# ASX Announcement

Thursday, 23 August 2018

# FY2018 Full year results and presentation

Please find attached the following documents relating to ERM Power's results for the 12 months ended 30 June 2018:

1. ASX Announcement
2. Presentation

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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[1]. 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 power stations in Western Australia and Queensland.

[1] Based on ERM Power analysis of latest published information.

# ASX Announcement

Thursday, 23 August 2018

## ERM POWER REPORTS FY2018 EBITDAF[1] OF $97.5M & FY2019 OUTLOOK

### Announces planned divestment of US business Source Power & Gas

ERM Power Limited (ASX: EPW) reported underlying EBITDAF[1] of $97.5 million for the year to 30 June 2018, a 25% increase on the prior year. A sale process for the US business Source Power & Gas is well advanced.

### Results Summary – continuing operations excludes US

| $m unless otherwise stated | FY2018 | FY2017 | % Change |
|---|---|---|---|
| Underlying EBITDAF | 97.5 | 78.2 | 25% |
| Underlying NPAT | 30.2 | (16.1) | N/A |
| Underlying EPS (cps) | 12.3 | (6.6) | N/A |
| Final dividend (cps) | 4cps franked | 3.5cps franked | 14% |
| Electricity sales volume – load (TWh) | 19.2 | 18.5 | 4% |
| Statutory NPAT* (Group, including US) | (80.7) | (1.1) | N/A |

*Statutory NPAT is reported under accounting standards which require the recognition of changes in financial instrument values. Negative changes in financial instrument values are not realised losses. It does not reflect the corresponding positive value of customer contracts.

The FY2018 results reflect a solid performance by the Australia Retail business with electricity load growth and gross margin at the higher end of expectations. The generation assets performed well and revenue from the Energy Solutions business was up 55% to $18.9 million demonstrating the growing strength of the ERM Power proposition for energy users needing solutions in an increasingly complex market.

ERM Power Managing Director and CEO Jon Stretch said the performance of the Australia operations demonstrated the strength of the franchise with the Company leveraging its core electricity retailing and generation businesses to grow its Energy Solutions business.

### US business divestment process

Mr Stretch said the US business delivered strong sales growth at 6.3TWh and forward contract load of 15.6TWh while gross margin was lower than expected. The US business, treated as discontinued in the financial statements, is held for sale following a comprehensive review to determine the best strategy for realising shareholder value.

"We have a sale transaction process underway which is well advanced and expected to conclude in the first half of FY2019," he said.

"Source Power & Gas electricity sales have grown roughly six times since acquisition in 2015. The business is attractive to a range of US market participants who have the business models to realise value from SPG.

"The strong performance and potential of our Energy Solutions business highlights that our energy, resources and capital are best focussed on our Australia operations.

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1 Continuing operations. 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. EBITDAF excludes any profit or loss from associates.

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### Australia operations

"The Australia Retail business performed well with sales at a record 19.2TWh and underlying EBITDAF up 35% to $71.9 million. Gross margin of $4.90/MWh was ahead of expectations," Mr Stretch said.

"Continued growth in our Energy Solutions business saw a 55% increase in revenue on the previous year realising revenue of $18.9 million. With high electricity prices continuing to drive customers to seek advice and energy efficiency solutions, we have seen an increased share of customers purchasing multiple products to customise their mix of energy solutions."

ERM Power's generation assets performed ahead of expectations off the back of merchant opportunities for Neerabup Power Station and flexible operating strategies employed around Oakey Power Station with underlying EBITDAF from generation at $43.8 million.

### Dividend

The Board has declared a final fully franked dividend of 4 cents per share, bringing the total declared dividends for FY2018 to 7.5 cents per share, fully franked. The record date for the dividend is 17 September 2018 and the payment date is 10 October 2018. The ex-dividend date is 14 September 2018.

### FY2019 Outlook

- For the Australia Retail business we expect:
  - Sales volume to remain at about 19TWh for FY2019;
  - Gross margin of about $4.75/MWh;
  - A medium-term gross margin range of $4.00-$5.50/MWh (FY2019-2021); and
  - The Large-scale Generation Certificate strategy to deliver $35-$45 million NPAT in FY2019-FY2020, weighted to FY2020.This is consistent with the February outlook statement.

- FY2019 EBITDAF for generation is expected to be as follows:
  - Oakey Power Station underlying EBITDAF in the range of $14 million to $16 million; and
  - Neerabup Power Station EBITDAF at about $26 million.

- Energy Solutions is in growth and investment phase with anticipated underlying EBITDAF of about ($2.5) million. Our expectation is that the business will be at or about NPAT breakeven by FY2020.

- Corporate and other FY2019 costs are anticipated to be about $16 million.

- The Source Power & Gas sale process is expected to conclude in the first half of FY2019.

