NEWS RELEASE
28 August 2015

NZX: MRP **ASX:** MYT

Mighty River Power 2015 Full Year Financial Results

Today Mighty River Power releases its full year results for the year ended 30 June 2015.

Included in this announcement is:

PART ONE:

> **Appendix 4E**
> **Audited Annual Financial Statements for the year ended 30 June 2015**
> **Independent Auditor's Report**
> **Appendix 3A.1**

PART TWO:

> Media Release
> Annual Results Presentation
> Financial Commentary
> NZX Disclosures
- Appendix 1
- Appendix 7 – ordinary dividend
- Appendix 7 – special dividend

ENDS

www.mightyriver.co.nz

For further information:

Tony Nagel
Company Secretary
T 09 398 8227

Anna Hirst
Head of Investor Relations
T 0275 173 470

Mighty River Power is a company with a great New Zealand heritage, and a leader in this country's electricity industry with the flagship retail brand Mercury Energy and other specialty brands. Every year the hydro and geothermal power stations operated by Mighty River Power generate enough electricity for about 1 million New Zealand homes.

Mighty River Power was listed on the New Zealand Stock Exchange (NZX: "MRP") and the Australian Stock Exchange (ASX: "MYT") in May 2013 and has New Zealand's largest shareholder base at more than 100,000, alongside the Crown as majority owner.

Appendix 4E – Preliminary final report

Stock Exchange listings NZX (MRP) ASX (MYT)

1. Full year reporting periods		
Reporting Period	12 months to 30 June 2015	
Previous Reporting Period	12 months to 30 June 2014	
2. Results for announcement to the market		
	NZD Amount ($M)	Percentage change
Revenue from ordinary activities	1,678	-1.6%
Profit from ordinary activities after tax attributable to security holders	47	-77.8%
Net profit attributable to security holders	47	-77.8%
Earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments, impairments and equity accounted earnings (EBITDAF)	482	-4.4%
Underlying earnings after tax [1]	145	-21.6%
	NZD Amount	Percentage change
Basic and diluted earnings per share (weighted average number of shares)	$0.0342	-77.6%
Net tangible assets per share (excluding treasury shares)	$2.38	+3.4%
Final Dividend	Amount per security	Imputed amount per security
Final Dividend	$0.084	$0.032667 [2]
Record Date	14 September 2015	
Dividend Payment Date	30 September 2015	
Special Dividend	Amount per security	Imputed amount per security
Special Dividend	$0.025	$0.009722 [3]
Record Date	14 September 2015	
Dividend Payment Date	30 September 2015	

Comments:	1. Underlying earnings after tax excludes one-off and/or infrequently occurring events (exceeding $10 million of net profit before tax). This is a non-GAAP measure. 2. A supplementary dividend of $0.014824 per share will be payable on the final dividend to shareholders who are not resident in New Zealand. 3. A supplementary dividend of $0.004412 per share will be payable on the special dividend to shareholders who are not resident in New Zealand.

3. Control of entities gained or lost during the period

Name	Date control gained
Rotokawa MRP Limited	Incorporated 26 June 2015
Ngatamariki MRP Limited	Incorporated 26 June 2015
MRP NRI-Germany Holdings Limited	22 September 2014
MRP FinCo-Germany Limited	22 September 2014
MRP Holdings-Germany Limited	22 September 2014

4. Dividends

See section 2 above and NZX Appendix 7 attached.

5. Dividend or distribution reinvestment plans

None.

6. Associates and joint venture entities

Refer to Annual Consolidated Financial Statements for year ended 30 June 2015

7. Accounting Standards

Refer to Annual Consolidated Financial Statements for year ended 30 June 2015

8. Audit

This report is derived from the audited Annual Consolidated Financial Statements. EY has provided an Audit Report on the Financial Statements, copy attached.

Attachments:

> News release
> Financial commentary
> Investor presentation

- Audited Annual Financial Statements for the year ended 30 June 2015
- EY Audit Report
- NZX Appendix 1
- NZX Appendix 7 – ordinary dividend
- NZX Appendix 7 – special dividend

MIGHTY RIVER POWER LIMITED

Annual Consolidated Financial Statements

For the year ended 30 June 2015

MIGHTY RIVER POWER LIMITED
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 $M	2014 $M
Total revenue	4	1,678	1,705
Total expenses	4	(1,196)	(1,201)
EBITDAF[1]		482	504
Depreciation and amortisation	8, 9	(170)	(161)
Change in the fair value of financial instruments	15	8	32
Impairments	4	(130)	-
Earnings of associates' and joint ventures	10	3	4
Net interest expense	4	(99)	(84)
Profit before tax		94	295
Tax expense	6	(47)	(83)
Profit for the year		47	212
Profit for the period attributable to owners of the parent		47	212
Basic and diluted earnings per share (cents)		3.42	15.27

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 $M	2014 $M
Profit for the year		47	212
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Fair value revaluation of generation assets	8	497	40
Share of movements in associates' and joint ventures' reserves	10	(1)	(10)
Tax effect		(141)	(11)
Items that may be reclassified subsequently to profit or loss			
Movement in cash flow hedge reserve	15	(40)	47
Movement in other reserves		5	(7)
Tax effect		11	(13)
Other comprehensive income/(loss) for the year, net of taxation		331	46
Total comprehensive income/(loss) for the year attributable to owners of the parent		378	258

[1]EBITDAF: Earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments, impairments and equity accounted earnings

MIGHTY RIVER POWER LIMITED
CONSOLIDATED BALANCE SHEET
AS AT 30 JUNE 2015

	Note	2015 $M	2014 $M
SHAREHOLDERS' EQUITY			
Issued capital		**378**	378
Treasury shares	5	**(52)**	(52)
Reserves		**3,011**	2,893
Total shareholders' equity		**3,337**	3,219
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**32**	19
Receivables	11	**189**	218
Inventories	7	**30**	24
Derivative financial instruments	15	**35**	31
Total current assets		**286**	292
NON-CURRENT ASSETS			
Property, plant and equipment	8	**5,418**	5,095
Intangible assets	9	**68**	71
Available-for-sale financial assets		**-**	12
Investment and advances to associates	10	**74**	78
Investment in joint ventures	10	**14**	23
Advances	10	**12**	13
Receivables	11	**1**	6
Derivative financial instruments	15	**157**	99
Total non-current assets		**5,744**	5,397
Held-for-sale assets	8	**28**	-
TOTAL ASSETS		**6,058**	5,689
LIABILITIES			
CURRENT LIABILITIES			
Payables and accruals	11	**159**	169
Borrowings	13	**10**	56
Derivative financial instruments	15	**14**	22
Taxation payable	6	**15**	24
Total current liabilities		**198**	271
NON-CURRENT LIABILITIES			
Payables and accruals	11	**2**	6
Provisions	12	**14**	16
Derivative financial instruments	15	**243**	209
Borrowings	13	**1,167**	985
Deferred tax	6	**1,092**	983
Total non-current liabilities		**2,518**	2,199
Held-for-sale liabilities	8	**5**	-
TOTAL LIABILITIES		**2,721**	2,470
NET ASSETS		**3,337**	3,219

For and on behalf of the Board of Directors who authorised the issue of the Financial Statements on 28 August 2015.

