ANNUAL REPORT **2015**

# We are here.

MIGHTY RIVER POWER

We see a great potential in New Zealand's natural resources and the renewable energy that we produce. This is an opportunity to build on the foundation that we have today, to positively shape the future for our children and grandchildren.

38º36’50.7”S
176º11’01.6”E

# Nga Awa Purua, New Zealand

Few countries are blessed with the quality of raw energy that New Zealand has in our rivers, geothermal systems and wind resources.

Through more than a century of innovation and endeavour, New Zealanders have harnessed this natural energy to provide comfort and convenience in our customers’ homes and to power businesses that have delivered prosperity for our country and communities.

From the pioneering efforts and engineering genius that built Mighty River Power’s Arapuni hydro station in 1929, to the enduring partnerships with Maori landowners and precision technology at Nga Awa Purua that allows us to sustainably utilise geothermal energy up to 2,800 metres underground – these are part of a valuable legacy for New Zealanders that will power our country into the future.

Today, New Zealand’s electricity supply is 80% renewable – among the highest in the world.

This legacy has created hundreds of highly-skilled jobs in the provinces where the energy resources are and powers broader economic activity. The growth of renewable generation has also taken millions of tonnes of carbon emissions out of this country’s annual energy profile, and signalled the end of coal use for electricity generation in New Zealand.

Further harnessing the potential of renewable energy – particularly in the electrification of transport – remains New Zealand’s biggest green-growth opportunity.

We are here. And we are proud to be inspiring new thinking and collaborative action that will enable New Zealand to grow its global competitive advantage from this world-leading position.

$482M

EBITDAF DOWN 4% DUE TO RECORD LOW HYDRO GENERATION

$47M

NET PROFIT $165 MILLION LOWER, REFLECTING NON-CASH IMPAIRMENTS

-17%

HYDRO GENERATION 17% BELOW AVERAGE

$230M

FREE CASH FLOW, HIGHLIGHTING RESILIENT BUSINESS

21.5C

ORDINARY DIVIDEND OF 14 CENTS PER SHARE, PLUS SPECIAL DIVIDENDS OF 7.5 CENTS PER SHARE

$296M

RETURNED TO MIGHTY RIVER POWER'S OWNERS, A 59% INCREASE ON PRIOR YEAR

# We are continuing to drive value for Mighty River Power's owners. This comes from strong foundations.

**JOAN WITHERS** – CHAIR

I am pleased to be reporting on another year of improved shareholder returns to the owners of Mighty River Power.

Throughout the 2015 financial year, we have maintained strong cash flows and delivered increased year-on-year dividend payments. In the two years since the Company's sharemarket listing in May 2013 we have made a total capital return of 42.2 cents per share, and achieved a Total Shareholder Return of 11% per annum.

I am encouraged by the support of our owners over this time. It is a remarkable measure of loyalty that we still have over 85% of our original shareholders from listing with us today. Following the transfer of loyalty bonus shares in May 2015 our retail ownership remains steady at about 26%, with the vast majority of these owners living in New Zealand.

## PERFORMANCE AND FOCUS

2015 came with its challenges – mostly weather, and a continuing intensely competitive market.

If there is one thing that really stands out about this year's financial results, it is the resilience that we have in the business. In a year like this – of very low North Island rainfall and record low hydro generation – our operating earnings have held up extremely well.

Last year we achieved a huge lift in operating earnings (EBITDAF) to $504 million, up 29% following the commissioning of the Ngatamariki geothermal station. This year's EBITDAF was down only 4% on that result.

At the same time, your Board has maintained a clear focus on what will drive value for Mighty River Power's owners over the long-term. This year we announced several decisive actions that are important to provide a strong base for the business to move forward.

Following a rigorous review against our strategic priorities, we decided in December 2014 to exit international geothermal development. In March 2015 we announced that the Southdown gas-fired plant would close, given its relatively high cost of generation.

Although these have had non-cash accounting impacts in the reporting period, with net profit after tax (NPAT) down to $47 million, they are important in shaping our business for the future.

## SHAREHOLDER RETURNS

Our Board is pleased to be returning a total of $296 million to Mighty River Power's owners for the year ended 30 June 2015, representing a 100% pay-out of Free Cash Flow for the 2015 financial year and a special dividend paid in December, which related to the 2014 financial year.

This has been achieved through the delivery of a 4% improvement in the full year ordinary dividend to 14 cents per share along with a special dividend of 5 cents per share paid in December 2014. Both dividends were fully-imputed. In announcing the financial results for the year ended 30 June 2015, your Board has also declared an additional special dividend of a fully-imputed 2.5 cents per share. This special dividend of approximately $34 million is part of an ongoing focus on capital management, while maintaining some balance sheet flexibility.

It should be a very positive signal to our almost 100,000 owners about the underlying strength of Mighty River Power, when we are able to achieve our forecast dividend increase following a year of intense market competition and the lowest-ever hydro generation for the Company. Cash returns for the financial year are 21.5 cents per share.

We remain focused on capital management initiatives that support the Company's investment grade credit rating (BBB+), while ensuring that we have sufficient headroom and flexibility for growth when these opportunities arise.

We have issued guidance for the 2016 financial year, taking into account the recovery of inflows to Lake Taupo through the autumn and early winter. EBITDAF for the year ending 30 June 2016 is forecast to be in the range of $490 – $515 million, and our ordinary dividend forecast is up 2% to 14.3 cents per share. This guidance is subject to any material adverse events, significant one-off expenses or other unforeseeable circumstances.


**We are here** continuing our relationship with Rowing New Zealand, powering our champions' success.

42.2¢/share

TOTAL CAPITAL RETURN TO MIGHTY RIVER POWER'S OWNERS SINCE LISTING IN MAY 2013, WITH A TOTAL SHAREHOLDER RETURN OF 11% PER ANNUM.

## CHIEF EXECUTIVE AND BOARD SUCCESSION

The management focus and achievements in the business over the past year would not have been possible without a seamless Chief Executive transition.

Recruiting a new leader, the right person to take Mighty River Power forward, is a primary responsibility of the Board and fundamental to creating long-term shareholder value. Equally important is the ability to maintain momentum through a change in leadership.

It is now just over 12 months since Fraser took up the role as our new Chief Executive. During this time, your Company has led the industry with bold decisions around our generation portfolio and investment priorities. Our Chief Executive has also been an outstanding advocate for New Zealand's renewable energy advantage and the huge potential of electricity as a primary transport fuel of the future – with benefits for consumers and our country.

With our longest-serving director, Tania Simpson, stepping down this year we have been seeking to recruit a director with the appropriate skills to join our Board. Tania has helped instil a deep understanding of kaitiakitanga (guardianship) in our governance and through our relationships with both iwi and Maori landowners that has been fundamental to Mighty River Power's evolution.

We are thankful for that important contribution over 13 years, and this year Tania has supported the process that has led to the appointment of Mike Taitoko. Of Ngati Maniapoto descent, Mike is one of New Zealand's leading advisors on Maori economic development and has strong commercial skills in the application of digital technology to inform business and policy decisions, along with connectivity and established networks in Maoridom.

He will be one of three directors seeking your support for election at the Annual Shareholders' Meeting (ASM) in November, along with current directors, Keith Smith and Prue Flacks.

The other resolution to be considered at the ASM relates to a proposal to increase the total annual remuneration available for your Board of Directors. As outlined in the Notice of Meeting, an appropriate fee structure will assist in attracting and retaining the right directorial skills and experience to govern your business.

In proposing this increase in directors' fees, we have sought independent advice from PwC who have conducted a thorough review of remuneration for comparable listed companies that have a similar scale and level of complexity to Mighty River Power. This benchmarking, and our consultation with a number of shareholder representatives, is the basis for making our recommendation to shareholders.

We look forward to hosting you at the meeting and updating you on business performance and our strategic priorities. If you are not able to attend, you can follow proceedings on the live webcast. You can also cast a postal or proxy vote for the meeting, by post or online.

Thank you, our owners, once again for your support. I also want to acknowledge the outstanding contribution of my fellow directors, management and our entire team at Mighty River Power for their commitment throughout 2015.

And to the thousands of households, families and businesses who choose us as their energy supplier – we will continue to strive for excellence to make your experience of us even better.

**Joan Withers Chair**

# Putting customers first is essential. It requires us to listen carefully, and to think boldly about the future.

FRASER WHINERAY – CEO

Standing behind our business in 2015 were 382,000 customers, nearly 100,000 owners and the endeavour of more than 800 dedicated employees.

The result was a robust EBITDAF of $482 million, despite conditions that were challenging through most of the financial year.

Our financial results came from a single-minded team effort across the Company and astute decision-making around customer sales, management of our generation portfolio, and on-going discipline around costs.

## RESILIENT EARNINGS

EBITDAF eased just 4% (or $22 million) in a year when we had 673GWh (or 17%) less hydro generation than average. This was a record low for the Company, and represented a financial impact of approximately $52 million from reduced inflows to the Waikato River catchment, compared with normal hydrology.

Base-load geothermal is not dependent on the weather and is now a major component of our generation. Total electricity generation was up 4% on the previous year (to 6,563GWh), with base-load geothermal accounting for 42% of total production.

Net profit after tax (NPAT) of $47 million was $165 million lower than 2014, reflecting non-cash impairments. As reported at the Interim Results in February 2015, the primary driver of the difference was the $83 million impairment triggered by the decision to exit our international geothermal development interests in Chile and Germany. We continue to hold our stake in our operating investments in the US (John L. Featherstone plant) but expect no material development capital to be committed. These international development options are no longer considered part of the Company's strategic priorities and investment focus.

We have also written down the value of the Southdown gas-fired generation facility in Auckland at the full year by $44 million as we prepare for its closure at the end of the 2015. After adjusting for these and some other partially offsetting impacts, underlying earnings were down 22% or $40 million on the previous financial year.

An important focus was on financial and operating disciplines that have controlled costs across our business. Since listing in 2013, this has delivered a reduction of about $30 million in annual operating costs. Effectiveness of expenditure continues to be an important focus for us.

## SAFETY AND WELL-BEING

Our business starts with keeping our people safe. During the year we launched a well-being initiative to encourage our people to take positive action around their personal health, and we have also made good progress on our primary safety goal of 'zero-harm'.

We are pleased to report that there were no serious-harm incidents involving employees, on-site contractors or visitors during the year. The total number of lost-time injuries was down year-on-year from seven to five. There is more work to be done to achieve our goal.

Our focus on health and safety extends beyond the Company to working collaboratively with others in the industry to lift our and their performance through the StayLive programme, with a particular focus on contractors and subcontractors.

## CUSTOMER FOCUS

At our Annual Shareholders' Meeting in November last year, I talked about the strategic importance of putting customers first. That is where our focus has been throughout the year.

This includes an emphasis on rewarding loyalty in a highly-competitive market, and also continuing to innovate to deliver better value.

Our GLOBUG pre-pay service is one of New Zealand's fastest-growing electricity retailers. In February we re-launched the GLOBUG offer to enhance the customer experience and reduce prices. Our GLOBUG customers now access rates that are among the most competitive in the market. GLOBUG has achieved 50% growth since December 2014 to nearly 30,000 customers.

GLOBUG is a great example of social responsibility through innovation, delivering real benefits for Kiwi customers, and families in New Zealand who really need help. This pre-pay service helps keep the lights on, and is supported by many

# $3.5M

SAVED BY OUR CUSTOMERS OVER THE PAST TWO YEARS USING MERCURY ENERGY'S FREE ONLINE ENERGY MANAGEMENT SERVICE, GEM (GOOD ENERGY MONITOR).

community support agencies including endorsements from the New Zealand Federation of Family Budgeting Services.

We continue to see a positive response to new offers and innovative products, like the free online energy management service, Good Energy Monitor (GEM) – a leading example of technology that is increasingly putting customers in control of their electricity.

GEM has helped customers save a total of approximately $3.5 million over the past two years and has measurably improved loyalty. This provides transparency to each customer's choices for electricity use and information to help them save energy by understanding their usage patterns. Both GLOBUG and GEM rely on the data provided by smart meters.

Across all of the Company's customer brands, our focus has been on offering great service and value in an intensely competitive retail electricity market – where we have more players competing for customers than just about any other retail sector in New Zealand.

Through a period of more than two years where we have not increased the energy price component for residential electricity and gas customers, the 35% of Mighty River Power's customers on fixed-price contracts have had the additional benefit of us absorbing increases in regulated charges from local lines companies and transmission. These 'delivery' charges typically make up about half of a customer's monthly bill.

Shortly after balance date we announced a decision to end a meter deployment contract with Trustpower. This has allowed Metrix to focus more sharply on investing in supporting our existing 20 energy retailers and distribution customers in providing solutions and enabling services for their electricity consumers.

## POSITIVE DEVELOPMENTS

Mighty River Power enjoys long-term access to the natural resources we rely on for our hydro and geothermal operations. Along with our active participation in the evolution of local and regional water policy, we are also involved at a national level with various collaborative forums. We want to see continued progress on predictable and durable regulatory frameworks that are required to support long-term investment horizons.

Looking beyond our business, several important changes in the sector provide a positive and dynamic outlook. Retail innovation continues to accelerate, substantially enabled by the roll-out of smart meters nationally – enabling greater visibility and services to customers.

After adjusting for weather conditions, national electricity demand was 2% higher year-on-year – a return to growth levels not seen since 2005. Growth was widespread and across all sectors.

On the supply side, plant retirement announcements have been made since 2013 that cumulatively amount to a reduction of 1,550MW of capacity and more than 5,000GWh of thermal generation – larger than the total capacity and annual generation of the Waikato Hydro System.

Mighty River Power has two high-quality consented wind farms and geothermal development options in New Zealand, that we will continue to assess against our strategic priorities.

The announcement of the potential closure of New Zealand's last remaining coal-fired electricity generation station in just over three years' time is a significant milestone. Taking coal out of this country's electricity supply, and total energy mix, is in stark contrast to other countries – a market-led outcome that reduces New Zealand's carbon emissions.

I am encouraged by the increasing acknowledgement of New Zealand's renewable energy foundation. The recent submissions for the Government's climate change target strongly highlighted the importance of New Zealand's renewable energy – particularly in the electrification of transport.

Leveraging renewable energy is New Zealand's largest green-growth opportunity to improve both environmental and economic outcomes. It needs to be recognised for its potential to make a real difference for consumers and our country. We must question why a country so blessed with raw natural energy should continue to pay $2 per litre at the petrol pump for imported fossil fuels – with all the related health and environmental costs – when home-grown renewable electricity can be delivered to your home or business at the equivalent of 30 cents per litre.

> "We must question why a country so blessed with raw natural energy should continue to pay $2 per litre at the petrol pump for imported fossil fuels…when home-grown renewable electricity can be delivered to your home or business at the equivalent of 30 cents per litre."

**FRASER WHINERAY**

Sales of plug-in electric vehicles (EVs) in New Zealand have doubled over the past year, and Mighty River Power has been strongly promoting the opportunity to Government, businesses and other large fleet owners to accelerate the uptake of EVs. Our Company has established a sound business case and we are progressively moving 70% of our fleet to plug-in models by 2018.

We applaud other organisations that are also driving change in this space.

## POWERFUL PARTNERSHIPS

Another part of the wonderful renewables story and growth of geothermal is the direct economic participation of Maori landowners that has created wealth for them and helped build a sense of ownership and pride for their people and communities.

These deep partnerships have underpinned one of the fastest geothermal development programmes anywhere in the world, and helped Mighty River Power to become one of the largest operators of geothermal capacity.

The cash flows from these partnerships are invested back to improve the education, health and well-being of their people through education scholarships, medical assistance and employment programmes. One of our partners, Tauhara North No.2 Trust's community grants for dental treatments, eye tests, school tuition and tertiary scholarships are expected to total $1.6 million this year.

This is a powerful example of real sustainability making a difference in the provinces.

With another of our valued partners, Rowing New Zealand, we have announced a commitment to a 20-year relationship through extending the Company's sponsorship to 2018.

This long-term support has already helped power New Zealand to 42 gold medals, some of the country's most memorable sporting moments, and global leadership in the sport. We are delighted to be backing Rowing New Zealand as the athletes prepare for the Rio Olympics in 2016. The world-class training ground at Lake Karapiro has been a vital foundation for establishing New Zealand as the best rowing nation globally.

Alongside our chain of hydro stations, we have supported the Waikato River Trails since 2004. These are attracting increasing numbers of visitors who have now clocked up more than 1 million kilometres of walking and cycling.

