDER VALUE

Reflecting the Company's continued strong performance and financial position, and the Board's confidence in the growth opportunities ahead, the Board declared an unfranked dividend of 0.8 cents per share for the 2012 financial year, an increase of 60% on 2011.

*Underlying results are before the impact of changes to the valuation of hedging instruments.

cGREGOR

BUSINESS FOCUS

The main regulatory change to the business was the introduction of the Carbon Pricing Scheme. Although effective 1 July, there has been considerable investment to ensure that the Company can meet the requirements for carbon certificates as well as determining the total cost to the Company.

Although we have had great success since launching just over a year ago in the New South Wales and Queensland markets, State governments still control energy prices in these markets and conditions were made less favourable than a year ago as a result of regulatory outcomes. We responded by realigning our strategy in these States, towards a different customer mix, while still achieving growth across all States.

It is important to acknowledge that the business has grown from start-up to become Australia's leading independent energy retailer in just six years. This growth continues to present opportunities to the company that the Board continues to assess. I would like to thank our newest director Shinji Wada for his contribution and support over the year.

On behalf of the Board, I congratulate our CEO, James Myatt, who during the year was named Eastern Region winner of the 2012 Ernst & Young Entrepreneur of the Year award for Listed companies. At the time of publishing this annual report, James had progressed to the national round of this prestigious award. This is a reflection of James' foresight in growing Australian Power & Gas to where it is today.

I would also like to acknowledge our excellent team of employees for the focus that they have shown throughout this challenging year. Our business would not be what it is, were it not for the great team effort shown by all of our people.

Lastly, the Board would also like to thank our shareholders and other stakeholders for their continued support. We are very excited by the opportunities ahead of us and are well placed to continue growing shareholder value.

Ian McGregor
Chairman

UNDERLYING* PROFIT

$6.1m

CEO'S REPORT

JAMES

MORE CUSTOMERS ARE CHOOSING AUSTRALIAN POWER & GAS THAN EVER. THIS HAS FIRMLY EMBEDDED AUSTRALIAN POWER & GAS AS AUSTRALIA'S LEADING INDEPENDENT ENERGY RETAILER.

KEY ACHIEVEMENTS

PROFIT AFTER TAX	63% INCREASE
REVENUE	58% INCREASE
CUSTOMER ACCOUNTS	69,000 INCREASE

Since our inception in 2006, each year we have set realistic goals and worked hard to surpass them. It is this approach that will best deliver sustainable growth in revenue, profit and cash flow and move us towards our goal of achieving $1 billion in revenue by 2015.

Looking back at our performance over the 2012 financial year, our results again showed that our strategy is working and delivering growing returns.

Against a backdrop of regulatory change and a period of unseasonally mild weather, Australian Power & Gas was able to continue performing well with good progress on our operational priorities and a strong set of financial results. This has firmly embedded Australian Power & Gas as Australia's leading independent energy retailer.

DELIVERING EXCELLENT FINANCIAL PERFORMANCE

More customers are choosing Australian Power & Gas than ever before. We pride ourselves on offering customers a simple pricing structure that delivers savings, while also providing a higher standard of service than our competitors. This saw us end the 2012 financial year with 341,000 billable customer accounts (up from 272,000) across Victoria, New South Wales and Queensland.

This growth in customer numbers, drove continued increases in revenue and earnings, with underlying profit after tax up 63% to $6.1 million. Revenue grew 58% to $364.8 million, slightly below our early expectations, caused by the mild weather conditions affected energy usage. In our key market of Victoria, average electricity usage was 5.4% below the previous year and gas usage fell by around 9.4% below the prior period. Cold winter conditions in May and June 2012, led to a recovery in usage levels towards the end of the financial year.

MYATT

CUSTOMER GROWTH

Customer acquisition continued to be expanded in the New South Wales and Queensland markets, with over 55,000 accounts added. Growth in Victoria was maintained with over 14,000 accounts added. At the end of the year, 66% of customer accounts were located in Victoria. Approximately 62% of customer accounts are for electricity supply, with the remainder gas.

Outside of these numbers, importantly, we never forget that success comes only when customers choose to reward us with their business. Customers always have a choice, and for us that means serving them with a set of products and service that meet their needs better than anyone else.

Australian Power & Gas has a formal customer complaint level below the market average and was a founding member of the Energy Assured Code of Conduct designed to improve standards across the energy industry's use of door-to-door channels.

This combination of savings and great customer service has been a driving force behind our growth since inception, helping to build loyalty amongst existing customers and attracting new customers.

These strengths have proved durable in tougher economic conditions. At a time when customers are facing pressure on household budgets, we have found that many are more prepared to consider switching their energy retailer to get a better deal. So we're sensibly investing in areas that play to our advantage and create more reasons to choose Australian Power & Gas.

INVESTING IN INNOVATION

We have diversified our sales channels to reduce channel risk. This is particularly important given we operate in an energy market that ranks among the most competitive in the world. During the year we signed a long-term agreement with Salmat, one of Australia's leading customer communication companies, to create a new sales channel alongside Appco who remain our main channel for acquiring customers. We have also developed plans to launch an internal based sales channel to support our existing door-to-door teams.

Additionally, we have expanded the number of telemarketing and web-switching channels to ensure we are well placed to continue acquiring customers through non door-to-door methods. As a result of these initiatives, we now operate 12 sales channels.

Alongside more channels, we are also innovating to improve our customers' experience. During the year we rolled out the use of iPads with industry-leading applications across our door-to-door teams. This technology provides customers with an accurate real-time energy quote and ensures they are given a more professional experience than they would otherwise receive.

We plan to introduce electronic billing and online account management and we are particularly excited by the potential for Australian Power & Gas to be at the leading edge within the retail energy market in the use of technology.

Our ability to invest in areas of advantage, such as technology, is underpinned by a strong focus on efficiency. We have continued to ensure we stay flexible on administration and operational costs that reflect the growth of our customer base. Reflective of this, staff numbers have increased from 72 to 89.

CAPITAL MANAGEMENT

During the year we funded our growth largely from operating income. This was a key objective of the Board at the start of the year in order to ensure shareholders were not diluted and did not have to inject further equity. The benefits of scale are now also flowing through. We were able to grow our customer base by 69,000 over the 2012 financial year.

Cash receipts from customers increased 41.5% to $342.8 million, and net underlying operating cash flow for the year was $22.3 million, up from $1.8 million the previous year.

This strong improvement in cash flow reflects the scalability of our platform. We expect the upward trend in cash receipts to continue as cold weather at the beginning of the fiscal year 2013 increases energy consumption.

ENERGY COSTS

During the year we continued to refine our hedging portfolio to match the needs of our growing customer base. Electricity hedges in Victoria and New South Wales, the key growth areas, were reworked to achieve lower cost outcomes. As the business builds we expect to be more active in our wholesale price and volume risk management to achieve the best possible margin.

In the gas markets our team manages the long-term contractual arrangements on a daily basis to ensure costs are minimised. High demand in the early winter 2012 months saw high spot prices. We were well protected against these movements by the various mechanisms we use, such as the use of gas storage facilities and liquified natural gas.

REVENUE GREW

58%

REGULATORY ISSUES

The 2012 financial year has proved challenging in relation to the regulatory environment as we prepared for the introduction of the Federal Government's Carbon Pricing Scheme.

In New South Wales and Queensland, the respective state governments continue to have a hand in setting market prices, unlike Victoria where there is no price regulation. The pricing determinations for fiscal 2013 in New South Wales and Queensland have made trading conditions difficult in those states. As a result, we anticipate that Victoria will continue to act as the major source of growth in the coming year.

On top of the Carbon Pricing Scheme, as has been widely reported, distributor costs are also escalating significantly in the eastern States. The expansion of electricity networks to meet residential lead demand has fuelled claims of "gold plating" in the mass media. Whether or not this view is correct, the cost of distribution upgrades and expansion is having an impact on consumers energy costs.

Australian Power & Gas are actively involved in the consultative processes with State and Federal Government's and we firmly put forward the view of our customers that all increases in costs being passed through to consumers need to be justified and explained in a clear and transparent manner.

OUTLOOK

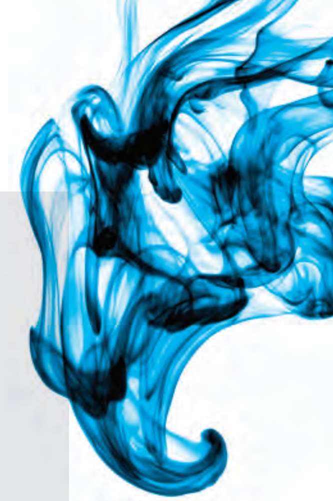
LOOKING AHEAD, WITH A FOCUSED STRATEGY THAT HAS A CLEAR PLAN AND CONSISTENT SET OF PRIORITIES, WE ARE CONFIDENT IN THE LONG-TERM GROWTH OPPORTUNITY FOR THE BUSINESS. OUR GOAL IS TO ACHIEVE $1 BILLION IN ANNUAL REVENUE BY 2015.

TO ACHIEVE THIS, WE BELIEVE THERE IS SIGNIFICANT POTENTIAL FOR VALUE CREATION IN THE RETAIL ENERGY MARKETPLACE IN WHICH WE OPERATE. INCREASINGLY THERE ARE A VARIETY OF DIFFERENT WAYS IN WHICH WE CAN GROW INCLUDING ADDING MORE CUSTOMERS AND SELLING MORE PRODUCTS. WE ARE ALSO LOOKING TO ENTER OTHER UNREGULATED MARKETS TO LEVERAGE OUR EXPERTISE AND CUSTOMER BASE.

Finally, I would like to thank all our team for their commitment, energy & creativity over the past 12 months, and for the contribution that they make to our success every day.

James Myatt
Chief Executive Officer

OUR ABILITY TO INVEST IN AREAS OF ADVANTAGE, SUCH AS TECHNOLOGY, IS UNDERPINNED BY A STRONG FOCUS ON EFFICIENCY.



OUR EXECS

JAMES MYATT

M Mktg, Assoc Dip Applied Sc, AFAMI, MAICD, CPM

Chief Executive Officer, Managing Director

Appointed: July 2006 as Chief Executive Officer; November 2007 as Director

James was the key visionary and founder of Australian Power & Gas. He has more than 25 years experience in the energy sector holding senior positions with Energy Australia, TXU Australia, Duke Energy International and AGL/Solaris Power. James is a Board member and past Chair of the Energy Retailers Association of Australia and was recently awarded Entrepreneur of the Year for the Eastern Region by Ernst & Young.

WARREN KEMBER

B Comm, MBA, CA

Chief Financial Officer

Appointed: Sept 2006

Warren is responsible for accounting, tax, human resources and treasury functions. He has over 25 years of financial management experience holding CFO positions and has specialised in leading the financial development of small and medium sized listed entities.

DAVID GOADBY

B Sc

General Manager Retail

Appointed: July 2011

As the manager of the Company's residential business unit, David brings with him extensive experience in consumer orientated businesses. This includes senior roles in British Gas, Scottish & Newcastle, Nestle, Telecoms and nearly a decade with Procter & Gamble. David is also a director of Energy Assured Limited.

JOANNE SHATROV

B Bus/LLB, GAICD

General Counsel

Appointed: June 2007

With previous experience in the energy industry including roles with Ergon Energy, Duke Energy and Ebsworth & Ebsworth Lawyers, Joanne is responsible for the Company's legal, regulatory and risk management functions. In 2012, Joanne was shortlisted as a Commonwealth Bank Young Executive Finalist.

THE AUSTRALIAN POWER & GAS BUSINESS MODEL IS PRIMARILY ABOUT MANAGEMENT OF RISK AND OUTSOURCED FUNCTIONS. OUR MANAGEMENT TEAM AND EMPLOYEES ARE THE KEY TO BUILDING A PROFITABLE BUSINESS.

SHELLEY REED

BEng (Chem, Hons), MAppSci, Grad Cert Comm, Grad Cert Fin & Inv

General Manager Wholesale Gas & Carbon

Appointed: January 2011

Shelley is responsible for the management of the Company's gas requirements. This includes the development of the strategies that have facilitated the entry to the eastern states' gas markets. The role involves managing and trading the company's Green Energy and Carbon portfolio. Prior to Australian Power & Gas, Shelley worked for other major energy retailers, including AGL, Energy Australia and TRUenergy.

PHILLIP RIDLEY

BE Comp (Hons), GradDip Mgt, Assoc Dip Elec, FIEAust, CPEng

Chief Information Officer

Appointed: August 2012

Phil is accountable for technology and operational efficiency within the Group. He previously held senior leadership roles at Seven Network Limited's Vividwireless, Telstra and the Royal Australian Air Force. Phil has more than 25 years experience in technology management, has been awarded multiple Engineering Excellence Awards for software and business innovation, and authored several international patents.

GRANT LONG

Assoc Dip Elec Engineering, MBA

General Manager Commercial Markets

Appointed: July 2012

Grant has been recruited to lead the development and management of the Company's commercial markets business unit. His background includes sales and business development roles within Energy Australia, Telstra and Ernst & Young. Grant was also an Account Director and National Business Development Director for Dimension Data.

ANDREW GEORGE

BCom, GradCert Mktg, CA, GAICD

General Manager Wholesale Electricity (acting)

Appointed: August 2012

Andrew is responsible for the management of the Company's wholesale electricity portfolio. He has brought with him 20 years of professional experience. This includes senior executive positions and consulting roles with energy related groups – Santos, Alinta, Infigen and Queensland Government-owned energy businesses.

US + C

SUSTAINABILITY REPORT

AS A PROUDLY 100% AUSTRALIAN-BASED COMPANY, WE ILLUSTRATE OUR COMMITMENT BY SUPPORTING THE LOCAL COMMUNITY AND A RANGE OF SPORTING TEAMS AND EVENTS.

341,000 ACCOUNTS

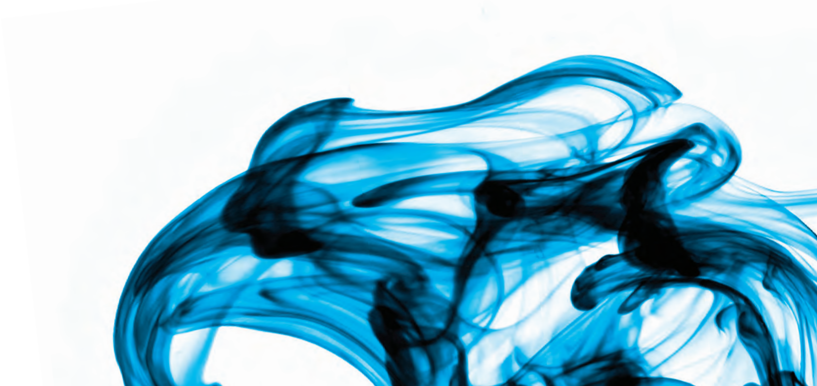
OUR WORKPLACE

The team at Australian Power & Gas continues to grow. We are proud to be an equal opportunity employer with staff from different social, political and cultural backgrounds. Remuneration and Reward policies are designed to attract, grow and retain the best possible talent to suit the business needs.

We offer generous training and development opportunities to our employees to assist in their growth. Current initiatives include both on and off the job training such as continuing education programs, role specific and general management development to further advance their career opportunities with us.

Staff are encouraged to share in the growth of the Company with the Short and Long-term Incentive Programs offered to all permanent employees. In addition, all permanent employees are offered an electricity/gas credit of $250 per quarter when they become an Australian Power & Gas customer.

Occupational Health & Safety (OH&S) is a priority for Australian Power & Gas. We have four fully qualified first aid officers and three fire wardens on staff in the Sydney office. Our OH&S Committee continue to monitor compliance and develop new initiatives. We also place a strong emphasis on promoting a healthy work life balance, ensuring staff work reasonable hours. Fresh fruit is also provided throughout the week to encourage healthy habits.



OMMUNITY

OUR COMMUNITY INVOLVEMENT (2012)

Australian Power & Gas continues to help customers experiencing genuine hardship. Our Energy Support Program minimises power disconnections by developing plans to suit our customer's individual circumstances. Our team of dedicated specialists provide tailored payment plans, energy efficiency advice, information on government programs and home energy audits.

As a proudly 100% Australian-based company, we illustrate our commitment by supporting the local community and a range of sporting teams and events.

Australian Power & Gas has continued its sponsorship of the Balmain Junior Leagues Club. The team enjoyed a successful year under our sponsorship, winning the SG Ball competition. Our visual presence at the Club includes shirt sponsorship, matchday promotions and sponsoring the Club's annual Sportsmans Cruise fundraising event.

Our partnership with Richmond Football Club this year involved community activities and promotions at selected home games. Our visual presence included face painting and competitions and we provided young supporters the chance to learn about life as a professional footballer through our Kids Clinic. Over the course of the year, this partnership promoted our brand and we acquired new customers through a range of membership offers.

In order to build our community involvement we support a range of community events. This has been achieved through branding placement on signage, banners and flyers and on jerseys and equipment. We have supported many individuals, clubs and organisations including Pillars of Strength, Balmain Little Athletics Club, Candace Sawtell (Ride to Conquer Cancer), Mark George (South Pole Solo Expedition), Royal Flying Doctors, Sydney Comets Males Basketball team, Parramatta Golf Club, the Craigieburn Eagles Women's Basketball team, the Epping Boys Rugby Tour and King's Grammar School.

Over the course of the year, we ended our formal partnerships with the Gold Coast Titans, Wests Tigers and the Mooloolaba Triathlon.

Our staff have supported the community personally and collectively. This year staff members collectively participated in Jeans for Genes Day raising valuable funds to help with medical research.

OUR ENVIRONMENTAL INITIATIVES

At Australian Power & Gas, we are committed to building a strong future for our customers, communities and staff through a number of environmental initiatives that focus on the issues that matter. Like all Australian energy retailers, Australian Power & Gas is obliged to meet a number of Federal and State Government environmental targets and initiatives.

Meeting our renewable energy targets

Our obligations include meeting the Federal Government's Large-Scale Renewable Energy Target and Small-Scale Renewable Energy Target. Under these targets, Australian Power & Gas needs to contribute an additional 16,338 gigawatt hours (GWh) of renewable energy each year by 2012.

We will meet our requirement under this target by offsetting a percentage of the energy purchased on behalf of our customers with GreenPower accredited renewable energy, or by the purchase of Large-Scale generation certificates and Small-Scale technology certificates.

Helping our customers manage their energy use

State governments have been addressing climate change with schemes to reduce energy use in Australian households. These initiatives include the Victorian Energy Efficiency Target, the New South Wales Energy Savings Scheme, and Queensland's Gas Electricity Certificates scheme.

Australian Power & Gas is fully compliant with all of these energy efficiency programs. We are committed to helping customers manage their energy use by providing enabling products and services.

We promote energy savings to our customers through energy saving tips and call centre advice. We also have an online Energy Savers Shop, where customers can purchase a selection of discounted energy saving products to help them save money.

Providing green energy

Our 100% greentricity energy plan is designed to tackle climate change. It has the GreenPower tick of approval as government accredited, clean and renewable energy sourced from the sun, wind, water or waste.

New and existing Australian Power & Gas customers can pay a small weekly green premium to have 100% of the electricity we purchase offset on their behalf from renewable sources. We also have an installation field team that installs energy saving light globes, low flow showerheads, standby power devices and provides energy advice to customers in Victoria.

Prepared for Federal Government's carbon pricing scheme

This year has involved preparation work for the introduction of the Federal Government's Carbon Pricing Scheme. As of 1 July 2012, the cost of carbon pricing is being passed on to customers. The Federal Government provided companies with flyers to be sent out to customers explaining the breakdown of carbon within their bills.

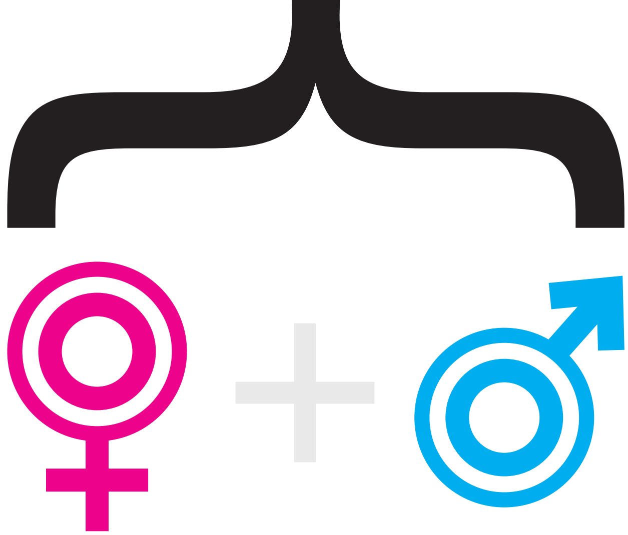
Reducing the environmental impact of our workplace

A number of workplace initiatives have been undertaken at our corporate head office to reduce our environmental impact. These include:

- eliminating downtime power usage in the Boardroom audiovisual equipment
- recycling program for paper and toner cartridges
- using the highest energy star rated kitchen appliances
- putting window tinting and blinds in place to manage heat and reduce our dependency on air conditioning
- using energy efficient lighting that automatically switches off outside office hours throughout all work spaces
- installing energy saving devices to charge mobile phones while eliminating standby power.

All of us at Australian Power & Gas are committed to expanding and developing these and new sustainability initiatives over the coming months and years. We have ensured that sustainability has become a way of thinking about and managing our business for the long-term benefit of all stakeholders.

DIVERSITY STATEMENT



THE BOARD HAS ADOPTED A DIVERSITY POLICY THAT OUTLINES THE OBJECTIVES IN RELATION TO GENDER, AGE, CULTURAL BACKGROUND AND ETHNICITY.

AUSTRALIAN POWER & GAS EMPLOYS A SIGNIFICANT NUMBER OF WOMEN WITHIN THE COMPANY AT A MANAGEMENT LEVEL.

Australian Power & Gas is committed to providing an inclusive workplace and recognises the value of individuals with diverse skills, values, backgrounds and experiences will bring to the company. At the core of the Company's diversity policy is a commitment to equality and respect. Diversity is recognising and valuing the unique contribution people can make because of their individual background and different skills, experiences and perspectives. People differ not just on the basis of race and gender, but also other dimensions such as lifestyle, education, physical ability, age and family responsibility.

The Board has adopted a Diversity Policy that outlines the objectives in relation to gender, age, cultural background and ethnicity. The policy considers the benefits of diversity, ways to promote a culture of diversity, factors to be taken into account in the selection process of candidates for Board and senior management positions in the company. It looks at education programs to develop skills and experience in preparation for Board and senior management positions, processes to include review and appointment of directors, and identify key measurable diversity performance objectives for the Board and senior management.