Joan Withers
Chair
28 August 2015

Keith Smith
Director
28 August 2015

MIGHTY RIVER POWER LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2015

	Issued capital $M	Retained earnings $M	Asset revaluation reserve $M	Cash flow hedge reserve $M	Other reserves $M	Total equity $M
Balance as at 1 July 2013	378	493	2,363	(39)	(13)	3,182
Fair value revaluation of generation assets, net of taxation	-	-	29	-	-	29
Movement in cash flow hedge reserve, net of taxation	-	-	-	34	-	34
Movements in other reserves	-	-	-	-	(7)	(7)
Share of movements in associates' and joint ventures' reserves	-	-	(8)	(2)	-	(10)
Release of asset revaluation reserve	-	2	(1)	-	-	1
Other comprehensive income	-	2	20	32	(7)	47
Net profit for the year	-	212	-	-	-	212
Total comprehensive income/(loss) for the year	-	214	20	32	(7)	259
Acquisition in treasury shares	-	-	-	-	(49)	(49)
Dividend	-	(173)	-	-		(173)
Balance as at 30 June 2014	378	534	2,383	(7)	(69)	3,219
Balance as at 1 July 2014	**378**	**534**	**2,383**	**(7)**	**(69)**	**3,219**
Fair value revaluation of generation assets, net of taxation	**-**	**-**	**356**	**-**	**-**	**356**
Movement in cash flow hedge reserve, net of taxation	**-**	**-**	**-**	**(29)**	**-**	**(29)**
Movements in other reserves	**-**	**-**	**-**	**-**	**6**	**6**
Share of movements in associates' and joint ventures' reserves	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Release of asset revaluation reserve, net of taxation	**-**	**-**	**(1)**	**-**	**-**	**(1)**
Other comprehensive income	**-**	**-**	**355**	**(30)**	**6**	**331**
Net profit for the year	**-**	**47**	**-**	**-**	**-**	**47**
Total comprehensive income/(loss) for the year	**-**	**47**	**355**	**(30)**	**6**	**378**
Acquisition of treasury shares	**-**	**-**	**-**	**-**	**-**	**-**
Dividend	**-**	**(260)**	**-**	**-**	**-**	**(260)**
Balance as at 30 June 2015	**378**	**321**	**2,738**	**(37)**	**(63)**	**3,337**

MIGHTY RIVER POWER LIMITED
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2015

	2015 $M	2014 $M
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,652	1,706
Payments to suppliers and employees	(1,168)	(1,214)
Interest received	5	3
Interest paid	(101)	(90)
Taxes paid	(79)	(88)
Net cash provided by operating activities	309	317
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(105)	(82)
Acquisition of intangibles	(13)	(20)
Disposal of land	9	-
Advances to joint venture partner repaid	1	1
Investment in joint ventures	-	(3)
Distributions received from associates and joint ventures	5	5
Net cash used in investing activities	(103)	(99)
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of treasury shares	-	(50)
Proceeds from loans	300	60
Repayment of loans	(235)	(50)
Dividends paid	(260)	(173)
Net cash used in financing activities	(195)	(213)
Net increase in cash and cash equivalents held	11	5
Net foreign exchange movements	2	3
Cash and cash equivalents at the beginning of the year	19	11
Cash and cash equivalents at the end of the year	32	19
Cash balance comprises:		
Cash balance at the end of the year	32	19

The accompanying notes form an integral part of these financial statements.

NOTE 1. ACCOUNTING POLICIES

(1) Reporting entity

Mighty River Power Limited ("Company") is incorporated in New Zealand, registered under the Companies Act 1993, an FMC reporting entity under the Financial Markets Conduct Act 2013, and is listed on the NZSX and ASX.

The consolidated financial statements ("Group financial statements") are for Mighty River Power Limited Group ("Group"). The Group financial statements comprise the Company and its subsidiaries, including its investments in associates and interests in joint arrangements.

The liabilities of the Group are not guaranteed in any way by the Crown or by any other shareholder.

(2) Basis of preparation

The Group financial statements have been prepared in accordance with the Financial Reporting Act 2013, the Companies Act 1993 and in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards ("IFRS").

The NZ IFRS financial statements are prepared on the basis of historical cost, with the exception of financial instruments and generation assets measured at fair value, and held-for-sale assets measured at fair value less cost to sell.

The Group financial statements have been prepared so that all components are stated exclusive of GST, with the exception of receivables and payables that include GST invoiced.

Functional and presentation currency

These financial statements are presented in New Zealand Dollars ($) which is the Group's functional currency, apart from Mighty Geothermal Power Limited and its direct subsidiaries as their functional currency is the United States Dollar. Unless otherwise stated, financial information has been rounded to the nearest million dollars ($M).

The assets and liabilities of entities whose functional currency is not the New Zealand Dollar, are translated at the exchange rates ruling at balance date. Revenue and expense items are translated at the spot rate at the transaction date or a rate approximating that rate. Exchange differences are taken to the foreign currency translation reserve.

Estimates and judgements

The preparation of financial statements requires judgements and estimates that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The areas of significant estimates and judgements are as follows:

Impairment of non-financial assets (refer note 4)
Generation plant and equipment (refer note 8)
Retail revenue (refer note 11)
Restoration and environmental rehabilitation (refer note 12)
Valuation of financial instruments (refer note 14)

Accounting policies and standards

No changes to accounting policies have been made during the year and policies have been consistently applied to all years presented. Certain comparatives have been restated where needed to conform to current year classification and presentation.

The Group has elected not to early adopt any NZ IFRS standards, nor has the impact of adopting these standards been assessed.

NOTE 2. SEGMENT REPORTING

Identification of reportable segments

The operating segments are identified by Management based on the nature of the products and services provided. Discrete financial information about each of these operating businesses is reported to the Chief Executive, being the chief operating decision-maker, on at least a monthly basis, who assesses the performance of the operating segments on a measure of EBITDAF. Segment EBITDAF represents profit earned by each segment exclusive of any allocation of central administration costs, share of earnings of associates, change in fair value of financial instruments, depreciation, amortisation, impairments, finance costs and tax expense. Operating segments are aggregated into reportable segments only if they share similar economic characteristics.

Types of products and services

Energy Markets

The energy markets segment encompasses activity associated with the production, sale and trading of energy and related services and products, and generation development activities.

Other Segments

Other operating segments that are not considered to be reporting segments are grouped together as "Other Segments". Activities include metering and international geothermal development and operations.

Unallocated

Represents corporate support services and related elimination adjustments.

Inter-segment

Transactions between segments are carried out on normal commercial terms and represent charges by Other Segments to Energy Markets.

Segment results

June 2015	**Energy Markets $M**	**Other Segments $M**	**Unallocated $M**	**Inter-segment $M**	**Total $M**
Total segment revenue	**1,666**	**45**	**(3)**	**(30)**	**1,678**
Direct costs	**(1,005)**	**(4)**	**-**	**30**	**(979)**
Other operating expenses	**(150)**	**(23)**	**(44)**	**-**	**(217)**
Segment EBITDAF	**511**	**18**	**(47)**	**-**	**482**

June 2014	Energy Markets $M	Other Segments $M	Unallocated $M	Inter-segment $M	Total $M
Total segment revenue	1,696	44	(2)	(33)	1,705
Direct costs	(1,013)	(5)	-	33	(985)
Other operating expenses	(160)	(23)	(33)	-	(216)
Segment EBITDAF	523	16	(35)	-	504

NOTE 3. NON STATUTORY MEASURE - UNDERLYING EARNINGS

Underlying earnings is presented to enable stakeholders to make an assessment and comparison of earnings after removing 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 or any equity accounted share of changes in the fair value of derivative financial instruments.

	2015 $M	2014 $M
Profit for the year	**47**	212
Change in the fair value of financial instruments	**(8)**	(32)
Change in the fair value of financial instruments of associates and joint ventures	**-**	(5)
Income attributable to land and associated real property sold or held-for-sale	**(17)**	-
Impairments	**130**	-
Adjustments before tax expense	**105**	(37)
Tax expense	**(7)**	10
Adjustments after tax expense	**98**	(27)
Underlying earnings after tax	**145**	185

Tax has been applied on all taxable adjustments at 28%.

NOTE 4. OTHER INCOME STATEMENT DISCLOSURES

	2015 $M	2014 $M
Sales	1,627	1,672
Other revenue	51	33
Total revenue	1,678	1,705
Energy costs	(507)	(505)
Line charges	(422)	(431)
Other direct cost of sales, excluding third party metering	(26)	(27)
Third party metering	(24)	(22)
Employee compensation and benefits	(82)	(80)
Maintenance expenses	(54)	(54)
Other expenses	(81)	(82)
Total expenses	(1,196)	(1,201)
Interest expense	(104)	(93)
Interest income	5	3
Interest capitalised to capital work in progress	-	6
Net interest expense	(99)	(84)

Audit fees

Fees incurred by EY(NZ) during the year were $608,000 (2014: $608,000) for the audit and review of the financial statements and $8,000 (2014: nil) in relation to NZ remuneration benchmarking services. Fees incurred by EY (US) relating to the audit of US entities was $74,000 (2014: $57,000). Offshore entities incurred fees during the year from BDO and Deloitte of $129,000 (2014: $174,000). EY (US) also provided additional US tax compliance in the amount of $179,000 (2014: nil).