Over more than a decade, through Mercury Energy and our Star Supporters Club, we have raised a total of $7 million for Starship Children's Hospital. This support helps the outstanding team at Starship deliver real outcomes for families, including our own employees.

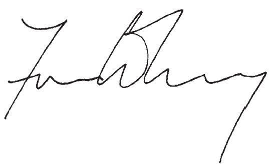
These long-dated initiatives are underpinned by the principle of kaitiakitanga, a principle that is ingrained in our business approach.

## LEADERSHIP APPOINTMENTS

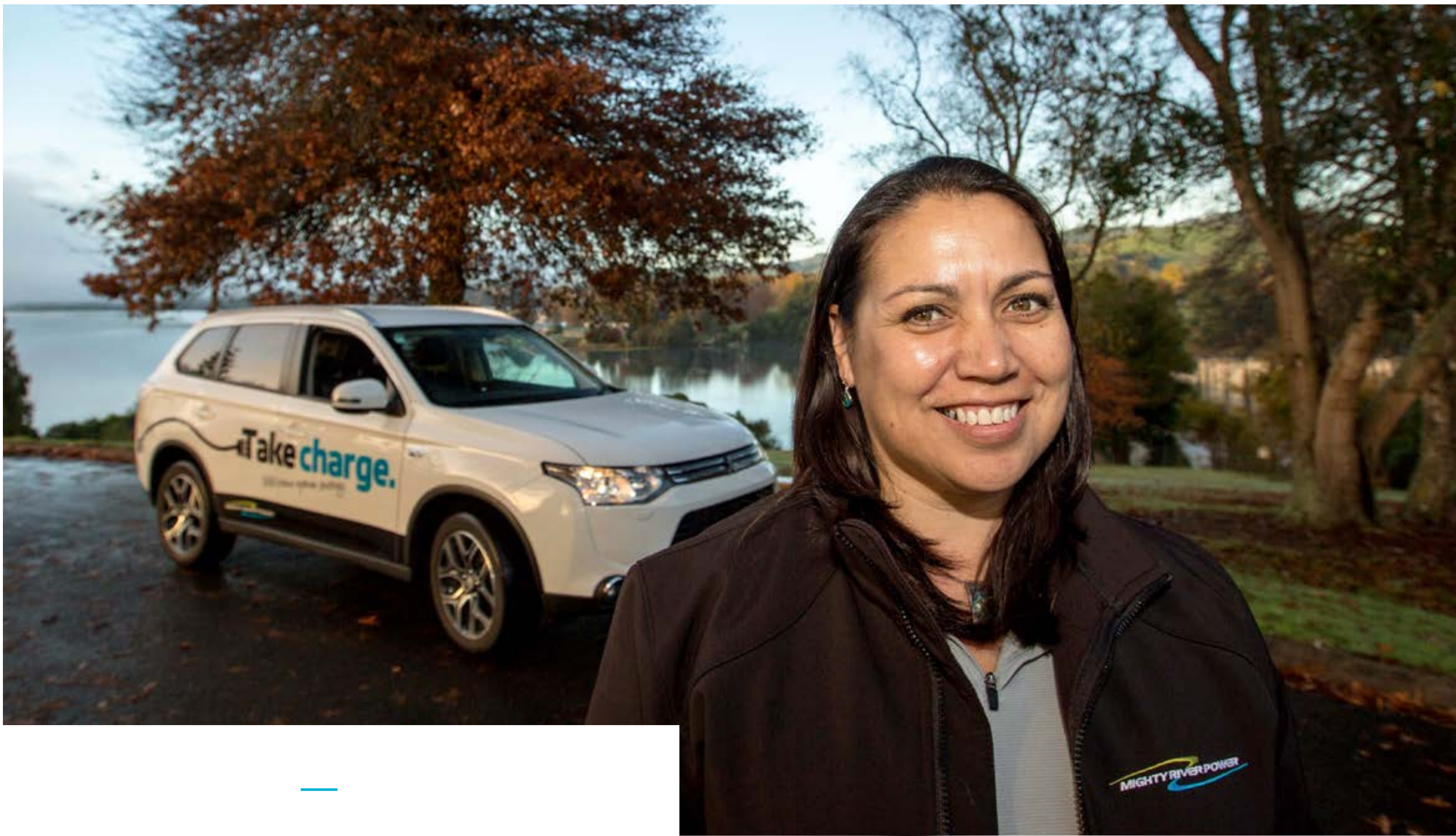
I am pleased to report changes to Mighty River Power's leadership team to support the Company's immediate strategic priorities. This included two key appointments – Toni Laming to the position of General Manager Strategy & Communications, and Nick Clarke to the position of General Manager Geothermal. Both bring complementary experience, skills and drive to our leadership team.

After one year in the role, I remain very excited by the increasing innovation and the opportunity to leverage New Zealand's sustainable competitive advantage in renewable electricity for both consumers and the country.

Thank you to everyone who has inspired and supported us throughout this year.



**Fraser Whineray Chief Executive**

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**We are here** promoting new thinking about electricity as a transport fuel, with benefits for Kiwis and our country.

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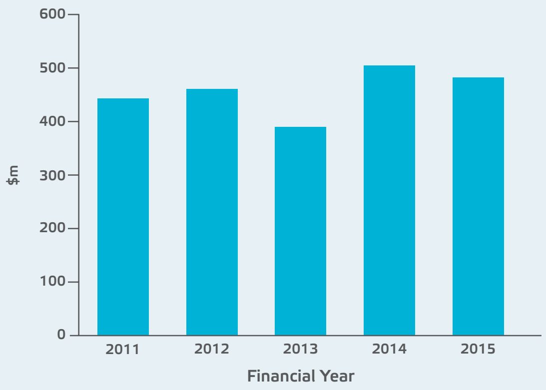
# Financial Commentary.

**MIGHTY RIVER POWER'S financial results for the year ended 30 June 2015 remained robust in challenging conditions, with strong retail competition and another year of low rainfall in the Waikato River catchment.**

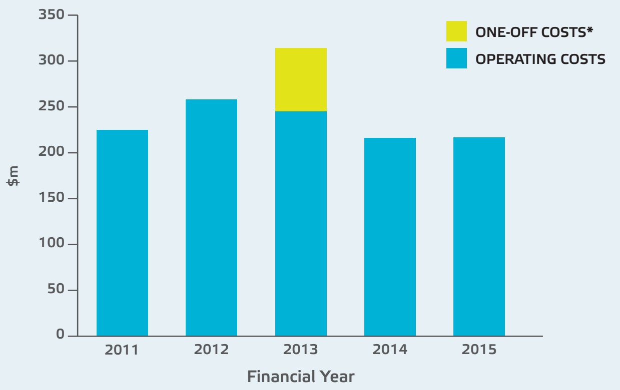
## EBITDAF

EBITDAF fell $22 million (4%) to $482 million, reflecting lower hydro generation and maturing higher-priced commercial sales contracts. During the year, the Company experienced record low hydro generation at 17% below average and commercial sales volumes fell 759GWh on the prior year as the Company opted not to renew these contracts at lower prices.

EBITDAF




OPERATING EXPENDITURE




Operating costs were broadly flat at $217 million. Since listing in May 2013 the business has reduced annual operating expenditure by $30 million through ongoing review of asset management plans, reducing international geothermal costs and lowering corporate overheads.

Other revenue increased $18 million, reflecting income attributable to the revaluation of property, which has either been sold or is being held for sale, and higher Metrix revenue as meter numbers continue to increase.

## IMPAIRMENTS

As reported in our Interim Results, following our decision to exit geothermal development interests in Germany and Chile and commit no further material development capital into our United States investment, the Company recognised $83 million of non-cash impairments.

Following the Company's announcement in March 2015, that its gas-fired Southdown power station will close at the end of the year, the Company has reported a $44 million non-cash impairment. During the second half of the year, the Company also recognised $3 million of other non-cash impairments relating to domestic geothermal development options that have not been developed to date.

## NET INTEREST AND TAX EXPENSE

Net interest increased $15 million to $99 million, reflecting higher interest costs related to $300 million of capital bonds issued in July 2014 and $6 million of interest capitalised in the prior financial year.

## PROFIT FOR THE YEAR

Profit for the year fell $165 million, principally reflecting non-cash impairments of $130 million as a result of the decisions to exit international geothermal development and to close the gas-fired Southdown station, and a lower EBITDAF.

## UNDERLYING EARNINGS AFTER TAX

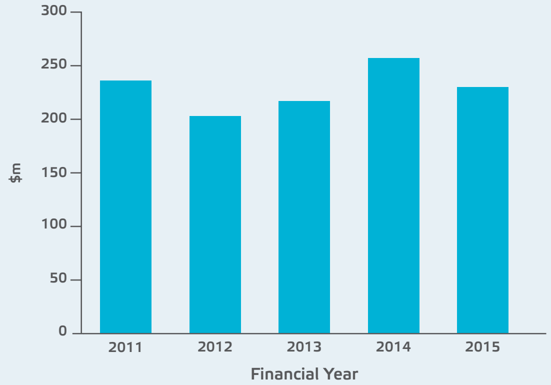
Mighty River Power's underlying earnings were $145 million, $40 million lower than the prior year reflecting lower EBITDAF, additional interest and higher depreciation costs relating to the commissioning of Ngatamariki in September 2013.

* Costs associated with the restructure of the Company's international geothermal operations and the IPO.

## CASH FLOW

Mighty River Power's cash flow continued to demonstrate resilience. Net cash provided from operating activities fell by $8 million to $309 million (FY2014: $317 million), reflecting the lower EBITDAF. Net cash outflows from financing activities fell $18 million to $195 million as a result of the special dividend in December 2014 of $69 million, the repayment of drawn bank facilities and commercial paper, along with $300 million inflows from the capital bonds issued in July 2014. Free cash flow fell slightly from the prior year to $230 million, reflecting a higher level of stay-in-business expenditure.

### FREE CASH FLOW



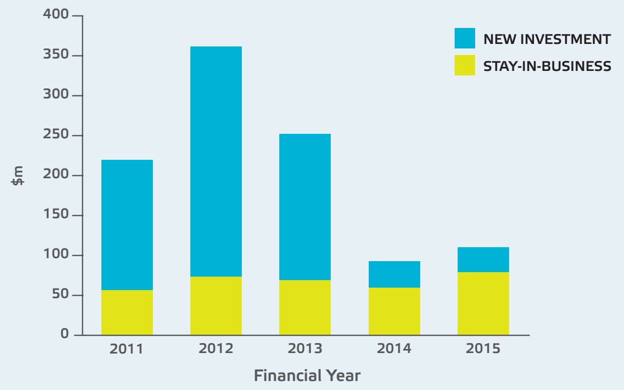

## FUNDING AND DEBT MATURITY

Drawn debt as at 30 June 2015 was $1,110 million, $65 million higher than 30 June 2014. Net debt as at 30 June 2015 was $1,082 million (30 June 2014: $1,031 million) with $32 million of cash or cash equivalents (30 June 2014: $19 million). Undrawn facilities stood at $300 million (30 June 2014: $335 million). The average maturity profile for committed facilities at period end was 9.9 years compared with 4.4 years at 30 June 2014.

## CAPITAL EXPENDITURE

Total capital expenditure increased from $93 million to $110 million in FY2015. Stay-in-business capital expenditure was up $19 million to $79 million, reflecting the successful drilling of two wells at Ngatamariki and Rotokawa, hydro refurbishment work at Karapiro and the Nga Awa Purua turbine replacement. New investment capital expenditure was $31 million, broadly in line with the prior financial year, mostly related to metering.

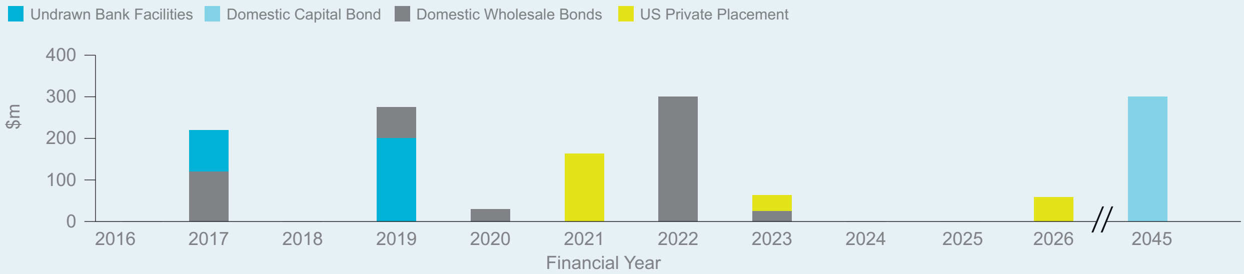
### CAPITAL EXPENDITURE




## BALANCE SHEET

Year-on-year total assets increased $369 million to $6,058 million, due to a $323 million uplift in property, plant and equipment, related to a $504 million generation asset revaluation partly offset by impairments. Total non-current liabilities increased $319 million due to higher borrowings and higher deferred tax from asset revaluations.

### DEBT MATURITIES AS AT 30 JUNE 2015



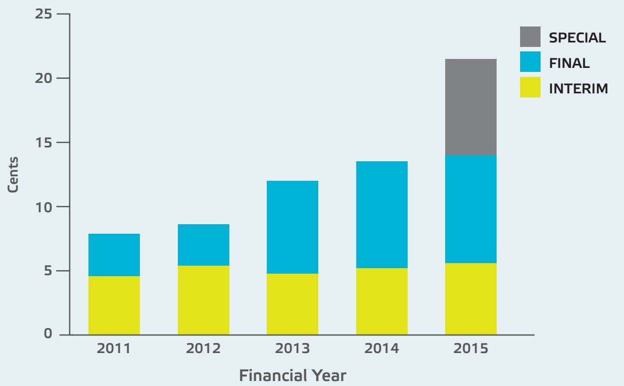
## CAPITAL STRUCTURE AND DIVIDENDS

Board and Management remain committed to an efficient and sustainable capital structure with a key reference to 'bbb' stand-alone credit rating while maintaining balance sheet flexibility. In July 2014, the Company issued a $300 million Capital Bond, which is an on-going and valuable component of the Company's capital structure. The Company holds 24 million treasury shares from a $50 million share buyback executed during FY2014 and up to 15 million share buyback programme is currently lodged with the NZX. Over the past two years, in light of lower demands for growth capital expenditure, the Company has made significant headway returning cash to shareholders while retaining balance sheet flexibility for future growth opportunities.

Reflecting Mighty River Power's resilient cash flow in a year of the Company's lowest-ever hydro generation, the full year ordinary dividends declared was 14 cents per share in line with guidance and representing a 4% increase on FY2014. Consistent with the dividend policy, the Board declared a fully-imputed final dividend of 8.4 cents per share to be paid on 30 September 2015.

During the year, the Board also declared a fully-imputed special dividend of 5 cents per share ($69 million) paid on 11 December 2014 and a 2.5 cent per share ($34 million) fully-imputed special dividend declared on 28 August to be paid on 30 September 2015.

DIVIDEND PER SHARE




## GUIDANCE AND OUTLOOK

Looking ahead to the 2016 financial year, the Board and Management have issued increased EBITDAF guidance within the range of $490 – $515 million subject to any material adverse events, significant one-off expenses or other unforeseeable circumstances including hydrological conditions. The Company's ordinary dividend guidance for the 2016 financial year is for 14.3 cents per share.