### For further information

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### About ERM Power

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[i] Based on ERM Power analysis of latest published information

# Full Year Results

12 months to 30 June 2018

## ERM Power

# 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.
4. 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 summary – Australia operations

## US BUSINESS DIVESTMENT PROCESS UNDERWAY

| Electricity sales | Underlying EBITDAF |
|---|---|
| ↑4% | ↑25% |
| **To 19.2TWh** | **To $97.5m** |
| **Underlying NPAT** | **2H dividend fully franked** |
| ↑$46.3m | 4cps |
| **To $30.2m** | **1H 3.5cps fully franked** |

- Underlying **EBITDAF $97.5m,** underlying **NPAT $30.2m** (continuing operations)
- **Electricity Retailing** business in **Australia** performed well:
  - Electricity load **up 4% to 19.2TWh**
  - Gross margin $4.90/MWh
  - #1 in customer satisfaction[1] for the 7th year in a row
- **Generation** underlying EBITDAF ahead of the comparative period at $43.8m
- **Energy Solutions** revenue increased ~55% to **$18.9m**
- 2H dividend of **4cps, fully franked**. FY 7.5cps fully franked

**US business held for sale. Underlying NPAT loss of A$19.3m – treated as discontinued operations**

1 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

# US business divestment

## SOURCE POWER & GAS HELD FOR SALE

- Source Power & Gas has grown from a fledgling electricity retailing business since acquisition
- The business represents value to a range of US market participants
- Shareholder value is best realised in SP&G divestment and deployment of capital to AU operations
- Process well advanced and transaction close expected during 1H FY2019
- Energy Solutions business and related opportunities represent stronger value and growth

### US business growth since January 2015 acquisition

**Electricity sales**

Load Growth Up
from **1TWh to 6.3TWh**

~ **6x**

**Forward contract load**

Increased Pipeline
**2TWh to 15.6TWh**

~ **8x**

**Service and satisfaction**[1]

Satisfaction
ranking

**Top 3 overall**

1 Energy Research Consulting Group's (ERCG) survey of Aggregators, Brokers and Consultants (ABC) Study December 2017

# Energy environment

## CHANGING LANDSCAPE

### ERM Power

- Specialises in C&I - vastly different to residential retailing
- ACCC Report points to efficiency and transparency benefits in C&I
- Founded on customer service, satisfaction and preference
- Transparency and credibility are key
- Market seeking genuine solutions to energy transition issues

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**ERM Power realises opportunity in dynamic and changing markets**

### ACCC Report on C&I retailing

*"Network, and more recently, wholesale costs have made up the majority of the price increases over the period, contributing 35 and 45 per cent respectively. Environmental schemes have contributed 21 per cent to increases in prices.* ***(C&I) Retailer costs and margins have played a negligible role and have not contributed to the increase when combined****."*

https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%E2%80%94Final%20Report%20June%202018_0.pdf

