

Thursday, 22 February 2018

## FY2018 HALF YEAR RESULTS

Please find attached the Investor Presentation relating to ERM Power's results for the six months ended 31 December 2017.



Phil Davis  
Group General Counsel & Company Secretary  
ERM Power Limited

### About ERM Power

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

[www.ermpower.com.au](http://www.ermpower.com.au)

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

# HALF YEAR RESULTS

6 months to 31 December 2017

22 February 2018



# IMPORTANT NOTICE - DISCLAIMER



## Disclaimer

This presentation contains certain forward-looking statements with respect to the financial condition, results of operations and business of ERM Power Limited (ERM Power) and certain plans and objectives of the management of ERM Power.

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## Non-IFRS information

This document may contain certain non-IFRS financial measures and other defined financial terms.

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

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

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

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

A reconciliation of underlying NPAT and underlying EBITDAF is supplied in the Operating and financial review (OFR). The above non-IFRS financial measures have not been subject to review or audit. These non-IFRS financial measures form part of the financial measures disclosed in the books and records of the Consolidated Entity, which have been reviewed by the Group's auditor.

All reference to \$ is a reference to Australian dollars unless otherwise stated. Individual items, totals and percentages are rounded to the nearest appropriate number or decimal. Some totals may not add down the page due to rounding of individual components.

Full glossary of terms used in this presentation can be found in the OFR document that accompanies these results.

# HALF YEAR SUMMARY



# HALF YEAR SUMMARY



Continued growth

Total electricity sales

↑ **21%**  
To **12.6TWh**

AU up 8% to 9.6TWh  
US up 100% to 3.0TWh

Total forward load

↑ **16%**  
To **49.0TWh**

AU up 21% to 33.5TWh  
US up 7% to 15.5TWh

Underlying EBITDAF up

↑ **4.6x**  
To **\$51.1m**

Declared 1H dividend

**3.5cps**  
Fully franked

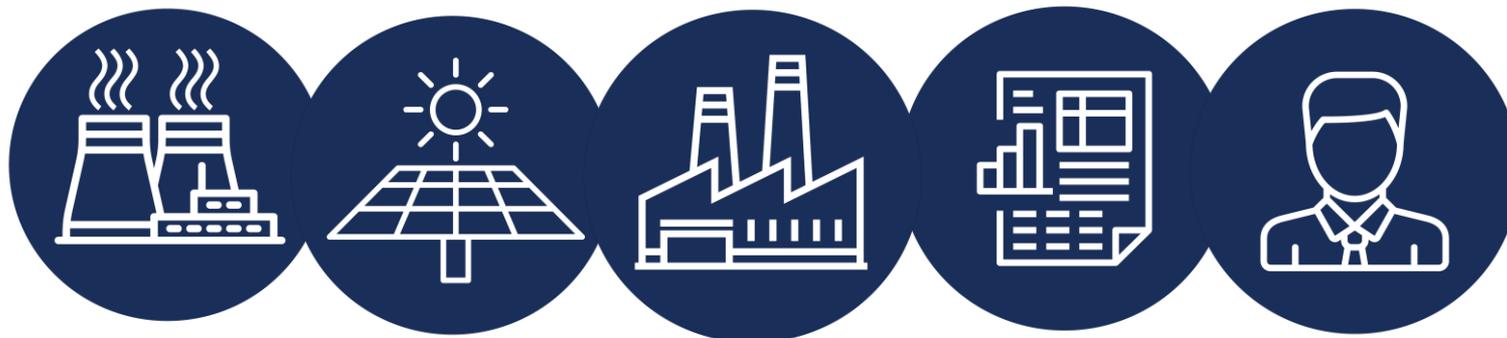
- Underlying EBITDAF **\$51.1m**
- **Electricity Retailing** business in **Australia** performed well:
  - Electricity load **up 8% to 9.6TWh**
  - Gross margin **\$5.08/MWh**
  - #1 in customer satisfaction<sup>1</sup> for the 7<sup>th</sup> year in a row
- **US business** continued load growth:
  - Electricity load **up 100% to 3.0TWh**
  - Gross margin **\$3.78/MWh**
  - #3 in broker satisfaction<sup>2</sup> for the 3<sup>rd</sup> year in a row
- **Generation** underlying EBITDAF in line with comparative period at **\$20.6m**
- **Energy Solutions** revenue increased 143% to **\$9.7m**
- 1H dividend of **3.5cps, fully franked** and an on-market share **buyback** of up to **\$20m** announced

3 <sup>1</sup> Customer satisfaction refers to the Utility Market Intelligence (UMI) surveys 2011-2017 of large customers of major electricity retailers in Australia, undertaken by independent research company NTF Group  
<sup>2</sup> Energy Research Consulting Group (ERCG) survey of Aggregators, Brokers and Consultants (ABC) Study December 2017