While the opportunity to appoint women to the Board of Australian Power & Gas has not arisen recently, significant numbers of women are employed within the company. As at 30 June 2012, women comprised 49% of all employees. Within employment levels, women held:

- 50% of the executive management team positions (3 out of 6)
- 55% of team leader or management positions (6 out of 11)
- 49% of other positions (35 out of 72)

A copy of the Diversity Policy is available on the Group's website at **australianpowerandgas.com.au**

6 YRS

THE LENGTH OF TIME THE BUSINESS HAS TAKEN TO GROW FROM START-UP TO AUSTRALIA'S LEADING INDEPENDENT ENERGY RETAILER

BUSINESS REVIEW

BUSINESS REVIEW

FINANCIAL REVIEW

The 2012 financial statements of Australian Power & Gas reflect the continuing increase in the scale of the business during the past 12 months. The growth in active accounts of 69,000 has further increased the revenue, costs and cash flows of the Group.

REVENUE & MARGIN

Revenue earned during the financial year increased by 58% to $364.8 million up from $230.1 million in 2011. The increase in revenue arose from the rise in customer accounts numbers, along with an increase in average revenue per account. The average revenue per account was $1,188 for the year, up from $1,102 in the previous year, an increase of 7.8%. The rate of increase during 2011 reflected the combination of a change in mix of the customer base to include New South Wales and Queensland and retail price increases arising largely from the passing through of increased distribution costs.

Wholesale costs were $287.5 million (2011: $186.6 million), including fair value losses on derivatives and other assets of $13.4 million (2011: $15.8 million), and resulted in a gross margin of $77.3 million (2011: $43.5 million). When the movement in the hedge valuation is removed, the underlying gross margin was $91.5 million (2011: $59.3 million), an increase of 54%.

Underlying gross margin per average account increased during the year from $284 to $298 largely due to favourable outcomes form the Group's wholesale hedging arrangements. Increased costs that arose in previous years relating to green schemes were passed on in retail price increases.

OPERATING EXPENSES

Operating expenses for the year totalled $58.6 million up from $38.4 million in the prior year. Operating costs measured on a per customer account basis increased to $191 from $184 per account in the previous year. However as a percentage of the underlying gross margin earned operating costs were in line with the prior year at 61.1%. The main categories of operating expenses were:

- employee benefits expense of $10.7 million, which was up from $8.0 million recorded in 2011, reflecting the increase in staff numbers to 89 full time equivalent employees compared to 72 in the prior year
- operational expenses of $32.7 million compared to $19.5 million in 2011 reflects the costs of servicing the increasing customer base. Operating costs are predominately based on a fixed rate per customer account via an outsourced arrangement with a provider of back office services. This agreement has a further 3 years of operation
- doubtful and bad debts allowance increased to $9.3 million compared with $6.0 million in 2011. The increase reflects the growth in scale and complexity of the customer base
- sales and marketing expenses were $2.2 million compared to $1.8 million in 2011. This expenditure relates to brand promotion activities to support the customer acquisition program
- administration expenses were $3.6 million up 24% from $2.9 million in 2011

DEPRECIATION & AMORTISATION

Depreciation and amortisation was $19.3 million compared to $11.5 million in 2011. This comprised mainly of the amortisation of customer acquisition costs and recording costs. Customer acquisition and recording costs are amortised over the expected life of the contract, which are between one and three years.

FINANCING COSTS

Net financing costs of $5.5 million were down on the 2011 expense of $6.8 million. Finance costs are primarily interest on loans due.

PROFITABILITY

The statutory result of a loss of $3.9 million was a decrease compared to the loss of $9.5 million in 2011. The statutory result includes the requirement under the accounting standards to record the movements in electricity hedges as part of the statement of Financial Performance. The directors believe that the adjustment to the statement of Comprehensive Income arising from the changes in the value of hedges at each reporting period does not reflect accurately the operating results of the Group's activities. Retail pricing is set with reference to the expected costs under the fixed price hedges and the expected operating margins are forecasted accordingly. There is, therefore, a matching of forecast revenue and costs during the term of the hedges and the need for recording the movement in value from changes in forward prices at intermediate reporting periods is unnecessary and could be misleading to investors.

A restatement of the statutory result to show the underlying operating result is presented below. The underlying net profit of $6.1 million for the year is an average of $20 per account and was 1.7% of revenue.

	Year ended 30 June 2012	Year ended 30 June 2011
	$000s	$000s
Statutory loss	(3,892)	(9,535)
Adjustment for costs included in the statutory result, after tax:		
Finance costs	-	2,219
Change in fair value of financial instruments and other assets	9,964	11,053
Underlying profit	**6,072**	**3,737**

CASH & CASH FLOWS

Cash and bank balances at 30 June 2012 totalled $18.3 million compared to $19.9 million in 2011. This cash balance includes $13.8 million set aside as security for bank guarantees issued to counter parties as part of their credit support terms.

In line with our policy since inception, a minimum cash reserve is targeted so as to ensure that there are sufficient funds on hand to address liquidity issues that may arise from wholesale market volatility as well as to meet debt facility requirements. This reserve is above the cash put aside to fund credit support.

A statutory operating and investing cash deficit of $8.8 million (2011: $14.3 million) occurred during 2012. The underlying operating cash flow was $22.3 million (2011: $1.8 million). The underlying operating result is determined by excluding the costs of finance, customer acquisition and prepayments (to counter parties as a form of credit support), as shown in the table below.

	Year ended 30 June 2012	Year ended 30 June 2011
	$000s	$000s
Customer payments	342,767	199,607
Payments to suppliers and employees	(320,450)	(197,826)
Underlying operating cash flow	22,317	1,781
Customer acquisition costs	(16,291)	(19,592)
Net finance costs	(7,366)	(6,339)
Equipment and systems development	(1,925)	(1,614)
Credit support (restricted deposits and prepayments)	(5,517)	(7,490)
Operating and investing cash flow	**(8,782)**	**(33,254)**

The statutory operating and investing cash flow deficit was funded by an increase in borrowings of $0.1 million and equity raised of $2.7 million. A dividend of $0.9 milion was paid during the 2012 year relating to the 2011 results. Cash held decreased by $6.9 million.

Expenditure on customer acquisition during the 2012 year was $16.3 million compared to $19.5 million in 2011. Customer accounts increased by 69,000 during the 2012 year as a result of this expenditure.

It is a requirement of some wholesale parties in the energy market for retailers to provide credit support to ensure that funds are available to meet obligations. Credit support can take the form of bank guarantees (for which the issuing bank requires cash security deposited) or prepayments. At 30 June 2012 $13.8 million had been provided in the form of bank guarantees (or deposits) and a further $8.9 million in prepayments, giving a total of $22.6 million in credit support. Australian Power & Gas seeks to minimise the amount of credit support provided based on its track record of consistently paying amounts as they fall due.

CAPITAL STRUCTURE

Ordinary shares on issue increased during the year by 14 million shares to 189 million. The main changes that occurred during the 2012 financial year were:

- conversion of share options in 10.8 million shares
- an issue of 3.0 million performance based shares to the CEO as part of his remuneration package

The Group's interest bearing debts increased by $0.3 million to $54.0 million. The movement included the final write up of the face value of convertible notes outstanding. The $50.0 million receivables secured debt facilities was fully drawn at 30 June 2012 compared to an undrawn balance of $2.8 million at 30 June 2011. The underlying debt and equity is presented below. The underlying debt to equity ratio decreased significantly during the year as a result of the equity raised dropping from 139% to 66%.

	Year ended 30 June 2012	Year ended 30 June 2011
	$000s	$000s
Cash	18,319	19,900
Less amounts held to secure amounts owed to counter parties	(13,761)	(8,484)
Net cash	4,558	11,416
Debt	54,000	53,691
Adjust convertible Notes to face value	-	209
Adjusted debt	54,000	53,900
Underlying net debt	49,442	42,484
Equity	49,373	51,273
Add back after tax effect of hedge valuations (current movement)	9,964	13,272
Adjusted equity	59,337	64,545
Underlying net debt to net debt plus adjusted equity ratio	**45%**	**66%**

Subsequent to year end the Group has put in place a new debt facility. The new facility comprises a $55 million revolving loan secured by its receivables and $30 million secured hedging and credit support facility. The impact of these arrangements is to release the existing cash on deposit that secures bank guarantees of $13.8 million. If this adjustment was made at 30 June 2012 the underlying net debt to net debt plus adjusted equity ratio would have been 38%.

WORKING CAPITAL

The Group had amounts owing from customers and other debtors of $95.1 million as at 30 June 2012, compared to $71.4 million at 30 June 2011. Customers are invoiced on either a two or three monthly billing cycle, dependent on meter reading cycles. They then have approximately 14 days from invoice date to settle amounts owing. These industry characteristics lead to a longer than usual period of collection, with the average days outstanding being 94 at 30 June 2012, down from 113 days at 30 June 2011. Improvements to collection processes and billing efficiency drove the reduction in the days outstanding.

The Group had invoiced and accrued payables of $57.2 million (2011: $44.9 million) as at 30 June 2012. Payables are generally paid on 30 day terms. Accrued amounts relate to energy charges which are billed and payable in advance of customer invoicing. Average days outstanding of payables was 63 days at 30 June 2012 (2011: 78 days).

The average working capital per account at 30 June 2012 was $195 compared to $191 per account in the prior year. A summary of working capital employed is presented below.

	Year ended 30 June 2012	Year ended 30 June 2011
	$000s	$000s
Cash	18,319	19,900
Net debtors	95,101	71,373
Inventory	1,580	1,565
Other current assets	11,988	10,087
Trade and other payables	(57,228)	(44,990)
Provisions	(551)	(788)
Other liabilities (facility fees owing)	(2,500)	(5,000)
Working capital	**66,709**	**52,147**
Working capital per account ($/account)	$195	$191
Working capital ratio	2.1	2.0

FINANCIAL & STATISTICAL SUMMARY

12 months ended 30 June	% change 2012 to 2011	2012	2011	2010	2009	2008	2007
		$'000	$'000	$'000	$'000	$'000	$'000
Statement of financial performance							
Underlying results							
Revenue	58.5%	364,798	230,122	130,271	72,756	34,483	898
Gross profit	54.3%	91,540	59,325	38,524	14,587	4,998	191
Earnings before interest, tax, depreciation, amortisation and fair valuation of financial instruments and other assets (EBITDAF)	58.1%	33,374	21,106	13,522	(2,468)	(6,949)	(6,824)
Depreciation and amortisation	68.6%	(19,321)	(11,458)	(6,552)	(6,969)	(5,329)	(447)
Earnings before interest and tax (EBIT)	45.7%	14,053	9,648	6,970	(9,437)	(12,278)	(7,271)
Finance costs	23.7%	(5,544)	(4,481)	(4,927)	(4,818)	(3,324)	(102)
Operating profit/(loss) before tax	64.7%	8,509	5,167	2,043	(14,255)	(15,602)	(7,373)
Tax expense	70.4%	(2,437)	(1,430)	(613)	4,368	4,804	2,040
Underlying net profit/(loss) after tax	62.5%	6,072	3,737	1,430	(9,887)	(10,798)	(5,333)
Statutory result:							
Net loss after tax	**59.2%**	**(3,892)**	**(9,536)**	**(3,273)**	**(9,887)**	**(10,798)**	**(5,129)**

Statement of financial position							
Total assets	15.5%	$198,076	$171,533	$109,577	$85,276	$75,447	$71,150
Cash and cash equivalents	7.9%	$18,319	$19,900	$8,706	$5,488	$5,913	$6,871
Trade and other receivables	33.2%	$95,101	$71,373	$37,351	$21,005	$11,472	$1,599
Inventories	1.0%	$1,580	$1,565	$910	-	-	-
Intangible assets	2.0%	$51,910	$50,906	$41,558	$39,214	$38,066	$36,799
Deferred tax assets	10.8%	$18,763	$16,927	$13,600	$11,720	$5,118	-
Hedge assets		-	-	-	-	$7,543	$17,095
Other assets	14.2%	$12,402	$10,862	$7,452	$7,849	$7,335	$8,786
Total liabilities	23.7%	$148,703	$120,259	$81,596	$54,164	$29,965	$14,010
Trade and other payables	27.2%	$57,228	$44,990	$29,179	$23,849	$10,119	$5,014
Borrowings	0.6%	$54,000	$53,691	$43,613	$26,957	$16,751	$4,264
Hedge liabilities	118.0%	$34,424	$15,790	$1,660	$19		
Other liabilities	47.3%	$3,051	$5,788	$7,144	$3,339	$3,095	$4,732
Total equity	**3.7%**	**$49,373**	**$51,274**	**$27,981**	**$31,112**	**$45,482**	**$57,140**

12 months ended 30 June	% change 2012 to 2011	2012	2011	2010	2009	2008	2007
		$'000	$'000	$'000	$'000	$'000	$'000
Statement of cash flows							
Underlying operating cash outflow	1153.4%	22,317	1,781	4,020	882	(11,961)	(8,722)
Credit support (deposits and prepayments)	26.3%	(5,517)	(7,490)	(3,048)	(2,674)	(1,698)	(1,117)
Customer acquisition costs	16.8%	(16,291)	(19,592)	(11,304)	(5,692)	(4,738)	(540)
Net finance costs	16.2%	(7,366)	(6,339)	(3,442)	(2,055)	(612)	(972)
Investment in equipment and systems	19.3%	(1,925)	(1,614)	(621)	(28)	(39)	(333)
Capital and investing expenditure/inflow	73.6%	(8,782)	(33,254)	(14,395)	(9,567)	(19,048)	(11,684)
Equity raised (net of costs)	86.0%	2,750	19,618	-	-	3,453	11,277
Debt raised	99.5%	100	19,587	17,149	9,179	12,940	4,548
Dividend paid	na	(925)	0	0	0	0	0
Financing cash flow	95.1%	1,925	39,205	17,149	9,179	16,393	15,825
Net increase/decrease in cash	**215.2%**	**(6,857)**	**5,951**	**2,754**	**(388)**	**(2,655)**	**4,141**
Statistics & ratios							
Key ratios							
Underlying gearing (net debt to net debt plus adjusted equity)	14.5%	45%	40%	54%	78%	31%	na
Underlying NPAT per share (basic & diluted - $/share)	9.8%	0.03	0.03	0.01	(0.09)	(0.11)	na
Statutory NPAT per share (basic & diluted - $/share)	69.8%	(0.02)	(0.07)	(0.07)	(0.09)	(0.11)	na
NTA per share (basic & diluted – $/share)	112.5%	(0.01)	0.11	(0.13)	(0.07)	(0.06)	(0.02)
Total customer accounts							
Total accounts	25.4%	341,619	272,443	145,074	100,100	54,008	5,700
Revenue per average account	7.8%	$1,188	$1,102	$1,059	$944	$923	$315
Employees							
Employees (number of full time equivalents)	23.6%	89	72	55	33	24	23
Capital structure							
Number of shares at year end (million)	7.9%	189.4	175.5	101.4	101.3	100.3	85.1
Number of options at year end (million)	29.1%	39.2	55.2	38.0	31.0	29.3	18

RISK MANAGEMENT

Wholesale energy and operational risk minimisation is a core component of the Australian Power & Gas business model

RISK MANAGEMENT PROCESS

Risk identification and management remains a critical business focus of our business. As some risks can have a significant financial impact, the Australian Power & Gas group (Group) has always taken a clear approach to risk management. This has entailed:

- ensuring that the Group has a team of professional managers who identify and manage the various risks the business faces
- seeking to mitigate the impact of each of these risks via contractual arrangements

This process sets us apart from other smaller retailers. While in the formation of the business it has entailed higher overhead and hedging costs, this meant that the business has weathered the occasional extreme event that can occur in the energy industry.

Key elements of the risk management process include:

- approval by the Board of annual operating and capital budgets
- monthly review by the Board of financial results
- quarterly reviews by the Board of updated rolling financial forecasts
- approval by the Board of operating and capital expenditure over certain limits
- approval by the Board of non-financial events in accordance with set criteria
- regular reviews by the Board of the nature and size of transactions with parties who have significant equity interest in Australian Power & Gas
- the Board now has the support of the Risk Management Committee (RMC) to review and advise the Board on risk management and other specific issues. The RMC is made up of the Board's Chairman, the CEO and representatives from management

ENERGY MARKET RISK

As an independent, stand alone energy retailer the key risk we face is the purchase price of energy. Customer pricing tends to move annually or bi-annually, whereas spot energy prices move in five minute and half-hourly increments. The risk is not only to our margins, but also to our capital base. Credit support, the provision of security for amounts owing, is required by market counterparties and can vary as energy prices vary. Credit support is normally provided in the form of a cash-back bank guarantee or prepayment as a portion of expected usage. To reduce the exposure to both of these types of movements, we have put in place two types of arrangements — an electricity pricing agreement and a gas supply agreement in our key markets of Victoria and Queensland.

The Victorian electricity pricing agreement operates until December 2015 and covers the majority of our customer usage in the Victorian market. The agreement means that we pay a fixed price for the energy used by our Victorian customers (i.e. that is there are no minimum or maximum usage requirements). The agreement also entails "reallocation", which means that credit support requirements are minimised. These two components mean that our electricity margins and credit support requirements are more predictable.

The Victorian gas supply agreement operates until December 2014 and provides for a fixed base price and inflationary annual increases for the supply of gas in Victoria. The contract provides minimum quantity requirements and maximum volumes that can be drawn during the year. We occasionally buy gas via the agreement and then sell it to the spot market (rather than being absorbed via customer usage) in order to meet the minimum take or pay requirements. During the 2012 financial year, retail demand exceeded the gas volumes provided under the agreement, particularly during peak times. To meet these excess requirements and to mitigate pricing and volumetric risk, other storage contracts were put in place. These included the renting of storage capacity to hold surplus gas and capacity to inject liquidified natural gas. At peak times we provided gas from these sources and avoided paying peak rates.

The gas market can be subject to unusual events that lead to additional charges being levied. These charges can occur where there is a variance between the quantities we expect to be consumed by our customers and actual customer usage. A dedicated team monitor the gas market and customer usage closely and implement strategies that minimise the costs to the business from these types of variances.

We continue to have an electricity pricing agreement in Queensland with a major electricity generator. This agreement provides our business with a fixed price for the energy used by our Queensland customers and operates for a period of three years from 1 January 2011. The agreement also provides for "reallocation" to minimise credit support requirements.

In New South Wales a more active approach is taken to managing electricity price risk. An arrangement has been put in place since the end of the financial year with the Macquarie Group which will will facilitate the continued expansion of the customer base in that state. The arrangement provides Australian Power & Gas, the ability to transact a greater range of wholesale hedging instruments with reduced capital requirements.

REGULATORY RISK

Energy industry regulations vary in each state and there are also national rules. From inception we have had a team of experienced regulatory professionals dealing with and understanding the regulations and the regulatory bodies. Developing relationships with these bodies and having processes that promptly deal with issues as they arise, is vital to ensuring the smooth operation of our business.

The Group has obligations under a number of "green" related schemes regulated by state and Commonwealth governments, including the Clean Energy Act and its associated carbon obligations. From a regulatory perspective, the schemes impose significant additional costs to ensure compliance with the differing rules applying to each scheme. Annual returns and audits of these returns are required each calender year and we were fully compliant for the 2011 calendar year.

OPERATIONAL RISKS

Some operational risks have been identified as having the potential to impact on the Group's earnings. The key operational risk is ensuring that customer billing data is received and processed on a timely basis. This process entails obtaining data electronically from other energy market participants (such as the providers of customer meter reading services), processing customer usage data into our billing system and generating customer invoices.

Other significant risks include the concentration of process knowledge in key staff members.

These risks are managed by the following mechanisms:

- ensuring our outsourced back office and key head office functions have disaster recovery processes in place and are regularly tested for effectiveness
- reviewing key staff "gate keeper" functions and ensuring there is adequate distribution of knowledge amongst individuals. Systems are in place to ensure other individuals have the capability to undertake key processes
- reducing dependence on a single customer acquisition channel by increasing the number and types of channels used
- the Group are constantly reviewing its current business structure of in-sourced and out-sourced processes from a risk perspective and taking steps to amend processes with the growth in scale of the business

FINANCING RISKS

From the inception of the Australian Power & Gas business, the availability of significant capital was identified as a key requirement of the business model. Capital requirements have arisen during the development of the business from:

- costs of customer acquisition and retention
- the requirements of energy market counter parties to credit support, which have been in the form of prepayments or cash secured bank guarantees
- the initial negative cash flow that arises during the life cycle of a customer

The capital structure of the Group has been designed to meet these challenges. The key elements of the structure are set out below.

There are 189 million shares on issue. When added to reserves and accumulated losses the total shareholder equity was $50.7 million at 30 June 2012.

The total interest bearing debt was stable at $54 million, including $4 million owed under a convertible note.

Since the end of the financial year the existing debt facility was replaced by a new lender. The new facilities consist of a $55 million secured receivables loan and a $30 million wholesale hedging and credit support facility.

FINANCIAL ASSURANCE & AUDIT

The management team has developed internal control processes and reporting mechanisms since the business started up.

In conjunction with the external auditor and advisory firms, management is developing a rigorous audit mechanism of business processes.

During the coming financial year a regular system review of the integrity of internal processes has been undertaken. The purpose of this review is to not only to ensure that the Group is invoicing and collecting its receivables accurately, but also to provide assurance that customer accounts accurately reflect transactions that have occurred. This then minimises the potential level of customer complaints to the Group and the regulatory bodies.

The review process, along with the financial audit, provides support for the CEO and CFO statements to the Board on the effectiveness of the internal control systems and integrity of the financial statements.

OUR DIRECTORS

DIRECTOR'S DETAILS

The directors of the Company at any time during or since the end of the financial year to the date of this report were:

IAN MCGREGOR

BBS, CA, FICS

Chairman
Non-executive director, independent

Appointed: 14 April 2000 as director, 24 October 2007 as Chairman

Age: 55

Ian has over 25 years of professional experience as a financial officer and business manager. He was previously the Company Secretary and CFO of Broadcast Services Australia Limited, and the CFO of Unwired Group Limited.

JAMES MYATT

M Mktg, Assoc Dip Applied Sc, AFAMI, MAICD, CPM

Chief Executive Officer (CEO), Managing Director, non-independent

Appointed: 3 July 2006 as CEO, 16 November 2007 as director

Age: 46

James is currently the Chairman of the Energy Retailers Association of Australia and has more than 25 years experience in the energy sector holding senior positions with Energy Australia, TXU Australia, Duke Energy International and AGL/Solaris Power.

