ASX ANNOUNCEMENT

Monday, 20 June 2016

ERM POWER AFFIRMS FY16 GUIDANCE AND PROVIDES FY17 OUTLOOK

Please find attached a release on the above subject.

Phil Davis
Group General Counsel & Company Secretary
ERM Power Limited

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

20 June 2016

ERM POWER AFFIRMS FY16 GUIDANCE AND PROVIDES FY17 OUTLOOK

ERM Power Limited (ASX: EPW) today affirmed previously stated EBITDAF[i] guidance in the range of AUD[ii]$81m to $85m for FY 2016.

Oakey Power Station, now operating as a merchant plant, was forecast to achieve $16M EBITDAF for FY 2016 but will underperform, given challenging market conditions in Q4 FY 2016. This will be offset by the performance of the Australian and United States (US) retailing businesses.

The business remains on track to meet the forecast sales load of 20TWh to 21.5TWh (Australia and US) and SME customer sites in Australia of 37,500 to 41,000.

The final dividend for FY 2016 is expected to remain at current levels.

Strategy and Outlook

In January 2015, ERM Power completed the acquisition of US electricity retailing business, Source Power & Gas, taking its successful business energy retail model into this much larger market. In October 2015 ERM Power detailed its corporate strategy centred on the growth of adjacent businesses including the US business and Energy Solutions business, incorporating energy management software, data analytics and lighting.

ERM Power CEO Jon Stretch said the strategy responded to changes in the industry and recognised growth streams beyond the Australian retailing business which was approaching its natural market share ceiling.

“The US business is increasingly encouraging in terms of growth, margin and operating expenditure,” he said.

“Our Energy Solutions business deepens relationships with customers and creates value through revenue, retention and growing total customer margin in the burgeoning energy efficiency space. The integration of our two recent acquisitions, Lumaled and Greensense, is well progressed. They form an important part of our diversified Energy Solutions capability.”

The FY 2017 outlook for each division of the business is as follows:

- The **US electricity retailing business** continues to show strong lead indicators:
  - A forecast doubling of annual sales volume in FY 2017 to about 5TWh and forward sales as at 1 June 2016 of 10.6TWh, up from 2.1TWh at acquisition in January 2015.
  - Gross margin expected to be AUD$8 to $8.50/MWh and operating expenditure at AUD$4/MWh, reducing as the business scales.
- 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 FY 2017 with a growth rate that is 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 are strong at 23%, and renewal/retention rates of 71% are industry leading. Re-contracting volumes will normalise during FY 2017.

- Pricing discipline ensures all customer deals pass internal hurdle rates, however, as existing higher margin contracts roll off, average gross margin for FY 2017 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 FY 2017. Operating expenditure is anticipated to be in line with FY16 levels.

- The increase in volatility over the past 12 to 18 months has made it a challenging environment in which to optimise margins and has been taken into account when forecasting a reduced FY 2017 gross margin.

- The market price for large-scale renewable certificates has more than doubled in FY 2016, significantly increasing the value of ERM Power's inventory of these products. Reducing this inventory has resulted in a positive impact in FY 2016 and contributes to the reduced gross margin forecast for FY 2017.

- FY 2017 EBITDA for **Oakey Power Station** is forecast in the range of $14-$16M which includes allowance for a scheduled maintenance outage in 2017.
- Following the successful completion of two significant capital transactions, the Sunset Power International offtake agreement and the guarantee facility with Liberty International Underwriters, the Company has strong liquidity.
- Corporate costs, combined with investment in the growing Energy Solutions portfolio, are expected to be about $18M.

For further information

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[i] 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. EBITDAF FY2016 guidance includes interest income.
[ii] All dollar figures are in AUD.