



Australian
Power & Gas

AUSTRALIAN POWER & GAS

ANNUAL REPORT 2010/11



OUR BRAND

ESSENCE

**At our core Australian Power & Gas is an independent energy retailer that aims to provide customers with quality information delivered in a straight forward, no nonsense way, so that they can choose an energy solution that suits their individual needs.*

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HIGHLIGHTS

WHO WE ARE

Australian Power & Gas is an Australian company listed on the Australian Securities Exchange (ASX Code: APK). The company's business 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 270,000 customer accounts in the eastern states of Australia. Our team of 72 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

	2011 \$m	2010 \$m
Income statement		
Revenue	230.1	130.3
Underlying earnings before finance, amortisation & tax	21.5	13.5
Underlying net profit after tax	3.7	1.4
Underlying earnings per share (cps)	2.6	1.4
Dividend per share (cps)	0.5	-
Cash flow		
Underlying operating cash outflow	1.7	4.2
Cash on hand	19.9	8.7
Balance Sheet		
Total assets	171.5	109.6
Total liabilities	120.3	81.6
Total equity	51.3	27.9



Metric	Target	What we did	Improvement on prior year
• Customer accounts	◎ 250,000	● 272,000	+ 88%
• Revenue	◎ \$190M to \$210M	● \$230M	+ 76%
• Underlying EBITDA	◎ \$20M to \$22M	● \$21.5M	+ 59%
• Underlying NPAT	◎ \$3.5M to \$4.5M	● \$3.7M	+ 164%
• Business development	◎ Accelerate acquisition growth	<ul style="list-style-type: none"> Sales channels delivered over 10,000 new accounts per month Continued to build diversity across our acquisition channels, including web-based channels Successfully provided electricity and gas in Victoria, New South Wales and Queensland Wholesale costs managed to targeted levels notwithstanding volatile conditions 	

KEY ACHIEVEMENTS

IN FISCAL 2011 WE ACHIEVED A SOLID
PLATFORM FOR GENERATING INCREASED
SHAREHOLDER RETURNS.

KEY ACHIEVEMENTS

CUSTOMER BASE – 272,000
REVENUE – \$230 MILLION



PROFITABILITY

PROFIT – \$3.7 MILLION

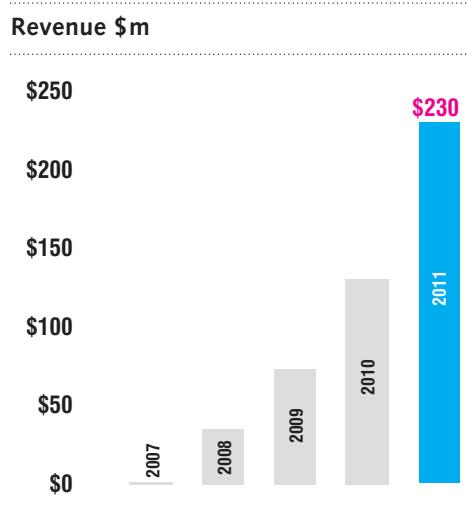
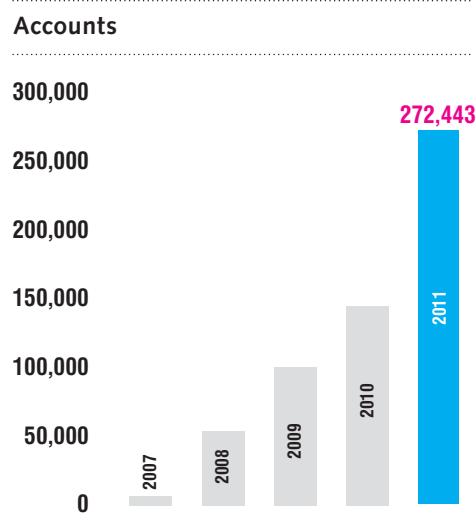


CAPITAL

CONVERTIBLE NOTE – \$20 MILLION

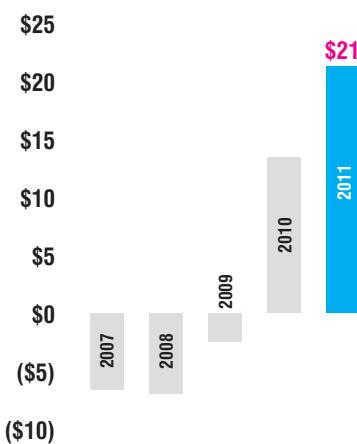


**CUSTOMER
ACCOUNTS
INCREASED BY 88%
TO 272,000**



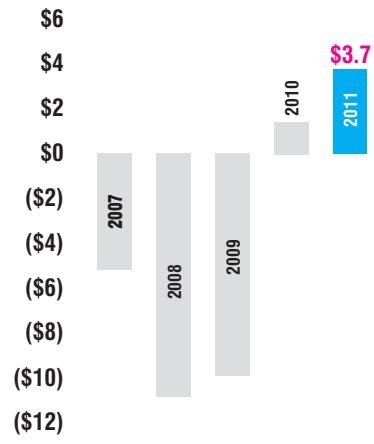
EBITDA INCREASED BY 56% TO \$21M

Underlying EBITDA \$m

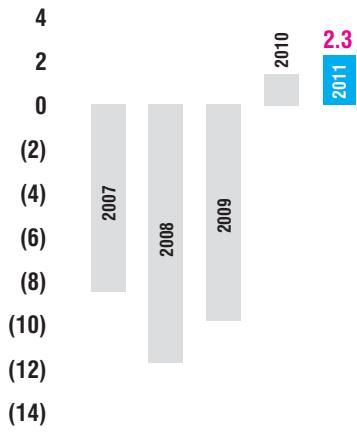


NPAT INCREASED BY 164% TO \$3.7M

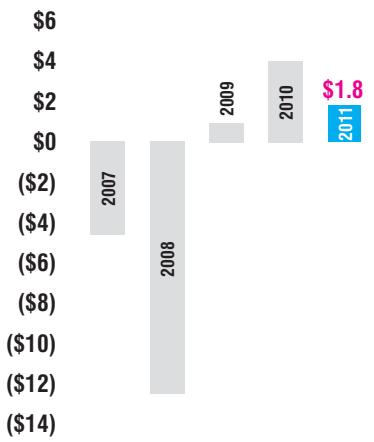
Underlying NPAT \$m



Underlying EPS Cents



Underlying Operating \$m



CHAIRMAN'S COMMENTS

IN FISCAL 2011 THE COMPANY AGAIN DELIVERED ON ITS FORECAST RESULTS, WHILE EXCEEDING EXPECTATIONS FOR NET CUSTOMER ACCOUNTS AND REVENUE.

Dear Australian Power & Gas Shareholder

Our strategy from inception has been clear – to build a substantial, carefully risk-managed retail energy business and we were again announced as Australia's fastest-growing company in 2011, as assessed by BRW magazine. In fiscal 2011, the company again delivered on its forecast results, while exceeding expectations for net customer accounts and revenue.

Our underlying net profit after tax of \$3.7 million (up from \$1.4 million in fiscal 2010) underscored our commitment to building a sustainable and successful business that delivers increasing returns to shareholders and gave the Board the confidence to commence a dividend policy – starting with an inaugural dividend of 0.5 cents a share, which we announced with our fiscal 2011 result.

At the beginning of the financial year, we commenced our expansion into new markets in New South Wales and Queensland, replicating the successful business model we pioneered in Victoria in the previous three years. The company is now a dual-power supplier (electricity and gas) across all three eastern seaboard states.



Key achievements

In 2011 our customer base increased 88% to over 272,000 net active accounts, driving a 77% gain in revenue to \$230 million. Notably, we established five fully operational sales channels across all three markets during the year, which significantly reduced the risks associated with a single dominant sales channel.

Also, we successfully negotiated a three-year electricity supply contract for Victoria and Queensland, while New South Wales remains actively managed through hedging contracts. The increased customer growth in New South Wales and Queensland required additional funding, and during the year the company raised \$20.5 million through equity, and extended its \$50 million receivables facility to the end of calendar 2012. The Board does not see a need to raise further funds to meet our accelerated future expansion plans.

Business focus

Victoria continues to be the dominant focus of our geographic footprint due to the length of time in this market. In August 2010, we began implementing the successful model that we pioneered in Victoria in new markets in New South Wales and Queensland – making us a dual-energy supplier across all three eastern seaboard states. New South Wales' share of total closing active customers grew to 13.2% (2010: 1.6%) and Queensland grew to 9.1% (2010: 1.8%). The recent increases in retail electricity pricing were the catalyst for this decision to move into Queensland and New South Wales.

The Board also announced the separation of the Risk Committee, which has resulted in a more mature analysis and awareness of risk throughout the company. The management of energy supply agreements and the retention of customers remain key focuses of the Board.

Profitability

Our underlying profit after tax of \$3.7 million (2010: \$1.4m) matched our guidance, and was driven by increased customer accounts and a gain in average revenue per customer. The result although at the lower end of expectations is particularly pleasing considering it includes \$1.8 million of compliance costs related to government-sponsored renewable energy scheme payments that were retrospectively levied by the government.

The company is fast approaching an inflection point at which a critical mass of customers will accelerate our profitability and ability to generate cash. We will continue to focus on our high-growth strategy of building our customer base while keeping our operational costs lower than the incumbent retailers.

Capital

Managing our working capital was important again this year. The working capital facility, which is secured and limited by the balance of receivables, is almost fully drawn to its limit of \$50 million. Although this has been the main funding mechanism for the company's operations to date, the cash being generated by the business will increasingly support future growth, and we do not see a need to increase this type of facility in the future while we maintain growth at this rate. This facility supported the company through its start-up and early growth phases and was fundamental to the success of the business model and achieving the results to date.

The \$18.9 million convertible note issue this year was successfully rolled into equity. When combined with an additional placement of \$5 million announced in June, our equity has been strengthened. This reduced the underlying net debt to adjusted equity ratio to 66% (2010: 139%).

*Underlying Net Profit After Tax excludes the impact of changes in hedge valuations that relate to future periods.

Post year end

I would like to welcome Shinji Wada, President and Chief Executive Officer of Tokyo-based Nippon Gas Co Ltd to the Board post Nippon Gas' strategic investment in Australian Power & Gas.

In fiscal 2012, we are focused on refinancing or rolling over existing funding structures well before maturity, developing risk management practices, and taking advantage of opportunities in the new markets of Queensland and New South Wales.

Outlook

With the financial and operational platform to build a critical mass of customers in place, the milestone achievement in September 2011 of 300,000 net active accounts marked the end of the initial five-year phase in Australian Power & Gas' evolution. It also heralds the beginning of the next phase of significant new growth and achieving significant returns for shareholders.

In August 2011, we announced our long-term growth vision for 2015 of achieving 700,000 customers. This equates to a market share of around 7% in our three main eastern seaboard markets and revenue of approximately \$1 billion.

Staff

The Australian Power & Gas team has grown to 72, up from 55 in June 2010. On behalf of the Board, I would like to thank them for their efforts in developing the internal systems and processes that have enabled the continued support of our customers during this period of growth.

I have every confidence that our team will bring as much focus and energy to the task ahead as they have during the first five remarkable years.

Shareholders

The Board also wishes to thank our shareholders, who have believed in the company's 'best of breed' business model and have continued to support the company's stock. For those shareholders who reside in our market, I encourage you to become an Australia Power & Gas customer through the company's website.

On behalf of the Board, let me close by again thanking our employees, our shareholders and other stakeholders for their continued support.



Ian McGregor
Chairman

CEO'S REPORT

AUSTRALIAN POWER & GAS IS FOCUSED
ON ITS CORE GROWTH STRATEGY

CHIEF EXECUTIVE
OFFICER'S COMMENTS
ON PREVIOUS YEAR GROWTH

KEY ACHIEVEMENTS

CUSTOMER BASE – 87% INCREASE

REVENUE – 76% INCREASE

GROSS MARGIN – 54% INCREASE

CUSTOMER PAYMENTS – 73% INCREASE

GROWTH IN NSW AND QLD MARKET

BRW FASTEST GROWING STARTUP 2011

Achievement of goals

In another strong year, we exceeded our targets for customer and revenue growth. This continues our commitment to setting realistic goals and working hard to surpass them. Our achievement of 272,000 net active accounts at the end of June 2011 was another milestone for our team, particularly in an energy market that ranks among the most competitive in the world. It reflects the significant investment we made in 2010 in new channels that enable us to grow our business in our traditional Victorian market and develop new markets in New South Wales and Queensland.

Revenue of \$230 million exceeded our guidance range, while average revenue per customer increased 4%. Our underlying net profit after tax of \$3.7 million delivered a result within our forecast range of \$3.5 million to \$4.5 million.



Customer growth

Australian Power & Gas prides itself on offering customers a simple pricing structure that delivers savings, while at the same time providing a higher standard of service than our competitors. The addition of over 125,000 new accounts in fiscal 2011 underscores our attraction in a market where customers are looking for a personal touch as well as a competitive price. Our product offer structure, which combines a fixed discount plus a further discount for paying on time, has proven to be popular with customers, with about 70% of accounts being paid within our allowed time frame.

In Victoria, customer numbers increased by more than 70,000, even as the state declined to 78% of our total customer base from almost 97% a year ago following growth as we grew in New South Wales and Queensland. We estimate our market share in Victoria is around 5% of the 4.3 million electricity and gas accounts, with around 83% of customers choosing the more profitable dual-fuel energy option.

In New South Wales, we built our customer base from less than 2,300 to around 36,000 accounts. This was stronger growth than we expected, despite other retailers' intensified marketing efforts following the sale of the government-owned businesses. We believe the sale of these businesses is an opportunity for customers to reassess their current arrangements. Our proven formula of competitively priced products combined with a high level of customer service, which we pioneered in Victoria, is equally applicable to the New South Wales market.

In Queensland we were able to grow to over 24,000 accounts from less than 3,000 a year ago.

While The Cobra Group direct sales force remains our main channel for acquiring customers, other channels are contributing significantly to customer growth. These include a second door-to-door channel, telemarketing, web-switching, and moving-referral agents.

Customer churn presents both an opportunity and a challenge for Australian Power & Gas. The opportunity is that we continue to be a beneficiary of churn in the market as consumers are more receptive to changing their retailer, and this has assisted us in building our base. Churn rates have moved up slightly on previous years, with Victoria the top-churning energy market in the world. This is a reflection of the relatively early deregulation that occurred in Victoria and the willingness of consumers to seek the best offers.

The level of customer churn in the overall Victorian market during the year ranged between 25% to 30% of the total market, similar to previous years. In New South Wales and Queensland, the sale of government retailers has kept churn rates between 15% to 20%.

Revenue

Revenue grew 76% to \$230 million from a year earlier, exceeding our forecast range of between \$190 and \$210 million. Over 75% of annual energy usage occurs between April and September, which produces a winter seasonal peak in revenue and in cash flow each year.

In Victoria, average retail customer usage of electricity was similar to the previous year, with the trend towards energy saving measures reaching a saturation point. Gas usage by Australian Power & Gas customers has been relatively stable over the past three years, but remains highly seasonal.

Electricity costs

Our wholesale agreement in Victoria was extended for a three-year period until December 2013, with an option to extend this agreement for a further one-year period to December 2014. This arrangement is a key part of our risk management strategy to stabilise our wholesale costs as we grow.

While spot prices trended downwards over the year, periods of extreme volatility tend to occur in summer. We have seen competitors experience losses during these periods, while our policy of wholesale price certainty in key markets insulates us against price shocks.

Electricity spot markets in New South Wales and Queensland saw similar trends to Victorian market prices. In June 2010 we signed a three-year load-following hedge with a major Queensland generator at rates reflecting current market pricing. This will limit wholesale pricing risk as we grow our footprint in the state. In New South Wales we have a program of hedging price risk via futures instruments.

Gas costs

We have supplemented our long-term gas supply arrangement, which continues to December 2014, with other short-term agreements. Volumetric risk, which arises due to the take or pay nature of supply contracts, is managed by renting storage capacity. This storage capacity was used effectively during the summer months when we banked gas. This gas was then drawn down during the winter months to meet peak demand.

During the year we put in place additional arrangements that provide further flexibility to manage costs, including additional LNG capacity.

Operations

Our back office function, largely outsourced to a specialist provider, is accommodating our growing business in line with expectations. During the year we sent over 800,000 invoices and answered over 470,000 customer calls. While meeting the demands of a growing business, overheads as a percentage of revenue fell to 16% in 2011 from 19% in the previous year.

During the year to support our expansion into New South Wales and Queensland we added an additional 27 staff internally, while our back office provider also increased their capacity. Our internal staff levels are expected to stabilise at these levels.

REVENUE GREW 76% TO \$230 MILLION FROM A YEAR EARLIER, EXCEEDING OUR FORECAST RANGE OF BETWEEN \$190 & \$210 MILLION.

