



ANNUAL REVIEW 2014

# Positive energy.





# Positive

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# results.

Our core business is focused on sustainably harnessing natural resources to produce electricity. Positive results for Mighty River Power come through outstanding service for our customers, operational excellence, trusted partnerships and world-class environmental stewardship.

This is how we will continue to grow and evolve our business, through a long-term focus that delivers value for our shareholders – along with enduring benefits for the communities in which we operate.

# Positive achievements.

# NEW CEO

Appointment of Fraser Whineray  
as the new Chief Executive from  
1 September 2014.

# 98%

of our generation from renewable sources;  
hydro and geothermal.

# 2.1M

work hours with no  
serious harm incidents.

Higher than forecast Final Dividend  
bringing FY2014 dividend to fully imputed

# 13.5¢



**\$300**<sup>M</sup>

Successful bond offer extends average debt maturity and provides flexibility and optionality in capital management.



**74**<sup>%</sup>

of our residential and small business customers now pay their bills electronically.



**29**<sup>%</sup>

lift in EBITDAF to \$504 million with the completion of Ngatamariki geothermal station and lower cost base.



**OUT-PERFORM**

FY2014 results above IPO financial forecasts.



A portrait of a woman with short, wavy blonde hair, looking slightly to the right with a gentle smile. She is wearing a black blazer with thin white vertical stripes and a large, ornate necklace featuring multiple black teardrop-shaped pendants. The background is a blurred office setting with blue and green vertical elements.

**“We now have a**

# richer and deeper story."

In my report to shareholders last year, I talked about the importance of a continued 'laser-sharp' focus on driving performance and value – and delivering for our customers.

**THIS YEAR** has been difficult. The intensely competitive market and adverse hydro conditions we experienced over the 2014 financial year have underscored how vital our focus and effort has been – both to the performance above forecast, and to the strength and flexibility we now have in your Company's balance sheet.

Our customers have seen us take a lead on holding the headline energy prices for a two-year period. Many have also enjoyed dollar savings in their electricity charges from using lower-cost digital channels and our new tools that are now providing them with smart meter data to help them reduce their bills.

I am pleased to report that in the 16 months since listing we have delivered financial results above the forecasts in our Offer Document. In this very challenging past year we have also achieved the forecast step-up in operating earnings following the completion of our new Ngatamariki geothermal power station early in FY2014.

With this project marking the completion of a sustained period of rapid growth, and capital investment for the Company, we have made the necessary gear-change to succeed in a low-growth environment. This has involved turning our focus to new and different opportunities to grow Mighty River Power. At the same time, we have placed increased scrutiny on every area of capital and operational spend and on capturing efficiencies across the business in order to deliver better outcomes for customers and to deliver enduring value for shareholders – a focus that is evident in the \$20 million of permanent annual cost savings we have reported.

In a period which saw the establishment of WorkSafe NZ, as part of a major overhaul of workplace health and safety nationally, we are very proud to be reporting improved safety performance with no serious harm incidents in 2.1 million work hours. This primary focus on keeping our people safe extends to contractors and sub-contractors, and improving performance across our industry through the successful StayLive partnership.

## **Results and dividend above IPO forecasts**

In our IPO we set out the expectation of a significant lift in operating earnings in FY2014. EBITDAF was up slightly more than forecast, and increased 29% year-on-year from \$390 million to \$504 million, primarily as a result of the additional generation from the Ngatamariki plant and our success in lowering the Company's operating costs.

The improvement in net profit primarily reflects one-off costs and non-cash impacts, largely relating to impairments from taking direct control of international geothermal investments in early 2013. The headline NPAT result shows a \$97 million year-on-year lift in net profit from \$115 million to \$212 million, but after adjusting for these prior year negative impacts, underlying earnings were up 3% or \$5 million on FY2013.

With the financial performance for the year to 30 June 2014 slightly ahead of forecast, the Board has declared a final dividend for FY2014 of 8.3 cents per share to be paid to shareholders on 30 September 2014. This brings the total dividend to 13.5 cents per share, which is 4% above the IPO forecast, and 13% above FY2013.

## **Testing hydro conditions**

In our second successive year of weak inflows into the Waikato River catchments, hydro conditions in FY2014 were the lowest and most challenging in the Company's history. Our financial results illustrate the very good decisions by Management, in quickly re-shaping our electricity portfolio to anticipate changes in the market environment, as renewables displaced thermal fuel and as liquidity in forward contracts improved. This change in portfolio strategy allowed us to ensure our reduced hydro output was used when it was most valued by the market.

What really helped us was the distinct advantage of having 98% of our generation coming from two renewable fuels that have very low cash-costs. The resilience of our geothermal generation provided a very good foundation and this year has represented 42% of our production – while higher-cost gas generation continued to reduce to 2% in line with declining thermal utilisation across the industry.

## **Platform for strength and future growth**

The Board has issued earnings guidance for the next financial year with EBITDAF expected to be in the range of \$495 million to \$520 million, reflecting additional hydro and geothermal production and continued pressure on retail electricity pricing.

While we have a high degree of resilience in our business portfolio, there are some elements outside Management control – such as hydrology and regulatory change – that could have a significant positive or negative impact on earnings. However, we believe it is useful for our shareholders and investors to have guidance, acknowledging these baselines.

We have started the new financial year with lower-than-expected net debt primarily due to lower international geothermal capital expenditure than was provided for at the time that we took direct management control in early 2013. Following the completion of the Ngatamariki geothermal project we now have a significantly lower capital expenditure profile.

During the year we successfully executed an on-market \$50 million share buyback at an average price of \$2.13 per share, with the shares now held as treasury shares. A \$300 million capital bond was issued post balance date, which was used to repay bank facilities and extended the average tenor of our debt portfolio, providing greater flexibility and optionality in capital management.

"There are few organisations locally, or globally, that have had the calibre or level of commitment in their leader that we have enjoyed from Doug Heffernan."

Joan Withers  
Chair

We are operating in a low demand growth market where current economic growth is in areas such as milk processing that typically uses in-house co-generation and the Canterbury rebuild that does not require grid-supplied electricity. As we have signalled, growth opportunities in the future are going to look different from what we have seen in the past – the development of large, single site power stations is not going to be the norm for New Zealand, at least for the rest of this decade. Much of the growth potential for us will be around continuing to invest in adding value for customers, such as in our Metrix business, as we see a new pace of change in energy technology and demand patterns.

The Board and Management will be updating shareholders at the time of the Annual Shareholders' Meeting on strategic priorities for the business, on dividend guidance for FY2015, and also on any capital management initiatives.

From a broader perspective, our industry is delivering against all the accepted primary measures – leading the world in terms of the transition to renewables, in providing reliability and security of supply, and for levels of competition, with pricing mid-range for the OECD.

