

28 August 2015

# Financial Results

Twelve months ended 30 June 2015



**Presented by:**

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Chief Executive

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## ► HIGHLIGHTS

A challenging year with some clear decisions



Strengthening our  
**CUSTOMER  
VALUE**  
and customer **LOYALTY**

**LOWEST  
HYDRO  
GENERATION**

since Company formed in 1999

EBITDAF down

**4%**

reflecting 170GWh less hydro generation  
and lower commercial volumes

Focused on

**SHAREHOLDER  
VALUE**

with decisions on international geothermal  
and planned closure of gas-fired plant

**21.5** **CPS**

total declared dividends including  
ordinary dividends of 14cps and  
special dividends of 7.5cps

FY2016 EBITDAF guidance of

**\$490M - \$515M**

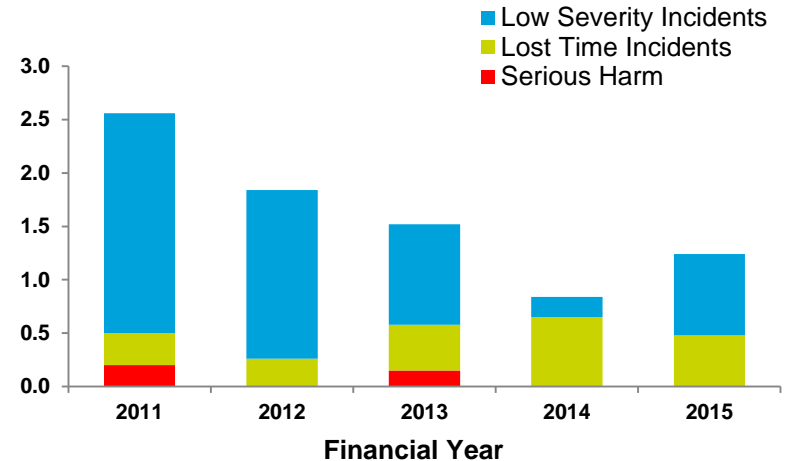
## ► HIGHLIGHTS

### Health and safety

- > Achieving zero-harm is our goal
  - > strong focus on contractors and subcontractors
  - > no serious harm incidents over FY2015 involving employees, contractors or visitors on Mighty River Power premises
  - > reduction of lost time incidents from 7 to 5
- > Industry-wide collaboration to improve safety
  - > StayLive promoting sharing of learning, initiatives and reporting
  - > member of Business Leaders' Health and Safety Forum

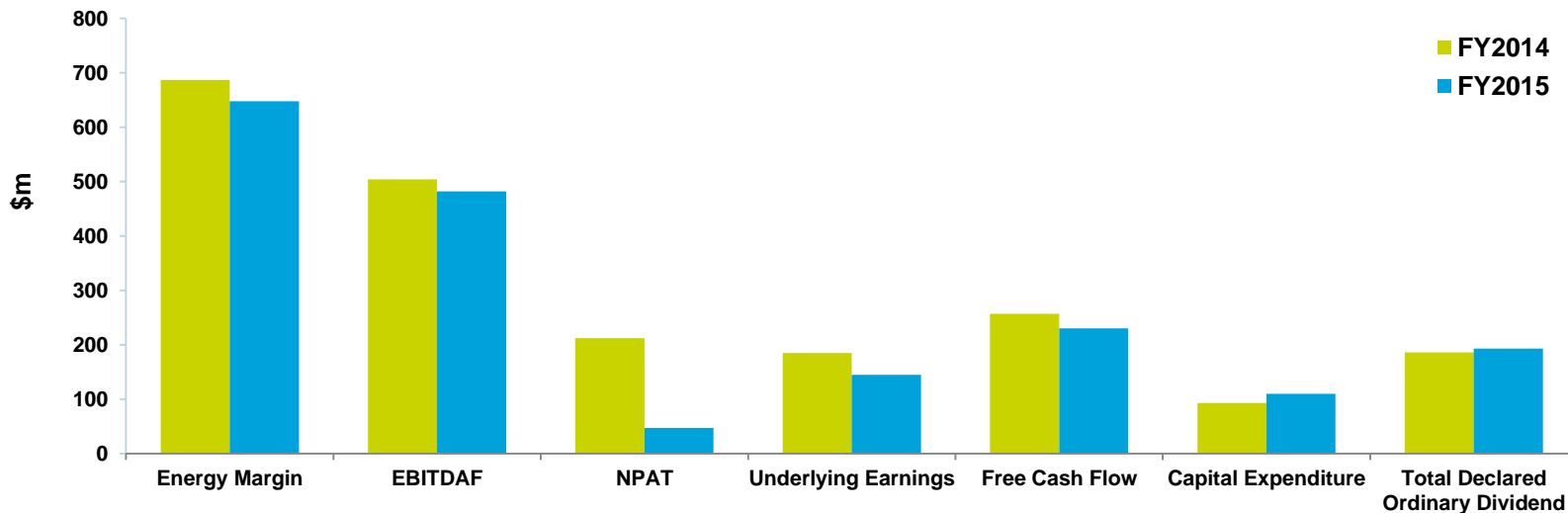
#### TOTAL RECORDABLE INJURY FREQUENCY RATE (TRIFR)

(per 200,000 hours; includes onsite employees and contractors)



## ► HIGHLIGHTS

### FY2015 vs FY2014



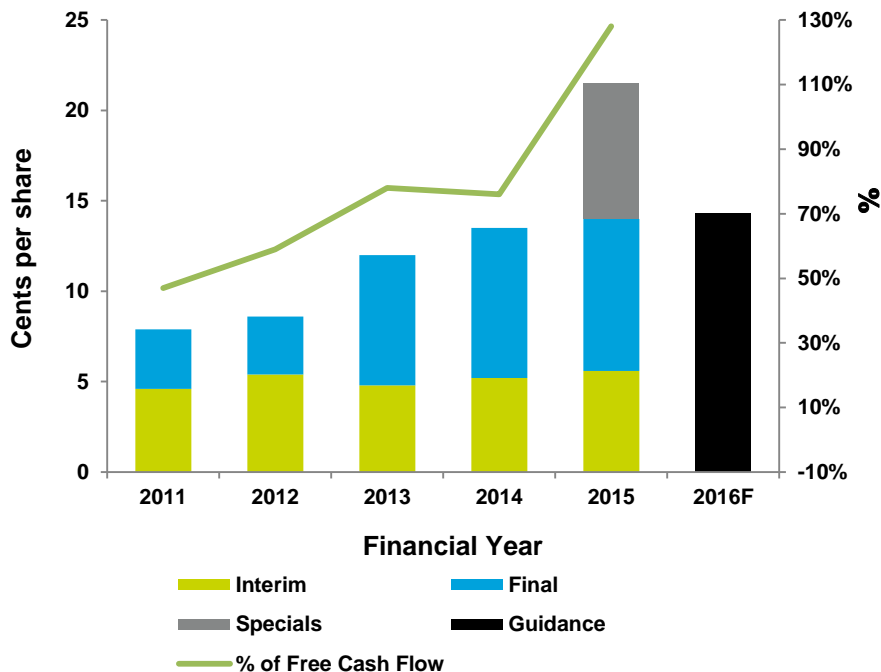
- > Energy Margin, EBITDAF and Underlying Earnings impacted by lower hydro generation and the roll off of higher yield commercial contracts put in place in 2012
- > Net Profit impacted by non-cash \$130m impairments relating to exiting international geothermal development and planned closure of Southdown
- > Free cash flow and capital expenditure reflect higher stay-in-business capex (drilling two geothermal wells)

## ► HIGHLIGHTS

### Dividend

- > Fully imputed ordinary final dividend of 8.4cps and special dividend of 2.5cps paid 30 September 2015
- > FY2015 fully imputed declared dividends of 21.5cps
  - > ordinary dividend up 4% to 14cps in line with guidance
  - > special dividends of 7.5cps
- > Capital returns of \$638m since listing
  - > \$588m (42.2cps) dividends
  - > \$50m buyback
- > FY2016 ordinary dividend guidance is an increase of 2% to 14.3cps