Impairments

The Group announced during the year that it would exit its geothermal development interests in Chile and Germany, while keeping its stake in operating US investments (John L. Featherstone plant) with no further material development capital to be committed. During the year it also announced that it would close and sell its gas-fired generation plant at Southdown. These decisions were considered by Management to be potential indicators of impairment and consequently a review of the carrying value of all geothermal development projects and the Group's gas-fired generation plant was undertaken. As a result of this review, the Group recognised an impairment charge against its investments in Germany, Chile and the US and its gas-fired generation plant. A full impairment of the assets in Germany (subsequently sold) and Chile has resulted in a charge of $69 million being booked, to bring the carrying value of the investments in line with their fair value less cost of disposal. In the US, a review of forecast revenues and costs across the plant and steam field and the flow-on effects to the tax equity financing has reduced the fair value of the investment in Hudson Ranch I Holdings LLC to $14 million, resulting in an impairment of $14 million. The gas-fired generation plant at Southdown has been impaired by $44 million to bring the carrying value of the plant, equipment and inventories identified for sale into line with their fair value less cost of disposal. Additional net impairments of $3 million were taken against a number of domestic development options held by the Group.

NOTE 5. SHARE CAPITAL AND DISTRIBUTION

The share capital of the Company is represented by 1,400,012,517 ordinary shares (2014: 1,400,012,517) issued and fully paid. The weighted average number of share on issue during the year, on both a basic and diluted basis, was 1,375,892,536 (2014: 1,375,668,571). These shares do not have a par value, have equal voting rights and share equally in dividends and any surplus on winding up.

	2015 Number of shares (M)	2015 $M	2014 Number of shares (M)	2014 $M
Treasury shares				
Balance at the beginning of the year	24	52	1	3
Acquisition of treasury shares	-	-	23	50
Disposal of treasury shares	-	-	-	(1)
Balance at the end of the year	24	52	24	52

Dividends declared and paid

	Cents per share	2015 $M	2014 $M
Final dividend for 2013	7.20	-	101
Interim dividend for 2014	5.20	-	72
Final dividend for 2014	8.30	114	-
Special dividend for 2015	5.00	69	-
Interim dividend for 2015	5.60	77	-
		260	173

Imputation credits available to shareholders in the future amount to $16.1 million (2014: $45.8 million).

NOTE 6. TAXATION

	2015	2014
Income Tax	**$M**	$M
(i) Tax expense		
Profit before tax	**94**	295
Prima facie tax expense at 28% on the profit before tax	**(26)**	(83)
Increase/(decrease) in tax expense due to:		
• share of associates' and joint ventures' tax paid earnings	**-**	1
• foreign entities' non-deductible costs	**(2)**	-
• non-deductible impairments	**(23)**	-
• assessable dividends not reported in profit before income tax	**-**	(2)
• other differences	**1**	(1)
• recognition of deferred tax on hydro powerhouse assets	**3**	-
• over/(under) provision in prior period	**-**	2
Tax expense attributable to profit from ordinary activities	**(47)**	(83)
Represented by:		
Current tax expense	**(68)**	(78)
Deferred tax recognised in the income statement	**21**	(5)

The tax expense charged to the income statement includes both the current year's provision and the income tax effect of:
• taxable temporary differences, except those arising from initial recognition of goodwill; and
• deductible temporary differences to the extent that it is probable that they will be utilised.

Deferred Tax
Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax and accounting bases of the Group's assets and liabilities. A deferred tax asset is only recognised to the extent that there will be future taxable profit to utilise the temporary difference.

Property, plant and equipment is held on capital account for income tax purposes. Where assets are revalued, with no similar adjustment to the tax base, a taxable temporary difference is created that is recognised in deferred tax. The deferred tax liability on these revaluations is unlikely to crystallise in the foreseeable future under existing income tax legislation.

(i) Recognised deferred tax assets and liabilities

	Assets 2015 $M	Assets 2014 $M	**Liabilities 2015 $M**	Liabilities 2014 $M	**Net 2015 $M**	Net 2014 $M
Property, plant and equipment	**-**	-	**(1,149)**	(1,030)	**(1,149)**	(1,030)
Financial instruments	**42**	31	**-**	-	**42**	31
Employee benefits and provisions	**2**	5	**-**	-	**2**	5
Other	**13**	11	**-**	-	**13**	11
	57	47	**(1,149)**	(1,030)	**(1,092)**	(983)

(ii) Movement in deferred tax

	Property, plant and equipment $M	**Financial instruments $M**	**Employee entitlements $M**	**Other $M**	**Total $M**
Balance as at 1 July 2013	(1,027)	53	1	18	(955)
Charged/(credited) to the income statement	7	(9)	-	(2)	(4)
Charged/(credited) to other comprehensive income	(11)	(13)	-	-	(24)
Other movements	1	-	(1)	-	-
Balance as at 30 June 2014	(1,030)	31	-	16	(983)
Balance as at 1 July 2014	**(1,030)**	**31**	**-**	**16**	**(983)**
Charged/(credited) to the income statement	**19**	**-**	**1**	**1**	**21**
Charged/(credited) to other comprehensive income	**(141)**	**11**	**-**	**-**	**(130)**
Other movements	**3**	**-**	**1**	**(4)**	**-**
Balance as at 30 June 2015	**(1,149)**	**42**	**2**	**13**	**(1,092)**

Tax depreciation for building deductions were disallowed from 1 July 2011. An adjustment to deferred tax was made in the 2010 year relating to office and other buildings. However there was uncertainty on the application of this 2011 determination in relation to powerhouses. Management held the view that powerhouse assets should not be captured by the 2011 building determination, while accepting that there was a potential risk that a portion of the asset may be considered by Inland Revenue to be a building for tax purposes with the balance more appropriately being identified as plant. As a prudent measure, an increase to deferred tax liability was recognised for a portion of these powerhouse assets in the Group's 30 June 2010 financial statements.

During the year Inland Revenue confirmed that hydro-electric powerhouses are not buildings and have issued an asset specific depreciation rate. Consequently an adjustment to reverse the portion of the 2010 increase to deferred tax liabilities of $3 million has been included in the current year. A draft determination has been issued in relation to geothermal and thermal powerhouses, however this remains subject to consultation. Management have not altered their view on these assets. Should Inland Revenue confirm that these assets are depreciable the effect will be a $5 million reduction to deferred tax liabilities. However in the event that geothermal and thermal powerhouse assets are deemed to be buildings without any allowance for plant elements, an additional deferred tax liability of $12 million would need to be recognised.

NOTE 7. INVENTORIES

Cost is determined on a weighted average basis and includes expenditure incurred in acquiring inventories and bringing them to their existing condition and location. Consumable stores of $22 million (2014: $21 million) are held to service and repair operating plant. Meter stock of $8 million (2014: $3 million) is held in inventory until it is deployed into the field at which time it is transferred into property, plant and equipment.

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

	Generation assets at fair value $M	Meters at cost $M	Other assets at cost $M	Capital work in progress at cost $M	Total $M
Year ended 30 June 2014					
Opening net book value	4,624	64	32	421	5,141
Additions, including transfers from capital work in progress	403	7	16	(355)	71
Disposals	-	-	(1)	-	(1)
Revaluation	40	-	-	-	40
Exchange movements	(4)	-	-	(2)	(6)
Depreciation charge for the year	(131)	(10)	(9)	-	(150)
Closing net book value	4,932	61	38	64	5,095
Balance at 30 June 2014					
Cost or valuation	4,939	145	103	64	5,251
Accumulated depreciation	(7)	(84)	(65)	-	(156)
Net book value	4,932	61	38	64	5,095
Year ended 30 June 2015					
Opening net book value	**4,932**	**61**	**38**	**64**	**5,095**
Additions, including transfers from capital work in progress	**52**	**15**	**9**	**21**	**97**
Disposals	**(4)**	**-**	**-**	**-**	**(4)**
Transfer to held-for-sale	**(5)**	**-**	**(1)**	**(8)**	**(14)**
Revaluation	**497**	**-**	**-**	**-**	**497**
Impairments	**(76)**	**-**	**(2)**	**(24)**	**(102)**
Exchange movements	**4**	**-**	**-**	**1**	**5**
Depreciation charge for the year	**(134)**	**(11)**	**(11)**	**-**	**(156)**
Closing net book value	**5,266**	**65**	**33**	**54**	**5,418**
Balance at 30 June 2015					
Cost or valuation	**5,273**	**160**	**102**	**54**	**5,589**
Accumulated depreciation	**(7)**	**(95)**	**(69)**	**-**	**(171)**
Net book value	**5,266**	**65**	**33**	**54**	**5,418**

Assets carrying values

The cost of property, plant and equipment purchased comprises the consideration given to acquire the assets plus other directly attributable costs incurred in bringing the assets to the location and condition necessary for their intended use.