# Financial Track Record.

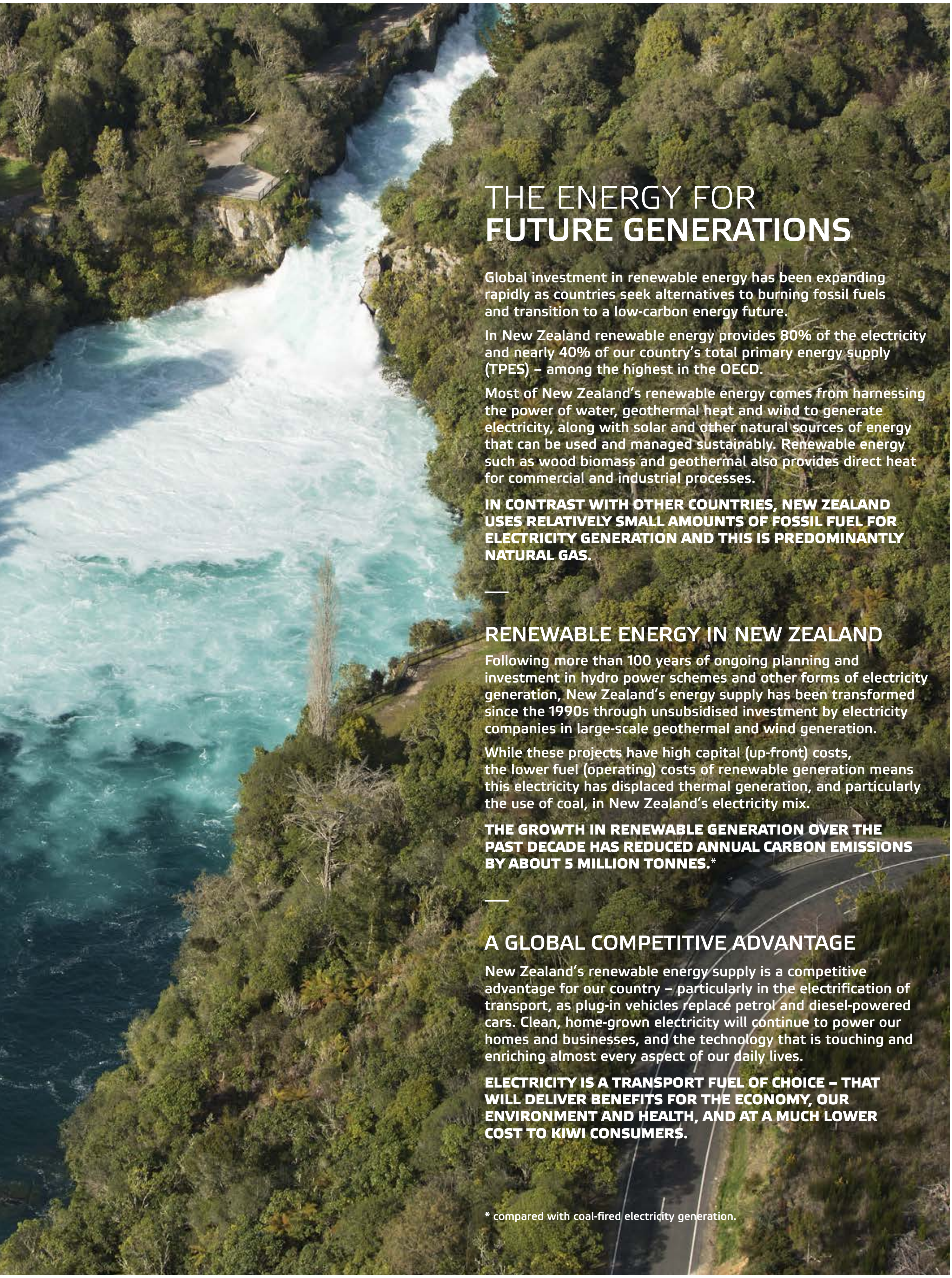
## FINANCIAL PERFORMANCE TRENDS

| For the year ended 30 June ($ million) | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Energy margin | **648** | 687 | 673 | 679 | 647 |
| EBITDAF | **482** | 504 | 390 | 461 | 443 |
| Net profit for the year | **47** | 212 | 115 | 68 | 127 |
| **Balance sheet** | | | | | |
| Total shareholders' equity | **3,337** | 3,219 | 3,183 | 3,014 | 2,907 |
| Total assets | **6,058** | 5,689 | 5,802 | 5,877 | 5,377 |
| Total liabilities | **2,721** | 2,470 | 2,619 | 2,863 | 2,470 |
| **Cash flow** | | | | | |
| Operating cash flow | **309** | 317 | 286 | 277 | 293 |
| Investing cash flow | **(103)** | (99) | (84) | (292) | (202) |
| Financing cash flow | **(195)** | (213) | (230) | 28 | (69) |
| **Capital expenditure** | | | | | |
| Total capital expenditure | **110** | 93 | 252 | 362 | 220 |
| Growth capital expenditure | **31** | 33 | 183 | 288 | 163 |
| Stay-in-business capital expenditure | **79** | 60 | 69 | 74 | 57 |
| **Other financial measures** | | | | | |
| Underlying earnings after tax | **145** | 185 | 180 | 163 | 162 |
| Free cash flow | **230** | 257 | 217 | 203 | 236 |
| Ordinary and special declared dividends | **296** | 186 | 168 | 120 | 110 |
| Ordinary dividends per share (cents)[2] | **14.0** | 13.5 | 12.0 | 8.6 | 7.9 |
| Special dividends per share (cents) | **7.5** | – | – | – | – |
| Basic and diluted earnings per share (cents)[2] | **3.4** | 15.3 | 8.2 | 4.8 | 9.1 |
| Net debt | **1,082** | 1,031 | 1,028 | 1,116 | 976 |
| Gearing (net debt/net debt+equity, %) | **24.5** | 24.3 | 24.4 | 27.0 | 25.1 |
| Debt/EBITDAF (x) | **2.0**[3] | 2.1 | 2.7 | 2.6 | 2.2 |
| **Operational measures** | | | | | |
| Total recordable injury frequency rate (TRIFR)[4] | **1.24** | 0.84 | 1.52 | 1.84 | 2.56 |
| Sales to customers (FPVV, GWh) | **4,486** | 4,844 | 5,252 | 5,021 | 4,776 |
| Electricity customers ('000) | **382** | 382 | 388 | 386 | 392 |
| Electricity generation (GWh) | **6,563** | 6,295 | 6,462 | 7,068 | 6,833 |

[2] 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.

[3] Adjusted for S&P treatment of subordinated debt.

[4] Per 200,000 hours; includes onsite employees and contractors.



# THE ENERGY FOR **FUTURE GENERATIONS**

Global investment in renewable energy has been expanding rapidly as countries seek alternatives to burning fossil fuels and transition to a low-carbon energy future.

In New Zealand renewable energy provides 80% of the electricity and nearly 40% of our country's total primary energy supply (TPES) – among the highest in the OECD.

Most of New Zealand's renewable energy comes from harnessing the power of water, geothermal heat and wind to generate electricity, along with solar and other natural sources of energy that can be used and managed sustainably. Renewable energy such as wood biomass and geothermal also provides direct heat for commercial and industrial processes.

**IN CONTRAST WITH OTHER COUNTRIES, NEW ZEALAND USES RELATIVELY SMALL AMOUNTS OF FOSSIL FUEL FOR ELECTRICITY GENERATION AND THIS IS PREDOMINANTLY NATURAL GAS.**

## RENEWABLE ENERGY IN NEW ZEALAND

Following more than 100 years of ongoing planning and investment in hydro power schemes and other forms of electricity generation, New Zealand's energy supply has been transformed since the 1990s through unsubsidised investment by electricity companies in large-scale geothermal and wind generation.

While these projects have high capital (up-front) costs, the lower fuel (operating) costs of renewable generation means this electricity has displaced thermal generation, and particularly the use of coal, in New Zealand's electricity mix.

**THE GROWTH IN RENEWABLE GENERATION OVER THE PAST DECADE HAS REDUCED ANNUAL CARBON EMISSIONS BY ABOUT 5 MILLION TONNES.***

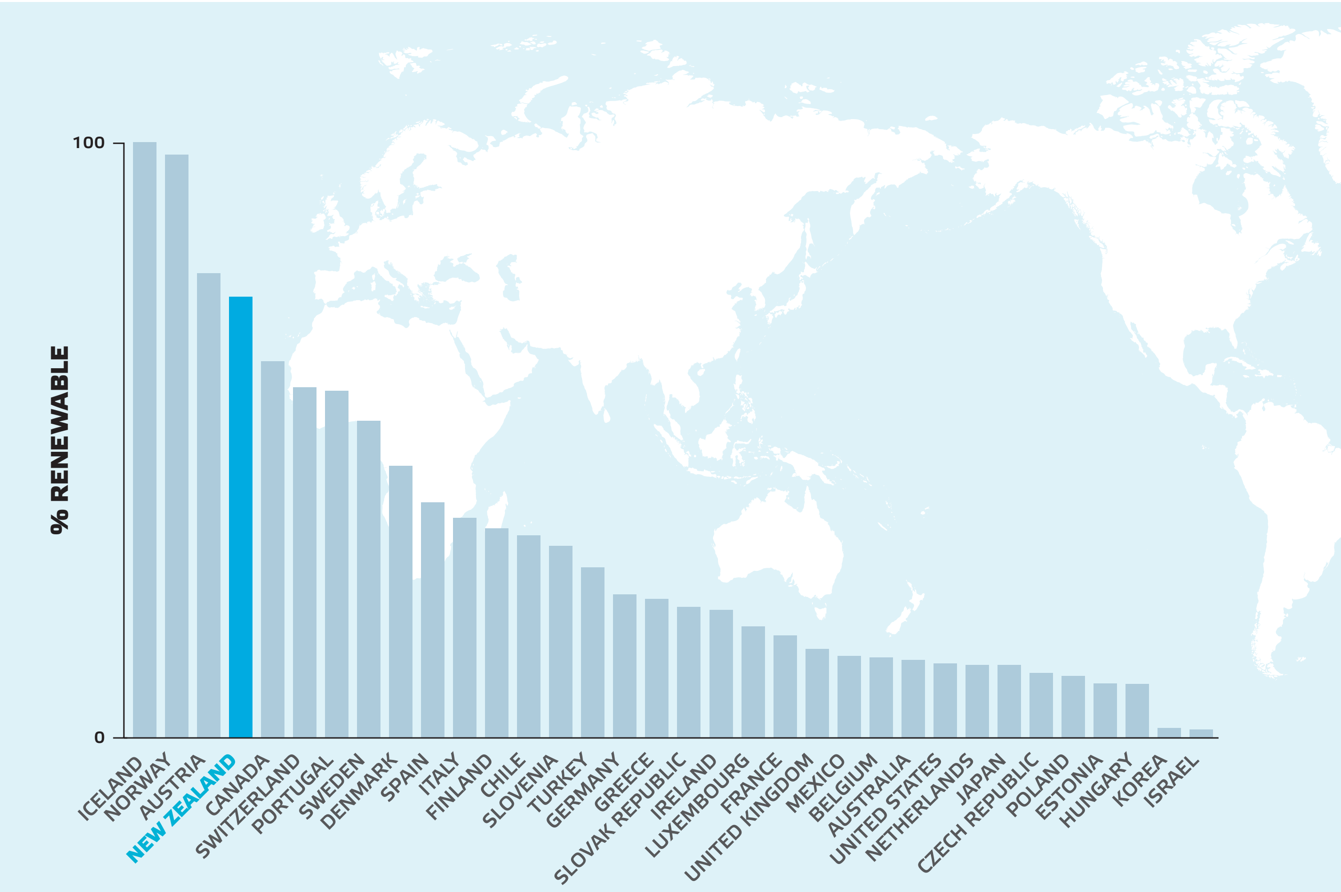
## A GLOBAL COMPETITIVE ADVANTAGE

New Zealand's renewable energy supply is a competitive advantage for our country – particularly in the electrification of transport, as plug-in vehicles replace petrol and diesel-powered cars. Clean, home-grown electricity will continue to power our homes and businesses, and the technology that is touching and enriching almost every aspect of our daily lives.

**ELECTRICITY IS A TRANSPORT FUEL OF CHOICE – THAT WILL DELIVER BENEFITS FOR THE ECONOMY, OUR ENVIRONMENT AND HEALTH, AND AT A MUCH LOWER COST TO KIWI CONSUMERS.**

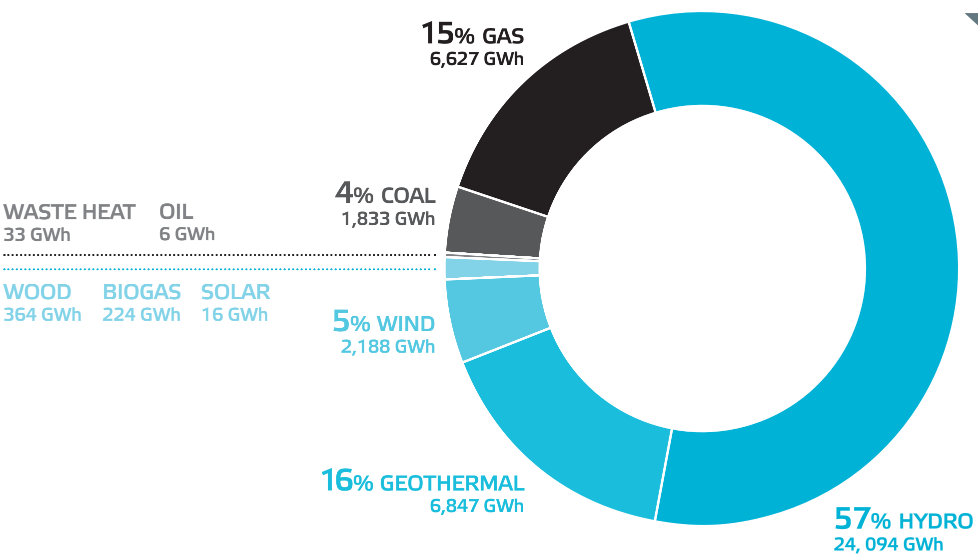
* compared with coal-fired electricity generation.

# A world leader in renewables.




**Source:** International Energy Agency, Renewables Information 2014

## NEW ZEALAND ELECTRICITY SUPPLY BY FUEL TYPE




**Source:** Ministry of Business, Innovation & Employment 2014

**NEW ZEALAND'S ELECTRICITY SUPPLY IS GENERATED FROM PREDOMINANTLY RENEWABLE ENERGY –** hydro (57%), geothermal (16%) and wind (5%) – along with gas-fired generation, and historically coal, along with a range of minor sources.

Base-load generation from new geothermal power stations has more than doubled over the past decade, reducing the requirement for generation from coal.

# A vital foundation
# for today and tomorrow.


## x9 HYDRO STATIONS


| | |
|---|---|
| 01 Aratiatia | 78MW |
| 02 Ohakuri | 106MW |
| 03 Atiamuri | 74MW |
| 04 Whakamaru | 100MW |
| 05 Maraetai I & 06 Maraetai II | 352MW |
| 07 Waipapa | 54MW |
| 08 Arapuni | 192MW |
| 09 Karapiro | 96MW |

## x5 GEO STATIONS


| | |
|---|---|
| 01 Kawerau | 100MW |
| 02 Mokai* | 112MW |
| 03 Rotokawa | 34MW |
| 04 Nga Awa Purua* | 138MW |
| 05 Ngatamariki | 82MW |

*Not 100% owned by Mighty River Power

# The Board.

**CAROLYN LUEY**
FUTURE DIRECTOR

Mighty River Power announced at the 2014 Annual Shareholders' Meeting that the Board would be appointing a Future Director (www.futuredirectors.co.nz) as part of the Company's commitment to foster best-practice governance across New Zealand business and improve diversity at Board level. Carolyn Luey, Group Strategy and Operations Director at NZME, was selected and took up the Future Director position in January 2015, for a one-year term, offering the opportunity to participate in Board discussions, while decision-making remains with Mighty River Power's directors.

**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 Chair of Chorus and a director of Worksafe New Zealand, NZX Limited and of the joint board of Ausgrid, Endeavour Energy and Essential Energy, Australia.

**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.

**ANDY LARK**
DIRECTOR
BA

Andy Lark joined the Mighty River Power board in July 2014. He has a background in entrepreneurship, marketing and digital technologies. Andy is currently Chief Marketing Officer at Xero, and the Chair of Group Lark, an accelerant for brand and digital transformations. He sits on the Boards of SLI Systems, Fronde, Simple Technologies 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.

**JOAN WITHERS**
CHAIR
MBA, AFInstD

Joan Withers was appointed a director of Mighty River Power in August 2009 and Chair of the board in October 2009. She is Chair of Television New Zealand, a director of ANZ Bank New Zealand Limited 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.

**MIKE ALLEN**
DIRECTOR
BE (Chem) (Hons), PhD

Mike 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). Mike 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.

**JAMES MILLER**
DIRECTOR
BCom, FCA, AMInstD

James Miller was appointed a director of Mighty River Power in May 2012. He is Chair of NZX, and a director of its subsidiary New Zealand Clearing and Depository Corporation, Accident Compensation Corporation and Auckland International Airport. He has 15 years' experience in capital markets, having retired as a director and Head of NZ Wholesale Equities with Craigs Investment Partners. James' prior roles included Head of Equities and Head of Research at ABN AMRO. James is a Fellow of the Institute of Finance Professionals and the New Zealand Institute of Chartered Accountants.

