

APPENDIX 4D – HALF YEAR REPORT

HALF YEAR ENDED 31 DECEMBER 2015

Energy Action Limited (ASX: EAX) – ACN 137 363 636

1. Results for announcement to the market

	% change	6 months to 31 Dec 2015	6 months to 31 Dec 2014
Revenue from ordinary activities	Increase 11% to	\$17,364,243	\$15,655,738
Statutory Profit / (Loss) after tax attributable to members	Decrease 46% to	(\$614,231)	(\$420,179)
Operating Profit after tax attributable to members	Decrease 4% to	\$1,655,576	\$1,729,106

Refer to section 4 for an explanation of Statutory vs Operating Profit

Basic earnings / (loss) per share (Statutory)	Decrease 46% to	(2.37)c	(1.62)c
Diluted earnings/ (loss) per share (Statutory)	Decrease 46% to	(2.37)c	(1.62)c
Basic earnings per share (Operating)	Decrease 4% to	6.38c	6.67c
Diluted earnings per share (Operating)	Decrease 4% to	6.38c	6.67c

2. Dividends

	Cents per share	Franked amount cents per share	Payment date	Record date
2016 interim dividend	2.80	2.80	21 March 2016	4 March 2016
2015 final dividend	1.06	1.06	21 October 2015	26 August 2015

3. Dividend re-investment plan

The Dividend Re-investment Plan (DRP) is currently not activated and is not available for the 31 December 2015 dividend.

4. Brief Explanation of Statutory and Operating Profit per share

Statutory Profit / (Loss) and Statutory Earnings per share are prepared in accordance with Australian Accounting Standards and the Corporations Act.

Statutory Profit / (Loss) after tax of \$(614,321) included a loss after tax of \$2,269,807 (FY15 \$2,149,285) treated as Significant Items (refer also to the Directors Report). Excluding these items, Operating Profit was \$1,655,576, down 4.3% from the previous corresponding period.

Operating Profit is reported to give information to shareholders that provides a greater understanding of operating performance by removing Significant Items and therefore facilitating a more representative comparison of performance between financial periods. Further details are included in the Directors Report.

5. Net tangible assets

	31 December 2015	30 June 2015
Net tangible assets per share	\$(0.052)	\$(0.019)

6. Status of audit

An unqualified, signed Review Opinion is included within the attached Financial Report

All other information required to be disclosed by Energy Action Limited in the Appendix 4D is either not applicable or has been included in the attached Financial Report.

Please also refer to the ASX results announcement and results presentation.

ENERGY ACTION LIMITED

ABN 90 137 363 636

FINANCIAL REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2015

Financial Report

For the Half Year Ended 31 December 2015

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Corporate Information

ACN: 137 363 636

Directors

Murray Bleach - Independent Non-Executive Chairman

Dr. Ronald Watts – Non-Executive Director

Paul Meehan – Non Executive Director

Nitin Singhi – Independent Non-Executive Director (appointed 12 August 2015)

Mark de Kock – Non-Executive Director (appointed 17 August 2015)

Valerie Duncan – Non-Executive Director (resigned 31 August 2015)

Company Secretary

Carolyn West

Registered office and principal place of business

Level 5, 56 Station Street

Parramatta, NSW 2150

Share register

Link Market Services Limited

Level 12

680 George Street

Sydney NSW 2000

Energy Action Limited shares (EAX) are listed on the Australian Securities Exchange (ASX)

Solicitors

DLA Piper

No 1 Martin Place

Sydney NSW 2000

Greenwich Legal

Level 11, 50 Margaret Street

Sydney NSW 2000

Bankers

Commonwealth Bank of Australia

Level 3, 101 George Street

Parramatta NSW 2150

Auditors

Ernst & Young

680 George Street,

Sydney, NSW 2000

Directors Report

Your directors present their report, together with the financial statements for Energy Action Limited (the "Company") and its consolidated entities (the "Group"), for the half-year ended 31 December 2015.

Directors

The names of the Company's directors in office during the half-year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Murray Bleach - Independent Non-Executive Chairman

Dr. Ronald Watts – Non-Executive Director

Paul Meehan – Non Executive Director

Nitin Singhi – Independent Non-Executive Director (appointed 12 August 2015)

Mark de Kock – Non-Executive Director (appointed 17 August 2015)

Valerie Duncan – Non-Executive Director (resigned 31 August 2015)

Dividends

Dividends recommended: <i>Ordinary shares</i>	Cents per share	\$
Interim 2016 dividend to be paid 21 March 2016	2.80	726,715
Interim 2015 dividend paid 22 April 2015	2.59	672,212

Operating and Financial Review

The Board presents the FY16 first half year *Operating and Financial Review*, which has been designed to provide shareholders with a clear and concise overview of Energy Action's operations, financial position, business strategies and prospects. The review also provides contextual information, including the impact of key events that have occurred during the period. The review complements the financial report and has been prepared in accordance with ASIC's Regulatory Guide 247: Effective Disclosure in an operating and financial review.

Our business model

Energy Action's core business strategy is to reduce the impact of energy prices for Australian businesses and to advise businesses on using energy more efficiently.

Energy Action's principal activities are providing integrated energy management services to a diverse base of commercial and industrial customers. Its core services are:

- Energy procurement: specialised buying and negotiation strategies, utilising reverse auctions, bespoke tender models and advising on structured products within AFSL parameters;
- Energy monitoring, assessment and contract management; and,
- Energy efficiency and sustainability Projects and Advisory Services (PAS).

