

Thursday, 24 August 2017

FY2017 FULL YEAR RESULTS AND FY2018 OUTLOOK ANNOUNCEMENT AND PRESENTATION

Please find attached the following documents relating to ERM Power's results for the 12 months ended 30 June 2017:

1. ASX announcement
2. Presentation

A handwritten signature in grey ink, appearing to read "Phil Davis".

Phil Davis
Group General Counsel & Company Secretary
ERM Power Limited

For further information

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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, 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

24 August 2017

ERM POWER REPORTS FULL YEAR FY2017 EBITDAF OF \$78.4M & FY2018 OUTLOOK

Record electricity sales in Australia and the US. Investment in Energy Solutions accelerated

ERM Power Limited (ASX: EPW) today reported underlying EBITDAF¹ of \$78.4 million for the year to 30 June 2017, a 5% increase on the prior year. Underlying NPAT² of (\$26.3) million reflects the one-off tax charge associated with the commercial green certificate strategy outlined in February.

Results Summary³

\$m unless otherwise stated	FY2017	FY2016	% Change
Statutory NPAT	0.1	35.0	(100%)
Underlying EBITDAF	78.4	74.7	5%
Underlying NPAT	(26.3)	18.4	N/A
Underlying EPS (cps)	(10.8)	7.6	N/A
Final dividend (cps)	3.5 franked	6.0 unfranked	(42%)
Electricity sales volume – load (TWh)	22.3	19.9	12%

FY2017 results reflect better than expected performance by the Australian Retail business, solid performance from the generation assets and the continued growth of the US and Energy Solutions businesses. A one-off tax adjustment of \$37.1 million, relating to the Large-scale Green Certificate (LGC) strategy as outlined at the half year results, resulted in the underlying NPAT loss.

ERM Power CEO Jon Stretch said the Company had delivered a solid performance within a dynamic energy market, evidenced by the record sales volumes in both Australia and the US.

“Our Australian retail and generation businesses have performed well and the US business continues to grow. Recognising the scale and opportunity in the energy management market we have accelerated our investment in Energy Solutions, which is a future driver of growth for our business,” he said.

“The Australian Retail business reported underlying EBITDAF of \$53.4 million and achieved record sales volume of 18.5TWh in a highly competitive market. Gross margin of \$4.11/MWh for FY2017 was significantly ahead of expectations, driven by portfolio optimisation, improved operating conditions and the sustained benefits from long-term offtake agreements.

“Energy Solutions, in a phase of rapid growth, posted revenue of \$12.2 million and an EBITDAF loss of (\$4.3) million for the financial year, as we integrate and accelerate our investments in this area. The scale of opportunity has grown, demonstrated by 139% revenue growth in FY2017 off the back of demand from large energy consumers needing to navigate rising wholesale energy costs, the complexity of new technology and a myriad of energy efficiency opportunities.”

¹ Earnings before interest, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit and loss and other significant items, for continuing operations. EBITDAF excludes any profit or loss from associates

² Underlying NPAT is statutory net profit after tax from continuing operations 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

³ Continuing operations

FY2017 saw the continuing operations of the US business report underlying EBITDAF profit of \$0.2 million. The increase in EBITDAF reflects sales growth with volumes of 3.8TWh, an increase of more than 100% on the prior year. The US gross margin was below expectations at \$5.00/MWh, which reflects lower than expected margin optimisation in the second half of the year. During the period the Company sold the non-core US residential book for US\$12 million, US\$1 million more than previously communicated. The sale allows the business to focus exclusively on growing the core Commercial & Industrial customer base.

ERM Power's gas-fired peaking plants, Oakey Power Station and the joint venture Neerabup Power Station, reported a solid performance in line with expectations and ahead of the prior year with an 18% increase in underlying EBITDAF to \$41.7 million.

Dividend

The Board has declared a final fully franked dividend of 3.5 cents per share, bringing the total declared dividend for FY2017 to 7 cents per share, fully franked. The record date for the dividend is 15 September 2017 and the payment date is 10 October 2017. The ex-dividend date is 14 September 2017.

FY2018 Outlook

- For the Australian electricity retailing business we expect continued load and margin growth as follows:
 - Sales volume growth to about 19.0TWh for FY2018, with potential upside;
 - Significant increase in average gross margin from the previously communicated \$3.50/MWh to about \$4.40/MWh, with potential upside; and
 - Medium-term gross margin range upgrade from \$2.60-\$4.00/MWh to \$3.50-\$5.00/MWh.
- For the US electricity retailing business we expect:
 - A near doubling of annual sales volume in FY2018 to about 7.5TWh;
 - Gross margin of about A\$5.00/MWh for FY18 with a medium term gross margin range of \$6.50-\$7.50/MWh; and
 - Operating expenditure reducing as the business scales, to around A\$3.20/MWh.
- FY2018 EBITDAF for the generation assets in Australia is expected to remain in line with FY2017 results:
 - Oakey Power Station underlying EBITDAF in the range of \$14 million to \$16 million, which includes allowance for a scheduled maintenance outage in 2018; and
 - Neerabup, which is on a power purchase agreement (PPA), at \$26 million EBITDAF.
- Energy Solutions, which is now reported separately, will remain in line with FY2017 results with an underlying EBITDAF of around (\$4.5) million, as we continue to invest in the business. Our expectation is that the business will be returning positive EBITDAF in FY2020.
- Corporate and other FY2018 costs are anticipated to be about \$15.5 million. Note Corporate and other no longer includes the Energy Solutions business.