**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), 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.

**From left to right:**
Carolyn Luey, Patrick Strange, Prue Flacks, Andy Lark, Joan Withers, Mike Allen, James Miller, Keith Smith.

# The Executive team.

**MATT OLDE**
METRIX CHIEF EXECUTIVE
BCom (Hons) / LLB

Matt Olde leads the Company's metering business, Metrix, which supports energy retailers and lines companies in providing solutions and enabling services for their electricity consumers. He joined Mighty River Power in 2010, and has held roles including GM Business Strategy and Solutions and, as IPO Project Manager, was responsible for overseeing the Company's preparations for listing in 2013. Prior to joining Mighty River Power, Matt was an investment banker working in Auckland, Sydney and London.

**NICK CLARKE**
GENERAL MANAGER GEOTHERMAL
BCom / LLB (Hons)

Nick Clarke joined Mighty River Power in July 2015. He is responsible for the strategic and operational leadership of the Company's geothermal operations in New Zealand, along with contributing to developing and delivering on Mighty River Power's broader strategic priorities. Nick has experience across a range of sectors offshore and locally, most recently with Spark as Wholesale and International General Manager.

**MARLENE STRAWSON**
GENERAL MANAGER
PEOPLE & SAFETY
BSocSc, MMgt (HR)

Marlene Strawson joined Mighty River Power in 2012 and leads the Company's human resources strategy, employee engagement and internal communications. She also has overall responsibility for health and safety across the business. Marlene has more than 25 years' experience in human resources, with a strong organisational development background including in telecommunications, banking and the health sector.

**PHIL GIBSON**
GENERAL MANAGER
HYDRO & WHOLESALE
BE (Civil)

Phil Gibson is responsible for managing hydro operations, wholesale market activities and sales to large commercial and industrial customers. Phil joined Mighty River Power in 2004 and has held a number of roles across the business including Wholesale Markets Manager, and Head of Technology & Innovation in consumer markets. Prior to joining the electricity industry, Phil spent six years in structural engineering roles in Auckland, Wellington and London.

**FRASER WHINERAY**
CHIEF EXECUTIVE
BE (Chem) (Hons), MBA (Cambridge), GRADDIP DY.SCI.TECH (Distinction)

Fraser Whineray joined Mighty River Power in 2008 as GM Generation and was appointed Chief Executive in September 2014. Before joining the Company, he was Director Operational Improvement at Carter Holt Harvey and held senior roles in the dairy industry and finance sector, with experience in performance management, strategy, mergers and acquisitions and international business. Fraser is a non-executive director of Opus International consultants.

**WILLIAM MEEK**
CHIEF FINANCIAL OFFICER
BCom (Hons)

William Meek joined Mighty River Power in 1999 and heads the finance, treasury, and investor relations functions. William was previously responsible for Mighty River Power's generation investment strategy and enterprise risk functions. He has 15 years' industry experience in risk management, power development, wholesale markets and forecasting.

**JAMES MUNRO**
GENERAL MANAGER
CUSTOMER

James Munro joined Mighty River Power in 2008 and has responsibility for the Company's customer brands Mercury Energy, GLOBUG and Bosco Connect. James has a broad range of commercial experience has more than 20 years' experience in retail service businesses, including with The Economist, TVNZ and St. George Bank.

**TONI LAMING**
GENERAL MANAGER STRATEGY & COMMUNICATIONS
BSc (Chem)

Toni Laming joined Mighty River Power in February 2015. She is responsible for supporting the Company's future direction, overseeing strategic projects, ICT and communications. Prior to joining Mighty River Power, Toni was based in Australia with Orica and has previously held global leadership roles focused on strategy, customer experience, technology solutions and growth initiatives including with Fonterra, KPMG Consulting and Fletcher Building.

**TONY NAGEL**

GENERAL MANAGER
CORPORATE AFFAIRS
LLB, MComLaw (Hons)

Tony Nagel leads Mighty River Power's legal and regulatory policy functions, and is Company Secretary. Tony joined Mighty River Power in 2004 as General Counsel having previously worked in legal and commercial roles in the telecommunications industry with Clear Communications and SamoaTel. He spent more than 10 years at leading corporate law firms in Auckland and Wellington, providing commercial litigation and corporate legal counsel.

**From left to right:**
Matt Olde, Nick Clarke, Marlene Strawson, Phil Gibson, Fraser Whineray, William Meek, James Munro, Toni Laming, Tony Nagel.

# Independent Auditor's Report.

Building a better working world

Chartered Accountants

***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 26 to 50, 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.

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.

Chartered Accountants

### 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

# 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 year attributable to owners of the parent** | | 47 | 212 |
| **Basic and diluted earnings per share (cents)** | | 3.42 | 15.27 |

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

# 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 |

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

# 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

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

# 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 |

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

# 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.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

## 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 shares 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.

| Treasury shares | 2015 Number of shares (M) | 2015 $M | 2014 Number of shares (M) | 2014 $M |
|---|---|---|---|---|
| **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 $M | 2014 $M |
|---|---|---|
| **Income tax** | | |
| **(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.

## NOTE 6. TAXATION (CONTINUED)

***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 $M | 2014 $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 | Interest held 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.

| Receivables past due but not considered impaired: | 2015 $M | 2014 $M |
|---|---|---|
| Less than one month past due | 6 | 7 |
| Greater than one month past due | 1 | – |
| | 7 | 7 |

| Payables and accruals | 2015 $M | 2014 $M |
|---|---|---|
| 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 derivative 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 $M | 2014 $M | 2015 $M | 2014 $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 on 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 $M | 2014 $M | 2015 $M | 2014 $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 |

***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 profit | | Impact on equity | |
|---|---|---|---|---|
| | 2015 $M | 2014 $M | 2015 $M | 2014 $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) |

## NOTE 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

### (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. Policy requires 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 $M | 6 to 12 months $M | 1 to 5 years $M | Later than 5 years $M | Total $M |
|---|---|---|---|---|---|
| **June 2015** | | | | | |
| **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) |

| | Less than 6 months $M | 6 to 12 months $M | 1 to 5 years $M | Later than 5 years $M | Total $M |
|---|---|---|---|---|---|
| **June 2014** | | | | | |
| **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.

| | Less than 6 months $M | 6 to 12 months $M | 1 to 5 years $M | Later than 5 years $M | Total $M |
|---|---|---|---|---|---|
| **June 2015** | | | | | |
| 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) |

| | Less than 6 months $M | 6 to 12 months $M | 1 to 5 years $M | Later than 5 years $M | Total $M |
|---|---|---|---|---|---|
| **June 2014** | | | | | |
| 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.

### (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. The methods comprise:

- 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.

## NOTE 14. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 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.

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

| Reconciliation of level 3 fair value movements | 2015 $M | 2014 $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'.

### 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.

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 $M | 2014 $M | 2015 $M | 2014 $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 $M | 2014 $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 income | (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 associate and joint venture 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 in inventories | (6) | (4) |
| • Decrease in trade payables and accruals | (9) | (29) |
| • Decrease 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 $M | 2014 $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 $000** | **2014 $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 $M** | **2014 $M** | **2015 $M** | **2014 $M** | **2015 $M** | **2014 $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 emissions 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.

## NOTE 18. COMMITMENTS AND CONTINGENCIES (CONTINUED)

### 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 represent 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.

# 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.

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

**Energy Margin** is defined as sales less lines charges, energy costs and other direct cost of sales, including metering. Energy Margin provides a measure that, unlike sales or total revenue, accounts for the variability of the wholesale spot market and the broadly offsetting impact of wholesale prices on the cost of retail electricity purchases and can be derived from the Audited Financial Statements as follows:

### ENERGY MARGIN

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

**Underlying Earnings after tax** reported in Note 3 of the Audited Financial Statements, 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 14 of the Audited Financial Statements 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 | Year ended 30 June 2015 | Year ended 30 June 2014 |
|---|---|---|
| Net cash provided by operating activities | 309 | 317 |
| Less: Reinvestment capital expenditure (including accrued costs) | (79) | (60) |
| **Free cash flow** | 230 | 257 |

# Corporate Governance

Mighty River Power is a New Zealand-based electricity generator and retailer whose fully paid ordinary shares ("Shares") are listed on the New Zealand and Australian stock exchanges.

Mighty River Power's Board is committed to maintaining the highest standards of business behaviour and accountability and regularly reviews the Company's governance structures to ensure that they are consistent with best practice. Accordingly, the Board adopts corporate governance policies and practices which reflect contemporary standards in New Zealand and Australia, incorporating best practice recommendations issued by NZX Limited ("NZX") and ASX Limited ("ASX").

Over the reporting period, the Company's corporate governance practices complied with the ASX Corporate Governance Principles and Recommendations (third edition) ("ASX Principles"), the Financial Markets Authority Corporate Governance Principles and Guidelines and the NZX Corporate Governance Best Practice Code.

Further commentary on ASX Principle 8 (remunerate fairly and responsibly) is contained in the Director and Employee Remuneration section of this report on pages 60-62.

Mighty River Power's Constitution, the Charters and most of the policies referred to in this Corporate Governance Statement are available on the Company's website www.mightyriver.co.nz ("Company Website") in the Corporate Governance section under the 'About Us' tab.

### Principle 1: Lay solid foundations for management and oversight

Mighty River Power's corporate governance framework is designed to:

- enable the Board to provide strategic guidance for the Company and effective oversight of management;
- clarify the respective roles and responsibilities of Board members and senior executives in order to facilitate Board and senior executives' accountability to both the Company and its shareholders; and
- ensure a balance of authority so that no single individual has unfettered powers.

The Board is responsible for the affairs and activities of Mighty River Power, and has approved the delegation of certain responsibilities to the Chief Executive and other members of the Executive Management Team of the Company.

The primary role of the Board is to create long-term value for shareholders by providing strategic guidance for Mighty River Power and its related companies, and effective oversight of management. The Board is accountable to shareholders for the Company's performance.

The responsibilities of the Board are set out in the Company's Board Charter which is reviewed by the Board each year and is available on the Company Website. The Board's responsibilities include:

- establishing clear strategic goals with appropriate supporting business plans and resources;
- ensuring there are adequate resources available to meet the Company's objectives;
- monitoring strategy implementation and performance;
- selecting and appointing the Chief Executive, determining conditions of employment and monitoring performance against established objectives;
- monitoring financial performance and the integrity of reporting;
- setting delegated authority levels for the Chief Executive and Executive Management Team to commit to new expenditure, enter contracts, or acquire businesses;
- approving transactions relating to acquisitions, divestments and capital expenditure above delegated policy limits;
- ensuring that effective audit, risk management and compliance systems are in place and monitored to protect the Company's assets and to minimise the possibility of the Company operating beyond legal or regulatory requirements or beyond acceptable risk parameters as determined by the Board;
- approving Executive Management Team appointments, remuneration including performance remuneration and monitoring performance against objectives;
- reviewing succession and development plans for the Chief Executive and Executive Management Team;
- establishing and reviewing employment and remuneration practices to ensure that talented and motivated staff are recruited and retained;
- ensuring effective and timely reporting to shareholders;
- setting Mighty River Power's dividend policy;
- ensuring the Company adheres to high standards of corporate behaviour, responsibility and ethics;
- ensuring the Company's environmental and health and safety culture and practices comply with all legal requirements, reflect best practice in New Zealand and are recognised by employees and other stakeholders as key priorities;
- ensuring that Board capability is reviewed and recommendations made for new directors; and
- ensuring that directors' Board and committee fees are reviewed and recommendations are made to shareholders.

The Company has processes in place to undertake appropriate checks before appointing a director or putting forward any candidate for election as a director. The Company notifies shareholders of their right to nominate a candidate for election as a director by stock exchange notice and by publication on the Company Website. Where any director election or re-election is to occur at a shareholder meeting, the notice of meeting provided to shareholders includes all material information on candidates for director election or re-election.

The Company has a written agreement with each director setting out the terms and conditions of their appointment in accordance with recommendation 1.3 of the ASX Principles. The agreements currently in force were signed in March 2015. A copy of the standard form of this letter is available on the Company Website.

All directors have access to the advice and services of the Company Secretary for the purposes of the Board's affairs. The Company Secretary is appointed on the recommendation of the Chief Executive, and must be approved by the Board. The Company Secretary is accountable to the Board, through the Chair, on all governance matters. As at the date of this Annual Report, Tony Nagel is the Company Secretary.

Evaluations are regularly conducted to review the Board's role, Board processes and committees to support that role and the performance of the Board and each director. This is undertaken using a variety of techniques including external consultants, questionnaires and Board discussion. Over the reporting period, a full Board performance review was undertaken, with the assistance of an external facilitator. The Board also completed a comprehensive analysis of the skills and tenure across the Board.

The Chief Executive and Executive Management Team are responsible for:

- developing and making recommendations to the Board on Company strategies and specific strategic initiatives;
- managing and implementing strategies approved by the Board;
- formulating and implementing policies and reporting procedures for management;
- decision making compatible with the Company's Delegations Policy;
- managing business risk; and
- the day-to-day management of Mighty River Power.

The Chief Executive and the Executive Management Team have employment agreements setting out their roles and conditions of employment.

The performance of the Chief Executive and the Executive Management Team is reviewed regularly against objectives and measures set by the Board in annual performance scorecards. Further details are contained in the Director and Employee Remuneration section of this Annual Report.

Performance evaluations of the Chief Executive and each Executive Management Team member took place during the reporting period in accordance with this process.

The Company has a Board-approved Diversity Policy which includes requirements for the Board or a relevant committee of the Board to set measureable objectives for achieving gender diversity and to assess annually both the objectives and the company's progress in achieving them. The Diversity Policy recognises that the sustained commercial success of the business is underpinned by the capability and performance of employees and relationships with key partners, customers, suppliers and the communities within which the Company operates. As such the Company has a commitment to and continued focus on investing in growing capability and recognising and valuing difference – as part of an inclusive and high performing culture. The Diversity Policy is available on the Company Website.

Consistent with the Diversity Policy, the Company takes a holistic view of diversity that is anchored around diversity of thought, with difference recognised and valued in its broadest sense, including employee experiences and capabilities and family and cultural heritage. The Company also considers the traditional areas of diversity with the focus on removing any perceived or tangible barriers to becoming a part of the Company's business and being able to thrive in the workplace.

Measurable objectives for gender diversity have been established by the Board. The objectives are to increase the representation of women from 1 July 2014 baselines and to provide for stepped June 2017 and June 2020 targets. The progress towards meeting the measurable objectives is outlined in the following table:

| Focus | Baseline 1 July 2014 | 30 June 2015 | Target By 30 June 2017 | Target By 30 June 2020 |
|---|---|---|---|---|
| Total Workforce | 34% | 36% | 37% | 38% |
| Senior Leaders[1] | 12.5% | 19.6% | 28% | 33% |
| EMT | 12.5% | 25% | 28% | 33% |
| Board | 37.5% | 37.5% | 33% | 33% |

1 A group comprising senior leaders who are highly interactive with the Executive Management Team – this generally (although not exclusively) comprises the top four layers of management.

At balance date, the proportion of women on the Executive Management Team (including the Chief Executive) was 25%, or two out of eight (as at 30 June 2014 this was 12.5% or one out of eight). The proportion of women on the Board at balance date was 37.5% or three out of eight, including the Chair (as at 30 June 2014 this was 37.5% or three out of eight).

For the reporting period, the Board evaluates the Company's performance as having met the objectives of the Diversity Policy.

### Principle 2: Structure the Board to add value

The Board is structured to ensure that, as a collective group, it has the skills, experience, knowledge, diversity and perspective to fulfil its purpose and responsibilities.

The number of directors is determined in accordance with the Constitution. All directors are elected by the Company's shareholders (other than directors appointed by the Board to fill casual vacancies, who must retire at the next meeting of shareholders) with rotation and retirement determined by the Constitution.

The Board is responsible for identifying and appointing directors to the Board through the Nominations Committee. The Board may appoint directors to fill casual vacancies.

The Board currently comprises eight directors, being Joan Withers, Mike Allen, Prue Flacks, Andy Lark, James Miller, Keith Smith, Patrick Strange and Mike Taitoko. One director, Tania Simpson, retired with effect from 30 June 2015.

All of the directors are considered by the Board to be "independent" directors – in that they are non-executive directors who are not substantial shareholders and who are free of any business or other relationship that would materially interfere with, or could reasonably be seen to materially interfere with, the independent exercise of their judgement. No directors have been employed or retained to provide material professional services by the Company within the previous three years, nor is any director a partner, director or senior executive or material shareholder of a firm which provides professional services to the Company or a related company. No director is a material supplier to the Company or has any other material contractual relationship with the Company or another group member other than as a director of the Company. No director controls, or is an executive or other representative of an entity which controls, 5% or more of the Company's voting securities. The Chief Executive is not a director of Mighty River Power.