### DIVIDEND



# Market Dynamics



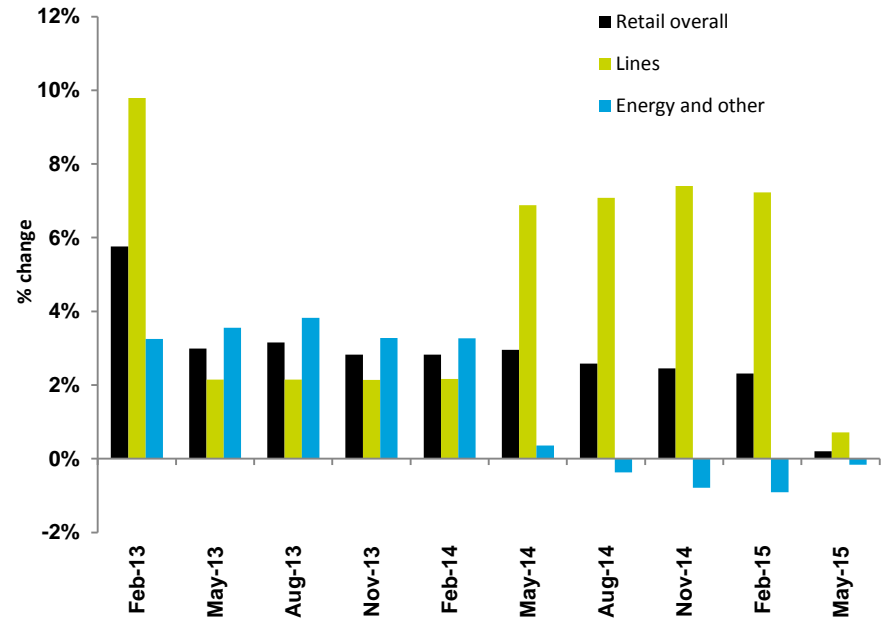


## ➤ MARKET DYNAMICS

### Churn and retail market

- > Electricity prices flat in FY2015 including regulated lines charges\*
- > Industry customer churn remains high at 19%
- > 9 new retail brands over the last two years bringing total number of retail brands to 27
- > Innovation driving increased competition
  - > new products and service options
- > Good liquidity in ASX Futures' supporting retail competition

**QUARTERLY SURVEY OF DOMESTIC ELECTRICITY PRICES**



\*Source: MBIE

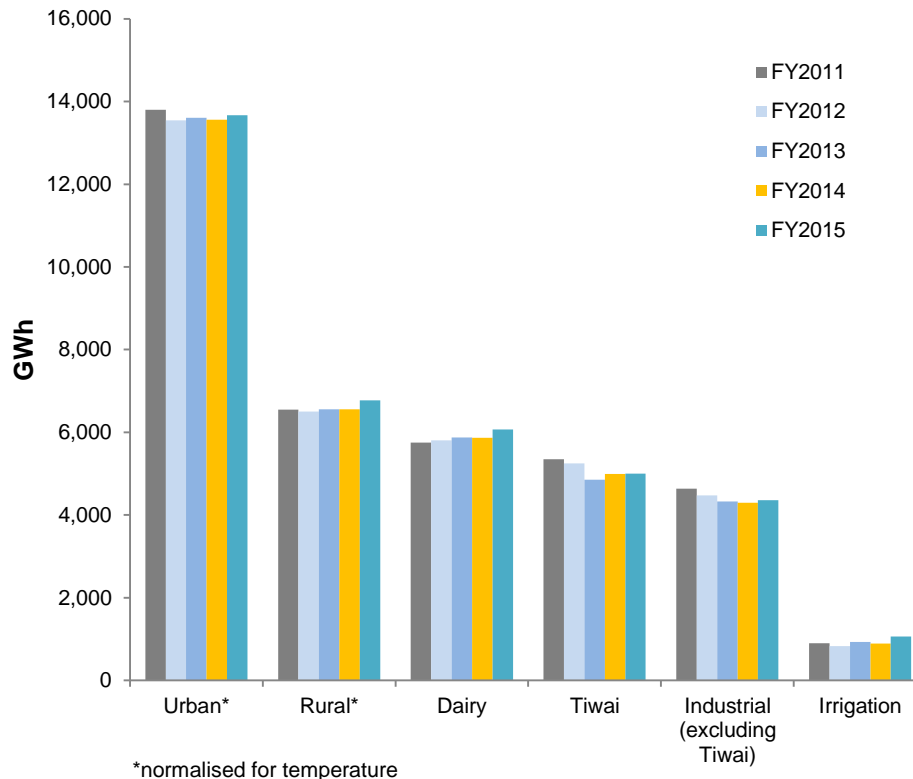
## ▶ MARKET DYNAMICS

### Demand

- > Demand growth returns with increases over the last 4 quarters
  - > up 2.7% in FY2015, 2.0% after normalising for temperature
- > Growth across all sectors in FY2015

Sector	GWh	%
Rural*	+216	3.3
Dairy processing	+201	3.4
Irrigation	+168	18.7
Urban*	+112	0.8
Industrial	+71	0.2

- > Meridian signed variation in Tiwai contract partially backed by agreements with other power generators (CEN 80MW; GNE 50MW; MRP 10MW; other 5MW)

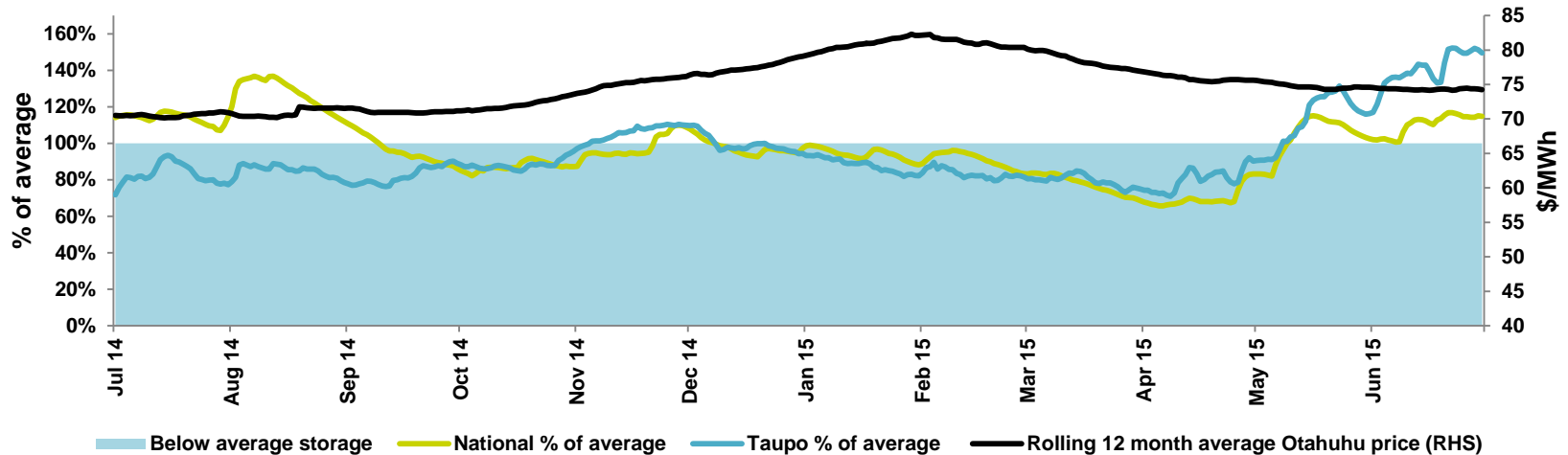


## ▶ MARKET DYNAMICS

### Supply

- > Lake Taupo inflows 85% of average in FY2015 (national inflows 100% of average)

