**NEWS RELEASE**
26 February 2014

**NZX:** MRP **ASX:** MYT

# MRP hits half-year growth despite worst-ever hydro conditions

**Mighty River Power today released financial results for the six months ended 31 December 2013 – declaring an interim dividend of 5.2 cents per share, and reaffirming that the Company is on track to achieve its full-year 2014 outlook (IPO forecast).**

Chair, Joan Withers, said: "We have delivered operating earnings growth for the half year, and we are on track for the full year – even with a quarter less hydro than HY2013. Mighty River Power has responded to the competitive dynamics in the market and is showing new levels of efficiency and performance."

Mrs Withers said the Company was realising the expected benefits from its investment in reliable base-load geothermal generation – which in HY2014 made up more than 40% of total half-year production for the first time.

"We also managed to offset the impact of poor hydro by reducing our exposure to business customers back to HY2012 levels and by concentrating our hydro production into those times when it was most valued by the market. On the cost side we have remained sharply-focused on operating expenditure and achieving Company-wide gains in effectiveness and efficiencies."

Net Profit After Tax (NPAT) was up $48 million to $124 million, largely due to lower operating costs, positive non-cash fair value movements, and one-off effects in the prior period, while Underlying Earnings was down $28 million mainly as a result of higher interest and depreciation costs following the completion of the Ngatamariki station.

**FINANCIAL HIGHLIGHTS:**

- EBITDAF up 4% ($9.5 million) despite record low hydro inflows
- NPAT of $124 million (up $48 million) and Underlying Earnings of $105 million (down $28 million)
- Fully imputed interim dividend increased 8% to 5.2 cents per share in line with IPO forecast
- On track to achieve IPO forecast for FY2014 EBITDAF of $498 million

Chief Executive, Doug Heffernan, said the achievement of the forecast 4% ($9.5 million) lift in Operating Earnings (EBITDAF) to $270 million was challenging in light of the drought conditions that have impacted the central North Island over much of the past 12 months.

Hydro volumes were down 34% in the first quarter of FY2014, which over the full period equated to the loss of more than $33 million in potential operating income due to inflows to Lake Taupo being the lowest since the Company was formed in 1999.

This was partially offset by the timely additional contribution from geothermal (up 25%) with the completion of the new Ngatamariki station at the end of August, together with higher-than-expected cost savings.

Dr Heffernan said the higher proportion of generation coming from geothermal generation – combined with a measured reduction in commercial sales commitments – gave the Company greater flexibility when to use available hydro generation. "This meant we were able to achieve better prices for our production than the average in the market – and it was 97% geothermal and hydro renewables."

Mighty River Power's Operating Expenditure fell $33.7 million, reflecting permanent cost savings of $8.3 million and $25.4 million of one-off costs incurred in the prior period. Dr Heffernan said savings had come through taking direct control of international geothermal interests along with broader savings in maintenance and other expenses, building on the cost management gains achieved in the last quarter of FY2013.

Electricity sales volumes to businesses were down more than 9% in a low-price, low-margin commercial market environment as "Mighty River Power chose to reduce business sales to where we were a year ago", Dr Heffernan said. This helped lift the average sales prices across the portfolio by 2% in the six months ended 31 December 2013.

Mighty River Power announced in December a commitment to not increase residential energy prices until at least April 2015, reflecting the highly-competitive retail environment. This means the only increase on customers' electricity bills will be where there are regulator mandated increases from transmission, distribution and metering charges. Dr Heffernan said residential sales volumes were down 5% on the previous half year, partly due to warm winter and spring temperatures, resulting – on average – in lower bills for residential customers.

He said the Company continued to review its portfolio of assets including the role of Southdown in light of continued weak demand conditions and to further adjust the balance of the Company's sales and generation portfolio to manage risk and drive value in the highly-competitive environment.

**DIVIDEND AND OUTLOOK**

The Mighty River Power Board has declared a fully imputed interim dividend of 5.2 cents per share, to be paid on 31 March 2014 representing 40% of the forecast FY2014 dividend of 13 cents per share.

Mrs Withers said the Company has lowered its estimate for capital expenditure for the full year from previous guidance ($125 million - $175 million) to $95 million - $120 million due to lower investment domestically as it implements cost containment initiatives, and in international geothermal where a patient approach to growth opportunities has reduced forward commitments.

"Board and Management remain comfortable with the IPO forecast (issued in April 2013) for 27% growth in EBITDAF to $498 million for the full financial year to 30 June 2014, and financial metrics updated in November at the Company's Annual Shareholders' Meeting, which show NPAT and Underlying Earnings are expected to be more than $35 million ahead of the IPO forecasts. As outlined in the Prospectus there are a range of risks, including hydrology, which could impact on our forecasts."

Mighty River Power had built up Taupo storage between October and December 2013, while national wholesale prices were low, but inflows have been very weak since 1 January with Lake Taupo storage currently just over 60% of average, although forecasts show a return to more normal inflows in the autumn.

ENDS.

*The Financial Commentary on Mighty River Power's results for the six months ended 31 December 2013 is available here*

**Note on additional financial measures:**

*In reporting on Mighty River Power's financial performance, there are a number of measures and terms that we consistently use that we believe are useful for investors, but are not part of the GAAP (Generally Accepted Accounting Principles) standards we follow in preparing the Financial Statements. A reconciliation of these measures can be found in the Company's Financial Commentary for the six months ended 31 December 2013.*

www.mightyriver.co.nz

**For further information:**

**David Glendining**
Head of Communications
T 0272 105 337

**Anna Hirst**
Head of Investor Relations
T 0275 173 470

**Mighty River Power** is one of New Zealand's largest electricity companies – with its core business based on reliable, low fuel-cost electricity generation complemented by sales to homes and businesses.

The Company generates about 17% of New Zealand's electricity. It operates the nine hydro stations on the Waikato River, five geothermal power stations in the Central North Island and a multi-unit gas-fired station in Auckland. More than 90% of its annual electricity production is from renewable sources. Mighty River Power sells electricity to end customers through multiple channels and retail brands, including Mercury Energy, GLO-BUG, Bosco Connect and Tiny Mighty Power. Mighty River Power's metering business, Metrix, is one of New Zealand's largest providers, supplying electricity retailers with enhanced information solutions for their residential and commercial customers.

Mighty River Power is one of the world's largest geothermal power station owners, and has a successful track record in geothermal development, investing more than $1.4 billion in geothermal development since FY2006. The Company is applying this capability and experience – gained through domestic geothermal exploration, development, construction and operations – to invest in international growth opportunities.

FINANCIAL COMMENTARY
26 February 2014

# Financial Results for the six months ended 31 December 2013

The following commentary provides analysis[1] comparing the six months ended 31 December 2013 to the prior six months ended 31 December 2012.

## FINANCIAL HIGHLIGHTS

| | HY2014 ($ million) | HY2013 ($ million) | Change on HY2013 ($ million) | Change on HY2013 % |
|---|---|---|---|---|
| **Energy Margin[2]** | **363.2** | **378.2** | **(15.0)** | **(4.0)** |
| Other revenue | 14.2 | 23.4 | (9.3) | (39.5) |
| Operating Expenses | (107.8) | (141.5) | (33.7) | (23.8) |
| **EBITDAF[2]** | **269.6** | **260.1** | **9.5** | **3.7** |
| Depreciation and amortisation | (78.5) | (75.3) | (3.2) | 4.2 |
| Change in the fair value of financial instruments | 20.5 | (12.4) | 32.9 | (265.1) |
| Impaired assets | - | (91.4) | 91.4 | (100.0) |
| Equity accounted earnings of associate companies and interest in joint ventures | (0.7) | 58.8 | (59.5) | (101.1) |
| Net interest expense | (38.7) | (31.5) | (7.2) | 22.9 |
| Income tax expense | (48.6) | (32.9) | (15.7) | 47.7 |
| **Net profit for the period** | **123.7** | **75.5** | **48.2** | **63.8** |
| **Underlying earnings after tax[2]** | **105.0** | **133.2** | **(28.2)** | **(21.2)** |
| **Capital expenditure** | **50.5** | **145.7** | **(95.2)** | **(65.3)** |
| **Operating cash flow** | **170.7** | **212.0** | **(41.3)** | **(19.5)** |
| **Free cash flow[2]** | **142.5** | **198.9** | **(56.4)** | **(28.4)** |
| **Dividend per share (cents)** | **5.2** | **4.8** | **0.4** | **8.3** |
| Basic and diluted earnings per share (cents) | 8.86 | 5.39 | 3.47 | 64.4 |

1. This announcement is based on the audited consolidated financial statements of Mighty River Power Limited for the six months ended 31 December 2013. For more detailed analysis and explanation please refer to the attached interim financial statements
2. Energy Margin, EBITDAF, Underlying earnings after tax and Free cash flow are all Non-GAAP measures. Please see the end of this release for a reconsolidation of these measures.

**EBITDAF**

EBITDAF increased by $9.5 million to $269.6 million for the six months ended 31 December 2013 in the worst first half of hydro inflows since the Company's inception. Significantly lower than expected renewable generation was more than offset by savings in operating expenditure and higher than expected 'other income'.

Energy Margin fell 4% ($15.0 million) from $378.2 million to $363.2 million, with more than a $33 million impact from lower hydro volumes partly offset by higher geothermal production coupled with active management for value and risk in the retail and generation markets. Generation fell 442GWh on the pcp (pcp) largely as a result of lower hydro generation (down 619GWh, 25%), which was partially offset by higher geothermal production (up 267GWh, 25%) with the additional output from the new Ngatamariki geothermal power station. The average price received for electricity sales was up 2% reflecting the portfolio decision to reduce sales volumes in the commercial segment (down 132GWh, 9%) back to HY2012 levels. This reflected the relatively low-price, low-margin environment for new contracts in this segment in 2013. The Company achieved a steady relative wholesale price paid for purchases compared with the wholesale price it earned for its generation (LWAP/GWAP) of 0.98 (HY2013: 0.99) reflecting the Company's reduced sales volumes and more balanced electricity portfolio which enabled it to achieve a higher relative generation price for its flexible hydro generation.

**ENERGY MARGIN**

| $ million | HY2014 | HY2013 |
|---|---|---|
| Sales | 826.6 | 927.2 |
| Less: lines charges | (226.7) | (244.3) |
| Less: energy costs | (215.8) | (289.5) |
| Less: other direct cost of sales, including metering | (20.9) | (15.2) |
| **Energy Margin** | **363.2** | **378.2** |

Operating expenses were $33.7 million lower than HY2013 reflecting $25.4 million of one-off costs in the prior period ($22.4m foreign exchange loss and IPO costs of $3.0 million) and $8.3 million of permanent cost savings. Permanent cost savings include operational cost reductions due to the internalisation of our international geothermal business in February 2013. Operating expenses were lower than expected given a focus on effectiveness and efficiency across the business as the Company shifts from domestic geothermal generation growth to operational efficiencies and customer solutions. In particular permanent savings have been achieved relating to maintenance costs, professional fees and administrative expenses.

Other income was $9.3 million lower than pcp reflecting the recognition of $10.9 million income from a distribution from the GGE Fund in the pcp.

**Depreciation and amortisation**

Depreciation and amortisation increased by $3.2 million to $78.5 million, largely as a result of additional depreciation at Ngatamariki geothermal station following its commissioning and handover on 2 September 2013.

**Change in fair value of financial instruments**

The Company recognised a positive change in the fair value of derivatives in the Income Statement of $20.5 million, compared with the pcp when a negative change of $12.4 million was recognised. During the period $43.5 million of interest rate derivative gains were partially offset by non-hedge accounted electricity derivatives movements of $23.4 million. In line with new accounting standards (NZ IFRS 13) all derivative valuations now include a credit valuation adjustment.

**Impairments**

There were no impairments recognised for the six months ended 31 December 2013. In the pcp, the Company recognised $91.4 million of impairments related to its international geothermal activities and investments.

**Equity-accounted earnings from joint ventures**

Equity Accounted earnings from Joint Ventures (previous jointly controlled entities) fell $61.6 million, reflecting a $57.2 million favourable impact in HY2013 of the first cash distribution from the John L Featherstone station. The HY2014 Joint Venture earnings were impacted by a $4.4 million loss reflecting unsuccessful exploratory drilling by EnergySource planned to extend the proven resource boundary.

As signalled at the 2013 Annual Shareholders Meeting (ASM), the Equity Accounted loss from Joint Ventures was lower than expected at the time of the IPO, principally due to changes in equity accounting treatment resulting from better information following the restructure of the Group's international operations. This change has no impact on cash flow.

**Net interest expense**

Net interest expense increased by $7.2 million to $38.7 million for the period, reflecting higher total debt (by $44.5 million) and lower capitalised interest costs following the commissioning of the Ngatamariki geothermal power station.

**Taxation**

Income tax expense ended the period $15.7 million higher than the pcp at $48.6 million representing an effective tax rate of 28.2% (HY2013: 30.3%). The prior period was impacted by non-deductible (IPO) and non-assessable international related income statement items.

**Net profit for the period**

Overall, net profit for the period increased $48.2 million to $123.7 million (HY2013: $75.5 million) reflecting lower operating costs, a positive change to fair value movements and impairments made in the prior period. Partially offsetting these was the impact of the cash distribution from John L Featherstone in HY2013 and lower hydrology combined with higher interest costs in HY2014.