RICHARD POOLE

Non-executive director, non-independent

Appointed: 16 July 2003

Aged: 49

Richard is a qualified lawyer who specialises in mergers and acquisitions. He is a principal of Arthur Phillip Pty Limited, and has been involved in a range of fund raising and advisory projects for public and private clients. Richard is currently also a non-executive director of Adavale Resources Limited (since July 2004) and Resources & Energy Group Limited (since July 2004).

THE DIRECTORS OF AUSTRALIAN POWER AND GAS COMPANY LIMITED (COMPANY) PRESENT THEIR REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2012, TOGETHER WITH THE FINANCIAL REPORT OF THE COMPANY AND ITS CONTROLLED ENTITIES (GROUP). IN ORDER TO COMPLY WITH THE PROVISIONS OF THE CORPORATIONS ACT 2001, THE DIRECTORS REPORT AS FOLLOWS:

MICHAEL HOGG

Non-executive director, non-independent

Appointed: 20 November 2006

Aged: 51

Michael is a former Australian CEO of The Cobra Group Pty Ltd, which is part of a direct sales organisation with over 10,000 sales representatives in 20 countries worldwide. Mr Hogg is a non-executive director of Firstfolio Limited (since April 2006) and BBX Holdings Limited (since September 2010).

SHINJI WADA

Non-executive director, non-independent

Appointed: 1 July 2011

Age: 60

Shinji is the president of Nippon Gas Limited and has more than 35 years experience in the gas retail industry of Japan. Shinji is also the Vice President of Japan Community Gas Association (JCGA), and the Director of the Japan-Europe and Japan-Middle Asia Cultural and Economic Exchange Committees.

DAVID FRANKS

CA, BEc, FFin, CFP, JP

Company Secretary

Appointed: 15 December 2003

Age: 41

David is the principal of Franks and Associates Pty Limited (Chartered Accountants) and has extensive experience in accounting finance and company secretary roles. He is company secretary of a number of public companies including White Energy Company Limited, Solar Sailor Holdings Limited, Pulse Health Limited, Elk Petroleum Limited and Armidale Investment Corporation Limited. David has held the position of company secretary during the financial year and to the date of this report.

DIRECTORS' REPORT

DIRECTORS' INTERESTS

The following table sets out each director's relevant interest in shares, share options and convertible Notes of the Company as at the date of this report.

	Ordinary shares	Options over ordinary shares
	No.	No.
Ian McGregor	2,162,009	1,750,000
James Myatt	3,918,026	5,142,857
Richard Poole	29,399,958	5,000,000
Michael Hogg	1,546,858	-
Shinji Wada	-	-

PRINCIPAL ACTIVITY

The principal activity of the Group during the financial year was the sale of electricity and gas to households. There was no change to the nature of the Group's activities during the year.

REVIEW OF OPERATIONS

The Statutory loss of $3.9 million includes an expense of $14.2 million (after tax $9.9 million) representing the change in fair value of derivative instruments and other assets. The adjustment for changes in hedge valuations primarily relates to the fixed price electricity hedges the Group has in the Victorian and Queensland markets. These hedges, which relate to the period until at least December 2013, had substantial write downs due to forward prices at June 2012 being lower than the fixed prices within the contracts.

The write down relating to the financial hedges has no effect on the underlying business and cash flow of the Group as retail prices and margins have been set so as to recover the expected costs under the contracted agreements. The expensing of the valuation movement is required under current accounting standards.

Underlying profit after tax of $6.1 million was achieved, up from $3.7 million for the prior year. The current year result was within the guidance range previously provided to the market of $6.0 million to $8.0 million.

	Year ended 30 June 2012	Year ended 30 June 2011
	$000s	$000s
Statutory loss	(3,892)	(9,535)
Adjustment for costs included in the statutory result, after tax:		
Finance costs	-	2,219
Change in fair value of financial instruments and other assets	9,964	11,053
Underlying profit	**6,072**	**3,737**

A more detailed review of the operations of the Group during the financial year and the results of these operations is contained on pages 3 to 13.

DIVIDENDS

A final dividend in respect of the year ended 30 June 2012 of 0.8 cents per share (unfranked) was declared on 31 August 2012 and payable on 12 October 2012. The amount of the dividend payable is $1,515,000.

A final dividend in respect of the year ended 30 June 2011 of 0.5 cents per share (unfranked) was declared on 26 August 2011 and was paid on 26 September 2011. The amount of the dividend payable was $925,440 (2010: nil).

SUBSEQUENT EVENTS

As at 30 June 2012 the Group's debt facility was due to expire on 22 December 2012. On 30 August 2012 the Group's main trading subsidiary, Australian Power and Gas Pty Limited, signed a facility agreement with Macquarie Bank Limited to replace the existing $50 million debt facility with an $85 million facility. The new facility is for a term of two years with the ability to extend for a further year provided certain conditions are met. The new facility agreement is subject to conditions precedent prior to draw down. The conditions, which relate to the provision of documentation were fulfilled on 19 September 2012.

Other than this item, there has not been any other matter or circumstances occurring subsequent to the end of the financial period that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial periods.

FUTURE DEVELOPMENTS

During the 2013 financial year the Group expects to continue to further develop its energy retailing business. The assessment of the profitability of each geographic and product segment will continue to be under constant review along with the management of wholesale price risk. Adjustments will be made as necessary where results are ahead of, or below expectations or the business is exposed to significant risks. Disclosure of any further information would be likely to result in unreasonable prejudice to the Group's operations. Accordingly, information concerning these and other potential developments and projects, other than those that have been announced has not been disclosed in this report.

ENVIRONMENTAL REGULATIONS

There are no significant environmental regulations applying to the Group.

OPTIONS & CONVERTIBLE NOTES

As set out in Note 26 of the Financial Report there were 39,158,106 options on issue as at 30 June 2012 (2011: 55,164,647). 11,780,396 options were exercised during the financial year (2011: 667,697). 4,226,151 options expired during the year or were forfeited (2011: 10,366,766). Since the end of the financial year no options have been issued.

Options do not give the holders the right, by virtue of the option, to participate in any share issue or interest issue of the Company or of any other body corporate or registered scheme.

As set out in Note 13 of the Financial Report, there were 4,000 convertible Notes on issue as at 30 June 2012. The convertible Notes on issue are capable of conversion into a maximum of 7,272,727 ordinary shares. No convertible Notes have been issued or converted since the end of the financial year.

DIRECTORS' MEETINGS

During the financial year there were 11 meetings of directors, 11 Risk Management Committee meetings and five Remuneration and Nomination Committee meetings. Attendances by each director during the year were as follows:

Director	Board meetings		Risk Committee meetings		Remuneration & Nomination Committee meetings	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Ian McGregor	11	11	11	11	5	5
James Myatt	11	11	11	10	n/a	n/a
Richard Poole	11	10	n/a	n/a	5	4
Michael Hogg	11	11	n/a	n/a	5	4
Shingi Wada	11	10	n/a	n/a	n/a	n/a

The Audit and Finance Committee function was carried out at a full Board level during the financial year. Accordingly there were no separate meetings of that committee during the financial year.

INDEMNIFICATION OF OFFICERS & AUDITORS

During the financial year, the Company paid a premium in respect of a contract insuring the directors (as named above), the Company Secretary and all executive officers of the Company and of any related body corporate against a liability incurred as such by a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such by an officer or auditor.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any other such proceedings during the financial year.

NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 29 of the Financial Report. The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed do not compromise the external auditor's independence for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in Accounting Professional Ethics Standards (APES) 110 Code of Ethics for Professional Accountants issued by APES Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards

AUDITOR'S INDEPENDENCE DECLARATION

An independence declaration under Section 307C of the Corporations Act 2001 by the auditor of the Group, Deloitte Touche Tohmatsu, is included on page 100.

ROUNDING OF AMOUNTS

The Company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' Report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

REMUNERATION REPORT

The directors' present the Remuneration Report for the Group for the financial year ended 30 June 2012. This report provides information on the remuneration of directors and senior executives of the Group, along with general principles that apply to all Group employees.

Key management personnel

The directors and senior executives collectively form the key management personnel of the Group. key management personnel have the authority and responsibility for planning, directing and controlling activities of the Group.

The following persons acted as non-executive directors of the Company for the whole of the financial year and since the end of the financial year to the date of this report (refer Item 1 above for directors' details).

Ian McGregor (Chairman)
Michael Hogg
Richard Poole
Shinji Wada

James Myatt acted as an Executive Director and Chief Executive Officer (CEO) during the financial year and since the end of the financial year to the date of this report.

The following persons acted as senior executives of the Group (senior management) for the whole of the financial year and since the end of the financial year to the date of this report, unless otherwise Noted:

Deborah Dickens
General Manager Commercial Operations

David Goadby
General Manager Retail

Warren Kember
Chief Financial Officer (CFO)

Shelley Reed
General Manager Wholesale – Gas

Joanne Shatrov
General Counsel

Caroline Wykamp (left June 2012)
General Manager Wholesale – Electricity

Overview of remuneration policy

The remuneration policy of the Group has been designed to align key management personnel objectives with shareholder and business objectives. Remuneration packages provide a fixed component and a mix of short and long-term incentives based on key performance areas affecting the Group's operational and financial results. The Board believes the remuneration policy to be appropriate to attract and retain executives and directors to manage the Group, as well as align the interests of directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for all employees of the Group is as follows:

- remuneration policy, including setting the employment terms and conditions for the key management personnel, was developed by the Board after seeking professional advice from independent external consultants
- employees receive a base salary, which is based on external benchmarking, performance reviews and experience, together with superannuation, fringe benefits, and if an employee qualifies, performance incentives (such as options)
- remuneration packages are reviewed annually by reference to the Group's performance, executive performance and comparable information from industry sectors. External advice is sought when considered necessary

All remuneration, including the value of performance incentives, is valued at the cost to the Group and expensed. Non-cash performance incentives, such as share options, are valued using the Black-Scholes methodology or by reference to current market value as appropriate.

At the annual general meeting of the Company in November 2011 the Remuneration Report for the year ended 30 June 2011 was considered and approved by shareholders. The resolution received 98.6% votes "for" by valid proxies. In addition the resolution received in excess of 75.0% of "for" votes on a show of hands. The Company did not receive any specific feedback regarding its remuneration policy at the annual general meeting.

Governance

During the financial year the Board constituted a Nomination and Remuneration Committee (NRC) and five meetings were held.

The NRC currently consists of a sub-set of the Board comprising of:

Ian McGregor (Chair)
Michael Hogg
Richard Poole

The responsibilities of the NRC include a review and recommendation to the Board on:

- remuneration and incentive framework for the non-executive directors, the Managing Director and the senior management
- remuneration and incentive framework for all other staff

The NRC reviews policies and procedures on the following matters:

- staff induction programs
- superannuation arrangements
- key staff succession plans
- recruitment, retention and termination strategies
- staff resourcing trends and metrics
- other relevant matters identified from time to time, or requested by the Board

The NRC may seek input from key management personnel on remuneration policies, but they will not be directly involved in deciding their own remuneration.

Advice from external consultants or specialists will be sought if required to support particular decisions. The Chairman of the NRC is responsible for engaging external consultants.

In reviewing the remuneration for the 2010-11 year, the RNC engaged Geoff Nunn & Associates to prepare a market analysis and remuneration review for the CEO and CFO. A fee of $7,648 was paid for the analysis. The report was prepared with factual assistance from the CEO and CFO. The report was delivered to the Chair of the RNC to ensure that the report was prepared without undue influence from key management personnel.

Relationship between remuneration & company performance

The performance targets that apply to short and long-term incentives are considered to provide a tangible link between improvements in shareholder value and the operating performance of the Group. Increasing customer accounts is a core measure which leads to increased revenue and operating profitability in future periods. The strength of the Company's share price during the year, relative to the Australian share market as a whole, is attributed by the Board to have occurred due to the growth in customer accounts and underlying results from the Group's activities.

The table below sets out summary information of the Group's earnings and movements in shareholder wealth for the years ended 30 June 2008 to 30 June 2012.

Year ended	30 June 2012	30 June 2011	30 June 2010	30 June 2009	30 June 2008
Operating and financial results					
Active customer accounts	341,000	272,000	145,000	100,000	54,000
Underlying net profit after tax ($m)	$6.1	$3.7	$1.4	(9.8)	(10.8)
Underlying earnings per share (cps)	3.3	0.6	1.4	(9.8)	(11.7)
Dividends (shown in year related)					
Dividends paid ($m)[1]	$1.5	$0.9	-	-	-
Dividends paid (cps)[1]	0.80	0.50	-	-	-
Share price and capitalisation					
Share price at start of year (i) (cps)	55	46	13	20	66
Share price at end of year (cps)	51	55	46	13	20
Market capitalisation ($m)	**$90.0**	**$87.7**	**$46.4**	**$13.2**	**$20.0**

Note 1: 2012 figures are the proposed dividend payment for the year.

Chief Executive Officer remuneration

James Myatt has been the CEO of the Group since its inception in June 2006. Remuneration of the CEO includes a fixed portion, as well as short and long-term incentive based payments. Incentive payments are in the form of a cash bonus, shares and share options in the Company. The payment of a bonus or vesting of options is contingent on achievement of performance related targets and length of employment.

Overall remuneration is benchmarked annually by reference to employment market information for comparable companies, considering the stage of development and type of business of the Group. The key terms of James Myatt's employment contract in effect during the year ended 30 June 2012 and subsequently are set out below.

Term:	Three year term to June 2014. The agreement may be terminated by James Myatt giving six months notice.
Fixed Remuneration:	Effective from 1 July 2011 fixed remuneration of $550,000 per annum (2011: $488,250).
Short term incentive:	James Myatt was paid an annual short-term incentive payment (cash) in September 2011 as set out in the remuneration tables below. The short-term incentive was payable to the maximum of 25% of fixed remuneration for the achievement of operating performance targets and minimum market capitalisation of the Company's ordinary shares during the year ended 30 June 2011. Based on these measures an incentive of $105,706 was paid, which was 21.6%. The targets and proportion of the incentive calculation were: 50% of the amount paid was based on the achievement of the operating performance targets for the year ended 30 June 2011: • revenue of at least $230 million • earnings before interest and tax $11 million • operating costs as a ratio to gross margin of 60% or less • more than 250,000 transferred customers as at 30 June 2012 • the percentage of transferred customers that left during the year was 25% of transferred customers or less • the percentage of customers who cancel their contracts prior to being transferred to the Group is 25% or less of the gross customers signed during the financial year 50% of the amount paid related to the market capitalisation of the Company being greater than $80 million for at least 30 trading days during the financial year. For the year ended 30 June 2012 a short-term incentive to a maximum of 40% of fixed remuneration is payable upon achievement of performance conditions during the year ended 30 June 2012. The performance conditions were: • revenue of at least $445 million • earnings before interest and tax of at least $19 million • operating costs as a ratio to gross margin of 62% or less • more than 415,000 transferred customers as at 30 June 2012 • the percentage of transferred customers that left during the year was 29% of transferred customers or less • the percentage of customers who cancel their contracts prior to being transferred to the Group is 29% or less of the gross customers signed during the financial year The short-term incentive is calculated on a pro-rata basis if actual performance is 85% or more of a specific performance target. Each performance target is assessed separately and subject to a minimum achievement level of 85%. The incentive is only paid if the executive remains employed at the time of payment, which is usually in October each year once audited results are available. Based on the results achieved for the 2011–12 year an amount of $58,920 is payable, 10.7% of fixed remuneration.

Long term incentive:	James Myatt was awarded a long-term incentive in the form of 3 million shares issued by the Company. The issue of the shares was approved by shareholders at the Company's annual general meeting in November 2011. The shares are subject to performance targets which must be satisfied by 30 June 2014: • market capitalisation of the Company of $300 million for more than 60 consecutive days during the 3 year period from 1 July 2011 • James Myatt remaining employed by the Company until 30 June 2014 The performance shares will vest prior to the 30 June 2014 on a pro-rata basis if the employment of James Myatt is terminated by the Company, depending on the circumstances.
Loan for conversion:	James Myatt is entitled to request from the Company an interest free loan to a maximum of $1.3 million for the purpose of paying the amount due on conversion of options granted by the Company. Taxes associated with the loan are payable by James Myatt. The loan is repayable within 14 days after provision of notice by the Company. As of 30 June 2012 no loan has been provided.
Restraint post employment:	For up to 12 months following the termination of employment, James Myatt must not approach any customer or employee to entice them to discontinue their relationship with the Group.
Termination benefit:	Employment can be terminated by either party with six months notice. The Company may elect to make a payment in lieu of notice being provided. In the event of a change in control, the duties or responsibilities of James Myatt are reduced. An amount is then payable equal to the balance payable for the remaining term of the contract, subject to a minimum of 12 months. This termination benefit was approved by shareholders at the Company's annual general meeting in November 2011. Upon the employment agreement reaching the expiry date of the term and is not renewed James Myatt is entitled to six months remuneration.

The Group may terminate James Myatt's employment in the following circumstances:

- commits a serious or persistent breach of the provisions of his employment agreement
- becomes bankrupt
- engages in any act or omission constituting gross misconduct in respect of his duties
- convicted of an offence which brings the Group into disrepute or is incompatible with his capacity as set out in his agreement
- commits a serious or persistent breach of the Company's Code of Conduct or any legislative requirement which applies to his performance including ASX rules and the Corporations Act
- refuses to comply with a reasonable and lawful direction given to him by the Company
- fails to execute any Confidentiality Agreement required by the Company

Non-executive director remuneration

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Benchmarking of remuneration is performed by reference to publications detailing remuneration levels of directors for comparable companies. The maximum aggregate amount of fees that can be paid to non-executive directors is approved by shareholders and has been set at $600,000. It was last approved at the annual general meeting held on 20 November 2006.

Fees for non-executive directors are not linked to the performance of the Group. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company. Directors may be provided options as a performance incentive. No options were provided to non-executive directors during the year ended 30 June 2012.

Senior management remuneration (excluding CEO)

Remuneration of senior management includes a fixed portion and short and long-term incentive based payments. Incentive payments are in the form of a cash bonus, shares and share options of the Company. The payment of a bonus or vesting of options is contingent on achievement of performance related targets and length of employment.

Overall remuneration for each role is benchmarked annually by reference to employment market information for comparable companies and roles, considering the stage of development and type of business of the Group.

All senior management have employment agreements setting out terms and conditions of their employment. The agreements are not of fixed duration and include a three month notice period on the part of the employee. The Group has the right of termination with between three and six months notice. The performance of senior management is measured against criteria agreed annually with each executive.

In addition to role specific criteria, performance is judged against the operating measures of the Group's performance including operating profitability and growth of customer numbers. These measures are used as they can be readily and objectively quantified and align executive incentives with the factors that support growth in shareholder value. These arrangements may be varied to increase short-term rewards where it is appropriate to retaining executives.

During the financial year, a general short-term incentive payment was made to senior management and the CEO for the achievement of performance targets relating to the 30 June 2011 financial year. The operating performance targets for senior management, and the basis of the calculation, were the same as those that applied to the CEO indicated above other than the maximum incentive rate of fixed remuneration, which was set at 20%. The incentive was paid in September 2011 and the amount of the payments is included in the remuneration tables below. Based on the level of achievement of the operating performance targets a rate of 14.6% of fixed remuneration was assessed.

The operating performance targets for senior management during the year ended 30 June 2012, and the basis of the calculation were the same as those that applied to the CEO indicated above. The maximum incentive rate of fixed remuneration remained at 20%. Based on the level of achievement of the operating performance targets the rate of 5.4% of fixed remuneration was assessed and will be paid in October 2012. The amount of the incentive payments are shown in the remuneration tables below.

In addition to the general incentive available to senior management, role specific bonus arrangements were granted to the General Managers of Wholesale (Gas and Electricity). The role specific bonus offers a potential $10,000 per calendar quarter for the attainment of specific targets relating to each of the gas and electricity wholesale portfolios. During the year ended 30 June 2011 the General Manager Wholesale Electricity attained 3 of the quarterly targets and 75% of the potential amount was payable. An amount of $30,000 was paid during the year ended 30 June 2012 and is included in the remuneration tables. The General Manager Wholesale Gas did not attain any of the targets and was not paid any amounts under this incentive during the current financial year.

No amounts are payable for the year ended 30 June 2012. In respect of the General Manager Wholesale Electricity the incentive payable was forfeited upon leaving employment of the Group in June 2012. The General Manager Wholesale Gas did not meet the specified targets.

An Employee Share Option Plan (ESOP) provides a framework for the allocation of options to senior management and other employees of the Group as part of long-term incentive arrangements. The amount of options provided to employees is reviewed annually by the Board. The options granted under the ESOP are subject to performance targets and employment conditions prior to their vesting.

The Board did not provide any further allocation of options or shares during the financial year, in view of the levels of long-term incentives provided in previous years.

Details of share options provided in prior years are set out in the table below under Long Term Incentives. Issues of long-term incentives in prior years were subject to performance target and employment conditions, combined with setting exercise prices above the Company's share price at the time of issue. This combination of conditions was designed to encourage focus on attaining longer term positive cash flow, which is believed to influence the share price of the Company.

Each option issued under the ESOP converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the employee on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

Options for which the performance target has not been met upon termination of employment (for any reason) are cancelled. If the performance targets have been met but the employment conditions have not been satisfied then the options vest on a pro-rata basis within a specified period on ceasing employment. Options not exercised upon reaching the expiry date lapse.

The long-term incentive arrangements also include the award of shares of the Company under an Employee Share Plan (ESP). The ESP does not have performance or employment conditions, however the shares are escrowed (unable to be sold) for a period of three years. No award of shares was made under the ESP during the financial year, other than to the CEO as detailed.

Other employees

All Group employees, upon completing their probationary periods and continuing satisfactory performance, are entitled to participate in the short-term and long-term incentive programs of the Group. The short and long-term incentives provided have similar performance and employment continuity conditions that apply to senior management. Details of options issued to all employees are contained in Note 26(a) of the financial statements.

Details of remuneration

The remuneration of key management personnel of the Group during the year ended 30 June 2012 (and the prior year) is set out below. The remuneration shown includes amounts paid during the financial year.