Capital management

During the financial year we raised additional equity to fund our growth. The convertible note issue, an arrangement that facilitated our expansion into New South Wales and Queensland, was drawn to \$6.3 million and subsequently converted into equity. A further \$5 million was raised in June 2011 as sales continued to grow strongly, and a new major shareholder was introduced to our business. Tokyo-based Nippon Gas acquired 20 million shares in our company through a placement of 10 million shares and the purchase of 10 million shares from existing holders.

We look forward to developing closer relations with Nippon Gas, which retails gas and related products in the Japanese market.

Our relationship with our main working capital lender remains a cornerstone of the business, with the existing facility running to December 2012. We continue to enjoy our lender's confidence in the ability of our team to achieve targeted results.

Risk management

During the financial year we enlarged our risk monitoring in line with our growth. Risk management remains a foundation of our business strategy.

Since inception we have maintained a conservative approach to risk generally, and specifically around our wholesale position. As highlighted above, the initial years of our business were characterised by relatively high spot prices compared to previous and subsequent years. Our hedging arrangements during those years ensured we developed a company with solid foundations that operated within a predictable band of results.

We have maintained our conservative stance on hedging, notwithstanding the current low spot prices, our approach remains risk averse. Our approach is to target a margin outcome, and negotiate agreements to achieve that outcome, while minimising wholesale volatility as much as possible.

Regulatory issues

Australian Power & Gas has a formal customer complaint level that is below market averages, even as we grow rapidly in existing and new markets. We are committed to ensuring customer complaints are minimised as much as possible by our treatment processes, and we pride ourselves on dealing quickly with formal complaints.

In New South Wales and Queensland, regulated price structures will remain in place for at least the next three years. This means that the respective state governments will continue to have a hand in setting market prices, unlike in Victoria where there is no price regulation.

Outlook

In 2011 we recorded another strong performance, while at the same time preparing for an even larger business. In 2012 we will maintain our focus on expanding our footprint in Victoria and building on our newer businesses in New South Wales and Queensland. As we grow and achieve critical mass, we will also move rapidly into a new phase of increased profitability and significantly improved shareholder returns. I wish to thank my staff for their outstanding effort during the past year.



James Myatt
Chief Executive Officer

OUR PEOPLE

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.



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 has more than 20 years experience in the energy sector holding senior positions with Energy Australia, TXU Australia, Duke Energy International and AGL/Solaris Power. James is also the current chairman of the Energy Retailers Association of Australia.



Caroline Wykamp

BAppSc (Math), GradDipAppFin
General Manager Wholesale Electricity
Appointed: January 2011

Caroline is responsible for hedging the market risk of electricity for the company, across all three eastern seaboard states. She has worked in the industry for 15 years. Caroline held a trading role for Aurora Energy and for eight years worked for AGL, in the trading team and also in risk management.



Warren Kember

B Comm, MBA, CA
Chief Financial Officer
Appointed: September 2006

Warren is responsible for accounting, tax, financial risk management and treasury functions. Warren has over 25 years of financial management experience holding CFO positions with a range of listed public and private entities. Warren has specialised in leading the financial growth and development of small and medium sized listed entities.


David Goadby

B Sc
General Manager Sales,
Marketing & Public Relations
Appointed: July 2011

David was appointed in 2011 from British Gas, where he was Sales Director, Residential, which in 2010 delivered over 500,000 accounts growth from 4.5 million sales, using similar marketing channels deployed at Australian Power & Gas. David has an excellent sales and marketing pedigree, including senior roles with Scottish and Newcastle PLC and Procter & Gamble.


Deborah Dickens

BA Hons Oxford, ACMA
General Manager
Commercial Operations
Appointed: August 2010

Deborah is responsible for the management of the operational and commercial functions within the Group, including IT, regulatory, credit management and operations as well as our key commercial agreements. Deborah joined the Group with 16 years commercial, financial and operational experience, having held senior positions with British Airways in the UK and on the UATP Board.


Joanne Shatrov

B Bus/LLB
General Counsel
Appointed: June 2007

Joanne is responsible for company secretarial and legal functions within the Group. Joanne joined the Group after gaining specialised experience in the energy industry working with Ergon Energy, Duke Energy and Ebsworth & Ebsworth Lawyers.


Shelley Reed

BEng (Chem, Hons), MAppSci, Grad
Cert Comm, Grad Cert Fin & Inv
General Manager Wholesale Gas
Appointed: January 2011

Shelley has 15 years experience in the energy industry, having worked for AGL, Energy Australia and TRUenergy. She started at Australian Power & Gas in early 2007 as Gas Portfolio Manager, and as the GM Wholesale Gas, she is responsible for developing strategies that have helped gain entry to all three eastern seaboard markets. The role also encompasses managing and trading the company's green energy portfolio.

SUSTAINABILITY REPORT

AUSTRALIAN POWER & GAS IS A MODERN COMPANY SELLING GAS AND ELECTRICITY, INCLUDING RENEWABLE ENERGY, TO RESIDENTIAL CUSTOMERS.

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 rewards policies are designed to attract and retain the best experts the business requires.

We offer training and development on a case-by-case basis to all interested employees. Current initiatives include a continuing education program, supporting several team members to complete industry qualifications, further advancing their career opportunities with Australian Power & Gas.

Staff are given the opportunity to share in the growth of the company with the Employee Share Option Plan. In addition, all full-time employees are offered 100% greentricity, which is the company's own 100% renewable GreenPower energy product, and given an electricity credit of \$250 each quarter.

Occupational health & safety (OH&S) is a priority for Australian Power & Gas. We have four fully qualified first aid officers and three fire wardens. 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.

Our community involvement

At Australian Power & Gas, we have an Energy Support Program to help customers experiencing genuine hardship. With this program we aim to minimise power disconnections by developing plans to suit our customer's unique circumstances. Our dedicated specialists are trained to understand each individual situation and provide tailored payment plans, energy efficiency advice, information on government programs and home energy audits.

In order to build our community involvement we support a range of community sporting teams and events. Our logo is placed on signage, banners, flyers and on the back of jerseys. People we have supported this year include the Sydney Comets Male Basketball team, the Caigieburn Eagles Women's Basketball Team, Canterbury Cobras Junior Football Team, Monash University Hockey (Platinum Sponsor), Adem's Corner (Giant Steps) Fundraiser Evening, Candace Sawtell – Ride to Conquer Cancer and the Balmain District Junior Rugby League Club.

Our staff also enjoy supporting the community. This year all staff members participated in the Cancer Council's Australia's Biggest Morning Tea, Daffodil Day and Jeans for Genes Day raising valuable funds to help with medical research.

Australian Power & Gas is an official sponsor of the Jetstar Gold Coast Titans and Richmond Football Club and the back of shorts sponsor of Wests Tigers. This year at selected Jetstar Gold Coast Titans, Richmond and Wests Tigers home games we had a visual presence with our "Power Dome" which was located in the forecourt outside the stadium. We ran numerous promotions from our dome and the people were able to come and find out more about Australian Power & Gas.

A unique part of our sponsorship for the Gold Coast Titans is the Australian Power & Gas "Power Stage". The Power Stage featured performances by local musical talent and provided a platform for them to play live in front of a large crowd. We put up \$10,000 as the prize for the Power Stage winner to help them further their musical career. The Power Stage was featured at all home games at Skilled Park during the 2011 NRL season.



This year Australian Power & Gas also sponsored the Mooloolaba Triathlon, with a full line up of activities. These included an exclusive energy offer for athletes, an interactive online competition, a novelty sporting event and the use of innovative BlueZone technology. Australian Power & Gas also received naming rights of the Mooloolaba Ocean Swim as part of our overall partnership with USM Events.

Athletes were also invited to take part in the Power Behind the Athlete Competition. It was a great opportunity to recognise the unsung heroes of the Triathlon – the supporters. Athletes were asked to nominate one special person and upload a photo with their entry to a dedicated website. The hero with the most votes will receive \$1500 cash which is equal to a year's worth of power for the average home.

Our Environmental Initiatives

Australian Power & Gas, together with all Australian energy retailers, is obliged by the Federal Government's Large-Scale Renewable Energy Target (LRET) and the Small-Scale Renewable Energy Target (SRES) to contribute to an additional 10,400 gigawatt hours (GWh) of renewable energy each year by 2011. We will meet our requirement under this target by offsetting a percentage of the energy purchased on behalf our customers with GreenPower accredited renewable energy, or by the purchase of Large-Scale generation certificates (LGCs) and Small-Scale technology certificates (STCs).

State governments have been addressing climate change with the introduction of schemes to reduce energy use in Australian households, including the Victorian Energy Efficiency Target (VEET), the NSW Energy Savings Scheme (ESS) and the Gas Electricity Certificates scheme (GECs) in Queensland. Australian Power & Gas is maintaining full compliance with these energy efficiency programs.

Our 100% greentricity energy plan is designed to tackle climate change. Our greentricity product 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 on their behalf from renewable sources. The company has also introduced a trial to supply energy saving light globes to customers in Victoria.

Australian Power & Gas promotes energy savings to our customers through energy saving tips and call centre advice from our product specialist team. We also have an online Energy Savers Shop, where customers can purchase a selection of energy saving products to help save money on their energy account. We promote energy efficiency to our customers through their accounts, on our website under 'Energy Efficiency' and through our product specialist team.

AUSTRALIAN POWER & GAS HAS AN ONLINE WEB SHOP WHERE CUSTOMERS CAN PURCHASE A SELECTION OF ENERGY SAVING PRODUCTS TO HELP SAVE MONEY ON THEIR ENERGY ACCOUNT

Workplace initiatives to reduce our environmental impact include the elimination of downtime power usage in the boardroom audiovisual equipment, a recycling program for paper and toner cartridges and the highest energy star rated kitchen appliances for the head office. Window tinting and blinds are in place throughout head office to manage heat and reduce our dependency on air conditioning. Energy efficient lighting, that automatically switched off outside office hours, has been used throughout the space.

Australian Power & Gas and its staff, some of whom are pictured in this report, are committed to expanding and developing these sustainability initiatives throughout the coming months and years. We are determined to gain a deeper understanding of what it means to be a sustainable business.



FINANCIAL REVIEW

THE 2011 FINANCIAL STATEMENTS OF AUSTRALIAN POWER & GAS REFLECT THE CONTINUING INCREASE IN THE SCALE OF ITS BUSINESS THAT HAS OCCURRED DURING THE PAST 12 MONTHS. THE INCREASE IN ACTIVE ACCOUNTS BY 127,000 HAS HAD A SIGNIFICANT IMPACT ON REVENUE, COSTS AND CASH FLOWS OF THE GROUP.





SIMPLE

As our energy options evolve, it doesn't need to get complicated. We're always up front and clear so that customers can easily understand what's going on and decide for themselves whether they want to participate. To make things easy, we avoid using jargon where possible and provide the relevant pros and cons associated with different energy options.

Revenue and margin

Revenue earned during the financial year increased by 76% to \$230.1 million up from \$130.2 million in 2010. The increase in revenue arose from the rise in customer account numbers, along with an increase in average revenue per account. The average revenue per account was \$1,102 for the year, up from \$1,063 in the previous year, an increase of 3.7%. In the prior year the rate of increase in average revenue per account was 12.6%. 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 which occurred during the year.

Wholesale costs were \$186.5 million (2010: \$91.7 million), including hedge revaluations of \$15.7 million, and resulted in a gross margin of \$42.9 million (2010: \$37.9 million). When the movement in the hedge valuation is removed, the underlying gross margin was \$59.3 million (2010: \$38.5 million), an increase of 54%.

The Group has fixed price and reallocation agreements with major generators of electricity in Victoria and Queensland that mitigate wholesale pricing risks. These agreements cover the period until December 2013 (in Victoria there is also a one year option to extend the arrangement). These agreements ensure that electricity wholesale costs in Victoria and Queensland are fixed for all electricity used by the Group's customers. In New South Wales the forecast load is substantially hedged via futures instruments.

The Group has a number of gas supply and pricing agreements with major gas suppliers that extend until December 2014. The agreements ensure that costs of the Victorian gas usage will be substantially within a known range. Similar arrangements for the New South Wales and Queensland markets are also in place or under negotiation.

Underlying gross margin per average account fell during the year from \$313 to \$284 due to the lower retail prices from New South Wales and Queensland customer accounts. The result was also impacted by an increase in the cost and number of green products required to be purchased to fulfil compliance obligations. In particular, a significant increase in the costs associated with the Federal Government's renewable energy scheme was not anticipated in our retail pricing structure. The unanticipated increases are estimated at \$2.5 million (\$1.8 million after tax) and resulted in a reduction in the average margin per customer account of approximately \$15.

Operating expenses

Operating expenses for the year totalled \$38.3 million, up from \$26.9 million in the prior year. However operating costs efficiency improved across a range of ratios. Measured on a per customer account basis, overheads fell to \$184 from \$219 in the previous year. As a percentage of the underlying gross margin operating costs reduced to 64% from 69% in the prior year.

The main categories of operating expenses were:

- employee benefits expense of \$8.0 million, up from \$7.3 million recorded in 2010. This reflects the increase in staff numbers to 72 employees from 55 in the prior year as at 30 June.
- operational expenses of \$19.5 million compared to \$12.7 million in 2010, reflecting 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 four years of operation.
- doubtful and bad debts allowance of \$6.0 million compared with \$2.9 million in 2010, reflecting the growth in scale and complexity of the customer base.
- sales and marketing expense of \$1.8 million compared to \$0.6 million in 2010. This expenditure relates to brand promotion activities to support the customer acquisition program.
- administration expenses of \$2.9 million compared to \$3.1 million in 2010.

Depreciation and amortisation

Depreciation and amortisation of \$11.5 million compared to \$6.5 million in 2010 comprised mainly 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. The Group actively initiated strategies during the year to encourage longer retention periods.

Financing costs

Net financing costs of \$6.8 million were down substantially on the 2010 expense of \$10.2 million. Included in the 2011 expense were costs of \$2.3 million (\$2.2 million after tax) relating to the convertible note facility that was put in place and, with shareholder approval, was converted into ordinary shares during the year.

Profitability

The statutory result of a loss of \$9.5 million was an increase on the loss of \$3.2 million in 2010. The statutory result includes, for the first time, the requirement under the accounting standards to record the movements in electricity derivatives as part of the Statement of Financial Performance. Previously the movement was recorded via reserves due to the effectiveness of the derivatives. This change in presentation has occurred due to the uncertainty caused by possible introduction of carbon related taxes or imposts by the Australian Federal Government. While the commercial position remains unchanged, the accounting for derivatives has made the Financial Statements less representative of the business' performance.

The statutory loss also includes the expensing of one off costs associated with a convertible note facility of \$2.2 million after tax (refer above). The cost was originally expensed over the expected life of the convertible note, but was subsequently expensed entirely in the financial year when the facility was ended. A restatement of the statutory result to show the underlying operating result is presented below. The underlying result of \$3.7 million for the year is an average of \$18 per account and 1.6% of revenue.

	Year ended 30 June 2011 \$000s	Year ended 30 June 2010 \$000s
Statutory loss	(9,535)	(3,273)
Adjustment for costs included in the statutory result, after tax:		
Finance costs	2,219	3,732
Hedges	11,053	-
Market re-entry costs	-	961
Underlying profit	3,737	1,420

Cash and cash flows

Cash and cash equivalents at 30 June 2011 totalled \$19.9 million compared to \$8.7 million in 2010. This cash balance includes \$8.5 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 \$33.2 million (2010: \$14.3 million) occurred during 2011 while the underlying operating was a positive cash flow of \$1.7 million (2010: \$4.0 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. The increased deficit reflected the acceleration of customer growth.

	Year ended 30 June 2011 \$000s	Year ended 30 June 2010 \$000s
Customer payments	199,607	115,155
Payments to suppliers and employees	(197,826)	(111,135)
Underlying operating cash flow	1,781	4,020
Customer acquisition costs	(19,592)	(11,304)
Net finance costs	(6,339)	(3,442)
Equipment and systems development	(1,614)	(621)
Credit support (restricted deposits and prepayments)	(7,490)	(3,048)
Operating and investing cash flow	(33,254)	(14,395)

The statutory operating and investing cash flow deficit was funded by an increase in borrowings of \$19.5 million and equity raised of \$19.6 million. Cash held increased by \$5.9 million.

Expenditure on customer acquisition during the 2011 year was \$19.5 million compared to \$11.3 million in 2010. This brought the total acquisition expenditure since commencement to \$41.8 million. The increased rate in customer acquisition expenditure is reflected in the increase in active accounts.

