ASX ANNOUNCEMENT

Thursday, 23 February 2017

FY2017 HALF YEAR RESULTS

Please find attached ERM Power's Half Year Results Announcement for the six months ended 31 December 2016.

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, with operations in every state 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 497 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland. www.ermpower.com.au

23 February 2017

ERM POWER REPORTS HALF YEAR UNDERLYING EBITDAF OF $11.1M

Offtake agreements announced, underpinning construction of two renewables projects

ERM Power Limited (ASX: EPW) today reported underlying EBITDAF[1] of $11.1 million for the six months to 31 December 2016. Earnings are weighted to the second half of the financial year due to the timing of financial instrument settlements in the Australian Retail business, as previously disclosed.

ERM Power CEO Jon Stretch said the FY2017 outlook was broadly in line with expectations when updated for the planned sale of the US residential book, and against a backdrop of business transformation the company remained on track to deliver its 2018 diversification and growth strategy.

The Board has declared an interim fully franked dividend of 3.5 cents per share.

“Our generation and US businesses have performed well and we continue to invest in growing our Energy Solutions portfolio, key to helping commercial and industrial customers manage costs in an environment of dramatically rising electricity prices,” he said.

“While our Australian Retail business reported a small loss for the period due to timing of the realisation of earnings over the full year, the business is on track to deliver $3/MWh FY2017 gross margin.

“We have started a process to divest our non-core US residential electricity retailing book, to allow the business to focus exclusively on growing the Commercial & Industrial (C&I) customer base. The lead indicators provide confidence in our US business, and we continue to refine operations to ensure profitable and sustainable growth in this important market,” Mr Stretch said.

Results Summary[2]

$m unless otherwise stated	1H FY2017	1H FY2016	% Change
Contestable revenue	710.0	656.1	8%
Statutory EBITDAF	11.1	33.8	(67%)
Statutory NPAT	(18.8)	14.9	(226%)
Underlying EBITDAF	11.1	37.1	(70%)
Underlying NPAT[3]	(51.0)	9.1	(659%)
Underlying EPS (cps)	(20.4)	3.7	(651%)
Interim dividend (cps)	3.5	6.0	(42%)
Operating cash flow before changes in working capital	11.4	37.8	(70%)
Electricity sales volume – load (TWh)	10.4	9.8	6%

[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] Continuing operations, except for Statutory NPAT
[3] Underlying NPAT is 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

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Underlying EBITDAF for the reported period was $11.1 million, compared to $37.1 million for 1H FY2016. The reduction reflects the timing impact of financial instrument settlements in the Australian wholesale market.

The reported underlying NPAT loss of $51.0 million reflects lower EBITDAF and the impact of a one-off tax difference of $36.6 million. This relates to a $123.5 million payment to the Clean Energy Regulator, as announced on 24 January 2017, which is not tax deductible.

"The electricity retailing business in Australia is performing in line with our expectations, with sales volumes of 8.9 TWh and gross margin on track to meet FY2017 outlook. As outlined at the AGM in October, earnings are weighted to the second half of the financial year," Mr Stretch said.

Mr Stretch said ERM Power's Australian retail business had retained its number one ranking for customer satisfaction for the sixth year running[4].

"Our accurate billing, timely information on consumption and outstanding account management are key to our success, and drive our industry-leading customer satisfaction and retention. We are now further complementing that with new, value-add energy management solutions."

ERM Power's gas-fired peaking plants, Oakey Power Station and the joint venture Neerabup Power Station, outperformed against the prior comparative period, reporting a 10% increase in EBITDAF to $20.4 million. The increase in earnings reflects an increase in merchant generation opportunities.

The first half of the financial year saw the continuing operations of the US business report EBITDAF of $1.9 million. The increase in earnings reflects sales growth with volumes doubling to 1.5 TWh and forward contracted load of 14.5 TWh, a 107% increase on the comparative period.

The interim fully franked dividend is 3.5 cents per share. The record date for the dividend is 8 March 2017 and the payment date is 6 April 2017. The ex-dividend date is 7 March 2017.

Offtake agreements underpin construction of two renewables projects and create LGCs

ERM Power also announced it has reached agreement on commercial terms that will underpin the construction of two renewable energy generation assets in Australia. The two facilities will have a combined capacity of more than 300MW.

The foundation contracts for the purchase of Large-scale Generation Certificates (LGCs) have been the subject of negotiation with developers since mid-2016 and will commence in 2018. Project details remain commercial in confidence until the respective projects reach financial close, and are subject to standard conditions.

Mr Stretch said the offtake agreements underpinned construction of these renewable projects which resulted in creation of LGCs, contributing to the Renewable Energy Target.

"These agreements were enabled by the LGC Scheme flexibility which allows for LGC surrender over a three-year period," he said.

"ERM Power has retained the option to surrender 2016 LGCs over the prescribed three-year window, creating the economic conditions which enable us to enter into agreements with renewables developers.

[4] Utility Market Intelligence (UMI) survey in 2011, 2012, 2013, 2014, 2015 and 2016 of large customers of major electricity retailers in Australia by independent research company NTF Group

“The Scheme flexibility has allowed us to bridge the disconnect between the annual LGC surrender cycle and the longer-duration commitment needed by renewables developers to underpin their project revenue.

“We support the continued reduction of greenhouse gas emissions and consistent and enduring national energy policy, but it’s critical that we use the least cost technology to achieve carbon reduction targets.”

FY2017 Outlook

FY2017 outlook, excluding discontinued operations, remains broadly in line with expectations as follows:

- For the Australian electricity retailing business we see load growth and some margin pressure, as previously outlined:
    - We expect continued growth in sales volumes to about 18.5 TWh for FY2017.
    - Average gross margin for FY2017 is expected to be about $3/MWh.

- The US electricity retailing business continuing operations show strong lead indicators:
    - We forecast a doubling of annual sales volume in FY2017 to about 4.2 TWh; and
    - Gross margin is expected to be around A$7.50/MWh with operating expenditure reducing as the business scales, to around A$4-A$4.50/MWh.

- Corporate and Other FY2017 costs of $20 million.

- For the discontinued operation in the US we are anticipating a loss before tax of approximately A$7 million, excluding proceeds of the sale.

- FY2017 EBITDAF for Oakey Power Station is forecast in the range of $14 million to $16 million which includes allowance for a scheduled maintenance outage in 2017.

For further information

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