The cost of property, plant and equipment constructed by the Group, including capital work in progress, includes the cost of all materials used in construction, associated direct labour and an appropriate proportion of variable and fixed overheads. Financing costs attributable to a project are capitalised at the Group's specific project finance interest rate, where these meet certain time and monetary materiality limits. Costs of testing whether the assets are functioning properly, after deducting the net proceeds from power generation, are also capitalised. Costs cease to be capitalised as soon as an asset is ready for productive use.

Costs incurred in obtaining resource consents are capitalised and recognised as a non-current asset where it is probable they will give rise to future economic benefits. These costs are depreciated over the life of the consent on a straight-line basis.

Generation plant and equipment is measured at fair value less accumulated depreciation. Any surplus on revaluation of an individual item of property, plant and equipment is transferred directly to the asset revaluation reserve unless it offsets a previous decrease in value recognised in the income statement, in which case it is recognised in the income statement. A deficit on revaluation of an individual item of property, plant and equipment is recognised in the income statement in the period it arises where it exceeds any surplus previously transferred to the asset revaluation reserve. Any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Additions to property, plant and equipment stated at valuation subsequent to the most recent valuation are recorded at cost. All other items of property, plant and equipment are recorded at cost.

NOTE 8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Assets carried at fair value

All generation assets shown at valuation (except Resource Management Act consents) were revalued using a net present value methodology by PricewaterhouseCoopers, an independent valuer as at 30 June 2015. This resulted in an increase to the carrying value of generation assets of $504 million in the current year. This is in addition to the $40 million revaluation increase recognised in 2014. As a consequence of the revaluation, accumulated depreciation on these assets has been reset to nil. The current year also includes a release of $7 million from the asset revaluation reserve relating to thermal generation assets transferred to held-for-sale.

The key assumptions that are used in the valuation include the forecast of the future wholesale electricity price path, volumes, projected operational and capital expenditure, capacity and life assumptions and discount rate. In all cases there is an element of judgement required as they make use of unobservable inputs including wholesale electricity prices of between $63/MWh and $97/MWh (2014: $70/MWh and $95/MWh), average operational expenditure of $168 million p.a. (2014: $188 million p.a.) and average production volumes of 7,131/GWh p.a. (2014: 7,107/GWh p.a.) The valuation also assumed the on-going operation of New Zealand Aluminium Smelters Limited at Tiwai Point and that the current regulatory environment is retained. The discounted cash flow valuation approach assumes 100% control and consequently a control premium should be applied if using an equity valuation technique to derive asset values.

The following table outlines the valuation impact of changes to assumptions, keeping all other valuation inputs constant, that the valuation is most sensitive to.

	Sensitivity	**Valuation impact**	
		2015	2014
		$M	$M
Future wholesale electricity price path	+/- 10%	**$800 / ($803)**	$684 / ($687)
Discount rate	+/- 0.5%	**($648) / $891**	($489) / $645
Operational expenditure	+/- 10%	**($251) / $251**	($230) / $230

The carrying amount of revalued generation assets, had they been recognised at cost, would have been $2,014 million (2014: $2,089 million).

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment other than freehold land, capital work in progress and exploration and evaluation assets, so as to write down the assets to their estimated residual value over their expected useful lives.

The annual depreciation rates are as follows:

	2015	2014
Office land and buildings	**2-20%**	2-20%
Generation assets:		
• Hydro and thermal generation	**1-33%**	1-33%
• Other generation	**2-33%**	2-33%
Meters	**3-33%**	3-33%
Computer hardware and tangible software	**5-50%**	5-50%
Other plant and equipment	**2-50%**	2-50%
Vehicles	**5-33%**	5-33%

Assets and liabilities held-for-sale

At 30 June 2015 the Group’s gas-fired generation plant at Southdown, non-core land holdings and development interests in Chile were classified as held-for-sale as they are all part of announced divestment plans and their sale is expected to be completed within the next year.

The reclassification of the gas-fired generation plant at Southdown relates to plant, equipment and inventories identified for sale and the Group’s non-core land holdings represent those holdings, and associated real property, where their disposal is expected to be completed within the next year. Segmentally the results of these investments are presented by the Group within Energy Markets.

The sale of the Group’s development interests in Chile is intended to be achieved through a transfer of share capital. Accordingly, the assets and liabilities of the subsidiaries constitute a disposal group. The results of these investments are presented by the Group within Other Segments.

NOTE 9. INTANGIBLE ASSETS

	Intangible software $M	Rights $M	Emissions units $M	Total $M
Year ended 30 June 2014				
Opening net book value	26	26	11	63
Additions	14	2	5	21
Amortisation for the year	(11)	(2)	-	(13)
Closing net book amount	29	26	16	71
Balance at 30 June 2014				
Cost	117	42	16	175
Accumulated amortisation	(88)	(16)	-	(104)
Net book value	29	26	16	71
Year ended 30 June 2015				
Opening net book value	**29**	**26**	**16**	**71**
Additions	**6**	**-**	**6**	**12**
Impaired assets	**-**	**(1)**	**-**	**(1)**
Amortisation for the year	**(12)**	**(2)**	**-**	**(14)**
Closing net book amount	**23**	**23**	**22**	**68**
Balance at 30 June 2015				
Cost	**121**	**33**	**22**	**176**
Accumulated amortisation	**(98)**	**(10)**	**-**	**(108)**
Net book value	**23**	**23**	**22**	**68**

Software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use. These costs are amortised over their remaining estimated useful lives of between 2 to 15 years (2014: between 2 to 15 years). As these assets are deemed to have a finite life, impairment testing will only be performed when there is an indication that the intangible asset may be impaired.

Rights

Rights, of which land access rights are the most significant, acquired to further the Group's generation development programme are stated at cost less accumulated amortisation and any accumulated impairment losses. Rights, which have a finite life, are amortised over the life of the rights, which range from 3 to 25 years (2014: 3 to 25 years). Testing for impairment will only arise when there is an indication that the asset may be impaired.

Emissions units and emissions obligations

Emissions units that have been allocated by the Government under the Projects to Reduce Emissions scheme are recorded at nominal value (nil value). Purchased emissions units are recorded at cost (purchase price). Emissions units, whether allocated or purchased, are recorded as intangible assets. Emissions units are not revalued subsequent to initial recognition.

Emissions units that are surrendered to creditors in compensation for their emissions obligations are recognised as an expense in the income statement and a reduction to intangible assets in the balance sheet, based on the weighted average cost of the units surrendered.

Emissions obligations are recognised as a current liability as the obligation is incurred. Up to the level of units held, the liability is recorded at the carrying value of those units intended to settle the liability. Forward contracts for the purchase of emissions units are recognised when the contracts are settled.

NOTE 10. INVESTMENT AND ADVANCES TO ASSOCIATES AND JOINT ARRANGEMENTS (JOINT VENTURES AND JOINT OPERATIONS)

The Group financial statements include the following:

Name of entity	Principal activity	Type	Interest held 2015	2014	Country
TPC Holdings Limited	Investment holding	Associate	**25.00%**	25.00%	New Zealand
Rotokawa	Steamfield operation	Joint operation	**64.80%**	64.80%	New Zealand
Nga Awa Purua	Electricity generation	Joint operation	**65.00%**	65.00%	New Zealand
Energy Source LLC	Investment holding	Joint venture	**20.86%**	20.86%	United States
Hudson Ranch I Holdings LLC	Electricity generation	Joint venture	**75.00%**	75.00%	United States

	Associates: 2015 $M	Associates: 2014 $M	Joint ventures: 2015 $M	Joint ventures: 2014 $M
Balance at the beginning of the year	**78**	82	**23**	29
Additions during the year	**-**	-	**-**	1
Share of earnings	**2**	8	**1**	(4)
Share of movement in other comprehensive income	**(1)**	(8)	**-**	-
Distributions received during the year	**(5)**	(4)	**-**	-
Impaired investment in joint venture	**-**	-	**(14)**	-
Exchange movements	**-**	-	**4**	(3)
Balance at the end of the year	**74**	78	**14**	23

At the end of the year the Group had an outstanding advance to its Rotokawa joint venture partner in the amount $11 million (2014: $12 million). For terms and conditions of this related party receivable refer to note 17.