Initially founded in 2000 Energy Action has grown significantly and since 2009 the company has procured more than \$7 billion worth of electricity on behalf of its clients.

The company listed on the Australian Securities Exchange on 13 October 2011.

Financial performance

The Group generated a statutory net loss after tax of \$614,231 for the half year ended 31 December 2015 compared to a statutory net loss after tax of \$420,179 for prior corresponding period.

Operating profit after tax was \$1,655,576 compared to \$1,729,106 for the previous corresponding period, representing a 4.3% decrease. Although revenue increased by 11%, the majority of the revenue growth was in PAS Projects, which have lower gross margins than the Procurement and Contract Management businesses, resulting in an increase in gross margin of 4%.

Operating costs increased by 6% due to a full half year of EnergyAdvice costs compared to four months in HY15. Adjusting for this, Operating costs have increased at less than CPI, rising approximately 1% versus the prior corresponding period.

Financing costs are higher reflecting increased borrowings following the settlement of a portion of the deferred consideration on acquisitions.

Operating Cash Flow before interest, tax and significant items increased 15% to \$2,923,606 with strong positive working capital and cash management.

A reconciliation of the Group's Statutory to Operating Net Profit and EBITDA is shown in the table below:

\$	NPAT			EBITDA		
	31 Dec 2015	31 Dec 2014	Variance	31 Dec 2015	31 Dec 2014	Variance
Statutory results	(614,231)	(420,179)	(46.2%)	890,989	1,025,994	(13.2%)
Add back Significant Items after tax:						
PROP expense [^]	198,811	88,822	123.8%	198,811	88,822	123.8%
Deferred consideration [*]	2,070,996	1,678,249	23.4%	2,070,996	1,678,249	23.4%
Restructuring costs ^{**}	-	342,668	N/M	-	342,668	N/M
Acquisition costs ^{***}	-	39,546	N/M	-	39,546	N/M
Operating profit after tax	1,655,576	1,729,106	(4.3)%	3,160,796	3,175,279	(0.5)%

[^] Non cash share based accounting expense relating to Performance Rights & Options Plan (PROP)

^{*} Deferred consideration relating to the acquisitions of Exergy & EnergyAdvice that is required to be expensed for accounting purposes

^{**} Costs associated with restructuring including redundancies and an onerous lease contract

^{***} Costs relating to the acquisition of Exergy & EnergyAdvice.

Key Financial Metrics – six months ended 31 December 2015

Six months ended	31 Dec 2015	31 Dec 2014	Variance
Revenue	\$17.36m	\$15.66m	+11%
Operating EBITDA	\$3.16m	\$3.18m	(0.5)%
Operating EBITDA margin	18.2%	20.3%	(2.1)%
Operating NPAT	\$1.66m	\$1.73m	(4.3)%
Operating Cash Flow ¹	\$2.924m	\$2.534m	+16%
Statutory NPAT	\$(0.61)m	\$(0.42)m	(46.2)%
Earnings per share (Operating)	6.38c	6.67c	(4.3)%
Earnings per share (Statutory)	(2.37)c	(1.62)c	(46.2)%
Dividend per share	2.80c	2.59c	8%

¹Operating Cash Flow before Interest, Tax and Significant Items

Detailed commentary on the Key Financial Metrics is provided on the following pages.

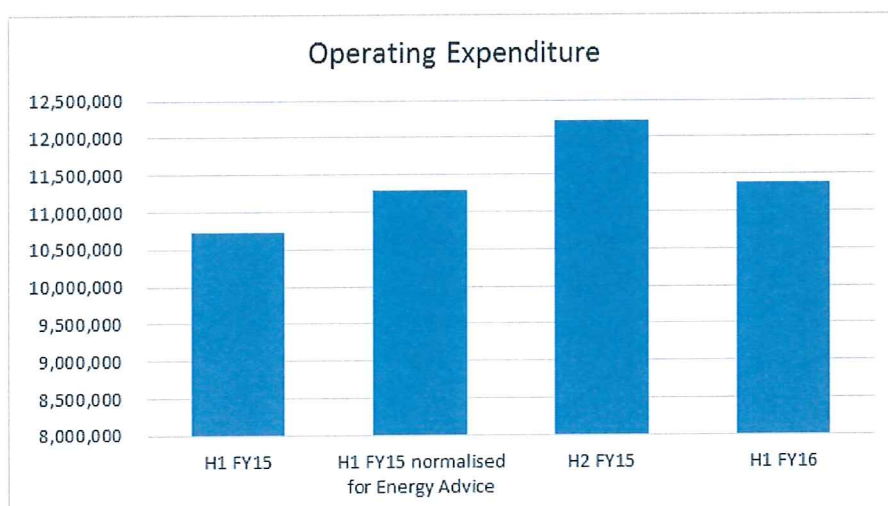
Revenue \$	H1 FY16	H1 Y15	vs HY15 \$	vs HY15 %
Procurement	4,152,725	4,255,081	(102,355)	-2%
Monitoring	8,571,478	8,220,779	350,699	4%
PAS	4,376,587	2,945,901	1,430,686	49%
Other revenue	263,452	233,977	29,475	13%
Total Revenue	17,364,243	15,655,738	1,708,505	11%

Revenue and other income for the year increased by \$1.7 million (or 11%) from \$15.7 million to \$17.4 million mainly as a result of the following:

- Procurement revenue declined by 2% with strong growth in Structured Products being offset by a decline in the very competitive Electricity Tender sector. The number of auctions performed and \$MWh both increased, but were offset by a smaller average load being auctioned.
- An increase in Monitoring revenue of \$0.3 million or 4%, as Activ8 as site numbers resumed a growth trend.
- Strong growth in PAS revenue of \$1.4 million or 49%, mainly from the execution of a large building services upgrade project and increased commercial solar and power factor correction projects.

