

Thursday, 25 February 2016

HALF YEAR RESULTS PRESENTATION

Please find attached the following presentation relating to ERM Power's results for the six months ended 31 December 2015.

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 and generation businesses. Trading as ERM Business Energy and founded in 1980, ERM Power has grown to become the second largest electricity retailer to commercial and industrials in Australia with operations in every State and the Australian Capital Territory. ERM Power also sells electricity in several markets in the United States. The Company has equity interests in 497 megawatts of low emission, gas-fired peaking power stations in Western Australia and Queensland, both of which ERM Power operates.

www.ermpower.com.au



HALF YEAR RESULTS

6 months to 31 December 2015

25 February 2016

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 expense, tax, depreciation, amortisation, impairment and net fair value gains / losses on financial instruments designated at fair value through profit. 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.

A reconciliation of underlying NPAT and underlying EBITDAF is detailed on page 25 of this document. 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 Management Discussion and Analysis document that accompanies these results.

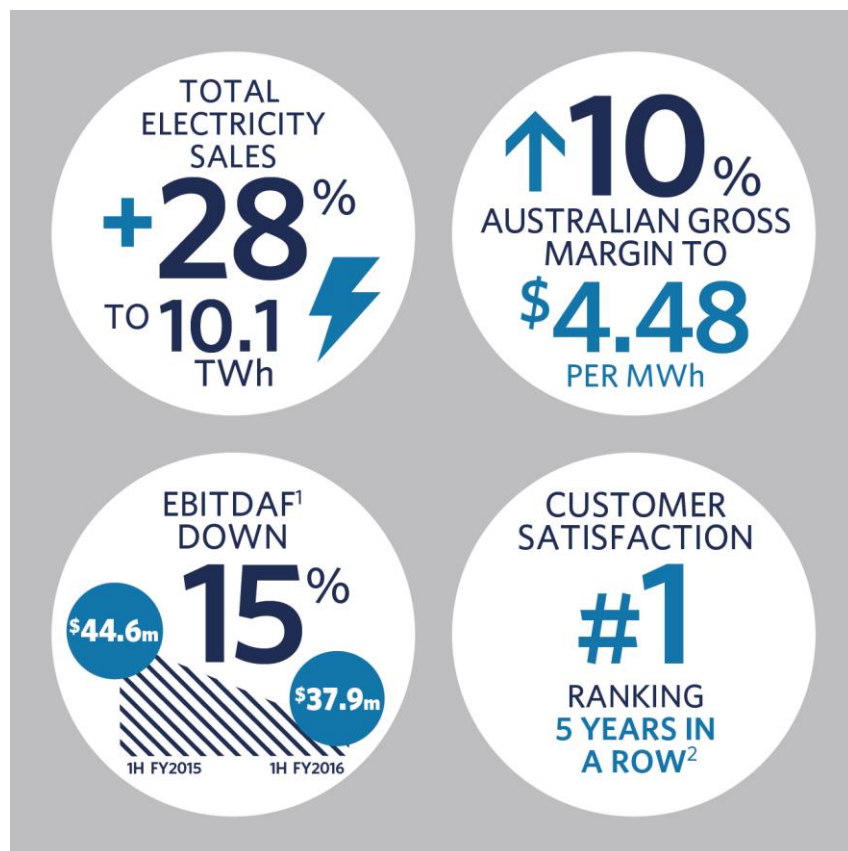


HALF YEAR SUMMARY



HALF YEAR SUMMARY

SOLID RESULTS



- EBITDAF¹ \$37.9m
- Electricity Retailing business in Australia has performed well
 - Electricity load up 14% to 9.0TWh
 - Electricity Retailing Australia EBITDAF³ up 35% to \$29m
- US business in development and investment phase
- Progress on strategy
 - Capital efficiency initiatives
 - Greensense acquisition
- Declared dividend of 6cps unfranked

¹ Underlying EBITDAF including interest income

² The customer satisfaction award refers to the Utility Market Intelligence (UMI) survey in 2011, 2012, 2013, 2014 and 2015 of large customers of major electricity retailers in Australia by independent research company NTF Group

³ Underlying EBITDAF excluding interest income

A\$150M SURETY GUARANTEE FACILITY



FUNDING FLEXIBILITY AND CAPITAL EFFICIENCY

The Facility

- A\$150m, three-year surety guarantee facility with Liberty International Underwriters Singapore and CBA
- Provides for the issue of surety guarantees to support prudential requirements

Benefits

- Additional source of liquidity
- Attractive pricing (172.5bps credit margin)
- Diversification of funding sources
- Flexibility to execute on our growth strategy

Consistent with strategy:

Capital efficiency to support growth and diversification in delivering Customer Solutions



FINANCIAL RESULTS



FY2016 HALF YEAR FINANCIALS

ERM POWER GROUP



| \$m unless otherwise stated | 1H FY2016 | 1H FY2015 | Change | % Change |
|---|-----------|-----------|--------|----------|
| Revenue and other income | 1,324.5 | 1,099.1 | 225.4 | 21% |
| Statutory net profit after tax (NPAT) | 14.9 | 75.0 | (60.1) | (80%) |
| Underlying EBITDAF excluding interest income | 35.7 | 41.8 | (6.1) | (15%) |
| Underlying EBITDAF including interest income | 37.9 | 44.6 | (6.7) | (15%) |
| Underlying NPAT | 9.4 | 14.7 | (5.3) | (36%) |
| Underlying EPS (cents per share) | 3.85 | 6.14 | (2.29) | (37%) |
| Interim dividend (cents per share) ¹ | 6.0 | 6.0 | - | - |