**Earnings per share**

Earnings of 8.86 cents per share increased relative to HY2013 (5.39 cents per share) primarily due to an increase in net profit but also taking into account Treasury shares that resulted in a slight reduction in the weighted average number of shares to 1,395,666,885 (HY2013: 1,400,000,094).

**Underlying earnings**

Underlying earnings were down $28.2 million against the pcp due to lower hydro production, partly offset by lower operating costs, lower earnings from Joint Ventures and Associates and higher depreciation and interest costs following the commissioning of Ngatamariki geothermal power station.

**Cash flow**

Net cash provided by operating activities fell $41.3 million to $170.7 million (HY2013: $212.0 million) predominantly due to lower generation that was in part offset by lower operating expenses (after taking into account the $22.4 million non-cash foreign exchange loss in HY2013), and higher provisional tax payments in July 2013 caused by higher than expected earnings in FY2013.

Free cash flow (defined as net cash provided by operating activities less reinvestment capital expenditure) was down $56.4 million to $142.5 million reflecting lower net cash provided by operating activities and higher reinvestment capital expenditure (up $15 million) in HY2014. Free cash flow is expected to be up on the pcp by the year-end due to $37.2 million one-off costs incurred in FY2013 relating to the internalisation of international geothermal, and additional cash flow from Ngatamariki geothermal power station.

**FREE CASH FLOW**

| **($ million)** | HY2014 | HY2013 | Change | FY2014 PFI | FY2014 ASM Forecast |
|---|---|---|---|---|---|
| Net cash provided by operating activities | 170.7 | 212.0 | (41.3) | 327.9 | 300-320 |
| Less: Reinvestment capital expenditure (accruals basis) | (28.2) | (13.4) | (15.1) | (71.6) | (71.6) |
| **Free cash flow** | **142.5** | **198.6** | **(56.4)** | **256.3** | **228.4–248.4** |

Net cash outflow used for investing activities increased by $61.7 million to $63.8 million (HY2013: $2.1 million), reflecting the $140 million cash distribution received from the GGE Fund in HY2013, offset by $82.1 million of lower capital expenditure in HY2014 reflecting completion of the current domestic geothermal development programme.

Net cash used for financing activities fell $99.0 million reflecting a $180 million movement in loan balances ($40 million increase in the current period compared to a $140 million repayment in the pcp), partly offset by the $25.1 million purchase of Mighty River Power shares during the period under the share buyback programme and a 3.99 cents per share increase in the FY2013 final dividend, paid during the period.

**Capital expenditure**

Reinvestment capital expenditure was up $15.1 million on the prior period reflecting the Whakamaru rehabilitation project and Kawerau injection wells. For FY2014, we continue to forecast $71.6 million reinvestment capital expenditure in line with the PFI. New investment capital expenditure was $110.0 million lower than the pcp reflecting the completion of Ngatamariki Power Station in September 2013. For the full year, the Company has reduced its forecast for new investment from $53 million - $103 million to $23 million - $48 million reflecting lower domestic investment due to cost containment and a more patient approach to international geothermal.

## CAPITAL EXPENDITURE (ACCRUAL BASIS)

| | $ million HY2014 | $ million HY2013 | $ million FY2014 PFI | $ million FY2014 August/ASM Forecast | $ million FY2014 current forecast |
|---|---|---|---|---|---|
| Reinvestment capital expenditure | 28.2 | 13.1 | 71.6 | 71.6 | 71.6 |
| New investment | 22.3 | 132.6 | 127.5 | 53.4-106.4 | 23.4-48.4 |
| **Total capital expenditure** | **50.5** | **145.7** | **199.1** | **125-175** | **95 - 120** |

**Balance sheet**

Mighty River Power's net assets increased $3.3 million during the period from $3,181.7 million at 30 June 2013 to $3,185.0 million at 31 December 2013. This is reflective of net profit for the period of $123.7 million offset by the purchase of $25.9 million of Treasury shares under the share buyback programme and the payment of the FY2013 final dividend of $100.8 million.

Receivables and payables have fallen from 30 June 2013 due both to seasonality impacts and movements in wholesale electricity prices. Derivative financial instruments balances have also fallen due to a roll down of the portfolios, a steepening of the forward curve, and the inclusion for the first time of a credit valuation adjustment.

Mighty River Power's net tangible assets per share as at 31 December 2013 was $2.24, compared to $2.19 as at 31 December 2012.

**Funding and debt maturity**

Net Debt as at 31 December was $1,043.9 million. Drawn debt as at 31 December 2013 was $1,075.2 million (30 June 2013: $1,035.2 million) and undrawn facilities available were $255.0 million (30 June 2013: $375.0 million) following the reduction by $80 million of facilities deemed surplus to requirements. The average maturity profile of committed facilities was 4.9 years (30 June 2013: 5.2 years).

During the period the Company began an on-market share buyback programme to purchase up to 25 million ordinary shares as part of its capital management plans, reflecting the Board's view that the purchase of its own shares is in the best interests of the Company and its shareholders. During the period, the Company had purchased 11,900,186 shares at an average price of $2.1758.

In November, Standard and Poor's confirmed that their revised Global Ratings Criteria and Methodology did not impact Mighty River Power's credit rating. Their assessment assumed no material change to business risk profile, including the current regulatory environment in which the Company operates. Mighty River Power's credit rating remains at BBB+/Stable.

**Declared dividends**

As forecast in the PFI, the Board declared a fully imputed Interim dividend of 5.2 cents per share – an 8.3% uplift from HY2013 (HY2013: 4.8 cents per share). Under the Company's dividend policy, the Interim dividend targets 40% of the total forecast dividend for the full year. The Interim dividend, together with the PFI forecast final dividend (7.8 cents per share) represents a total forecast FY2014 dividend of 13 cents per share, an 8.3% increase on FY2013, and represents some 73 - 79% of forecast free cash flow.

## INTERIM DIVIDEND TIMETABLE

| | Date | Event |
|---|---|---|
| Ex-dividend date | 10 March 2014 | To receive the Interim dividend you must own or have purchased shares before 10 March 2014 for shares held on the NZX and 5 March 2014 for shares held on the ASX |
| Record date | 12 March 2014 | If you own shares as at the above dates you will appear on Mighty River Power's share register on 12 March 2014 |
| Payment date | 31 March 2014 | All shareholders on the 12 March 2014 share register will be paid their Interim dividend by cheque or direct into their bank account on 31 March 2014 |

The dividends will be imputed at a corporate tax rate of 28% which amounts to an imputation credit of 0.020222 cents per share. The Company will also pay a supplementary dividend of 0.009176 cents per share to non-resident shareholders. The Company will receive from the IRD a tax credit equivalent to supplementary dividends.

**Outlook and guidance**

Mighty River Power's Board and Management remain comfortable with the IPO forecast for 27% growth in EBITDAF to $498 million for the year ending 30 June 2014.

During the first half of the financial year, the Company experienced lower than expected Energy Margin due to record low inflows into the Taupo catchment. The impact of this was offset by making the best use of our flexible portfolio and a continue focus across the business on driving gains in effectiveness and efficiency that are delivering material operating cost savings.

Mighty River Power had built up Taupo storage between October and December 2013, but weak inflows have since resulted in a decline in Lake Taupo storage to just over 60% of average. Forecasts show a return to more normal inflows in the autumn.

The Company has reaffirmed that it expects to meet financial metrics as outlined at the time of the Annual Shareholders Meeting (ASM) in November 2013, however has lowered its estimate for capital expenditure from previous guidance due to cost containment initiatives in domestic investment and a more patient approach to international geothermal.

## FY2014 GUIDANCE

| Year ended 30 June 2014 | Current Forecast | ASM | PFI |
|---|---|---|---|
| EBITDAF | No change | 498 | 498 |
| Net Profit for the year | No change | >195 | 160 |
| Underlying Earnings | No change | 175-185 | 138 |
| Adjusted Net Profit | No change | 175-185 | 170 |
| Operating Cash Flow | No change | 300-320 | 328 |
| Capital expenditure | 95-120 | 125-175 | 199 |

As outlined at the ASM, Operating cash flow is now forecast to be between $300 million and $320 million lower than IPO forecast of $328 million, mainly due to higher provisional tax payments in July caused by higher than expected earnings in FY2013 and tax adjustments related to Nga Awa Purua.

At the FY2013 full year results, we reported that our equity accounted earnings were higher than expected due to changes in the equity accounting treatment resulting from better access to information following the restructure of our international geothermal operations. This also has flow-through effects on our equity accounted earnings and our deferred tax estimate, which affects tax expense. In addition to this, we are currently forecasting interest costs to be lower by some $5 million to $10 million reflecting higher capitalised interest and lower net debt at year-end. It is important to note that we have left our estimate of fair value movements on financial instruments unchanged at some $32 million.

The flow-through effect of these changes means our current forecast for net profit and underlying earnings shows us more than $35 million ahead of the forecasts as outlined at the time of the IPO, and consistent with the guidance issued at the ASM.

This guidance is subject to any material adverse events, significant one-off expenses, non-cash fair value movements or other unforeseeable circumstances including hydrological conditions and other risks described in the Investment Statement and Prospectus issued in April 2013.

## NON-GAAP FINANCIAL INFORMATION

The Company believes that the following Non-GAAP financial information is useful to investors for the reasons set out below. Mighty River Power has reported these measures of financial performance to date and intends to do so in the future, allowing investors to compare periods. The basis of these calculations can either be found below or as part of the Financial Statements.

**EBITDAF** is reported in the income statement of the Financial Statements and is a measure that allows comparison across the electricity industry. EBITDAF is defined as earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments, impairments and equity accounted earnings.

**Energy Margin** is defined as sales less lines charges, energy costs and other direct cost of sales, including metering. 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 and can be derived from the financial statements as follows:

### ENERGY MARGIN

| $ million | HY2014 | HY2013 |
|---|---|---|
| Sales | 826.6 | 927.2 |
| Less: lines charges | (226.7) | (244.3) |
| Less: energy costs | (215.8) | (289.5) |
| Less: other direct cost of sales, including metering | (20.9) | (15.2) |
| **Energy Margin** | **363.2** | **378.2** |

**Underlying Earnings** reported in Note 3 of the Financial Statements, is net profit for the half year adjusted for one-off and/or infrequently occurring events exceeding $10 million of net profit before tax, impairments and any changes in the fair value of derivative financial instruments. In contrast to net profit, the exclusion of certain items enables a comparison of the underlying performance across time periods.

**Net Debt** is defined as current and non-current loans less cash and cash equivalents and loan fair value adjustments and is a metric commonly used by investors and can be derived from the Financial Statements as follows:

### NET DEBT

| $ million | HY2014 | FY2013 |
|---|---|---|
| Current loans at carrying value | 105.5 | 105.4 |
| Add: Non-current loans at carrying value | 971.6 | 952.4 |
| Add: Fair value adjustments US Private Placement | 2.1 | (18.8) |
| Less: cash and cash equivalents | (35.4) | (11,2) |
| **Net debt** | **1,043.9** | **1,027.8** |

**Free Cash Flow** is net cash provided by operating activities less reinvestment capital expenditure (including accrued costs). 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.

## FREE CASH FLOW

| $ million | HY2014 | HY2013 |
|---|---|---|
| Net cash provided by operating activity | 170.7 | 212.0 |
| Less: Reinvestment capital expenditure (including accrued costs) | (28.2) | (13.1) |
| **Free cash flow** | **142.5** | **198.9** |

www.mightyriver.co.nz


**For further information:**

**David Glendining**
Head of Communications
**T** 0272 105 337

**Anna Hirst**
Head of Investor Relations
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26 February 2014

# Financial Results

## Six months ended 31 December 2013

MIGHTY RIVER POWER

**Presented by:**

**Doug Heffernan**
Chief Executive

**William Meek**
Chief Financial Officer

# Disclaimer

The information in this presentation has been prepared by Mighty River Power Limited with due care and attention. However, neither the company nor any of its directors, employees, shareholders nor any other person shall have any liability whatsoever to any person for any loss (including, without limitation, arising from any fault or negligence) arising from this presentation or any information supplied in connection with it.

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A number of non-GAAP financial measures are used in this presentation, which are outlined in the appendix of the presentation. You should not consider any of these in isolation from, or as a substitute for, the information provided in the audited consolidated financial statements for the year ended 31 December 2013, which are available at www.mightyriver.co.nz.

Forward looking statements are subject to any material adverse events, significant one-off expenses, non-cash fair value movements or other unforeseeable circumstances including hydrological conditions and other risks described in the Investment statement and Prospectus issued in April 2013.

The information in this presentation is of a general nature and does not constitute financial product advice, investment advice or any recommendation. Nothing in this presentation constitutes legal, financial, tax or other advice.