Operating expenditure

Operating overheads totalled \$11.4 million for the period, compared to \$10.8 million in the prior corresponding period, an increase of 6%. This year included a full half year of costs associated with EnergyAdvice, compared to four months in the prior corresponding period. Normalising for this difference, costs have increased by approximately 1% on a 'like for like' basis. This below inflation increase reflects cost savings being achieved from the organisational restructure implemented in FY15 and a reduction of 6% compared to H2 FY15.



Financial position and cashflows

Net assets decreased from \$13.5 million at 30 June 2015 to \$12.8 million, at 31 December 2015 mainly as a result of the statutory loss incurred of \$0.6 million.

Operating cash flows before interest, tax and significant items of \$2.92 million were generated during the half year, an increase of 16% versus the prior corresponding period. Operating cash flow before interest, tax and significant items was 92% of Operating EBITDA, a significant increase from the previous period and reflects management's focus on managing and improving cash flows.

The Group incurred capital expenditure of \$624,274 in the period, of which \$567,089 was on IT projects, including implementing a single IT domain, developing the WA Activ8 and Activ8 Platinum products and further enhancements to the core Auction platform.

Reconciliation of Operating Cash Flow before interest, tax and significant items

Six months ended	31 Dec 2015	31 Dec 2014
Operating Cash flow	(1,002,572)	902,694
Add back:		
Taxes paid	543,388	776,077
Net Interest paid / (received)	240,790	12,989
Cash flows related to significant items	3,142,000	842,668
Operating cash flow before interest, tax and significant items	2,923,606	2,534,428
Operating EBITDA	3,160,796	3,175,279
Operating cash flow as % of Operating EBITDA	92%	80%

In October 2014, the Company entered into a five year, \$12 million multi-option facility agreement principally to fund the acquisitions of EnergyAdvice and Exergy but also for general corporate purposes. Funds can be provided under the facility as loans, bank guarantees or as letters of credit. As at 31 December 2015, the Company had utilised \$8.781 million of the facility comprising a loan of \$5.542 million and bank guarantees principally in relation to the purchase of EnergyAdvice of \$3.239 million.

The Group had \$2.2 million of cash at bank at 31 December 2015, inclusive of \$1.0 million allocated to Exergy and held in escrow. The Company has total undrawn facilities and cash (net of escrow) of \$4.3 million, up from \$3.3 million as at 30 June, 2015 reflecting the focus on cash flow and working capital management.

A fully franked dividend of 2.80 cents per share was declared on 26 February 2016, an increase of 8% compared to the prior corresponding period. The half year dividend reflects a payout ratio of 44% of the statutory net loss after tax adjusted for certain non-cash expenses.

Operating review and highlights

H1 FY16 has been a period of consolidation and focus for Energy Action, ahead of the launch of several growth initiatives in the second half. Key operational achievements in the period include:

- Migrating all legacy brands under a single Energy Action brand effective December 2015
- Go-live of a single CRM solution
- Improved utilization in the PAS division
- Update and launch of the Company's values and purpose

Procurement

Auction activity increased with the number of auctions increasing by 7% to 969. Average \$/MWh also increased by 22% to \$53.46, with higher prices in all States, especially so in South Australia. The average length of contracts shortened by 2.6 months as customers opted for shorter contracts as a response to the higher electricity prices, in line with our customer guidance.

The total annualised equivalent load transacted via auction also fell as the mix of customers was more highly weighted to medium sized entities.

Electricity tenders was down significantly versus the prior corresponding period with a reduction in both the number of tenders performed, and the average price realised per tender. Tenders have become a very competitive area of the market, especially amongst large clients.

Structured Products achieved strong growth with the expansion of additional services and several new clients.

The number of electricity tariff tenders has reduced following the Company's strategy of focussing on multi-site customers.

The number of gas tenders was down, although volumes contracted were up.

Contract Management & Energy Reporting (CMER)

Overall revenue was up 4% with growth in the number of core Activ8 / Energy Metrics sites up 186 to 6,757 sites under management. The Company has been gradually migrating clients from Energy Metrics to Activ8 to take advantage of greater user functionality.

Projects & Advisory Services (PAS)

The PAS business has experienced strong growth of 49%, driven mainly by the Projects and Project Management and Engineering businesses. Major projects undertaken during the year include a major building services upgrade, approximately 500KW of commercial solar projects and 40 power factor correction projects.

Forward revenue

Forward revenue has reduced by \$3.1m to \$72.7m as at 31 December 2015, mainly due to higher than anticipated level of CMER cancellations during the period. The Company has focussed on improving customer service over the period and has also implemented stronger controls, including applying termination fees in some circumstances, over cancellations.

The Company has increased the number of metering agents we partner with from three to five, including the in-house metering agents of several leading retailers, to better allow us to manage CMER contract continuity following a change in customer retail contracts.