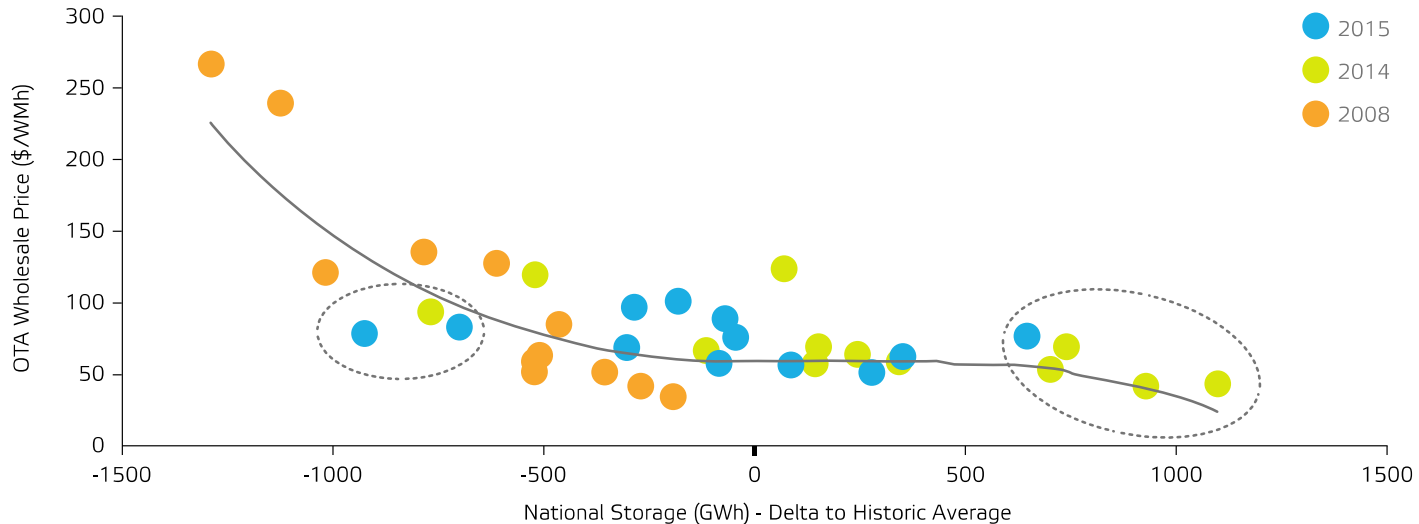
#### NATIONAL AND TAUPO STORAGE LEVELS



## ▶ MARKET DYNAMICS

### Wholesale prices

- > Wholesale market failed to respond in March/April to low national hydrology – temporary drivers likely

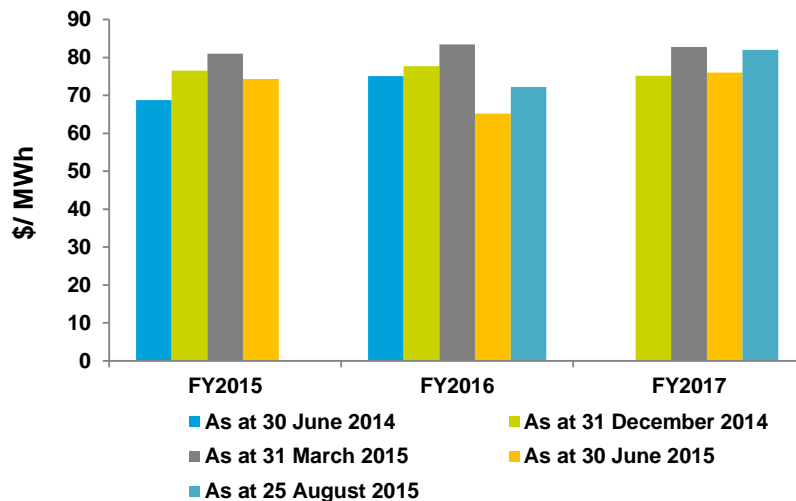


## ➤ MARKET DYNAMICS

### Wholesale prices

- > January 2015 demonstrated significantly higher spot prices compared to other years with similar hydrology; saw uplift in ASX prices for the quarter ended 31 March
- > Decreased perceived dry-year risk and ongoing speculation about Tiwai impacted ASX prices post 31 March
- > Since 30 June have seen a \$6/MWh improvement in FY2017 ASX price, with announcements on thermal capacity and energy

**ASX FUTURES SETTLEMENT PRICE (OTA)**

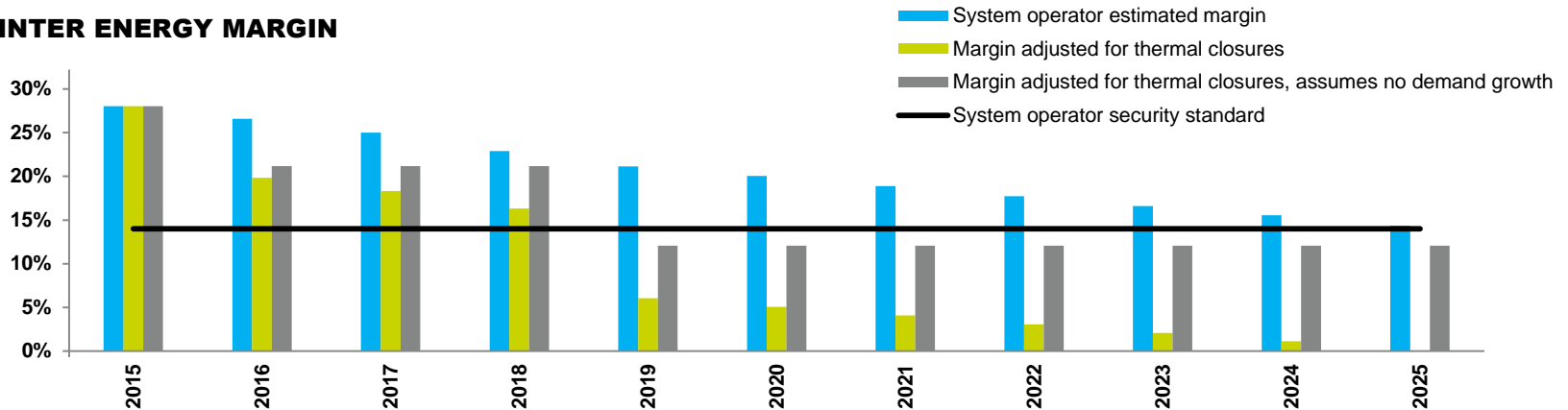


## ▶ MARKET DYNAMICS

### Tightening supply with thermal rationalisation

- > By 2019, 1,550MW of thermal capacity and ~5,040GWh of thermal fuel commitments will have been removed from the New Zealand market (compared with 2013)
- > New Zealand has increased to 80% renewable generation and we expect this to continue to climb