# Financial Results

# FY2018 Financials – continuing operations[1]

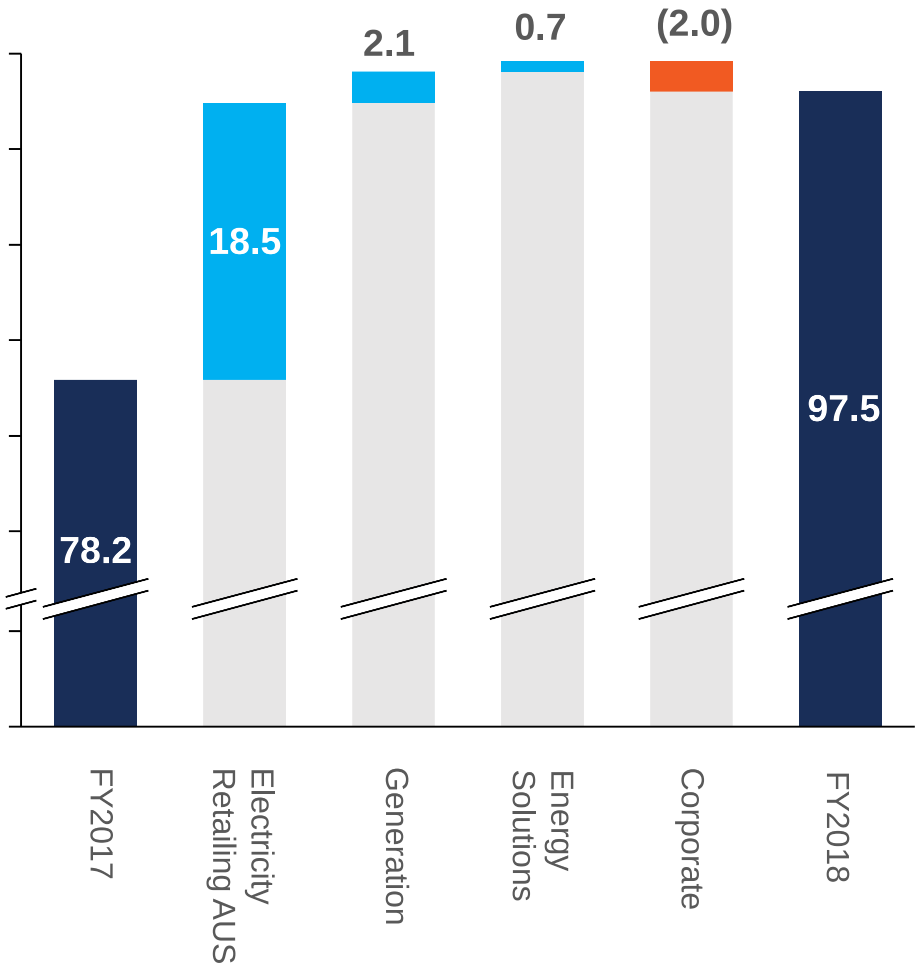
| $m unless otherwise stated | FY2018 | FY2017 | % Change |
|---|---|---|---|
| Contestable revenue[2] | 2,046.4 | 1,477.8 | 38% |
| Underlying EBITDAF | 97.5 | 78.2 | 25% |
| Depreciation | (30.2) | (27.2) | (11%) |
| Net finance expense | (24.2) | (20.9) | (16%) |
| Tax | (12.9) | (46.2) | 72% |
| LGC short surrender tax refund/(charge) | 0.4 | (37.1) | N/A |
| Remaining tax charge | (13.3) | (9.1) | (46%) |
| Underlying NPAT | 30.2 | (16.1) | N/A |
| Underlying EPS (cents per share) | 12.3 | (6.6) | N/A |
| Statutory NPAT [3] | (80.7) | (1.1) | N/A |
| Statutory NPAT – discontinued operations | (34.0) | (20.3) | (67%) |
| Net debt/(cash) | 108.7 | (55.7) | N/A |
| **Full year dividends declared (cents per share)** | **7.5 franked** | **7.0 franked** | **7%** |

1 Continuing operations unless indicated otherwise.
2 Includes both electricity and green certificates sales. Excludes pass through costs.
3 Includes unrealised net fair value losses of $76.4m on financial instruments designated at fair value through profit and loss and the loss from US discontinued operations of $34.0m. Statutory NPAT does not include the corresponding opposite fair value movement on the value of customer contracts which is not recognised for accounting purposes.

# EBITDAF

## CONTINUING OPERATIONS

### Underlying EBITDAF Movement




| $m | FY2018 | FY2017 | Change |
|---|---|---|---|
| Electricity Retail AUS | 71.9 | 53.4 | 18.5 |
| Generation | 43.8 | 41.7 | 2.1 |
| Energy Solutions | (3.6) | (4.3) | 0.7 |
| Corporate | (14.6) | (12.6) | (2.0) |
| Underlying EBITDAF | 97.5 | 78.2 | 19.3 |

# NPAT by segment – continuing operations

## ESTABLISHED AND GROWTH BUSINESSES

| | $m | FY2018 NPAT | |
|---|---|---|---|
| | Aus. Retail | 36.9 | |
| **Established** | Generation | 10.8 | |
| | Corporate | (13.4) | |
| | | | **34.3** |
| **Growth** | Energy Solutions | (4.1) | |
| | | | (4.1) |
| | **Underlying NPAT** | | **30.2** |