- EBITDAF decrease driven by Oakey moving to merchant operations, as previously guided, and US business in development
- Statutory NPAT decrease largely due to net fair value movement on financial instruments
- Strong cash generation in 1H

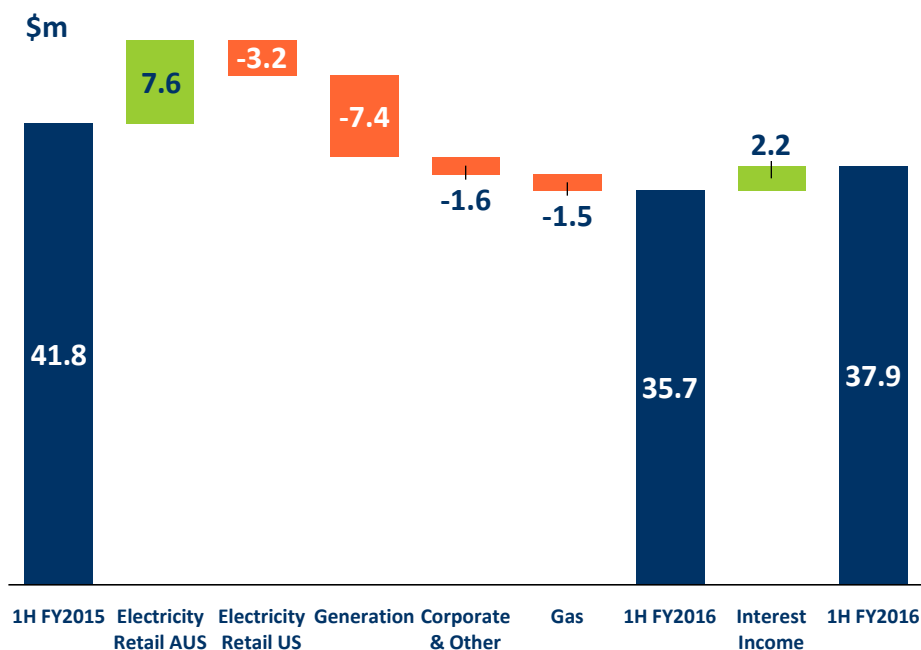
¹ 1H FY 2016 dividend unfranked; 1H FY 2015 dividend fully franked

EARNINGS DRIVERS

ERM POWER GROUP



Underlying EBITDAF Movement



| \$m | 1H FY2016 | 1H FY2015 | Change |
|--|-----------|-----------|--------|
| Electricity retail AUS | 29.0 | 21.4 | 7.6 |
| Electricity retail US | (3.2) | - | (3.2) |
| Generation | 18.6 | 26.0 | (7.4) |
| Corporate & Other | (8.4) | (6.8) | (1.6) |
| Gas (discontinued) | (0.3) | 1.2 | (1.5) |
| Underlying EBITDAF excl. interest income | 35.7 | 41.8 | (6.1) |
| Interest income | 2.2 | 2.8 | (0.6) |
| Underlying EBITDAF incl. interest income | 37.9 | 44.6 | (6.7) |

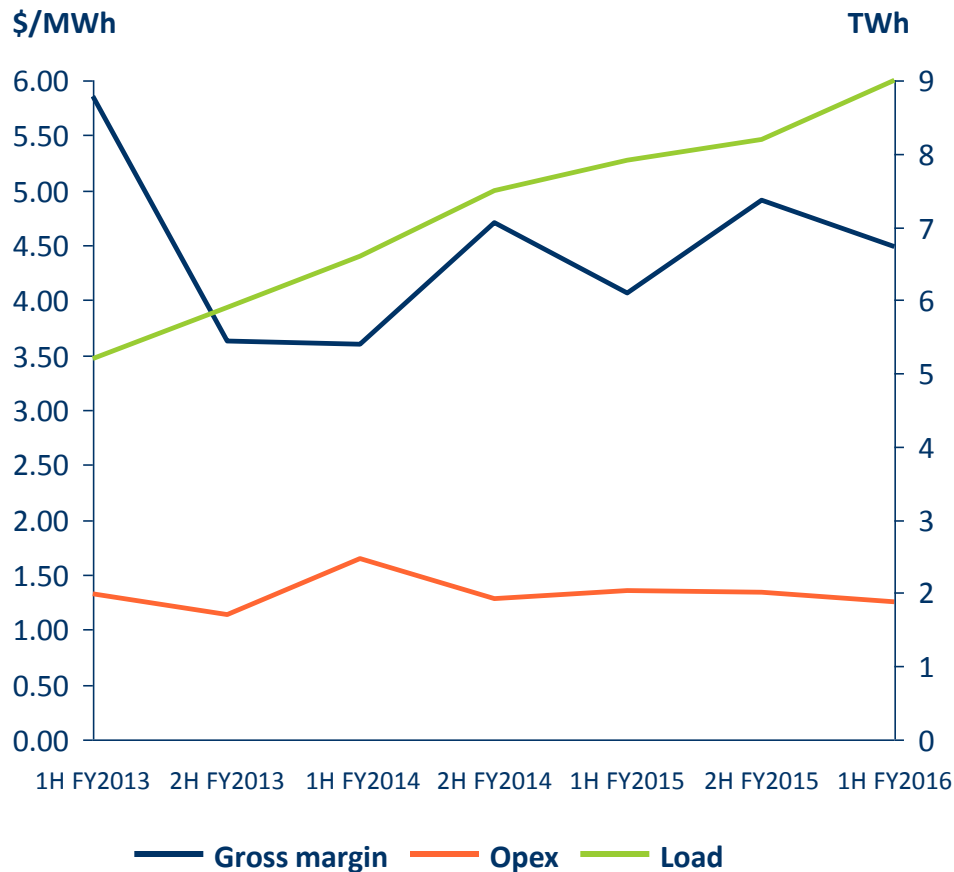
- Electricity Retailing Australia increase driven by load growth and SME
- US loss reflects opex to build capability (new systems and sales team) and hedging costs associated with severe weather
- Oakey decrease reflects move from offtake contract to merchant generator

