

Thursday, 25 August 2016

FY 2016 FULL YEAR RESULTS ANNOUNCEMENT AND PRESENTATION

Please find attached the following documents relating to ERM Power's results for the 12 months ended 30 June 2016:

1. ASX announcement
2. Presentation

A handwritten signature in grey 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 and industrials in Australia 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 has equity interest 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

25 August 2016

ERM POWER REPORTS FULL YEAR UNDERLYING EBITDAF OF \$81.2M

ERM Power Limited (ASX: EPW) today reported underlying EBITDAFⁱ of AUDⁱⁱ\$81.2m for the year ending 30 June 2016, down 14% on the prior year. Underlying NPATⁱⁱⁱ was \$19.2m, down \$13.1m on FY2015.

The Company made significant progress in its transformation and in the execution of its diversification and growth strategy in 2016.

Results Summary

\$m unless otherwise stated	FY 2016	FY 2015	% Change
Revenue and other income	2,763.3	2,316.4	19%
Contestable revenue	1,458.0	1,110.5	31%
Statutory EBITDAF including interest income	72.7	86.7	-16%
Statutory NPAT	35.8	65.9	-46%
Underlying EBITDAF including interest income	81.2	94.4	-14%
Underlying EBITDAF excluding interest income	77.9	89.5	-13%
Underlying NPAT	19.2	32.3	-41%
Underlying EPS ^{iv} (cps)	7.8	13.4	-41%
Interim dividend ^v (cps)	6	6	-
Final dividend ^{vi} (cps)	6	6	-
Operating cash flow before changes in working capital	80.6	87.4	-8%
Electricity sales volume – load (TWh)	20.5	16.7	23%

The key driver of the \$13.2m decrease in underlying EBITDAF between FY2015 and FY2016 was the Oakey Power Station offtake contract expiring on 31 December 2014 and Oakey operating for its first full financial year as a merchant facility. Earnings reduced \$11.2m on the prior year with a major contributing factor being the Q4 operating environment which differed substantially to expectations and market trends. The performance reflects the well-publicised volatility in energy markets.

ERM Power Managing Director and CEO Jon Stretch said the Company delivered \$81.2m in earnings while driving significant change through investment in diversification and growth.

“FY2016 saw the investment in the US business starting to bear fruit with substantial numbers of contracts secured at good margin. Sales volumes increased to 2.4TWh and forward contracted load is up from 4.0TWh to 10.8TWh.

“In Energy Solutions we added to our suite of energy efficiency services with the acquisitions of LED lighting company, LumaLED, and software and data analytics company, Greensense.

“The electricity retailing business in Australia has performed in line with our expectations as detailed at the half-year financial results and the June 20 market update. Electricity load was up 12% to 18.1TWh on the prior year. The growth we’ve seen has been somewhat offset by lower margins but we remain disciplined in pricing for profitable growth.

“Progress in the SME market was impressive with 38,341 sites under contract at 30 June 2016, an increase of 31% on the 29,238 sites under contract at 30 June 2015.

“Pleasingly, for the fifth year running, we have retained the number one ranking in customer satisfaction^{vii}. This is a source of advantage for us, creating that strong foundation customer base for our growing Energy Solutions business.

“The FY2016 result does not reflect the potential of the business or the progress made in transforming ERM Power. We are confident in our strategy and look forward to demonstrating the results through to 2018.”

The Board has declared a final unfranked dividend of 6 cents per share. The record date for the dividend is 12 September 2016 and the payment date is 6 October 2016. The ex-dividend date is 9 September 2016.

Outlook

The FY2017 outlook for each of the business divisions, consistent with the market update of 20 June 2016, is as follows:

- The Australian electricity retailing business anticipates load growth and margin pressure, as outlined below, given the significant retail competition in the Australian electricity markets:
 - Continued growth in sales volumes to about 18.5TWh for FY2017 with a growth rate slower than historic levels. This reflects a larger than normal proportion of business which came up for renewal which has resulted in some attrition, notwithstanding win rates and retention rates are strong at 23% and 67% respectively for FY2016. Re-contracting volumes are anticipated to normalise in FY2017.
 - Pricing discipline ensures all customer deals pass internal hurdle rates, however, as existing higher margin contracts roll off, average gross margin for FY2017 is expected to be about \$3/MWh for the Australian retailing business. The effect of price competition will become a larger proportion of the ERM Power book in FY2017. Operating expenditure is anticipated to be in line with FY2016 levels.
- The US electricity retailing business continues to show strong lead indicators:
 - A forecast doubling of annual sales volume in FY2017 to about 5TWh.
 - Gross margin expected to be AUD\$8 to \$8.50/MWh and operating expenditure at AUD\$4/MWh, reducing as the business scales.
- FY2017 EBITDAF for Oakey Power Station is forecast in the range of \$14m-\$16m which includes allowance for a scheduled maintenance outage in 2017.
- Corporate costs, combined with investment in the growing Energy Solutions portfolio, are expected to be about \$18m.

For further information

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About ERM Power

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- i. EBITDAF: Earnings before interest expense, tax, depreciation, amortisation and net fair value gains / losses on financial instruments designated at fair value through profit. EBITDAF excludes any profit or loss from associates. Underlying EBITDAF excludes significant items.
 - ii. All dollar figures are in Australian dollars (AUD) unless otherwise stated.
 - iii. 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.
 - iv. Based on 244.7m weighted average number of shares on issue (FY2015 241.1m shares).
 - v. Interim dividend fully franked in FY2015; unfranked in FY2016.
 - vi. Final dividend partially franked in FY2015; unfranked in FY2016.
 - vii. 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.