Operational Key Performance Indicators

Six months ended	31 Dec 2015	31 Dec 2014	% change
Future contracted revenue	\$72.7m	\$75.8m	(4)%
Procurement			
No. of successful AEX auctions	969	906	7%
Average AEX contract duration (months)	23.2	25.8	-2.6mths
TWhs sold via Auction (annualised equivalent ¹)	2.27	3.00	-24%
Average \$/MWh	\$53.46	\$43.66	22%
Total Auction bid value ²	\$121m	\$131m	-8.0%
No. of electricity tender events ³	156	223	-30%
No. of gas tender events ³	108	135	-20%
Contract Management & Energy Reporting (CMER)			
Sites under current contract⁴	Dec 15	Jun 15	No
Activ8 / Energy Metrics	6,757	6,571	+186
Bureau services	6,135	6,006	+129
Data only contracts (MP / MDA)	2,814	2,704	+110
No. of sites under contract	15,706	15,281	+425
Average Activ8 contract duration (months)	52	53	-1 month
Projects & Advisory Services			
Contracted future orders	\$5.3m	\$5.1m	4%

1) Annualised figures & not consumption over the contract term

2) Electricity component of contract only, i.e. excludes network and other charges

3 Includes C&I and tariff tenders

4) Does not include contracts which are signed, but yet to commence service delivery. Prior year reallocated where appropriate to ensure comparability

Outlook

On 12 November 2015, Energy Action advised the market that Operating Profit after tax is expected to be between \$3.4 million and \$3.9 million for the full year. This guidance has been maintained.

The key focus areas for the remainder of FY16 include:

- Launch of the Activ8 Platinum service offering near real time data
- Development and launch of an upgraded Lucida building efficiency offering
- Further improvements in utilization and profitability in the PAS division
 - Finalising the upgrade of legacy customer relationship and finance systems
 - Launching the Solar promotion program with Sun Edison.

Revenue and profit is expected to be weighted to the second half of FY16, in line with the usual seasonal business phasing and strong recent momentum in the PAS business.

Events after the Reporting Period

On 26 February 2016, the directors of Energy Action Limited declared an interim dividend on ordinary shares in respect of the 6 months to 31 December 2015. The total amount of the dividend is approximately \$726,715 which represents a fully franked dividend of 2.80 cents per share. The dividend has not been provided for in the 31 December 2015 financial statements.

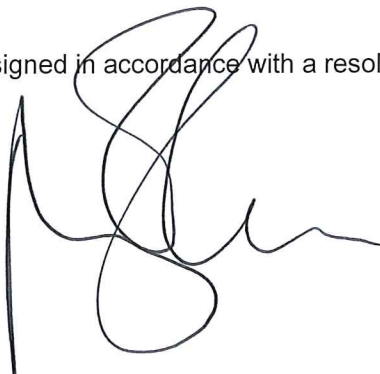
The Company intends to introduce in the second half of FY16 an Employee Share Trust to facilitate the acquisition of and holding of shares that may subsequently vest and transfer to employees under the Performance Rights & Options Plan.

No other matters or circumstances have arisen since the end of the half-year which significantly affected or could significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

Auditor's Independence Declaration

The lead auditor's independence declaration for the half-year ended 31 December 2015 has been received and can be found on the following page of the financial report.

This director's report is signed in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to be 'Murray Bleach', written over a large, faint, stylized 'E' or similar background mark.

Murray Bleach
Chairman

Dated: 26 February 2016



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Auditor's Independence Declaration to the Directors

As lead auditor for the review of Energy Action Limited for the half-year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Energy Action Limited and the entities it controlled during the financial period.

Ernst & Young

Schalk Barnard
Partner
26 February 2016

Financial Statements

Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2015

	Note	Consolidated Group	
		H1 FY16	H1 FY15
		\$	\$
Continuing operations			
Revenue	4	17,337,243	15,628,738
Other income	5	27,000	27,000
Total Revenue		17,364,243	15,655,738
Cost of goods and services sold		3,406,640	2,240,253
Employee benefits expense		8,246,991	7,587,864
Share based payments on employee share schemes		198,811	88,822
Deferred consideration on acquisitions	3	2,070,996	1,678,249
Acquisition, transaction and restructuring related costs		-	382,214
Rental expense		508,042	538,866
Travel expenses		353,452	369,759
Administration expenses		1,688,322	1,743,717
EBITDA		890,989	1,025,994
Depreciation and amortisation		668,682	575,975
EBIT		222,307	450,019
Financing (costs) / income	8	(240,790)	(93,698)
Profit / (Loss) before income tax		(18,483)	356,321
Income tax expense		595,748	776,500
Profit / (Loss) for the year attributable to members of the parent entity		(614,231)	(420,179)
Other comprehensive income/(loss) for the period, net of tax, that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		4,652	744
Total comprehensive income for the year attributable to members of the parent entity		(609,579)	(419,435)
Earnings per share:		Cents	Cents
Basic earnings per share for the year attributable to ordinary equity holders of the parent	10	(2.37)	(1.62)
Diluted earnings per share for the year attributable to ordinary equity holders of the parent	10	(2.37)	(1.62)