#### WINTER ENERGY MARGIN



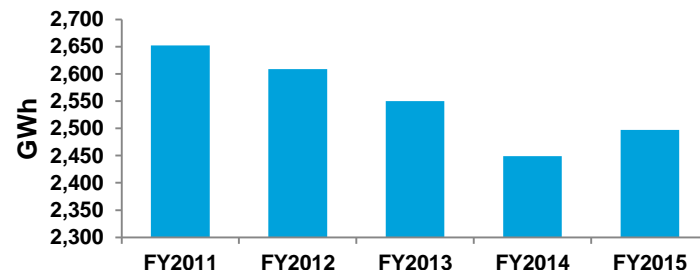
# Operational Update

## ► OPERATIONAL UPDATE

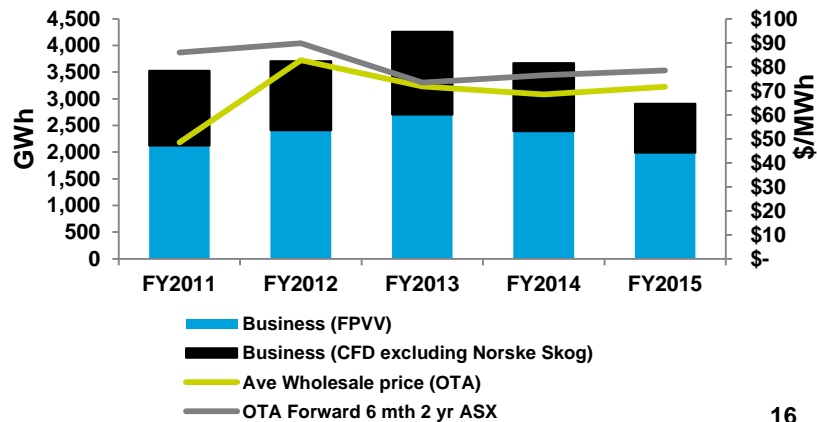
### Electricity sales

- > Residential sales volume up 49GWh, reflecting higher demand
- > Total ICPs flat year-on-year
  - > Mercury down 8,600 reflecting Auckland ICPs and commercial/farming ICPs
  - > GLOBUG up 8,500 with re-launch of product
- > Business sales (FPVV) down 406GWh and Industrial sales (CFD) down 353GWh
- > Average FPVV price stable at \$117.21/MWh supported by not renewing commercial contracts in low yield environment
- > FPVV commercial volumes (FPVV + CFD) unfavourable impact of approx \$10m on energy margin for FY2016

#### RESIDENTIAL SALES (FPVV)



#### BUSINESS SALES



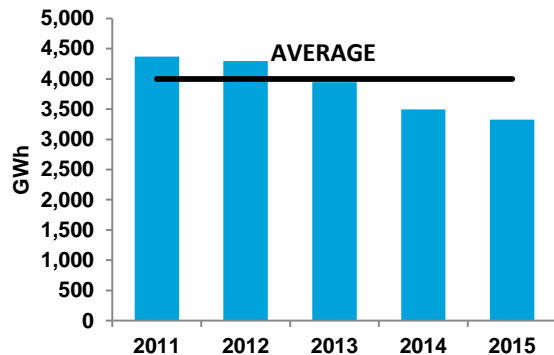


## ► OPERATIONAL UPDATE

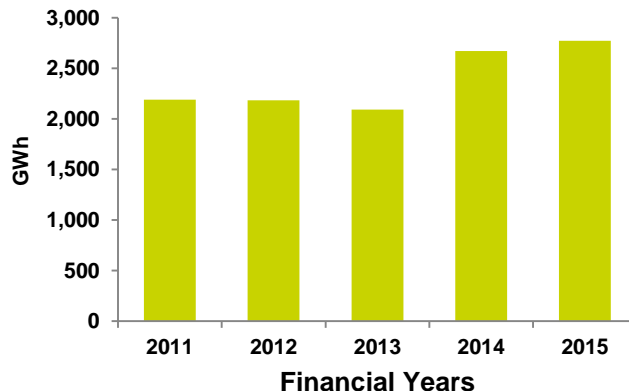
### Electricity generation

- > Total Generation 268GWh (4%) higher than FY2014
  - > Hydro 673GWh lower than average representing the lowest hydro generation in the Company's history
  - > Geothermal 99GWh higher than FY2014 reflecting increased fuel availability at Ngatamariki and Kawerau; outage at Nga Awa Purua in FY2014
  - > Thermal generation up 339GWh due to committed gas and tolling agreement (150GWh)
- > Nga Awa Purua completed 3 week outage in July for rotor replacement, now operating at capacity of 135MW

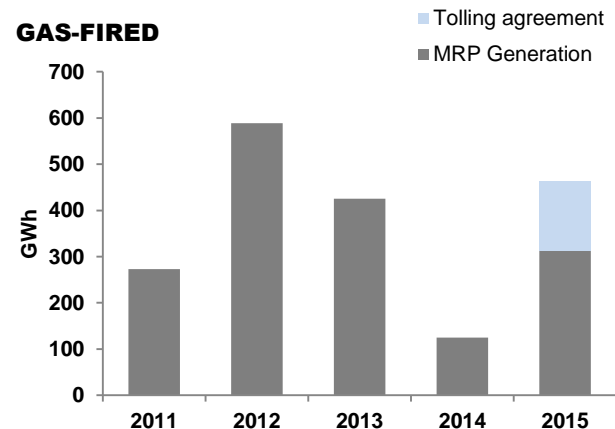
#### HYDRO



#### GEO THERMAL



#### GAS-FIRED

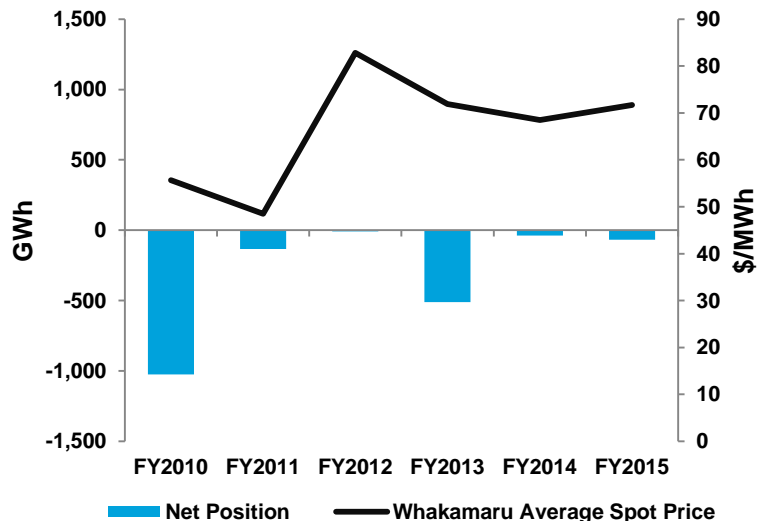


## ► OPERATIONAL UPDATE

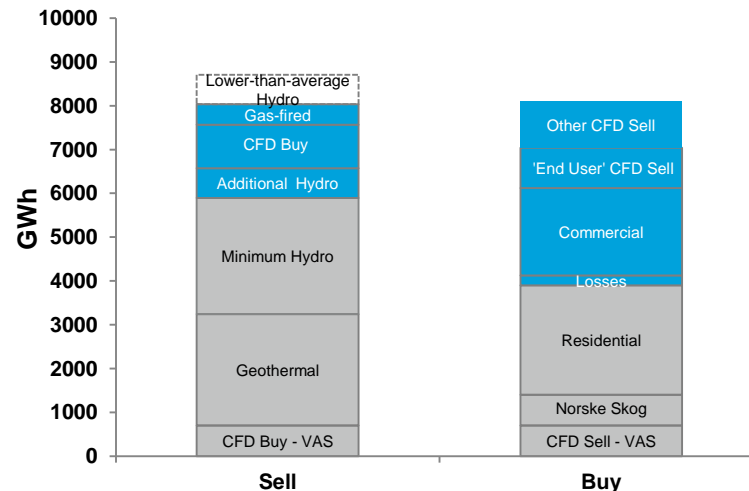
### Electricity portfolio

- > Average net position remained slightly short, reflecting the lower hydro generation during the period. Under normal hydrology net position square given Company's view on commercial pricing
- > Anticipate long position in FY2016 with the return to normal hydrology and lower commercial volumes – positioned well to benefit from lift in ASX prices

