

Thursday, 23 February 2017

## **FY2017 HALF YEAR RESULTS**

Please find attached the Investor Presentation relating to ERM Power's results for the six months ended 31 December 2016.

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

# HALF YEAR RESULTS

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6 months to 31 December 2016

23 February 2017



# IMPORTANT NOTICE - DISCLAIMER



## Disclaimer

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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 Management Discussion and Analysis (MD&A). 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 MD&A document that accompanies these results.





# HALF YEAR SUMMARY



# HALF YEAR SUMMARY



Earnings weighted to 2H FY2017; on track for FY2017 Outlook

- Underlying EBITDAF<sup>1</sup> **\$11.1 million 1H FY2017**; earnings weighted to the 2H due to timing of financial instrument settlements
- Underlying NPAT<sup>1</sup> \$(51) million reflecting one-off \$36.6 million permanent tax difference
- Statutory NPAT \$(18.8) million
- **Australian Electricity Retailing** business in **Australia** performed in line with expectations
  - Forward contract load 27.6 TWh
- **Generation** performed well, EBITDAF up 10%
- **US business** positive lead indicators
  - Forward contract load 14.5 TWh<sup>1</sup>
  - Non-core residential book held for sale
- New \$290 million ANZ finance facility
- Interim dividend of **3.5cps fully franked**

## Australian Retail Customer satisfaction<sup>2</sup>

#1



6 years  
in a row

Record score for 2016

## US Retail Broker satisfaction<sup>3</sup>

#3



2 years  
in a row

<sup>1</sup> Continuing operations

<sup>2</sup> Customer satisfaction refers to the Utility Market Intelligence (UMI) surveys 2011-2016 of large customers of major electricity retailers in Australia, undertaken by independent research company NTF Group

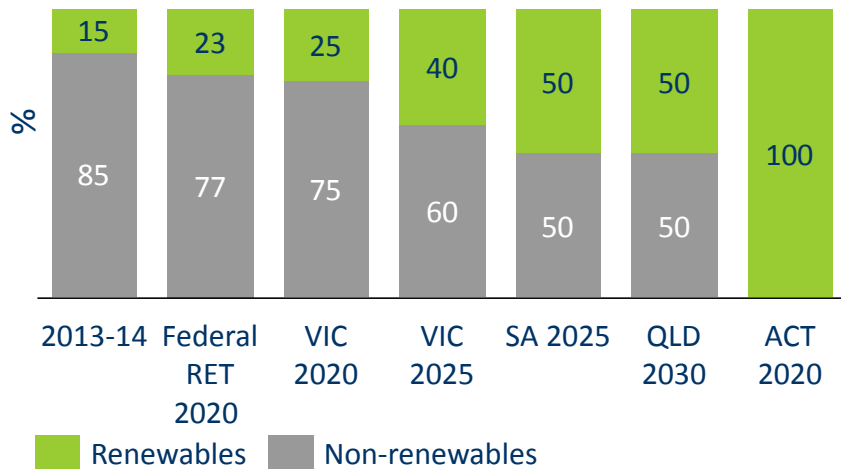
<sup>3</sup> Energy Research Consulting Group (ERCG) survey of Aggregators, Brokers and Consultants (ABC) Study December 2016. Research based on survey of over 120 ABCs, which represents ~72% of brokered US power sales.