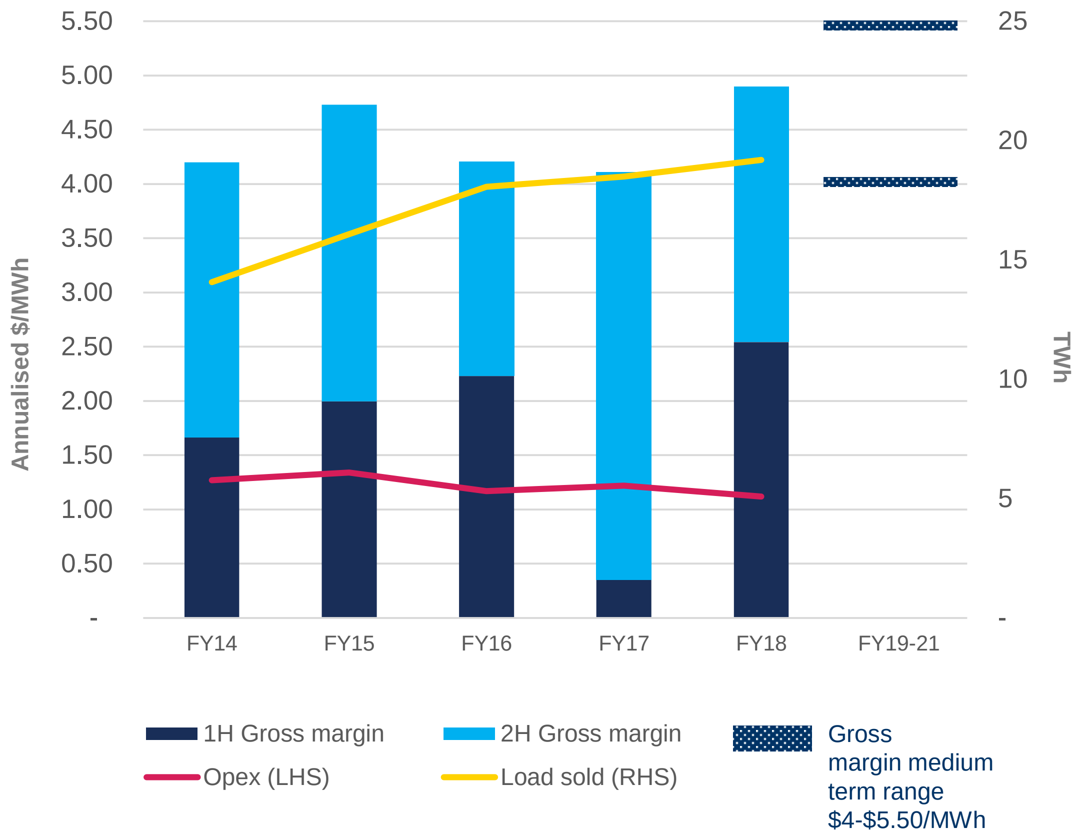
→ EBITDAF positive / ~NPAT breakeven in FY2020

# Electricity retailing Australia

## STRONG, PERFORMING FRANCHISE

| $m unless otherwise stated | FY2018 | FY2017 | Change |
|---|---|---|---|
| Load sold (TWh) | 19.2 | 18.5 | 4% |
| Underlying gross margin | 93.9 | 76.0 | 24% |
| Gross margin $/MWh | 4.90 | 4.11 | 19% |
| Opex | (22.0) | (22.7) | 3% |
| Underlying EBITDAF | 71.9 | 53.4 | 35% |

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



# Electricity retailing US

## DISCONTINUED BUSINESS

| | FY2018 | FY2017 |
|---|---|---|
| Load (TWh) | 6.3 | 3.8 |
| **A$m** | | |
| Underlying EBITDAF | 0.2 | (4.7) |
| Underlying NPAT | (19.3) | (9.7) |
| Statutory NPAT | (34.0) | (20.3) |

| Forward Contracted Load (TWh) | At 30 June 2018 |
|---|---|
| PJM | 7.4 |
| ERCOT | 8.2 |
| Total forward load | 15.6 |

- Sale process is underway
- Completion expected by end of calendar 2018

# Net debt and cash

## Net debt / (cash)

| $m | 30 June 2018[2] | 30 June 2017 | Change[1] |
|---|---|---|---|
| Neerabup debt | 185.5 | 188.9 | (3.4) |
| Other debt | 150.8 | - | 150.8 |
| **Total debt** | **336.3** | **188.9** | **147.4** |
| **Total cash** | **227.6** | **244.6** | **(17.0)** |
| **Net debt / (cash)** | **108.7** | **(55.7)** | **164.4** |
| **Net (cash) excl. Neerabup[3]** | **(64.2)** | **(232.6)** | **168.4** |