ELECTRICITY RETAILING - AUSTRALIA



GROSS MARGIN

Margin, Opex & Load - AUS



Gross margin movement reflects:

- Differential SME/C&I margins
- Underlying volatility in commodity prices (black and green)
- Portfolio optimisation
- Load flex caused by weather
- Regulatory changes

GENERATION

RELIABLE ASSETS



| \$m unless otherwise stated | 1H FY2016 | 1H FY2015 | % change |
|--|-----------|-----------|----------|
| Revenue | 40.6 | 39.6 | 3% |
| Oakey | 23.2 | 18.4 | 26% |
| Neerabup | 15.5 | 17.5 | (11%) |
| Underlying EBITDAF (excluding interest income) | 18.6 | 26.0 | (28%) |
| Oakey | 6.7 | 14.7 | (54%) |
| Neerabup | 12.4 | 12.5 | (1%) |

- Oakey offtake contract with AGL ended 31 December 2014. Now a merchant facility.
- Anticipated earnings for Oakey of \$16m full year, in line with guidance.

ELECTRICITY RETAILING - US

INVESTMENT IN GROWTH



| A\$m unless otherwise stated | 1H FY2016 | 2H FY2015 | % change |
|--|-----------|-----------|----------|
| Revenue | 111.1 | 66.8 | 66% |
| Opex | (9.6) | (5.9) | (63%) |
| Underlying EBITDAF (excluding interest income) | (3.2) | 1.0 | N/A |
| Load (TWh) | 1.1 | 0.6 | 83% |

- Source Power and Gas acquired in January 2015
- Higher level of opex in build phase
- Margin lower than expected for the half, in part due to costs associated with severe weather
- Load growth trajectory reflects longer-dated contracts