For further information

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FULL YEAR RESULTS

12 months to 30 June 2017

24 August 2017



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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.

FULL YEAR SUMMARY

FULL YEAR SUMMARY¹



Solid performance

Total electricity sales

↑ **12%**
To **22.3TWh**

AU up 2% to 18.5TWh
US up 111% to 3.8TWh

Total forward load

↑ **25%**
To **45.3TWh**

AU up 13% to 28.6TWh
US up 55% to 16.7TWh

Underlying EBITDAF up

↑ **5%**
To **\$78.4m**

Declared 2H dividend

3.5cps
Fully franked

- Underlying EBITDAF **\$78.4m**
- One-off tax charge results in underlying NPAT (\$26.3)m
- **Electricity Retailing** business in **Australia** performed well
 - Electricity load **up 2% to 18.5TWh**
 - Gross margin in line with prior year at \$4.11/MWh
- **US business** continued load growth
 - Electricity load **up 111% to 3.8TWh**
 - Gross margin \$5.00/MWh
 - Non-core residential book sold for US\$12m
- **Generation** underlying EBITDAF up 18% to \$41.7m
- **Energy Solutions** revenue more than doubling to **\$12.2m**
- Completed **three funding initiatives** providing additional liquidity and tenor
- 2H dividend of **3.5cps. FY 7cps fully franked**

Taking opportunities in a disrupting market

The market environment

- Policy and regulatory uncertainty
- Mixed investment signals
- Volatile wholesale electricity prices
- Energy market under scrutiny
 - Finkel review
 - Gas market intervention
 - ACCC review
 - SA Government energy plan
 - Powering Queensland Plan
 - Vic Government retail market review
 - AEMC System Security Market Review
 - AEMC Embedded Network Review
 - Rees review (SA efficiency scheme)
 - EEIS review (ACT efficiency scheme)
 - etc....