FULL YEAR RESULTS

2016

25 August 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.

Such forward-looking statements involve both known and unknown risks, uncertainties, assumptions and other important factors which are beyond the control of ERM Power and could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements.

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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. 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 supplied in the 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 Management Discussion and Analysis document that accompanies these results.



FULL YEAR SUMMARY

FULL YEAR SUMMARY




Transformation on track

Total electricity sales

↑ **23%** 
To **20.5 TWh**


AU up 12% to 18.1 TWh
US up 64% to 2.4TWh

Total forward load

↑ **3%** 
To **36.1 TWh**

AU down 19% to 25.3TWh
US up 170% to 10.8TWh

EBITDAF¹ down

↓ **14%**
\$94.4m

FY2015 FY2016 **\$81.2m**

Customer satisfaction²

#1 
5 years
in a row

- EBITDAF¹ **\$81.2m**
- **Electricity Retailing** business in **Australia** performed in line with expectations
 - Electricity load **up 12% to 18.1 TWh**
 - EBITDAF³ **\$54.8m**
- **US business** positive lead indicators
 - Electricity load **up 64% to 2.4 TWh**; forward contract load growth from 4.0TWh to 10.8TWh
 - FY2016 gross margin **\$6.45/MWh**
- **Two acquisitions** complementary to the Energy Solutions portfolio
- Completed **two funding initiatives** providing additional liquidity
- Declared final dividend of **6cps unfranked**

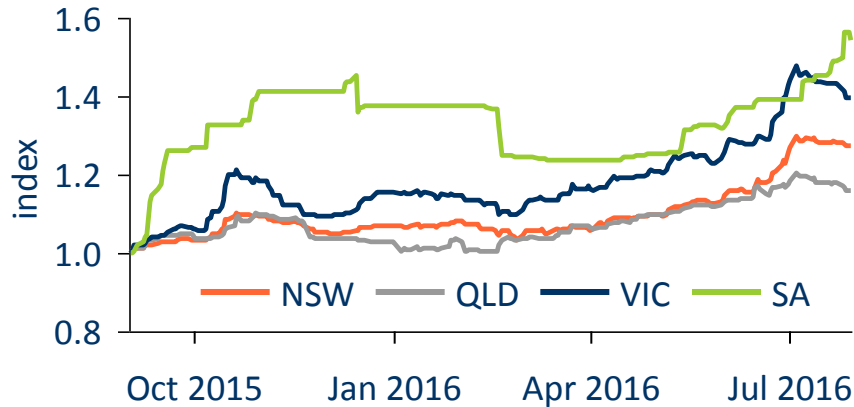
1 Underlying EBITDAF including interest income

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

Responding to the evolving Australian energy landscape

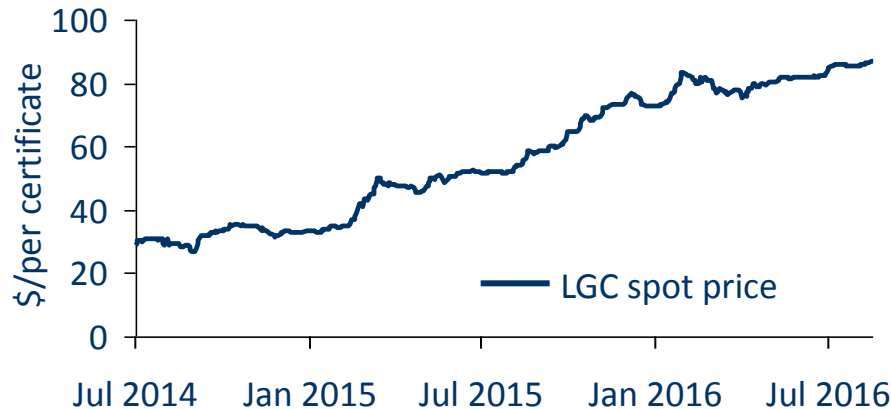
Electricity forward curve – Cal 2017



The market environment

- Early signs that the increase in renewable energy supply is creating further volatility in energy prices
- Step change in energy market prices and environmental certificates

Large-scale certificates spot price



ERM Power

- Shorter customer contracts reflecting higher electricity prices
- Customers seeking consumption and cost efficiency support
- Environment of opportunity for Energy Solutions

FINANCIAL RESULTS



FY2016 FINANCIALS



ERM Power Group

\$m unless otherwise stated	FY2016	FY2015	Change	% Change
Revenue and other income	2,763.3	2,316.4	446.9	19%
Contestable revenue	1,458.0	1,110.5	347.5	31%
Statutory net profit after tax (NPAT)	35.8	65.9	(30.1)	(46%)
Underlying EBITDAF (excluding interest income)	77.9	89.5	(11.6)	(13%)
Underlying EBITDAF (including interest income)	81.2	94.4	(13.2)	(14%)
Underlying NPAT	19.2	32.3	(13.1)	(41%)
Underlying EPS (cents per share)	7.8	13.4	(5.6)	(42%)
Net Debt	29.0	68.9	(39.9)	(58%)
Final dividend (cents per share)	6	6	-	-