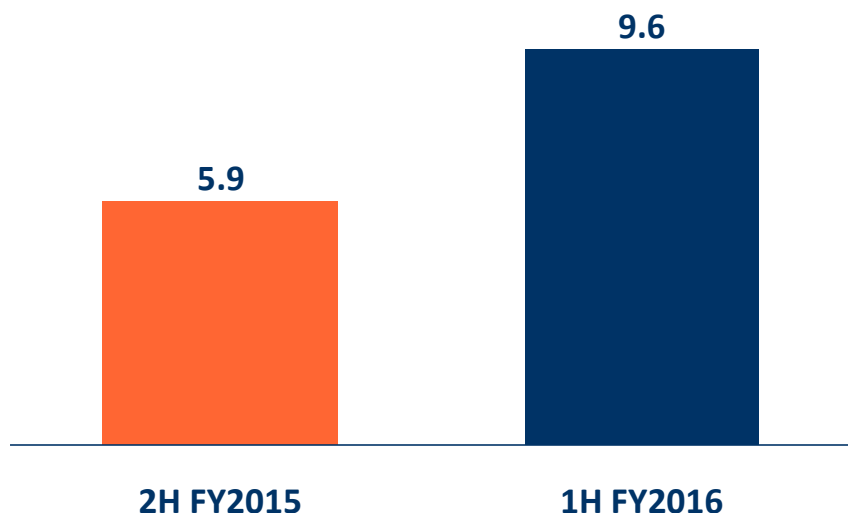
ELECTRICITY RETAILING - US

INVESTMENT IN GROWTH



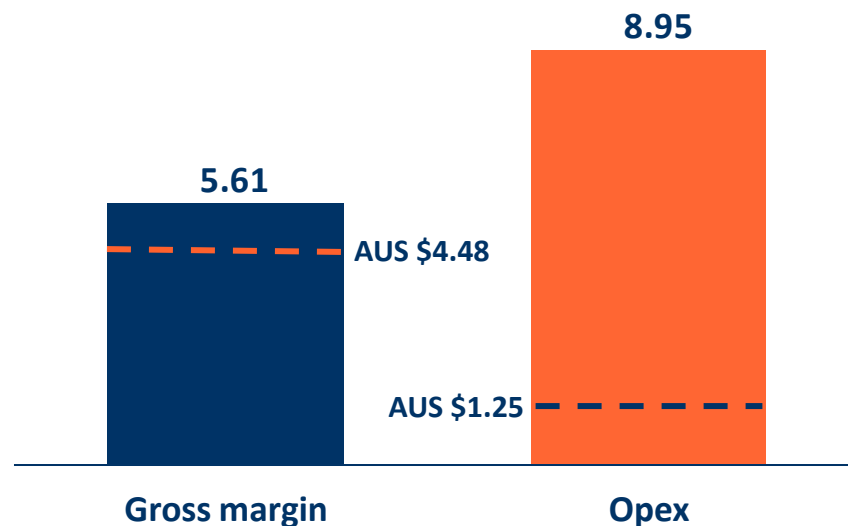
Building the US Forward Contract Book

Opex spend A\$m



1H FY2016 Margin & Opex

\$/MWh



- Opex investment has driven forward contract load growth from 4.0 TWh to 7.9 TWh in six months

NET DEBT AND CASH

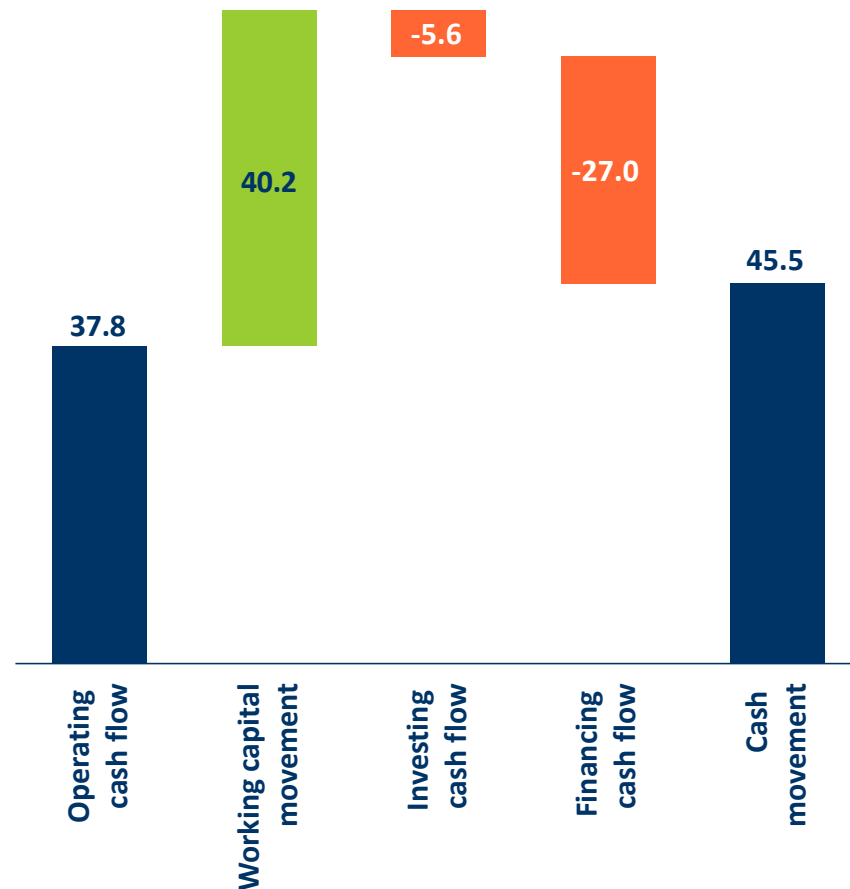
STRONG CASH GENERATION



Net Debt

| \$m | 31 Dec 2015 | 30 Jun 2015 | Change |
|-------------------|----------------|----------------|-------------|
| Neerabup debt | 195.9 | 198.0 | (2.1) |
| Other debt | 57.9 | 43.7 | 14.2 |
| Total debt | 253.8 | 241.7 | 12.1 |
| Restricted cash | (168.9) | (127.4) | 41.5 |
| Free cash | (61.5) | (45.4) | 16.1 |
| Total cash | (230.4) | (172.8) | 57.6 |
| Net debt/(cash) | 23.4 | 68.9 | (45.5) |