#### NET POSITION



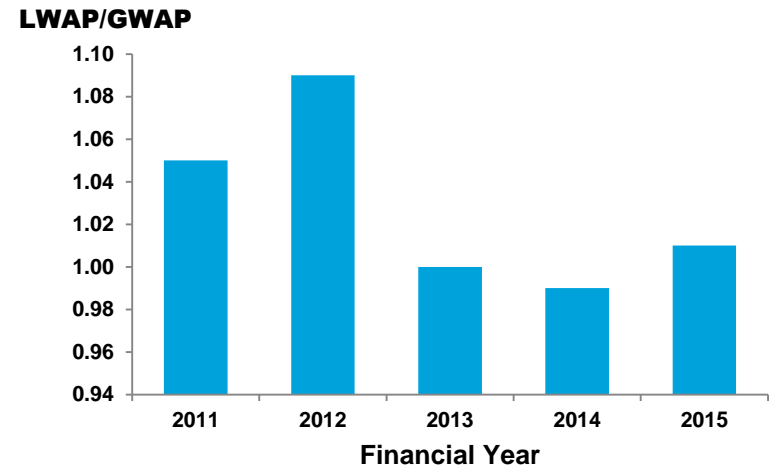
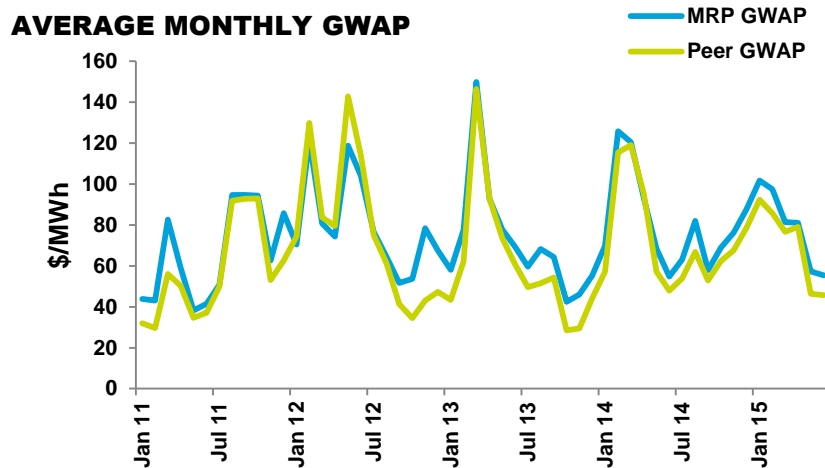
#### FY2015 NET POSITION



## ► OPERATIONAL UPDATE

### LWAP/GWAP

- > LWAP/GWAP – ratio of the cost of electricity purchased (LWAP) relative to price received for generation (GWAP)
- > FY2015 LWAP/GWAP remains favourable to peers but negatively impacted by less North Island/South Island separation, lower hydro production and higher thermal production



# Financial Update

## ► FINANCIAL UPDATE

### Financial highlights

**\$22**↓  
M

EBITDAF down due to low hydro and reduced commercial sales

**\$217** M

Operating expenditure in line with FY2014 reflecting reduction of \$30m in annual operating costs since IPO

**\$130** M

Non-cash impairments reflect exit of international geothermal development options and planned closure of Southdown

**\$230** M

Free Cash Flow down 11%, principally reflecting higher stay-in-business capex

**7.5** ¢ per share

5.0cps fully-imputed special dividend paid in December 2014 and 2.5cps to be paid September 2015

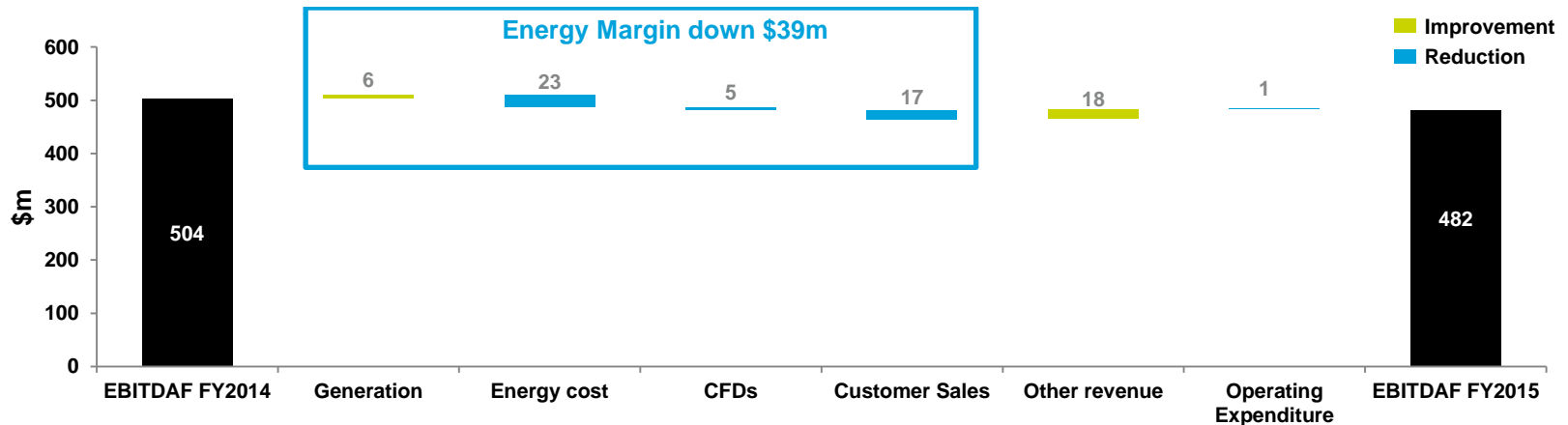
**14.0** ¢ per share

Fully-imputed full year dividend in line with guidance

## ► FINANCIAL UPDATE

### EBITDAF (FY2015 vs FY2014)

- > Generation and energy cost reflect higher spot prices in FY2015
- > CFDs and customer sales reflect roll off of commercial and industrial sales
- > 'Other revenue' increased \$18m, reflecting revaluation of property either sold or held for sale and higher Metrix revenue

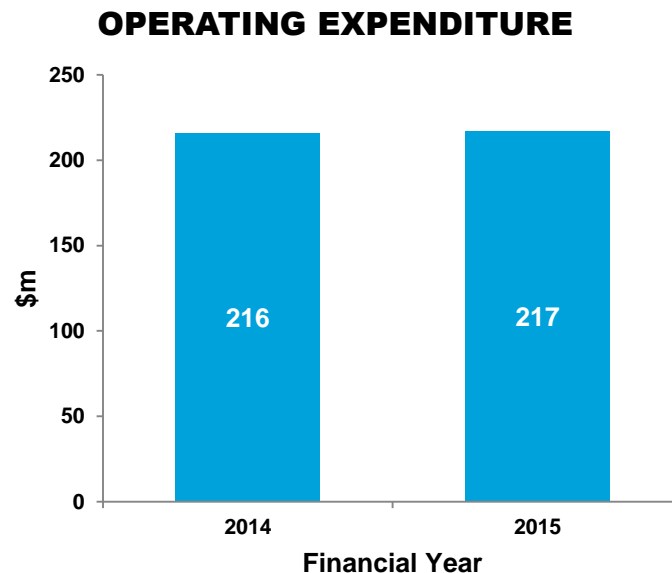


\*Energy cost excludes gas generation purchases and volume impacts of end user sales, which are included within generation and customer sales respectively