# NATIONAL ENERGY GUARANTEE

Long-term enduring national policy is imperative

- Actively participating to drive desired policy, industry, customer outcomes
- Ensure reliability and emissions objectives are set nationally
- Deliver policy that ensures investment when and where it is needed
- Policy must deliver investment in sustainable, reliable, dispatchable energy
- Recognise the role of the financial markets in liquidity and competition
- Build competition and market price transparency not diminish it
- Deliver enduring energy policy for a more stable investment environment
- A long way to go in developing the detail of the NEG



# FINANCIAL RESULTS



# 1H FY2018 FINANCIALS<sup>1</sup>



ERM Power Group

\$m unless otherwise stated	1H FY2018	1H FY2017	Change	% Change
Contestable revenue <sup>2</sup>	1,116.0	700.0	416.0	59%
<b>Underlying EBITDAF</b>	<b>51.1</b>	<b>11.1</b>	<b>40.0</b>	<b>360%</b>
Depreciation	(22.7)	(18.1)	(4.6)	25%
Net finance expense <sup>3</sup>	(15.5)	(13.4)	(2.1)	16%
Tax	(3.6)	(30.6)	27.0	(88%)
LGC short surrender tax charge	-	(36.6)	-	N/A
Remaining tax charge	(3.6)	6.0	-	N/A
<b>Underlying NPAT</b>	<b>9.3</b>	<b>(51.0)</b>	<b>60.3</b>	<b>N/A</b>
Underlying EPS (cents per share)	3.75	(20.9)	24.7	N/A
<b>Statutory NPAT</b>	<b>49.6</b>	<b>(16.4)</b>	<b>66.0</b>	<b>N/A</b>
<b>Net (cash)/debt</b>	<b>(111.6)</b>	<b>(78.4)</b>	<b>(33.2)</b>	<b>42%</b>
Interim dividend (cents per share)	3.5 franked	3.5 franked		

<sup>1</sup> Continuing operations. Comparatives restated to exclude discontinued operations

<sup>2</sup> Includes both electricity and green certificate sales. Excludes pass through costs

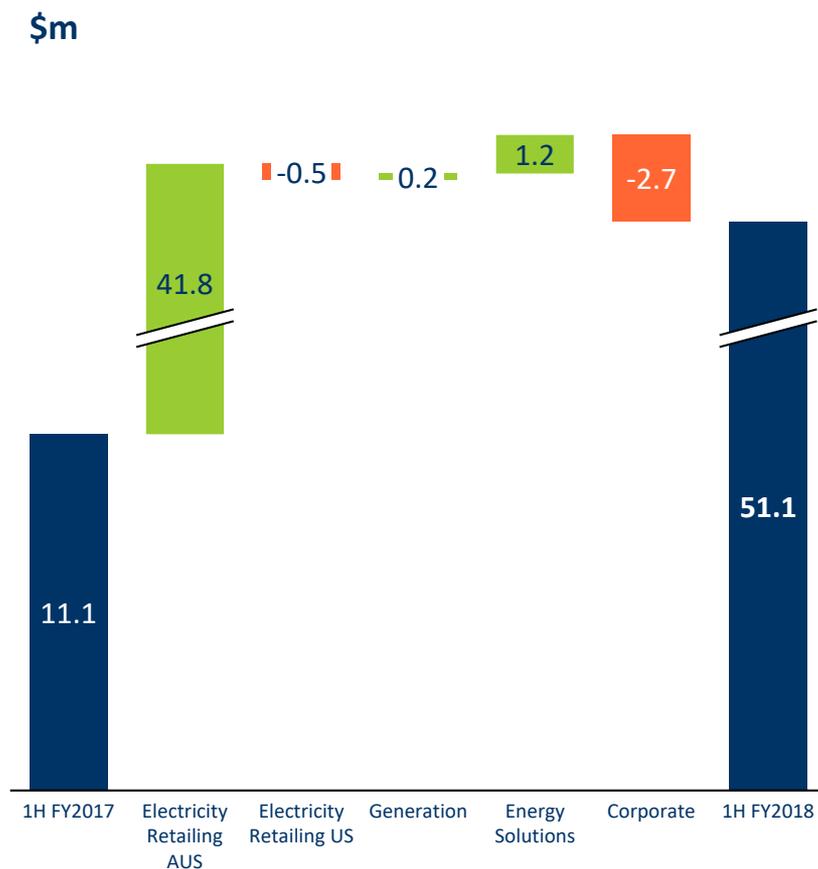
<sup>3</sup> Excludes US sleever termination payment

# EBITDAF

ERM Power Group



## Underlying EBITDAF Movement



\$m	1H FY2018	1H FY2017	Change
Electricity Retail AUS	37.7	(4.1)	41.8
Electricity Retail US	1.4	1.9	(0.5)
Generation	20.6	20.4	0.2
Energy Solutions	(1.8)	(3.0)	1.2
Corporate	(6.8)	(4.1)	(2.7)
<b>Underlying EBITDAF</b>	<b>51.1</b>	<b>11.1</b>	<b>40.0</b>