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

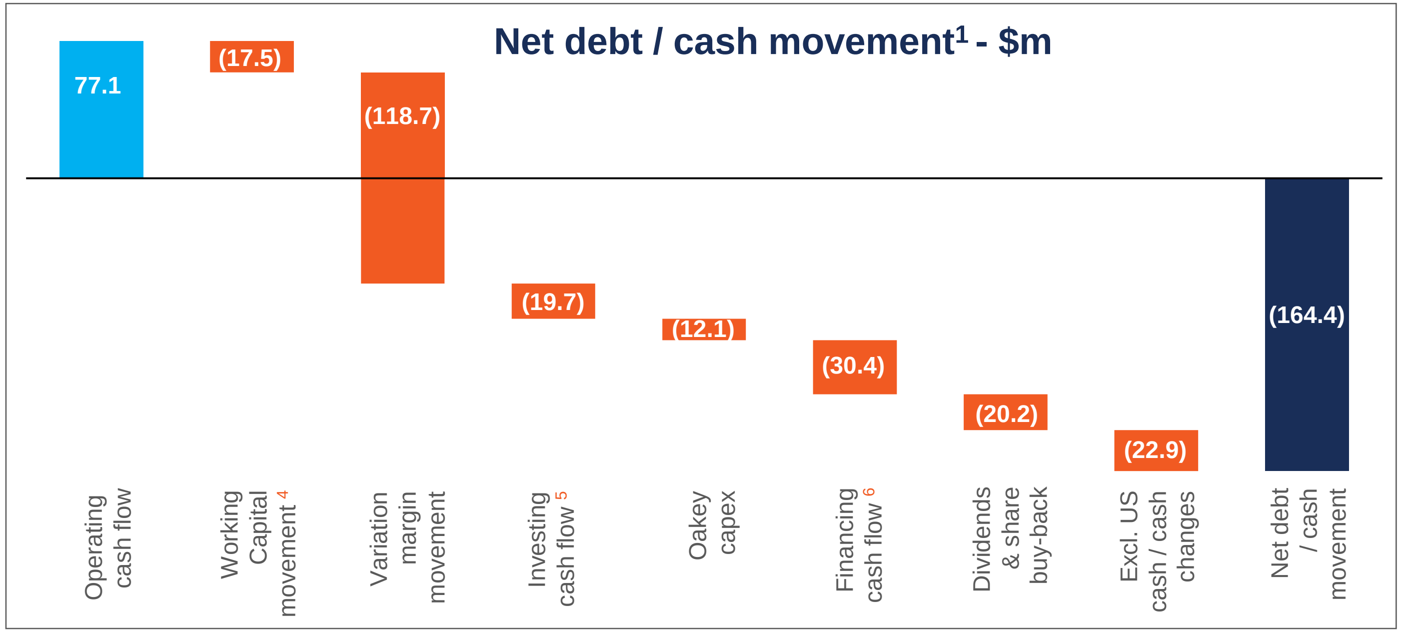
2 Continuing operations only

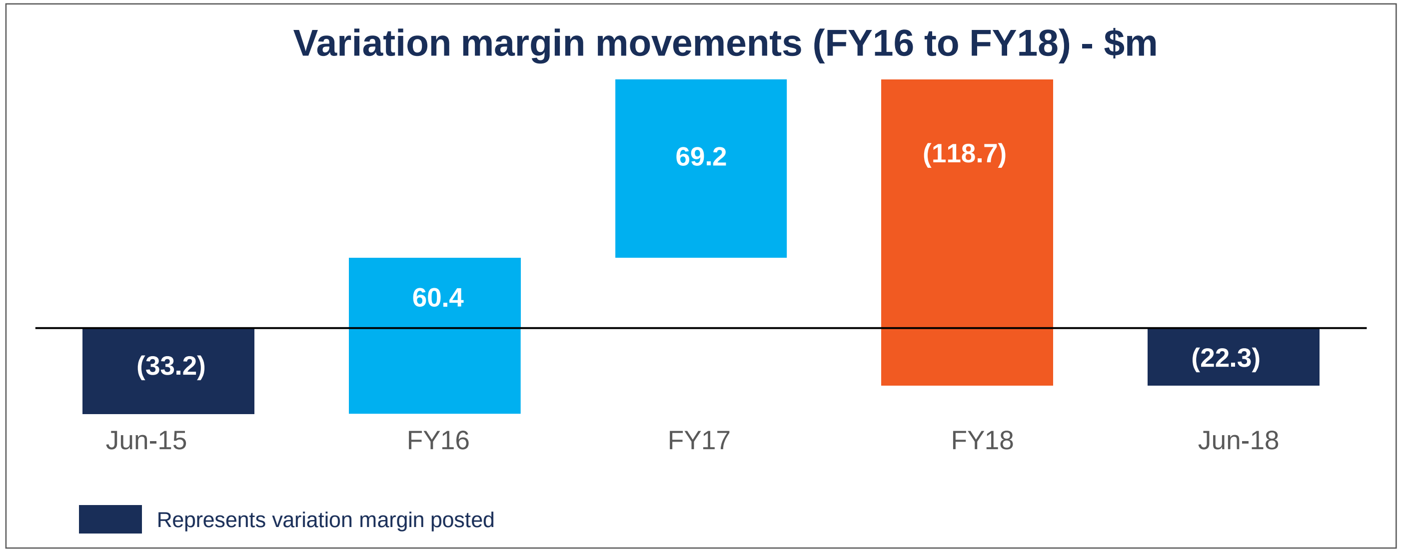
3 This excludes cash and debt that has recourse to the assets of Neerabup Partnership only

4 Excludes variation margin cash

5 Excludes Oakey capex

6 Excludes dividends & share buy-back costs



# Capital management

## Framework - from Feb 2018 announcement

| | |
|---|---|
| Determine capital available for distribution / reinvestment | • Determine surplus capital with reference to liquidity requirements of the business<br>• Maintain suitable buffers |
| Maintain ordinary dividend | • Expect to maintain an ordinary dividend base of 7.0 cents per share fully franked per annum<br>• Reduction only in the event of material earnings volatility<br>• Increases to be assessed regularly considering business performance, earnings outlook, sustainability, yield and payout ratio |
| Reserve funds for anticipated growth opportunities | • Program of investment in growth FY2018 and FY2019<br>• Reserving ~$40m for growth |
| Distribute surplus funds | • Determine most efficient distribution mechanism e.g. special dividend, buyback, subject to circumstances at the time |

## Share buyback update

| | |
|---|---|
| Number of shares purchased/redeemed (March to June 2018)[1] | 1.74m |
| Average purchase price per share | $1.61 |
| Total buyback spend to date | $2.8m |

$20m buyback program to resume following US business sale transaction process.