Due to the nature of the contractual arrangements that surround the joint venture entities, which allows for a reduction in the Group's economic interest once prescribed preferred returns have been achieved, the share of movements in earnings and reserves has been calculated based on the Hypothetical Liquidation at Book Value method. This method more closely aligns the recognition of earnings through time with the expected contractually agreed economic outcomes compared to the recognition of earnings based on a strict percentage of ownership.

In compliance with the equity method under NZ IAS 28 - Investments in Associates and Joint Ventures, the Group has yet to recognise its share of losses relating to Energy Source LLC amounting to US$6 million (2014: US$7 million).

NOTE 11. RECEIVABLES, PAYABLES AND ACCRUALS

Receivables

	2015 $M	2014 $M
Trade receivables and accruals	**182**	216
Allowance for impairment loss	**(2)**	(5)
Net trade receivables and accruals	**180**	211
Prepayments	**10**	12
Related party receivables	**-**	1
	190	224

Revenue accruals for unread gas and electricity meters at balance date involves an estimate of consumption for each unread meter, based on the customer's past consumption history.

Trade receivables are non-interest bearing and are generally on 30 day terms. For terms and conditions of related party receivables refer to note 17.

The Group recognises an allowance for impairment loss when there is objective evidence that the Group will not be able to collect amounts due according to the original terms of the receivable. An allowance charge of $2 million (2014: $4 million) was recognised during the year. Receivables of $5 million (2014: $4 million) which were known to be uncollectable were written off.

	2015 $M	2014 $M
Receivables past due but not considered impaired:		
Less than one month past due	**6**	7
Greater than one month past due	**1**	-
	7	7
Payables and accruals		
Trade payables and accruals	**154**	166
Employee entitlements	**6**	8
Sundry creditors	**1**	1
	161	175

Trade payables are non-interest bearing and are normally settled on 30 to 60 day terms, except for a swaption premium, the balance of which is payable over the next 2 years.

NOTE 12. PROVISIONS

	2015 $M	2014 $M
Balance at the beginning of the year	16	13
Provisions made during the year	-	3
Provisions used during the year	-	(1)
Discounting movement	2	1
Provisions transferred to held-for-sale liabilities	(4)	-
Balance at the end of the year	14	16

Provisions have been recognised for the abandonment and subsequent restoration of areas from which geothermal resources have been extracted. The provision is calculated based on the present value of Management's best estimate of the expenditure required, and the likely timing of settlement. The increase in provision resulting from the passage of time (the discount effect) is recognised as an interest expense.

NOTE 13. BORROWINGS

	Borrowing currency denomination	Maturity	Coupon	2015 $M	2014 $M
Bank facilities	NZD	Various	Floating	-	185
Commercial paper programme	NZD	< 3 months	Floating	-	50
Wholesale bonds	NZD	Oct-2016	7.55%	71	71
Wholesale bonds	NZD	Oct-2016	Floating	51	51
Wholesale bonds	NZD	Mar-2019	5.03%	76	76
Wholesale bonds	NZD	Feb-2020	8.21%	31	31
USPP - US$125m	USD	Dec-2020	4.25%	164	164
Wholesale / credit wrapper	NZD	Sep-2021	Floating	301	301
USPP - US$30m	USD	Dec-2022	4.35%	39	39
Wholesale bonds	NZD	Mar-2023	5.79%	25	25
USPP - US$45m	USD	Dec-2025	4.60%	58	58
Capital bonds	NZD	Jul-2044	6.90%	305	-
Deferred financing costs				(7)	(1)
Fair value adjustments				63	(9)
Carrying value of loans				1,177	1,041
Current				10	56
Non-current				1,167	985
				1,177	1,041

The Company has entered into a Master Trust Deed and Supplementary Trust Deeds for all its NZD denominated Senior Fixed and Floating Rate Bonds with the New Zealand Guardian Trust Company Limited, acting as trustee for the holders. The Company has agreed, subject to certain exceptions, not to create or permit to exist a security interest over or affecting its assets to secure indebtedness, and to maintain certain financial covenants. There has been no breach of the terms of these deeds.

The Company has entered into a negative pledge deed in favour of its bank financiers in which the Company has agreed, subject to certain exceptions, not to create or permit to exist a security interest over or affecting its assets to secure its indebtedness, and to maintain certain financial ratios in relation to the Company. These undertakings and covenants also apply to the US Private Placement terms and conditions. There has been no breach of the terms of this deed or the terms and conditions of the US Private Placement.

In July 2014 the Company issued $300 million of unsecured subordinated Capital Bonds which have a legal maturity of July 2044 and an interest rate of 6.90% to the first reset date being July 2019. The Capital Bonds have a BB+ issue credit rating from Standard & Poor's .

In August 2014 the Company restructured its $520 million bank loan facilities to $300 million of committed and unsecured bank loan facilities, of which $200 million is due in August 2018 and a rolling bank loan of $100 million currently due in December 2016.

NOTE 14. FINANCIAL RISK MANAGEMENT

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to proactively manage these risks with the aim of protecting shareholder wealth. Exposure to price, credit, foreign exchange, liquidity and interest rate risks arise in the normal course of the Group's business. The Group's principal financial instruments comprise cash and cash equivalents, trade receivables and accruals (not prepayments), advances, payables and accruals, borrowings and derivatives financial instruments.

(A) MARKET RISK

Price risk - energy contracts

The Group enters into energy contracts that establish a fixed price at which future specified quantities of electricity are purchased and sold. The energy contracts are periodically settled with any difference between the contract price and the spot market price settled between the parties. At balance date, the principal value of energy contracts, including both buy and sell contracts, with remaining terms of up to 15 years, were $2,150 million (2014: $2,762 million).

Foreign exchange risk

The Group is exposed to foreign exchange risk as a result of transactions denominated in a currency other than the Group's functional currency. The currencies giving rise to this risk are primarily US Dollar, Japanese Yen and Euro.

Foreign exchange risk arises from future commercial transactions (including the purchase of capital equipment and maintenance services), recognised assets and liabilities (including borrowings) and net investments in foreign operations. It is the Group's policy to enter into forward exchange contracts to hedge its committed expenditure programme. At balance date the principal or contract amounts of foreign currency forward exchange contracts were $34 million (2014: $38 million).

The Group has certain investments in foreign operations whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of foreign operations is currently unhedged but may be managed on a case-by-case basis.

Interest rate risk

The Group has exposure to interest rate risk to the extent that it borrows for fixed terms at floating interest rates. The Group manages its cost of borrowing by limiting the ratio of fixed to floating rate cover held. The Group uses interest rate swaps and interest rate options to manage this exposure. At balance date, the contract notional amount of interest rate swaps outstanding (including forward starts) was $2,951 million (2014: $2,651 million).

Sensitivity analysis

The following summarises the potential impact of increases or decreases in the relevant market risk exposures of the Group on post tax profit and on other components of equity.

Price risk

Sensitivity analysis is based on an assessment of the reasonably possible movements in forward price.

	Impact on post tax profit		Impact on equity	
	2015	2014	**2015**	2014
	$M	$M	**$M**	$M
Group				
Electricity forward price increased by 10%	**6**	4	**(36)**	(37)
Electricity forward price decreased by 10%	**(6)**	(5)	**36**	37

Foreign exchange risk

Sensitivity analysis is based the impact of the New Zealand Dollar weakening or strengthening against the most significant currencies for which the Group has foreign exchange exposure, allowing for reasonably possible movements in foreign exchange rates over a one year period based on the average actual movements experienced over the prior 10 years.

	Impact on post tax profit		Impact on equity	
	2015	2014	**2015**	2014
	$M	$M	**$M**	$M
New Zealand Dollar - United States Dollar				
Currency strengthens by 10% (2014: 10%)	**1**	2	**(1)**	(1)
Currency weakens by 10% (2014: 10%)	**(1)**	(3)	**1**	1
New Zealand Dollar - Euro				
Currency strengthens by 10% (2014: 10%)	**-**	-	**(1)**	(2)
Currency weakens by 10% (2014: 10%)	**-**	-	**2**	2

NOTE 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest rate risk

Sensitivity analysis is based on an assessment of the reasonably possible movement in the 10 year swap rate over a one year period based on actual movements over the last 10 years. The movement in post tax profits are due to higher/lower interest costs from variable rate debt and cash balances combined with the result of fair value changes in interest rate swaps and options that are valid economic hedges but which do not qualify for hedge accounting under NZ IAS 39. The movements in other components of equity result from fair value changes in interest rate swaps and options that have qualified for hedge accounting.

