

24 February 2015

# Financial Results

Six months ended 31 December 2014



**MIGHTY RIVER POWER**

**Presented by:**

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**MIGHTY RIVER POWER FINANCIAL RESULTS**

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## ► HIGHLIGHTS

### Active management optimising value over time



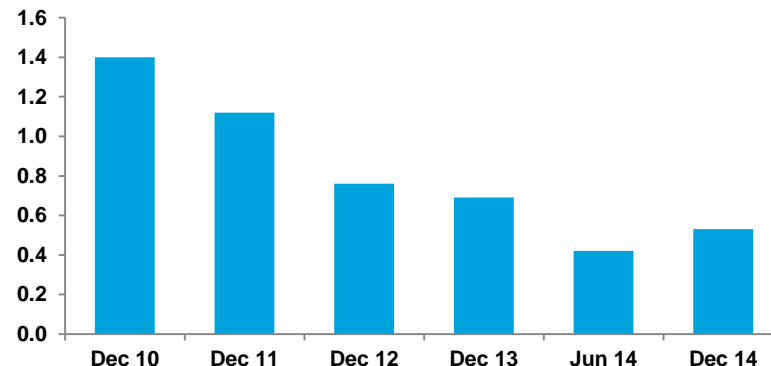
## ► HIGHLIGHTS

### Health and safety

- > Goal continues to be zero-harm – extensive engagement with contractors and subcontractors
  - > no serious harm incidents during the period with TRIFR limited to low severity incidents
  - > implemented contractor pre-qualification, providing a framework for improved safety standards
- > Aim for both industry and Company to be best in class
  - > Industry-wide initiatives benefiting from StayLive including sharing of investigation outcomes

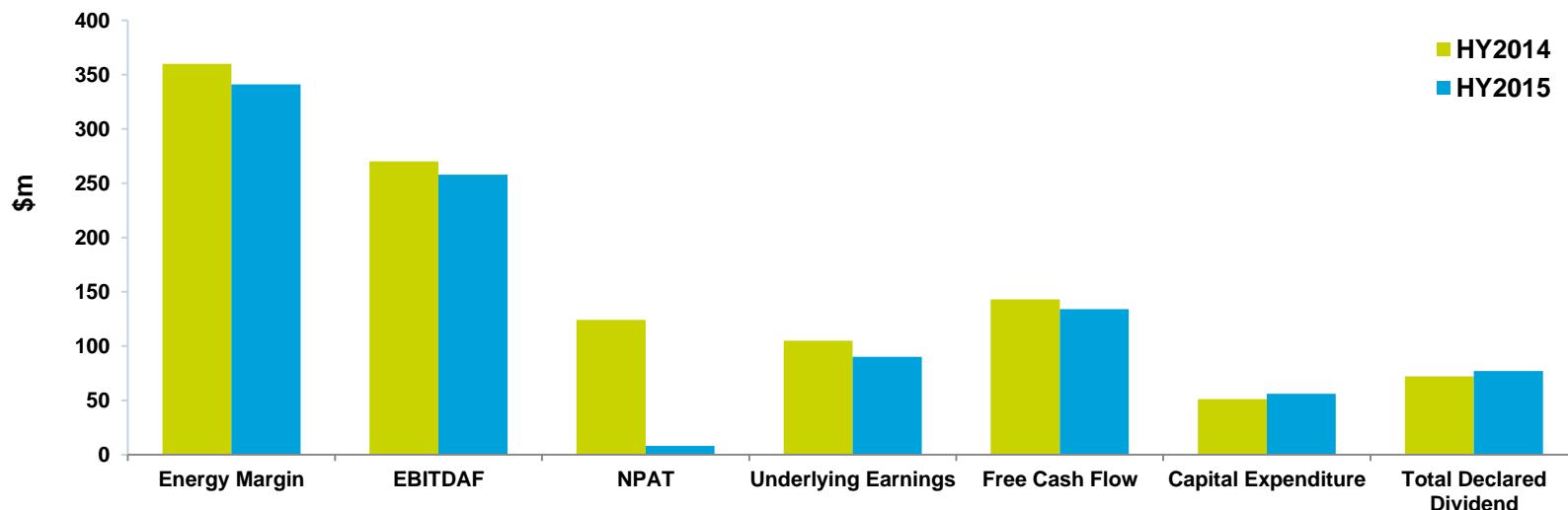
#### **TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)**

(rolling 12 month, per 100,000 hours; includes contractors)



## ► HIGHLIGHTS

### HY2015 vs HY2014



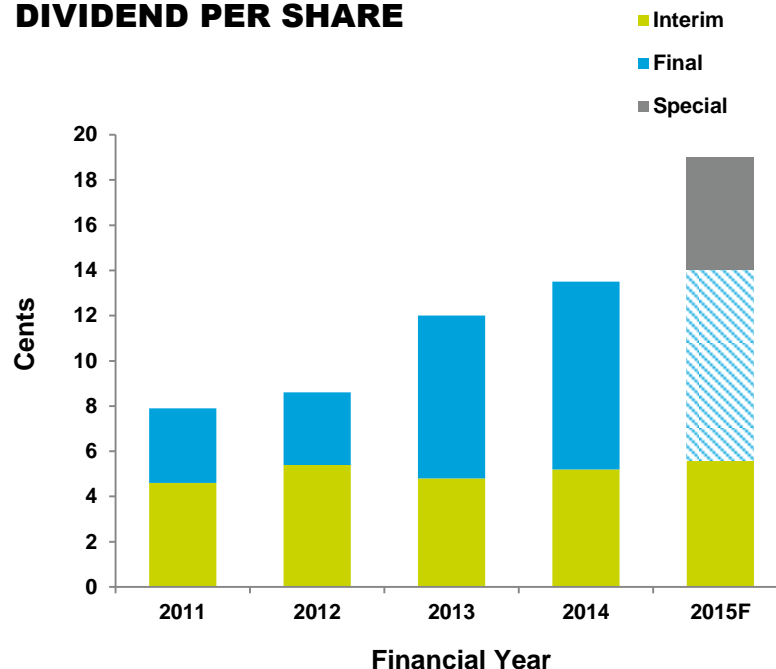
- > Energy Margin, EBITDAF and Underlying Earnings impacted by lower hydro generation and the roll off of higher yield commercial contracts put in place in 2012
- > Profit relative to prior period impacted by non-cash \$83m impairment relating to exiting international geothermal development and favourable fair value movements of \$20m recognised in the previous half year
- > Free cash flow and capital expenditure impacted by higher-than-average reinvestment capital expenditure (drilling two geothermal wells)