# NPAT BY SEGMENT



Established operations & Growth operations

	\$m	1H FY18 NPAT	
Established	Aus. Retail	21.3	
	Generation	4.7	
	Corporate	(7.0)	
			19.0
Growth	Energy Solutions	(1.8)	→ Target NPAT positive FY20
	US. Retail	(7.9)	→ Target NPAT positive FY20
			(9.7)
	Underlying NPAT		<u>9.3</u>

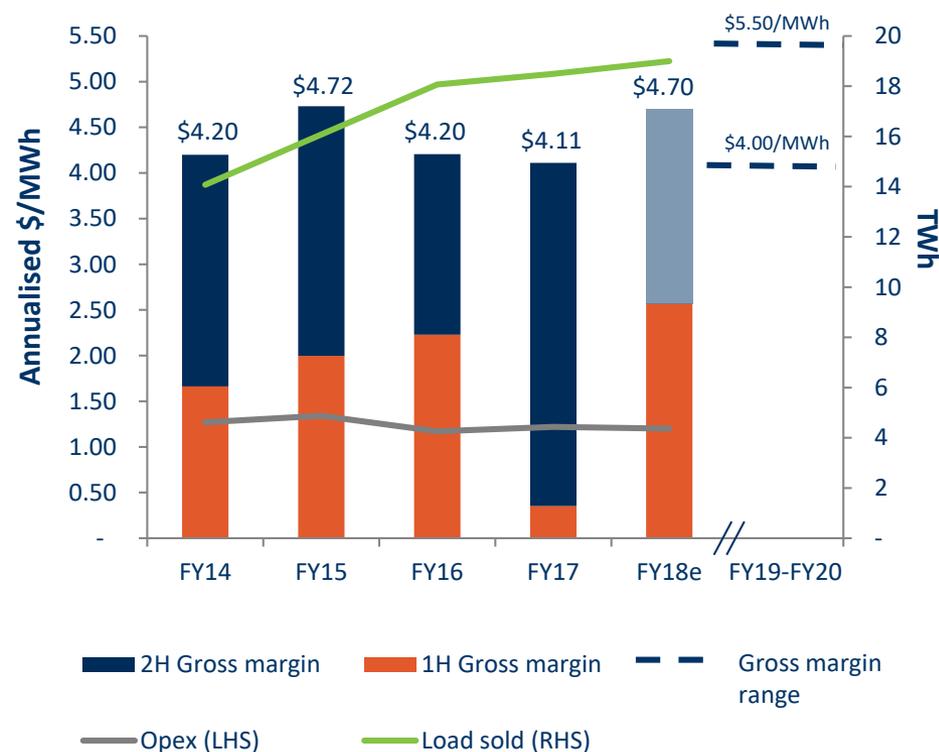
# ELECTRICITY RETAILING - AUSTRALIA



\$m unless otherwise stated	1H FY2018	1H FY2017
Load sold (TWh)	9.6	8.9
Underlying gross margin	48.7	6.5
Gross margin \$/MWh	5.08	0.73
Underlying opex	(11.0)	(10.6)
Opex \$/MWh	(1.15)	(1.19)
Underlying EBITDAF	37.7	(4.1)

- LGC strategy expected to deliver \$35-\$45m NPAT in FY2019-FY2020 (not included in gross margin guidance)