2012		**Short-term employee benefits**		**Post employment benefits**	**Share based payments**	**Total**	**Value of equity as a % of total**
Name	Salary & fees	Cash bonus[3]	Other	Superannuation	Shares & options		
Directors							
I McGregor	123,853	-	-	11,147	-	135,000	-
J Myatt [1]	513,741	105,706	-	15,775	165,000	800,222	20.6%
M Hogg	84,000	-	-	-	-	84,000	-
R Poole	70,524	-	-	-	-	70,524	-
S Wada	80,000	-	-	-	-	80,000	-
Senior management employed at 30 June 2012							
D Dickens	243,914	35,106	-	16,785	-	295,805	-
D Goadby	294,083	-	-	15,249	-	309,332	-
W Kember	286,536	42,057	-	23,961	-	352,554	-
S Reed	244,533	36,568	-	22,422	-	303,523	-
J Shatrov	209,278	30,718	-	18,834	-	258,830	-
Senior management who left during the year							
C Wykamp [2]	252,114	66,569	26,144	18,484	-	363,311	-
	2,402,576	**316,724**	**26,144**	**142,657**	**165,000**	**3,053,101**	**5.4%**

Notes:

Note 1: The expense shown for share based payments for the current year relates to the issue of 3 million shares subject to performance conditions. The total valuation at time of issue of $1,530,000 is being expensed over the period of vesting to 30 June 2014. Refer to CEO remuneration section above for details of the issue.

Note 2: Left June 2012. No termination benefits were payable. Cash bonus includes $30,000 for role specific incentive relating to the year ended 30 June 2011.

Note 3: Estimated amounts for short-term incentives relating to the year ended 30 June 2012 that are payable in September 2012 and are excluded from the above figures.

J Myatt	58,920
D Dickens	14,334
D Goadby	17,140
W Kember	17,172
S Reed	14,931
J Shatrov	12,542
	135,039

2011			Short-term employee benefits	Post employment benefits	Share based payments	Total	Value of equity as a % of total
Name	Salary & fees	Cash bonus	Other	Superannuation	Shares & options		
	$	$	$	$	$	$	%
Directors							
I McGregor	138,073	-	-	12,426	-	150,499	-
J Myatt	421,087	44,347	-	33,852	134,506	633,792	21.2%
M Hogg	74,886	-	-	-	-	74,886	-
R Poole	67,762	-	-	-	-	67,762	-
Senior management employed at 30 June 2011							
D Dickens	216,561	14,062	-	19,491	24,888	275,002	9.1%
W Kember	258,618	26,115	-	23,276	48,778	356,787	13.7%
S Reed	214,026	19,632	-	19,262	15,333	268,253	5.7%
J Shatrov	192,661	15,540	-	17,339	48,778	274,318	17.8%
C Wykamp	181,016	4,502	49,066	16,291	15,333	266,208	5.8%
Senior management who left during the year							
A Butler	178,272	26,115	-	8,139	-	212,526	-
T Gilpin	26,545	26,115	-	2,389	-	55,049	-
	1,969,507	**176,428**	**49,066**	**152,465**	**287,616**	**2,635,082**	**10.9%**

Details of long-term incentives

During the financial year long-term incentive arrangements for key management personnel were in existence that had been issued in a prior financial year or during the current financial year. The incentive arrangements consist of share options and shares awarded under the Group's ESOP and ESP. Details of the share options in existence during the financial year are set out in the table below.

Vesting of share options for the CEO and senior management is linked to attaining operating performance targets and length of employment. Share options issued (in a prior year) to a non-executive director did not have operating performance targets or length of tenure conditions.

Share options issued as performance incentives do not require a payment on issue and accordingly the risk of loss to the employee is limited to loss of potential gain. No specific policies are adopted in respect of managing that risk. Share options expire on either the earlier of their expiry dates or within three to six months of termination of employment, depending on the circumstances of the termination.

Number of share options	Grant date	Expiry date	Exercise price	Performance conditions outstanding at 30.06.12	Fair value at date of grant per option	% vested	Vesting date
Granted in prior financial years							
287,010	8.02.08	01.10.12	$0.35	Nil	$0.21	100%	08.02.09
287,010	8.02.08	01.10.12	$0.35	Nil	$0.21	100%	08.02.10
287,010	8.02.08	01.10.12	$0.35	Nil	$0.21	100%	08.02.11
500,000	19.08.08	30.10.12	$0.50	Achieved	$0.10	100%	19.08.08
500,000	19.08.08	30.10.12	$0.60	Achieved	$0.09	100%	31.12.08
500,000	19.08.08	30.10.13	$0.70	Achieved	$0.10	100%	31.12.08
500,000	19.08.08	30.10.13	$0.80	Achieved	$0.10	100%	31.12.09
257,143	28.10.08	1.10.13	$0.35	Achieved	$0.06	100%	28.04.09
320,000	28.10.08	1.10.13	$0.35	Achieved	$0.06	100%	01.10.11
142,857	21.11.08	1.10.13	$0.35	Achieved	$0.09	100%	21.05.09
1,000,000	22.12.09	01.07.14	$0.20	Achieved	$0.14	100%	22.12.09
2,375,000	18.02.10	30.10.14	$0.45	Achieved	$0.10	100%	28.02.11
2,425,000	18.02.10	30.10.14	$0.40	Achieved	$0.09	100%	28.02.12
100,000	18.02.10	30.10.14	$0.40	Achieved	$0.09	-	28.02.13
500,000	10.12.10	30.10.14	$0.50	Achieved	$0.09	100%	30.06.12
500,000	10.12.10	30.10.14	$0.55	Achieved	$0.08	-	30.06.13
125,000	30.09.10	30.10.14	$0.50	Achieved	$0.10	100%	30.06.12
125,000	30.09.10	30.10.14	$0.55	Achieved	$0.10	-	30.06.13
650,000	11.03.11	30.10.15	$0.55	Achieved	$0.10	100%	30.06.12
650,000	11.03.11	30.10.15	$0.60	Achieved	$0.10	-	30.06.13

Note 1: Vesting occurs once performance condition and employment conditions have been achieved. The employment condition requires that the key management personnel remain employed until the vesting date.

During the financial year the following transactions occurred in respect of options on issue to key management personnel:

- no share options (2011: 2,550,000) were issued as compensation during the current financial year
- no share options (2011: 2,257,143) granted in prior financial years lapsed unexercised or were cancelled. All share options that lapsed in the prior financial year had exercise prices above the ordinary share price at the time of lapsing and accordingly their value at that time was nil
- 150,000 share options (2011: 1,178,084) granted in prior years were forfeited upon leaving the employment of the Group
- 677,536 (2011: 588,526) share options were exercised and converted into 160,994 (2011:163,354) shares. The shares issued had a value upon issue of $85,327 (2011: $79,454)

Details of shares issued to key management personnel pursuant to the Group's ESP in existence during the financial year are set out in the table below.

Number of shares	Grant date	End of escrow date	Issue price	Conditions outstanding at 30.06.12	Fair value at date of grant per share	% vested	Vesting date
Granted in prior financial years							
11,765	19.02.11	26.02.13	$0.34	Escrow to 26.02.13	$0.34	0%	26.02.13
10,000	14.03.11	11.03.14	$0.50	Escrow to 11.03.14	$0.50	0%	11.03.14
Granted in current financial year							
3,000,000	14.03.11	30.06.14	$0.51	Minimum market cap of $60m. Employed at 30 June 2014 (refer above)	$0.51	0%	30.06.14

During the financial year the following transactions occurred in respect of shares on issue to key management personnel:

- no shares (2011: 27,775) granted in prior years were released from their escrow period
- 3,000,000 shares (2011: 10,000) were issued as compensation, refer to the CEO remuneration section above for details

Signed in accordance with a resolution of directors dated 31 August 2012 and made pursuant to s298(2) of the Corporations Act 2001.

On behalf of the directors

Ian McGregor
Chairman

CORPORATE GOVERNANCE STATEMENT

Australian Power and Gas Company Limited (**Company**) and its Board are committed to achieving and demonstrating the highest standards of corporate governance. Ongoing reviews of the Company's corporate governance framework are completed in light of the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council in August 2007 and the 2010 amendments. The Board continues to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

The relationship between the Board and senior management is critical to the Group's long-term success. The directors are responsible to the shareholders for the performance of the Company in both the short and the long-term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and Senior Executives as set out in the Group's delegations policy. These delegations are reviewed on an annual basis.

A description of the Company's main corporate governance practices is set out below. The Corporate Governance statement was last updated on 28th September 2011.

THE BOARD OF DIRECTORS

The Board operates in accordance with the broad principles set out below.

Board composition

The composition of the Board is based upon:

- both executive and non-executive directors with a majority of non-executive directors. Non-executive directors bring a fresh perspective to the Board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of management
- the Chairman being elected by the full Board. They are required to meet regularly with the Managing Director
- the Company maintaining a mix of directors on the Board from different backgrounds with complementary skills and experience
- undertaking an annual Board performance review and considering the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group

The Board composition is presently comprised of an independent non-executive Chairman (Ian McGregor), an executive Managing Director and CEO – James Myatt and three non-executive directors (Richard Poole, Michael Hogg and Shinji Wada). Ian McGregor was deemed independent from 1 January 2012.

Responsibilities

The responsibilities of the Board include:

- providing strategic guidance to the Company including contributing to the development of and approving the corporate strategy
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives
- overseeing and monitoring:
  - the Group's capital structure
  - organisational performance and the achievement of the Group's strategic goals and objectives
  - compliance with the Company's Code of Conduct
  - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments
- monitoring financial performance including approval of the annual and half year financial reports and liaison with the Group's auditors
- appointment, performance assessment and, if necessary, removal of the Managing Director
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the CFO and the Company Secretary
- ensuring there are effective management processes in place and approving major corporate initiatives
- enhancing and protecting the reputation of the organisation
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders

Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the Directors' Rreport under the heading Directors' Details. As at the date of this report, there are five directors, four of whom are non-executive directors, and with the Chair deemed independent from 1 January 2012 under the principles set out below.

The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors with an external or fresh perspective
- the size of the Board is conducive to effective discussion and efficient decision-making
- measures exist to ensure director's independence. The Board have adopted specific principles in relation to this. These state that to be deemed independent, a director must be a non-executive and adhere to the following criteria:
  - being substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
  - within the last three years, has not been employed in an executive capacity by the Company or any other Group member, or been a director after ceasing to hold any such employment
  - within the last three years, has not been a principal of a material professional adviser or a material consultant to the Company or any other Group member, or an employee materially associated with the service provided
  - not be a material supplier or customer of the Company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
  - must have no material contractual relationship with the Company or a controlled entity other than as a director of the Group
  - has not been on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company
  - be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the Company or Group or 5% of the individual directors' net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

Non-executive directors

The non-executive directors met five times during the 2012 financial year in scheduled sessions without the presence of management, to discuss the operation of the Board and a range of other matters. Relevant matters arising from these meetings were shared with the full Board.

Term of office

The Company's constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election.

Chairman & CEO

The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's Senior Executives. The CEO is responsible for implementing Group strategies and policies.

The Board Charter has specified that these are separate roles to be undertaken by separate people.

Commitment

The Board held 11 Board meetings during the 2012 financial year.

Non-executive directors are expected to spend at least 40 days a year preparing for and attending Board and committee meetings and associated activities.

The number of meetings of the Company's Board of directors and of each Board committee held during the year ended 30 June 2012, and the number of meetings attended by each director is disclosed in the Directors' Report.

It is the Company's practice to allow its executive directors to accept appointments outside the Company with prior written approval of the Board. During the financial year appointments of this nature were approved by the Board.

The commitments of non-executive directors are considered by the nomination committee prior to the directors' appointment to the Board of the Company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

Conflict of interests

Ian McGregor and entities connected with Richard Poole and Michael Hogg who had business dealings with the Group during the 2012 year, as described in the Financial Report. In accordance with the Board Charter, the directors concerned declared their interests in those dealings to the Company and took no part in decisions relating to them or the preceding discussions. In addition, those directors did not receive any papers from the Group pertaining to those dealings.

Independent professional advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

Performance assessment

The Board undertakes an annual self assessment of its collective performance, the performance of the Chairman and of its committees. Management are invited to contribute to this appraisal process which may be facilitated by an independent third party. The results and any action plans are documented together with specific performance goals which are agreed for the coming year.

The Chairman undertakes an annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment.

Corporate reporting

The Board considers that in respect of the 2012 Financial Report:

- the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards
- the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects

Board committees

The Board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the nomination and remuneration, risk and audit and finance committees. The committee structure and membership is reviewed on an annual basis.

Each committee has its own charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed on an annual basis. All matters determined by committees are submitted to the full Board as recommendations for Board decisions.

Minutes of committee meetings are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

Due to the current size of the Company and the Board, it was resolved that all actions carried out by the audit and finance committees would be carried out at a full Board level the during 2011-12 year. On 23 August 2011, a separate nomination and remuneration committee was formed.

NOMINATION & REMUNERATION COMMITTEE

A Nomination and Remuneration Committee (NRC) has been established to assume responsibility for this function and provide advice to the Board. From 23 August 2011, the committee members are Ian McGregor (Chair), Richard Poole and Michael Hogg

The NRC operates in accordance with its charter. The main responsibilities of the committee are to:

- conduct an annual review of the membership of the Board having regard to present and future needs of the Company and to make recommendations on Board composition and appointments
- conduct an annual review of and conclude on the independence of each director
- propose candidates for Board vacancies
- oversee the annual performance assessment program
- oversee Board succession including the succession of the Chairman
- assess the effectiveness of the induction process

When a new director is to be appointed, the committee reviews the range of skills, experience and expertise on the Board, identifies its needs and prepares a short list of candidates with appropriate skills and experience. Where necessary, advice is sought from independent search consultants.

The full Board appoints the most suitable candidate who must stand for election at the next annual general meeting of the Company. The committee's nomination of existing directors for reappointment is not automatic and is contingent on their past performance, contribution to the Company and the current and future needs of the Board and Company.

Notices of meetings for the election of directors comply with the ASX Corporate Governance Council's best practice recommendations.

New directors are provided with a letter of appointment setting out the Company's expectations, their responsibilities, rights and the terms and conditions of their employment. All new directors participate in a formal induction program which covers the operation of the Board and its committees and financial, strategic, operational and risk management issues.

The NRC operates in accordance with its charter. The NRC advise the Board on remuneration and incentive policies and practices, and make specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description. This job description is reviewed by the remuneration committee on an annual basis and, where necessary, is revised in consultation with the relevant employee.

Further information on director and executive remuneration is set out in the Directors' Report under the heading Remuneration Report.

The nomination and remuneration committee's terms of reference include responsibility for reviewing any transactions between the organisation and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction is in compliance with the Corporations Act 2001 and is appropriately disclosed.

The committee also assumes responsibility for management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

AUDIT & FINANCE COMMITTEE

The Audit and Finance Committee (AFC) is presently carried out at the full Board level.

Details of these directors' qualifications are set in the Directors' Report in the 2012 Financial Report and attendance at audit and finance committee meetings are set out in the Directors' Report in the 2012 Financial Report. The AFC has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industries in which the Group operates.

The AFC operates in accordance with a charter. The main responsibilities of the Committee is to:

- review, assess and approve the full and concise annual reports, the half year financial report and all other financial information published by the Company or released to the market
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
  - effectiveness and efficiency of operations
  - reliability of financial reporting
  - compliance with applicable laws and regulations
- determine the scope of the internal audit function and ensure that its resources are adequate and used effectively, and assess its performance, including independence
- oversee the effective operation of the risk management framework
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance
- consider the independence and competence of the external auditor on an ongoing basis
- review and approve the level of non audit services provided by the external auditors and ensure it does not adversely impact on auditor independence
- review and monitor related party transactions and assess their propriety
- report to the Board on matters relevant to the committee's role and responsibilities

In fulfilling its responsibilities, the AFC:

- receives regular reports from management, the internal and external auditors
- meets with the internal and external auditors at least twice a year, or more frequently if necessary
- reviews the processes the CEO and CFO have in place to support their certifications to the Board
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved
- meets separately with the external auditors at least twice a year without the presence of management
- provides the internal and external auditors with a clear line of direct communication at any time to either the Chairman of the audit committee or the Chairman of the Board

The AFC has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

EXTERNAL AUDITORS

The Company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence.

The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. Deloitte Touche Tohmatsu was appointed as the external auditor in November 2006. It is Deloitte Touche Tohmatsu's policy to rotate audit engagement partners on listed companies at least every five years. In the 2012 financial year a new audit partner was assigned to the Company.

An analysis of fees paid to the external auditors, including a break down of fees for non audit services, is provided in the Directors' Report and Notes to the 2012 Financial Report. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

RISK MANAGEMENT COMMITTEE

A RMC met 11 times during the year. The RMC consists of a mix of non-executive directors, the CEO and senior management.

The RMC is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. In summary, the Company's policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Conduct is required at all times and the Board actively promotes a culture of quality and integrity.

The Company's risk management policy and the operation of the risk management and compliance system are managed by the risk management committee. The Board receives monthly reports from this group on material risks that may impede meeting business objectives.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues. In addition, each business unit reports on the key business risks in their area to the risk management committee. The basis for this report is a half yearly review of the past performance of their area of responsibility, and the current and future risks they face. The review is undertaken by business unit management away from the day to day pressure of their operational activities.

The risk management committee consolidates the business unit reports for meetings attended by the Board and senior management.

This committee reviews the Group's strategic direction in detail and includes specific focus on the identification of the key business and financial risks which could prevent the Company from achieving its objectives. The RMC is required to ensure that appropriate controls are in place to effectively manage those risks.

THE ENVIRONMENT, HEALTH & SAFETY MANAGEMENT SYSTEM (EHSMS)

The Company recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance. To help meet this objective the EHSMS was established to facilitate the systematic identification of environmental and OH&S issues and to ensure they are managed in a structured manner. This system allows the Company to:

- monitor its compliance with all relevant legislation
- continually assess and improve the impact of its operations on the environment
- encourage employees to actively participate in the management of environmental and OH&S issues
- work with trade associations representing the Group's businesses to raise standards
- use energy and other resources efficiently
- encourage the adoption of similar standards by the Group's principal suppliers, contractors and distributors

Information on compliance with significant environmental regulations is set out in the Directors' Report in the 2012 Financial Report.

CODE OF CONDUCT

The Group has developed a statement of values and a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

In summary, the Code requires that at all times all Group personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and Group policies.

The purchase and sale of Company securities by directors and employees is only permitted as outlined in the Share Trading Policy.

The Code and the Group's Share Trading Policy are discussed with each new employee as part of their induction training and all employees are asked to sign an annual declaration confirming their compliance.

The Code requires employees who are aware of unethical practices within the Group or breaches of the Group's trading policy to report these. This can be done anonymously. The directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities. A copy of the Code and the Share Trading Policy are available on the Group's website at **australianpowerandgas.com.au.**

Set out below is a review of the principles recommended by the Australian Securities Exchange's Corporate Governance Council (ASXCGC). The principles are discussed in ASXCGC's publication Corporate Governance Principles and Recommendations (Guide).

Principle 1	**Lay solid foundations for management and oversight**	
1.1	Formalise and disclose the functions reserved to the Board and those delegated to management	Comply
1.2	Formalise and disclose the process for evaluating the performance of senior executives	Comply
1.3	Provide information indicated in the Guide on Principle 1	Comply

Principle 2	**Structure the Board to Add Value**	
2.1	A majority of the Board should be independent directors	The Chair, Ian McGregor was considered independent from 1 January 2012. The remaining 4 directors are considered non independent. Therefore the Board does not have a majority of independent directors. However over time as the company continues to grow, the Board will seek to address this issue through the appointment of further independent non-executive directors to provide a majority of independent directors.
2.2	The chairperson should be an independent director	Ian McGregor regained independent status on 1 January 2012 and therefore comply from that date.
2.3	The role of the chairperson and CEO should not be exercised by the same individual	Comply
2.4	The Board should establish a nomination committee	Comply A separate committee was established on 23 August 2011.
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual directors	Comply
2.6	Provide the information indicated in Guide on Principle 2	Comply

Principle 3 Promote ethical and responsible decision making		
3.1	Establish a Code of Conduct to guide the directors, the CEO (or equivalent) and any other key executives as to: • the practices necessary to maintain confidence in the Company's integrity • the practice necessary to take into account the legal obligation and the reasonable expectations of shareholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical practices	Comply
3.2	Establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them	Comply The diversity policy was approved on 21 February 2012
3.3	Disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them	Comply
3.4	Disclose in each annual report the proportion of female employees in organisation, including women in senior executive positions and women on the Board	Comply
3.5	Provide the information indicated in the Guide on Principle 3	Comply

Principle 4 Safeguard integrity in financial reporting		
4.1	The Board should establish an audit committee	Partially comply. Due to size of Company and Board, the committee is conducted at a full Board level
4.2	Structure the audit committee so that it consists of:	
	• only non-executive directors	Qualified compliance[1]
	• a majority of independent directors	Do not comply[2]
	• an independent chairperson, who is not chairperson of the Board	Do not comply[3]
	• at least three members	Comply
4.3	The audit committee should have a formal charter	Comply
4.4	Provide the information indicated in Guide on Principle 4	Comply

Principle 5 Make timely and balanced disclosure		
5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior management level for that compliance	Comply
5.2	Provide the information indicated in the Guide on Principle 5	Comply

Principle 6 Respect the rights of shareholders		
6.1	Design and disclose a communication strategy to promote effective communication with shareholders and encourage effective participation at general meetings	Comply
6.2	Provide the information indicated in the Guide on Principle 6	Comply

Principle 7 Recognise and manage risk		
7.1	Establish and disclose policies on risk oversight and management	Comply
7.2	The Board should require management to design and implement the risk management and internal control system to manage the material business and report on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks	Comply
7.3	The Board should disclose whether it has received assurances from the CEO (or equivalent) and the CFO (or equivalent) that the declaration in accordance with Section 295A of the Corporations Act is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the system is operating effectively in all material aspects in relation to financial reporting risks	Comply
7.4	Provide the information indicated in Guide on Principle 7	Comply

Principle 8 Remunerate fairly and responsibly		
8.1	The Board should establish a remuneration committee	Comply
8.2	Structure the remuneration committee so it consists of:	
	• majority of independent directors	Do not comply
	• an independent chair, who is not chair of the Board	Do not comply
	• at least 3 directors	Comply
8.3	Clearly distinguish the structure of non-executive directors remuneration from that of executives	Comply
8.4	Provide the information indicated in Guide on Principle 8	Comply

Note 1: The Audit and Risk Committee did not consist of only non-executive directors for the full financial year, however the overriding premise in determining the composition of the committee is that the committee consists of members with relevant experience and expertise.