## ► HIGHLIGHTS

### Dividend

- > HY2015 fully imputed dividend up 8% to 5.6 cents per share
- > Guidance maintained of 14 cents per share  
FY2015 fully imputed dividend
  - > new dividend policy targets 70% to 85% of Free Cash Flow on average over time
- > Capital management continues to be reviewed
  - > paid special dividend of 5 cents per share (\$69m) in December 2014
  - > optionality for share buy back if beneficial to shareholders

### DIVIDEND PER SHARE





# Market Dynamics

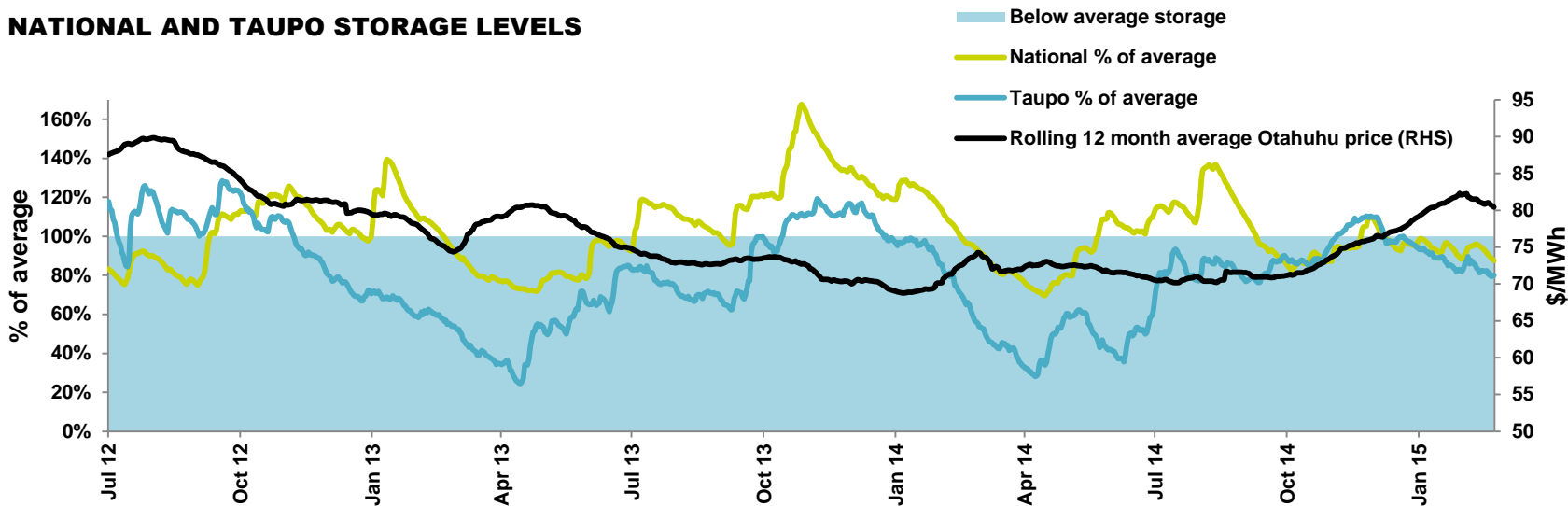


## ► MARKET DYNAMICS

### Supply

- Taupo inflows 82% of average, national inflows 101% of average over the last two calendar years
- Since period end Taupo inflows only 57% of average, national inflows 81% of average

#### NATIONAL AND TAUPO STORAGE LEVELS

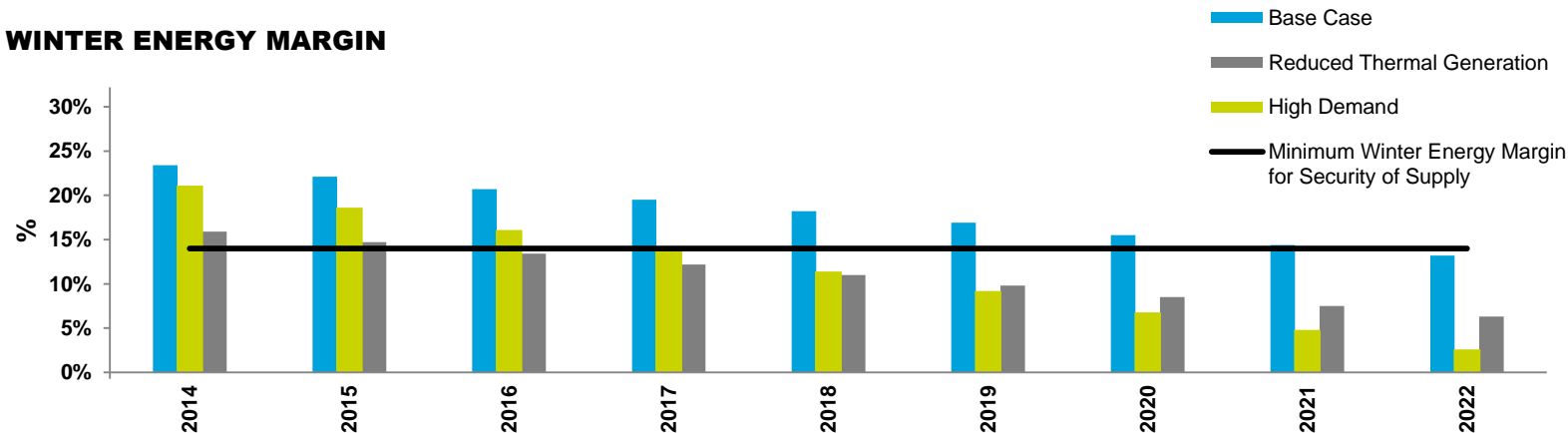


## ► MARKET DYNAMICS

### Demand & Supply balance

- > National demand up 2% on pcp, back to 2011 levels
- > Likely Tiwai will continue with 572MW
- > Reduction of 4,000GWh thermal fuel commitments across industry has restored the balance of energy demand and supply