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) or prepayments. At 30 June 2011 \$8.4 million had been provided in the form of bank guarantees and a further \$8.7 million in prepayments, giving a total of \$17.1 million in credit support. As a retailer of energy, 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 74 million shares to 175 million. The main changes that occurred during the 2011 year were:

- short term loans of \$6.1 million were augmented by a further \$0.2 million and then applied to the issue of \$6.3 million of convertible notes. These convertible notes were then converted at the option of the company into 14.3 million ordinary shares. The conversion price was \$0.44 per note. The balance of the convertible note facility issued but not subscribed was cancelled.
- conversion of convertible notes into 15 million shares.
- an issue of 34.5 million ordinary shares at \$0.45 raised \$15.5 million.
- an issue of 10 million ordinary shares at \$0.50 raised \$5 million.

The Group's interest bearing debts increased by \$19.6 million to \$53.7 million. The receivables secured debt facility had 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 down to 66% from 139%.

	Year ended 30 June 2011 \$000s	Year ended 30 June 2010 \$000s
Cash	19,900	8,706
Less amounts held to secure bank guarantees	(8,484)	(3,242)
Net cash	11,416	5,464
Debt	53,691	43,613
Adjust convertible notes to face value	209	-
Adjusted debt	53,900	43,613
Underlying net debt	42,484	38,149
Equity	51,273	27,981
Add back after tax effect of hedge valuations	13,272	(555)
Adjusted equity	64,545	27,426
Underlying net debt to adjusted equity ratio	66%	139%

The Group had at 30 June 2011 a total of \$45.0 million (2010: \$29.5 million) of invoiced and accrued payables. Payables are generally paid monthly. Accrued amounts relate to energy charges which are billed and payable in advance of customer invoicing. Average days outstanding of payables was 78 days at 30 June 2011 (2010: 90 days).

The average working capital per account at 30 June 2011 was \$171 compared to \$131 per account in the prior year. A summary of working capital employed is presented below.

	Year ended 30 June 2011 \$000s	Year ended 30 June 2010 \$000s
Net debtors	71,373	37,351
Inventory	1,565	910
Other current assets (prepayments)	10,087	6,702
Cash held as security for bank guarantees	8,483	3,242
Trade and other payables	(44,991)	(29,179)
Working capital	46,517	19,026
Working capital per account (\$/account)	\$171	\$131
Working capital ratio (current assets divided by current liabilities – times)	2.0	1.7

Working capital

The Group had at 30 June 2011 a total of \$71.3 million, compared to \$37.3 million at 2010, of invoiced and unbilled debtors. Customers are invoiced on either a two or three monthly cycle, which is dependent on meter reading cycles. Customers have approximately 14 days from invoice date to settle amounts owing. These industry characteristics lead to a longer than usual period of collection of amounts due, with the average days outstanding being 113 at 30 June 2011 (2010: 105 days).

FINANCIAL & STATISTICAL SUMMARY





EMPOWERING

Nowadays, our energy world is exploding with options. There's green energy, smart meters, paper or electronic bills, contracts or no contracts, the list goes on. Our role is to ensure our customers have access to relevant information, provided in a clear manner so that it's easy for them to make empowered choices and find the right solution.



(Figures in brackets denote negative balances and are \$'000 unless otherwise noted).

12 months ended 30 June 2011	%	2011	2010	2009	2008	2007
	change 2011 to 2010	\$'000	\$'000	\$'000	\$'000	\$'000
Statement of financial performance						
Underlying results:						
Revenue	76.6%	230,122	130,271	72,756	34,483	898
Gross profit	54.0%	59,325	38,524	14,587	4,998	191
Operating profit/(loss) before interest, tax, depreciation and amortisation (EBITDA)	56.1%	21,106	13,522	(2,468)	(6,949)	(6,824)
Depreciation and amortisation	74.9%	(11,458)	(6,552)	(6,969)	(5,329)	(447)
Operating profit/(loss) before interest and tax (EBIT)	38.4%	9,648	6,970	(9,437)	(12,278)	(7,271)
Finance costs	9.1%	(4,480)	(4,927)	(4,818)	(3,324)	(102)
Operating profit/(loss) before tax	152.9%	5,168	2,043	(14,255)	(15,602)	(7,373)
Tax benefit/(expense)	133.7%	(1,432)	(613)	4,368	4,804	2,040
Net profit/(loss) after tax	161.2%	3,737	1,430	(9,887)	(10,798)	(5,333)
Statutory results:						
Net loss after tax	191.4%	(9,536)	(3,273)	(9,887)	(10,798)	(5,129)
Statement of financial position						
Total assets	56.5%	171,533	109,578	85,276	75,447	71,150
Cash and cash equivalents	128.6%	19,900	8,706	5,488	5,913	6,871
Trade and other receivables	91.1%	71,373	37,351	21,005	11,472	1,599
Inventories	72.0%	1,565	910	-	-	-
Intangible assets	22.5%	50,906	41,558	39,214	38,066	36,799
Deferred tax assets	24.5%	16,927	13,600	11,720	5,118	-
Hedge assets	-	-	-	-	7,543	17,095
Other assets	45.7%	10,862	7,453	7,849	7,335	8,786
Total liabilities	47.4%	120,258	81,596	54,164	29,965	14,010
Trade and other payables	52.5%	44,990	29,179	23,849	10,119	5,014
Borrowings	23.1%	53,691	43,613	26,957	16,751	4,264
Hedge liabilities	851.2%	15,790	1,660	19	-	-
Other liabilities	154.4%	5,788	6,821	3,339	3,095	4,732
Total equity	83.2%	51,274	27,981	31,112	45,482	57,140

12 months ended 30 June 2011	%	2011	2010	2009	2008	2007
	change 2011 to 2010	\$'000	\$'000	\$'000	\$'000	\$'000
Statement of cash flows						
Underlying operating cash outflow	55.7%	1,781	4,020	882	(11,961)	(8,722)
Credit support provided (cash or cash-backed bank guarantees)	145.7%	(7,490)	(3,048)	(2,674)	(1,698)	(1,117)
Customer acquisition costs	73.3%	(19,592)	(11,304)	(5,692)	(4,738)	(540)
Net finance costs	84.2%	(6,339)	(3,442)	(2,055)	(612)	(972)
Investment in equipment and systems	160.0%	(1,614)	(621)	(28)	(39)	(333)
Operating and investing expenditure	131.0%	(33,254)	(14,395)	(9,567)	(19,048)	(11,684)
Equity raised (net of costs)	na	19,618	-	-	3,453	11,277
Debt raised	14.2%	19,587	17,149	9,179	12,940	4,548
Financing cash flow	128.6%	39,205	17,149	9,179	16,393	15,825
Net increase/decrease in cash	116.1%	5,951	2,754	(388)	(2,655)	4,141
Statistics and ratios						
Key ratios						
Gearing (net debt to equity)	39.0%	83%	136%	78%	31%	na
Underlying EPS per share (basic & diluted – \$/share)	86.8%	0.03	0.01	(0.09)	(0.11)	na
Statutory EPS per share (basic & diluted – \$/share)	108.6%	(0.07)	(0.03)	(0.09)	(0.11)	na
NTA per share (basic & diluted – \$/share)	190.4%	0.11	(0.13)	(0.07)	(0.06)	(0.02)
Total customer accounts						
Total accounts	87.8%	272,443	145,074	100,100	54,008	5,700
Revenue per average account	3.7%	\$1,102	\$1,063	\$944	\$923	\$315
Employees						
Employees (number of full time equivalents)	32.7%	72	55	33	24	23
Revenue per employee (\$000s)	24.7%	\$3,152	\$4,184	\$2,205	\$1,437	\$39
Capital structure						
Number of shares at year end (million)	73.1%	175.5	101.4	101.3	100.3	85.1
Number of options at year end (million)	45.2%	55.2	38.0	31.0	29.3	17.8

RISK MANAGEMENT

WHOLESALE ENERGY AND OPERATIONAL RISK
MINIMISATION IS A CORE COMPONENT OF THE
AUSTRALIAN POWER & GAS BUSINESS MODEL



FAIR

Long lasting relationships are the key to growing our business so we are obsessive about playing a valued role in our customers lives. Part of this is celebrating loyalty and recognising the importance of every individual customer. We understand that healthy relationships are built on trust which is why we're always transparent and fair.



Risk management process

As some risks can have a significant financial impact, the Australian Power & Gas (Group) has always taken a transparent 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 minimise the impact of each of these risks via contractual arrangements.

This process sets us apart from other smaller retailers. While the formation of the business has entailed higher overhead and hedging costs, it has 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 review by the Board of the nature and amount of transactions with parties with significant equity interest in Australian Power & Gas.
- delegating Board responsibility for risk management to the Risk Management Committee to review and advise the Board. The Risk management Committee consists 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 minute and 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-backed 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, Victoria and Queensland.

Victoria

An electricity pricing agreement operates until December 2013 and covers our entire customer usage in the Victorian market. The agreement means that we pay a fixed price for only the energy used by our Victorian customers (i.e. 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.

A 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. There are minimum quantity requirements and maximum volumes at various times through the year. We occasionally buy gas via the agreement and 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 2011 financial year we used more gas than provided under the agreement, particularly during peak times. As a result we have put in place other mechanisms that help us mitigate pricing and volumetric risk.

These measures include the renting of storage capacity to hold surplus gas and capacity to inject liquidified natural gas. At peak times we can provide gas from these sources and avoid 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 and actual customer usage. A dedicated team monitor the gas market and customer usage and implement strategies that minimise costs from these types of variances.

AUSTRALIAN POWER & GAS HAS ALWAYS TAKEN A TRANSPARENT APPROACH TO RISK MANAGEMENT

Queensland

We have put in place an electricity pricing agreement in Queensland with a major electricity generator. This agreement will provide us 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.

New South Wales

In New South Wales a more active approach is taken to managing electricity price risk, with energy price risk hedged via swaps purchased on the Sydney Futures Exchange. An arrangement put in place since the end of the financial year will facilitate the continued expansion of the customer base. The arrangement allows Australian Power & Gas to put in place pricing swaps with minimal capital requirements.

Regulatory risk

Energy industry regulations vary in each state and in addition there are also some national rules. From inception we have had a team of experienced regulatory professionals who deal with and understand the drivers behind the regulations and the regulatory bodies. Developing relationships with these bodies and having processes that expeditiously deal with issues as they arise is vital to ensure the smooth operation of our business.

The Group has obligations under a number of green related schemes regulated by State and Commonwealth Governments. 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 and we were fully compliant during the 2010 calendar year.

Operational risks

Some operational risks have been identified as having the potential to impact 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 broadening the number and types of channels used.
- the Group 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 amounts of capital was identified as a key component 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 requirements. The key elements of the structure are set out below.

There are 175 million shares on issue. When added to reserves and accumulated losses the total shareholder equity was \$51.2 million at 30 June 2011. New equity of \$20.5 million was raised during the financial year. This resulted in the fall in the underlying ratio of debt to equity to 66% in 2011 from 139% in 2010.

The debt facility and convertible instruments in place have a mix of floating and fixed rates.

The principal debt facility as at 30 June 2011 had a balance of \$47.2 million, a duration of 1.5 years and an interest rate (floating) of 11.0%. The portion of debt drawn under the facility at year end was almost 100% as during the winter peak, when energy costs are generally paid ahead of customer invoicing, the need for financing of working capital is at its peak.

The convertible instrument with a balance owing of \$4.0 million has a duration of 1.5 years and fixed interest rate of 8%. The instrument is drawn to 100% of the available amount. A term loan that expires in December 2011 of \$2.7 million has a fixed interest rate of 20.0%.

Financial assurance and audit

Since the inception of the business the management team have developed internal control processes and reporting mechanisms.

During the coming financial year a regular system review audit of the integrity of internal processes will be commenced. The purpose of this audit is to not only 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 process is designed to reduce 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 Chief Executive Officer and Chief Financial Officer statements to the Board on the effectiveness of the internal control systems and integrity of the financial statements.

DIRECTOR'S REPORT

THE DIRECTORS OF AUSTRALIAN POWER AND GAS COMPANY LIMITED (COMPANY) PRESENT THEIR REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2011, 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 IS AS FOLLOWS:

1. DIRECTORS

NONE OF THE DIRECTORS HAVE BEEN PARTNERS OF THE COMPANY'S AUDITOR, DELOTTE TOUCHE TOHMATSU.

THE DIRECTORS OF THE COMPANY AT ANY TIME DURING OR SINCE THE END OF THE FINANCIAL YEAR TO THE DATE OF THIS REPORT WERE:

2. COMPANY SECRETARY

MR DAVID FRANKS HAS HELD THE POSITION OF COMPANY SECRETARY DURING THE FINANCIAL YEAR TO THE DATE OF THIS REPORT.

1 DIRECTORS



Mr Ian McGregor

BBS, CA, FICS

Chairman

Non-executive director, independent

Appointed: 14 April 2000 as director

24 October 2007 as Chairman

Age: 54

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



Mr Michael Hogg

Non-executive director, non-independent

Appointed: 20 November 2006

Aged: 50

Michael is a former Australian Chief Executive Officer 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).



Mr James Myatt

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

Chief Executive Officer

Managing Director, non-independent

Appointed: 3 July 2006 as Chief Executive Officer

16 November 2007 as director

Age: 45

James has more than 20 years experience in the energy sector holding senior positions with Energy Australia, TXU Australia, Duke Energy International and AGL/Solaris Power. James is also the current chairman of the Energy Retailers Association of Australia.



Mr Richard Poole

LLB, Bjuris B Comm ASIA

Non-executive director, non-independent

Appointed: 16 July 2003

Aged: 48

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).



Mr Shinji Wada

Non-executive director, non-independent

Appointed: 1 July 2011

Age: 59

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.

His previous roles in Nippon Gas include Manager of Western Kanto Office, Director of Sales, President of a computer-systems business and President of a gas infrastructure construction business.

2 COMPANY SECRETARY



Mr David Franks

CA, BEc, FFin, CFP, JP

Company Secretary

Appointed: 15 December 2003

Age: 40

David is responsible for company secretarial functions within the Group. 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 and Wallace Absolute Return Limited.

3. 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 No.	Options over ordinary shares No.
Ian McGregor	2,162,009	1,600,000
James Myatt	918,026	5,142,857
Richard Poole	25,055,167	5,000,000
Michael Hogg	3,867,144	-
Shinji Wada	-	-

Subsequent to the end of the financial year Mr Myatt has been awarded 3 million performance shares. The issue of these shares is subject to shareholder approval. Refer to the Remuneration Report for further details.

4. 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.

5. Review of operations

Underlying profit after tax of \$3.7 million was achieved, up from the \$1.4 million result for the prior year. The current year result was within the guidance range previously provided to the market of \$3.5 million to \$4.5 million.

The Statutory loss of \$9.5 million includes an expense of \$15.7 million (after tax \$11.0 million) representing the change in fair value of derivative instruments and costs relating to a convertible note issue of \$2.3 million (after tax \$2.2 million). 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, have substantial write downs due to forward prices at June 2011 being lower than the fixed prices within the contracts.

The write down relating to the financial hedges has no affect 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 due to the uncertain impact of the carbon tax proposed by the Australian Federal Government.

	Year ended 30 June 2011	Year ended 30 June 2010
	\$000s	\$000s
Statutory loss	(9,535)	(3,273)
Adjustment for costs included in the statutory result, after tax:		
Finance costs	2,219	3,732
Derivative instruments	11,053	-
Market re-entry costs	-	961
Underlying profit	3,737	1,420

A more detailed review of the operations of the Group during the financial year and the results of these operations is contained on pages 21 to 26.

6. Dividends

No dividends were paid or provided for during the financial year. 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 payable on 26 September 2011. The amount of the dividend payable was \$925,440 (2010: nil).

7. Subsequent events

Subsequent to the end of the financial year the following significant events have occurred:

- 10,714,286 options have converted into ordinary shares and the exercise price of \$2,750,000 million was received in cash between 31 August and 23 September 2011 (refer Item 10).
- A review of the covenant requirements under the debt facility was conducted with the Group's debt facility provider following the breach and subsequent waiver of certain financial covenants. On 27 September 2011 the Group signed a Deed of Amendment that amended those covenants to reflect the growth in the Group's business. The directors are confident that the Group will remain in compliance with all covenants under the facility.

Other than these items, 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.

8. Future developments

During the 2011 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 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.

9. Environmental regulations

There are no significant environmental regulations applying to the Group.

10. Options and convertible notes

As set out in Note 26 of the Financial Report there were 55,164,652 options on issue as at 30 June 2011 (2010: 38,009,110). 667,697 options were exercised during the financial year (2010: nil). Subsequent to year end options that have been exercised are:

- 7,142,858 options that had an exercise price of \$0.21 each and an expiry date of 30 September 2011.
- 3,571,428 options have been converted that have an exercise price of \$0.35 each and an expiry date of 30 September 2011.
- 449,468 options have been converted that have an exercise price of \$0.40 and an expiry date of 30 October 2014.
- 228,070 options have been converted that have an exercise price of \$0.45 and an expiry date of 30 October 2014.

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 2011. 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.