## ► FINANCIAL UPDATE

### Operating expenditure

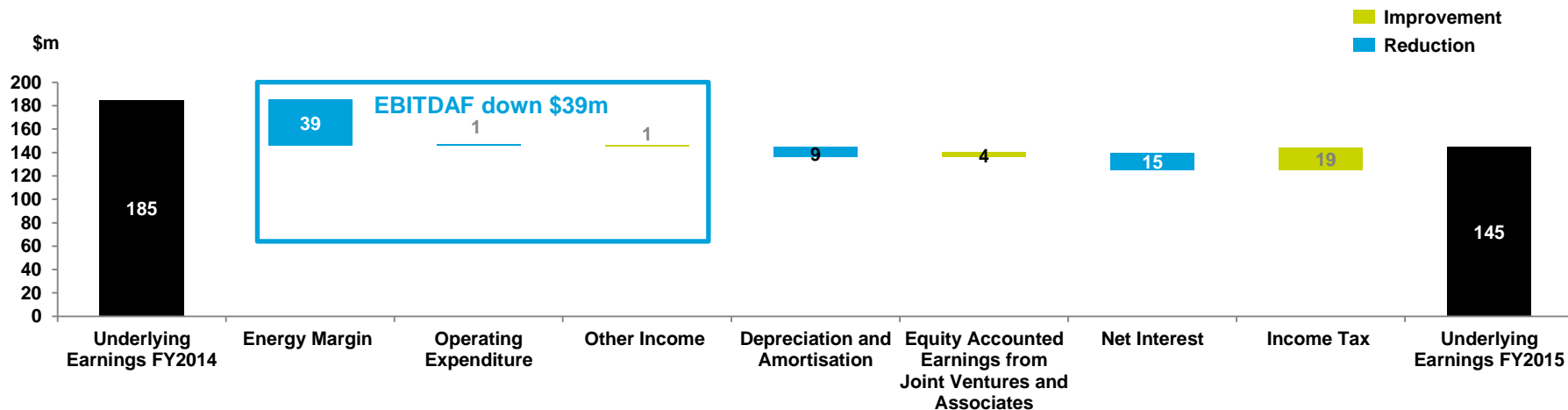
- > Approx \$30m reduction in annual operating expenditure since listing in May 2013 including:
  - > optimisation of asset management plan
  - > reduction in international geothermal costs
  - > lower corporate overheads
- > Reclassification of third party manual metering costs out of operating expenditure 2014 and 2015
- > Focus continues across business on efficiency and effectiveness with particular focus on procurement
  - > vendor rationalisation on-going
- > Expect FY2016 costs in-line with FY2015. Expect uplift of approx \$10m in FY2017 due to higher maintenance and well repair costs



## ► FINANCIAL UPDATE

### Underlying earnings and NPAT (FY2015 vs FY2014)

- > Underlying earnings down \$40m reflecting lower energy margin and higher interest payments reflecting the \$300m Capital Bond issue in July 2014 and capitalised interest in FY2014
- > Tax impact lower due to unfavourable energy margin and higher interest expense





## ► FINANCIAL UPDATE

### Consolidated cash flow

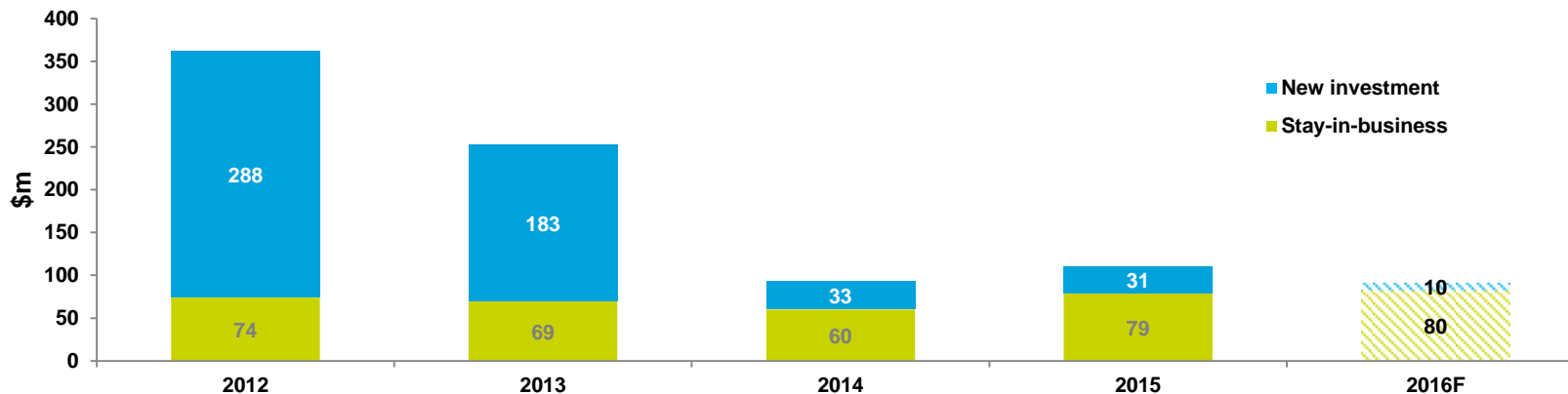
- > Net cash provided by operating activities fell \$8m, principally reflecting lower hydro generation and reductions in commercial volumes
- > Net cash used in financing activities fell \$18m, due to payment of special dividend, repayment of drawn bank facilities and commercial paper, along with \$300m inflows from Capital Bonds issued in July 2014

\$m	Year ended 30 June 2015	Year ended 30 June 2014	\$m change	% change
Net cash provided by operating activities	309	317	(8)	(2.5)
Net cash used in investing activities	(103)	(99)	(4)	(4.0)
Net cash used in financing activities	(195)	(213)	18	8.5
Cash at the end of the year	32	19	13	68.4

## ► FINANCIAL UPDATE

### Capital expenditure

- > Capital expenditure of \$110m (FY2014: \$93m)
  - > new investment of \$31m\* (FY2014: \$33m) including smart metering
  - > stay-in-business of \$79m (FY2014: \$60m) including Ngatamariki and Rotokawa wells, on-going hydro refurbishment and progress payments for the Nga Awa Purua turbine replacement
- > FY2016 guidance of \$80m for stay-in-business and \$10m for committed growth capex (Metrix)



\* Excludes \$13m related to the exercise of the Germany geothermal option included in PPE

# Accounting impacts of international geothermal and Southdown decisions

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## International Geothermal

- > In December 2014 announced exit of Chile and Germany, with no further development capital in US as development options now not in line with investment objectives
- > Non-cash impairments of \$83m relating to international geothermal development options
- > Sale of the Chile assets underway, however potential for some rehabilitation costs to occur in FY2016 prior to sale of balance of assets in FY2017
- > Crystallisation of non-cash FX translation reserve loss, can only occur on the completion of the Chile divestments (approx \$10m)

## Southdown

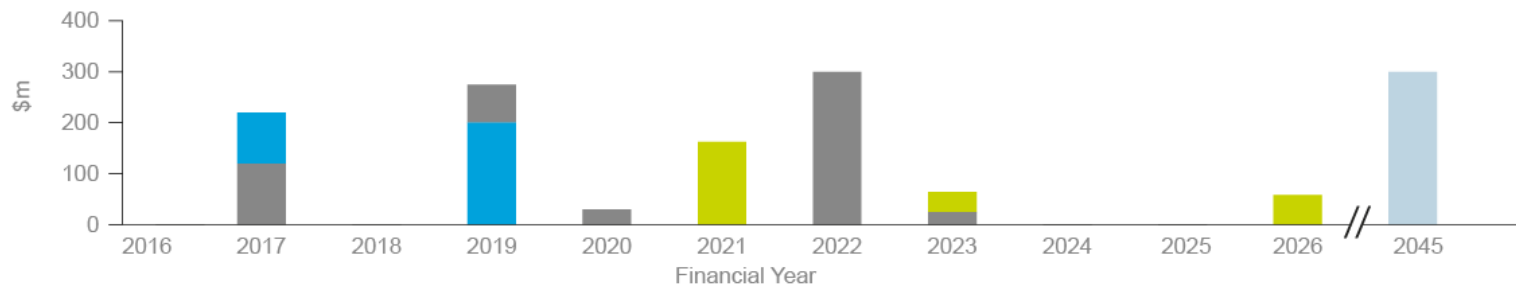
- > Non-cash impairments of \$44m relating to Southdown (written down to fair value less cost to sell; excludes land)