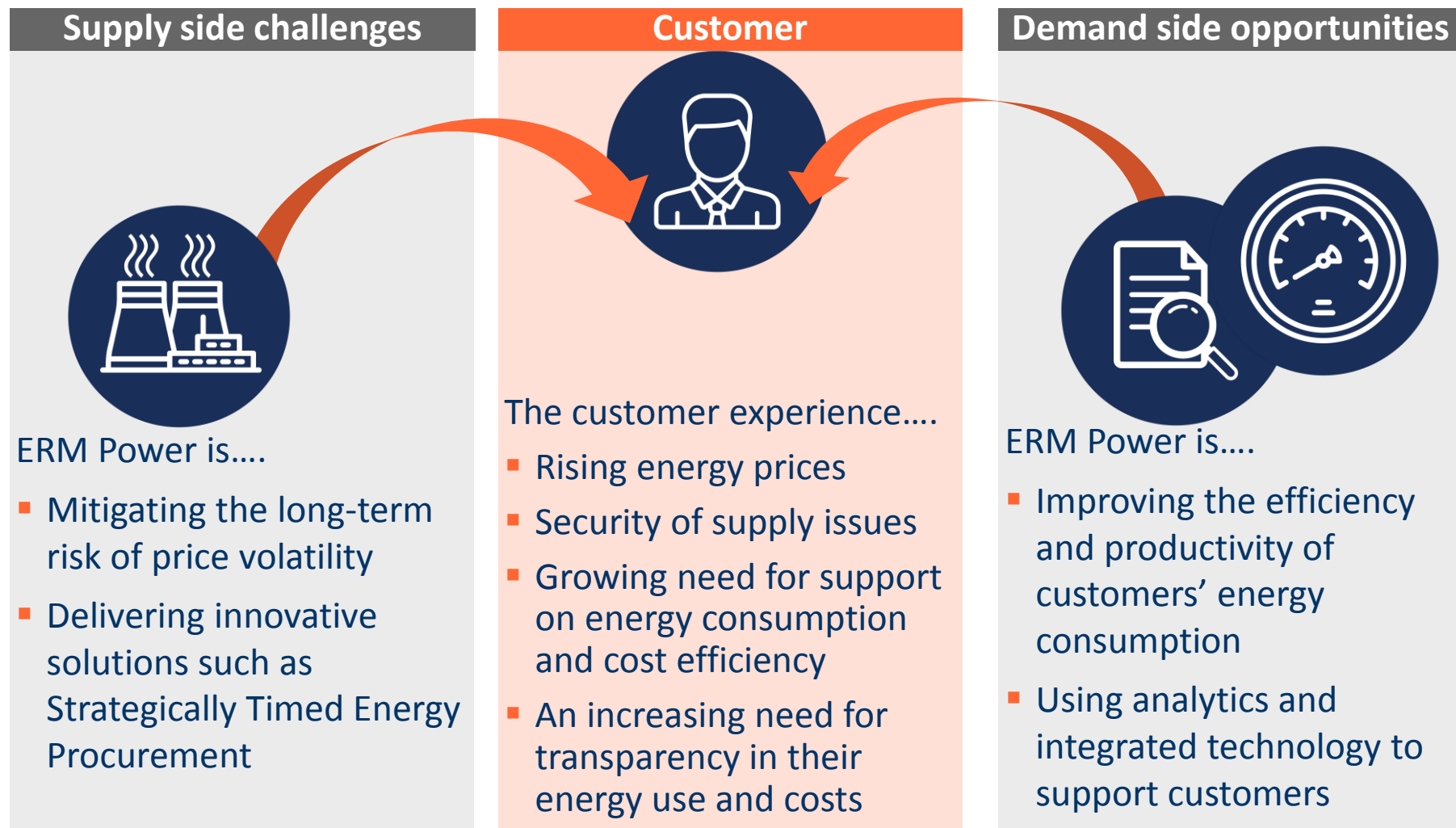
ERM Power's positioning

- Disruption equals opportunity
- A strong voice in this evolving landscape
- Strategic portfolio optimisation using deep industry knowledge eg LGC strategy
- Need for firm generation eg peaking plants
- Meeting growing customer demand for consumption and energy productivity support
- Environment of opportunity for Energy Solutions

CUSTOMER EXPERIENCE



Volatility and growing need for energy productivity



FINANCIAL RESULTS

FY2017 FINANCIALS¹



ERM Power Group

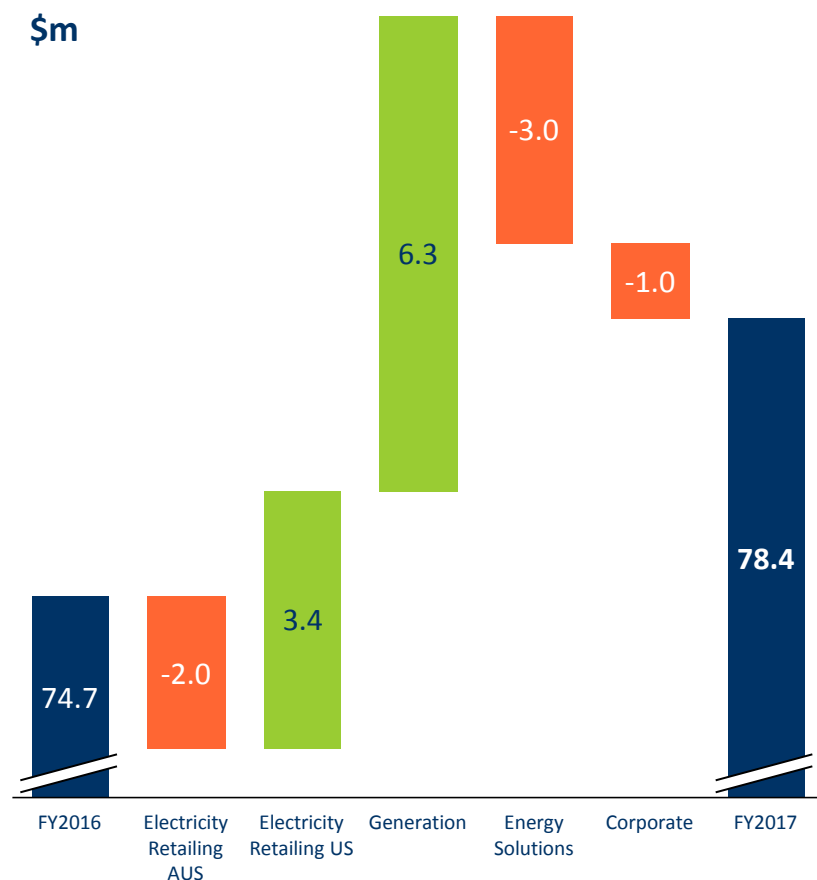
\$m unless otherwise stated	FY2017	FY2016	Change	% Change
Contestable revenue ²	1,753.4	1,418.5	334.9	24%
Underlying EBITDAF	78.4	74.7	3.7	5%
Depreciation	(37.8)	(24.8)	(13.0)	52%
Net finance expense	(25.7)	(23.9)	(1.8)	8%
Tax	(41.2)	(7.6)	(33.6)	442%
LGC short surrender tax charge	(37.1)			
Remaining tax charge	(4.1)	(7.6)		
Underlying NPAT	(26.3)	18.4	(44.7)	N/A
Underlying EPS (cents per share)	(10.8)	7.6	(18.4)	N/A
Statutory NPAT	0.1	35.0	(34.9)	(100%)
Net (cash)/debt	(55.7)	29.0	(84.7)	N/A
Final dividend (cents per share)	3.5 franked 6 unfranked			

- EBITDAF increase driven by generation assets and US operations
- NPAT decrease due to tax impact of LGC short surrender charge being non-tax deductible & increased depreciation

7 1 Continuing operations. Comparatives restated to exclude discontinued operations

2 Includes both electricity and green certificate sales. Excludes pass through costs

Underlying EBITDAF¹ Movement



\$m	FY2017	FY2016	Change
Electricity Retail AUS	53.4	55.4	(2.0)
Electricity Retail US	0.2	(3.2)	3.4
Generation	41.7	35.4	6.3
Energy Solutions	(4.3)	(1.3)	(3.0)
Corporate	(12.6)	(11.6)	(1.0)
Underlying EBITDAF	78.4	74.7	3.7