# Agenda

# Highlights

# HIGHLIGHTS

## Financial performance

- EBITDAF up 4% to $270 million despite record low inflows
- Operating costs down $34 million to $108 million - $8 million of permanent cost savings
- Capital expenditure down $95 million to $51 million
- Interim dividend up 8% to 5.2 cents per share in line with PFI

## Operating performance

- Significant and ongoing effort into Health and Safety culture
- Over 97% of production from renewables – geothermal reached 40% for the first time
- Portfolio decisions delivering value
  - reduced commercial volumes to 2012 levels in lower price market
  - reduced high cost thermal generation
  - concentrated hydro generation when most valued by the market

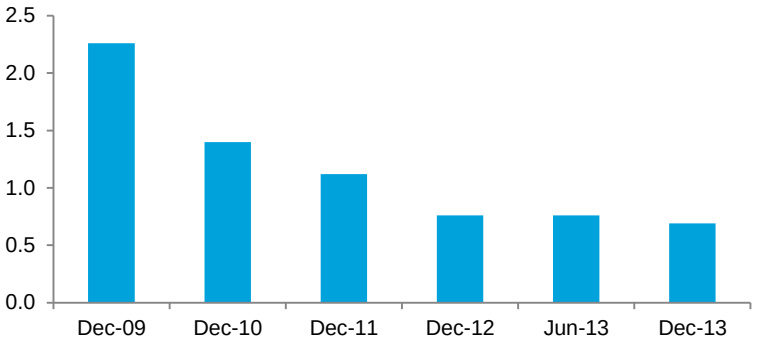
## Outlook

- On track to meet FY2014 PFI of $498 million EBITDAF
  - lower Energy Margin offset by operating cost savings
- Return to mean inflows assumed – Lake Taupo storage currently sitting just over 60% of average

# Health and Safety

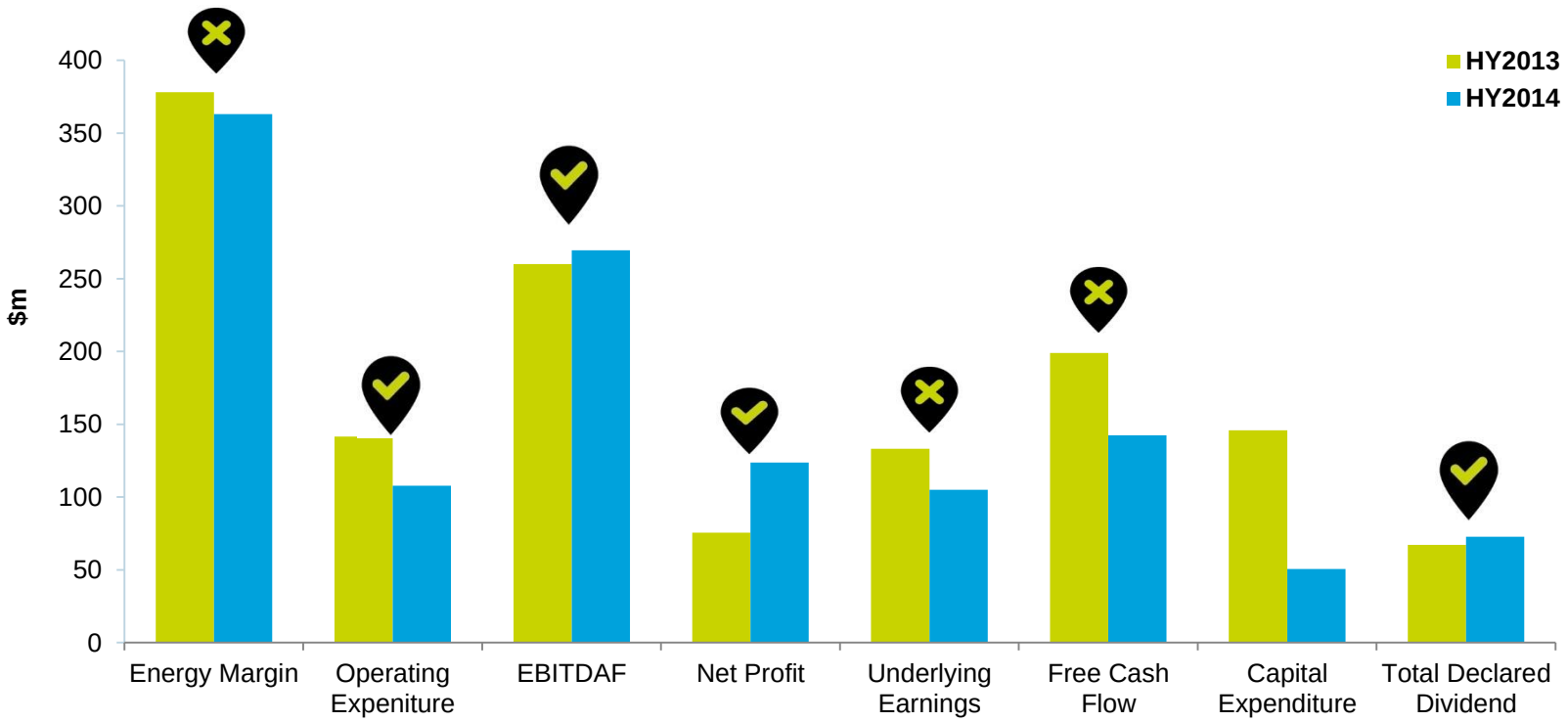
- Health and Safety focus on ‘zero harm’ is an absolute priority
- No serious harm injury events in the period
- In HY2014 1.1 million hours were worked on our sites with five non-serious harm injury incidents
- Particular focus on extending safety culture to contractors and sub-contractors
- Industry-wide initiatives through StayLive

**TOTAL RECORDABLE INJURY FREQUENCY RATE**
(rolling 12 month, per 100,000 hours)




# HIGHLIGHTS

## HY2013 vs HY2014

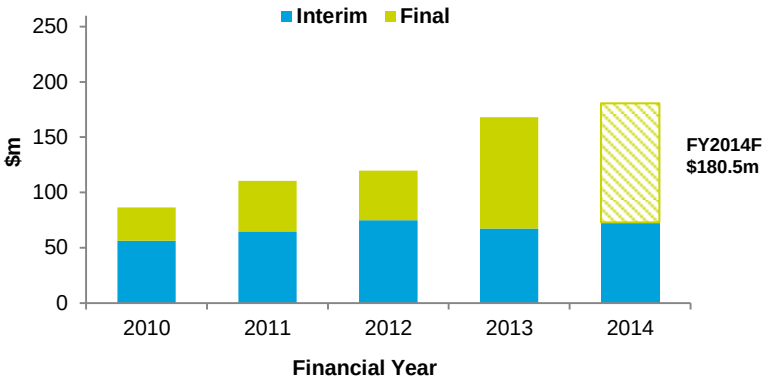



- Net Profit up – lower operating costs, positive non-cash fair value movements and impairments in HY2013
- Underlying Earnings down – lower earnings from JVs and Associates, higher interest and depreciation costs relating to Ngatamariki post-commissioning
- Free Cash Flow down – lower underlying earnings and higher provisional tax payments

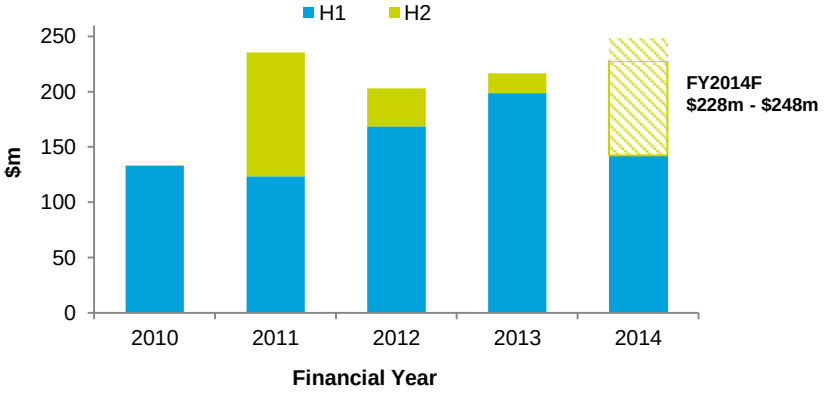
# Dividend

- Fully imputed Interim dividend up 8% to 5.2 cents per share to be paid on 31 March 2014
- FY2014 PFI forecasts dividend of 13 cents per share ($180.5 million[1])
  - forecast payout 98% -103%[2] of Adjusted Net Profit and 73% - 80%[2] of Free Cash Flow
- Ongoing review of capital management
  - lower-than-expected net debt and capital expenditure
  - growth initiatives progress
  - share buyback programme from October 2013 – October 2014 to purchase up to 25 million shares (12 million completed)

**DECLARED DIVIDENDS**




**FREE CASH FLOW**



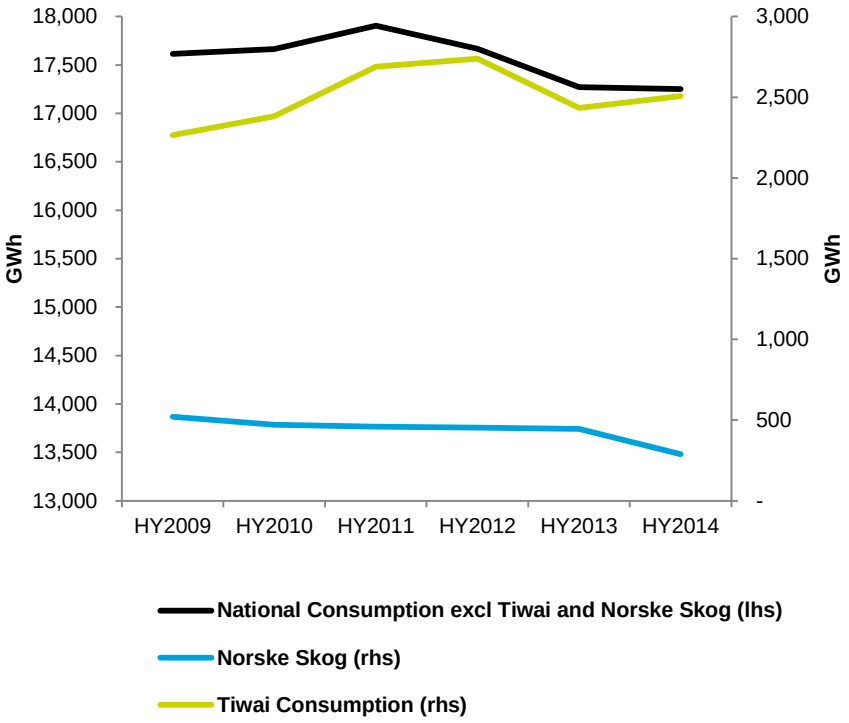

1. Based on 1,388,112,331 shares which equates to Issued Share Capital less Treasury shares (purchased via share buyback programme ) as at 31 December 2013
2. As per latest guidance issued at the Annual Shareholders' Meeting held in November 2013

# Market Dynamics

# Demand

- National electricity demand down 1% on pcp
- Excluding Tiwai and Norske Skog demand broadly flat HY2014 vs HY2013
- Tiwai consumption up 3% (74GWh) as NZAS benefits from negotiated lower-priced contract with Meridian
- Norske Skog down 35% (156GWh) reflecting reduction to one paper line
- Residential demand down
  - warm temperatures
  - ongoing reductions by households

**ELECTRICITY CONSUMPTION**

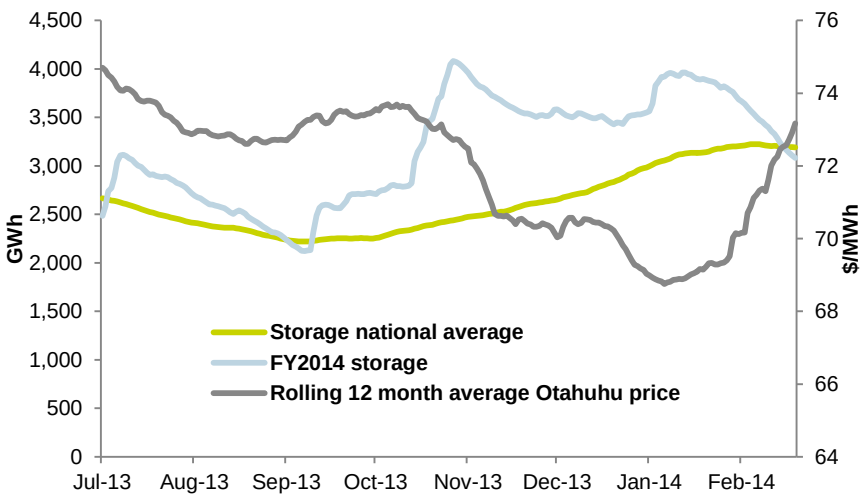


# MARKET DYNAMICS

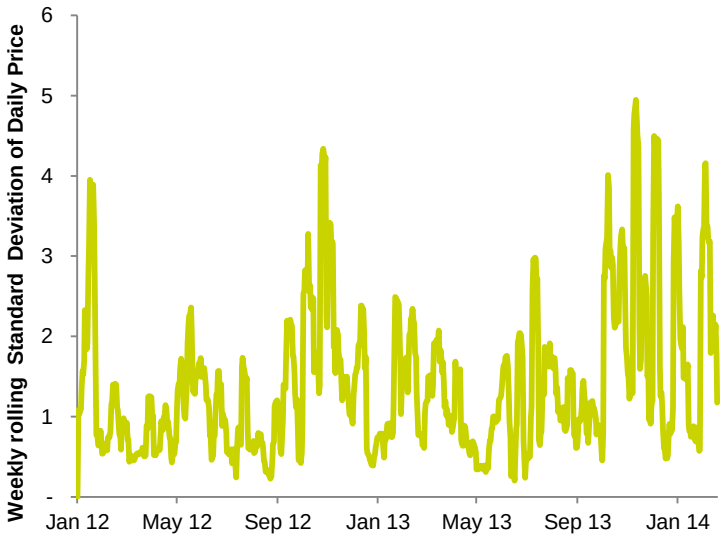
## Changing wholesale market dynamics

- Significantly higher-than-average national inflows and storage levels in period
- Thermal utilisation declining
  - 1,200MW renewable (geothermal and wind) generation added over last 10 years displacing thermal generation – renewables now 80% of energy mix which ranks in the top three in the OECD
  - lower must-run/inflexible fuel commitments in 2013/2014 enabling thermal response
- Decreased thermal utilisation coupled with variable wind production – reduces correlation between wholesale prices and national hydro storage and increases volatility