# THE MARKET

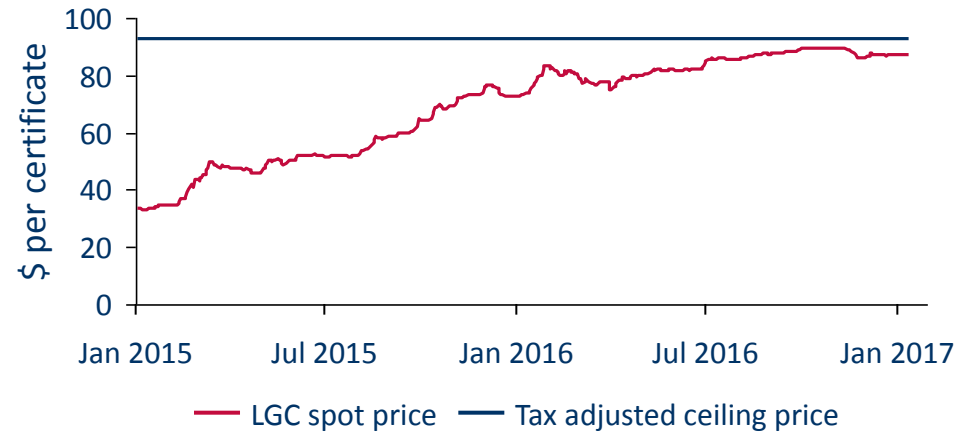


The evolving Australian energy landscape

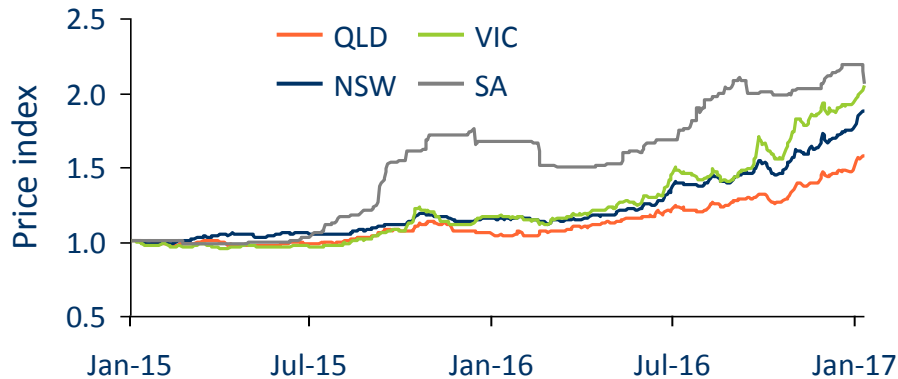
### Electricity supply – changing the mix<sup>1</sup>



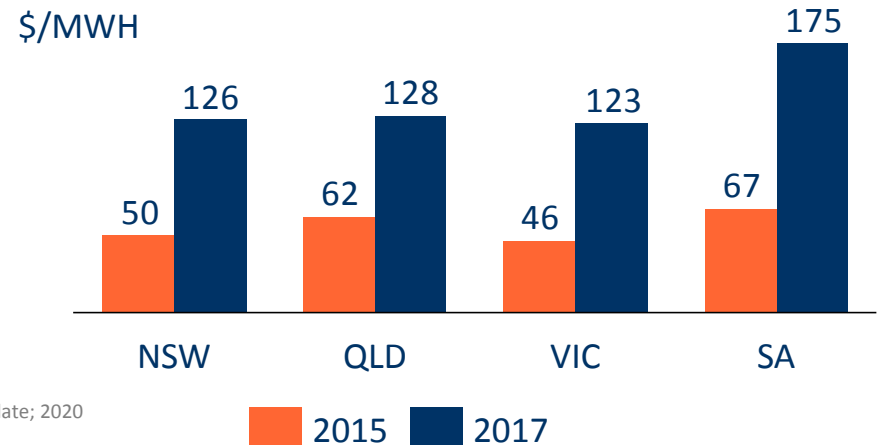
### LGC<sup>2</sup> spot prices



### Electricity forward curve – Cal 2017



### Customer energy cost increase<sup>3</sup>



1 Source: 2013/14 Australian Government's Office of the Chief Economist 2015 Australian Energy Update; 2020 Renewable Energy Target; ACT target includes renewable energy creation in other jurisdictions

4 2 Large-scale Generation Certificates (LGCs)

3 Average C&I customers' energy price (electricity + green certificates) for the period 1 April to 31 March

# LGC FULFILMENT PLAN



Fully compliant, utilises tax losses and supports renewables build

## Market & Strategy

- LGC prices trading at around the tax-adjusted shortfall price
- Scheme flexibility allows short surrender and future surrender
  - Scheme flexibility supports negotiation of offtake agreements with renewables developers
  - Retain option to surrender certificates within the prescribed three-year window
- Certificates purchased under Greenpower and other schemes surrendered in 2017

## Impact

- ERM Power fully complied; surrendering LGCs and paying shortfall charge
- \$123m transferred to the Clean Energy Regulator
- \$36.6m permanent tax difference recognised at 31 December 2016
  - Utilised tax losses
  - Provides dividend franking opportunity
- Offtake agreements underpinning two 300MW+ renewables projects
- Earnings from LGC sales in 2H FY2017