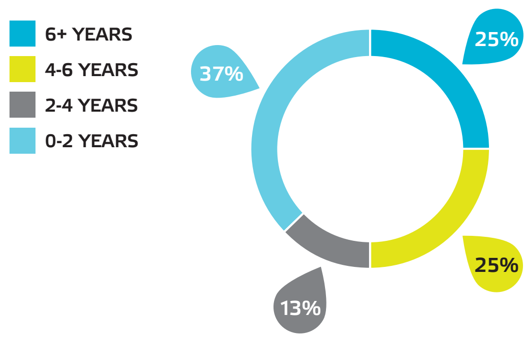
The Board supports the Institute of Directors Future Directors Programme which offers candidates valuable experience sitting at the Board table of a New Zealand company for 12 months. The programme is designed to increase the pipeline of Board-ready younger directors through giving them exposure to real-life governance in action along with valuable mentorship. Our first candidate, Carolyn Luey, was selected in November 2014. Carolyn participates in discussions in all Board meetings but does not participate in decision making.

The Constitution provides that the size for the Board should be between three and nine directors. At least one third of all directors must retire every year and, if desired, seek re-election. The directors who retire each year are those who have been longest in office since their last appointment or, if there are more than one of equal term, those determined by lot, unless the Board resolves otherwise.

The Nominations Committee ensures that the Board and its committees are structured appropriately and composed of suitably qualified individuals to support the Board's effectiveness in discharging its responsibilities and adding value through good governance. The Nominations Committee does this by:

- evaluating the independence of the Board;
- analysing the skills and expertise necessary and desirable for the Board;
- providing assurance that the Board has an effective composition, necessary and desirable expertise, diversity of thought and appropriate size to discharge its responsibilities and duties in accordance with the law, high standards of governance and the Company's strategic objectives;
- identifying and recommending individuals to become Board members in the event of a vacancy, while recognising that directors are elected by shareholders;
- developing and recommending to the Board for its approval an annual evaluation process of the Board and its committees;
- reviewing and recommending appropriate remuneration of directors;
- ensuring that Board succession plans are in place; and
- considering appropriate induction and continuing education for directors.

## DIRECTOR TENURE




A brief biography of each director is set out on pages 20-21 of the Annual Report.

The Nominations Committee Charter is available on the Company Website. The current members of the Nominations Committee are Joan Withers (Chair), Prue Flacks and James Miller. Tania Simpson was a member from 2 February to 30 June 2015. The committee plays an important role in identifying people with the necessary expertise, experience, diversity and perspectives for selection as potential directors to be nominated for election at the next annual shareholder meeting or to fill a casual vacancy on the Board. The Nominations Committee met four times during the financial year, attended by all committee members.

The Nominations Committee has developed a Board skills matrix setting out the mix of skills and diversity of the Board. The skills matrix is also used to identify any "gaps" in the skills and experience of the directors on the Board. This matrix is completed by directors regularly and reviewed by the Nominations Committee. If any "gaps" are identified from this review, an expert consultant is engaged to assist in identifying and assessing future director candidates. The most recent Board skills matrix is set out below.

The directors as at the date of this Annual Report and the dates of their appointment are:

| Name | Originally Appointed | Last Reappointed/Elected |
|---|---|---|
| Joan Withers (Chair) | 1 August 2009 | 7 November 2013 |
| Mike Allen | 1 November 2009 | 6 November 2014 |
| Prue Flacks | 1 May 2010 | 1 January 2013 |
| Andy Lark | 10 July 2014 | 6 November 2014 |
| James Miller | 1 May 2012 | 6 November 2014 |
| Keith Smith | 1 May 2009 | 7 November 2013 |
| Patrick Strange | 4 February 2014 | 6 November 2014 |
| Mike Taitoko | 28 August 2015 | Standing for election at the 2015 ASM |

| Experience & Skills | Number of Directors | |
|---|---|---|
| | Primary Skill | Secondary Skill |
| Electricity industry operational experience | 3 | 0 |
| Government relationships – Ministerial/Senior Official/Opposition | 3 | 5 |
| Governance experience | 7 | 1 |
| Listed company experience | 5 | 1 |
| Retail and marketing experience | 3 | 3 |
| Regulatory knowledge and experience | 3 | 4 |
| Shareholder/investment community relationships | 4 | 2 |
| Iwi relationships/connectivity | 1 | 2 |
| International business experience | 3 | 4 |
| Finance/accounting/audit committee experience | 2 | 5 |
| Health and safety experience | 1 | 7 |
| M&A experience | 3 | 4 |
| Business strategy experience | 4 | 4 |
| Innovation and growth, entrepreneurialism | 2 | 5 |
| Risk management experience | 4 | 4 |
| Capital markets/capital structure experience | 4 | 2 |
| Commodity or financial markets, trading | 0 | 3 |
| Major project experience | 4 | 2 |
| Large company leadership experience | 4 | 1 |
| Human Resources experience (including through large company leadership or other appropriate committee experience) | 5 | 1 |
| Digitisation/Technology expertise and experience | 2 | 2 |
| Experience of deep organisational change in a mature industry | 3 | 2 |

Directors receive detailed information in Board papers to facilitate decision making. New directors take part in an induction programme to familiarise them with the Company's business and the electricity industry. The Board receives regular briefings on the Company's business operations from senior managers. Regular Board strategy days are held to consider matters of strategic importance to the Company. Tours of the Company's facilities keep the Board informed in relation to the Company's assets, and in particular with respect to health and safety matters. Directors are also encouraged to continue their own professional development by attending relevant courses, conferences and briefings.

Directors may access such information and seek such independent advice as they consider necessary or desirable, individually or collectively, to fulfil their responsibilities and permit independent judgement in decision making. In particular, they are entitled to have access to internal and external auditors without management present and, with the Chair's consent, seek independent professional advice at the Company's expense.

***Meeting attendance***

The table below shows attendances at Board, committee and strategy meetings by directors during the year ended 30 June 2015. In addition to the usual meetings of the Board and its standing committees, additional meetings of the Board are convened as necessary to consider particular issues facing the Company.

| | Board | Risk Assurance and Audit Committee | Human Resources Committee | Nominations Committee | Company Strategy |
|---|---|---|---|---|---|
| **Number of Meetings** | 10* | 4 | 6** | 4*** | 3 |
| Joan Withers | 10 | 3 | 6 | 4 | 3 |
| Mike Allen | 9 | – | 5 | – | 2 |
| Prue Flacks | 10 | – | 6 | 4 | 3 |
| Andy Lark (appointed 10.07.14) | 9 | | 5 | – | |
| James Miller | 10 | 4 | – | 4 | 3 |
| Tania Simpson (retired 30.06.15) | 10 | – | 6 | 4 | 3 |
| Keith Smith | 9 | 4 | – | – | 3 |
| Patrick Strange | 10 | 4 | – | – | 3 |

* including one meeting held by teleconference

** including two meetings held by teleconference

*** including three meetings held by teleconference

### Principle 3: Act ethically and responsibly

The Board has adopted a Code of Ethics which requires all Mighty River Power directors, officers, employees and contractors to act honestly and in accordance with the highest standards of integrity and fairness at all times, and to strive to foster such standards within the Company. The Code of Ethics can be found on the Company's Website.

Directors are required, in the performance of their duties, to give proper attention to the matters before them and to act in the best interests of Mighty River Power at all times.

Conflicts of interest must be avoided, except with the prior consent of the Company. The acceptance of bribes, including gifts or personal benefits of material value which could reasonably be perceived as influencing decisions, is prohibited. The Code of Ethics places restrictions on the use of corporate information, assets and property. All persons covered by the Code of Ethics are encouraged to report any breach or suspected breach of the Code.

All potential conflicts of interest are declared prior to appointment and at each Board meeting, including in relation to specific agenda items if applicable.

Directors, officers, employees, contractors and secondees of Mighty River Power or any of its subsidiaries are restricted in their trading of Company securities under Australian and New Zealand law and by Mighty River Power's Trading in Company Securities Policy which can be found on the Company's Website.

### Principle 4: Safeguard integrity in corporate reporting

Under its Charter, the Risk Assurance and Audit Committee ("RAAC") is responsible for overseeing, reviewing and providing advice to the Board on Mighty River Power's:

- risk management policy and processes (which includes oversight of Health & Safety assurance functions);
- internal control mechanisms;
- internal and external audit functions;
- policies and processes adopted to ensure compliance with applicable legislation, regulations, codes of practice, NZSX and ASX Listing Rules and Government requirements as they relate to financial and non-financial disclosure; and
- financial information prepared by management for publication to shareholders, regulators and the general public.

The RAAC must comprise a minimum of three members, all of whom must be independent, non-executive directors. The Board Chair is not eligible to chair the RAAC. At least one member must have an accounting or financial background as that term is described in the NZX Main Board Listing Rules and as a group, the RAAC must be structured to have the skills, experience and knowledge to fulfil its purpose and responsibilities.

The RAAC members are Keith Smith (Chair), James Miller and Patrick Strange. Joan Withers is also a member by virtue of her position as Board Chair. The members' qualifications are set out on pages 20-21 and details of their meeting attendance are set out on page 55 of this Annual Report.

The RAAC Charter is available on the Company Website. The RAAC must meet at least three times per year. During the reporting period, the RAAC met four times.

The Auditor–General is the auditor of the Company and each of its subsidiaries (together, the "Group"), pursuant to the Public Audit Act 2001. The Auditor–General appointed Simon O'Connor of Ernst & Young to carry out the FY2015 audit on her behalf. The NZX Main Board Listing Rules require rotation of the lead audit partner at least every five years. The provision of external audit services is guided by the Audit Independence Policy which is available on the Company Website. Consistent with the Stakeholder Communications Policy, the external auditor attends the Annual Shareholders' Meeting and is available to shareholders to answer questions relevant to the audit.

The Chief Executive and the Chief Financial Officer are required each year to provide a letter of representation to the Board confirming that:

- the Group's financial statements have been prepared in accordance with generally accepted accounting principles in New Zealand, are free of material misstatements, including omissions, give a true and fair view of the financial performance and position of the Group and the financial records have been properly maintained;
- the representation is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal control system is operating effectively in all material respects.

A letter of representation confirming those matters was received by the Board with respect to the Group's FY2015 financial statements.

### Principle 5: Make timely and balanced disclosure

Mighty River Power is committed to maintaining a fully informed market through effective communication with the NZX and ASX the Company's shareholders, analysts, media and other interested parties. The Company provides all stakeholders with equal and timely access to material information that is accurate, balanced, meaningful and consistent.

The Market Disclosure Policy is designed to ensure this occurs in compliance with the Company's continuous disclosure obligations under the NZX Main Board and ASX Listing Rules. The Policy is available on the Company Website.

The Board has appointed the Company Secretary as the Market Disclosure Officer who is responsible for administering the Policy. The Disclosure Committee (made up of the Board Chair, the RAAC Chair, the Chief Executive, the Chief Financial Officer and the Market Disclosure Officer) is ultimately responsible for ensuring that the Company complies with its disclosure obligations.

The Chief Executive and Executive Management Team are responsible for providing the Market Disclosure Officer with all material information relating to their areas of responsibility. Information which, in the opinion of the Market Disclosure Officer may require disclosure is provided to the Disclosure Committee for decision. Proposed disclosures of draft annual and interim results and accompanying news releases and presentations must be reviewed by the RAAC before finalisation by the Board. Once approved for disclosure, the Market Disclosure Officer is responsible for releasing material information to the market.

Directors consider at each Board meeting whether there is any material information which should be disclosed to the market.

### Principle 6: Respect the rights of security holders

Mighty River Power is committed to communicating effectively and providing comprehensive information to shareholders and other stakeholders to ensure they have available all information reasonably required to make informed assessments of the Company's value and prospects. The Board has adopted a Stakeholder Communications Policy which sets out the steps Mighty River Power takes to enable this. This Policy and all other corporate governance information is available on the Company Website.

The Company's Head of Investor Relations maintains an ongoing programme aimed at building understanding and appropriate measurement of the Company's performance among investors and analysts through:

- dialogue with the Executive Management Team;
- briefings for results and announcements that allow analysts to ask questions of the Executive Management Team;
- visits to Company premises including operating assets; and
- opportunities to meet with directors.

Summary records for internal use are kept of the issues discussed at meetings with investors and analysts, including a record of those present and the time and place of meetings.

Annual shareholder meetings are held in New Zealand at a time and location which will, over time, aim to maximise participation by shareholders. The annual shareholder meeting is also webcast to allow participation by shareholders who are unable to attend the meeting in person. The Company's third annual shareholder meeting since listing on the NZX Main Board and ASX will be held in Auckland on 5 November 2015.

The Company Website contains a comprehensive set of investor-related information and data including stock exchange and media releases, interim and annual reports, investor presentations and webcasts, share price and dividend information, shareholder meeting materials and other material required to demonstrate best practice in investor communications.

The Company encourages shareholders to provide email addresses to enable them to receive shareholder materials by electronic means. Hard copy reports are provided on request to shareholders who have not opted to receive documents electronically.

### Principle 7: Recognise and manage risk

Risk management is an integral part of Mighty River Power's business. Mighty River Power has in place an overarching Risk Management Policy (available on the Company Website) supported by a suite of risk management policies appropriate for its business, including a Risk Appetite Statement, a Market and Credit Risk Management Policy, a Treasury Policy and a Delegations Policy.

The purpose of the Risk Management Policy is to embed within Mighty River Power a Group-wide capability in risk management which provides a consistent method of identifying, assessing, controlling, monitoring and reporting existing and potential risks faced by Mighty River Power. The Policy sets out the risk management objectives and requirements of Mighty River Power within which management is expected to conduct structured risk management. The Policy applies to all business activities of the Group including Mighty River Power-controlled joint ventures and is reviewed periodically by the RAAC.

Mighty River Power accepts some commercial risks in order to achieve its strategic objectives and to deliver enhanced shareholder value. These are embodied in the Company's Risk Appetite Statement which is set and regularly reviewed by the Board. As part of its current Risk Appetite Statement, Mighty River Power targets a long-term credit rating of BBB on a stand-alone basis from Standard & Poor's (or its equivalent).

The Company has a Risk Assurance Officer who has the authority to determine the effectiveness of risk management, assurance and audit. The Risk Assurance Officer has a dual reporting line to the Chief Executive and the RAAC Chair. The RAAC tasks the Risk Assurance Officer to ensure healthy and robust debate and interaction between management and risk assurance and audit providers.

The Company's management operates a Risk Management Committee whose mandate is to promote risk awareness and appropriate risk management to all staff and to monitor and review risk activities as required. Membership of the Risk Management Committee is made up of representatives from the Executive Management Team and is chaired by the Risk Assurance Officer. The Risk Management Committee meets at least four times each year.

As noted above, the RAAC is responsible for overseeing, reviewing and providing advice to the Board on Mighty River Power's risk management policies and processes. The Risk Assurance Officer reports regularly to the RAAC on the effectiveness of the Company's management of material business risks. In addition, the RAAC annually reviews the risk management framework. A review of the risk management framework took place in FY2015.

The Company operates a comprehensive internal audit plan, which includes periodic reviews of relevant areas of the Company's operations. The internal audit plan is designed and approved by the RAAC each year in consultation with the Risk Assurance Officer and the Internal Auditor (currently Deloitte) who reports on progress and the results of internal audit reviews at each RAAC meeting. The Internal Auditor has access to management and the right to seek information and explanations. The RAAC meets with the Internal Auditor at least once each year without management present.

There are a number of risk factors that could have an impact on Company's ability to create or preserve value.

#### *Key Risks*

Key risks are that Mighty River Power is unable to generate, buy and sell electricity and related services, or develop projects, thereby adversely impacting its expected operational and financial performance, and the Company's value.

#### *Electricity Market Exposure*

In the short-run, Mighty River Power's ability to balance its electricity portfolio is dependent on its ability to purchase and sell electricity in the wholesale electricity market which could be impacted by:

- short-term changes in supply and demand;
- national fuel conditions based on hydrological conditions;
- competitor behaviour; and
- constrained transmission and distribution of electricity and gas.