The energy component of consumer electricity bills, which we determine in our pricing, is flat to falling. That says to me that overall we have struck a very good balance between ensuring competitive prices for customers and a fair return for our shareholders, who provide the capital for our business.

There has been a substantial investment over the past decade by Mighty River Power and others in renewables – particularly geothermal and wind generation. Our investment in geothermal has been funded entirely from our balance sheet without taxpayer subsidy. This \$1.5 billion of capital would not have been committed without the underlying profits from existing assets, such as our Waikato hydro stations. This commitment has also been made on the expectation that shareholders will get a fair return over time on their capital. The significant increase in profitability is an essential outcome of commissioning these geothermal plants; with profits growing as the business has grown in size.

As an industry with long-term planning horizons, and as a country that relies on large flows of foreign capital, both equity and debt, we must have a constructive and predictable regulatory regime to support investment without undue risk. This will enable us to build on the wonderful foundation that New Zealand has.

The threat of politically-driven regulatory intervention has impacted investor sentiment for Mighty River Power and our peers in the industry since the time of our listing. As currently framed, that potential intervention could in my view have unintended and negative consequences well into the future.

There is no question that, working with Government, our industry can help implement improvements to address the needs of customers working within limited incomes and who struggle to pay their bills. Mighty River Power has been pro-active in developing tailor made solutions for these customers that are reducing their

out-goings on electricity and assisting them in their management of household budgets. Our retail brands are already performing well against the new industry benchmarks for credit management and vulnerable consumers and we have plans for service performance to exceed the key measures.

#### Chief Executive and Board succession

I want to thank my fellow directors, management and our wider team at Mighty River Power for their outstanding contribution to the Company and our strong result for FY2014. We have seen a quality of decision-making that is not only responsive to changing business conditions but its speed of execution evidences the discipline and efficiency that comes from being exposed to the capital markets as a listed entity.

We are proud to have a large register in a New Zealand context, with more than 100,000 shareholders. It was pleasing to note that retail ownership of Mighty River Power has gone up from 26% at listing to around 29% and overall New Zealand ownership in the Company has also increased over that time. During the year, we have also seamlessly managed what I regard as the most important job for a Board – the appointment of a new Chief Executive. The announcement in May of our General Manager of Operations, Fraser Whineray, as the 'standout candidate' from our Board's international search for a new CEO was an excellent outcome, and speaks of the deliberate succession planning under Doug Heffernan's leadership, which has now been executed very successfully. We also know that we have a depth of bench-strength to support our new Chief Executive in taking the Company forward.

During the year we also had a significant refresh of the Board and we are delighted to have attracted Patrick Strange and Andy Lark who, by any assessment, are high-calibre appointments. They strongly complement and enhance the range of skills and experience we have around the Board table and across the business.

This Report is the last under the leadership of our Chief Executive of 16 years, Doug Heffernan, who has a remarkable record of achievement.

The listed Company today, and the quality of talent in our team, is testament to the much richer and deeper story that has been created for Mighty River Power.

Essential to that achievement has been a notable success in integrating one of New Zealand's largest commercial enterprises with the principles of kaitiakitanga (guardianship), with a long-term view, and always a broad perspective and understanding of stakeholder interests.

This long-term focus is ingrained in the way we do business, and the focus and responsibility of kaitiakitanga that has now passed to our new Chief Executive, Fraser Whineray. There are few organisations locally, or globally, that have had the calibre or level of commitment in their leader that we have enjoyed from Doug Heffernan.

His is an enduring legacy and one that I am sure will benefit our Company, our country, local communities and a broad constituency of New Zealanders for generations to come. ■



 Joan Withers Chair



# The next chapter.

**A VITAL OPPORTUNITY** sits before all of us as electricity consumers, as owners of Mighty River Power and more broadly for our country.

This opportunity is in our home-grown, sustainable electricity. With close to 80% of total supply coming from renewables, New Zealand is among the highest in the world. And New Zealand is ranked in the top 10 globally by the World Energy Council for achieving the right balance between reliability, sustainability and affordability.

Having an electricity supply that is among the greenest in the world is a key point of difference. You know that when you flick on the switch in New Zealand – almost all of your power is coming from renewables. When you put that energy into your car, you can travel more than four times as far compared with the cost of petrol and dramatically change your environmental footprint.

Electricity has been described as the “connective tissue of the Information Age”. It powers almost every aspect of our daily lives, growing and diversifying our economies and enabling us to store and share human knowledge in ways that only a few years ago were not possible.

New Zealand’s network of predominantly renewable electricity assets will be the foundation for such new and emerging technologies to drive economic growth and environmental and societal benefits. Today it provides an additional point of difference that is not evident to most Kiwi exporters, or their customers, when they’re seeking to leverage every possible advantage in a highly challenging global marketplace.

While most countries only have heavily subsidised solar generation to attempt to move their electricity systems away from a dependence on fossil fuels, New Zealand already has an abundance of unsubsidised hydro, geothermal and wind. We have a lot more consented generation that we can build as demand grows for this renewable power. Development of new renewables would create sustainable jobs and generate wealth in the regions.

I am encouraged to see more electric plug-in cars on the road in New Zealand and people starting to think about the bigger opportunities with large fleets, public transport and other areas of our economy to use this competitive advantage. Over time this will preserve hard-won export earnings and fundamentally reduce local carbon pollution.

Our outstanding position in renewables has been hard won and required tremendous vision and investment over long horizons. One of my first observations when I joined Mighty River Power in October 2008 was the sense of permanence of our assets and relationships.

When you look out over our two Maraetai powerhouses on the Waikato River you can easily understand the permanence and the importance of long-term thinking. This is an impressive sight, producing enough renewable energy to power about 175,000 New Zealand homes. Maraetai is part of a fantastic hydro legacy for New Zealand. Together with more recent multi-billion dollar investment across the industry in geothermal and wind generation, it ought to be a source of pride for all New Zealanders. It isn’t, yet.

Building on the advantage we have in renewables will require predictable and durable regulatory frameworks that support long-term thinking – something that is at the heart of successful infrastructure businesses around the world.

“Renewables are a vital foundation for intergenerational benefit...”

Fraser Whineray



This will provide a foundation for inter-generational benefit that we can all share in. This is something that fits perfectly with Mighty River Power’s focus, at our core, on aligned and sustainable outcomes for our customers, the environment and you as shareholders.

I very much look forward to Mighty River Power’s next chapter. ■

 **Fraser Whineray Chief Executive**

(effective 1 September 2014)

BE Chem Hons (Canterbury), MBA (Cambridge), GRADDIP DY.SCI.TECH Distinction (Massey)

Following a global search, Fraser Whineray was announced as the new Chief Executive of Mighty River Power in May 2014 and formally took up the role on 1 September 2014. He was previously GM Operations at the Company, responsible for optimising the performance of Mighty River Power’s domestic generation, electricity portfolio and industrial sales activities.