## Margin, Opex & Load

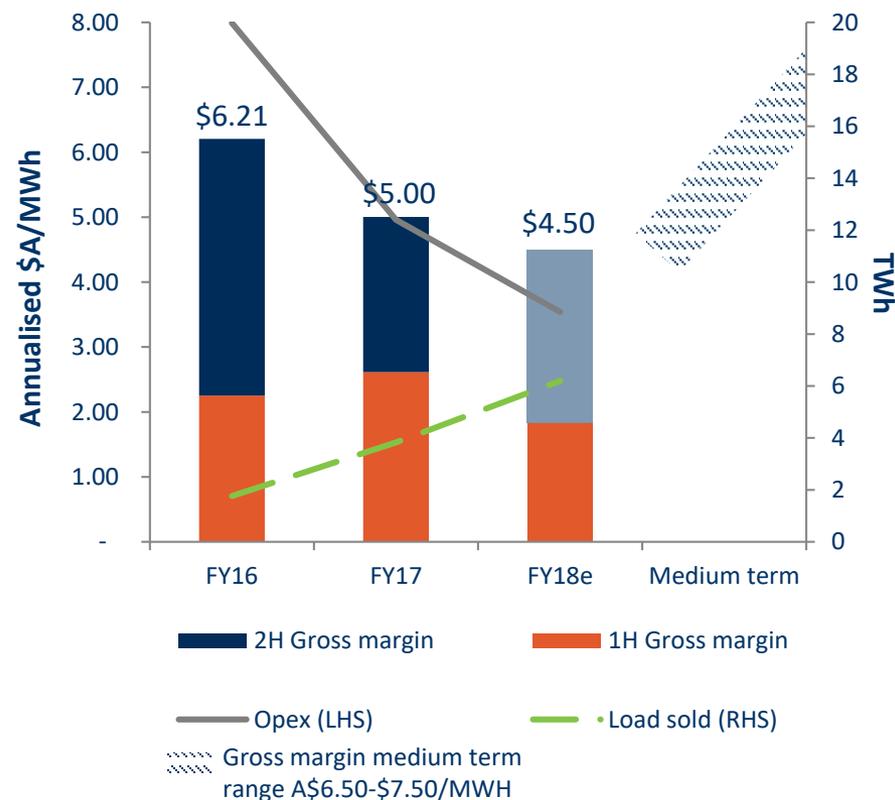


# ELECTRICITY RETAILING – US



	1H FY2018	1H FY2017	% change
Load (TWh)	3.0	1.5	100%
Gross margin (A\$/MWh)	3.78	6.56	(42%)
Opex (A\$/MWh)	(3.30)	(5.29)	(38%)
<b>A\$m</b>			
Gross margin	11.4	10.0	14%
Opex	(9.9)	(8.1)	22%
Underlying EBITDAF	1.4	1.9	(26%)
D&A	(8.5)	(5.1)	67%
Finance costs	(4.9)	(2.3)	113%
Underlying NPAT	(7.9)	(3.3)	(139%)

## Margin, Opex & Load



# NET DEBT AND CASH

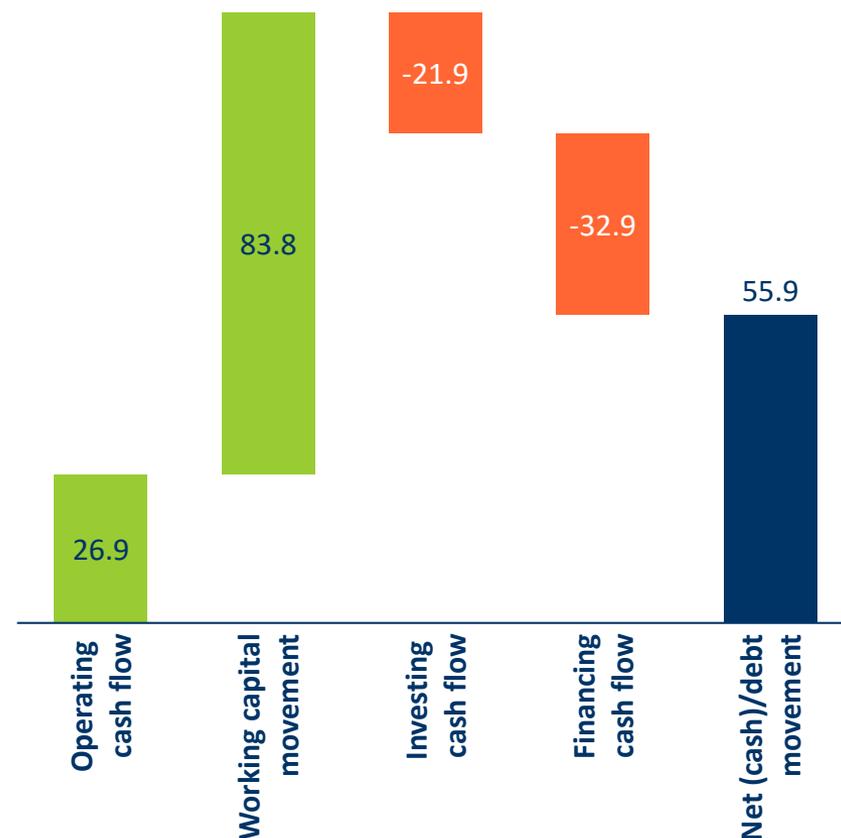


## Net (cash)/debt

\$m	31 Dec 2017	30 June 2017	Change
Neerabup debt	187.3	188.9	(1.6)
Other debt	16.7	-	16.7
<b>Total debt</b>	<b>204.0</b>	<b>188.9</b>	<b>15.1</b>
Restricted cash	165.0	118.5	46.5
Free cash	150.6	126.1	24.5
<b>Total cash</b>	<b>315.6</b>	<b>244.6</b>	<b>71.0</b>
Net (cash)/debt	(111.6)	(55.7)	(55.9)