11. Directors' meetings

During the financial year there were 13 meetings of directors and six Risk Management Committee meetings. Attendances by each director during the year were as follows:

Director	Board meetings		Risk Committee Meetings	
	Eligible	Attended	Eligible	Attended
Ian McGregor	13	13	6	6
James Myatt	13	13	6	6
Richard Poole	13	12	n/a	n/a
Michael Hogg	13	10	n/a	n/a

Mr Shinji Wada was appointed as a director from 1 July 2011 and therefore was not eligible to attend any meetings during the year ended 30 June 2011.

The Nomination and Remuneration Committee and the Audit and Finance Committee functions were carried out at a full Board level during the financial year. Accordingly there were no separate meetings of those committees during the financial year. Subsequent to year end the Board has formed a Nomination and Remuneration Committee.

12. Indemnification of officers and 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.

13. 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.

14. 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.

15. 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 109 of the Annual Report.

16. 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.

17. Remuneration report

This report sets out information about the remuneration of the directors and senior management of the Group. The term "senior management" is used in this remuneration report to refer to the persons who are engaged by the Group in management positions and also includes the five highest remunerated employees of the Company and the Group (other than the Chief Executive Officer who is listed under directors).

Overview of policy

The remuneration policy of the Group has been designed to align director and senior management 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 board members and senior management of the economic entity is as follows:

- the remuneration policy, setting the terms and conditions for the directors and senior management, was developed by the Board after seeking professional advice from independent external consultants.
- executives receive a base salary, which is based on external benchmarking, performance reviews and experience, together with superannuation, fringe benefits and performance incentives (such as options).
- the Board reviews executive packages annually by reference to the Group's performance, executive performance and comparable information from industry sectors.

All remuneration paid to the directors and Senior Management is valued at the cost to the Group and expensed. Shares or options awarded to directors and Senior Management are valued using the Black-Scholes methodology.

Director and senior management details

The following persons acted as directors of the Company for the whole of the financial year and since the end of the financial year (refer Item 1 above for directors' details), unless otherwise noted:

Mr Ian McGregor
(Chairman)

Mr James Myatt
(Chief Executive Officer or CEO)

Mr Michael Hogg

Mr Richard Poole

Mr Shinji Wada
(appointed 1 July 2011)

The following persons acted as senior management of the Group (senior management) for the whole of the financial year and since the end of the financial year, unless otherwise noted:

Ms Deborah Dickens

(appointed to role August 2010)
General Manager Commercial Operations

Mr David Goadby

(appointed July 2011)
General Manager Sales,
Marketing and Public Relations

Mr Warren Kember

Chief Financial Officer

Ms Shelley Reed

(appointed to role January 2011)
General Manager Wholesale – Gas

Ms Joanne Shatrov

General Counsel

Ms Caroline Wykamp

(appointed to role January 2011)
General Manager Wholesale - Electricity

Senior Management who left during the year

Mr Andrew Butler

(resigned January 2011)
Previously General Manager Sales,
Marketing and Public Affairs

Mr Thomas Gilpin

(resigned August 2010)
Previously General Manager Commercial Operations

Senior management remuneration

Remuneration of senior management and the Chief Executive Officer 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, 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.

The performance targets for senior management during the 2011 financial year were:

- revenue during the year ended 30 June 2011 of more than \$210 million.
- earnings before interest and tax for the year ended 30 June 2011 of more than \$11 million.
- operating costs as a ratio to gross margin of 60% or less.
- more than 250,000 transferred customers as at 30 June 2011.
- 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.

A short term incentive is payable to a maximum of 20% of the fixed remuneration of the executive if the targets are all achieved. The short term incentive is calculated on a pro-rata basis if actual performance is 85% or more of the performance target. No incentive is payable if actual performance is less than 85% of the performance target. The incentive is only paid if the executive remains employed at the time of payment.

During the current financial year the achievement of goals within expectations meant a short term incentive of 14.8% of fixed remuneration was payable. There were no other short term incentives offered to senior management.

In addition to the short term incentive, during the financial year long term incentives were also provided to senior management. An Employee Share Option Plan (ESOP) provides a framework for the allocation of options to senior management and other employees of the Group. 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. During the 2011 financial year the performance target and employment conditions for the vesting of options were:

- achievement of 250,000 transferred accounts by 31 December 2011.
- employment continuity for a period of 1 to 2 years.

The performance target and employment conditions are combined with setting exercise prices above the Company's share price at the time of issue so as 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 also includes 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 3 years.

Chief Executive Officer remuneration

James Myatt has been the Chief Executive Officer of the Group since its inception in June 2006. The key terms of Mr Myatt's employment contract in effect during the year ended 30 June 2011 and subsequently are set out below.

	Applying during the year ended 30 June 2011	Applying from 1 July 2011
Term:	No fixed term, employment continues until resignation or terminated by the Group. 6 months notice is required by either Mr Myatt or the Group to terminate his appointment.	3-year term to June 2014. The agreement may be terminated by Mr Myatt giving 6 months notice.
Fixed Remuneration:	Effective from 1 October 2010 fixed remuneration of \$488,250 per annum (\$450,000 prior to 1 October 2010).	Effective from 1 July 2011 fixed remuneration of \$550,000 per annum.
Short term incentive:	Mr Myatt is entitled to an annual short term incentive payment (cash) in future periods based on performance criteria agreed annually. For the 2011 year the short term incentive was a maximum of 25% of fixed remuneration subject to the achievement of performance targets and remaining employed at the end of the financial year. The short term incentive was calculated based on: <ul style="list-style-type: none"> • 50% based on achievement of performance targets set out above for senior management. • 50% based on achievement of the market capitalisation of the Company being greater than \$80 million for at least 30 trading days during the financial year. 	Mr Myatt is entitled to an annual short term incentive payment (cash) in future periods based on performance criteria agreed annually. A maximum incentive of 40% of fixed remuneration is payable upon achievement of performance conditions.
Long term incentive:	Mr Myatt was also entitled to a long term incentive in the form of options issued by the Company. The incentive provided during the year ended 30 June 2011 was 1 million options. The options vest upon the achievement of 250,000 customer accounts by 31 December 2011 (which was achieved prior to 30 June 2011) and Mr Myatt remaining employed by the Group until 30 June 2012 (50%) or 30 June 2013 (50%).	Mr Myatt is entitled to a long term incentive in the form of 3 million shares to be issued by the Company, subject to shareholder approval at AGM. The shares are subject to performance targets which must be satisfied by 30 June 2014: <ul style="list-style-type: none"> • market capitalisation of the Company of \$300 million for more than 60 consecutive days during the 3 year period from 1 July 2011. • Mr 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 Mr Myatt is terminated by the Company, depending on the circumstances.

	Applying during the year ended 30 June 2011	Applying from 1 July 2011
Loan for conversion:	<p>Mr 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 Mr Myatt. The loan is repayable within 14 days after provision of notice by the Company. As of 30 June 2011 no loan has been provided.</p>	<p>Mr 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 Mr Myatt. The loan is repayable within 14 days after provision of notice by the Company. As of 30 June 2011 no loan has been provided.</p>
Termination benefit:	<p>Employment can be terminated by either party with six months notice period. The Company may elect to make a payment in lieu of notice being provided. In the event of a change in the shareholding of the Company or of its subsidiaries such that one party holds more than 50% of the issue ordinary shares, unless a similar position is taken or maintained within 90 days of the change, 12 months of fixed remuneration, short term and long term incentives that would have been issued or payable shall be issued or paid.</p> <p>The Group may terminate Mr Myatt's employment in the following circumstances:</p> <ul style="list-style-type: none"> • 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 disrupt or is incompatible with his capacity as set out in his agreement. 	<p>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 event and the duties or responsibilities of Mr 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 is subject to shareholder approval at the AGM. Upon the agreement reaching the end of its term Mr Myatt is entitled to 6 months remuneration.</p> <p>The Group may terminate Mr Myatt's employment in the following circumstances:</p> <ul style="list-style-type: none"> • 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 disrupt or is incompatible with his capacity as set out in his agreement.
Restraint post employment:	<p>For 6 months following the termination of employment, Mr Myatt must not approach any customer or employee to entice them to discontinue their relationship with the Group.</p>	<p>For 6 months following the termination of employment, Mr Myatt must not approach any customer or employee to entice them to discontinue their relationship with the Group.</p>

Non-executive director remuneration

Board 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. Independent external advice is sought when required. 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 2011.

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 as apply to senior management. Details of options issued to all employees are contained in Note 26(a) of the financial statements.

Relationship between remuneration policy and 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 improvement in the Company's share price during the year is attributed by the board to have occurred due to the growth in customer accounts and improving underlying results from the Group's activities.

The tables below set out summary information of the Group's earnings and movements in shareholder wealth for the years ended 30 June 2007 to 2011:

Year ended	30 June 2011	30 June 2010	30 June 2009	30 June 2008	30 June 2007
Operating and financial results					
Active customer accounts	272,000	145,000	100,000	54,000	5,700
Underlying net profit after tax (\$m)	\$3.7	\$1.4	(9.8)	(10.8)	(5.3)
Underlying earnings per share (cps)	2.6	1.4	(9.8)	(11.7)	(8.5)
Share price and capitalisation					
Share price at start of year (i) (cps)	46	13	20	66	77
Share price at end of year (ii) (cps)	55	46	13	20	66
Market capitalisation (\$m)	\$87.7	\$46.4	\$13.2	\$20.0	\$56.2

(i) Share price at the beginning of the year, for the year ended 30 June 2007, is as at the relisting of the Company on the Australian Stock Exchange on 18 January 2007.

(ii) No dividends or share buy backs have been paid or occurred during the last three financial years. Post year end a dividend of 0.5 cents per share has been declared in respect of the year ended 30 June 2011.

Details of directors and senior management remuneration

The remuneration of non-executive directors and senior management of the Group during the year is set out below.

The remuneration shown includes all amounts paid or owing for the financial year.

2011	Short-term employee benefits			Post employment benefits	Share based payments	Total	Value of equity as a % of total
	Salary & fees \$	Bonus \$	Other \$				
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%
2010	Short-term employee benefits			Post employment benefits	Share based payments	Total	Value of equity as a % of total
	Salary & fees \$	Bonus \$	Other \$	Superannuation \$	Shares & options \$	\$	%
Directors							
I McGregor	95,871	-	-	8,628	142,936	247,435	57.8%
J Myatt	393,693	45,794	-	35,432	182,712	657,631	27.8%
M Hogg	60,000	-	-	-	-	60,000	-
R Poole	60,000	-	-	-	-	60,000	-
Senior management							
T Gilpin	211,004	79,666	28,102	18,990	69,517	407,279	17.1%
A Butler	244,793	29,881	-	13,744	92,356	380,774	24.3%
W Kember	234,819	19,058	-	21,133	69,517	344,528	20.2%
S Reed	168,951	55,732	-	15,205	8,640	248,529	3.5%
J Shatrov	166,572	14,577	-	14,991	23,839	219,979	10.8%
	1,635,703	244,708	28,102	128,126	589,517	2,626,155	22.4%

Long term incentives

During the financial year long term incentive arrangements were in existence that had been issued in a prior financial year or during the current financial year. The incentive arrangements consist of options and shares award to directors and senior management under the Group's ESOP and ESP.

Vesting of options for the Chief Executive Officer and senior management is linked to attaining operating performance targets and length of employment. 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. Options expire on the earlier of their expiry date or within three to six months of termination of employment, depending on the circumstances of the termination.

During the financial year the following issues of share options were in existence that had been issued in a prior financial year or during the current financial year.

Number of options	Grant date	Expiry date	Exercise price	Performance conditions outstanding at 30.06.11	Fair value at date of grant per option	% vested	Vesting date
Granted in prior financial years							
214,286	18.12.06	30.09.10	\$0.70	Nil	\$0.43	100%	Expired at 30.06.11
1,714,286	18.12.06	(i)	(i)	(i)	(i)	100%	6 months after conditions met
1,028,571	12.03.07	(ii)	(ii)	(ii)	(ii)	100%	6 months after conditions met
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
2,000,000	19.08.08	(iii)	(iii)	(iii)	(iii)	100%	When conditions met
257,143	28.10.08	1.10.13	\$0.35	Nil	\$0.06	100%	28.04.09
320,000	28.10.08	1.10.13	\$0.35	(iv)	\$0.06	-	01.10.11
142,857	21.11.08	1.10.13	\$0.35	Nil	\$0.09	100%	21.05.09
1,000,000	22.12.09	01.07.14	\$0.20	Nil	\$0.14	100%	22.12.09
2,375,000	18.02.10	30.10.14	\$0.45	(v)	\$0.10	-	28.02.11
2,425,000	18.02.10	30.10.14	\$0.40	(v)	\$0.09	-	28.02.12
Granted in current financial year							
500,000	10.12.10	30.10.14	\$0.50	(vi)	\$0.09	-	30.06.12
500,000	10.12.10	30.10.14	\$0.55	(vi)	\$0.08	-	30.06.13
125,000	30.09.10	30.10.14	\$0.50	(vi)	\$0.10	-	30.06.12
125,000	30.09.10	30.10.14	\$0.55	(vi)	\$0.10	-	30.06.13
650,000	11.03.11	30.10.15	\$0.55	(vii)	\$0.10	-	30.06.12
650,000	11.03.11	30.10.15	\$0.60	(vii)	\$0.10	-	30.06.13

Details of performance conditions outstanding at 30 June 2011.

	Number of options issued	Exercise price	Expiry date	Performance conditions outstanding at 30.06.11	Notes	Fair value at grant date per option \$
(i)	428,571	\$0.70	30.09.09	Expired unexercised	1,2,3	\$0.18
	428,571	\$0.84	30.09.10	Expired unexercised	1,2,3	\$0.20
	571,429	\$0.98	30.09.11	Cancelled	1,2,3	\$0.22
	285,714	\$1.12	30.09.11	Cancelled	1,2,3	\$0.21
	1,714,286					
(ii)	257,143	\$0.70	30.09.09	Expired unexercised	1,2,3	\$0.29
	257,143	\$0.84	30.09.10	Expired unexercised	1,2,3	\$0.31
	257,143	\$0.98	30.09.11	Cancelled	1,2,3	\$0.34
	257,143	\$1.12	30.09.11	Cancelled	1,2,3	\$0.32
	1,028,571					
(iii)	500,000	\$0.50	30.10.12	Achieved	3	\$0.10
	500,000	\$0.60	30.10.12	Achieved	3	\$0.09
	500,000	\$0.70	30.10.13	Achieved	3	\$0.10
	500,000	\$0.80	30.10.13	Achieved	3	\$0.10
	2,000,000					
(iv)	320,000	\$0.35	1.10.13	Nil	3	\$0.06
(v)	2,375,000	\$0.45	30.10.14	Achieved	3	\$0.10
	2,425,000	\$0.40	30.10.14	Achieved	3	\$0.09
(vi)	1,250,000	\$0.50-\$0.55	30.10.14	250,000 customer accounts by 31 December 2011	3	\$0.08-\$0.10
(vii)	1,300,000	\$0.55-\$0.60	30.10.15	250,000 customer accounts by 31 December 2011	3	\$0.10

1. Options vest six months after performance conditions satisfied.
2. Number of options will be adjusted pro rata if the number of ordinary shares on issue exceeds 100,285,714 on a fully diluted basis.
3. If employment is terminated for non-performance, negligence or misconduct options do not vest. If employment terminated for other reasons, then options will vest on a pro rata basis once performance condition has been met.

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

- 2,257,143 (2010: 685,714 share) options granted to the chief executive officer or senior management in prior financial years, lapsed unexercised or were cancelled. All lapsed share options had exercise prices above the ordinary share price at the time of lapsing and accordingly their value at that time was nil.
- 1,178,084 share options (2010: nil) granted in prior years were forfeited upon leaving the employment of the Group.

- 588,526 (2010: nil) options were exercised and converted into 163,354 shares. The shares issued had a value upon issue of \$79,454.
- 2,550,000 (2010: 5,800,000) share options were issued as compensation to senior management during the current financial year as set out in the table below. No options issued during the current year were forfeited during the current year.

Details of the options issued to the chief executive officer or other senior management during the financial year by individual employee is presented below.