ELECTRICITY RETAILING - AUSTRALIA

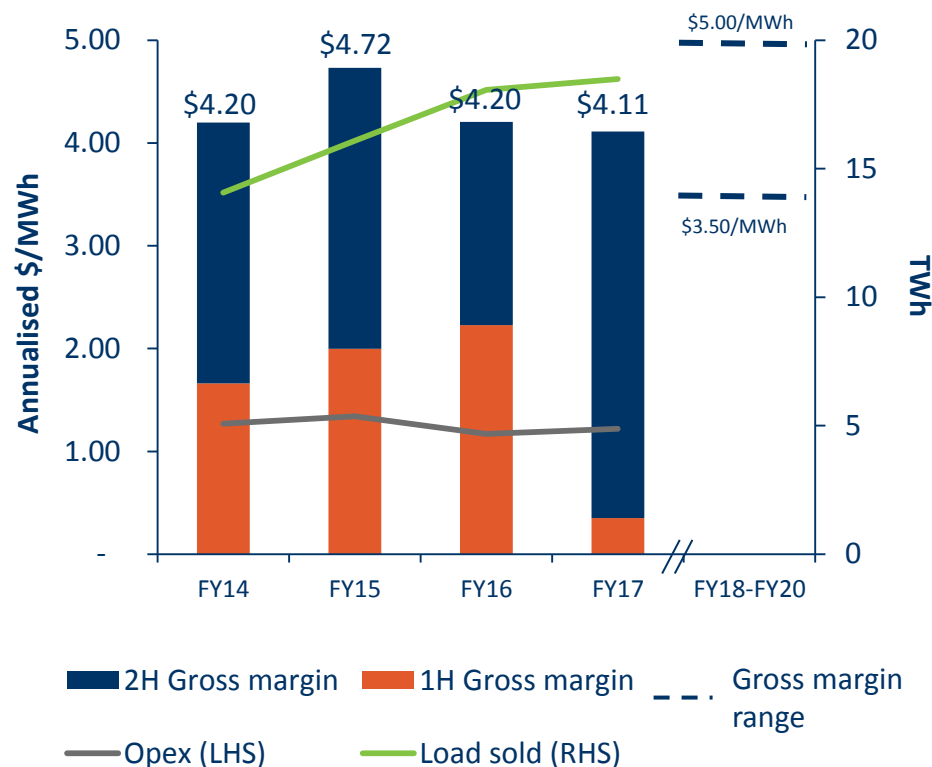


\$m unless otherwise stated

FY2017 FY2016 % change

Load sold (TWh)	18.5	18.1	2%
Underlying gross margin	76.0	76.0	0%
Underlying opex	(22.7)	(20.6)	10%
Underlying EBITDAF	53.4	55.4	(4%)

Margin, Opex & Load



ELECTRICITY RETAILING – US¹



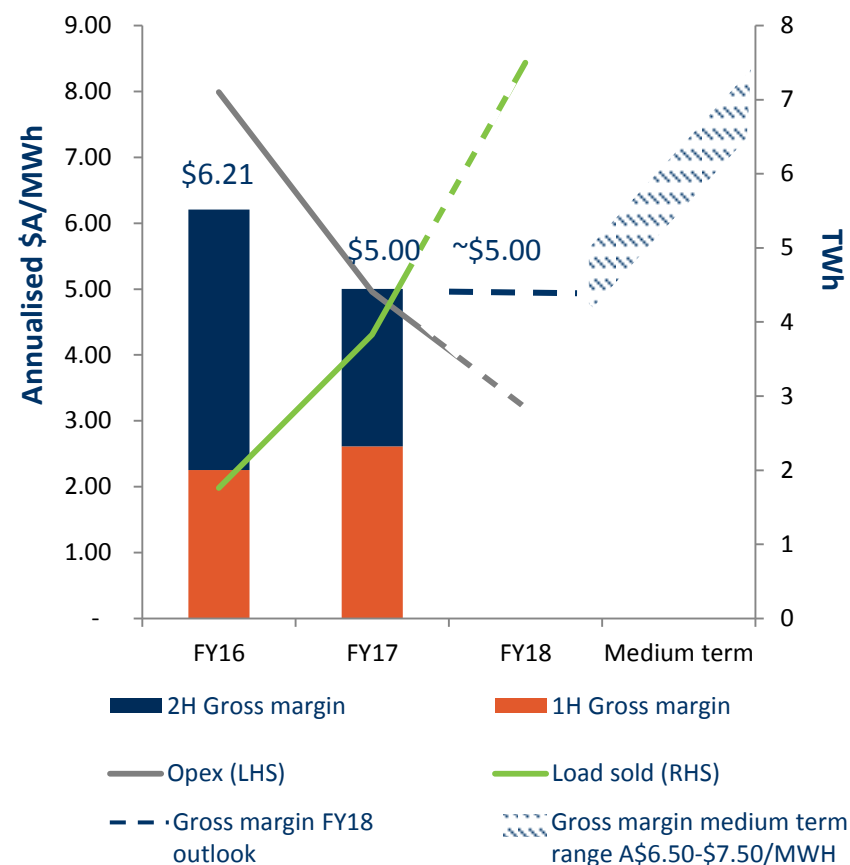
Continuing operations FY2017 FY2016 % change