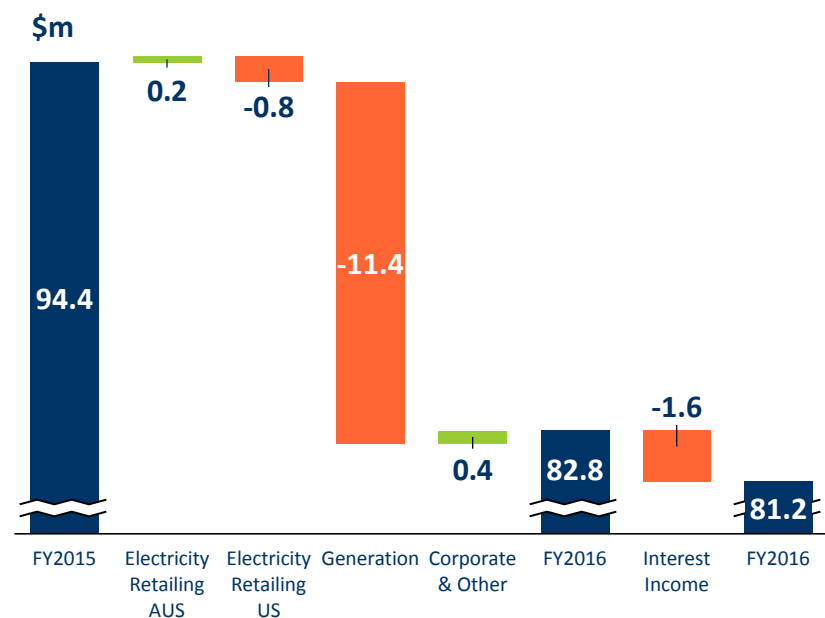
- EBITDAF decrease driven by Oakey moving to merchant operations
- NPAT decrease largely due to reduced EBITDAF, a full year of US depreciation and financing costs
- Net debt decrease due to strong cash flow and working capital timing

EARNINGS DRIVERS



ERM Power Group

Underlying EBITDAF¹ Movement



\$m	FY2016	FY2015	Change
Electricity retail AUS	54.8	54.6	0.2
Electricity retail US	0.0	0.8	(0.8)
Generation	35.4	46.8	(11.4)
Corporate & Other	(12.3)	(12.7)	0.4
Underlying EBITDAF excl. interest income	77.9	89.5	(11.6)
Interest income ²	3.3	4.9	(1.6)
Underlying EBITDAF incl. interest income	81.2	94.4	(13.2)

- Electricity retailing Australia sales volume increase offset by tighter margins
- US results reflect scaling up of business
- Oakey decrease in earnings reflects full year off PPA and challenging Q4 FY2016 conditions
- Reduction in interest income due to lower interest rates and a decrease in average cash balances held

¹ Underlying EBITDAF including interest income

² Excludes significant items

ELECTRICITY RETAILING - AUSTRALIA



Revenue and load growth

\$m unless otherwise stated	FY2016	FY2015	% change
Contestable revenue	1,299.4	1,066.2	22%
Underlying gross margin	76.1	76.1	-
Underlying opex	(21.2)	(21.5)	(1%)
Underlying EBITDAF (excluding interest income)	54.8	54.6	-
Load (TWh)	18.1	16.1	12%

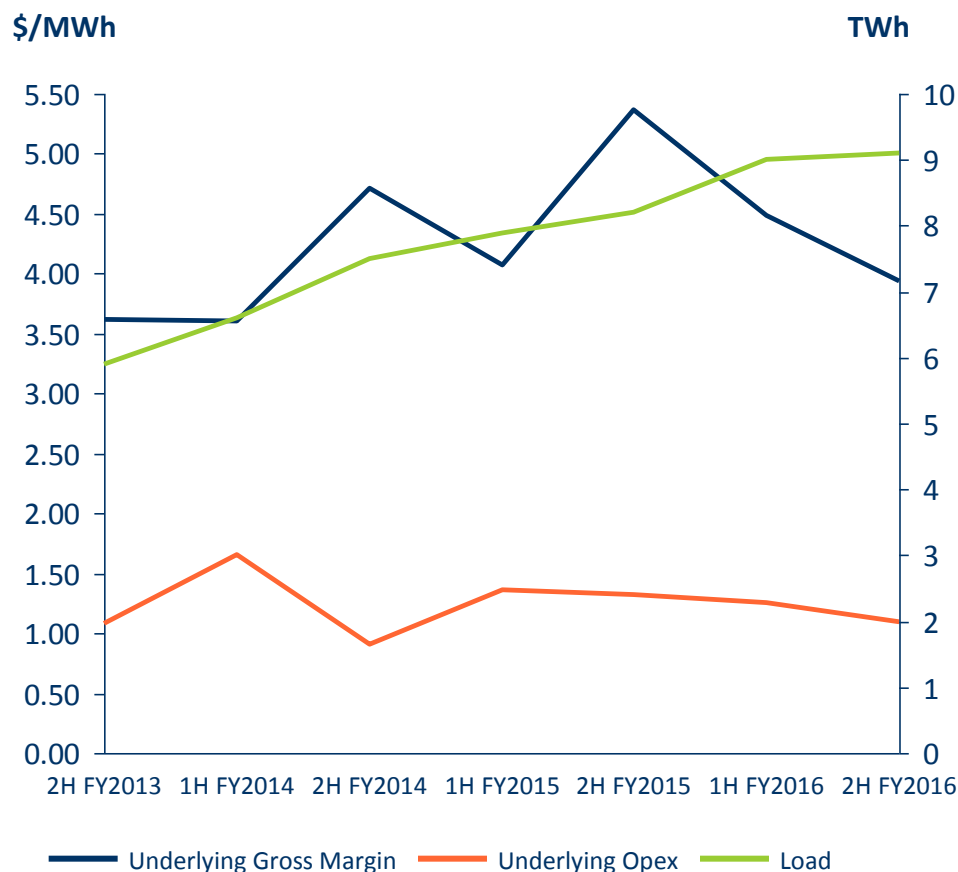
- Contestable revenue increase of 22% driven by sales volume and price
- Outstanding year for SME business – now more than 38,000 customers; load doubled
- Recontracting rate 67%; overall win rate 23%