ERM Power supports the Scheme and the benefits of cleaner energy



# FINANCIAL RESULTS



# 1H FY2017 FINANCIALS<sup>1</sup>



## ERM Power Group

<b>\$m unless otherwise stated</b>	<b>1H FY2017</b>	<b>1H FY2016</b>	<b>Change</b>	<b>% Change</b>
Contestable revenue	710.0	656.1	53.9	8%
<b>Underlying EBITDAF</b>	<b>11.1</b>	<b>37.1</b>	<b>(26.0)</b>	<b>(70%)</b>
Depreciation	(18.1)	(12.4)	(5.7)	46%
Net finance expense	(13.4)	(11.6)	(1.8)	16%
Tax	(46.4)	(9.3)	(37.1)	399%
LGC short surrender tax charge	(36.6)	-	-	-
Remaining tax charge	(9.8)	(9.3)	(0.5)	5%
<b>Underlying NPAT</b>	<b>(51.0)</b>	<b>9.1</b>	<b>(60.1)</b>	<b>(659%)</b>
Underlying EPS (cents per share)	(20.4)	3.7	(24.1)	(651%)
<b>Statutory NPAT</b>	<b>(18.8)</b>	<b>14.9</b>	<b>(33.7)</b>	<b>(226%)</b>
<b>Net debt/(cash)</b>	<b>(78.4)</b>	<b>23.4</b>	<b>(101.8)</b>	<b>(435%)</b>
Interim dividend (cents per share)	3.5 franked    6 unfranked			

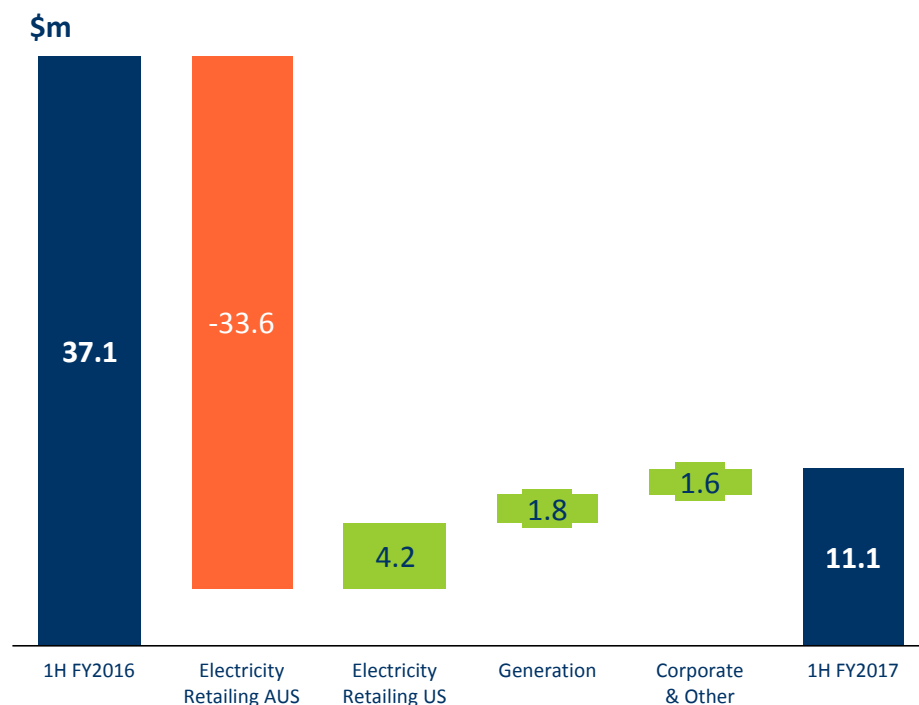
- EBITDAF decrease driven by timing of financial instrument settlements
- NPAT decrease driven by reduced EBITDAF and tax impact of LGC short surrender charge being non-tax deductible
- Interim dividend of 3.5 cents per share, fully franked