Fraser joined Mighty River Power in 2008 from Rank Group-owned Carter Holt Harvey where he was Director Operational Improvement. Prior to that he held a number of senior roles in the dairy industry and with Credit Suisse First Boston in New Zealand and Australia. He has considerable experience in performance management, strategy, mergers and acquisitions and international business. Fraser is an independent non-executive director of Opus International Consultants.



**"This is a very good**



# platform for the future.”

Our performance in 2014 showcases the inherent strength that we now have in Mighty River Power – in our assets and brands, our people and in our partnerships.

**THIS YEAR** our financial results demonstrated a focus on delivering performance for shareholders and again this was matched with industry leadership in service and product innovation and choice for customers ensuring competitive pricing.

Despite retail competition reaching new levels in FY2014 and inflows to the Waikato River hydro system being the lowest in the Company's history, we have delivered financial results above forecast.

The hydro conditions that we experienced over the past year would have had serious financial impacts for the Mighty River Power formed in 1999 – a company that was reliant on a single fuel source for generation; a company that had large and inflexible sales commitments; and a company with a heavy debt burden relative to its operating earnings.

We completed this financial year (ended 30 June 2014) with more than 40% of our generation production coming from base-load geothermal, and with Mighty River Power having enhanced financial flexibility along with a Standard & Poor's credit rating of BBB+/Stable.

In contrast to the time of formation, when Mighty River Power inherited a large level of debt and had more than 65% of borrowings payable within two years, we now have much stronger and more reliable cash flows and an average debt maturity of almost 11 years.

This is a very good platform for the future and one that means Mighty River Power is in an excellent position to continue to deliver value for shareholders in what is a fast-changing environment.

Overall electricity sales volumes for the year were down in part due to the weather impact on residential consumption, and a conscious decision by the Company to reduce business volumes (down 11%) as we actively managed our sales book to gain additional flexibility with our versatile hydro generation rather than using this generation capacity to less efficiently cover higher levels of fixed-price commercial contract volumes.

This decision-making, and our agile adaptation, was critical to the financial outcomes we achieved in FY2014.

In particular, we have quickly adjusted to the end of significant investment in geothermal power stations and to the current lack of demand growth by taking discretionary costs out of the business – costs that were not going to add value to our customer offerings nor improve the business.

At the same time we have identified new areas for growth that we have prioritised for capital spend. Under a new leadership team for our metering business, Metrix, we are rapidly progressing smart meter deployment initiatives and leading the way in unlocking for retailers the power of energy consumption data for the benefit of their consumers.

## **Positive safety outcomes**

One of the most pleasing aspects of this year's result is that the quality of decisions in removing costs and improving processes did not compromise a further improvement in safety outcomes. For a fifth successive year, we have lowered Mighty River Power's Total Recordable Injury Frequency Rate (TRIFR) as we near our goal of 'zero-harm'. There were significant developments during the year at a national level around the approach to health and safety management with a new legislative framework to be implemented under WorkSafe.

We are also benefiting from an open and co-ordinated sharing of best practice across the industry. Mighty River Power is taking every opportunity to embed these learnings across our business and is also applying them to new areas of business growth such as smart meter deployment.

"Board and Management have been exploring options to drive growth and are considering capital management initiatives to deliver the best value to our shareholders."

Doug Heffernan  
CEO

#### Innovation for our customers

In FY2014 our retail electricity brands have performed well as competition continued to intensify across all residential and business segments.

A particular highlight for the year was increased customer loyalty for our flagship Mercury Energy brand. Mercury was 2% better than the market average for customer switching (churn) which was otherwise running at record highs across the industry. Over a third of our customers have chosen to enter into two-year and three-year fixed price contracts because they remained concerned about the impact of price increases from regulated lines and transmission charges. This additional security increased their loyalty as customers.

Mercury Energy, which accounts for the more than 95% of our residential sales, also recorded a 10% lift in the proportion of 'highly satisfied' customers and has achieved success in helping customers monitor and manage their electricity consumption with the introduction of a new online tool, the Good Energy Monitor (GEM). The most active users of this technology are making savings that on average are more than 3% greater than non-users.

Around 74% of customers now pay electronically, and online billing has also jumped from 10% five years ago to more than 40%. During the year Mercury Energy introduced an additional 2% Prompt Payment Discount, passing on savings from lower-cost billing and payment options (bringing the total discount to 12%) to customers receiving their bills online and paying by direct debit.

The price our customers paid for the competitive energy component of their bills was flat over the past year (in line with the IPO forecast) for both business and residential customers, with average energy prices down about 4% in the final quarter of the year compared with the prior period – reflecting the fact that competition is leading to lower cost outcomes for customers in the non-regulated part of their bill.

At a household level – and including the impact of regulator approved lines and transmission charges – average customers' total electricity prices were up about 1.7% over the year, in line with general inflation. But because our customers on average used less power – partly due to warmer seasonal temperatures – consumption per customer was down 2.5%, meaning that our customers actually paid about 1% less in dollar terms for their electricity bills than they did in the previous year.

What we are seeing are clear signs that in a highly-competitive retail market, such value-differentiated services – including online and community channels – are becoming increasingly important to customer experience and retention of customers.

Developed in-house by Mighty River Power, our GLO-BUG brand is the leading 'pay-as-you-go' technology in Australasia and has proven to be a very good solution for keeping customers connected and not falling into arrears, particularly those customers who had previously been struggling to pay their electricity and other household bills.

GLO-BUG is widely supported by budgeting agencies and community organisations around New Zealand who understand the importance of providing customers with solutions to manage electricity on the same terms as their other bills. We have about 18,000 customers on GLO-BUG and on average they are paying around \$300 less per year for the total cost of supply – and they're staying connected and not getting into electricity debt.

The Company's other niche retail brands continued to perform well, with Tiny Mighty Power growing its base in key regional centres – particularly through school and community partnerships – and being selected as a finalist in the Deloitte retailer of the year awards.

#### Further evolution in generation base

Early in FY2014 Mighty River Power completed the third major geothermal project since 2008. This shows through clearly in our financial results with the additional production from our new Ngatamariki station highlighting the benefit we now have from those investments and the diversity and flexibility that comes from our large geothermal and hydro renewables – which have high capital and funding costs but very low running costs.

A key element of our Company's financial resilience is the large volume of geothermal production and the reliable nature of this very different 'premium renewable' fuel. The additional base-load generation this year from our new Ngatamariki station took geothermal production to a new record for Mighty River Power – and helped boost geothermal to new highs of over 15% of New Zealand's total annual electricity supply mix.

The output from our Waikato hydro assets dropped as a result of the record poor inflow sequence, but as the last two years have demonstrated, usually these dry North Island conditions do not coincide with dry South Island conditions.