Note 2: Refer to Principle 2.1

Note 3: The Chairman of the Audit Committee is required to be a non-executive independent director. Due to the size of the Company and Board, the committee is conducted at a full Board level, with the independent Chairman acting as the Chair for these purposes as well.

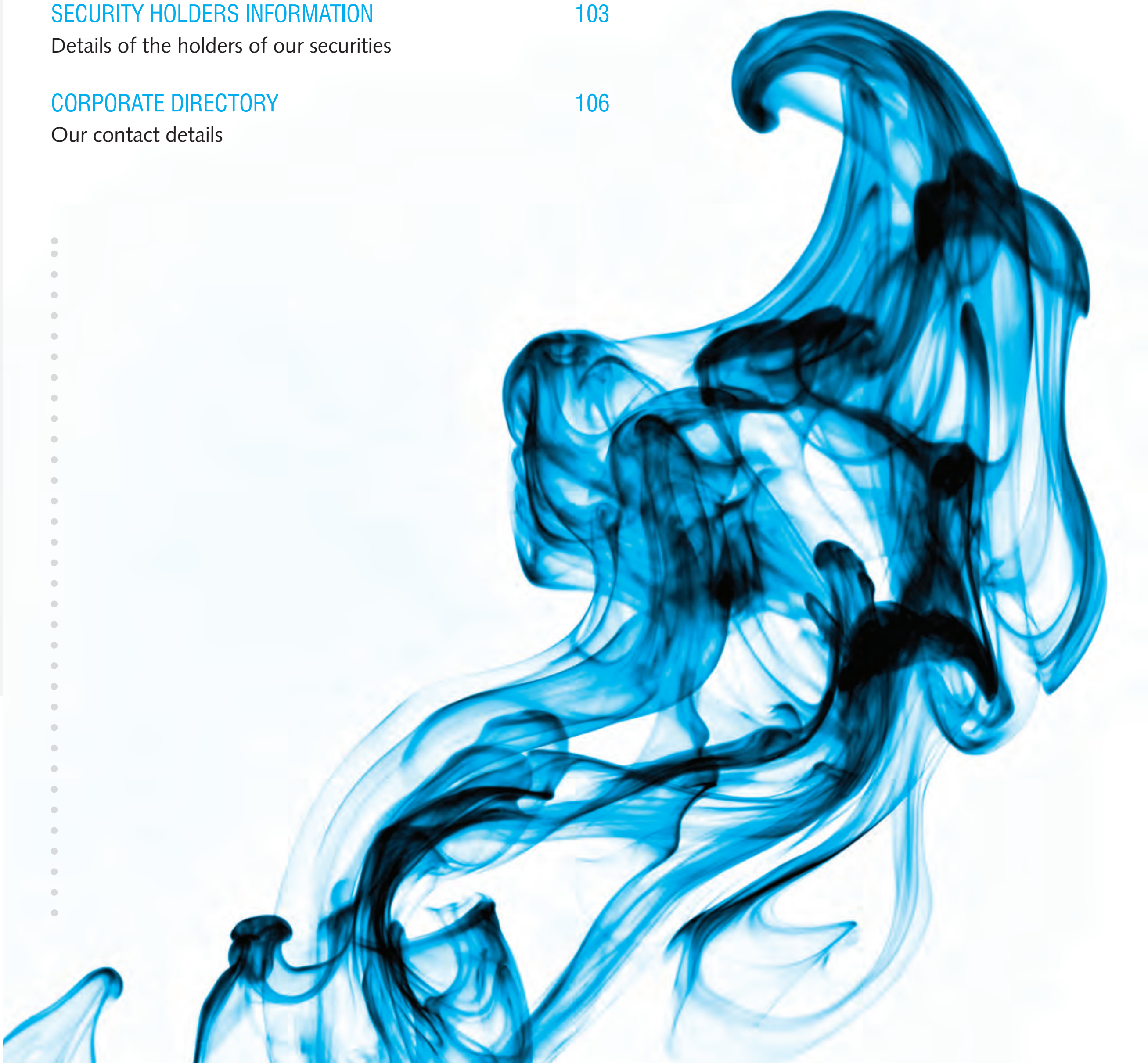
THE TRUE PERFORMANCE OF THE BUSINESS CAN BE SEEN

UNDERLYING PROFIT AFTER TAX GREW

63%

FINANCIAL REPORT

FINANCIAL REPORT



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2012	2011
		$'000	$'000
Continuing operations			
Revenue	3(d)	364,798	230,122
Other income	3(d)	467	223
Expenses	4(a)	(346,123)	(225,029)
Depreciation and amortisation	4(b)	(19,321)	(11,458)
Finance costs	4(c)	(5,544)	(6,857)
Loss before tax		(5,724)	(12,999)
Income tax benefit	5(a)	1,833	3,464
Loss attributable to shareholders of the Company		**(3,892)**	**(9,535)**
Other comprehensive income			
Net loss on cash flow hedges		-	1,659
Income tax		-	(492)
Total comprehensive income for the year		**(3,892)**	**(8,368)**
Earnings per share			
Basic and diluted (cents per share)	19	(2.1)	(6.7)

Notes to the financial statements form part of the Financial Report and are included on pages 56 to 97.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2012	2011
		$'000	$'000
Current assets			
Cash and bank balances	6	18,319	19,900
Trade and other receivables	7	95,101	71,373
Inventories	8	1,580	1,565
Intangible assets	11(d)	10,881	9,819
Other	9	11,988	10,087
Total current assets		**137,869**	**112,744**
Non-current assets			
Property, plant and equipment	10	414	775
Deferred tax assets	5(e)	18,763	16,927
Intangible assets	11(d)	41,030	41,087
Total non-current assets		**60,206**	**58,789**
Total assets		**198,076**	**171,533**
Current liabilities			
Trade and other payables	12	57,228	44,990
Borrowings	13	54,000	2,700
Other financial liabilities	14	36,924	18,290
Provisions	15	551	788
Total current liabilities		**148,703**	**66,768**
Non-current liabilities			
Borrowings	13	-	50,991
Other financial liabilities	14	-	2,500
Total non-current liabilities		**-**	**53,491**
Total liabilities		**148,703**	**120,259**
Net assets		**49,373**	**51,274**
Equity			
Issued capital	16	105,262	98,790
Reserves	17	8,138	11,695
Accumulated losses	18	(64,027)	(59,211)
Total equity		**49,373**	**51,274**

Notes to the financial statements form part of the Financial Report and are included on pages 56 to 97.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital	Options reserve	Equity settled employee benefits reserve	Hedging reserve	Accumulated losses	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2010	69,647	7,017	2,160	(1,168)	(49,676)	27,980
Loss attributable to shareholders of the parent entity	-	-	-	-	(9,535)	(9,535)
Gain/(loss) on cash flow hedges	-	-	-	1,660	-	1,660
Income tax relating to components of other comprehensive income	-	-	-	(492)	-	(492)
Total comprehensive income/(loss) for the period	-	-	-	1,168	(9,535)	(8,367)
Issues of ordinary shares (Note 16)	20,518	-	-	-	-	20,518
Conversion of convertible Notes	3,000	-	-	-	-	3,000
Conversion of convertible Notes	6,300	-	-	-	-	6,300
Issue of shares to employees (Note 26)	44					44
Share issue costs, net of tax	(841)	-	-	-	-	(841)
Equity component on issue of convertible Notes (Note 17a)	-	482	-	-	-	482
Value of share options issued – convertible Notes (Note 13)	-	1,625	-	-	-	1,625
Value of share options issued – employees (Note 26)	-	-	351	-	-	351
Value of share options issued – directors (Note 26)	-	-	135	-	-	135
Value of share options issued – other (Note 26)	-	48	-	-	-	48
Value of employee share options converted to equity (Note 17b)	122	-	(122)	-	-	(0)
Balance at 30 June 2011	**98,790**	**9,172**	**2,523**	**-**	**(59,211)**	**51,274**

	Issued capital	Options reserve	Equity settled employee benefits reserve	Hedging reserve	Accumulated losses	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2011	98,790	9,172	2,523	-	(59,211)	51,274
Loss attributable to shareholders of the parent entity	-	-	-	-	(3,892)	(3,892)
Total comprehensive income/(loss) for the period	-	-	-	-	(3,892)	(3,892)
Payment of dividend	-	-	-	-	(925)	(925)
Conversion of options – premium paid on exercise (Note 16)	2,750	-	-	-	-	2,750
Value of share options converted to equity – other (Note 17a)	3,450	(3,450)	-	-	-	-
Value of share options converted to equity – employees (Note 17b)	107	-	(107)	-	-	-
Value of shares issued to an employee (Note 16)	165	-	-	-	-	165
Balance at 30 June 2012	**105,262**	**5,722**	**2,416**	**-**	**(64,027)**	**49,373**

Notes to the financial statements form part of the Financial Report and are included on pages 56 to 97.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	2012	2011
		$'000	$'000
Cash flows from operating activities			
Receipts from customers		342,767	199,607
Payments to suppliers and employees		(320,450)	(197,826)
		22,317	1,781
Prepayments to counter parties (credit support)	9	(242)	(2,246)
Payments for customer acquisition		(16,291)	(19,592)
Interest received		1,340	946
Borrowing costs paid		(8,706)	(7,285)
Net cash used in operating activities	**24(d)**	**(1,582)**	**(26,396)**
Cash flows from investing activities			
Payments for:			
Property, plant and equipment		(150)	(648)
Intangibles		(1,775)	(996)
Payments for:			
Restricted cash (credit support)	24(a)	(5,275)	(5,244)
Net cash (used in)/provided by investing activities		**(7,200)**	**(6,858)**
Cash flows from financing activities			
Proceeds from issue of ordinary shares	16	2,750	20,518
Cost of ordinary share issues	16	-	(900)
Dividends paid	30	(925)	-
Proceeds from borrowings	13	2,800	23,100
Repayment of borrowings	13	(2,700)	(3,513)
Net cash provided by financing activities		1,925	39,205
Net increase in cash and cash equivalents		(6,857)	5,951
Cash and cash equivalents at the beginning of the financial year		11,416	5,465
Cash and cash equivalents at the end of the financial year	**24(a)**	**4,558**	**11,416**

Notes to the financial statements form part of the Financial Report and are included on pages 56 to 97.

NOTES TO THE FINANCIAL STATEMENTS

1. Significant accounting policies

Australian Power and Gas Company Limited **(Company)** is a public company listed on the Australian Stock Exchange **(ASX)** and trades under the symbol APK. The Company was incorporated and operates in Australia. The financial report includes the consolidated financial statements of the Company and its subsidiaries **(Group)**.

a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

Accounting Standards include Australian equivalents to International Financial Reporting Standards **(AIFRS)**. Compliance with AIFRS ensures that the financial statements and Notes of the Group comply with International Financial Reporting Standards **(IFRS)**.

The financial report has been prepared on an accrual basis and is based on historic costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied. All amounts shown are in Australian (AUD) dollars, unless otherwise stated.

The financial statements were authorised for issue by the directors on 31 August 2012.

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

b) Deficit of current assets & current liabilities

As at 30 June 2012 the Group had current assets of $141,199,000 and current liabilities of $148,703,000. Current liabilities included the balance owing under the Group's receivables financing facility of $50,000,000 and convertible Notes of owing of $4,000,000 ("Existing Facilities").

The Existing Facilities are secured over all the assets and business of the Group and are classified as current liabilities due to their expiry date of 22 December 2012 being within six months of the end of the reporting period. After the end of the financial year the Group's main trading subsidiary, Australian Power and Gas Pty Limited, has signed an agreement with another lender to replace the Existing Facilities ("Replacement Facilities").

The Replacement Facilities consist of:

- $55,000,000 receivables financing facility
- $30 million in bank guarantee and wholesale hedging facilities

The Replacement Facilities are secured over all the assets and business of the Group. They have a two year term, with arrangements to extend for a further year provided covenants are met. The ability to drawdown funds under the Replacement Facilities is dependent on the level of receivables owing by customers and adherence to financial performance and other conditions. The conditions include:

- a minimum of $100,000,000 in receivables balances
- adherence to targeted levels of:
  - debtors ageing
  - net worth, minimum cash levels and interest coverage
  - profitability and hedging of wholesale energy exposures

If the Group operates within the above conditions the Replacement Facilities are capable of being drawn to $85 million.

c) Borrowing costs

Interest and dividends are classified as expenses or distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

d) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquired, plus any costs directly attributable to the business combination.

The acquired 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. With the exception of non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

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 differs from the cost of the business combination. The difference is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

e) Cash & cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily converted to known amounts of cash and which are subject to insignificant risk of changes in value.

f) Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to electricity purchase price risk. Further details of derivative financial instruments are disclosed in Note 25 of the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised immediately in profit or loss unless the derivative is designated and effective as a hedging instrument, in such an event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Group designates derivatives as either hedges of the fair value of recognised assets, liabilities, firm commitments (fair value hedges) or highly probable forecast transactions (cash flow hedges). No other types of hedges have been entered into in the year ending 30 June 2012.

The fair value of hedging derivatives is classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than 12 months. Derivatives not designated into an effective hedge relationship are classified as a current asset or a current liability.

Embedded derivatives

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Hedge accounting

The Group designates certain hedging instruments, which include derivatives and embedded derivatives, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of firm commitments are accounted for 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 fair values or cash flows of the hedged item. No hedges were able to be hedge accounted in the financial year. Movements in the hedging reserve in equity relating to prior years are detailed in Note 17.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are immediately recorded in profit or loss, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

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. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

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 as part of other expenses or other income. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. 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, 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.

g) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Contributions to defined superannuation plans are expensed when incurred.

h) Financial assets

Investments are recognised and derecognised on trade date where 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. In addition the contract terms are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost, and investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements.

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

Financial assets at fair value through profit or loss

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

- has been acquired principally for the purpose of selling in the near future
- is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking
- is a derivative that is not designated and effective as a hedging instrument

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 25.

The Group has classified certain shares and options as financial assets at fair value through profit or loss. Financial assets held for trading purposes are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in profit or loss.

Loans & 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 is recognised by applying the effective interest rate.

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 sheet 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 the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the 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. This is 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.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

i) Financial instruments issued by the Company

Debt & equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

j) Goods & services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense
- for receivables and payables which are recognised inclusive of GST

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

k) Goodwill

Goodwill acquired in a business combination is initially measured by its cost. This is the excess of the acquisition cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill is subsequently measured at its cost less any impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to the other assets of the CGU (or groups of CGUs) pro-rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period. On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

l) Impairment of other tangible & intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGUs to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (CGU) is increased to the revised estimate of its recoverable amount. This occurs only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (CGU) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

m) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches, associates and joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Company/Group intends to settle its current tax assets and liabilities on a net basis.

Current & deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity. In this case the deferred tax is recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

The Company and all of its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. Australian Power and Gas Company Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. This is reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

n) Intangible assets

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably.

Patents, trademarks & licenses

Patents, trademarks and licenses are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their estimated useful lives of ten years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period with any changes being recognised as a change in accounting estimate.

Customer acquisition & recording costs

The direct costs of establishing and recording customer contracts are recognised as an asset. The direct costs are amortised over the lesser of the period during which the economic benefits are obtained and the period of the contract. Direct costs include commissions paid for obtaining customer contracts.

Systems development costs

The direct costs of developing and implementing business systems are recognised as an asset. The direct costs are amortised over the period during which the economic benefits are obtained. Direct costs include internal employment costs and external costs.

o) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as lessee

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments. Each of these is determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

p) Payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

q) Other financial liabilities

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

r) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the Group, being the Company and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial statements'. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the Group are eliminated in full.

s) Property, plant & equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The estimated useful life used in the calculation of depreciation for office equipment is three years.

t) Provisions

Provisions are recognised when the Group has a present obligation, as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Rendering of services

Gas and electricity services revenue represents accounts rendered plus an accrual for unbilled revenue at the end of the financial period.

Revenue from providing services is recognised when all the following conditions are satisfied:

- the amount of revenue can be measured reliably
- it is probable that the economic benefits associated with the transaction will flow to the entity
- the costs incurred or to be incurred in respect of the transaction can be measured reliably

Dividend & interest revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

v) Share-based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by using the Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in Note 26.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

w) Inventory & other assets

Inventory, consisting of gas held for re-sale, is valued at the lower of cost and estimated net realisable value. Costs of purchase, including an appropriate portion of fixed and variable overhead expenses if applicable, are assigned to inventory on hand on a first-in first-out basis.

Certificates purchased for compliance with energy efficient schemes that acquire for future periods are valued at fair value with any resultant gain or loss recognised in profit or loss.

x) Comparative figures

Where necessary, information for the previous period has been represented to conform to changes in presentation in the current financial year.

y) Adoption of new & revised standards

Standards issued & effective

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out below.

Amendments to AASB 7 'Financial Instruments: Disclosure'	The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'1) clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.
Amendments to AASB 101 'Presentation of Financial statements'	The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'1) clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the Notes to the financial statements.
AASB 1054 'Australian Additional Disclosures' and AASB 2011-1 'Amendments to Australian Accounting Standards arising from Trans-Tasman Convergence Project'	AASB 1054 sets out the Australian-specific disclosures for entities that have adopted Australian Accounting Standards. This Standard contains disclosure requirements that are in addition to IFRSs in areas such as compliance with Australian Accounting Standards, the nature of financial statements (general purpose or special purpose), audit fees, imputation (franking) credits and the reconciliation of net operating cash flow to profit (loss). AASB 2011-1 makes amendments to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to IFRSs and harmonisation between Australian and New Zealand Standards. The Standard deletes various Australian-specific guidance and disclosures from other Standards (Australian-specific disclosures retained are now contained in AASB 1054), and aligns the wording used to that adopted in IFRSs. The application of AASB 1054 and AASB 2011-1 in the current year has resulted in the simplification of disclosures in regards to audit fees, franking credits and capital and other expenditure commitments as well as an additional disclosure on whether the Group is a for-profit or not-for-profit entity.
AASB 124 'Related Party Disclosures' (revised December 2009)	AASB 124 (revised December 2009) has been revised on the following two aspects: (a) AASB 124 has changed the definition of a related party and (b) AASB 124 introduces a partial exemption from the disclosure requirements for government-related entities. The Company and its subsidiaries are not government-related entities. The application of the revised definition of related party set out in AASB 124 in the current year has resulted in the identification of related parties that were not identified as related parties under the previous Standard. Specifically, associates of the ultimate holding company of the Company are treated as related parties of the Group under the revised Standard whilst such entities were not treated as related parties of the Group under the previous Standard. The related party disclosures set out in Note 45 to the consolidated financial statements have been changed to reflect the application of the revised Standard. Changes have been applied retrospectively.

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement'	Interpretation 114 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of AASB 119; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments to Interpretation 114 has not had material effect on the Group's consolidated financial statements.
AASB 2009-12 'Amendments to Australian Accounting Standards'	The application of AASB 2009-12 makes amendments to AASB 8 'Operating Segments' as a result of the issuance of AASB 124 'Related Party Disclosures' (2009). The amendment to AASB 8 requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The Standard also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations. The application of AASB 2009-12 has not had any material effect on amounts reported in the Group's consolidated financial statements.
AASB 2010-5 'Amendments to Australian Accounting Standards'	The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations. The application of AASB 2010-5 has not had any material effect on amounts reported in the Group's consolidated financial statements.

AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'	The application of AASB 2010-6 makes amendments to AASB 7 'Financial Instruments – Disclosures' to introduce additional disclosure requirements for transactions involving transfer of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred and derecognised but the transferor retains some level of continuing exposure in the asset. To date, the Group has not entered into any transfer arrangements of financial assets that are derecognised but with some level of continuing exposure in the asset. Therefore, the application of the amendments has not had any material effect on the disclosures made in the consolidated financial statements.

Standards issued & not yet effective

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments, AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	30 June 2014
AASB 10 'Consolidated Financial statements'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in Other Entities'	1 January 2013	30 June 2014
AASB 127 'Separate Financial statements' (2011)	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011)	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'	1 January 2013	30 June 2014
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012	30 June 2013
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual key management personnel Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	1 July 2012	30 June 2013
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	1 January 2014	30 June 2015
Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	1 January 2013	30 June 2014
Mandatory Effective Date of IFRS 9 and Transition Disclosures (Amendments to IFRS 9 and IFRS 7)	1 January 2015	30 June 2016

The amendments which will become mandatory for the Group's financial statements for the financial years shown above are not expected to have any material impact on the financial statements. While the Group does not expect the new standards to have significant impact on its financial statements, it has yet to perform a detailed analysis of the new guidance under these standards.

2. Critical accounting judgements & key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 1, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment

The Group assesses impairment at each reporting date by evaluating conditions that may lead to impairment of assets in accordance with the accounting policy stated in Note 1 (l). This requires an estimation of the value in use of the cash generating unit to which goodwill has been allocated. All other tangible assets are reviewed to determine whether there is an indication of impairment.

No impairment has been recognised in respect of goodwill for the year ended 30 June 2012 (refer to Note 11). Should the projected expected key variables, including the future wholesale prices of electricity and gas and the rate of new customer acquisition, vary from forecasted levels then an impairment loss would be recognised up to the maximum carrying value of goodwill at 30 June 2012. In considering future energy prices the impact of the Federal government's carbon pricing has also been considered.

Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. This method requires the application of fair values for both the consideration given and the assets and liabilities acquired. The calculation of fair values is often based on estimates and judgements including future cash flows, revenue streams and value in use calculations.

Fair value of financial instruments

The fair value of financial instruments must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments that are not traded in an active market is determined using recognised valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions that exist at each reporting date (refer to Note 25 for further details).

Valuation of tax losses

Deferred tax assets arising from unrecouped tax losses incurred to the end of the reporting period have been estimated and are included as an asset (refer to Note 5). The availability of these losses to be offset against future profits is dependant on a number of assumptions, including the shareholding structure and business activities of the Group.

Customer acquisition costs amortisation

As detailed in Note 1 (n) the costs of customer acquisition are amortised over the expected period that a customer remains with the Group. An estimate of the period that a customer will remain with the Group is prepared based on the contracted periods for current customers.

Unbilled revenue

The Group recognises revenue from electricity and gas services once the energy has been consumed by its customers. Customers are billed on a periodic basis. Management estimates customer consumption between the last invoice and the end of the reporting period as part of determining revenue for the year. A number of assumptions and estimates are applied to determine the amount of revenue that is incurred but unbilled at the reporting date (refer to Note 7).