Name	Grant date	Expiry date	Exercise price	Fair value at grant date	Number granted during the year	Performance conditions outstanding 30 June 2011
Directors						
James Myatt	10.12.10	30.10.14	\$0.50	\$0.09	500,000	Note 1
James Myatt	10.12.10	30.10.14	\$0.55	\$0.08	500,000	Note 2
Senior Management						
Deborah Dickens	30.09.10	30.10.14	\$0.50	\$0.10	125,000	Note 1
Deborah Dickens	30.09.10	30.10.14	\$0.55	\$0.10	125,000	Note 2
Warren Kember	11.03.11	30.10.15	\$0.55	\$0.10	250,000	Note 1
Warren Kember	11.03.11	30.10.15	\$0.60	\$0.10	250,000	Note 2
Joanne Shatrov	11.03.11	30.10.15	\$0.55	\$0.10	250,000	Note 1
Joanne Shatrov	11.03.11	30.10.15	\$0.60	\$0.10	250,000	Note 2
Shelley Reed	11.03.11	30.10.15	\$0.55	\$0.10	75,000	Note 1
Shelley Reed	11.03.11	30.10.15	\$0.60	\$0.10	75,000	Note 2
Caroline Wykamp	11.03.11	30.10.15	\$0.55	\$0.10	75,000	Note 1
Caroline Wykamp	11.03.11	30.10.15	\$0.60	\$0.10	75,000	Note 2
Total issued						2,550,000

Notes:

1. Employed at 30 June 2012. Customer account condition of 250,000 was attained prior to 30 June 2011.
2. Employed at 30 June 2013. Customer account condition of 250,000 was attained prior to 30 June 2011.

During the financial year 2011 10,000 (2010: 14,705) ordinary shares were issued as compensation to senior management. All shares are subject to an escrow (non-sale) period of 3 years from the date of grant of 11 March 2011 (2010: 18 February 2010).

Name	Grant date	Issue price	Number granted
Deborah Dickens	11.03.11	\$0.50	2,000
Warren Kember	11.03.11	\$0.50	2,000
Joanne Shatrov	11.03.11	\$0.50	2,000
Shelley Reed	11.03.11	\$0.50	2,000
Caroline Wykamp	11.03.11	\$0.50	2,000
Total issued			10,000

Signed in accordance with a resolution of directors dated 30 September 2011 and made pursuant to s298(2) of the Corporations Act 2001.

On behalf of the directors



Ian McGregor
Chairman

CORPORATE GOVERNANCE STATEMENT

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. An extensive review of the Company's corporate governance framework was completed in July 2009 in light of the best practice recommendations released by the Australian Stock Exchange Corporate Governance Council in August 2007. 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 longer 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 28 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:

- the Board is to be comprised of 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 is elected by the full Board and is required to meet regularly with the Managing Director.
- the Company is to maintain a mix of directors on the Board from different backgrounds with complementary skills and experience.
- the Board is required to undertake an annual Board performance review and consider 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 non independent non executive Chairman (Mr McGregor), an executive Managing Director and Chief Executive Officer (CEO – Mr Myatt) and three non executive directors (Mr Poole, Mr Hogg and Mr Wada). Mr McGregor was deemed non-independent during the 2010-11 year, however it is expected that he will be reclassified as 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 Chief Financial Officer (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' report under the heading Directors' Details.

As at the date of this report, there are four directors, three of whom are non executive directors, and none of whom is currently deemed independent under the principles set out on the following page.

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.

Directors' independence

The Board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be a non executive and adhere to the following criteria;

- not be a 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, not have 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, not have 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.
- not have 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 director's 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 three times during the 2011 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 and Chief Executive Officer

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 13 Board meetings during the 2011 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 2011, 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

Mr Ian McGregor and entities connected with Mr Richard Poole and Mr Michael Hogg had business dealings with the Group during the 2011 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 2011 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. A policy of rotation of committee members applies.

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 nomination and remuneration and audit and finance committees would be carried out at a full Board level during 2010/11. On 23 August 2011, a separate nomination and remuneration committee was formed.

Nomination and remuneration committee

The nomination and remuneration committee during the 2011 year was carried by the full Board. Subsequent to year end, a nomination and remuneration committee has been established to assume responsibility for this function and provide advice to the full Board. From 23 August 2011, the committee members are Mr Ian McGregor (Chair), Mr Richard Poole and Mr Michael Hogg.

The nomination and remuneration committee, carried out at a full Board level in 2010/11, 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 nomination and remuneration committee operates in accordance with its charter. The nomination and remuneration committee advises the Board on remuneration and incentive policies and practices generally, and makes 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 and finance committee

The audit and finance committee is presently carried out at the full Board level.

Details of these directors' qualifications are set in the directors' report in the 2011 Financial Report and attendance at audit and finance committee meetings are set out in the directors' report in the 2011 Financial Report.

The audit and finance committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industries in which the Group operates.

The audit and finance committee operates in accordance with a charter. The main responsibilities of the committee are to:

- review, assess and approve the annual full and concise 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 audit and finance committee:

- 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 Chief Finance Officer 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 audit and finance committee 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; the 2011 financial year is the fifth year of this process.

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 2011 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

The risk management committee was carried out at the full Board level during the first half the 2011 year. A risk management committee was established during the year and met 6 times. The risk management committee consists of a mix of non-executive directors, the CEO and senior management.

The risk management committee 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 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 risk management committee is required to ensure that appropriate controls are in place to effectively manage those risks.

The environment, health and 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 2011 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 set as 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.	All directors on a Board of five are considered non independent, although Mr McGregor is expected to become independent on 1 January 2012. Therefore the Board does not have a majority of independent directors.
2.2	The chairperson should be an independent director.	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.
2.3	The role of the chairperson and chief executive officer should not be exercised by the same individual.	Mr McGregor is presently considered non-independent however is expected to regain independent status by January 2012.
2.4	The Board should establish a nomination committee.	Comply
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual directors.	Partially comply. Due to size of Company and Board, the committee is conducted at a full Board level for 2010/11. A separate committee was established on 23 August 2011.
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 Chief Executive Officer (or equivalent) and any other key executives as to:	
	The practices necessary to maintain confidence in the Company's integrity.	Comply
	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.	
3.2	Disclose the policy concerning trading in Company securities by directors, officers and employees.	Comply
3.3	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:	Qualified compliance	1
	Only non-executive directors	Do not comply	2
	A majority of independent directors	Do not comply	3
	An independent chairperson, who is not chairperson of the Board	Comply	
	At least three members	Comply	
4.3	The audit committee should have a formal charter.		
4.4	Provide the information indicated in Guide on Principle 4.		

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 Chief Executive Officer (or equivalent) and the Chief Financial Officer (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.	Partially comply. The function was conducted at a full Board level during the financial year. A separate committee was established on 23 August 2011
8.2	Clearly distinguish the structure of non-executive directors remuneration from that of executives.	Comply
8.3	Provide the information indicated in Guide on Principle 8.	Comply

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.

2 Refer Principle 2.1.

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 non-independent Chairman acting as the Chair for these purposes as well.

FINANCIALS

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INDEPENDENT

As a modern independent company, we stand alongside our customers. We are not owned by a generator or tied to a network business and as such we can be a passionate customer advocate. We know that we will live or die by how well we serve our customers so their best interests are our best interests. We pride ourselves on being empathetic and we're not afraid to challenge the paradigms of the industry if customers are ever being disadvantaged.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2011 \$'000	2010 \$'000
Continuing operations			
Revenue	3(d)	230,122	130,271
Other income	3(d)	223	568
Expenses	4(a)	(225,029)	(118,690)
Profit before finance costs, depreciation and amortisation		5,316	12,149
Depreciation and amortisation	4(b)	(11,458)	(6,552)
(Loss)/profit before finance costs		(6,142)	5,597
Finance costs	4(c)	(6,857)	(10,258)
Loss before tax		(12,999)	(4,661)
Income tax benefit	5(a)	3,464	1,388
Loss attributable to shareholders of the Company		(9,535)	(3,273)
Other comprehensive income			
Net gain/(loss) on cash flow hedges		1,659	(1,647)
Income tax		(492)	492
Total comprehensive income for the year		(8,368)	(4,428)
Earnings per share			
Basic and diluted (cents per share)	19	(6.7)	(3.2)

Notes to the financial statements form part of the Financial Report and are included on pages 69 to 108.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2011 \$'000	2010 \$'000
Current assets			
Cash and cash equivalents	6	19,900	8,706
Trade and other receivables	7	71,373	37,351
Inventories	8	1,565	910
Intangible assets	11(d)	9,819	4,948
Other	9	10,087	6,702
Total current assets		112,744	58,617
Non-current assets			
Property, plant and equipment	10	775	480
Deferred tax assets	5(e)	16,927	13,600
Intangible assets	11(d)	41,087	36,880
Total non-current assets		58,789	50,960
Total assets		171,533	109,577
Current liabilities			
Trade and other payables	12	44,990	29,179
Borrowings	13	2,700	6,100
Other financial liabilities	14	18,290	3,660
Provisions	15	788	644
Total current liabilities		66,768	39,583
Non-current liabilities			
Borrowings	13	50,991	37,513
Other financial liabilities	14	2,500	4,500
Total non-current liabilities		53,491	42,013
Total liabilities		120,258	81,596
Net assets		51,274	27,981
Equity			
Issued capital	16	98,790	69,647
Reserves	17	11,695	8,010
Accumulated losses	18	(59,211)	(49,676)
Total equity		51,274	27,981

Notes to the financial statements form part of the Financial Report and are included on pages 69 to 108.

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 2009	69,618	6,419	1,492	(13)	(46,403)	31,113
Loss attributable to shareholders of the parent entity	-	-	-	-	(3,273)	(3,273)
Gain/(loss) on cash flow hedges	-	-	-	(1,647)	-	(1,647)
Income tax relating to components of other comprehensive income	-	-	-	492	-	492
Total comprehensive income/(loss) for the period	-	-	-	(1,155)	(3,273)	(4,428)
Issued of ordinary shares (Note 16)	29	-	-	-	-	29
Value of share options issued - employees (Note 26 (a))	-	-	342			342
Value of share options issued - directors (Note 26 (b))	-	-	326			326
Value of share options issued - other (Note 26 (c))	-	598	-	-	-	598
Balance at 30 June 2010	69,647	7,017	2,160	(1,168)	(49,676)	27,981
Balance at 1 July 2010	69,647	7,017	2,160	(1,168)	(49,676)	27,981
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 (Note 13 (i))	3,000	-	-	-	-	3,000
Conversion of convertible notes (Note 13 (iii))	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 17 (a))	-	482	-	-	-	482
Value of share options issued - convertible notes (Note 13 (iv))	-	1,625	-	-	-	1,625
Value of share options issued - employees (Note 26 (a))	-	-	351	-	-	351
Value of share options issued - directors (Note 26 (b))	-	-	135	-	-	135
Value of share options issued - other (Note 26 (c))	-	48	-	-	-	48
Value of employee share options converted to equity (Note 17 (b))	122	-	(122)	-	-	-
Balance at 30 June 2011	98,790	9,172	2,523	-	(59,211)	51,274

Notes to the financial statements form part of the Financial Report and are included on pages 69 to 108.

CONSOLIDATED STATEMENT OF CASH FLOW

	Note	2011 \$'000	2010 \$'000
Cash flows from operating activities			
Receipts from customers		199,607	115,155
Payments to suppliers and employees		(197,826)	(111,135)
		1,781	4,020
Prepayments to counter parties (credit support)	9	(2,246)	(2,583)
Payments for customer acquisition		(19,592)	(11,304)
Interest received		946	338
Borrowing costs paid		(7,285)	(3,780)
Net cash used in operating activities	24(d)	(26,396)	(13,309)
Cash flows from investing activities			
Payments for:			
Property, plant and equipment		(648)	(351)
Intangibles		(966)	(270)
Payments for:			
Restricted cash (credit support)	6	(5,244)	(465)
Net cash (used in)/provided by investing activities		(6,858)	(1,086)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	16	20,518	-
Cost of ordinary share issues	16	(900)	-
Proceeds from borrowings	13	23,100	20,650
Repayment of borrowings	13	(3,513)	(3,501)
Net cash provided by financing activities		39,205	17,149
Net increase in cash and cash equivalents		5,951	2,754
Cash and cash equivalents at the beginning of the financial year		5,465	2,711
Cash and cash equivalents at the end of the financial year	24(a)	11,416	5,465

Notes to the financial statements form part of the Financial Report and are included on pages 69 to 108.

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 separate financial statements of the Company and the consolidated financial report of the Company and its controlled entities (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 Australian (AUD) dollars, unless otherwise stated.

The financial statements were authorised for issue by the directors on 30 September 2011.

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) Borrowing costs

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

c) 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, except for 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 exceeds the cost of the business combination, the excess 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.

d) Cash and cash equivalents

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

e) 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 to 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 in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which 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 or liabilities or 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 to 30 June 2011.

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, embedded derivatives and non-derivatives in respect of foreign currency risk, 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. Note 25 contains details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in Note 17.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, 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, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

f) 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 contribution superannuation plans are expensed when incurred.

NOTES TO THE FINANCIAL STATEMENTS

g) 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, and 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. Subsequent to initial recognition, 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 profit or loss, held-to-maturity investments, available-for-sale financial assets, and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

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

- (i) has been acquired principally for the purpose of selling in the near future;
- (ii) 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; or
- (iii) 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 and receivables

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

h) Financial instruments issued by the Company

Debt and 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.

i) Goods and 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.

j) Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being 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.

k) Impairment of other tangible and 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 CGU to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU, 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 (cash-generating unit) is increased to the revised estimate of its recoverable amount, but 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 (cash-generating unit) 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.

NOTES TO THE FINANCIAL STATEMENTS

l) 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 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 and 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 which 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 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 by 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).

m) 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 and 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 10 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 and 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.

n) 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 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.

o) 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.

p) 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.

q) 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.

r) Property, plant and 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.

NOTES TO THE FINANCIAL STATEMENTS

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 the 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 3 years.

s) 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.

t) 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 and 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.

u) 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 use of a 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.

v) Inventory

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.

w) Comparative figures

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

x) Adoption of new and revised standards

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

- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5,8,101,107,117,118,136 and 139].
- AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2].

- AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132].
- AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5,8,101,107,117,118,136 and 139].
- Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1].

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 124 'Related Party Disclosures' (revised December 2009)., AASB 2009-12 'Amendments to Australian Accounting Standards'.	1 January 2011 30 June 2012
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 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement'	1 January 2011 30 June 2012
AASB 2010-5 'Amendments to Australian Accounting Standards'	1 January 2011 30 June 2012
AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'	1 July 2011 30 June 2012
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets'	1 January 2012 30 June 2013
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.	

NOTES TO THE FINANCIAL STATEMENTS

2. Critical accounting judgements and 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 judgments, 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 judgments. 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 (m). 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 2011 (refer to Note 11). Should the projected expected key variables, including the future wholesale prices of electricity 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 2011.

The amendments to accounting standards which will become mandatory for the Group's financial statements (as shown in Note 1(x) above) are not expected to have any material impact on the financial statements.

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.

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 the customers in the retail energy market in the eastern Australian states. Information reported to the chief operating decision maker (the Chief Executive Officer) 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 above 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	
	2011	2010	2011	2010
	\$'000	\$'000	\$'000	\$'000
Energy – Victoria	195,662	127,270	41,637	38,135
Energy – Queensland	14,506	1,305	(1,427)	768
Energy – New South Wales	19,954	1,696	3,325	178
Total	230,122	130,271	43,535	39,081
Central administration, marketing and employment costs			(49,677)	(33,484)
Finance costs			(6,857)	(10,258)
Loss before tax			(12,999)	(4,661)

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

	2011 \$'000	2010 \$'000		2011 \$'000	2010 \$'000
Segment liabilities			Segment assets		
Energy – Victoria	23,563	18,826	Energy – Victoria	119,376	89,007
Energy – Queensland	2,970	197	Energy – Queensland	7,112	414
Energy – New South Wales	5,447	303	Energy – New South Wales	14,222	527
Unallocated	88,278	62,270	Unallocated	30,823	19,629
Total liabilities	120,258	81,596	Total assets	171,533	109,577

(c) Other information

	Depreciation and amortisation		Additions to acquisition costs	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Energy – Victoria	8,304	6,325	11,902	7,989
Energy – Queensland	1,648	-	2,613	-
Energy – New South Wales	1,152	-	4,552	-
Unallocated	354	227	-	-
Total assets (continuing operations)	11,458	6,552	19,067	7,989

NOTES TO THE FINANCIAL STATEMENTS

(d) Revenue from major products and services

	2011 \$'000	2010 \$'000
Revenue		
Electricity	155,412	82,084
Gas	74,710	48,187
	230,122	130,271
Other income		
Net foreign exchange gain	-	440
Other income	223	128
	223	568

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 combine amounts attributable to both continuing operations and discontinuing operations.