#### WINTER ENERGY MARGIN



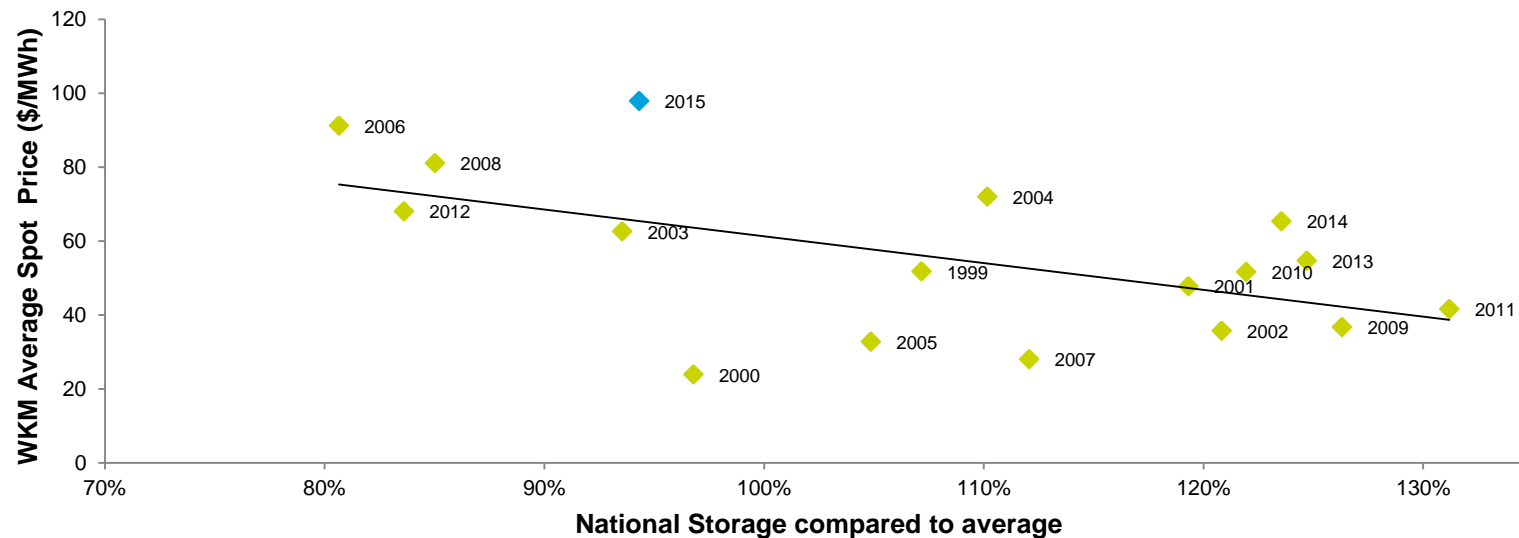
Source: System Operator, Transpower

## ► MARKET DYNAMICS

### Demand & Supply balance impacting wholesale prices

- > January 2015 demonstrated significantly higher spot prices compared to other years with similar hydrology

#### JANUARY SPOT PRICE VS NATIONAL STORAGE

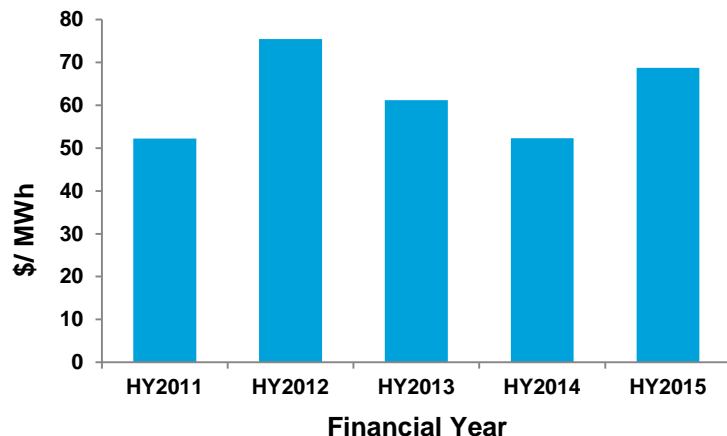


## ➤ MARKET DYNAMICS

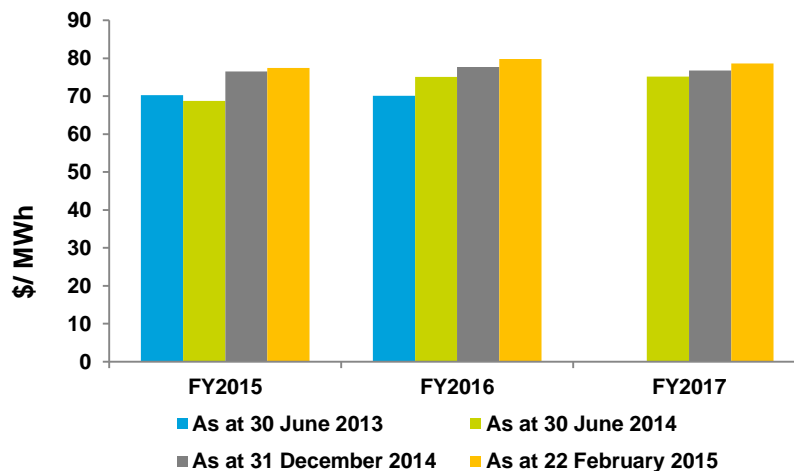
### Wholesale prices

- ASX prices have responded to below average hydro storage (near-term) and reduced thermal fuel commitments (across the curve)
- FY2016 ASX prices up \$4.79/MWh (up 6%) since 30 June 2014 reflecting 4,000GWh less thermal fuel commitments – should begin to flow through to commercial pricing