Load (TWh)	3.8	1.8	111%
Gross margin (A\$/MWh)	5.00	6.21	(19%)
Opex (A\$/MWh)	(4.96)	(7.99)	(38%)

A\$m

Gross margin	19.1	10.9	75%
Opex	(19.0)	(14.1)	35%
Underlying EBITDAF	0.2	(3.2)	N/A
D&A	(10.6)	(4.4)	141%
Finance costs	(4.8)	(2.3)	109%
Underlying NPAT ¹	(10.3)	(6.6)	(56%)

Margin, Opex & Load



GENERATION



Oakey and Neerabup Power Stations

\$m unless otherwise stated	FY2017	FY2016	% change
Revenue	131.9	96.1	37%
Oakey	96.4	62.3	55%
Neerabup	34.2	31.1	10%
Underlying EBITDAF	41.7	35.4	18%
Oakey	15.8	11.5	37%
Neerabup	27.2	25.1	8%

- Increased earnings benefiting from merchant opportunities

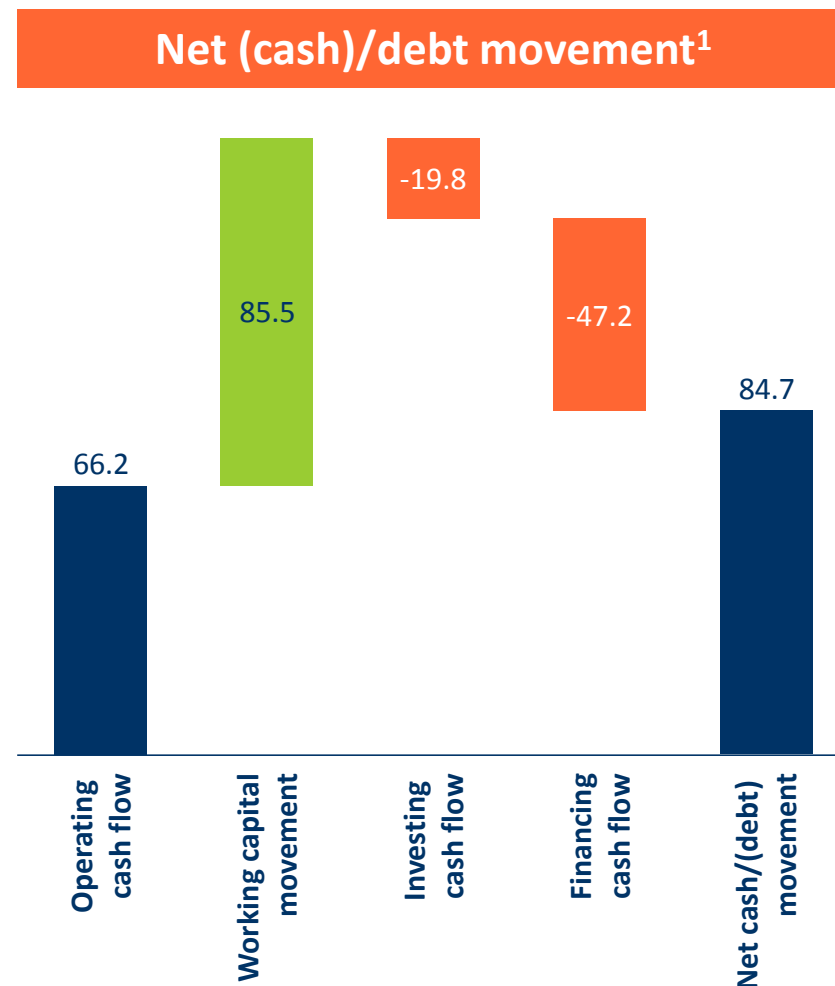
NET DEBT AND CASH



Movement to a net cash position

Net (cash)/debt			
\$m	30 June 2017	30 June 2016	Change
Neerabup debt	188.9	193.6	(4.7)
Other debt	-	27.9	(27.9)
Total debt	188.9	221.5	(32.6)
Restricted cash	118.5	125.2	(6.7)
Free cash	126.1	67.3	58.8
Total cash	244.6	192.5	52.1
Net (cash)/debt	(55.7)	29.0	(84.7)

- Net cash position of \$55.7 million
- A\$290 million three-year funding deal with ANZ
- July 2017, existing Liberty facility extended to A\$250 million and tenor to July 2020
- July 2017, new sleeving arrangement in US providing 4 year tenor at approximately A\$1.50/MWh