- Net cash position of \$111.6 million

## Net (cash)/debt movement<sup>1</sup>

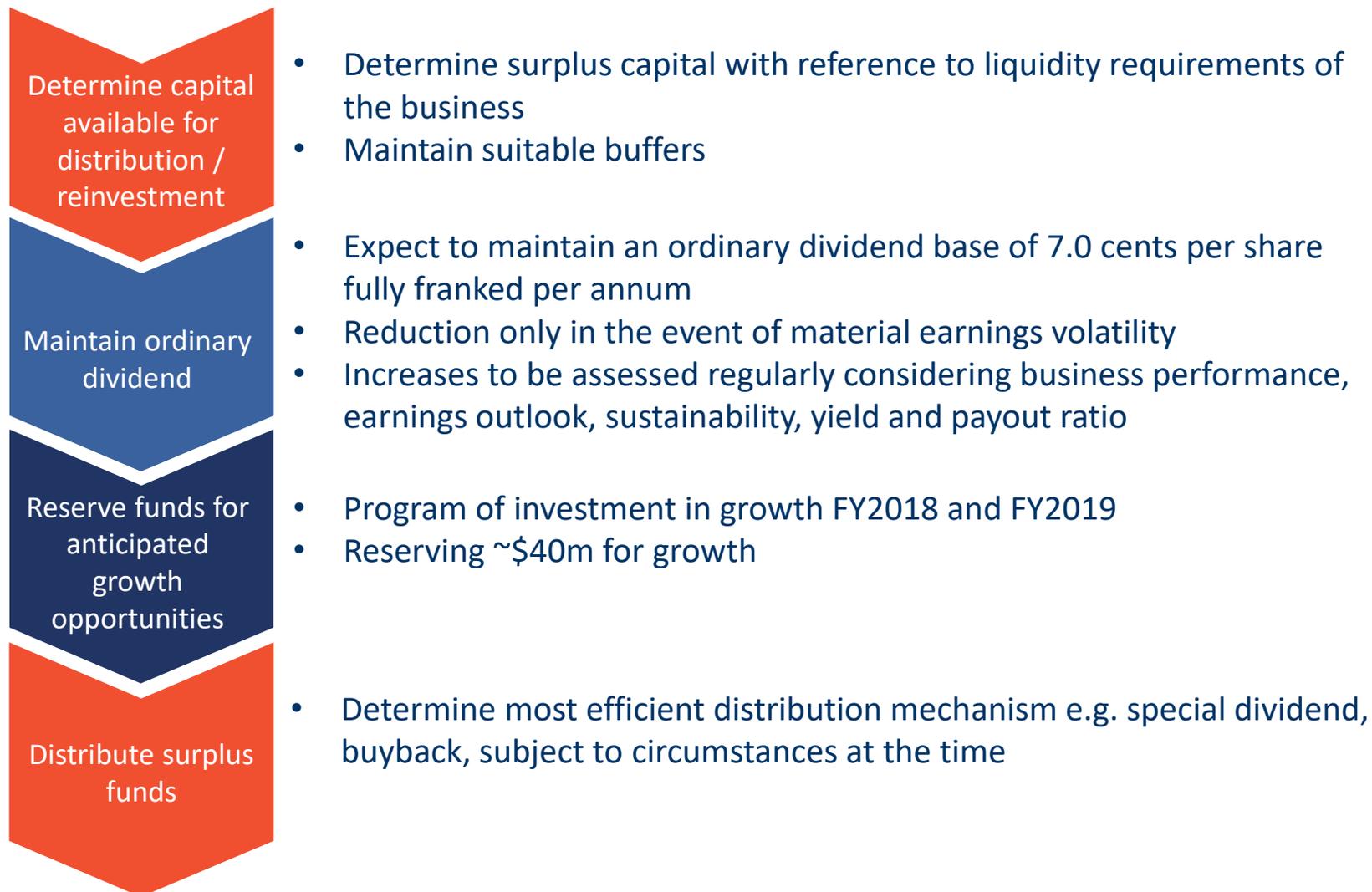


11 1 The movement in balance sheet net debt includes non-cash movements such as the unwind of capitalised borrowing costs. These movements are offset against the "financing cash flow" item depicted in the charts

# CAPITAL MANAGEMENT FRAMEWORK



Disciplined approach to build long-term shareholder value



# DISTRIBUTION OF SURPLUS FUNDS



On-market share buyback program announced

Strong business performance generating significant cash flow

Active capital management to optimise shareholder returns

Regular assessment of surplus cash

## Announced Share Buyback Program

- On-market
- Up to \$20 million
- Launch March 2018
- Buyback period up to 12 months
- EPS accretive