**AVERAGE WHOLESALE PRICE (WKM)**



**ASX FUTURES SETTLEMENT PRICE (OTA)**



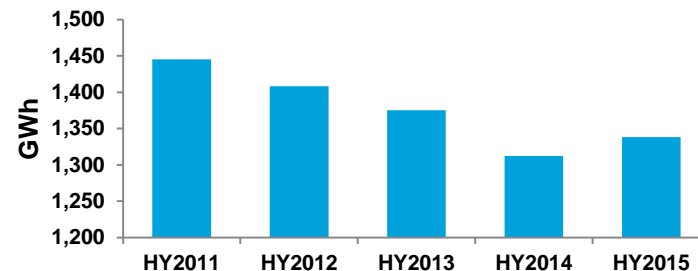
# Operational Update

## ► OPERATIONAL UPDATE

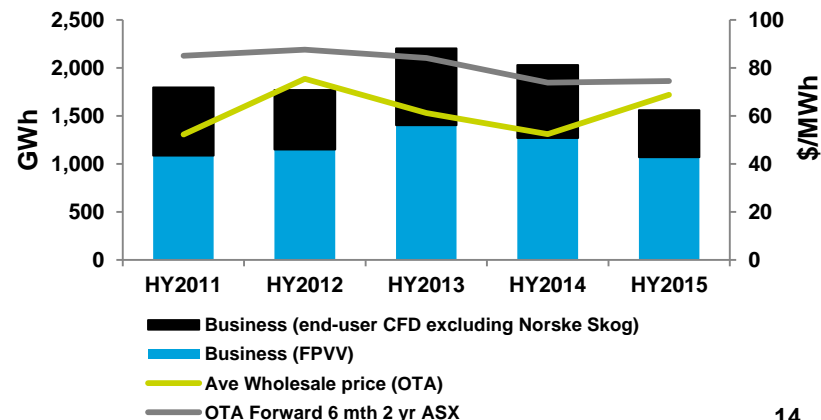
### Electricity sales

- > Residential sales up 26GWh reflecting higher ICP's and higher national demand
- > Business sales (FPVV) down 200GWh and Industrial sales (CFD) down 268GWh reflecting portfolio value-risk decision
- > Average FPVV price stable at \$117.31/MWh supported by not renewing commercial volumes at low yield

**RESIDENTIAL SALES (FPVV)**



**BUSINESS SALES**

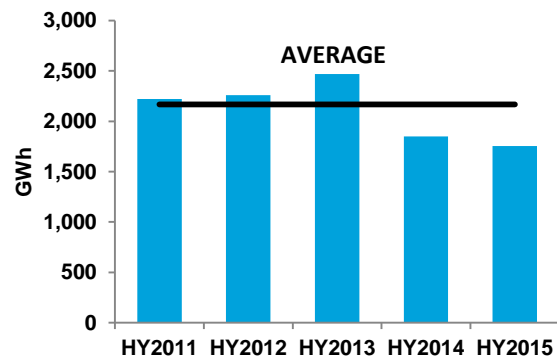


## ► OPERATIONAL UPDATE

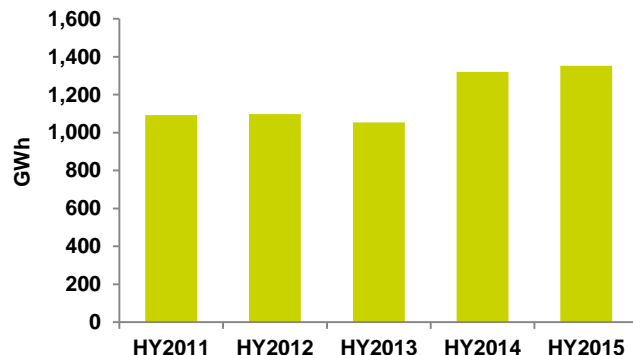
### Electricity generation

- > Generation 146GWh higher than HY2014
  - > hydro 412GWh (19%) less than average and 94GWh (5%) less than HY2014 given 18% below average inflows and decision to optimise water ahead of seasonally dry Autumn and expected higher wholesale price
  - > high-cost thermal generation up 206GWh as used committed natural gas to support hydro and tolling agreement entered into in April 2014 (57GWh)
- > Nga Awa Purua de-rated by 10MW since December 2013 - turbine repairs expected to be completed by the end of Q1 FY2016

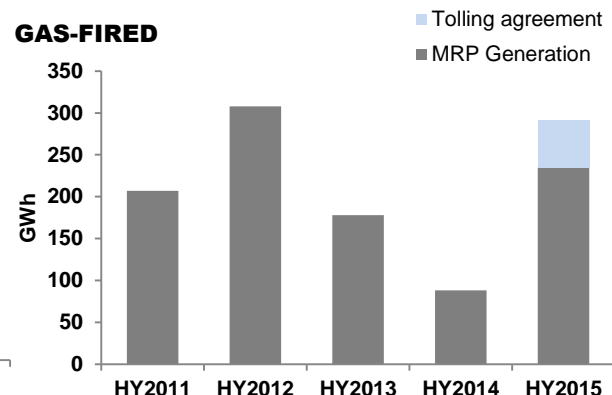
#### HYDRO



#### GEOTHERMAL



#### GAS-FIRED



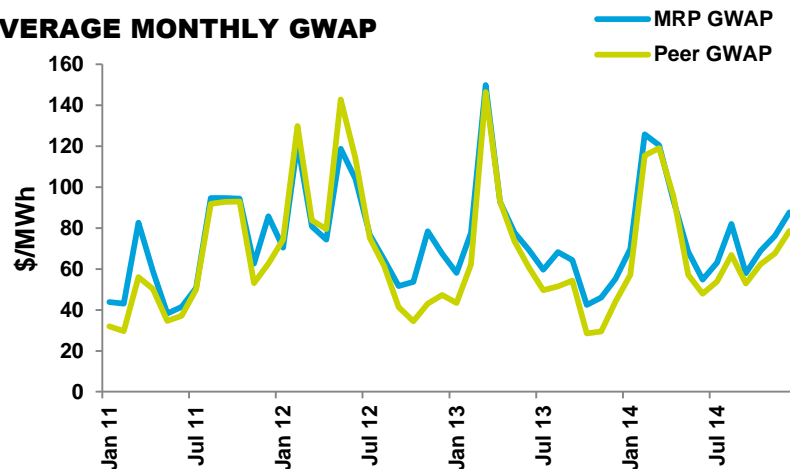


## ► OPERATIONAL UPDATE

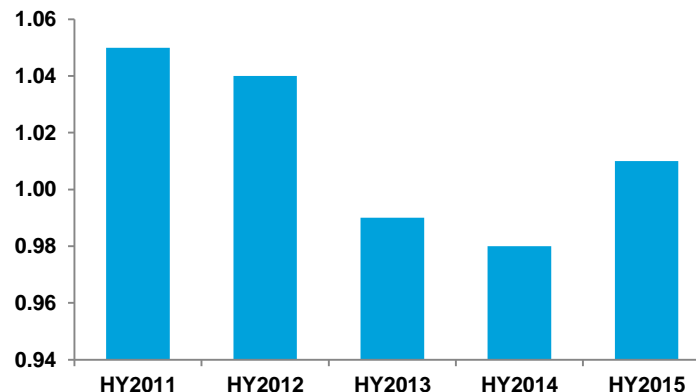
### LWAP/GWAP

- LWAP/GWAP – ratio of the cost of electricity purchased (LWAP) relative to price received for generation (GWAP)
- HY2015 LWAP/GWAP higher than peers but impacted by less North Island/South Island separation, lower hydro production and higher thermal production