12 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

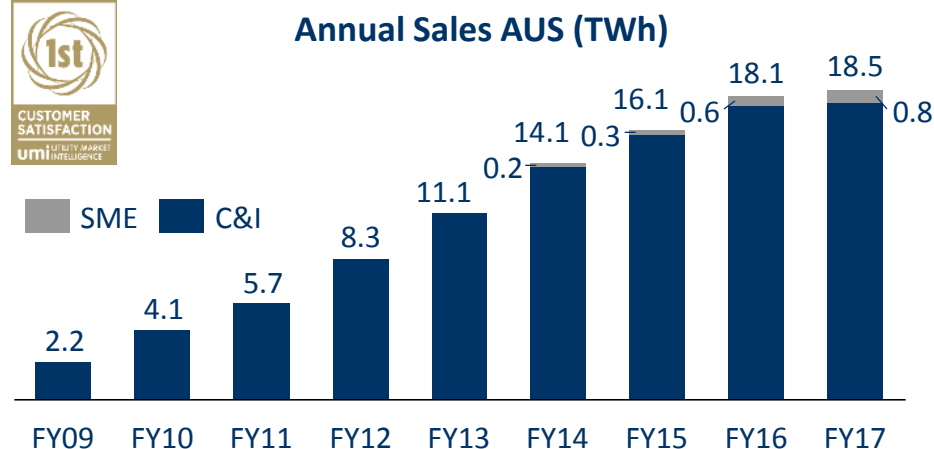
OPERATIONAL PERFORMANCE



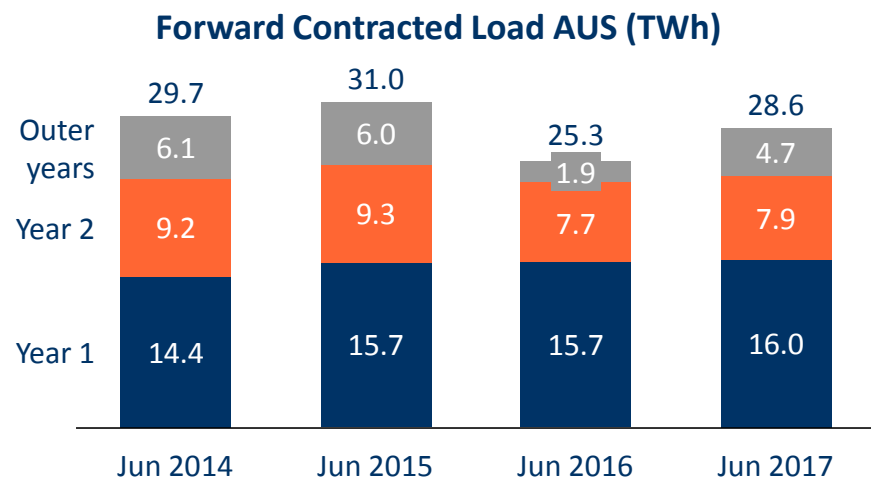
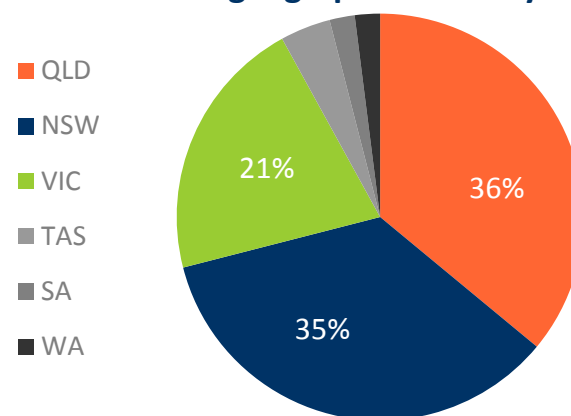
ELECTRICITY RETAILING - AUSTRALIA