## ► FINANCIAL UPDATE

### Funding profile and ratios

#### DEBT MATURITIES AS AT 30 June 2015

■ Undrawn Bank Facilities ■ Domestic Capital Bond ■ Domestic Wholesale Bonds ■ US Private Placement



	30 June 2015	30 June 2014	30 June 2013	30 June 2012	30 June 2011	30 June 2010
Net debt (\$m)	1,082	1,031	1,028	1,116	976	971
Gearing ratio (%)	24.5	24.3	24.4	27.0	25.1	26.5
Debt/EBITDAF (x)	2.0*	2.1	2.7	2.6	2.2	3.0

- > Average interest rates of 8.9% for FY2015 reflect interest rate hedges put in place in 2008 ahead of domestic geothermal investment. These hedges roll off progressively from the end of FY2018 with an estimated \$20m annual cash flow benefit

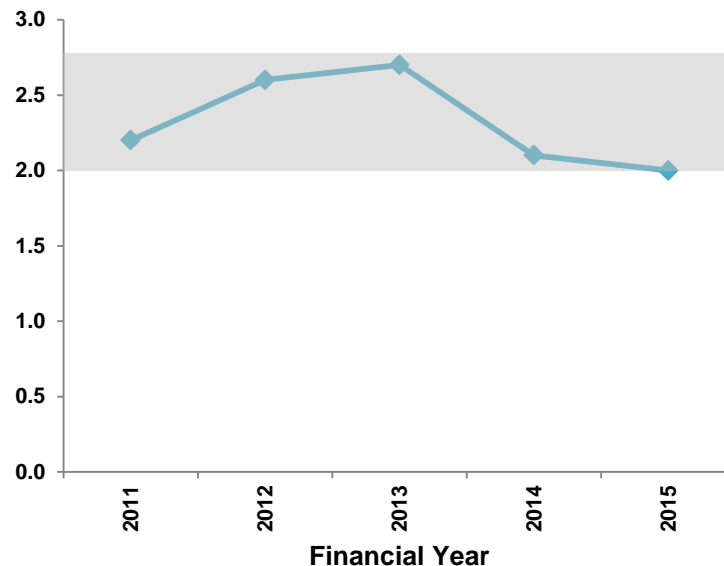
\*Adjusted for S&P treatment of subordinated debt

## ► FINANCIAL UPDATE

### Capital management

- > 'bbb' stand-alone rating - key reference point for dividend policy and sustainable capital structure
  - > one-notch upgrade given Crown majority ownership
  - > key ratio for stand-alone S&P credit rating bbb requires Debt/EBITDAF between 2.0x and 2.8x
- > Fully-imputed cash distributions where possible
  - > as at 30 June 2015 imputation credits of \$16.1m
- > Maintenance of balance sheet flexibility
  - > \$300m Capital Bond
  - > 24m treasury shares from \$50m buy-back in FY2014
  - > optionality for further buy-back (up to 15m shares)

#### DEBT/EBITDAF



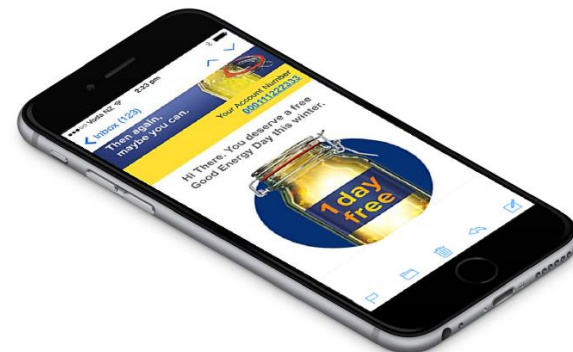
# Business & Strategy Update



## ► BUSINESS & STRATEGY UPDATE

### Improving customer value and loyalty

- > Reward loyalty to improve customer satisfaction and reduce churn
  - > customers who commit for two years get additional discount
  - > behaviour-based segmentation targeting retention offers via digital channels
- > Focus on growth in digital customers
  - > 83% of customers pay electronically (FY2014: 80%) and 55% receive bills online (FY2014: 44%)
  - > improves customer touch-points and drives down cost-to-serve
- > Improving customer value
  - > no increase in headline energy prices for residential electricity and gas customers in April 2015
  - > absorbing lines and transmission companies' increases for 35% of customers on fixed price contracts
  - > 39% of customers now actively using Good Energy Monitor (FY2014: 32%)
    - GEM users have saved almost \$2m over FY2015; \$3.5m since launch



## ► BUSINESS & STRATEGY UPDATE

### GLOBUG – delivering real value

- > GLOBUG is the fastest growing retailer since re-launch in February
  - > almost 30,000 GLOBUG customers – 11,000 additional customers since February 2015 (80% from other retailers)
- > Widely supported by budgeting agencies and community groups
  - > helps keep the lights on and reduces bad debts
  - > new pricing allows pre-pay customers to access post-pay discounts



Join GLOBUG now  
and get a

**GLOBUG**  
Get smarter about power

**\$50**

joining credit\* using  
the promo code:

**mates rates**

**CALL 0800 456 512**



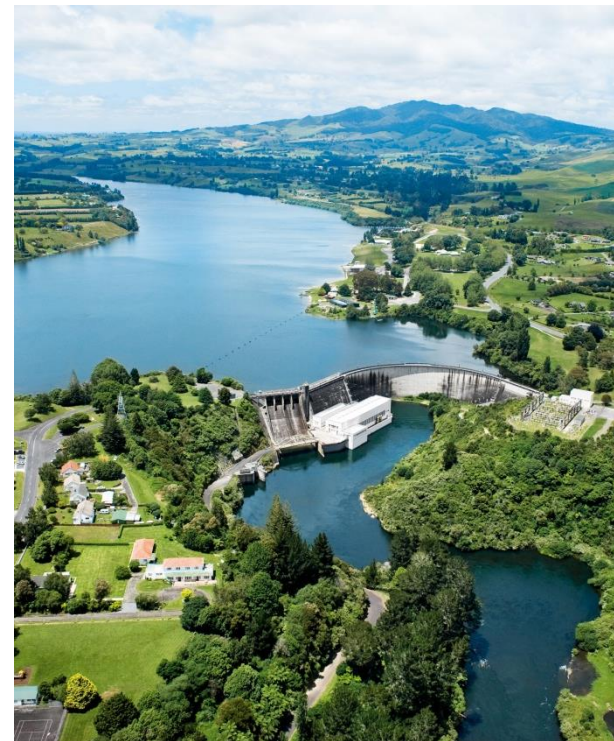
The graphic is a promotional advertisement for GLOBUG. It features a green and yellow color scheme. At the top right is the GLOBUG logo with the tagline 'Get smarter about power'. The central focus is a large green '\$50' representing a discount. Below it, text explains the offer: 'joining credit\* using the promo code: mates rates'. A red banner at the bottom right contains the phone number 'CALL 0800 456 512'. On the right side, there is a photograph of a smiling man in a plaid shirt.