In the long-run, wholesale prices are determined by level of customer demand relative to supply from power generation and can be adversely affected by levels of activity in the industrial sector, population growth, economic conditions, competitor behaviour and new generation build, technological changes or new sources of energy, and regulatory changes.

*Legislative and Regulatory Risks*

Legislative or regulatory changes, including Treaty of Waitangi claims, may result in the Company facing direct or indirect restrictions, conditions or additional costs on the Company's access to freshwater or geothermal resources and its hydro and geothermal generation activities.

Regulatory changes imposed on the current wholesale and retail market structure and pricing regimes may affect how the Company is managing its currently integrated business model of generating and retailing electricity and could adversely impact the value of the Company in future.

*Fuel Security and Supply*

Mighty River Power's generation is dependent on the availability of water for hydro generation, geothermal fluid for geothermal generation and gas for the gas-fired power station. The principal risks include the inability to generate expected levels of electricity due to either temporarily or permanently reduced fuel supplies, or increased costs to secure the necessary fuel, both of which may adversely affect Mighty River Power's future operating results.

*Power Station Availability*

Mighty River Power's ability to generate electricity is dependent on the continued efficient operation of its power stations. The viability, efficiency or operability of its power stations could be adversely affected by a range of factors including:

- material failure of turbines, transformers, geothermal wells that results in unplanned power station outages which requires replacement or repair; and
- catastrophic events such as major earthquake, volcanic eruption, or other natural catastrophes that could cause failure of any or several of the Company's power stations.

*Growth and Development risks*

Growth and development projects are subject to risks that may affect expected financial returns or outcomes:

- the outcome of geothermal exploration is inherently risky with any activity highly uncertain due to relatively unknown variables, including underground geology and characteristics that are different for each reservoir;
- capital might not be available at acceptable terms restricting access to funding for developments; and
- political and regulatory uncertainty and poor economic conditions may limit Mighty River Power's development choices or adversely affect the viability or costs of future developments.

*Key Relationships and Contracts*

Major contracts and agreements with partners, customers or suppliers could be terminated or not renewed, requiring replacements which may be less desirable or alternative solutions which could adversely affect the operational and financial performance of Mighty River Power.

*Financial risks*

In the event of natural catastrophes, uninsured or uninsurable damages to Mighty River Power's assets may not be fully recovered under the current insurance arrangements, impacting future operational performance and the financial condition of the Company.

A deterioration of Mighty River Power's financial condition or instability in capital markets could increase Mighty River Power's cost of capital or eliminate its ability to raise debt, impacting its financial performance and pursuit of its strategic objectives.

The Crown's shareholding and the provisions of the Public Finance Act may limit the Company's ability to raise equity capital.

There is a risk that foreign currency or interest rate movements may impact the Company's earnings by increasing the cost for imported goods and services and issued debt, or decreasing revenues from offshore investment earnings.

*Reputation Risks*

Mighty River Power is a publicly listed company and therefore subject to increased public scrutiny by the media and investment community. The following events could lead to negative publicity resulting in the loss of business revenues or reduction in the Company's value:

- errors in customer connections, billing or general customer communications;
- errors by directors, management, contractors or related industry operators negatively reflecting on Mighty River Power;
- adverse environmental impact caused by, or perceived to be caused by Mighty River Power's operations;
- health and safety incidents under the operational control of Mighty River Power;
- a reduction in corporate citizenship standards reflecting poorly on the Company's reputation.

Other material business risks that could impact on the short, medium or long term financial performance of the Company, including material exposure to economic, environmental or social sustainability risks include: significant reduction or ceasing of electricity consumption by Tiwai aluminium smelter; political, regulatory, foreign exchange, accounting and other international jurisdiction risks; and catastrophic events.

In addition to the risk management processes set out above a number of measures are employed to manage these risks, including employee awareness, incident training, due diligence, financial risk mitigation tools and active involvement in the regulatory environment.

The Board does not undertake any obligation to revise these risks to reflect changes after the date of this report.

## Principle 8: Remunerate fairly and responsibly

The Board believes that the sustained commercial success of Mighty River Power is underpinned by the capability and performance of employees and relationships with key partners and suppliers. The Company is committed to continuing to invest in growing capability and recognising difference as a part of driving an inclusive and high performance culture.

The Board has established the Human Resources Committee, which has the purpose of assisting the Board in fulfilling its human resources responsibilities relating to:

- the Company's human resources strategy and plan;
- the remuneration and performance of the Chief Executive; and
- Human Resources policies and practices.

In addition, the Committee monitors and provides guidance to management on human resources-related matters. The Human Resources Committee Charter is available on the Company Website and is reviewed annually by the Board.

The Human Resources Committee consists of at least three directors. The current members are Prue Flacks (Chair), Mike Allen and Andrew Lark. Joan Withers is also a member by virtue of her position as Board Chair. Tania Simpson was Chair of the committee until her retirement as a director on 30 June 2015. As stated above, all Mighty River Power directors are independent.

The Human Resources Committee met six times over the reporting period. The attendance records of committee members and other directors are detailed on page 55.

As noted above, the Nominations Committee is responsible for reviewing and recommending appropriate remuneration of directors to the Board. There are no Company retirement benefit schemes applying to any directors.

The Chief Executive and Executive Management Team members are prohibited, by the Trading in Company Securities Policy, from entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under the Company's Long Term Incentive Plans.

Details of senior executive and Board remuneration are included in the Director and Employee Remuneration section of this report.

This Corporate Governance Statement is dated 16 September 2015 and is signed on behalf of the Board by:

**Joan Withers**
Chair
16 September 2015

**Keith Smith**
Director
16 September 2015

# Director and Employee Remuneration

The Mighty River Power Board is committed to an executive remuneration framework that is focused on achieving a high performance culture and linking executive pay to the development and achievement of both short and long-term Company strategies and business objectives which ultimately create sustainable value for shareholders.

As part of ensuring management is motivated to create and deliver sustainable shareholder wealth, the Board has a Human Resources Committee which operates under the delegated authority of the Board. The role and membership of the committee is set out in the Corporate Governance section.

The Human Resources Committee ensures rewards for executives are strongly aligned to the performance of the Company. The Company is committed to ensuring clarity and transparency about its remuneration policy and practice.

## Directors' Remuneration

The directors' remuneration is paid in the form of directors' fees. Additional fees are paid to the Chair and in respect of work carried out by directors on various Board committees to reflect the additional time involved and responsibilities of these positions.

The total pool of fees able to be paid to directors is subject to shareholder approval and currently stands at $851,250, with that amount being divided amongst the directors as they consider appropriate. As outlined in the 2015 Notice of Meeting and following an evaluation of the relevant market data, a request will be put to shareholders to increase directors' fees at the 2015 Annual Shareholders' Meeting. Mighty River Power meets directors' reasonable travel and other costs associated with Mighty River Power business. The following people held office as directors during the year to 30 June 2015 and received the following remuneration during the period:

| Director | Total Fees Paid |
|---|---:|
| Joan Withers (Chair) | $150,000 |
| Mike Allen | $92,333 |
| Prue Flacks | $96,333 |
| Andy Lark | $90,132 |
| James Miller | $99,000 |
| Tania Simpson | $105,000 |
| Keith Smith | $111,000 |
| Patrick Strange | $95,000 |
| Total | $838,798 |

## Overall Remuneration Philosophy

Mighty River Power's remuneration approach aims to attract, retain and motivate high calibre employees at all levels of the organisation, in turn driving performance, a strong customer focus and growth in sustainable shareholder value. Underpinned by a Company-wide philosophy of paying for performance, this strategy supports and promotes strategic business objectives, behaviours and values, and is based on a practical set of guiding principles (see page 58 in Corporate Governance) that provide for consistency, fairness and transparency.

## Executive Remuneration

Mighty River Power's total remuneration policy for the Executive Management Team provides the opportunity for them to be paid, where performance merits, in the upper quartile for equivalent market-matched roles. In determining an executive's total remuneration, external benchmarking is undertaken to ensure comparability and competitiveness, along with consideration of an individual's performance, skills, expertise and experience.

The Mighty River Power Human Resources Committee reviews and approves annual performance appraisal outcomes for all members of the Executive Management Team reporting to the Chief Executive and utilises market information and trends when considering and confirming remuneration arrangements. The external benchmarking is conducted independently and provides comparable company data to assist the Human Resources Committee in approving appropriate levels of remuneration for these executives.

The annual remuneration review process requires "one over one" approval. That means the approval of the Board is required for any changes to the Chief Executive's remuneration, as recommended by the Human Resources Committee. Further, recommendations from the Chief Executive in relation to remuneration of the Executive Management Team require Human Resources Committee approval.

Total remuneration is made up of three components: fixed remuneration, short-term performance incentives and long-term performance incentives. Short and long-term performance incentives are deemed 'at-risk'. This is because the outcome is determined by performance against a combination of financial and non-financial factors.

### *Fixed Remuneration*

Fixed remuneration consists of base salary and benefits. Mighty River Power's policy is to pay fixed remuneration with reference to the fixed pay market median.

### *Short Term Performance Incentives*

Short term performance incentives (STIs) are at-risk payments designed to motivate and reward for performance typically in that financial year. The value of a STI payment if achieved is typically set at 25-35% of an executive's base salary. Payment is made based on achievement of annual performance metrics which aim to align executives to a shared set of KPIs based on business priorities for the next 12 months. The annual performance metrics also set stretch targets focused on the key levers management have available to them to effect change.

The shared KPIs cover the areas of health and safety, finance, operational excellence, growth, reputation and people with respective weightings applied across areas as outlined below in FY2015.

| Target Area | Weighting |
|---|---:|
| Financial: Delivery against key financial targets | 35% |
| Operational Excellence: Delivery against business plan including key metrics on customer experience, and growth | 30% |
| Reputation: relationship management and growth of Company reputation | 15% |
| People: health and safety, leadership, and engagement | 20% |

The STI remuneration targets are expressed as a percentage of base salary and are set and evaluated annually. Between 50%-80% of an executive's STI payment is based on these shared KPIs, with the remainder focused on specific business unit or individual measures, which are set annually by the Chief Executive.

For the FY2016 performance year, following a review of the scorecard framework, changes have been implemented to achieve a simpler framework and stronger alignment between performance and reward. A hurdle has been introduced providing the entry level to achieve any incentive payment for an executive. The four key performance levers are EBITDAF (30%), Customer Satisfaction (30%), Safety (20%) and Employee Engagement (20%), with each lever having a clearly articulated achievement level for threshold, on-target and stretch. The stretch measures allow an executive to be rewarded for exceptional performance. The financial stretch opportunity is specifically focused on delivering significant sustainable new growth. The total STI reward is capped at 178% of the STI value for an individual.

### *Long Term Performance Incentives*

As reported in the 2014 annual report, a Long Term Incentive (LTI) plan commenced on 1 July 2013 for the Executive Management Team members reporting to the Chief Executive. The plan's performance targets incentivise the enhancement of long-term shareholder value and are currently measured against multi-year targets over a two and three year period based on the Company's total shareholder return (TSR) relative to the performance of the NZX 50.

Starting from 1 July 2014, Mighty River Power commenced a process of allocating annual LTI grants. The values of annual grants are disclosed at the commencement of each grant but typically equate to an amount based on 20-30% of an executive's base salary. Performance is measured over a three year period for each grant. Beginning with the 1 July 2015 grant, additional performance hurdles have been implemented to ensure a better long-term performance comparison for members of the Executive Management Team. This has been made possible given the greater number of industry peers joining the NZX 50 in recent years.

The performance hurdles now stipulate:

- 50% of the LTI entitlement is based on Mighty River Power's TSR measured relative to the NZX 50, however subject to a gate in relation to this portion of the award only, that Mighty River Power's TSR over the performance period must be at least positive; and
- 50% of the LTI entitlement will be determined by comparing Mighty River Power's TSR performance to that of an electricity industry peer group.

A payment is made only when the targets are achieved. In the event performance hurdles are not met, no benefit will be received. The Board, however, may apply its discretion over the final outcome owing to the difficulty in predicting all circumstances that may impact over a three year period.

## Chief Executive Remuneration

As noted in the 2014 annual report, Fraser Whineray commenced as the Company's Chief Executive on 1 September 2014, taking over from Doug Heffernan who completed his tenure with the Company on 31 August 2014. Mr Whineray assumed a CEO designate position 1 July 2014 and his CEO salary package commenced from that date.

As a result of that change, the Chief Executive remuneration detail provided below primarily relates to payments made to Fraser Whineray. Details of payments made to Doug Heffernan are outlined separately thereafter.

The Chief Executive's total remuneration in the 2015 financial year was $1,087,932, the key components of which are outlined below. In considering the Chief Executive's remuneration, directors receive regular independent advice to ensure the remuneration package is both appropriately constructed and at the appropriate level, taking into account the size, scope and complexity of the Chief Executive's role and the calibre and experience of the incumbent.

### *Base Salary*

The Chief Executive's base salary for 2015 was $850,000.

### *Fixed Remuneration*

The Chief Executive's fixed remuneration (comprised of base salary and benefits) for the 2015 financial year was $866,657.

### *Short Term Performance Incentive*

A STI payment of $190,000 was made to the Chief Executive in September 2014 for performance in FY2014. This payment pertained to Mr Whineray's previous role as General Manager Operations.

### *Long Term Performance Incentive*

Mr Whineray's current LTI plan commenced on 1 July 2013 while in the role of General Manager Operations and spans a two and three year measurement period ending on 30 June 2016. A performance assessment has recently been undertaken for the two year period 1 July 2013 to 30 June 2015. This resulted in Mr Whineray having 75,040 shares transferred to him, this being the equivalent of a gross payment of $280,000. This was paid in the FY2016 year and will be included in the remuneration section of the annual report next year. A final assessment will be undertaken in 2016 upon termination of the current plan. Upon taking up the Chief Executive role, Mr Whineray was offered continued participation in the Executive Long Term Incentive plan with a potential annual cash value of up to $200,000. The first annual grant to Mr Whineray, as incoming Chief Executive, was made on 1 July 2014 with the first assessment to be undertaken on 30 June 2017. As outlined above, measurement is against multi-year targets which are based on the Company's TSR relative to the performance of the NZX 50 and industry peers. No LTI plan payments were made to Mr Whineray in FY2015.

## KiwiSaver

The Chief Executive is a member of KiwiSaver. As a member of this scheme, the Chief Executive is eligible to contribute and receive a matching Company contribution of 3% of gross taxable earnings (including short and long term incentives). For FY2015 the Company's contribution was $31,276.

## FY2016 Chief Executive Remuneration

The Board have recently confirmed an adjustment to the Chief Executive's remuneration for the FY2016 Company year. This includes an increase in base salary to $935,000, a target short-term incentive amount of $327,250 (35% of base salary), and a target long-term incentive amount of $233,750 (25% of base salary).

## Chief Financial Officer Remuneration

In the interests of providing greater transparency of executive remuneration, the Board has this year elected to provide details regarding total remuneration paid to the Chief Financial Officer.

In FY2015, the Chief Financial Officer received remuneration totalling $709,932. This amount included a $200,000 STI payment with the remaining $509,932 being a combination of fixed remuneration and benefits (including a 3% superannuation allowance paid in lieu of KiwiSaver).

## Former Chief Executive Remuneration

As outlined above, former Chief Executive Doug Heffernan also received remuneration during FY2015 which totalled $1,985,791. This payment included a STI payment for the 14 month period 1 July 2013 to 31 August 2014 (totalling $807,115) and a LTI payment for the 38-month period 1 July 2011 to 31 August 2014 (totalling $756,731). The remaining remuneration ($421,945) was a combination of fixed remuneration, accrued annual leave, KiwiSaver and benefits.