Record sales



Load share across states – geographic diversity

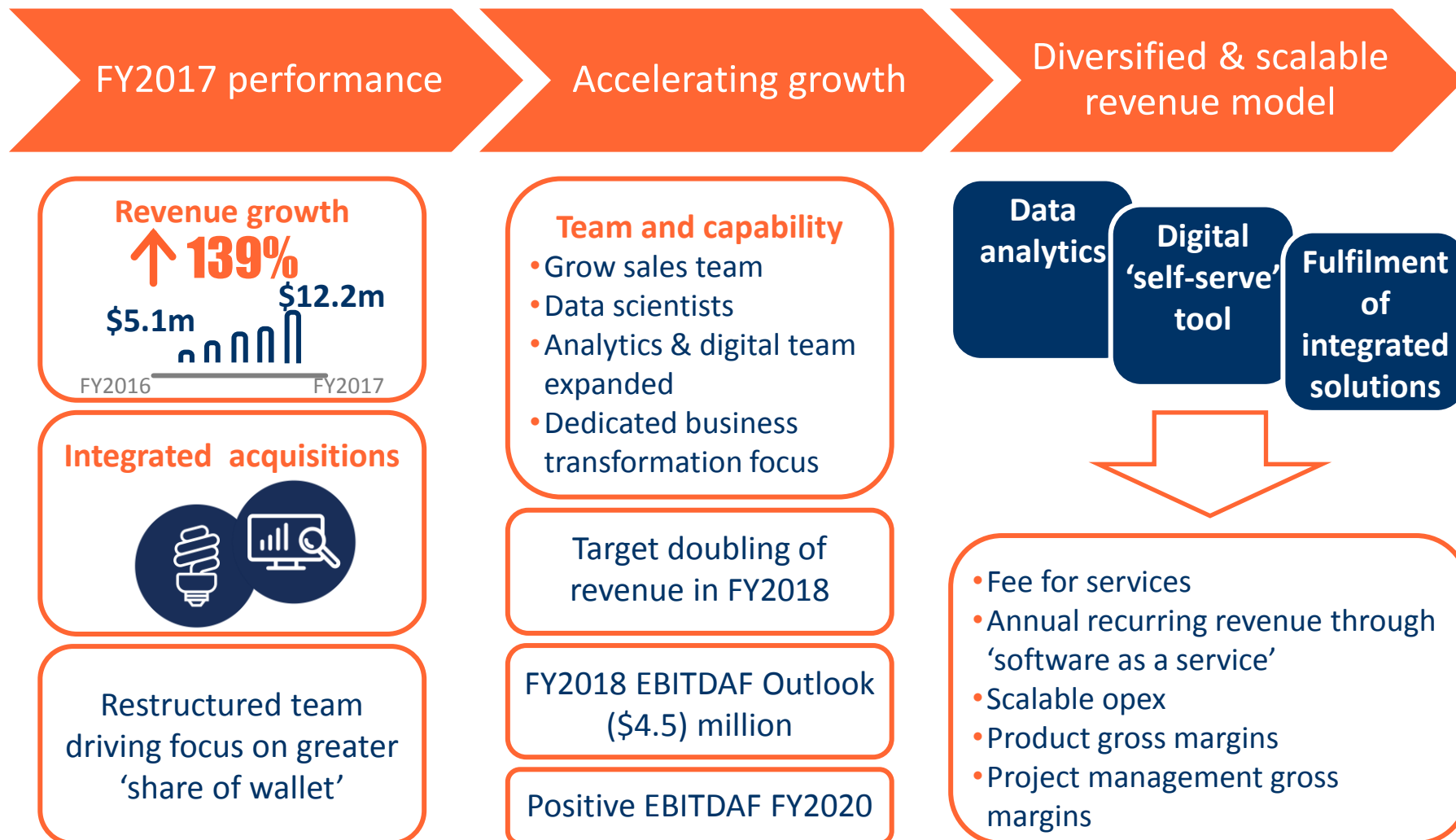


- Forward contracted load returning to historical levels:
 - System-based innovation supporting retention
- SME portfolio focus is on profitable growth
 - +1400 customer increase to 39,800

ENERGY SOLUTIONS



Accelerated investment given scale of opportunity



ELECTRICITY RETAILING - US

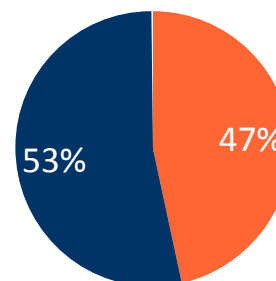


Building value

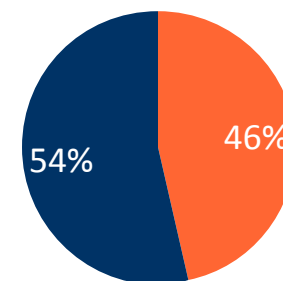
	30 June 2017	30 June 2016
Investment		
Staff	65	64
Sales¹		
Sales load	3.8TWh	1.8TWh
Load under contract	16.7TWh	10.8TWh
Access to C&I markets	516TWh	516TWh
Annual quotes	~9,100	~8,000

Market diversification

FY2017 Sales Load



Forward Load



ERCOT PJM

Broker satisfaction survey² results

**TOP 3
OVERALL**

Satisfaction
ranking



Percentage of brokers doing
business with Source
has grown from

**44% TO 62%
IN 12 MONTHS**



Satisfaction and
market access

**INCREASED
PIPELINE**



GENERATION

Oakey and Neerabup Power Stations

**\$m unless
otherwise stated**

FY2017

FY2016

Operating time %

Oakey	4.5%	17.8%
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Neerabup	5.5%	3.7%
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Availability %