# OPERATIONAL PERFORMANCE



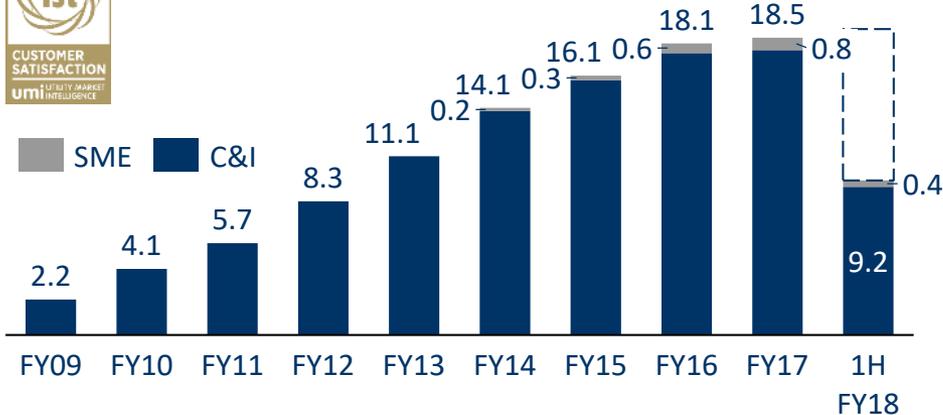
# ELECTRICITY RETAILING - AUSTRALIA



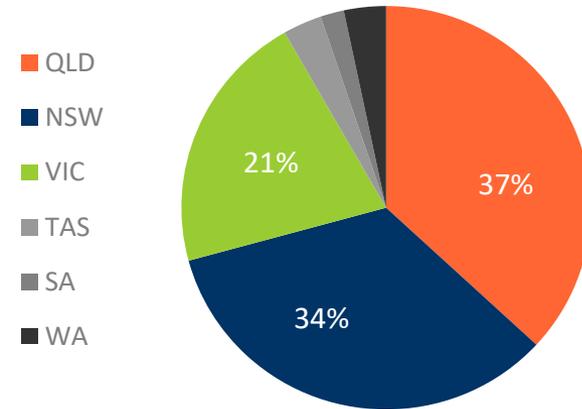
Strong YTD performance...tracking to FY outlook



## Annual Sales AUS (TWh)



## Geographic diversification of load



## Forward Contracted Load AUS (TWh)



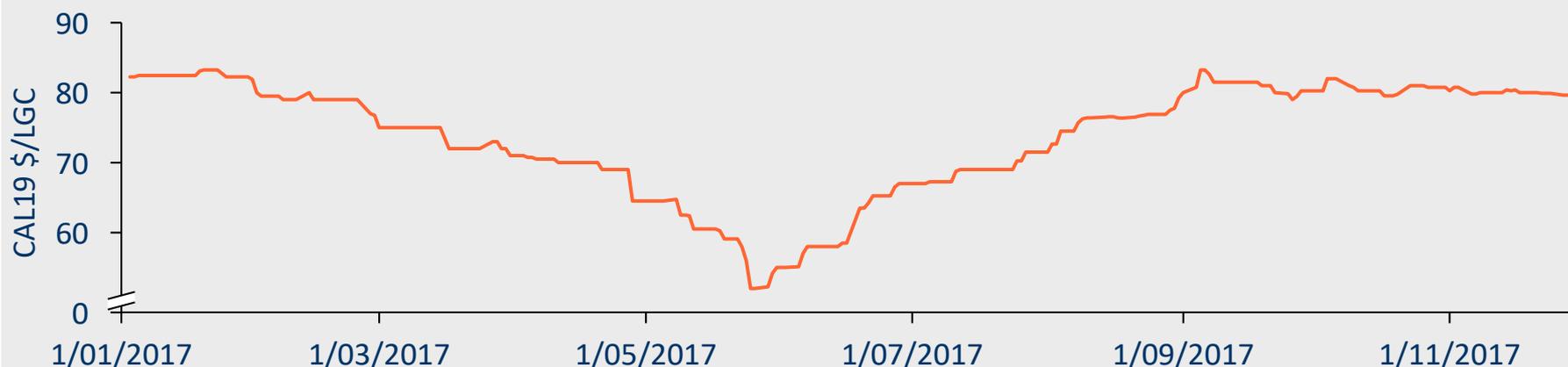
- #1 customer service ranking for the seventh year running<sup>1</sup>
- Record forward contracted load
- On track to deliver sales load outlook of 19TWh, with potential upside

# UNDERPINNING NEW RENEWABLES



- 2017 requirement of +2.6 million large-scale generation certificates (LGCs) and 1.3 million small-scale certificates were surrendered in February 2018
- Support of new renewable generation projects through offtake agreements with Lincoln Gap Wind Farm (126MW) and Hamilton Solar Farm (58MW)
- 2016 LGC short surrender strategy de-risked ERM Power offtake contracts
- Both projects will help Australia meet its 2020 Renewable Energy Target

*“The Clean Energy Regulator has today released new information to the market that shows Australia will meet the 2020 Renewable Energy Target” 23 January 2018*