1 Shares were purchased during the period 12th March 2018 until 18th June 2018, with no shares purchased after this date

- Group liquidity remains strong. Net working capital outflows within expected range
- Continue to reserve ~$40m for organic / inorganic growth
- Further distributions / change to dividends to be considered after 1H 2019 & following US sale process

# FY2018 outlook vs FY2018 actuals

| | | FY2018 Outlook 24 August 2017 | FY2018 Outlook 22 February 2018 | FY2018A | |
|---|---|---|---|---|---|
| **Australia Retail** | Sales volume | ~19TWh | ~19TWh | 19.2TWh | ✓ |
| | Gross Margin | ~$4.40/MWh | ~$4.70/MWh | $4.90/MWh | ✓ |
| | Opex | ~$23m | ~$23m | $22.0m | ✓ |
| **US Retail** | Sales volume | ~7.5TWh | ~6.5TWh | 6.3TWh | ✗ |
| | Gross Margin | ~A$5.00/MWh | ~A$4.50/MWh | A$3.28/MWh | ✗ |
| | Opex | ~A$3.20/MWh | ~A$3.50/MWh | A$3.25/MWh | ✓ |
| **Generation EBITDAF[1]** | Oakey | $14-16m | $14-16m | $17.0m | ✓ |
| | Neerabup | ~$26m | ~$26m | $27.6m | ✓ |
| **Energy Solutions EBITDAF** | | ~($4.5)m | ~($4.0)-($4.5)m | ($3.6)m | ✓ |
| **Corporate & Other costs** | | ~($15.5)m | ~($14.5)m | ($14.6)m | ✓ |

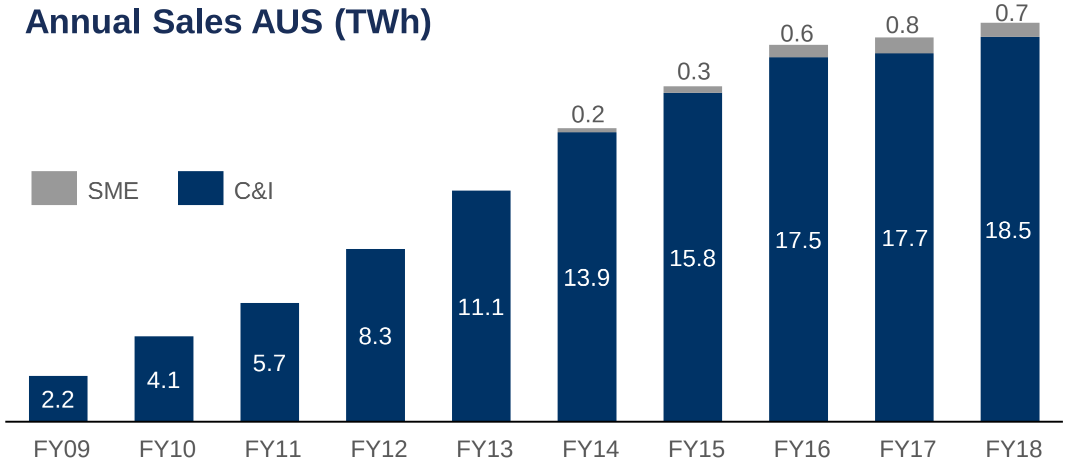
1 FY2018 outlook excludes $1.5 million generation overhead expenditure, the results for the actuals were $0.9m