**AVERAGE MONTHLY GWAP**



**LWAP/GWAP**



# Financial Update

## ► FINANCIAL UPDATE

### Financial highlights

**\$12<sup>↓</sup><sub>M</sub>**

EBITDAF down due to low hydro  
and commercial volumes

**\$10<sub>M</sub>**

Cost savings in addition to \$20m  
achieved in FY2014

**\$83<sub>M</sub>**

Non-cash Impairments reflect  
exit of international geothermal  
development options

**\$176<sub>M</sub>**

Operating Cash Flow up \$5m

**5.0<sub>¢</sub>** per share

Fully imputed  
Special Dividend paid  
in December 2014

**5.6<sub>¢</sub>** per share

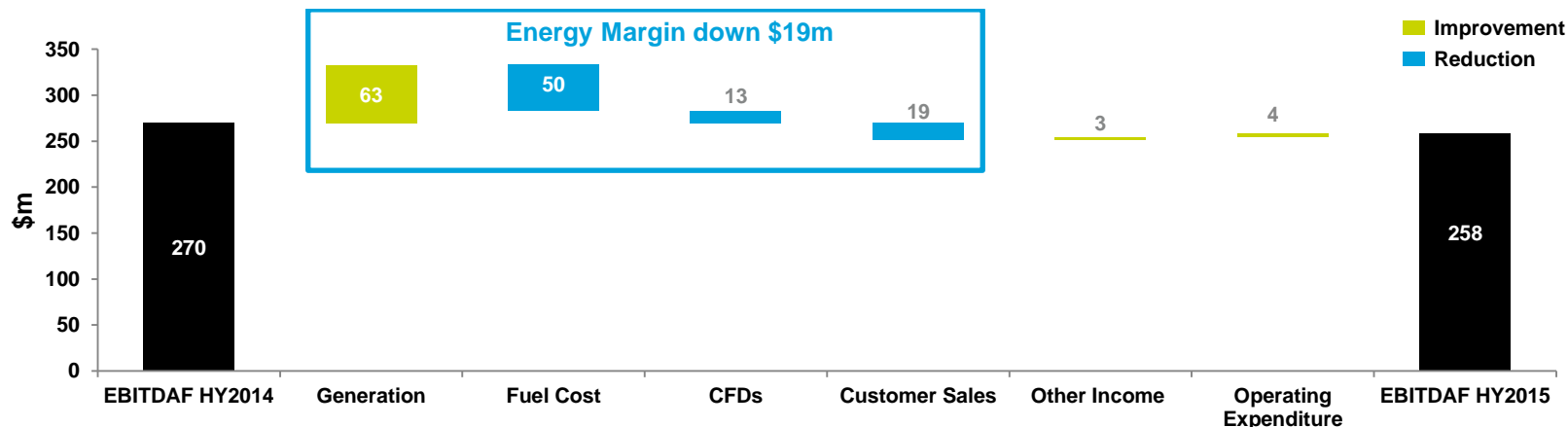
Fully imputed Interim  
Dividend declared



## ► FINANCIAL UPDATE

### EBITDAF (HY2015 vs HY2014)

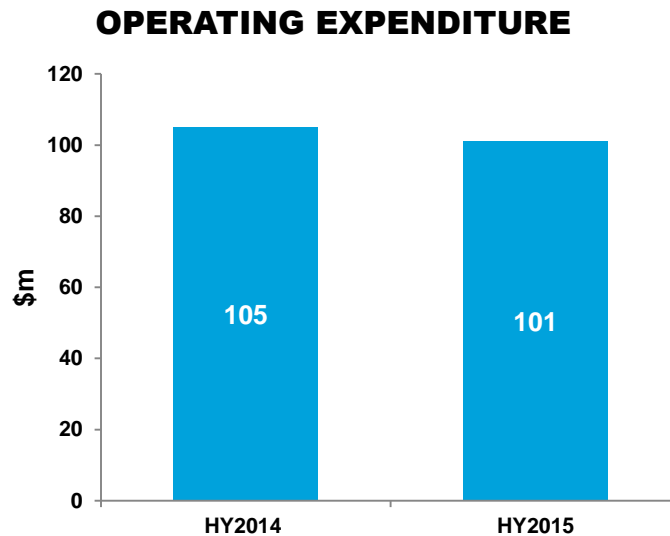
- > Energy Margin down \$19m
  - > 94GWh less hydro generation and 468GWh less commercial sales (FPVV and CFD)
  - > Higher fuel cost reflecting higher wholesale prices and more thermal generation (used committed gas to support storage)
  - > Increased use of liquid ASX market to support water storage
- > \$3m additional Other Income reflecting increased contribution from metering business and property sales and \$4m lower Operating Expenditure



## ► FINANCIAL UPDATE

### Operating expenditure (HY2015 vs HY2014)

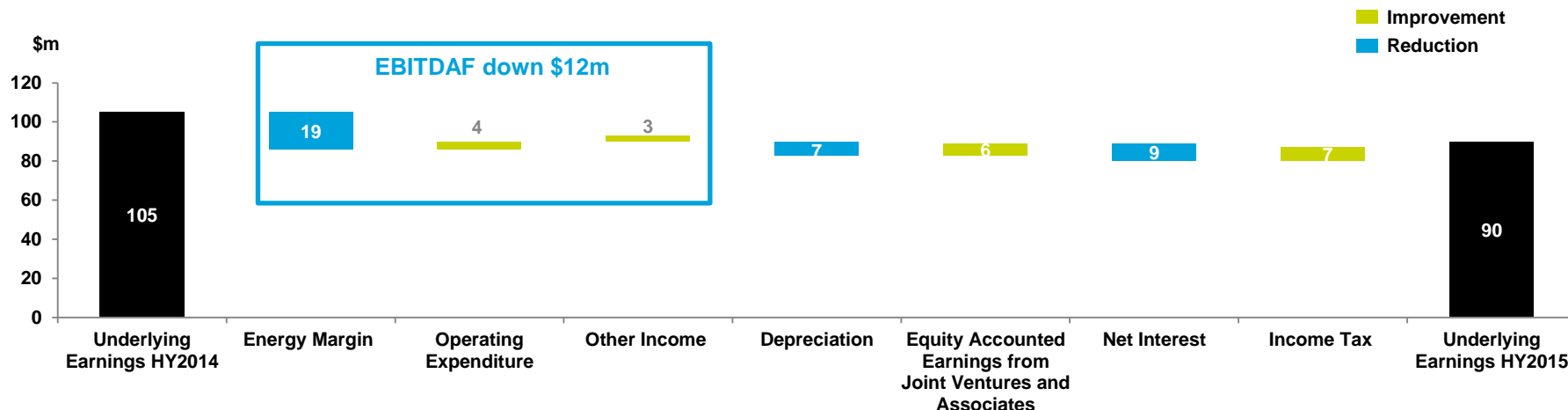
- > In FY2014 focus on efficiency and effectiveness delivered \$20m of permanent cost savings
- > Since year-end additional permanent cost savings found
  - > international geothermal operating costs down \$1m on pcg
  - > 2 month benefit from savings from reduced insurance limit
  - > additional savings from professional fees and contractors
- > Now expect FY2015 operating expenditure comparable with FY2014



## ► FINANCIAL UPDATE

### Underlying earnings and NPAT (HY2015 vs HY2014)

- > Underlying earnings down \$15m reflecting lower EBITDAF, in addition to higher depreciation, interest following the commissioning of Ngatamariki
- > NPAT relative to prior period impacted by non-cash \$83m impairment relating to exiting international geothermal development and favourable fair value movements of \$20m recognised in the previous half year



### Accounting implications of international geothermal development exit

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- > Non-cash Impairments of \$83m
  - > full write-down Chilean assets (impairment of \$56m)
  - > sale of Germany complete (impairment of \$13m)
  - > review of US investments forecast revenue and costs and flow on impacts to tax equity financing - carrying value now \$12m (impairment of \$14m)
- > Following completion of Chilean assets sale will crystallise non-cash FX translation reserve expense (worth approx \$10m)



## ► FINANCIAL UPDATE

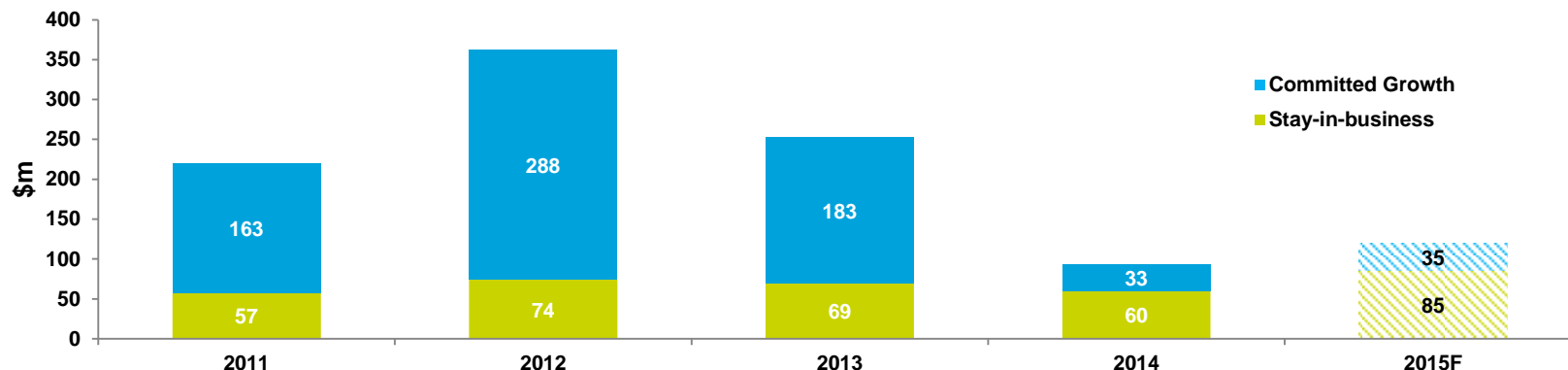
### Consolidated cash flow

- > Continued strong cash flow with operating cash flow of \$176m
  - > timing benefit from change in Vector's line billing cycle and lower cash taxes

\$m	Six months ended 31 December 2014	Six months ended 31 December 2013	\$m change	% change	Twelve months ended 30 June 2014
Net cash provided by operating activities	176	171	5	2.9	317
Net cash used in investing activities	(47)	(64)	17	(26.6)	(99)
Net cash (used in)/provided by financing activities	(118)	(86)	(32)	37.2	(213)
Cash at the end of the period	33	35	(2)	(5.7)	19

### Capital expenditure

- > Capital expenditure of \$56m (HY2014: \$51m)
  - > new investment of \$14m (HY2014: \$23m) includes smart metering spend\*
  - > stay-in-business of \$42m (HY2014: \$28m) reflects successful completion of Ngatamariki and Rotokawa geothermal drilling
- > Some re-phasing into FY2016. FY2015 guidance now \$85m for stay-in-business (previously \$95m) and \$35m for committed growth capex (previously \$50m)
- > FY2016 stay-in-business capex will include Nga Awa Purua turbine replacement of approx \$7m



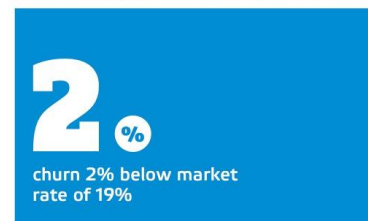
\* Excludes \$13m non-cash exercise of Germany option included in PPE

# **Business & Strategy Update**

## ► BUSINESS AND STRATEGY UPDATE

### Customer

- > Passing on the benefits of strong competition
  - > no increase in headline energy prices for residential electricity and gas customers in April 2015
  - > reward for loyalty – customers who commit for 2 years get additional 3% discount
  - > 33% of customers on fixed price contracts
- > Leading reduced industry disconnections
  - > Mercury reached record low in October of only 18 disconnected customers
  - > GLOBUG assists customers' cash management and keeps them connected
- > Focus on customer-led technology
  - > rolled out Good Energy Monitor to small commercial customers
  - > growth in digital customers continued - 78% of customers pay electronically and 51% receive bills online
  - > GLOBUG online and app based self service



### Driving efficiencies

- > Work on Whakamaru hydro to begin in Q4 FY2015
  - > expand capacity by 20MW and 5% increase in water efficiency
- > Southdown reconfiguration to a simpler, fast-start mode completed
  - > mothballed steam turbine - reduced generating capacity by 35MW
  - > improved responsiveness to market opportunities while lowering operating costs
- > Sale of specific “surplus to requirements” properties
- > Reduction of insurance limit to the appropriate level for risk (from \$2 billion to \$1 billion)



### Exit geothermal development options

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- > In December announced exit of Chile and Germany, alongside no further development capital in US
- > International geothermal development options now not in line with investment objectives
  - > challenging position vis a vis different fuels
  - > disproportionate management and governance time
  - > complexity of project financing, accounting and tax
- > Exit on track with Germany sale complete with no residual obligation and Chile process underway