**74%**

Three quarters of our customers now pay electronically, and 40% receive their bills online.



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# 600,000

**Smart meters expected to be deployed by Metrix by 2017.**

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So while we lost hydro production we did retain a lot of business flexibility, and the ability to deliver good results in FY2014 even in weak Waikato hydro conditions.

While hydro output and total generation for the Company (6,295GWh) was lower than forecast and about 3% below the drought-affected FY2013, our portfolio strategy shift meant that we achieved an average price for generation that was right at the top in the wholesale market.

Gas-fired generation again made a very small contribution to our portfolio, with the Company being able to increase purchases from the wholesale market to cover sales commitments rather than operating this higher cost thermal capacity. The Company announced at our Interim Results in February a review of the role of our Southdown Station. Management has developed re-configuration options for the station; however implementation remains contingent on the conclusion of divestment discussions.

The Company has signalled that – due to weak demand conditions – we do not intend to build any large power stations in New Zealand for the foreseeable future. This has provided a clear window to review land-holding in the context of our existing long-term development options, leading to the divestment of surplus land during the year and further sales are in progress.

#### **Developing new options to grow**

Along with the necessary focus on adjusting our business to the current low-demand, low-growth environment, Board and Management have been exploring options to drive growth and are considering capital management initiatives to deliver the best value to our shareholders.

Electricity metering is an area offering strong growth opportunities that are not correlated with electricity demand and pricing, and our business, Metrix, is a leader in this field as the second-largest provider. Pursuing growth opportunities in New Zealand and in the longer term overseas is a key focus for Metrix. We are responding to demand from electricity retailers to provide enhanced information on electricity consumption to increase visibility for their customers – these and other services are all made possible with smart meters.

Over the past five years Metrix has built its smart metering business to more than 340,000 installations through capital investment of more than \$100 million, providing services to 14 different companies. This business is now contributing almost \$25 million to operating earnings. The partnership we announced in July after balance date with Trustpower, and other committed AMI deployment contracts, will increase Metrix's installations to almost 600,000 nationally by the end of the 2017 calendar year.

Revenues and earnings contributions will grow progressively through the deployment.

Geothermal is a core capability for Mighty River Power and a potential area for medium term growth. The 50MW John L Featherstone geothermal station on the Salton Sea in California (owned through our stake in EnergySource) has been operating above expectations, and prior to our IPO we received the return of all our original investment plus an investment return. EnergySource is currently exploring ways to create higher operating cash flow from that plant, including looking at incremental output improvements. We are also continuing discussions with our EnergySource partners around expanding our shareholding that would allow greater participation in the existing operating business and future growth.

Our current focus in Chile is on working with other geothermal participants and the Chilean Government to create the right conditions under which to consider further investment.

#### **Our people – the next chapter**

I am very proud of the evolution of the Company over the past 16 years.

The Mighty River Power that I have passed on to our new Chief Executive, Fraser Whineray, is a very different – and fundamentally stronger – enterprise than we started with in 1999.

This has been achieved through bold minds and unwavering support from successive Boards and shareholders to pursue shareholder enhancing growth and diversification to deliver a better outcome for New Zealand and New Zealanders. Our vision has been delivered through the energy from our people and our partners, through their passion and ideas to move our business forward. This will live on through the fantastic pipeline of talent we have consciously nurtured and attracted to Mighty River Power in building depth in our management and wider organisation over recent years.

In many ways our FY2014 result demonstrated the ability of the Mighty River Power team to manage and quickly adapt the business to deliver best value. The Company has first-class renewable assets and great retail brands. But it also has the people to create shareholder value in even the most challenging of operating environments.

That is a vital strength for the future. ■



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 **Doug Heffernan** Chief Executive

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# Financial Commentary.

**MIGHTY RIVER POWER'S financial results and dividend for the year ended 30 June 2014 (FY2014) were above the Company's IPO forecasts issued in April 2013.**

In a challenging year, the Company benefited from operating two low cash cost renewable fuels, achieved further business efficiencies while continuing to improve its safety performance.

Significant operating earnings growth on FY2013 reflected the additional geothermal production and earnings from the new Ngatamariki geothermal station, the absence of a number of one-off expenses that occurred in the prior year and significant cost savings achieved during FY2014.

A significantly lower cost base going forward is a key financial highlight, creating increased resilience in a currently soft electricity demand environment – with efficiency gains across the business resulting in a permanent reduction in operating costs of \$20 million. This, together with proactive capital management, has created additional flexibility and opportunity to deliver value to shareholders.

## Operating earnings (EBITDAF)

Operating Earnings (EBITDAF) was up \$6 million on the IPO forecasts reflecting lower electricity sales and generation volumes offset by lower operating expenditure and higher other revenue.

Electricity sales were down 408GWh, principally reflecting the Company's decision to not renew commercial contracts at lower prices. That decision provided additional flexibility and opportunity in hydro generation rather than using this generation capacity to hedge low fixed-priced commercial sales. Generation volumes was 765GWh lower than that forecast at the time of the IPO due to the very low hydro inflows experienced in the Waikato River catchments and reduced record low generation from the Company's gas-fired Southdown station. Geothermal generation was lower than expected reflecting a temporary de-rate of the

Nga Awa Purua station and lower than forecast fuel availability at Ngatamariki, partly offset by higher-than-forecast generation at Kawerau station.

Compared with the prior year, EBITDAF increased 29% to \$504 million (FY2013: \$390 million) principally reflecting the commissioning of the Ngatamariki geothermal station, the lower operating cost base and a number of one-off expenses that occurred in the prior year.

## ▶ OPERATING EXPENDITURE

■ One-off expenses ■ Operating expenditure



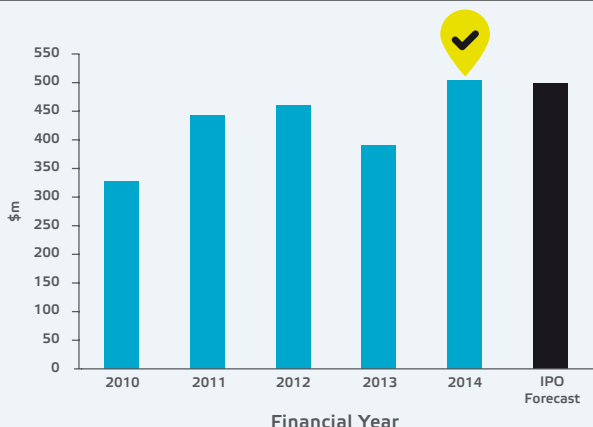
## Establishing a lower cost base

Following the completion of the IPO in May 2013, and with no large-scale development projects currently planned due to the current demand conditions, the Company has focused on lowering the cost base and has achieved \$20 million of permanent savings relating to the re-optimisation of the lifecycle maintenance programme, insurance charges, professional service fees and international geothermal development costs. This resulted in operating expenditure (at \$221 million) some \$30 million lower than forecast for FY2014. This is lower than FY2010 despite the addition since that time of two geothermal power stations, Nga Awa Purua and Ngatamariki. Year-on-year operating expenditure fell \$99 million with \$69 million of one-off expenses in FY2013 relating to international geothermal restructuring and IPO costs.