**OTAHUHU WHOLESALE PRICE AND NATIONAL STORAGE LEVELS**



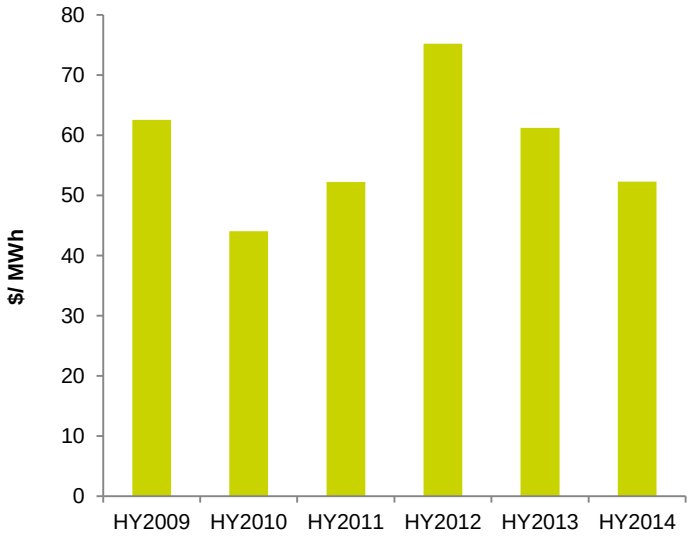

**VOLATILITY**



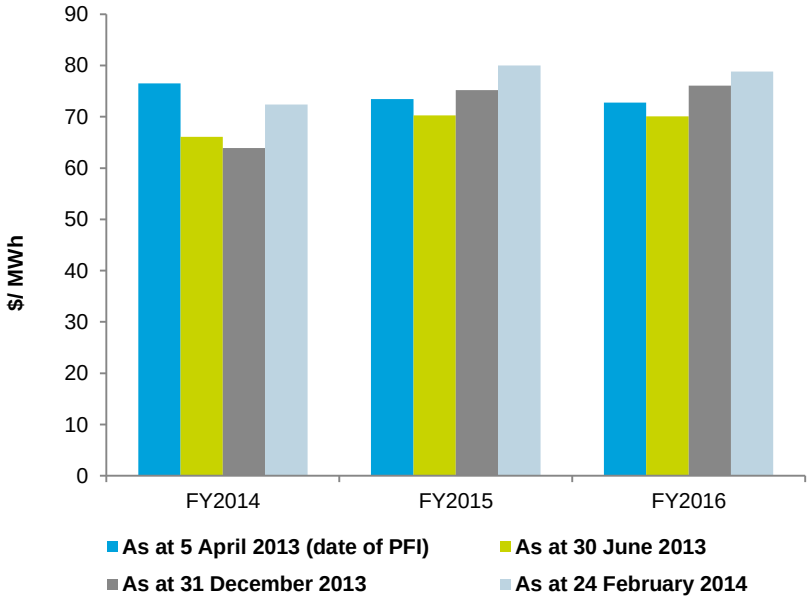
# Wholesale prices

- Demand/supply potentially reached its peak due to reduced thermal fuel commitments
- Short-term ASX price trough reverses since 30 June 2013
  - FY2014 ASX prices increased by $6/MWh
  - FY2016 ASX prices up $9/MWh

**AVERAGE WHOLESALE PRICE (WKM)**



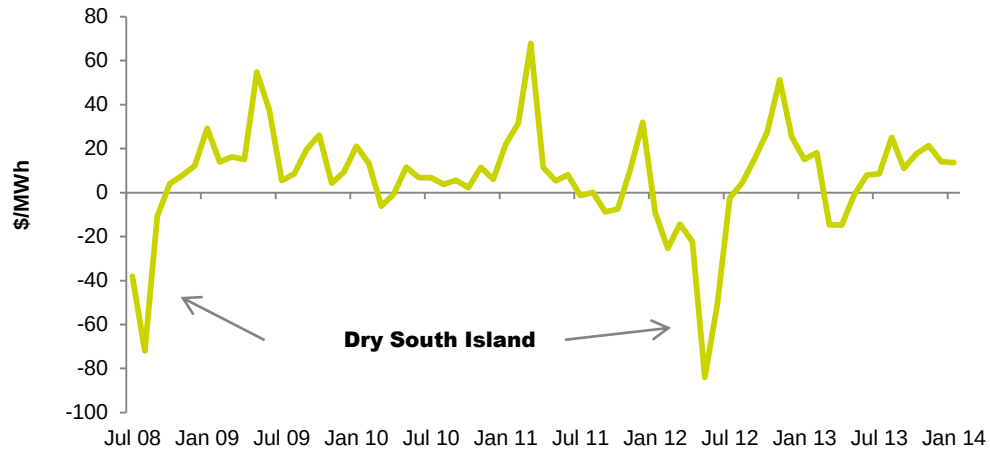

**ASX FUTURES SETTLEMENT PRICE (OTA)**



# Changing retail market dynamics

- High supply/demand margin and low wholesale price levels and volatility has led to an estimated 10% – 15% of commercial and industrial volumes unhedged
  - increased risk with reducing security margins and increased volatility of market
- HVDC expansion complete during the period
  - South Island generators benefit from HVDC expansion – better prices for higher volumes
  - less risk of negative spread under dry South Island conditions – good for South Island customers

**SPREAD (OTA-BEN)**

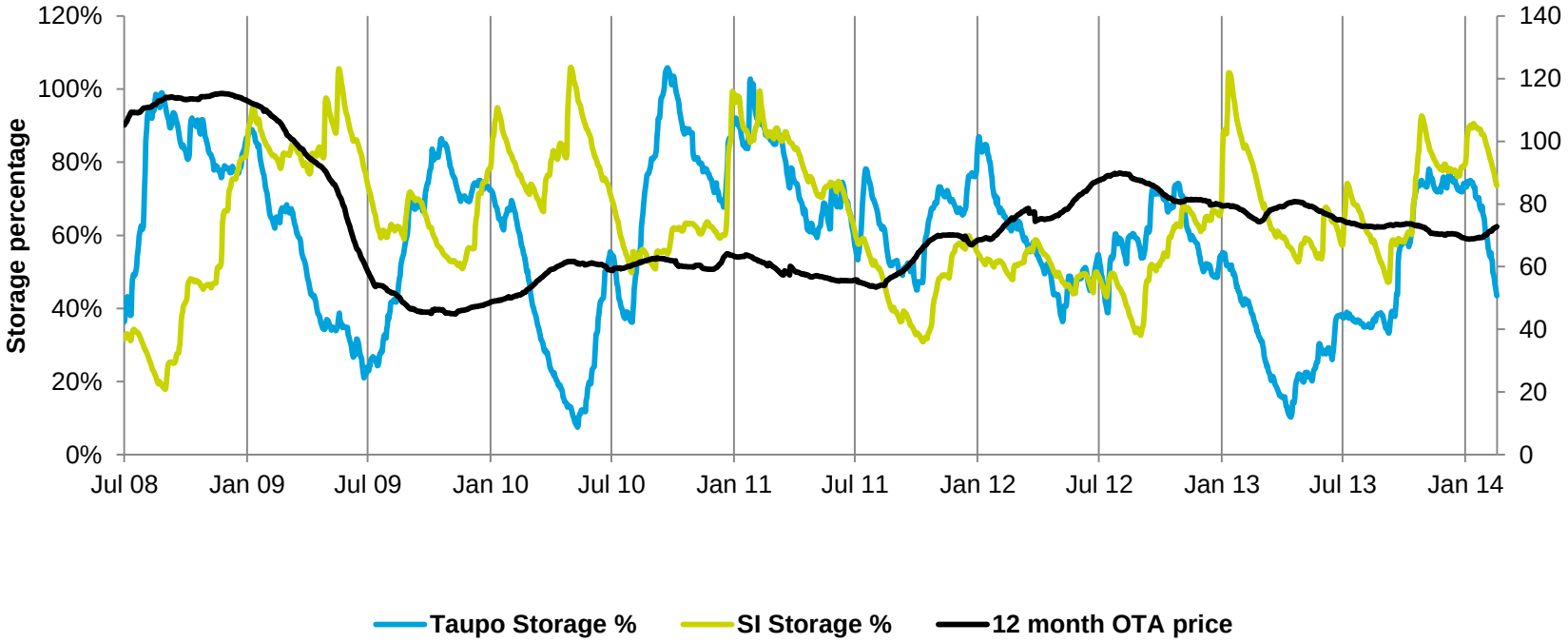


# MARKET DYNAMICS

## Negative correlation with South Island inflows

- Taupo inflows typically not correlated with South Island and wholesale price
- Over time this limits downside variability but has opportunity for upside
- Tend to build storage when South Island has inflows

**TAUPO AND SOUTH ISLAND STORAGE**

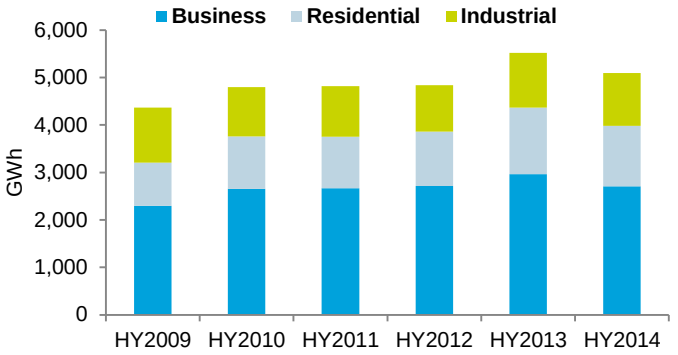


# Operational Update

# Electricity sales

- Residential sales down 63GWh (5%)
  - warmer temperatures
  - consumer savings
  - reduced acquisition and retention in South Island pre-HVDC expansion
- Commercial sales adjusted down 132GWh (9%)
  - commercial contracts renewals increased during 2012 South Island drought and reduced as prices fell through 2013
  - FY2016 ASX prices up $9/MWh since July 2013
  - average contract length approx three years
- Average electricity price up 2% on pcp
  - supported by reduced lower price commercial volumes
  - in line with PFI - no energy price increase for residential until at least April 2015

**SALES**



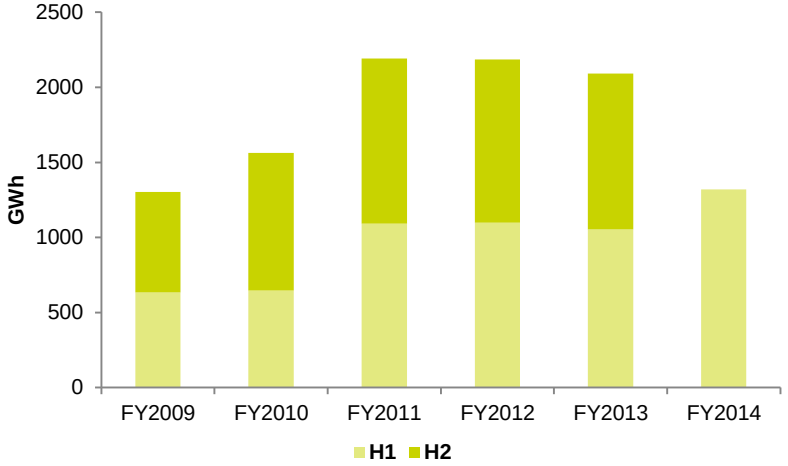

**RETAIL MARKET SHARE[3]**


3. Source: Mighty River Power purchases and Transpower SCADA

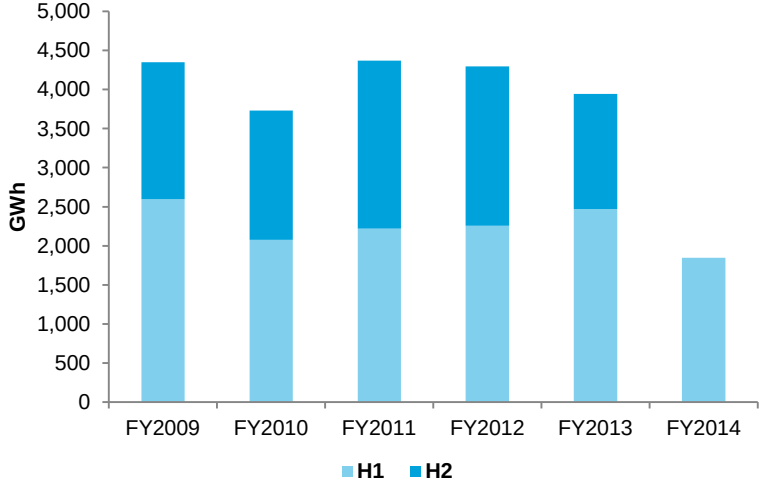
# Electricity generation

- Hydro generation down 619GWh (25%)
  - generation 332GWh below average
  - hydro storage rebuilt from low in June
- Lower wholesale prices led to lower utilisation of gas-fired Southdown
- Geothermal generation up 267GWh (25%)
  - Ngatamariki contributed 329GWh to production for HY2014 and 233GWh since handover
  - Nga Awa Purua repair successful – 10MW lower output until rotor repair in HY2016