## ► BUSINESS AND STRATEGY UPDATE

### GLOBUG – a smart platform for growth

- > Home-grown pre-pay technology
  - > lowers disconnection rates and bad debts
  - > GLOBUG online and app based self service
- > Lower cost of electricity for customers
  - > eliminates late payment fees and use of debt collection agencies
- > Platform for growth
  - > currently 18,000 GLOBUG customers
  - > new lower price rate offer to Community Services Card holders (estimated 495,000 households)





### Metrix – ramping up smart meter deployment

- > Smart meter deployment gains momentum
  - > 367,000 meters now installed
  - > 25,000 meters installed in HY2015, up from 10,000 in HY2014
  - > compliance deadline of 1 April 2015 for category 1 installations
- > Trustpower partnership supports growth
  - > systems development and integration with Trustpower on track
  - > absolute focus for Metrix team
  - > full deployment starting in mid-2015



### Long-term opportunities to yield value over time

#### Water

- > Tuwharetoa Maori Trust Board and Mighty River Power reached long-term partnership agreement over future of Lake Taupo

#### Electric Vehicles (EVs)

- > Advancing partnerships on charging infrastructure (Novotel/Tainui Hamilton, Auckland Transport and carpark owners)
- > Mighty River Power fleet conversion underway as leases expire – 20 EVs by end of 2015
- > Positive outlook with corporates on fleet conversion



### Regulation and Legal

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#### Transmission Pricing Methodology (TPM)

- > Decision in 2015 challenging given process delays
  - > options paper, expected shortly, will canvas wider set of options - not limited to beneficiary pays
- > Transpower operational review pragmatic and eliminates theoretical benefit from significant change to TPM
- > Current proposal would drive transmission price increases to upper North Island customers while reducing costs for South Island generators and Tiwai

#### Legal

- > New Zealand Carbon Farming Case: High Court decision expected soon over a contractual dispute relating to the amount of carbon credits obliged to buy over time
- > SFO Case: Fraud hearing against former employee and his partner scheduled for February 2016

# Outlook

### FY2015 guidance and outlook

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- > Maintained strong cash flow supporting the FY2015 dividend guidance of 14 cents per share
- > Following dry conditions 445GWh (worth \$35m) reduction in hydro production forecast partly offset by operating cost savings and sale of surplus land
- > FY2015 EBITDAF will be in the range of \$480m - \$500m subject to any material adverse events, significant one-off expenses or other unforeseeable circumstances assumes:
  - > 3,455GWh of hydro production which assumes average inflows from March until year end;
  - > FY2015 operating costs comparable with FY2014;
  - > the completion of additional property sales; and
  - > excludes crystallisation of non-cash FX translation reserve loss which will occur on the completion of the Chile divestments (approx \$10m)

## ➤ OUTLOOK

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### Fresh thinking – Customer, Company, Country

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#### Operate

- ✔ No increase in headline energy prices
- ✔ Investment in Whakamaru hydro
- ✔ Additional operating cost savings

#### Build

- ✔ GLOBUG Community Services Card offer
- ✔ International geothermal development exit underway
- ✔ Set for roll-out of Trustpower 'smart' meters mid 2015

#### Grow

- ✔ Tuwharetoa long-term agreement over Lake Taupo
- ✔ Partnerships to deliver charging infrastructure for EVs



# Questions





# Appendix

# Operating information

	Six months ended 31 December 2014		Six months ended 31 December 2013		Twelve months ended 30 June 2014	
<b>Electricity Sales</b>	<b>VWAP<sup>1</sup> (\$/MWh)</b>	<b>Volume (GWh)</b>	<b>VWAP<sup>1</sup> (\$/MWh)</b>	<b>Volume (GWh)</b>	<b>VWAP<sup>1</sup> (\$/MWh)</b>	<b>Volume (GWh)</b>
FPVV sales to customers	117.31	2,409	117.74	2,582	117.70	4,844
Residential customers		1,338		1,312		2,449
Commercial customers		1,070		1,270		2,395
FPVV purchases from market		2,532		2,710		5,086
Spot customer purchases		719		859		1,572
Total NZEM purchases	73.05	3,251	54.80	3,568	71.16	6,658
<b>Electricity Customers ('000)</b>		385		382		382
North Island customers		350		345		347
South Island customers		35		37		35
Dual Fuel customers		41		39		40
<b>AMI Meters ('000)</b>		367		338		342

1 VWAP is volume weighted average energy-only price sold to FPVV customers after lines, metering and fees

## ► APPENDIX

### Operating information

	Six months ended 31 December 2014		Six months ended 31 December 2013		Twelve months ended 30 June 2014	
Electricity Generation	VWAP (\$/MWh)	Volume (GWh)	VWAP (\$/MWh)	Volume (GWh)	VWAP (\$/MWh)	Volume (GWh)
Hydro	75.82	1,755	58.78	1,849	74.86	3,497
Gas	76.60	294	78.69	88	86.13	125
Geothermal (consolidated) <sup>1</sup>	67.65	1,237	50.47	1,217	66.68	2,451
Geothermal (equity accounted) <sup>2</sup>	67.97	116	51.64	104	68.91	222
<b>Total</b>	<b>72.65</b>	<b>3,404</b>	<b>55.98</b>	<b>3,258</b>	<b>71.69</b>	<b>6,295</b>
<b>LWAP/GWAP</b>	<b>1.01</b>		<b>0.98</b>		<b>0.99</b>	
	VWAP (\$/MWh)	Volume (GWh)	VWAP (\$/MWh)	Volume (GWh)	VWAP (\$/MWh)	Volume (GWh)
<b>Gas Purchases</b>	<b>\$/GJ</b>	<b>PJ</b>	<b>\$/GJ</b>	<b>PJ</b>	<b>\$/GJ</b>	<b>PJ</b>
Retail purchases <sup>3</sup>	9.21	0.61	8.83	0.60	8.96	1.02
Generation purchases	6.93	2.79 <sup>4</sup>	8.74	1.09	7.92	1.72
<b>Carbon Emissions ('000 tonnes)</b>	<b>294</b>		<b>217</b>		<b>427</b>	