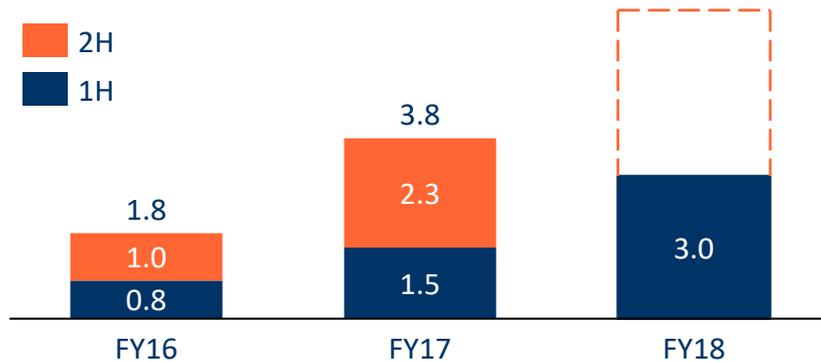


# ELECTRICITY RETAILING - US



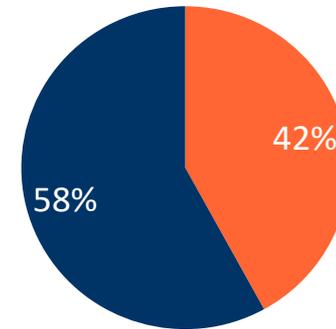
Building value

### Annual Sales US (TWh)

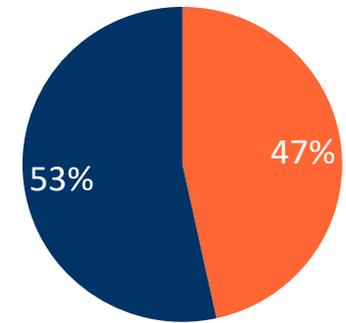


### Market diversification

#### 1H FY2018 Sales Load

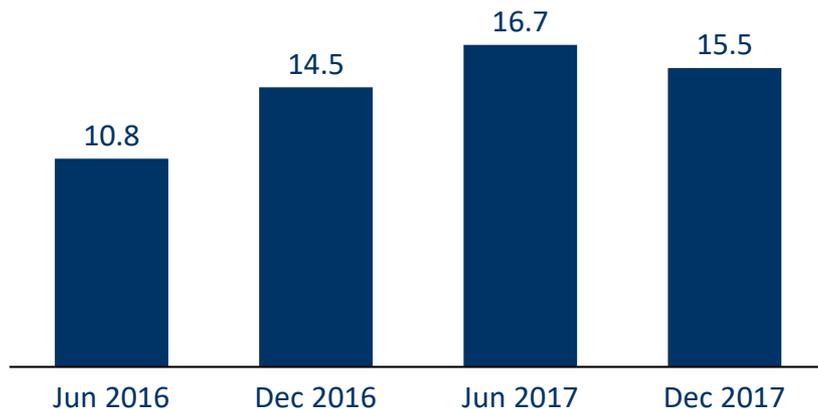


#### Forward Load



ERCOT PJM

### Forward Contracted Load US (TWh)



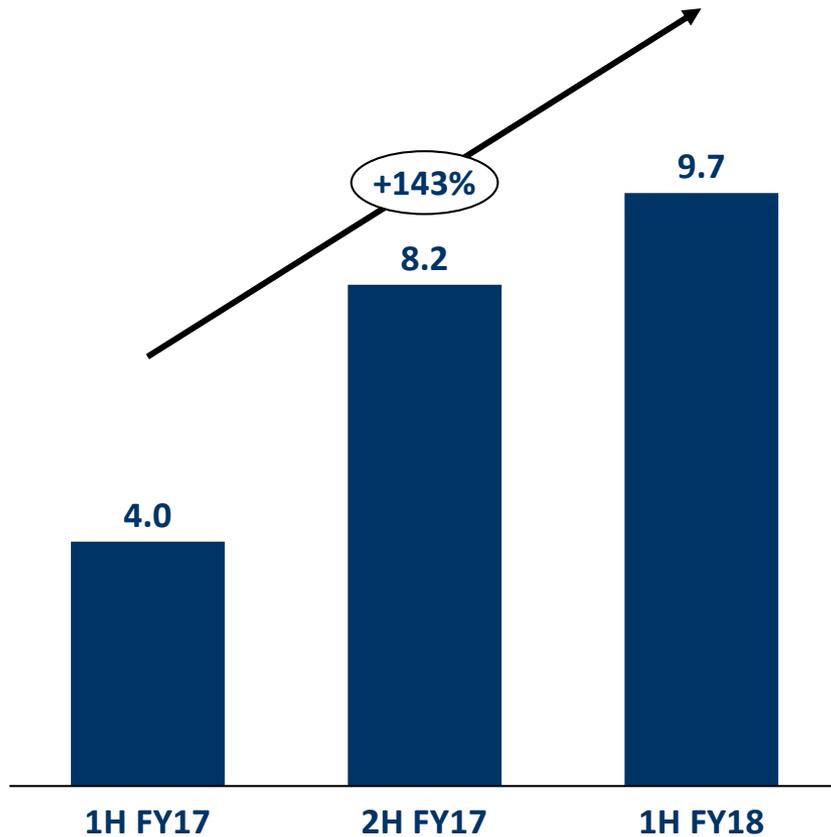
- 3<sup>rd</sup> ranked for overall broker satisfaction for the third year running<sup>1</sup>
- Access to C&I market of 516TWh