# EBITDAF



## ERM Power Group

### Underlying EBITDAF<sup>1</sup> Movement



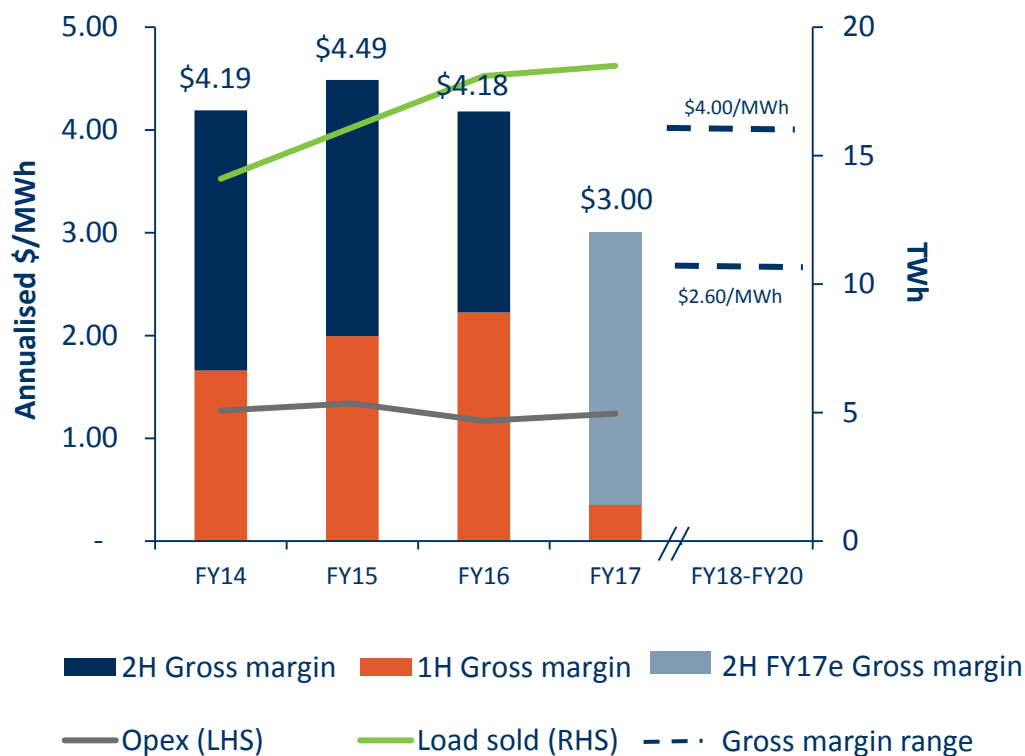
\$m	1H FY2017	1H FY2016	Change
Electricity Retail AUS	(4.1)	29.5	(33.6)
Electricity Retail US	1.9	(2.3)	4.2
Generation	20.4	18.6	1.8
Corporate & Other	(7.1)	(8.7)	1.6
<b>Underlying EBITDAF</b>	<b>11.1</b>	<b>37.1</b>	<b>(26.0)</b>

- Australian Retail results impacted by timing of financial instrument settlements
- US Retail sales volumes growth and gross margin on continuing business driving earnings
- Generation increase due to merchant opportunities

# ELECTRICITY RETAILING - AUSTRALIA



## Margin, Opex & Load - AUS



\$m unless otherwise stated	1H FY2017	1H FY2016	% change
Load sold (TWh)	8.9	9.0	(1%)
Underlying gross margin	6.5	40.3	(84%)
Underlying opex	(10.6)	(10.8)	2%
Underlying EBITDAF	(4.1)	29.4	(114%)

- Gross margin decreased due to timing of financial instrument settlements, including green certificate forward contracts
- FY2017 gross margin outlook \$3/MWh
- Indicative forward looking annualised gross margin range of \$2.60-\$4.00/MWh

# ELECTRICITY RETAILING - US



## Building scale

	Continued		Discontinued		Total	
	1H FY2017	1H FY2016	1H FY2017	1H FY2016	1H FY2017	1H FY2016
Load (TWh)	1.5	0.8	0.5	0.3	2.0	1.1
Gross margin – A\$m	10.0	4.0	(1.5)	2.0	8.5	6.0
Gross margin – A\$/MWh	6.56	5.31	(3.02)	6.30	4.23	5.61
Opex – A\$m	(8.1)	(6.3)	(1.4)	(1.0)	(9.5)	(7.3)
Opex – A\$/MWh	(5.29)	(8.40)	(2.88)	(3.13)	(4.70)	(6.81)
Underlying EBITDAF A\$m	1.9	(2.3)	(2.9)	1.0	(1.0)	(1.3)

- Sale of residential book initiated
- Increased sales load driving earnings growth