### Generation portfolio – going 100% renewable

- > Hydro life-cycle refurbishment
  - > Work has began on Whakamaru upgrade to expand capacity by 20MW (to 120MW) and 4% increase in efficiency
  - > Karapiro upgrade almost complete ensuring reliability and extending asset life
- > Hydro operations achieved full compliance for the second year running following Waikato Regional Council audit
- > Southdown closure end of December 2015
  - > represented just 3%\* of the Company's generation in the past two years
  - > dry-year support from liquid hedge market and strong national grid
  - > marketing underway for sale overseas in 2016
- > Largest upper North Island renewable and peaking portfolio

\* Excludes virtual peaker contract



### Metrix

- > Metrix #2 meter service provider in NZ
  - > almost 390,000 smart meters now installed providing services for almost 70% of Auckland region
  - > 20 energy retailers and distribution customers
- > Ended Trustpower deployment agreement prior to commencement of services
  - > potential for contract to impact Metrix's core business in short-term and not commercially sustainable in the long-term
- > Current focus on service delivery in existing markets
  - > completing investment in platform to enable retailers and distribution companies to deliver greater innovation to customers
  - > continuing deployment as value accretive opportunities arise



## ► BUSINESS & STRATEGY UPDATE

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

#### Water

- > Long-term Lake Taupo partnership agreement with Tuwharetoa Maori Trust Board
- > Aligned goals with iwi and other stakeholders to make the Waikato the “world’s best catchment” over the long-term

#### Electric Vehicles (EVs)

- > Mighty River Power fleet almost 20% EV/PHEV; 70% by end of 2018 and partnering on charging infrastructure
- > Investment in chargers and fleets accelerating
- > Increasing recognition in New Zealand of renewable electricity as highly-attractive transport fuel and country’s largest green growth opportunity
- > Expecting Government announcements on EV package in 2015



### Transmission Pricing Methodology (TPM)

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- > Electricity Authority options paper substantially different from 2012 proposal
- > Mass market consumers, particularly in the Upper North Island, would see an increase in charges with reductions in charges to Meridian and Tiwai smelter (NZAS)
  - > could substantially reduce mass market consumer impact with prospective application to future assets only or transitional measures
  - > inconsistencies in the methodology should be resolved to the benefit of mass market consumers
- > Recent approval of operational changes will lower the potential benefits of more complex reform
  - > cost-benefit analysis critical to justify consumer wealth transfers from reallocation of costs of historic assets
- > Electricity Authority anticipates a mid-June 2016 timeframe for a recommendation

## ➤ OUTLOOK

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### Fresh thinking – Customer, Company, Country

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#### Operate

- ✔ No increase in headline energy prices
- ✔ Additional operating cost savings
- ✔ Planned closure of gas-fired Southdown
- ✔ Metrix exit of metering contract with Trustpower
- ✔ Karapiro refurbishment ensuring reliability and extending asset life

#### Build

- ✔ Continued pre-pay growth with GLOBUG
- ✔ International geothermal development exit well underway
- ✔ Focus on Mercury Energy customer loyalty and value

#### Grow

- ✔ Tuwharetoa long-term agreement over Lake Taupo
- ✔ Increasing national recognition of electricity as a superior transport fuel

# Outlook

## ► OUTLOOK

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### FY2016 guidance and outlook

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- > FY2016 EBITDAF will be in the range of \$490m-\$515m subject to any material adverse events, significant one-off expenses or other unforeseeable circumstances and assumes:
  - > 4,150GWh of hydro production based on higher than average starting storage level
  - > a lower level of non-core property divestment than FY2015
  - > flat year-on-year operating expenditure; FY2017 will be \$10m higher due to higher maintenance and well repair costs
  - > excludes any significant costs in relation to the divestment of Chile. Such costs could include remediation charges and the crystallisation of the Group's non-cash FX translation reserve loss, which will occur on the completion of the Chile divestments (approx \$10m)
- > FY2016 ordinary dividend guidance forecast to be up 2% to 14.3cps

# Questions



# Appendix

## ► APPENDIX

# Operating information

	Year ended 30 June 2015		Year ended 30 June 2014	
	VWAP <sup>1</sup> (\$/MWh)	Volume (GWh)	VWAP <sup>1</sup> (\$/MWh)	Volume (GWh)
<b>Electricity Sales</b>				
FPVV sales to customers	117.21	4,486	117.70	4,844
Residential customers		2,497		2,449
Commercial customers		1,989		2,395
FPVV purchases from market		4,717		5,086
Spot customer purchases		1,387		1,572
<b>Total NZEM purchases</b>	<b>76.26</b>	<b>6,104</b>	<b>71.16</b>	<b>6,658</b>
<b>Electricity Customers (000)</b>		<b>382</b>		<b>382</b>
North Island customers		348		347
South Island customers		34		35
Dual Fuel customers		40		40
<b>Metrix AMI Meters (000)</b>		<b>388</b>		<b>342</b>

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

## ► APPENDIX

### Operating information

	Year ended 30 June 2015		Year ended 30 June 2014	
<b>Electricity Generation</b>	<b>VWAP (\$/MWh)</b>	<b>Volume (GWh)</b>	<b>VWAP (\$/MWh)</b>	<b>Volume (GWh)</b>
Hydro	77.82	3,327	74.86	3,497
Gas	84.58	464 <sup>4</sup>	86.13	125
Geothermal (consolidated) <sup>1</sup>	70.63	2,545	66.68	2,451
Geothermal (equity accounted) <sup>2</sup>	71.94	227	68.91	222
<b>Total</b>	<b>75.30</b>	<b>6,563</b>	<b>71.69</b>	<b>6,295</b>
<b>LWAP/GWAP</b>	<b>1.01</b>		<b>0.99</b>	
	<b>VWAP (\$/MWh)</b>	<b>Volume (GWh)</b>	<b>VWAP (\$/MWh)</b>	<b>Volume (GWh)</b>
<b>Gas Purchases</b>	<b>\$/GJ</b>	<b>PJ</b>	<b>\$/GJ</b>	<b>PJ</b>
Retail purchases <sup>3</sup>	9.22	1.08	8.96	1.02
Generation purchases	5.90	4.72	7.92	1.72
<b>Carbon Emissions ('000 tonnes)</b>	<b>647</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 of 150GWh

## ► APPENDIX

# Contracts for Difference

	Year ended 30 June 2015	Year ended 30 June 2014
<b>Net Contracts for Difference (Sell)/Buy GWh</b>		
Sell - End User	(1,623)	(1,976)
Sell - VAS <sup>1</sup>	(699)	(674)
Sell - Inter-generator & ASX	(1,061)	(605)
Sell CFD	(3,383)	(3,255)
Buy CFD	1,697	2,230
<b>CFD</b>	<b>(1,686)</b>	<b>(1,025)</b>
<b>Energy Margin contribution (\$m)</b>	<b>\$22m</b>	<b>\$24m</b>

1. VAS included on both buy and sell side CFDs

## ► APPENDIX

### Balance sheet

\$m	As at 30 June 2015	As at 30 June 2014	\$m change	% change	As at 31 December 2014
<b>SHAREHOLDERS' EQUITY</b>					
Total shareholders' equity	3,337	3,219	118	3.7	3,010
<b>ASSETS</b>					
Current assets	286	292	(6)	(2.1)	270
Non-current assets	5,744	5,397	347	6.4	5,293
Held for sale	28	-	28	-	-
<b>Total assets</b>	<b>6,058</b>	<b>5,689</b>	<b>369</b>	<b>6.5</b>	<b>5,563</b>
<b>LIABILITIES</b>					
Current liabilities	198	271	(73)	(26.9)	212
Non-current liabilities	2,518	2,199	319	14.6	2,341
Held for sale	5	-	5	-	-
<b>Total liabilities</b>	<b>2,721</b>	<b>2,470</b>	<b>251</b>	<b>10.1</b>	<b>2,553</b>
<b>TOTAL NET ASSETS</b>	<b>3,337</b>	<b>3,219</b>	<b>118</b>	<b>3.7</b>	<b>3,010</b>

## ► APPENDIX

### Non-GAAP measure: Energy Margin

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

\$m	Year ended 30 June 2015	Year ended 30 June 2014
Sales	1,627	1,672
Less: lines charges	(422)	(431)
Less: energy costs	(507)	(505)
Less: other direct cost of sales, excluding metering	(26)	(27)
Less: third party metering	(24)	(22)
<b>Energy Margin</b>	<b>648</b>	<b>687</b>

## ► APPENDIX

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### Non-GAAP measure: Free Cash Flow

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- > 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

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\$m	Year ended 30 June 2015	Year ended 30 June 2014
Net cash provided by operating activities	309	317
Less: Reinvestment capital expenditure (including accrued costs)	(79)	(60)
<b>Free Cash Flow</b>	<b>230</b>	<b>257</b>

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### 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