## Employee Remuneration

The Group paid remuneration in excess of $100,000 including benefits to 352 employees (not including directors) during FY2015 in the following bands:

| Remuneration Band | Currently employed | No longer employed | Total |
|---|---|---|---|
| $100,001 - $110,000 | 57 | 3 | 60 |
| $110,001 - $120,000 | 53 | 1 | 54 |
| $120,001 - $130,000 | 48 | 4 | 52 |
| $130,001 - $140,000 | 46 | 2 | 48 |
| $140,001 - $150,000 | 22 | 4 | 26 |
| $150,001 - $160,000 | 22 | | 22 |
| $160,001 - $170,000 | 14 | 2 | 16 |
| $170,001 - $180,000 | 13 | 1 | 14 |
| $180,001 - $190,000 | 6 | 1 | 7 |
| $190,001 - $200,000 | 6 | 2 | 8 |
| $200,001 - $210,000 | 5 | | 5 |
| $210,001 - $220,000 | 5 | | 5 |
| $220,001 - $230,000 | 6 | | 6 |
| $230,001 - $240,000 | 4 | | 4 |
| $240,001 - $250,000 | 3 | | 3 |
| $250,001 - $260,000 | 2 | | 2 |
| $260,001 - $270,000 | 1 | | 1 |
| $270,001 - $280,000 | 1 | | 1 |
| $290,001 - $300,000 | 3 | | 3 |
| $300,001 - $310,000 | 2 | | 2 |
| $310,001 - $320,000 | 1 | | 1 |
| $340,001 - $350,000 | 1 | | 1 |
| $350,001 - $360,000 | 1 | | 1 |
| $370,001 - $380,000 | 2 | | 2 |
| $400,001 - $410,000 | 1 | | 1 |
| $430,001 - $440,000 | 1 | | 1 |
| $540,001 - $550,000 | 1 | | 1 |
| $580,001 - $590,000 | 1 | | 1 |
| $700,001 - $710,000 | 1 | | 1 |
| $850,001 - $860,000 | | 1 | 1 |
| $1,080,001 - $1,090,000 | 1 | | 1 |
| $1,980,001 - $1,990,000 | | 1 | 1 |
| | **330** | **22** | **352** |

NB: The salary bands above include 11 employees who received redundancy payments in FY2015

# Directors' Disclosures

## Interests Register

### *Disclosure of Directors' Interests*

Section 140(1) of the New Zealand Companies Act 1993 requires a director of a company to disclose certain interests. Under subsection (2) a director can make disclosure by giving a general notice in writing to the company of a position held by a director in another named company or entity. The following are particulars included in the Company's Interests Register as at 30 June 2015:

| Director | Position | Company |
|---|---|---|
| Joan Withers | Television New Zealand Limited[3] | Chair |
| | The Treasury Advisory Board | Director |
| | ANZ Bank New Zealand Limited | Director |
| | Sweet Louise Foundation | Trustee |
| | The Tindall Foundation | Trustee |
| | Pure Advantage | Trustee |
| Mike Allen | Geothermal New Zealand Inc | Executive Director |
| | ReEx Capital Asia Private Limited (Singapore) | Chair/Shareholder |
| | Mid Century Design Limited | Director/ Shareholder |
| | Appointed Special Envoy for Renewable Energy by Ministry of Foreign Affairs and Trade | Officer |
| Prue Flacks | Bank of New Zealand Limited | Director |
| | BBull Family Trust Limited | Director |
| | Planboe Limited | Director |
| | Chorus Limited | Director |
| | Holds Capital Bonds worth $40,000 issued by Mighty River Power on 21 July 2014 | |
| James Miller | NZX Limited[3] | Chair |
| | ACC | Director |
| | New Zealand Clearing and Depository Corporation Limited | Director |
| | Auckland International Airport Limited | Director/Shareholder |
| | St Cuthbert's College Trust Board | Trustee |
| | Financial Markets Authority[2] | Member |
| Tania Simpson – (retired 30 June 2015) | AgResearch Ltd | Director |
| | Kowhai Consulting Limited | Director/Shareholder |
| | Oceania Group Limited | Director/Shareholder |
| | Reserve Bank | Director |
| | Kowhai Trust | Trustee |
| | Tui Trust | Trustee |
| | Te Reo Irirangi o Maniapoto Trust | Trustee |
| | Waitangi Tribunal | Member |
| | King's Council | Member |
| Keith Smith | Healthcare Holdings Ltd & subsidiaries and associates | Chair |
| | Enterprise Motor Group Ltd & subsidiaries | Chair |
| | Mobile Surgical Services Limited and subsidiaries | Chair |
| | Goodman (NZ) Limited and subsidiaries | Chair |
| | The Warehouse Group Limited & subsidiaries | Deputy Chair |
| | H J Asmuss & Co Limited | Chair |
| | Community Financial Services Limited | Director |
| | Electronic Navigation Limited & subsidiaries | Director |
| | K One W One Limited & subsidiaries | Director |
| | Sheppard Industries Ltd | Director |
| | Westland Dairy Cooperative Ltd | Director |
| | Harpers Gold Limited & subsidiaries | Director/Shareholder |
| | James Raymond Holdings Limited (private family investment company) | Director/Shareholder |
| | Gwendoline Holdings Limited (private family investment company) | Director/Shareholder |
| | Cornwall Park Trust Board | Trustee |
| | Sir John Logan Campbell Residuary Estate | Trustee |
| | The Selwyn Trust | Trustee |
| | Advisory board of The New Zealand Tax Trading Company | Member |

| Director | Position | Company |
|---|---|---|
| Patrick Strange | Waitahoata Farms Limited | Director |
| | Ausgrid Endeavour Energy & Essential Energy, NSW | Director |
| | WorkSafe New Zealand | Director |
| | Chorus Limited[1] | Director |
| | NZX Limited[1] | Director |
| | Holds 8,600 seven year Fixed Rate Bonds issued by Mighty River Power on 5 April 2011 | |
| Andy Lark (appointed 10 July 2014) | No 8 Ventures Management Limited[1] | Director |
| | SLI Systems Limited[1] | Director |
| | Fronde[1] | Director |
| | Group Lark[1,3] | Chair |
| | Commonwealth Bank[1,2] | Chief Marketing & Online Officer |
| | Xero[1] | Chief Marketing Officer |
| | Simple[1,3] | Director and Interim Chair |
| | Marketshare[1] | Advisory Board Member |

1 Entries added by notices given by directors during the year ended 30 June 2015

2 Entries removed by notices given by directors during the year ended 30 June 2015

3 Entries amended (eg, through change from director to Chair) by notices given by directors during the year ended 30 June 2015

### *Directors' and Officers' Indemnities*

Indemnities have been given to and insurance has been effected for, directors and senior managers of the Group to cover acts or omissions of those persons in carrying out their duties and responsibilities as directors and senior managers.

### *Disclosure of Directors' Interests in Company Securities*

Directors disclosed, pursuant to section 148 of the New Zealand Companies Act 1993, the following acquisitions and disposals of relevant interests in Shares during the period to 30 June 2015:

| Name of director | Date of acquisition/ disposal of relevant interest | Nature of relevant interest | Consideration | Shares in which a relevant interest was acquired/(disposed) |
|---|---|---|---|---|
| Keith Smith | 28 August 2014 | On market purchase of shares by the trustees of The Pine Trust No 2 of which Keith Smith is an independent trustee | $25,305 | 10,500 |
| | 21 May 2015 | Acquisition of a legal and beneficial interest in Loyalty Bonus Shares to which Keith Smith was entitled under the Company's initial public offering | Nil[1] | 160 |
| | 21 May 2015 | Acquisition of a legal and beneficial interest in Loyalty Bonus Shares to which Keith Smith was entitled under the Company's initial public, as a trustee of the Selwyn Trust | | 80 |
| | 21 May 2015 | Acquisition of a beneficial interest in Loyalty Bonus Shares to which James Raymond Holdings Limited was entitled under the Company's initial public offering. Keith Smith is a director and shareholder of James Raymond Holdings Limited | | 128 |
| | 21 May 2015 | Acquisition of a beneficial interest in Loyalty Bonus Shares to which Gwendoline Holdings Limited was entitled under the Company's initial public offering. Keith Smith is a director and shareholder of Gwendoline Holdings Limited | | 200 |
| Joan Withers | 21 May 2015 | Acquisition of a legal and beneficial interest in Loyalty Bonus Shares to which Joan Withers was entitled under the Company's initial public offering | Nil[1] | 200 |
| James Miller | 21 May 2015 | Acquisition of a legal and beneficial interest in Loyalty Bonus Shares to which James Miller was jointly entitled under the Company's initial public offering | Nil[1] | 320 |
| Tania Simpson | 21 May 2015 | Acquisition of a legal and beneficial interest in Loyalty Bonus Shares to which Tania Simpson was jointly entitled under the Company's initial public offering as trustee of the Simpson – Te Ruki Whanau Trust | Nil[1] | 80 |
| Mike Allen | 21 May 2015 | Acquisition of a legal and beneficial interest in Loyalty Bonus Shares to which Mike Allen was entitled under the Company's initial public offering | Nil[1] | 80 |
| Patrick Strange | 21 May 2015 | Acquisition of a legal and beneficial interest in Loyalty Bonus Shares to which Patrick Strange was entitled under the Company's initial public offering | Nil[1] | 160 |

| Name of director | Date of acquisition/ disposal of relevant interest | Nature of relevant interest | Consideration | Shares in which a relevant interest was acquired/(disposed) |
|---|---|---|---|---|
| Prue Flacks | 21 May 2015 | Acquisition of a legal and beneficial interest in Loyalty Bonus Shares to which Prue Flacks was entitled under the Company's initial public offering | Nil[1] | 200 |
| | 21 May 2015 | Acquisition of a legal and beneficial interest in Loyalty Bonus Shares to which Prue Flacks was entitled under the Company's initial public offering, as trustee of the estate of Brian Henry Bull | | 200 |
| | 21 May 2015 | Acquisition of a legal and beneficial interest in Loyalty Bonus Shares to which Prue Flacks was entitled under the Company's initial public offering, acting on behalf of Bbull Family Trust Limited as trustee of Brian Bull Family Trust | | 102 |
| | 21 May 2015 | Acquisition of a legal interest in Loyalty Bonus Shares to which Helen Jean Macpherson Bull was entitled under the Company's initial public offering, as holder of power to dispose of  or control the disposal of or control the right to vote those shares | | 112 |

1 Loyalty Bonus Shares acquired on a ratio of one Loyalty Bonus Share for every 25 shares allocated under the initial public offering, subject to the satisfaction of certain conditions

In respect of the Company's capital bonds, Prue Flacks is the registered holder and beneficial owner of 40,000 capital bonds acquired on 11 July 2014 at an issue price of $1 per capital bond.

### *Disclosure of Directors' Interests in Shares*

Directors disclosed the following relevant interests in the Shares as at 30 June 2015:

| Director | Number of Shares in which a relevant interest is held |
|---|---|
| Joan Withers | 39,900 |
| Dr Mike Allen | 2,080 |
| Prue Flacks | 23,474 |
| James Miller | 40,200 |
| Tania Simpson | 2,080 |
| Keith Smith | 27,868 |
| Patrick Strange | 4,160 |
| Andy Lark | 0 |

# Shareholder Information

## Twenty largest registered shareholders as at 31 August 2015

| Name | Number of shares | % of shares |
|---|---|---|
| Her Majesty The Queen In Right Of New Zealand | 716,141,048 | 51.15 |
| New Zealand Central Securities Depository Limited | 271,804,033 | 19.41 |
| Mighty River Power Limited | 22,942,508 | 1.63 |
| Custodial Services Limited | 9,539,636 | 0.68 |
| FNZ Custodians Limited | 9,185,707 | 0.65 |
| National Nominees Limited | 5,914,692 | 0.42 |
| Forsyth Barr Custodians Limited | 5,248,958 | 0.37 |
| Investment Custodial Services Limited | 5,066,619 | 0.36 |
| HSBC Custody Nominees (Australia) Limited | 5,003,581 | 0.35 |
| Citicorp Nominees Pty Limited | 4,851,181 | 0.34 |
| Custodial Services Limited | 3,871,131 | 0.27 |
| RBC Investor Services Australia Nominees Pty Limited | 3,437,104 | 0.24 |
| New Zealand Depository Nominee Limited | 3,359,696 | 0.23 |
| Forsyth Barr Custodians Limited | 2,711,081 | 0.19 |
| Custodial Services Limited | 2,549,202 | 0.18 |
| Custodial Services Limited | 2,481,096 | 0.17 |
| Custodial Services Limited | 2,104,524 | 0.15 |
| JP Morgan Nominees Australia Limited | 1,855,127 | 0.13 |
| Richard Wallace Shapero | 1,690,000 | 0.12 |
| Jbwere (NZ) Nominees Limited | 1,629,440 | 0.11 |
| Total | 1,081,386,364 | 77.15 |

New Zealand Central Securities Depository Limited (NZCSD) provides a custodian depository service that allows electronic trading of securities to its members and does not have a beneficial interest in these shares. As at 31 August 2015, the 10 largest shareholdings in the Company held through NZCSD were:

| Shareholder | Number of shares | % of NZCSD Holding |
|---|---|---|
| HSBC Nominees (New Zealand) Limited A/C State Street | 59,025,298 | 21.72 |
| National Nominees New Zealand Limited | 44,498,654 | 16.37 |
| Citibank Nominees (New Zealand) Limited | 40,144,758 | 14.77 |
| HSBC Nominees (New Zealand) Limited | 30,472,291 | 11.21 |
| JPMorgan Chase Bank NA NZ Branch-Segregated Clients Acct | 25,678,859 | 9.45 |
| Accident Compensation Corporation | 24,706,269 | 9.09 |
| New Zealand Superannuation Fund Nominees Limited | 18,222,070 | 6.70 |
| BNP Paribas Nominees (NZ) Limited | 7,904,261 | 2.91 |
| Tea Custodians Limited Client Property Trust Account | 6,401,884 | 2.36 |
| New Zealand Permanent Trustees Limited | 3,640,000 | 1.34 |

## Substantial product holders of the Company as at 30 June 2015[1]

| | Class of Securities | Number of Securities in Substantial Holding | Total Number of Securities in Class |
|---|---|---|---|
| HER MAJESTY THE QUEEN IN RIGHT OF NEW ZEALAND | Ordinary Shares | 742,814,900[2] | 1,400,012,517 |

1 On 6 July 2015, Her Majesty the Queen in right of New Zealand disclosed a change in substantial product holding to 734,825,337 ordinary shares. There have been no other changes before the date of this report.

2 This comprises (a) 724,615,722 shares held by the Crown on its own account; (b) 17,871,178 shares forming part of the New Zealand Superannuation Fund in which the Crown has a beneficial interest; (c) 68,000 shares held by Public Trust on trust for the Crown and certain iwi; (d) 240,000 shares held by the trustees of the Rangitane O Wairau Settlement Trust in which the Crown has a relevant interest; and (e) 20,000 shares held by the trustees of the Ngai Te Rangi Settlement Trust in which the Crown has a relevant interest.

### Distribution of shareholders and holdings as at 31 August 2015

| Size of holding | Number of shareholders | % | Number of Shares | Holding Quantity % |
|---|---|---|---|---|
| 1 to 1,000 | 33,952 | 35.13 | 24,006,700 | 1.71 |
| 1,001 to 5,000 | 49,656 | 51.38 | 116,418,804 | 8.32 |
| 5,001 to 10,000 | 8,481 | 8.78 | 62,034,001 | 4.43 |
| 10,001 to 100,000 | 4,419 | 4.57 | 88,196,038 | 6.30 |
| 100,001 and over | 132 | 0.14 | 1,109,356,974 | 79.24 |
| Total | 96,640 | 100.00 | 1,400,012,517 | 100.00 |

As at 31 August 2015, there were 115 shareholders (with a total of 13,419 shares) holding less than a marketable parcel of shares under ASX listing Rules. The ASX Listing Rules define a marketable parcel of shares as a parcel of shares of not less than A$500.

### Distribution of bondholders and holdings as at 31 August 2015

| Size of holding | Number of Capital Bondholders | % | Number of Capital Bonds | Holding Quantity % |
|---|---|---|---|---|
| 1 to 1,000 | 0 | 0 | 0 | 0 |
| 1,001 to 5,000 | 390 | 8.81 | 1,950,000 | 0.65 |
| 5,001 to 10,000 | 893 | 20.17 | 8,545,000 | 2.85 |
| 10,001 to 100,000 | 2,893 | 65.35 | 107,111,000 | 35.7 |
| 100,001 and Over | 251 | 5.67 | 182,394,000 | 60.8 |
| Total | 4,427 | 100.00 | 300,000,000 | 100.00 |

# Company Disclosures

## Stock Exchange Listings

Mighty River Power is listed on both the New Zealand and Australian stock exchanges.

In New Zealand, the Company is listed with a "non-standard" (NS) designation. This is due to particular provisions of the Constitution, including the requirements regulating ownership and transfer of Ordinary Shares.

## Mighty River Power Limited

The following persons held office as directors of Mighty River Power Limited as at the end of the 2014/2015 financial year, being 30 June 2015: Joan Withers, Mike Allen, Prue Flacks, James Miller, Tania Simpson, Keith Smith, Patrick Strange and Andy Lark. Tania Simpson resigned with effect from end of 30 June 2015.