Doubtful debts

The Group reviews the collectability of receivables regularly. The Group makes an allowance for doubtful debts when it is established that there is evidence that amounts will not be collected. Management uses its judgement in determining the level of doubtful debt provisioning, considering historic trends and general economic conditions (refer to Note 7).

Share based transactions

The Group measures the cost of equity-settled transactions with employees and others by reference to the fair value of equity instruments at the date at which they are granted. The fair value is determined by either external consultants or internal calculations using the Black Scholes method with the assumptions detailed in Note 26. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amount of assets and liabilities within the next annual reporting period but may impact expenses and equity.

3. Segment information

The Group supplies electricity and gas to customers in the retail energy market residing in the eastern Australian states. Information reported to the chief operating decision maker (the CEO) for the purpose of resource allocation and assessment of segment performance focuses on the goods and services provided within each market. The Group views its segments based on geographical location and has disclosed its reportable segments on this basis. The Group's reportable segments are as follows:

- Energy – Victoria
- Energy – Queensland
- Energy – New South Wales
- Unallocated

(a) Revenue and results by reportable operating segments

	Segment Revenue		Segment Profit	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Energy – Victoria	242,417	195,662	56,404	41,637
Energy – Queensland	35,615	14,506	9,490	(1,427)
Energy – New South Wales	86,766	19,954	11,412	3,325
Total	**364,798**	**230,122**	**77,306**	**43,535**
Central administration, marketing and employment costs			(77,486)	(49,677)
Finance costs			(5,544)	(6,857)
Profit/(loss) before tax			**(5,724)**	**(12,999)**

The revenue reported above represents revenue generated from external customers. There were no intersegment sales during the period. The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 1. Segment profit represents the profit earned by each segment without allocation of administration, marketing and employment costs, amortisation and depreciation, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

(b) Assets and liabilities by reportable operating segment

	2012	2011
	$'000	$'000
Segment assets		
Energy – Victoria	130,741	119,376
Energy – Queensland	11,568	7,112
Energy – New South Wales	34,677	14,222
Unallocated	21,090	30,823
Total assets	**198,076**	**171,533**
Segment liabilities		
Energy – Victoria	40,294	23,563
Energy – Queensland	6,851	2,970
Energy – New South Wales	21,750	5,447
Unallocated	79,808	88,279
Total liabilities	**148,703**	**120,259**

(c) Other information

	Depreciation & amortisation		Additions to acquisition costs	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Energy – Victoria	11,345	8,304	8,476	11,902
Energy – Queensland	2,210	1,648	1,965	2,613
Energy – New South Wales	4,802	1,152	5,830	4,553
Unallocated	964	354	-	-
Total	**19,321**	**11,458**	**16,271**	**19,068**

(d) Revenue from major products and services

	2012	2011
	$'000	$'000
Revenue		
Electricity	263,373	155,412
Gas	101,425	74,710
	364,798	**230,122**
Other income		
Other income	467	223

The Group views its segments based on geographical location and has disclosed its reportable segments above on this basis. There was no single customer that accounted for more than 10% of the Group's revenue during the current or prior financial year.

4. Profit for the year from continuing operations

Profit before income tax has been arrived at after charging the following expenses. The line items below are for the continuing operations of the Group. There were no discontinuing operations during the financial year.

	2012	2011
	$'000	$'000
(a) Expenses		
Cost of sales	274,089	170,797
Fair value losses on other assets	222	-
Fair value losses on derivatives	13,179	15,790
	287,490	**186,587**
Employee benefit expense	10,747	8,042
Administration expenses	3,622	2,960
Operational expenses	32,691	19,524
Bad and doubtful debts	9,343	6,040
Marketing expenses	2,230	1,876
	346,123	**225,029**
(b) Other expenses		
Depreciation and amortisation		
Plant and equipment depreciation	490	354
Systems development amortisation	474	-
Customer acquisition costs amortisation		
Current amortisation expense	9,772	6,412
Write off of lost accounts and other costs	8,585	4,692
	18,357	11,104
Total depreciation and amortisation	**19,321**	**11,458**
Operating lease rental expenses		
Minimum lease payments	1,110	1,093
Employee benefit expense		
Wages and salaries	8,415	5,623
Defined contribution plans	755	566
Share-based payments – equity (refer Note 26)	165	44
Share-based payments – share options (refer Note 26 (a))	-	351
Share-based payments – share options (refer Note 26 (b))	-	135
Other employee benefits	1,411	1,323
Total employee benefit expense	**10,746**	**8,042**

	2012	2011
	$'000	$'000
(c) Net financing costs		
Interest income		
Other entities	873	723
Interest & facility fees expense		
Interest		
Loans	5,587	4,322
Convertible Notes	320	381
Finance leases	-	1
Cash-settled share based payment (refer Note 26)	-	90
Facility fees – share options issued with convertible Notes	-	1,625
Facility fees – other	510	1,161
	6,417	7,580
Total net financing costs	**5,544**	**6,857**

5. Income taxes

	2012	2011
(a) Income tax benefit		
Deferred tax relating to origination and reversal of timing differences	(1,893)	(3,025)
Tax payable/(losses)	60	(439)
Total income tax benefit	**(1,833)**	**(3,464)**
(b) Reconciliation of tax benefit & pre-tax profit		
Loss from continuing operations before income tax expense	(5,724)	(12,999)
Income tax benefit calculated at 30% (2011: 30%)	(1,716)	(3,899)
Assessible/(non deductible) items	(117)	435
Income tax benefit	**(1,833)**	**(3,464)**
(c) Income tax expense recognised directly in other comprehensive income		
Revaluations of financial instruments treated as cash flow hedges	-	492
Net tax expense/(income) recognised directly in equity	**-**	**492**
(d) Deferred tax recognised in income statement		
Temporary differences		
Unbilled revenue	2,571	7,010
Doubtful debts	(1,208)	(1,588)
Customer acquisition costs	(88)	2,433
Prepayments	620	689
Other financial assets	750	(376)
Provisions	71	(140)
Accruals	(678)	(6,092)
Derivative financial instruments	(4,203)	(4,737)
Share based payments	(0)	(86)
Other	272	(138)
Net deferred tax (liability)/asset	**(1,893)**	**(3,025)**

	2012	2011
	$'000	$'000
(e) Deferred tax balances		
Deferred tax assets/liabilities arise from the following:		
Recognised in loss for year		
Unbilled revenue	(17,941)	(15,370)
Doubtful debts	4,147	2,939
Customer acquisition costs	(4,207)	(4,295)
Prepayments	(3,275)	(2,655)
Other financial assets	750	1,500
Provisions	165	236
Accruals	12,720	12,042
Share based payments – share options	430	430
Derivative financial instruments	8,940	4,737
Tax losses	16,097	16,154
Other	75	347
	17,901	**16,065**
Recognised in other comprehensive income		
Deductible transaction costs arising on the issue of equity	862	862
Other	-	-
	862	862
Net deferred tax asset	**18,763**	**16,927**

The Company and its wholly-owned subsidiaries have formed a tax consolidated group with effect from 20 November 2006 and therefore are taxed as a single entity from that date. The Company is the head entity in the tax consolidated group.

The Company compensates other tax consolidated group members for tax benefits transferred by way of entry to relevant intercompany accounts. No income tax is payable by the Group or the Company as each incurred a tax loss for the year ended 30 June 2012.

The Group expects to make taxable profits in future periods, however current and prior year tax losses will only be available to offset against future profits if:

- the Group and the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised
- the Group and the Company continue to comply with the conditions for deductibility imposed by tax legislation
- no changes in tax legislation adversely affect the Group and the Company in realising the benefit from the deductions for the losses

As at 30 June 2012 there are no unrecognised deferred tax assets or deferred tax liabilities (2011: $nil).

6. Cash & bank balances

	2012	2011
	$'000	$'000
Cash and bank balances	18,319	19,900

An amount of $13,761,000 (2011: $8,486,000) is subject to a charge, refer Notes 20 and 24(a).

7. Trade & other receivables

	2012	2011
	$'000	$'000
Current		
Trade receivables	43,332	28,945
Allowance for doubtful debts	(13,819)	(9,793)
	29,513	19,152
Unbilled revenue	59,804	51,234
Other receivables	5,784	987
	65,588	52,221
Total trade & other receivables – current	**95,101**	**71,373**
Movement in allowance for doubtful debts		
Balance at beginning of the year	9,793	4,501
Impairment losses recognised	9,343	6,037
Amounts written off during the year as uncollectible	(5,317)	(745)
	13,819	**9,793**

Trade receivables are non-interest bearing and are generally required to be settled within 15 days of the date of recognition. Unbilled gas and electricity revenue is not collectable until such time as customers' meters are read and bills rendered.

8. Inventories

	2012	2011
	$'000	$'000
Gas in storage	**1,580**	**1,565**

At the end of the financial year the Group held 387,000 Gj (2011: 376,000) of gas in storage for resale in subsequent periods.

9. Other assets

	2012	2011
	$'000	$'000
Current		
Green commodity scheme certificates	1,070	-
Prepayments		
Amounts advanced to counterparties as credit support	8,890	8,648
Other	2,028	1,439
	10,918	10,087
	11,988	**10,087**

Prepayments to counterparties represents cash payments provided as security for amounts owing (refer to Note 6).
Movement in amounts advanced to counterparties as credit support:

Balance at the beginning of the financial year	8,648	6,402
Add: amounts advanced (net)	242	2,246
	8,890	**8,648**

10. Property, plant & equipment

	2012	2011
	$'000	$'000
Assets at cost		
Office equipment and fittings	1,660	1,510
Leased plant and equipment	-	37
	1,660	**1,547**
Accumulated depreciation		
Office equipment and fittings	(1,246)	(735)
Leased plant and equipment	-	(37)
	(1,246)	**(772)**
Net book value		
Office equipment and fittings	414	775
Leased plant and equipment	-	-
	414	**775**

Reconciliation of the net book value of each class of plant and equipment at the beginning and end of the financial year:

	Office Equipment & Fittings	Leased plant & equipment	Total
	$'000	$'000	$'000
Consolidated entity 2012			
Opening net book value 1 July 2011	775	-	775
Additions	129	-	129
Depreciation	(490)	-	(490)
Disposals	-	-	-
Closing net book value 30 June 2012	**414**	**-**	**414**
Consolidated entity 2011			
Opening net book value 1 July 2010	480	-	480
Additions	649	-	649
Depreciation	(354)	-	(354)
Disposals	-	-	-
Closing net book value 30 June 2011	**775**	**-**	**775**

No impairment losses have been recognised in respect of property, plant and equipment.

The useful life of office equipment of 3 years has been used in the calculation of depreciation.

11. Intangible assets

	2012	2011
	$'000	$'000
(a) Goodwill		
Gross carrying amount		
Balance at end of financial year	**35,352**	**35,352**
Net book value		
Balance at end of financial year	**35,352**	**35,352**

No impairment losses have been recognised for the year ended 30 June 2012 (2011: nil).

Allocation of goodwill to cash-generating units

Goodwill has been allocated for impairment testing purposes to the Retail Energy – Victoria cash-generating unit.

The recoverable amount of the Retail Energy – Victoria cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the Board covering a four-year period, and a discount rate of 16.9% (2011: 22.5%). Cash flows beyond the forecast period have been extrapolated using a growth in customer consumption of less than 1%. This growth rate is considered reasonable by management. Other key assumptions used in the value in use calculation are the rate of customer acquisitions, the rate of customer churn, wholesale energy prices, retail energy price growth, and overheads. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

	2012	2011
(b) Customer acquisition costs		
Cost	31,343	24,784
Accumulated amortisation	(17,320)	(10,466)
Balance at end of financial year	**14,023**	**14,318**
Cost		
Balance at the beginning of the year	24,784	11,897
Write off cost of lost accounts	(9,712)	(6,181)
Additions at cost	16,271	19,068
Balance at end of financial year	**31,343**	**24,784**
Accumulated amortisation		
Balance at the beginning of the year	(10,466)	(5,691)
Write back amortisation of lost accounts	2,918	1,637
Amortisation	(9,772)	(6,412)
Balance at end of financial year	**(17,320)**	**(10,466)**
Disclosed in the financial statements		
Current	9,881	9,819
Non-current	4,142	4,499
	14,023	**14,318**

Customer acquisition costs are amortised over the expected life of the customer contract. Amortisation charges are included under depreciation and amortisation expense shown at Note 4(b).

	2012	2011
	$'000	$'000
(c) Systems development costs		
Cost	3,010	1,236
Accumulated amortisation	(474)	-
Balance at end of financial year	**2,536**	**1,236**
Cost		
Balance at the beginning of the financial year	1,236	270
Additions at cost	1,774	966
Balance at the end of the financial year	**3,010**	**1,236**
Accumulated amortisation		
Balance at the beginning of the year	-	-
Amortisation	(474)	-
Balance at end of financial year	**(474)**	**-**
Disclosed in the financial statements		
Current	1,000	-
Non-current	1,536	1,236
	2,536	**1,236**

Capitalised systems development costs are amortised over a three year period during which the economic benefits are expected to be received.

(d) Disclosed in the financial statements		
Current	10,881	9,819
Non-current	41,030	41,087
	51,910	**50,906**

The net carrying value of software and systems development costs disclosed above includes systems in the course of development of $3,010,000 (2011: $1,236,000).

12. Trade & other payables

	2012	2011
	$'000	$'000
Current		
Trade payables	11,609	4,921
Other – accruals	45,619	40,069
	57,228	**44,990**

Other accruals primarily consist of amounts owing for wholesale energy and distribution costs.

13. Borrowings

	2012	2011
	$'000	$'000
Unsecured – at amortised cost		
Current loans from:		
Related parties (i)	-	1,700
Other entities (i)	-	1,000
	-	**2,700**
Secured – at amortised cost		
Current		
Revolving loan (iii)	50,000	-
Convertible Notes (ii)	4,000	-
	54,000	**-**
Non-current		
Revolving loan (iii)	-	47,200
Convertible Notes (ii)	-	3,791
	-	50,991
	54,000	**53,691**
Disclosed in the financial statements as:		
Current borrowings	54,000	2,700
Non-current borrowings	-	50,991
	54,000	**53,691**

(i) Unsecured loans totalling $2,700,000 with a fixed interest rate of 20.0%pa were repaid during the current year.

(ii) At the end of the financial year the convertible Notes on issue comprised 4,000 convertible Notes with a face value of $1,000 each. All convertible Notes are secured by fixed and floating charges over the assets of the Group. The convertible Notes can convert to ordinary shares at the election of the holders based on a conversion price of $0.55. The number of ordinary shares that would be issued if all of the convertible Notes were to convert is 7,272,727. Unconverted Notes are repayable on 22 December 2012 at the issue price. At the option of the Company, it can elect to repay the face value of the convertible Notes after 30 June 2012. Interest is payable at a fixed rate of 8.0% pa (2011: 8.0%) until repayment or conversion.

(iii) A loan facility secured by fixed and floating charges over the assets and business of the Group was entered into on 22 June 2007. The facility is for a maximum amount of $50,000,000 and expires on 22 December 2012. The facility can be drawn to the value of receivables, billed and unbilled, reduced by certain factors. The interest rate of the facility is a variable rate, and is calculated with reference to the current bank bill swap yield plus a margin. The interest rate at 30 June 2012 was 9.7% pa (2011: 10.9%).

An unused line fee of 0.5%pa applies to the balance of the facility not drawn. There are no repayments required until 22 December 2012 other than if the drawn balance exceeds specified security ratios. During the financial year there were draw downs of $2,800,000 (2011: $23,100,000) and no repayments (2011: $3,513,000). Availability of the facility is dependant on adherence to performance and other conditions.

14. Other financial liabilities

	2012	2011
	$'000	$'000
Current		
Facility fee	2,500	2,500
Derivatives liabilities	34,424	15,790
Total other financial liabilities – current	36,924	18,290
Non current		
Facility fee	-	2,500
Total other financial liabilities – non current	-	2,500
Total other financial liabilities	**36,924**	**20,790**

15. Provisions

	2012	2011
	$'000	$'000
Current		
Employee benefits	551	788

16. Issued Capital

	2012	2011
	$'000	$'000
189,416,160 fully paid ordinary shares (2011: 175,473,409) (i) (ii)	105,262	98,790

Movements in fully paid ordinary shares			**2012**		**2011**
	Average issue price	No.		No.	
	$/share	'000	$'000	'000	$'000
Fully paid ordinary shares					
Balance at beginning of financial year		175,473	98,790	101,395	69,647
Placement of shares for cash					
Placement of shares – 28 October 2010		-	-	13,993	6,297
Placement of shares – 17 November 2010		-	-	1,151	518
Placement of shares – 3 December 2010		-	-	17,206	7,743
Placement of shares – 24 December 2010		-	-	2,135	960
Placement of shares – 31 May 2011		-	-	10,000	5,000
		-	-	44,485	20,518

Movements in fully paid ordinary shares			2012		2011
	Average issue price	No.		No.	
	$/share	'000	$'000	'000	$'000
Conversion of convertible Notes					
Conversion of convertible Notes 16 September 2010		-	-	15,000	3,000
Conversion of convertible Notes 10 December 2010		-	-	14,318	6,300
		-	-	29,318	9,300
Conversion of options					
Exercise of employee options (iii)	0.00	235	-	187	122
Exercise of options – 1 September 2011	0.26	5,357	1,375	-	-
Exercise of options – 9 September 2011	0.23	4,257	990	-	-
Exercise of options – 27 September 2011	0.35	1,100	385	-	-
Exercise of options – transfer from equity-settled employee benefits reserve (iii)			107		
Exercise of options – transfer from option reserve (iii)		-	3,450	-	-
		10,950	6,307	187	122
Placement of shares to employees					
Issue of shares – employee share plan (ii)	0.51	3,000	165	88	44
Cancellation of shares					
Share forfeited	0.00	(7)	-	-	-
Costs of share placements					
Costs of issues		-	-	-	(1,200)
Tax benefit on share issue costs		-	-	-	359
		(7)	-	-	(841)
		189,416	**105,262**	**175,473**	**98,790**

(i) Fully paid ordinary shares carry one vote per share and carry the right to dividends. During the prior financial year the performance condition relating to 10,000,001 ordinary shares held by The Cobra Group Pty Limited was achieved as the performance hurdle of achieving 200,000 signed customer accounts by 5 February 2011 was achieved.

(ii) During the financial year 3,000,000 ordinary shares were issued to a director that are subject to performance related conditions. The conditions are set out in Note 26.

(iii) Exercise of employee share options. Ordinary shares were issued for nil consideration (cashless conversion). Valuation of options at grant date has been transferred from share-based payments reserve (refer to Note 17b).

(iv) Ordinary shares were issued pursuant to an employee share plan, amount shown is valuation of shares at the date of issue 30 March 2012. The shares issued in the current financial year are subject to restriction from trading (escrow) until 30 June 2014 (2011: 11 March 2014). The value of the shares issued is recognised on a straightline basis over the period of vesting (three years).

(v) Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued ordinary shares do not have a par value.

17. Reserves

	2012	2011
	$'000	$'000
Options reserve	5,722	9,172
Equity-settled employee benefits reserve	2,416	2,523
	8,138	**11,695**

(a) Options reserve (i)		
Balance at beginning of financial year	9,172	7,017
Transfer to equity value of options exercised into issued capital	(3,450)	-
Recognition of equity component on issue of convertible Notes (ii)	-	482
Issue of options relating to convertible Note (refer to Note 26 (c))	-	1,625
Issue of options other	-	48
Balance at end of financial year	**5,722**	**9,172**

(i) The options reserve arises on the grant of options in payment for services or fees. Further information on options issued is shown in Note 26 to the financial statements.

(ii) Equity component on the issue of convertible Notes represents the value of the conversion rights in respect of the 6,300 8.0% convertible Notes and the re-issue of the 4,000 8.0% convertible Notes (refer Note 13 (ii)).

(b) Equity-settled employee benefits reserve		
Balance at beginning of financial year	2,523	2,160
Transfer to equity value of options exercised into issued capital	(107)	(122)
Share-based payments – employees (refer to Note 26 (a))	-	350
Share-based payments – directors (refer to Note 26 (b))	-	135
Balance at end of financial year	**2,416**	**2,523**

The equity-settled employee benefits reserve arises on the grant of share options to executives and senior employees under the employee share option plan. Amounts are transferred out of the reserve and into issued capital when the options are exercised. Further information about share-based payments to employees is provided in Note 26 to the financial statements.

(c) Hedging reserve		
Balance at beginning of financial year	-	(1,167)
Movement in fair value of hedges taken to equity	-	1,659
Deferred tax liability on reversal of gain	-	(492)
Balance at end of financial year	**-**	**-**

18. Accumulated losses

	2012	2011
	$'000	$'000
Balance at beginning of financial year	(59,211)	(49,676)
Dividend paid	(925)	-
Net loss attributable to members of the parent entity	(3,891)	(9,535)
Balance at end of financial year	**(64,027)**	**(59,211)**

19. Earnings per share

	2012	2011
	cents per share	cents per share
Basic and diluted earnings per share (continuing operations)	(2.1)	(6.7)

	2012	2011
	$'000	$'000
Loss attributable to shareholders of the Company used in the calculation of basic and diluted earnings per share	**(3,892)**	**(9,535)**
Weighted average number of ordinary shares for the purposes of basic earnings per share	**184,349**	**142,847**
Shares deemed to be issued for no consideration in respect of:		
Employee share options (refer to Note 26 (a))	2,730	3,868
Director and executive options (refer to Note 26 (b))	4,143	3,643
Other share options (refer to Note 26 (c))	3,750	14,464
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**194,972**	**164,822**

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares for the purposes of diluted earnings per share:

Convertible instruments (refer to Note 13 (ii))	7,273	7,273
Employee share options (refer to Note 26 (a))	2,285	2,940
Director and executive options (refer to Note 26 (b))	2,000	2,500
Other share options (refer to Note 26 (c))	24,250	27,750
	35,808	**40,463**

20. Contingent liabilities

	2012	2011
	$'000	$'000
Bank guarantees (i)	13,761	8,486
Director loan (ii)	1,300	1,300

(i) Bank guarantees are issued on behalf of the consolidated entity by its bankers pursuant to a contingent liability Bank Guarantee Facility. The guarantees provide that the financier will honour the consolidated entity's obligations under specific agreements. The guarantees issued are secured against monies held on deposit of $13,761,000 (2011: $8,486,000) (refer to Note 6 and 24(a)). No material losses are expected.