Cash Movement





OPERATIONAL PERFORMANCE

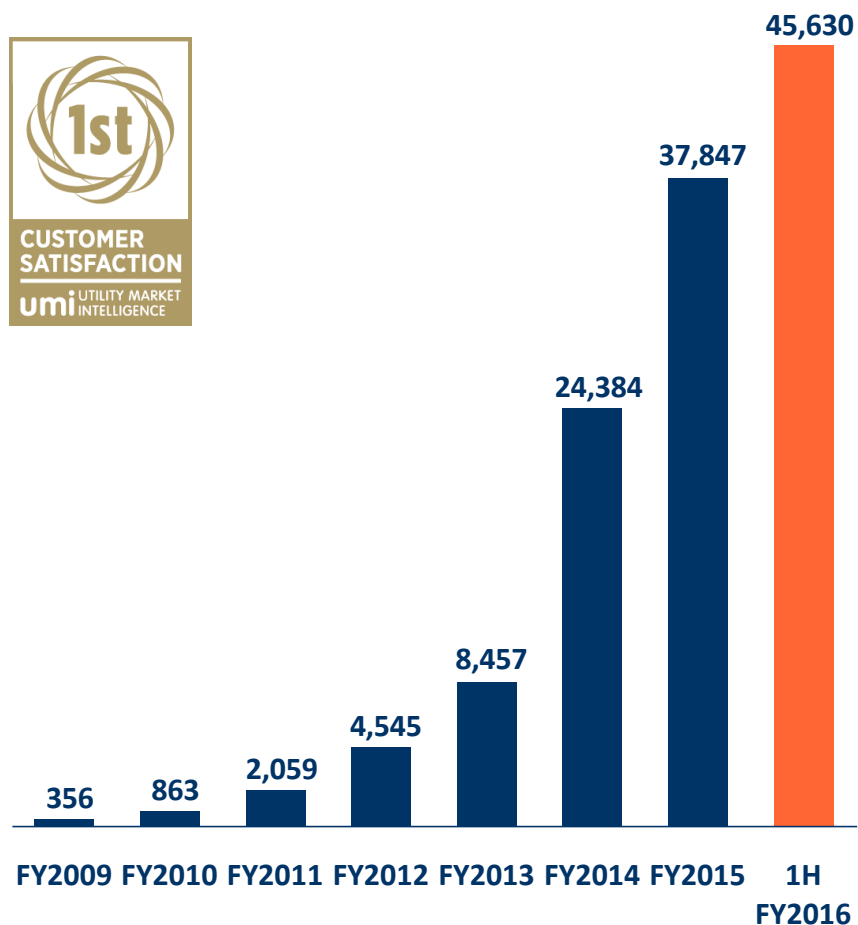


ELECTRICITY RETAILING - AUSTRALIA

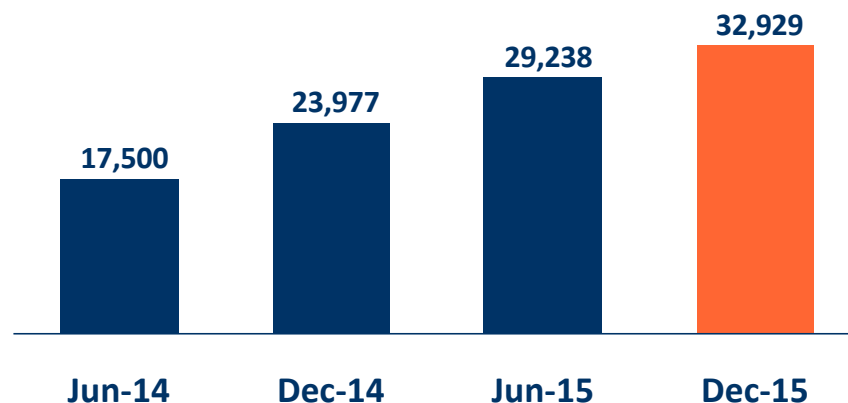


RETAIL GROWTH TRAJECTORY

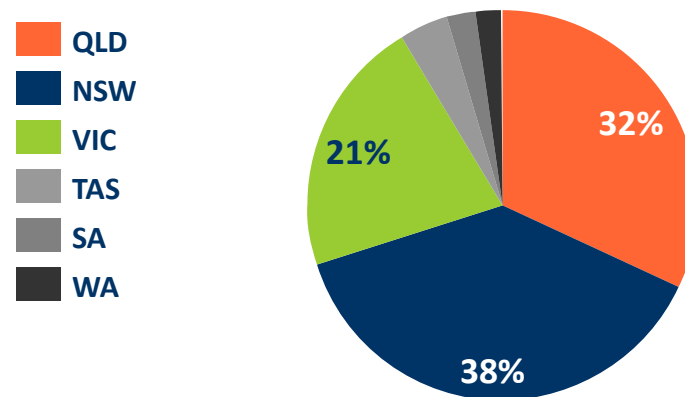
Customers Served – AUS (NMIs)¹



SME Contracted Customers - AUS (NMIs)



ERM Load Share Across States



*The customer satisfaction award refers to the Utility Market Intelligence (UMI) survey in 2011, 2012, 2013, 2014 and 2015 of large customers of major electricity retailers in Australia by independent research company NTF Group.