	Impact on post tax earnings		Impact on equity	
	2015	2014	**2015**	2014
	$M	$M	**$M**	$M
Interest rates higher by 100 bps (2014: 100 bps)	**6**	14	**14**	9
Interest rates lower by 100 bps (2014: 100 bps)	**(6)**	(15)	**(16)**	(10)

(B) CREDIT RISK

The Group manages its exposure to credit risk under policies approved by the Board of Directors. The Group performs credit assessments on all electricity customers and normally requires a bond from commercial customers who have yet to establish a suitable credit history. Customer bonds of $1 million are held in a separate bank account (2014: $1 million).

It is the Group's policy to only enter into derivative transactions with banks that it has signed an ISDA master agreement with, and which have a minimum long-term Standard & Poor's (or Moody's equivalent) credit rating of A- or higher.

With respect to energy contracts, the Group has potential credit risk exposure to the counterparty dependent on the current market price relative to contracted price until maturity.

In the event of a failure by a retailer to settle its obligations to the Energy Clearing House, following the exhaustion of its prudential security, a proportionate share of the shortfall will be assumed by all generator class market participants. The Group consequently will be impacted in the event that this occurs.

The carrying amounts of financial assets recognised in the balance sheet best represent the Group's maximum exposure to credit risk at the reporting date without taking account of any collateral held by way of customer bonds.

(C) LIQUIDITY RISK

The Group manages its exposure to liquidity risk under policies approved by the Board. Policies require that prescribed headroom is available in undrawn and committed facilities to cover unanticipated needs and that a limited amount of facilities mature over the immediate 12 month forward-looking period. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of various funding sources.

Non-derivative financial liabilities

The following liquidity risk disclosures reflect all contractually fixed payoffs, repayments and interest from recognised financial liabilities. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract. It should be noted that the amounts presented are contracted undiscounted cash flows, consequently the totals will not reconcile with the amounts recognised in the balance sheet.

	Less than 6 months	6 to 12 months	1 to 5 years	Later than 5 years	Total
June 2015	**$M**	**$M**	**$M**	**$M**	**$M**
Liquid financial assets					
Cash and cash equivalents	**32**	**-**	**-**	**-**	**32**
Receivables	**189**	**-**	**1**	**-**	**190**
	221	**-**	**1**	**-**	**222**
Financial liabilities					
Payables and accruals	**(159)**	**-**	**(2)**	**-**	**(161)**
Loans	**(30)**	**(29)**	**(716)**	**(629)**	**(1,404)**
	(189)	**(29)**	**(718)**	**(629)**	**(1,565)**
Net inflow/(outflow)	**32**	**(29)**	**(717)**	**(629)**	**(1,343)**

NOTE 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

June 2014	Less than 6 months $M	6 to 12 months $M	1 to 5 years $M	Later than 5 years $M	Total $M
Liquid financial assets					
Cash and cash equivalents	19	-	-	-	19
Receivables	218	-	6	-	224
	237	-	6	-	243
Financial liabilities					
Payables and accruals	(169)	-	(6)	-	(175)
Loans	(74)	(26)	(535)	(694)	(1,329)
	(243)	(26)	(541)	(694)	(1,504)
Net inflow/(outflow)	(6)	(26)	(535)	(694)	(1,261)

While the above tables give the impression of a liquidity shortfall, the analysis does not take into account expected future operating cash flows or committed and undrawn debt facilities that will provide additional liquidity support.

Derivative financial liabilities

The table below details the liquidity risk arising from derivative liabilities held by the Group at balance date. Net settled derivatives include interest rate derivatives and electricity price derivatives. Gross settled derivatives relate to foreign exchange derivatives that are used to hedge future purchase commitments. Foreign exchange derivatives are rolled on an instalment basis until the underlying transaction occurs. While the maturity of these derivatives are short-term the underlying expenditure is forecast to occur over different time periods.

June 2015	**Less than 6 months $M**	**6 to 12 months $M**	**1 to 5 years $M**	**Later than 5 years $M**	**Total $M**
Derivative liabilities - net settled	**(29)**	**(28)**	**(120)**	**(85)**	**(262)**
Derivative liabilities - gross settled					
Inflows	**37**	**-**	**-**	**-**	**37**
Outflows	**(34)**	**-**	**-**	**-**	**(34)**
Net maturity	**(26)**	**(28)**	**(120)**	**(85)**	**(259)**

June 2014	Less than 6 months $M	6 to 12 months $M	1 to 5 years $M	Later than 5 years $M	Total $M
Derivative liabilities - net settled	(39)	(20)	(96)	(47)	(202)
Derivative liabilities - gross settled					
Inflows	37	-	-	-	37
Outflows	(38)	-	-	-	(38)
Net maturity	(40)	(20)	(96)	(47)	(203)

The above tables summarise the payments that are expected to be made in relation to derivative liabilities. The Group also expects to receive funds relating to derivative asset settlements. The expectation of cash receipts in relation to derivative assets should also be considered when assessing the ability of the Group to meet its obligations.

NOTE 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

(D) FAIR VALUE ESTIMATION

Fair values

The carrying amount of financial assets and liabilities recorded in the financial statements approximates their fair values except for: (i) the Fixed Rate Bonds, the Floating Rate Bonds and the US Private Placement, the fair values for which have been calculated at $215 million (2014: $207 million), $339 million (2014: $332 million) and $312 million (2014: $243 million) respectively; and (ii) the Capital Bonds, issued during the year, the fair value for which has been calculated at $324 million. Fair values are based on quoted market prices and inputs for each bond issue.

Valuation techniques

The Group uses various methods in estimating the fair value of a financial instrument.

• Level 1 - the fair value is calculated using quoted prices in active markets;

• Level 2 - the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and

• Level 3 - the fair value is estimated using inputs that are not based on observable market data.

As at 30 June 2015 all of the Group's financial instruments carried at fair value were categorised as level 2, except for electricity price derivatives. Electricity price derivative assets of $15 million were categorised as level 1 (2014: $4 million) and $84 million were categorised as level 3 (2014: $109 million). Electricity price derivative liabilities of $4 million were categorised as level 1 (2014: $1 million) and $84 million were categorised as level 3 (2014: $68 million). The Group did not hold any available-for-sale investments categorised as level 3 (2014: $12 million).

Financial instruments that use a valuation technique with only observable market inputs, or unobservable inputs that are not significant to the overall valuation, include interest rate derivatives and foreign exchange derivatives not traded on a recognised exchange.
Financial instruments that use a valuation technique which includes non-market observable data include non-exchange traded electricity contracts which are valued using a discounted cash flow methodology using a combination of ASX market prices for the first four years, combined with Management's internal view of forward prices for the remainder of the contract's term. Management's internal view of forward prices incorporates a minimum price of $63/MWh and a maximum price of $97/MWh (2014: minimum price of $70/MWh and a maximum price of $95/MWh) over the period in question (in real terms) and is determined by a demand supply based fundamental model which takes account of current hydrological conditions, future inflows, an assessment of thermal fuel costs, anticipated demand and supply conditions and future committed generation capacity.

Where the fair value of a derivative is calculated as the present value of the estimated future cash flows of the instrument there are two key inputs being used: the forward price curve and the discount rate. Where the derivative is an option, then the volatility of the forward price is another key input. The selection of inputs requires significant judgement, and therefore there is a range of reasonably possible assumptions in respect of these inputs that could be used in estimating the fair values of these derivatives. Maximum use is made of observable market data when selecting inputs and developing assumptions for the valuation technique.

Level 3 sensitivity analysis

The following summarises the potential impact of increases or decreases in price risk exposures of the Group on post tax profit. Sensitivity analysis is based on an assessment of the reasonably possible movements in forward price.

	Impact on post tax profit	
	2015	2014
	$M	$M
Group		
Electricity forward price increased by 10%	**7**	6
Electricity forward price decreased by 10%	**(7)**	(6)

Reconciliation of level 3 fair value movements

	2015	2014
	$M	$M
Opening balance	**53**	25
New contracts	**(1)**	2
Matured contracts	**(15)**	(4)
Gains and losses		
Through the income statement	**(4)**	(23)
Through other comprehensive income	**(33)**	53
Closing balance	**-**	53

Level 3 fair value movements recognised within the income statement of the Group are recognised within 'change in the fair value of financial instruments'.