ELECTRICITY RETAILING - AUSTRALIA



Gross margin & opex

Margin, Opex & Load - AUS



Gross margin movement reflects:

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

Opex:

- Continued economies of scale in SME
- Reduced performance bonuses

Reliable assets

\$m unless otherwise stated	FY2016	FY2015	% change
Revenue	105.5	113.3	(7%)
Oakey	71.7	74.2	(3%)
Neerabup	31.1	32.2	(3%)
Underlying EBITDAF (including interest income)	35.9	47.4	(24%)
Oakey	11.5	22.7	(49%)
Neerabup	25.1	25.2	-

- Oakey offtake agreement with AGL ended 31 December 2014; now a merchant facility
- Oakey missed FY2016 guidance due to challenging market conditions in Q4 FY2016

ELECTRICITY RETAILING - US



Investment in growth

A\$m unless otherwise stated	FY2016	FY2015 ¹	% change
Contestable revenue	158.6	44.2	259%
Underlying opex	(15.4)	(5.9)	161%
Underlying EBITDAF (excluding interest income)	0.0	0.8	N/A
Load (TWh)	2.4	1.5 ²	64%

- Source Power and Gas acquired 23 January 2015
- Increased opex reflects build phase

¹ ERM Power purchased Source Power and Gas 23 January 2015

² Actual FY2015 US load

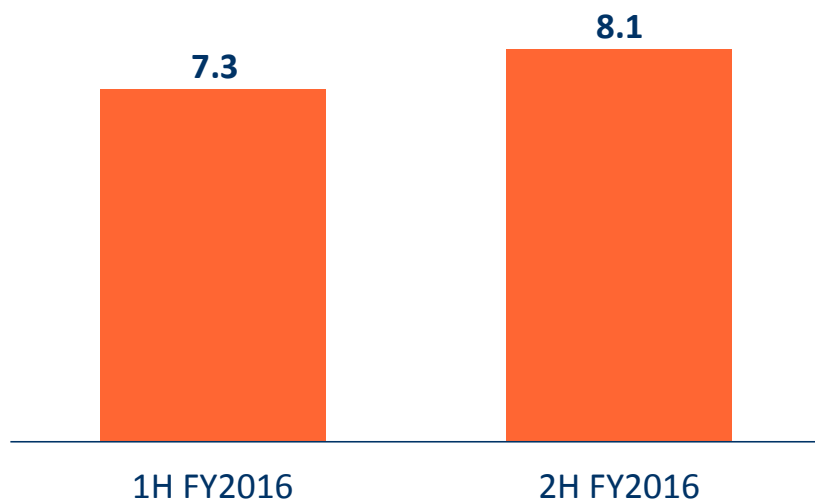
ELECTRICITY RETAILING - US



Investment in growth

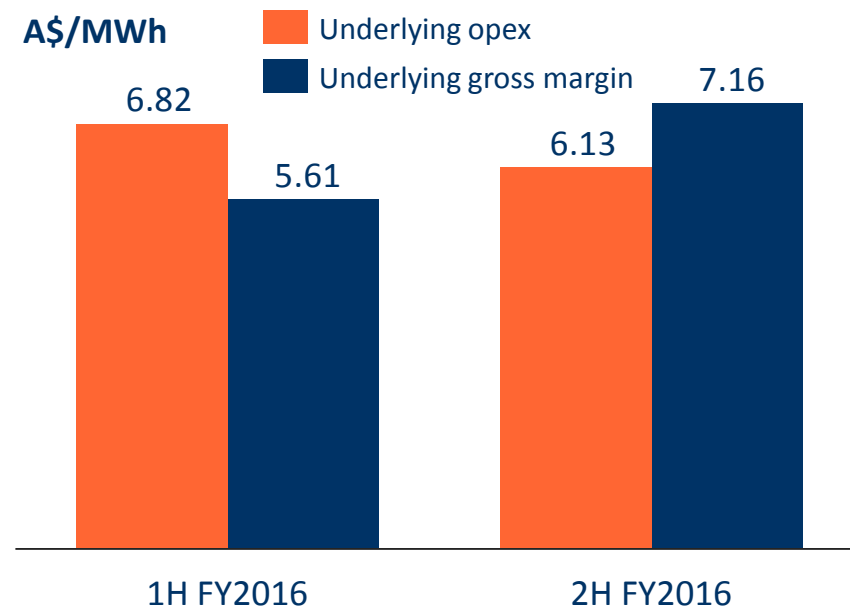
Building the US Forward Contract Book

Underlying opex spend¹ A\$m



Underlying Margin & Opex¹

A\$/MWh



- Opex investment has driven forward contract load growth from 4.0 TWh to 10.8 TWh
- Opex per MWh continues to decrease reflecting volume growth
- Underlying gross margin 28% increase half-on-half reflecting evolving customer mix and improved systems and processes

¹ 1H FY2016 opex restated reflecting capitalisation of broker costs following completion of the purchase price allocation.