¹National Meter Identifier

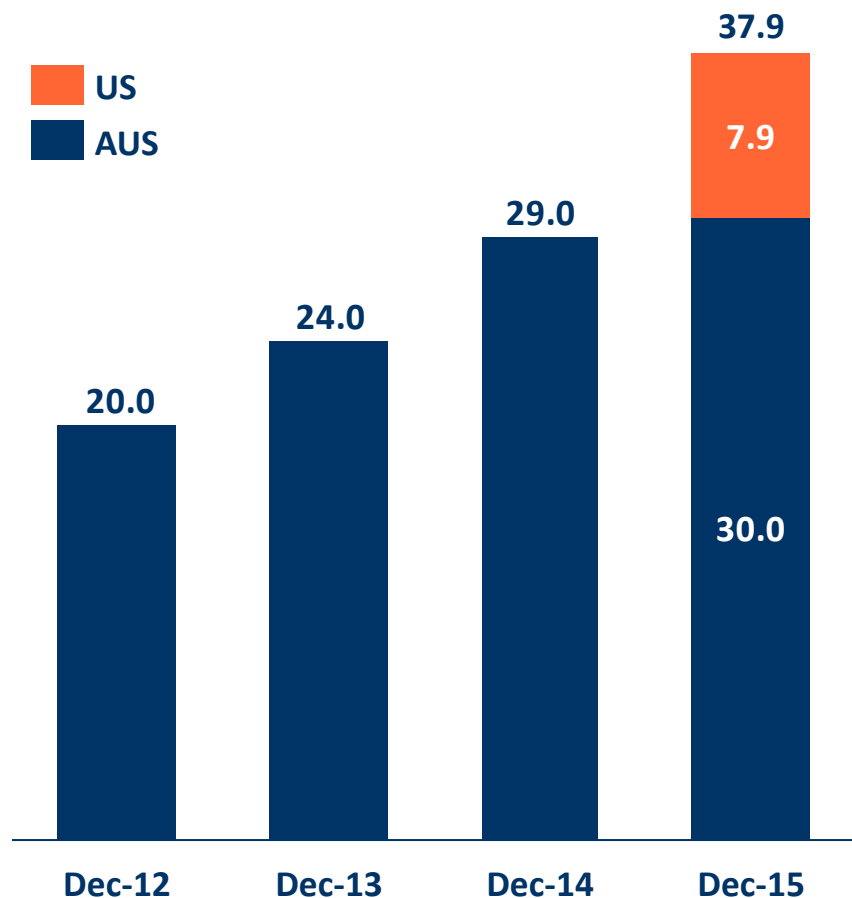
Half year results to December 2015

ELECTRICITY RETAILING - TOTAL

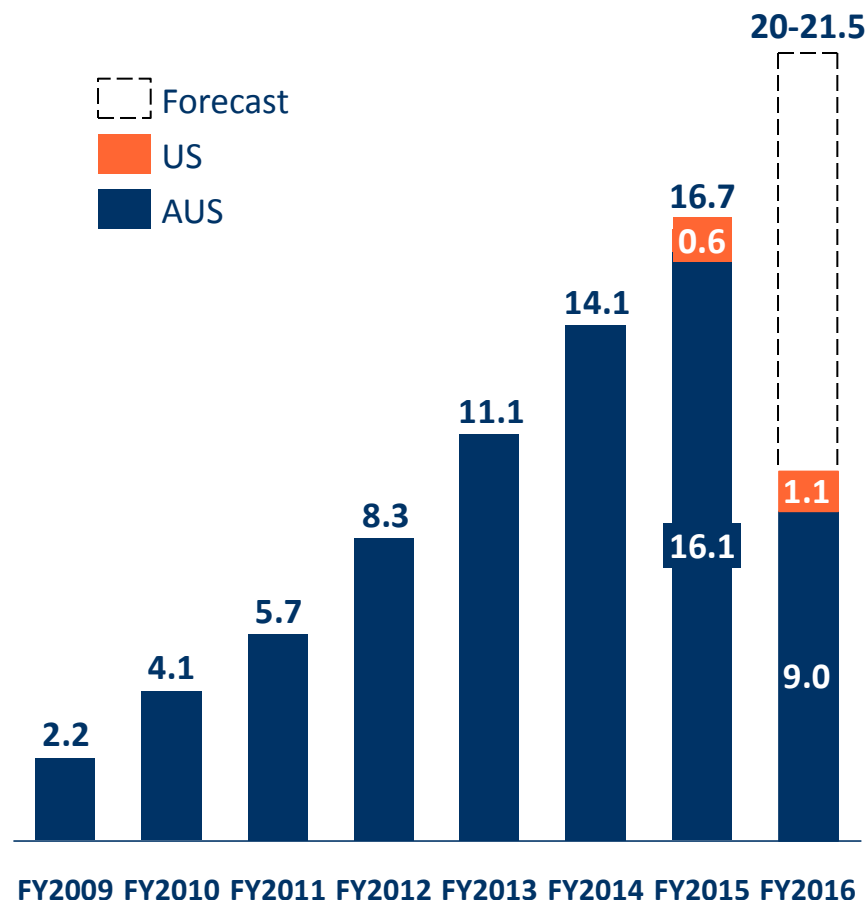
RETAIL GROWTH TRAJECTORY



Forward Contracted Load AUS & US (TWh)



Annual Sales AUS & US (TWh)



GENERATION

Oakey AND NEERABUP POWER STATIONS



Oakey

- Operated 18.4% during the period
- Availability 99.90%
- Excellent safety record. No Lost Time Injuries
- Merchant power station with revenues produced from:
 - Internal sale of hedges to retail business
 - Sale of derivatives to external parties
 - Merchant electricity margin: conversion of gas to electricity
 - Gas tolling for external parties