Oakey	90.86%	99.1%
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Neerabup	99.26%	97.96%
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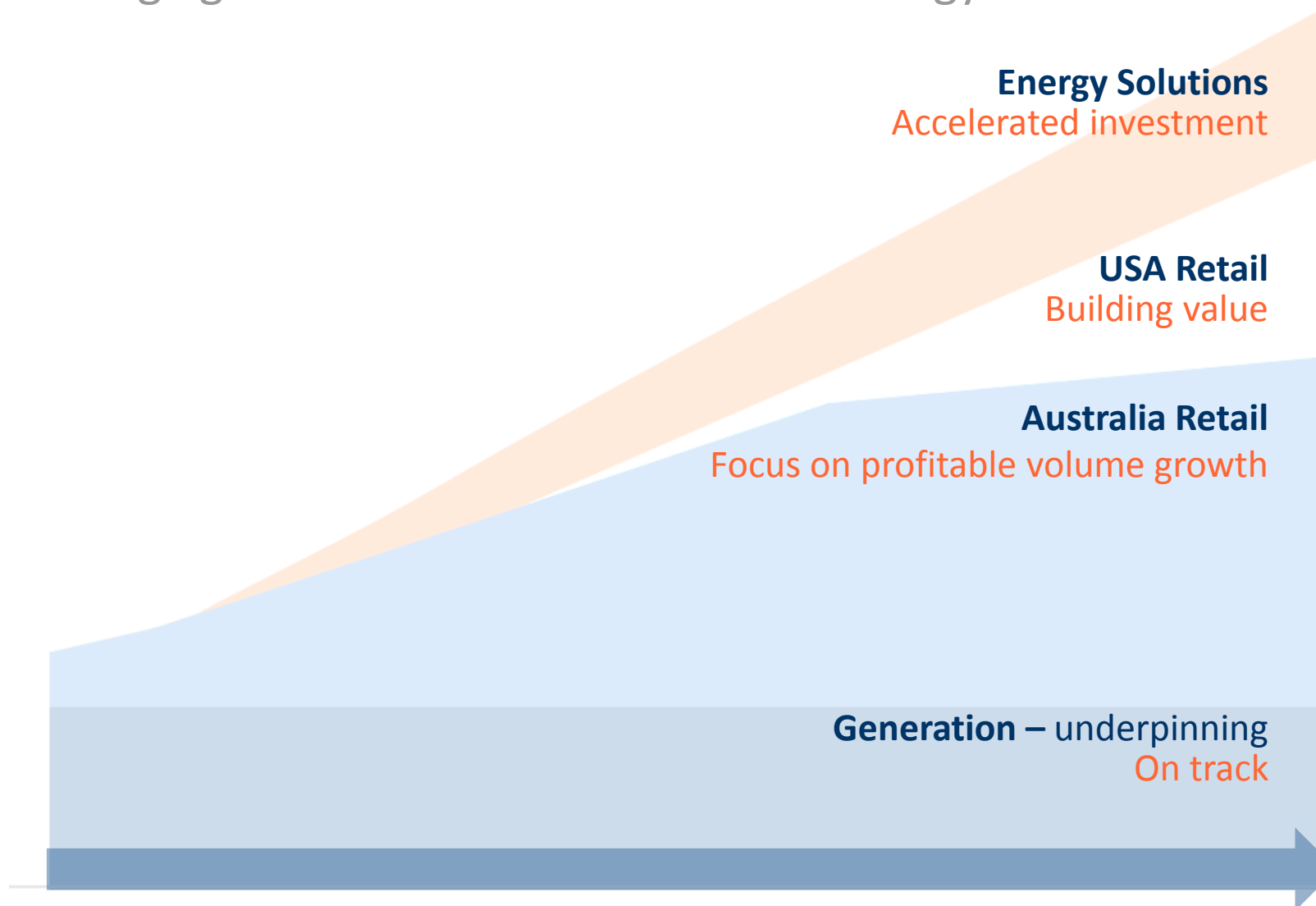
- Excellent safety record with no lost-time injuries among staff
- Oakey turbine maintenance overhaul completed for the first turbine
- Second turbine maintenance overhaul scheduled for Q2 2018
- Valuable asset in a changing market place providing support for intermittent generation



STRATEGY



Delivering against a clear and consistent strategy



FY2017 OUTLOOK VS FY2017 ACTUALS



	FY2017 Outlook ¹ 30 June 2016	FY2017 Outlook Interim results FY17	Actual FY2017	
Australia Retail				
• Sales volume	~18.5TWh	~18.5TWh	18.5TWh	●
• Gross Margin	~\$3.00/MWh	~\$3.50/MWh ²	\$4.11/MWh	●
• Opex	~\$23m	~\$23m	\$22.7m	●
US Retail				
• Sales volume	~5TWh	~4.2TWh	3.8TWh	●
• Gross Margin	~A\$8-8.50/MWh	~A\$7.50/MWh	A\$5.00/MWh	●
• Opex	A\$4/MWh	A\$4-A\$4.50/MWh	A\$4.96/MWh	●
Oakey EBITDAF	\$14-16m	\$14-16m	\$15.8m	●
Corporate & Other	(\$18)m	(\$20)m	(\$16.9)m	●

OUTLOOK

FY2018 OUTLOOK



Actual FY2017 FY2018 Outlook

Australia Retail

• Sales volume	18.5TWh	~19TWh With upside potential
• Gross Margin	\$4.11/MWh	~\$4.40/MWh With upside potential
• Opex	\$22.7m	~\$23m

US Retail¹

• Sales volume	3.8TWh	~7.5TWh
• Gross Margin	A\$5.00/MWh	~A\$5.00/MWh Risk on upside & downside
• Opex	A\$4.96/MWh	A\$3.20/MWh

Generation EBITDAF²

• Oakey	\$15.8m	\$14-16m
• Neerabup	\$27.2m	~\$26m

Energy Solutions EBITDAF	(\$4.3)m	~(\$4.5)m Expected EBITDA positive in FY2020
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Corporate & Other costs	(\$12.6)m	~(\$15.5)m
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Q&A

FY2017 WRAP-UP



- Declared fully franked final dividend of 3.5cps. 7.0cps fully franked for the full year
- Underlying EBITDAF \$78.4m, up 5% on prior year
- Underlying NPAT (\$26.3)m, due to one-off \$37.1m LGC related tax charge
- Record Australian sales load at 18.5TWh
- Australia gross margin \$4.11/MWh, FY18 Outlook \$4.40/MWh with upside potential
- US and Energy Solutions in investment and growth phase
- Solid generation result

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