NET DEBT AND CASH



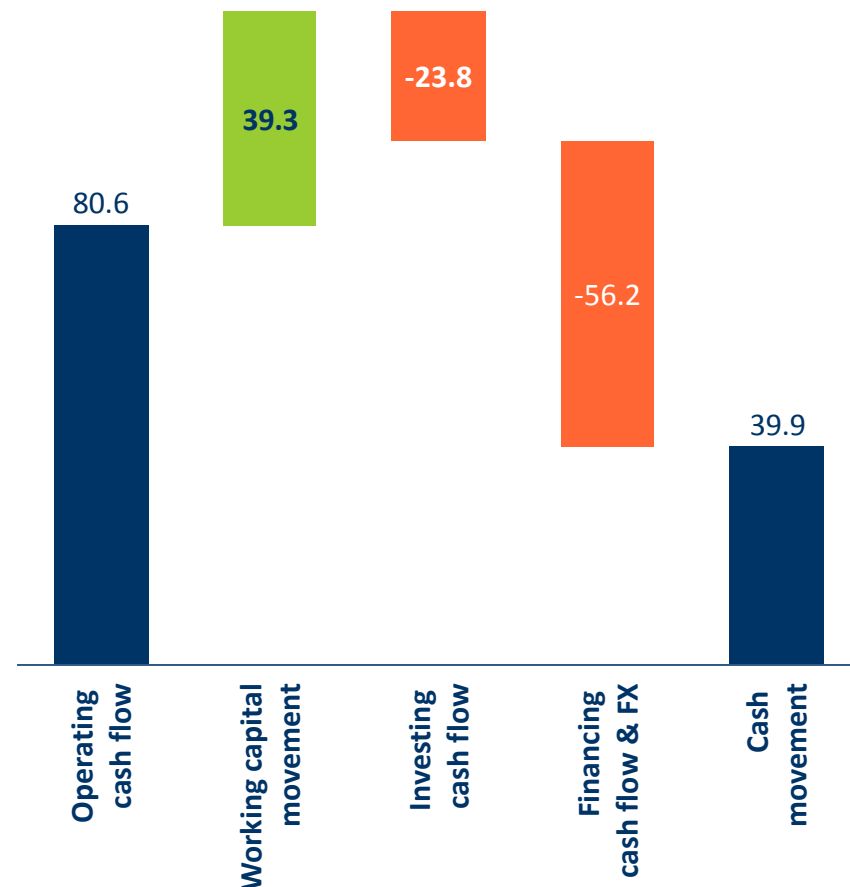
Prudent capital management

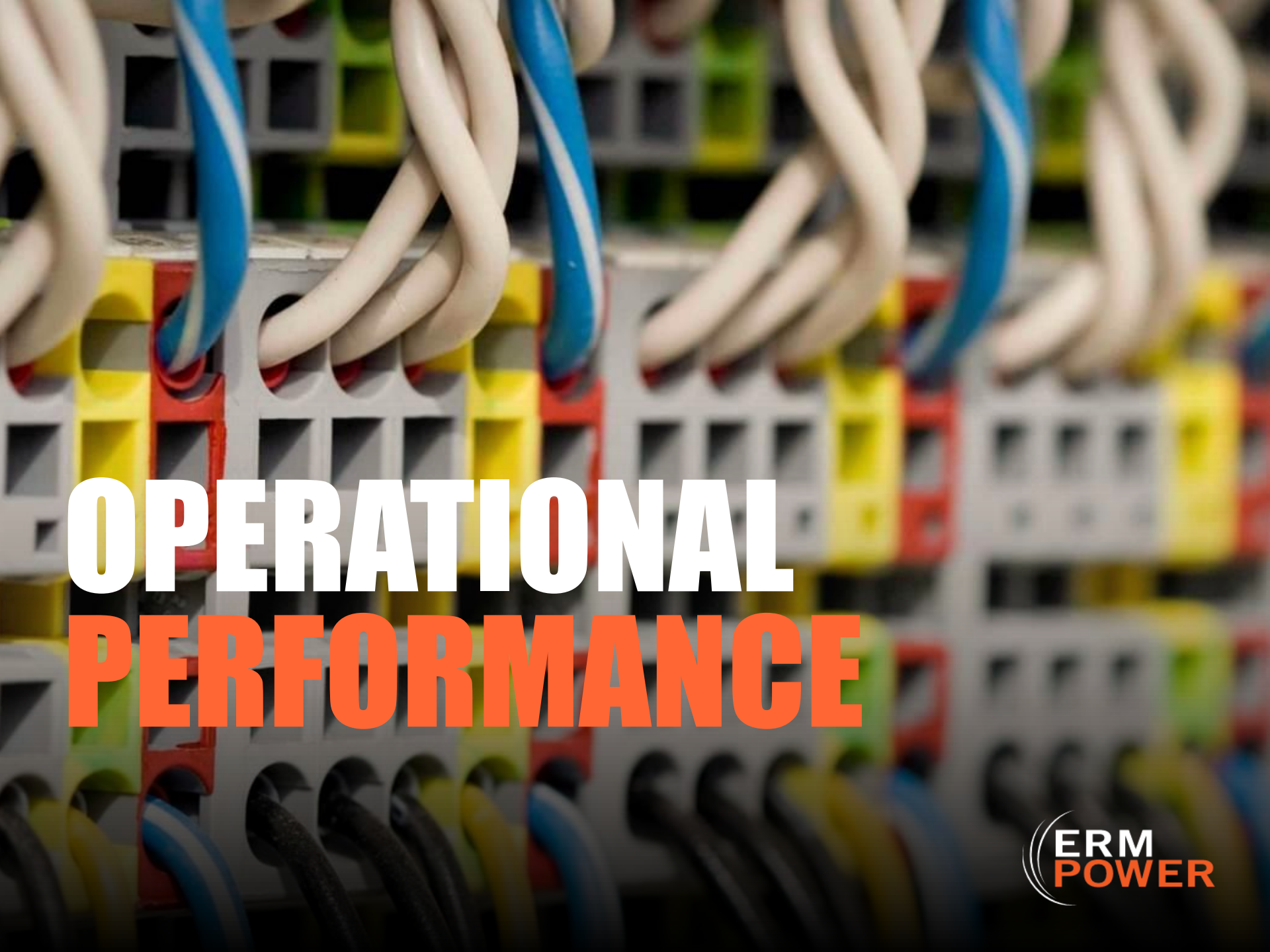
Net Debt

\$m	30 June 2016	30 June 2015	Change
Neerabup debt	193.6	198.0	(4.4)
Other debt	27.9	43.7	(15.8)
Total debt	221.5	241.7	(20.2)
Restricted cash	125.2	127.4	(2.2)
Free cash	67.3	45.4	21.9
Total cash	192.5	172.8	19.7
Net debt/(cash)	29.0	68.9	(39.9)