Neerabup

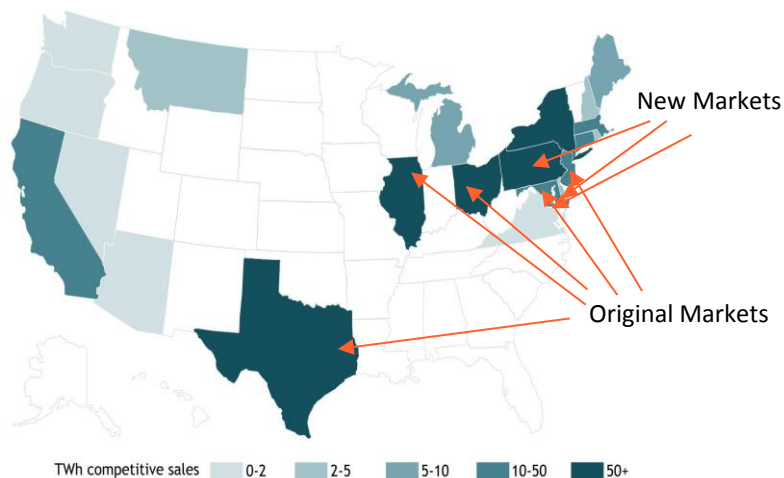
- Operated 3.4% during the period
- Availability 99.95%
- Excellent safety record. One Lost Time Injury
- Peaking power station on a long-term offtake agreement producing stable earnings with some merchant opportunities

ELECTRICITY RETAILING US

BUILDING CAPABILITY AND INVESTING FOR GROWTH



Source Power & Gas markets



Broker satisfaction survey¹ results

- Top 3 overall satisfaction ranking
- Percentage of brokers doing business with Source has grown from 21% to 44% in 12 months
- Growing broker relationships while increasing satisfaction scores

| | At acquisition (Jan 2015) | 31 December 2015 |
|-------------------------------------|---------------------------|----------------------------|
| Staff | 36 | 55 |
| Load under contract | 3 TWh | 7.9 TWh |
| Access to markets (C&I load only) | 406 TWh | 516 TWh |
| States | 5 | 8 |
| Local distribution companies (LDCs) | 19 | 31 |
| Annual quotes received | ~2,000 | ~6,000 |
| Systems and trading capability | | New pricing system and CRM |

¹ Energy Research Consulting Group's (ERCG) survey of Aggregators, Brokers and Consultants (ABC) Study December 2015.
Research based on survey of 134 ABCs, which represents ~82% of brokered US power sales.



STRATEGY



STRATEGY

HOW ERM IS TRACKING



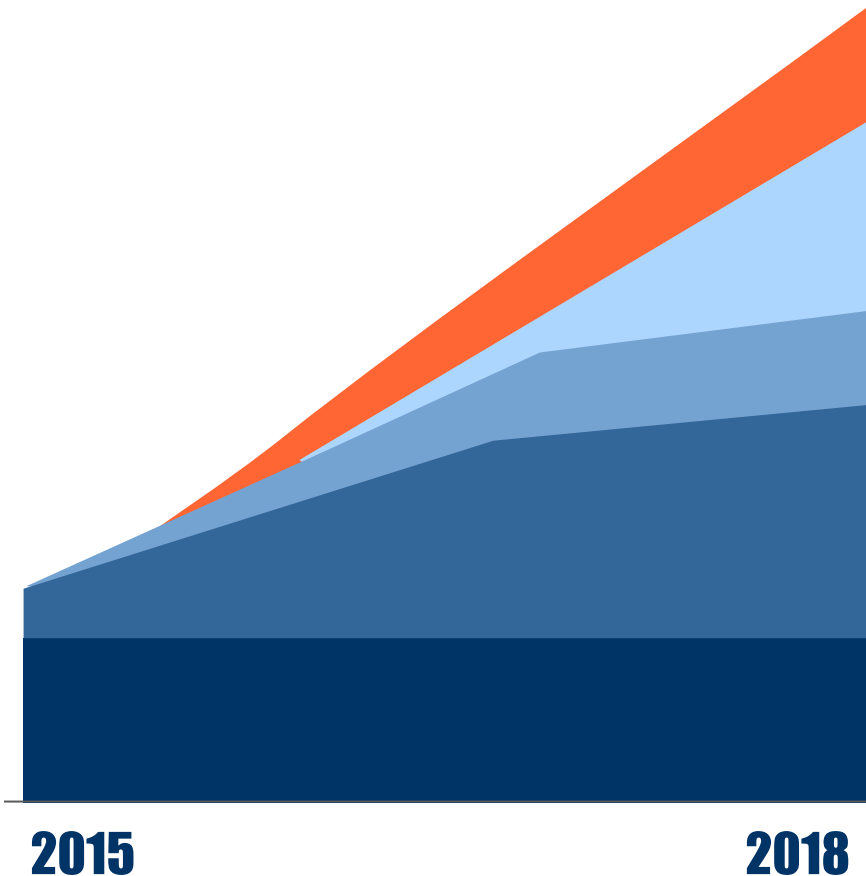
**CAPITAL
EFFICIENCY**



**INVESTMENT IN
DIVERSIFICATION
AND GROWTH**



**CULTURE AND
CUSTOMER
SOLUTIONS**



Customer Solutions

Greensense acquisition & integration

USA 8-11 TWh - 2018 target

1H FY2016 1.1TWh

Contracted load 7.9 TWh

SME AUS 50-60k customers - 2018 target

32,900 sites under contract

C&I AUS 19-21 TWh – 2018 target

8.7 TWh customer load 1H FY2016

(12% growth on 1H FY2015)