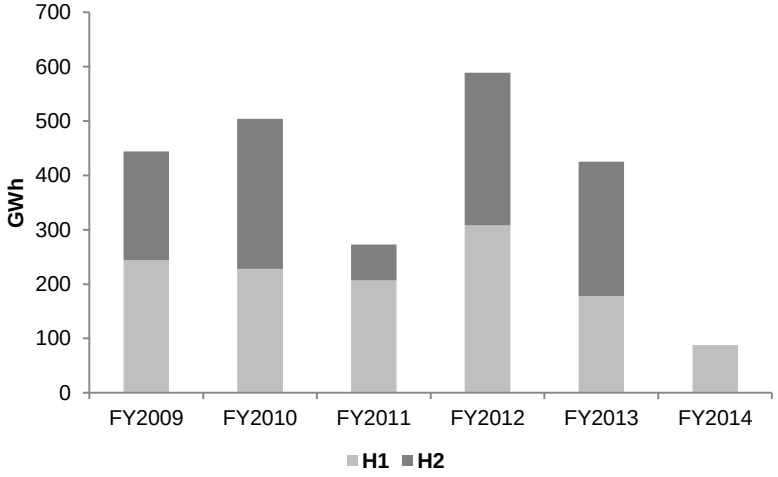
**GEOTHERMAL**




**HYDRO**



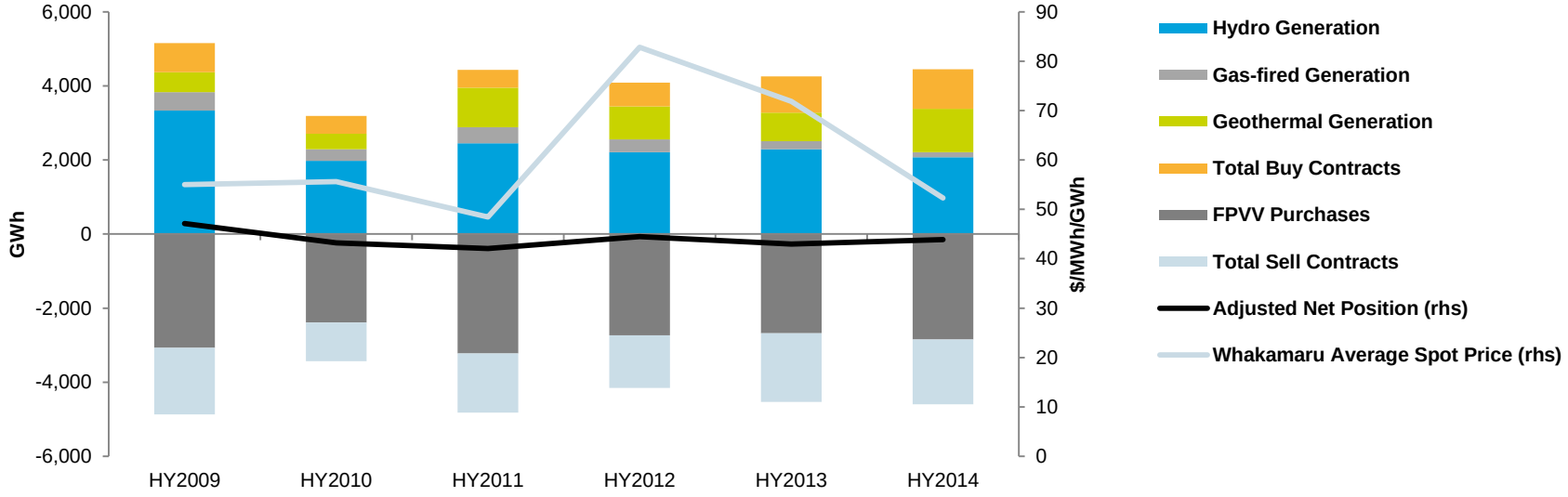

**GAS-FIRED**



# Net position

- Net position moved towards square reflecting view of commercial market
  - adjusted net position decreased from 272GWh to 146GWh short
  - unadjusted net position decreased from 242GWh to 110GWh short
- Adjusted hydro position only marginally down due to higher relative price for hydro generation
  - reflects flexibility of hydro assets
- Higher cost thermal Southdown production required less to cover position – ASX lower cost option

**ADJUSTED NET POSITION[4]**

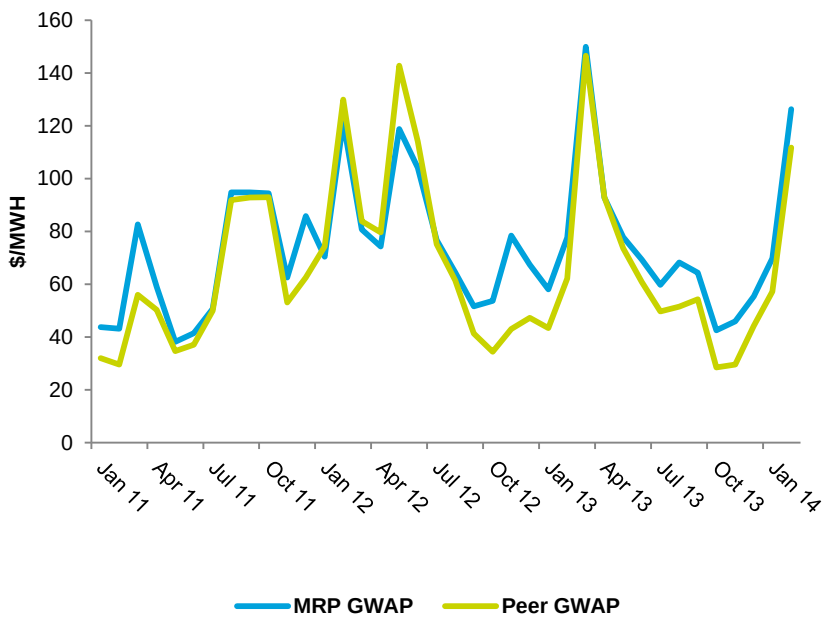



4. To illustrate our portfolio position we adjust our disclosed operating statistics for both nodal location and profile of generation and load

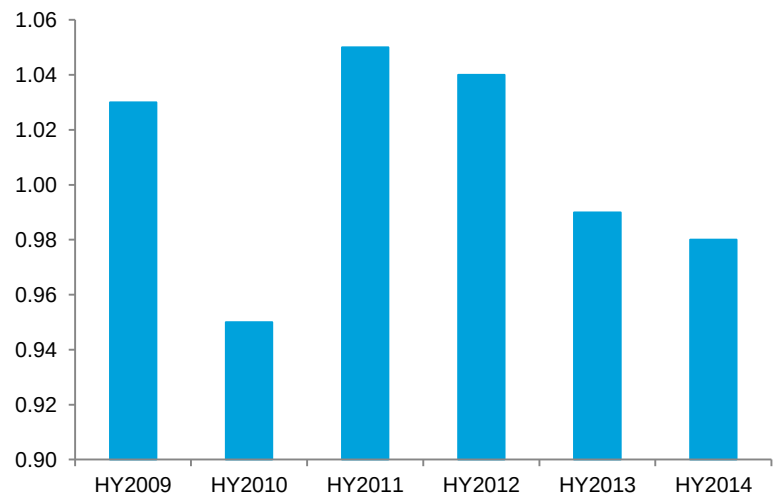
# LWAP/GWAP

- LWAP/GWAP – ratio of cost of electricity purchase (LWAP) relative to the price received for generation (GWAP)
- Lower sales volumes increased portfolio flexibility to optimise value in the market and improve GWAP hydro performance
- Loss of margin from reduced commercial contracts offset by improved GWAP performance

**AVERAGE GWAP**




**LWAP/GWAP**



# Financial Update

# Financial highlights

**$15.0M**

Energy Margin only down $15m despite $33m impact from lower hydro

**$9.5M**

EBITDAF up $9.5m reflecting lower operating expenditure

**$8.3M**

$8.3m permanent cost savings

**$95-$120M**

Capital expenditure now expected for FY2014

**5.2¢**

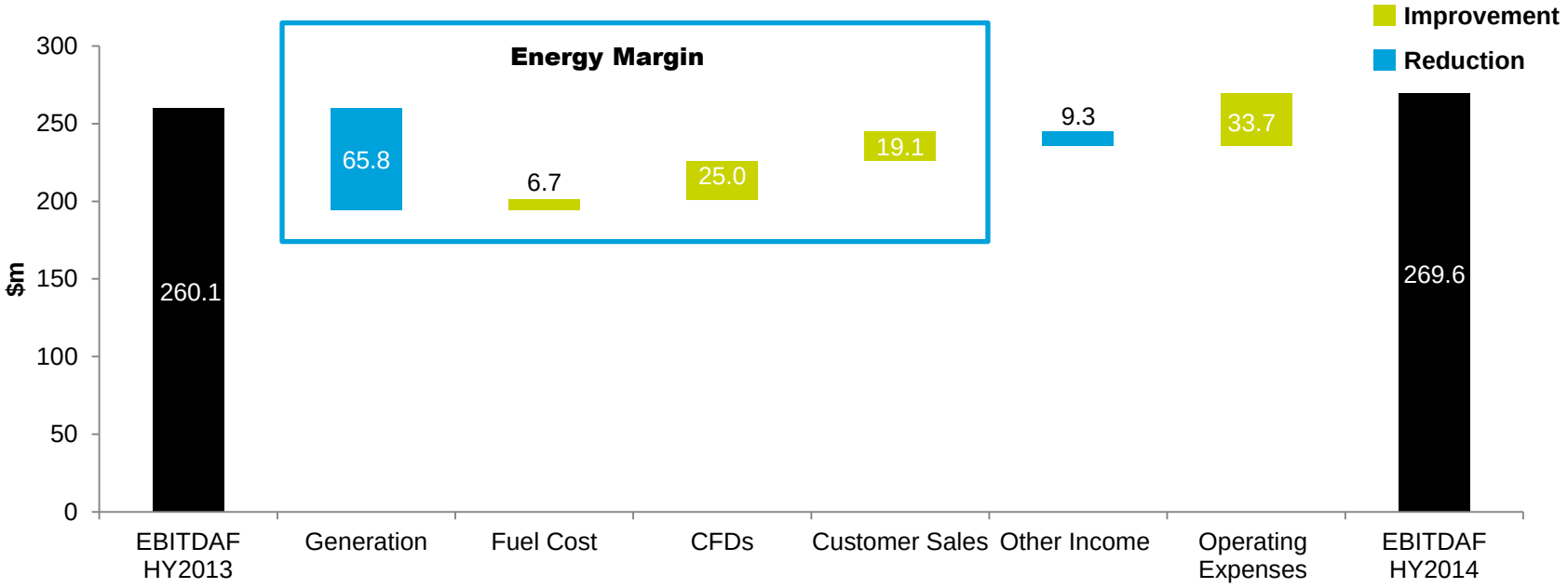
per share fully imputed interim dividend in line with PFI

**BBB+**

No impact from Standard and Poor's revised Global Ratings Criteria

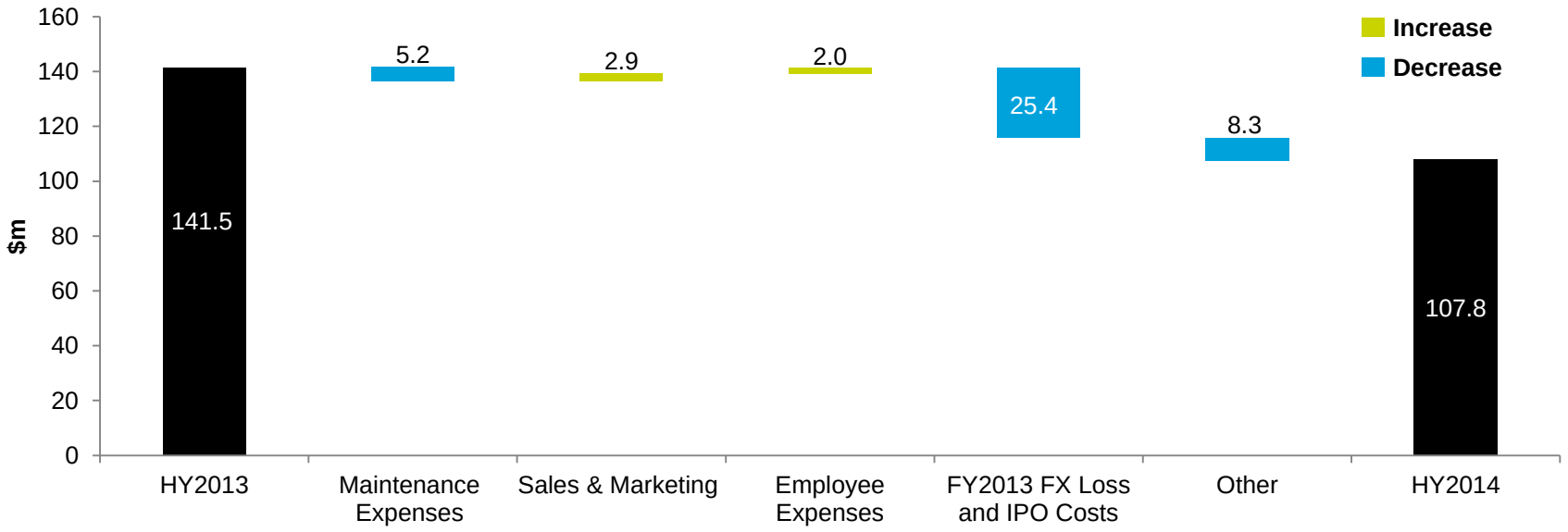
# EBITDAF (HY2013 vs HY2014)