# Operational Performance

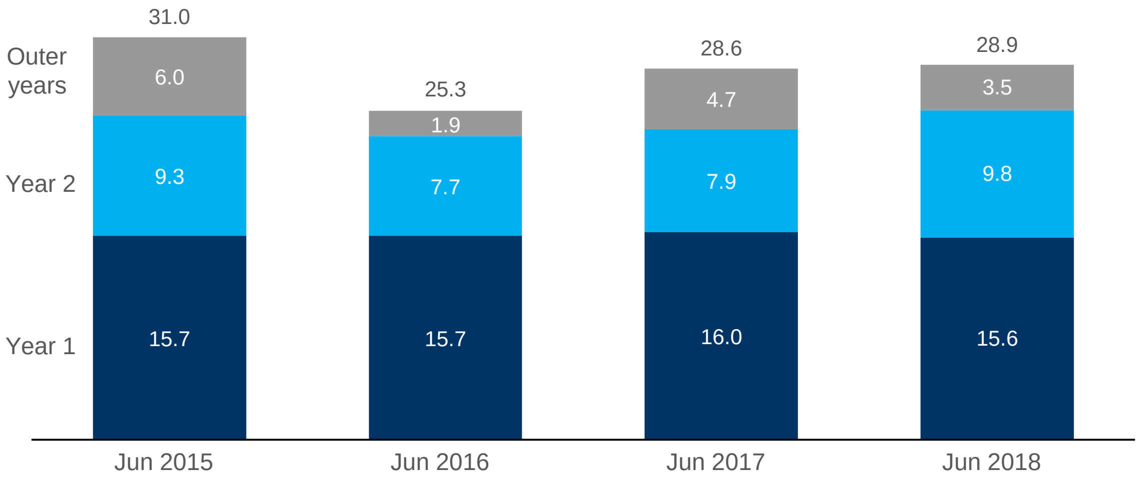
# Electricity retailing – Australia

## STRONG PERFORMANCE

### Annual Sales AUS (TWh)




### Forward Contracted Load AUS (TWh)




- STEP online platform continues to resonate with customers
- Contract length increased from 1.7 years in Q4 FY17 to an average of 2.2 years in FY18


## Single-site SME book sale

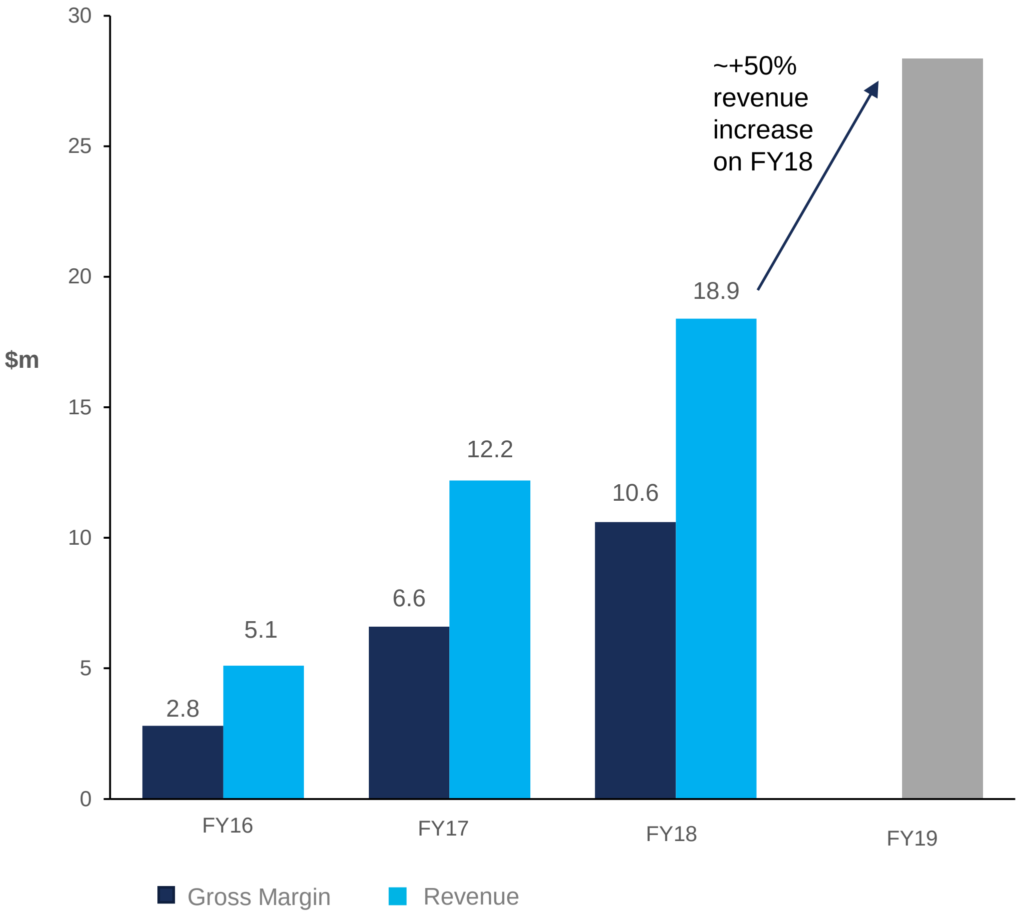
- Part of the SME book sold to Next Business Energy – small, single sites
- Focus is on our core business of Commercial & Industrial and large, multi-site SME

1 The customer satisfaction award refers to the Utility Market Intelligence (UMI) survey between 2011 and 2017 of large customers of major electricity retailers in Australia by independent research company NTF Group