## Subsidiary Companies

The following persons held office as directors of subsidiaries of Mighty River Power Limited during FY2015:

| Company Name | Directors |
|---|---|
| Bosco Connect Limited | Fraser Whineray<br>William Meek<br>Tony Nagel |
| ECNZ International Limited | Fraser Whineray<br>William Meek<br>Tony Nagel |
| Glo-Bug Limited | James Munro<br>Glenn Rockell |
| Kawerau Geothermal Limited | Fraser Whineray<br>William Meek<br>Tony Nagel |
| Mercury Energy Limited | Fraser Whineray<br>William Meek<br>Tony Nagel |
| Metrix Limited | Fraser Whineray<br>William Meek<br>Tony Nagel |
| Mighty Geothermal Power International Limited | Fraser Whineray<br>William Meek<br>Tony Nagel |
| Mighty Geothermal Power Limited | Fraser Whineray<br>William Meek<br>Tony Nagel |
| Mighty River Power ESPP Limited | William Meek<br>Tony Nagel<br>Marlene Strawson |
| Mighty River Power Geothermal Limited | Fraser Whineray<br>William Meek<br>Tony Nagel |
| Mighty River Power LTI Limited | Prue Flacks<br>Glenn Rockell<br>Tania Simpson |
| Ngatamariki Geothermal Limited | Fraser Whineray<br>William Meek<br>Tony Nagel |
| Rotokawa Generation Limited | William Meek<br>Tony Nagel<br>Paul Ware |
| Rotokawa Geothermal Limited | Fraser Whineray<br>William Meek<br>Tony Nagel |
| Rotokawa Joint Venture Limited (50%) | Aroha Campbell<br>Kevin Mcloughlin<br>William Meek<br>Paul Ware<br>Tony Nagel – alternate<br>Mark Thompson – alternate |
| Special General Partner Limited | Fraser Whineray<br>William Meek<br>Tony Nagel |
| Ngatamariki MRP Limited[1] | Fraser Whineray<br>William Meek<br>Tony Nagel |
| Rotokawa MRP Limited[1] | Fraser Whineray<br>William Meek<br>Tony Nagel |
| MRP FinCo-Chile Limited | Samuel Moore<br>Carol Brougham |
| MRP FinCo-Peru Limited | Samuel Moore<br>Carol Brougham |
| MRP Holdings-Chile Limited | Samuel Moore<br>John Carbone<br>Nikolai de Giorgio |
| MRP Holdings-Peru Limited | Samuel Moore<br>Carol Brougham |
| MRP NRI-Chile Holdings Limited | Samuel Moore<br>John Carbone<br>Nikolai de Giorgio |
| MRP NRI-Peru Holdings Limited | Samuel Moore<br>John Carbone<br>Nikolai de Giorgio |
| PT ECNZ Services Indonesia | Agung Aryo Baskoro<br>Ejoko Birmo Soegih Arto |
| MRP NRI-Germany Holdings Limited[2] | Samuel Moore<br>John Carbone<br>Nikolai de Giorgio |
| MRP Holdings-Germany Limited[2] | Samuel Moore<br>Carol Brougham |
| MRP FinCo-Germany Limited[2] | Samuel Moore<br>Carol Brougham |

1 Incorporated on 26 June 2015

2 Effective control gained on 22 September 2014

# Other disclosures

## Waivers from the New Zealand and Australian Stock Exchanges

### *ASX*

ASX has granted certain waivers and confirmations in respect of the ASX Listing Rules to allow the Constitution to contain provisions reflecting the ownership restrictions imposed by the Public Finance Act and to allow the Crown to cancel the sale of Shares to Applicants who acquire Shares under the General Offer and are not New Zealand Applicants.

The key waivers and confirmations granted include:

- ASX Listing Rules 6.8, 6.9, 6.10.5, 6.12.3, 8.10 and 8.11: waivers and confirmations to permit the Constitution to contain provisions allowing the Crown and the Company to enforce the 10% limit;
- ASX Listing Rules 6.12 and 8.10: waivers and confirmations to permit the Constitution to contain provisions enabling the Company to prevent Shareholders who acquired Shares under the General Offer and are not New Zealand Applicants from transferring those Shares and to enable the Company to sell those Shares.

ASX has also granted waivers and confirmations from the ASX Listing Rules which are customary for a New Zealand company listed with both the NZX Main Board and the ASX.

## Information about Mighty River Power Ordinary Shares

This statement sets out information about the rights, privileges, conditions and limitations, including restrictions on transfer, that attach to Shares in the Company.

### *Rights and privileges*

Under the Constitution and the Companies Act 1993 ("Companies Act"), each Share gives the holder a right to:

- attend and vote at a meeting of shareholders, including the right to cast one vote per Share on a poll on any resolution, such as a resolution to:
  - appoint or remove a director;
  - adopt, revoke or alter the Constitution;
  - approve a major transaction (as that term is defined in the Companies Act);
  - approve the amalgamation of the Company under section 221 of the Companies Act; or
  - place the Company in liquidation;
- receive an equal share in any distribution, including dividends, if any, authorised by the board and declared and paid by the Company in respect of that Share;
- receive an equal share with other shareholders in the distribution of surplus assets in any liquidation of the Company;
- be sent certain information, including notices of meeting and Company reports sent to shareholders generally; and
- exercise the other rights conferred upon a shareholder by the Companies Act and the Constitution.

### *Restrictions on ownership and transfer*

The Public Finance Act 1989 ("Public Finance Act") includes restrictions on the ownership of certain types of securities issued by the Company and consequences for breaching those restrictions. The Constitution incorporates these restrictions and mechanisms for monitoring and enforcing them.

A summary of the restrictions on the ownership of Shares under the Public Finance Act and the Constitution is set out below. If the Company issues any other class of shares, or other securities which confer voting rights, in the future, the restrictions summarised below would also apply to those other classes of shares or voting securities.

### *51% Holding*

The Crown must hold at least 51% of the Shares on issue.

The Company must not issue, acquire or redeem any Shares if such issue, acquisition or redemption would result in the Crown falling below this 51% holding.

### *10% Limit*

No person (other than the Crown) may have a 'relevant interest'[1] in more than 10% of the Shares on issue ("10% Limit").

The Company must not issue, acquire or redeem any Shares if it has actual knowledge that such issue, acquisition or redemption will result in any person other than the Crown exceeding the 10% Limit.

### *Ascertaining whether a breach has occurred*

If a holder of Shares breaches the 10% Limit or knows or believes that a person who has a relevant interest in Shares held by that holder may have a relevant interest in Shares in breach of the 10% Limit, the holder must notify the Company of the breach or potential breach.

The Company may require a holder of Shares to provide it with a statutory declaration if the board knows or believes that a person is, or is likely to be, in breach of the 10% Limit. That statutory declaration is required to include, where applicable, details of all persons who have a relevant interest in any Shares held by that holder.

### *Determining whether a breach has occurred*

The Company has the power to determine whether a breach of the 10% Limit has occurred and, if so, to enforce the 10% Limit. In broad terms, if:

- the Company considers that a person may be in breach of the 10% Limit; or
- a holder of Shares fails to lodge a statutory declaration when required to do so or lodges a declaration that has not been completed to the reasonable satisfaction of the Company,

then the Company is required to determine whether or not the 10% Limit has been breached and, if so, whether or not that breach was inadvertent. The Company must give the affected shareholder the opportunity to make representations to the Company before it makes a determination on these matters.

### *Effect of exceeding the 10% Limit*

A person who is in breach of the 10% Limit must:

- comply with any notice that they receive from the Company requiring them to dispose of Shares or their relevant interest in Shares, or take any other steps that are specified in the notice, for the purpose of remedying the breach; and
- ensure that they are no longer in breach within 60 days after the date on which they became aware, or ought to have been aware, of the breach. If the breach is not remedied within that timeframe, the Company may arrange for the sale of the relevant number of Shares on behalf of the relevant holder. In those circumstances, the Company will pay the net proceeds of sale, after the deduction of any other costs incurred by the Company in connection with the sale (including brokerage and the costs of investigating the breach of the 10% Limit), to the relevant holder as soon as practicable after the sale has been completed.

If a relevant interest is held in any Shares in breach of the 10% Limit then, for so long as that breach continues:

- no votes may be cast in respect of any of the Shares in which a relevant interest is held in excess of the 10% Limit; and
- the registered holder(s) of Shares in which a relevant interest is held in breach of the 10% Limit will not be entitled to receive, in respect of the Shares in which a relevant interest is held in excess of the 10% Limit, any dividend or other distribution authorised by the board in respect of the Shares.

However, if the board determines that a breach of the 10% Limit was not inadvertent, or that it does not have sufficient information to determine that the breach was not inadvertent, the registered holder may not exercise the votes attached to, and will not be entitled to receive any dividends or other distributions in respect of, any of its Shares (and not just the Shares in which a relevant interest is held in excess of the 10% Limit).

An exercise of a voting right attached to a Share held in breach of the 10% Limit must be disregarded in counting the votes concerned. However, a resolution passed at a meeting is not invalid where votes exercised in breach of the voting restriction were counted by the Company in good faith and without knowledge of the breach.

The board may refuse to register a transfer of Shares if it knows or believes that the transfer will result in a breach of the 10% Limit or where the transferee has failed to lodge a statutory declaration requested from it by the board within the prescribed timeframe.

### *Crown directions*

The Crown has the power to direct the board to exercise certain of the powers conferred on it under the Constitution (for example, where the Crown suspects that the 10% Limit has been breached but the board has not taken steps to investigate the suspected breach).

### *Trustee corporations and nominee companies*

Trustee corporations and nominee companies (that hold securities on behalf of a large number of separate underlying beneficial holders) are exempt from the 10% Limit provided that certain conditions are satisfied.

### *Share Cancellation*

In certain circumstances, Shares could be cancelled by the Company through a reduction of capital, share buy back or other form of capital reconstruction approved by the board and, where applicable, the shareholders.

### *Sale of less than a Minimum Holding*

The Company may at any time give notice to a shareholder holding less than a Minimum Holding of Shares (as that term is defined in the NZSX Listing Rules) that if, at the expiration of 3 months after the date the notice is given, Shares then registered in the name of the holder are less than a Minimum Holding the Company may sell those Shares through the NZX Main Board or in some other manner approved by NZX Limited, and the holder is deemed to have authorised the Company to act on behalf of the holder and to sign all necessary documents relating to the sale.

For the purposes of the sale and of Rule 5.12 of the ASX Settlement Operating Rules, where the Company has given a notice that complies with Rule 5.12.2 of the ASX Settlement Operating Rules, the Company may, after the expiration of the time specified in the notice, initiate a Holding Adjustment to move the relevant Shares from that CHESS Holding to an Issuer Sponsored Holding (as those terms are defined in the ASX Settlement Operating Rules) or to take any other action the Company considers necessary or desirable to effect the sale.

The proceeds of the sale of any Shares sold for being less than a Minimum Holding will be applied as follows:

- first, in payment of any reasonable sale expenses.
- second, in satisfaction of any unpaid calls or any other amounts owing to the Company in respect of the Shares.
- the residue, if any, must be paid to the person who was the holder immediately before the sale or his or her executors, administrators or assigns.

### *Cancellation of sale of Shares*

The Crown may cancel the sale of Shares to an applicant under the offer of Shares by the Crown (the Offer) in the Mighty River Power Share Offer Investment Statement and Prospectus issued in April if the applicant misrepresented its entitlement to be allocated Shares under the Offer as a 'New Zealand Applicant' (as that term is defined in the Share Offer Investment Statement and Prospectus). If the Crown cancels a sale of Shares on those grounds:

- the Company must sell Shares held by that applicant, up to the number of Shares sold to it under the Offer, irrespective of whether or not those Shares were acquired by the applicant under the Offer (unless the applicant had previously sold, transferred or disposed of all of its Shares to a person who was not an associated person of the applicant); and
- the applicant will receive from the sale the lesser of:
  - the sale price for the Shares less the costs incurred by the Crown and the Company; and
  - the aggregate price paid for the Shares less those costs,

  with any excess amount being payable to the Crown.

If an applicant who misrepresented their entitlement to Shares has sold, transferred or otherwise disposed of Shares to an associated person, then the power of sale will extend to Shares held by that associated person, up to the number of Shares transferred, sold or otherwise disposed of to the associated person by the relevant applicant.

## Donations

Donations of $70,434 were made by the Group during the year ended 30 June 2015 ($18,350 during the year ended 30 June 2014).

## Other Disclosures

Mighty River Power is incorporated in New Zealand and is not subject to Chapters 6, 6A, 6B and 6C of the Corporations Act 2001 (Australia). Mighty River Power will not acquire any classified assets in circumstances in which the ASX Listing Rules would require the issue of restricted securities, without the written consent of ASX.

The Board declared a fully imputed final dividend of 8.4 cents per share and a fully imputed special dividend of 2.5 cents per share to be paid on 30 September 2015 to all shareholders who are on the Company's share register at 5.00pm on the record date of 14 September 2015. The dividends will be imputed at a corporate tax rate of 28% which amounts to an imputation credit of 3.27 cents per share for the final dividend and 0.97 cents per share relating to the special dividend. The Company will also pay a supplementary dividend of 1.48 cents per share relating to the final dividend and 0.44 cents per share relating to the special dividend to non-resident shareholders. The Company will receive from the New Zealand Inland Revenue Department a tax credit equivalent to supplementary dividends.

These dividends together with the interim dividend of $77 million (5.6 cents per share) paid to shareholders on 31 March 2015 brings total declared dividends to $296 million (or 21.5 cents per share).

As at the date of this annual report, the Company has a Standard & Poor's BBB+ rating with a stable outlook. The Company benefits from a one notch uplift due to the Crown's majority ownership.

The Company has a current on-market buy-back programme for up to 15 million shares.

The Company has used its cash, and assets in a form readily convertible to cash, in the period from 1 July 2014 to 30 June 2015 in a way consistent with its business objectives.

The Company's Net Tangible Assets per Share as at 30 June 2015 was $2.38, compared with $2.30 at 30 June 2014.

# Shareholder information

### Shareholder enquiries

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

Enquiries may be addressed to the Share Registrar (see Directory for contact details)

### Investor information

Our website at **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** 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

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|---|---|
| **Base-load** | Producing electricity at a constant rate and running continuously |
| **Dividend** | 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 |
| **Equity Interest** | Where Mighty River Power has equity (investment) in another business entity |
| **Fixed Price Variable Volume (FPVV)** | A contract for electricity that allows the consumer to use as much electricity as they want at a fixed price per unit |
| **GWh** | Gigawatt hour. One gigawatt hour is equal to one million kilowatt hours |
| **MWh** | Megawatt hour. One megawatt hour is equal to 1,000 kilowatt hours. A megawatt hour is the metering standard unit for the wholesale market |
| **Operating Cash Flow** | 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 |
| **Operating Expenses** | Total costs incurred in the business, less energy costs and other direct costs of sales including metering |
| **Pre-pay** | 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 |
| **Smart meters** | Advanced electricity meters that are a replacement for analogue meters, and send electronic meter readings to your energy retailer automatically |
| **Spot market / wholesale market** | 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 |
| **Spot price** | The half-hour price of wholesale ('spot') market electricity |
| **Total Recordable Injury Frequency Rate (TRIFR)** | 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 |

# Directory

**Board of Directors**

Joan Withers, Chair
Mike Allen
Prue Flacks
Andy Lark
James Miller
Keith Smith
Patrick Strange
Mike Taitoko (appointed 28 August 2015)

**Executive Management Team**

Fraser Whineray,
Chief Executive

Nick Clarke,
General Manager Geothermal

Phil Gibson,
General Manager Hydro & Wholesale

Toni Laming,
General Manager Strategy
& Communications

William Meek,
Chief Financial Officer

James Munro,
General Manager Customer

Tony Nagel,
General Manager Corporate Affairs

Matt Olde,
Metrix Chief Executive

Marlene Strawson,
General Manager People & Safety

**Company Secretary**

Tony Nagel,
General Manager Corporate Affairs

**Investor Relations**

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**Legal Advisors**

Chapman Tripp
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23-29 Albert Street, Auckland 1010
PO Box 2206, Auckland
Phone: +64 9 357 9000

**Bankers**

ANZ Bank
ASB Bank
Bank of Tokyo-Mitsubishi UFJ
Bank of New Zealand
Westpac

**Credit Rating** (reaffirmed May 2015)

Long term: BBB+
Outlook: Stable

**Share Register – New Zealand**

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