- Net debt decreased by 58% to \$29m driven by operational cash flow and favourable working capital movements
- Strong liquidity – increasing ~\$100m through new facilities and Vales Point offtake agreement

Cash Movement





OPERATIONAL PERFORMANCE

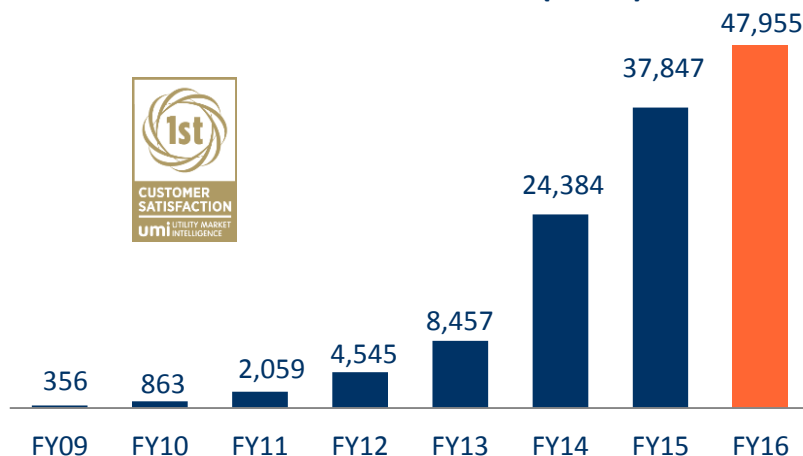


ELECTRICITY RETAILING - AUSTRALIA

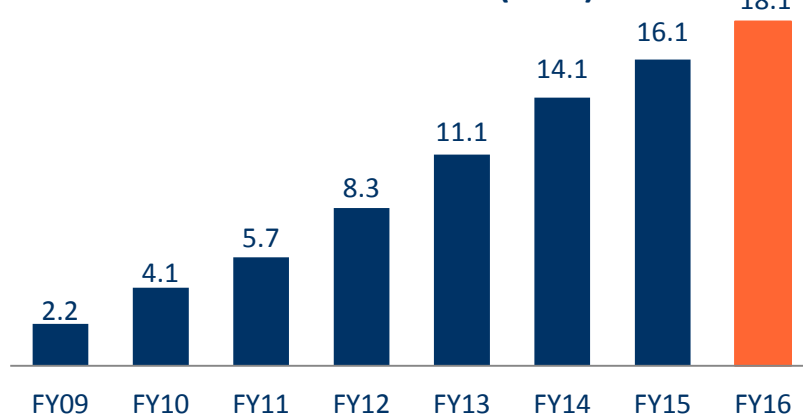


Growth profile

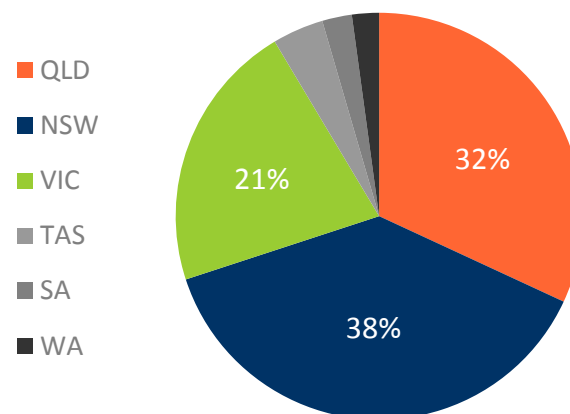
Customers Served – AUS (NMIs)¹



Annual Sales AUS (TWh)



ERM Power 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.