The accompanying notes form part of these financial statements

Consolidated Statement of Financial Position

As at 31 December 2015

	Note	Consolidated Group	
		31 December 2015	30 June 2015
		\$	\$
CURRENT ASSETS			
Cash and cash equivalents		1,220,145	1,740,288
Restricted cash	3	1,000,000	1,000,000
Trade and other receivables		4,704,437	5,868,825
Other assets		1,918,527	1,168,986
TOTAL CURRENT ASSETS		8,843,109	9,778,099
NON-CURRENT ASSETS			
Trade and other receivables		88,726	93,098
Property, plant and equipment		794,691	896,782
Other assets		882,182	898,941
Other Intangible assets	6	2,436,803	2,175,485
Goodwill	6	9,942,429	9,942,429
Customer relationships	6	1,764,799	1,884,351
TOTAL NON-CURRENT ASSETS		15,909,630	15,891,086
TOTAL ASSETS		24,752,739	25,669,186
CURRENT LIABILITIES			
Trade and other payables	7	4,364,915	6,202,921
Provisions		1,259,621	1,277,525
TOTAL CURRENT LIABILITIES		5,624,536	7,480,446
NON-CURRENT LIABILITIES			
Other long term provisions		380,133	372,667
Loans and Borrowings	9	5,227,391	3,759,538
Deferred tax liabilities		717,312	557,981
TOTAL NON-CURRENT LIABILITIES		6,324,836	4,690,185
TOTAL LIABILITIES		11,949,372	12,170,632
NET ASSETS		12,803,367	13,498,553
EQUITY			
Issued capital	12b	6,537,906	6,537,906
Share based payment reserve	13	751,965	553,154
Retained earnings		5,533,389	6,422,734
Foreign currency translation reserve		(19,893)	(15,241)
TOTAL EQUITY		12,803,367	13,498,553

The accompanying notes form part of these financial statements

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2015

Consolidated Group	Note	Issued Capital Ordinary	Share Based Payment Reserve	Retained Earnings	Other Reserves	Total
		\$	\$	\$	\$	\$
Balance at 1 July 2014		6,160,906	258,947	10,181,587	(349)	16,601,091
Profit / (Loss) for the period		-	-	(420,179)	-	(420,179)
Other comprehensive income					744	744
Total comprehensive income		-	-	(420,179)	744	(419,435)
Share capital issued in the year	12b	377,000	-	-	-	377,000
Share based payment		-	88,822	-	-	88,822
Dividends paid or provided for	11	-	-	(939,059)	-	(939,059)
Balance at 31 December 2014		6,537,906	347,769	8,822,349	395	15,708,419
Balance at 1 July 2015		6,537,906	553,154	6,422,734	(15,241)	13,498,553
Profit/(Loss) for the period		-	-	(614,231)	-	(614,231)
Other comprehensive income		-	-	-	(4,652)	(4,652)
Total comprehensive income		-	-	(614,231)	(4,652)	(618,883)
Share capital issued in the year	12b	-	-	-	-	-
Share based payment		-	198,811	-	-	198,811
Dividends paid or provided for	11	-	-	(275,114)	-	(275,114)
Balance at 31 December 2015		6,537,906	751,965	5,533,389	(19,893)	12,803,367

The accompanying notes form part of these financial statements

Consolidated Statement of Cash Flow

For the half year ended 31 December 2015

	Note	Consolidated Group	
		H1 FY16	H1 FY15
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		20,413,038	17,264,702
Payments to suppliers and employees (inclusive of GST)		(17,489,432)	(14,730,274)
Payments for deferred consideration (FY16 - Energy Advice FY15 - Exergy) classified as employment expense	3	(3,142,000)	(500,000)
Acquisition and transaction related costs		-	(342,668)
Interest received		12,120	26,416
Interest paid		(252,910)	(39,405)
Income tax paid		(543,388)	(776,077)
Net cash provided by/(used in) operating activities		(1,002,572)	902,694
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(57,184)	(177,639)
Acquisition of EnergyAdvice Pty Limited	3.3	-	(5,803,045)
Acquisition of Exergy Holdings Pty Limited	3.3	-	(138,623)
Software development costs		(608,421)	(567,487)
Net cash used in investing activities		(665,605)	(6,686,794)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid by parent entity	11	(275,114)	(939,059)
Bank loan	9	1,442,000	4,250,000
Debt establishment fees		-	(296,007)
Bank guarantee fees		(18,852)	(18,852)
Net cash generated from financing activities		1,148,034	2,996,082
Net decrease in cash held		(520,143)	(2,788,018)
Cash at beginning of financial year		2,740,288	4,556,558
Cash at end of financial year		2,220,145	1,768,540

The accompanying notes form part of these financial statements

NOTE 1: CORPORATE INFORMATION

The interim condensed consolidated financial statements of Energy Action Limited and its Controlled Entities (the “consolidated group” or “group”) for the half-year ended 31 December 2015 were authorised in accordance with a resolution of the directors on 26 February 2016.

Energy Action Limited (“the Parent” or “EAX”) is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The Group is a for profit entity.

The nature of the operation and principal activities of the Group are described in the directors’ report.

NOTE 2: BASIS OF PREPARATION AND CHANGES IN ACCOUNTING POLICIES**2.1 Basis of Preparation**

The interim condensed consolidated financial statements for the six months period ended 31 December 2015 have been prepared in accordance with AASB 134 Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 30 June 2015.

Where necessary, comparatives have been reclassified and repositioned for consistency with disclosures at 31 December 2015.