Generation – underpinning

Continued solid generation performance

On track

CAPITAL EFFICIENCY

STRONG PROGRESS



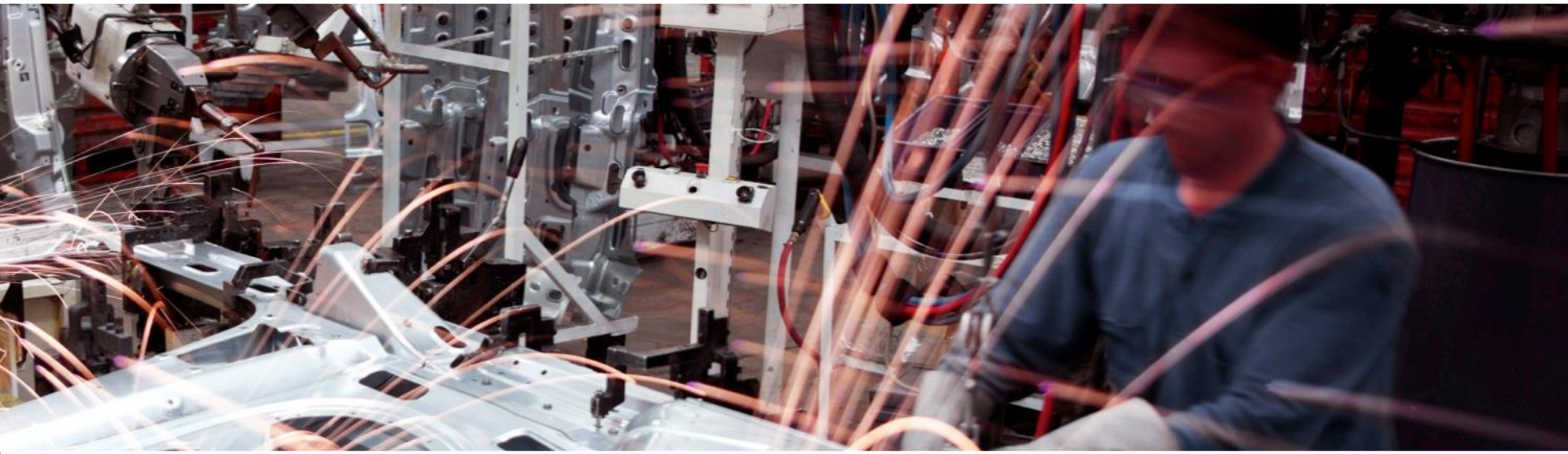
- **Release capital**
- **Diversify funding sources**
- **Attractively priced funding**
- **Additional sources of liquidity**



Sunset Power offtake agreement – up to \$60m release of restricted cash

Liberty and CBA guarantee facility – reduced financing costs and increased funding flexibility





GUIDANCE



FY2016 GUIDANCE



Earnings

- Anticipated underlying EBITDAF¹ in the range of \$81m to \$85m; tightened within the previously guided range of \$80m to \$94m
- Underlying NPAT in the range of \$20m to \$22m

| Electricity Retailing – Australia | US | Oakey | Sales load | SME |
|--|--|--|---|---|
| In line with expectations and guidance | Revised to FY2016 EBITDAF loss of approximately A\$2m to A\$3m | On track to meet FY2016 earnings guidance of approximately \$16m | On track to meet FY2016 guidance of 20TWh to 21.5TWh (Australia and US) | On track to meet FY2016 guidance of 37,500 to 41,000 SME sites in Australia |

¹ including interest income



SUPPLEMENTARY INFORMATION



EARNINGS RECONCILIATION

31 DECEMBER 2015



| \$m unless otherwise stated | Business Energy AU | Business Energy US | Generation | Other | Group |
|--|-----------------------|-----------------------|-------------|---------------|-------------|
| Statutory EBITDAF | 30.4 | (3.6) | 18.8 | (10.5) | 35.1 |
| Significant items | | | | | |
| New business establishment costs ¹ | - | 0.4 | - | 0.2 | 0.6 |
| Effective interest revenue on associate loan ² | - | - | - | (0.5) | (0.5) |
| Staff rationalisation cost ³ | - | - | - | 1.0 | 1.0 |
| Provision for onerous contract ⁴ | - | - | - | 1.7 | 1.7 |
| Total significant items | - | 0.4 | - | 2.4 | 2.8 |
| Underlying EBITDAF | 30.4 | (3.2) | 18.8 | (8.1) | 37.9 |
| | | | | | |
| Statutory NPAT | 31.2 | (6.4) | 0.4 | (10.3) | 14.9 |
| Significant items | | | | | |
| EBITDAF adjustments (above) | - | 0.4 | - | 2.4 | 2.8 |
| Tax effect on sale of Metgasco shares ⁵ | - | - | - | 2.6 | 2.6 |
| Tax effect of above adjustments | - | (0.1) | - | (0.7) | (0.8) |
| Total significant items | - | 0.3 | - | 4.3 | 4.6 |
| Fair value gain / (loss) on financial instruments net of tax | (14.6) | 2.4 | 2.6 | (0.2) | (9.8) |
| Associate profit after tax | - | - | - | (0.3) | (0.3) |
| Underlying NPAT | 16.6 | (3.7) | 3.0 | (6.5) | 9.4 |

¹Costs incurred in respect of integrating Source and acquiring Greensense; ²Recognition of Empire loan at present value and interest revenue unwind; ³Costs associated with rationalisation of staff; ⁴ Impairment of the contract to sublease office space; ⁵Derecognition of deferred tax asset upon sale of Metgasco shares.



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