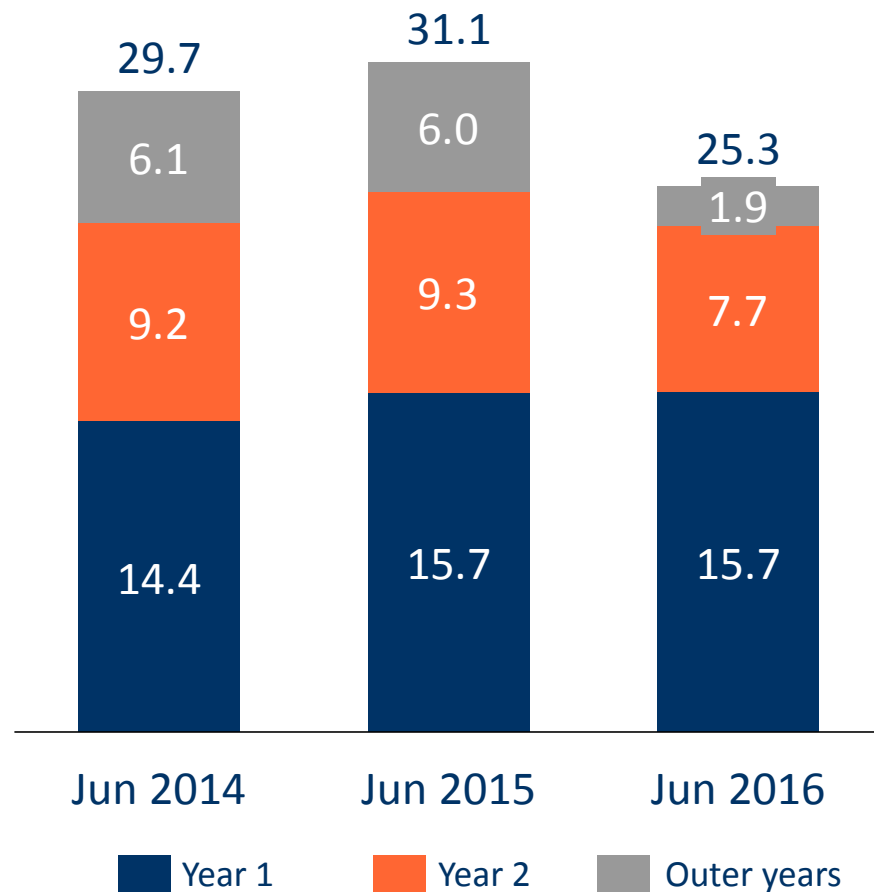
¹ National Meter Identifier

ELECTRICITY RETAILING - AUSTRALIA



Forward contracted load trend

Forward Contracted Load AUS (TWh)



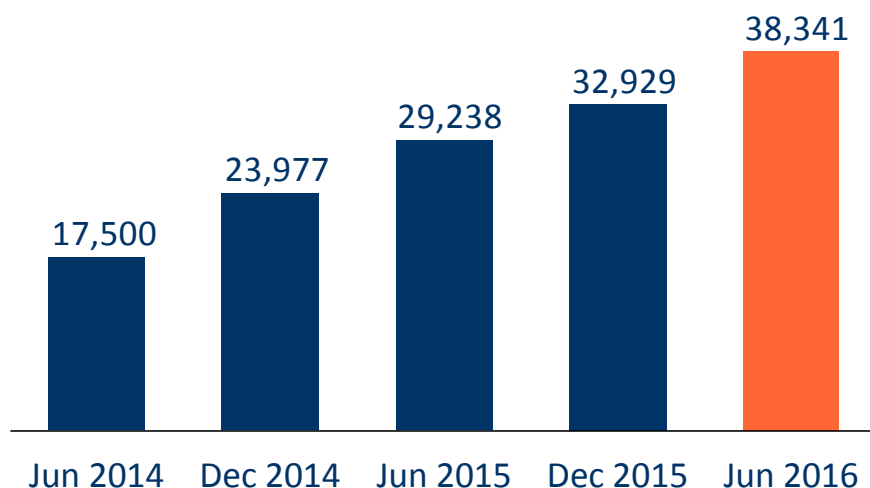
- Forward contracted load down at 30 June 2016:
 - 12-month forward load at 1 July 2016 15.7 TWh is comparable to 1 July 2015 15.7 TWh
 - Larger customers contracting for shorter periods due to high wholesale electricity prices

SME BUSINESS - AUSTRALIA



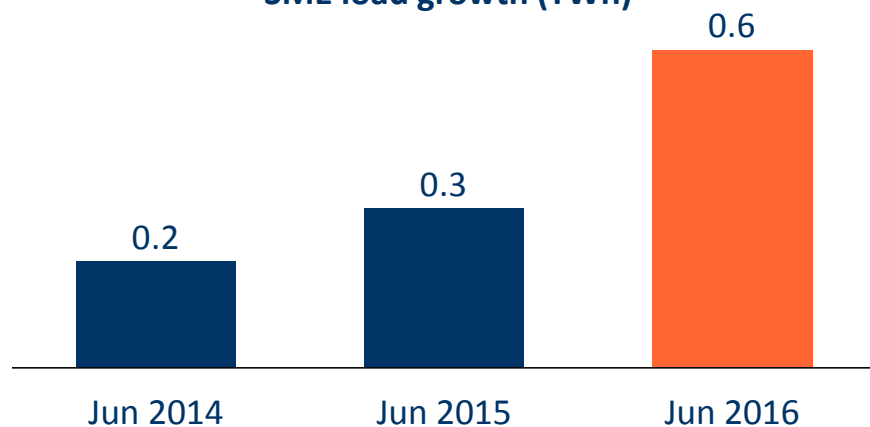
Continued growth

SME Contracted Customers – AUS (NMIs)



- SME load doubled on prior year
- 38,341 sites under contract, up 31% from 30 June 2015
- Focus on multi-site SME across NSW, Victoria and Queensland

SME load growth (TWh)



Oakey and Neerabup Power Stations

Oakey

- Operated 17.75% during the period
- Availability 99.1%
- 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 3.72% during the period
- Availability 97.96%
- Excellent safety record with no lost-time injuries among staff. One contractor lost time injury
- Peaking power station on a long-term offtake agreement producing stable earnings with some merchant opportunities

BUILDING A STRONG US BUSINESS



Strong lead indicators

	30 June 2015	30 June 2016
Investment		
Staff	42	64
Systems capability		New CRM, pricing, risk systems
Sales		
Sales load (TWh) – full FY	1.5 TWh	2.4 TWh
Load under contract	4.0 TWh	10.8 TWh
Access to markets (C&I load only)	406 TWh	516 TWh
Annual quotes	~4,000	~8,000