## Non-cash impacts on net profit

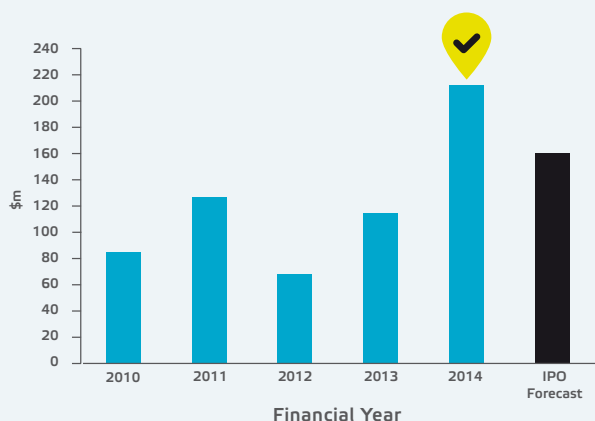
Overall, net profit for the year of \$212 million was \$52 million higher than IPO forecasts set in April 2013. However it was in line with guidance given at the time of the Annual Shareholders' Meeting in November 2013. As outlined at the time of the Annual Shareholders' Meeting the higher-than-forecast net profit reflects accounting changes related to the Company's geothermal interests in the United

## ▶ EBITDAF





## NET PROFIT FOR THE YEAR



## UNDERLYING EARNINGS



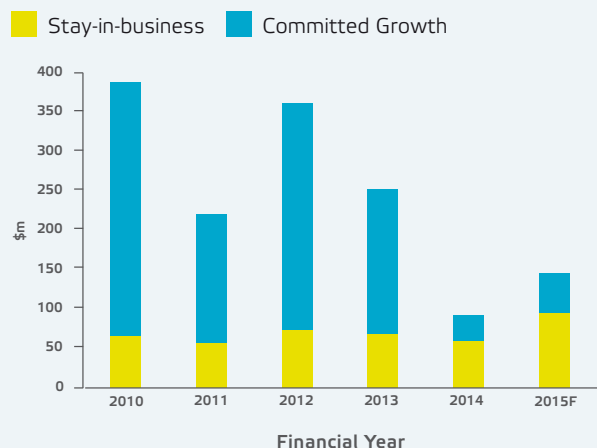
States and lower depreciation charges and interest expense following the slightly delayed handover of the Ngatamariki project.

Significant one-off and non-cash impacts in the prior year, largely relating to costs and impairments from taking direct control of international geothermal investments, largely contributed to a \$97 million year-on-year lift in net profit. After adjusting for these impacts, underlying earnings were up 3% or \$5 million on FY2013 reflecting the contribution from the new Ngatamariki station and lower operating expenditure which was partly offset by higher depreciation and interest.

### Lower capital expenditure reflecting market environment

Capital expenditure for the year of \$93 million was significantly lower than the IPO forecast (\$199 million) and the previous year (\$252 million). New investment capital expenditure fell by \$150 million from the previous year, reflecting the completion of the 82MW Ngatamariki geothermal project in September 2013. New investment capital expenditure was \$94 million lower than forecast at the time of the IPO largely due to reduced spend in international geothermal. The Company signalled last year that it would be exercising patience before undertaking any further material capital commitments. This has seen a significant amount of capital expenditure previously planned for Chile deferred until commercial pre-conditions are satisfied. The Company continues to consider options for an increased stake in the US-based EnergySource. For FY2015, Mighty River Power is currently committed to capital

## CAPITAL EXPENDITURE



expenditure of \$50 million mostly related to Metrix's on-going smart meter deployment and investment in meter related services.

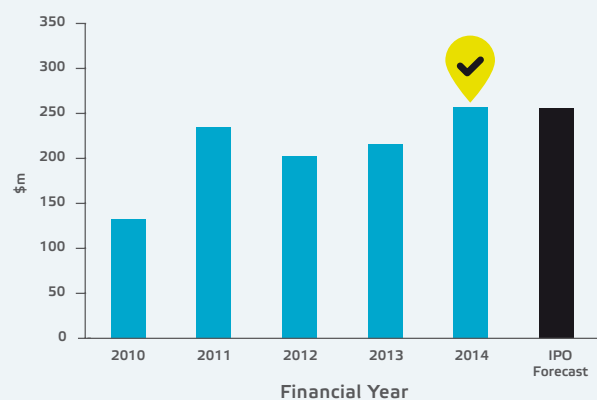
Reinvestment capital expenditure is forecast in the long run to be \$70-80 million per annum, with some variability from year to year given the scale, specific requirements of hydro upgrades and with the uncertain timing of individual geothermal make-up wells. In FY2014, the Company had lower-than-average (and forecast) reinvestment capital expenditure of \$60 million, however for FY2015 the forecast is higher-than-average (\$95 million) reflecting the drilling of a new well at Ngatamariki (brought forward to increase fuel availability) and scheduled drilling of a new well at Rotokawa.

### Continued strong cash flow

Net cash provided by operating activities was \$317 million. This was slightly lower than the IPO forecast but was at the top end of the guidance range given at the time of the 2013 Annual Shareholders' Meeting when the Company disclosed it would be impacted by a higher final provisional tax payment relating to the prior financial year. Net cash provided by operating activities was \$31 million higher than the prior year reflecting the commissioning of Ngatamariki and lower operating expenditure.

Free cash flow was in line with that derived from the IPO forecasts and \$9 million ahead that derived from guidance due to lower-than-

## FREE CASH FLOW



forecast reinvestment capital expenditure. Free cash flow increased \$40 million from the prior year to \$257 million following the commissioning of the Ngatamariki station during the period and lower operating expenditure.

#### Funding headroom and extended debt maturity

Net debt ended the year at \$1,031 million, some \$174 million lower than forecast at the time of the IPO, reflecting capital expenditure which was significantly lower than forecast over FY2013 and FY2014. Drawn debt as at 30 June was \$1,045 million (30 June 2013: \$1,035 million) and undrawn facilities available were \$335 million (30 June 2013: \$475 million). The average maturity profile for committed facilities was 4.4 years compared with 5.2 years at 30 June 2013.

After period end, the Company successfully issued \$300 million of capital bonds. This enabled the Company to repay \$235 million of drawn bank facilities and commercial paper, while decreasing and restructuring its undrawn bank facilities by \$220 million. Together, this extended the average duration of the Company's average debt maturity profile from 4.4 years to 10.7 years.

#### Capital structure gives flexibility and optionality

Lower capital expenditure and continued strong free cash flow resulted in net debt \$174 million lower than forecast at the time of the IPO. This sits comfortably within Standard & Poor's requirement for a standalone bbb credit rating – a key reference point for Mighty River Power's dividend policy and our commitment to a sustainable capital structure. The Company benefits from a one notch uplift to a BBB+ credit rating due to the Crown's majority ownership.

During FY2014 and since year-end the Company has continued to strengthen its capital structure to increase flexibility and commercial resilience under different regulatory and market environments. This provides a strong capability to fund new growth should economic opportunities arise. In the absence of significant capital heavy growth options, the strong balance sheet provides options to return capital to shareholders.

During the period, as referenced by the Chair, a \$50 million share buy-back resulted in the purchase of 24.3 million shares which are now being held by the Company as treasury shares.

#### Continued to dividend growth

The Board has paid a final dividend of 8.3 cents per share being 0.5 cents higher than forecast at the time of the IPO. This final dividend, together with the interim dividend (of 5.2 cents paid in March 2014) brings the total FY2014 fully imputed dividend for the year to 13.5 cents per share which represents 72% of free cash flow and a 13% increase from the prior year (12 cents per share).

#### Outlook for the year ahead

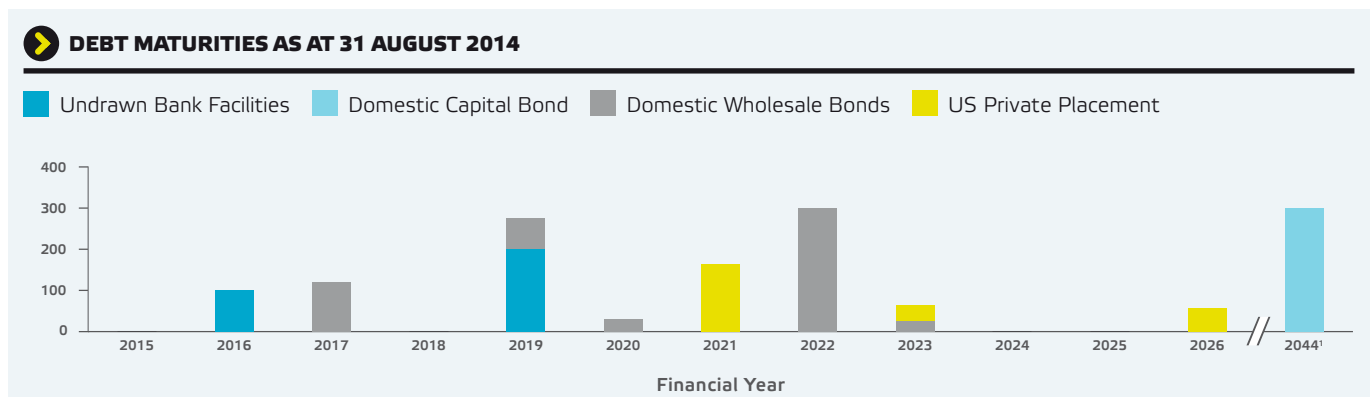
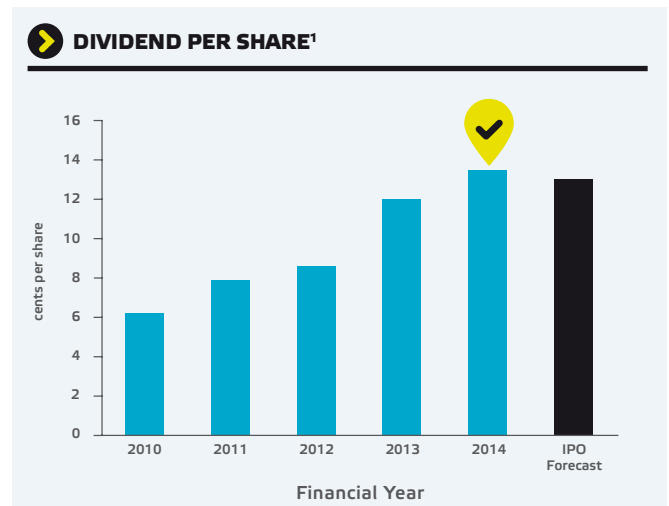
Mighty River Power is committed to ensuring that shareholders are well-informed about earnings expectations and has issued guidance for the next financial year that operating earnings (EBITDAF) will be in the range of \$495 million to \$520 million.

While our business is now increasingly diversified, our portfolio and financial flexibility to manage year-on-year earnings variability has limits and there are a number of elements outside of Management's control. For this reason, the Company's guidance remains subject to any material adverse events, significant one-off expenses and other unforeseeable circumstances including potentially large changes to inflows into our hydro catchments.

Mighty River Power's guidance assumes:

- Normal hydro inflows into the Waikato River catchments, adjusted downwards for lower opening lake level in July 2014
- \$20 million permanent cost savings reported in FY2014
- Flat to slightly negative residential energy price movements with the Company's commitment to no energy price increases until at least April 2015.

Mighty River Power has announced FY2015 dividend guidance and an update on any significant capital management initiatives will occur at the Annual Shareholders' Meeting in November 2014. ■



<sup>1</sup> Optional early redemption – Each Reset Date, any Interest Payment Date after a Reset Date if a Successful Election Process has not been undertaken, a Tax event, a Rating Agency Event or if the outstanding amount is less than \$100 million.

# Financial Track Record.

## FINANCIAL PERFORMANCE TRENDS

For the year ended 30 June (\$ million)	2014	2013	2012	2011	2010
<b>Income Statement</b>					
Energy margin	692	679	685	655	535
EBITDAF	504	390	461	443	328
Net profit for the year	212	115	68	127	85
<b>Balance sheet</b>					
Total shareholders' equity	3,219	3,183	3,014	2,907	2,689
Total assets	5,689	5,802	5,877	5,377	4,895
Total liabilities	2,470	2,619	2,863	2,470	2,206
<b>Cash flow</b>					
Operating cash flow	317	286	277	293	200
Investing cash flow	(99)	(84)	(292)	(202)	(296)
Financing cash flow	(213)	(230)	28	(69)	48
<b>Capital expenditure</b>					
Total capital expenditure	93	252	362	220	388
Growth capital expenditure	33	183	288	163	322
Reinvestment capital expenditure	60	69	74	57	66
<b>Other financial measures</b>					
Underlying earnings after tax	185	180	163	162	140
Free cash flow	257	217	203	236	134
Declared dividends	186	168	120	110	87
Dividends per share (cents) <sup>2</sup>	13.5	12.0	8.6	7.9	6.2
Basic and diluted earnings per share (cents) <sup>2</sup>	15.3	8.2	4.8	9.1	6.0
Net debt	1,031	1,028	1,116	976	971
Gearing (net debt/net debt+equity, %)	24.3	24.4	27.0	25.1	26.5
Debt/EBITDAF(x)	2.1	2.7	2.6	2.2	3.0
<b>Operational measures</b>					
Total recordable injury frequency rate (TRIFR)	0.42	0.76	0.92	1.28	2.22
Sales to customers (FPV, GWh)	4,844	5,252	5,021	4,776	4,857
Electricity customers	382,000	388,000	386,000	392,000	412,000
Electricity generation (GWh)	6,295	6,462	7,068	6,833	5,812

<sup>2</sup> To aid comparability, the 2010 to 2011 dividend and basic and diluted earnings per share has been calculated using a consistent number of shares on issue of 1.4 billion.



# Mighty River Power at a glance.

Mighty River Power is a company with a great New Zealand heritage, and a leader in this country's electricity industry. Our core business is focused on sustainably harnessing natural resources to produce electricity, providing innovative services for our customers and building strength through long-term partnerships.

## Retail service innovator.

**WE SUPPLY ELECTRICITY** to about 1-in-5 homes and businesses across New Zealand, through our flagship brand Mercury Energy and other specialty brands. Tiny Mighty Power has a growing presence in regional towns and Bosco Connect specialises in servicing inner-city apartment markets. Developed in-house, our GLO-BUG 'pay-as-you-go' solution is widely supported by budgeting agencies as a great example of how we are helping the small segment of customers who struggle to pay their household bills.



## Sustainable energy producer.

**EVERY YEAR** the power stations operated by Mighty River Power generate enough renewable energy to power about 1 million New Zealand homes, or 15-17% of the country's total electricity supply. This home-grown renewable energy comes from the nine hydro stations we operate on Waikato River, along with five geothermal stations in the Central North Island that now make up more than 40% of Mighty River Power's annual production. The balance comes from a gas-fired station in Auckland.



## Data & technology supplier.

**OUR METERING BUSINESS**, Metrix, is the second-largest meter provider in New Zealand with the current 340,000 'smart' meters expected to almost double over the next three years. Through our commercial partnerships with electricity retailers, we are building an important strategic platform in this network of 'smart' meters that is enabling enhanced information services for electricity retailers – and new levels of visibility and control for their customers.





## Active local contributor.

**MIGHTY RIVER POWER'S** commercial success and the value of our physical assets is founded on the strength of our relationships. By working with Maori landowners, we have unlocked the potential of geothermal energy, providing local opportunities for economic participation and partnership – based on shared values and a focus on the long-term. Our approach across the business is based on kaitiakitanga (guardianship) in the intergenerational management of natural resources, innovation and care for our customers and support for our communities.

*Proud supporter of rowing since 1998.*



## Trusted & preferred employer.

**THE EVOLUTION** of Mighty River Power, our vision and growth, comes from the energy of our people – their passion and ideas to move our business forward. Our track record of achievement and the Company's reputation speaks of the quality and behaviour of our team of more than 800 working together with a common purpose. Through the strength of our brand, and our commitment to the well-being of our people, we continue to attract a depth of talent in our Management and wider organisation that we consciously nurture for the future.

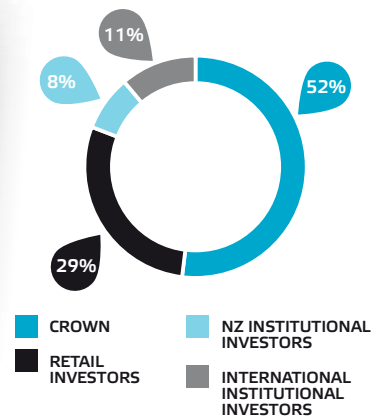


## Valued long-term investment.

**THROUGH OUR LISTING** on the New Zealand Stock Exchange ("MRP") and the Australian Stock Exchange ("MYT"), Mighty River Power is proud to have more than 100,000 retail and institutional shareholders alongside the Crown as our majority owner. We are also pleased to have the support of more than 4,500 Capital Bond holders who participated in our successful offer which was one of the largest corporate debt issues of its type in New Zealand.

### COMPANY OWNERSHIP

As at July 2014





# Meet the Board.

## 01. Prue Flacks Director

LLB, LLM

Prue Flacks joined the Mighty River Power Board in May 2010. She is a barrister and solicitor with extensive specialist experience in commercial law and, in particular, banking and finance and securities law. Prue is a consultant to Russell McVeagh, where she was a partner for 20 years. She is a director of Chorus and Bank of New Zealand, and a Trustee of the Victoria University of Wellington Foundation.

## 02. James Miller Director

BCom, FCA, AMInstD

James Miller was appointed a director of Mighty River Power in May 2012. He is Deputy Chair of NZX, a director of New Zealand Clearing and Depository Corporation (a subsidiary of NZX), the Accident Compensation Corporation and Auckland International Airport and is a member of the Financial Markets Authority. He has 15 years' experience in capital markets, including as a former director and Head of NZ Wholesale Equities with Craigs Investment Partners in Auckland.

## 03. Michael Allen Director

BE (Chem) (Hons), PhD

Michael Allen was appointed a director of Mighty River Power in November 2009. He is also a director of Mid Century Design, Executive Director of Geothermal New Zealand and Executive Chairman of ReEx Capital Asia Pte (Singapore). Michael has been involved in more than 20 geothermal developments internationally and has been active in brokering finance for clean energy projects internationally. He has been appointed to the office of Special Envoy for Renewable Energy by the Ministry of Foreign Affairs and Trade.

## 04. Tania Simpson Director

BA, MMM, AMInstD

Tania Simpson became a director of Mighty River Power in November 2001 and is Chair of the Human Resources Committee. Tania is the founding director of Māori policy advisor, Kōwhai Consulting. She has previously held management positions in Housing Corporation, Ministry of Māori Development and Office of Treaty Settlements. Tania is a Member of the Waitangi Tribunal and the King's Council, a director of Oceania Group, AgResearch, Reserve Bank of New Zealand and a Trustee of Te Reo Irirangi o Maniapoto Trust, Kōwhai Trust and Tui Trust. She is of Tainui, Ngāi Tahu and Ngā Puhi descent.





**05. Patrick Strange**  
**Director**

BE (Hons), PhD

Patrick Strange joined the Mighty River Power board in February 2014. He was previously a director of Mighty River Power in 2006-2007 and stepped down to take up the role of Chief Executive of New Zealand's transmission owner and operator, Transpower New Zealand Limited, which he held for more than six years. He is currently a director of Worksafe New Zealand and of the joint board of Ausgrid, Endeavour Energy and Essential Energy, Australia. Patrick has more than 30 years experience in the New Zealand and international electricity and energy sectors, as a senior executive and director.