1 Includes Mighty River Power's 65% share of Nga Awa Purua generation

2 Tuaropaki Power Company (Mokai) equity share

3 Prices include fixed transmission charges

4 Includes the virtual peaker operation

## Contracts for Difference

	Six months ended 31 December 2014	Six months ended 31 December 2013	Twelve months ended 30 June 2014	Six months ended 31 December 2012	Six months ended 31 December 2011	Six months ended 31 December 2010
<b>Net Contracts for Difference (Sell)/Buy GWh</b>						
Sell - End User	(844)	(1,112)	(1,976)	(1,153)	(973)	(1,063)
Sell - VAS <sup>1</sup>	(352)	(327)	(674)	(302)	(151)	(-)
Sell - Inter-generator & ASX	(543)	(341)	(605)	(684)	(401)	(425)
Sell CFD	(1,739)	(1,780)	(3,255)	(2,139)	(1,525)	(1,489)
Buy CFD	894	1,226	2,230	1,285	691	456
<b>CFD</b>	<b>(846)</b>	<b>(554)</b>	<b>(1,025)</b>	<b>(854)</b>	<b>(834)</b>	<b>(1,033)</b>
<b>Energy Margin contribution (\$m)</b>	<b>\$15m</b>	<b>\$28m</b>	<b>\$24m</b>	<b>\$3m</b>	<b>\$10m</b>	<b>\$33m</b>

1 VAS included on both buy and sell side CFDs

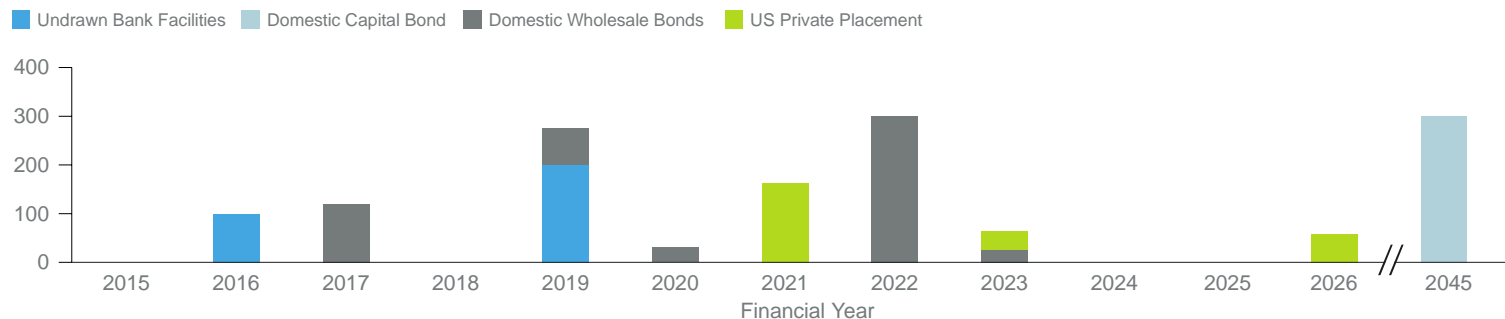
## ► APPENDIX

### Balance sheet

\$m	As at 31 December 2014	As at 31 December 2013	\$m change	% change	As at 30 June 2014
<b>SHAREHOLDERS' EQUITY</b>					
Total shareholders' equity	3,010	3,185	(175)	(5.5)	3,219
<b>ASSETS</b>					
Current assets	270	273	(3)	(1.1)	292
Non-current assets	5,293	5,404	(111)	(2.1)	5,397
<b>Total assets</b>	<b>5,563</b>	<b>5,677</b>	<b>(114)</b>	<b>(2.0)</b>	<b>5,689</b>
<b>LIABILITIES</b>					
Current liabilities	212	314	(102)	(32.5)	271
Non-current liabilities	2,341	2,178	163	7.5	2,199
<b>Total liabilities</b>	<b>2,553</b>	<b>2,492</b>	<b>61</b>	<b>2.4</b>	<b>2,470</b>
<b>TOTAL NET ASSETS</b>	<b>3,010</b>	<b>3,185</b>	<b>(175)</b>	<b>(5.5)</b>	<b>3,219</b>

## Funding profile and ratios

### DEBT MATURITIES AS AT 31 DECEMBER 2014



	31 December 2014	30 June 2014	30 June 2013	30 June 2012	30 June 2011	30 June 2010
Net debt (\$m)	1,080	1,031	1,028	1,116	976	971
Gearing ratio (%)	26.4	24.3	24.4	27.0	25.1	26.5
Debt/EBITDAF (x)	N/A	2.1	2.7	2.6	2.2	3.0

## ► APPENDIX

### Non-GAAP measure: Energy margin

- > Energy Margin provides a measure that, unlike sales or total revenue, accounts for the variability of the wholesale spot market and the broadly offsetting impact of wholesale prices on the cost of retail electricity purchases

\$m	Six months ended 31 December 2014	Six months ended 31 December 2013	Twelve months ended 30 June 2014
Sales	856	827	1,672
Less: lines charges	(223)	(227)	(431)
Less: energy costs	(266)	(216)	(505)
Less: other direct cost of sales, including metering	(26)	(24)	(49)
<b>Energy Margin</b>	<b>341</b>	<b>360</b>	<b>687</b>



## ► APPENDIX

### Non-GAAP measure: Free Cash Flow

- > Free Cash Flow is a measure that the Company uses to evaluate the levels of cash available for debt repayments, growth capital expenditure and dividends

\$m	Six months ended 31 December 2014	Six months ended 31 December 2013	Twelve months ended 30 June 2014
Net cash provided by operating activities	176	171	317
Less: Reinvestment capital expenditure (including accrued costs)	(42)	(28)	(60)
<b>Free Cash Flow</b>	<b>134</b>	<b>143</b>	<b>257</b>

## ► APPENDIX

### Non-GAAP measure: Net Debt

> Net Debt is reported in the financial statements and is a measure commonly used by investors

\$m	As at 31 December 2014	As at 31 December 2013	As at 30 June 2014
Current borrowings at carrying value	10	105	56
Add: Non-current loans at carrying value	1,127	972	985
Add: Fair adjustments US Private Placement	(24)	2	9
Less: cash and cash equivalents	(33)	(35)	(19)
<b>Net Debt</b>	<b>1,080</b>	<b>1,044</b>	<b>1,031</b>

### Non-GAAP measure: EBITDAF, Underlying Earnings and Net Debt

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- > EBITDAF is reported in the financial statements and is a measure that allows comparison across the electricity industry
- > Underlying Earnings is reported in the financial statements and in contrast to net profit, the exclusion of certain items enables a comparison of the underlying performance across time periods
- > Net Debt is reported in the financial statements and is a measure commonly used by investors