(ii) The Company has agreed to provide a director a loan of up to $1,300,000 to be applied to the exercise price on options issued to the director in the event the options are exercised. The loan would be for a maximum of two years from the date of advance and will have a floating interest rate of the bank bill swap yield plus 2.0%. Shareholder approval for the loan was provided at the annual general meeting held on 23 November 2011.

21. Leasing commitments

	2012	2011
	$'000	$'000
Operating leases		
No later than one year	738	470
Later than one year and not later than five years	169	439
Later than five years	132	184
	1,038	**1,093**

(i) Operating leases relating to office facilities have lease terms of between one and two years, with options to extend. The lease contracts contain market review clauses in the event that the Group exercises its option to renew.

(ii) Operating leases relating to office equipment have lease terms of between six months and three years. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

22. Economic dependency

The Group is dependant to a significant extent on the acquisition of electricity and gas from market operators and the use of distribution systems. Ongoing agreements are in place for the use of electricity and gas distribution systems.

23. Subsidiaries

Name of entity	Country of incorporation		Ownership interest
		2012 %	2011 %
Parent entity			
Australian Power and Gas Company Limited (i)	Australia		
Subsidiaries (ii)			
Australian Power and Gas Pty Limited (iii)	Australia	100%	100%
Australian Power and Gas (NSW) Pty Limited	Australia	100%	100%
APG Operations Pty Limited	Australia	100%	100%
Greentricity Pty Limited	Australia	100%	100%
Ignition Energy Pty Limited	Australia	100%	100%
IQ Energy Pty Limited	Australia	100%	100%

(i) Australian Power and Gas Company Limited is the head entity within the tax-consolidated group

(ii) All subsidiaries are members of the tax-consolidated group

(iii) Australian Power and Gas Pty Limited has entered into an agreement with the Company whereby an amount of $3,173,000 owing to the Company has been subordinated and cannot be repaid to the Company prior to certain conditions being fulfilled.

24. Notes to the cash flow statement

(a) Reconciliation of cash and bank balances

For the purposes of the cash flow statement, cash and bank balances includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and bank balances at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet shown below:

	2012	2011
	$'000	$'000
Cash and bank balances	18,319	19,900
Less: cash deposits subject to charge (refer to Notes 6 and 20)	13,761	8,486
Cash per cash flow statement	**4,558**	**11,414**
Movements in cash subject to charge:		
Balance at the beginning of the financial year	8,486	3,242
Add: cash placed/withdrawn on deposit per cash flow statement	5,275	5,244
	13,761	**8,486**

(b) Non-cash financing and investing activities

During the prior financial year short-term loans of $6,300,000 were applied to the issue of 6,300 convertible Notes (refer to Note 13).

(c) Financing facilities

	2012	2011
	$'000	$'000
Revolving loan facility (i)		
Facility limit	50,000	50,000
Amount eligible to be drawn	50,000	50,000
Amount drawn	(50,000)	(47,200)
Undrawn eligible balance	**-**	**2,800**
Secured convertible Note facility (i)		
Facility limit	4,000	4,000
Amount eligible to be drawn	4,000	4,000
Amount drawn (ii)	(4,000)	(4,000)
Unused balance	**-**	**-**

(i) Refer to Note 13(ii) and Note 13 (iii) for details of the terms of the secured loan facility and convertible Note facility.

(ii) Drawn amounts are shown at the gross amount repayable.

(d) Reconciliation of loss for the period to net cash flows from operating activities

	2012	2011
	$'000	$'000
Loss for the year	(3,892)	(9,535)
Income tax benefit recognised in loss	(1,833)	(3,464)
Depreciation and amortisation	19,321	11,458
Movement in derivative valuation	13,179	14,129
Share based payments expense – employee options (Note 17(b))	-	351
Share based payments expense – director options (Note 17(b))	-	135
Share based payments expense – other options (Note 17(a))	-	1,625
Share based payments expense – other options (Note 17(a))	-	48
Share based payments expense – share issue to employees (Note 16)	238	44
Gain on repayment of loan	-	-
Other non-cash items	114	(449)
Change in operating assets and liabilities		
(Increase)/decrease in receivables	(23,729)	(34,021)
(Increase)/decrease in inventories	(16)	(655)
(Increase)/decrease in other assets	(1,659)	(1,048)
(Increase)/decrease in intangible assets	(16,291)	(19,592)
Increase/(decrease) in creditors and accruals	10,058	16,047
Increase/(decrease) in other financial liabilities	3,164	(1,613)
Increase/(decrease) in provisions	(237)	144
Net cash inflow/(outflow) from operating activities	**(1,582)**	**(26,396)**

25. Financial instruments

(a) Financial risk management objectives

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, loans to and from subsidiaries, leases, convertible instruments and derivatives. The main purpose of non-derivative financial instruments is to raise finance for Group operations. Derivatives are used by the Group for hedging the Group's exposure to the wholesale price of electricity. The main risks the Group is exposed to through its financial instruments are liquidity risk, credit risk, and market risks (interest rate and energy wholesale price risks).

The Group manages liquidity risk by a combination of maintaining cash reserves, banking facilities and continuously monitoring forecast and actual cash flows.

Senior executives of the Group meet on a regular basis to analyse electricity wholesale price risk, interest rate exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts. The Risk Management Committee reports to the Board on a regular basis on strategies in place and proposals to mitigate risk exposures.

The Group seeks to minimise the effects of risk, by using derivative financial instruments to hedge these risk exposures where possible. The use of financial derivatives is governed by the Group's policies approved by the Board of directors, which provide written principles on the use of financial derivatives and non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed regularly by the Risk Management Committee. The Group does not enter into or trade financial instruments (of a material nature), including derivative financial instruments, for speculative purposes.

Ultimate responsibility for liquidity risk management rests with the Board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. Risks are managed through sensitivity analysis to model the impact of changes upon the Group's profits.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date of recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and Notes to the financial statements.

Credit risk for derivative financial instruments arises from the potential failure by counter-parties to the contract to meet their obligations. The credit risk exposure to wholesale electricity prices is the net fair value of these contracts as disclosed in Note 14.

Trade receivables consist of a large number of retail customers, spread across geographic areas and of varying demographic levels. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

(b) Significant accounting policies

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

(c) Fair value of financial instruments

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

- the fair value of financial assets and financial liabilities with standard terms and conditions that are traded on active liquid markets are determined with reference to quoted market prices
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis
- the fair value of derivative instruments are calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives

(d) Categories of financial instruments

The following table details the carrying amounts and fair values of the Group's financial assets and financial liabilities. The directors consider that the carrying amounts of financial assets and liabilities recorded at amortised cost in the financial statements approximate their fair values.

	Note	2012	2011
		$'000	$'000
Financial assets			
Cash and bank balances	6	18,319	19,900
Loans and receivables	7	95,101	71,373
		113,420	91,273
Financial liabilities			
Liabilities measured at amortised cost:			
Trade and other payables	12	57,228	44,990
Borrowings	13	54,000	53,691
Other financial liabilities	14	2,500	5,000
Liabilities measured at fair value:			
Derivative liabilities	14	34,424	15,790
		148,152	**119,470**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 – fair value measurements are those derived from quoted sources (unadjusted) in active markets for identical assets or liabilities
- Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset of liability that are not based on observable market data (unobservable inputs)

				2012
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Liabilities at fair value				
Derivative liabilities	4,624	-	29,800	34,424

				2011
	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
Liabilities at fair value				
Derivative liabilities	-	-	15,790	15,790

The fair value of derivative instruments is significantly affected by movements in the future value of electricity and the forecast load consumed by customers. Sensitivity of the valuation of the derivative liabilities to changes in these factors is shown in item (j).

Reconciliation of Level 3 fair value measurements of financial assets:

	Fair value through profit or loss	
	2012	2011
	$'000	$'000
Opening balance	15,790	-
Total gains or losses in loss for year*	14,010	14,130
Transfer from level 2	-	1,660
Closing balance	**29,800**	**15,790**

* Includes $830,000 representing receivables on the termination of a fixed load swap.

(e) Credit risk

Credit risk arises principally from the Group's receivables, cash and bank balances. Credit risk is under continual under review and managed to reduce the incidence of material losses being incurred by the non-receipt of monies due.

	Note	2012	2011
		$'000	$'000
Cash and bank balances	6	18,319	19,900
Trade receivables and unbilled amounts	7	95,101	71,373
		113,420	**91,273**

Receivables

The Group monitors and follows up its accounts receivable to ensure customer payments are being made promptly in accordance with contractual terms and conditions. Past due amounts are actively pursued. An allowance for impairment is made when it is determined that individual amounts have been impaired.

	2012	2011
	$'000	$'000
Unbilled amounts	59,804	51,234
Invoiced amounts		
Not past due	23,186	14,079
Past due 0-30 days	6,501	4,588
Past due 31-60 days	4,437	1,367
Past due 60+ days	14,992	9,898
Impairment provision	(13,819)	(9,793)
Total trade and other receivables (refer to Note 7)	**95,101**	**71,373**

	2012	2011
	$'000	$'000
Ageing of impaired receivables		
Unbilled amounts	3,363	1,966
Not past due	613	303
Past due 0-30 days	228	176
Past due 31-60 days	352	190
Past due 60+ days	9,263	7,158
Total impairment provision	**13,819**	**9,793**

(f) Liquidity risk management

The Board has put in place liquidity risk management policies for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by having a combination of:

- continuously monitoring forecast and actual cash flows
- having in place loan facilities structured to grow as the size of the business increases
- arranging issues of securities as required

To the extent possible maturity profiles of financial assets and liabilities are matched.

The Board reviews the capital structure on a regular basis. The Board does not have a set debt level target however the current ratio of 50% (2011: 45%) is in line with expectations. Gearing is determined as the proportion of net debt to net debt + equity, as presented below.

	Note	2012	2011
		$'000	$'000
Debt (i)	13	54,000	53,691
Adjust debt to amount repayable (ii)		-	209
		54,000	**53,900**
Cash per cash flow statement (iii)	24(a)	(4,558)	(11,414)
Net debt		**49,442**	**42,486**
Equity (iv)		49,373	51,274
Net debt to net debt + equity ratio		50%	45%

(i) Debt is defined as long and short-term borrowings, as detailed in Note 13

(ii) Adjustment to reflect current face value of interest bearing debts

(iii) Cash and bank balances as detailed in Note 6, excludes cash subject to charge

(iv) Equity includes all capital and reserves as detailed in Notes 16, 17 and 18

The following tables detail the Group's remaining contractual maturity for its derivative and non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group could be required to pay. The table includes principal and interest cash flows at the face value of the amount owing and therefore the figures differ from those shown in the financial statements.

	Contractual repayment amount	6 mths or less	6-12 mths	1-5 yrs
	$'000	$'000	$'000	$'000
2012				
Trade payables	11,609	11,609	-	-
Accruals	45,619	45,619	-	-
Variable interest rate instruments	52,721	52,720	-	-
Fixed rate instruments	4,160	4,160	-	-
Derivative liabilities	146,920	41,895	67,429	37,596
	261,029	**156,003**	**67,429**	**37,596**

	Contractual repayment amount	6 mths or less	6-12 mths	1-5 yrs
	$'000	$'000	$'000	$'000
2011				
Trade payables	4,921	4,921	-	-
Accruals	40,069	40,069	-	-
Variable interest rate instruments	54,904	2,568	2,568	49,768
Fixed rate instruments	7,449	429	160	6,860
Derivative liabilities	182,597	27,786	29,497	125,314
	289,940	**75,773**	**32,225**	**181,942**

(g) Interest rate risk management

The Group borrows funds at both fixed and floating rates and is therefore exposed to interest rate risk. The Board's policy is to maintain fixed interest rates to the extent possible so as to minimise the impact of short-term fluctuations on reported profits. The Group's exposure to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section in Note (f).

On review of the Group's exposure to interest costs, the proportion of variable interest rates to the total interest expense has increased from 88% in 2011 to 92% in the current financial year.

(h) Foreign currency risk management

The Group is not exposed to foreign currency risk.

(i) Energy price risk management

The Group is exposed to wholesale energy price risk through its activities. The Group's risk management policy is to hedge forecast future demand by its customers for up to three years in the future. The Group manages energy risk via a risk management framework administered by a Risk Management Committee. Policies are in place that limit the range of instruments that can be entered into, delegation of trading limits and provide for regular reporting of exposures.

Fluctuations in wholesale energy price risk is managed through the use of a number of different instruments, including contracts with individual market participants. These contracts are predominately swaps and caps that result in a fixed price or a price within a forecast range. Any unhedged amounts exposes the Group to movements in spot energy prices.

The fair value of derivatives at 30 June 2012 was a net liability balance of $34,424,000 (2011: $15,790,000). All transactions are due for settlement within three years. The Group's exposure to derivative financial assets and financial liabilities are detailed in the liquidity risk management section of this Note.

(j) Sensitivity analysis of risk factors

The sensitivity analysis below has been determined based on the exposure to wholesale electricity price movements and interest rates for non-derivative financial instruments at the reporting date. A range of changes are assumed to take place at the end of the financial year. The sensitivity rates shown below are the amounts used when reporting the relevant risk internally to key management personnel and represent's management's assessment of the possible change. The analysis includes only outstanding monetary items. The sensitivity impact is on the loss after tax.

	2012	2011
	$'000	$'000
Impact on net loss after tax of movement		
Interest rate – 1% increase in rates	(350)	(330)
Interest rate – 1% decrease in rates	350	330
Increase in forward electricity prices by $1/MWh	(4,514)	(3,584)
Decrease in forward electricity prices by $1/MWh	4,514	3,584

Post tax loss for the year would increase/decrease as a result of the inherent ineffectiveness in some electricity hedging relationships which are valid economic hedges of these commodity price risks, but do not qualify for cash flow hedge accounting under AASB 139 requirements. In addition to the impact from retained earnings arising from the impact on post-tax loss, equity would increase/decrease as a result of the hedging instruments which do qualify for cash flow hedge accounting under AASB 139.

26. Share-based payments

Equity-settled share-based payments – options

The Company has the following share options outstanding under share based plans:

	2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
(a) Employee share options	5,015,243	0.47	6,807,502	0.46
(b) Director share options	6,142,858	0.48	6,142,858	0.48
(c) Other share options	28,000,005	0.57	42,214,287	0.50
Balance at end of the financial year	**39,158,106**	**0.54**	**55,164,647**	**0.49**
Exercisable at end of the financial year	**36,413,106**	**0.52**	**48,494,476**	**0.48**

(a) Employee share options

The Group has an ownership-based compensation scheme for employees. In accordance with the provisions of the plan, the current version of which was approved by shareholders at a general meeting held in November in 2009, employees may be granted share options to purchase parcels of ordinary shares.

Each employee share option converts into one ordinary share of the parent entity on exercise. No amounts are paid or payable by the recipient on receipt of the option. The share options carry neither rights to dividends nor voting rights. Share options may be exercised at any time from the date of vesting to the date of their expiry.

The number of share options granted is calculated with reference to market rates of remuneration for each employee as well as expected levels of performance and is subject to review and approval by the Board. Performance hurdles may be included which link the options to key business targets, such as the increase in customer account numbers.

	2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Balance at beginning of the financial year	6,807,502	0.46	6,716,269	0.46
Granted during the financial year (i)	-	-	2,940,000	0.52
Exercised during the financial year (ii)	(1,066,108)	0.42	(667,697)	0.35
Expired or forfeited during the financial year (iii)	(726,151)	0.49	(2,181,070)	0.48
Balance at end of the financial year (iv)	**5,015,243**	**0.47**	**6,807,502**	**0.46**
Exercisable at end of the financial year	**2,770,243**	**0.44**	**2,137,327**	**0.38**

(i) Details of share options granted during the year:

	2012	2011
Grant date	-	30-Sept-10, 11-March-11
Expiry date	-	30-Oct-14, 30-Oct-15
Exercise price	-	$0.50-$0.55
Number of share options issued	-	2,940,000
Fair value at grant date	-	$350,759
Weighted average fair value	-	$0.10

The Black Scholes option pricing model was used to determine the fair values using the following parameters:

Expected share price volatility	-	40%
Risk free interest rate	-	4.75%
Underlying share price	-	$0.49-$0.60
Weighted average lift of share options	-	4.1-4.6 years
Weighted average exercise price	-	$0.56

(ii) Details of the share options exercised during the year:

	2012	2011
Share options exercised	1,066,108	667,697
Aggregate fair value at grant date	$112,073	$90,480
Weighted average exercise price	$0.42	$0.35
Number of shares issued	235,405	187,137
Weighted average fair value	$0.11	$0.10

(iii) Details of share options expiring unexercised or forfeited during the year:

	2012	2011
Expired or cancelled unexercised, average exercise price nil (2011: $0.98)	-	771,429
Forfeited on resignation of employees, average exercise price $0.49 (2011: $0.43)	726,151	1,409,641
	726,151	**2,181,070**

(iv) Share options outstanding had a weighted average life of 2.40 years (2011: 3.96 years) and exercise prices in the range of $0.35 to $0.60 (2011: $0.35 to $0.60). Details of share options outstanding at the end of the year:

Grant date	Expiry date	Performance or vesting conditions outstanding at 30 June 2012*	Options on issue	Exercise price	Fair value at grant date
			No.	$	$
8 Feb 08	1 Oct 12	Conditions met and share options vested	700,068	0.35	133,713
28 Oct 08	1 Oct 13	Conditions met and share options vested	370,175	0.35	53,425
18 Feb 10	30 Oct 14	Conditions met and share options vested	500,000	0.40	47,778
18 Feb 10	30 Oct 14	Conditions met and share options vested	500,000	0.45	43,578
30 Sep 10	30 Oct 14	Conditions met and share options vested	125,000	0.55	11,944
14 Mar 11	30 Oct 15	Conditions met and share options vested	575,000	0.60	54,944
			2,770,243	**0.44**	**345,382**

Grant date	Expiry date	Performance or vesting conditions outstanding at 30 June 2012*	Options on issue	Exercise price	Fair value at grant date
			No.	$	$
18 Feb 10	30 Oct 14	Must remain employed to 28 February 2013	535,000	0.40	51,122
30 Sep 10	30 Oct 14	Must remain employed to 30 June 2013	125,000	0.50	11,944
14 Mar 11	30 Oct 15	Must remain employed to 30 June 2013	1,585,000	0.55	151,456
			2,245,000	0.51	214,522
			5,015,243	**0.47**	**559,904**

* Share options do not vest if employment is terminated for non-performance, negligence or misconduct. If employment is terminated for other reasons, then share options will vest on a pro-rata basis.

b) Directors share options

The Group provides share options to directors as part of their remuneration. These share options are determined and recommended by the Board (excluding the relevant director) and approved by shareholders.

Each share option converts into one ordinary share of the Company on exercise. The share options carry neither rights to dividends nor voting rights. Share options may be exercised at any time from the date of vesting to the date of their expiry. The executive director has the ability to fund the exercise of share options via a loan from the Group (refer to Note 20).

Performance hurdles may be included which link the share options to key business targets, such as the increase in customer account numbers.

		2012		2011
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Balance at beginning of the financial year	6,142,858	0.48	7,042,859	0.52
Granted during the financial year (i)	-	-	1,000,000	0.53
Exercised during the financial year (ii)	-	-	-	-
Expired during the financial year (iii)	-	-	(1,900,001)	0.88
Balance at end of the financial year (iv)	**6,142,858**	**0.48**	**6,142,858**	**0.48**
Exercisable at end of the financial year	**5,642,858**	**0.47**	**4,142,857**	**0.47**

(i) Details of share options granted during the financial year:

	2012	2011
Grant date	-	10 Dec 10
Expiry date	-	30 Oct 14
Number of share options issued	-	1,000,000
Exercise price	-	$0.50-$0.55
Fair value at grant date	-	$134,506
Weighted average fair value	-	$0.08-$0.09

	2012	2011
The Black Scholes option pricing model was used to determine the fair values using the following parameters:		
Expected share price volatility	-	40%
Risk free interest rate	-	4.75%
Underlying share price	-	$0.47
Weighted average life of share option	-	3.5 years
Weighted average exercise price	-	$0.53

(ii) No share options were exercised during the year (2011: nil).

(iii) During the financial year no (2011: 1,900,001) share options expired unexercised. Expiring options in the prior financial year had exercise prices between $0.70 and $1.12. No options were forfeited in the current or prior financial year.

(iv) Share options outstanding had a weighted average life of two years (2011: 2.7 years) and exercise prices are in the range of $0.20 to $0.80 (2011: $0.20 to $0.80). Details of share options outstanding at the end of the year:

Grant date	Expiry date	Performance or vesting conditions outstanding at 30 June 2012*	Options on issue	Exercise price	Fair value at grant date
			No.	$	$
19 Aug 08	30 Oct 12	Conditions met and share options vested	500,000	0.50	50,850
19 Aug 08	30 Oct 12	Conditions met and share options vested	500,000	0.60	48,950
19 Aug 08	30 Oct 13	Conditions met and share options vested	500,000	0.70	52,950
19 Aug 08	30 Oct 13	Conditions met and share options vested	500,000	0.80	52,000
21 Nov 08	1 Oct 13	Conditions met and share options vested	142,858	0.35	13,014
22 Dec 09	1 Jul 14	Conditions met and share options vested	1,000,000	0.20	142,936
18 Feb 10	30 Oct 14	Conditions met and share options vested	1,000,000	0.40	95,556
18 Feb 10	30 Oct 14	Conditions met and share options vested	1,000,000	0.40	87,156
10 Dec 10	30 Oct 14	Conditions met and share options vested	500,000	0.50	70,297
10 Dec 10	30 Oct 14	Must remain employed to 30 June 2013	500,000	0.55	64,209
			6,142,858	**0.48**	**677,918**

* Share options do not vest if employment is terminated for non-performance, negligence or misconduct. If employment is terminated for other reasons, then options will vest on a pro-rata basis.

(c) Other share options

The consolidated entity has provided share options to a number of parties in payment for services or as part of finance facility agreements. These share options are determined and approved by the Board as proposed transactions arise.

Each share option converts into one ordinary share of the parent entity on exercise. Amounts may be payable or attributed by the recipient on receipt of the share option. The share options carry neither rights to dividends nor voting rights. These share options may be exercised at any time from the date of grant to the date of their expiry.

	2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Balance at beginning of the financial year (iv)	42,214,292	0.50	24,249,982	0.41
Granted during the financial year (i)	-	-	24,250,000	0.59
Exercised during the financial year (ii)	(10,714,287)	0.26	-	-
Expired or forfeited during the financial year (iii)	(3,500,000)	0.64	(6,285,690)	0.60
Balance at end of the financial year (iv)	**28,000,005**	**0.57**	**42,214,292**	**0.50**
Exercisable at end of the financial year	**28,000,005**	**0.57**	**42,214,292**	**0.50**

(i) Details of share options granted during the financial year:

	2012	2011
Grant date	-	28-Oct-10, 6-Dec-10, 6-May-11
Expiry date	-	31-Dec-13, 30-Oct-15
Number of options issued	-	24,250,000
Fair value at grant date	-	$1,921,917
Weighted average fair value	-	$0.05-$0.13
The Black Scholes option pricing model was used to determine the fair values using the following parameters:		
Expected share price volatility	-	40%
Risk free interest rate	-	4.75%
Underlying share price	-	$0.42-$0.55
Weighted average life of share option	-	3.1-4.5 years
Weighted average exercise price	-	$0.59

(ii) During the financial year the following share options were exercised:

- 7,142,857 share options were exercised at an exericse price of $0.21. An amount of $1,500,000 was paid on exercise and 7,142,857 ordinary shares were issued. The shares issued had a value of $3,839,286 at the issue date
- 3,571,430 share options were exercised at an exericse price of $0.35. An amount of $1,250,000 was paid on exercise and 3,571,430 ordinary shares were issued. The shares issued had a value of $1,914,143 at the issue date

(iii) During the financial year 3,500,000 (2011: 6,285,690) share options expired unexercised. The exercise price of the share options that expired was $0.64 (2011: $0.60). No share options were forfeited in the current or prior financial year.

(iv) Share options outstanding had a weighted average life of 1.57 years (2011: 1.85 years) and exercise prices in the range of $0.15 to $0.60 (2011: $0.15 to $0.60). Details of share options outstanding at the end of the year:

Grant date	Expiry date	Performance or vesting conditions outstanding at 30 June 2012	Options on issue	Exercise price	Fair value at grant date
			No.	$	$
27 Mar 09	31 Oct 12	Share options vested	1,000,000	0.15	91,776
27 Mar 09	31 Mar 14	Share options vested	250,000	0.35	21,630
22 Dec 09	22 Dec 14	*Share options vested	2,500,000	0.40	237,663
28 Oct 10	31 Dec 13	Share options vested	18,900,000	0.60	1,624,806
3 Dec 10	31 Dec 13	Share options vested	5,000,000	0.55	360,269
6 May 11	30 Oct 15	Share options vested	350,000	0.60	46,449
			28,000,000	**0.57**	**2,382,593**

* The exercise price is the lower of $0.40 cents or volume weight price based on the previous 30 days trading at the time of exercise.

Equity-settled share-based payments – shares

The Group has an ownership-based compensation scheme for employees whereby employees may be granted parcels of ordinary shares (ESP).

No amounts are paid or payable by the recipient on receipt of the ordinary shares. The ordinary shares rights to dividends and are able to vote at the Company's general meetings. The number of shares granted is calculated with reference to market rates of remuneration for each employee as well as expected levels of performance and is subject to review and approval by the Board.

3,000,000 ordinary shares were granted under the ESP during the current financial year at an issue price of $0.51 (2011: 88,000, at an issue price $0.50, refer Note 27 (b)). The shares are subject to performance and employment conditions prior to vesting on 30 June 2014.

The performance condition is that the market capitalisation of the company must exceed $300 million for 60 consecutive days in the three year period from 1 July 2011. The employment condition requires that the employee remains with the Group until 30 June 2014, however a pro-rata entitlement occurs upon resignation based on the highest market capitalisation achieved for a 60 day period. This is subject to a minimum of $100 million and a maximum of $300 million. The value of the shares issued of $1,530,000 is being expensed on a straight line basis over the vesting period. An amount of $165,000 has been expensed in the current financial year.

Cash-settled share-based payments

During the prior financial year the Company elected to settle a liability arising on a share-based payment by a cash payment of $180,000, of which $90,000 had not previously been expensed and was included in the Statement of Comprehensive Income.

27. Key management personnel disclosures

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel consists of the directors of the Company and senior management of the Group as defined in the Remuneration Report section of the Directors' Report.

(a) Aggregate compensation

The aggregate compensation made to key management personnel of the Group is set out below. The remuneration shown includes all amounts incurred for the year. Further details of the compensation of key management personnel is contained in the Directors' Report in the Remuneration Report section.

	2012	2011
	$'000	$'000
Short-term employee benefits	2,362	2,195
Post-employment benefits	119	157
Share-based payment	165	242
	2,645	**2,594**

(b) Shareholdings

The number of ordinary shares in the Company held during the financial year by each director of the Company and senior management of the Group, including their personally related parties, are set out below.

2012	Balance at the start of the year	Granted as compensation	Received on conversion of options	Net other change	Balance at the end of the year
	No.	No.	No.	No.	No.
Directors					
Ian McGregor	2,027,045	-	-	134,964	2,162,009
James Myatt (i)	918,026	3,000,000	-	-	3,918,026
Richard Poole	24,198,024	-	5,357,143	(155,209)	29,399,958
Michael Hogg	3,867,142	-	-	(2,320,284)	1,546,858
Shinji Wada	-	-	-	-	-
Senior management					
Deborah Dickens	4,941	-	-	-	4,941
David Goadby	-	-	-	50,000	50,000
Warren Kember	10,496	-	-	-	10,496
Shelley Reed	10,496	-	-	-	10,496
Joanne Shatrov	10,496	-	-	-	10,496
Senior management who have left					
Caroline Wykamp	2,000	-	-	(2,000)	-

(i) 3,000,000 ordinary shares were issued for nil consideration during the financial year (refer to Note 26).

2011	Balance at the start of the year	Granted as compensation	Received on exercise of options	Net other change	Balance at the end of the year
	No.	No.	No.	No.	No.
Directors					
Ian McGregor	1,072,499	-	954,546	-	2,027,045
James Myatt	918,026	-	-	-	918,026
Richard Poole	7,325,338	-	12,409,091	4,463,595	24,198,024
Michael Hogg	3,867,142	-	-	-	3,867,142
Senior management					
Deborah Dickens	2,941	2,000	-	-	4,941
Warren Kember	8,496	2,000	-	-	10,496
Shelley Reed	8,496	2,000	-	-	10,496
Joanne Shatrov	8,496	2,000	-	-	10,496
Caroline Wykamp	-	2,000	-	-	2,000
Senior management who have left					
Andrew Butler	8,496	-	-	(8,496)	-
Thomas Gilpin	8,496	-	-	(8,496)	-

(c) Share option holdings

The number of share options in the Company held during the financial year by Directors of the Company and senior management personnel of the Group, including their personally related parties, are set out below (nil unless otherwise stated). Details of share options granted during the year are provided at Note 26.

2012	Balance at the start of the year (i)	Granted as compen-sation	Exercised	Net other change	Balance at the end of the year	Balance vested at the end of the year	Vested but not exercisable	Vested & exercisable	Options vested during the year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Directors									
Ian McGregor	1,600,000	-	-	150,000	1,750,000	1,750,000	-	1,750,000	-
James Myatt	5,142,857	-	-	-	5,142,857	3,142,857	-	4,642,857	1,500,000
Michael Hogg	-	-	-	-	-	-	-	-	-
Richard Poole	10,357,143	-	(5,357,143)	-	5,000,000	5,000,000	-	5,000,000	-
Shinji Wada	-	-	-	-	-	-	-	-	-
Senior management									
Deborah Dickens	300,000	-	-	-	300,000	-	-	-	-
David Goadby	-	-	-	-	-	-	-	-	-
Warren Kember	1,553,949	-	-	-	1,553,949	-	-	-	-
Joanne Shatrov	996,806	-	-	-	996,806	-	-	-	-
Shelley Reed	321,228	-	-	-	321,228	-	-	-	-
Senior management who have left									
Caroline Wykamp	150,000	-	-	(150,000)	-	-	-	-	-
Andrew Butler	677,538	-	(677,538)	-	-	-	-	-	-
	21,099,521	**-**	**(6,034,681)**	**-**	**15,064,840**	**9,892,857**	**-**	**11,392,857**	**1,500,000**

2011	Balance at the start of the year	Granted as compen-sation	Exercised	Net other change	Balance at the end of the year	Balance vested at the end of the year	Vested but not exercisable	Vested & exercisable	Options vested during the year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Directors									
Ian McGregor	1,383,291	-	-	216,709	1,600,000	1,600,000	-	1,600,000	600,000
James Myatt	5,428,571	1,000,000	-	(1,285,714)	5,142,857	3,142,857	-	3,142,857	1,000,000
Michael Hogg	-	-	-	-	-	-	-	-	-
Richard Poole	7,115,148	-	-	3,241,995	10,357,143	10,357,143	-	10,357,143	3,241,995
Shinji Wada	-	-	-	-	-	-	-	-	-

2011	Balance at the start of the year	Granted as compen-sation	Exercised	Net other change	Balance at the end of the year	Balance vested at the end of the year	Vested but not exercisable	Vested & exercisable	Options vested during the year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Senior management									
Deborah Dickens (i)	-	250,000	-	50,000	300,000	-	-	-	-
Warren Kember	1,225,888	500,000	-	(171,939)	1,553,949	598,949	-	598,949	259,173
Joanne Shatrov	496,806	500,000	-	-	996,806	371,806	-	371,806	180,602
Shelley Reed	171,228	150,000	-	-	321,228	90,921	-	90,921	30,307
Caroline Wykamp	-	150,000	-	-	150,000	60,614	-	60,614	60,614
Senior management who have left									
Andrew Butler	1,818,234	-	(371,265)	(769,431)	677,538	677,538	-	677,538	260,061
Thomas Gilpin	1,225,378	-	(217,261)	(1,008,117)	-	-	-	-	-
	18,864,544	**2,550,000**	**(588,526)**	**273,503**	**21,099,521**	**16,899,828**	**-**	**16,899,828**	**5,632,752**

(i) 50,000 options held by Deborah Dickens at the beginning of the year are shown as "net change other" as they were awarded when in a previous role within the Group.

(d) Convertible Note holdings

There were no convertible Notes in the Company held by directors of the Company or senior management personnel of the Group during the current financial year. The number of convertible notes in the Company held during the prior financial year by directors of the Company and senior management personnel of the Group, including their personally related parties, are set out below (nil unless otherwise stated).

2011	Balance at the start of the year	Converted during the year	Acquired during the year	Net other change*	Balance at the end of the year
	No.	No.	No.	No.	No.
Directors					
Ian McGregor	100	(300)	600	(400)	-
Richard Poole	1,800	(3,300)	5,000	(3,500)	

* Net change other refers to the cancellation of convertible notes

(e) Other transactions with key management personnel of the Group

Richard Poole

Richard Poole, a non-executive director of the Company, is also a director and the controller of Arthur Phillip Pty Limited (Arthur Phillip). Pursuant to an advisory agreement, fees for services advising on capital raisings and strategic advice were incurred with Arthur Phillip of $492,000 (2011: $919,500). Services provided included:

- $252,000 arrangement fee for an increase in the Company's debt facility
- $240,000 for a monthly retainer to provide general financial advisory services

28. Related party transactions

(a) Equity interests in related parties

Details of the subsidiaries within the consolidated entity and the percentage of ordinary shares held are disclosed in Note 23.

(b) Directors and key management personnel

Disclosures relating to directors and senior management are set out in Note 27.

(c) Borrowings

	2012	2011
	$'000	$'000
Unsecured loans – current (refer Note 13)		
Ian McGregor	-	1,700

(d) The Cobra Group Pty Limited

The Cobra Group Pty Limited and related parties (Cobra) as at 30 June 2012 held 35,736,627 (2011: 34,729,379) ordinary shares, an interest of 18.9% (2011: 19.8%) of the ordinary shares of the Company. During the prior financial year Cobra provided services to the Group pursuant to a Market Services Agreement (MSA) and invoiced $8,158,000 to the Group. Due to the reduction of the percentage of ordinary shares held by Cobra in the Company, from June 2011 Cobra was no longer considered to be a related party of the Group.

29. Remuneration of auditors

	2012	2011
	$	$
Fees charged by the auditor of the Company		
Audit or review of the financial report	224,000	178,000
Accounting advice	-	19,000
Audit of subsidiary company	10,500	15,000
Tax return review	24,825	15,255
Regulatory audits	-	45,000
	259,325	**272,255**

30. Dividend

	2012	2011
	$'000	$'000
Recognised amounts		
Final dividend for 2011 0.5 cents per share unfranked paid 26 September 2011	925	-

Since the end of the financial year the directors have declared an unfranked final dividend for the year ended 30 June 2012 of $1,515,000 or 0.8 cents per share (2011: 0.5 cents), payable on 12 October 2012. The financial effect of this dividend has not been recognised as a liability in these financial statements but will be brought to account in the 2013 financial year.

31. Parent entity information

The accounting policies of the parent entity, which have been applied in determining the financial information shown below, are the same as those applied in the consolidated financial statements. Refer to Note 1 for a summary of the significant policies relating to the Group.

	2012	2011
	$'000	$'000
a) Financial position		
Assets		
Current assets	-	1,018
Non-current assets	84,547	84,055
Total assets	**84,547**	**85,073**
Liabilities		
Current liabilities	309	3,250
Non-current liabilities	4,000	3,791
Total liabilities	**4,309**	**7,041**
Equity		
Issued capital	105,264	98,626
Reserves		
Options reserve	5,721	9,172
Equity-settled employee benefits reserve	2,416	2,449
Retained earnings	(33,163)	(32,215)
Total equity	**80,238**	**78,032**
b) Financial performance		
Comprehensive income		
Loss for the year	(2,002)	(3,463)
Other comprehensive income	-	-
Total comprehensive income	**(2,002)**	**(3,463)**
c) Contingent liabilities		
Director loan (refer Note 20(ii))	1,300	1,300

32. Subsequent events

As at 30 June 2012 the Group's debt facility was due to expire on 22 December 2012. On 30 August 2012 the Group's main trading subsidiary, Australian Power and Gas Pty Limited, signed a facility agreement with Macquarie Bank Limited to replace the existing $50 million debt facility with an $85 million facility. The new facility is for a term of two years with the ability to extend for a further one year provided certain conditions are met. The new facility agreement is subject to conditions precedent prior to draw down. The conditions, which related to the provision of documentation, were fulfilled on 19 September 2012.

DIRECTORS & AUDITORS

DIRECTORS' DECLARATION

IAN McGREGOR

The directors declare that:

1. The financial statements and Notes, as set out on pages 52 to 97, are in accordance with the Corporations Act 2001 and:
   a. comply with Accounting Standards and the Corporations Regulations 2001
   b. give a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date of the Company and consolidated Group
   c. in the directors' opinion, the financial statements and corresponding notes are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board
2. The Chief Executive Officer and Chief Financial Officer have each declared that:
   a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001
   b. the financial statements and Notes for the financial year comply with the Accounting Standards
   c. the financial statements and Notes for the financial year give a true and fair view
3. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the directors

Ian McGregor
Chairman

Sydney 31 August 2012

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
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The Board of Directors
Australian Power and Gas Company Limited
Level 9, 341 George Street
SYDNEY NSW 2000

31 August 2012

Dear Board Members

Australian Power and Gas Company Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Australian Power and Gas Company Limited.

As lead audit partner for the audit of the financial statements of Australian Power and Gas Company Limited for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
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Independent Auditor's Report to the members of Australian Power and Gas Company Limited

Report on the Financial Report

We have audited the accompanying financial report of Australian Power and Gas Company Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 52 to 97.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Australian Power and Gas Company Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

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

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report
We have audited the Remuneration Report included in pages 31 to 40 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion
In our opinion the Remuneration Report of Australian Power and Gas Company Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jason Thorne
Partner
Chartered Accountants
Sydney, 31 August 2012

SECURITY HOLDERS' INFORMATION

The following information has been prepared as at 30 September 2012 unless otherwise indicated.

1. EQUITY SECURITY HOLDERS

(a) Ordinary shares

The names of the 20 largest holders of ordinary shares as shown in the Company's share register are listed below. The Company's ordinary shares are listed on the Australian Securities Exchange.

Name of shareholder	Number of shares held	% to total on issue
Nippon Gas Limited	33,693,619	17.8%
The Cobra Group Pty Limited	31,320,288	16.5%
Arthur Phillip Nominees Pty Limited	26,108,630	13.7%
BNP Paribus Noms Pty Ltd	10,479,025	5.5%
National Nominees Limited	7,271,390	3.8%
Amanda Poole	6,417,462	3.4%
Communications Power Incorporate (Aust) Pty Limited	5,100,000	2.7%
Cobra Investments BV	4,416,339	2.3%
Nippon Gas Co Ltd	4,165,311	2.2%
PCF Group Pty Ltd	3,486,125	1.8%
James Myatt	3,000,000	1.6%
RBC Dexia Investor Services Australia Nominees Pty Limited	2,945,365	1.6%
DZP Investments Pty Limited	2,748,836	1.5%
Rosemarie Barbara Hogg	2,320,286	1.2%
S Ward Holdings Pty Limited	2,294,666	1.2%
First Stirling Investments Pty Limited	2,272,728	1.2%
Highgate Administration Services Pty Limited	1,536,858	0.8%
Peter John Grey	1,475,000	0.8%
Citicorp Nominees Pty Limited	1,176,096	0.7%
Sue McGregor	1,334,404	0.7%
Total top 20 holders	153,562,428	81.1%
Other holders	35,854,032	18.9%
Total ordinary shares on issue	**189,416,460**	**100.0%**

An analysis of numbers of equity security holders by size of holding is shown below.

			Ordinary shares	Employee options	Director options	Other options
			2(a)	2(b)	2(c)	2(d)
1	–	1,000	169	-	-	-
1,001	–	5,000	330	-	-	-
5,001	–	10,000	161	-	-	-
10,001	–	100,000	346	28	-	-
100,001	–	over 100,001	87	10	2	18
			1,093	**38**	**2**	**18**

There were 127 shareholders of less than a marketable parcel of ordinary shares.

Holders of more than 5% of the ordinary issued shares who have lodged substantial holders notices are listed below:

Name of shareholders	Ordinary shares held	Percentage of total ordinary shares on issue
Nippon Gas Limited	37,254,510	19.7%
The Cobra Group Pty Limited	35,736,627	18.9%
Richard Poole and related parties	32,031,250	16.9%
(based on last Appendix 3Y)		
Total substantial holders	**105,022,387**	**55.5%**

The number of ordinary shares subject to voluntary escrow on issue are shown below:

Shares currently on issue to employees with escrow periods	Ordinary shares held	Percentage of total ordinary shares on issue
Ordinary shares escrowed until 26 February 2013	79,412	0.5%
Ordinary shares escrowed until 14 March 2014	88,000	0.5%
Ordinary shares escrowed until 30 June 2014	3,000,000	1.5%
Total ordinary shares subject to escrow	**3,167,412**	**2.5%**

(b) Employee share options

Details of holders of unlisted share options in the employee share option category are exempted from disclosure under chapter four of the ASX listing rules. Refer to Note 26 (a) for details of options issued to employees.

(c) Directors' share options

The names of holders of unlisted share options in the directors' share option category are listed below:

Name of holder	Class	Share options issued	Percentage held
James Myatt	APKAU	5,142,857	83.7%
Ian McGregor (awarded as remuneration)	APKAU	1,000,000	16.3%
Total directors' options per Note 26 (b) of the Financial Report		**6,142,857**	**100.0%**

(d) Other share options

The names of holders of unlisted share options in the other share options category are listed below:

Name of holder	Class	Share options issued	Percentage held
Fortress Credit Australia II Pty Limited	APKAU	8,500,000	30.3%
Other holders (less than 20% each)	APKAU	19,500,005	69.7%
Total other options per Note 26 (c) of the Financial Report		**28,000,005**	**100.0%**

3. VOTING RIGHTS

The voting rights attached to each class of equity securities are set out below.

(a) Ordinary shares

Subject to any rights or restrictions for the time being attached to any class of shares, at a meeting of shareholders each shareholder entitled to vote may vote in person or by proxy or attorney or, being a corporation, by representative duly authorised under the Corporations Law, and has one vote on a show of hands and one vote per fully paid share on a poll.

(b) Share options

No voting rights until converted into ordinary shares.

4. SHARE BUYBACK

There has been no share buyback during the 12 months to 30 June 2012 or subsequently.

CORPORATE DIRECTORY

REGISTERED OFFICE AUSTRALIAN SECURITIES EXCHANGE

Australian Power and Gas Company Limited
ABN 96 077 206 583

Level 9, 341 George Street
Sydney NSW 2000

Telephone (02) 8908 2700
Fax (02) 8908 2701
Email enquiries@australianpowerandgas.com.au
Web australianpowerandgas.com.au

The Company's ordinary shares are quoted on the Australian Securities Exchange.

ASX CODE: APK

Australian Power and Gas Company Limited was incorporated in and operates within Australia.

DIRECTORS

Ian McGregor (Chairman)
James Myatt (CEO)
Michael Hogg
Richard Poole
Shinji Wada

SECRETARY

David Franks

ANNUAL GENERAL MEETING

The 2012 annual general meeting of Australian Power and Gas Company Limited will be held at 10.00am (AEST) on 20 November 2012. A Notice of Meeting accompanies this report. Additional copies can be obtained via the Company's website at **australianpowerandgas.com.au**

SHARE REGISTRY

Computershare Investor Services Pty Ltd
Level 3, 60 Carrington Street
Sydney NSW 2000

Telephone 1300 85 05 05
Web computershare.com

FINANCIAL CALENDAR

(subject to change)

20 November 2012	Annual general meeting
31 December 2012	Half year ends
25 February 2013	Half year results announced

AUSTRALIAN POWER & GAS REGISTERED TRADEMARKS

- Australian Power & Gas Simply Smarter Energy
- Australian Power & Gas
- Ignition Energy
- IQ Energy
- Greentricity

AUDITOR & TAX AGENT

Deloitte Touche Tohmatsu
225 George Street
Sydney NSW 2000

SOLICITORS

Corrs Chambers Westgarth
Level 32, Governor Phillip Tower
1 Farrer Place Sydney NSW 2000

ADVISERS

Arthur Phillip Pty Limited
Level 33, 52 Martin Place
Sydney NSW 2000

AUSTRALIAN POWER & GAS
WE'RE HAPPY WHEN YOU'RE HAPPY

ANNUAL REPORT 2011/2012 AUSTRALIAN POWER & GAS
Company Limited ABN 96 077 206 583

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