2.2 New Accounting Standards and interpretations**Changes in accounting policy**

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 30 June 2015, except for the adoption of the following new standards and interpretations effective as of 1 July 2015:

- AASB 2014-4 Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)
- AASB 2014-9 Amendments to Australian Accounting Standards - Equity method in Separate Financial Statements
- Annual Improvements 2012–2014 Cycle
- AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101
- AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality

The adoption of these amendments did not have any material impact on the financial position or performance of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

NOTE 3: BUSINESS COMBINATIONS

3.1 Information on prior year acquisition

Acquisition of EnergyAdvice

On 18 August 2014, Energy Action Limited acquired 100% of the voting shares of EnergyAdvice Pty Ltd ("EnergyAdvice"). Trading as EnergyAdvice, and established in 1997, EnergyAdvice is a highly regarded energy consultancy business with a core competency energy procurement, contract management services and specialty consultancy services. Its operations complement EAX's energy procurement and contract management offering, and significantly strengthen EAX's access to large energy load customers.

EnergyAdvice provides comprehensive energy management, procurement, reporting, auditing, energy efficiency, advisory and project management services across a broad range of energy commodities including electricity, gas, LPG, fuels and renewables. The company employs over 30 staff and has offices in Melbourne, Sydney and Brisbane.

Consideration is comprised of the following:

Initial Consideration (paid) - \$6,536,235 paid as cash and shares

- \$2,765,000 cash payment on 18 August 2014
- \$377,000 in EAX shares issued on 18 August 2014 (123,356 shares @\$3.0562)
- \$3,142,000 cash payment on 1 October 2014; and
- \$252,235 as a working capital adjustment paid on 22 October 2014

Deferred Consideration - \$6,284,000 cash payable to the vendors as follows:

- \$3,142,000 on 18 August 2015 (now paid) : and
- \$3,142,000 on 18 August 2016

The deferred payments are subject to the continuing employment of the vendors. Due to the direct link to continuing employment of the vendors the deferred consideration of \$6,284,000 is required to be expensed to the Profit and Loss Statement evenly over the 2 year period ended 18 August 2016. The expense recognised in the 6 month period to 31 December 2015 was \$1,570,996 (HY15 \$1,178,249) and this has been emphasized as a Significant Item in the Directors Report. The remaining deferred payments are covered by bank guarantees.

The acquisition was provisionally accounted at 31 December 2014 with the final acquisition accounting completed in June 2015. The provisional and final fair value of the identifiable assets and liabilities of EnergyAdvice as at the date of acquisition were:

	Note	Fair value recognised on acquisition- provisional	Adjustments to provisional fair value	Fair value recognised on acquisition – final
Assets				
Cash		356,190		356,190
Trade receivables		597,968		597,968
Prepayments		555,738	(18,567)	537,171
Property, plant and equipment		271,177		271,177
Customer relationship		1,500,000	(1,069,000)	431,000
Total Assets		3,281,073	(1,087,567)	2,193,506
Liabilities				
Provisions		970,252		970,252
Tax payable		215,623	26,590	242,213
Deferred tax liabilities		450,000	(281,262)	168,738
Total Liabilities		1,635,875	(254,672)	1,381,203
Total identifiable net assets at fair value		1,645,198	(832,895)	812,303
Goodwill arising on acquisition	13	4,891,039	832,895	5,723,934
Purchase consideration		6,536,235		6,536,235
Issue of shares	12	377,000		377,000
Analysis of cash flows on acquisition:				
Net cash acquired		356,190		356,190
Cash paid		(6,159,235)		(6,159,235)
Net cash outflow		(5,803,045)		(5,803,045)

The transaction costs in H1 FY14 of \$320,892 have been expensed in the income statement and emphasized as a Significant Item in the Directors Report and are part of operating cash flows in the statement of cash flows.

3.3 Total amounts of deferred consideration expense and acquisition expense

	Consolidated Group	
	H1 FY16 \$	H1 FY15 \$
Deferred consideration		
Exergy	500,000	500,000
Energy Advice	1,570,996	1,178,249
Total deferred consideration expense	2,070,996	1,678,249

Acquisition costs expensed	Consolidated Group	
	H1 FY16	H1 FY15
	\$	\$
Exergy	-	39,546
Energy Advice	-	342,668
Total acquisition costs expensed	-	382,214

3.3 Total cash paid for acquisitions

Payments for businesses, net of cash acquired:	Consolidated Group	
	H1 FY16	H1 FY15
	\$	\$
Energy Advice	-	5,803,045
Exergy	-	138,623
	-	5,941,668

Payments for deferred consideration classified as employee compensation:	Consolidated Group	
	H1 FY16	H1 FY15
	\$	\$
Energy Advice	3,142,000	-
Exergy	-	500,000
	3,142,000	500,000

NOTE 4: SEGMENT INFORMATION

Identification of reportable segments

The Group has identified one reportable operating segment, which provides electricity and gas procurement services, energy monitoring services, and sustainability services in Australia. The types of services provided are detailed below.

Types of Services

The business's service range is composed of the three major services: **Procurement** – via Energy Action's Australian Energy Exchange (AEX) and also via tenders and energy consulting, **Energy Monitoring** via Energy Action's Activ8 service and EnergyAdvice's EnergyMetrics service and **Project & Advisory Services**.

The AEX is a specialised electricity procurement service which is an online, real time, reverse auctions platform.

Activ8 is an independent energy monitoring contract management service which includes energy consumption monitoring and costing, energy emissions monitoring, contract administration, detailed technical reporting, desktop energy efficiency review and additional reporting and monitoring.

Project and Advisory Services is the energy efficiency and sustainability partnering service, which includes metering intelligence, sub metering, carbon footprint measurement and reduction advice, Australian Standard Level 2 compliance energy audits, project feasibility studies and supporting onsite power generation projects such as co-generation and tri-generation units from prefeasibility through to commissioning.

Whilst the revenue is analysed by service line, overall the performance of the business is monitored as one.

Accounting Policies and inter-segment transaction

The accounting policies used by the Group in the reporting segment internally are the same as those contained in note 2 to the accounts.

Revenue by customer

There is no revenue with a single external customer that contributes more than 10%.

H1 FY16	Procurement	Monitoring	Project & Advisory Services	Other	Total
	\$	\$	\$	\$	\$
Sales to external customers	4,152,726	8,571,478	4,376,587	236,452	17,337,243

H1 FY15	Procurement	Monitoring	Project & Advisory Services	Other	Total
	\$	\$	\$	\$	\$
Sales to external customers	4,255,081	8,220,779	2,945,901	206,977	15,628,738

NOTE 5: REVENUE, OTHER INCOME AND EXPENSES

	Consolidated Group	
	H1 FY16	H1 FY15
	\$	\$
Sales revenue	17,100,791	15,421,791
Research & development grant	27,000	27,000
Other Income	236,452	206,977
Total revenue	17,364,243	15,655,738

NOTE 6: INTANGIBLE ASSETS

	Consolidated Group	
	31 Dec 2015	30 June 2015
	\$	\$
Software development costs – net of amortisation	2,436,803	2,175,485
Goodwill	9,942,429	9,942,429
Customer relationships – net of amortisation	1,764,799	1,884,351
	14,144,031	14,002,265

NOTE 7: TRADE AND OTHER PAYABLES

	Consolidated Group	
	31 Dec 2015	30 June 2015
	\$	\$
Trade payables	510,004	801,978
Deferred consideration – Exergy and Energy Advice	1,970,290	3,040,862
Other payables and accrued expenses	1,884,621	2,360,081
	<u>4,364,915</u>	<u>6,202,921</u>

NOTE 8: FINANCING INCOME / (COSTS)

	Consolidated Group	
	H1 FY16	H1 FY15
	\$	\$
Interest Income	12,120	26,416
Interest expense	(252,910)	(120,114)
	<u>(240,790)</u>	<u>(93,698)</u>

NOTE 9: LOANS AND BORROWINGS

	Consolidated Group	
	31 Dec 2015	30 June 2015
	\$	\$
Multi-Option Facility Agreement	5,542,000	4,100,000
Less capitalised debt establishment fees	(314,609)	(340,462)
	<u>5,227,391</u>	<u>3,759,538</u>

Energy Action has a \$12 million multi-option secured debt facility maturing in September 2019. Funds can be utilized in the form of loans, bank guarantees and letters of credit.

Funds advanced under the facility are secured by a charge over the assets of the Group, and includes an Interest Cover and Gearing ratio.

As at 31 December 2015, Energy Action had utilised \$8.781 million of the facility, comprising a loan of \$5.542 million and bank guarantees, principally in relation to the purchase of Energy Advice, of \$3.239 million.

The carrying value of the loans and borrowings materially approximate fair value.

NOTE 10: EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit / (loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic diluted earnings per share computations:

	H1 FY16 \$	H1 FY15 \$
Statutory Net profit / (loss) attributable to ordinary equity holders of the parent for basic earnings	(614,231)	(420,179)
Statutory Net Profit / (loss) attributable to ordinary equity holders of the parent adjusted for the effect of dilutions	(614,231)	(420,179)
	Dec 2015 No.	Dec 2014 No.
Operating Net profit attributable to ordinary equity holders of the parent for basic earnings	1,655,576	1,729,106
Operating Net Profit Attributable to ordinary equity holders of the parent adjusted for the effect of dilutions	1,655,576	1,729,106
Weighted average number of ordinary shares for basic earnings per share	25,954,117	25,915,169
Effect of dilution:		
Issue of shares – performance rights	-	30,678
Weighted average number of ordinary shares adjusted for the effect of dilution	25,954,117	25,945,847
Basic earnings / (loss) per share (Statutory)	(2.37)	(1.62)
Diluted earnings/ (loss) per share (Statutory)	(2.37)	(1.62)

There are 832,383 performance rights excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

NOTE 11: DIVIDENDS

	Consolidated Group	
	H1 FY16	H1 FY15
	\$	\$
Dividends paid:		
Final FY15 franked dividend of 1.06 cents per share	275,114	-
Final FY14 franked dividend of 3.62 cents per share	-	939,059
	275,114	939,059
Proposed interim FY16 franked dividend of 2.80 cents per share (interim FY15 franked dividend of 2.59 cents per share)	726,715	672,212

Tax rates

The tax rate at which paid dividends have been franked is 30% (FY15: 30%). Dividends proposed will be franked at the rate of 30% (FY15: 30%).

NOTE 12: ISSUED CAPITAL AND RESERVES

	Consolidated Group	
	December	December
	2015	2014
	\$	\$
Fully paid ordinary shares	6,537,906	6,537,906
	6,537,906	6,537,906

	Consolidated Group	
	H1 FY16	H1 FY15
	No.	No.
a. Ordinary Shares (number)		
At the beginning of the reporting period:	25,954,117	25,817,498
Movement in the year:		
- Employee shares	-	13,263
- Share issue – EnergyAdvice acquisition	-	123,356
At the end of the reporting period	25,954,117	25,954,117

	Consolidated Group	
	December	December
	2015	2014
	\$	\$
b. Ordinary Shares (\$)		
At the beginning of the reporting period:	6,537,906	6,160,906
Movement in the year		
- Share issue – EnergyAdvice acquisition	-	377,000
At the end of the reporting period	6,537,906	6,537,906

Ordinary shares participate in dividends and the proceeds on winding-up of the parent entity in proportion to the number of shares held.

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

NOTE 13: SHARE-BASED PAYMENTS

On 16 October 2015, 446,956 performance rights were granted to senior executives under the Performance Rights & Options Plan (PROP). Vesting only occurs when and if service and performance conditions are met.

The service condition is such that the employee must be employed by Energy Action at the time any performance rights vest.

The Performance Conditions comprise two tests, the Earnings Per Share (EPS) and Total Shareholder Return (TSR) tests, which are described below.

The number of Performance Rights allocated to an individual which may vest will be determined by reference to:

- an Earnings Per Share (EPS) component achieved by comparing the Company's Actual Operating EPS for the year ending on the relevant test date to the Company's Budget Operating EPS for the year ending on the relevant test date (Target 1); and
- a Total Shareholder Return (TSR) component achieved by comparing the Company's total compounded return to the total compounded return of the S&P/ASX300 (Index) for the year ending on the relevant test date (Target 2).

75% of Performance Rights Earnings Per Share Target (EPS) ("Target 1 Entitlement")		25% of Performance Rights Total Shareholder Return (TSR) ("Target 2 Entitlement")	
Target 1	Available Performance Rights	Target 2	Available Performance Rights
Actual Operating EPS LESS THAN Budget Operating EPS	Nil	Company Total Compounded TSR LESS THAN Total Compounded TSR of the Index	0%
Actual Operating EPS EQUALS (OR GREATER THAN) Budget Operating EPS	100%	Company Total Compounded TSR EQUALS Total Compounded TSR of the Index	50%
		Company Total Compounded TSR BETWEEN EQUAL TO AND 1.10 TIMES Total Compounded TSR of the Index	Vesting will occur on a linear basis between 50% and 100%
		Company Total Compounded TSR 1.10 TIMES Total Compounded TSR of the Index	100%

Awards have been granted with either a 2 or 3 year vesting period ending 30 June 2017 or 30 June 2018. The details and fair values of each of the performance rights granted during the six month period was as follows:

	Retesting	EPS \$	TSR \$	Description
2 year	N	1.13 - 1.18	0.66 – 0.99	No retesting feature
3 Year	N	1.07 - 1.18	0.64 – 0.99	No retesting feature
3 year service only	N/A	N/A	N/A	Fair value per right is \$1.07

A Monte Carlo simulation valuation technique has been adopted to value the performance rights at grant date. The fair value of performance rights granted during the six months ended 31 December 2015 was estimated on the date of grant using the following assumptions:

Dividends	FY15 3.65 cents, 20% pa growth thereafter
Expected volatility (%)	45
Risk-free interest rate (%)	1.84% (2 year), 1.86% (3 year)
Share price (\$)	1.22

For the six months ended 31 December 2015, the Group has recognised \$198,811 of share-based payment transactions expense in the statement of comprehensive income (H1 FY15: \$88,822).

NOTE 14: FINANCIAL INSTRUMENTS

Fair Values

Fair value estimation

The fair values of financial assets and financial liabilities are the equivalent of the carrying amount as the financial assets and financial liabilities are short-term instruments. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

NOTE 15: EVENTS AFTER THE REPORTING PERIOD

On 26 February 2016, the directors of Energy Action Limited declared an interim dividend on ordinary shares in respect of the 6 months to 31 December 2015. The total amount of the dividend is approximately \$727,000 which represents a fully franked dividend of 2.80 cents per share. The dividend has not been provided for in the 31 December 2015 financial statements.

The Company intends to introduce in the second half of FY16 an Employee Share Trust to facilitate the acquisition of and holding of shares that may subsequently vest and transfer to employees under the Performance Rights & Options Plan.

No other matters or circumstances have arisen since the end of the half - year which significantly affected or could significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years.

Directors Declaration

In accordance with a resolution of the Directors of Energy Action Limited, I state that:

In the opinion of the Directors:

- a. The financial statements and notes of Energy Action Limited for the half - year ended 31 December 2015 are in accordance with the Corporations Act 2001, including:
 - I. giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and performance for the half year ended on that date; and
 - II. complying with Accounting Standards AASB 134 and the Corporations Regulations 2001
- b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable

On behalf of the board.

Murray Bleach
Chairman

26 February 2016

A handwritten signature in black ink, appearing to be 'Murray Bleach', written over a large, faint, stylized 'E' or similar background mark.

Independent Review Opinion



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To the members of Energy Action Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Energy Action Limited, which comprises the condensed statement of financial position as at 31 December 2015, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-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 half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Energy Action Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Energy Action Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'PS Barnard'.

PS Barnard
Partner
Sydney
26 February 2016