	2011 \$'000	2010 \$'000
(a) Expenses		
Cost of sales	170,797	92,302
Fair value losses/(gains) on derivatives	15,790	(555)
	186,587	91,747
Employee benefits expense	8,042	7,359
Administration expenses	2,960	3,154
Operational expenses	19,524	12,753
Bad and doubtful debts	6,040	2,993
Marketing expenses	1,876	684
	225,029	118,690

	2011 \$'000	2010 \$'000
(b) Other expenses		
Depreciation and amortisation		
Plant and equipment	354	227
Customer acquisition costs amortisation:		
Current amortisation expense	6,412	3,672
Write off of lost accounts and other costs	4,692	2,653
	11,104	6,325
Total depreciation and amortisation	11,458	6,552
Operating lease rental expenses		
Minimum lease payments	1,093	470
Employee benefit expense		
Wages and salaries	5,623	5,163
	566	408
Share-based payments – equity (refer Note 26)	44	29
Share-based payments – employee share options (refer Note 26 (a))	351	342
Share-based payments – directors' share options (refer Note 26 (b))	135	326
Other employee benefits	1,323	1,091
Total employee benefit expense	8,042	7,359
(c) Net financing costs		
Interest income		
Other entities	723	210
Interest and facility fees expense		
Interest		
Loans	4,322	2,572
Convertible notes	381	572
Finance leases	1	4
Loans provided by substantial shareholders	-	50
Discount on settlement of convertible loan	-	(247)
Cash-settled share based payment (refer Note 26)	90	90
Reversal of equity-settled share-based payment	-	(360)
Facility fees – share options issued with convertible notes (refer Note 26 (c))	1,625	598
Facility fees – other	1,161	7,189
	7,580	10,468
Total net financing costs	6,857	10,258

NOTES TO THE FINANCIAL STATEMENTS

5. Income taxes

		2011 \$'000	2010 \$'000
(a) Income tax benefit			
Deferred tax relating to origination and reversal of timing differences		(3,025)	123
Tax losses		(439)	(1,511)
Total income tax benefit		(3,464)	(1,388)
(b) Reconciliation of tax benefit and pre-tax profit			
Loss from continuing operations before income tax expense		(12,999)	(4,661)
Income tax benefit calculated at 30% (2010: 30%)		(3,899)	(1,398)
Non deductible items		435	10
Income tax benefit		(3,464)	(1,388)
(c) Income tax expense recognised directly in other comprehensive income			
Deductible transaction costs arising on the issue of equity instruments		(360)	-
Revaluations of financial instruments treated as cash flow hedges		492	(492)
Revaluations of financial instruments treated as cash flow hedges		6	-
Net tax expense/(income) recognised directly in equity		138	(492)
(d) Deferred tax recognised in income statement			
Temporary differences		7,010	4,043
Unbilled revenue		(1,588)	(1,020)
Doubtful debts		2,433	703
Customer acquisition costs		689	1,331
Prepayments		(376)	(1,124)
Other financial assets		(140)	218
Provisions		(6,092)	(3,894)
Accruals		(4,737)	-
Derivative financial instruments		(86)	-
Share based payments		(138)	(134)
Other		(3,025)	123
(e) Deferred tax balances			
Deferred tax assets/(liabilities) arise from the following:			
Recognised in loss for year			
Unbilled revenue		(15,370)	(8,361)
Doubtful debts		2,939	1,350
Customer acquisition costs		(4,295)	(1,862)
Prepayments		(2,655)	(1,966)
Other financial assets		1,500	1,124
Provisions		236	96
Accruals		12,042	5,950

Share based payments – share options	430	343
Derivative financial instruments	4,737	-
Tax losses	16,154	15,717
Other	347	209
	16,065	12,600
Recognised in other comprehensive income		
Deductible transaction costs arising on the issue of equity instruments recognised directly in equity	862	502
Derivative financial instruments	-	492
Other	-	6
	862	1,000
Net deferred tax asset	16,927	13,600

The Company and all 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 2011.

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:

- (a) 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.
- (b) the consolidated entity and the parent entity continue to comply with the conditions for deductibility imposed by tax legislation.
- (c) no changes in tax legislation adversely affect the consolidated entity and the parent entity in realising the benefit from the deductions for the losses.

As at 30 June 2011 there are no unrecognised deferred tax assets or deferred tax liabilities (2010: \$nil).

6. Cash and cash equivalents

	2011 \$'000	2010 \$'000
Cash and cash equivalents	19,900	8,706
An amount of \$8,486,000 (2010: \$3,242,000) is subject to a charge, refer Notes 20 and 24.		
Movements in cash subject to charge:		
Balance at the beginning of the financial year	3,242	2,777
Add: net cash placed on deposit per cash flow statement	5,244	465
Balance at the end of the financial year	8,486	3,242

NOTES TO THE FINANCIAL STATEMENTS

The Group is obligated by industry rules and contractual requirements to provide security to counterparties to whom the Group has outstanding trade payables. The security can take the form either of cash-backed bank guarantees or cash amounts advanced directly to the counterparty. If a cash-backed bank guarantee is provided then 100% of the amount of the guarantee must be provided to the Group's bankers to secure the issue of a bank guarantee. As at the end of the reporting period the total provided as security to counterparties consisted of the amounts shown below.

	2011 \$'000	2010 \$'000
Cash subject to a charge (as shown above)	8,486	3,242
Cash advanced to counterparties (refer Note 9)	8,648	6,402
Total amounts provided as security to counterparties	17,134	9,644

7. Trade and other receivables

	2011 \$'000	2010 \$'000
Current		
Trade receivables	28,945	13,394
Allowance for doubtful debts	(9,793)	(4,501)
	19,152	8,893
Unbilled revenue	51,234	27,869
Other receivables	987	589
	52,221	28,458
Total trade and other receivables – current	71,373	37,351
Movement in allowance for doubtful debts		
Balance at beginning of the year	4,501	1,751
Impairment losses recognised	6,037	2,993
Amounts written off during the year as uncollectible	(745)	(243)
Balance at the end of the year	9,793	4,501

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

	2011 \$'000	2010 \$'000
Finished goods – at cost	1,565	910

At the end of the financial year the Group held 376,000 GJ (2010: 222,000) of gas in storage for resale in subsequent periods.

9. Other assets

	2011 \$'000	2010 \$'000
Current		
Prepayments		
Amounts advanced to counterparties as credit support	8,648	6,402
Other	1,439	300
	10,087	6,702

Movement in prepayments provided to counterparties as credit support

Balance at the beginning of the financial year	6,402	3,819
Add: amounts advanced to counterparties (net)	2,246	2,583

8,648 6,402

Prepayments to counterparties represents cash payments provided as security for amounts owing (refer Note 6)

10. Property, plant and equipment

	2011 \$'000	2010 \$'000
Assets at cost		
Office equipment and fittings	1,510	862
Leased plant and equipment	37	37
	1,547	899
Accumulated depreciation		
Office equipment and fittings	(735)	(382)
Leased plant and equipment	(37)	(37)
	(772)	(419)

Net book value

Office equipment and fittings	775	480
Leased plant and equipment	-	-
	775	480

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

	Office Equipment and Fittings	Leased plant and equipment	Total
	\$'000	\$'000	\$'000
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
Consolidated entity 2010			
Opening net book value 1 July 2009	348	10	358
Additions	349	-	349
Depreciation	(217)	(10)	(227)
Disposals	-	-	-
Closing net book value 30 June 2010	480	-	480

No impairment losses have been recognised in respect of property, plant and equipment. The useful life of office equipment of 3 years has been in the calculation of depreciation.

11. Intangible assets

(a) Goodwill

	2011 \$'000	2010 \$'000
Gross carrying amount		
Balance at beginning of financial year	35,352	35,352
Balance at end of financial year	35,352	35,352
Net book value		
At the beginning of the financial year	35,352	35,352
At the end of the financial year	35,352	35,352

No impairment losses have been recognised for the year ended 30 June 2011 (2010: 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 22.5% (2010: 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.

NOTES TO THE FINANCIAL STATEMENTS

(b) Customer acquisition costs

	2011 \$'000	2010 \$'000
Cost	24,784	11,897
Accumulated amortisation	(10,466)	(5,691)
Balance at end of financial year	14,318	6,206
Cost		
Balance at the beginning of the year	11,897	16,390
Write off cost of lost accounts	(6,181)	(12,482)
Additions at cost	19,068	7,989
Balance at end of financial year	24,784	11,897
Accumulated amortisation		
Balance at the beginning of the year	(5,691)	(12,528)
Write back amortisation of lost accounts	1,637	10,509
Amortisation	(6,412)	(3,672)
Balance at end of financial year	(10,466)	(5,691)
Disclosed in the financial statements		
Current	9,819	4,948
Non-current	4,499	1,258
	14,318	6,206

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).

(c) Systems development costs

	2011 \$'000	2010 \$'000
Cost	1,236	270
Accumulated amortisation	-	-
Balance at end of financial year	1,236	270
Cost		
Balance at the beginning of the financial year	270	-
Additions at cost	966	270
Balance at the end of the financial year	1,236	270
	2011 \$'000	2010 \$'000
Disclosed in the financial statements		
Current	-	-
Non-current	1,236	270
	1,236	270

Capitalised systems development costs are amortised over a 3 year period during which the economic benefits are expected to be received.

(d) Disclosed in the financial statements

Current	9,819	4,948
Non-current	41,087	36,880
	50,906	41,828

The net carrying value of software and systems development costs disclosed above includes systems in the course of development of \$1,236,000 (2010: \$270,000)

12. Trade and other payables

	2011 \$'000	2010 \$'000
Current		
Trade payables	4,921	9,579
Cash-settled share-based payments (refer Note 26)	-	90
Other - accruals	40,069	19,510
	44,990	29,179

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

13. Borrowings

	2011 \$'000	2010 \$'000
Unsecured – at amortised cost		
Current		
Loans from:		
Related parties (i) (ii)	1,700	3,225
Other entities (i) (ii)	1,000	2,875
	2,700	6,100
Non-current		
Loans from:		
Related parties (ii)	-	1,700
Other entities (ii)	-	1,000
	-	2,700
Secured – at amortised cost		
Current		
Convertible notes (iii)	-	7,000
Non-current		
Revolving loan (iv)	47,200	27,813
Convertible notes (iii)	3,791	-
	50,991	27,813
	53,691	43,613
Disclosed in the financial statements as:		
Current borrowings	2,700	6,100
Non-current borrowings	50,991	37,513
	53,691	43,613

- (i) Unsecured loans totalling \$6,100,000 were advanced during the prior financial year and had a fixed interest rate of 8.0%pa. The loans were increased by a further \$200,000 and then rolled over into a convertible note during the current year. The convertible note had an interest rate of 8.0%. The convertible notes were subsequently converted into 14,318,000 ordinary shares at a conversion price of \$0.44 on 10 December 2010 (refer Note 16)
- (ii) Unsecured loans totalling \$2,700,000 with a fixed interest rate of 20.0%pa were advanced during the prior year. The loans are repayable by 31 December 2011.
- (iii) At the end of the prior financial year the convertible notes on issue comprised 4,000 convertible notes with a face value of \$1,000 each and 3,000 convertible notes with a face of \$1,000 each, both having interest payable at a fixed rate of 8.0% pa. All convertible notes were secured by fixed and floating charges over the assets of the Group.

During the previous financial year the period in which the holder of the 4,000 convertible notes may convert into ordinary shares was extended to 22 December 2012. In addition, the conversion price was reset to \$0.55 (previously between \$0.59 and \$0.64) and the number of ordinary shares that would be issued if all of the notes converted was reset to 7,272,727. Unconverted notes are repayable on 22 December 2012 (2010: 22 December 2011) at the issue price. At the option of the Company, it can elect to repay after 30 June 2012. Interest is payable at a fixed rate of 8.0% pa (2010: 8.0%).

The extension of the notes was treated as a new issue and the value of the convertible notes were split between the liability element and an equity component. The equity component represents the value of the option to convert the liability into equity of the Group. The interest charge for the year is calculated by applying an effective interest rate of 8.0%pa to the liability component.

During the financial year 3,000 secured convertible notes with a face value of \$1,000 each (totalling \$3,000,000) were converted into 15,000,000 ordinary shares at a conversion price of \$0.20 on 16 September 2010 (refer Note 16). Prior to conversion interest was payable at a fixed rate of 8.0% pa (2010: 8.0%).

As at 30 June 2011 the 4,000 convertible notes with a face value of \$1,000 each remain on issue. Interest is payable at a fixed rate of 8.0% pa and the convertible notes are secured by a fixed and floating charge over the assets of the Group.

- (iv) A loan facility secured by fixed and floating charge 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 (2010: \$50,000,000) and its expiry was extended during the prior financial year to 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 2011 was 10.9% pa (2010: 10.7%). An unused line fee of 0.5%pa (2010: 0.5%) 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 \$22,900,000 (2010: \$13,350,000) and repayments of \$3,513,000 (2010: \$1,127,000). Availability of the facility is dependant on adherence to performance and other conditions.

NOTES TO THE FINANCIAL STATEMENTS

The conditions include:

- limitation of amount that can be drawn of 90% of the eligible receivables. The amount of eligible receivables is calculated by deducting from the gross amount of billed and unbilled receivables allowances for overdue debts and other contingencies. If the drawn balance exceeds this amount then the Group must reduce the drawn balance;
- adherence to targeted ratios for debtor ageing, ratio of accounts on payment plans and debt write off;
- adherence to targeted levels of net worth, minimum cash levels, earnings and interest coverage; and
- other conditions normally found in secured loan facility agreements.

On 27 September 2011 the Group signed a Deed of Amendment to amended certain covenants to reflect the growth in the Group's business. The directors are confident that the Group will remain in compliance with all covenants under the facility (refer Note 32).

14. Other financial liabilities

	2011 \$'000	2010 \$'000
Current		
Facility fee	2,500	2,000
Derivatives liabilities	15,790	1,660
Total other financial liabilities – current	18,290	3,660
Non current		
Facility fee	2,500	4,500
Total other financial liabilities – non current	2,500	4,500
Total other financial liabilities	20,790	8,160

15. Provisions

	2011 \$'000	2010 \$'000
Current		
Employee benefits	788	644

16. Issued Capital

	2011 \$'000	2010 \$'000
175,473,409 fully paid ordinary shares (2010: 101,395,657) (i)	98,790	69,647
Movements in fully paid ordinary shares		
	2011	2010
	Average issue price	No. '000
	\$'000	\$'000
Fully paid ordinary shares		
Balance at beginning of financial year	101,395	69,647
Placement of shares for cash		
Placement of shares – 28 October 2010	\$0.45	13,993
Placement of shares – 17 November 2010	\$0.45	1,151
Placement of shares – 3 December 2010	\$0.45	17,206
Placement of shares – 24 December 2010	\$0.45	2,135
Placement of shares – 31 May 2011	\$0.50	10,000
	44,485	20,518

Movements in fully paid ordinary shares	2011			2010	
	Average issue price	No. '000	\$'000	No. '000	\$'000
Conversion of convertible notes – 16 September 2010 (Note 13(i))	\$0.20	15,000	3,000	-	-
Conversion of convertible notes – 10 December 2010 (Note 13(iii))	\$0.44	14,318	6,300	-	-
		29,318	9,300	-	-
Conversion of options					
Exercise of employee options	\$0.65	187	122	-	-
Placement of shares to employees					
Issue of shares – employee share plan (ii)	\$0.50	88	44	85	29
Costs of share placements					
Costs of issues			(1,200)	-	-
Tax benefit on share issue costs			359	-	-
			(841)	-	-
	175,473	98,790	101,395	69,647	

- (i) Fully paid ordinary shares carry one vote per share and carry the right to dividends (2010: Fully paid ordinary shares carry one vote per share and carry the right to dividends other than 10,000,001 ordinary shares held by The Cobra Group Pty Limited that are subject to performance conditions). During the 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) Ordinary shares were issued pursuant to an employee share plan. The shares are subject to restriction from trading (escrow) until 11 March 2014 (2010: 28 February 2013).
- (iii) 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

	2011 \$'000	2010 \$'000
Options reserve	9,172	7,017
Equity-settled employee benefits reserve	2,523	2,160
Hedging reserve	-	(1,167)
	11,695	8,010

NOTES TO THE FINANCIAL STATEMENTS

		2011 \$'000	2010 \$'000
(a) Options reserve (i)			
Balance at beginning of financial year		7,017	6,419
Recognition of equity component on issue of convertible notes (ii)		482	-
Issue of options upon renewal of debt facility		-	598
Issue of options relating to convertible note (refer Note 26 (c))		1,625	-
Issue of options other (refer Note 26 (c))		48	-
Balance at end of financial year		9,172	7,017
(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 (iii)).			
(b) Equity-settled employee benefits reserve			
Balance at beginning of financial year		2,160	1,492
Options exercised		(122)	-
Share-based payments - employees (refer Note 26 (a))		351	342
Share-based payments - directors (refer Note 26 (b))		135	326
Balance at end of financial year		2,523	2,160
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 made in Note 26 to the financial statements.			
(c) Hedging reserve			
Balance at beginning of financial year		(1,167)	(13)
Movement in fair value of hedges taken to equity		1,659	(1,646)
Deferred tax liability on reversal of gain		(492)	492
Balance at end of financial year		-	(1,167)

18. Accumulated losses

		2011 \$'000	2010 \$'000
Balance at beginning of financial year		(49,676)	(46,403)
Net loss attributable to members of the parent entity		(9,535)	(3,273)
Balance at end of financial year		(59,211)	(49,676)

19. Earnings per share

	2011 cents per share	2010 cents per share
	2011 \$'000	2010 \$'000
Basic and diluted earnings per share (continuing operations)	(6.7)	(3.2)
Loss attributable to shareholders of the Company used in the calculation of basic and diluted earnings per share	(9,535)	(3,273)
Weighted average number of ordinary shares for the purposes of basic earnings per share	142,847	101,339
Shares deemed to be issued for no consideration in respect of:		
– Convertible instruments (refer Note 13 (iv))	-	-
– Employee share options (refer Note 26 (a) (iii))	3,868	-
– Director and executive options (refer Note 26 (b) (ii))	3,643	-
– Other share options (refer Note 26 (c) (ii))	14,464	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	164,822	101,339
	2011 No.'000	2010 No.'000

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 Note 13 (iv))	7,273	21,382
Employee share options (refer Note 26 (a) (iii))	2,940	6,716
Director and executive options (refer Note 26 (b) (ii))	2,500	7,043
Other share options (refer Note 26 (c) (ii))	27,750	24,250
	40,463	59,391

20. Contingent liabilities

	2011 No.'000	2010 No.'000
Bank guarantees (i)	8,486	3,242
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 \$8,486,000 (2010: \$3,243,000) (refer Note 6). 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 2 years from the date of advance and will have a floating interest rate of the bank bill swap yield plus 2.0%.