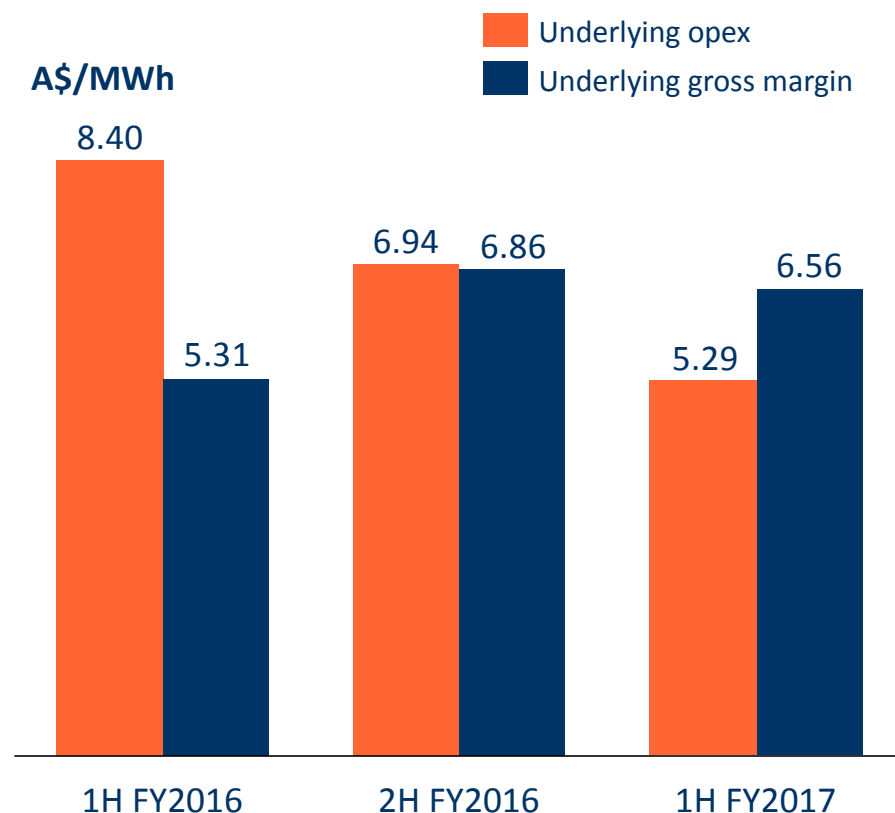


# ELECTRICITY RETAILING - US



Building scale

## Underlying Margin & Opex<sup>1</sup>



- Underlying gross margin 24% increase on comparative period
- Opex per MWh continues to decrease reflecting volume growth

# NET DEBT AND CASH

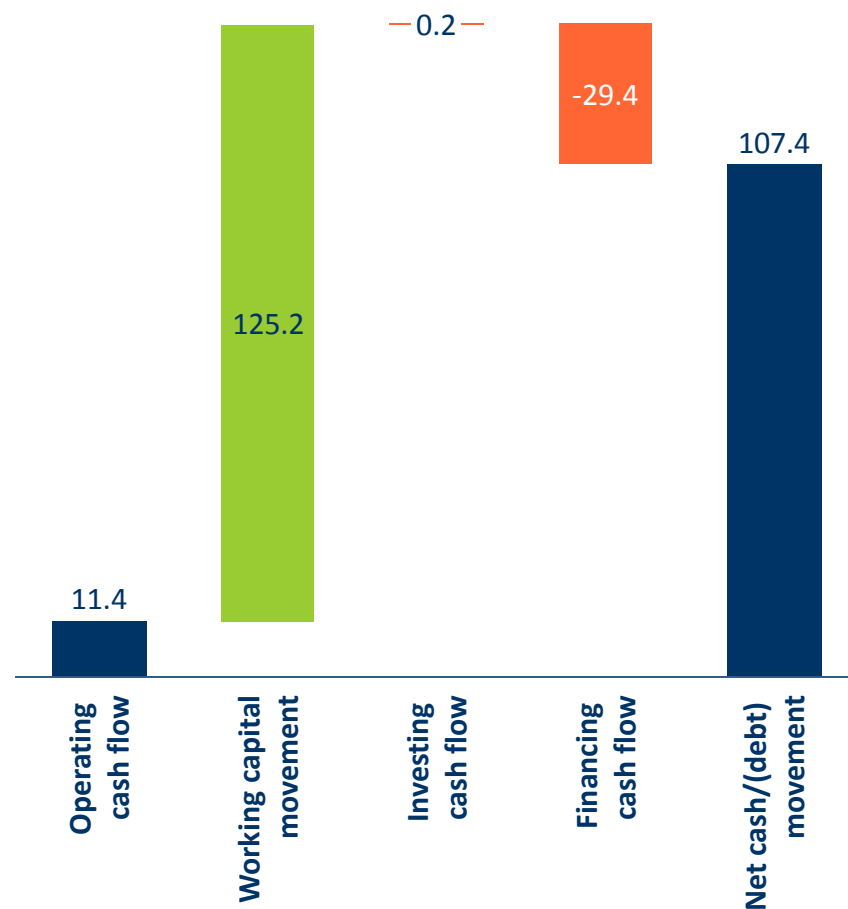
Movement to a net cash position

## Net debt/(cash)

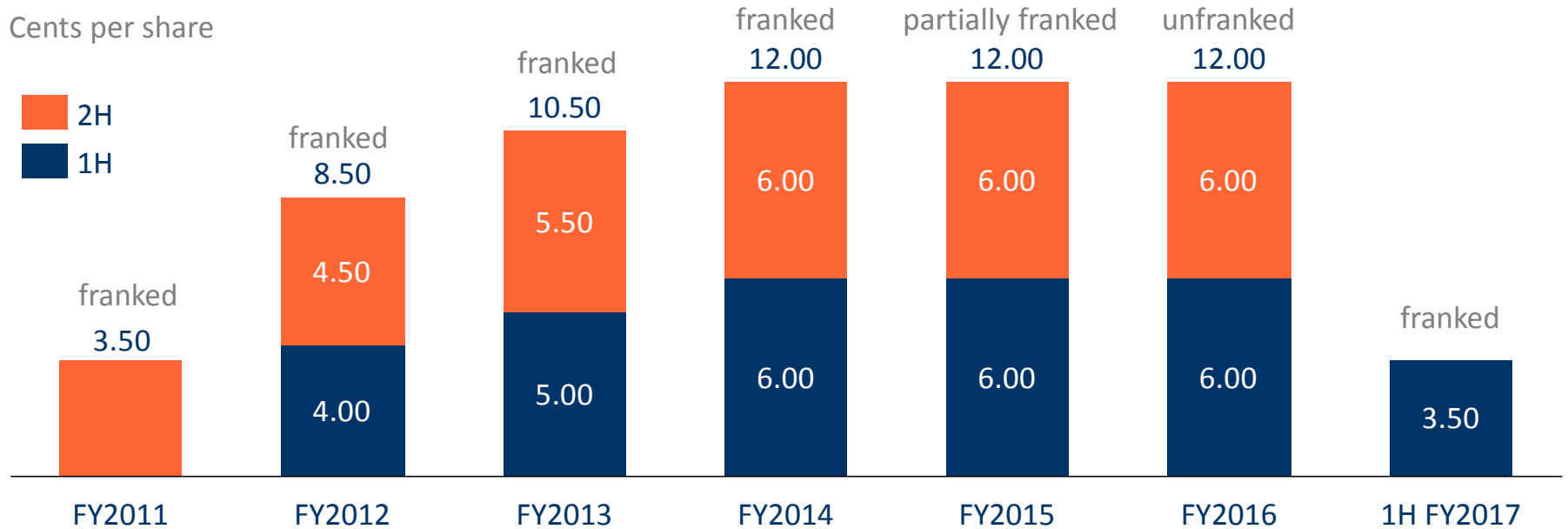
\$m	31 Dec 2016	30 June 2016	Change
Neerabup debt	191.1	193.6	(2.5)
Other debt	10.5	27.9	(17.4)
<b>Total debt</b>	<b>201.6</b>	<b>221.5</b>	<b>(19.9)</b>
Restricted cash	135.2	125.2	10.0
Free cash	144.8	67.3	77.5
<b>Total cash</b>	<b>280.0</b>	<b>192.5</b>	<b>87.5</b>
Net debt/(cash)	(78.4)	29.0	(107.4)

- Net cash position reflects operating cash flow and positive working capital movement

## Net cash/(debt) movement



# DIVIDENDS



- Fully franked dividend of 3.5 cents per share



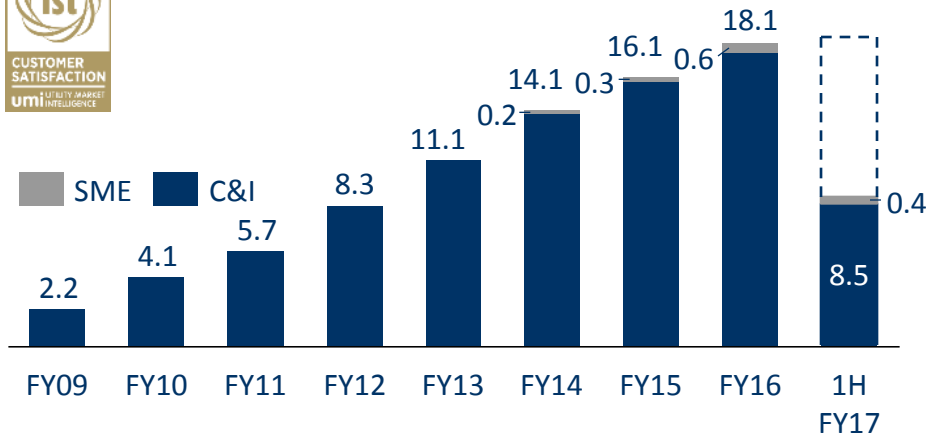
# OPERATIONAL PERFORMANCE



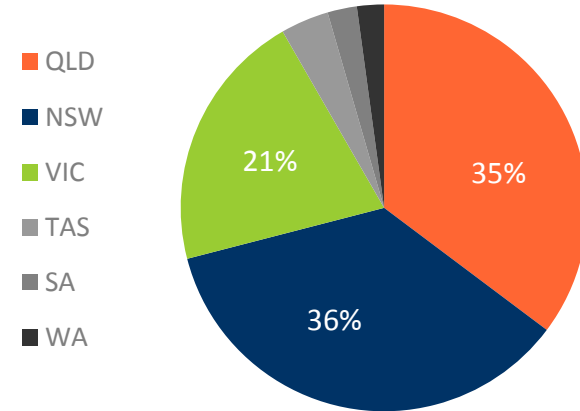
# ELECTRICITY RETAILING - AUSTRALIA



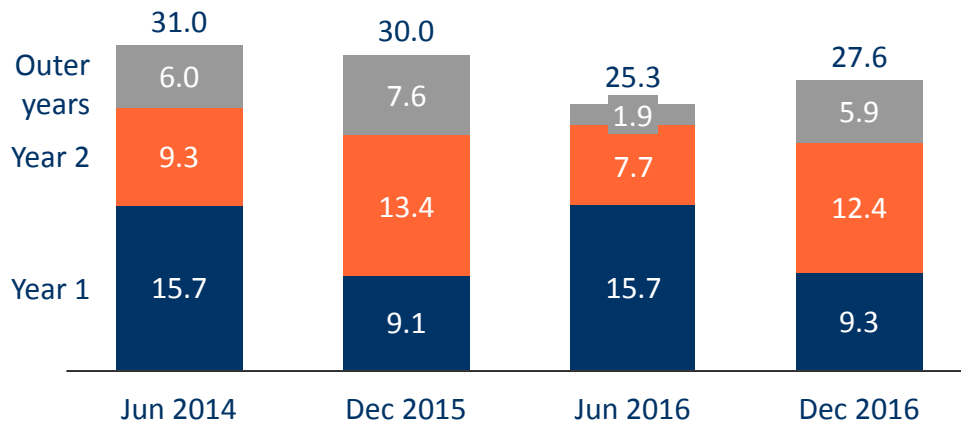
Annual Sales AUS (TWh)



Load share across states – geographic diversity



Forward Contracted Load AUS (TWh)



- Forward contracted load up on prior 6 months:
  - Recontracting by large customers
  - System-based innovation supporting retention
- Slight decline in SME customer numbers, given focus on profitable growth

# GENERATION



## Oakey and Neerabup Power Stations

<b>\$m unless otherwise stated</b>	<b>1H FY2017</b>	<b>1H FY2016</b>	<b>% change</b>
Revenue	41.1	40.4	2%
Oakey	23.2	23.2	-
Neerabup	17.2	15.3	12%
Underlying EBITDAF	20.4	18.6	10%
Oakey	7.2	6.7	7%
Neerabup	13.8	12.4	11%
Operating time %			
Oakey	1.9%	18.4%	
Neerabup	5.4%	3.4%	
Availability %			
Oakey	98.32%	99.90%	
Neerabup	98.53%	99.95%	

- Excellent safety record with no lost-time injuries among staff
- Increased earnings due to merchant opportunities
- Increased gas and electricity prices. LNG facilities on line
- Oakey on track for turbine 1 maintenance overhaul in the autumn

# BUILDING A STRONG US BUSINESS

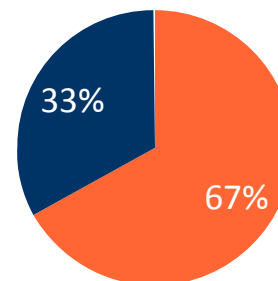


Strong lead indicators

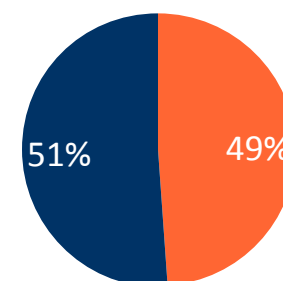
	31 Dec 2016	31 Dec 2015
<b>Investment</b>		
Staff	68	55
<b>Load (TWh) – continuing</b>		
Sales load	1.5	0.8
Load under contract	14.5	7.0
Access to markets (TWh)	516	406
Gross Margin (\$/MWh)	6.56	5.31

## Market diversification<sup>1</sup>

1H FY2017 Sales Load



Forward Load



ERCOT PJM









<sup>1</sup> ERCOT market serves Texas with an accessible C&I market of 151 TWh; PJM contestable market serves Illinois (part PJM, part MISO), Ohio, Pennsylvania, Delaware, New Jersey, Maryland and the District of Columbia with an accessible C&I market of 365TWh

# BUILDING A STRONG US BUSINESS



Building strong relationships driving volume growth

## ERGC 2016 Broker Survey<sup>1</sup>

	% of brokers doing business with Source	Broker satisfaction	In broker's top 5 suppliers by volume	Continuing operations contracted forward load
<b>2016</b>	62% (7 <sup>th</sup> Place)	3 <sup>rd</sup> Ranking	6 <sup>th</sup> Place	14.5 TWh
				
<b>2015</b>	44% (14 <sup>th</sup> Place)	3 <sup>rd</sup> Ranking	18 <sup>th</sup> Place	7.9 TWh
				
<b>2014</b>	21% (30 <sup>th</sup> Place)	4 <sup>th</sup> Ranking	Not in Top 25	3.0 TWh



# ENERGY SOLUTIONS



Offering our customers an integrated suite of solutions

## Product & service offering



Demand Response



Power Factor Correction



Distributed generation, Solar PV & evolving battery storage



Lighting Solutions



Data analytics and insights



Embedded networks, metering & sub-metering

**Appointment to newly created role of Executive General Manager Energy Solutions November 2016**



**Megan Houghton**

# OUTLOOK



# FY2017 OUTLOOK



Broadly in line with previously stated outlook

	FY2017 Outlook 30 June 2016 ASX; 2016 AGM	FY2017 Outlook 23 February 2017	Progress
Australia Retail	<ul style="list-style-type: none"> <li>• Sales volume ~18.5 TWh</li> <li>• Gross Margin ~\$3/MWh</li> <li>• Opex approx. \$23m</li> </ul>	<ul style="list-style-type: none"> <li>• Sales volume ~18.5 TWh</li> <li>• Gross Margin ~\$3/MWh</li> <li>• Opex approx. \$23m</li> </ul>	<ul style="list-style-type: none"> <li>• On track</li> <li>• Potential upside</li> <li>• On track</li> </ul>
US Retail – restated for continued operations	<ul style="list-style-type: none"> <li>• Sales volume ~5 TWh</li> <li>• Gross Margin ~A\$8 to A\$8.50/MWh</li> <li>• Opex A\$4/MWh</li> </ul>	<ul style="list-style-type: none"> <li>• Sales volume ~4.2 TWh</li> <li>• Gross Margin ~A\$7.50/MWh</li> <li>• Opex A\$4-A\$4.50/MWh</li> </ul>	<ul style="list-style-type: none"> <li>• Continued operations only; On track</li> <li>• Continued operations only</li> <li>• Continued operations only</li> </ul>
Oakey	<ul style="list-style-type: none"> <li>• \$14-16m EBITDAF</li> </ul>	<ul style="list-style-type: none"> <li>• \$14-16m EBITDAF</li> </ul>	<ul style="list-style-type: none"> <li>• On track</li> </ul>
Corporate & Other	<ul style="list-style-type: none"> <li>• \$(18)m underlying EBITDAF</li> </ul>	<ul style="list-style-type: none"> <li>• \$(20)m underlying EBITDAF</li> </ul>	<ul style="list-style-type: none"> <li>• Reflects additional investment in Energy Solutions</li> </ul>

- US discontinued operation FY2017 loss of ~A\$7 million before tax, excluding sale proceeds
- FY2018 Australian Retail outlook in line with market consensus

# Q&A



# 1H FY2017 WRAP-UP



- Declared interim dividend of 3.5cps, fully franked
- Earnings weighted to the second half of the financial year due to timing of financial instrument settlements
- Australian Retail earnings down due to timing of financial instrument settlements
- US Retail continues strong growth; sale of residential book
- Gas-fired peaking power stations Oakey and Neerabup performing to expectations
- New \$290 million financing facility with ANZ
- Outlook for FY2017 remains broadly in line with expectations, and reflects the exclusion of discontinued operations

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