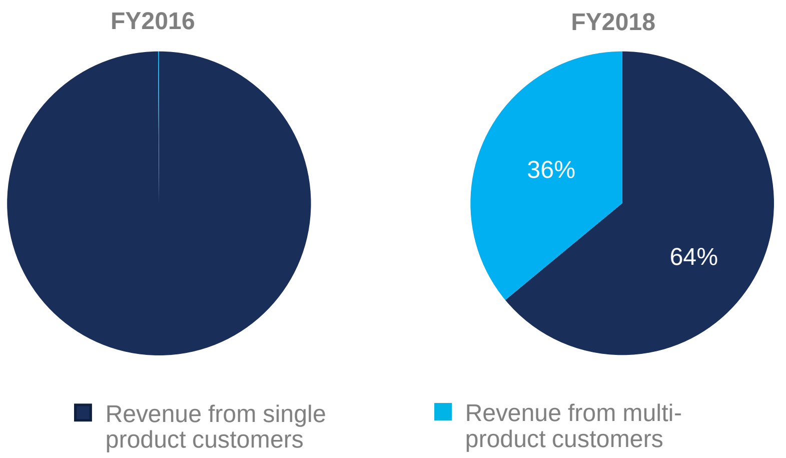
# Energy Solutions

## STRONG GROWTH

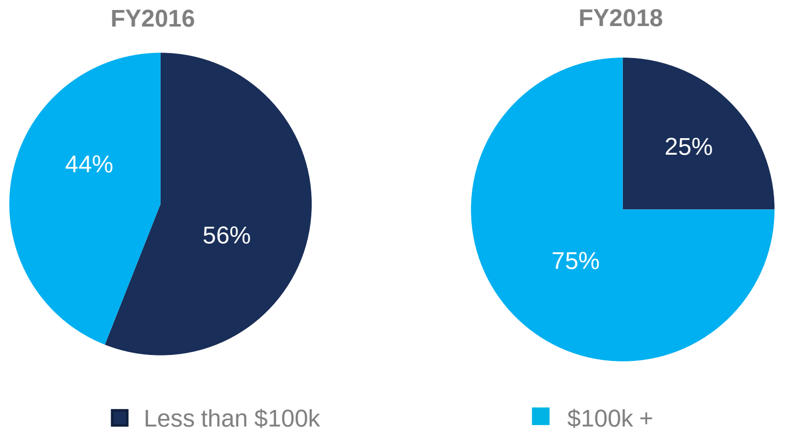
### Revenue & Gross Margin growth




### Revenue from multi-product deals




### Revenue from Projects > $100k



# Generation

## OAKEY AND NEERABUP POWER STATIONS

| **$m** unless otherwise stated | **FY2018** | **FY2017** | **% change** |
|---|---|---|---|
| Revenue | 70.2 | 130.6 | (46%) |
| Oakey | 35.6 | 96.4 | (63%) |
| Neerabup | 34.6 | 34.2 | 1% |
| Underlying EBITDAF | 44.6 | 43.0 | 4% |
| Oakey | 17.0 | 15.8 | 8% |
| Neerabup | 27.6 | 27.2 | 1% |

- Higher than expected earnings associated with merchant opportunities and derivatives
- Excellent safety record with no lost-time injuries
- Oakey turbine maintenance overhaul completed during FY2018 – on time & on budget
- Valuable assets in a changing market place providing support for intermittent generation

# Outlook

# FY2019 outlook

| | | Actual FY2018 | FY2019 Outlook |
|---|---|---|---|
| **Australia Retail** | Sales volume | 19.2TWh | ~19TWh |
| | Gross Margin | ~$4.90/MWh | ~$4.75/MWh |
| | Opex | $22.0m | ~$22m |
| | LGC Strategy | N/A | $35m-$45m FY2019/2020 |
| **Generation EBITDAF[1]** | Oakey | $17m | $14-16m |
| | Neerabup | $27.6m | ~$26m |
| **Energy Solutions** | Revenue | $18.9 | ~+50% on FY2018 |
| | EBITDAF | ($3.6)m | ~($2.5)m |
| **Corporate & Other costs** | | ~($14.6)m | ~($16)m |

- Medium-term gross margin $4.00-$5.50/MWh (FY2019-2021)
- LGC strategy excluded from gross margin range
- Energy Solutions at or around NPAT break-even by FY2020

1 FY2019 outlook excludes $1.5 million generation overhead expenditure, whilst the actual results in FY2018 was $0.8 million

# Q & A

# FY2018 summary

- Declared fully franked dividends of 7.5 cents per share for the year
- Underlying EBITDAF $97.5 million
- Underlying NPAT $30.2 million
- Record electricity sales
- Strong generation performance
- Australia gross margin $4.90/MWh, FY2019 outlook $4.75/MWh
- Energy Solutions revenue up about 55% to $18.9m and on track to be at or around NPAT breakeven FY2020
- US business divestment process well advanced
- On-market share buyback announced up to the value of $20 million. To resume following completion of US sale process

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