NOTES TO THE FINANCIAL STATEMENTS

21. Leasing commitments

	2011 \$'000	2010 \$'000
Operating leases		
No later than 1 year	470	327
Later than 1 year and not later than 5 years	439	639
Later than five years	184	-
	1,093	966

(i) Operating leases relating to office facilities have lease terms of between 1 and 4 years, with an option to extend. All operating 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 6 months and 3 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	
		2011 %	2010 %
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

	2011 \$'000	2010 \$'000
(a) Reconciliation of cash and cash equivalents		
For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:		
Cash and cash equivalents	19,900	8,706
Less: cash deposits subject to charge (refer Note 20)	8,486	3,242
Cash per cash flow statement	11,414	5,464
 Movements in cash subject to charge:		
Balance at the beginning of the financial year	3,243	2,777
Add: cash placed/(withdrawn) on deposit per cash flow statement	5,243	466
	8,486	3,243
 (b) Non-cash financing and investing activities		
During the financial year short term loans of \$6,300,000 were applied to the issue of 6,300 convertible notes (refer Note 13 (i)).		
 (c) Financing facilities		
Revolving loan facility (i):		
Facility limit	50,000	50,000
Amount eligible to be drawn	50,000	27,874
Amount drawn	(47,200)	(27,813)
Undrawn eligible balance	2,800	61
 Secured convertible note facility (i):		
Facility limit	4,000	10,000
Amount eligible to be drawn	4,000	4,000
Amount drawn (ii)	(4,000)	(4,000)
Unused balance	-	-

(i) Refer to Note 13(iii) and Note 13 (iv) for details of the terms of the secured loan facility and convertible note facility.
(ii) Drawn amounts are shown at the gross amount repayable.

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		2011 \$'000	2010 \$'000
(d) Reconciliation of profit or (loss) for the period to net cash flows from operating activities			
Loss for the year		(9,535)	(3,273)
Income tax benefit recognised in loss		(3,464)	(1,388)
Depreciation and amortisation		11,458	6,552
Movement in derivative valuation		14,129	-
Share based payments expense - employee options (Note 17(b))		351	342
Share based payments expense - director options (Note 17(b))		135	326
Share based payments expense - other options (Note 17(a))		1,625	597
Share based payments expense - other options (Note 17(a))		48	-
Share based payments expense - share issue to employees (Note 16)		44	29
Gain on repayment of loan		-	(243)
Other non-cash items		(448)	(220)
Change in operating assets and liabilities:			
(Increase)/decrease in receivables		(34,021)	(16,346)
(Increase)/decrease in other financial assets		-	6,558
(Increase)/decrease in other current assets		(1,048)	(1,627)
(Increase)/decrease in inventories		(655)	(910)
(Increase)/decrease in intangible assets		(19,592)	(8,890)
Increase/(decrease) in creditors and accruals		16,047	5,163
Increase/(decrease) in other financial liabilities		(1,613)	(424)
Increase/(decrease) in provisions		144	445
Net cash inflow/(outflow) from operating activities		(26,396)	(13,309)

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 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, foreign currency 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 proposed 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, including derivative financial instruments, for speculative purposes of a material nature.

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.

(b) Significant accounting policies

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

(c) 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 and 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	2011 \$'000	2010 \$'000
Financial assets			
Cash and cash equivalents	6	19,900	8,706
Loans and receivables	7	71,373	37,351
		91,273	46,057
Financial liabilities			
Liabilities measured at amortised cost:			
Trade and other payables	12	44,990	29,179
Borrowings	13	53,691	43,613
Other financial liabilities	14	5,000	6,500
Provisions	15	788	644
Liabilities measured at fair value:			
Derivative liabilities	14	15,790	1,660
		120,258	81,596

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 or liability that are not based on observable market data (unobservable inputs).

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2011				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Liabilities at fair value				
Derivative liabilities	-	-	15,790	15,790
2010				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Liabilities at fair value				
Derivative liabilities	-	1,660	-	1,660

(e) Credit risk

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

Note	2011 \$'000	2010 \$'000
Cash and cash equivalents	6	19,900
Trade receivables and unbilled amounts	7	71,373
	91,273	46,057

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.

	2011 \$'000	2010 \$'000
Unbilled amounts	51,234	27,869
Invoiced amounts:		
Not past due	14,079	7,677
Past due 0-30 days	4,588	2,440
Past due 31-60 days	1,367	661
Past due 60+ days	9,898	3,205
Impairment provision	(9,793)	(4,501)
Total trade and other receivables (refer Note 7)	71,373	37,351
Ageing of impaired receivables		
Unbilled	1,966	992
Not past due	303	182
Past due 0-30 days	176	109
Past due 31-60 days	190	137
Past due 60+ days	7,158	3,081
Total impairment provision	9,793	4,501

(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; and
- arranging issues of securities as required.

To the extent possible maturity profiles of financial assets and liabilities are matched. Included in Note 24 is a listing of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

The board reviews the capital structure on a regular basis. The board does not have a set gearing target however the ratio of 83% (2010: 136%) is in line with expectations. Gearing is determined as the proportion of net debt to equity, as presented below.

	Note	2011 \$'000	2010 \$'000
Debt (i)	13	53,691	43,613
Adjust debt to amount repayable (ii)		209	-
		53,900	43,613
Cash per cash flow statement (iii)	24(a)	(11,414)	(5,464)
Net debt		42,486	38,149
Equity (iv)		51,274	27,981
Net debt to equity ratio		83%	136%

(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 cash equivalents 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.

	Note	2011 \$'000	Contractual repayment amount			
			\$'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		7,450	430	160	6,860	
Derivative liabilities		182,597	27,786	29,497	125,314	
		289,941	75,773	32,225	181,942	

2010	Contractual repayment amount	6 months or less			
		\$'000	\$'000	\$'000	\$'000
Trade payables	9,578	9,578	-	-	-
Accruals	19,834	19,834	-	-	-
Variable interest rate instruments	34,231	1,284	1,284	31,633	
Fixed rate instruments	16,992	9,632	4,390	2,970	
Derivative liabilities	76,081	17,658	6,990	51,433	
	156,716	57,986	12,664	86,036	

(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 of this note.

On review of the Group's exposure to interest costs, the proportion of variable interest rates to the proportional of fixed rate interest has increased from 41% in 2010 to 88% in the current financial year movements has increased during the financial year as the proportion of variable rate financial liabilities has increased from 41% to 88%.

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(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 5 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 of trading limits and provide for regular reporting of exposures.

Fluctuations in wholesale energy price risk are managed through the use of a number of different instruments, including contracts traded on the Sydney Futures Exchange and 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 2011 was a net liability balance of \$15,790,000 (2010: \$1,660,000). All transactions are due for settlement within 3 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.

	2011 \$'000	2010 \$'000
Impact on net loss after tax of movement		
Interest rate – 1% increase in rates	(330)	(239)
Interest rate – 1% decrease in rates	330	239
Increase in forward electricity prices by \$1/MWh	3,584	1,463
Decrease in forward electricity prices by \$1/MWh	(3,584)	(1,463)

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:

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
(a) Employee share options	6,807,502	0.46	6,716,269	0.46
(b) Director share options	6,142,858	0.48	7,042,859	0.52
(c) Other share options	42,214,292	0.50	24,249,982	0.41
Balance at end of the financial year	55,164,652	0.44	38,009,110	0.44
Exercisable at end of the financial year	48,494,476	0.52	31,251,599	0.63

(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 November 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.

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	No.	\$	No.	\$
Balance at beginning of the financial year	6,716,269	0.46	3,513,311	0.69
Granted during the financial year (i)	2,940,000	0.56	3,705,000	0.42
Exercised during the financial year (ii)	(667,697)	0.35	-	-
Expired or forfeited during the financial year (iii)	(2,181,070)	0.48	(502,042)	1.79
Balance at end of the financial year (iv)	6,807,502	0.46	6,716,269	0.46
Exercisable at end of the financial year	2,137,327	0.38	1,958,760	0.60

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

	2011	2010
Grant date	30-Sept-10, 11-March-11	19 Feb 10
Expiry date	30-Oct-14,30-Oct-15	30 Oct 14
Exercise price	\$0.50-\$0.55	\$0.40-\$0.45
Number of options issued	2,940,000	3,705,000
Fair value at grant date	\$350,759	\$342,484
Weighted average fair value	\$0.10	\$0.09-\$0.10

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

Expected share price volatility	40%	47%
Risk free interest rate	4.75%	3.50%
Underlying share price	\$0.49-\$0.60	\$0.36
Weighted average life of option	4.1-4.6 years	4.7 years
Weighted average exercise price	\$0.56	\$0.42

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	2011	2010
(ii) During the financial year 667,697 options were exercised (2010: nil). The details of the options exercised were:		
Aggregate fair value at grant date	\$90,480	-
Weighted average exercise price	\$0.35	-
Number of shares issued	187,137	-
Weighted average fair value	\$0.10	-
(iii) During the financial year 2,181,070 (2010: 502,402) share options expired unexercised or were forfeited as follows:		
Expired or cancelled unexercised, average exercise price \$0.98 (2010: \$1.90)	771,429	453,587
Forfeited on resignation of employees, average exercise price \$0.43 (2010: \$0.09)	1,409,641	48,455
	2,181,070	502,042

(iv) Share options outstanding at the end of the year had a weighted average life of 3.96 (2010: 3.38 years). Exercise prices are in the range of \$0.35 to \$0.60 (2010: \$0.35 to \$1.12). Details of performance related conditions and other terms are set out below.

Grant date	Expiry date	Performance or vesting conditions outstanding at 30 June 2011 *	Options on issue	Exercise price		Fair value at grant date
				No.	\$	
8 Feb 08	1 Oct 12	Conditions met and options vested	847,648	0.35	164,586	
28 Oct 08	1 Oct 13	Conditions met and options vested	112,143	0.35	16,258	
28 Oct 08	1 Oct 13	Remained employed to 1 October 2011	415,175	0.35	60,188	
18 Feb 10	30 Oct 14	Conditions met and options vested	949,468	0.40	90,727	
18 Feb 10	30 Oct 14	Remained employed to 28 February 2013	815,000	0.40	77,878	
18 Feb 10	30 Oct 14	Remained employed to 28 February 2012	728,068	0.45	63,456	
30 Sep 10	30 Oct 14	Remained employed to 30 June 2013	125,000	0.50	14,928	
30 Sep 10	30 Oct 14	Remained employed to 30 June 2012	125,000	0.55	13,584	
30 Sep 10	30 Oct 14	Remained employed to 30 June 2013	2,040,000	0.55	249,112	
30 Sep 10	30 Oct 14	Remained employed to 30 June 2012	650,000	0.60	73,135	
			6,807,502	0.46	823,852	

* If employment is terminated for non-performance, negligence or misconduct options do not vest. If employment terminated for other reasons, then 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 options are determined and approved by the Board (excluding the relevant director) and by shareholders.

Each share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the share 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.

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

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
	No.	\$	No.	\$
Balance at beginning of the financial year	7,042,859	0.52	4,594,658	0.75
Granted during the financial year (i)	1,000,000	0.53	3,000,000	0.43
Exercised during the financial year (ii)	-	-	-	-
Expired during the financial year (iii)	(1,900,001)	0.88	(551,799)	0.73
Balance at end of the financial year (iv)	6,142,858	0.48	7,042,859	0.52
Exercisable at end of the financial year	4,142,857	0.47	5,042,857	0.64

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

	2011	2010
Grant date	10 Dec 10	22 Dec 09
Expiry date	30 Oct 14	1 Jul 14
Number of options issued	1,000,000	1,000,000
Exercise price	\$0.50-\$0.55	\$0.20
Fair value at grant date	\$134,506	\$142,936
Weighted average fair value	\$0.08-\$0.09	\$0.14

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

Expected share price volatility	40%	47%	47%
Risk free interest rate	4.75%	3.50%	3.50%
Underlying share price	\$0.47	\$0.36	\$0.36
Weighted average life of share option	3.5 years	4.5 years	4.7 years
Weighted average exercise price	\$0.53	\$0.06	\$0.43

(ii) No share options were exercised during the year (2010: nil).

(iii) During the financial year 1,900,001 (2010: 551,799) share options expired unexercised on 30 September 2010. Exercise prices were between \$0.70 and \$1.12. No options were forfeited.

(iv) Share options outstanding at the end of the year had a weighted average life of 2.7 (2010: 2.29 years).

Exercise prices are in the range of \$0.20 to \$0.80 (2010: \$0.35 to \$1.12). Details of performance related conditions and other terms are set out on the following page:

NOTES TO THE FINANCIAL STATEMENTS

Grant date	Expiry date	Performance or vesting conditions outstanding at 30 June 2011 *	Options on issue		Fair value at grant date
			No.	\$	
19 Aug 08	30 Oct 12	Conditions met and options vested	500,000	0.50	50,850
19 Aug 08	30 Oct 12	Conditions met and options vested	500,000	0.60	48,950
19 Aug 08	30 Oct 13	Conditions met and options vested	500,000	0.70	52,950
19 Aug 08	30 Oct 13	Conditions met and options vested	500,000	0.80	52,000
21 Nov 08	1 Oct 13	Conditions met and options vested	142,857	0.35	13,014
22 Dec 09	1 Jul 14	Conditions met and options vested	1,000,000	0.20	142,936
18 Feb 10	30 Oct 14	Conditions met and options vested	1,000,000	0.40	95,556
18 Feb 10	30 Oct 14	Remained employed to 28 February 2012	1,000,000	0.40	87,156
10 Dec 10	30 Oct 14	Remained employed to 30 June 2012	500,000	0.50	70,297
10 Dec 10	30 Oct 14	Remained employed to 30 June 2013	500,000	0.55	64,209
			6,142,857	0.48	677,918

* If employment is terminated for non-performance, negligence or misconduct options do not vest. If employment 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 options carry neither rights to dividends nor voting rights. Share options may be exercised at any time from the date of grant to the date of their expiry.

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		\$		\$
Balance at beginning of the financial year (iv)	24,249,982	0.41	22,949,982	0.43
Granted during the financial year (i)	24,250,000	0.59	2,500,000	0.40
Exercised during the financial year (ii)	-	-	-	-
Expired or forfeited during the financial year (iii)	(6,285,695)	0.60	(1,200,000)	0.78
Balance at end of the financial year (iv)	42,214,287	0.50	24,249,982	0.41
Exercisable at end of the financial year	42,214,287	0.50	24,249,982	0.41

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

	2011	2010	2010
Grant date	28-Oct-10, 6-Dec-10, 6-May-11	22 Dec 09	27 Mar 09
Expiry date	3-Dec-13, 30-Oct-15	31 Dec 14	31 Oct 12
Number of options issued	24,250,000	2,500,000	2,500,000
Fair value at grant date	\$1,921,917	\$237,663	\$21,630
Weighted average fair value	\$0.05-\$0.13	\$0.10	\$0.09
The Black Scholes option pricing model was used to determine the fair values using the following parameters:			
Expected share price volatility	40%	47%	97%
Risk free interest rate	4.75%	3.50%	3.25%
Underlying share price	\$0.42-\$0.55	\$0.34	\$0.14
Weighted average life of share option	3.1-4.5 years	5.0 years	5.0 years
Weighted average exercise price	\$0.59	\$0.40	\$0.35

(ii) No share options were exercised during the year (2010: nil).

(iii) During the financial year 6,285,695 (2010: nil) share options expired unexercised or were forfeited. The exercise price of the options was \$0.60.

(iv) Share options outstanding at the end of the year had a weighted average life of 1.85 years (2010: 1.5 years). Exercise prices are in the range of \$0.15 to \$0.64 (2010: \$0.15 to \$0.64). Details of performance related conditions and other terms are set out below:

Grant date	Expiry date	Performance or vesting conditions outstanding at 30 June 2011	Options on issue		Exercise price	Fair value at grant date
			No.	\$		
18 Dec 06	30 Sep 11	Conditions met and options vested	3,571,429	0.21	1,188,193	
18 Dec 06	30 Sep 11	Conditions met and options vested	3,571,429	0.21	1,188,193	
18 Dec 06	30 Sep 11	Conditions met and options vested	3,571,429	0.35	1,074,516	
31 Aug 07	22 Jun 12	Options vested	3,500,000	0.64	1,144,281	
27 Mar 09	31 Oct 12	Options vested	1,000,000	0.15	91,776	
27 Mar 09	31 Mar 14	Options vested	250,000	0.35	21,630	
22 Dec 09	22 Dec 14	Options vested	2,500,000	0.60	237,663	
28 Oct 10	31 Dec 13	Options vested	18,900,000	0.60	1,624,806	
3 Dec 10	31 Dec 13	Options vested*	5,000,000	0.55	360,269	
6 May 11	30 Oct 15	Options vested	350,000	0.60	46,449	
			42,214,287	0.50	6,977,776	

* A provision of \$360,269 was made in the prior financial year in relation to these options in anticipation of their issue.

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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 options rights to dividends and are able to vote at the Company's general meetings. 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.

The number of ordinary shares granted under the ESP during the current financial year was 88,000 (2010: 85,294) at an issue price of \$0.50 (2010: \$0.34)

Cash-settled share-based payments

During the prior financial year 1,200,000 rights were issued upon the settlement of an outstanding liability. The rights provided the holder with an entitlement to a cash payment at any time prior to expiry on 2 July 2012 of the difference between the Company's share price at the time of exercise of the right and \$0.35. The reference value of \$0.35 would be lowered if the Company issued shares at a lower value at any time prior to exercise of the right. During the financial year the Company elected to settled the liability by the payment in cash of \$180,000, of which \$90,000 had been provided for the prior financial year and the remaining \$90,000 has been included as an expense in the current financial year.

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 personal 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.

	2011 \$'000	2010 \$'000
Short-term employee benefits	2,195	1,909
Post-employment benefits	157	128
Share-based payment	242	590
	2,594	2,627

(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.

2011	Balance at the start of the year	Granted as compensation	Received on conversion of convertible notes	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
Shinji Wada	-	-	-	-	-
Senior management employed at June 2011					
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 left during the year					
Andrew Butler	8,496	-	-	(8,496)	-
Thomas Gilpin	8,496	-	-	(8,496)	-

2010	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	-	-	-	1,072,499
James Myatt	918,026	-	-	-	918,026
Richard Poole	6,885,430	-	-	439,908	7,325,338
Michael Hogg	3,867,142	-	-	-	3,867,142
Senior management					
Andrew Butler	5,555	2,941	-	-	8,496
Thomas Gilpin	5,555	2,941	-	-	8,496
Warren Kember	13,718	2,941	-	(8,163)	8,496
Joanne Shatrov	5,555	2,941	-	-	8,496
Shelley Reed	5,555	2,941	-	-	8,496

NOTES TO THE FINANCIAL STATEMENTS

(c) 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 options granted during the year are provided at Note 26.

2011 (i)	Balance at	Granted as	Exercised	Net other	Balance	Balance	Vested	Vested and	Options
	the start of	compen-		change	at the end	vested at	but not	exercisable	vested
	the year	sation		of the year	the end of	the year	exercisable	and	during
	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	-	-	-	-	-	-	-	-	-
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 left during the year									
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 Ms Dickens at the beginning of the year are shown as "net change other" as they were awarded when in a previous role with the Group.

2010 (i) (ii)	Balance at	Granted as	Exercised	Net other	Balance	Balance	Vested	Vested and	Options
	the start of	compen-		change	at the end of	vested at	but not	exercisable	vested
	the year	sation		of the year	the end of	the year	exercisable	and	during
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Directors									
Ian McGregor	383,291	1,000,000	-	-	1,383,291	1,383,291	-	1,383,291	1,000,000
James Myatt	3,857,142	2,000,000	-	(428,571)	5,428,571	571,429	-	2,928,571	2,357,142
Richard Poole	7,115,148	-	-	-	7,115,148	7,115,148	-	7,115,148	-
Senior management									
Andrew Butler	961,091	1,000,000	-	(142,857)	1,818,234	682,632	-	682,632	198,459
Thomas Gilpin	532,521	750,000	-	(57,143)	1,225,378	339,776	-	339,776	112,745
Warren Kember	533,031	750,000	-	(57,143)	1,225,888	339,776	-	339,776	112,745
Joanne Shatrov	246,806	250,000	-	-	496,806	191,204	-	191,204	135,602
Shelley Reed	121,228	50,000	-	-	171,228	60,614	-	60,614	5,012
	13,750,258	5,800,000	-	(685,714)	18,864,544	10,683,870	-	13,041,012	3,921,705

(i) All share options issued to directors have been approved by shareholders in general meeting. Options issued to James Myatt are subject to performance conditions as detailed in Note 28.

(ii) Options awarded to senior management are subject to performance conditions, as detailed in Note 26.

(d) Convertible note holdings

The number of convertible notes 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).

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

2010	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	-	-	-	100
Richard Poole	1,800	-	-	-	1,800

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

Mr Richard Poole

Mr Richard Poole, a non-executive director of the Company, is also a director and the controller of Arthur Phillip Pty Limited (Arthur Phillip). During the financial year the following transactions occurred between the Group and Arthur Phillip or other related entities of Mr Poole.

Pursuant to an advisory agreement, fees for services advising on capital raisings and strategic advice were incurred with Arthur Phillip of \$919,500 (2010: \$859,000). Services provided included:

- \$529,500 for the arrangement of \$18.9 million convertible note placement.
- \$150,000 arrangement fee for a \$15 million share placement.
- \$240,000 for a monthly retainer to provide general financial advisory services.

- During the financial year interest on loans and convertible notes of \$230,000 was paid.
- During the financial year 9,000,000 ordinary shares were issued upon the conversion of 1,800 convertible notes with a conversion price of \$0.20. Refer Note 13(iii) for details of the convertible notes.
- During the financial year a loan totalling \$1,500,000 was repaid via the issue of 1,500 convertible notes. The 1,500 convertible notes were subsequently converted into 3,409,091 ordinary shares at the conversion price of \$0.44. Refer Note 13(i) for further details of the convertible notes.

NOTES TO THE FINANCIAL STATEMENTS

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

	2011 \$'000	2010 \$'000
Unsecured loans - current (refer Note 13)		
Richard Poole (or related parties)	- 1,600	
The Cobra Group Pty Limited	- 1,500	
Ian McGregor	- 200	
David Franks	- 25	
	3,325	
Unsecured loans – current (refer Note 13)		
Ian McGregor	1,700	1,700

(d) The Cobra Group Pty Limited

The Cobra Group Pty Limited and related parties (Cobra) as at 30 June 2011 held 34,729,379 ordinary shares, 19.79% (2010: 32.2%) of the issued ordinary shares of the Company. Mr Michael Hogg was a director and Chief Executive Officer of Cobra.

During the financial or prior year the following transactions occurred between the Group and Cobra or its related entities.

Cobra provide services to the Group pursuant to a Market Services Agreement (MSA). During the financial year Cobra invoiced \$8,158,000 (2010: \$3,595,000) to the Group, of which \$nil (2010: \$795,000) was offset against amounts that had been prepaid in prior years.

At the end of the prior financial year a loan \$1,500,000 (refer (c) above) was outstanding to Cobra. The loan was repaid by the issue of 1,500 convertible note during the financial year (refer Note 13(i)). The convertible notes were subsequently converted into 3,409,090 ordinary shares at a conversion rate of \$0.44. Until the time of conversion interest was payable at the rate of 8% per annum.

29. Remuneration of auditors

	2011 \$	2010 \$
Fees charged by the auditor of the Company		
Audit or review of the financial report	178,000	173,000
Accounting advice	19,000	5,000
Audit of subsidiary company	15,000	15,000
Tax return review	15,255	15,000
Regulatory audits	45,000	-
	272,255	208,000

30. Dividend

Since the end of the financial year the Directors have declared an unfranked final dividend for the year ended 30 June 2011 of \$925,440 or 0.5 cents per share (2010: nil), payable on 26 September 2011. 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 2012 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.

	2011 \$'000	2010 \$'000
a) Financial position		
Assets		
Current assets	1,018	3
Non-current assets	84,055	68,146
Total assets	85,073	68,149
Liabilities		
Current liabilities	3,250	15,375
Non-current liabilities	3,791	2,700
Total liabilities	7,041	18,075
Equity		
Issued capital	98,626	69,647
Reserves	9,172	7,017
	2,449	2,160
Retained earnings	(32,215)	(28,750)
Total equity	78,032	50,074
b) Financial performance		
Comprehensive income		
Profit for the year	(3,463)	(2,242)
Other comprehensive income	-	-
Total comprehensive income	(3,463)	(2,242)
c) Contingent liabilities		
Director loan (refer Note 20(ii))	1,300	1,300

32. Subsequent events

Subsequent to the end of the financial year the following significant events have occurred:

- 10,714,286 options have converted into ordinary shares and the exercise price of \$2,750,000 million was received in cash between 31 August and 23 September 2011.
- A review of the covenant requirements under the debt facility was conducted with the Group's debt facility provider following the breach and subsequent waiver of certain financial covenants. On 27 September 2011 the Group signed a Deed of Amendment that amended those covenants to reflect the growth in the Group's business. The directors are confident that the Group will remain in compliance with all covenants under the facility.

DIRECTOR'S DECLARATION

THE DIRECTORS DECLARE THAT:

1. The financial statements and notes, as set out on pages 69 to 108, 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 2011 and of the performance for the year ended on that date of the company and consolidated group; and
 - (c) in the directors' opinion, the financial statements and notes thereto 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; and
 - (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 30 September 2011





DYNAMIC

Our edge is that we're a specialist retail brand devoted to making consumer energy decisions as simple and relevant as possible. To us, customers are individuals with different needs and busy timetables. That's why we're quick on our toes to provide them with the information and solutions that are right for them.

AUDITOR'S INDEPENDENCE DECLARATION & AUDITOR'S REPORT



Deloitte.

Deloitte Touche Tohmatsu
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The Board of Directors
Australian Power and Gas Company Limited
Level 9, 341 George Street
SYDNEY NSW 2000

30 September 2011

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 2011, 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

B J Pollock

B J Pollock
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited.



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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 2011, and 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 63 to 109.

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 2011 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 42 to 52 of the directors' report for the year ended 30 June 2011. 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 2011, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



B J Pollock

Partner

Chartered Accountants

Sydney, 30 September 2011

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited.

SECURITY HOLDERS INFORMATION

THE FOLLOWING INFORMATION HAS BEEN
PREPARED AS AT 27 SEPTEMBER 2011
UNLESS OTHERWISE INDICATED.





CONTEMPORARY

Australian Power & Gas is a modern, innovative company and we strive to be the expert in our field. We are constantly being proactive with our customers and on the forefront of new industry developments. Our insatiable appetite for finding the right solutions for our customers is just one of the ways our ambitious spirit shines through.

1. Equity security holders

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

	Ordinary shares	Employee options	Director options	Other options	Convertible notes
	1(a)	1(b)	1(c)	1(d)	1(e)
1 – 1,000	161	-	-	-	-
1,001 – 5,000	355	-	-	-	-
5,001 – 10,000	183	1	-	-	-
10,001 – 100,000	397	35	-	-	-
100,001 – over 100,001	104	13	2	28	1
	1,200	49	2	28	1

There were 116 holders of less than a marketable parcel of ordinary shares.

(a) Ordinary shares

The names of the twenty 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
The Cobra Group Pty Limited (i)	31,320,288	16.9%
Nippon Gas Limited	26,300,000	14.2%
Arthur Phillip Nominees Pty Limited	23,166,773	13.2%
Cogent Nominees Pty Limited	11,641,166	6.3%
National Nominees Limited	9,151,981	5.0%
Mrs Amanda Poole	6,417,462	3.5%
J P Morgan Nominees Australia Limited	5,276,429	2.8%
Highgate Administration Services Pty Limited	3,857,144	2.1%
DZP Investments Pty Limited	3,732,539	2.0%
Baton Holdings Limited	3,409,091	1.8%
PCF Group Pty Ltd	3,043,268	1.6%
Communications Power Incorporate (Aust) Pty Limited	3,000,000	1.6%
RBC Dexia Investor Services Australia Nominees Pty Limited	2,507,245	1.3%
Stewart Hartley	2,331,159	1.3%
S Ward Holdings Pty Limited	2,294,666	1.2%
First Stirling Investments Pty Limited	2,272,728	1.2%
Citicorp Nominees Pty Limited	1,559,496	0.8%
Lost Ark Nominees Pty Limited	1,506,391	0.8%
Ms Sue McGregor	1,334,404	0.7%
Greenfield Company Limited	1,265,960	0.6%
Total top 20 holders	145,388,190	78.1%
Other holders	40,960,499	21.9%
Total ordinary shares on issue	186,348,689	100.0%

Since 30 June 2011 10,714,286 options held by other parties (refer Item (d) on the following page) and 677,538 options issued under the Employee Share Option Plan have been converted. These resulted in the issue of 10,714,286 and 160,994 shares respectively.

Holders of more than 5% of the ordinary issued shares are listed below:

Name of holder	Ordinary shares held	Percentage of total ordinary shares on issue
The Cobra Group Pty Limited	34,729,379	18.8%
Richard Poole and related parties	25,055,167	13.5%
Nippon Gas Limited	26,300,000	14.2%
National Nominees Limited and related parties	12,188,012	6.5%
Total substantial holders	98,272,558	53.0%

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

Shares issued to employees with escrow periods	Ordinary shares held	Percentage of total ordinary shares on issue
Ordinary shares escrowed until 26 February 2013	73,530	0.03%
Ordinary shares escrowed until 14 March 2014	82,000	0.05%
Total ordinary shares subject to escrow	155,530	0.08%

(b) Employee share options

Details of holders of unlisted share options in the Employee share option category are exempted from disclosure under chapter 4 of the ASX listing rules. Refer 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	5,142,858	83.7%
Ian McGregor (awarded as remuneration)	APKAU	1,000,000	16.3%
Total directors' options per Note 26 (b) of the Financial Report		6,142,858	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	12,000,000	38.1%
Other holders (less than 20% each)	APKAU	19,500,000	61.9%
		31,500,000	100.0%
Options exercised post 30 June 2011	APKAE	3,571,429	
	APKAF	3,571,429	
	APKAG	1,785,714	-
	APKAH	1,785,715	
		10,714,287	
Total other options per Note 26 (c) of the Financial Report		42,214,287	100.0%

(e) Convertible notes

The names of the holders of unlisted convertible notes are listed below:

Name of holder	Class	Notes issued	Percentage held
FCCO (Australia) Pty Limited	APKAK	1,398	34.9%
FCCD (Australia) Pty Limited	APKAK	2,602	65.1%
Total convertible notes on issue per Note 13 (iii) of the Financial Report		4,000	100.0%

2. Voting rights

The voting rights attaching 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) Options and convertible instruments

No voting rights until converted into ordinary shares.

3. Share buyback

There has been no share buyback during the 12 months to 30 June 2011 or subsequently.

CORPORATE INFORMATION

Registered office

Australian Power and Gas Company Limited

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 Sydney NSW 2000
Telephone (02) 8908 2700
Facsimile (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

Mr Ian McGregor (Chairman)
 Mr James Myatt (Chief Executive Officer)
 Mr Michael Hogg
 Mr Richard Poole
 Mr Shinji Wada

Secretary

Mr David Franks

Annual general meeting

The 2011 Annual General Meeting of Australian Power and Gas Company Limited will be held at 10.00 am on 23 November 2011 at Wynyard One Room, Level 6, 341 George Street, Sydney. A Notice of Meeting accompanies this report. Additional copies can be obtained via the Company's web site 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 www.computershare.com

Financial calendar

(subject to change)
 24 October 2011 Annual report mailed
 23 November 2011 Annual general meeting
 31 December 2011 Half year ends
 25 February 2012 Half year results announced

Australian Power and Gas Registered Trademarks

Australian Power & Gas Simply Smarter Energy
 Australian Power & Gas
 Ignition Energy
 IQ Energy
 greenergy

Auditor and tax agent

Deloitte Touche Tohmatsu
 225 George Street
 Sydney NSW 2000

Solicitors

TressCox Lawyers
 Level 20, 135 King Street
 Sydney NSW 2000

Advisers

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 Level 33, 52 Martin Place
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