# ENERGY SOLUTIONS



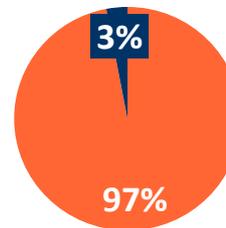
Investment driving growth

## Revenue growth

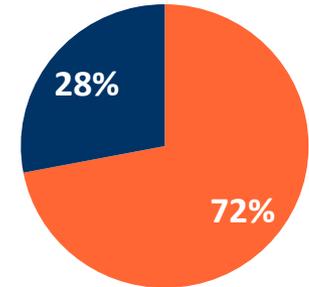


## Revenue from multi-product customers

1H FY2017



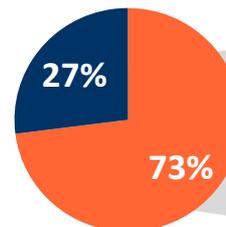
1H FY2018



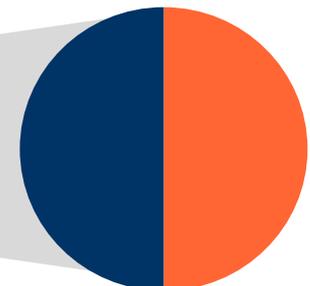
- Revenue from single product customers
- Revenue from multi-product customers

## One-off vs subscription revenue

1H FY2017



Medium-term



- One-off
- Subscription

# GENERATION



## Oakey and Neerabup Power Stations

\$m unless otherwise stated	1H FY2018	1H FY2017	% change
Revenue	38.1	41.1	(7%)
Oakey	18.8	23.2	(19%)
Neerabup	18.6	17.2	8%
Underlying EBITDAF	20.6	20.4	1%
Oakey	6.2	7.2	(14%)
Neerabup	14.5	13.8	5%
Operating time %			
Oakey	4%	1.9%	
Neerabup	10.7%	5.4%	
Availability %			
Oakey	98.1%	98.3%	
Neerabup	99.9%	98.5%	

- Earnings in line with comparative period
- Excellent safety record with no lost-time injuries among staff
- Second Oakey turbine maintenance overhaul scheduled for Autumn 2018
- Valuable asset in a changing market place providing support for intermittent generation

# OUTLOOK



# FY2018 OUTLOOK



**FY2018 Outlook**  
24 August 2017

**FY2018 Outlook**  
22 February 2018

	FY2018 Outlook 24 August 2017	FY2018 Outlook 22 February 2018		
<b>Australia Retail</b>				
• Sales volume	~19TWh	~19TWh	With upside potential	On track
• Gross Margin	~\$4.40/MWh	~\$4.70/MWh	With upside potential	On track
• Opex	~\$23m	~\$23m		On track
<b>US Retail<sup>1</sup></b>				
• Sales volume	~7.5TWh	~6.5TWh		Lower growth
• Gross Margin	~A\$5.00/MWh	~A\$4.50/MWh		At risk
• Opex	A\$3.20/MWh	A\$3.50/MWh		On track for \$m
<b>Generation EBITDAF<sup>2</sup></b>				
• Oakey	\$14-16m	\$14-16m		On track
• Neerabup	~\$26m	~\$26m		On track
<b>Energy Solutions EBITDAF</b>	~(\$4.5)m	~(\$4.0)-(\$4.5)m	Expected NPAT positive in FY2020	On track
<b>Corporate &amp; Other costs</b>	~(\$15.5)m	~(\$14.5)m		On track
<ul style="list-style-type: none"> <li>• Medium-term Australian gross margin increased from \$3.50-\$5.00/MWh to \$4.00-\$5.50/MWh</li> <li>• LGC strategy expected to deliver \$35-\$45 million NPAT FY2019/2020 (weighted to FY2020)</li> </ul>				

# Q&A

# 1H FY2018 WRAP-UP



- Declared fully franked dividend of 3.5 cents per share
- On-market share buyback announced up to the value of \$20 million
- Underlying EBITDAF \$51.1 million
- Underlying NPAT \$9.3 million
- Net cash position of \$111.6 million
- Continued sales load growth in Australia and on track to deliver FY2018 Outlook
- Australia gross margin \$5.08/MWh, FY2018 Outlook \$4.70/MWh with upside potential
- Medium-term Australia gross margin outlook increased to \$4.00-\$5.50/MWh
- Disciplined approach to US growth to ensure profitable and sustainable earnings
- Energy Solutions on track to deliver doubling of revenue for the full year
- Solid Generation result

**SARAH MCNALLY**  
Investor Relations Manager

**M: +61 409 004 298**

**T: +61 7 3020 5513**

**E: [smcnally@ermpower.com.au](mailto:smcnally@ermpower.com.au)**