- EBITDAF up $9.5 million (4%) on FY2013 and in line with forecast
  - Energy Margin only down $15 million due to hydro down 619GWh (worth $33 million) offset by additional geothermal production and making best use of our flexible generation (GWAP/LWAP)
  - HY2013 Other Income benefited from proceeds from the one-off cash distribution associated with John L Featherstone
  - Operating Costs down $33.7 million, including $8.3 million of permanent savings



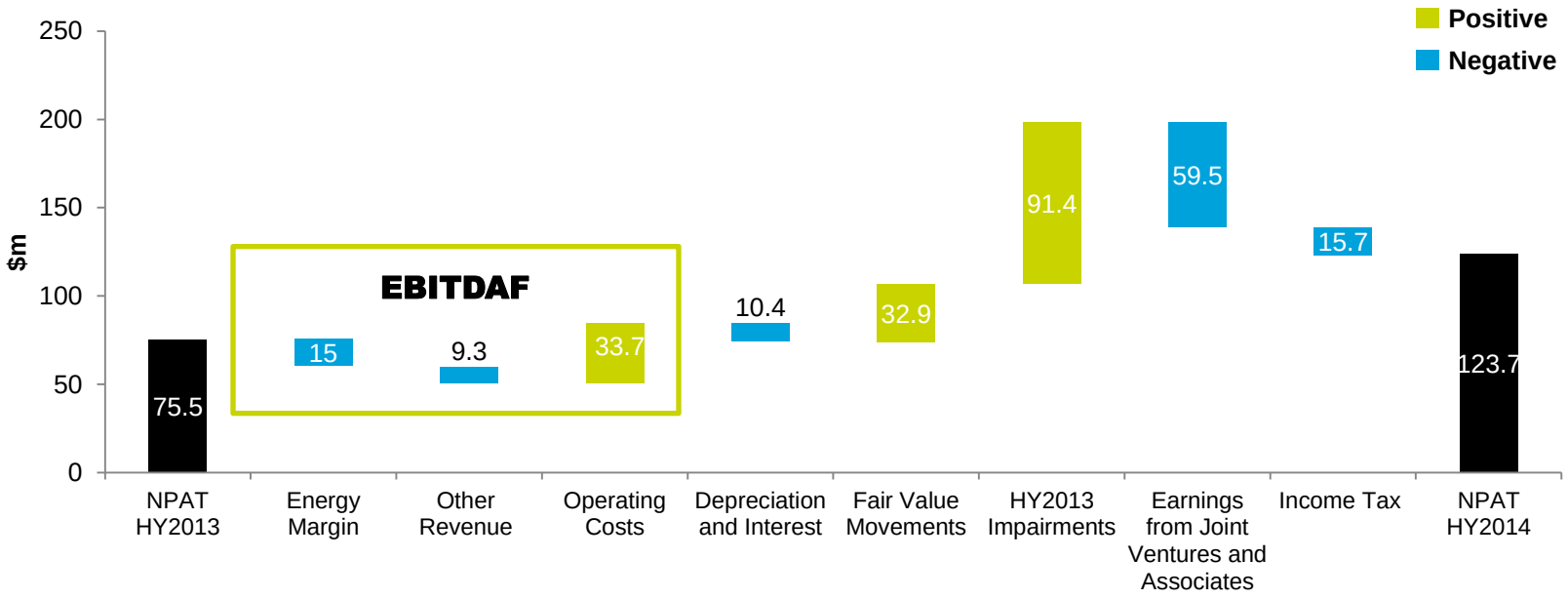
# Operating expenses

- Operating expenses down $33.7 million reflecting $25.4 million of one-off costs in prior period and $8.3 million of permanent cost savings
- Operating costs lower than forecast reflecting savings in maintenance, professional fees and administrative expenses
  - shift from domestic geothermal growth to operational efficiencies and customer solutions
  - full review identifying key areas of focus and initiatives
  - internalisation of international geothermal operations
- Looking forward cost savings will offset sales margin deterioration



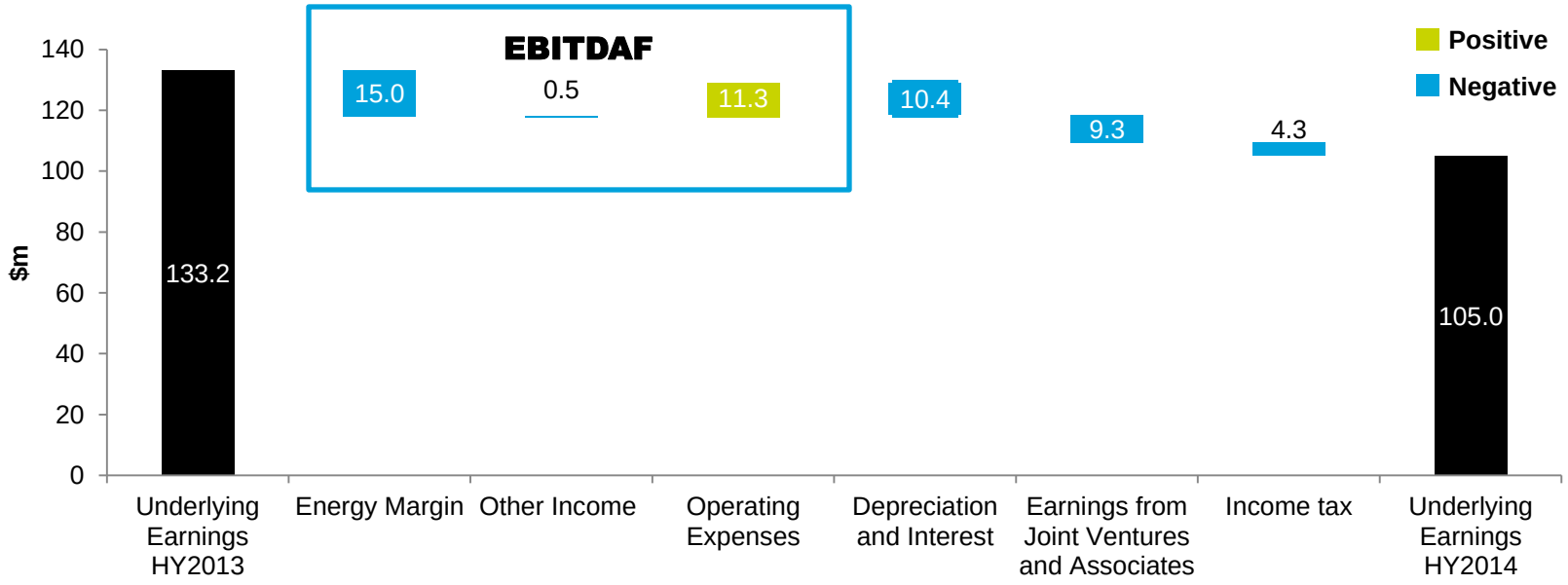
# NPAT (HY2013 vs HY2014)

> NPAT up $48.2 million to $123.7 million due to lower operating costs, a positive change to fair value movements and impairments made in the prior period



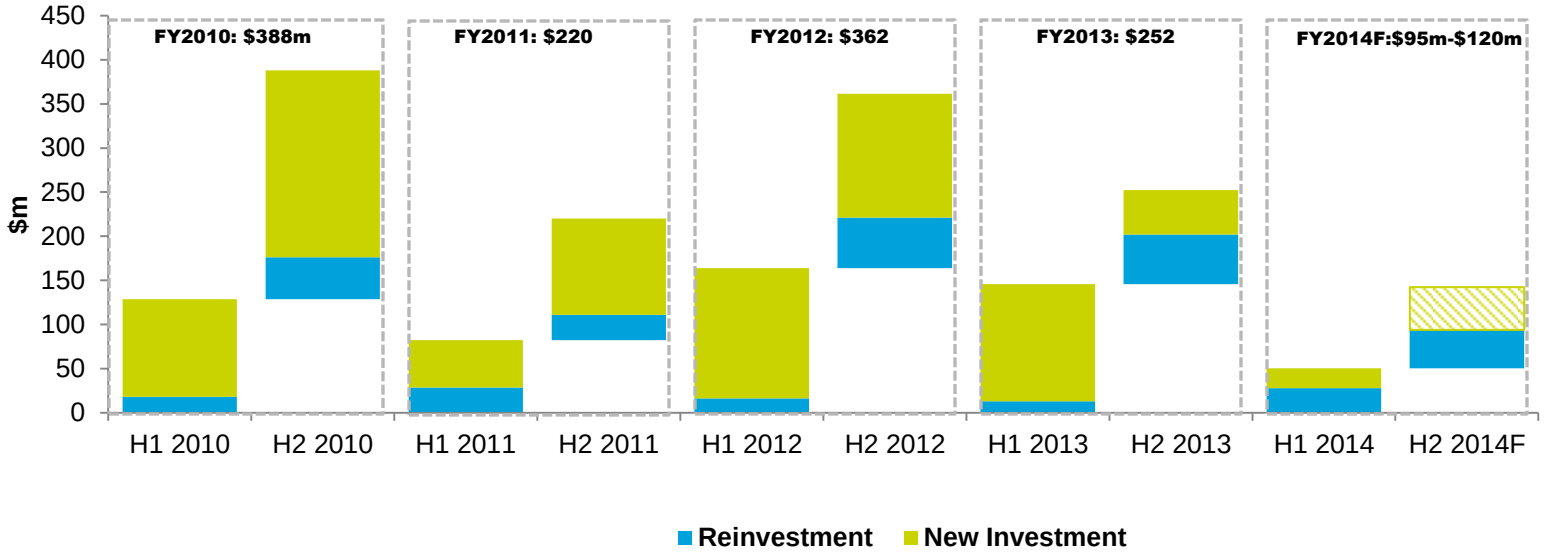
# Underlying earnings (HY2013 vs HY2014)

> Underlying earnings down due to lower earnings from Joint Ventures and Associates and higher depreciation and interest costs following the commissioning of Ngatamariki



# Capital expenditure

- Capital expenditure of $50.5 million (HY2013: $145.7 million)
  - geothermal down from $129.1 million to $17.9 million due to commissioning of Ngatamariki
  - reinvestment up from $13.1 million to $28.2 million due to Whakamaru refurbishment project and Kawerau injection wells
- FY2014 capital expenditure forecast reduced to $95 million - $120 million (August forecast: $125 million - $175 million)
  - lower domestic investment due to cost containment
  - more patient approach to international
- FY2015 reinvestment capital expenditure will be reviewed in light of regulatory uncertainty



# Consolidated cash flow

- Operating cash flow down by $41.3 million due to lower Underlying Earnings and higher provisional tax payments in July
- H2 Operating Cash Flow expected to be higher on pcp due to $37.2 million one-off costs included in FY2013 relating to the restructure of international geothermal and additional cash flow from Ngatamariki
- Cash flows from financing impacted by $25.1 million share buyback

| $m | HY2014 | HY2013 | $m change to HY2013 | % change to HY2013 |
|---|---|---|---|---|
| Net cash provided by operating activities | 170.7 | 212.0 | (41.3) | (19.5) |
| Net cash used in investing activities | (63.8) | (2.1) | (61.7) | 2976.8 |
| Net cash (used in)/provided by financing activities | (85.9) | (185.0) | 99.1 | (53.6) |
| Cash and cash equivalents at end of the period | 35.4 | 62.5 | (27.1) | (43.4) |

# Financial ratios

- Net debt lower than in PFI given lower capital expenditure partly offset by buyback
- S&P revised credit criteria issued in November - no impact of revised criteria on Mighty River Power
  - key ratio for stand alone credit rating bbb requires Net Debt / EBITDAF between 2.0x and 2.5x
  - Net Debt / EBITDAF for FY2014 ~ 2.2x
- Rating last confirmed by S&P in April 2013 as BBB+/Stable/A2
  - "moderate" likelihood of extraordinary government support gives one notch uplift to BBB+

| | 31 December 2013 | 30 June 2013 | 31 December 2012 |
|---|---|---|---|
| **Net debt ($m)** | **1,043.9** | **1,027.8** | **951.8** |
| **Equity/total assets (%)** | **56.1%** | **54.8%** | **54.5%** |
| **Net debt/net debt+equity (%)** | **24.7%** | **24.4%** | **23.4%** |
| **Interest (net) cover (times)[5]** | **6.0x** | **4.4x** | **5.7x** |

5. Includes capitalised interest

# Business Update

# Growth initiatives

- AMI expansion opportunities for Metrix
  - deploying AMI into new regions for Mighty River Power consumer brands
  - providing exclusive AMI services on the Counties Power network
  - working on other AMI opportunities to increase Metrix national footprint
- Continued focus on existing geothermal investments in offshore markets with higher growth potential than New Zealand
  - operating cost reductions following internalisation
  - discussions with EnergySource partners for greater shareholding ongoing
  - John L Featherstone operating above expectations (96.5% availability)
  - exploratory drilling by EnergySource to extend resource boundary unsuccessful ($4.4 million loss)
  - Chile exploration deferred until commercial pre-conditions satisfied

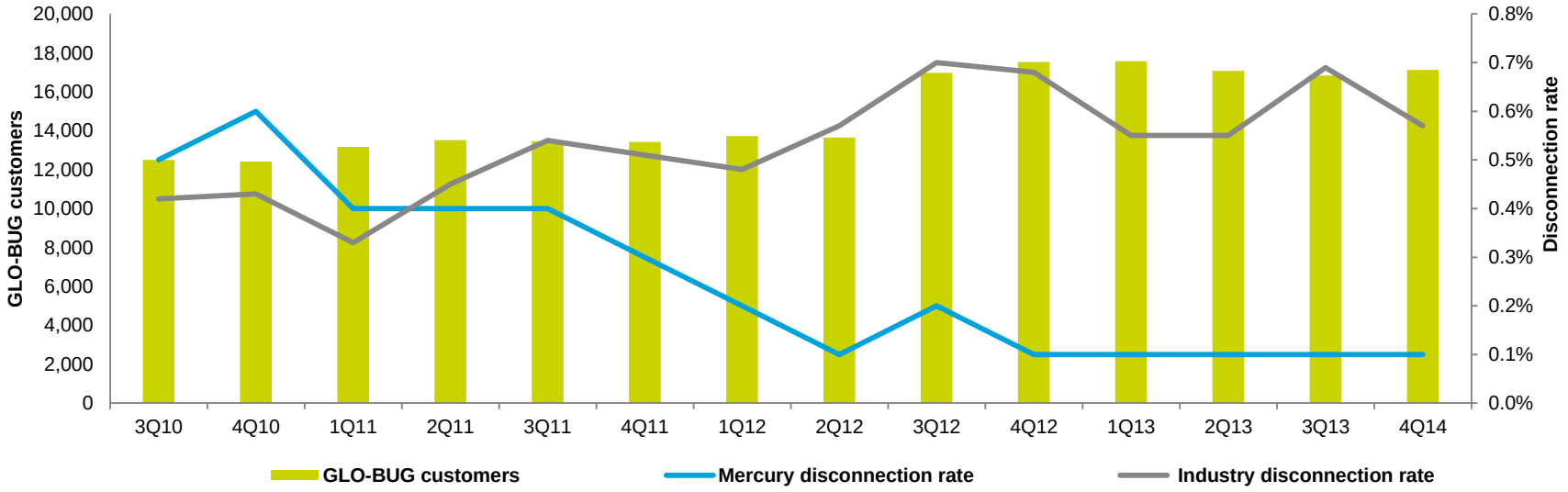
# Value initiatives

- Land for future developments
  - review of portfolio
  - assess potential for disposal
- Review Southdown role
  - future contribution to portfolio
  - optimal configuration of station
  - identify new revenue streams
  - optimise asset management – cost management, runtime, number of starts

# Our retail innovation spurred by competitive market

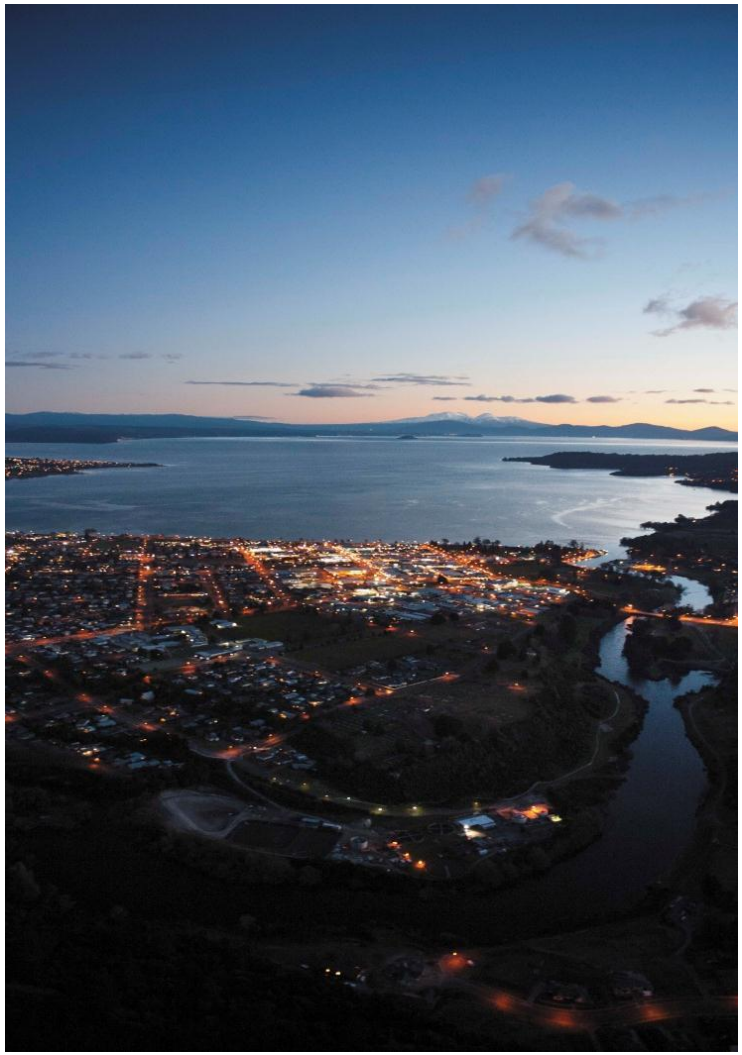
- Our focus on innovative technology to provide a value-differentiated service to customers
- Good Energy Monitor (GEM) introduced in March 2013
  - leverages availability of AMI
  - enables customer empowerment to manage household bills
  - 80,000 customers actively engaged with product
- GLO-BUG is a robust, commercially viable and convenient pre-pay solution
  - successfully lowers disconnection rates and bad debts
  - reduces targeted customers' annual cost of energy by over $300 pa

**DISCONNECTION RATES & GLO-BUG CUSTOMERS**



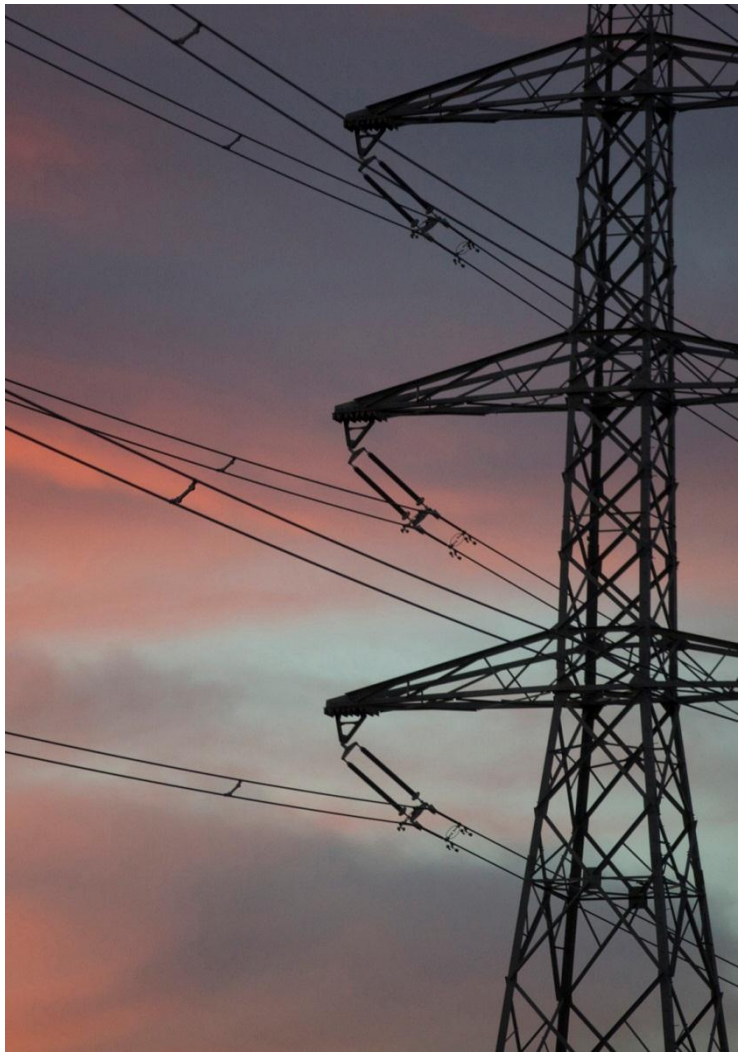
# Policy – Labour/Greens

- Adjustment to a renewable future now well advanced
  - security of supply; without subsidy
- Prices increased in last decade
  - residential energy prices now forecast flat; declining household bills
- Rest of world going through the rebalance
  - NZ advantage in future
- Consumers now in greater control
  - innovative information technology
  - switching control
  - efficient appliances
- Affordability a real issue for small segment
  - social issue wider than electricity
  - technology can help to reduce bills
- Better transparency desirable – more lights, less heat



# Transmission Pricing Methodology (TPM)

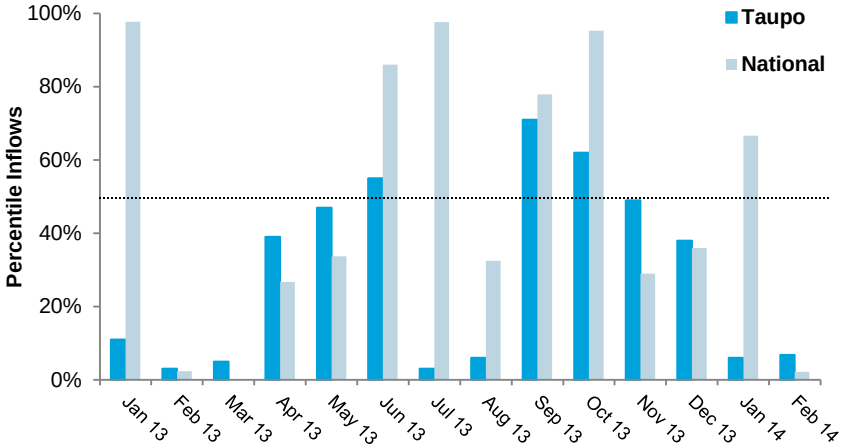
- Electricity Authority mid-way through release of consultation papers
  - beneficiary pays paper released in January
  - residual charge paper publication delayed two months to around May
  - acknowledged need for both issues to be considered together
  - key issue on residual charge is cost recoverability
- Don’t expect final decision on Transmission Pricing Methodology until late 2014
- Implementation unlikely before FY2017 - FY2018



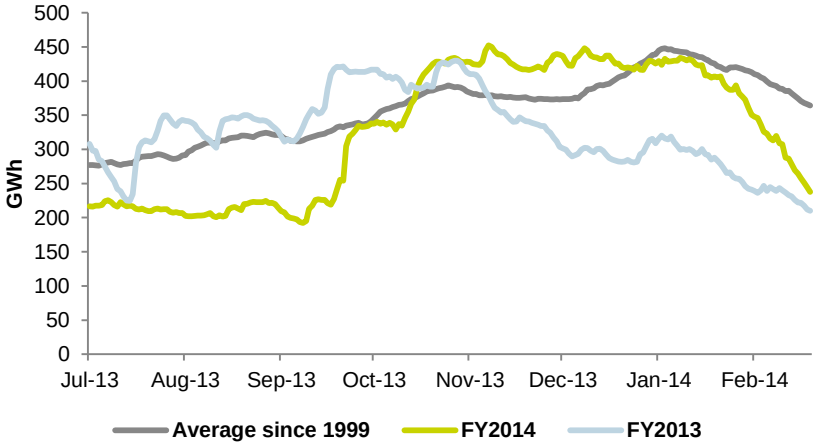
# Since period end

- Significant increase in wholesale price volatility reflecting lower thermal fuel commitments
- Low inflows into Lake Taupo continued from 2013
  - storage currently sitting just over 60% of average
  - forecasts show return to more normal inflows in Autumn
- South Island storage just under average
- Southdown returns to service in March/April
- FY2016 ASX prices lifted $9/MWh since mid-2013
  - should flow through to commercial contracts

**TAUPO AND NATIONAL HYDROLOGY – PERCENTILE INFLOWS**




**TAUPO STORAGE**



# Outlook

- On track to meet IPO FY2014 forecasts and guidance given at ASM
  - lower Energy Margin offset by operating cost savings
- Assume mean inflows for remainder of the financial year
- Progress on value and growth initiatives
- Board process well underway with Chief Executive recruitment
  - announcement likely in next quarter
- Board membership to be restored to eight

| FY2014 $m | Forecast | ASM Forecast | IPO Forecast |
|---|---|---|---|
| EBITDAF | No change | 498 | 498 |
| Net Profit for the year | No change | >195m | 160 |
| Underlying Earnings | No change | 175-185 | 138 |
| Adjusted Net Profit | No change | 175-185 | 170 |
| Operating Cash Flow | No change | 300-320 | 328 |
| Capital Expenditure | 95-120 | 125-175 | 199 |

# Appendix

# Operating information HY2014 vs HY2013

| | Six months ended 31 December 2013 | | Six months ended 31 December 2012 | | Twelve months ended 30 June 2014 PFI[6] | |
|---|---|---|---|---|---|---|
| **Electricity Sales** | **VWAP[7] ($/MWh)** | **Volume (GWh)** | **VWAP[7] ($/MWh)** | **Volume (GWh)** | **VWAP[7] ($/MWh)** | **Volume (GWh)** |
| **FPVV sales to customers** | **117.74** | **2,582** | **115.32** | **2,777** | **118** | **5,255** |
| Residential customers | | 1,312 | | 1,375 | | |
| Commercial customers | | 1,270 | | 1,402 | | |
| FPVV purchases from market | | 2,710 | | 2,964 | | |
| Spot customer purchases | | 859 | | 1,089 | | |
| Total NZEM Purchases | 54.80 | 3,568 | 64.82 | 4,053 | 65-75 | |
| **Electricity Customers ('000)** | 382 | | 391 | | | |
| North Island Customers | 345 | | 348 | | | |
| South Island Customers | 37 | | 43 | | | |
| Dual Fuel Customers | 39 | | 41 | | | |
| **Contracts for Difference** | | **Volume (GWh)** | | **Volume (GWh)** | | **Volume (GWh)** |
| Buy CFD | | 1,226 | | 1,285 | | |
| Sell CFD | | 1,780 | | 2,139 | | |
| **Net Sell CFD** | | **554** | | **854** | | **2,064** |

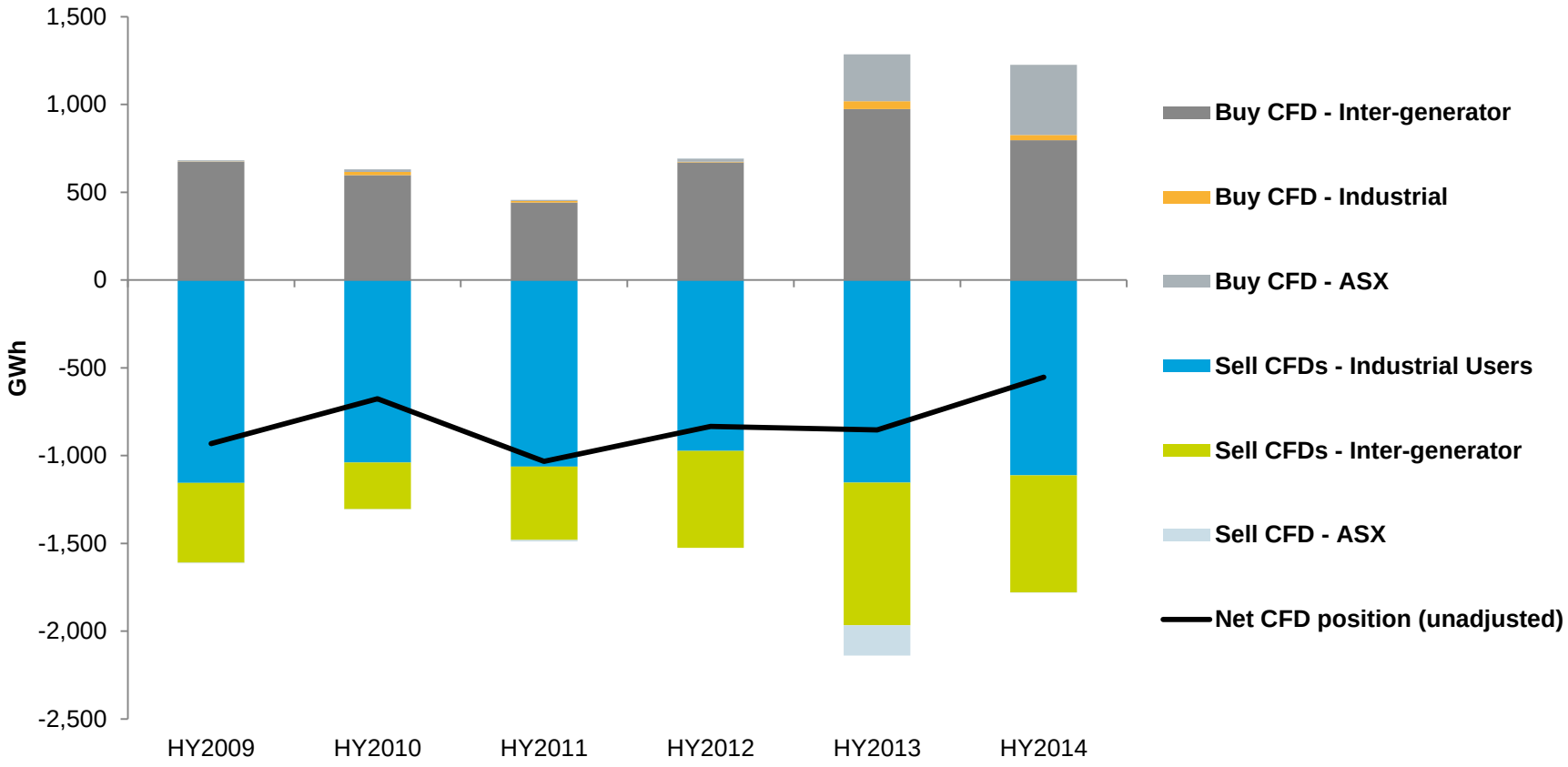
6. Prospective Financial Information (PFI) as outlined in Mighty River Power's Investment Statement and Prospectus dated 5 April 2013
7. VWAP is volume weighted average energy only price sold to FPVV customers after lines, metering and fees

# Operating information HY2014 vs HY2013

| | Six months ended 31 December 2013 | | Six months ended 31 December 2012 | | Twelve months ended 30 June 2014 PFI[8] | |
|---|---|---|---|---|---|---|
| **Electricity Generation** | **VWAP ($/MWh)** | **Volume (GWh)** | **VWAP ($/MWh)** | **Volume (GWh)** | **VWAP ($/MWh)** | **Volume (GWh)** |
| Hydro | 58.78 | 1,849 | 66.79 | 2,468 | | 3,900 |
| Gas | 78.69 | 88 | 85.98 | 178 | | 359 |
| Geothermal (consolidated)[9] | 50.47 | 1,217 | 59.69 | 930 | | 2,560 |
| Geothermal (equity accounted)[10] | 51.64 | 104 | 61.26 | 124 | | 241 |
| **Total** | **55.98** | **3,258** | **65.74** | **3,700** | **65-75** | **7,060** |
| **LWAP/GWAP[11]** | 0.98 | | 0.99 | | | |
| Gas Purchases[12] | **$/GJ** | **PJ** | **$/GJ** | **PJ** | | |
| Retail purchases | 8.83 | 0.60 | 8.93 | 0.61 | | |
| Generation purchases | 8.74 | 1.09 | 8.87 | 1.80 | | |
| **Carbon Emissions ('000 tonnes CO2e)** | 217 | | 255 | | | |

8. Prospective Financial Information (PFI) as outlined in Mighty River Power's Investment Statement and Prospectus dated 5 April 2013
9. Includes share of Nga Awa Purua generation
10. Tuaropaki Power Company (Mokai) equity share
11. Load weighted and generation weighted average price. This ratio gives an indication of electricity purchase costs compared with the sales price of the electricity produced
12. Prices exclude fixed transmission charges

# Contracts for difference



# Income statement

| Year ended 30 June<br>$m | HY2014 | HY2013 | $m change to HY2013 | % change to HY2013 |
|---|---|---|---|---|
| **Energy Margin** | **363.2** | **378.2** | **(15.0)** | **(4.0)** |
| Other revenue | 14.2 | 23.4 | (9.3) | (39.5) |
| Operating expenses | 107.8 | 141.5 | (33.7) | (23.8) |
| **EBITDAF** | **269.6** | **260.1** | **9.5** | **3.7** |
| Depreciation and amortisation | (78.5) | (75.3) | (3.2) | 4.2 |
| Change in fair value of financial instruments | 20.5 | (12.4) | 32.9 | (265.1) |
| Impaired assets | - | (91.4) | 91.4 | (100.0) |
| Equity accounted earnings of associate companies and interests in jointly controlled entities | (0.7) | 58.8 | (59.5) | (101.1) |
| Net interest expense | (38.7) | (31.5) | (7.2) | 22.9 |
| Income tax expense | (48.6) | (32.9) | (15.7) | 47.7 |
| **Net profit for the year** | **123.7** | **75.5** | **48.2** | **63.8** |
| **Underlying earnings after tax** | **105.0** | **133.2** | **(28.2)** | **(21.2)** |

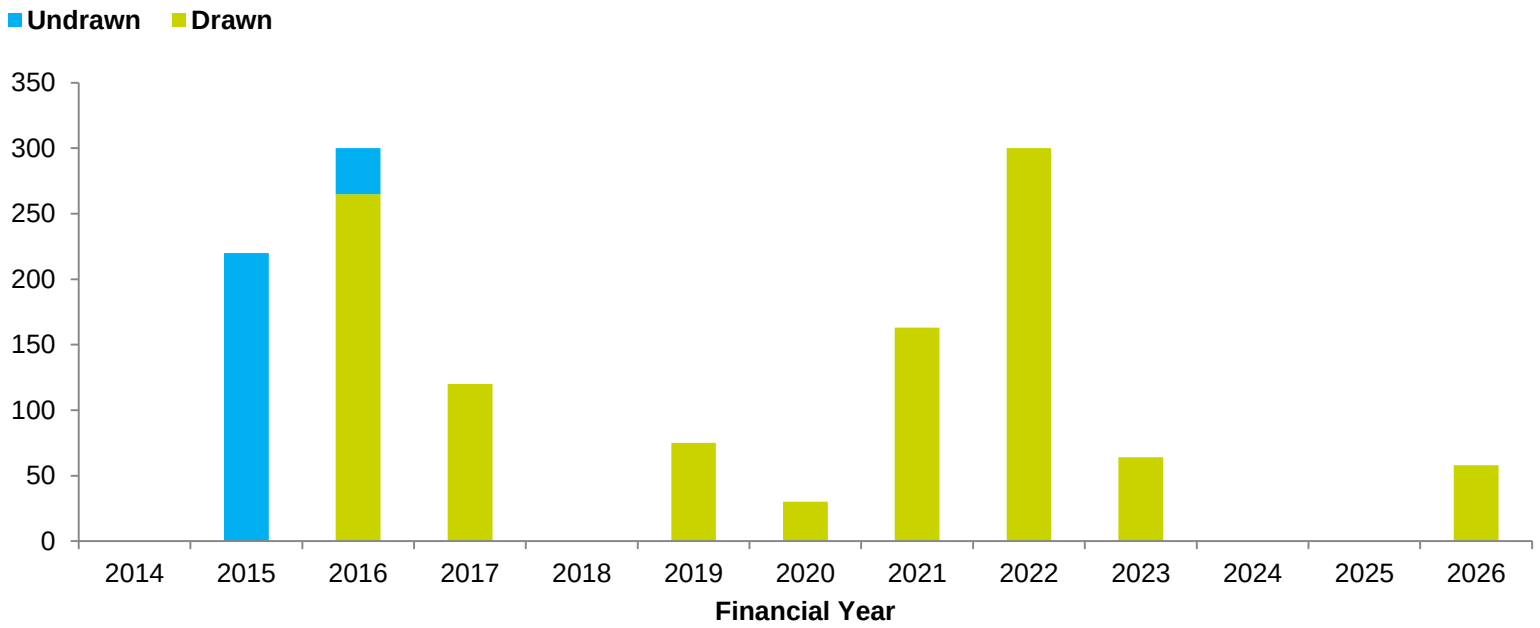
# Balance sheet

| $m | As at 31 December 2013 | As at 30 June 2013 | $m change on 30 June 2013 | % change on 30 June 2013 |
|---|---|---|---|---|
| **SHAREHOLDERS' EQUITY** | | | | |
| **Total shareholders' equity** | **3,185.0** | **3181.7** | **3.3** | **0.1** |
| **ASSETS** | | | | |
| Current assets | 273.0 | 311.5 | (38.5) | (12.4) |
| Non-current assets | 5,404.8 | 5,490.5 | (85.7) | (1.6) |
| **Total assets** | **5,677.8** | **5,802.1** | **(124.2)** | **(2.1)** |
| **LIABILITIES** | | | | |
| Current liabilities | 314.1 | 399.4 | (85.3) | (21.4) |
| Non-current liabilities | 2,178.7 | 2,220.9 | (42.2) | (1.9) |
| **Total liabilities** | **2,492.8** | **2,620.3** | **(127.5)** | **(4.9)** |
| **TOTAL NET ASSETS** | **3,185.0** | **3,181.7** | **3.3** | **0.1** |

# Funding profile

- Average maturity profile of 4.9 years (30 June 2013: 5.2 years)
- No refinancing requirement in FY2014

**DEBT MATURITIES AS AT 31 DECEMBER 2013**




Note: Undrawn facilities excludes commercial paper programme

# Non-GAAP measure: Energy Margin

| $m | HY2014 | HY2013 |
|---|---|---|
| Sales | 826.6 | 927.2 |
| Less: lines charges | (226.7) | (244.3) |
| Less: energy costs | (215.8) | (289.5) |
| Less: other direct cost of sales, including metering | (20.9) | (15.2) |
| Energy Margin | 363.2 | 378.2 |

- Sales down $100.6 million reflecting lower production and sales
- 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

# Non-GAAP measure: Free Cash Flow

| $m | HY2014 | HY2013 |
|---|---|---|
| Net cash provided by operating activity | 170.7 | 212.0 |
| Less: Reinvestment Capital expenditure (including accrued costs) | (28.2) | (13.1) |
| Free cash flow | 142.5 | 198.9 |

- Free cash flow down predominately due to higher provisional tax payments in July
- Free cash flow is expected to be up on pcp by year-end
- 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

# Non-GAAP measure: Net Debt

| $m | HY2014 | FY2013 |
|---|---|---|
| Current loans at carrying value | 105.5 | 105.4 |
| Add: Non-current loans at carrying value | 971.6 | 952.4 |
| Add: Fair value adjustments US Private Placement | 2.1 | (18.8) |
| Less: cash and cash equivalents | (35.4) | (11.2) |
| Net debt | 1,043.9 | 1,027.8 |

> Net Debt is a metric commonly used by investors