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**



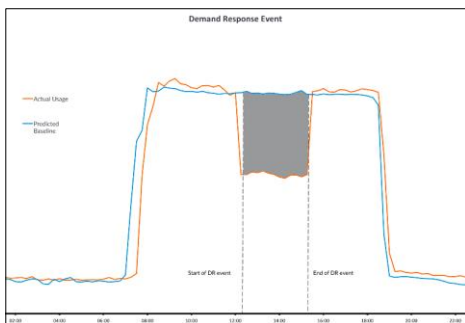
Satisfaction and
market access

**INCREASED
PIPELINE**



ENERGY SOLUTIONS

Growing portfolio of solutions



Demand Response



Demand Management -
power factor correction



Embedded Generation
Solar PV & batteries



Sensing & Control



Lighting Solutions



Embedded networks,
metering & sub-
metering

Greensense

lumaLed®
LIGHT ON ENERGY, LONGER ON LIFE®

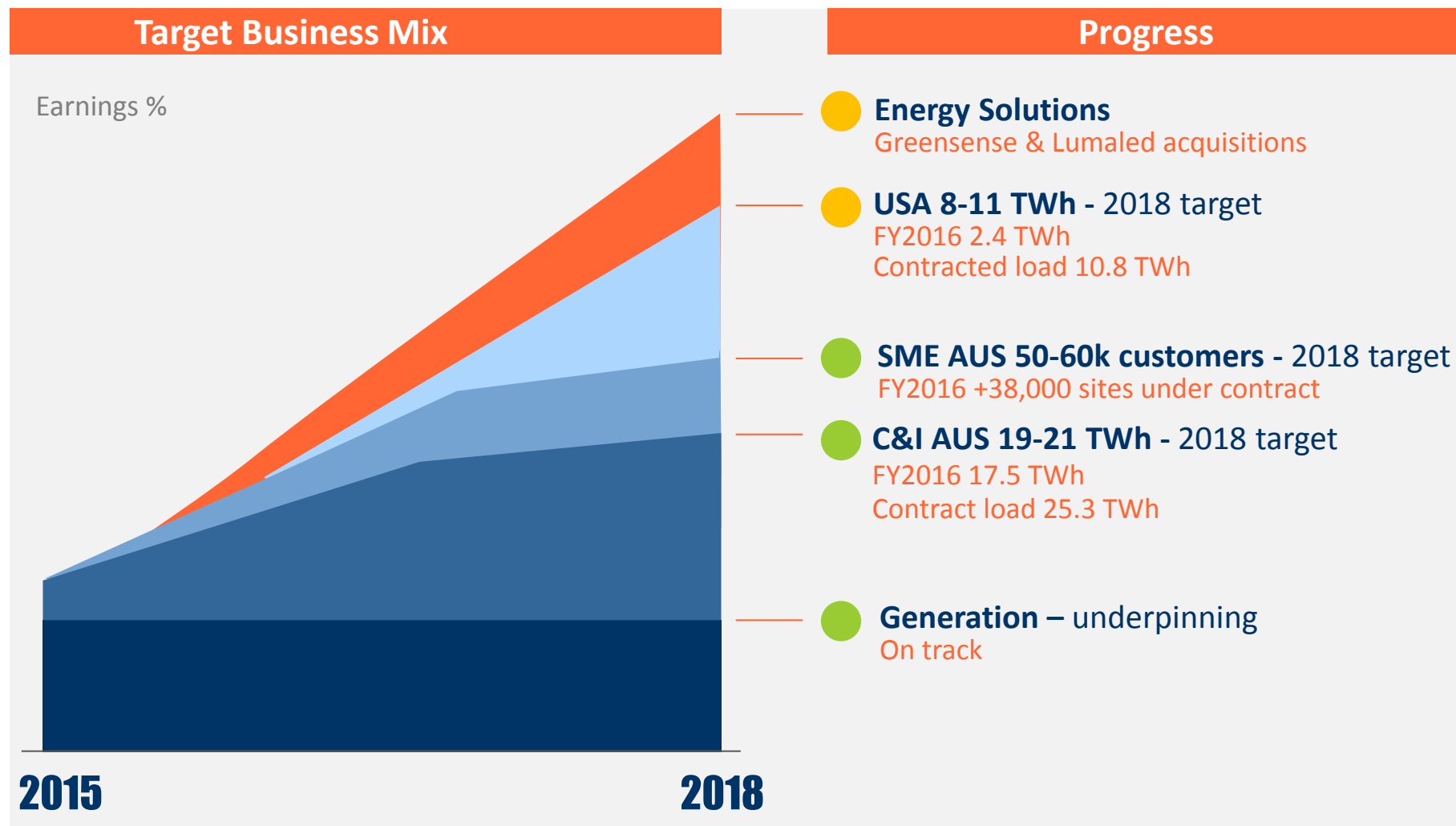
POWERMETRIC

Full year results to June 2016

STRATEGY - HOW WE'RE TRACKING



Target earnings profile for ERM Power



OUTLOOK



FY2017 OUTLOOK



Drivers of performance

Electricity Retailing Australia

- Sales volume
~18.5TWh
- Gross margin
~\$3/MWh
- Opex expected to
be approx. \$23m

Electricity Retailing US

- Sales volume ~5
TWh
- Gross margin
AUD\$8 to
\$8.50/MWh
- Opex \$4/MWh

Oakey

- \$14m - \$16m
EBITDAF

Corporate and Other

- - \$18m underlying EBITDAF

A close-up, profile shot of a middle-aged man with short, light-colored hair. He is wearing a dark jacket over a light blue collared shirt and a blue and white striped tie. He is holding a black mobile phone to his ear with his right hand and appears to be in the middle of a conversation. The background is blurred, showing warm, out-of-focus lights, suggesting an indoor setting like a restaurant or a lounge.

Q&A



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