NOTE 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

Deferred 'inception' gains/(losses)

There is a presumption that when derivative contracts are entered into on an arm's length basis, fair value at inception would be zero. The contract price of non exchange traded electricity derivative contracts are agreed on a bilateral basis, the pricing for which may differ from the prevailing derived market price curve for a variety of reasons. In these circumstances an inception adjustment is made to bring the initial fair value of the contract to zero at inception. This inception value is amortised over the life of the contract by adjusting the future price path used to determine the fair value of the derivatives by a constant amount to return the initial fair value to zero.

The table below details the movements in inception value gains/(losses) included in the fair value of derivative financial assets and liabilities as at 30 June.

Electricity price derivatives	**2015 $M**	2014 $M
Opening deferred inception gains	**18**	38
Deferred inception gains on new hedges	**-**	7
Deferred inception (losses)/gains realised during the year	**(3)**	(27)
Closing inception gains	**15**	18

(E) CAPITAL RISK MANAGEMENT

Management seeks to maintain a sustainable financial structure for the Group having regard to the risks from predicted short and medium-term economic, market and hydrological conditions along with estimated financial performance. Capital is managed to provide sufficient funds to undertake required asset reinvestment as well as to finance new generation development projects and other growth opportunities to increase shareholder value at a rate similar to comparable private sector companies.

In order to maintain or adjust the capital structure, changes may be made to the amount paid as dividends to shareholders, capital may be returned or injected or assets sold to reduce borrowings.

Consistent with other companies in the industry, the Group monitors capital on the basis of its gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (both current and non-current) less cash and cash equivalents. Total capital is calculated as shareholders' equity plus net debt. The gearing ratio is calculated below:

	2015 $M	2014 $M
Loans at carrying value	**1,177**	1,041
Fair value adjustments US Private Placement	**(63)**	9
Less cash and cash equivalents	**(32)**	(19)
Net debt	**1,082**	1,031
Total equity	**3,337**	3,219
Total capital	**4,419**	4,250
Gearing ratio	**24.5%**	24.3%

Under the negative pledge deed in favour of its bank financiers the Group must, in addition to not exceeding its maximum gearing ratio, exceed minimum interest cover ratios and a minimum shareholder equity threshold.

The Group seeks to maintain a debt to EBITDAF ratio of less than 2.8 times to maintain credit metrics sufficient to support its credit rating on an on-going basis. For the purpose of this ratio and consistent with the rating agency treatment, debt is deemed to be all senior debt and 50% of subordinated debt. For the year ended 30 June 2015, the Group had a debt to EBITDAF ratio of 2.0 times (2014: 2.1 times).

NOTE 15. DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments together with the designation of their hedging relationship are summarised below, based on maturity date:

	2015 $M	2014 $M
CURRENT ASSETS		
Interest rate derivative	9	6
Electricity price derivative	21	24
Foreign exchange derivative	4	-
Cross currency interest rate derivative	1	1
	35	31
CURRENT LIABILITIES		
Interest rate derivative	10	8
Electricity price derivative	4	14
	14	22
NON-CURRENT ASSETS		
Interest rate derivative	34	10
Electricity price derivative	78	89
Cross currency interest rate derivative	45	-
	157	99
NON-CURRENT LIABILITIES		
Interest rate derivative	155	121
Cross currency interest rate derivative - margin	4	33
Electricity price derivative	84	55
	243	209

The majority of interest rate derivatives, short-term low value foreign exchange derivatives, and short-term low value exchange traded energy contracts, while economic hedges, are not designated as hedges under NZ IAS 39 but are treated as at fair value through profit and loss. All other interest rate derivatives (predominantly forward starting derivatives), foreign exchange and energy derivatives (except those described below) are designated as cash flow hedges under NZ IAS 39.

Cross currency interest rate swaps, which are used to manage the combined interest and foreign currency risk on borrowings issued in foreign currency, have been split into two components for the purpose of hedge designation. The hedge of the benchmark interest rate is designated as a fair value hedge and the hedge of the issuance margin is designated as a cash flow hedge.

Electricity contracts not designated as hedges for accounting purposes

The Tuaropaki Power Company Foundation Hedge contract was originated in 1997 between the Tuaropaki Power Company (seller) and ECNZ (buyer). The contract was subsequently novated to Mighty River Power Limited. The contract settles on a moving hedge index rather than wholesale electricity prices.

Basis swaps: The company has entered into a number of contracts to hedge wholesale electricity price risk between the North and South Island generically called basis swaps. The most significant is a virtual asset swap with Meridian Energy which has a remaining life of 10 years.

Reserve price caps: The Company has sold and bought electricity reserve price caps in the North and South Island to limit exposure to high reserve prices impacting wholesale electricity spot prices.

Swaption: The Company has entered into a swaption to provide optionality around hedging its exposure to wholesale electricity spot price exposure during pre-defined periods. If exercised, the Company will receive a swap (contract-for-difference) for the period exercised. This swap will be designated as a hedge for accounting purposes.

In December 2013, the Company entered into a new outage cover contract with Nga Awa Purua to support the Joint Venture's generation revenue in the event of a forced station outage for which it receives an annual premium.

NOTE 15. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The changes in fair values of derivative financial instruments recognised in the income statement and other comprehensive income are summarised below:

	Income statement		Other comprehensive income	
	2015	2014	**2015**	2014
	$M	$M	**$M**	$M
Cross currency interest rate derivatives	**69**	(30)	**-**	-
Borrowings - fair value change	**(72)**	27	**-**	-
	(3)	(3)	**-**	-
Interest rate derivatives	**4**	51	**(14)**	-
Cross currency interest rate derivatives - margin	**-**	-	**8**	(2)
Electricity price derivatives	**8**	(14)	**(37)**	51
Foreign exchange rate derivatives	**-**	-	**3**	(2)
Ineffectiveness of cash flow hedges recognised in the income statement	**(1)**	(2)	**-**	-
Total change in fair value of financial instruments	**8**	32	**(40)**	47

Movement in cash flow hedge reserve

	2015	2014
	$M	$M
Opening balance	**(7)**	(39)
The effective portion of cash flow hedges recognised in the reserve	**(40)**	44
Amortisation of fair values[1]	**(1)**	2
The amount transferred to balance sheet	**1**	1
Equity accounted share of associates' movement in other comprehensive	**(1)**	(2)
Tax effect of movements	**11**	(13)
Closing balance	**(37)**	(7)

[1] *Amounts reclassified to the income statement recognised in amortisation*

NOTE 16. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2015 $M	2014 $M
Profit for the year	**47**	212
Items classified as investing or financing activities		
• Foreign exchange movements	**(2)**	-
• Net interest accrual	**4**	-
Adjustments for:		
Depreciation and amortisation	**170**	161
Capitalised interest	**-**	(6)
Net loss on sale of property, plant and equipment	**1**	-
Change in the fair value of financial instruments	**(8)**	(32)
Impaired assets	**130**	-
Income attributable to land and associated real property held-for-sale	**(15)**	-
Movement in effect of discounting on long-term provisions	**2**	1
Share of earnings of associates and joint ventures companies	**(3)**	(4)
Other non-cash items	**-**	2
Net cash provided by operating activities before change in assets and liabilities	**326**	334
Change in assets and liabilities during the year:		
• Decrease in trade receivables and prepayments	**28**	23
• (Increase)/decrease in inventories	**(6)**	(4)
• Decrease in trade payables and accruals	**(9)**	(29)
• (Decrease)/increase in provision for tax	**(10)**	(9)
• Increase/(decrease) in deferred tax	**(20)**	2
Net cash inflow from operating activities	**309**	317

NOTE 17. RELATED PARTY TRANSACTIONS

Ultimate shareholder

The majority shareholder of Mighty River Power Limited is the Crown, providing it with significant potential influence over the Group. All transactions with the Crown and other entities wholly or partly owned by the Crown are on normal commercial terms. Transactions cover a variety of services including trading energy, postal, travel and tax.

Transactions with related parties

Mighty River Power Limited has investments in subsidiaries, associates and joint arrangements, all of which are considered related parties.