**06. Joan Withers**  
**Chair**

MBA, AFINST

Joan Withers was appointed a director of Mighty River Power in August 2009 and Chair of the Board in October 2009. She is Deputy Chair of Television New Zealand, a director of ANZ Bank New Zealand and of The Treasury Advisory Board, a Trustee of Pure Advantage, the Sweet Louise and the Tindall foundations. Joan has more than 20 years' experience at a senior executive level in the New Zealand media industry, including serving as Chief Executive Officer of Fairfax New Zealand and the Radio Network of New Zealand.

**07. Keith Smith**  
**Director**

BCom, FCA

Keith Smith was appointed a director of Mighty River Power in May 2009 and is Chair of its Risk Assurance and Audit Committee. He is Chair of Goodman (NZ), Healthcare Holdings, Enterprise Motor Group and Mobile Surgical Services and H J Asmuss & Co. He is Deputy Chair of The Warehouse Group and a director of Westland Dairy Cooperative and various private companies covering a range of industry sectors. Keith is also a Trustee for Cornwall Park Trust Board and a member of the Advisory Board of the New Zealand Tax Trading Company.

**08. Andrew Lark**  
**Director**

BA

Andrew Lark joined the Mighty River Power board in July 2014. He has a background in entrepreneurship, marketing and digital technologies. Andrew is currently the CEO of Group Lark, an accelerant for brand and digital transformations. He sits on the Boards of SLI Systems, Fronde and No 8 Ventures. Prior roles include Chief Marketing & Online Officer for the Commonwealth Bank of Australia, Chief Marketing Officer for Dell's Large Enterprise and Public Group; and Chief Marketing Officer Loglogic. ■



To view the Corporate Governance section of the 2014 Annual Report, please refer to page 57 of the Annual Report.



# 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 be found below or as part of the Audited Financial Statements included within the Annual Report.

**EBITDAF** is reported in the income statement of the Audited Financial Statements within the Annual Report (page 5) 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 Audited Financial Statements as follows:

## ENERGY MARGIN

\$m	FY2014	FY2013
Sales	1,672	1,806
Less: lines charges	(431)	(454)
Less: energy costs	(505)	(636)
Less: other direct cost of sales, including metering	(44)	(37)
<b>Energy Margin</b>	<b>692</b>	<b>679</b>

**Underlying Earnings after tax** reported in Note 2 of the Audited Financial Statements included in the Annual Report (page 19), is net profit for the 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** reported in Note 21 of the Audited Financial Statements included in the Annual Report (page 35) 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.

**Free Cash Flow** is defined as 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

\$m	FY2014	FY2013
Net cash provided by operating activities	317	286
Less: Reinvestment capital expenditure (including accrued costs)	(60)	(69)
<b>Free cash flow</b>	<b>257</b>	<b>217</b>

# Shareholder information

## Shareholder enquiries

Changes in address, dividend payment details and investment portfolios can be viewed and updated online: **[www.investorcentre.com/nz](http://www.investorcentre.com/nz)**. You will need your CSN and FIN numbers to access this service.

Enquiries may be addressed to the Share Registrar:

### Share Register – New Zealand

Computershare Investor Services Ltd

Postal address:

Level 2, 159 Hurstmere Road, Takapuna, Auckland 0622

Private Bag 92 119

Auckland 1142

New Zealand

Phone: +64 9 488 8777

Fax: +64 9 488 8787

Email: [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

Web: [www.investorcentre.com/nz](http://www.investorcentre.com/nz)

### Share Register – Australia

Computershare Investor Services Pty Ltd

Yarra Falls, 452 Johnstone Street, Abbotstord, VIC 3037

GPO Box 3329

Melbourne, VIC 3001

Australia

Phone: 1 800 501 366 (within Australia)

Phone: +61 3 9415 4083 (outside Australia)

Fax: +61 3 9473 2500

Email: [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

## Investor Relations

### Anna Hirst

Head of Investor Relations

Mighty River Power Corporate Office

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Auckland 1142

New Zealand

Phone: +64 9 308 8200

Fax: +64 9 308 8209

Email: [investor@mightyriver.co.nz](mailto:investor@mightyriver.co.nz)

## Investor information

Our website at **[www.mightyriver.co.nz](http://www.mightyriver.co.nz)** is an excellent source of information about what's happening within the Company.

Our Investor Centre allows you to view all regular investor communications, information on our latest operating and financial results, dividend payments, news and share price history.

## Electronic shareholder communication

It is quick and easy to make the change to receiving your reports electronically. This can be done either:

- Online at **[www.investorcentre.com/nz](http://www.investorcentre.com/nz)** by using your CSN and FIN numbers (when you log in for the first time). Select 'View Portfolio' and log in. Then select 'Update My Details' and select 'Communication Options'; or
- Contacting Computershare Investor Services Limited by email, fax or post.

*Please think about the environment and help us save paper and costs*

# Glossary

<b>Dividend</b>	The distribution of a proportion of a company's earnings, decided by the board of directors, to its shareholders. The dividend is most often quoted in terms of the dollar amount per share. May be paid as Interim Dividend and Final Dividend	<b>Pay-as-you-go</b>	Customers pay for electricity as they use it, rather than receiving a monthly bill, making it much easier to manage their electricity spend, keep on top of payments and budget
<b>Equity Interest</b>	Where Mighty River Power has equity (investment) in another business entity	<b>'Smart' meters</b>	Advanced electricity meters that are a replacement for analogue meters, and send electronic meter readings to your energy retailer automatically
<b>Fixed Price Variable Volume (FPVV)</b>	A contract for electricity that allows the consumer to use as much electricity as they want at a fixed price per unit	<b>Spot market / wholesale market</b>	The buying and selling of wholesale electricity is done via a 'pool', where electricity generators offer electricity to the market and retailers bid to buy the electricity. This market is called the spot or physical wholesale market
<b>GWh</b>	Gigawatt hour. One gigawatt hour is equal to one million kilowatt hours	<b>Spot price</b>	The half-hour price of wholesale ('spot') market electricity
<b>MWh</b>	Megawatt hour. One megawatt hour is equal to 1,000 kilowatt hours. A megawatt hour is the metering standard unit for the wholesale market	<b>Total Recordable Injury Frequency Rate (TRIFR)</b>	A record of the number of reported medical treatment, restricted work, lost time and serious harm injuries per 100,000 hours, including employees and contractors
<b>Operating Cash Flow</b>	The amount of cash a company generates from the revenues it brings in, excluding costs associated with long-term investment on capital items or investment in securities		
<b>Operating Expenses</b>	Total costs incurred in the business, less energy costs and other direct costs of sales including metering		



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 [www.mightyriver.co.nz](http://www.mightyriver.co.nz)

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