

Thursday, 22 February 2018

FY2018 HALF YEAR RESULTS AND BUYBACK ANNOUNCEMENT

Please find attached ERM Power's Half Year Results Announcement for the six months ended 31 December 2017.

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

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 loadⁱ, 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

ⁱ Based on ERM Power analysis of latest published information

22 February 2018

ERM POWER REPORTS HALF YEAR EBITDAF OF \$51.1M AND DETAILS FY2018 OUTLOOK

Share buyback announced and LGC strategy update provided

ERM Power Limited (ASX: EPW) today reported underlying EBITDAF¹ of \$51.1 million for the six months ending 31 December 2017, a \$40 million increase on the comparative period. Underlying NPAT² was \$9.3 million.

Results Summary

\$m unless otherwise stated	1H FY2018	1H FY2017	% Change
Statutory NPAT	49.6	(16.4)	N/A
Underlying EBITDAF	51.1	11.1	360%
Underlying NPAT	9.3	(51.0)	N/A
Net cash	111.6	78.4	42%
Underlying EPS (cps)	3.75	(20.92)	N/A
Interim dividend (cps)	3.5 franked	3.5 franked	
Electricity sales volume – load (TWh)	12.6	10.4	21%

The underlying EBITDAF result reflects the strong performance of the Australian Retail business which reported growth in sales load and a gross margin which has returned to the higher end of the outlook range. The significant increase in earnings is due to the underlying performance of the business and the timing of the one-off \$37 million tax adjustment in the comparative period associated with the Group's 2016 Large-scale Generation Certificate (LGC) fulfilment plan.

ERM Power CEO Jon Stretch said the Company had increased earnings by delivering superior customer service and innovation to support large energy users in an increasingly dynamic market.

"We've retained our number one ranking in the UMI customer satisfaction survey for the seventh year running and recorded our highest ever number of 'very satisfied' customers, testament to the value placed on our retail service and energy consumption insight to drive down cost."

ERM Power's generation assets, the gas-fired peaking plants at Oakey and Neerabup, performed as expected and in line with the comparative period, delivering EBITDAF of \$20.6 million.

The first half of the financial year saw the US business report EBITDAF of \$1.4 million, a 26% decrease on the comparative period. Sales load doubled to 3.0TWh while gross margin was lower than expected at A\$3.78/MWh. As outlined in the FY2017 results in August 2017, US business processes have been reviewed and subsequent operational changes have been implemented which will lead to margin improvement over the medium term.

Energy Solutions posted revenue of \$9.7 million, 143% growth on the comparative period, and an EBITDAF loss of \$1.8 million consistent with expectations. The business is in investment and development phase and expected to contribute positively to earnings from FY2020.

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 mark to market changes in the fair value of financial instruments, impairment, gains / losses on onerous contracts and other significant items. Underlying NPAT excludes any profit or loss from associates

FY2018 Outlook

FY2018 outlook remains broadly in line with the 24 August 2017 outlook announcement.

- For the Australian electricity retailing business we expect continued load and margin growth as follows:
 - Sales volume of about 19.0TWh for FY2018, with upside potential;
 - Increase in average gross margin from the previously communicated \$4.40/MWh to about \$4.70/MWh with further upside potential;
 - Medium-term gross margin range increased from \$3.50-\$5.00/MWh to \$4.00-\$5.50/MWh; and
 - Opex maintained at ~\$23 million.
- For the US electricity retailing business we expect:
 - A 71% increase in sales load on FY2017 to 6.5TWh, lower than the previously announced 7.5TWh;
 - Gross margin of about A\$4.50/MWh for FY2018, with potential downside;
 - A medium term gross margin range of \$6.50-\$7.50/MWh; and
 - Operating expenditure higher than previously announced at around A\$3.50/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 is expected to deliver \$26 million EBITDAF.
- Energy Solutions outlook is revised to \$4.0-\$4.5 million underlying EBITDAF loss, as we continue to invest in the business. Our expectation is that the business will be returning positive NPAT from FY2020 onwards.
- Corporate and other FY2018 costs have been revised down from the previously communicated \$15.5 million to about \$14.5 million.

LGC strategy update

ERM Power advises that its Large-scale Generation Certificate (LGC) strategy, announced in January 2017, has enabled a number of contractual arrangements including offtake agreements with renewable energy developers which combined with hedging transactions are expected to realise \$35-\$45 million in NPAT across FY2019 and FY2020, weighted to FY2020.

Capital Management Framework – Share buyback announced

Capital discipline, a strong net cash position of \$111.6 million at 31 December 2017 and management and Board confidence in the earnings outlook support an on-market share buyback of up to \$20 million in issued capital over a 12-month period, launching 12 March.

ERM Power actively manages its capital program and maintains a strong capital and liquidity position. The capital management framework provides appropriate risk buffers, allows for maintenance of dividends at current levels, reserves funds for growth opportunities which are part of an active M&A and organic growth program and provides for distribution of surplus funds to shareholders.

Mr Stretch said the framework demonstrated capital discipline and supported returns to shareholders while allowing the Company to continue executing on its growth strategy.

Dividend

The Board has declared an interim fully franked dividend of 3.5 cents per share. The record date for the dividend is 6 March 2018 and the payment date is 6 April 2018. The ex-dividend date is 5 March 2018. The Dividend Reinvestment Plan will be suspended due to the on-market share buyback.

For further information

Sarah McNally

Investor Relations Manager

Phone: +61 7 3020 5513

Mobile: +61 409 004 298

Email: smcnally@ermpower.com.au

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