As these are consolidated financial statements, transactions between related parties within the Group have been eliminated. Consequently, only those transactions between entities which have some owners external to the Group have been reported below:

	Transaction value	
	2015	2014
	$M	$M
Associates		
Management fees and service agreements received	**4**	4
Energy contract settlements received	**5**	4
Joint operations		
Management fees and service agreements received	**5**	5
Energy contract settlements paid	**(2)**	(6)
Interest income	**2**	1

Energy contracts, management and other services are made on normal commercial terms.

An advance to TPC Holdings Limited of $4 million (2014: $4 million) is interest free and repayable on demand subject to certain conditions being met.

The long-term advance to our Rotokawa Joint Venture partner carries a floating interest rate. Repayments under the advance are linked to the level of receipts under the geothermal energy supply agreement. There is no fixed repayment date, the agreement will terminate on receipt of any outstanding balances.

The advance to Energy Source LLC of $1 million (2014: $1 million) at an interest rate of 10% per annum on the outstanding balance is repayable by 31 December 2015.

No related party debts have been written off, forgiven, or any impairment charge booked.

	Transaction value	
	2015	2014
	$000	$000
Key management personnel compensation (paid and payable) comprised:		
Directors' fees	**839**	756
Benefits for the Chief Executive and Senior Management:		
Salary and other short-term benefits	**5,043**	6,491
Termination benefits:	**130**	-
Share-based payments	**468**	501
	6,480	7,748

Other transactions with key management personnel

Key management personnel are those people with responsibility and authority for planning, directing and controlling the activities of the entity. Key management personnel for the Group are considered to be the Directors and Senior Management.

Directors and employees of the Group deal with Mighty River Power Limited as electricity consumers on normal terms and conditions, with staff discounts for employees, within the ordinary course of trading activities. A number of Directors also provide directorship services to other third party entities. A number of these entities transacted with the Group on normal commercial terms during the reporting period.

A number of key management personnel provide directorship services to direct subsidiaries and other third party entities as part of their employment without receiving any additional remuneration. Again, a number of these entities transacted with the Group on normal commercial terms in the reporting period.

NOTE 18. COMMITMENTS AND CONTINGENCIES

	Capital		Operating lease		Other operating commitments	
Commitments	**2015**	2014	**2015**	2014	**2015**	2014
	$M	$M	**$M**	$M	**$M**	$M
Within one year	**30**	24	**6**	6	**6**	2
One to five years	**54**	51	**16**	18	**9**	2
Later than five years	**48**	62	**12**	14	**76**	1
	132	137	**34**	38	**91**	5

Capital commitments include both commitments to purchase property, plant and equipment as well as intangible commitments. Intangible commitments includes commitments to purchase emission units. In the event the New Zealand emissions trading scheme is terminated the forward purchase agreements for the acquisition of emissions units which cover a 14 year period will also terminate.

Operating leases are of a rental nature and are on normal commercial terms and conditions. The majority of the lease commitments are for building accommodation, the leases for which have remaining terms of between 1 and 15 years and include an allowance for either annual, biennial or triennial reviews. The remainder of the operating leases relate to vehicles, plant and equipment.

Contingencies

The Company holds land and has interests in fresh water and geothermal resources that are subject to claims that have been brought against the Crown. On 29 August 2014, the Supreme Court gave its decision in Paki v Attorney-General and dismissed the claimants' action seeking a declaration that the Crown holds those parts of the bed of the Waikato River which adjoin former Pouakani land on trust for the Pouakani people on the basis it was incorrectly advanced. The Supreme Court decision has left open the possibility of further litigation in respect of ownership of that land currently held by the Company. The Company has received advice that it may proceed with a high degree of confidence that future decisions on the matter will not impair the Company's ability to operate its hydro assets. A separate claim by the New Zealand Maori Council relating to fresh water and geothermal resources was lodged in 2012 with the Waitangi Tribunal. The Tribunal concluded that Maori have residual (but as yet undefined) proprietary rights in fresh water and geothermal resources and it will be for the Crown to determine how any such rights and interests may best be addressed. The impact of this claim on the Company's operations is unknown at this time.

From time to time the Company will issue letters of credit and guarantees to various suppliers in the normal course of business. However, there is no expectation that any outflow of resource relating to these letters of credit or guarantees will be required as a consequence.

The Company is involved in a contract dispute with New Zealand Carbon Farming (NZCF) over the purchase of carbon credits under a 15 year contract. The most commercially significant issue is whether or not the Company will be required to buy additional units over the life of the contract. On this issue, the High Court ruled in favour of the Company which has subsequently been appealed by NZCF and is expected to be heard in the first half of 2016. If NZCF's appeal is successful, the Company will be required to buy additional credits with a notional cost of up to $34.7 million over the life of the contract.

MRP Geotermia Curacautín Limitada is involved in a contract dispute with a potential liability of up to $1.6 million New Zealand Dollar equivalent.

The Group has no other material contingent assets or liabilities.

NOTE 19. SHARE-BASED PAYMENTS

Long-term incentive plan

The Group operates an equity-settled share based long-term incentive (LTI) plan for senior executives. The plan is designed to enhance the alignment between shareholders and those executives most able to influence the performance of the Company. Under the plan the senior executives purchase shares at market value funded by an interest free loan from the Company, with the shares held on trust by the Trustee of the LTI plan until the end of the vesting period. Vesting of shares is dependent on continued employment through the vesting period and the Company's relative total shareholder return. If the shares vest, executives are entitled to a cash amount which, after deduction for tax, is equal to the initial loan balance for the shares which have vested. That cash amount must be applied towards repayment of their loan balance and the corresponding shares are released by the trustee to the individual. The vesting periods for the plan are June 2015, June 2016 and June 2017. Under the plan, a relative total shareholder return measure is used. Performance is measured against all NZX50 companies as at the start of the vesting period.

The LTI plan represents the grant of in-substance nil-price options to executives. During the year the Company expensed $468,432 in relation to equity-settled share based payment transactions (2014: $501,403).

Movements in the number of share options are as follows:

	2015	2014
Balance at the beginning of the year	**559,161**	570,943
Options granted	**225,663**	12,423
Options expired	**(26,696)**	(24,205)
Options exercised	**(190,765)**	-
Balance at the end of the year	**567,363**	559,161

203,680 options were exercisable at the end of the year (2014: Nil) with the remaining options under the plan having a weighted average life of 1.6 years (2014: 1.3 years).

Employee Share Purchase Programme

The Group operates an employee share purchase programme. Eligible employees wishing to participate were each provided with a $2,340 interest-free loan in May 2013, repayable through monthly salary deductions over three years, to acquire shares at market value which are held in trust until the vesting conditions are met and the loans repaid. The equity-settled share-based payment expense is recognised over the three year vesting period and is equivalent to the fair value of the interest-free element of the loan provided to the employees, calculated as at grant date.

NOTE 20. SUBSEQUENT EVENTS

The Board of Directors has approved a fully imputed final dividend of 8.4 cents per share and a fully imputed special dividend of 2.5 cents per share, both to be paid on 30 September 2015.

There are no other material events subsequent to balance date that would affect the fair presentation of these financial statements.

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF MIGHTY RIVER POWER LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2015

The Auditor-General is the auditor of Mighty River Power Limited and its subsidiaries and other controlled entities. The Auditor-General has appointed me, Simon O'Connor, using the staff and resources of Ernst & Young, to carry out the audit of the financial statements of the group, consisting of Mighty River Power Limited and its subsidiaries and other controlled entities (collectively referred to as 'the Group'), on her behalf.

Opinion

We have audited the financial statements of the Group on pages 2 to 25, that comprise the consolidated balance sheet as at 30 June 2015, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

In our opinion the financial statements of the Group comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, its financial position as at 30 June 2015 and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

Our audit was completed on 28 August 2015. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence shareholders' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of the disclosures in the financial statements; and
- the overall presentation of the financial statements.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements. Also we did not evaluate the security and controls over the electronic publication of the financial statements.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors
The Board of Directors is responsible for the preparation and fair presentation of financial statements for the Group that comply with generally accepted accounting practice in New Zealand (being in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards).

The Board of Directors' responsibilities arise from the Financial Markets Conduct Act 2013.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements, whether in printed or electronic form.

Responsibilities of the Auditor
We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001.

Independence
When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Partners and staff of EY may deal with the group on normal terms within the ordinary course of trading activities of the business of the Group.

In addition to the audit we have carried out assignments in the areas of remuneration benchmarking, tax compliance and review of the Group's financial statements for the six months ended 31 December 2014, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Group.

Simon O'Connor
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand