Mighty River Power Share Offer.

Share In It.

Initial Public Offering of Ordinary Shares in Mighty River Power Limited
Investment Statement and Prospectus 5 April 2013

New Zealand Government

MIGHTY RIVER POWER

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IMPORTANT INFORMATION

(The information in this section is required under the Securities Act 1978.)

Investment decisions are very important. They often have long-term consequences. Read all documents carefully. Ask questions. Seek advice before committing yourself.

Choosing an investment

When deciding whether to invest, consider carefully the answers to the following questions that can be found on the pages noted below:

In addition to the information in this document, important information can be found in the current registered prospectus for the investment. You are entitled to a copy of that prospectus on request.[1]

The Financial Markets Authority regulates conduct in financial markets

The Financial Markets Authority regulates conduct in New Zealand's financial markets. The Financial Markets Authority's main objective is to promote and facilitate the development of fair, efficient, and transparent financial markets.

For more information about investing, go to http://www.fma.govt.nz

Financial advisers can help you make investment decisions

Using a financial adviser cannot prevent you from losing money, but it should be able to help you make better investment decisions.

Financial advisers are regulated by the Financial Markets Authority to varying levels, depending on the type of adviser and the nature of the services they provide. Some financial advisers are only allowed to provide advice on a limited range of products.

When seeking or receiving financial advice, you should check—

- the type of adviser you are dealing with:
- the services the adviser can provide you with:
- the products the adviser can advise you on.

A financial adviser who provides you with personalised financial adviser services may be required to give you a disclosure statement covering these and other matters. You should ask your adviser about how he or she is paid and any conflicts of interest he or she may have.

Financial advisers must have a complaints process in place and they, or the financial services provider they work for, must belong to a dispute resolution scheme if they provide services to retail clients. So if there is a dispute over an investment, you can ask someone independent to resolve it.

Most financial advisers, or the financial services provider they work for, must also be registered on the financial service providers register. You can search for information about registered financial service providers at http://www.fspr.govt.nz

You can also complain to the Financial Markets Authority if you have concerns about the behaviour of a financial adviser.

Important Notice

This Offer Document relates to the Offer by the Crown of ordinary shares in Mighty River Power Limited. A description of the Offer and the Shares is set out in Section 7.1 Details Of The Offer.

This Offer Document is a combined investment statement and prospectus for the purposes of the Securities Act and the Securities Regulations and is prepared as at, and dated, 5 April 2013.

The purpose of this Offer Document is to provide certain key information that is likely to assist you to decide whether or not to acquire Shares.

This Offer Document is an important document and should be read carefully before deciding whether or not to invest in Mighty River Power.

No-one is authorised by the directors of Mighty River Power or the Crown to give any information or make any representation in connection with this Offer which is not contained in this Offer Document or in other communications from the directors and the Crown. You should not rely upon any information or representation which is not contained within this Offer Document or which has not been specifically authorised by both the directors and the Crown.

If you are in any doubt as to any aspect of the Offer you should consult your financial or legal adviser or an NZX Firm.

You should seek your own taxation advice on the implications of an investment in the Shares.

No Guarantee

No person guarantees the Shares offered under this Offer Document. No person warrants or guarantees the performance of the Shares or any return on any investments made pursuant to this Offer Document.

Registration

A copy of this Offer Document, duly signed by or on behalf of the directors of Mighty River Power and the Crown, and having endorsed thereon or attached thereto copies of the documents and other materials required by section 41 of the Securities Act, has been delivered to the Registrar of Financial Service Providers for registration in accordance with section 42 of the Securities Act.

The documents required by section 41 of the Securities Act to be endorsed on or attached to the copy of this Offer Document delivered to the Registrar of Financial Service Providers are:

- the report of the Auditor in respect of certain financial information included in this Offer Document, as set out in this Offer Document;
- the signed consent of the Auditor to the audit report appearing in this Offer Document;
- the signed consent of Ernst & Young Transaction Advisory Services Limited to the investigating accountant's report appearing in this Offer Document;
- the signed consent of Beca Carter Hollings & Ferner Limited to the independent engineer's report appearing in this Offer Document;
- copies of the material contracts referred to under the heading "Material Contracts" in Section 7.2 Statutory Information; and
- letters of authority authorising this Offer Document to be signed by an agent of any director of Mighty River Power or the Crown (if and where required).

1. This is the wording required by Schedule 13 to the Securities Regulations 2009, which contemplates a separate investment statement and prospectus. This Offer Document comprises both an investment statement and a prospectus, and accordingly the prospectus available on request is identical to this document.

Consideration Period

Pursuant to section 43C of the Securities Act, the Financial Markets Authority will be notified once this Offer Document is registered with the Registrar of Financial Service Providers. The Financial Markets Authority will have the opportunity to consider whether the Offer Document: (a) complies with the Securities Act and the Securities Regulations; (b) contains any material misdescription or error or any material matter that is not clearly legible; and (c) is false or misleading as to a material particular or omits any material particular. Nothing in this section or in any other provision of the Securities Act limits the Financial Markets Authority's power to consider or reconsider these matters in respect of this Offer Document at any time.

To avoid any doubt, the Financial Markets Authority has not approved, and will not at any time approve, the Offer or the Offer Document and does not guarantee the Shares.

The Financial Markets Authority may, if it considers that it is desirable in the public interest, exercise its powers to: (a) make an order prohibiting the allotment of Shares under this Offer Document for a period not exceeding 18 months; and/or (b) cancel the registration of this Offer Document. If the Financial Markets Authority makes an order prohibiting the allotment of Shares under this Offer Document, no allotment may be made of any Shares subscribed for (whether before or after the order is made) during the period in which the order is in force and all subscriptions received for Shares that have not been allotted before the order is made must be immediately repaid to subscribers. If the Financial Markets Authority cancels the registration of this Offer Document, no allotment may be made of any Shares subscribed for (whether before or after the order is made) and all subscriptions received for Shares that have not been allotted before the cancellation must be immediately repaid to subscribers.

The nature and extent of the consideration (if any) that the Financial Markets Authority gives to this Offer Document is at the Financial Markets Authority's discretion. Pursuant to section 43D of the Securities Act, no allotment of Shares may be made and no Applications or subscriptions for Shares may be accepted during the Financial Markets Authority's consideration period. The consideration period commences on the date this Offer Document is registered and ends at the close of five working days from the date of registration. The Financial Markets Authority may shorten the consideration period, or extend it by no more than five additional working days.

Selling Restrictions

The General Offer is being made to New Zealand Applicants and Eligible Employees in New Zealand, the Participating Iwi Offer is being made to Participating Iwi in New Zealand and the Institutional Offer is being made to Institutional Investors in New Zealand, Australia and certain other jurisdictions.

You may not offer, sell (including resell), or deliver or invite any other person to so offer, sell (including resell) or deliver any Shares or distribute any documents (including this Offer Document) in relation to the Shares to any person outside New Zealand, except in accordance with all of the legal requirements of the relevant jurisdiction.

This Offer Document may not be distributed to, or relied upon by, persons in the United States unless it is part of the International Offering Memorandum as part of the Institutional Offer. In particular, the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and may not be offered or sold in the United States unless the Shares are registered under the US Securities Act, or an exemption from the registration requirements of the US Securities Act and applicable US state securities laws is available.

Unless otherwise agreed with the Crown and Mighty River Power, by applying for Shares under the Offer you will, by virtue of such Application, be deemed to represent that you are not in a jurisdiction that does not permit the making of the Offer or an invitation of the kind contained in this Offer Document and are not acting for the account or benefit of a person within such a jurisdiction. None of the Crown, Mighty River Power, the Joint Lead Managers nor any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

Withdrawal Rights

In certain limited circumstances, where a significant adverse development occurs prior to commencement of the bookbuild process Applicants may have the right to withdraw their Applications. Further details of this withdrawal right are discussed under the heading "Supplementary Disclosure" in Section 7.1 Details Of The Offer.

Important Information For Australian Institutional Investors

This Offer is being made in Australia only to Institutional Investors. The Offer will not be made to retail investors in Australia.

Australian Institutional Investors should have regard to the Additional Australian Information accompanying this Offer Document before deciding whether or not to purchase Shares. The Additional Australian Information contains disclosure relevant to Australian Institutional Investors and important notices required for a recognised offer under Chapter 8 of the Corporations Act 2001 (Cth) and the Corporations Regulations 2001 (Cth).

Listing

NZX listing

Application has been made to NZX for permission to list Mighty River Power and to quote the Shares on the NZX Main Board, and all requirements of NZX relating to the application that can be complied with on or before the date of this Offer Document have been duly complied with. However, NZX accepts no responsibility for any statement in this Offer Document. NZX has authorised NZX Firms to act on the Offer. The NZX Main Board is a registered market operated by NZX, which is a registered exchange, regulated under the Securities Markets Act 1988.

Initial quotation of the Shares on the NZX Main Board is expected to occur on or about 10 May 2013 (on a conditional settlement basis) under the stockcode 'MRP'.

ASX listing

Application will be made to ASX after this Offer Document (accompanied by the Additional Australian Information) is lodged with ASIC for Mighty River Power to be admitted to the official list of the ASX and for the Shares to be granted official quotation on the equities securities market operated by ASX. The ASX is not a registered market under the Securities Markets Act 1988.

ASX takes no responsibility for the contents of this Offer Document and the Additional Australian Information or for the merits of the investment to which this Offer Document and the Additional Australian Information relate. Admission to the official list of the ASX and quotation of the Shares on the ASX are not to be taken as an indication of the merits, or as an endorsement by ASX, of Mighty River Power or the Shares.

Initial quotation of the Shares on the ASX is expected to occur on or about 10 May 2013 (on a conditional and deferred settlement basis) under the stockcode 'MYT'.

Subject to certain conditions (including any waivers obtained by Mighty River Power from time to time), Mighty River Power will be required to comply with the ASX Listing Rules.

Risk And Suitability Of An Investment In Mighty River Power

This Offer Document does not take into account each investor's investment objectives, financial situation and particular needs. You should read this Offer Document in full before deciding whether to invest. In particular, you should consider the risk factors that could affect Mighty River Power's performance (including those set out in Section 5 What Are The Risks?), particularly with regard to your personal circumstances. If you are in any doubt as to any aspect of the Offer you should consult your financial or legal adviser or an NZX Firm.

Authorised Financial Advisers must operate by the Code of Professional Conduct for Authorised Financial Advisers. The Code sets minimum standards of competence, knowledge and skills, of ethical behaviour, and of client care. An Authorised Financial Adviser is able to provide you with personalised advice on an investment decision relating to the Shares.

Prior to giving you any recommendations, an Authorised Financial Adviser is required to analyse the Shares to a level that provides a reasonable basis for any such recommendations (including relying on the analysis of another person, upon whose analysis it is reasonable to rely in all the circumstances).

Forward Looking Statements

This Offer Document contains certain statements that relate to the future, including, in particular, the information set out in Section 6.3 Prospective Financial Information. Forward looking statements should be read together with the other information in this Offer Document, including the risk factors in Section 5 What Are The Risks? and the assumptions and the sensitivity analysis set out in Section 6.3 Prospective Financial Information.

Such forward looking statements are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other factors, many of which are beyond the control of the Crown and Mighty River Power and which may cause the actual results, performance or achievements of Mighty River Power to differ materially from those expressed or implied by such statements. The Crown and Mighty River Power disclaim any responsibility to update any such risk factors or publicly announce the results of any revisions to any of the forward looking statements contained in this Offer Document to reflect developments or events, except to the extent required by the Securities Act or the Securities Regulations or, in the case of Mighty River Power, the NZSX Listing Rules, the ASX Listing Rules or the Financial Reporting Act 1993.

Given these uncertainties, you are cautioned not to place undue reliance on any forward looking statements contained in this Offer Document. Under no circumstances should you regard the inclusion of forward looking statements as a representation or warranty by the Crown, Mighty River Power, their respective officers, the directors of Mighty River Power or any other person referred to in this Offer Document with respect to the achievement of the results set out in any such statement, or that the underlying assumptions used will in fact be realised.

Definitions

Terms used in this Offer Document have the specific meaning given to them in the Glossary (including certain industry specific terms with which you may not be familiar).

Unless otherwise indicated, any references to dates and times are to dates and times in New Zealand and any references to dollars ($) are to New Zealand dollars.

This Offer Document refers to various legislation in force in New Zealand as at the date of this Offer Document. You can view free of charge copies of any such legislation online at www.legislation.govt.nz.

Table Of Contents

If you do not understand the technical terms used in this Offer Document, please refer to the Glossary at the back of this document or consult a financial adviser.

Offer Document Overview

This overview is intended to guide you through the structure of this document.

DISCOVERING | UNDERSTANDING

SECTION 1

WELCOME AND ANSWERS TO IMPORTANT QUESTIONS

IN THIS SECTION:

- Letter From The Crown
- Letter From The Chair
- Offer At A Glance
- Answers To Important Questions (including a list of principal risks)

Why should you read this section?

It includes a message to you from the Minister of Finance and the Minister for State-Owned Enterprises on behalf of the Crown and from the Chair of Mighty River Power. It also provides answers to the questions which are prescribed by the Securities Regulations and are designed to help you make your investment decision.

SECTION 2

INVESTMENT HIGHLIGHTS

IN THIS SECTION:

- Key Strengths Of Mighty River Power

Why should you read this section?

It provides you with an overview of the key strengths of Mighty River Power.

SECTION 3

INDUSTRY OVERVIEW

IN THIS SECTION:

- The Electricity Sector
- Generation
- Transmission And Distribution
- Retailers
- Consumers
- Electricity Market Mechanics
- New Zealand Regulatory Framework

Why should you read this section?

You will get an overview of the New Zealand electricity industry, which will assist you to better understand Mighty River Power's business and financial information as well as the risks associated with an investment in Mighty River Power.

SECTION 4

ABOUT MIGHTY RIVER POWER

IN THIS SECTION:

- Business Description
- Board, Management And Corporate Governance
- Relationship Between Mighty River Power And The Crown
- Independent Engineer's Report

Why should you read this section?

You will find out information about Mighty River Power's business, management and assets. You will also find out information about Mighty River Power's current and continuing relationship with the Crown.

SECTION 5

WHAT ARE THE RISKS?

IN THIS SECTION:

- Principal Risks For Shareholders
- Mighty River Power Specific Risks
- General Investment Risks
- Consequences Of Insolvency

Why should you read this section?

You will better understand the risks of an investment in the Shares, including the specific risks faced by Mighty River Power's operations, business and financial performance.

This section is very important and should be read in full.

SECTION 6

FINANCIAL INFORMATION

IN THIS SECTION:

- Overview And Analysis Of Operational And Financial Information
- Prospective Financial Information
- Summary Historical Financial Information
- Audited Interim Financial Statements For The Six Months Ended 31 December 2012 And Audited Financial Statements For The Year Ended 30 June 2012
- Statutory Auditor's Report And Investigating Accountant's Report

Why should you read this section?

You can find out detailed information about Mighty River Power's historical and prospective financial performance, including the important assumptions that have been used in the preparation of the prospective financial information.

SECTION 7

OFFER DETAILS

IN THIS SECTION:

- Details Of The Offer
- Statutory Information
- New Zealand Taxation Implications

Why should you read this section?

You will find detailed information about the Offer and the New Zealand taxation implications of investing in the Shares, as well as information which is prescribed by the Securities Regulations.

SECTION 8

APPLICATION INSTRUCTIONS

IN THIS SECTION:

- Application Instructions

To apply online, go to:
www.mightyrivershares.govt.nz

Why should you read this section?

You will find out how to apply for Shares if you decide to invest in Shares.

FIND OUT MORE Look out for the **Find Out More** flag within this document for directions to further information.

Maraetai I & II hydro power stations on the
Waikato River, with a combined capacity of 352 MW

SECTION 1

WELCOME AND ANSWERS TO IMPORTANT QUESTIONS

IN THIS SECTION

Why should you read this section?

It includes a message to you from the Minister of Finance and the Minister for State-Owned Enterprises on behalf of the Crown and from the Chair of Mighty River Power. It also provides answers to the questions which are prescribed by the Securities Regulations and are designed to help you make your investment decision.

Questions about the Offer

If you have any queries about the risk or suitability of an investment in the Shares you should consult your financial adviser or an NZX Firm. If you have questions about how to apply under the Offer, you can call 0800 90 30 90 (New Zealand only) during the Offer period or visit www.mightyrivershares.govt.nz. For further information on the mixed ownership model programme generally, you should visit the Government's mixed ownership model website www.governmentshareoffers.govt.nz.

Section 1.1: Letter From The Crown

Dear Investor,

On behalf of the New Zealand Government we are delighted to invite you to participate in the Mighty River Power Share Offer and join the Government as a Shareholder in the Company.

Mighty River Power is a proud New Zealand company and the Government is confident in its future as a listed company.

The Government is undertaking the partial sale of up to 49% of Mighty River Power as part of our economic reform programme to build a stronger New Zealand economy. It is the first company to be partially sold under the Government's mixed ownership model programme.

The sales proceeds from the Offer will go into the newly established Future Investment Fund, which we will use to invest in capital projects that the Government believes will help grow the economy and improve public services, including schools, hospitals and broadband internet infrastructure. Using the proceeds in this way will reduce pressure on the Government to borrow.

The Mighty River Power Offer represents an opportunity to invest in a multi-billion dollar New Zealand company. As with all investments, an investment in Mighty River Power provides both opportunities and risks. Future returns from Mighty River Power shares are not guaranteed by the Government and investors are encouraged to carefully consider the investment risks set out in Section 5 What Are The Risks? before deciding whether to participate in the Offer.

We have structured the Offer to support our goal of wide-spread ownership throughout New Zealand. We have set a target of 85 to 90% New Zealand ownership and that is why we have made deliberate choices to give New Zealanders a number of preferential benefits over other investors.

Mighty River Power has seen significant growth and expansion since it was established as a State-Owned Enterprise in 1999. The Company's transition to a publicly-listed company is the next step in its evolution as a company. This transition will be exciting for both New Zealand investors and the broader New Zealand economy.

The Government invites you to join us as a Shareholder for the next stage in Mighty River Power's story. Please consider this opportunity to share in it.

Yours sincerely,

Hon Bill English
MINISTER OF FINANCE

Hon Tony Ryall
MINISTER FOR STATE-OWNED ENTERPRISES

Section 1.2: Letter From The Chair

Dear Investor,

On behalf of our board of directors, I am pleased to invite you to become a Shareholder in Mighty River Power.

As a Shareholder, you will have a direct stake in one of New Zealand's largest electricity companies – named Energy Company of the Year in 2010 and 2012, and Energy Retailer of the Year in 2011 at the Deloitte Energy Excellence Awards.

Mighty River Power generates about 17%[2] of New Zealand's electricity from nine hydro stations on the Waikato River, four geothermal power stations in the central North Island and a multi-unit gas-fired station in Auckland. On listing, Mighty River Power will be among the ten largest New Zealand companies on the NZX Main Board with an expected market value of at least $3.2 billion.[3]

Mighty River Power has grown and performed strongly as a 100% Crown-owned business, led by our Chief Executive, Dr Doug Heffernan since 1998. I see the Government's decision that Mighty River Power should lead the extension of the mixed ownership model as confirmation of this commercial pedigree.

One of the important strengths of Mighty River Power is that, in addition to making electricity, we also sell electricity to nearly one in five New Zealand homes and businesses through multiple sales channels and retail brands. This 'integrated' business model helps us to manage earnings variability.

More than 90% of our electricity generation is from renewable hydro and geothermal generation sources.[4] Our gas-fired station is a good complement and provides additional flexibility to our production base. In the next few months we expect to commission the new Ngatamariki geothermal power station near Taupo. This will further expand our capacity and generation from renewable, natural resources.

We have invested $1.4 billion in new geothermal assets between 1 July 2005 and 31 December 2012 through a disciplined strategic focus to build on Mighty River Power's strengths with its domestic partners. These investments have contributed positively to earnings and built a larger and more resilient business that has been able to achieve market share gains in both generation and customer sales.

The directors are confident in the depth of experience and capability of the Company's management team to deliver returns and value to Shareholders.

This Offer Document contains detailed information about Mighty River Power and this investment opportunity. I encourage you to read it closely and to consider carefully the risks which are described in Section 5 What Are The Risks? before making your investment decision.

Our board and the management team are proud of what Mighty River Power has achieved to date. The Offer of Shares and the sharemarket listing signal an exciting new era for Mighty River Power – with the Crown remaining a cornerstone, majority Shareholder.

We look forward to welcoming you as a Shareholder, alongside the Company's board, management and the rest of our mighty team.

Yours sincerely,

Joan Withers
CHAIR
MIGHTY RIVER POWER LIMITED

2. Based on generation volumes on an equity weighted basis for the year ended 31 December 2012.
3. Based on the low end of the Indicative Price Range.
4. The proportion of total equity weighted New Zealand generation for the year ended 31 December 2012 that is generated by a renewable resource, based on Mighty River Power's percentage ownership of each power station.

Section 1.3: Offer At A Glance

The Crown is seeking to sell up to 686,000,000 Shares in Mighty River Power.[5] This is up to 49% of the Mighty River Power Shares on issue and means the Crown will remain the majority Shareholder following the Offer. The Crown must maintain a shareholding of at least 51% in Mighty River Power, even after completion of the Offer.

This is the first opportunity for investors to own shares in Mighty River Power.

Key Dates

General Offer opens	15 April 2013
Eligible Employee Applications close	2 May 2013
General Offer closes	3 May 2013
Institutional Offer and bookbuild process	7 and 8 May 2013
Pricing announced	8 May 2013
Allocations expected to be available	10 May 2013
Expected commencement of trading on the NZX Main Board (conditional settlement basis) and on the ASX (conditional and deferred settlement basis)[6]	10 May 2013
Allotment Date, expected despatch of holding statements and last day of conditional trading	14 May 2013
Shares expected to begin trading on a normal basis on the NZX Main Board and the ASX	15 May 2013
Expected despatch of any refund payments if required (no later than 21 May 2013)	17 May 2013
Expected date of payment of first dividend following the Offer	30 September 2013

These dates are indicative only and, subject to the requirements of the Securities Act and the NZSX and ASX Listing Rules, may be amended. The Offer may also be withdrawn at any time before the allotment of Shares in the absolute discretion of the Crown.

Incentives For New Zealand Applicants

The Crown is providing incentives to New Zealand Applicants under the General Offer as follows:

Guaranteed allocation Applications up to $2,000 will not be scaled. Applications in excess of $2,000 will not receive less than $2,000 worth of Shares.[7]

Preferential allocation for pre-registration If the Offer is over-subscribed and scaling of Applications is required, New Zealand Applicants who pre-registered for the Offer and go on to apply as part of the General Offer will receive an amount of Shares which is up to 25% higher than that for a New Zealand Applicant who applied for the same amount of Shares but did not pre-register. This benefit does not apply to the first $2,000 worth of Shares applied for, which is guaranteed irrespective of pre-registration. No Applicant will receive more Shares than they apply for. In the event of significant over-subscription it may not be possible to allocate pre-registrants the full 25% pre-registration benefit.

Loyalty Bonus Shares New Zealand Applicants who continue to hold their Shares in the same registered name for a period of 24 months will be entitled to Loyalty Bonus Shares based upon the ratio of 1 for 25, up to a maximum number of 200 Loyalty Bonus Shares for each New Zealand Applicant . The Loyalty Bonus Shares have the effect of providing New Zealand Applicants who retain their Shares for 24 months with additional Shares for no further cash investment (if certain conditions are met).

You can find further information about the eligibility criteria and incentives for New Zealand Applicants, including how these incentives will apply for those New Zealand Applicants applying through Custodians, in 7.1 Details Of The Offer.

You should read the selected financial information and key investment metrics presented on this page in conjunction with the assumptions and basis of preparation set out in 6.3 Prospective Financial Information and also the risk factors set out in 5 What Are The Risks? There is no guarantee that the prospective financial information will be achieved.

Key Offer Statistics[8]	
Indicative Price Range[9]	$2.35 to $2.80 per Share
Number of Shares being offered[5]	Up to 686,000,000 (being up to 49% of the total number of Shares on issue following the Offer)
Crown shareholding following the Offer[10]	At least 714,000,094 (being at least 51% of the total number of Shares on issue following the Offer)
Indicative market capitalisation[11]	$3,290.0 million to $3,920.0 million
Prospective net debt[12]	$1,134.5 million
Indicative enterprise value (EV)[13]	$4,424.5 million to $5,054.5 million

Selected Financial Information ($ million)	FY2010	FY2011	FY2012	FY2013F	FY2014F
EBITDAF	$327.8	$443.1	$461.5	$382.6	$497.9
NPAT	$84.6	$127.1	$67.7	$94.8	$160.4
Underlying Earnings	$139.6	$162.2	$162.7	$159.3	$138.4
Net cash provided by operating activities	$199.5	$292.8	$277.0	$267.3	$327.9

You can find out more about the items that have affected the financial performance of Mighty River Power to date and which may affect its performance in the future in 6 Financial Information. You can also find an explanation of EBITDAF and Underlying Earnings and why Mighty River Power uses these as measures of financial performance as well as a reconciliation of EBITDAF and Underlying Earnings in 6.1 Overview Of Operational And Financial Information and 6.4 Non-GAAP Financial Information.

Key Investment Metrics[8]	FY2013F	FY2014F
Price/Earnings ratio[14]	34.7x – 41.4x	20.5x – 24.4x
EV/EBITDAF multiple[15]	11.6x – 13.2x	8.9x – 10.2x
Implied cash dividend yield[16]	4.3% – 5.1%	4.6% – 5.5%
Implied gross dividend yield[17]	6.0% – 7.1%	6.4% – 7.7%

5. Including the Loyalty Bonus Shares.
6. You can find further information regarding conditional and deferred settlement trading under the heading "Conditional And Deferred Settlement Trading" in Section 7.1 Details Of The Offer.
7. The minimum Application size is $1,000 and multiples of $100 thereafter.
8. Indicative market capitalisation, indicative EV, prospective price/earnings ratio, prospective EV/EBITDAF multiple and prospective implied dividend yields are shown based on the lower and upper values of the Indicative Price Range.
9. The Final Price may be within, above or below the Indicative Price Range.
10. Excluding the Loyalty Bonus Shares and any Shares acquired by Crown entities under the Offer.
11. Calculated as the number of Shares on issue following the Offer multiplied by the Indicative Price Range. Shares may trade within, above or below the Indicative Price Range following completion of the Offer.
12. Calculated as prospective loans less cash and cash equivalents and loan fair value adjustments forecast as at 30 June 2013.
13. Calculated as the indicative market capitalisation plus prospective net debt as at 30 June 2013.
14. Calculated as indicative market capitalisation divided by NPAT for the respective forecast financial year.
15. Calculated as EV divided by EBITDAF for the respective forecast financial year.
16. Calculated as DPS for the respective forecast financial year divided by the Indicative Price Range.
17. Calculated as DPS for the respective forecast financial year, grossed up for imputation credits expected to be attached to the dividend, divided by the Indicative Price Range.

Section 1.4: Answers To Important Questions

What Sort Of Investment Is This?

The Shares

The Crown is offering to sell up to 686,000,000 (or 49%) of the Shares in Mighty River Power Limited. This includes the Loyalty Bonus Shares to which New Zealand Applicants may become entitled under the terms of the Offer.

Each Share confers an equal right to share in dividends and other distributions authorised by the board of Mighty River Power, and to cast a vote at meetings of Shareholders, in accordance with the Constitution. As the holder of at least 51% of the Shares, the Crown generally will be able to control the outcome of matters put to Shareholders that require majority approval. However, there is no Crown guarantee of the Shares or the Company or any obligations of the Company.

Shareholders will be able to sell their Shares subject to compliance with the Constitution and applicable laws. Mighty River Power has applied to have the Shares quoted on the NZX Main Board and will apply for listing on the ASX.

The Offer

The Offer comprises the General Offer, the Institutional Offer and the Participating Iwi Offer.

The General Offer is only available to New Zealand Applicants and Eligible Employees.

A New Zealand Applicant is an Applicant for Shares who is in New Zealand and provides the following information with their Application Form:

- a valid New Zealand IRD number;
- a valid New Zealand bank account number;
- a New Zealand address;
- a confirmation that such investor is in New Zealand and is not acting for the account or benefit of a person in the United States; and
- a declaration that:
  - » in the case of an individual, the individual is a New Zealand citizen or permanent resident; or
  - » in the case of a company, it is incorporated in New Zealand and the majority of its ultimate beneficial owners consists of persons who are New Zealand citizens or permanent residents; or
  - » in the case of a trust, it is established in New Zealand and the majority of its ultimate beneficiaries consists of persons who are New Zealand citizens or permanent residents; or
  - » in the case of any other legal entity, it is incorporated or established in New Zealand and the majority of its ultimate beneficial owners, beneficiaries or members consists of persons who are New Zealand citizens or permanent residents.

The General Offer and the Participating Iwi Offer are not open to persons outside of New Zealand (for the avoidance of doubt, the General Offer and the Participating Iwi Offer are not open to persons in the United States or persons acting for the account or benefit of a person in the United States).

The Institutional Offer consists of an invitation to bid for Shares made to Institutional Investors and other investors in New Zealand, Australia and certain other overseas jurisdictions.

The Participating Iwi Offer is the offer made to Participating Iwi.

You can find out more about the Shares and the Offer by reading 7.1 Details Of The Offer.

Who Is Involved In Providing It For Me?

The Crown

The Crown is selling the Shares being offered and is a promoter of the Offer. This does not imply any guarantee by the Crown of the Shares or any returns in respect of them or any commitment by the Crown in respect of future capital contributions.

Following completion of the Offer, the Crown will continue to have a range of on-going relationships with Mighty River Power, including as majority Shareholder, shareholder of the SOE participants in the New Zealand electricity industry and as regulator (for example, through the Electricity Authority and the Commerce Commission).

You can find out more about these on-going relationships by reading 4.3 Relationship Between Mighty River Power And The Crown.

Mighty River Power

Mighty River Power is the issuer of the Shares which are being offered for sale by the Crown.

Mighty River Power commenced operations in 1999, when the Crown separated ECNZ into three SOEs (Mighty River Power, Meridian Energy and Genesis Energy).

Mighty River Power produces electricity, mainly from renewable sources, using its power station assets.

The Company owns nine hydro power stations along the Waikato River and has ownership interests in four geothermal power stations in the central North Island, with a further geothermal power station in construction. The Company also owns a gas-fired power station in the North Island. Mighty River Power sells electricity to retail and business customers through multiple channels and retail brands, including Mercury Energy, GLO-BUG, Bosco Connect and Tiny Mighty Power and provides metering services to Mercury Energy and other retailers through Metrix. The Company also has an investment in a geothermal power station in the United States.

You can find out more about Mighty River Power's business by reading 4.1 Business Description.

Mighty River Power is managed by its board of directors and an experienced management team led by Dr Doug Heffernan, who has been Chief Executive since the Company was formed in 1998. The current directors of Mighty River Power are Joan Withers, Dr Michael David Allen, Prudence Mary Flacks, Trevor David Janes, James Bruce Miller, Tania Joy Te Rangingangana Simpson and Keith Raymond Smith.

You can find out more about Mighty River Power's directors and management team by reading 4.2 Board, Management And Corporate Governance.

Contact Details

The current addresses of the Crown and Mighty River Power are set out in the Directory at the end of this Offer Document.

The names of the directors, and the addresses in the Directory, may change. You can find the current address of The Treasury at www.treasury.govt.nz. You can find the current address of Mighty River Power and the names of its directors by searching the public register maintained by the Companies Office on its website www.business.govt.nz/companies.

How Much Do I Pay?

Share Price

The Indicative Price Range is $2.35 to $2.80 per Share. If you participate in the Offer, you will be required to pay the Final Price per Share. The Final Price may be within, above or below the Indicative Price Range. The Final Price will be determined by the Crown in its sole discretion after the close of the General Offer and the Institutional Offer. It is expected that the Final Price will be announced on 8 May 2013, including under Mighty River Power's NZX stockcode 'MRP'.

If you decide to apply for Shares, you will apply and pay for a dollar amount of Shares, rather than a specific number of Shares. The minimum dollar amount of Shares you can apply for is $1,000 and multiples of $100 thereafter. You will not be required to pay more for your Shares than the dollar amount for which you apply.

Once the Final Price has been determined, your Application amount will be divided by the Final Price to calculate the number of Shares that you have applied for, rounded down to the nearest whole Share.

Any difference between the dollar amount of Shares for which you apply and the value (based on the Final Price) of the Shares you receive solely due to rounding will be retained by the Crown.

You can find out more about how the Final Price will be set by reading 7.1 Details Of The Offer.

Loyalty Bonus Shares

New Zealand Applicants who receive an allocation of Shares in the General Offer and who hold those Shares continuously in the same registered name for a period of 24 months will be entitled to receive Loyalty Bonus Shares. Entitlements to Loyalty Bonus Shares will be calculated on the basis of one Loyalty Bonus Share for every 25 Shares, up to a maximum number of 200 Loyalty Bonus Shares for each New Zealand Applicant.

The Loyalty Bonus Shares will be fully paid ordinary shares in the Company and, on transfer, will confer equal rights as the Shares transferred on completion of the Offer.

You can find out more about Loyalty Bonus Shares, including how the maximum number will apply to those New Zealand Applicants applying through Custodians, by reading 7.1 Details Of The Offer.

Allocation And Scaling

As at the date of this Offer Document, no allocation decisions have been made by the Crown. Allocations between the General Offer and the Institutional Offer will be determined by the Crown, in consultation with its advisers and Mighty River Power. This determination will be made following the close of the Institutional Offer.

If the General Offer is over-subscribed, Applications in the General Offer may be scaled. This means that the dollar amount of Shares you receive may be less than the dollar amount of Shares you apply for. Scaling will be determined by the Crown, in consultation with its advisers and Mighty River Power, and may not be pro rata. The Government has stated that New Zealanders will be at the front of the queue for Shares. If scaling is required in the Offer, New Zealand Applicants, Eligible Employees and the trustee of the Mighty River Power Executive LTI Plans will receive a minimum guaranteed allocation.

If the Institutional Offer is over-subscribed, allocations will be influenced by a number of factors, such as whether the participant is a New Zealand institution managing significant investments on behalf of New Zealanders (including KiwiSaver or superannuation), or a participant representing collective interests in New Zealand such as Māori trusts, the price and number of Shares bid for, the timeliness of the bid and any other factors that the Crown considers appropriate.

If your Application is scaled and the difference between the value (based on the Final Price) of the Shares you receive and the amount you have paid is more than the Final Price, this difference will be refunded to you no later than five Business Days after the Allotment Date without interest. Any such refund will be made in the manner in which you elect any future dividend payments to be paid.

Participating Iwi that apply for Shares will not be scaled and will receive a guaranteed allocation of Shares at the Final Price in the Participating Iwi Offer.

You can find out more about scaling and allocation priorities by reading 7.1 Details Of The Offer.

Application And Payment Under The General Offer

Your Application must be made online at www.mightyrivershares.govt.nz or on the Application Form set out in the back of this Offer Document or accompanying this Offer Document. If you are applying as an Eligible Employee, your Application should be made on the Eligible Employee Application Form provided to you by the Company. Applications must be accompanied by payment in full for the dollar amount of Shares for which you wish to apply. Payment may be made to the Crown by direct debit or cheque and will be held by the Crown in a special purpose account until Shares are allotted to successful Applicants or Application monies are refunded.

Your Application, together with payment for the dollar amount of Shares for which you have applied, must be completed online or received by the Share Registrar by 5.00pm on 3 May 2013 or by 5.00pm on 2 May 2013 if you are applying as an Eligible Employee. If you do not return your Application and payment by this time, you may not receive any Shares.

Information about how you can apply for Shares, including further details about how you can pay for your Shares and where to send your Application, is set out in 8 Application Instructions and on the Application Form.

What Are The Charges?

You are not required to pay any charges to Mighty River Power or the Crown or any associated person in relation to the Offer other than the Final Price for each Share you receive.

What Returns Will I Get?

Types Of Returns

Your returns on Shares may be by way of:

- dividends paid and other distributions which may be made in respect of your Shares; and
- any gains you make if you sell or dispose of your Shares for a net price that is greater than the price you paid for them (although the market price of your Shares may also decline, making them worth less than you paid for them).

Mighty River Power is legally liable to pay you any dividends or other distributions declared on your Shares. If you sell any of your Shares, the purchaser of those Shares will be legally liable to pay you the sale price of those Shares.

Dividends

Dividends and other distributions with respect to the Shares are only made at the discretion of the board of Mighty River Power. The payment of dividends is not guaranteed and Mighty River Power's dividend policy may change. The board's decisions in relation to the level of reserves and retentions may affect any dividends or distributions you receive from the Shares.

In preparing the prospective financial information and, in particular, the forecast total declared dividend of $0.12 per Share for FY2013F, the board has taken account of the existing dividend policy announced in November 2012, the cash distribution from the GGE Fund and one-off costs associated with the internalisation of the international geothermal activities.

Dividend Policy

Mighty River Power's dividend policy, in respect of FY2014 and thereafter, is to determine the appropriate level of dividend to declare by reference to:

- the Company's working capital requirements and medium-term asset investment programme; and
- a sustainable financial structure for the Company, recognising the Company's targeted long-term credit rating of BBB+ assigned by S&P (or equivalent from another recognised credit rating agency), having regard to the risks from predicted short and medium-term economic, market and hydrological conditions, and estimated financial performance.[18]

18. Mighty River Power's BBB+ rating includes a one notch higher rating to reflect S&P's view of the benefit of its 100% ownership by the Crown. In the absence of Crown support, S&P views Mighty River Power's stand-alone credit profile as 'bbb'. S&P has noted that the one notch higher rating is likely to be maintained while the Crown owns greater than 50% of the Company. Mighty River Power's long-term credit rating remains subject to change. You can find a fuller discussion of Mighty River Power's long-term credit rating under the heading "Risk Management" in Section 4.2 Board, Management And Corporate Governance.

Providing the board is satisfied in respect of these matters, the dividend will target a pay-out ratio in the range of 90% to 110% of Adjusted NPAT.

Adjusted NPAT is calculated as NPAT adjusted for the change in the fair value of derivative financial instruments, income statement impacts related to the investments in jointly controlled entities, impairments and all associated tax impacts from the aforementioned. It is the intention of the board to attach imputation credits to dividends to the extent they are available.

Dividend payments are expected to be split into an interim dividend paid in March, targeting 40% of the total expected dividend for the financial year, and a final dividend paid in September. The first dividend following the Offer is expected to be paid on 30 September 2013.

Adjusted NPAT is a non-GAAP financial measure presented only for the purposes of the Company's dividend policy.

The forecast dividend for FY2014F of $0.13 per Share is based on forecast Adjusted NPAT in FY2014F and represents a forecast dividend pay-out ratio of 107%.

Distributions are paid in New Zealand dollars and are subject to New Zealand tax. Under the imputation regime, New Zealand tax paid gives rise to imputation credits that can be attached to dividends paid to Shareholders. New Zealand tax resident Shareholders can use these imputation credits to reduce their income tax liability in respect of that dividend. Resident withholding tax will be deducted from any dividend at a rate of 33% to the extent that imputation credits attached to the dividend do not cover the full 33% tax due on the gross dividend. Based on the prospective financial information, dividends in FY2013F and FY2014F are expected to be fully imputed.

Non-resident Shareholders receiving dividends will generally be subject to non-resident withholding tax. The Company generally expects to pay supplementary dividends to non-resident Shareholders pursuant to the foreign investor tax credit regime to reduce or eliminate the economic impact of statutory withholding taxes for those non-residents. Supplementary dividends offset the effect of non-resident withholding tax. The Company will receive from the IRD a tax credit equivalent to supplementary dividends and so there is no disadvantage to Shareholders generally.

You can find out more regarding the assumptions and basis of preparation of the prospective financial information and the calculation of Adjusted NPAT in 6.3 Prospective Financial Information. There is no guarantee that the prospective financial information will be achieved. Refer to 5 What Are The Risks? for more information.

Key Factors That Determine Returns

No amount of returns is promised in respect of the Shares. The key factors that will determine your returns (if any) are the market price for Shares and the board's decisions in relation to dividends or other distributions.

The returns will be affected by Mighty River Power's operational performance and financial results. These in turn will be affected by a range of risk factors relevant to the electricity industry generally or to the Company's business in particular. These risk factors could reduce or eliminate the returns you may receive from owning Shares and your ability to get back some or all of your investment.

You can read a summary of the principal risks under the heading "What Are My Risks?" below and a more detailed discussion of these and other risk factors is set out in 5 What Are The Risks?

If you sell your Shares you may be required to pay brokerage or other sale expenses. Your returns will also be affected by the amount of tax that Mighty River Power is or you are required to pay.

You can find out more about how New Zealand taxation may affect your returns by reading 7.3 New Zealand Taxation Implications.

10% Share Limit

No person other than the Crown may have a 'relevant interest' in more than 10% of the Shares on issue. If this 10% limit is breached, a Shareholder will be required to sell Shares to remedy the breach. If a Shareholder fails to do so, the Company may sell the Shares owned by that Shareholder on its behalf. A Shareholder will not be entitled to receive dividends in respect of Shares in which a relevant interest is held over the 10% limit. If the board determines the breach was not inadvertent, a Shareholder who holds Shares in breach of the 10% limit will not be entitled to receive dividends on any of its Shares.

What Are My Risks?

Your Shares will be fully paid and you will have no liability to make any further payments in respect of your Shares. However, you may not be able to get back any or all of your investment and you may not receive the returns you expect. This could be because you are unable to sell your Shares for the price you paid for them (or at all) or because dividends or distributions paid on your Shares are less than you expect.

The principal risks that may have an impact on Mighty River Power's business or financial results, and which could reduce or eliminate the value of your Shares or the returns on them, are:

- **Fuel availability and costs** – the availability of the fuel (mainly water, geothermal fluid and gas) that Mighty River Power requires to generate electricity may reduce for a wide number of reasons. These may include drought (as experienced in early 2013 in the Waikato), geothermal reservoir performance, regulatory changes (including changes in water and geothermal policy), resource consent conditions or reductions in supply from third parties. The cost of that fuel may also increase as a result of either changes in existing charges or the imposition of charges where none currently apply.
- **Power station operation** – Mighty River Power's power stations may not be able to generate the expected amounts of electricity if they cannot operate in the normal manner or at all. This could occur for a wide range of reasons. These may include natural disaster, plant failure, operator error or resource consents either not being renewed or being renewed with unfavourable changes to conditions.
- **Tiwai Point aluminium smelter** – the Tiwai Point aluminium smelter represented approximately 13% of New Zealand electricity demand in 2012. The level of future electricity consumption by the Tiwai Point smelter is uncertain. If the smelter were to significantly reduce its electricity consumption or cease consumption altogether, the resultant drop in demand could lead to a sustained reduction in electricity prices in general. Refer to 3 Industry Overview for more detail on the Tiwai Point smelter, its consumption and contractual arrangements.
- **Wholesale electricity prices** – the wholesale price at which Mighty River Power sells the electricity it generates, or buys the electricity it then sells to customers, may be unfavourable. Wholesale electricity pricing is subject to significant variability as a result of a number of factors. These may include hydrological conditions, power station availability, transmission constraints, competitor behaviour, regulatory changes and wider market demand and supply conditions.
- **Electricity sales** – the volume and price at which Mighty River Power is able to sell electricity to customers may be adversely affected by competitor behaviour, economic conditions, changes in customer demand or regulatory changes. In addition, costs relating to sales to customers may increase as a consequence of regulation.
- **Geothermal development** – Mighty River Power's geothermal development activity requires significant early stage capital, particularly during the drilling phase of assessment of a geothermal reservoir. Mighty River Power may encounter unexpected delays or increased costs or may be required to impair assets. In addition, a development activity may not result in a commercially viable outcome or achieve the expected returns on investment.
- **International geothermal development** – Mighty River Power's investment in international geothermal development faces additional risks associated with operating in jurisdictions outside New Zealand. These include political or regulatory differences, foreign exchange translation impacts, accounting and taxation treatment and different risks associated with the availability of power purchasing agreements and transmission access agreements or reliance on Government subsidies and the local geothermal industry. Complex accounting implications arising from the Company's international geothermal investments may result in significant differences in the recognition of cash versus accounting returns.
- **Regulatory changes** – changes in the regulatory environment may adversely affect Mighty River Power. These could include changes to the wholesale or retail electricity market, changes to the ETS, changes to the transmission pricing methodology as currently being contemplated or changes arising from the proposed reforms for freshwater and resource management systems. Also, there could be further regulation of retail electricity prices which are generally not regulated (other than a requirement for a low user tariff).
- **Catastrophic events** – a single (or multiple) catastrophic event could generate losses significantly greater than Mighty River Power's material damage and business interruption insurance limit which is currently $2 billion.
- **Access to capital** – Mighty River Power may not have access to sufficient capital to execute its strategy in respect of both domestic and international development and operations. It may be unable to raise additional debt or to re-finance existing debt as it matures on similar terms, or may face increased borrowing costs. The Company also may be restricted from raising equity capital unless it has Crown support as the Crown is legally prevented from being diluted below 51% majority ownership.
- **Treaty of Waitangi and other claims** – Treaty of Waitangi and other Māori claims relating to ownership and governance of land, water and geothermal resources may adversely affect Mighty River Power to the extent that such claims directly or indirectly impose restrictions, conditions or additional costs on the Company. An example of these types of claims include the national freshwater and geothermal resources claim to be heard by the Waitangi Tribunal (expected to begin later in 2013), which will consider whether Māori rights and interests in relation to water and geothermal resources are adequately recognised and provided for and whether Crown policies are in breach of Treaty principles. A second example would be the current Māori claims relating to land of which Mighty River Power

is either the legal or equitable owner. In addition, most of Mighty River Power's hydro power stations are situated on land which is subject to resumption by the Crown under section 27B of the State-Owned Enterprises Act 1986. If this happens, compensation payable to Mighty River Power may not be sufficient to fully compensate for the resulting effect on its business.

These and other risks are more fully described in 5 What Are The Risks? You should carefully consider these risks before making your investment decision.

Consequences Of Insolvency

You will not be liable to pay any money to any person if Mighty River Power becomes insolvent. If Mighty River Power is liquidated then all claims by its creditors will rank ahead of any entitlement of Shareholders to any distribution. Each Share confers an equal right to participate in any such distribution. However, any distribution made on liquidation of the Company may be less than the amount of your investment.

Can The Investment Be Altered?

As at the date of this Offer Document, the Final Price has not been set. The Final Price will be set by the Crown, in its sole discretion, after the conclusion of the bookbuild process. Once set, the Final Price cannot be changed.

Mighty River Power may only amend its Constitution (which sets out the rights attached to Shares) if the amendments are approved by a special resolution of all Shareholders. Mighty River Power cannot take any action that affects the rights of any group of Shareholders unless the action has been approved by a special resolution of that affected group.

A special resolution must be approved by at least 75% of Shareholders entitled to vote and who actually vote on that resolution. Under certain circumstances, if your rights are affected by an action approved by a special resolution, you may require Mighty River Power to purchase your Shares.

How Do I Cash In My Investment?

Sale Of Shares

You may cash in your investment by selling your Shares. Any sale of Shares must be made in accordance with the requirements of the Constitution, the NZSX and ASX Listing Rules and any applicable laws.

As at the date of this Offer Document, there is no established market for the Shares. However, in the opinion of Mighty River Power and the Crown, a market for the Shares is likely to develop on completion of the Offer.

Application has been made to NZX for permission to list Mighty River Power and to quote the Shares on the NZX Main Board. All of NZX's requirements relating to that application that can be complied with as at the date of this Offer Document have been complied with. However, NZX accepts no responsibility for any statement in this Offer Document. NZX has authorised NZX Firms to act on the Offer. The NZX Main Board is a registered market operated by NZX, which is a registered exchange, regulated under the Securities Markets Act 1988. Initial quotation of the Shares on the NZX Main Board is expected to occur on or about 10 May 2013 (on a conditional settlement basis) under the stockcode 'MRP'.

To be able to trade Shares on the NZX Main Board you must have an account with an NZX Firm, a CSN and an Authorisation Code (FIN). If you do not have an account with a broker you should be aware that opening an account can take a number of days depending on the NZX Firm's new client procedures. If you do not have a CSN you will be assigned one when you set up an account with an NZX Firm, or you will receive one from the Share Registrar when you receive your allotment notice for the Offer (which is expected to be sent on the Allotment Date, after trading has commenced). If you do not have an Authorisation Code (FIN), you will be sent one as a separate communication by the Share Registrar on the Allotment Date.

Application will be made to ASX after this Offer Document (accompanied by the Additional Australian Information) has been lodged with ASIC for Mighty River Power to be admitted to the official list of the ASX and for the Shares to be granted official quotation on the equities securities market operated by ASX.

ASX takes no responsibility for the contents of this Offer Document and the Additional Australian Information or for the merits of the investment to which this Offer Document and the Additional Australian Information relate. Admission to the official list of the ASX and quotation of the Shares on the ASX are not to be taken as an indication of the merits, or as an endorsement by ASX, of Mighty River Power or the Shares.

Initial quotation of the Shares on the ASX is expected to occur on or about 10 May 2013 (on a conditional and deferred settlement basis) under the stockcode 'MYT'.

If admission to list on the NZX Main Board is denied, or the sale of Shares under the Offer does not proceed for any other reason, all Application amounts will be refunded in full without interest no later than five Business Days after announcement of the decision not to proceed. Failure to achieve admission to list on the ASX will not, of itself, prevent the sale of Shares under the Offer from proceeding.

If you sell your Shares you will not pay any charges to Mighty River Power or the Crown. If you wish to sell your Shares on the NZX Main Board after confirming your allocation you must contact an NZX Firm. If you sell your Shares on the NZX Main Board or, if listed, on the ASX you may have to pay fees and charges to your brokers or other advisers.

Shares may also be sold on behalf of a Shareholder by the Company in the circumstances outlined above under the heading "What Returns Will I Get? – 10% Share Limit".

Share Cancellation

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

Who Do I Contact With Inquiries About My Investment?

If you have any queries about the risk or suitability of an investment in the Shares you should consult your financial adviser or an NZX Firm.

If you have inquiries about the Shares, you should contact the Share Registrar at:

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road, Takapuna
Auckland 0622
Telephone: +64 (9) 488 8777
Facsimile: +64 (9) 488 8787
Email: enquiry@computershare.co.nz.

Is There Anyone To Whom I Can Complain If I Have Problems With The Investment?

If you have complaints about the Shares, you should contact the Share Registrar at the address or phone number set out above. There is no ombudsman or industry body to which you can make complaints about the Shares.

There is no approved dispute resolution scheme under which you can make complaints about the Shares.

What Other Information Can I Obtain About This Investment?

Offer Document And Financial Statements

This Offer Document and Mighty River Power's financial statements contain or refer to other information about the Shares and Mighty River Power.

You may obtain a copy of Mighty River Power's most recent financial statements, free of charge at www.nzx.com.

The Offer Document, financial statements and other documents relating to Mighty River Power are also filed on a public register at the Companies Office of the Ministry of Business, Innovation and Employment and are available for public inspection free of charge, including at www.business.govt.nz/companies.

If any significant adverse developments occur (prior to commencement of the bookbuild process, which is part of the process to be used by the Crown to determine the Final Price and the allocation of Shares), the Crown and Mighty River Power may advise investors of those developments by publishing advertisements in newspapers, with additional information on the Offer website www.mightyrivershares.govt.nz, pursuant to an exemption granted by the Financial Markets Authority under the Securities Act.

Annual Information

If you are a Shareholder at the relevant record date you will be entitled to receive Mighty River Power's annual report, with audited financial statements, and its half-yearly report. You will either receive this information automatically, or receive notification of your right to request this information.

Mighty River Power is also required to make annual and half-yearly announcements to NZX and, if listed, to ASX, and such other announcements as are required by the applicable listing rules. You will be able to obtain this information by searching under Mighty River Power's stockcode 'MRP' on NZX's website www.nzx.com or, if listed, 'MYT' on ASX's website www.asx.com.au.

On Request Information

If you are a Shareholder, you are also entitled to request copies of the following documents:

- the most recent financial statements of Mighty River Power required to be registered under the Financial Reporting Act 1993, together with a copy of the auditor's report on those statements;
- Mighty River Power's most recent annual report;
- this Offer Document (which is an investment statement and prospectus) and any registered document extending the Offer period; and
- a comparison of the actual results and returns of Mighty River Power against the prospective financial information and returns in this Offer Document, once available.

This information will be made available to you, free of charge, upon a request in writing being made to Mighty River Power at its registered office as set out in the Directory.

SECTION 2

INVESTMENT HIGHLIGHTS

IN THIS SECTION

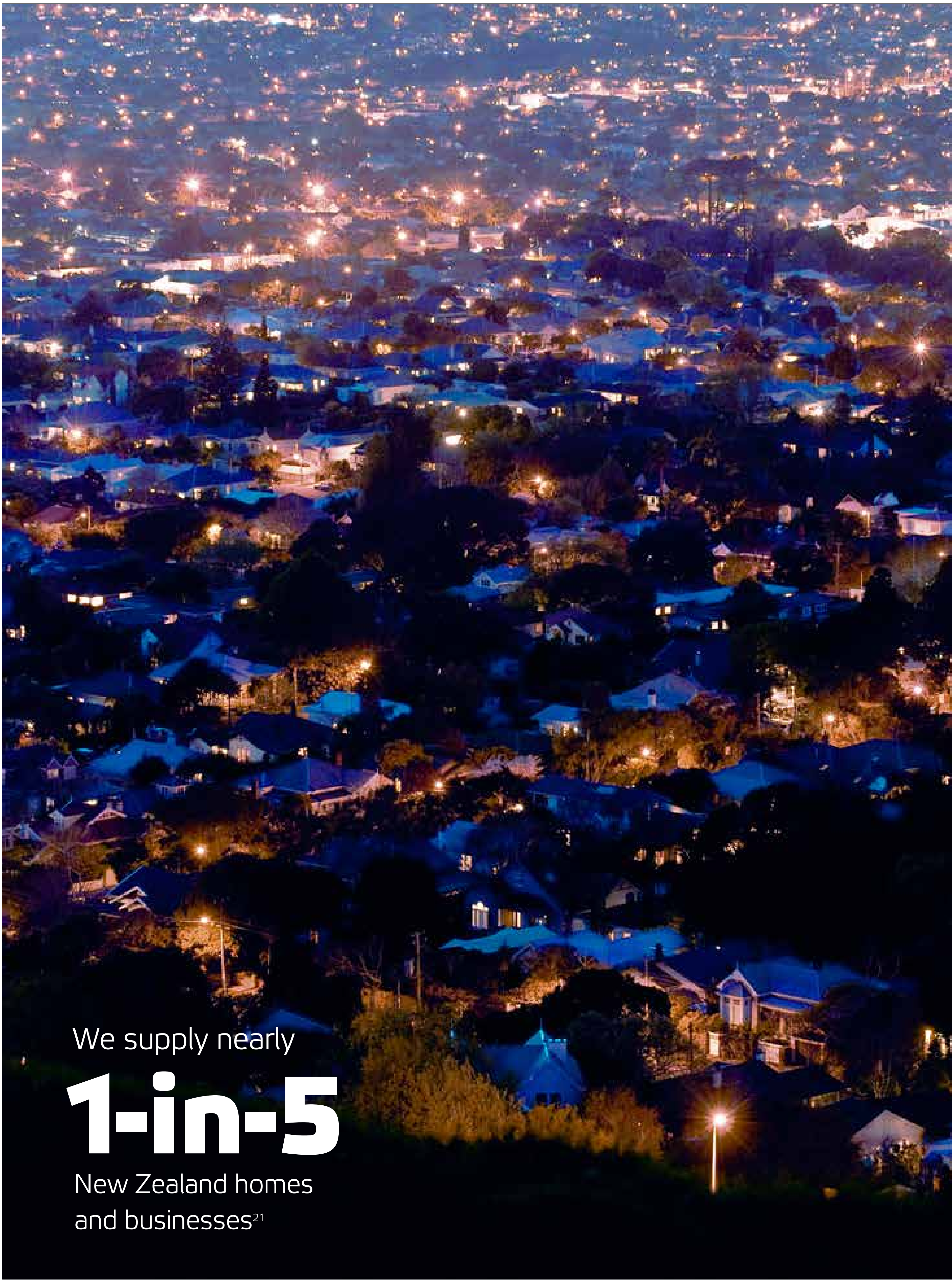
Why should you read this section?

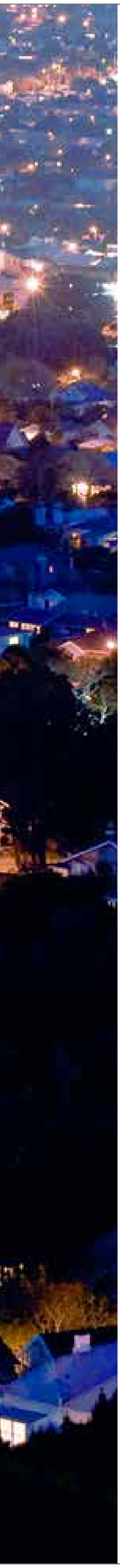
It provides you with an overview of the key strengths of Mighty River Power.

Your decision whether or not to invest in Mighty River Power Shares should be based on your consideration of this Offer Document as a whole and not just this section, which provides an overview of the key strengths of Mighty River Power.

As with any investment, there are risks associated with an investment in the Shares. Therefore, in particular you should consider the risk factors that could affect Mighty River Power's performance described under the heading "What Are My Risks?" in 1.4 Answers To Important Questions and in 5 What Are The Risks?

References are provided to the relevant sections of this Offer Document where more detailed information on the topics covered in this section can be found.


We supply nearly
1-in-5
New Zealand homes
and businesses[21]



Electricity...

We make it

One of New Zealand's largest electricity companies

Estimated market value of more than $3.2 billion[19]

Operating 9 hydro, 5 geothermal and 1 gas-fired power stations

Producing about 17% of New Zealand's electricity[20]

We sell it

To more than 390,000 customers[21]

We supply nearly 1-in-5 New Zealand homes and businesses[21]

Through multiple channels and retail brands

Because we make electricity and we sell it to customers, we can better manage earnings variability

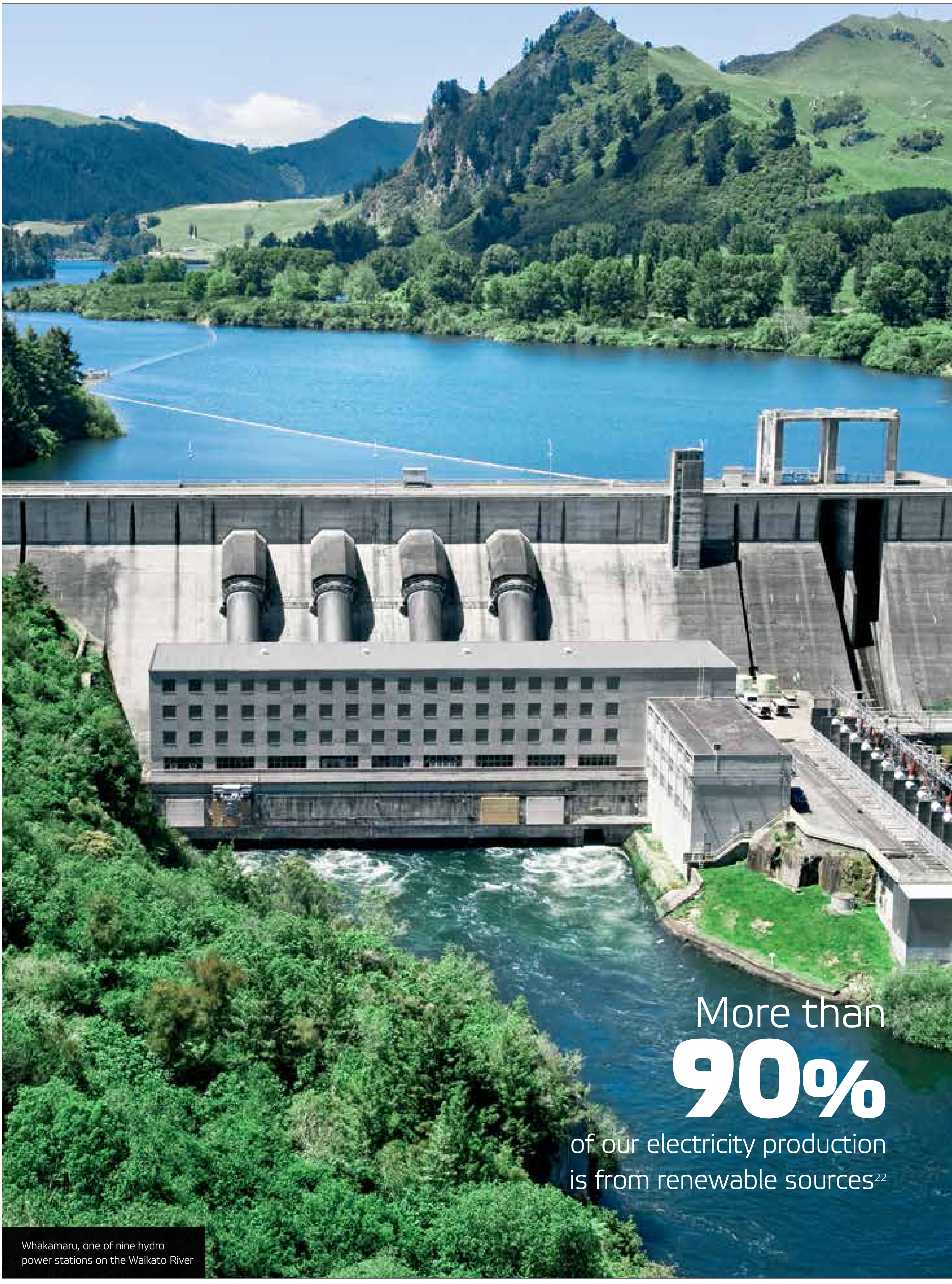
...everyone uses it

FIND OUT MORE Refer to 3 **Industry Overview**, 4.1 **Business Description** and 5 **What Are The Risks?** for more information.

19. Based on the low end of the indicative market capitalisation range.

20. Based on equity weighted generation volumes for the year ended 31 December 2012.

21. Based on aggregated residential and business ICPs as at 31 December 2012.



More than
90%
of our electricity production is from renewable sources[22]

Whakamaru, one of nine hydro power stations on the Waikato River

A good mix

More than 90% of our electricity production is from renewable sources[22]

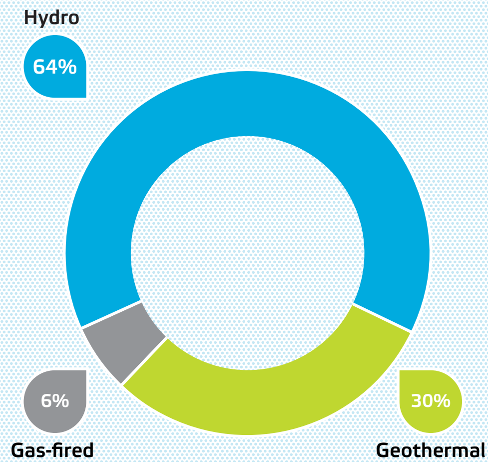
3 different and complementary fuel sources for electricity – steady base-load geothermal, flexible hydro and gas-fired generation

Core business is based on low fuel-cost hydro and geothermal generation

Gas-fired generation adds extra operating flexibility to improve returns and reduce earnings risk

Future growth options in geothermal and New Zealand wind generation projects

Mighty River Power Electricity Generation In 2012



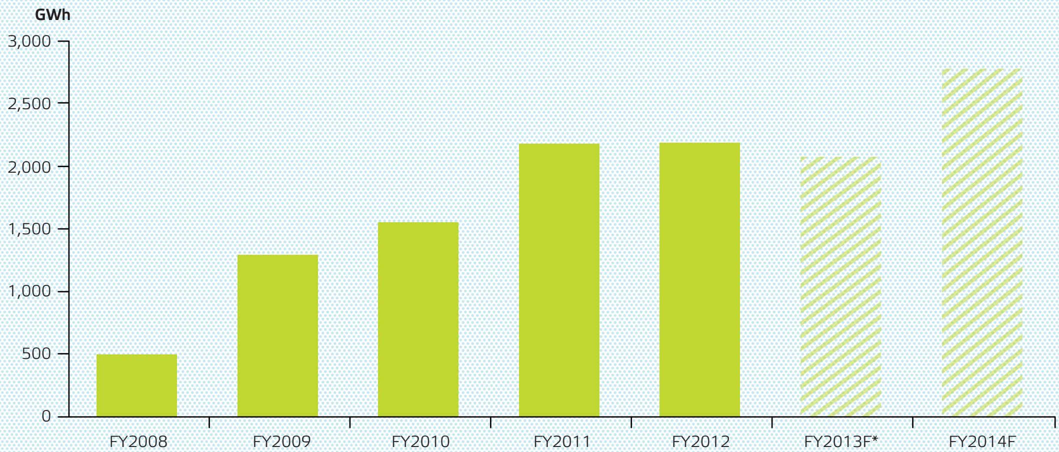
Equity weighted generation, which is generation based on Mighty River Power's percentage ownership of each power station

FIND OUT MORE Refer to **4.1 Business Description** and **5 What Are The Risks?** for more information.

22. The proportion of total equity weighted New Zealand generation for the year ended 31 December 2012 that is generated by a renewable resource, based on Mighty River Power's percentage ownership of each power station.

Nga Awa Purua, 138 MW geothermal power station

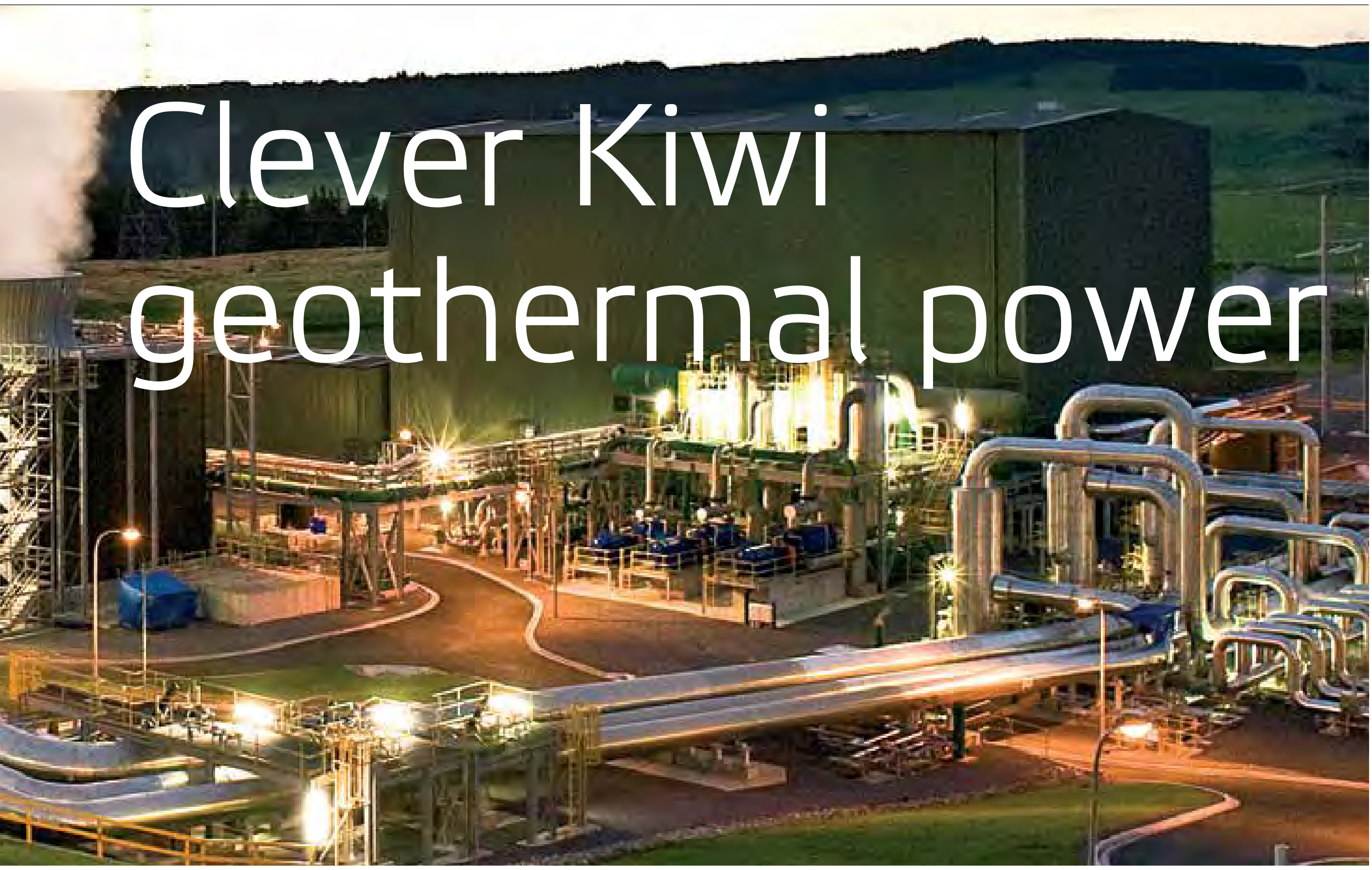
Mighty River Power's New Zealand Geothermal Growth



Equity weighted generation, which is based on Mighty River Power's percentage ownership of each power station

* Mighty River Power's equity in the Nga Awa Purua power station reduced from 75% to 65% in April 2012

Clever Kiwi geothermal power



One of the world's largest geothermal power station owners[23]

Reliable renewable geothermal generation – normally runs 24/7, operation not dependent on the weather

Geothermal energy provides 30% of our generation output,[24] expected to increase to about 40% with the new Ngatamariki power station

Strong long-term commercial partnerships with Māori landowners to develop and harness geothermal resources

Track record and Kiwi geothermal expertise being applied internationally

Investing in international geothermal development opportunities

First international investment project operational in March 2012

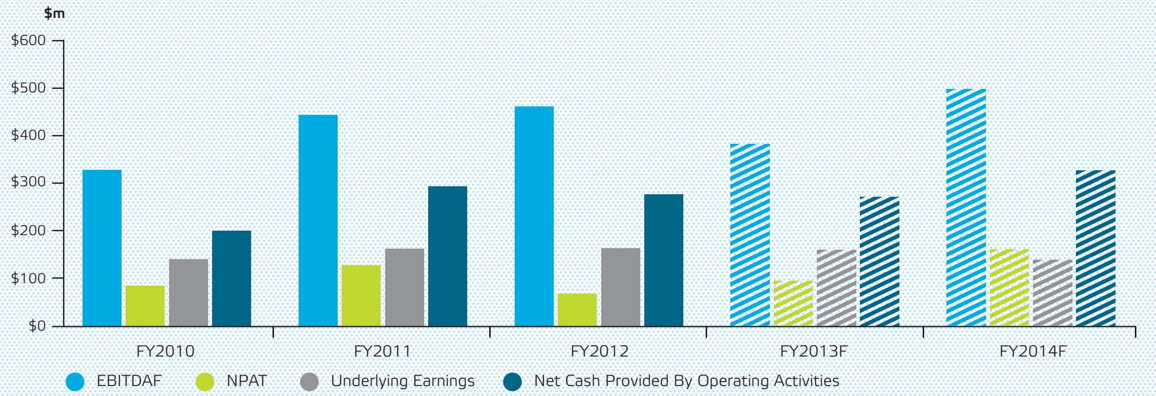
FIND OUT MORE Refer to **4.1 Business Description** and **5 What Are The Risks?** for more information. You should read the selected prospective information presented here in conjunction with the assumptions and basis of preparation set out in **6.3 Prospective Financial Information**. There is no guarantee that the prospective financial information will be achieved.

23. Based on installed generation capacity as at September 2012, Mighty River Power was ranked the 13th largest owner of geothermal power stations worldwide by the Institute of Geosciences and Earth Resources.

24. For the year ended 31 December 2012.

Generating electricity, generating results

Selected Financial Information[26]



Ngatamariki geothermal development, scheduled to be commissioned in mid 2013

Forecast cash dividend yield of 4.6% to 5.5%[25] for FY2014F

11% average annual growth in operating earnings (EBITDAF)[26] over past five financial years

Successful track record in geothermal development. Invested $1.4 billion in geothermal assets between 1 July 2005 and 31 December 2012

Major projects completed in 2008 and 2010 have contributed positively to earnings and increased asset valuations

New geothermal power station expected to enhance operating earnings (EBITDAF)[26] beginning FY2014F

FIND OUT MORE Refer to 4.1 **Business Description**, 5 **What Are The Risks?** and 6 **Financial Information** for more information. You should read the selected prospective financial information presented here in conjunction with the assumptions and basis of preparation set out in 6.3 **Prospective Financial Information**. There is no guarantee that the prospective financial information will be achieved.

25. Calculated as prospective DPS for FY2014F divided by the Indicative Price Range. Mighty River Power's dividend policy is set out under the heading "What Returns Will I Get?" in Section 1.4 Answers To Important Questions. The payment of dividends is not guaranteed and Mighty River Power's dividend policy may change.

26. A reconciliation of EBITDAF and Underlying Earnings is set out in Section 6.1 Overview Of Operational And Financial Information and Section 6.4 Non-GAAP Financial Information.

Dr Michael Allen | Prue Flacks | Tania Simpson

Keith Smith | Trevor Janes, Deputy Chair | James Miller

OVERALL ENERGY COMPANY OF THE YEAR

INNOVATION IN ELECTRICITY AWARD

ENERGY EXECUTIVE OF THE YEAR

ENERGY RETAILER OF THE YEAR

OVERALL ENERGY COMPANY OF THE YEAR

ENERGY PROJECT OF THE YEAR

Joan Withers, Chair

Dr Doug Heffernan, Chief Executive

A mighty team

Experienced board with diverse skills, chaired by Joan Withers

Chief Executive, Dr Doug Heffernan, has led the Company for more than 14 years, delivering growth in shareholder value

Management team with depth of experience in the electricity sector as well as other industries

Strength of Mighty River Power brand helps attract and retain high calibre employees

The Crown will remain the cornerstone, majority shareholder

FIND OUT MORE Refer to 4.2 **Board, Management And Corporate Governance** and 5 **What Are The Risks?** for more information.

Mighty River Power supplies electricity to more than
390,000 New Zealand homes and businesses

SECTION 3

INDUSTRY OVERVIEW

IN THIS SECTION

Why should you read this section?

You will get an overview of the New Zealand electricity industry, which will assist you to better understand Mighty River Power's business and financial information as well as the risks associated with an investment in Mighty River Power.

This section provides an overview of the New Zealand electicity industry generally. How these general features of the industry affect Mighty River Power's business and your investment in Shares is described in 4 About Mighty River Power, 5 What Are The Risks? and 6 Financial Information. You should read the industry overview in conjunction with those sections.

This section of the Offer Document contains information which has been sourced from the New Zealand Government and its agencies, including the Electricity Authority, Statistics New Zealand, the National Infrastructure Unit, Transpower and the Ministries of Business, Innovation and Employment, and for the Environment. Limited information has also been sourced from NZX.

The Electricity Sector

Electricity is an essential service for all sectors of the New Zealand economy, including the household sector. Residential electricity usage is largely driven by population, while commercial and industrial usage tends to be driven by economic activity.

New Zealand's population (now 4.4 million) has grown at an average rate of 1.3% per annum over the last decade. New Zealand's most populous region, greater Auckland, is also one of New Zealand's fastest growing regions. The majority of New Zealand's industrial electricity demand comes from the wood, pulp, paper and printing industries and from the basic metals sector.

New Zealand experienced an economic recession in the years ended 31 March 2009 and 31 March 2010. Persistent poor global economic conditions combined with the 2010 and 2011 Christchurch earthquakes have slowed the recovery of New Zealand's economy and growth in electricity usage.

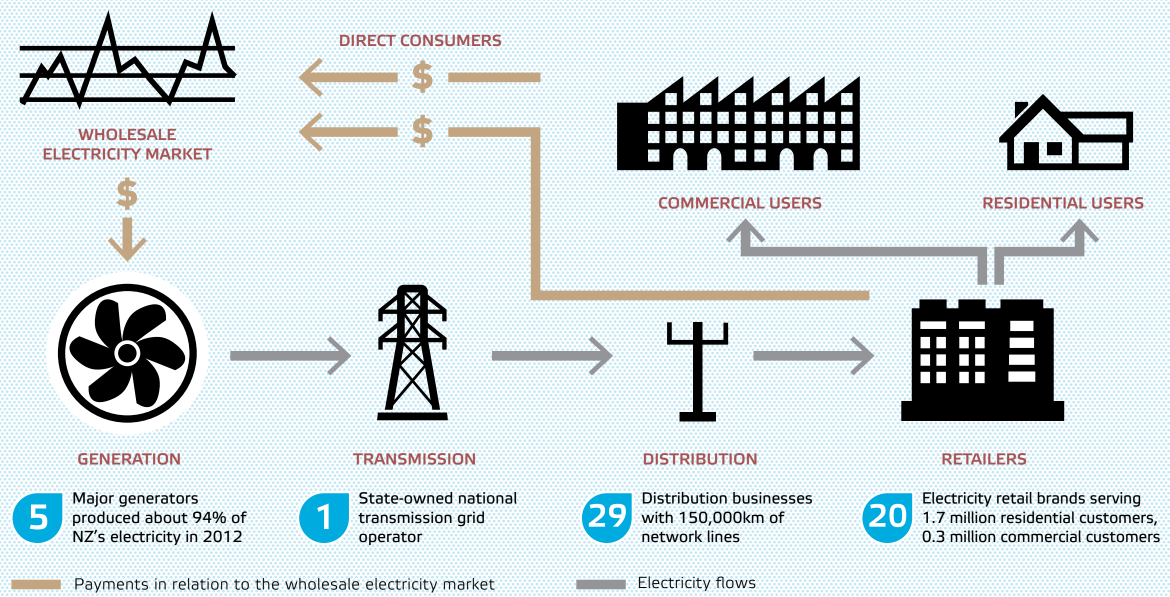
The New Zealand electricity market comprises the following key participants:

- **Generators** – generate electricity at power stations throughout the country and sell that electricity to the wholesale spot market.
- **The National Grid** – Transpower, an SOE, is the owner and operator of the national grid which comprises the towers, wires and cables that transport electricity at high voltages from power stations to distribution networks and directly to large industrial users throughout the country. Transpower is also the System Operator, and in this role is responsible for scheduling electricity generation to meet consumer demand and for the maintenance of system voltage and frequency.
- **Distribution Network Owners** – own the distribution networks that carry electricity from the national grid to residential, commercial and some industrial users. There are currently 29 businesses that operate distribution networks.
- **Retailers** – buy electricity from the wholesale spot market and on-sell it to end consumers, at market prices determined by each electricity retailer.
- **Consumers** – nearly two million, ranging from households to large industrial users, may choose supply from any retailer operating in their area.
- **Regulators** – the Electricity Authority oversees the electricity market. A number of other regulatory authorities also have roles (refer to the "New Zealand Regulatory Framework" section below).

Most New Zealand electricity generation and retailing is undertaken by five large, vertically integrated generator/retailers (often referred to as gentailers): Mighty River Power, Contact Energy, Genesis Energy, Meridian Energy and TrustPower.

Collectively, these companies generated 94% of New Zealand's electricity in 2012[27] and provided retail services to approximately 94% of end consumers by customer numbers (ICPs) as at 31 December 2012. Of these, Mighty River Power, Genesis Energy and Meridian Energy are currently 100% Crown owned while Contact Energy and TrustPower are privately owned and have their shares quoted on the NZX Main Board.

New Zealand Electricity Industry



Generation

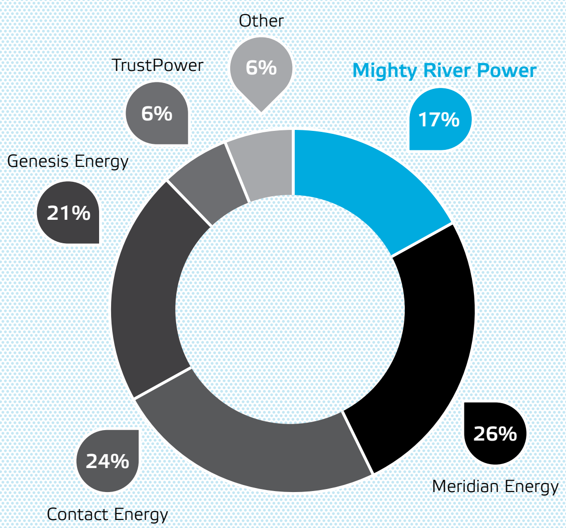
New Zealand's total installed generation capacity is approximately 10,000 MW. More than half of generation in 2012 was from hydro stations. Around 73% was from renewable sources – including geothermal, wind, biomass and solar as well as hydro. Unlike some other countries, New Zealand does not directly subsidise renewable generation.

Other fuel types in New Zealand's generation mix include coal, oil/diesel and natural gas. These fuel types are increasingly being used on an 'as required' basis when demand or wholesale electricity prices are high or when supply from other sources is constrained or limited.

Most of New Zealand's hydro power stations have limited storage capacity as a result of lake sizes, regulated lake level operating ranges or minimum flow constraints on rivers. For example, Lake Taupo, located in the North Island, has 569 GWh of maximum storage and maximum hydro lake storage in the South Island is approximately 3,450 GWh. Total hydro generation in New Zealand in 2012 was approximately 22,000 GWh.

This combination of high dependence on hydro generation and a generally low level of storage capacity means that hydrological conditions (higher or lower than average rainfall or snowmelt) can have significant impacts on electricity supply, and therefore wholesale prices. North Island hydro systems are largely reliant on rain, of which most falls in winter. The South Island is significantly reliant on snowmelt, most of which occurs in the summer months. Further information on electricity price variability is set out below under the heading "Electricity Market Mechanics".

Electricity Generation By Company In 2012



Assumes, with the exception of Mokai and Nga Awa Purua, power stations are 100% owned by the plant owner denoted by the Electricity Authority

Transmission And Distribution

Transmission

The transmission network uses high voltage direct current (HVDC) to transfer electricity between the North Island and South Island and high voltage alternating current (HVAC) to transmit electricity around the rest of the national grid. Transmission is relevant for electricity generators and retailers mainly because the cost of transmission affects returns and transmission constraints can affect wholesale electricity prices.

Transmission network charges are designed to allow Transpower to recover the full economic costs of providing the transmission services, including a return on investment, and are imposed on generators, distributors and industrial consumers that connect directly to the national grid. Charges are regulated by the transmission pricing methodology which is approved by the Electricity Authority. Historically, the majority of transmission network charges have been imposed on distributors and have typically been passed on to consumers via electricity retailers.

The transmission pricing methodology is currently under review by the Electricity Authority with potentially significant changes to the calculation and allocation of charges being proposed. Under the Electricity Authority's proposal, generators and retailers may face increased transmission charges. The Electricity Authority's proposal has implications in respect of:

- the ability of generators to pass on increased charges to consumers; and
- income from existing PDAs.[28]

The Electricity Authority is now consulting on the detail of the proposed new transmission pricing methodology and has indicated that implementation is unlikely before 2015. The potential impacts of the Electricity Authority's proposed new methodology are uncertain at this point but may be significant.

The Commerce Commission is responsible for evaluating and approving capital expenditure proposals prepared by Transpower and for overseeing the efficiency, quality and pricing of electricity lines services.

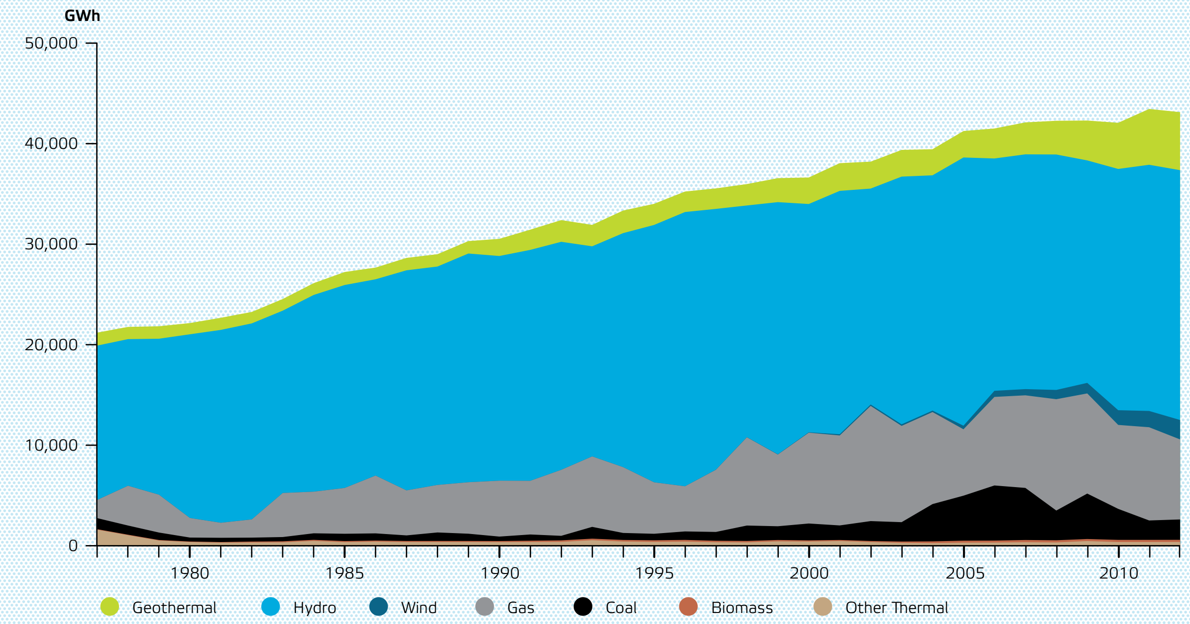
27. Generation by plant operator for the year ended 31 December 2012 equity weighted to reflect Mighty River Power's percentage ownership.

28. PDAs allow distribution companies to receive discounts on lines charges paid to Transpower by having generators connected or physically or notionally 'embedded' within local distribution networks. The benefits of these discounts can be shared between the generators and the distribution companies.

Selected Power Station Types

Fuel	Hydro	Gas	Geothermal	Coal	Wind
% Total NZ Electricity Generated in 2012	54%	20%	14%	7%	5%
Energy Source	Hydro power stations normally generate electricity by releasing water stored behind a dam and passing it through turbines that are directly coupled to generators. The water is not consumed by the power station	There are a number of types of gas power station which each utilise gas differently, but operate on the same principles of using gas combustion or to generate heat and turn a turbine which is coupled to a generator	Geothermal fluid from reservoirs deep underground is piped to the surface There are a number of types of geothermal power station which utilise geothermal fluid differently, but in all cases the energy (as represented by heat and pressure) from the fluid is used to turn a turbine Pressure in the underground reservoirs can be maintained to provide sustainability by injecting fluid back into the reservoir	A boiler heated by burning coal creates steam, which drives a steam turbine and coupled generator	A wind turbine drives a generator
Build and Running Costs	Generally expensive to build, but relatively low operating cost	Lower upfront construction cost relative to renewable generation, but relatively more costly to run due to on-going fuel costs Wholesale natural gas prices in New Zealand have increased in the past 10 years, from an average of $2.84 per gigajoule in 2001 to $7.13 per gigajoule in 2011	Relatively high upfront cost but modest running cost Usually requires additional wells to sustain fluid production over the life of the power station	Lower upfront construction cost than some renewables, but relatively more costly to run due to on-going fuel costs	Moderately expensive to build but low running cost
Fuel Availability	Location dictated by water resource availability Generation reliant on hydrological conditions and hydro lake inflows and storage	Dependent on on-going gas availability Not generally vulnerable to climatic conditions	Must be located near source of underground heat or steam (geothermal reservoir) Operation generally not affected by climatic conditions	Coal can be stored Less vulnerable to climatic conditions provided coal supply is secure	Variable as reliant on wind conditions
Running Time and Output	Generation dependent on hydro inflows from rainfall / snowmelt and lake storage levels	Subject to gas availability and consents, can potentially run at full capacity most of the time Flexibility of operation varies depending on type of station	Base-load generation. Geothermal power stations run at full capacity output approximately 95% of the time	Subject to coal availability and consents Can potentially run at full capacity most of the time	Low to moderate utilisation Variable output dependent on wind conditions
Environment	Some environmental impact due to construction or operation, but negligible greenhouse gas emissions from operation	Emits gases including greenhouse gases, although proportionally less than standard coal power stations based on output	All New Zealand geothermal sources in the central North Island release some greenhouse gases but significantly less than gas, oil or coal generation	Emits relatively high levels of greenhouse gases and other pollutants	Construction and operation have some environmental impact No greenhouse gas emissions during operation

New Zealand Electricity Generation By Fuel Type



Transpower has an extensive investment programme underway, involving estimated expenditure of $5 billion over ten years. This expenditure is expected to be recovered by Transpower over time through the transmission pricing methodology. Major projects now underway include: the HVDC Pole 3 project (targeting winter 2013 completion), the North Auckland and Northland Upgrade (targeting 2014 completion) and the Wairakei-Whakamaru C Line project (targeting late 2013 completion). These developments are expected to replace end of life assets and increase capacity in the North Island and on the HVDC link.

Distribution

Electricity distribution to consumers in New Zealand is conducted by 29 regional distribution businesses (also often called lines companies or network companies).

In New Zealand, ownership separation must exist between distributors and generators above certain capacity thresholds. Corporate separation requirements and arm's-length rules also apply in limited circumstances around localised generation and retailing.

Because the scope for competition in electricity distribution is limited, the prices that distribution businesses can charge are regulated by the Commerce Commission. Distribution costs (also called lines charges), which comprise fixed and variable components, are charged to retailers, which then incorporate the charges into their retail pricing.

Retailers

Most New Zealand consumers buy their power from electricity retailers. Retailers buy electricity at connection points to the grid and on-sell it to consumers at individual connection points at the consumers' premises. The retailers generally arrange distribution, installation of appropriate metering, meter reading, billing and payment collection. Retail electricity prices are determined by competition among the nation's electricity retailers and, aside from a requirement to provide an optional low user tariff, are generally not directly regulated.

The typical retail contract is a fixed price variable volume (FPVV) contract, which allows consumers to use as much electricity as they want at a fixed price per unit. Retailers generally reserve the right to change the price charged under FPVV contracts and consumers can usually terminate their contracts with minimal notice periods.

The extent of retail competition varies across New Zealand but almost all electricity consumers have a choice of retailer — up to nine in some areas. Notwithstanding relatively low legislative barriers to entry and customer switching between retailers, the five largest retailers (Mighty River Power, Contact Energy, Genesis Energy, Meridian Energy and TrustPower) had a combined 94% market share (by ICPs) as at 31 December 2012.

The rate at which customers switch their supply arrangements is one indicator of the level of competition in the retail electricity market. Switching suppliers is commonly referred to as 'churn'. Churn occurs in response to retail pricing, brand differentiation, customer service delivery or product offerings and to economic activity, including new houses/businesses and home/business relocations. In 2011, the Consumer Switching Fund established by the Government began operating the 'What's My Number?' marketing campaign, which promotes the benefits of comparing and switching electricity retailers. This campaign may have been a factor in the churn that has occurred in the past two years.

Consumers

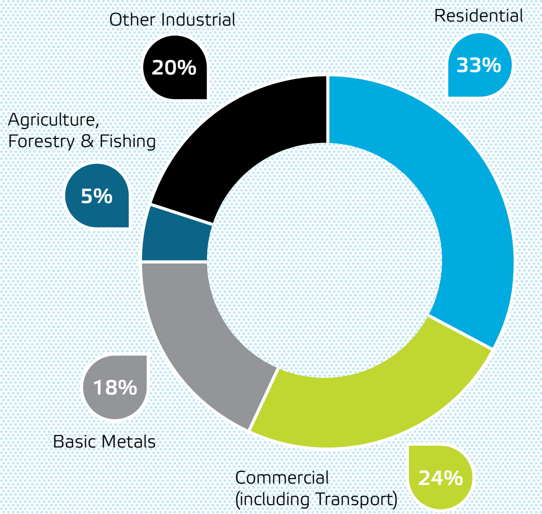
Total electricity consumption in New Zealand in 2012 was approximately 37,500 GWh. The Auckland area accounted for about a quarter of this. There are approximately two million individual electricity consumer connections in New Zealand.

Residential households accounted for approximately a third of total electricity consumption by volume (GWh) and 87% by ICPs. Most residential demand is for water heating, space heating and refrigeration. The commercial sector (which comprises most New Zealand businesses) and the industrial sector (which is made up mostly of large manufacturing businesses) are also significant consumers. New Zealand Aluminium Smelters (NZAS) (of which 79.4% is owned by Rio Tinto and 20.6% is owned by Sumitomo Chemical Company Limited), the operator of the Tiwai Point aluminium smelter (discussed further below), is the largest single user of electricity in the country (accounting for approximately 13% of national electricity demand in 2012).

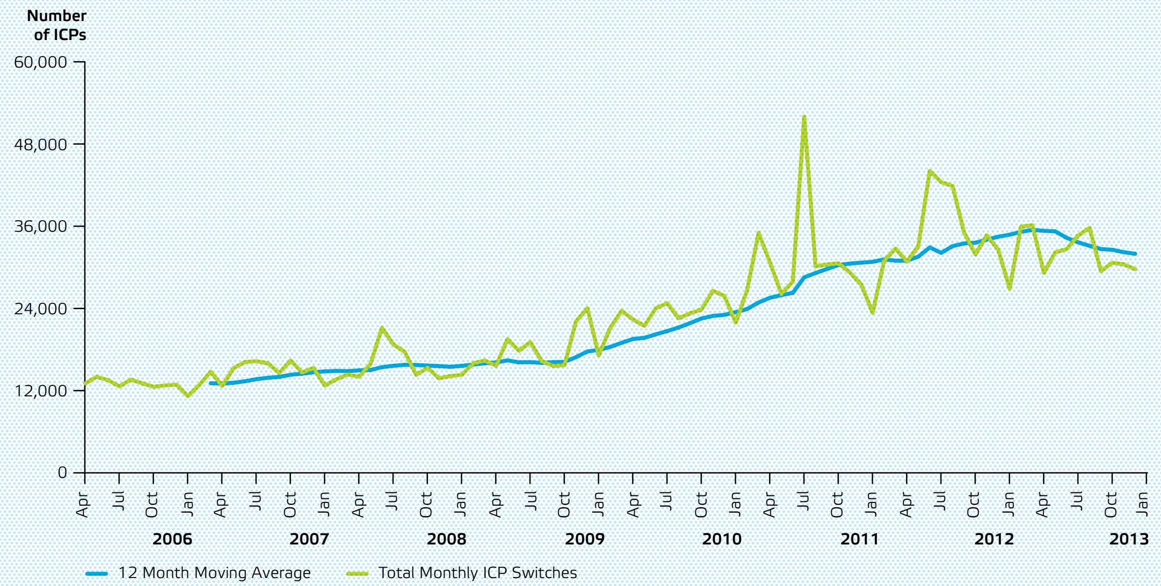
Although national electricity consumption increased at an average annual rate of 1.8% in the ten years to 2007, in the last five years consumption has been relatively flat with demand declining in four of the last five years. This is due to a combination of factors, including the economic recession and continuing poor economic conditions, reduced demand from the Tiwai Point aluminium smelter, reduced demand in the wake of the 22 February 2011 earthquake in Canterbury and a lack of growth in large industrial manufacturing.

Residential demand was relatively steady over this five year period, but there was a decline in industrial consumption. Norske Skog shut one of its two paper production lines at Kawerau in January 2013.

Electricity Consumption By Sector In 2011



Monthly National Consumer Retailer Switching



The switching total for July 2010 includes a change in retailer for approximately 21,000 ICPs which were not customers proactively switching retailers

Electricity consumption follows daily and seasonal patterns. Monthly demand can be as low as 2,700 GWh in warm months (for example, February) and can exceed 3,600 GWh at peak times during winter (July and August).

Although New Zealand electricity use has historically been highest on cold winter evenings, the increasing use of farm irrigation and domestic air conditioning means that some regions now experience summertime peak demand.

Tiwai Point Aluminium Smelter – Meridian And NZAS

Recent developments

NZAS reduced its demand for electricity in 2012 and announced in August 2012 that low prices for aluminium were causing it to review the Tiwai Point smelter operations. NZAS said it would work with its key suppliers and stakeholders to reduce costs. These include Meridian Energy, which has a contract with NZAS relating to electricity (the Tiwai Contract). Meridian Energy also announced in August 2012 that it had been approached by Pacific Aluminium (the business unit of Rio Tinto responsible for the smelter) to discuss potential changes to the contract it has with NZAS, and entered confidential negotiations regarding those potential changes.

On 28 March 2013 Meridian Energy and Pacific Aluminium made announcements regarding the status of their negotiations. Meridian Energy announced that a major gap remains between them such that it believes that it is unlikely that an agreement can be reached, while Pacific Aluminium announced that progress is being made in the negotiations and that it believes a commercial agreement can be reached. As at the date of this Offer Document, those negotiations between Meridian Energy and Pacific Aluminium are continuing. On the same day the Government announced that it had been in contact with Rio Tinto and Pacific Aluminium and had offered to partially close the gap in the short to medium term on certain conditions. That offer was not accepted by Rio Tinto and Pacific Aluminium.

No assurance can be given that negotiations between Meridian Energy and Pacific Aluminium will be successfully concluded or that the Government will assist those parties by providing any financial or other support to partially bridge any gap between them.

The Tiwai Contract

NZAS purchases the electricity it consumes at the smelter from the wholesale electricity market paying the wholesale price for the volume taken. Meridian Energy sells electricity generated at Manapouri into the wholesale market, receiving the wholesale price. The Tiwai Contract, which took effect from 1 January 2013, is a CFD for 572 MW of electricity, rather than a supply agreement. The combination of NZAS's electricity purchases and the CFD has the effect of fixing the price that NZAS pays for 572 MW of electricity at the strike price specified in the CFD. Under the Tiwai Contract, Meridian Energy pays NZAS the wholesale price for the contracted volume of 572 MW and NZAS pays Meridian Energy the strike price for the same contracted volume. The strike price of the CFD is confidential to Meridian Energy and NZAS. As long as the CFD remains in force, regardless of whether NZAS consumes electricity or not, NZAS is required to make payments to Meridian Energy to the extent that wholesale electricity prices (at the location specified in the contract) are below the strike price. Those payment obligations of NZAS for 572 MW of electricity remain in place until at least 1 January 2016 and provide financial incentives for NZAS to continue to consume electricity at the smelter until that date. These payment obligations are obligations of NZAS and are not guaranteed by its shareholders or any other person.

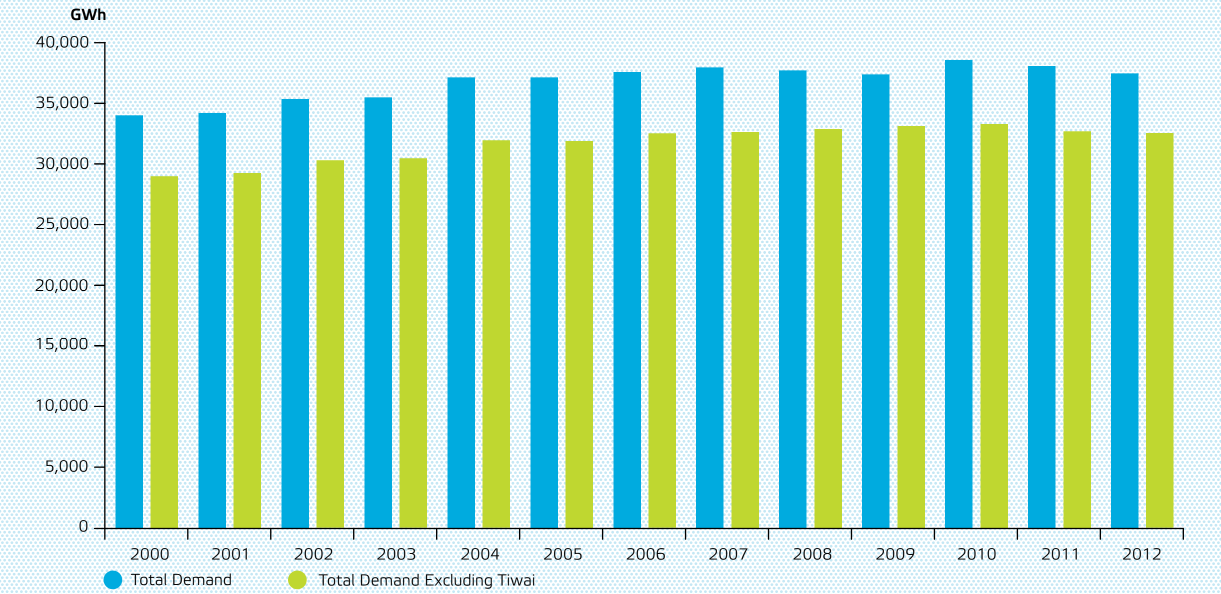
In addition if NZAS wishes to reduce consumption from 1 January 2016 more rapidly than the minimum two and a half year ramp-down period contemplated under the Tiwai Contract, NZAS is required to make a significant additional payment to Meridian Energy.

Notwithstanding the payment obligations under the Tiwai Contract described above, NZAS or its parent may decide to reduce consumption or close the smelter at any point and for any reason, including following any review of financial viability of the smelter. Rio Tinto and Pacific Aluminium have indicated that such a review is likely if the negotiations between Meridian Energy and Pacific Aluminium cannot be successfully concluded.

Consequences of significant reduction in electricity consumption

If NZAS were to significantly reduce its electricity consumption below 2012 levels, or to cease consumption altogether, the resultant drop in demand could lead to a sustained reduction in wholesale electricity prices (at the location specified in the contract) and in electricity prices generally. The size of these price reductions, both short-term and on-going, would depend on many variables, among them: the volume and timeframe of any phase-down from NZAS; the rate of residual New Zealand electricity demand growth; the impacts of any decreased demand at the Tiwai Point smelter and the resulting change in power flows on the transmission system; the transmission system's ability to accommodate those changes; the timing of any transmission infrastructure being available and the response by generators and electricity market participants. For example, a retirement of high cost thermal plant could reduce downward wholesale electricity price pressure.

Refer to 5 What Are The Risks? for further discussion of the risks associated with the Tiwai Point aluminium smelter.



Electricity Market Mechanics

The Wholesale Spot Market

The wholesale spot market matches the supply of electricity from generators with demand from users (electricity retailers and some large industrial customers) to set the wholesale spot price.

Wholesale spot electricity prices are set each half hour through an auction pricing mechanism whereby generators submit offers to sell electricity, and retailers and large consumers submit bids to buy electricity. There are auctions at each of the 52 grid injection points and 196 grid exit points around the country (also called nodes), representing the locations where electricity flows into and out of the national grid.

The lowest cost combination of generation offers which satisfy demand are accepted. The spot price for the half hour is normally determined by the highest price within the accepted combination of offers. There is no regulatory cap to the price that can be offered by electricity generators.

The vertically integrated gentailers do not directly generate the electricity required to supply their customers, but purchase it from the wholesale spot market. The fact that they are on both sides of the wholesale spot market (as sellers and buyers) allows them to better manage the risk of wholesale spot price variability. For example, if wholesale electricity prices rise, the gentailer can at least partially balance the increased cost for its retail business with the higher wholesale prices it receives from its generation business – and vice versa if wholesale prices fall.

Wholesale electricity prices are typically higher in winter months when demand is higher. However, prices also move in response to such other factors as hydro lake inflows or storage levels, power station or transmission outages and competitor behaviour. The price movements can occur over either short half hour trading periods or more sustained timeframes.

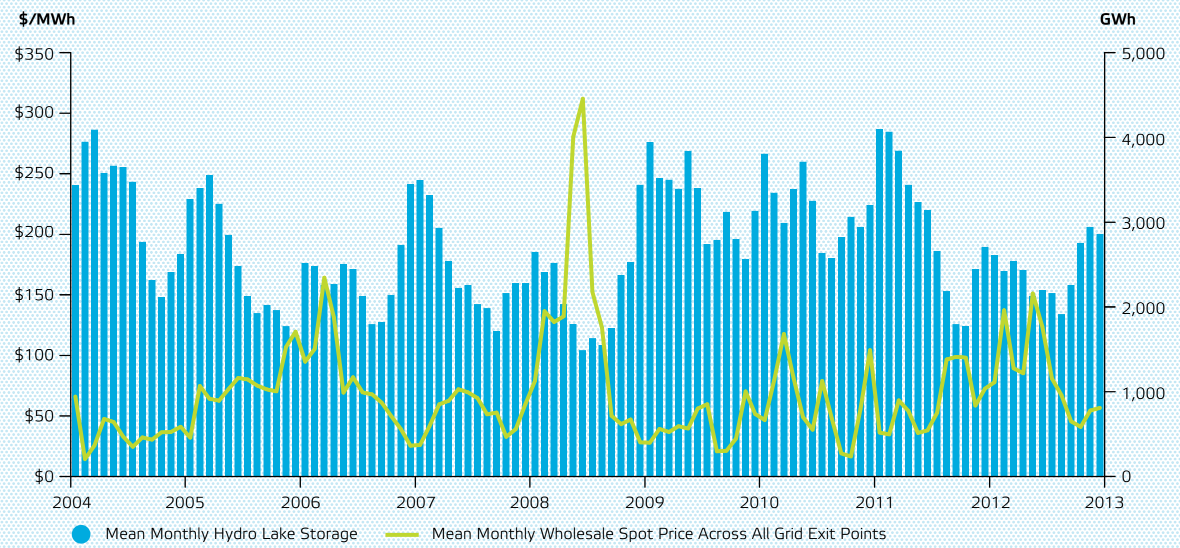
The graph at right shows the sharp spike in the mean wholesale electricity price which occurred in the winter of 2008 due to low hydro lake storage.

For a discussion of recent wholesale electricity price movements and their impacts on Mighty River Power, refer to 6.2 Analysis Of Historical Financial And Operational Performance.

Prices also vary by location, sometimes significantly, depending on the costs of distributing electricity from the point of generation to consumers or as a result of short-term transmission constraints on the flow of electricity through the national grid.

These transmission constraints (both planned and unplanned) can create situations of over supply and under supply in local markets, leading to either lower or higher wholesale prices – depending on the volume of generation available in each region. An example of an area which can experience constraints is the HVDC link between the North and South Islands. Transpower's grid investment programme is designed to address some of these constraints.

Wholesale Electricity Prices And National Hydro Storage



Electricity Contracts And Financial Contracts Markets

Buy-side and sell-side contracts (also called derivatives or hedge contracts) are generally used to hedge the risk of wholesale electricity price movements or where a company believes it can improve returns by fixing a future electricity price. Generators enter into these contracts with other generators, large industrial consumers and independent retailers, or through the New Zealand Electricity Futures and Options market (described further below).

The contracts for electricity fall into two broad types:

- those that are designed as sale or purchase products in the normal course of business to meet customer requirements and provide certainty (typically FPVV contracts); and
- those that are designed to manage price separation risk (either between retail and wholesale electricity prices or location price differences caused by transmission or market constraints).

Contracts negotiated directly between buyers and sellers to agree on volume and price are known as over the counter or OTC contracts. An alternative is to contract on the New Zealand Electricity Futures and Options market operated by ASX. This market allows trading of standardised contracts based on the prices at either the Otahuhu node in the North Island or the Benmore node in the South Island. ASX volumes for New Zealand electricity futures and options, and open interest contracts (contracts that have not been settled), have increased since trading commenced in July 2009, giving market participants more options to manage risk.

The Frequency Keeping And Reserves Markets

Providers of frequency keeping services (managing normal frequency fluctuations within a band as required by the System Operator, Transpower) submit offer prices on the frequency keeping market and the System Operator selects the lowest cost provider for each half hour.

As at the date of this Offer Document, Contact Energy, Genesis Energy and Mighty River Power provide frequency keeping services in the North Island and Contact Energy and Meridian Energy in the South Island.

'Reserves' of generation are required by the System Operator to ensure that the frequency of the electricity system remains at around 50 Hz in both the North and South Islands in the event that the largest generator suddenly stops production.[29] Generators submit offer prices to provide these reserves. The System Operator operates a pricing model in respect of the wholesale spot market and reserve market to provide the lowest cost to the consumers.

29. Frequency is an indication of the rotational speed of the generating plant connected to the national grid. The frequency of an alternating system, such as the main system in New Zealand, is the number of times per second that the current passes through a complete cycle of forward or reverse flow.

New Zealand Regulatory Framework

The New Zealand electricity industry is governed by both general and sector-specific Acts and regulations and by a number of regulatory authorities. This structure has been fairly settled since 1999 after a period of significant structural reform in the mid to late 1990s. Those reforms included:

- regional electricity retail and distribution monopolies dissolved (April 1994);
- Contact Energy commences trading as a state-owned generator competing with Electricity Corporation of New Zealand (ECNZ) (February 1996);
- wholesale electricity market established, allowing prices to be set through a competitive bidding process (October 1996);
- Electricity Industry Reform Act 1998 passed, requiring full separation of distribution businesses from generation and retail businesses (July 1998);
- ECNZ split into three competing state-owned generators and retailers – Mighty River Power, Genesis Energy and Meridian Energy (April 1999); and
- Contact Energy privatised and listed with NZX (May 1999).

Relevant Industry Legislation

Resource Management Act 1991

The Resource Management Act 1991 (RMA) regulates the use of New Zealand's natural and physical resources. The RMA generally requires that environmental approvals (usually resource consents) be obtained for the use of land, water, air and geothermal fluid and for any major electricity generation projects. Such consents must be sought by all electricity generators regardless of whether they are state-owned or privately owned.

Environmental approvals will be granted only if they meet the RMA's purpose of promoting the sustainable management of natural and physical resources. Environmental approvals are issued under the RMA by local or regional councils and are subject to conditions that must be complied with. These are usually issued for a finite term, and may be subject to regular review within that term.

Additional or altered consent conditions may be imposed, or in limited circumstances a consent may be cancelled, as a result of a review. Consent authorities cannot use the review process to change the consent duration and may only make significant changes to a consent after considering whether the activity permitted by the consent will continue to be viable after the change.

National, regional and local policy approaches, effects on the environment, competition for natural resources, and whether or not there are persons adversely affected by a consent holder's operations can influence the resource consent review process.

Resource consents are not renewed automatically at expiry but, if there is no history of adverse effects on the environment and there has been no major change in the relevant planning documents, consent holders can normally expect a positive decision.

Recent amendments to the statutory framework have increased the protections for resource users. Provided that an application for renewal is lodged well ahead of when the consent expires, the consent holder will be given preferential treatment in the processing of the application and priority over any new competing claims to the use of the resource.

Ministerial 'call-ins', legislated for in 2005, are used to streamline the consenting process for projects of national significance, which may include electricity generation projects. A Ministerial call-in allows the Minister for the Environment to recommend that an application be dealt with by a Board of Inquiry or the Environment Court instead of the relevant regional or local authority. This provides improved certainty and efficiency in decision-making. Five electricity generation projects have been called-in to date.

The Minister for the Environment has the ability under the RMA to issue National Policy Statements (NPS), which provide nationwide guidance, and National Environmental Standards (NES), which establish mandatory standards, for regulatory decision-makers. The NPS for Renewable Electricity Generation 2011 (which gives recognition to the benefits of renewable electricity generation), the NPS for Freshwater Management 2011 (which requires regional councils to set quality and quantity limits on freshwater usage, including for hydro generation) and the proposed NES on Ecological Flows and Water Levels (which aims to promote consistency across New Zealand in regulatory decision-making on flows and water levels) can influence the issuance of resource consents in the energy sector.

Further details on the allocation of water resources are included under the heading "Water Rights" in 4.1 Business Description.

District and regional plans, which regulate activities and how they may be consented, can also have consequences for electricity generators. For example, the Waikato Regional Council's water allocation policy and any abstraction consents it grants may, depending on the volume of water permitted to be abstracted, have a material effect on the flow of water in the Waikato River available for hydro generation.

The Crown is entitled to charge an annual fixed royalty under permits (a type of resource consent) involving the use of geothermal energy, at a rate calculated by reference to wellhead pressure. However, the Crown is not currently requiring payment of any such royalty and the imposition of such a royalty is not currently being considered by the Ministry for the Environment.

Gas Act 1992

The Gas Act 1992 regulates gas production and processing, transmission, distribution and gas appliances and installation in New Zealand. The Gas Industry Company acts as a co-regulator with the Ministry of Business, Innovation and Employment and the Commerce Commission.

Relevant Industry Regulatory Bodies

Electricity Authority

The Electricity Authority is an independent Crown entity established in 2010 to promote competition, efficiency and reliability of supply for the long-term benefit of consumers. It does this through market design, overseeing market operations and monitoring and enforcing compliance with market rules. The Electricity Authority also develops and administers the Electricity Industry Participation Code.

Commerce Commission

The Commerce Commission is an independent Crown entity, established under the Commerce Act 1986. It enforces legislation to promote competition and consumer protection in New Zealand markets and regulates those industries where effective competition does not exist and is not likely to exist in the future. The Commerce Commission has various industry specific regulatory functions in relation to the electricity industry, but these relate to markets where there is little or no competition and little prospect of future competition (for example, Transpower and the distribution businesses).

Other Government agencies

Several other agencies have important roles in relation to the energy sector, including:

- Ministry of Business, Innovation and Employment (previously known as the Ministry of Economic Development);
- Ministry of Consumer Affairs;
- Ministry for the Environment;
- Energy Efficiency and Conservation Authority;
- Electricity and Gas Complaints Commissioner;
- Gas Industry Company; and
- Environmental Protection Authority.

These Government agencies are described in more detail in 4.3 Relationship Between Mighty River Power And The Crown.

Emissions Trading Scheme

The ETS, introduced in 2008, is New Zealand's primary policy response to climate change. The ETS places a price on emissions, creating an incentive for businesses and consumers to respond to this cost and change their behaviour. Options for businesses include investing in energy efficiency (including renewable sources of electricity generation), offsetting emissions through planting trees, or mitigating the financial impacts by purchasing carbon credits.

The stationary energy sector (which includes all fuels used in electricity generation) has been required to report its emissions since 1 January 2010 and to surrender eligible greenhouse gas emission 'units' to the Government since 1 July 2010. A 'unit' is effectively a right to emit one tonne of carbon dioxide equivalent of greenhouse gas, and can be purchased on open markets in New Zealand and overseas.

Until full implementation of the ETS, emitters are required to surrender only one unit for every two tonnes of emissions and can buy units from the Government to meet their obligations at a fixed price of $25 per unit. These legislated transitional arrangements have been extended for an indefinite period, subject to a review in 2015.

During 2012 the market price of one New Zealand unit varied between $2.45 and $8.70. The Government has announced that it proposes to introduce a mechanism to make additional New Zealand units available by way of auction, which may have an impact on the market price.

100 MW Kawerau geothermal power station, owned and operated by Mighty River Power in the Eastern Bay of Plenty

SECTION 4

ABOUT MIGHTY RIVER POWER

IN THIS SECTION

Why should you read this section?

You will find out information about Mighty River Power's business, management and assets. You will also find out information about Mighty River Power's current and continuing relationship with the Crown.

Section 4.1: Business Description

Mighty River Power At A Glance

NEW ZEALAND

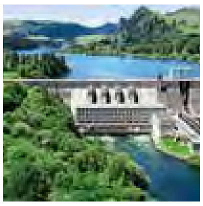
9
Hydro power stations





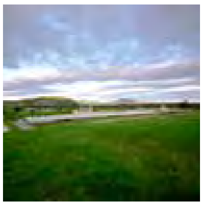






5
Geothermal power stations




1
Gas-fired power station

94%
generation from renewable sources in 2012[30]

Generates
17%
of New Zealand's electricity[31]

Supplies nearly
1-in-5
New Zealand homes and businesses[32]

Over 390,000
residential and business electricity customers[32]

Over
800
employees

INTERNATIONAL

Geothermal investments in United States and Chile

Overview

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

The Company generates about 17% of New Zealand's electricity from nine hydro stations on the Waikato River, four geothermal power stations in the central North Island and a multi-unit gas-fired station in Auckland. More than 90% of its electricity production is from renewable sources. Mighty River Power sells electricity through multiple channels and retail brands, including Mercury Energy, GLO-BUG, Bosco Connect and Tiny Mighty Power. Mighty River Power's metering business, Metrix, provides electricity retailers with advanced metering infrastructure solutions for their residential and commercial customers.

Mighty River Power is one of the world's largest geothermal power station owners.[33] It has developed 255 MW of renewable geothermal generation since 2008, with the new 82 MW Ngatamariki station to be commissioned by mid-2013. The Company is applying the capability and experience it has gained through its New Zealand geothermal exploration, development, construction and management activities to invest in international growth opportunities.

Mighty River Power was the inaugural winner at the Deloitte Energy Excellence Awards in 2010 of Overall Energy Company of the Year and Energy Project of the Year. In 2011 Mercury Energy was named Energy Retailer of the Year, and in 2012 the Company again won Overall Energy Company of the Year, along with the Innovation in Electricity Award (GLO-BUG) and Energy Executive of the Year (Dr Doug Heffernan).

Business Strategy

Mighty River Power's strategy is focused on leveraging its core competencies to target sustainable growth and maximise long-term Shareholder value. The Company's two priorities are:

1. Maximising The Value Of The Existing Business

Mighty River Power seeks to maximise the value of its domestic generation and electricity sales business within a defined risk framework. Mighty River Power's existing generation is primarily reliant on hydro and geothermal fuels, which offer higher margins relative to electricity generated through thermal fuel sources. Further, to reduce earnings variability, Mighty River Power broadly matches the generation volume it sells to the wholesale spot market with the volume of electricity it purchases from the market to meet customer demand, after taking into account physical and financial positions over an extended period. In addition, the flexibility of Mighty River Power's hydro and gas-fired power stations means the Company is typically well placed to capture value opportunities arising out of wholesale electricity price variability, as well as to manage wholesale spot market risks.

You can find further information regarding Mighty River Power's approach to electricity portfolio management in this section under the heading "Electricity Portfolio Management".

2. Securing Economically Attractive Development Options

Consistent with Mighty River Power's long-term approach to development through commercial partnerships, further expansion on geothermal fields remains a strategic focus and the Company intends to continue to secure additional options for development over the longer-term.

Mighty River Power considers, based on existing energy resource information, that geothermal and wind will be the most economically viable forms of new electricity generation for the Company within New Zealand over the next decade. It is not, however, Mighty River Power's current intention to build a new large power station in New Zealand in the next three to five years, following commissioning of the Ngatamariki project.

Since 2008 Mighty River Power has been investing in international geothermal development opportunities which it believes offer higher risk-adjusted returns than are currently available in New Zealand, as well as offering diversification across different geothermal fields, power markets and jurisdictions.

30. The proportion of total equity weighted New Zealand generation for the year ended 31 December 2012 generated from a renewable resource, based on Mighty River Power's percentage ownership of each power station.

31. Based on generation volumes on an equity weighted basis for the year ended 31 December 2012.

32. Based on aggregated residential and business ICPs as at 31 December 2012.

33. Based on installed generation capacity as at September 2012, Mighty River Power was ranked the 13th largest owner of geothermal power stations worldwide by the Institute of Geosciences and Earth Resources.

Key Milestones

1998: **Mighty River Power formed from ECNZ**

1999: Mercury Energy

Mercury Energy acquired

1999: Mighty River Power vested ownership of the Waikato Hydro System

2000: Acquisition of an initial stake in the 125 MW Southdown gas-fired power station

2000: Acquisition of Rotokawa geothermal power station

2002: Interest in Southdown increased to full ownership

2003: Minority investment in Mokai geothermal power station

2005: Expansion of Mokai from 56 MW to 95 MW

2006: BOSCO

Acquisition of an initial stake in retail business Bosco Connect

2006: **Waikato Hydro System re-consented for 35 years**

2007: Southdown upgrade from 125 MW to 175 MW

2008: GLO BUG A little help with a lot of energy

GLO-BUG prepay service launched

2008: Initial commitment to the GGE Fund for international geothermal development

2008: Kawerau 100 MW geothermal power station commissioned

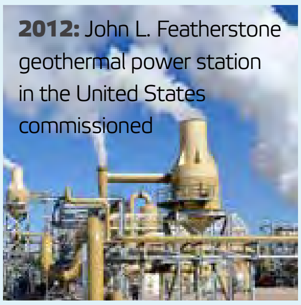
2009: TINY MIGHTY POWER

Launch of Tiny Mighty Power

2010: US$92 million investment in the John L. Featherstone geothermal power station, plus a 20% interest in EnergySource in the United States

2010: Nga Awa Purua 138 MW geothermal power station commissioned, Tauhara North No.2 Trust funds 25% equity ownership in the power station

2011: **Construction commences on Ngatamariki 82 MW geothermal power station**



2012: John L. Featherstone geothermal power station in the United States commissioned

2012: Metrix completes deployment of over 300,000 smart meters in the Auckland region

METRIX

2012: Tauhara North No.2 Trust increases their equity ownership to 35% in Nga Awa Purua power station

2013: Acquisition of control of the GGE Fund's Chilean geothermal interests and interest in EnergySource and John L. Featherstone power station

Business Structure

Mighty River Power is a vertically integrated business comprising four main functional groups: Operations, Retail (including Metering), Development and Corporate.

Operations

Responsible for:

- Power station operations, maintenance and fuel management
- Offering generation, frequency keeping and reserves services, and selling electricity, to the wholesale spot market
- Purchasing electricity from the wholesale spot market for all customers including Mighty River Power's retail brands
- Managing Mighty River Power's exposure to the wholesale electricity market including entering into financial electricity contracts with counterparties such as industrial users of electricity and other electricity companies
- Managing Mighty River Power's carbon position

Retail

Responsible for:

- Marketing and selling electricity to residential and business customers through Mighty River Power's retail brands (Mercury Energy, GLO-BUG, Bosco Connect and Tiny Mighty Power)
- Managing customer segmentation and mix to maximise value
- Providing metering services, including meter equipment and data services, to retailers including Mercury Energy

Development

Responsible for:

- Developing a pipeline of generation options
- Managing the consenting, procurement and construction of current generation projects
- Managing delivery of specialised geothermal technical capabilities

Corporate

Responsible for:

- Corporate Affairs and Communications
- Finance
- Human Resources
- Information Systems
- Investor Relations
- Legal, Company Secretariat and Board Services
- Risk Assurance
- Regulatory and Policy

New Zealand Generation

Mighty River Power's electricity generation in New Zealand comprises hydro and geothermal power stations and one gas-fired power station. Mighty River Power's power stations are all located in the upper North Island of New Zealand close to Auckland, New Zealand's largest population centre and the consumer of around a quarter of New Zealand's electricity demand in 2012.

Mighty River Power's nine hydro power stations are located on the Waikato River, and include 39 discrete generation units with a total operational capacity of 1,044 MW. Mighty River Power has interests in four operating geothermal power stations located on three central North Island reservoirs which have a total generation capacity of 384 MW, with a fifth geothermal power station having just commenced operation on a fourth central North Island reservoir.[34] Hydro and geothermal generation accounted for 94% of Mighty River Power's electricity production of 7,070 GWh[35] in the year ended 31 December 2012. The 175 MW gas-fired power station at Southdown in Auckland has three gas turbine generators and a combined cycle steam turbine.

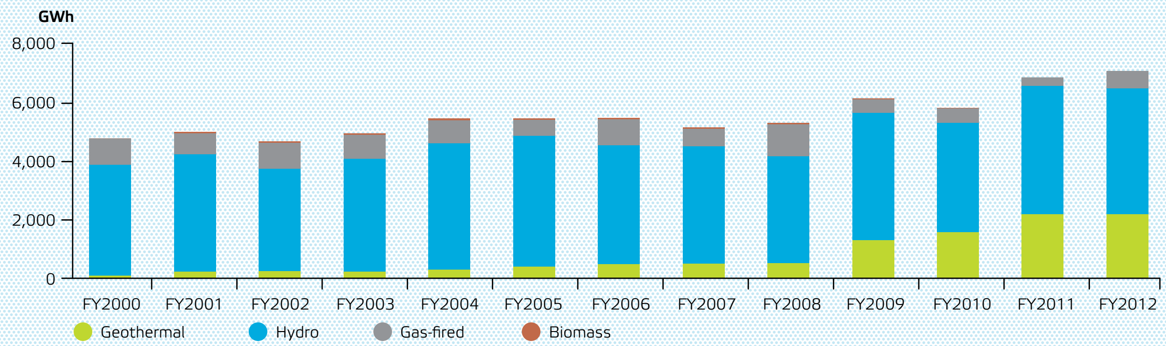
Mighty River Power's investment in new geothermal generation since 2000 has reduced the Company's reliance on hydro and, in combination with the Southdown gas-fired power station, provides the Company with a significant degree of operational flexibility and diversification.

Base-load geothermal capacity now represents approximately 30% of Mighty River Power's annual generation. This has reduced the Company's exposure to weather-dependent earnings and has allowed it to use some of its hydro production to meet peak-load, enabling the system to respond to short-term wholesale spot market volatility. The gas-fired power station at Southdown, following the acquisition of 100% ownership by Mighty River Power in 2002, has moved from base-load generation to peak-load generation (in response to changes in wholesale spot market prices) or firming-load generation (in response to changes in hydro generation).

This operational flexibility means that, if wholesale electricity prices are sufficiently high, generation through the hydro system or Southdown can usually be increased to cover sales commitments and to sell additional generation into the wholesale spot market. Conversely, if prices are low, generation from the hydro system or Southdown can be reduced, with any residual sales commitments being covered by purchases from the wholesale spot market.

In HY2013 the operating cost of the hydro power stations averaged less than $5/MWh[36] and the geothermal power stations averaged less than $10/MWh,[37] compared with an average of $110 to $120/MWh[38] for Southdown, largely due to the cost of gas.

Mighty River Power Generation Production



Equity weighted generation, based on Mighty River Power's percentage ownership of each power station

34. Total New Zealand power station capacity, i.e. not equity weighted based on Mighty River Power's percentage ownership of each power station. On an equity weighted basis the capacity is 252 MW.
35. Equity weighted New Zealand generation, which is based on Mighty River Power's percentage ownership of each power station.
36. Hydro operating costs include any direct cost of sales including metering, divided by the hydro generation for the corresponding period in MWh.
37. Geothermal operating costs include any direct cost of sales including metering, relative to the geothermal generation for the corresponding period in MWh (consolidated).
38. Southdown operating costs include the cost of gas plus any other direct costs of sales including metering, divided by the thermal generation from Southdown for the corresponding period in MWh.

Hydro Generation

The Waikato Hydro System, the largest in the North Island, begins at Lake Taupo, 356 metres above sea level, flowing through the Taupo Control Gates and into the Waikato River. It then flows approximately 190 kilometres through each of the intermediary lakes formed by Mighty River Power's hydro power stations, to approximately 18 metres above sea level at the exit from Karapiro.

Since FY1981 generation from the Waikato Hydro System has ranged between 3,058 GWh and 5,373 GWh per annum.

Lake Taupo contains approximately 93% of the Waikato Hydro System's total storage capacity, representing approximately 569 GWh and equivalent to about one seventh of the average annual generation from the Waikato Hydro System.[39]

Lake Taupo was the source of 64% of the average total annual inflow into the Waikato Hydro System between 1980 and 2012 with the balance of 36% from Waikato River tributaries downstream of Lake Taupo. The inflows from Lake Taupo include water from the Tongariro hydro power scheme, operated by Genesis Energy. This scheme involves gathering and, in part, diverting water from various streams and river headwaters that would otherwise not enter Lake Taupo. Between 1980 and 2012 the average annual inflows from the Tongariro power scheme equated to approximately 29% of the total inflows into Lake Taupo, with 18% of the total inflows due to diversions that would otherwise flow away from the Lake Taupo catchment.

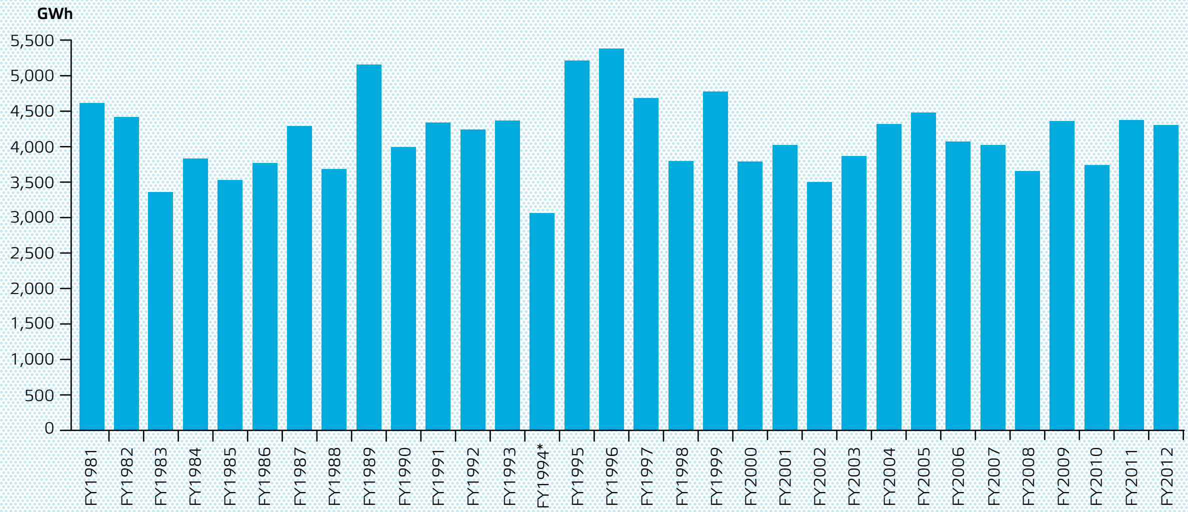
One of the most important features of the Waikato Hydro System is its flexibility. Electricity output can be increased or decreased quickly. In addition, subject to capacity and consents, water can be stored in the lake behind each dam, although generally a minimum flow must be maintained at all times. Consent conditions require that, outside periods where severe drought conditions apply, a minimum flow equivalent to approximately 7.5 GWh per day (measured at Karapiro) is maintained.

Each power station in the Waikato Hydro System is controlled from centres in Hamilton and Auckland where weather and inflows, lake levels, river flows, generation output, generator performance and other metrics are continuously monitored by Mighty River Power.

Mighty River Power holds freehold title to, or has equitable ownership of, the land on which its hydro power stations are built. The main resource consents that Mighty River Power holds in relation to the Waikato Hydro System expire in 2041, with the next possible review period in May to November 2013.

You can find further information about the status of some of Mighty River Power's land titles in 4.3 Relationship Between Mighty River Power And The Crown.

Waikato Hydro System Generation



* In FY1994 Arapuni was out of service for a period while repairs to the headrace were performed

39. Based on annual generation volumes from FY2000 to FY2012.

Mighty River Power also holds Crown operating easements conferring rights to store and discharge water in the relevant sections of the bed of the Waikato River. Where water regularly encroaches on private land, Mighty River Power seeks easement arrangements as an on-going process.

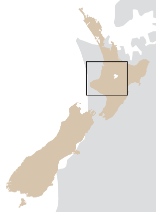
You can find out more about the RMA and the process relating to resource consents in 3 Industry Overview.

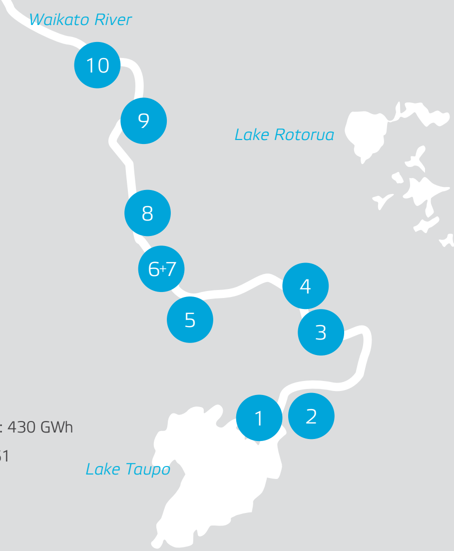
Mighty River Power has an on-going asset management and maintenance programme for the Waikato Hydro System. The projected reinvestment profile is cyclical over the long-term with periods of higher expenditure required at various stages, particularly as original equipment requires replacement and upgrading.

The Waikato Hydro System is currently in a relatively high expenditure period. Mighty River Power believes its current level of expenditure is appropriate in light of the age of its hydro power stations and is consistent with expenditure on other comparable assets internationally. While much of the operating and capital expenditure has yet to be committed formally, it is expected that plant maintenance and upgrade costs will be higher over the next decade than in the last decade.

You can read an independent summary report on the condition of Mighty River Power's generation assets in 4.4 Independent Engineer's Report.

Mighty River Power's Hydro Power Assets





1 TAUPO CONTROL GATES

- Lake area: 611km²
- Construction completed: 1941

2 ARATIATIA

- Capacity: 78 MW
- FY2012 Production: 356 GWh
- Commissioned: 1964

3 OHAKURI

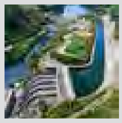
- Capacity: 106 MW
- FY2012 Production: 430 GWh
- Commissioned: 1961

4 ATIAMURI

- Capacity: 74 MW
- FY2012 Production: 313 GWh
- Commissioned: 1958

5 WHAKAMARU

- Capacity: 100 MW
- FY2012 Production: 531 GWh
- Commissioned: 1956

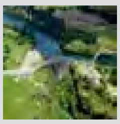


6+7 MARAETAI I & II

- Combined capacity: 352 MW
- FY2012 Production: 964 GWh
- Maraetai I commissioned: 1952
- Maraetai II commissioned: 1970

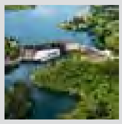
8 WAIPAPA

- Capacity: 54 MW
- FY2012 Production: 250 GWh
- Commissioned: 1961



9 ARAPUNI

- Capacity: 184 MW
- FY2012 Production: 916 GWh
- Generators 1 to 4 commissioned: 1929
- Generators 5 and 6 commissioned: 1938
- Generators 7 and 8 commissioned: 1946



10 KARAPIRO

- Capacity: 96 MW
- FY2012 Production: 534 GWh
- Commissioned: 1947

Water Rights

Mighty River Power relies on a framework of legal titles to land, operating easements and resource consents to authorise its activities in respect of the Waikato Hydro System and its use of Lake Taupo and the Waikato River.

The Land and Water Forum, comprising representation from a broad range of stakeholders interested in national freshwater management, recently completed a series of three comprehensive reports in relation to freshwater management in New Zealand. The Land and Water Forum has successfully used a collaborative approach to reach broad agreement on a number of issues.

Recommendations focus on:

- the need for a National Policy Statement;
- a more comprehensive role for iwi in water management;
- a continued role for regional policy and decision-making;
- an alternative collaborative regional planning process;
- a national objectives framework within which regional councils set freshwater objectives and limits at a catchment level; and
- methods to manage water limits, including allocation.

Recommendations from these reports have been reviewed by the Government. On 9 March 2013 Ministers released a Water Reform: 2013 and beyond paper containing proposals for a series of reforms for freshwater management. The proposals are based on the recommendations of the Land and Water Forum. The core proposals of the Land and Water Forum (collaborative planning and establishing a national objectives framework) are being developed for potential inclusion in legislative and regulatory change later in 2013. The Water Reform paper also notes the Government's commitment to recognising Māori rights and interests in water. As part of the immediate reforms, it is proposed that a statutory requirement be introduced that the views of iwi be considered before council decisions on freshwater planning are made. The resolution of rights and interests related to other aspects of freshwater management are expected to be integrated in the Government's direction and guidance in the next few years, or are expected to be developed as part of the Government's longer-term programme of reforms.

The dialogue between the Crown and iwi on iwi rights and interests in freshwater is on-going. In parallel with those discussions, some Māori interests have brought claims before the Waitangi Tribunal to define Māori rights and interests in freshwater.

Further information on these claims is set out in 4.3 Relationship Between Mighty River Power And The Crown.

Mighty River Power is monitoring these processes (and any relevant Treaty settlements) and will also monitor closely the Government's water reform package. The direct impact of these potential new policy settings on the Company's management of its Waikato hydro generation assets may have implications for Mighty River Power's commercial interests in the efficient operation of the Waikato Hydro System.

Changes to the management of freshwater in New Zealand may adversely affect Mighty River Power to the extent that such changes impose restrictions, conditions or additional costs on the Company's hydro generation activities. As these new policy settings are still being developed by the Government, it is not possible to quantify their potential impacts on Mighty River Power or on the New Zealand electricity sector generally.

Geothermal Generation

Geothermal electricity generation provides steady base-load supply that is not subject to climatic conditions that typically influence other renewable electricity supply. Geothermal power stations in New Zealand run at full generation output approximately 95% of the time.

To develop a geothermal power station an operator must secure access rights to the land above the geothermal resource (typically by obtaining freehold or leasehold title or easements) and obtain regulatory approval for the use of the geothermal fluid. Payment for the use of geothermal fluid is not currently required, other than to landowners in respect of access rights.

Mighty River Power has entered into a number of commercial partnerships with landowners, predominantly Māori land trusts, to secure long-term access rights to the land above the reservoirs in order to extract and inject steam and geothermal fluids. In return for access Mighty River Power pays land lease rentals to locate equipment, royalties in respect of the steam extracted or injected or grants current or future ownership rights. A related benefit of these commercial partnerships is that they assist in obtaining community and landowner support for the project.

Mighty River Power's resource consents are generally for 35 year terms. Mighty River Power's key resource consents expire between 2040 and 2045 for the Rotokawa, Kawerau and Ngatamariki fields and in 2024 in the case of the Tuaropaki Power Company's Mokai plant.

You can find out more about the Resource Management Act 1991 and the process relating to the resource consents in 3 Industry Overview.

4 About Mighty River Power

Mighty River Power's New Zealand Geothermal Power Stations

KAWERAU GEOTHERMAL FIELD
Eastern Bay of Plenty

1 KAWERAU

- Capacity: 100 MW
- FY2012 Production: 846 GWh
- Commissioned: 2008

The Kawerau power station is owned and operated by Mighty River Power on leased land. The power station has steam or land access arrangements with Ngāti Tūwharetoa Geothermal Assets Limited, the Putauaki Trust and Norske Skog Tasman Limited.

Unique to Mighty River Power's domestic geothermal power stations, multiple parties operate on and access the geothermal reservoir at Kawerau.

MOKAI GEOTHERMAL FIELD
30km northwest of Taupo

2 MOKAI

- Capacity: 112 MW
- FY2012 Production: 957 GWh[40]
- Acquired interest in 2003 and expanded in 2005 from 56 MW to 95 MW. Further 17 MW expansion in 2007

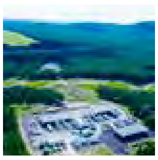
The Mokai power station is owned by Tuaropaki Power Company Limited.

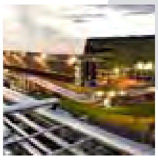
The Tuaropaki Trust holds 75% of the shares, and Mighty River Power owns the remaining 25% of the shares (with an option to increase to 30% on the commissioning of a new generation facility or as otherwise agreed), in Tuaropaki Power Company Limited's holding company.

Mighty River Power operates the power station.

The power station is located on land leased from the Tuaropaki Trust until 2037, at which time the shares held by Mighty River Power in Tuaropaki Power Company Limited will revert to the trustee of the Tuaropaki Trust for $1 plus working capital adjustments. On expiry of the lease Mighty River Power's rights will terminate and it will cease to be the operator of the power station.

Mighty River Power has the contractual right to appoint up to two directors to the Tuaropaki Power Company and the Tuaropaki Trust has the contractual right to appoint up to four directors to Tuaropaki Power Company Limited. Mighty River Power has appointed one of the four current directors.





ROTOKAWA GEOTHERMAL FIELD
14km northeast of Taupo

The steamfield assets of the Rotokawa geothermal field are owned by the Rotokawa joint venture, which is between a wholly owned subsidiary of Mighty River Power and a company owned by the trustees of the Tauhara North No.2 Trust. The joint venture provides steam supply and injection services to the Rotokawa and Nga Awa Purua power stations on a cost recovery basis. The steamfield assets are located on land leased by the joint venture from the trustees of the Tauhara North No.2 Trust under a lease with a final expiry date in 2086. The joint venture has granted subleases of the land on which the Rotokawa and Nga Awa Purua power stations are located for the same term.

3 ROTOKAWA

- Capacity: 34 MW
- FY2012 Production: 254 GWh
- Acquired in 2000 and expanded in 2001 from 25 MW to 27 MW, then expanded to 32 MW in 2003, and further increased to 34 MW in 2007
- Commissioned: 1997

Mighty River Power's wholly owned subsidiary Rotokawa Generation Limited owns the power station.

Mighty River Power operates the power station.

A company owned by the trustees of the Tauhara North No.2 Trust has perpetual options to purchase up to 50% of the shares in Rotokawa Generation Limited for fair market value.

4 NGA AWA PURUA

- Capacity: 138 MW
- FY2012 Production: 1,170 GWh[41]
- Commissioned: 2010

Mighty River Power operates the power station.

The Nga Awa Purua power station is owned by the Nga Awa Purua joint venture in which a wholly owned subsidiary of Mighty River Power has a 65% interest and an entity owned by the Tauhara North No.2 Trust has a 35% interest.

The trustees of the Tauhara North No.2 Trust, or their nominee, have perpetual options to acquire further interests in the joint venture up to a total 50% interest for fair market value.

The contractual right to director appointments for the Nga Awa Purua joint venture is approximately proportional to shareholding percentage. Currently Mighty River Power appoints two of three directors to the board of the Nga Awa Purua joint venture.

NGATAMARIKI GEOTHERMAL FIELD
17km northeast of Taupo

5 NGATAMARIKI

- Capacity: 82 MW
- Scheduled to be commissioned in mid 2013

In May 2010 Mighty River Power was granted resource consent to build the Ngatamariki power station. The project is expected to cost $475 million (under the current budget of $484 million).

Ngatamariki will be owned and operated by Mighty River Power and located on land leased from Wairakei Pastoral Limited. The power station will access steam from land owned by Wairakei Pastoral Limited.

The trustees of the Tauhara North No.2 Trust, or their nominee, will have an option to acquire up to a 50% interest in the power station for fair market value after the 10th anniversary of commissioning.

40. Total generation output. On an equity weighted basis, based on Mighty River Power's percentage ownership of the power station, generation was 239 GWh in FY2012.

41. Total generation output. On an equity weighted basis, based on Mighty River Power's percentage ownership of the power station, generation was 847 GWh in FY2012.

Gas-fired Generation

Mighty River Power's 175 MW Southdown power station is capable of producing up to 1,400 GWh of electricity per year. Southdown has four generation units: three gas turbines and a steam turbine which is powered by the heat from the gas turbine exhaust gases (captured to increase the efficiency of the steam cycle). Mighty River Power renewed the resource consent for Southdown in December 2012. The resource consent has a 25 year term.

Southdown was originally used for base-load generation. On acquisition of 100% ownership, gas contracts were modified and as gas prices have risen and more renewable generation has come on stream, it is now used in a variety of ways to create value as part of Mighty River Power's generation portfolio. Because it can commence generation relatively quickly, it is used to respond to peaks in the wholesale spot market price. Typically it also assists Mighty River Power to mitigate wholesale spot market risks arising from reduced hydro production due to adverse hydrological conditions or other reasons and earns revenue relating to a PDA.

The gas supply for Southdown and for Mighty River Power's retail gas customers is also relatively flexible. Mighty River Power uses a combination of fixed term gas contracts and other short-term supplies. Southdown's natural gas requirements represented on average less than 4% of national natural gas consumption during the six years to 2012. Mighty River Power also has sufficient contracted gas transmission capacity in the Vector northern gas transmission pipeline until 2021 to allow the Southdown power station to run at full output if required.

Carbon Credits And ETS

The Company has secured carbon credits on a long-term basis solely from New Zealand forests. The majority of contracts contain fixed price terms. Under current ETS settings, one unit of liability for two units of emissions, the Company has largely hedged its expected gas and geothermal generation emission obligations for more than 10 years.

SOUTHDOWN

- Capacity: 175 MW
- Annual average production from 2008 to 2012: 581 GWh
- Commissioned: 1996

Southdown uses natural gas to produce both electricity and steam for sale.

In 2000 Mighty River Power acquired a 50% interest in Southdown and in 2002 extended its ownership to 100%.

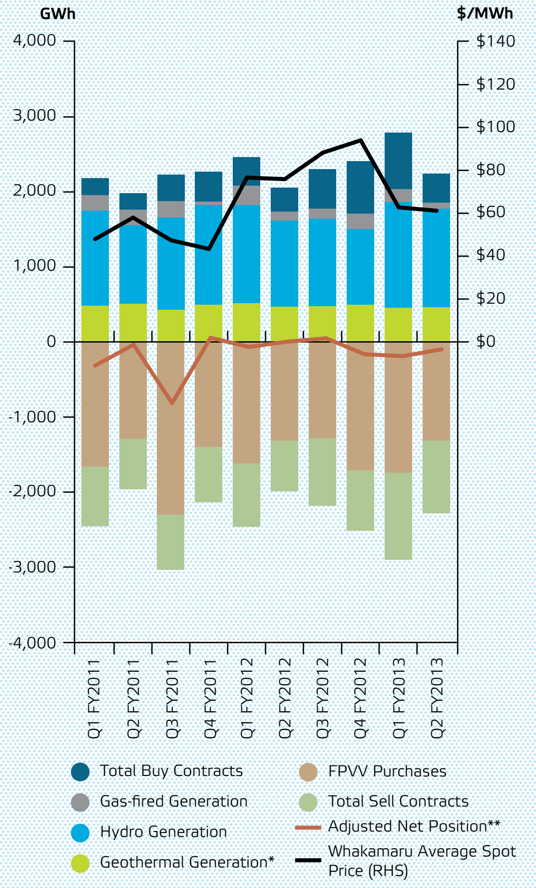
Southdown was expanded from 125 MW to 175 MW in 2007.

Electricity Portfolio Management

Flexibility is the key to Mighty River Power's management of its electricity portfolio. The fact that Mighty River Power participates in the wholesale spot market as both a buyer and a seller, combined with the diversified nature of its production base, including hydro, geothermal and gas, enables it to maximise the value of its business and to usually mitigate the risks posed by both hydrological conditions and electricity price volatility.

Mighty River Power's portfolio can be characterised as consisting of four asset types: generation, buy-side contracts, customer sales and sell-side contracts (as depicted graphically below).

Mighty River Power Electricity Sales And Generation Portfolio



* Consolidated New Zealand geothermal generation excluding Mokai

** Adjusted for volume profile and location

The generation and buy-side contracts, shown above the horizontal axis in the graph on this page, can be represented as 'long' exposures to the wholesale spot market (higher returns if spot prices are higher). Customer sales and sell-side contracts can be represented as 'short' exposures to the wholesale spot market (lower returns if spot prices are higher).

Over the past two financial years, Mighty River Power has run a short annual net position to take advantage of relatively low wholesale spot prices – drawing on the Southdown gas-fired power station to respond to price and demand peaks.

When Mighty River Power believes a long position provides a better risk/reward trade-off, it can typically move to that position by increasing hydro and gas generation volumes for brief or even (if hydrological conditions allow) for extended periods, decreasing customer sales and entering into buy-side contracts or using existing inter-generator contracts.

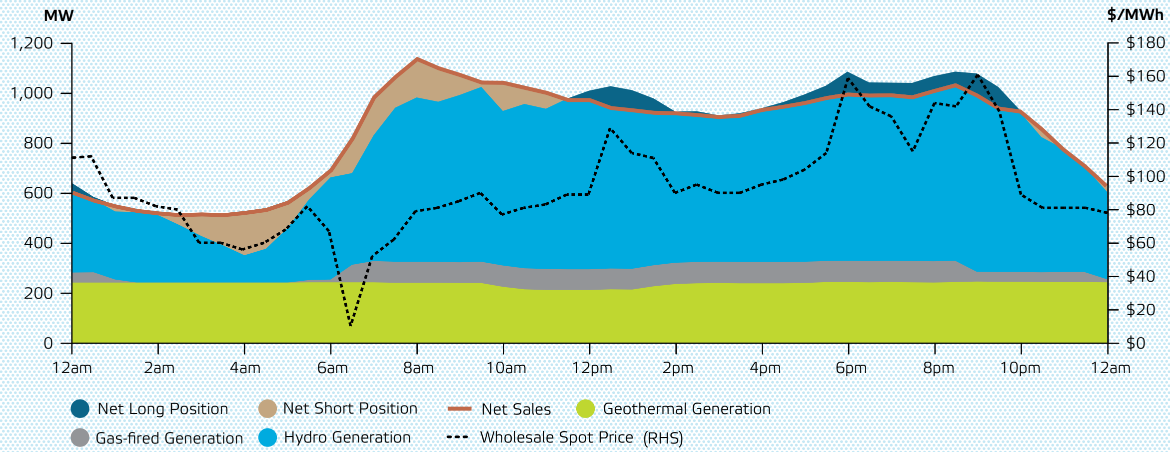
Fixed price electricity sales provide a level of revenue stability. The quantity and segment mix of fixed price electricity sales is varied over the short to long-term (refer to the heading "Customer Sales Segments" below for details of Mighty River Power's sales segment mix).

Over the longer-term, the portfolio is also influenced by the construction of new power stations and by Mighty River Power's internal view of future wholesale electricity prices. This is illustrated in the sales and generation portfolio graph at left and in the more detailed daily trading profile at right.

The example daily trading profile at right shows a time series of wholesale electricity prices across a day (18 October 2011[42]) progressively rising from a low of around $10/MWh at 6.30am to price highs of around $160/MWh at 5.30pm and 8.30pm. Mighty River Power's geothermal generation acts as base-load all day, with gas-fired generating as firming-load during the higher priced times between 7.00am and 11.00pm. Flexible hydro generation is used to approximately match Mighty River Power's generation and net sales throughout the day. The red line shows Mighty River Power's retail sales exposure (including financial electricity contracts) plotted relative to its generation output segmented by geothermal, hydro and thermal. Where net sales exceed generation, Mighty River Power will be net purchasing from the wholesale market to supply its customers. Conversely, where net sales are less than generation output, Mighty River Power will be net selling generation into the wholesale market. Value is improved when Mighty River Power can sell electricity from hydro generation or higher cost thermal generation to the wholesale market during high wholesale electricity price periods and conversely purchase wholesale electricity at lower prices to supply its retail customers.

42. 18 October 2011 has been selected as an example to illustrate the workings of the portfolio and is not intended to be representative of a typical day.

Example Of Daily Trading Profile*



* Adjusted for pricing variation in different parts of the country.
Data is from 18 October 2011

Wholesale Spot Market

Mighty River Power's exposure to the wholesale spot market varies half hourly, daily and throughout the year as a result of seasonal fluctuations, daily consumer routines and changes in customer behaviour and customer mix. Mighty River Power's sales to the wholesale spot market, particularly hydro generated electricity, also vary throughout the year, depending on Lake Taupo storage levels, Waikato catchment inflows, national hydrological conditions and market factors, such as gas or electricity transmission constraints and planned or unplanned maintenance shutdowns.

Contracts Markets

Mighty River Power uses buy-side and sell-side contracts:

- as a risk management tool to hedge power station, fuel and transmission outages where it purchases buy-side contracts from other generators; and
- as a sales channel to both customers and other generators where it believes a margin will be earned based on its internal view of the forward wholesale spot market price.

Contracts can be negotiated 'OTC' or exchange traded. Mighty River Power, like the other larger gentailers, has market making agreements in place with ASX, which runs New Zealand's Electricity and Futures and Options market.

In most cases these buy-side and sell-side contracts are very similar to fixed price sales, such as a CFD for a large industrial customer.

Mighty River Power's single largest sales contract (a sell-side CFD) requires it to sell, and Norske Skog Tasman (a pulp and paper manufacturer) to buy, 700 GWh of electricity, equivalent to approximately 9% of total annual sales volume,[43] each year until 2023 from the Kawerau power station.

Mighty River Power also enters into electricity financial contracts with other generators. The more significant current inter-generator contracts include a basis (location) swap with Meridian Energy and a 'swaption' with Genesis Energy.

The basis swap with Meridian Energy is a 15 year contract which commenced on 1 January 2011 and provides for a swap of up to 700 GWh per annum of base-load electricity between nodes on the North and South Islands. It involves Mighty River Power effectively selling generation in the North Island (at the Whakamaru node) to Meridian Energy and buying the same volume of electricity from Meridian Energy in the South Island (at the Benmore node). This provides Mighty River Power with a South Island electricity contract to help manage exposure to differences in wholesale spot market prices between the islands.

43. For the year ended 31 December 2012, as a percentage of total Mighty River Power sales for the same period (FPVV, spot and sell-side CFDs).

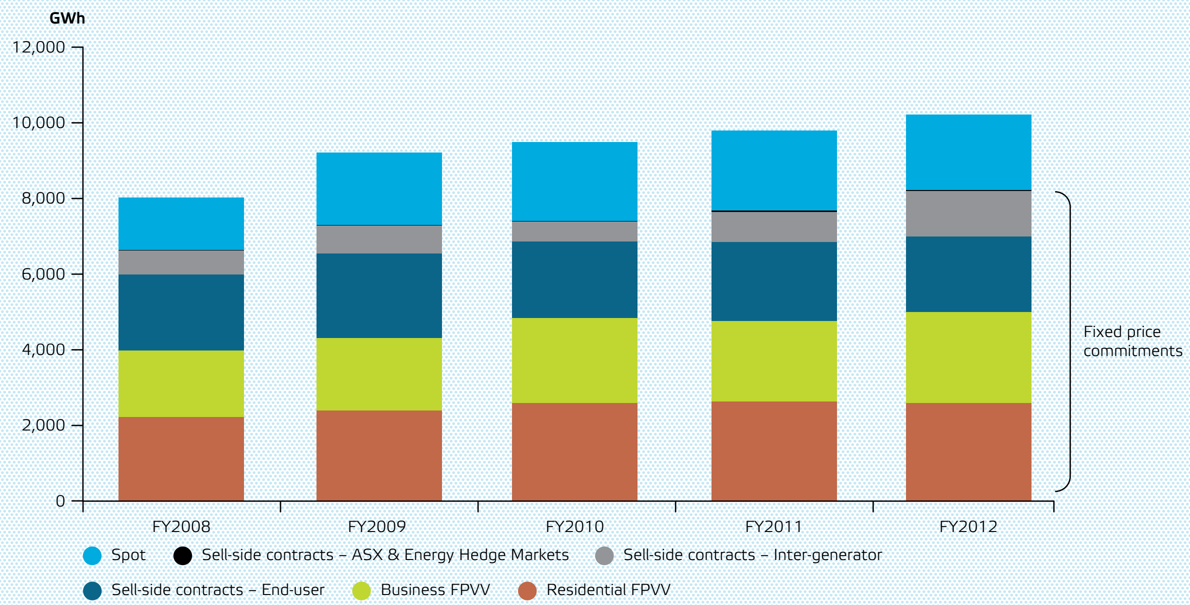
The swaption with Genesis Energy, entered into in 2011, is a five year contract which gives Mighty River Power an option to purchase, for parts of the year, a specified volume of electricity per annum from 2012. In return a premium is payable to Genesis Energy. This swaption provides additional portfolio flexibility beyond that provided by Mighty River Power's hydro and gas-fired stations. An example of when it might be exercised, at Mighty River Power's discretion, is in drought conditions when wholesale electricity prices are high and storage levels in Lake Taupo are low, giving rise to potential fuel restrictions for Mighty River Power.

Customer Sales Segments

Mighty River Power actively manages its entire sales book for value (that is, the combination of sales volume and profit margin) rather than total customer numbers. Mighty River Power achieves this by optimising across customer segments.

Segment	Description	Size FY2012 GWh	Size HY2013 GWh	Customer Numbers 31 December 2012 ICP Numbers
Residential	Domestic households on FPVV contracts. Fixed term contracts have been increasing	2,609 25%	1,375	339,677
Business	Business customers (for example dairies, farms, retail chains and industrials) on FPVV contracts	2,412 23%	1,402	48,645
Sell-side CFDs	Predominantly end-user and inter-generator customers on sell-side CFDs	3,224 31%	2,139	<30 customers
Spot	Spot contracts involve acting as an agent for a customer to transact on the wholesale spot market, and typically only generate administration fees or margin. Spot customers are medium or large business and industrial customers	2,012 20%	1,076	2,526

Mighty River Power Electricity Sales



Customers

Mighty River Power supplied electricity to nearly 1-in-5 New Zealand homes and businesses[44] in the year ended 31 December 2012, selling to over 390,000 customers (ICPs) through its retail brands: Mercury Energy, GLO-BUG, Bosco Connect and Tiny Mighty Power.

Tiny Mighty Power was a finalist for Energy Retailer of the Year at the Deloitte Energy Excellence Awards in 2012, an award that Mercury Energy won in 2011 and was a finalist for in 2010. GLO-BUG was also the winner of the Innovation in Energy Award in 2012.

Mercury Energy

Mercury Energy is Mighty River Power's largest retail brand and accounted for over 94% of its end-user electricity sales volume in the year ended 31 December 2012. Mercury Energy is one of the longest established major retail electricity brands in New Zealand and had more than 348,000 electricity customers nationwide as at 31 December 2012.

In addition to electricity, Mercury Energy sells gas to residential customers and had over 42,000 gas customers as at 31 December 2012. Almost all of Mighty River Power's gas customers are also residential electricity customers. Mercury Energy is ranked as the third largest reticulated gas retailer on a customer number (ICP) basis with sales of approximately one petajoule in the year ended 31 December 2012. However, Mighty River Power's exposure to the gas market and the availability of gas for its retail customers is relatively low given that its requirements represent less than 5% of the retail gas market in New Zealand.[45]

Prior to market deregulation in the 1990s, Mercury Energy was the exclusive electricity retailer to central and southern Auckland. Post deregulation, Mercury Energy acquired customers in the greater Auckland region and throughout the upper North Island. In addition, Mercury Energy has in recent years expanded into the lower North Island (in areas such as Wellington and Palmerston North) and the South Island (in areas such as Dunedin and Christchurch). In response to increased market churn in recent years, Mercury Energy's focus is on building loyalty among its valued customers. Initiatives within the residential market include:

- a three year fixed price offer, providing pricing certainty to customers. This was launched in 2011 and had more than 80,000 customers signed up at 31 December 2012;
- the Mercury Perks reward programme, a subscription-based scheme entitling customers to discounts on dining, accommodation and other services. This programme had more than 37,000 members as at 31 December 2012; and
- the Mercury Energy Star Supporters' Club, which invites customers to make charitable contributions through their bills of $2 per month or more to assist Starship Children's Hospital. Mercury Energy and its customers have contributed over $4.5 million[46] to the Starship Foundation since FY2004.

Within the business market, the emphasis has been on converting a greater proportion of customers from open term to fixed term contracts, lengthening contract tenure and ensuring sales resources are moved rapidly between segments to maximise competitive effectiveness. The average contract tenure on new business from medium-sized commercial users obtained in the second half of 2012, for example, was approximately 2.6 years, compared with 1.8 years in the second half of 2010.

The largest of Mercury Energy's industrial customers is Norske Skog Tasman, discussed under the heading "Contracts Markets" above. Electricity sales contracts to large businesses and industrial users are typically fixed price, fixed-volume financial contracts for fixed terms of two to five years.

GLO-BUG

GLO-BUG is a prepay service that utilises smart metering to allow residential customers to monitor their electricity use and to align their expenditure with their income, thereby managing their debt. GLO-BUG had over 17,000 customers as at 31 December 2012.

In March 2012 Mighty River Power contracted with Meridian Energy for GLO-BUG to become Meridian's preferred prepay solution in Christchurch, New Zealand's third largest city. This transaction involved the transfer of approximately 5,000 customers from Meridian Energy's retail business to GLO-BUG and Mercury Energy. The agreement provides for the extension of GLO-BUG to other areas as smart metering becomes available.

44. Based on aggregated residential and business ICPs as at 31 December 2012.

45. Based on volume for the year ended 31 December 2012. The retail gas market in New Zealand includes all those gas users that do not purchase gas directly from gas producers.

46. Total of Mercury Energy payments made and customer donations forwarded to the Starship Foundation exclusive of GST between 1 July 2003 and 31 December 2012.

Bosco Connect

Bosco Connect is a niche utility retailer supplying electricity to over 10,000 apartment customers in the Auckland and Wellington central business districts as at 31 December 2012. Apartment dwellers have much lower average consumption and shorter property tenures than other residential customers, which can make them relatively expensive to serve. Bosco Connect has developed systems and processes to service this segment cost efficiently.

Tiny Mighty Power

The Tiny Mighty Power brand was launched in 2009 out of the Bosco Connect business, to retail electricity into smaller regional towns. As at 31 December 2012 the business had over 14,500 customers in the Thames Valley, Waipa, Wairarapa, Whakatane, Taupo, Marlborough and North Canterbury regions. A key element of Tiny Mighty Power's strategy is to open a 'retail shop' in the main town in each territory, providing a local service point and a virtual back-office and call centre for the wider business.

Metering

Metrix

Metrix provides residential and commercial metering equipment, including hot water load control devices, and related data services. Metrix was transferred to Mighty River Power in 1999 as part of the Mercury Energy acquisition. Metrix operates throughout the greater Auckland area and manages sub-contract relationships for manual meter reads for Mercury Energy nationwide. Metrix is Auckland's largest meter asset owner (with over 400,000 meters in the region as at 31 December 2012) and supplies services to most electricity retailers.

The metering industry has undergone significant evolution since 2005 with effectively open access in metering and the introduction of the first smart meters. Mighty River Power's retail brands operate across multiple metering types and owners nationwide. It is Mighty River Power's view that the changes in the metering landscape since deregulation, including the on-going migration to smart metering, will drive consolidation in the metering sector.

As at 31 December 2012, Metrix had installed more than 300,000 smart meters in the greater Auckland area at a capital cost of approximately $94 million. Smart meters are advanced electricity meters that capture electricity consumed in half hour intervals and communicate the data wirelessly to a server. Metrix primarily uses radio-mesh infrastructure, which enables networking of smart meters and remote data collection. The business is focused on continuing to seek growth opportunities for its smart metering business and expects to commence deploying smart meters in the Dunedin area in the second half of FY2013.

Generation Development

New generation investment in New Zealand over the last several years has tended to focus on non-hydro options. Mighty River Power's focus has been on geothermal production, an area in which it has proven capacity and experience.

Historically, investment in generation capacity has underpinned Mighty River Power's new growth. Mighty River Power has proven capabilities and experience in negotiating access (including partnering with landowners and other stakeholders), consenting, exploration, development and the construction and operation of geothermal power stations.

The most recent project is the new 82 MW power station on the Ngatamariki steamfield near Taupo at a total expected capital cost of $475 million. Construction commenced in 2011 and the power station is expected to be commissioned by the beginning of FY2014.

Other recent Mighty River Power geothermal developments in New Zealand include Nga Awa Purua power station, commissioned in 2010, and Kawerau power station, commissioned in 2008. Including Ngatamariki, this represents one of the largest geothermal development programmes anywhere in the world over the past five years. Post-project analysis by Mighty River Power shows that both operating stations have been earnings positive and have had asset valuation increases since completion.

Domestic Development Opportunities

Mighty River Power is unlikely to build a new large power station in New Zealand in the next three to five years, other than the current Ngatamariki development. This is due to the lack of electricity demand growth in the New Zealand market over the past five years, the current security margins by which generation capacity exceeds demand and future expectations of electricity demand growth. However, Mighty River Power intends to continue to secure options for future development.

Typical Geothermal Development Cycle

All the development stages are generally applicable where there is no existing development (greenfields). For fields where there is existing development (brownfields) the emphasis is on numerical modelling and exploration drilling to assess the potential for expansion.

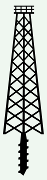
1 2+ years → 2 3+ years → 3 1+ years → 4 2 to 3 years → 5 25+ years

1 Initial resource evaluation

A preliminary resource assessment is conducted through initial site data collection. The assessment also considers market factors that may influence project viability, such as potential price and regulatory conditions.

Gaining access to the reservoir location is critical. It may involve negotiation for access with landowners over the reservoir or obtaining regulatory concessions to explore the resource.

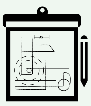
2 Exploration



The main aim of exploration is to determine whether a reservoir is economically viable and can be developed sustainably. Exploration comprises surface exploration and exploration well drilling.

Drilling is undertaken to prove reservoir characteristics and assess potential resource size. It may involve relatively shallow 'slim hole' wells (typically 500 to 2,000 metres in depth) or deeper, standard-sized wells (typically >1,000 metres in depth) capable of producing or injecting.

3 Preliminary power station and field infrastructure design

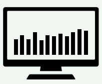


Based on exploration results, the project may continue with the design of the power station, pipelines and transmission infrastructure and the assessment of the need for additional wells. This process requires the integration and balancing of a variety of factors, including transmission interconnection, local environmental and regulatory requirements, as well as matching power station size, technology and the specific resource, requiring bespoke design solutions.

4 Construction

Prior to construction and depending on the jurisdiction, a project typically requires environmental and regulatory permits, a long-term power purchase agreement (PPA), project finance facilities (as required), and an engineering, procurement and construction (EPC) or similar contract for the steamfield, the power station and the transmission interconnection. Once the design is finalised, the construction of the power station and related infrastructure starts, including the drilling of additional production and injection wells.

5 Operation, reservoir monitoring and potential further development



Geothermal reservoirs respond dynamically to production over time, particularly in the first years of operation. Operation requires continual monitoring to optimise the performance of the power station throughout its life and may result in the need for additional wells. In addition, potential power station expansion is assessed against the results of reservoir monitoring but may require additional drilling to prove resource size before progressing.

You can find out more about the risks associated with geothermal development (which can be significant) under the heading "Growth And Development Risks" in 5 What Are The Risks?

Geothermal development

Geothermal development options generally fall into two categories:

- brownfield developments are expansions of existing power stations or new power stations on existing operating fields; and
- greenfield developments are new power stations on new reservoirs (for which the reservoir characteristics are less well known).

An important feature of Mighty River Power's geothermal development in New Zealand has been its commercial partnerships with Māori land trusts, enabling access to geothermal reservoirs in exchange for direct economic stakes in the projects. The partnership model is widely respected and has been promoted by Mighty River Power's partners to other potential developers in the New Zealand geothermal industry. Mighty River Power continues to explore a number of future opportunities with landowners.

Brownfield developments

Mighty River Power and its partners have exclusive development rights on the Ngatamariki geothermal field and on most of the Rotokawa geothermal field. The Tuaropaki Power Company has similar rights over the Mokai field in association with the Tuaropaki Trust. At Kawerau, the land over the geothermal field is owned or controlled by a number of different parties, creating competition for future access and development options. Mighty River Power also has long-term contractual obligations that limit the Company's further development of the Kawerau resource at this time. Notwithstanding this, it has negotiated access rights to a number of areas deemed suitable for geothermal production but which are not currently in use.

Greenfield developments

An example of a potential future greenfield development is the Te ia a Tutea agreement signed with Okere Incorporation and Ruahine Kuharua Incorporation in November 2011 over the Taheke geothermal field, northeast of Rotorua. The agreement enables initial exploration of the geothermal resource and provides for long-term co-ownership of any subsequent developments.

Wind development

Mighty River Power has also invested in a portfolio of wind generation options to complement its geothermal options.

Mighty River Power has final resource consents (which will lapse in 2021 if not given effect to by then) to construct a 60 turbine 180 MW wind farm at Turitea and has also received resource consents to construct a 53 turbine 310 MW wind farm on the Puketoi Range, both near Palmerston North in the North Island. The Puketoi consents have been appealed to the Environment Court. A hearing date has not yet been allocated, pending the outcome of settlement discussions between the Company and the three appellants.

In addition, Mighty River Power is considering options on three other sites where it holds development rights for wind farms.

You can find out more about the risks associated with power station development (which can be significant) under the heading "Growth And Development Risks" in 5 What Are The Risks?

International Geothermal Development Opportunities

Mighty River Power's substantial New Zealand geothermal assets make it one of the world's largest geothermal power station owners by installed capacity.[47] Mighty River Power has built up in-house capabilities in all aspects of the geothermal development cycle – from exploration through construction to operation of the completed power station.

Changing environmental policy internationally, including rising concerns over resource sustainability and national fuel security, has focused attention on renewable energy, including geothermal power. Notwithstanding geothermal power's niche position internationally when compared with more widely available and recognised renewable power generation technologies (hydro, wind and solar), the opportunity for international geothermal development is large in absolute terms when compared with potential domestic geothermal development.

Consistent with Mighty River Power's experience in early stage geothermal exploration and development in New Zealand, the results of its international development have, to date, been mixed. But Mighty River Power believes that international geothermal investment can offer potentially superior growth and risk adjusted returns relative to opportunities in New Zealand, as well as offering diversification benefits.

The Company's current international geothermal investments are described below. The Company is strongly of the view that a measured and prudent approach is appropriate to further capital deployment in light of the risks and timeframes associated with geothermal development, and has established internal criteria in respect of future capital expenditure on international geothermal investment.

47. Mighty River Power was ranked the 13th largest owner of geothermal power stations worldwide as at September 2012 by the Institute of Geosciences and Earth Resources.

You can find out more about Mighty River Power's international geothermal investments in 6.3 Prospective Financial Information.

Current investments

Mighty River Power has investments in the United States, Chile and Germany. With the exception of its investment in the John L. Featherstone power station and the Hudson Ranch II project in the United States, these investments are all in the early exploration phase.

United States

Approximately 28% of installed geothermal generation capacity globally is estimated to be located within the United States where geothermal generation is supported by a combination of federal and, in certain areas, state incentives.

Mighty River Power's interests in the United States include an investment in the John L. Featherstone geothermal power station (previously known as Hudson Ranch I) developed by EnergySource. The power station was commissioned in 2012.

The investment also included a 20% ownership in EnergySource, with an option to go to 33.33% by the end of May 2013, and the right to appoint a director to the EnergySource board. Mighty River Power is still considering whether it will exercise its option in respect of increasing its ownership interest in EnergySource. The other EnergySource shareholders are Hannon Armstrong Capital LLC and Catalyst Renewables.

Mighty River Power's stake in EnergySource provides future development opportunities in the United States. These include the proposed Hudson Ranch II project, which is still in the pre-development stage although exploration drilling has begun. EnergySource has already negotiated a power purchase agreement with Salt River Project, the Arizona utility that provided the power purchase agreement for the John L. Featherstone power station. Mighty River Power has contributed approximately US$5 million to this project to 31 December 2012 but it is anticipated that, if the outcome from the drilling is positive, EnergySource may seek further capital from its shareholders. If Mighty River Power does not contribute its pro rata share then its ownership interest will be diluted.

Chile

Chile has significant geothermal potential but commercial development was only made possible in 2000 with the passage of legislation establishing Government ownership of geothermal resources and a process through which parties may obtain exploration and exploitation concessions.

Interest in local renewable power generation, including from geothermal sources, has been further driven by a Chilean Government strategy to reduce reliance on imported fuels. Related to this, Chilean generation companies with installed capacity greater than 200 MW are required by Chilean regulations to demonstrate that a growing portion of electricity supplied to customers is from non-conventional renewable sources (including geothermal), with non-compliance being subject to potential fines.

Mighty River Power has access to three geothermal prospects in Chile. The value attributed to these assets by Mighty River Power was $47.9 million as at 31 December 2012. The Tolhuaca geothermal field represents the Company's most actively explored concession in Chile to date, with two production scale wells drilled. The remainder of the concessions or interests in concessions are all very early stage development opportunities.

Germany

Mighty River Power has an interest (with no on-going management involvement) in respect of a subsidiary of GeoGlobal Energy LLC, which owns five early stage geothermal development concessions in southern Germany. Exploration of the concessions is currently limited to surface testing (including three-dimensional seismic surveys) and preliminary design. The value attributed to these assets by Mighty River Power was $12 million as at 31 December 2012. Mighty River Power's investment provides it with an option to take control of the subsidiary of GeoGlobal Energy LLC that owns the development concessions for nominal consideration. This option can be exercised if Mighty River Power's investment is not repaid by 2020, or if GeoGlobal Energy LLC fails to introduce, by 30 June 2014, sufficient third party investment capital to develop the concessions further.

Background

Mighty River Power invested in the GGE Fund in 2008 as a vehicle to pursue its international geothermal strategy. It committed $US100 million and then an additional US$150 million in 2010 to the GGE Fund and was the sole investor. The GGE Fund was managed by GeoGlobal Energy LLC (in which the Company had a shareholding) and was seen by Mighty River Power as a way of accessing its expertise and initial development opportunities and potentially attracting third party capital.

The GGE Fund pursued an active business development programme in the United States, Chile and Germany with the result that the Fund was almost fully deployed by the end of December 2012.

In May 2010 the GGE Fund invested US$92 million, plus transaction costs of approximately US$2 million, in EnergySource and the John L. Featherstone power station project (49.9 MW), primarily to help fund the construction of the power station. In 2012, following financial transactions at EnergySource, Mighty River Power received from the GGE Fund a $140 million (US$116 million) cash distribution. Refer to 6.3 Prospective Financial Information for additional disclosure regarding financial information and the accounting and taxation treatment of the Company's international geothermal investments.

By 31 December 2012 the GGE Fund had not raised third party capital as planned and the Company had decided that it would decline the opportunity to invest further into the existing structure. Management also reviewed all international geothermal development projects and related interests.

Subsequently the Company recognised an $88.9 million asset impairment in relation to the assets in Chile and Germany in the GGE Fund and its interest in GeoGlobal Energy LLC in its financial results for HY2013. The impairment took into account the lack of new capital then available, poorer than expected outcomes and difficulties experienced that were not expected in some of the developments.

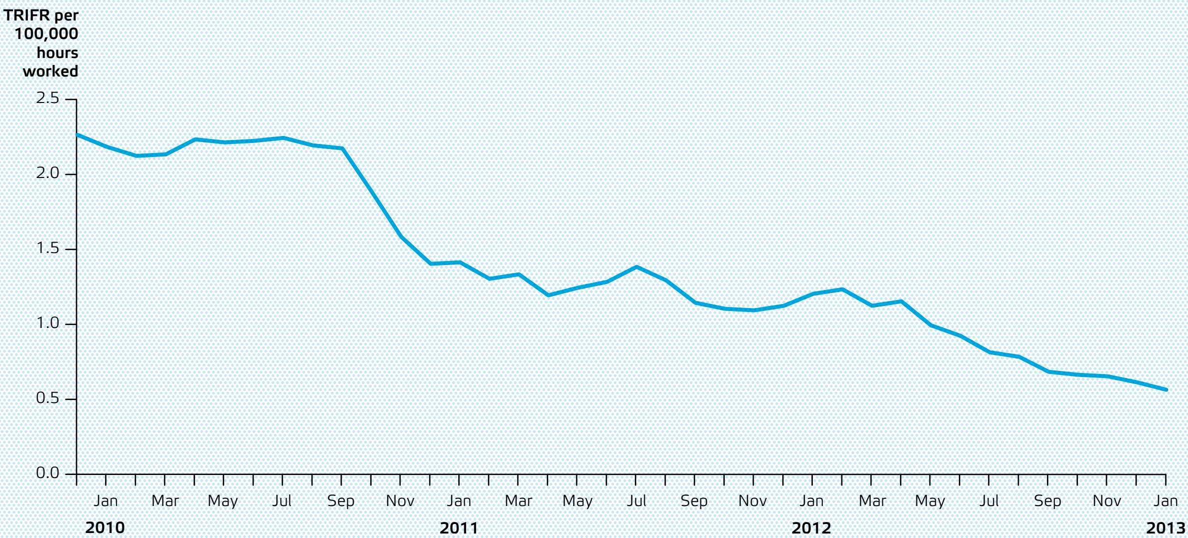
Mighty River Power announced on 15 February 2013 that it had reached agreement with GeoGlobal Energy LLC to take direct control of the geothermal interests in Chile and of the Fund's minority stake in US-based EnergySource. GeoGlobal Energy LLC has taken direct ownership and control of the Fund's interests in Germany.

Mighty River Power paid US$24.8 million to GeoGlobal Energy LLC as part of this transaction and was released from geographic exclusivity restrictions in pursuing future geothermal investments. Termination of the agreement also releases Mighty River Power from any future obligation for management fee payments.

Mighty River Power considers that the transition from the GGE Fund relationship is an appropriate evolution. The experience it has gained since the Fund was formed in 2008, both through its connection with GeoGlobal Energy LLC and independently through its domestic geothermal expansion programme, means that it now has the potential to operate internationally utilising its core capabilities in geothermal project execution.

You can find out more about these development risks in 5 What Are The Risks? You can find a further discussion of the financial performance of Mighty River Power in the period to 31 December 2012 in 6.2 Analysis Of Historical Financial And Operational Performance. You can find out more about Mighty River Power's capital expenditure plans in 6.3 Prospective Financial Information.

Mighty River Power Total Recordable Injury Frequency Rate (TRIFR)



Calculated using a 12 month rolling average

Team, Partnerships And Community

Mighty River Power's quality of earnings and value of physical assets is underpinned by the capabilities and performance of its more than 800 employees in New Zealand and Chile and by its relationships with key partners and suppliers.

People

Mighty River Power's values of kotahitanga (creating unity), kaitiakitanga (guardianship), confidence and aspiration identify the essence that is specific to the business. These values are founded on a genuine commitment to teamwork, partnership and community involvement. Working with its stakeholders, Mighty River Power has built strength in performance and a passion for its brands. The Company has invested in growing leadership and technical specialist capabilities across the organisation and invites its employees each year or so to have their say about the workplace and ways to improve business performance. The 2012 Kenexa JRA Workplace Survey results showed positive shifts in all three key performance measures - how Mighty River Power ranks against other organisations, the level of employee engagement and the proportion of employees who are engaged with the organisation and its goals. Mighty River Power places a high weighting on corporate responsibility, making a positive contribution to the communities in which it operates and taking its environmental responsibilities seriously. Mighty River Power also believes that a strong industry brand has enhanced its ability to attract and retain high calibre people.

Integral to this is Mighty River Power's commitment to a high quality work environment and to the safety of all employees, contractors and visitors through engagement with all stakeholders and specific improvement initiatives. Mighty River Power has achieved a relatively steady improvement in the key safety performance measure – the Total Recordable Injury Frequency Rate. As shown in the graph at left, this was reduced by a further 46% in the year ending 31 December 2012.

Partnerships, Community And The Environment

Mighty River Power works in commercial partnership with numerous Māori land trusts in geothermal resource developments and with other stakeholders across a range of renewable resources. In the Waikato River catchment, Mighty River Power strives to align its interests around water quality with the values of kaitiakitanga and the protection and enhancement of the river sought by local iwi, regulators and other users of the river.

Mighty River Power understands the importance of retaining and building on the 'licence to operate' that is conferred by communities and groups to support its operational activities. Mighty River Power targets a 'beyond compliance' approach, establishing and supporting programmes with iwi and other regional organisations to promote educational initiatives (for example, apprentice courses and leadership development), environmental and ecological restoration projects (particularly in the Waikato River region in conjunction with the statutorily established Waikato River Authority) and a diverse range of Māori cultural support initiatives (for example, recording of oral history from Māori elders).

In 2010 Mighty River Power partnered with Rowing New Zealand to deliver the 2010 World Rowing Championships at Mighty River Domain, Lake Karapiro. In addition, Mighty River Power provides on-going support to events and community organisations, including the Taupo Ironman event, Taupo Coastguard, Māori Sports Awards, Waikato River Trails Trust, Waikato Catchment Ecological Enhancement Trust and Waikato Museum. Alongside these sponsored initiatives, Mercury Energy and its customers have contributed over $4.5 million to the Starship Foundation between 1 July 2003 and 31 December 2012.

Within its retail business Mighty River Power also maintains an important Community Relations programme that works with social services, budgeting agencies and other non-Government organisations to assist vulnerable customers and provide practical solutions to manage debt and maintain electricity supply.

Mighty River Power is also committed to the development of New Zealand's electricity expertise and talent. In 2011 Mighty River Power extended its successful apprenticeship programme into a partnership with Contact Energy, establishing the Electricity Supply Apprentice Programme. In addition, Mighty River Power continues to invest in research into geothermal energy, supporting postgraduate university studies including:

- an agreement with the University of Auckland in 2011 to provide approximately $1 million over five years to support the re-establishment of the University's Geothermal Institute; and
- providing approximately $1 million in 2010 to help fund a five year geothermal research programme at the University of Canterbury.

Mighty River Power has a strong, business wide focus on sustainability and renewability, concepts which align closely with the underlying principles of the RMA, the kaitiakitanga values of Māori and the interests of the local communities in the areas in which the Company operates. Mighty River Power actively participates in national and regional environmental planning processes, which establish the broad regulatory and policy framework applicable to its activities, including, for example, participation in the Land and Water Forum.

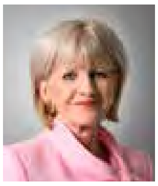
Section 4.2: Board, Management And Corporate Governance

Board Of Directors

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 Auckland International Airport, Deputy Chair of Television New Zealand, a director of The Treasury Advisory Board, a trustee of Pure Advantage, the Sweet Louise and the Tindall Foundations and was previously a director of Meridian Energy. Joan has been appointed as an independent director of ANZ Bank New Zealand, effective from 1 July 2013. 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. Joan is author of the book "A Girl's Guide to Business". Joan is a former director of Feltex Carpets and is one of several defendants to a civil class action suit brought by investors in relation to the initial public offering of that company. Joan is defending that claim.

Trevor Janes

Deputy Chair

BCA, CA, FCFIP, FInstD

Trevor Janes joined the Mighty River Power board in June 2005. He is Chair of Public Trust, Chair of Abano Healthcare, Deputy Chair of the Accident Compensation Corporation and a director of ProCare Health. Trevor is also a member of the Ministry of Foreign Affairs and Trade International Development Advisory and Selection Panel, a member of the New Zealand Post Network Access Committee and an issuers' representative on the New Zealand Markets Disciplinary Tribunal. He was a director of finance company Capital + Merchant Finance Limited from 30 March 2005 to 31 October 2006. That company was placed in receivership on 23 November 2007 and in liquidation on 15 December 2009. Trevor is a Chartered Accountant and Fellow of the Institute of Directors and the Institute of Financial Professionals NZ Inc. He is a member of the CFA Institute (US) and the UK Society of Investment Professionals.

Dr Michael Allen

Director

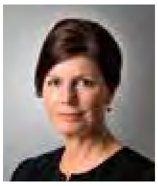
BE (Chem) (Hons), PhD

Michael Allen was appointed a director of Mighty River Power in November 2009 and is also a director of Mid Century Design. With a background in engineering, he has 25 years' experience in the management, promotion and marketing of international geothermal engineering consulting. He has been involved in more than 20 geothermal developments in 12 countries and has undertaken project consultancy in South East Asia, Africa, Japan, and Central and South America. More recently he has been active in brokering finance from banking and private equity sources for clean energy projects internationally. Michael is also Executive Chairman of ReEx Capital Asia Pte (Singapore) and executive director of Geothermal New Zealand. In January 2013 he was appointed Special Envoy for Renewable Energy by the New Zealand Ministry of Foreign Affairs and Trade.

Prue Flacks

Director

LLB, LLM

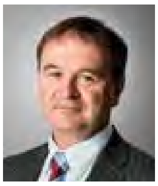


Prue Flacks joined the Mighty River Power board in May 2010. She is a barrister and solicitor with extensive specialist experience in commercial law and, in particular, banking and finance and securities law. Prue is a consultant to Russell McVeagh, where she was a partner for 20 years. She is a director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

James Miller

Director

BCom, FCA, AMInstD

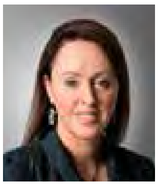


James Miller was appointed a director of Mighty River Power in May 2012. He is a director of NZX, New Zealand Clearing and Depository Corporation (a subsidiary of NZX), the Accident Compensation Corporation and Auckland International Airport and is a member of the Financial Markets Authority. He was previously Chair of listed investment companies Barramundi, Kingfish and Marlin Global and a director of Vector. James was also a member of the board of the Institute of Finance Professionals and the Financial Reporting Standards board of the New Zealand Institute of Chartered Accountants. He has 15 years' experience in the capital markets, having recently retired as a director and Head of NZ Wholesale Equities with Craigs Investment Partners in Auckland. James' relevant prior roles were Head of Equities and Head of Research at ABN AMRO in New Zealand and a Research Analyst focusing on the energy and infrastructure sectors with Barclays de Zoete Wedde in New Zealand. James is a fellow of the Institute of Finance Professionals New Zealand Inc. He is also a Fellow of the Institute of Chartered Accountants of New Zealand. James has completed the Advanced Management Program (AMP) at Harvard University.

Tania Simpson

Director

BA, MMM, AMInstD



Tania Simpson became a director of Mighty River Power in November 2001, making her the longest serving member of the current board, and is Chair of its Human Resources Committee. Tania is the founding director of Māori policy adviser, Kōwhai Consulting. She has previously held management positions in the Housing Corporation of New Zealand, Ministry of Māori Development and Office of Treaty Settlements and has worked on social policy, environment, economic development and Treaty-related matters. She is of Tainui, Ngāi Tahu and Ngā Puhi descent. Tania is Deputy Chair of Landcare Research, a member of the Waitangi Tribunal, a director of Oceania Group, AgResearch and a trustee of Te Reo Irirangi o Maniapoto Trust, Waikato Endowed Colleges Trust, Kōwhai Trust and Tui Trust.

Keith Smith

Director

BCom, FCA

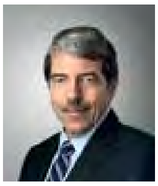
Keith Smith was appointed a director of Mighty River Power in May 2009 and is Chair of its Risk Assurance and Audit Committee. He is Chair of a number of companies including Tourism Holdings and Goodman (NZ), and is Deputy Chair of The Warehouse Group and various private companies covering a range of industry sectors. Keith was previously a director of PGG Wrightson and NZ Farming Systems Uruguay and was Deputy Chair of Genesis Energy. He is a past President of the New Zealand Institute of Chartered Accountants.

Executive Management Team

Dr Doug Heffernan

Chief Executive

BE (Elect.) (Hons), ME, PhD, DistFIPENZ



Doug Heffernan has been Chief Executive of Mighty River Power since it was formed in December 1998 and now has over 38 years' experience in the New Zealand electricity industry. He has led the Company through a period of sustained growth and evolution from its beginnings as a hydro-only operator to a diversified electricity generator and retailer with a significant geothermal business. In 2012 Doug was named the Energy Executive of the Year at the Deloitte Energy Excellence Awards. Doug is a director of Tuaropaki Power Company and was, until 2012, Chair of Rotokawa Joint Venture and the Nga Awa Purua joint venture. Doug was formerly Chief Executive of Power New Zealand (a distributor and retailer which was formerly listed with NZX) from 1991 to 1997, leading it through the processes of corporatisation, merger and listing with NZX through demutualisation and initial development of the Rotokawa geothermal field. Prior to that Doug held roles in national transmission grid and generation development and sales and marketing at ECNZ.

William Meek

Chief Financial Officer

BCom (Hons)

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

James Munro

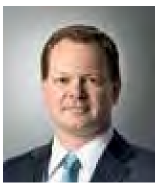
General Manager Retail

James Munro joined Mighty River Power in 2008 with responsibility for the retailing and metering businesses. James has a broad range of commercial experience, having started his career as an accountant and with a background in media, finance and banking. James has over 20 years' experience in complex retail services businesses. Previously he has worked for a number of companies including The Economist in London, TVNZ and St George Bank.

Matthew Olde

General Manager Business Strategy & Solutions

BCom (Hons), LLB



Matthew Olde is responsible for facilitating the development and delivery of Company strategy. In addition, he is responsible for the communications and legal functions, as well as group information services. Matthew joined Mighty River Power in 2010 and has more recently been leading the Company's preparations for this Offer. Prior to joining the Company, he spent over a decade as an investment banker in Auckland, Sydney and London with Deutsche Bank and ABN AMRO, predominantly providing corporate finance advice across a wide range of sectors.

Marlene Strawson

General Manager Human Resources

BSocSc, MMgt (HR)

Marlene Strawson joined Mighty River Power in 2012 with responsibility for delivering Mighty River Power's human resources strategy. Marlene has over 20 years' experience in HR, with a strong organisational development background. Prior to joining Mighty River Power, Marlene held a number of HR roles in a wide range of sectors including the telecommunications, banking and health sectors, including a period at Yellow Pages after it was acquired from Telecom.

Mark Trigg

General Manager Development

BE (Chem)

Mark Trigg is responsible for Mighty River Power's generation development and growth strategy, both within New Zealand and internationally. He joined Mighty River Power in 2010 following 14 years' experience in the New Zealand power sector where he held a number of senior executive roles. Mark brings a range of experience in operations, business development, trading and risk management and strategy development. Before moving to the energy sector, Mark spent ten years in the financial markets, predominantly in trading roles.

Fraser Whineray

General Manager Operations

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

Fraser Whineray is responsible for optimising the performance of all of Mighty River Power's domestic generation operations, portfolio and industrial sales activities. He joined Mighty River Power in 2008 from Carter Holt Harvey where he was Director Operational Improvement. Prior to that he held a number of senior roles in the dairy industry and with Credit Suisse First Boston in New Zealand and Australia. He has considerable experience in performance management, strategy, mergers and acquisitions and international business. Fraser is an independent non-executive director of Opus International Consultants.

Corporate Governance

As at the date of this Offer Document, Mighty River Power has seven non-executive directors, comprising an independent Chair, Deputy Chair and five other independent directors. The board has determined that, in its view, all of the directors are independent directors for the purposes of the NZSX Listing Rules.

The board is committed to maintaining the highest standards of business behaviour and accountability. Accordingly, the board has adopted corporate governance policies and practices which reflect contemporary standards in New Zealand and Australia, incorporating principles and guidelines issued by the Financial Markets Authority, and the best practice recommendations issued by NZX and ASX.

Roles And Responsibilities

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 Mighty River Power.

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 include:

- establishing clear strategic goals with appropriate supporting business plans and resources, and 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 management;
- 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;
- approving executive management team appointments and remuneration and monitoring performance against objectives;
- reviewing succession and development plans for the Chief Executive and executive management team and implementing appropriate arrangements to allow for such succession and development plans;
- 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 that Mighty River Power adheres to high standards of health, safety and environmental practices, corporate behaviour, responsibility and ethics; and
- reviewing board capability, recommending new directors and board and committee fees.

The Chief Executive and executive management team are responsible for:

- developing and making recommendations to the board on Company strategies and specific strategic initiatives;
- the management and implementation of strategies approved by the board;
- the formulation and implementation of policies and reporting procedures for management;
- the implementation of the delegated financial authority policy;
- the management of business risk; and
- the day-to-day management of Mighty River Power.

Corporate Responsibility

The board recognises that in conducting business there is a need to be guided by principles promoting ethical and responsible decision-making. Mighty River Power's Corporate Responsibility Policy reflects core values that are integral to its business model and a vital foundation for its commercial sustainability and future growth. Mighty River Power's approach to corporate responsibility acknowledges the complex inter relationships between economic performance, community expectations and changing social and environmental aspirations.

Market Disclosure

Once listed, Mighty River Power will be required to comply with the NZSX and ASX Listing Rules and the disclosure requirements of securities and other laws in New Zealand and Australia. Mighty River Power is committed to notifying the market through full and fair disclosure to the NZX Main Board and, if listed, to ASX of any material information related to its business required by applicable Listing Rules. Mighty River Power is mindful of the need to keep stakeholders informed through a timely, clear and balanced approach which communicates both positive and negative news.

The Company's Disclosure Committee (made up of directors and senior executives) is responsible for ensuring that the Company complies with its disclosure obligations.

Trading In Company Securities

Mighty River Power has adopted a Trading in Company Securities Policy which details the Company's policy on, and rules for, trading in Company Securities (including the Shares). The Policy applies to directors, officers, employees, contractors and secondees and is additional to the legal prohibitions on insider trading in New Zealand and Australia.

Stakeholder Communications

Mighty River Power is committed to providing a high standard of communication to its Shareholders and other stakeholders and to ensuring that they have available all information reasonably required in order to make informed assessments of the Company's value and prospects. Mighty River Power believes that effective communication is achieved by providing equal access to timely, accurate and complete information. Mighty River Power's Stakeholder Communications Policy details steps the Company takes to ensure that Shareholders and other stakeholders have access to relevant information.

Risk Management

The identification and effective management of Mighty River Power's risks are a priority of the board. The board is responsible for overseeing and approving the risk management strategy and policies, as well as ensuring that effective audit, risk management and compliance systems are in place. The Risk Assurance and Audit Committee assists the board in fulfilling its risk assurance and audit responsibilities.

Mighty River Power has in place an overarching Risk Management Policy 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.

As part of its current risk appetite statement, Mighty River Power targets a long-term credit rating of BBB+ from S&P (or its equivalent).

A long-term credit rating is an expression of the general creditworthiness and credit quality of an entity based on an analysis of quantitative and qualitative metrics and refers to its ability and willingness to honour its existing debt responsibilities. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by an assigning rating agency. Ratings should be evaluated independently of any other information. Mighty River Power's BBB+ rating includes a one notch higher rating to reflect S&P's view of the benefit of its 100% ownership by the Crown. In the absence of Crown support, S&P views Mighty River Power's stand-alone credit profile as 'bbb'. S&P has noted that the one notch higher rating is likely to be maintained while the Crown owns greater than 50% of the Company. On the S&P long-term rating scale, the standalone 'bbb' rating indicates that the entity has adequate capacity to meet its financial commitments, but adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to meet its financial commitments than a higher rated entity.

Board Committees

The board has three formally constituted committees of directors. These committees review and analyse policies and strategies, usually developed by management, which are within their terms of reference. These committees examine proposals and, where appropriate, make recommendations to the full board. No committee will take action or make decisions on behalf of the board unless specifically authorised to do so by the board.

Risk Assurance And Audit Committee

The primary purpose of the Risk Assurance and Audit Committee is to assist the board in fulfilling its risk assurance and audit responsibilities by overseeing, reviewing and providing advice to the board on Mighty River Power's:

- risk management policy and processes;
- 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 current members of the Risk Assurance and Audit Committee are Keith Smith (Chair), James Miller, Prue Flacks and Trevor Janes. Joan Withers is a member by virtue of her position as Chair of the board.

Human Resources Committee

The primary purpose of the Human Resources Committee is to assist the board in fulfilling its human resources responsibilities by overseeing and providing advice to the board on Mighty River Power's:

- organisational capabilities and design;
- workforce composition;
- human resources strategies;
- remuneration of the Chief Executive; and
- remuneration policy.

The current members of the Human Resources Committee are Tania Simpson (Chair) and Mike Allen. Joan Withers is a member by virtue of her position as Chair of the board.

Nominations Committee

The primary purpose of the Nominations Committee is to ensure that the board and its committees are structured appropriately and composed of suitably qualified individuals to support the board's effectiveness in discharging its duties and responsibilities and adding value through good governance.

The Nominations Committee does this by:

- providing assurance that the board has an effective composition, necessary and desirable expertise and an 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.

The current members of the Nominations Committee are Joan Withers, Prue Flacks, Trevor Janes and James Miller.

Director Interests

Director Remuneration

None of the directors is entitled to any remuneration from Mighty River Power except for directors' fees and reasonable travelling, accommodation and other expenses incurred in the course of performing duties or exercising powers as directors. The Company's Shareholders have approved annual fees of $85,000 for each director, $150,000 for the Chair, $106,250 for the Deputy Chair and an additional aggregate allowance of $85,000 for board committee work. These fees take effect from the date on which the Company is listed. Prior to this, the Company's Shareholders agreed to the payment by the Company of additional fees of up to $288,000 to compensate directors for additional work required in preparation for the Offer.

Director Shareholdings

Directors may apply for Shares under the General Offer, in the same way that any New Zealand Applicant can. Directors are able to participate in the offer to Eligible Employees. To the extent that any directors acquire Shares those acquisitions must be disclosed to the market as required by law.

Employee Remuneration And Share Plans

Mighty River Power's remuneration strategy aims to attract, motivate and retain high calibre employees at all levels of the organisation, in turn driving performance and growth in Shareholder value and return. Underpinned by a 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 that provide for consistency, fairness and transparency.

Executive Remuneration

Mighty River Power's total remuneration policy for its executives 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 the individual's performance, skills, expertise and experiences. The Mighty River Power Human Resources Committee reviews and approves annual performance review programmes for the executives and uses external market information when considering remuneration arrangements.

Executive total remuneration is made up of three components: fixed remuneration, short-term performance incentives and long-term performance incentives.

Fixed remuneration

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

Short-term performance incentives

Short-term performance incentives are at-risk payments aligned to annual performance scorecards. The scorecards define objectives and measures in the areas of financial performance, operational excellence, reputation and people and link directly to Mighty River Power's business plans. The short-term performance incentive remuneration targets are expressed as a percentage of base salary and are set and evaluated annually.

Long-term performance incentives

Long-term performance incentives (LTIs) are at-risk benefits aligned to performance targets incentivising the enhancement of long-term Shareholder value. LTIs are available, at the discretion of the board, under an existing LTI plan (described below) to the Chief Executive, Chief Financial Officer, General Manager Operations, General Manager Development and General Manager Retail and are available to members of the executive management team (who are direct reports to the Chief Executive) under the new LTI plan (also described below).

Chief Executive tenure and long-term incentives

The Chief Executive is contracted through to 31 August 2014. A recruitment process for the role of Chief Executive is expected to begin in late 2013.

On 31 December 2013, he will be paid a one-off retention payment of $500,000 (less tax). No further retention or termination payment is payable to him.

The Chief Executive is a participant in the existing LTI plan. His three year LTI period concludes on 30 June 2014.

The terms applying to the Chief Executive under the existing LTI plan are the same as for other executive management team members (as described below), except that the Chief Executive can elect to receive a loan to acquire Shares for a portion of his entitlement rather than for his full entitlement (with the balance of the entitlement being paid to him in cash) and the period for the Chief Executive concludes on 30 June 2014. Shares and cash amounts for which the total shareholder return performance hurdle has been met will be transferred to him on that date.

The maximum entitlement of the Chief Executive under the existing LTI plan is $750,000. Of this amount, the maximum dollar amount of Shares to be acquired to satisfy the Chief Executive's entitlement under the existing plan is $418,750, for which the trustee of the LTI plan will receive an allocation priority under the General Offer at the Final Price.

Executive management team long-term incentives

The existing LTI plan for the executive management team members concludes on 30 June 2013. Under the existing LTI plan, the achievement of the performance targets is measured at the conclusion of each year of a three year period relative to the start of that year. The targets are based on the Company's total shareholder return performance relative to benchmarks. An executive's entitlement to the incentive only arises when the targets are achieved and is subject to the executive remaining in employment with Mighty River Power throughout the three year period.

In anticipation of the Offer, the existing plan provides for the incentives to be delivered by way of Shares. The aggregate maximum dollar amount of Shares to be acquired for the purposes of the existing plan is $804,000 for the executive management team (excluding the Chief Executive), for which the trustee of the LTI plan will receive an allocation priority under the General Offer at the Final Price.

A new LTI plan is being implemented for the executive management team (excluding the Chief Executive) in conjunction with the Offer to enhance the alignment between Shareholders and those executives most able to influence financial results after the Company has been listed.

The structure of the plan is the same as that of the existing plan — executives purchase Shares 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 a three year period. Vesting of Shares is dependent on continued employment through the three year period and the Company's relative total shareholder return. If Shares vest, executives are entitled to a cash amount which, after deduction of tax, is equal to the amount of their loan balance for Shares which have vested. That cash amount is applied towards repayment of their loan balance.

Shares purchased for offers made under the new LTI plan in respect of the year commencing 1 July 2013 will be purchased at the Final Price. Any future offer of Shares under the plan will be made at their market price at the time. The aggregate maximum dollar amount of Shares to be initially acquired for the purposes of the new plan is $1,575,000, for which the trustee of the LTI plan will receive an allocation priority under the General Offer.

Under the new plan, a relative total shareholder return measure is used. Performance is measured against a benchmark peer group comprising of all NZX50 members as at the start of the vesting period. If a member of that peer group ceases to have its securities quoted on the NZX Main Board, the entity is removed from the peer group. The Company's board has the discretion to replace any such entity with another entity that the board considers is appropriate.

Vesting of Shares is dependent on the Company's performance relative to the performance of the benchmark peer group, with a sliding scale to apply for the number of Shares to vest. If the Company's total shareholder return performance over the restricted period exceeds the 50th percentile total shareholder return of the benchmark peer group, 50% of the Shares will vest. 100% of an executive's Shares will vest upon meeting the performance of the 75th percentile of the benchmark peer group, with vesting on a straight line basis between these two points.

As the ability of Mighty River Power to issue Shares in the future may be limited by the statutory requirement for the Crown to maintain a holding of at least 51% of the Shares, any future offer under this plan may need to be satisfied through on-market acquisitions of Shares by the trustee.

In the event that the total shareholder return performance hurdle is not met or if the participant ceases to be employed by the Company other than for a qualifying reason, the Shares will be forfeited to the trustee without compensation and the relevant executive will receive no benefits under the plan. Where the total shareholder return exceeds the 50th percentile of the benchmark peer group but is below the 75th percentile, those Shares which have not vested will be forfeited to the trustee without compensation.

Employee Share Purchase Programme

An Employee Share Purchase Programme will be introduced upon the Company being listed, providing eligible permanent employees of Mighty River Power in New Zealand with the opportunity to buy Shares at their market price. The Programme will provide each participant with an interest free loan of approximately $2,340 to fund the purchase of Shares, with the loan being repayable over three years through monthly salary deductions. Any dividends will be paid in cash to employees during this period. Shares will be held in trust and following the conclusion of the three year period and full repayment of the loan, they will be released to participants, subject to their continued employment with Mighty River Power. Where an employee ceases to be employed before the conclusion of the three year period (other than for a qualifying reason), the trustee will acquire their Shares for the lower of their market price and the amount they originally paid.

Shares offered to Programme participants under the first offer under this Programme will form part of the minimum guaranteed allocation of $5,000 worth of Shares available to Eligible Employees under the General Offer. As the ability of Mighty River Power to issue Shares in the future may be limited by the statutory requirement for the Crown to maintain a holding of at least 51% of the Shares, any future offer under this plan may need to be satisfied through on-market acquisitions of Shares by the trustee.

Participants under the Programme will not receive Loyalty Bonus Shares under the Offer in respect of Shares purchased under the Programme.

Section 4.3: Relationship Between Mighty River Power And The Crown

The Crown As A Shareholder Of Mighty River Power

The Crown, acting by and through the Shareholding Ministers, is currently the sole Shareholder of Mighty River Power. Following completion of the Offer, the Crown will continue to be Mighty River Power's majority Shareholder with a holding of at least 51% of the Shares in the Company.

Mighty River Power was an SOE under the State-Owned Enterprises Act 1986 until 8 March 2013, when it became a mixed ownership model company governed by the Public Finance Act. In broad terms, the Public Finance Act and the Constitution provide that the Crown must hold at least 51% of the Shares and no other person may have a relevant interest in more than 10% of the Shares. Equivalent ownership restrictions would apply to any further classes of shares issued by Mighty River Power and any other securities issued by Mighty River Power with voting rights.

Further information on the ownership restrictions is set out under the heading "Shareholding Restrictions" below.

Shareholder Decisions And Governance

Following completion of the Offer, the Crown intends that its shareholding in Mighty River Power (including any Shares retained by the Crown and reserved for future transfer, such as the Loyalty Bonus Shares) will continue to be held by and through the Shareholding Ministers and monitored by The Treasury. If Parliament passes a resolution that Mighty River Power is a public organisation, then it will be subject to periodic financial reviews by a select committee established by Parliament.

As the holder of at least 51% of the Shares, the Crown generally will be able to control the outcome of matters put to Shareholders that require majority approval, including resolutions for the election and removal of directors. Further, the Crown's shareholding is likely to have significant influence over the outcome of special resolutions put to Shareholders that require the approval of a 75% majority (for example, resolutions approving changes to the Constitution or approving major transactions of Mighty River Power), especially given the number of shareholders in listed companies who typically do not exercise their respective voting rights.

In addition, the Chair nominated by the board must be approved by the Minister of Finance.

The other rights that the Crown has as a Shareholder of the Company are the same as those of all other Shareholders, which are described in more detail in 7.2 Statutory Information.

Capital Raisings And Dividend Reinvestment Plans

The Crown has been a supportive Shareholder of Mighty River Power, evidenced by the Crown's support of the Company's investment in domestic, and international geothermal, development portfolios. Following the Offer, the Crown will be the largest Shareholder holding at least 51% of the Shares and intends to continue to be supportive of the Company and its plans. This does not imply any guarantee of the Shares by the Crown, or any commitment in respect of future capital contributions.

Due to the ownership restrictions in the Public Finance Act and the Constitution, any future equity capital raising that involves issuing any class of shares in, or voting securities of, Mighty River Power will only be able to proceed if the Crown agrees to participate to the extent required to maintain an interest of at least 51% (or such greater amount required to take into account shares retained or separately held by the Crown and reserved for future transfer, such as the Loyalty Bonus Shares).

The Crown's on-going support of future equity capital raisings by the Company will be subject to:

- the board satisfying the Crown that it is in the best interests of the Company to raise equity;
- the Crown being satisfied that it is in its best interests to provide some of that equity;
- the Crown retaining discretion to limit the amount of its participation in the equity raising depending on the circumstances; and
- an appropriation (being an authorisation) from Parliament for the Crown to purchase Shares under the equity raising.

Any decision by the Crown on whether to make equity capital available to Mighty River Power will be made by the Government at the time and will be considered taking into account all relevant factors and circumstances, including competing capital requirements. The outcome of such decisions regarding capital allocation by the Crown may therefore be critical to any equity capital raising Mighty River Power wishes to undertake in the future.

This risk to Mighty River Power's ability to raise capital is described in more detail under the heading "Availability And Cost Of Capital" in 5 What Are The Risks?

In addition, the Company may, in the future, put in place a dividend reinvestment plan that it may seek to activate from time to time. The Crown agrees with the Company that a dividend reinvestment plan may be an appropriate tool for managing the short-term capital needs of the Company resulting from adverse hydrological conditions or other significant unforeseen adverse events.

The Crown intends to consider its support of a dividend reinvestment plan by the Company on the same basis as any other future equity capital raising by Mighty River Power (as described above).

However, a dividend reinvestment plan that would not dilute the Crown's shareholding could be activated without consultation with the Crown. For example, this could include a dividend reinvestment plan satisfied through an on-market buy back of Shares by the Company. In these circumstances the Crown can choose whether or not to participate.

No Guarantee

The Crown does not guarantee the Shares or any returns in respect of them or the Company or any obligations of the Company.

Information To Be Provided By Mighty River Power To The Crown

Mighty River Power will continue to be required to provide The Treasury (on behalf of the Crown) with certain limited information under the Public Finance Act that is not publicly available to enable The Treasury to prepare Government financial statements. Further details regarding the basis on which this information will be received is set out under the heading "Information Provided to the Crown" below.

NZSX Listing Rules

Following the completion of the Offer, the Crown (including Crown departments, agencies and entities) will be 'Related Parties' of Mighty River Power for the purposes of the NZSX Listing Rules. As a result, any transactions between the Crown (including Crown departments, agencies and entities) and Mighty River Power that exceed certain materiality thresholds set out in the NZSX Listing Rules will require the approval of a majority of Mighty River Power's Shareholders. The Crown will not be entitled to exercise its voting rights in favour of any resolution to approve such a transaction.

The Crown As A Shareholder Of Other SOEs

As well as currently being the sole Shareholder of Mighty River Power, the Crown is also the sole shareholder of the other SOE participants in the New Zealand electricity industry, including:

- Genesis Energy and Meridian Energy, companies that compete directly with Mighty River Power; and
- Transpower with which, as the owner and operator of the national grid, Mighty River Power will continue to have a significant commercial relationship.

The business activities of these companies affect Mighty River Power's performance and are expected to continue to do so following the completion of the Offer.

Governance Of SOEs

As SOEs, the principal objective of each of Genesis Energy, Meridian Energy and Transpower, as required under the State-Owned Enterprises Act 1986, is to operate as a successful business and, to this end, be:

- as profitable and efficient as comparable businesses that are not owned by the Crown;
- a good employer; and
- an organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these interests when able to do so.

In addition, each of Genesis Energy, Meridian Energy and Transpower is a company incorporated under the Companies Act and has a board of directors that owes duties in accordance with that Act in the same way that company directors in the private sector do. This includes the duty of each director to act in good faith and in what that director believes to be the best interests of that company.

Genesis Energy and Meridian Energy are currently, and are expected to continue to be, competitors of Mighty River Power (and with each other) in order to meet their statutory objectives as SOEs, and for their respective directors to comply with their fiduciary duties under the Companies Act. Equally, Transpower is currently, and is expected to continue to be, required to deal with Mighty River Power (and Genesis Energy and Meridian Energy) on an arm's-length basis, notwithstanding the Crown's shareholding in each company.

In addition, the Commerce Act 1986, which prohibits certain anti-competitive behaviour, applies to SOEs in effectively the same way that it applies to private sector companies notwithstanding the fact that each SOE is wholly-owned by the Crown. As a result, each of Mighty River Power, Meridian Energy and Genesis Energy have been subject to the restrictions in the Commerce Act 1986 and the sale of Shares by the Crown pursuant to the Offer will not affect the application of those restrictions.

Information Provided To The Crown

Each SOE provides certain detailed information to The Treasury (on behalf of the Crown), including their respective business plans and other commercially sensitive information. This information is used for the purposes of monitoring the Crown's investment in the relevant company and providing advice to the Shareholding Ministers in relation to any required shareholder decisions.

Under the Public Finance Act, Mighty River Power is required to provide certain limited information to The Treasury that is not publicly available to enable The Treasury to prepare the Government's consolidated financial statements. This information comprises monthly actual financial statements, and five year forecasts that are submitted twice a year. Mixed ownership model companies will not be expected to provide business plans to The Treasury.

The Treasury treats as confidential any information provided to it by an SOE or mixed ownership model company that is not publicly available and, unless required by law, does not disclose it to third parties, including to other companies in which the Crown has an investment. The Crown and the Company have entered into a confidentiality agreement with respect to that information. The Treasury can be compelled by law to disclose information in certain circumstances, including pursuant to the Official Information Act 1982 which provides certain rights of access to information held by Government departments (although access to information can be denied under that Act under certain grounds, including if its disclosure would be likely to unreasonably prejudice the commercial position of the person who supplied it or to protect information that is subject to an obligation of confidence, provided the withholding of the information is not outweighed by the public interest in making it available).

Accordingly, confidential information that the Crown receives from any of Genesis Energy, Meridian Energy or Transpower in its capacity as shareholder of those companies will not be available to the other companies in which it is a shareholder, including Mighty River Power, unless disclosure to them is required by law. However, in making decisions in relation to its shareholdings (including participation in future equity capital raisings), the Crown will have knowledge of that confidential information available to it, subject to the constraints of the Securities Markets Act 1988 and other relevant legislation.

Extension Of The Mixed Ownership Model To Genesis Energy And Meridian Energy

As part of the extension of the mixed ownership model (of which this Offer forms part), the Government has announced that it also proposes selling up to 49% of its shares in Genesis Energy and Meridian Energy by way of public offers. The timing of the sales of shares in Genesis Energy and Meridian Energy has not yet been announced and will be subject to market conditions, company readiness and other factors. The Crown expects that, in connection with those sales, Genesis Energy and Meridian Energy will cease to be SOEs and will become mixed ownership model companies under the Public Finance Act. The Crown would remain the majority shareholder in each company with a shareholding of at least 51%.

The Crown As A Regulator

Following completion of the Offer, the activities of Mighty River Power will continue to be regulated by the Crown and certain Government agencies. The relationships between the Crown and the relevant regulatory bodies are summarised below.

Electricity Authority And Commerce Commission

As Crown entities, the Electricity Authority and the Commerce Commission have 'responsible Ministers' whose role is to oversee and manage the Crown's interest in the entities and their relationship with the Crown and to exercise any statutory responsibilities given to the Minister in relation to the entities. The current responsible Ministers for the Electricity Authority and the Commerce Commission are the Minister of Energy and Resources and the Minister of Commerce, respectively. The day-to-day management of a Crown entity is the responsibility of the Crown entity's board.

As independent Crown entities, the Electricity Authority and the Commerce Commission operate largely independently of the Government. Legislation specifically prohibits responsible Ministers for independent Crown entities from directing the entity to have regard, or give effect, to a Government policy unless the legislation establishing the entity specifically allows for it. In this regard:

- the Electricity Industry Act 2010 provides that the Electricity Authority must have regard to statements of Government policy concerning the electricity industry that are issued by the relevant Minister, although to date no such statements have been issued; and
- the Commerce Act 1986 requires the Commerce Commission to have regard to statements of the economic policies of the Government that are issued in writing from time to time.

However, responsible Ministers are not able to direct either the Electricity Authority or the Commerce Commission in relation to their statutorily independent functions or to require the performance or non-performance of a particular act, or the bringing about of a particular result, in respect of a particular person or persons.

Under the Crown Entities Act 2004, the Minister of State Services and the Minister of Finance may jointly direct Crown entities (including the Electricity Authority and the Commerce Commission) to comply with specified requirements for the purposes of supporting a 'whole of Government' approach and improving public services. A whole of Government direction may not be given in relation to a statutorily independent function or to require the performance or non-performance of a particular act, or the bringing about of a particular result, in respect of a particular person or persons.

Ministries Of Business, Innovation And Employment (MBIE) And For The Environment

The MBIE and the Ministry for the Environment are Government departments and form part of the Crown. They provide policy advice on:

- energy issues (MBIE);
- consumer policy (MBIE);
- safety standards in the geothermal sector (MBIE through the High Hazards Unit);
- workplace safety and health (MBIE); and
- the RMA, renewable generation and electricity transmission policy (Environment).

Energy Efficiency And Conservation Authority (EECA)

The EECA was established under the Energy Efficiency and Conservation Act 2000 and is a Crown agent under the Crown Entities Act 2004. The EECA is not an independent Crown entity in the same way that the Electricity Authority and Commerce Commission are and may be directed by its responsible Minister to give effect to a Government policy that relates to the EECA's functions and objectives.

Electricity And Gas Complaints Commissioner (EGCC)

The EGCC is not a Crown entity. This independent dispute resolution service for consumers was established by a deed between certain industry participants and is the approved scheme under the Electricity Industry Act 2010.

Gas Industry Company (GIC)

The GIC is not a Crown entity. The Gas Act 1992 provides that the gas industry will be co-regulated by the Government and an industry body. The GIC was established as the gas industry's approved co-regulatory body and is owned by certain industry participants. It is able to make recommendations to the Minister of Energy on a wide range of industry matters.

Environmental Protection Authority (EPA)

The EPA was established under the Environmental Protection Authority Act 2011 and is a Crown agent under the Crown Entities Act 2004. Like the EECA, the EPA is not an independent Crown entity and may be directed by its responsible Minister to give effect to a Government policy that relates to the EPA's functions and objectives, including national consenting under the RMA and management of the New Zealand ETS.

The Crown As A Customer

A number of Crown departments, agencies and entities are customers of Mighty River Power and its subsidiaries. These include agencies for which Mighty River Power has successfully tendered for the All-of-Government contracts for electricity supply. Those relationships are on arm's-length terms and, in aggregate, comprised less than 1.7% of Mighty River Power's revenue in the year to 31 December 2012.

Contractual Relationships Between The Crown And Mighty River Power

Crown Sale Deed

In connection with the establishment of ECNZ in 1988, the Crown and ECNZ entered into the Crown Sale Deed pursuant to which the Crown agreed to sell electricity generating assets to ECNZ. To enable ECNZ to be split up in 1999, Mighty River Power and ECNZ had earlier entered into an agreement pursuant to which ECNZ would sell certain assets to Mighty River Power, including those comprising the Waikato Hydro System.

Legal title to the land on which these assets are situated has been transferred to Mighty River Power, with the exception of the land on which the Whakamaru Dam and Taupo Control Gates respectively sit, as described in more detail below.

Except as described below, the Crown has granted Mighty River Power the benefit of all the rights of ECNZ under the Crown Sale Deed as they relate to the assets it purchased from ECNZ. The Crown Sale Deed originally included:

- a right to compensation from the Crown in the event that any tax, royalty, levy or impost was imposed upon Mighty River Power's use of water in respect of its hydro power stations and as a consequence Mighty River Power incurred costs or expenses (which were not reflected in increased prices for energy generally) or was deprived of revenue; and

- an obligation on the Crown to compensate Mighty River Power for any costs arising from resumption for use in a Treaty settlement of the land acquired by the Company from ECNZ that were not covered by compensation under the Public Works Act 1981.

These rights of compensation were never required to be claimed by Mighty River Power and their scope was never tested. As part of the preparatory work for the Offer, the Crown considered it desirable for policy reasons for Mighty River Power, Genesis Energy and Meridian Energy to relinquish these rights to ensure that with respect to these matters all gentailers are in the same position and taxpayer capital is not transferred to private investors with no benefit to the Crown.

Consequently, the Crown changed the Constitution to reserve to it, as Shareholder, the power to make decisions relating to the release and relinquishment of these rights of compensation. The Crown then decided that the Company would relinquish these rights. The Constitution no longer reserves this decision-making power to the Crown.

Whakamaru Dam

Mighty River Power is the equitable owner of the Whakamaru Dam site and the Crown has a contractual obligation to transfer registered title to the dam site and related land. There is no current legal impediment to the transfer of registered title from the Crown to Mighty River Power. However, the Crown has delayed the transfer pending the outcome of the *Paki v Attorney-General* case. In that case the appellants are seeking a declaration that the Crown holds those parts of the bed of the Waikato River (a 32km strip near Mangakino) which abuts the former Pouakani block on trust for the appellants (claiming as the successors of the original Māori owners). The Whakamaru Dam is on a part of the Waikato River that is subject to this claim. As at the date of this Offer Document, this case is still before the Courts.

Even if the appellants were successful in establishing that the Crown breached a fiduciary duty owed to them, the remedy sought is from the Crown, not from Mighty River Power, and any remedy may be limited to damages against the Crown. This is on the basis that any trust granted in favour of the appellants would be inconsistent with Mighty River Power's rights as equitable owner of the Whakamaru Dam. The appellants expressly advised the Court that they did not seek a remedy which would impair the operations of Mighty River Power.

This part of the appellants' claim has been rejected in the High Court and the Court of Appeal and has recently been heard by the Supreme Court. A Supreme Court judgment that prevents the Crown transferring registered title to part of the Whakamaru Dam site and related land to Mighty River Power cannot be entirely discounted until the judgment is delivered. However, even in this scenario, the Crown considers that Mighty River Power would still be able to operate the Whakamaru Dam and related assets, as the existing statutory regimes provide for ownership of such assets separate to that of the underlying land and also allows for access rights across third party owned land for the purposes of inspecting, maintaining and operating the Whakamaru Dam and related assets. If, notwithstanding the statutory regimes, Mighty River Power's operation of the Whakamaru Dam and related assets is impeded, then the Crown would likely consider options to secure any rights that might be required for Mighty River Power's continued operation of the Dam.

The only other infrastructure owned by Mighty River Power that is located within the area subject to the Paki claim is the Maraetai Dam and associated assets. Mighty River Power is the registered proprietor of the Maraetai Dam and the Crown does not consider that Mighty River Power had knowledge of the competing interests at the time the assets were transferred to it. Mighty River Power is likely to have indefeasible legal title to the Dam and the associated assets.

Shareholding Restrictions

The Public Finance Act was amended in June 2012 to include restrictions on the ownership of certain types of securities issued by each mixed ownership model company (including Mighty River Power) 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'[48] 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).

48. In broad terms, a person has a 'relevant interest' in a Share if the person (a) is the registered holder or beneficial owner of the Share; or (b) has the power to exercise, or control the exercise of, a right to vote attached to the Share or has the power to acquire or dispose of, or to control the acquisition or disposition of, that Share. A person may also have a 'relevant interest' in a Share in which another person has a 'relevant interest' depending on the nature of the relationship between them.

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.

The Crown As A Treaty Partner

The Crown is a party to the Treaty of Waitangi (Treaty) with Māori. Treaty obligations lie only with the Crown and not with companies or individuals. The manner in which the Crown might choose to respond to Treaty claims and the Crown's relationship with Māori, however, may have implications for Mighty River Power.

Background

The Treaty was entered into between the Crown and Māori in 1840. The New Zealand courts have recognised the constitutional importance of the Treaty but have determined that the Treaty itself is not directly enforceable in New Zealand Courts. However, the Treaty is incorporated into a number of New Zealand statutes, including the RMA. Treaty obligations attach only to the Crown and do not bind private legal persons such as Mighty River Power, its directors or its Shareholders (other than the Crown).

The Waitangi Tribunal is a permanent commission of inquiry that can inquire into claims by any Māori that the Crown has acted in breach of Treaty principles. Where the Waitangi Tribunal considers a claim to be well-founded, it can make recommendations to the Crown on how to redress any breaches or recognise any rights. Generally, these recommendations are non-binding on the Crown. In very limited circumstances (and as outlined below) the Waitangi Tribunal can issue recommendations in respect of land that are binding on the Crown.

New Zealand courts can apply Treaty principles in relation to actions by the Crown when legislation expressly allows them to do so. The Courts have also been willing to consider the principles of the Treaty when interpreting statutes and reviewing administrative actions of the Crown.

Relationship Is With The Crown

Section 45Q of the Public Finance Act provides that nothing in Part 5A of the Public Finance Act permits the Crown to act inconsistently with the principles of the Treaty.

Section 45Q of the Public Finance Act applies to all acts of the Crown in relation to its ownership of Shares. Accordingly, acts of the Crown in relation to its ownership of such Shares must not be inconsistent with the principles of the Treaty.

In broad terms, section 45Q would have implications for the proposed exercise of the relevant power or right by the Crown if that action would impair materially the Crown's ability to recognise rights of Māori protected under the Treaty, or the Crown's ability to provide redress for breaches of such rights.

It is possible that circumstances may arise in the future in which section 45Q is relevant and the Crown is required to exercise rights that it has as the owner of Shares in the Company in a manner that takes into account not only the Crown's commercial interests, but also its obligations as a Treaty partner under the Treaty. This would depend on the nature of the right being exercised and the factual context in which it was being exercised. However, the Crown considers that it is very unlikely that such circumstances will arise in practice.

Neither section 45Q, nor Treaty obligations generally, apply to the Company, its directors and its non-Crown Shareholders.

Historical Treaty Settlements

The Crown has accepted a moral obligation to resolve historical Treaty claims and seeks to negotiate settlements directly with claimant groups to do so. In this process, the Crown will explicitly acknowledge and apologise for historical injustices – that is, well-founded breaches of the Treaty and its principles resulting from Crown actions or omissions before 21 September 1992. The Crown accepts that the moral obligation to observe Treaty principles also applies to Crown acts and omissions after that date.

In negotiating settlements the Crown may provide financial and commercial redress, in recognition of the losses suffered as a result of Treaty breaches by the Crown, to the claimant group. The Crown may also provide a range of cultural redress which is intended to recognise the claimant group's spiritual, cultural, historical or traditional associations with the natural environment, sites and areas within their area of interest. Private property is not used or acquired to provide redress, without the owner's consent, except as provided for by the land memorials regime discussed below.

The Crown's current policy is that land owned by an SOE or by a mixed ownership model company is available for settlement only when a specific property is surplus to the requirements of the SOE or mixed ownership model company and the SOE or mixed ownership model company is a willing seller.

Land Memorials Regime

The land memorials regime was introduced in 1988 by amending the State-Owned Enterprises Act 1986 to require that memorials (a formal notation) be registered on certificates of title to all Crown land transferred to SOEs under the State-Owned Enterprises Act 1986. The purpose of these memorials was to protect Māori claims to land that had not yet been heard and determined by the Waitangi Tribunal. The effect of these memorials is that, in certain circumstances, the Waitangi Tribunal has the power to order the return to Māori ownership of such land. The Waitangi Tribunal has only once (in 1998) used its power to issue interim orders regarding memorialised land to order the resumption of land. A settlement was then agreed and the Waitangi Tribunal did not issue final resumption orders. The absence of binding Waitangi Tribunal orders over SOE land is because historical Treaty claims are generally settled by negotiations between the Crown and the claimants and not through land resumption orders being imposed by the Waitangi Tribunal.

Memorials are registered on the titles (where titles have been issued) to all of the properties on which Mighty River Power's hydro power stations are located and there is a possibility that this land could be resumed. A number of existing Waitangi Tribunal claims seek resumption of Mighty River Power land as part of their statement of claim. If an application for resumption was pursued and the Waitangi Tribunal agreed to make a recommendation that the Crown resume the land, the Crown and the successful applicant would have 90 days to reach a settlement agreement (which may or may not include transfer of the land to the applicant) before the recommendation became binding on the Crown.

If the parties were not able to reach agreement before the 90 day period expires, and the recommendation became binding, the Crown would need to follow the acquisition process in the Public Works Act 1981. Under this process, the Crown would be required to pay Mighty River Power compensation which would be calculated based on an assessment of the price that the land and fixtures would be expected to realise if they were sold in the open market by a willing seller to a willing buyer (among other factors).

Waitangi Tribunal Claims

The national freshwater and geothermal resources claim

This claim was lodged in the Waitangi Tribunal in early 2012 in response to the Crown's proposal to undertake this Offer. Broadly, the claim deals with two questions:

- what type of rights and interests (if any) do Māori have in freshwater and geothermal resources in New Zealand under the Treaty and would the Crown be in breach of the principles of the Treaty if it sells up to 49% of shares in a mixed ownership model company? (The Tribunal issued an interim report in respect of this claim on 24 August 2012 and a final report on 7 December 2012); and
- how might these rights and interests in freshwater and geothermal resources best be redressed (if those rights or interests have been breached) or best recognised? (This question is expected to be dealt with in a second hearing of the Waitangi Tribunal, which the Tribunal expects to begin hearing later in 2013).

The Waitangi Tribunal concluded, in relation to the first question, that in 1840 when the Treaty was signed, iwi and hapū had the exclusive right to control access to, and use of, water while it was in their tribal area, save to the extent that the Treaty bargain provided for some sharing of the water with incoming settlers. The Treaty also gave the Crown the kawanatanga (governance) right to manage water in the best interests of all. The Waitangi Tribunal also considered that Māori have residual proprietary rights today in particular water bodies, although it has not yet examined the nature of such rights. The Waitangi Tribunal considered that the Crown has a Treaty obligation to protect those rights. The Waitangi Tribunal further concluded that there was a sufficient nexus between those rights and the sale of Shares in Mighty River Power (and potential sales of shares in Meridian Energy and Genesis Energy in the future) to warrant delaying this Offer until further consultation took place with Māori on a mechanism to recognise those rights.

Following the release of the Waitangi Tribunal's stage one interim report and further consultation with Māori, the Crown decided to proceed with this Offer. The New Zealand Māori Council and others applied to the High Court to prevent the Crown from proceeding with this Offer without first implementing protective mechanisms for these Māori rights and interests. The grounds for the application included that the implementation of the Offer would be inconsistent with the principles of the Treaty and, as a result, a breach of the Crown's obligations under the State-Owned Enterprises Act 1986 and the Public Finance Act.

The High Court dismissed the application.

Leave was granted to the New Zealand Māori Council to appeal the decision to the Supreme Court.

In a letter to the Waitangi Tribunal, the Government had confirmed that it would not rely on the changed status of mixed ownership model companies from SOEs to diminish any claimed rights. The Government had also confirmed to the Waitangi Tribunal that there will be no reduced willingness on the part of the Crown to provide appropriate forms of rights recognition or redress as a result of a partial sale of shares in Mighty River Power or other mixed ownership model companies. The Crown further stated that as the majority shareholder in the mixed ownership model companies it will continue to exercise its Treaty obligations to iwi – Māori.

By way of affidavit to the Supreme Court from the Deputy Prime Minister, the Crown acknowledged that Māori have rights and interests in water and geothermal resources, and that recognition of these rights and interests must involve mechanisms that relate to the on-going use of those resources, and may include decision-making roles in relation to care, protection, use, access and allocation, and charges or rentals for use. The Crown submitted that identification of those interests is being addressed through the on-going Waitangi Tribunal inquiry and a number of parallel mechanisms. Currently the Ministry for the Environment has responsibility for progressing policy development around these issues.

The test applied by the Supreme Court was whether a partial sale of Shares in Mighty River Power would impair, to a material extent, the Crown's ability to remedy any Treaty breach. In assessing whether the proposed action amounted to material impairment, the Supreme Court had regard to the assurances given by the Crown, the extent to which such options were substantially in prospect, the capacity of the Crown to provide equivalent and meaningful redress and the proven willingness and ability of the Crown to provide such redress. Having regard to these matters, the Supreme Court concluded that the Offer would not impair to a material extent the Crown's ability to recognise Māori rights and interests in water and geothermal resources or to remedy any Treaty breach in respect of Maori interests in water. On that basis, the Court dismissed the application.

Neither Court set out to determine the nature or extent of Māori rights and interests in water and geothermal resources. This is to be the subject of the second hearing of the Waitangi Tribunal on the national freshwater and geothermal resources claim. This second hearing before the Waitangi Tribunal will consider whether Maori rights and interests in relation to water and geothermal resources are adequately recognised and provided for and whether Crown policies are in breach of the Treaty.

Further information relating to legislative and regulatory risks is set out in 5 What Are The Risks?

Other Land Claims

Lake Rotoaira Trust claim in respect of Tongariro power scheme

Mighty River Power's Waikato Hydro System relies, in part, on inflows to Lake Taupo from the Tongariro power scheme managed by Genesis Energy.

In 1972 the Crown and the Lake Rotoaira Trust (LRT), the owner of the bed of Lake Rotoaira, entered into a Deed (1972 Deed) pursuant to which the LRT agreed not to seek compensation for fluctuations in the level of the lake. When electricity generation began in 1973, a consequence of the fluctuating lake levels was that certain land adjacent to Lake Rotoaira became inundated.

The LRT claims that Genesis Energy does not have the rights required to legally operate the Tongariro power scheme as the 1972 Deed:

- was signed under duress as the trustees were being threatened with compulsory acquisition under the Public Works Act 1981; and
- does not extend to adjacent land that was inundated when lake levels rose.

The LRT's position has been that the 1972 Deed needs to be renegotiated and a settlement reached in relation to the use of Lake Rotoaira for the generation of electricity. The recent Waitangi Tribunal report on the National Park District (Wai 1130) endorses the view that the Crown set aside the 1972 Deed and should pay compensation to the claimants. The Crown considers that irrespective of its response to the Waitangi Tribunal report and recommendations, Genesis Energy has sufficient legal rights to operate the Tongariro power scheme and that the level of inflows into Lake Taupo is secure.

The Crown does not accept that the 1972 Deed was signed under duress. In any event, the Crown does not expect that the outcome of this difference of views will affect the level of inflows into Lake Taupo.

The LRT first made these claims in discussions with the Crown in 2012. Since that time, there have been discussions between the LRT and Genesis Energy but these have failed to resolve the issue.

You can find out more about the potential risks relating to the operation of the Tongariro power scheme in 5 What Are The Risks?

Tūwharetoa Māori Trust Board And Lake Taupo

Tūwharetoa Māori Trust Board (TMTB), in its capacity as trustee owner of the bed of Lake Taupo and adjoining tributary riverbeds (the Lake), is claiming that the storage of water within the Lake (as a result of Mighty River Power's operation of the Taupo Control Gates) infringes its rights as owner of the lakebed and constitutes a use for which it is entitled to charge Mighty River Power.

Mighty River Power and the Crown are of the view that the Company's operation of the Taupo Control Gates does not infringe TMTB's title to the lakebed, is authorised by statute and its existing resource consents, and that TMTB has no legal basis to compel Mighty River Power to pay any charge to TMTB for water storage in the Lake.

If a resolution cannot be achieved, TMTB could bring legal proceedings seeking to enforce its claim that Mighty River Power's storage of water within the Lake infringes its ownership rights. As at the date of this Offer Document, no such proceedings have been brought by TMTB. If TMTB brings legal proceedings against Mighty River Power and succeeds in its claim, a Court could require Mighty River Power to make a payment to TMTB for its future, current and previous use of the water in the Lake dating back to at least 2007[49] and possibly to a date earlier than that. Given the unique nature of any such claim, the quantum of any such payment is not known by Mighty River Power and cannot be accurately determined by it.

TMTB has offered to the Company a registered operating easement over the lakebed in return for an annual payment of several million dollars. Meetings have been held with TMTB representatives but to date there has been no resolution of the operating easement proposition and related matters.

Taupo Control Gates

Mighty River Power is the equitable owner of the Taupo Control Gates (the Gates) site and the associated core land, and the Crown has a contractual obligation to transfer registered title to the Gates site and core land to Mighty River Power.

However, the Tūwharetoa Settlement Trust has recently purported to exercise an option to purchase the Gates site and the core land from the Crown under the Deed of Settlement of the Historical Claims of the CNI Forests Iwi Collective to the CNI Forests Land (CNI Forests Deed). The CNI Forests Deed required the Crown to compile a list describing each property that the Tūwharetoa Settlement Trust had an option to purchase. The main Gates site is not included on this list, and neither is most of the core land other than the portion described below. The Tūwharetoa Settlement Trust is claiming that the Gates site and parts of the core land were intended to be included on the list of properties. The Crown has advised the Tūwharetoa Settlement Trust that the Gates site and the core land were never intended to be part of the settlement, and it remains contractually obliged to transfer the land to Mighty River Power.

A parcel of the core land on the south bank of the Gates site is on the list of properties prepared under the CNI Forests Deed. The Crown has advised the Tūwharetoa Settlement Trust that because of Mighty River Power's status as the equitable owner of the land, the Trust cannot validly make a claim to purchase the south bank core land under the CNI Forests Deed.

Arapuni Power Station

Ngāti Koroki Kahukura are a small claimant group who have historical and cultural associations with parts of the Waikato River, extending south of Karapiro to Lake Arapuni. The Crown has concluded negotiations with Ngāti Koroki Kahukura and the parties have signed a deed of settlement which will settle its historical Treaty grievances once relevant legislation has been enacted. As part of negotiating the redress for this settlement, the Crown agreed to investigate if there were any Crown owned lakebed or lakeside lands in the vicinity of Lakes Karapiro and Arapuni that could be transferred to Ngāti Koroki Kahukura. As a result of this process, the Crown incorrectly identified part of the land downstream from the Arapuni Dam, but included in Mighty River Power's Arapuni power station title, as being Crown owned and therefore available for transfer to Ngāti Koroki Kahukura. The Crown subsequently advised Ngāti Koroki Kahukura of this error and explained that the land would not be transferred to it as it is owned by Mighty River Power. The agreed settlement redress does not include this land.

Since the Crown advised that the land would not be transferred to it, Ngāti Koroki Kahukura has repeatedly advised that it would apply to the Waitangi Tribunal seeking an order that the Crown take back (or 'resume') the incorrectly identified land for use in the settlement of its historical or contemporary Treaty claims. As at the date of this Offer Document, no such application has been lodged by Ngāti Koroki Kahukura with the Waitangi Tribunal and the Crown considers the likelihood of such an application to be low given the existence of a signed agreement between the parties. Once settlement legislation takes effect, Ngāti Koroki Kahukura's historical Treaty claims will be settled.

Other Claims

Other claimants who have not yet settled with the Crown might pursue resumption applications and if the Waitangi Tribunal were to order the resumption of any of Mighty River Power's land, then the Crown would be required to pay compensation to Mighty River Power as if the resumption had occurred as a taking under the Public Works Act 1981. Because of the general pattern that historical Treaty claims are settled through negotiations, the Crown considers the likelihood of a resumption order adversely affecting the interests of Mighty River Power to be low.

49. In 2007 the Crown and TMTB entered into a deed amending an earlier 1992 deed which vested ownership of the bed of the Lake in TMTB.

Section 4.4: Independent Engineer's Report

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The Directors
Mighty River Power Limited
PO Box 90399
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14 February 2013

Independent Engineer's Summary Report on Mighty River Power Generation Assets Feb 2013

This letter has been prepared at the request of Mighty River Power Limited (MRP) for inclusion in a combined Prospectus and Investment Statement relating to the partial sale of MRP.

Beca Carter Hollings & Ferner Limited (Beca) is a provider of engineering and related consultancy services.
In January 2012, Beca was retained by MRP to conduct an independent engineer's review of the MRP power generating assets described below and to provide a written report (Report) on its findings.

Beca led this review, with support from its sub consultants, AMEC Americas Limited (AMEC) and Institute of Geological and Nuclear Sciences Limited (GNS). Details of the qualifications of the key individuals involved in the review are set out later in this letter.

The purpose of this letter is to summarise the key opinions expressed in Beca's full Report of 14 February 2013.

Study Scope and Process

The scope of Beca's review was:

- A review of the condition of Mighty River Power's NZ based power generation and associated assets, including the Waikato hydro system, the geothermal stations and the Southdown thermal plant (MRP NZ);
- An assessment of the Ngatamariki geothermal steam field development and generating plant currently under construction to confirm whether MRP's plans are prudent and reasonable;
- An assessment of the Salton Sea, California, John L. Featherstone geothermal plant (JLF) that was commissioned in March 2012, of which MRP is a part owner;
- A review and assessment of asset management plans and operation and maintenance plans as to their appropriateness and consistency with what would be expected of a prudent owner of the MRP System, which includes MRP NZ, JLF, and the Ngatamariki geothermal project;
- A review of material risks to the on-going operation of the existing generation assets and the development of the Ngatamariki facility;
- A review and assessment of fuel access and management plans to confirm whether they are appropriate to ensure the on-going viability of each generation facility; and
- To assess the ability of MRP to continue to operate the MRP System through the foreseeable future – defined for the purposes of the review as through to and including the year 2020.

In accordance with Beca's scope of work, a number of matters were excluded from Beca's review. These are detailed in full in the body of the Report. In broad terms, Beca did not review or make any determination regarding:

- Legal, regulatory, insurance, commercial, financial, environmental or hydrological volatility issues;
- The suitability of MRP's generation technology;
- MRP's access to gas supply for the Southdown Plant;
- The likelihood of occurrence of any earthquake, volcanic eruption or other natural disaster;
- Issues relating to transmission system constraints, interruptions and/or failure; and
- The electricity markets in New Zealand or California.

Beca's Opinion

On the basis of our review, and the assumptions, qualifications and limitations set out in this letter and the Report, Beca offers the following opinions.

Condition of Assets

- The MRP System appears to be generally in a good state of repair for a system of its type and having regard to its age and the environment in which it operates.
- Operating and maintenance practices reviewed by Beca are consistent with prudent Industry practices as observed in developed countries.
- MRP's maintenance records indicate the MRP System appears generally adequately maintained and is supported by projected maintenance and capital asset replacement plans.
- The MRP System appears to be generally well equipped with adequate physical facilities and processes to continue operating to the year 2020. The MRP System is expected to have a useful life beyond 2020 subject to MRP continuing to operate in a manner consistent with the above-noted operating and maintenance practices and capital asset replacement plans and with appropriate regard for the age of the components of the MRP System from time to time.

Maintenance and Capital Programmes

MRP has comprehensive plans established that define rules for preventative maintenance, refurbishment and asset replacement, based on factors such as number of operations, number of years in service and condition assessments. We consider these plans are consistent with what would be expected of a prudent asset owner taking into account the age and condition of the assets. In particular, MRP's capital asset replacement programme addresses end-of-life issues associated with the older equipment in the Hydro System.

MRP Major Risks, Mitigation Processes and Strategies

In this section, we outline the key risks to the on-going operation of the MRP System through to 2020. As instructed by MRP, Beca's review was limited to assessing risks reasonably likely to have a financial impact in excess of materiality thresholds set by MRP. These materiality thresholds were Balance Sheet impact of greater than NZ$50 million and Profit and Loss impact of greater than NZ$5 million.

Natural Disasters

Natural disasters, and in particular earthquakes, are not uncommon in New Zealand and Southern California. While such disasters can never be mitigated entirely, and have not been assessed as to likelihood, we consider MRP has appropriate emergency response processes in place to mitigate these events in a manner consistent with a prudent asset owner, taking into account the age and condition of the MRP System.

In particular, the Dam Safety Assurance Program (DSAP) is a long-term care programme that MRP has in place to pro-actively manage the safety of dams and their associated hydraulic structures to mitigate catastrophes associated with these natural disasters and other threats to the integrity of the dams. The DSAP includes regular inspections and monitoring of structures and testing of spillway and diversions systems, and requires that any issues identified that relate to the structural integrity of the dams are addressed to ensure continued safe operation.

Fuel supply and Management

Fuel supply management does not appear to be a material issue for MRP's ***Hydro System*** nor does it appear to be a material issue for JLF.

However, there are two near term risks associated with the ***Geothermal*** fuel supply:

- The Ngatamariki geothermal reservoir has the highest level of geothermal fuel supply uncertainty of any of the MRP fields because the field is currently in the development stage. Production drilling is complete with two production wells tested and one production well heating ahead of testing. Indications are that this most recent production well will be a good producer providing the output to cover the current fuel supply gap required for the start-up of all the four units for the plant. Sufficient injection capacity for the full plant load is yet to be established. Some capacity required for commissioning of the second two units is reliant on injection well capacity enhancement from operation of the first two units. Mixed brine and condensate injection capacity available under the wellhead as at the end of January 2013 is 73% of the full load plant requirement.
- Kawerau has a moderate level of risk associated with the fuel supply. Under the current consents and the arrangements with Ngati Tuwharetoa Geothermal Assets Limited (NTGA), the Kawerau Geothermal Limited (KGL) operation requires additional consent capacity to fully assure full load operation unrestrained by NTGA operations and decisions. Additional resource consents are being processed by the Bay of Plenty Regional Council both for NTGA, for which MRP have an agreement for utilisation of up to 15,000 tonnes per day if available, and in December 2012 MRP made an application for 20,000 tonnes per day. A 15,000 tonne per day shortfall equates to about 20 MWe should MRP be fully exposed to this level. MRP assessment indicates that there is some exposure to shortfall likely in the near term up to a level of about 10 MWe. This level of exposure and uncertainty will remain until additional consent capacity is obtained through one of the processes noted above.

Fire

Fire detection, sprinkler, and deluge systems provide coverage for the highest priority equipment. Improvements and extensions of sprinkler systems have been made in recent years. Improvements to fire protection system pumping are planned to ensure adequate coverage, consistent with the MRP Fire Protection Strategy. Hydro System generator fire suppression upgrades are also occurring with planned installation of a non-CO2 system. A major fire resulting from the failure of fire suppression systems at any of the stations is considered unlikely, but may result in outages that meet the materiality thresholds.

Equipment failure

In the unlikely event that a single generating unit fails at the hydro stations or at the thermal station, it is unlikely that the Balance Sheet materiality threshold of greater than NZ$50 million would be met because of the relatively small size of the units and excess generating capacity in the Hydro System. It is possible however that the Profit and Loss materiality threshold of greater than NZ$5 million might be met in any given year.

In the unlikely event of a geothermal generating unit failure at Kawerau, Nga Awa Purua, Mokai, or Rotokawa the materiality threshold is likely to be met due to size (generating capacity) of these units.

Operator and Maintenance Error

MRP management staff and workforce seem qualified and competent and have demonstrated the capability to manage, operate and maintain the MRP System. Operating and maintenance practices at the Stations are consistent with prudent industry practices as observed in developed countries. The Stations' management has demonstrated a proactive approach to problem solving and the optimising of Station performance. On-going training programmes, including graduate engineer and apprenticeship programmes, are a proactive means to address the aging workforce and natural attrition. Moreover, MRP participates in international industry group forums to exchange best industry practices and frequently engages its operating and maintenance staff at other installations worldwide to gain first-hand knowledge. It is unlikely that operator/maintenance error would result in the materiality thresholds being met.

Qualifications of Review Team

- Chris Styan, Senior Consultant AMEC Consulting, Dip. Tech (Electronics), BCIT
- Blair Seckington, Director Power Technology, AMEC, BaSc (Mechanical), P.Eng (Ontario, Newfoundland)
- Brian Carey, Geothermal Manager, GNS, Science, B.E., M.E.(Mechanical), CPEng
- Terry Littlewood, Technical Director - Electrical & Controls, Beca Industrial, B.E. (Electrical and Electronics),
- Rob Hills, Technical Director - Project Management, Beca Industrial, M Eng, CEng (UK), MICE
- Dr James Burr, Technical Director - Geotechnical, Beca Infrastructure, BE (Civil) (1st class Hons), PhD (Geotechnical Engineering), CPEng, Category A Recognised Engineer (Dam Safety Regulations)
- Ian Jackson, Technical Director - Asset Services, Beca Applied Technology, BSc (Hons), Higher Diploma In Aerospace Studies
- Pat Fail, Business Director, Beca Industrial, B.E. (Chemical), C.Eng., MIChemE, FIPENZ

Assumptions and Qualifications

The following is a list of principal assumptions made by Beca in developing the Report and preparing this letter:

- Beca has assumed that the MRP System will continue to be operated and maintained by staff as equally competent as MRP's present staff and workforce and in accordance with applicable legislation and regulations and the policies, standards and practices set out in the operating and maintenance plans reviewed by Beca.
- Beca has assumed that MRP will continue to operate and maintain the MRP System in accordance with good engineering practice, employing preventive maintenance systems, capital replacement programmes and operating procedures that meet Industry standards observed in developed countries, which are commensurate with the requirements for uninterrupted operation of the MRP System at projected levels of production and quality, and do not exceed the MRP System's (or any component thereof) practical operating limits.
- Beca has assumed the properties of fuel to the MRP System will remain consistent with that of fuel supplied to the MRP System during its recent operating period.
- Beca has assumed that MRP will continue with its capital asset replacement/rebuild programme for the aging Hydro System in accordance with the programme reviewed by Beca.

Site reviews were limited to physical visits of 1 to 3 hours to each of the sites in the MRP System. No internal inspections or independent testing was carried out on individual units or plant. Following each site visit, Beca reviewed, over a two week period, written information provided by MRP to Beca for that site. While additional information relevant to the MRP System may be known to individuals within Beca or its sub-consultants, such knowledge cannot be imputed to the team involved in the preparation of this Report and such knowledge (if any) did not form part of Beca's review.

Beca's review was completed on 30 April 2012 in relation to JLF and on 24 February 2012 in relation to the remainder of the MRP System. Subsequent high level reviews including additional site visits to Ngatamariki, staff interviews, data room documents and Questions and Answers, were completed in late August 2012 and again in January 2013 to ascertain if there were any material changes that might alter Beca's conclusions as of May 2012. Neither the Report nor this letter address any information provided, or matter, fact or circumstance occurring after those dates in respect of the relevant parts of the MRP System.

In completing its review, Beca relied upon the accuracy and completeness of all information, data, projections and assumptions provided to Beca by, or on behalf of MRP. Beca did not audit or verify the accuracy or completeness of such information. To the extent the Information provided to Beca is inaccurate or incomplete; the opinions expressed by Beca in this letter may no longer be valid and should be reviewed.

This letter summarises Beca's work up to the dates stated in this letter and therefore changed conditions occurring after such dates may result in material differences in the opinions expressed by Beca in this letter.

While Beca believes the use of the assumptions detailed in this letter and the Report were reasonable for the purposes of the review, Beca makes no assurances with respect thereto and some assumptions may vary significantly due to unforeseen events and circumstances. To the extent that conditions differ from those assumed in the Report, opinions expressed by Beca in the Report and this letter may no longer be valid and should be reviewed.

This letter sets out Beca's professional opinion on the matters addressed in it based on Beca's review of the MRP Information and no statement in this letter should be construed as a statement of fact by Beca. Draft versions of this letter and the Report were provided to MRP together with a request to confirm that there are no material errors or omissions in the Report or the letter. Confirmation has been provided to and relied upon by Beca.

This letter and the Report were prepared for the sole use of MRP in accordance with the terms of engagement between Beca and MRP. Unless otherwise agreed by Beca in writing and to the maximum extent permitted by law, no other person is entitled to rely on this letter or the Report.

This letter addresses only Beca's key findings in the Report. This means that certain elements of the Report are not included in this letter, and such matters may be relevant to a more detailed understanding of the Beca work and findings (which is beyond the purpose of this letter).

Beca makes no recommendation or comment on and gives no guarantee in respect of the securities being offered under the combined Prospectus and Investment Statement in which this letter is incorporated.

PJ Fail
Director - Industrial
on behalf of

Beca Carter Hollings & Ferner Ltd

SECTION 5

WHAT ARE THE RISKS?

IN THIS SECTION

Why should you read this section?

You will better understand the risks of an investment in the Shares, including the specific risks faced by Mighty River Power's operations, business and financial performance.

This section is very important and should be read in full.

Principal Risks For Shareholders

Your principal risk is that you may not be able to get back some or all of your original investment or you may not receive the returns you expect. This could happen for a number of reasons, including that:

- the price at which you are able to sell your Shares is less than the price you paid for them;
- you are unable to sell your Shares at all – for instance, because there are not enough buyers in the market;
- the Company does not pay dividends to the level you expected, or at all. Mighty River Power's profits are variable and this can adversely affect the dividend paid;
- the operational and financial performance of Mighty River Power is worse than expected; or
- the Company becomes insolvent and is placed in receivership or liquidation.

Any investment in the share market has risks associated with it, and this investment is no exception. The key risks specific to Mighty River Power and other general market risks are set out below. These risks, if they were to occur, could materially adversely affect the financial position or performance of Mighty River Power through reduced revenue, increased costs, loss of customers, damage to reputation or a combination of these.

You should consider such risk factors together with the other information in this Offer Document. In particular, you should read 4.1 Business Description, 4.2 Board, Management And Corporate Governance and 6 Financial Information for further information on how Mighty River Power manages the risks facing its business.

The risk factors set out below are not the only ones faced by Mighty River Power. There may be additional risk factors of which Mighty River Power is currently unaware, or that Mighty River Power currently deems not material but which may subsequently become key risk factors for Mighty River Power.

Mighty River Power Specific Risks

Fuel Security And Supply Risks

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

Lower levels of generation or increased generation costs may arise from a number of factors, including:

- **Adverse hydrological conditions** – the Waikato Hydro System is heavily influenced by seasonal hydrological conditions. Adverse hydrological conditions, such as a sustained dry period in the catchment area of the Waikato Hydro System, may reduce water levels and significantly affect Mighty River Power's generation capability. The drought conditions experienced in early 2013 in the North Island are an example of this risk;
- **Lake Taupo inflows from Tongariro power scheme** – Mighty River Power relies, in part, on inflows to Lake Taupo from the Tongariro power scheme managed by Genesis Energy. Genesis Energy has publicly reported that it holds resource consents to operate the Tongariro power scheme that will expire on 1 December 2039. The Lake Rotoaira Trust has claimed that Genesis Energy does not have the rights to legally operate the Tongariro power scheme, specifically in respect of the use of Lake Rotoaira (see 4.3 Relationship Between Mighty River Power And The Crown for further discussion of this claim). The Trust is seeking to revisit the basis on which Lake Rotoaira is used for electricity generation and a settlement in respect of its claim. If Genesis Energy, or any subsequent owner of the Tongariro power scheme, diverts, or is required to divert, inflows away from Lake Taupo, Mighty River Power's generation capability on the Waikato Hydro System may be reduced;
- **Resource consents and other environmental approvals** – Mighty River Power is reliant on resource consents and other environmental approvals to access fuel and operate its generation sites and the surrounding fuel systems (geothermal reservoirs, rivers and lakes). Each consent or approval is issued for a specified term and is subject to conditions that must be complied with and which may be periodically reviewed. Consents that expire may not be renewed, or may be renewed on terms that are less favourable to Mighty River Power. Any changes to resource consents that arise out of the review process could restrict or stop generation, or new consented operating conditions may be commercially unfavourable. There is also a risk that Mighty River Power may breach the conditions of its consents or not hold all required consents for its activities. The consequences of such breaches or failure to hold consents can include abatement notices by the relevant authority or enforcement orders by the Environment Court requiring that the non-compliant or non-consented activities cease, remedial work be undertaken or compensation be paid. Breaches of relevant consents or enforcement orders may also result in Mighty River Power being prosecuted. A successful prosecution could result in fines being payable by Mighty River Power and/or changes to consent terms;

You can find out more about the resource consenting and review process in 3 Industry Overview and about Mighty River Power's consents, including their term, in 4.1 Business Description.

- **Multiple users accessing the same resource** – the water, geothermal fluid and gas that Mighty River Power uses to generate electricity are scarce resources. Mighty River Power may face increasing competition from other users of a resource which might cause a shortfall in the quantity or quality of the fuel supply available or an increase in the costs of Mighty River Power in obtaining that fuel supply;
- **Government regulation of resource use and access** – the Government, local councils or other regulatory bodies may impose restrictions, conditions or additional costs on the ability of Mighty River Power to access or use hydro, gas, geothermal fluid and other fuel sources. Examples include imposing limits on minimum flows in rivers which have hydro generation and imposing charges or royalty payments on users of water and geothermal fluids. National or regional water policies could be changed to allocate more water to agricultural users or to meet specified iwi interests or for other purposes, reducing the available flow from the Waikato River for Mighty River Power. The Government is currently considering a package of reforms for freshwater and resource management systems. A further description of this process is set out in 4.1 Business Description. Mighty River Power could be adversely affected by such restrictions, conditions or additional costs to the extent that it is not able to pass on such costs to customers;
- **Geological assumptions and geothermal reservoir performance** – Mighty River Power's continued geothermal production is reliant, in part, on geothermal reservoirs responding as predicted by its modelling, which is based on interpretation of the geophysical data. Accurate assumptions are required to manage on-going issues including reservoir depletion, well failure, geothermal fluid causing corrosion or a build-up of solid matter within pipe and power station infrastructure, and third party supply. If Mighty River Power's assumptions regarding geothermal supply are materially inaccurate and the geothermal reservoir does not respond as predicted, Mighty River Power may suffer shortages in geothermal fluid (reservoir depletion) or problems with equipment which could reduce Mighty River Power's geothermal generation production;
- **Reliance on supply from third parties** – shortages may arise where geothermal fluid is contracted or supplied by third parties. For instance, some of the geothermal fluid for the geothermal operations at Kawerau is supplied under contract from Ngāti Tūwharetoa Geothermal Assets. Ngāti Tūwharetoa Geothermal Assets also has commitments to supply geothermal fluid to a nearby geothermal power station that has been built by Norske Skog Tasman. If Norske Skog Tasman utilises consent capacity from Ngāti Tūwharetoa Geothermal Assets for its geothermal power station and Ngāti Tūwharetoa Geothermal Assets does not obtain a resource consent (which it is currently seeking) to extract additional geothermal fluid, Mighty River Power's output at Kawerau may be reduced; and
- **Fuel for Mighty River Power's gas-fired power station at Southdown** – Mighty River Power has a combination of relatively flexible gas purchase contracts in place and purchases short-term supplies as required for its gas-fired power station at Southdown. Mighty River Power risks not being able to contract all the gas it requires for Southdown or increased gas purchase costs if market conditions change, leading to a shortage or inflexibility in the gas supply market. Inflexible gas contracts could lead to an over supply of contracted volumes, which can lead to losses caused by, for example, having to sell volumes of gas at less than the purchase price of that supply or by running thermal generation at a loss.

Power Station Availability Risks

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 Mighty River Power's power stations could be adversely affected by a range of factors, including:

- **Plant failure** – Mighty River Power relies upon various pieces of equipment and technology at each of its power stations. If any pieces of material equipment or technology, including, for example, turbines and geothermal wells, suffer failures requiring unplanned power station outages, replacement or repair, Mighty River Power's generation production may be reduced;
- **Generation technology** – Mighty River Power makes long-term investments in its power stations. If significant advances in technology occur, these power stations may be rendered relatively less efficient or obsolete. In addition, changes in technology or unexpected issues arising from Mighty River Power's on-going asset management and maintenance programme may increase costs for Mighty River Power or reduce its generation production;
- **Catastrophic events** – a catastrophic event such as a major earthquake, volcanic eruption, landslide, fire, flood, explosion, act of terrorism or other disaster, could adversely affect or cause a failure of any or all of Mighty River Power's power stations. Such events could also cause cascade failure of the Waikato Hydro System or failure of the national high voltage transmission grid. In addition,

major customers of Mighty River Power or other major consumers of electricity could be adversely affected by a catastrophic event, which could have an adverse effect on the markets in which Mighty River Power operates; and

- **Reliance on third party providers** – there is a risk that goods and services that are required for plant maintenance, repair and operation are difficult to procure, or will not be delivered on time or to the necessary quality or expected cost.

Other Operational Risks

Mighty River Power has a large, complex and highly specialised business which presents a number of other operational risks, including:

- **Operational error** – an error made in the operation of one or more of Mighty River Power's power stations or related infrastructure could have a significant adverse effect on Mighty River Power, the electricity market or the environment, including the safety of its employees, contractors, customers or the general public;
- **Information technology and telecommunications system or asset failure** – Mighty River Power relies upon various information technology and telecommunications systems and assets to operate its business. If the security of some or all of these systems or assets was compromised or some or all of these systems or assets were to suffer unexpected failure or require upgrading earlier than planned, Mighty River Power's financial performance or the safety of its employees, customers and the general public could be adversely affected; and
- **Acts of vandalism or protest** – Mighty River Power's operations may be adversely affected by an act of vandalism or protest at one or more of its sites.

Short-term Wholesale Electricity Market Exposure Risks

Mighty River Power is an active participant in the New Zealand wholesale electricity market. In the short-term, the interaction of Mighty River Power's portfolio position (generation, sales, buy and sell-side contracts and futures) with the market clearing prices may adversely affect Mighty River Power's financial performance and profitability and, therefore, the value of its Shares and the amount of dividends it may be able to pay Shareholders. Wholesale electricity prices are uncapped, which means that the financial impacts on Mighty River Power can be potentially significant. In addition, given competition in the market, it may not be possible to pass through any increase in costs. In managing its exposure to wholesale electricity price variability, Mighty River Power must consider market demand, competitor behaviour, regulatory changes, fuel cost changes (including any applicable carbon charges) and transmission capacity.

Other factors that Mighty River Power must take into consideration when managing its electricity portfolio are:

- **National fuel conditions** – wholesale electricity market prices may be influenced by the availability of fuel for generation, especially sustained changes in national hydrological conditions. Wet national hydrological conditions may decrease wholesale electricity prices while dry national conditions may result in an increase. Differing hydrological conditions in different hydro system catchments can also influence wholesale prices through the consequent impacts on competitors' behaviour in the wholesale market. Hydrological conditions in New Zealand are unpredictable and as such there is a risk that actual conditions are not consistent with Mighty River Power's expectations, which may adversely affect its electricity portfolio position;
- **Location / Basis risk** – the New Zealand wholesale electricity market sets prices at different nodes representing different geographic places around New Zealand. The price at the various nodes can vary significantly. As a result the price at which Mighty River Power is able to sell electricity that it has generated into the wholesale market and then purchase electricity (to sell to its customers) will vary across its portfolio (reflecting the location of generation relative to sales / customers and competitor behaviour). This variation can adversely affect Mighty River Power's financial performance. This risk of a separation in the price at which electricity is bought and sold may be exacerbated by planned and unplanned transmission constraints, including the opportunity for generators to exert pricing power or become 'Locally Net Pivotal'. It may not be possible or economic to mitigate risk prior to or during the constraint. Key areas where transmission could be constrained include the connection between the North and South Islands (the HVDC link). A planned grid outage on 26 March 2011 led to significantly increased wholesale spot market prices of around $20,000/MWh in the upper North Island. These were reset by the Electricity Authority to $3,200/MWh in Auckland but even at the reset price Mighty River Power was negatively affected. Future grid failures or the inability of or reluctance by the Electricity Authority to limit the pricing power of Locally Net Pivotal generators or reset prices could adversely affect Mighty River Power. This risk is also potentially applicable to the frequency keeping and reserves markets; and
- **Wholesale electricity market counterparty credit risk or market failure** – Mighty River Power could be adversely affected if major wholesale electricity market counterparties were to default on market payments, particularly a retailer defaulting when customers are still using power without being billed. In such situations, Mighty River Power would have provided electricity into the market but not received

full payment, notwithstanding the prudential requirements of wholesale electricity market participants. If another participant in the wholesale electricity market were to default, there is also a contagion risk that such default could cause other parties to default.

Longer-term Wholesale Electricity Market Exposure Risks

The level of customer demand relative to supply from generators is a key determinant of wholesale price over the longer-term, with a fall in demand or generation over supply adversely affecting wholesale prices, potentially for a sustained period.

- **Factors affecting demand** – demand can be affected by a number of factors, including level of activity in the industrial sector, competitor behaviour, regulatory changes, population growth, economic conditions, technological advances in the more efficient use and generation of electricity (including by customers as a consequence of regulatory subsidisation of competing technologies) and weather (for further discussion on weather effects on demand, refer to 6.2 Analysis Of Historical Financial And Operational Performance), all of which could affect wholesale electricity prices.
- **Tiwai Point aluminium smelter** – a particular factor potentially affecting demand relates to New Zealand Aluminium Smelters (NZAS) (majority owned by Rio Tinto), the operator of the Tiwai Point aluminium smelter and the largest single user of electricity in New Zealand, accounting for approximately 13% of New Zealand electricity demand in 2012. The level of future electricity consumption by the Tiwai Point aluminium smelter is uncertain. NZAS reduced its electricity consumption in 2012 by 9% and announced in August 2012 that low prices for aluminium produced at its Tiwai Point smelter were causing it to review its operations and to work with its key suppliers and stakeholders to reduce costs. Meridian Energy, which has a CFD with NZAS in relation to electricity, also announced in August 2012 that it has been approached by Pacific Aluminium (a business unit of Rio Tinto) to discuss potential changes to the contract and has since entered confidential negotiations regarding those potential changes.

  On 28 March 2013 Meridian Energy and Pacific Aluminium made announcements regarding the status of their negotiations. Meridian Energy announced that a major gap remains between them such that it believes that it is unlikely that an agreement can be reached, while Pacific Aluminium announced that progress is being made in the negotiations and that it believes a commercial agreement can be reached. As at the date of this Offer Document, those negotiations between Meridian Energy and Pacific Aluminium are continuing.

  On the same day the Government announced that it had been in contact with Rio Tinto and Pacific Aluminium and had offered to partially close the gap in the short to medium term on certain conditions. That offer was not accepted by Rio Tinto and Pacific Aluminium. No assurance can be given that negotiations between Meridian Energy and Pacific Aluminium will be successfully concluded or that the Government will assist those parties by providing any financial or other support to partially bridge any gap between them. Notwithstanding the payment obligations under the Tiwai Contract, which incentivise NZAS to continue to consume electricity at the smelter, NZAS or its parent may decide to reduce consumption or to close the smelter at any point and for any reason, including following any review of the financial viability of the smelter. Rio Tinto and Pacific Aluminium have indicated that such a review is likely if the negotiations between Meridian Energy and Pacific Aluminium cannot be successfully concluded.

  If NZAS makes a further significant reduction in electricity consumption, whether as a result of the closure of the smelter following any review or for any other reason, the resultant drop in demand could lead to sustained reduction in electricity prices in general. Refer to 3 Industry Overview for further discussion of the Tiwai Point aluminium smelter, its consumption and contractual arrangements.
- **Factors affecting supply** – supply may increase in advance of any material increase in demand, resulting in downward pressure on wholesale electricity prices. Supply may increase as a consequence of a number of factors, including capacity-increasing advances in power station technology or the continued operation of plants previously signalled as end of life. Additional factors affecting supply include:
  - » *New generation build* – the commissioning of additional power stations in New Zealand or distributed generation; and
  - » *Gas or oil discovery* – a New Zealand gas discovery or an oil discovery in which gas is a substantial by-product, resulting in existing thermal power stations increasing their production levels.

Electricity Sales Risks

The volumes and prices at which Mighty River Power is able to sell electricity to customers can materially influence Mighty River Power's financial performance and are influenced by many of the same factors that affect wholesale market prices over the longer-term (as described above). They can also be influenced by:

- **Competitor behaviour** – competitor behaviour, such as aggressive pricing campaigns or the entry of new competitors, may put downward pressure on retail electricity prices and may also reduce Mighty River Power's market share or require Mighty River Power to increase its sales and marketing costs in order to maintain sales volumes. Competitor behaviour can also be affected by changes in customer behaviour, including reductions in demand (for example, a reduction in consumption by the Tiwai Point aluminium smelter), the displacement of demand by technology change or large business customers choosing to buy electricity directly on the wholesale spot market rather than entering into fixed contracts. In recent years the retail market has seen an increase in competition, which has resulted in higher churn. High levels of customer churn affect the cost of acquiring and maintaining Mighty River Power's customer base; and

- **Customer credit or concentration** – Mighty River Power could be adversely affected if a large group of customers or one or more major customers were to default on payment for electricity provided or for hedge settlements favourable to Mighty River Power. In such situations Mighty River Power would generally have provided the electricity or hedges to customers prior to the default becoming evident, which could make the recovery of costs difficult. If a major customer were to experience financial difficulties, there is also a contagion risk that such financial difficulties could cause one or more other major customers to default. Mighty River Power could also be adversely affected if a concentrated customer segment, such as the pulp and paper industry or the aluminium sector, were to experience financial difficulties.

Mighty River Power may also face increased costs relating to its sales to customers under existing regulation, for example, the Customer Compensation Scheme, which requires the Company to compensate residential customers during official electricity conservation campaigns.

See 6.2 Analysis Of Historical Financial And Operational Performance for details about how wholesale and retail electricity prices affect on the Company's financial performance, and 6.3 Prospective Financial Information for details about Mighty River Power's assumed wholesale and retail electricity prices in FY2013 and FY2014.

Electricity Buy-side And Sell-side Contract Risks

Mighty River Power buys and sells electricity contracts on the New Zealand Electricity Futures and Options market, and enters into hedging contracts with counterparties directly. Mighty River Power faces the risk that market conditions at the time the contracts are exercised will result in Mighty River Power suffering a loss and, because the prices in these contracts are uncapped, that loss could be material. The electricity contracts market is competitive, and the prices or terms of contracts may change unfavourably due to a number of factors, including the behaviour of competitors. Mighty River Power is also exposed to counterparty credit risk on its buy-side and sell-side contracts.

Growth And Development Risks

There can be no assurance that acquisitions and other growth initiatives will achieve the required returns on investment or that current development projects will not require greater capital than expected to be successful.

Domestic and international organic growth initiatives could adversely affect Mighty River Power's financial results if operating expenditure or capital expenditure does not result in the anticipated increase in sales or profits. Additionally, if Mighty River Power engages in new types of development activity, it could be exposed to new risks or heightened levels of pre-existing risks.

Acquisitions could adversely affect Mighty River Power's financial results for a number of reasons, including where Mighty River Power fails to identify material risks or liabilities associated with the relevant business before acquisition, key staff and clients are not retained or the acquisition fails to achieve the anticipated benefits due to unexpected difficulties in integrating operations with Mighty River Power.

Factors which could give rise to the risk that growth and development initiatives are not successful, result in increased costs or do not proceed include:

- **Geothermal exploration** – geothermal exploration is inherently risky, with the outcome of any activity being highly uncertain. There are a number of uncontrollable or relatively unknown variables, including underground geology and reservoir characteristics that may adversely affect the outcome. Significant investments may be made into exploratory activity, with the assessment of the geothermal reservoir and drilling of geothermal wells being a large component of this activity. It is possible that this investment may not yield commercially viable outcomes or may result in unexpected delay, increased cost or asset impairments. For example, Mighty River Power recognised a $9.8 million asset impairment in FY2009 and a further impairment of $1.7 million in FY2012 in relation to the abandonment of the Mangakino geothermal prospect after exploration activity concluded that the reservoir was not viable for commercial development. Furthermore, Mighty River Power recognised a $78.8 million impairment in HY2013 of the Chilean and German assets in the GGE Fund. This impairment reflected unexpected costs incurred in the pre-development phase and drilling delivering less productivity than expected (as well as recognising that the GGE Fund did not have access to further capital);

You can find out more about the geothermal exploration activities of Mighty River Power in 4.1 Business Description.

- **Forward price uncertainty** – uncertainty as to the level of future electricity market prices may reduce opportunities for growth through the development of new power stations. Examples of factors leading to variability in long-term prices are outlined in this section under the heading "Longer-term Wholesale Electricity Market Exposure Risks". If realised future market prices are not at the levels anticipated when committing to an investment, the expected returns on investment may not be realised;
- **Execution risks** – managing the development and construction of a new power station is a large, complex enterprise involving multiple parties which carries risks that the project will not be executed as planned, including delays, increased costs or an inability to meet the required power station specifications. A recent example was the Ngatamariki project, which faced increased drilling costs due to technical difficulties in FY2012. A further example is the Chilean Tolhuaca project, which faced unexpected costs and delay as a result of adverse winter conditions and an incident with a drilling rig in November 2011;
- **Third party providers** – development activity relies on third party suppliers. In certain cases, such as for geothermal development, a limited number of third party equipment manufacturers, suppliers and service providers are available. There is a risk that goods and services procured will not be delivered on time, to the necessary quality, at the expected cost or consistent with the applicable business plan; and
- **Capital availability risk** – there is a risk that Mighty River Power may not be able to obtain sufficient capital on acceptable terms to enable it to develop its growth opportunities. Examples include if the Crown, which is legally unable to have its shareholding diluted below 51% pursuant to the Public Finance Act, does not wish to participate in any equity capital raising (see 4.3 Relationship Between Mighty River Power And The Crown for further details). In addition, Mighty River Power may be unable to obtain sufficient debt funding on acceptable terms for further development.

Specific International Growth And Development Risks

In addition to the growth and development risks outlined above, Mighty River Power's international investments could be adversely affected by challenges and risks specific to the locations of those investments. These include differences in geothermal reservoirs, land access requirements, level of geological activity, electricity markets, transmission access agreements and economic, regulatory and climatic conditions, as well as foreign currency translation risk. The complex accounting implications arising from the Company's international geothermal investments may also result in significant differences in the recognition of cash versus accounting returns. You can find out more about the accounting and tax treatment of the international geothermal investments under the heading "International Geothermal Additional Disclosure" in 6.3 Prospective Financial Information. Additional specific international growth and development risks include:

- **Power purchasing agreements** – in the United States and Chile, the success of geothermal power generation development initiatives depends on a number of factors, which may include securing the price at which the output will be sold under long-term power purchasing agreements. These agreements are only available from a limited number of parties and may not be available on acceptable terms; and
- **Political and regulatory risk** – political or regulatory impediments, uncertainty or instability may limit Mighty River Power's choices in international geothermal development or adversely affect the viability of or costs of, or returns from, future development.

Transmission And Distribution Risks

Mighty River Power is reliant on third parties for the transmission and distribution of electricity and gas. This exposes Mighty River Power to the risk of planned or unexpected transmission or distribution failures. Such failures could include a transmission failure in the national grid operated by Transpower or a failure at a gasfield or transmission pipeline. For example, the Maui Pipeline failure in October 2011 resulted in the Southdown power station temporarily ceasing generation. Any such failure could adversely affect Mighty River Power's financial performance.

Legislative And Regulatory Risks

Mighty River Power is subject to the risk that changes to legislation or regulation (including New Zealand electricity and gas industry regulation, and new or changed environmental regulation) may adversely affect its sales, costs, relative competitive position, development initiatives or other aspects of its financial or operational performance or force other undesired changes to its business model. Specific issues in relation to potential regulation change that may adversely affect Mighty River Power include:

- **Transmission pricing** – Mighty River Power is reliant on Transpower to transmit electricity. The Electricity Authority is currently reviewing the transmission pricing methodology. The changes proposed by the Electricity Authority to take effect in 2015, if implemented, may materially increase Mighty River Power's costs and also adversely affect the income expected from existing PDAs. The Electricity Authority estimates the annual cost impact on Mighty River Power's generation assets to be $65 million of additional charges with potentially further charges to the Company's retail activities. It is unclear what, if any, proportion of this additional cost would be able to be passed through to consumers. The Electricity Authority is currently consulting on its proposal and it is too uncertain for Mighty River Power to accurately estimate its potential impact;
- **Wholesale and retail market structure** – the Government may seek to further regulate the wholesale and retail markets or introduce measures that may increase Mighty River Power's costs or restrict the type or extent of its operating activities;
- **Retail electricity pricing** – the Government may seek to further regulate retail electricity prices or introduce other measures that may decrease retail electricity prices, increase Mighty River Power's costs, restrict activity or otherwise increase business risk without the ability to reflect the increased risk in price or margin;
- **Freshwater reform** – the Government is currently considering a package of reforms for freshwater and resource management systems. These and any future reforms could include mechanisms to recognise Māori rights and interests in freshwater. Mighty River Power could be adversely affected by these reforms to the extent that they impose restrictions, conditions or additional costs on its hydro generation activities;
- **Geothermal royalties** – the Crown is entitled to charge an annual fixed royalty under permits involving the use of geothermal energy pursuant to the RMA. The Crown is not currently requiring payment of these royalties from users of geothermal resources. If it were to do so in the future, this would cause an increase in the costs of Mighty River Power's operations;
- **Emissions Trading Scheme (ETS)** – recently the Government implemented further restrictions on the type of emission units that may be used for compliance purposes under the ETS. Further amendments of this type could affect forward purchase contracts that Mighty River Power has entered into or increase the costs of Mighty River Power's operations; and
- **Non-compliance** – failure to comply with applicable legislation or regulation can also result in fines, injunctions, penalties, requirements for remedial works, the total or partial suspension of regulatory approvals or other sanctions that may have an adverse effect.

Key Relationship Risks

Major contracts with customers or suppliers might be terminated or not renewed upon expiry, requiring Mighty River Power to find replacements, which may be less desirable. In addition to its customer and supplier relationships, Mighty River Power is party to joint ventures and other arrangements with third parties which, among other things, provide Mighty River Power with access to geothermal reservoirs. Mighty River Power has long-standing relationships with its partners. If these relationships deteriorate as a result of changes in key individuals (either in Mighty River Power or in its partners), or for any other reason, this may have an adverse effect on the financial performance of Mighty River Power.

Treaty Of Waitangi And Other Claims

Treaty of Waitangi and other Māori claims to land, water and geothermal resources and regulatory and governance roles may, if successful, adversely affect Mighty River Power to the extent that such claims directly or indirectly impose restrictions, conditions or additional costs on the Company's access to freshwater or geothermal fluid and its hydro and geothermal generation activities. Specific issues include:

- **The national freshwater and geothermal resources claim** – a second hearing of the Waitangi Tribunal (which the Tribunal expects to begin later in 2013) will consider whether Māori rights and interests in relation to water and geothermal resources are adequately recognised and provided for and whether Crown policies are in breach of the Treaty. An adverse finding by the Waitangi Tribunal against the Crown may result in a change of Government policy in relation to the management of freshwater in New Zealand or an acceleration of its current proposed reforms;
- **Land claims** – land of which Mighty River Power is either the legal or equitable owner may be subject to claims from Māori, for example the current claims in relation to the Whakamaru Dam and the Taupo Control Gates;
- **Land memorials** – the titles (where titles have been issued) to the properties on which all of Mighty River Power's hydro power stations are located are subject to memorials (formal notifications) under section 27A of the State-Owned Enterprises Act 1986. These memorials continue to apply notwithstanding the fact that Mighty River Power has ceased to be an SOE. The Waitangi Tribunal is able to order the return of memorialised land

to Māori. For example, Ngāti Koroki Kahukura has advised the Crown that it would apply to the Waitangi Tribunal seeking an order that the Crown take back for use in its Treaty settlement part of the land included in Mighty River Power's Arapuni power station title. If the Waitangi Tribunal were to order the resumption of any of Mighty River Power's land, after receiving an application from Ngāti Koroki Kahukura or any other claimant group, the Crown would be required to pay compensation to Mighty River Power as if the property had been taken under the Public Works Act 1981. This compensation may not be sufficient to fully compensate Mighty River Power for the effects which the resumption of memorialised properties may have on its business; and

- **Customary rights** – while Māori generally have pursued their claims under the Treaty or through negotiation with the Crown, Māori customary interests in land or in the use of resources which existed at the time of execution of the Treaty will be recognised by the common law unless they have been extinguished.

Litigation And Dispute Risks

Mighty River Power may from time to time be the subject of complaints, litigation, inquiries or audits initiated by customers, employees, commercial partners, suppliers, landlords, Government agencies, regulators or other third parties, including those in overseas jurisdictions, alleging or investigating matters such as asset ownership, resource use, product quality and supply issues, injury, health, environmental, safety or operational concerns, nuisance, negligence, failure to comply with applicable laws and regulations or failure to comply with contractual obligations. Such matters, even if successfully addressed without direct adverse financial effect, could have an adverse effect on Mighty River Power's reputation and divert its financial and management resources from more beneficial uses. If Mighty River Power were found to be liable under any such claims, this could have a material adverse effect on Mighty River Power's future financial performance. Specific claims and proceedings currently existing that may adversely affect Mighty River Power include:

- **Lake Taupo water storage** – Tūwharetoa Maori Trust Board's (TMTB) claim, as trustee owner of the beds of Lake Taupo and adjoining tributaries (the Lake), that the storage of water within the Lake (as a result of Mighty River Power's operation of the Taupo Control Gates) infringes its rights as owner of the lakebed and constitutes a use for which it is entitled to charge Mighty River Power. As at the date of this Offer Document, no legal proceedings have been brought by TMTB against Mighty River Power. Although Mighty River Power considers that TMTB has no legal basis to compel Mighty River Power to pay any charge to TMTB, if TMTB were to succeed in its claim, Mighty River Power could be required to make a payment to TMTB for its use of the water in the Lake. The quantum of any such payment is not known by Mighty River Power and cannot be accurately determined by it;
- **Whakamaru Dam** – the recent hearing before the Supreme Court in the case of *Paki v Attorney-General* where the claimants are 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. The Whakamaru Dam is on a part of the Waikato River that is subject to this claim. While the remedy sought is from the Crown, not from Mighty River Power, there is a risk, considered low by the Crown, that Mighty River Power's operation of the Whakamaru Dam and the Maraetai Dam and related assets could be impeded;
- **Taupo Control Gates** – the purported exercise by the Tūwharetoa Settlement Trust of an option to purchase from the Crown the Taupo Control Gates site. The Crown has advised the Tūwharetoa Settlement Trust that it cannot purchase the site and that the Crown is contractually obliged to transfer the land to Mighty River Power. As at the date of this Offer Document, no legal proceedings have been brought by the Trust against the Crown in relation to this matter; and
- **Near miss incident** – the Ministry of Business, Innovation and Employment has laid charges against Mighty River Power and a third party contractor in relation to a 'near miss' incident with respect to the drilling activity of that contractor which occurred in September 2012 on the Ngatamariki construction site.

Further information in relation to the Lake Taupo, Taupo Control Gates and Whakamaru Dam issues can be found in 4.3 Relationship Between Mighty River Power And The Crown.

You can read a brief description of the legal proceedings or arbitrations current or pending as at the date of this Offer Document that may have material adverse effects on Mighty River Power in 7.2 Statutory Information.

Shareholding Risks

- **Crown shareholding** – following completion of the Offer, the Crown must hold at least 51% of the Shares and will be prohibited from reducing its holding below that level by the Public Finance Act. Also, the Crown must hold at least 51% of any other class of shares (voting or non-voting) or other securities in Mighty River Power that confer voting rights. This will ensure that the Crown remains the Company's majority Shareholder. Consequently, the Crown will have the ability to control the election of directors and the potential outcome of most matters submitted to a vote of the Shareholders. A sale, or a perception that such sales may occur, of the Crown's Shares in the future could adversely affect the market price of Shares. If the Crown sells less than 49% of its Shares under the Offer, the Government would be able to subsequently sell down a further holding of the Crown's Shares. However, under current legislation the Crown will not be able to sell its holding of Shares to below 51%. The interests of the Crown will be influenced by a number of factors and may not coincide with the interests of Mighty River Power or other Shareholders.
- **10% shareholding cap** – the holding of Shares in the Company will be governed by the Public Finance Act and Constitution, which provide that no person, other than the Crown, may have a 'relevant interest' in more than 10% of any class of shares in Mighty River Power or any class of voting securities of Mighty River Power. This may affect the market price of Shares by making the Shares less appealing to certain investors. It may also affect the demand for Shares as large Shareholders may not be able to purchase more Shares.
- **Future Government offers** – the Offer is the first of a series of significant share offerings within a wider programme that are proposed by the Government to be conducted over a three to five year timeframe, depending on a number of factors, including market conditions, readiness of the other companies and political determination. The implementation of the subsequent share offerings may affect the demand for and trading price of the Shares. This may be due to investors that have participated in the Offer deciding to sell their Shares either to obtain funds to participate in future offerings or to ensure that their total exposure to utility companies is not above a certain level. In addition, if a subsequent offer decreases Mighty River Power's relative weighting in the NZX50 (or other indices), investors that track indices may decide to dispose of a portion of their Shares.
- **Effect of section 45Q of the Public Finance Act** – all acts of the Crown in relation to its ownership of Shares are, by virtue of section 45Q of the Public Finance Act, required to be carried out in a manner that is consistent with the principles of the Treaty. It is possible, therefore, that circumstances may arise in the future in which section 45Q is relevant and the Crown is required to exercise rights that it has as the owner of Shares in a manner that takes into account not only the Crown's commercial interests, but also its obligations as a Treaty partner under the Treaty. This would depend on the nature of the right being exercised and the factual context in which it was being exercised.

Insurance Risk

Insured or uninsured catastrophic events such as acts of God, fires, floods, earthquakes, widespread health emergencies, pandemics, epidemics, wars and strikes could affect the value or the availability of Mighty River Power's assets and the ability of Mighty River Power to sustain operations, provide essential products and services or recover operating costs. Some events of this type, and some assets, are uninsurable or Mighty River Power has chosen not to insure against them. Mighty River Power does not insure its geothermal wells for commercial reasons, and is not insured for acts of terrorism. Should damage be sustained as a result of these risks, Mighty River Power's business and financial performance may be adversely affected. Mighty River Power currently insures for material damage and business interruption losses up to $2 billion. It is possible that the insurance portfolio will not provide sufficient cover under situations where a single catastrophic event occurs or multiple catastrophic events occur in succession. Mighty River Power estimates that the maximum foreseeable loss to which the Company could potentially be exposed is approximately $2.7 billion. Mighty River Power also has sub-limits for certain events, different levels of deductibles and exclusions which in certain circumstances may mean that the full cost of an event cannot be recovered, adversely affecting financial performance.

When Mighty River Power undertakes its annual renewal of insurance policies, typically in November, it may face higher than expected costs of insurance, it may not be economic to take out insurance at current levels or insurance capacity may not be available at any price. It is anticipated that this situation would be greatly exacerbated should a significant natural disaster occur in New Zealand.

Availability And Cost Of Capital

A deterioration of Mighty River Power's financial condition, a reduction in Mighty River Power's credit rating or instability in local and global capital markets could increase Mighty River Power's cost of borrowing or eliminate its ability to raise additional debt or replace existing debt as it matures. The current debt maturity profile of Mighty River Power is described in 6 Financial Information.

Mighty River Power may be constrained in its ability to execute its strategy if sufficient capital is not available due to the status of its balance sheet or its shareholding structure. In particular, Mighty River Power may not be able to fund development (both domestically and internationally) or any required major asset upgrades on its hydro, geothermal and gas-fired power stations.

In Mighty River Power's case, the Crown's shareholding and the provisions of the Public Finance Act add some further aspects to this risk. The ability of Mighty River Power to raise capital may be limited by the legal restriction under the Public Finance Act that no person, other than the Crown, may have a relevant interest in more than 10% of any class of shares or any class of voting securities of Mighty River Power. Furthermore, under that Act, any future equity capital raising that involves issuing shares, or securities with voting rights, in Mighty River Power will only be able to proceed if the Crown agrees to participate to the extent required to maintain its interest of at least 51%, as required by the Public Finance Act (see 4.3 Relationship Between Mighty River Power And The Crown for further details). At the date of this Offer Document, the Crown has made no commitments regarding possible future capital contributions. Any decision by the Crown on whether to make equity capital available to Mighty River Power will be made by the Government at the time and will be considered taking into account all relevant factors and circumstances, including competing capital requirements. Such competing capital requirements may include actual or expected requests for capital from Genesis Energy or Meridian Energy. An appropriation from Parliament is also required for the Crown to purchase Shares under an equity raising.

No proceeds of the Offer will be made available to Mighty River Power.

Exchange Rate And Currency Risk

There is exchange rate risk attached to earnings on Mighty River Power's operations and investments outside New Zealand. This occurs when foreign currency investments, earnings or capital returns are converted into New Zealand dollars, at which point any foreign exchange gains or losses will be recognised as operating profits or costs.

Mighty River Power's New Zealand based business incurs some costs denominated in foreign currencies, usually in relation to contracts for the provision of equipment and related services. Consequently there may be a risk that unfavourable foreign exchange movements will occur between the time at which a contract is entered into and the time at which it is settled. Mighty River Power uses financial instruments to hedge its exposure to foreign currency denominated costs at the time contracts are confirmed. The cost of such contracts can vary and the use of such financial instruments may result in financial losses to Mighty River Power if actual foreign exchange movements differ from those expected.

Accounting And Taxation Risks

Mighty River Power could be adversely affected by changes to its accounting and taxation treatment, including the following:

- **Unavailability of imputation credits** – if a greater proportion of Mighty River Power's profits is generated outside New Zealand, there is a risk that in the future Mighty River Power will not be able to maintain the proportion of New Zealand imputation credits that will initially attach to dividends;
- **Building depreciation** – an amendment to the Income Tax Act 2007 eliminates depreciation deductions for most buildings from the 2011-12 income year. In Mighty River Power's view this amendment should not apply to its hydro or geothermal powerhouse assets, but against the possibility that this view is incorrect, a deferred tax liability of $7.1 million has been recognised for a portion of these assets. An additional deferred tax liability and expense of $21.3 million would need to be recognised if it is found that the amendment applies to all the powerhouse assets; and
- **IFRS and accounting standards** – changes to IFRS and other accounting standards or the application of IFRS and other accounting standards may affect Mighty River Power's reported financial statements to the extent that an accounting loss results or the stated financial position is adversely affected. You can find information about the Company's accounting policies and treatment of financial instruments in 6.8 Audited Financial Statements For The Year Ended 30 June 2012.

Reputation Risks

Mighty River Power has a large, complex and highly specialised business which presents a number of reputational risks. The Company could be adversely affected should it, or the industry generally, suffer from adverse publicity. The impact on Mighty River Power could be a reduction in sales or increase in costs, which may affect financial performance. Specific issues which could give rise to reputation risk include:

- errors by directors, management, contractors or related industry operators negatively reflecting on Mighty River Power;
- errors by Mighty River Power in its customer connections or disconnections, billing or general customer communications;
- adverse environmental impact caused by, or perceived to have been caused by, Mighty River Power's operations;

- a health and safety incident occurring on premises or land under the operational control of Mighty River Power or being caused by Mighty River Power or contractors; and
- a reduction in corporate citizenship standards reflecting poorly on Mighty River Power's reputation.

Personnel Risks

Mighty River Power employs over 800 employees in varying roles across power stations and office environments. With continued growth and development (including offshore) Mighty River Power faces increased complexity in governing and operating its business. The risks associated with Mighty River Power's directors and employees include the loss of key personnel, the unavailability of specific expertise, industrial action, the risk of pandemic and fraud or theft.

Potential Effects Of Climate Change

Growing concerns over the effects of climate change could lead to stricter regulation of Mighty River Power's greenhouse gas emissions and natural resource use, which could increase its operating costs and reduce profitability. Mighty River Power could also be affected by the physical effects of climate change. Many climate change models predict an increase in extreme weather events and changes in weather patterns and temperatures which could adversely affect Mighty River Power's infrastructure and fuel supplies.

General Investment Risks

Economic Risk

Like any other investment, returns from your Shares are influenced by the level of economic activity and uncertainty. For example, a contraction in the New Zealand or global economy may negatively affect the performance of Mighty River Power by reducing demand for electricity, affecting customers' ability to pay for electricity (and influence related Government intervention on behalf of customers), and affecting input costs and other underlying fundamentals.

Taxation Risks

A change to the existing rate of company income tax may affect on the Company's returns, and a change to tax law applying to you personally could affect your returns. Other changes to tax law and practice in New Zealand, or in other relevant international jurisdictions which affect Mighty River Power or electricity markets and electricity generation in those jurisdictions could also have an effect on your returns.

ASX Listing Risk

Failure to achieve admission to list on the ASX will not, of itself, prevent the sale of Shares under the Offer from proceeding. In that situation, there will be no active trading market in the Shares on the ASX, thereby potentially decreasing the overall liquidity of the Shares.

General Market Risks

Prior to this Offer there has been no public market for the Shares. There can be no assurance that an active trading market in the Shares will develop or that the price of your Shares will increase. There may be relatively few potential buyers or sellers of the Shares on the NZX Main Board or, if listed, on the ASX at any time. This may increase the volatility of the market price of your Shares. It may also affect the prevailing market price at which you are able to sell your Shares. Future issues of Shares may dilute your interest in the Company and affect the trading price of Shares.

Factors such as changes in the New Zealand or international regulatory environment, New Zealand and international equity and debt markets, New Zealand dollar and foreign currency movements and the New Zealand and global economy could cause the market price of your Shares to fluctuate after the Offer.

The market prices of stocks have historically been variable, including in response to changes in capital markets or the economy.

Consequences Of Insolvency

You will not be liable to pay any money to any person in the event of the insolvency of the Company. All creditors (secured and unsecured) of Mighty River Power will rank ahead of your claim as a Shareholder in Mighty River Power if the Company is liquidated. After all such creditors have been paid, any remaining assets will be available for distribution between you and all other Shareholders with whom you will rank equally. There may not be sufficient surplus assets to enable you to recover all or any of your investment.

SECTION 6

FINANCIAL INFORMATION

IN THIS SECTION

Why should you read this section?

You can find out detailed information about Mighty River Power's historical and prospective financial performance, including the important assumptions that have been used in the preparation of the prospective financial information.

References to "Mighty River Power" or "Group" in this section refer to the Mighty River Power Group.

This section should be read in conjunction with the risk factors set out in 5 What Are The Risks? and other information contained in this Offer Document.

The Financial Information is presented in New Zealand dollars and is rounded, which may result in some discrepancies between the sum of components and totals within tables, and also in certain percentage calculations.

If you do not understand the information in this section, you should consult a financial adviser.

Section 6.1: Overview Of Operational And Financial Information

Presented below is selected historical and prospective operational and financial information for FY2010 to FY2014F, including HY2012 and HY2013. This selected information is provided in addition to the financial information disclosure required under the Securities Regulations to help you understand the drivers of Mighty River Power's financial performance.

Overview Of Volume Operational Information

	FY2010 12 Months Ended 30 June 2010	FY2011 12 Months Ended 30 June 2011	FY2012 12 Months Ended 30 June 2012	FY2013F 12 Months Ending 30 June 2013	FY2014F 12 Months Ending 30 June 2014	HY2012 6 Months Ended 31 December 2011	HY2013 6 Months Ended 31 December 2012
	Historical	Historical	Historical	Forecast	Forecast	Historical	Historical
	Volume GWh	Volume GWh	Volume GWh	Volume GWh	Volume GWh	Volume GWh	Volume GWh
FPVV sales to customers[50]	4,857	4,776	5,021	5,190	5,255	2,555	2,777
– Residential customers	2,612	2,652	2,609			1,408	1,375
– Business customers	2,245	2,124	2,412			1,148	1,402
FPVV purchases from market[50]	5,178	5,089	5,323			2,714	2,964
Spot customer purchases	2,129	2,136	2,035			995	1,089
Total New Zealand Electricity Market purchases	7,307	7,226	7,358			3,709	4,053
Financial contracts[51]	Volume GWh	Volume GWh	Volume GWh	Volume GWh	Volume GWh	Volume GWh	Volume GWh
Buy financial contracts	1,163	1,263	1,708			691	1,285
Sell financial contracts	2,567	2,947	3,224			1,525	2,139
Net sell financial contracts	1,404	1,684	1,516	1,589	2,064	834	854
Electricity generation	Volume GWh	Volume GWh	Volume GWh	Volume GWh	Volume GWh	Volume GWh	Volume GWh
Hydro	3,730	4,368	4,294	3,928	3,900	2,258	2,468
Gas-fired	520[52]	273	589	418	359	308	178
Geothermal (consolidated)[53]	1,322	1,956	1,946	1,843	2,560	981	930
Geothermal (equity accounted)[54]	240	236	239	244	241	117	124
Total	5,812	6,833	7,068	6,433	7,060	3,664	3,700
Gas purchases (petajoules)	PJ	PJ	PJ	PJ	PJ	PJ	PJ
Retail purchases	1.23	1.05	1.10			.61	.61
Generation purchases	5.22	2.97	5.47			2.84	1.80

Overview Of Price Operational Information

	FY2010 12 Months Ended 30 June 2010	FY2011 12 Months Ended 30 June 2011	FY2012 12 Months Ended 30 June 2012	FY2013F 12 Months Ending 30 June 2013	FY2014F 12 Months Ending 30 June 2014	HY2012 6 Months Ended 31 December 2011	HY2013 6 Months Ended 31 December 2012
	Historical	**Historical**	**Historical**	**Forecast**	**Forecast**	**Historical**	**Historical**
	VWAP[55] $/MWh	**VWAP $/MWh**	**VWAP $/MWh**	**VWAP $/MWh**	**VWAP $/MWh**	**VWAP $/MWh**	**VWAP $/MWh**
FPVV sales to customers[56]	103	110	115	117	118	114	115
Total New Zealand Electricity Market purchases[57]	61	57	95	65–75	65–75	83	65
Electricity generation	**VWAP $/MWh**	**VWAP $/MWh**	**VWAP $/MWh**	**VWAP $/MWh**	**VWAP $/MWh**	**VWAP $/MWh**	**VWAP $/MWh**
VWAP	63	54	87	65–75	65–75	80	66
LWAP / GWAP[58]	0.97	1.05	1.09			1.04	0.99

50. The difference between FPVV sales to FPVV customers and FPVV purchases from market arises as a consequence of a number of factors, including distribution losses arising from energy used or lost in the transmission of electricity, and unaccounted for energy occurring as a result of incorrect billing or metering.

51. Financial contracts in this context are electricity financial contracts, normally CFDs. For further information refer to Section 3 Industry Overview.

52. Includes 16 GWh of biomass generation in FY2010.

53. Includes share of Nga Awa Purua geothermal power station generation on an equity weighted basis, based on Mighty River Power's percentage ownership of the Nga Awa Purua power station. Does not include any generation from activities outside New Zealand.

54. On an equity weighted basis, based on Mighty River Power's percentage ownership of the Mokai geothermal power station through Tuaropaki Holdings Limited. Does not include any generation from activities outside New Zealand.

55. Volume weighted average wholesale electricity price received for electricity generated and sold into the wholesale spot market per MWh.

56. Volume weighted average energy only price sold to FPVV customers after lines, metering and fees per MWh.

57. Volume weighted average wholesale electricity price paid for electricity purchased from the wholesale spot market per MWh.

58. Indicator of price separation which occurs when the electricity price received for generation (the generation weighted average price, or 'GWAP') is different from the price paid for electricity to meet customer demand (the load weighted average price, or 'LWAP'). An LWAP higher than GWAP implies that the retailing business of an integrated generator, such as Mighty River Power, must pay more for every unit of electricity sold than its generation business earns for selling a unit.

Overview Of Income Statement

$ million	FY2010 12 Months Ended 30 June 2010	FY2011 12 Months Ended 30 June 2011	FY2012 12 Months Ended 30 June 2012	FY2013F 12 Months Ending 30 June 2013	FY2014F 12 Months Ending 30 June 2014	HY2012 6 Months Ended 31 December 2011	HY2013 6 Months Ended 31 December 2012
	Historical	Historical	Historical	Forecast	Forecast	Historical	Historical
Total revenue	**1,104.6**	**1,163.9**	**1,520.6**	**1,340.7**	**1,385.4**	**729.1**	**706.3**
Energy costs	(500.7)	(446.0)	(761.2)	(593.5)	(591.3)	(344.0)	(289.5)
Other direct cost of sales, including metering	(46.4)	(42.0)	(33.5)	(36.8)	(45.7)	(15.5)	(15.2)
Employee, maintenance and other expenses*	(229.7)	(232.8)	(264.4)	(327.8)	(250.5)	(115.1)	(141.5)
EBITDAF	**327.8**	**443.1**	**461.5**	**382.6**	**497.9**	**254.5**	**260.1**
Depreciation and amortisation	(98.7)	(145.4)	(158.4)	(149.9)	(169.4)	(73.2)	(75.3)
Equity accounted earnings*	(33.7)	5.0	(24.8)	48.8	(10.1)	(19.4)	58.8
Change in fair value of financial instruments	8.1	(25.6)	(92.8)	27.1	31.7	(85.7)	(12.4)
Impaired assets	(31.4)	(19.8)	(4.0)	(91.4)	0.0	(2.7)	(91.4)
EBIT	**172.1**	**257.2**	**181.5**	**217.2**	**350.1**	**73.4**	**139.9**
Net interest expense*	(30.7)	(71.8)	(72.6)	(57.7)	(92.3)	(36.9)	(31.5)
Profit before income tax	**141.4**	**185.5**	**109.0**	**159.5**	**257.8**	**36.5**	**108.4**
Income tax expense	(56.7)	(58.4)	(41.3)	(64.7)	(97.4)	(18.8)	(32.9)
Net profit	**84.6**	**127.1**	**67.7**	**94.8**	**160.4**	**17.6**	**75.5**
Basic and diluted earnings per Share (cents)[59]	**6.04**	**9.08**	**4.84**	**6.77**	**11.46**	**1.26**	**5.39**

* The following items have been summarised:

- » employee, maintenance and other expenses: includes employee compensation and benefits, maintenance expenses, sales and marketing costs, contractors' fees, professional services costs and other expenses;
- » equity accounted earnings: includes equity accounted earnings of associate companies and interests in jointly controlled entities; and
- » net interest expense: is interest expense less interest income.

59. Basic and diluted earnings per share is calculated based on the number of Shares on issue at 31 December 2012, 1,400,000,094, which will be the number of Shares on issue following the Offer. On 30 June 2012 the Company made a taxable bonus issue of 1,022,439,546 ordinary shares to its existing Shareholders.

60. Energy margin and net debt are not disclosed separately in Mighty River Power's historical audited financial statements.

61. Dividend per Share is based on dividends declared during the year or six month period (excluding special dividends) and on the number of Shares on issue at 31 December 2012, being 1,400,000,094, which will be the number of Shares on issue following the Offer. Based on the forecasts in Section 6.3 Prospective Financial Information, dividends in FY2013F and FY2014F are expected to be fully imputed.

Overview Of Balance Sheet

$ million	FY2010 As At 30 June 2010	FY2011 As At 30 June 2011	FY2012 As At 30 June 2012	FY2013F As At 30 June 2013	FY2014F As At 30 June 2014	HY2012 As At 31 December 2011	HY2013 As At 31 December 2012
	Historical	Historical	Historical	Forecast	Forecast	Historical	Historical
Total shareholders' equity	**2,689.0**	**2,906.5**	**3,014.2**	**3,066.7**	**3,046.6**	**2,882.2**	**3,109.1**
ASSETS							
Total current assets	238.2	271.7	394.3	295.9	315.0	298.0	317.7
Total non-current assets	4,656.7	5,104.9	5,483.1	5,488.8	5,498.1	5,207.1	5,384.3
Total assets	**4,894.9**	**5,376.6**	**5,877.4**	**5,784.7**	**5,813.1**	**5,505.2**	**5,702.0**
LIABILITIES							
Total current liabilities	310.8	225.5	642.1	385.8	382.3	260.3	560.1
Total non-current liabilities	1,895.1	2,244.6	2,221.1	2,332.2	2,384.2	2,362.7	2,032.8
Total liabilities	**2,205.9**	**2,470.0**	**2,863.2**	**2,718.0**	**2,766.5**	**2,623.0**	**2,592.9**
NET ASSETS	**2,689.0**	**2,906.5**	**3,014.2**	**3,066.7**	**3,046.6**	**2,882.2**	**3,109.1**

Overview Of Cash Flows

$ million	FY2010 12 Months Ended 30 June 2010	FY2011 12 Months Ended 30 June 2011	FY2012 12 Months Ended 30 June 2012	FY2013F 12 Months Ending 30 June 2013	FY2014F 12 Months Ending 30 June 2014	HY2012 6 Months Ended 31 December 2011	HY2013 6 Months Ended 31 December 2012
	Historical	Historical	Historical	Forecast	Forecast	Historical	Historical
Net cash provided by operating activities	199.5	292.8	277.0	267.3	327.9	185.4	212.0
Net cash used in investing activities	(296.4)	(202.4)	(291.6)	(171.1)	(224.8)	(149.5)	(2.1)
Net cash provided by/(used in) financing activities	48.0	(68.8)	27.8	(123.7)	(103.1)	(21.7)	(185.0)
Net increase/(decrease) in cash and cash equivalents held	(48.9)	21.6	13.2	(27.5)	0.0	14.2	24.9

Overview Of Certain Non-GAAP And Other GAAP Financial Information

$ million	FY2010 12 Months Ended 30 June 2010	FY2011 12 Months Ended 30 June 2011	FY2012 12 Months Ended 30 June 2012	FY2013F 12 Months Ending 30 June 2013	FY2014F 12 Months Ending 30 June 2014	HY2012 6 Months Ended 31 December 2011	HY2013 6 Months Ended 31 December 2012
	Historical	Historical	Historical	Forecast	Forecast	Historical	Historical
Energy margin[60]	534.7	654.7	684.6	675.2	724.0	356.8	378.2
Underlying earnings	139.6	162.2	162.7	159.3	138.4	101.7	133.2
Net debt[60]	970.9	975.9	1,115.6	1,134.5	1,205.3	985.8	951.7
Dividends per Share (cents)[61]	6.18	7.89	8.56	12.0	13.0	5.3	4.8

Refer to 6.4 Non-GAAP Financial Information for an explanation of the non-GAAP financial information and how the non-GAAP financial information was calculated.

Section 6.2: Analysis Of Historical Financial And Operational Performance

Overview Of The Main Factors That Affect Mighty River Power's Operational And Financial Performance

Mighty River Power's operational and financial performance, and that of the New Zealand electricity industry, is driven primarily by the variability and seasonality of hydrological conditions, wholesale electricity price, generation output, demand for energy, competition in the wholesale market and for customers, the price at which electricity is sold to consumers, and operating costs. Capital expenditure is also a key driver as it affects future earnings and can involve substantial borrowing, which therefore affects interest costs. Set out below is a discussion of these factors. It is not an exhaustive list of all factors which affect Mighty River Power's financial performance. These factors should be read in conjunction with 5 What Are The Risks?

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of Mighty River Power's accounting policies and the reported amounts of assets and liabilities, income and expenses. The areas of estimation uncertainty, and critical judgments in applying accounting policies, that have the most significant effect on the amounts recognised in the financial statements relate to generation plant and equipment, retail revenue, restoration and environmental remediation, valuation of financial instruments, impairment of non-financial assets and deferred tax. For further details on these accounting policies, refer to 6.8 Audited Financial Statements For The Year Ended 30 June 2012.

Variability And Seasonality Of Earnings

Mighty River Power's business is subject to seasonality due to its exposure to electricity demand patterns, and national and Waikato Hydro System hydrological conditions and weather patterns. These affect wholesale spot market prices, generation volumes and electricity demand, and consequently revenues, profitability and cash flows.

A discussion of the impact on wholesale spot market prices of national hydrological conditions (rainfall, snowmelt and storage) is set out under the heading "The Wholesale Spot Market" in 3 Industry Overview.

Hydrological conditions affecting the Waikato Hydro System influence the amount of electricity generated by the system over a season and from year to year, as discussed under the heading "Hydro Generation" in 4.1 Business Description. These conditions affect Mighty River Power's generation sales revenue.

Weather patterns also influence demand for electricity. Residential customers tend to use more electricity in the winter months due to an increased use of electrical heating in colder weather. Residential customers are on fixed price contracts and the increased seasonal demand does not change the retail electricity price they pay per unit of electricity. But increased demand does generally influence an increase in wholesale spot market prices. Higher wholesale spot market prices increase Mighty River Power's revenue from generation, but that can be partly or fully offset by higher market purchase costs to meet customer demand. The impact on Mighty River Power's earnings in this circumstance can be positive or negative on a net basis and depends on a range of factors. For further information on the factors that can affect Mighty River Power's earnings, refer to 5 What Are The Risks?

Business sales volumes tend to be less affected by this weather-induced seasonality as business customers' demand is typically not driven by seasonal heating needs.

Generation Output

Hydro generation

Annual generation output from Mighty River Power's hydro power stations is largely influenced by hydrological conditions as described above.

Geothermal generation

Geothermal generation is not normally affected by climatic conditions and is generally consistent from year to year, reflecting its base-load nature. A constraint in the availability of geothermal fluid can affect the ability of a power station to generate at capacity. Mighty River Power has increased its output from geothermal generation from 506 GWh in FY2008 to 2,185 GWh in FY2012[62] by investing in new geothermal power stations and upgrading existing power stations.

Gas-fired generation

Gas-fired generation from Mighty River Power's Southdown power station is largely influenced by wholesale electricity prices and the cost of gas as discussed under the heading "Gas-fired Generation" in 4.1 Business Description.

Demand For Energy

Factors affecting nationwide demand for electricity are discussed in 3 Industry Overview.

Competition For Customers

Competition can be high in all segments of the retail market and varies across segments based on each retailer's behaviour. This is most observable in the residential segment, where large national movements in customer (ICP) numbers have been widely reported.

Sales Prices To Customers

Mighty River Power's financial performance is highly dependent on the price at which it sells electricity to its customers. In particular, relatively small changes in prices for residential customers can substantially affect margins.

Operating Costs

The operating costs incurred by Mighty River Power have a significant impact on its financial performance. While electricity purchase costs are the largest individual cost, the impact of movements in these costs are to some extent offset by Mighty River Power's vertically integrated business model, which means that Mighty River Power both purchases from and sells into the wholesale electricity market. The other operating costs that may affect financial performance from year to year are mainly maintenance costs, employee costs and gas purchases for gas-fired generation.

Interest Costs

Interest costs for Mighty River Power are a function of the amount of contracted facilities, the level of drawn debt facilities, the interest rates payable under those facilities and the cost and amount of any interest rate hedging. Factors affecting debt levels include operational performance (affecting cash flows from operations), dividends paid and capital expenditure. Interest rates are primarily affected by local and international financial and economic conditions and Mighty River Power's credit profile. Interest costs reported in the income statement are reduced to the extent that interest costs are capitalised into work in progress. Further detail as to Mighty River Power's Treasury Policy is provided in 6.5 Further Financial And Accounting Information.

Accounting Treatment Of Financial (Derivative) Contracts

Mighty River Power and its associates and/or jointly controlled entities have entered into a number of financial contracts (derivatives or financial instruments) for the purpose of managing their exposure to fluctuations in interest rates, foreign exchange rates and wholesale electricity prices. Instruments typically utilised are interest rate swaps, foreign currency forward rate agreements and electricity financial contracts (CFDs, options or futures contracts). Accounting standards require that financial instruments be recorded in the balance sheet at fair value.

Generally, movements in the fair value of financial instruments are reported in the income statement. However, if a specific cash flow hedging relationship is established between a financial instrument and an underlying physical transaction, the financial instrument can be hedge accounted. If this occurs movements in value are recognised in other comprehensive income and accumulated in equity. As the movements in fair value can be large, the accounting treatment adopted by the Group for financial instruments can have a material impact on the reported profit of the Group.

62. Equity weighted, based on Mighty River Power's percentage ownership of each New Zealand power station.

Changes in fair value typically arise where the contracted price differs from the current market or expected price (depending on the type of financial instrument), or where there is a change in the market price or expected price (as the case may be) on a period to period basis. The main factors influencing the change in fair value movements on a period to period basis for Mighty River Power are changes in market interest rates and foreign currency rates, changes in expected electricity prices, and the increase or decrease in the amount of financial instruments held by the Group.

In addition, where the movement in the value of the financial instrument and the underlying physical transaction is not perfectly matched, the hedge can be deemed to be "ineffective". Depending on the degree of ineffectiveness, either the difference in the fair value movement of the financial instrument and the underlying physical transaction, or the entire movement in the fair value of the ineffective hedges, is recorded in the income statement.

In Mighty River Power's case, the accounting treatment chosen by the Group varies across the financial instruments utilised. Up until 31 December 2012 interest rate swaps were not hedge accounted and fair value movements were recorded in the income statement. From 1 January 2013 the Group will seek to hedge account new interest rate swaps with treatment dependent on the level of effectiveness. Foreign currency forward rate agreements (generally used by Mighty River Power in relation to committed expenditure) are hedge accounted with the change in fair value recorded in other comprehensive income and accumulated in equity.

Mighty River Power also enters into electricity financial contracts. The majority of these are hedge accounted with movements in fair value being recorded in other comprehensive income and accumulated in equity. However, there are a number of significant exceptions, including electricity futures contracts transacted via the New Zealand Electricity Futures and Options market (operated by ASX), various option and swaption contracts, for example the Genesis swaption and Meridian basis swap, and CFDs that do not meet hedge effectiveness tests. These instruments are not hedge accounted, with any movement in fair value recorded in the income statement. This has had an impact on the reported net profit in the recent historical periods.

It is possible to have different outcomes with respect to the timing of profit recognition in the income statement as a result of the choices the Group has made and the application of the accounting standards, notwithstanding what may be considered by some to be substantively similar arrangements in the sense that the economic effect is the same. These differences may arise in respect of all of Mighty River Power's financial instruments described above.

For example, Mighty River Power has historically managed a portion of its interest rate risk by economically hedging its floating-rate debt with interest rate derivatives. The Group has not typically used hedge accounting when reporting the fair value impact of those interest rate derivatives. If Mighty River Power had chosen to apply hedge accounting then depending on the choice of hedge accounting used, the reported profit impact of a change in interest rates in a particular financial reporting period may have differed from the profit reported.

For further details of the Group's financial contracts refer note 7 of 6.7 Audited Interim Financial Statements For The Six Months Ended 31 December 2012 and notes 25 and 26 of 6.8 Audited Financial Statements For The Year Ended 30 June 2012.

Valuation Of Generation Plant And Equipment Accounting Policy

Mighty River Power's accounting policy in respect of the valuation of its generation assets can significantly affect profit for a period. Mighty River Power periodically assesses the fair value of its generation assets (consistent with its accounting policies and that of its controlling Shareholder). In recent years this has generally resulted in increased asset values and consequently increased depreciation costs. All other things being equal, increased depreciation costs reduce profit for the period and subsequent periods.

For further details of the Group's plant and equipment, refer note 8 of 6.7 Audited Interim Financial Statements For The Six Months Ended 31 December 2012 and note 12 of 6.8 Audited Financial Statements For The Year Ended 30 June 2012.

Capital Expenditure

Mighty River Power has historically incurred significant capital expenditure on power station reinvestment and development. It has an on-going reinvestment capital expenditure plan to ensure that the power stations are available to operate when required.

Development capital expenditure, such as construction of a new power station, is typically substantial. The ability to successfully deliver a development project consistent with the Group's development plan is important for the financial performance of Mighty River Power. Variations from the development plan may have positive or negative impacts on financial performance due to variations in the timing and amounts of operating cash flows, the impact on borrowing levels and the associated cost of debt.

Discussion Of Historical Operational And Financial Performance

Mighty River Power's historical operational and financial performance for HY2013, HY2012, FY2012, FY2011 and FY2010 is discussed below.

Historical Operational Performance

Electricity customers and sales volumes

In HY2013 residential electricity sales volumes decreased by 2% compared with HY2012, to 1,375 GWh. This was offset by an increase in electricity volumes sold to business customers in HY2013, by 22% compared with HY2012, to 1,402 GWh reflecting the increased number of Mighty River Power business customers.

In FY2012 competition among retailers remained high and Mighty River Power's residential electricity sales volumes decreased by 2% compared with FY2011, to 2,609 GWh, driven by a 2% fall in customer numbers compared with the prior year to 386,000 as at 30 June 2012. However, the electricity volumes sold to business customers in FY2012 increased by 14% compared with FY2011, to 2,412 GWh (more than offsetting the decrease in residential electricity volumes). This was largely due to a Mighty River Power sales campaign targeting business customer segments.

In FY2011 residential electricity sales volume increased by 2% over the prior year to 2,652 GWh from 2,612 GWh in FY2010 as higher usage customers were secured in cooler, more southerly regions. This increased sales volume offset a 5% fall in customer numbers from 412,000 to 392,000 over the same period. However, the gains in residential sales volumes were more than offset by the 5% fall in electricity volumes sold to business customers over the same period from 2,245 GWh in FY2010 to 2,124 GWh in FY2011. This was primarily a consequence of relatively low wholesale electricity prices resulting in a number of larger customers purchasing electricity through the wholesale spot market rather than fixed price contracts.

Electricity sales and purchase prices

The volume weighted average wholesale price of electricity sold into the wholesale market decreased in HY2013 by 18% to $66/MWh compared with $80/MWh in HY2012 as a result of higher inflows into South Island hydro system catchments and the resulting impact on wholesale prices.

The volume weighted average wholesale price for generation sold by Mighty River Power into the wholesale market increased by 61% in FY2012 compared with FY2011, to $87/MWh, primarily as a consequence of relatively dry South Island conditions. In FY2011 the weighted average wholesale price for generation sold declined 14% to $54/MWh down from $63/MWh in FY2010, as a consequence of relatively wet hydrological conditions and the first full year of operation of Nga Awa Purua power station in FY2011.

The volume weighted average wholesale price of electricity purchased from the wholesale market followed a similar pattern, generally driven by the same factors. Prices decreased in HY2013 by 22% to $65/MWh compared with $83/MWh in HY2012. Prices increased 67% to $95/MWh in FY2012 compared with a 7% decline from $61/MWh in FY2010 to $57/MWh in FY2011.

The volume weighted average sales price of electricity sold to residential and business customers increased by less than 1% to $115/MWh in HY2013 from $114/MWh in HY2012, primarily due to price increases for un-contracted business and residential customers. General price increases were behind the increase of 5% in FY2012 compared with FY2011, to $115/MWh. In FY2011 the volume weighted average sales price of electricity sold increased by 7% from $103/MWh in FY2010 to $110/MWh, primarily due to general price increases.

For further information on the wholesale spot market mechanics refer to 3 Industry Overview.

Generation volumes

HY2013 hydro generation volumes were 9% higher when compared with HY2012, increasing from 2,258 GWh to 2,468 GWh. The increase reflected wetter conditions compared with the previous period.

North Island conditions in FY2012 were almost as wet as FY2011, enabling hydro generation to remain above average, with only a 2% decrease compared with FY2011, to 4,294 GWh. Relatively wet North Island conditions in FY2011 allowed hydro generation to increase 17% to 4,368 GWh from 3,730 GWh in FY2010 (being a drier than average year).

Geothermal generation (consolidated and equity accounted) for HY2013 of 1,054 GWh was slightly below HY2012 of 1,098 GWh. The decrease was a consequence of the reduction in Mighty River Power's ownership interest in Nga Awa Purua power station from 75% to 65% completed in April 2012. The decrease was partially offset by improved overall availability during the period. Similarly, geothermal generation (consolidated and equity accounted) in FY2012 of 2,185 GWh was broadly equivalent to FY2011 volume, taking into account the reduction in the Company's ownership interest in the Nga Awa Purua power station. In FY2011 geothermal generation increased 40% from 1,562 GWh in FY2010 to 2,192 GWh in FY2011, reflecting the addition of the 138 MW Nga Awa Purua power station (commissioned in April FY2010).

Gas-fired generation of 178 GWh in HY2013 was 42% lower than the 308 GWh in HY2012, primarily driven by relatively lower wholesale prices in the market. This resulted in fewer opportunities to operate the Southdown power station on a profitable basis. Conversely, FY2012 gas-fired generation of 589 GWh was 116% higher than FY2011, primarily as a result of more frequent high wholesale electricity spot prices. In FY2011, after relatively high generation volumes of 504 GWh in FY2010 (reflecting the drier than average national hydrological conditions and higher wholesale electricity prices), gas-fired generation was 46% lower than the prior year, at 273 GWh, as profitable opportunities to run the Southdown power station were not as frequent.

Historical Financial Performance

Revenue

In HY2013 total revenue decreased 3% to $706.3 million from $729.1 million in HY2012. This was driven by the lower volume weighted average price received for electricity generated and sold into the wholesale market, and increased lines charges. This reduction in revenue was partially offset by the increased volume of electricity sales to customers and a further $10.9 million recognised as dividend income and fees received from the GGE Fund.

In FY2012 total revenue increased 31% to $1,520.6 million from $1,163.9 million in FY2011, partly due to the increased volume and weighted average price of electricity sales to customers, as well as the substantially higher weighted average price of generation sold into the wholesale market. The sale of emission credits for $7.0 million and a 10% ownership interest in the Nga Awa Purua power station for an $8.3 million accounting gain (reducing Mighty River Power's ownership to 65%) also had a positive, one-off impact on revenue.

Total revenue increased by 5% from $1,104.6 million in FY2010 to $1,163.9 million in FY2011, reflecting the combination of increased generation output (particularly hydro and geothermal generation) and increased volume and weighted average price of electricity sales to customers. These volume increases were partially offset by a lower weighted average price for generation sold into the wholesale market.

Energy costs and other direct costs of sales

Energy costs decreased by 16%, from $344.0 million in HY2012 to $289.5 million in HY2013, reflecting the lower volume weighted average cost of electricity purchased from the wholesale market and lower gas purchases because of a decrease in gas-fired generation.

Energy costs increased in FY2012 by 71% to $761.2 million from $446.0 million in FY2011, reflecting the elevated weighted average cost of electricity purchases from the wholesale spot market and increased gas purchases because of an increase in gas-fired generation. This was partially offset by a decrease in other direct cost of sales of 20% from $42.0 million in FY2011 to $33.5 million, primarily due to lower carbon costs.

Energy costs decreased 11% from $500.7 million in FY2010 to $446.0 million in FY2011, primarily due to the lower weighted average cost of electricity purchases from the wholesale spot market and the fall in the volume of electricity purchased by Mighty River Power from the wholesale market (for residential and business customers). Other direct costs of sales also decreased by 9% from $46.4 million in FY2010 to $42.0 million in FY2011, driven primarily by lower ancillary service charges.

Energy margin

Energy margin is presented in 6.4 Non-GAAP Financial Information.

Energy margin means sales (including customer sales and generation revenues) less energy cost and other direct costs, including lines charges and metering. It provides a measure of financial performance that accounts for the variability of the wholesale spot market and the broadly offsetting impact of the wholesale prices on the cost of the Group's retail electricity purchases. Variability in wholesale prices is reflected in both revenues and direct costs, leading to variability in total revenues that may overstate or understate underlying financial performance.

In HY2013 energy margin increased by 6% from $356.8 million in HY2012 to $378.2 million. This is primarily due to the decrease in energy costs and increase in other revenue, as described above.

In FY2012 energy margin increased by 5% compared with FY2011, to $684.6 million. This was mainly due to the increase in total revenue and decreases in other direct costs of sales as well as the one-off impact from the sale of emission credits and ownership interests in Nga Awa Purua, which were largely offset by the increase in energy costs as described above.

In FY2011 energy margin increased by 22% from $534.7 million in FY2010 to $654.7 million. This was primarily due to the increase in total revenue and the decrease in energy costs and other direct costs of sales over the same period, as described above.

Employee, maintenance and other expenses

In HY2013 employee, maintenance and other expenses increased by 23% to $141.5 million from $115.1 million in HY2012. This increase was largely due to a $22.4 million foreign currency loss, reflecting a release from the foreign currency translation reserve associated with the distribution from the GGE Fund. In addition the Group incurred expenses relating to preparation for the Offer of $3.0 million and a $5.0 million accrual expense for repair of a geothermal well at Kawerau. These expenses were only partially offset by lower sales and marketing expenses relative to HY2012.

In FY2012 employee, maintenance and other expenses increased by 14% to $264.4 million from $232.8 million in FY2011. These were driven primarily by a $15.9 million increase in maintenance expense, largely as a consequence of transformer and gas turbine failures that occurred at the Southdown power station in the second and third quarter of FY2012. In addition, there was a 16% increase in other expenses to $65.4 million due to higher insurance costs and professional fees, the early termination of a contract, and $3.8 million of costs relating to the preparations for the Offer.

Employee, maintenance and other expenses increased by 1% from $229.7 million in FY2010 to $232.8 million in FY2011, reflecting increases in professional fees and sales and marketing costs, and partially offsetting minor decreases in maintenance expenses and contractors' fees.

EBITDAF

EBITDAF increased by 2% from $254.5 million in HY2012 to $260.1 million in HY2013. This was mainly driven by the increase in energy margin described above, which was partially offset by the increase in employee, maintenance and other expenses as described above.

EBITDAF for FY2012 increased by 4% to $461.5 million compared with $443.1 million in FY2011, due to a higher energy margin, partially offset by increased employee, maintenance and other expenses as described above.

EBITDAF increased by 35% from $327.8 million in FY2010 to $443.1 million in FY2011, also due to the increase in energy margin, which was partially offset by increased employee, maintenance and other expenses as described above.

Depreciation and amortisation

In HY2013 depreciation and amortisation increased by 3% compared with HY2012 to $75.3 million as a result of revaluations of Mighty River Power's portfolio recognised as at 30 June 2012.

In FY2012 depreciation and amortisation increased by 9% to $158.4 million from $145.4 million in FY2011 as a result of asset revaluations increasing the depreciable asset base and the release of cash flow hedge reserve amounts relating to the sale of the 10% ownership interest in the Nga Awa Purua power station and an associated interest in the Rotokawa joint ventures.

Depreciation and amortisation increased by 47% from $98.7 million in FY2010 to $145.4 million in FY2011 as a result of asset revaluations increasing the depreciable asset base and the beginning of depreciation on the Nga Awa Purua power station following its commissioning in April 2010.

Equity accounted earnings

Equity accounted earnings, which includes equity accounted earnings of associate companies (primarily TPC Holdings Limited) and interests in jointly controlled entities (within the GGE Fund), were a $58.8 million contribution in HY2013 compared with a $19.4 million loss in HY2012. This change was due to the reversal of fair value losses recognised in previous periods and recognition of dividend income in the GGE Fund.[63]

Equity accounted earnings were a $24.8 million loss in FY2012 compared with a $5.0 million contribution in FY2011, primarily due to recognition of Mighty River Power's share (through the GGE Fund) of fair value losses on financial instruments in jointly controlled entities.

Equity accounted earnings were a $33.7 million loss in FY2010 compared with a $5.0 million contribution in FY2011. The FY2010 loss in equity accounted earnings was largely driven by recognition of Mighty River Power's share of movements in fair value of financial instruments in associates and jointly controlled entities, which were not subsequently experienced in FY2011.

Change in fair value of financial instruments and impaired assets

In HY2013 the change in fair value of financial instruments and impaired assets increased by 17% to an expense of $103.8 million from $88.4 million in HY2012. Fair value movements for financial instruments were significantly lower due to a favourable variance on interest rate derivatives. This was partially offset by an unfavourable movement for electricity derivatives.

In addition, HY2013 impaired assets increased to $91.4 million from $2.7 million in HY2012. This was primarily as a consequence of a management review of all international geothermal development projects and related interests. As at 31 December 2012 the GGE Fund had not raised third party capital as planned and the Group had decided that it would decline the opportunity to invest further capital into the existing structure. This led to the recognition of a full impairment in its 29% interest in the management company, GeoGlobal Energy LLC. The Group also recognised an impairment charge in HY2013 against the German and Tolhuaca assets on the basis that the value of the Group's interests in the assets should reflect the sale value of the assets less costs. Drilling results on the Tolhuaca project in southern Chile over 2011/12 had delivered less total productivity than planned and were more expensive than expected. In addition, significant delays in progressing a project in Germany due to Environmental Court challenges (now resolved), combined with a need to move drilling locations, had led to increased costs. Impairment charges against international geothermal interests in HY2013 totalled $88.9 million.

In FY2012 the change in fair value of financial instruments and impaired assets increased by 113% to a $96.8 million expense compared with a $45.4 million expense in FY2011. This was largely due to an increase in the negative change in fair value financial instruments (predominantly interest rate and cross currency swaps) of $92.8 million. The large movement in fair value financial instruments reflected the significant fall in forecast interest rates during FY2012. Impaired assets of $4.0 million in FY2012 related to impairment of geothermal exploration and development expenditure.

The change in fair value of financial instruments and impaired assets increased in FY2010 by 95% from $23.3 million to $45.4 million in FY2011. This primarily reflected the difference between a positive change in fair value in FY2010 of $8.1 million and a negative change in fair value in FY2011 of $25.6 million, offset by a decrease in impaired assets from $31.4 million in FY2010 to $19.8 million in FY2011. Impaired assets in FY2010 largely comprised the exit from the upstream gas exploration business and a mechanical well failure at Kawerau, with the majority of FY2011 impaired assets relating to geothermal wells at Mangakino.

NPAT

In HY2013 NPAT increased by 329% from $17.6 million in HY2012 to $75.5 million. This primarily reflected lower fair value adjustments, the distribution from the GGE Fund, an improved energy margin and lower interest expenses as a consequence of lower net debt levels and capitalised interest, offset by the impairment of Mighty River Power's interests in the GGE Fund and GeoGlobal Energy LLC.

In FY2012 NPAT decreased by 47% to $67.7 million from $127.1 million in FY2011, largely due to the decrease in net profit before tax, which in turn was largely driven by adverse movements in the fair value of financial instruments, and partially offset by the increase in EBITDAF. As a consequence of lower profit before tax, income tax expense decreased 29% to $41.3 million in FY2012 from $58.4 million in FY2011.

63. Subsequent to HY2013, Mighty River Power has taken direct ownership of the GGE Fund's Chilean assets and its interests in EnergySource and the John L. Featherstone power station.

NPAT increased from $84.6 million in FY2010 by 50% to $127.1 million in FY2011. This was driven by the increased profit before tax, which in turn was largely driven by the increase in energy margin and EBITDAF, and partially offset by increases in depreciation and amortisation and a 134% increase in net interest expense from $30.7 million to $71.8 million over the same period. Net interest expense increased due to higher levels of borrowing to fund offshore investments and a special dividend of $150.0 million (paid in FY2010), as well as interest relating to the construction of the Nga Awa Purua power station no longer being capitalised when it commenced operation. Income tax expense in FY2011 remained broadly in line with FY2010 income tax expense.

Underlying Earnings

Underlying Earnings is presented in 6.4 Non-GAAP Financial Information. This measure is presented to enable an assessment and comparison of after-tax earnings after removing one-off and/or infrequently occurring events (exceeding $10.0 million of net profit before tax), impairments and any changes in the fair value of derivative financial instruments.

In HY2013 Mighty River Power's Underlying Earnings increased by 31% to $133.2 million from $101.7 million in HY2012, largely as a consequence of the improvement in energy margin and lower interest expenses.

In FY2012 Underlying Earnings were almost unchanged at $162.7 million, compared with $162.2 million in FY2011, due to the increase in EBITDAF being almost fully offset by increased depreciation and amortisation. In FY2011 Underlying Earnings increased by 16% to $162.2 million, from $139.6 million in FY2010, primarily due to the significantly higher NPAT as a consequence of the higher energy margins as described above.

Basic and diluted earnings per share

Basic and diluted earnings per share is measured as the net earnings attributable to the owners of the Group divided by the number of shares on issue.

In HY2013 basic and diluted earnings per share increased by 328% compared with HY2012. The increase reflected the significant increase in NPAT in HY2013 described above.

In FY2012 basic and diluted earnings per share decreased 47% compared with FY2011, primarily for the same reasons as those driving the decline in NPAT, being the adverse movements in the fair value of financial instruments, which were only partially offset by the increase in EBITDAF.

In FY2011 basic and diluted earnings per share increased by 50% compared with FY2010, again for the same reasons as those driving the increase in NPAT, namely the increase in energy margin and EBITDAF.

Cash flows

Net cash provided by operating activities

In HY2013 net cash provided by operating activities increased 14% from $185.4 million in HY2012 to $212.0 million, reflecting the improved operational performance over the period as a result of increased hydro output and customer sales and lower gas costs.

In FY2012 net cash provided by operating activities decreased by 5% to $277.0 million from $292.8 million in FY2011. This was largely due to posting additional cash prudential security with the market (which was treated as a payment to supplier), and an increase in interest paid, as a result of increased borrowing for offshore and domestic geothermal projects.

In FY2011 net cash provided by operating activities increased by 47% to $292.8 million from $199.5 million in FY2010, largely due to reduced payments to suppliers and employees, higher hydro and geothermal generation, lower gas costs and reduced cost of purchases from the wholesale electricity market. These reductions were partially offset by an increase in interest paid, as a result of increased borrowing for offshore and domestic geothermal projects (such as Nga Awa Purua geothermal power station), and a special dividend of $150.0 million paid in FY2010.

Net cash used in investing activities

In HY2013 net cash used in investing activities decreased from a net outflow of $149.5 million in HY2012 to a $2.1 million net outflow. The primary driver of the difference was the $140.3 million cash distribution received from the GGE Fund, in addition to proceeds received from the sale of commercial property.

In FY2012 net cash used in investing activities increased by 44% to $291.6 million from $202.4 million in FY2011, primarily reflecting increased expenditure associated with the construction of the Ngatamariki geothermal power station and expenditure on international geothermal developments, as well as increased reinvestment capital expenditure.

In FY2011 net cash used in investing activities reduced by 32% to $202.4 million from $296.4 million in FY2010. The higher level in FY2010 was primarily due to the investment through the GGE Fund in May 2010.

Net cash from financing activities

In HY2013 net cash from financing activities increased from a net outflow of $21.7 million in HY2012 to an outflow of $185.0 million as a result of the repayment of certain debt facilities in October 2012.

In FY2012 net cash from financing activities changed from a net cash outflow in FY2011 to a net cash inflow of $27.8 million. This reflected the net increase in borrowings of $148.3 million in FY2012, partially offset by a 27% increase in dividends paid of $120.5 million.

In FY2011 net cash from financing activities changed from a net cash inflow of $48.0 million in FY2010 to a net cash outflow of $68.8 million. This was the result of a net increase in borrowing in FY2011 of $26.2 million, compared with a net increase of $334.0 million in FY2010, and a decrease in dividends paid of $95.0 million in FY2011, compared with $286.0 million paid in FY2010. The FY2010 dividends paid reflected a special dividend of $150.0 million.

Major items from the balance sheet

Changes in the balance sheet have been primarily driven by movements in the following items:

Derivative financial instruments

Mighty River Power utilises a number of different derivative financial instruments, including interest rate swaps, foreign currency forward rate agreements and electricity financial contracts (CFDs or futures contracts). Accounting policy requires that the fair value of the outstanding contracts be measured or estimated at each balance date, reflecting management's best estimate of the current value (asset or liability) of these contracts based on the valuation methodologies prescribed by the accounting standards.

Reflecting the movements in interest rates, foreign exchange rates, wholesale electricity spot prices and related moving hedge indices, the fair value of derivative assets increased from $178.8 million in HY2012 to $189.8 million in HY2013. In FY2012 the fair value of derivative assets increased by 17% to $174.2 million from $148.6 million in FY2011. In FY2011 the fair value of derivative assets also increased by 31% compared with $113.0 million in FY2010. At the same time the fair value of derivative liabilities (current and non-current) decreased in HY2013 by 12% to $415.9 million from $471.7 million in HY2012, and increased in FY2012 by 11% compared with FY2011 to $443.7 million. In FY2011 the fair value of derivative liabilities also increased by 45% compared with FY2010 to $399.0 million.

Property, plant and equipment

The key component of Mighty River Power's property, plant and equipment as recorded on the balance sheet is its consolidated generation assets. Mighty River Power carries its consolidated generation assets at fair value, with the fair value being assessed on a periodic basis. In HY2013 no material revaluation adjustment was necessary in respect of the New Zealand generation assets. Other generation assets, specifically the international geothermal assets, were impaired by $46.6 million. The valuation of the consolidated generation assets was increased by 1% in FY2012 compared with FY2011, to $4,479.9 million. In FY2011 the valuation was increased by 9% compared with FY2010, to $4,418.1 million.

As a consequence of these asset revaluations, in addition to the increase in depreciation already outlined, there was an increase in deferred tax liability in each of FY2012 and FY2011. Deferred tax liabilities arise primarily because asset revaluations do not adjust the taxable asset base. The resulting difference in tax expense is recognised as a deferred tax liability.

Loans

Loans (current and non-current) reduced by 2% to $1,032.7 million in HY2013 from $1,057.6 million in HY2012 as loan repayments offset additional borrowings.

In FY2012 loans increased by 20% compared with FY2011, to $1,181.4 million. Borrowings increased largely to fund construction of the Ngatamariki power station. In FY2011 there was a small increase in loans of 1% compared with FY2010, to $985.5 million.

Section 6.3: Prospective Financial Information

This section contains:

- prospective financial information for the Group, as required by clause 11(1) (c) of Schedule 1 of the Securities Regulations, which includes: prospective consolidated income statements, prospective consolidated statements of comprehensive income, prospective consolidated balance sheets, prospective consolidated statements of changes in equity and prospective consolidated statements of cash flows;
- the basis of preparation and presentation of the prospective financial information, including the significant accounting policies applied;
- a description of the board of directors' best estimate general and specific assumptions that underpin the prospective financial information contained in this Offer Document;
- an analysis of the sensitivity of prospective financial information to changes in a number of key assumptions; and
- additional disclosure on international geothermal.

Basis Of Preparation

Prospective financial statements have been prepared in accordance with Financial Reporting Standard-42 Prospective Financial Statements, subject to the Securities Regulations.

Prospective financial information is based on the board's assessment of events and conditions existing at the date of this Offer Document and the assumptions set out on pages 116 to 130 and accounting policies as discussed below. The directors believe that prospective financial information has been prepared with due care and attention, and consider the best estimate assumptions when taken as a whole to be reasonable at the time of preparing this Offer Document. However, actual results are likely to vary from the information presented as anticipated results may not occur as expected, and the variations may be material. Accordingly, neither the directors nor any other person can provide any assurance that the prospective financial information will be achieved and investors are cautioned not to place undue reliance on the prospective financial information.

Prospective financial information has been prepared for the purpose of the Offer and may not be suitable for any other purpose.

Prospective financial information for FY2013F comprises six months of actual results based on audited interim financial statements and six months of forecasts for the Group. Prospective financial information for the Group for FY2014F is a forecast.

The prospective financial information, including the assumptions underlying it, has been prepared by management and approved by the board. The board approved the prospective financial information on 5 April 2013 for use in this Offer Document. The Crown has not been involved in the preparation of the prospective financial information.

Prospective financial information by its nature involves risks and uncertainties, many of which are beyond the control of Mighty River Power. These risks and uncertainties include, but are not limited to, those set out in 5 What Are The Risks?

There is no present intention to update prospective financial information or to publish prospective financial information in the future, other than as required by accounting standards. Mighty River Power will present a comparison of certain of this prospective financial information with actual financial results when reported in accordance with NZ GAAP and Regulation 44 of the Securities Regulations.

The directors are responsible for and have authorised for issue the prospective financial information on 5 April 2013.

Non-GAAP Financial Information

You should be aware that certain financial information included in this Offer Document is considered "non-GAAP financial information", including profit measures other than net profit for the year as reported in the statutory financial statements. The notes to the various tables where non-GAAP financial information is reported include further information to help you interpret those terms which are not defined under NZ GAAP. These measures include:

- energy margin;
- earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments, impairments and equity accounted earnings (EBITDAF);
- earnings before net interest expense and income tax (EBIT);
- Underlying Earnings; and
- net debt.

The tables in 6.4 Non-GAAP Financial Information provide a reconciliation of energy margin, Underlying Earnings and net debt to the statutory and prospective financial information. EBITDAF and EBIT are shown in the financial information presented in the statutory and prospective financial statements. An explanation of FY2014F Adjusted NPAT is provided below under the heading "Dividends And Distributions To Shareholders".

Accounting Policies

The accounting policies applied to the preparation of prospective financial information are those which are expected to be used in future reporting periods. Apart from the change in computation described below, they are consistent with the accounting policies and methods of computation as set out in the audited financial statements of Mighty River Power for FY2012.

Mighty River Power is aware of New Zealand generally accepted accounting standards which have been issued and which will come into effect during the prospective financial information period. It anticipates that while these standards may necessitate a change in disclosure, they are not expected to have a material impact on the financial statements during that period.

Valuation Of ASX Electricity Financial Contracts

A change in the valuation approach for ASX electricity futures contracts was adopted in HY2013. The valuation of these contracts is now taken directly from the Credit Suisse (ASX clearing house) mark-to-market figures for open trades. Previously the valuations had been performed internally based on a future price path which was derived from ASX price information. At the date the valuation approach changed for the ASX futures contracts a valuation difference of $0.1 million existed between the two methodologies, which resulted in a decrease in the fair value asset.

Share Based Payments

A new accounting policy expected to apply in future accounting periods relates to share based payments. The cost of the equity settled benefits under the Mighty River Power Executive LTI Plans and Employee Share Purchase Programme will be measured based on the fair value of the Shares at the date on which they are granted. The cost is recognised, together with a corresponding increase in equity, over the period in which the performance or service conditions are fulfilled. The cumulative expense at each reporting date until vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of Shares expected to vest. If there are no vesting conditions, the total cost is recognised at grant date. The Shares will be held in trust for the employees until the vesting period has expired.

Prospective Consolidated Income Statements

$ million	FY2013F Year Ending 30 June 2013	FY2014F Year Ending 30 June 2014
Sales	1,766.4	1,834.1
Less lines charges	(460.9)	(473.1)
Other revenue	35.2	24.4
Total revenue	**1,340.7**	**1,385.4**
Energy costs	(593.5)	(591.3)
Other direct cost of sales, including metering	(36.8)	(45.7)
Employee compensation and benefits	(80.2)	(82.6)
Maintenance expenses	(69.7)	(63.6)
Sales and marketing	(21.1)	(18.6)
Contractors' fees	(14.4)	(10.1)
Professional services	(22.8)	(14.0)
Other expenses	(119.6)	(61.6)
Total expenses	**(958.1)**	**(887.5)**
Earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments, impairments and equity accounted earnings (EBITDAF)	**382.6**	**497.9**
Depreciation and amortisation	(149.9)	(169.4)
Change in the fair value of financial instruments	27.1	31.7
Impaired assets	(91.4)	0.0
Equity accounted earnings of associate companies	2.4	2.6
Equity accounted earnings / (losses) of interest in jointly controlled entities	46.4	(12.7)
Earnings before net interest expense and income tax (EBIT)	**217.2**	**350.1**
Interest expense	(60.5)	(94.8)
Interest income	2.8	2.5
Net interest expense	**(57.7)**	**(92.3)**
Profit before income tax	**159.5**	**257.8**
Income tax expense	(64.7)	(97.4)
Net profit for the year	**94.8**	**160.4**
Net profit for the year is attributable to:		
Owners of the parent	94.8	160.4
Non-controlling interests	–	–
Earnings per share attributable to owners of the parent		
Denominator (thousands of shares)	1,400,000	1,400,000
Basic and diluted earnings per Share (cents)	6.77	11.46

Prospective Consolidated Statements Of Comprehensive Income

$ million	FY2013F Year Ending 30 June 2013	FY2014F Year Ending 30 June 2014
Net profit for the year	94.8	160.4
Other comprehensive income		
Fair value revaluation of other generation assets	0.5	0.0
Equity accounted share of movements in associates' reserves	3.8	0.0
Equity accounted share of movements in jointly controlled entities' reserves	(1.5)	0.0
Exchange movements on equity accounted share of movements in jointly controlled entities' reserves	(1.0)	0.0
Movement in available for sale investment reserve	1.5	0.0
Movements in foreign currency translation reserve	15.5	0.0
Cash flow hedges gain/(loss) taken to or released from equity	70.6	(9.7)
Income tax on items of comprehensive income	(19.4)	2.7
Other comprehensive income for the year, net of taxation	**70.0**	**(7.0)**
Total comprehensive income for the year	**164.8**	**153.4**
Total comprehensive income for the year is attributable to:		
Owners of the parent	164.8	153.4
Non-controlling interests	–	–
	164.8	**153.4**

Prospective Consolidated Statements Of Changes In Equity

FY2013F Year Ending 30 June 2013 $ million	Issued Capital	Retained Earnings	Available for Sale Investment Reserve	Foreign currency translation reserve	Asset Revaluation Reserve	Cash flow hedge reserve	Non-Controlling interest	Total equity
Balance as at 1 July 2012	**377.6**	**487.6**	**(1.1)**	**(32.0)**	**2,300.7**	**(118.9)**	**0.3**	**3,014.2**
Fair value revaluation of other generation assets, net of taxation	–	–	–	–	0.4	–	–	0.4
Equity accounted share of movements in associates' reserves	–	–	–	–	–	3.8	–	3.8
Equity accounted share of movements in jointly controlled entities' reserves net of taxation	–	–	–	–	(1.6)	–	–	(1.6)
Release of reserve to the income statement	–	–	1.1	–	–	–	–	1.1
Movements in foreign currency translation reserve	–	–	–	15.6	–	–	(0.2)	15.4
Release of asset revaluation reserve following disposal of assets	–	2.7	–	–	(2.7)	–	–	–
Cash flow hedges gain taken to equity, net of taxation	–	–	–	–	–	50.9	–	50.9
Other comprehensive income	**–**	**2.7**	**1.1**	**15.6**	**(3.9)**	**54.7**	**(0.2)**	**70.0**
Net profit for the year	**–**	**94.8**	**–**	**–**	**–**	**–**	**–**	**94.8**
Total comprehensive income	**–**	**97.5**	**1.1**	**15.6**	**(3.9)**	**54.7**	**(0.2)**	**164.8**
Non-controlling interest	–	–	–	–	0.1	–	(0.1)	–
Dividend	–	(112.2)	–	–	–	–	–	(112.2)
Balance as at 30 June 2013	**377.6**	**473.0**	**–**	**(16.5)**	**2,296.9**	**(64.2)**	**–**	**3,066.7**

FY2013F Year Ending 30 June 2014 $ million	Issued Capital	Retained Earnings	Available for Sale Investment Reserve	Foreign currency translation reserve	Asset Revaluation Reserve	Cash flow hedge reserve	Non-Controlling interest	Total equity
Balance as at 1 July 2013	**377.6**	**473.0**	**–**	**(16.5)**	**2,296.9**	**(64.2)**	**–**	**3,066.7**
Cash flow hedges (loss) taken to equity, net of taxation	–	–	–	–	–	(6.9)	–	(6.9)
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**(6.9)**	**–**	**(6.9)**
Net profit for the year	**–**	**160.4**	**–**	**–**	**–**	**–**	**–**	**160.4**
Total comprehensive income	**–**	**160.4**	**–**	**–**	**–**	**(6.9)**	**–**	**153.4**
Dividend	–	(173.6)	–	–	–	–	–	(173.6)
Balance as at 30 June 2014	**377.6**	**459.8**	**–**	**(16.5)**	**2,296.9**	**(71.1)**	**–**	**3,046.6**

Prospective Consolidated Balance Sheets

$ million	FY2013F As at 30 June 2013	FY2014F As at 30 June 2014
SHAREHOLDERS' EQUITY		
Issued capital	377.5	377.5
Reserves	2,689.2	2,669.1
Non-controlling interest	0.0	0.0
Total shareholders' equity	**3,066.7**	**3,046.6**
ASSETS		
Current assets		
Cash and cash equivalents	10.0	10.0
Receivables	226.2	248.2
Inventories	25.0	22.2
Derivative financial instruments	34.7	34.6
Total current assets	**295.9**	**315.0**
Non-current assets		
Property, plant and equipment	5,142.2	5,154.1
Intangible assets	46.9	51.2
Emissions units	11.2	16.9
Available for sale financial assets	0.5	0.5
Investment and advances to associates	70.6	69.5
Investment in jointly controlled entities	32.4	32.2
Advances	12.9	11.8
Receivables	28.0	28.0
Derivative financial instruments	144.1	133.9
Total non-current assets	**5,488.8**	**5,498.1**
Total assets	**5,784.7**	**5,813.1**
LIABILITIES		
Current liabilities		
Payables and accruals	229.5	215.4
Provisions	5.3	5.3
Current portion loans	105.7	105.7
Derivative financial instruments	27.6	28.6
Taxation payable	17.7	27.3
Total current liabilities	**385.8**	**382.3**
Non-current liabilities		
Payables and accruals	12.3	8.0
Derivative financial instruments	336.5	305.1
Loans	1,053.6	1,125.9
Deferred tax	929.8	945.2
Total non-current liabilities	**2,332.2**	**2,384.2**
Total liabilities	**2,718.0**	**2,766.5**
NET ASSETS	**3,066.7**	**3,046.6**

Prospective Consolidated Statements Of Cash Flows

$ million	FY2013F Year Ending 30 June 2013	FY2014F Year Ending 30 June 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,398.9	1,348.5
Payments to suppliers and employees	(984.3)	(854.6)
Interest received	2.8	2.5
Interest paid	(90.4)	(96.1)
Taxes paid	(59.7)	(72.4)
Net cash provided by operating activities	**267.3**	**327.9**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(285.7)	(199.9)
Proceeds from sale of property, plant and equipment	5.4	0.0
Advances to joint venture partner repaid	1.1	1.1
Investment in jointly controlled entities	(13.9)	(13.3)
Distribution received from jointly controlled entities	141.0	1.6
Acquisition of intangibles	(8.4)	(14.2)
Disposal of subsidiaries	(7.4)	–
Acquisition of emission units	(7.2)	(5.7)
Dividends received	4.0	5.6
Net cash used in investing activities	**(171.1)**	**(224.8)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans	188.5	70.5
Repayment of loans	(200.0)	0.0
Dividends paid	(112.2)	(173.6)
Net cash used in financing activities	**(123.7)**	**(103.1)**
Net decrease in cash and cash equivalents held	(27.5)	0.0
Net foreign exchange movements	(0.8)	0.0
Cash and cash equivalents at the beginning of the year	38.3	10.0
Cash and cash equivalents at the end of the year	**10.0**	**10.0**

The principal assumptions upon which the prospective financial information is based are summarised below and should be read in conjunction with the sensitivity analysis set out below, the risk factors set out in 5 What Are The Risks?, and the Group's accounting policies.

General Assumptions

An overview of the New Zealand electricity industry, including a description of its component parts and the regulatory environment, is provided in 3 Industry Overview.

Set out below are the general assumptions that have been adopted by the board in preparing the prospective financial information:

- **Competitive and regulatory environment** – there will be no material change in Mighty River Power's competitive, legislative and regulatory environment and, in particular, the Company will not face additional costs in respect of access to water and geothermal fluid;
- **Electricity markets** – there will be no material change in competitive behaviour in either the wholesale or the retail electricity market, no material change in the transmission and distribution network, and no material change in the current level of Mighty River Power's residential customer churn in the retail electricity market;
- **Power station failure / operation and catastrophic events** – there will be no material power station failures, including as a consequence of operational error or catastrophic events in New Zealand or in relation to Mighty River Power's international geothermal assets;
- **Economic conditions** – there will be no change in domestic economic conditions (howsoever caused), industrial or business activity (including that there will be no material reduction of electricity consumption at the Tiwai Point aluminium smelter) or population growth which would materially affect domestic national electricity demand;
- **Key customers, suppliers and equity partners** – there will be no material change in existing contractual, business and operational relationships with Mighty River Power's key customers, suppliers and equity partners;
- **Business acquisitions or disposals** – there will be no material business acquisitions or disposals by Mighty River Power other than those specifically mentioned in respect of international geothermal;
- **Accounting standards** – any changes to accounting standards or accounting interpretations will not have a material effect on Mighty River Power; and
- **New Zealand and international tax laws** – there will be no material change in tax laws applicable to Mighty River Power.

Specific Assumptions

In addition to the general assumptions, below are specific best estimate assumptions that have been adopted by the board in preparing the prospective financial information.

Sales

Sales are derived predominantly from the sale of electricity (and related ancillary services) from the Group's power stations to the wholesale market and from the sale of electricity and gas to the Group's customers using its retail brands. In the prospective statement of comprehensive income, forecast sales are net of pass-through charges related to electricity industry levies as set out in the table below.

Sales ($ million)	FY2013F	FY2014F
Customer electricity sales	1,266.9	1,306.8
Less: pass-through charges	(15.2)	(10.7)
Customer gas sales	37.3	38.2
Generation sales	431.4	460.7
Other generation revenue	46.0	39.1
Sales	**1,766.4**	**1,834.1**

Customer electricity sales

Retail customer electricity sales volumes and volume weighted average prices[64] are summarised in the table below.

	Electricity volume (GWh)		Volume Weighted Average Price ($/MWh)	
	FY2013F	FY2014F	FY2013F	FY2014F
FPVV	5,190	5,255	117	118
Spot	2,078	2,021	70–75	70–75
Total	**7,268**	**7,276**		

Forecast net contract volumes and margins are summarised in the table below:

	Electricity volume (GWh)		Margin ($/MWh)	
	FY2013F	FY2014F	FY2013F	FY2014F
Net contracts	1,589	2,064	7.5	18.2

Customer electricity sales and the related volumes, prices and margins are subject to the following specific key assumptions, including:

- FPVV sales volumes are assumed to increase by 3% in FY2013F compared with FY2012, and by 1% in FY2014F. The growth in FY2013F reflects an assumed increase in contracted sales to the business customer segment following a Mighty River Power marketing campaign in FY2012. The increase in FY2014F compared with FY2013F is due to an expected increase in market acquisition activity;
- sales volumes to spot customers (those buying at the wholesale spot price) are assumed to remain relatively flat across FY2013F and FY2014F;
- FPVV energy volume weighted average prices are assumed to increase by 2% in FY2013F and 1% in FY2014F. Assumed FPVV energy price movements are less than in recent years, reflecting current market conditions;
- customers on spot price based contracts are charged the wholesale LWAP plus a small margin;
- net sell contract volumes include all existing CFDs, assumed CFD renewals, physical off-take agreements and ASX futures contracts as part of the sales portfolio as well as Mighty River Power's equity interest in the contracts held by related joint ventures. There is no assumed contract volume attributed to any option contracts held by the Group as these are exercisable at the Group's discretion. Net contracts are forecast to increase by 5% in FY2013F and a further 30% in FY2014F due to the expiry of a number of existing buy CFDs commensurate with completion of the Ngatamariki power station;
- the Virtual Asset Swap with Meridian is a material item as it relates to significant volumes (600 to 700 GWh p.a.) included in the forecast, which should be taken into account when reviewing the contract volume and price forecasts. It does not have an effect on net volumes, but it is assumed that volume purchased in the South Island is at a higher price than that sold in the North Island, and that spot settlement prices follow the same trend. As such the Virtual Asset Swap is assumed to have a relatively minor impact on net contract settlements by assuming small inter-island price differences. For further information on risks due to nodal pricing, refer to 5 What Are The Risks?; and
- nil revenue is forecast in respect of the sale of carbon credits.

Customer gas sales

Residential customer market share in gas sales is assumed to remain flat over FY2013F and FY2014F, with small increases in gas sales prices offset by increased gas purchase costs.

64. The gross energy price charged to the customer after lines, metering and market fees but before any adjustment for load profile, network losses, location effects and operating costs.

Wholesale electricity price

Mighty River Power utilises a demand and supply simulation model of the New Zealand electricity system to assist in generating wholesale electricity price forecasts. The model assumes optimal use of New Zealand's four main hydro reservoirs, including the Waikato Hydro System and incorporates a number of underlying assumptions including demand forecasts, generator offers, expected new power stations, transmission losses and constraints (including the impact of upgrades), carbon pricing, gas costs, power station operating patterns and other assumptions including competitors' power station closures or de-rating.

Further information on current demand and other relevant factors is detailed in 3 Industry Overview and further information on the risks which could affect wholesale electricity prices is detailed in 5 What Are The Risks?

Based on Mighty River Power's simulation model, the average annual[65] weighted wholesale electricity purchase price is assumed to be between $60/MWh and $70/MWh in FY2013F and FY2014F. This reflects the specific assumption that net growth in supply from new power stations being commissioned and older plant retired will exceed assumed growth in national electricity demand in this period.

Average annual wholesale electricity price differentials between the Benmore and Whakamaru nodes are assumed to be within $10/MWh in FY2013F and FY2014F.[66] The FY2013F price differential is negative due to wetter than average South Island hydrological conditions in the first half of the financial year. The FY2014F Benmore vs Whakamaru node price differential is positive, largely due to assumed normal inflows into South Island catchments and the upgrade of the HVDC link in 2013, reducing constraints between the North and South Islands.

Generation sales revenue

Assumed generation volumes and the volume weighted average price of generation sold into the New Zealand wholesale electricity market are outlined in the tables below.

Generation volume[67] (GWh)	FY2013F	FY2014F
Hydro	3,928	3,900
Gas-fired	418	359
Geothermal (consolidated)[68]	1,843	2,560
Geothermal (equity accounted)[69]	244	241
Geothermal (consolidated and equity accounted)	2,087	2,801
Total (consolidated and equity accounted)	**6,433**	**7,060**

Generation value ($/MWh)	FY2013F	FY2014F
Volume weighted average electricity price[70]	65–75	65–75

The specific assumptions underlying these forecasts are as follows:

- hydro volumes in each of FY2013F and FY2014F are assumed to be 3,928 GWh and 3,900 GWh respectively.
  - » The volume in FY2013F reflects actual and assumed hydrological conditions. Current drought conditions in the Waikato Hydro System catchment are assumed to persist through to June 2013.
  - » Rainfall into the Waikato Hydro System typically supports generation of 4,000 GWh annually. The FY2014F volume of 3,900 GWh reflects the historical average observed since Mighty River Power commenced operations adjusted to reflect the assumed below average lake level at the end of FY2013;

- Mighty River Power's gas-fired generation is variable and volumes are mainly driven by wholesale electricity price levels. Forecast gas-fired generation volumes are derived from wholesale electricity price distributions. The Southdown power station is assumed to operate at less than its potential maximum annual generation, with FY2014F representing a further decline from FY2013F;
- forecast geothermal volume is derived from separate forecasts for the four consolidated geothermal power stations: Rotokawa, Kawerau, Nga Awa Purua and Ngatamariki. These are broadly based on historical average availability factor and production levels. Key specific assumptions are:
  - the power stations (excluding Kawerau and Ngatamariki) are assumed to operate with a 96% availability factor on average in FY2013F and FY2014F, with the Kawerau[71] power station assumed to be operated with a 91% availability factor during FY2013F and a 96% availability factor in FY2014F and Ngatamariki operated with a 94% availability factor in FY2014F;
  - it is assumed the Tauhara North No. 2 Trust does not exercise its options to increase its interest (at market value) from 35% to 50% of the Nga Awa Purua joint venture or to purchase up to 50% of Rotokawa Generation Limited. Mighty River Power has no information as to the Tauhara North No. 2 Trust's intentions in this regard; and
  - Kawerau geothermal power station capacity is assumed to be reduced from a capacity of 100 MW to approximately 90 MW for the last six months of FY2013F as a result of an assumed reduction in supply of geothermal fluid from Ngāti Tūwharetoa Geothermal Assets Limited to fuel the power station. The capacity is assumed to be restored to 100 MW by July 2013; and
- geothermal revenue from the Ngatamariki power station is assumed to be recognised as revenue from 1 July 2013 and contribute $40 million to total revenue in FY2014F. Prior to 1 July 2013, sales will result in a reduction in project capital costs.

Other generation revenue

Other generation revenue ($ million)	FY2013F	FY2014F
Frequency keeping and other ancillary services	25.7	21.0
PDA and other revenue	20.3	18.1
Total	**46.0**	**39.1**

These are based on the following specific assumptions:

- frequency keeping revenue forecasts are based on the assumption that current market share for such services in HY2013 will be maintained through to the end of FY2013F and then decrease in FY2014F; and[72]
- PDA revenue is assumed to continue to be earned by the Southdown, Kawerau and Rotokawa power stations. Forecast PDA and other revenue is based on existing and forecast contractual agreements.

65. Time weighted average price at the Whakamaru node.

66. These are average annual price differentials and the actual price differential is highly seasonal. South Island prices are relatively higher in the winter due to assumed lower South Island inflows during this period and higher demand. The opposite is assumed to occur in summer, typically resulting in relatively lower South Island prices.

67. Includes a share of Nga Awa Purua power station generation on an equity weighted basis, based on Mighty River Power's percentage ownership of Nga Awa Purua power station. Does not include any generation from activities outside New Zealand.

68. Excludes Ngatamariki power station generation volumes or revenue during commissioning (prior to plant handover).

69. Does not include any generation from international activities.

70. Volume weighted average price of generation sold into the wholesale spot market.

71. The relatively low availability factor for Kawerau in FY2013F reflects the 10 MW reduction in capacity for six months.

72. Further detail on the frequency keeping and reserves markets is provided in Section 3 Industry Overview.

Direct Costs

Direct costs of sales and generation are detailed in the table below:

Direct costs ($ million)	FY2013F	FY2014F
Lines charges	460.9	473.1
Electricity purchases	538.7	541.1
Gas purchases (for generation and retail customers)	54.8	50.2
Energy costs	593.5	591.3
Other direct costs of sales, including metering	36.8	45.7
Total direct costs	**1,091.2**	**1,110.1**

These costs are based on the following specific assumptions:

- lines charges (transmission and distribution charges) increase by 9% in FY2013F compared with FY2012, and will increase a further 3% in FY2014F compared with FY2013F, reflecting assumed price increases from distribution companies (which are expected to include increased transmission charges) and higher forecast FPVV sales volumes. Transmission pricing risks are discussed in 5 What Are The Risks?;
- the Group may choose to change its reporting of lines charges depending on the overall mix of the contracting relationships with distribution companies. The Group has assumed that the presentation of lines charges for both FY2013F and FY2014F is based on the current arrangements and revenue is stated exclusive of lines charges, consistent with the presentation in the audited financial statements for HY2013 and FY2012;
- the volume weighted average price of electricity purchased from the wholesale spot market is assumed to be between $65/MWh and $75/MWh;
- energy costs (including electricity and gas purchases) are assumed to decrease by 22% in FY2013F compared with FY2012, largely driven by the assumed lower wholesale spot prices, and remain largely unchanged in FY2014F;
- gas purchase costs (including transmission) are assumed by reference to existing contracts; and
- other direct costs of sales, including metering, are assumed to increase by 10% in FY2013F compared with FY2012, and 24% in FY2014F compared with FY2013F, due to increases in charges for gas and electricity transmission connections and increased metering charges and royalties.

Other Revenue

Other revenue includes metering income (from third parties), revenue or cost recovery from geothermal operations and maintenance contracts, revenue from carbon sales, dividend income or revenue recognised from asset disposals (as applicable). Other revenue is assumed to decrease by 15% in FY2013F compared with FY2012, and 31% in FY2014F compared with FY2013F due to FY2012 including the 10% Nga Awa Purua sell-down, project and insurance recoveries and FY2013F including the distribution from the GGE Fund.

Included within the FY2013F revenue is $10.9 million in dividend income and fees recognised as part of the investment in and consequent cash distribution received from the GGE Fund in HY2013. Revenue related to asset disposals in FY2013F and FY2014F is assumed to be nil. Other revenue otherwise reflects the assumed increases in external metering revenue and cost recovery from services provided under geothermal operations and maintenance contracts.

Operating Expenses

A breakdown of the operating expenses by category and the related specific assumptions is provided below.

Operating expenses ($ million)	FY2013F	FY2014F
Employee compensation and benefits	80.2	82.6
Maintenance expenses	69.7	63.6
Sales and marketing	21.1	18.6
Contractors' fees	14.4	10.1
Professional services	22.8	14.0
Other expenses	119.6	61.6
Total	**327.8**	**250.5**

- Employee compensation and benefits are assumed to increase by 5% in FY2013F compared with FY2012 and by a further 3% in FY2014F due to salary and remuneration increases, headcount increases in Chile as a consequence of taking control of operations in February 2013 and the assumed costs of the Employee Share Purchase Programme.
- The estimated cost of the executive LTI plans is included in the employee compensation and benefits expense. It is assumed that all eligible senior executives participating in an LTI plan meet the conditions of that plan and, following the completion of the Offer, will move to Share based payments. It is assumed that no new Shares are issued to meet the requirements of the Share based payments. A full description of the executive LTI plans and the Employee Share Purchase Programme is contained in 4.2 Board, Management And Corporate Governance.
- Maintenance costs are assumed to decrease in FY2013F compared with FY2012 and decrease a further 9% to $63.6 million in FY2014F, reflecting the underlying planned maintenance activity. A further discussion of the hydro power stations' multi-year maintenance programme is provided in 4.1 Business Description.
- Sales and marketing, contractor fees, professional services and other operating expenses are assumed to remain relatively consistent with FY2012 except for the following assumptions:
  - » issuer expenses relating to the Offer incurred by Mighty River Power in FY2013F are assumed to be $8.5 million. These costs are spread across the professional services, contractor fees and other operating expenses;
  - » public company costs of $0.4 million in FY2013F and $2.6 million in FY2014F;
  - » insurance costs increasing by 22% in FY2013F compared with FY2012, to $9.6 million and a further 27% increase over the prior year in FY2014F to $12.2 million due to assumed continuing cost increases in the insurance market and the cost of additional insurance for the new Ngatamariki power station;
  - » operating costs relating to international geothermal development opportunities and the GGE Fund (prior to Mighty River Power taking direct control of the Chilean assets and United States interests in February 2013) of $56.8 million in FY2013F. This includes management fees, platform costs and non-capitalised project related costs, professional services and other expenses of approximately $11.4 million for HY2013, and restructure costs of $35.0 million. This is comprised of $31.0 million (US$24.8 million) paid to GeoGlobal Energy LLC, and $4.0 million of related transaction and transition expenses;
  - » a foreign exchange loss being realised in FY2013F which was previously taken to the foreign currency translation reserve of $22.4 million associated with the distribution from the GGE Fund in HY2013. With the costs above operating expenditure for international geothermal for FY2013F is assumed to total $79.2 million; and
  - » operating costs related to international geothermal development opportunities are assumed to fall to $10.4 million in FY2014F, comprising mostly costs relating to the existing Chilean operations as well as on-going transition and integration costs. Additional financial disclosure in respect of international geothermal is made later in this section under the heading "International Geothermal Additional Disclosure".

Depreciation And Amortisation

Depreciation and amortisation expense assumes that existing rates of depreciation and amortisation as for FY2012 are applied to relevant assets which are adjusted for planned capital expenditure.

Depreciation and amortisation is forecast to decrease by 5% in FY2013F compared with FY2012. FY2013F includes a $3.1 million increase in depreciation due to the revaluation of existing assets as at 30 June 2012. FY2012 includes a $6.4 million fair value amortisation release from the cash flow hedge reserve amounts relating to the sale of the 10% ownership interest in Nga Awa Purua and an associated interest in the Rotokawa joint venture. Depreciation and amortisation is forecast to increase by 13% to $169.4 million over the prior year in FY2014F as the Ngatamariki project is assumed to be transferred from work in progress to generation assets at the start of that financial year, and depreciation commences.

Mighty River Power has an accounting policy to measure generation assets at fair value based on periodic valuations by third party experts. There are no revaluation adjustments assumed in the forecast except for the $0.5 million recognised in HY2013. Accordingly, forecast depreciation does not reflect any adjustments for any potential future revaluation impacts.

Change In Fair Value Of Financial Instruments / Derivative Financial Instruments

Mighty River Power holds various financial instruments for the purpose of managing its exposure to fluctuations in interest rates, foreign exchange rates and wholesale electricity prices. Instruments typically utilised are interest rate swaps, foreign currency forward rate agreements, electricity CFDs and electricity futures contracts.

The fair value of financial instruments is determined on a basis consistent with current reporting practice. In forecasting the change in fair value of financial instruments held by Mighty River Power, the following key assumptions are made:

- the FY2013F forecast includes booked fair value movements of ($12.4) million for HY2013;
- there is no change in market forward curves for interest rates, foreign exchange or wholesale electricity price over the forecast period and forward market prices are realised through the forecast period;
- the Group maintains all financial instruments through to maturity;
- changes in fair value relate only to existing financial instruments and new financial instruments contracts are at fair value at inception and through the forecast period;
- all hedges that are hedge accounted are 100% effective per the definition in NZ GAAP;
- over the forecast period external debt will be hedged as required by the Mighty River Power Treasury Policy. Further details regarding the requirements of the Mighty River Power Treasury Policy are detailed under the heading "Liquidity And Capital Resources" in 6.5 Further Financial And Accounting Information;
- prior to 1 January 2013, interest swaps were not hedge accounted and all fair value movements were reported through the income statement and comprised the significant majority of forecast fair value movements. The Group hedged a significant proportion of its forecast debt in 2008 reflecting its geothermal development programme at that time. Substantial declines in interest rates over recent years mean interest hedges are priced significantly above market with a mark-to-market value of $219.4 million (excluding cross currency interest rate derivatives) as at 31 December 2012;
- a change in policy effective from 1 January 2013 means Mighty River Power will seek to achieve hedge accounting, where possible, on all interest rate derivatives from that date. For the purposes of the forecast period it has been assumed that only a minority of existing interest rate hedges will be hedge accounted;
- there are no renewals of interest rate derivatives as the level of fixed interest rate cover Mighty River Power holds relative to forecast debt levels over the forecast period is at the high end of the treasury policy band of 20% to 100%;
- no new foreign exchange contracts are forecast as all known significant foreign dollar committed capital expenditure has been hedged as per the Mighty River Power Treasury Policy;
- the majority of foreign exchange financial instruments entered into by Mighty River Power directly correspond to committed expenditure and hence hedge accounting is applied. The change in fair value of these derivatives is recognised in the cash flow hedge reserve except for forward points (or cost of carry) of the derivatives, which is recognised in the income statement;

- the majority of electricity price financial instruments entered into by Mighty River Power directly correspond to underlying generation or sales exposures within the portfolio. Hedge accounting is applied where possible, and the change in fair value of these derivatives is recognised in the cash flow hedge reserve. The change in fair value of electricity price financial instruments for which hedge accounting is not applied is recognised in the income statement;
- electricity price financial instruments are renewed over the forecast period (refer to information under the heading "Customer electricity sales" in this section of the Offer Document). As stated above, these financial instruments are entered into with a price profile equal to the fair value price profile. This results in a forecast of nil net cash flows through time and therefore no changes in fair value;
- where disclosed to Mighty River Power, the assumed fair value movement of financial instruments held by jointly controlled entities and associates are included in the forecast; and
- the assumed cash flow hedge gain taken to equity increases on HY2013 levels by $7.8m for FY2013F due primarily to the maturing cash flows from hedge accounted electricity derivatives recognised as a liability in HY2013. Subsequently there is assumed to be a release from equity in FY2014F due largely to maturing cash flows from the average net short portfolio of hedge accounted derivatives with an average sales price in excess of the benchmark forward curve.

Where possible, financial instruments held by the Group are valued using forward curve data sources that are publicly available as set out below.

	31 December 2012	30 June 2013	30 June 2014
Discount rate	1.0000	0.986	0.959
NZD:USD exchange rate	0.828	0.814	0.793
Average forecast electricity price ($/MWh)*	–	60–70	60–70

* Rates as of end of financial year except electricity price where it is an average of the financial year. Forecast time weighted average electricity price based on Whakamaru node.

Impaired Assets

Accounting standards require assets to be tested for impairment where there is an indication of impairment. Impairments of $91.4 million were recognised in HY2013. Excepting these, no further asset impairments have been forecast for FY2013F and FY2014F.

Equity Accounted Interest In Jointly Controlled Entities And Associate Companies

Equity accounted earnings of interest in jointly controlled entities and associate companies in HY2013 was a $58.8 million contribution. This reduces to $48.8 million for FY2013F and is a loss of $10.1 million for FY2014F, primarily reflecting the existing contractual arrangements within EnergySource and the related assumed recognised accounting losses. For cash flow purposes it is assumed that dividends from associates and distributions or expenditure in jointly controlled entities occurs on a quarterly basis, with the exception of the $140.3 million cash distribution received in HY2013 from the GGE Fund.
For further information refer below under the heading "International Geothermal Additional Disclosure".

Interest Expense And Income

Assumed interest rates are 8.2% for FY2013F and 8.3% for FY2014F, based on the average funding costs over the forecast period, which are based on existing debt arrangements, interest rate hedges and market forecasts of floating interest rates for a small amount of unhedged debt. Net interest expense increases in FY2014F compared with FY2013F due to interest costs associated with the funding of the Ngatamariki geothermal power station no longer being capitalised as the power station is assumed to be commissioned ($31.0 million interest is assumed to be capitalised in FY2013F). For cash flow purposes it is assumed that interest is paid when it falls due.

Income Tax Expense And Deferred Taxation

An income tax rate of 28% on taxable profit is assumed, being the current corporate tax rate in New Zealand. For the purposes of calculating tax expense, it is assumed that depreciation of powerhouse assets continues to be tax deductible and the assets are not considered to be buildings which do not benefit from tax depreciation deductions (refer 5 What Are The Risks?).

This assumption also affects the forecast deferred tax liability. For cash flow purposes it is assumed that New Zealand tax is paid consistent with provisional tax payment dates. The Group has also assumed that a claim for $7.9 million is accepted by IRD in the second half of FY2013F in relation to historical depreciation not previously claimed on geothermal wells.

For further assumptions in respect of tax impacts of the Group's international geothermal interests refer to the discussion in "International Geothermal Additional Disclosure" below.

Working Capital, Cash And Other Cash Flow Assumptions

The working capital (receivables, inventories and payables and accruals) profile of the Group is assumed to remain consistent with levels observed in previous financial periods. Settlement of wholesale electricity market receipts is a significant driver of working capital and can cause material changes in working capital balances at period end as can large operating or capital expenditure payments. Residential receipts are assumed to follow seasonal patterns and most other payments and receipts being paid or collected either as incurred or recognised, or in the month following. It is assumed that available material cash and cash equivalents generated during FY2013F and FY2014F are used to reduce borrowings, while holding bank balances constant at $10.0 million.

Cash flow from operating activities is forecast to increase in FY2014F from FY2013F levels to $327.9 million mostly as a consequence of the assumed completion of the Ngatamariki geothermal power station at the start of FY2014F and the non-recurrence of the international geothermal restructuring costs.

Cash flow from investing activities is forecast to be broadly in line with capital expenditure forecasts after adjusting for the timing differences of accruals, acquisition of emission units and the distribution from the GGE Fund.

In cash flows from financing activities, additional drawings of $59.0 million are assumed over the two years to 30 June 2014, after paying total forecast dividends of $285.8 million. Repayments of loans relates to the retail bond maturing in May 2013 and are assumed to be repaid using currently undrawn bank facilities.

Dividends And Distributions To Shareholders

Pre-Offer

Total dividends paid to the Crown in FY2013F include an interim FY2013F dividend of $67.2 million in March 2013 and the final FY2012 dividend of $45 million paid in September 2012.

Post-Offer

Total dividends paid to Shareholders in FY2014F are assumed at $173.6 million, which includes the final FY2013F dividend of $100.8 million paid in September 2013 and the interim FY2014 dividend of $72.8 million paid in March 2014. A final FY2014F dividend of $109.2 million is assumed to be paid in September 2014 (after the completion of FY2014F).

Based on the number of Shares currently on issue, dividends declared per Share for FY2013F is assumed to be $0.12 and for FY2014F is $0.13. Dividends per Share is defined as dividends declared during the year divided by the number of ordinary Shares authorised, issued and fully paid, which is assumed to be 1,400,000,094 in both FY2013F and FY2014F.

In forecasting a dividend of $0.12 per share for FY2013F the board has taken account of the policy announced by the Company in November 2012, the cash distribution from the GGE Fund and one-off costs associated with the internalisation of the international geothermal activities.

The dividend policy in respect of FY2014 and thereafter (as set out under the heading "Dividends" in 1.4 Answers To Important Questions) subject to certain conditions being met, will target a pay-out ratio in the range of 90% to 110% of Adjusted NPAT. Adjusted NPAT is calculated as NPAT adjusted for the change in fair value of derivative financial instruments, income statement impacts related to the investments in jointly controlled entities, impairments and all associated tax impacts from the aforementioned. This pay-out ratio takes into account the Group's policy to annually assess the fair value of its generation assets and as a consequence the potential significant impact of asset revaluations on accounting depreciation.

Adjusted NPAT is a non-GAAP financial measure. It is presented at right only for the purposes of the Company's dividend policy as stated in this Offer Document.

The forecast dividend for FY2014F of $0.13 per Share represents a forecast pay-out ratio of 107%.

It is assumed that the dividends declared in FY2013 and FY2014 are fully imputed.

$ million	FY2014F
NPAT	160.4
Change in the fair value of financial instruments	(31.7)
Change in the fair value of financial instruments of associate entities	1.1
Change in the fair value of financial instruments of jointly controlled entities	–
Impairments	–
Equity accounted earnings of interest in jointly controlled entities	12.7
Income tax expense on change in fair value of financial instruments	8.6
Income tax expense on impairments	–
Deferred tax impact on tax expense of jointly controlled entities	19.1
Adjusted NPAT	**170.2**
Tax rate applied on all taxable adjustments	28%
Dividend declared	**182.0**
Forecast dividend pay-out ratio	107.0%

Capital Expenditure

Forecast capital expenditure is categorised below as either reinvestment or new investment, with forecasts made on an accrual basis.

Capital expenditure ($ million)	FY2013F	FY2014F
Reinvestment		
Hydro	27.8	31.7
Geothermal	25.9	12.7
Other	18.5	27.2
Total reinvestment	**72.2**	**71.6**
New investment		
Ngatamariki power station	184.3	2.2
Other project development	4.8	16.5
Smart metering	12.3	12.8
International geothermal	70.4	96.0
Total new investment	**271.8**	**127.5**
Total capital expenditure	**344.0**	**199.1**

Reinvestment

Reinvestment capital expenditure is dominated by the on-going asset management and lifecycle maintenance programme, which is currently in a relatively high expenditure period. The expenditure reflects the assumed level of activity relating to the on-going reinvestment in the Waikato Hydro System, including a control systems upgrade, runner upgrades, generator replacements and transformer replacements (refer 4.1 Business Description for further discussion). Geothermal reinvestment includes new wells and associated works mainly at Kawerau. The remaining reinvestment capital expenditure relates to gas-fired generation, operations infrastructure and the retail business, for spend on items such as parts replacements and information technology projects.

For comparison, reinvestment capital expenditure in FY2012 was $73.8 million and in FY2011 was $57.3 million.

New investment

Domestic

Ngatamariki geothermal power station is assumed to be constructed for $474.7 million within its budgeted cost of $484.0 million (including pre-construction costs of $64.8 million and capitalised interest of $57.0 million, consistent with the Group's stated accounting policies), with $184.3 million assumed to be spent over FY2013F and $2.2 million in FY2014F. Other forecast project development costs relate to assumed development activity in respect of a number of geothermal options.[73] Metrix is assumed to deploy circa 90,000 smart meters, at a cost of $12.3 million in FY2013F and $12.8 million in FY2014F.

International geothermal development opportunities

As described in 4.1 Business Description, with the exception of Mighty River Power's interests in the John L. Featherstone power station and the Hudson Ranch II project, the Group's investments in international geothermal are all in the early exploration phase. Further development of international geothermal opportunities will be dependent on, amongst other things, a full assessment of resource characteristics, project economics, contract negotiations for electricity offtake, transmission security and, where appropriate, local partnerships and third party financing.

Mighty River Power will deploy further capital if it believes that the target risk-adjusted returns will be attractive and that Shareholder value will be created through time, taking into account its experience and the timeframe for geothermal development. In setting target risk-adjusted returns the Group will endeavour to take account of the risks relevant to the specific project, such as the country of the investment and its stage within the geothermal development cycle.

The prospective financial information incorporates the assumption that Mighty River Power will deploy $166.4 million into international geothermal development opportunities over FY2013F and FY2014F. The capital expenditure included in FY2013F includes $13.6 million deployed in HY2013. The remainder of the capital expenditure in FY2013F and FY2014F is able to be deployed at the Group's discretion. The assumed capital expenditure is based on the estimated cost to Mighty River Power in relation to its interests in the United States and Chile. This includes approximately $66.0 million to cover the potential cost to the Group of increasing its interest in EnergySource from 20% to 33.3% ownership (exercisable by May 2013) and the Group's pro rata share of the assumed equity capital calls to progress Hudson Ranch II.[74] In addition, the assumption allows for the on-going cost requirement to maintain its Chilean permits (<$10 million) and either the cost of a drilling campaign at Tolhuaca (providing resource verification for a large project) or the development of a small generator utilising the existing geothermal infrastructure ($80 million to $90 million).

The Group has yet to make any decisions with respect to the deployment of any further capital in respect of international geothermal beyond that already deployed in HY2013.

Property, Plant And Equipment

No revaluation adjustments have been assumed in the prospective financial information beyond those occurring in HY2013. From a cash flow perspective expenditure is assumed to be paid the following month after being incurred, except expenditure relating to international geothermal development which is paid when recognised. Proceeds from the sale of property were received in HY2013 with an assumption of no further asset sales in the forecast period.

Loans

The Group's existing debt facilities, outlined in 6.8 Audited Financial Statements For The Year Ended 30 June 2012 and except as noted below, are assumed to remain in place. No existing facilities are callable by the lender prior to maturity.

During the forecast period the following sources of borrowings have been cancelled or are scheduled to mature or expire:

- in HY2013 the Group repaid $100.0 million of bank facilities due to mature in December 2013, and in February 2013 the Group cancelled a further $150.0 million of bank facilities also due to mature in December 2013;

73. Refer to Section 4.1 Business Description for information regarding geothermal development activities.

74. It is noted that, if the Group does exercise its option and increase its ownership in EnergySource and make its pro rata contributions in respect of Hudson Ranch II, this expenditure would be treated as investments in jointly controlled entities. As the Group has yet to make any decisions in this regard, for the purposes of presentation in the prospective financial information the expenditure has been treated as capital expenditure.

- the established commercial paper programme is for maturities of up to 364 days with a programme limit of up to $200.0 million. The programme is assumed to be continuously renewed over the forecast period at $100.0 million; and
- the $200.0 million retail bond matures in May 2013 (reflected as current debt on the balance sheet as at 31 December 2012).

In February 2013 the Group established $100.0 million of new bank facilities with a maturity in February 2016 and a further $100.0 million bank auto-renewing until cancelled facility with an initial term of 18 months. It is assumed that this facility is auto-renewed throughout the forecast period.

In March 2013 $75 million of six year and $25 million of 10 year wholesale bonds were issued. These bonds and $500 million of undrawn facilities are sufficient to repay the $200 million of bonds maturing in May 2013.

Two bank facilities totalling $200 million will expire in March 2015, but are forecast to be undrawn against forecast debt levels as it is assumed that lower cost facilities are drawn ahead of these bank facilities. Consequently, current debt levels in June 2013 and 2014 are related to only the commercial paper programme plus accrued interest on all facilities.

The Company's Treasury Policy requires the maintenance of undrawn facilities (excluding the commercial paper programme) on a six month forward looking basis of at least $100 million more than maximum forecast debt over the same period.

Issued Capital

It is assumed that no new equity is issued during the prospective period with 1,400,000,094 shares on issue.

Contingencies

The HY2013 financial statements note certain contingent liabilities (refer to 6.7 Audited Interim Financial Statements For The Six Months Ended 31 December 2012). It is assumed that none of these contingencies is realised during the period. For further information on potential contingencies refer to 7.2 Statutory Information.

Related Party Transactions

Except as disclosed in 7.2 Statutory Information, it is assumed that all transactions with the Crown, Crown-owned entities and SOEs, subsidiaries and associates, jointly controlled assets and key management personnel will continue to be at arm's length and at normal market prices and on commercial terms.

Sensitivity Analysis

Prospective financial information is inherently subject to business, economic and competitive uncertainty, and accordingly actual results are likely to vary from prospective financial information and this variation could be material. A summary of the likely effects of variation in certain of these assumptions on forecast EBITDAF and NPAT is detailed below.

Cash flows from operating activities are affected by most EBITDAF movements to the extent that balances for receivables and payables change, as debtor and creditor days are assumed to remain constant. Interest and tax paid will also be affected when EBITDAF movements occur and any additional debt is assumed to incur interest costs at the forecast cost of funds. Cash flows from financing activities are affected by all EBITDAF movements to the extent that cash flow required from debt facilities may change.

The generation assets of the Group are valued at fair value. The value of these assets is sensitive to changes in assumptions (over the long-term), including future wholesale electricity price, discount rate applied and projected operation and capital expenditure. The value of these assets may increase or decrease depending on changes in the applicable assumptions. A sensitivity analysis was last carried out by the Group on these assets in FY2012, with further detail provided in 6.8 Audited Financial Statements For The Year Ended 30 June 2012. Any impact on operating generation assets of a change in fair value will first be accounted for against the Asset Revaluation Reserves within Shareholders' Equity which totalled $2.3 billion as at 30 June 2012.

The sensitivities for each assumption are not intended to be indicative or predictive of the possible range of outcomes. Care should be taken in interpreting the information set out below.

The approach taken in respect of the FY2013F sensitivities has been to determine those variables most likely to materially affect results over the last quarter of FY2013F, with sensitivity ranges adjusted accordingly. Sensitivities for FY2014F have been modelled on the basis of a change in the assumption affecting the full financial period of FY2014F.

Movements in assumptions are shown occurring in FY2013F and separately in FY2014F, but may also occur in both years. Each movement in an assumption is calculated and presented in isolation from possible movements in other assumptions, which is not likely to be the case. It is more likely that more than one assumption may move at any point in time, giving rise to compounding or offsetting effects. Furthermore, the sensitivity analysis does not take into account any potential mitigating actions that management may take.

Sensitivity To Price And Volume Movements

By way of example, historically national hydrological conditions and wholesale spot prices are negatively correlated. As such, adverse outcomes for prices and volumes are generally not additive. Mighty River Power's portfolio risk management approach relies on a scenario analysis of potential wholesale electricity price paths under a range of historical hydrological inflows, each of which has a corresponding generation profile. Mighty River Power's Risk Management Policy requires the calculation of portfolio risk under all scenarios through the use of a Value-at-Risk (VaR) measure. VaR is a statistical measure of the variability of energy margin outcomes under electricity price path uncertainty. Mighty River Power monitors VaR over a 12 month time horizon at the 95th percentile confidence level.

Description Of Sensitivities Modelled – FY2013F And FY2014F

Wholesale electricity price (at Whakamaru)

Average annual time weighted wholesale electricity purchase prices at the Whakamaru node are assumed to be between $60/MWh and $70/MWh in FY2013F and FY2014F. Wholesale electricity prices are dependent on a wide range of factors that are beyond the Group's control and are variable. A change in the wholesale electricity price assumption affects spot sales revenue, generation revenue, CFD revenue/(expense) and electricity purchase costs. The overall impact on EBITDAF is dependent on the total portfolio net position. The sensitivity results for FY2013F are based on the range of averages observed in the last quarter of financial years since the Group commenced operations. This range is $41/MWh (FY2004) to $206/MWh (FY2008). The sensitivity results for FY2014F are based on the historical range of annual averages observed in financial years since the Company commenced operations, being $46/MWh (FY2004) to $103/MWh (FY2008). Swaption revenue / (expense) and margins earned on CFD renewals are assumed to be unchanged when this sensitivity is applied. As the price range is applied only over one financial year, it is assumed that the modelled price change has no impact on the forecast fair value movements for electricity financial instruments. In addition, there is assumed to be no change in gas-fired generation volumes.

South Island electricity price differential (Benmore to Whakamaru)

Average annual wholesale electricity price differentials between the Benmore and Whakamaru nodes are assumed to be within $10/MWh in FY2013F and FY2014F. The wholesale electricity price differential is dependent on a wide range of factors beyond the Group's control and is variable. A change in this price differential assumption would affect spot sales revenue, CFD revenue/(expense) and electricity purchase costs. The overall impact on EBITDAF is dependent on the Group's South Island portfolio. The sensitivity results for FY2013 are based on the historical range of averages observed in the last quarter of financial years since the Group commenced operations of $33/MWh (FY2009) to $58/MWh (FY2008). The sensitivity results for FY2014F are based on the historical range of annual averages observed in financial years since the Group commenced operations of ($8/MWh) (FY2011) to $20/MWh (FY2012). There is assumed to be no change in the wholesale electricity price differential profile throughout the year. It is also assumed that a change in the price differential will have no impact on the forecast fair value movements for electricity financial instruments.

Waikato Hydro System generation volume

The Waikato Hydro System is assumed to generate 3,928 GWh in FY2013F and 3,900 GWh in FY2014F. Annual hydro generation is primarily dependent on hydrological conditions, which are outside the Group's control and are variable. A change in the Waikato Hydro System generation assumption would affect generation revenue. The historical range of averages observed in the last quarter of financial years since the Group's formation is 734 GWh (FY2003) to 1,190 GWh (FY2011). As the forecast volume in the last quarter of FY2013F is assumed to be lower than the historical minimum observed, the lower range of the sensitivity results for FY2013F are based on an assumed decrease of 49 GWh which has been determined through analysis of historical drought conditions, with the upper range based on the historically observed maximum. The sensitivity results for FY2014 are based on the historical range of annual generation observed in financial years since the Group's formation of 3,494 GWh (FY2002) to 4,471 GWh (FY2005), notwithstanding the assumed lower starting lake level. There is assumed to be no change in the profile of generation across the year, or in the factors used to calculate the generation volume weighted average price across the forecast month or year.

Aggregate FPVV sales volumes

Annual retail customer electricity FPVV sales volumes are assumed to be 5,190 GWh in FY2013F and 5,255 GWh in FY2014F. FPVV sales volumes are dependent on a wide range of factors including competitor behaviour and economic activity that are beyond the Group's control. A change in FPVV sales volumes would affect FPVV sales revenue and all direct costs of sales including lines charges, electricity purchase costs and metering. The sensitivity results are based on an increase / (decrease) to assumed volumes of 2.5% in the last quarter of FY2013F and 5% in FY2014F. Average consumption per customer (ICP) is not assumed to change, with 5% of annual sales volume approximately equivalent to 35,000 residential customers (based on average consumption per residential customer of 7.5 MWh per annum).

Forward interest rate curve

Forecast fair values of interest rate and electricity financial instruments are based on a forward interest rate curve which is dependent on a wide range of factors that are beyond the Group's control and variable. The forecast assumes that realised interest rates track to forward curve expectations and that there is no change in market forecasts for interest rates over the forecast period. The sensitivity results are based on a 50 basis points (bps) shift in the forward interest rate curve for FY2013F and 100bps for FY2014F over the term of all existing interest rate swaps and electricity financial instruments. For the FY2013F sensitivity it is assumed that this shift occurs on 1 April 2013, and for the FY2014F sensitivity it is assumed that this shift occurs on 1 July 2013. This sensitivity illustrates the impact of a shift of the forward curve on fair value movements only and there is assumed to be no change in interest expense, which is based on the cost of funds.

Forward electricity price curve

Forecast fair value movements for electricity financial instruments are based on a forward electricity price curve which is dependent on a wide range of factors that are beyond the Group's control and are variable. The forecast assumes that realised electricity prices track to forward curve expectations and that there is no change in market forecasts for electricity prices over the forecast period. The sensitivity results are based on an assumed 5% shift in the forward electricity curve for FY2013F and 10% for FY2014 over the term of all existing electricity financial instruments. For the FY2013F sensitivity it is assumed that this shift occurs on 1 April 2013, and for the FY2014F sensitivity it is assumed that this shift occurs on 1 July 2013. This shift may occur due to a fundamental change in long-term supply and/or demand conditions in the wholesale market, for example, changes in fuel, technology or construction costs and economic or regulatory conditions. This sensitivity illustrates the impact of a shift of the forward curve on fair value movements only and does not affect EBITDAF.

Description of Sensitivities Modelled – FY2014F Only

Domestic geothermal volume (equity weighted)

On an equity weighted basis, the average annual domestic geothermal generation is assumed to be 2,560 GWh in FY2014F. Geothermal generation volumes are contingent on geothermal fuel and power station availability, and are variable. Geothermal plant availability has varied between 91% and 96% over the past five years (equity weighted power station average). The sensitivity analysis assumes a 94 GWh downside from the expected availability of approximately 96%. Any downside due to a lack of fuel availability is also reflected by this analysis.

Change in average FPVV price to customers

The average annual aggregate FPVV energy price[75] is assumed to be $118/MWh in FY2014F. This includes both residential and commercial customers on fixed term contracts. Forecast FPVV energy price increases are significantly lower than increases in recent years, reflecting current market conditions. However, FPVV energy price increases remain subject to market conditions and are therefore variable. A change in the FPVV energy price would affect FPVV sales revenue. The sensitivity results are based on increasing / (decreasing) assumed FY2014F energy prices by 5% for all FPVV customers, excluding customers on fixed term contracts. For modelling purposes it is assumed that the change in energy price for FY2014F is effective for the duration of the financial year, i.e. beginning 1 July 2013.

Operating expense – Maintenance expense

Total maintenance expense is forecast to be $63.6 million in FY2014F. This forecast is subject to variation in both the type and duration of unplanned outages and costs for all projects. Maintenance expense has increased significantly over the past five years as new geothermal plant has been commissioned and older hydro and gas-fired plant has entered a phase of higher expenditure. The sensitivity results are based on an assumed annual increase of $14 million and a decrease of $12 million in maintenance expenditure. This range represents historically observed maintenance expenditure variance from budget.

FY2013F Forecast Sensitivities

Description	Forecast	Sensitivity applied	Impact on forecast EBITDAF ($m)	Impact on forecast net profit for the period ($m)
Base forecast			**382.6**	**94.8**
Wholesale electricity price at Whakamaru node	$60/MWh – $70/MWh	$41/MWh – $206/MWh	16 – (55)	12 – (39)
South Island price differential (Benmore node vs Whakamaru node)	<$10/MWh	($33/MWh) – $58/MWh	5 – (9)	4 – (6)
Waikato Hydro System generation volume	3,928 GWh	3,879 GWh – 4,399 GWh	(4) – 40	(3) – 29
Change in aggregate FPVV sales volumes	5,190 GWh	(2.5%) / 2.5%	(1) – 1	(1) – 1
Change in interest rate forward curve		(50bps) / 50bps		(20) – 18
Change in electricity price forward curve		(5%) / 5%		(5) – 4

FY2014F Forecast Sensitivities

Description	Forecast	Sensitivity applied	Impact on forecast EBITDAF ($m)	Impact on forecast net profit for the period ($m)
Base forecast			**497.9**	**160.4**
Wholesale electricity price at Whakamaru node	$60/MWh – $70/MWh	$46/MWh – $103/MWh	16 – (42)	12 – (31)
South Island price differential (Benmore node vs Whakamaru node)	<$10/MWh	($8/MWh) – $20/MWh	8 – (11)	6 – (8)
Waikato Hydro System generation volume	3,900 GWh	3,494 GWh – 4,471 GWh	(28) – 39	(21) – 29
Change in domestic geothermal volumes	2,560 GWh	(94 GWh)	(5)	(4)
Change in aggregate FPVV energy price	$118/MWh	(5%) / 5%	(26) – 26	(19) – 19
Change in aggregate FPVV sales volumes	5,255 GWh	(5%) / 5%	(12) – 12	(9) – 9
Change in operating expenses – maintenance	$63.6 million	($12m) / $14m	12 – (14)	9 – (10)
Change in interest rate forward curve		(100bps) / 100bps		(30) – 27
Change in electricity price forward curve		(10%) / 10%		(9) – 8

75. The energy price charged to the customer after lines, metering and market fees but before any adjustment for load profile, network losses, location effects and operating costs.

International Geothermal Additional Disclosure

Prior to February 2013 Mighty River Power's international geothermal interests comprised its investment in the GGE Fund and GeoGlobal Energy LLC (the manager of the GGE Fund). The GGE Fund was fully consolidated into Mighty River Power's historical financial statements and GeoGlobal Energy LLC was equity accounted. In respect of the historical periods, the overviews do not detail the costs incurred by Mighty River Power that are not specifically related to the GGE Fund, such as interest expenses or costs of executive or employee time, unless they are specifically incurred for the GGE Fund.

In May 2010 the GGE Fund invested US$92 million (plus transaction costs of approximately US$2 million) in EnergySource and its John L. Featherstone project. In HY2013, this project was refinanced, which contributed to a cash distribution by the GGE Fund to Mighty River Power totalling $140 million. Also in HY2013, the Group recognised asset impairments of $88.9 million relating to assets of the GGE Fund and the Group's investment in the management company GeoGlobal Energy LLC, leaving a residual book value of the international geothermal assets of $91.8 million.

In February 2013, Mighty River Power took direct control of the Chilean assets and EnergySource interests of the GGE Fund, while GeoGlobal Energy LLC took direct ownership and control of the GGE Fund's interests in Germany, and assets in the United States not related to EnergySource. Mighty River Power retains a repurchase option in respect of the assets in Germany but will have no on-going management involvement. In addition, Mighty River Power transferred its interest in GeoGlobal Energy LLC to the other shareholders, terminating the pre-existing agreements, removing exclusivity restrictions, and avoiding future obligations for management fees payable in respect of the GGE Fund. The consideration paid to GeoGlobal Energy LLC totalled $31.0 million (US$24.8 million). The tax implications of the restructure have been considered for the purposes of the prospective financial information.

Accounting For Jointly Controlled Entities / EnergySource

Mighty River Power's investments in EnergySource and the John L. Featherstone power station are accounted for as jointly controlled entities (JCEs).

The Group has relied on the information provided by GeoGlobal Energy LLC and EnergySource LLC inclusive of the operating assumptions relating to the John L. Featherstone power station. The assumed average capacity factor of the John L. Featherstone power station over the prospective financial information period is 89%. The forecasts assume no further major forced outages occur and that no capital calls are required during the prospective information period.

The following is a summary of the accounting associated with the Group's interests in the JCEs. The other investors in EnergySource are Hannon Armstrong Capital LLC and Catalyst Renewables.

By way of background, certain United States renewable electricity projects, such as the John L. Featherstone power station, are eligible for a range of federal incentives. The incentives include tax credits relating to capital expenditure or the production of electricity, as well as the ability to accelerate the depreciation of assets (typically over five years for most of the project cost), enabling deferral of federal taxable income and related tax obligations in the early years of the projects.

These US tax incentives are able to be monetised before the credits are able to be claimed from the federal Government. To achieve this, a third-party investor ('tax equity partner', Chevron) enters into a partnership with existing investors ('sponsors') and invest on the basis of receiving returns over time comprising primarily the tax credits (mostly from accelerated depreciation), which may be supplemented by a project's underlying cash flows. The tax equity partner's returns have priority over those of the sponsors in the project. In September 2012, Chevron Energy Solutions, a unit of Chevron, made such a tax equity investment in the John L. Featherstone power station. Chevron's priority returns are expected to persist until 2017.

In accordance with the equity method of accounting for investments in associates and JCEs, the Group recognises its share of the associates' and JCEs' profit or loss for the period. Ordinarily, the Group's share of profit or loss would be based solely on its proportionate ownership interest. However, because the JCEs have a more complex capital structure, with varying entitlements to profits or losses, and those entitlements change over time, these factors need to be taken into account when determining the Group's share of profits or losses for the period.

The accounting for these structures is complex. The Group has used the Hypothetical Liquidation at Book Value (HLBV) method to determine its share of profits or losses of the JCEs. The HLBV method reflects the contractual claims of investors on the entity's net assets based on contractual liquidation provisions. To determine the amount of profit or loss that should be recognised for a period, each investor compares its claim on the entity's net assets at the beginning and end of a reporting period, excluding equity distributions or contributions. In this way, the Group's contractual entitlement to profits or losses, and changes in that entitlement, are taken into account when measuring the Group's share of the profit or loss for the period.

The outcome of this methodology when applied to the Group's interest in the JCEs results in losses being recognised during the forecast period, largely due to contractual requirements re-allocating Chevron's losses to the sponsors.

As noted above, investors in new renewable power generation projects are able to accelerate the depreciation of the renewable project assets which enables deferral of federal taxable income and obligations in the early years of the project. From an accounting perspective and relevant to the Group, this creates a growing deferred tax liability that is recognised as higher accounting tax expense. This is expected to continue until 2017 when it is expected that the deferred tax liability will decline over the remaining estimated life of the plant (resulting in a reduced tax expense).

The JCEs are 'look through' entities for tax purposes, with any tax liability in relation to these entities borne by the Group and other investors, rather than the JCEs. Therefore, the Group's share of the JCEs' profit or loss for the period does not include any current or deferred tax. Instead, the tax consequences for the Group of its investment in these JCEs are determined separately and reported in the Group's current and deferred tax expense for the period.

For the purposes of determining the Group's share of deferred tax assets and liabilities relating to the JCEs, and the associated deferred tax income and expense for the period, the Group has considered its long-term ownership interest in the JCEs. This is because the temporary differences giving rise to deferred tax assets and liabilities primarily relate to long-term assets and, therefore, the tax liabilities arising from taxable profits expected to be generated from those assets are expected to crystallise over the life of the assets. In addition, the forecast of the Group's share of current and deferred tax relating to the JCEs takes into account the contractual arrangements between the JCE investors for the sharing of tax losses expected to be generated during the forecast period.

In determining the Group's tax positions the Group does not expect its investment in JCEs to give rise to any New Zealand or United States cash income tax in the prospective financial information.

Forecast annual cash distributions relating to JCEs in FY2013F and FY2014F are approximately $1.0 million, with cash distributions at around these levels expected to persist until 2017.

The Company's dividend policy in respect of FY2014 and thereafter provides for an adjustment to the impact of JCEs on NPAT.

Overview Of Impact Of International Geothermal On The Income Statement

$ million	FY2010	FY2011	FY2012	FY2013F	FY2014F
	Historical	Historical	Historical	Forecast	Forecast
Total revenue	–	–	–	10.9	0.8
Total expenses*	(1.9)	(12.5)	(21.7)	(79.2)	(10.4)
EBITDAF	**(1.9)**	**(12.5)**	**(21.7)**	**(68.3)**	**(9.6)**
Depreciation and amortisation	–	–	(2.2)	(2.8)	(1.3)
Impaired assets	–	–	–	(88.9)	–
Equity accounted earnings / losses of interest in jointly controlled entities	(22.0)	2.9	(27.7)	46.4	(12.7)
Equity accounted earnings / losses of interest in associate	(2.4)	0.8	0.9	–	–
EBIT	**(26.3)**	**(8.8)**	**(50.7)**	**(113.6)**	**(23.6)**
Interest expense	–	–	–	(1.1)	–
Profit before income tax	(26.3)	(8.8)	(50.7)	(114.7)	(23.6)
Income tax expense	–	–	–	11.7	(19.1)
Net profit for the year	**(26.3)**	**(8.8)**	**(50.7)**	**(103.0)**	**(42.7)**

* Employee, maintenance and other expenses: includes employee compensation and benefits, maintenance expenses, sales and marketing, contractors' fees, professional services and other expenses. For the purposes of this presentation the foreign exchange loss of $22.4 million in FY2013F (previously taken to the foreign currency translation reserve) is included here in that it was realised as a consequence of the distribution from the GGE Fund in HY2013.

Section 6.4: Non-GAAP Financial Information

The directors believe 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. A calculation of these items based on specific line items in the statutory accounts is provided in the tables below.

EBITDAF And EBIT

Although EBITDAF and EBIT are non-GAAP financial information, they have been reported in historical financial statements and therefore are shown in the financial information presented in statutory and prospective financial statements. EBITDAF and EBIT are alternative measures of financial performance that allow comparison across the electricity industry. You can find a calculation of EBITDAF and EBIT in 6.1 Overview Of Operational And Financial Information.

Energy Margin

Energy margin is defined as sales less lines charges, energy costs and other direct cost of sales, including metering. Variability in wholesale prices is reflected in both revenues and direct costs, leading to variability in total revenues that may overstate or understate underlying financial performance. It provides a measure of financial performance that, unlike sales or total revenue, accounts for the variability of the wholesale spot market and the broadly offsetting impact of the wholesale prices on the cost of the Group's retail electricity purchases. Energy margin is used by the Group as a measure of financial performance in its presentation of historical financial performance and in the Group's annual reports but is not presented in the Group's financial statements.

$ million	FY2010 12 Months Ended 30 June 2010	FY2011 12 Months Ended 30 June 2011	FY2012 12 Months Ended 30 June 2012	FY2013F 12 Months Ending 30 June 2013	FY2014F 12 Months Ending 30 June 2014	HY2012 6 Months Ended 31 December 2011	HY2013 6 Months Ended 31 December 2012
	Historical	Historical	Historical	Forecast	Forecast	Historical	Historical
Sales	1,485.1	1,546.7	1,903.5	1,766.4	1,834.1	930.7	927.2
Less: lines charges	(403.3)	(404.0)	(424.2)	(460.9)	(473.1)	(214.4)	(244.3)
Less: energy costs	(500.7)	(446.0)	(761.2)	(593.5)	(591.3)	(344.0)	(289.5)
Less: other direct cost of sales, including metering	(46.4)	(42.0)	(33.5)	(36.8)	(45.7)	(15.5)	(15.2)
Energy margin	**534.7**	**654.7**	**684.6**	**675.2**	**724.0**	**356.8**	**378.2**

Underlying Earnings

Underlying Earnings is presented to enable an assessment and comparison of after-tax earnings after removing from NPAT 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 NPAT, the exclusion of these items enables a comparison of the underlying performance of the business across time periods. Underlying Earnings is a measure of financial performance used by the Group in its historical financial reporting, including FY2012, and has a note disclosure in the financial statements.

$ million	FY2010 12 Months Ended 30 June 2010	FY2011 12 Months Ended 30 June 2011	FY2012 12 Months Ended 30 June 2012	FY2013F 12 Months Ending 30 June 2013	FY2014F 12 Months Ending 30 June 2014	HY2012 6 Months Ended 31 December 2011	HY2013 6 Months Ended 31 December 2012
	Historical	Historical	Historical	Forecast	Forecast	Historical	Historical
NPAT	**84.6**	**127.1**	**67.7**	**94.8**	**160.4**	**17.6**	**75.5**
Change in the fair value of financial instruments	(8.1)	25.6	92.8	(27.1)	(31.7)	85.7	12.4
Change in the fair value of financial instruments of associate entities	17.5	1.4	1.5	1.7	1.1	(0.4)	1.6
Change in the fair value of financial instruments of jointly controlled entities	21.3	1.9	24.2	(37.6)	–	20.6	(37.6)
Equity accounted share of income statement impact of the capital return from jointly controlled entities	–	–	–	(6.0)	–	–	(6.0)
Restructure cost of international geothermal interests*	–	–	–	35.0	–	–	–
Impaired assets	31.4	19.8	4.0	91.4	–	2.7	91.4
Adjustments before income tax expense	**62.2**	**48.8**	**122.5**	**57.4**	**(30.6)**	**108.7**	**61.8**
Income tax expense on adjustments**	(10.0)	(12.9)	(27.5)	7.1	8.6	(24.7)	(4.1)
Impact of deferred tax rate change through the consolidated income statement	(7.1)	(0.8)	–	–	–	–	–
Deferred tax impact of removal of building depreciation	9.8	–	–	–	–	–	–
Adjustments after income tax expense	**54.9**	**35.1**	**95.0**	**64.5**	**(22.0)**	**84.0**	**57.7**
Underlying Earnings	**139.6**	**162.2**	**162.7**	**159.3**	**138.4**	**101.7**	**133.2**

* Included in operating expenses.
** Tax has been applied on all taxable adjustments at 28% (FY2012, FY2013F, FY2014F, HY2012 and HY2013) or 30% (FY2010, FY2011).

Net Debt

Net debt is defined as non-current loans plus current portion of loans less cash and cash equivalents and loan fair value adjustments. Net debt is a metric commonly used by investors.

$ million	FY2010 As At 30 June 2010	FY2011 As At 30 June 2011	FY2012 As At 30 June 2012	FY2013F As At 30 June 2013	FY2014F As At 30 June 2014	HY2012 As At 31 December 2011	HY2013 As At 31 December 2012
	Historical	Historical	Historical	Forecast	Forecast	Historical	Historical
Non-current loans	972.8	973.4	875.7	1,053.6	1,125.9	1,051.4	727.0
Plus current portion of loans	6.0	12.1	305.7	105.7	105.7	6.2	305.7
Less cash and cash equivalents	(7.9)	(28.7)	(38.3)	(10.0)	(10.0)	(43.2)	(62.5)
Less loan fair value adjustments*	–	19.1	(27.5)	(14.8)	(16.3)	(28.6)	(18.5)
Net debt	**970.9**	**975.9**	**1,115.6**	**1,134.5**	**1,205.3**	**985.8**	**951.7**

* Loan fair value adjustments can be found in the notes to the financial statements, specifically for FY2010 and FY2011 refer note 22 of the Audited Financial Statements For The Year Ended 30 June 2011, for FY2012 refer note 23 of Section 6.8 Audited Financial Statements For The Year Ended 30 June 2012, and for HY2012 and HY2013 refer note 14 of Section 6.7 Audited Interim Financial Statements For The Six Months Ended 31 December 2012.

Section 6.5: Further Financial And Accounting Information

Management Discussion Of Segmental Historical Financial And Operational Performance

The tables below detail Mighty River Power's segmental financial performance for FY2012, FY2011 and FY2010, and HY2012 and HY2013. In FY2012 Mighty River Power combined the previously separately reported Retail and Wholesale segments into a single "Energy Markets" segment.

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 that are not considered to be reporting segments are grouped together as "Other Segments". Activities in Other Segments include metering, upstream gas and international geothermal development. Unallocated represents corporate support services and other elimination adjustments.

As Mighty River Power's segmental information is grouped to reflect the operation of the business and its interdependent nature, a large majority of its revenue, EBITDAF and assets is allocated to the "Energy Markets" segment. Accordingly the following discussion should be read in conjunction with the discussion of historical results in 6.2 Analysis Of Historical Financial And Operational Performance.

Segmental Financial Performance For The Six Months Ended 31 December 2012

$ million	HY2013			
	Energy Markets	Other Segments	Unallocated	Total
Total segment revenue	689.8	31.7	0.8	722.3
Inter-segment revenue	–	(16.0)	–	(16.0)
Revenue from external customers	689.8	15.7	0.8	706.3
Segment EBITDAF	**290.9**	**11.1**	**(41.9)**	**260.1**
Segment assets	**5,324.4**	**209.0**	**168.6**	**5,702.0**

Segmental Financial Performance For The Six Months Ended 31 December 2011

$ million	HY2012 (Restated)			
	Energy Markets	Other Segments	Unallocated	Total
Total segment revenue	724.6	20.7	0.5	745.8
Inter-segment revenue	–	(16.7)	–	(16.7)
Revenue from external customers	724.6	4.0	0.5	729.1
Segment EBITDAF	**269.3**	**(0.8)**	**(14.0)**	**254.5**
Segment assets	**5,064.7**	**330.3**	**110.2**	**5,505.2**

Segmental Financial Performance For The Year Ended 30 June 2012

$ million	FY2012			
	Energy Markets	Other Segments	Unallocated	Total
Total segment revenue	1,510.9	41.8	1.0	1,553.6
Inter-segment revenue	–	(33.1)	–	(33.1)
Revenue from external customers	1,510.9	8.7	1.0	1,520.6
Segment EBITDAF	**499.0**	**0.7**	**(38.2)**	**461.5**
Segment assets	**5,309.9**	**376.4**	**191.1**	**5,877.4**

Segmental Financial Performance For The Year Ended 30 June 2011

$ million	FY2011 (Restated)			
	Energy Markets	Other Segments	Unallocated	Total
Total segment revenue	1,156.5	37.2	0.6	1,194.4
Inter-segment revenue	–	(30.5)	–	(30.5)
Revenue from external customers	1,156.5	6.7	0.6	1,163.9
Segment EBITDAF	**470.1**	**2.8**	**(29.9)**	**443.1**
Segment assets	**5,045.8**	**289.4**	**41.4**	**5,376.6**

Segmental Financial Performance For The Year Ended 30 June 2010

$ million	FY2010 (Restated, unaudited)			
	Energy Markets	Other Segments	Unallocated	Total
Total segment revenue	1,099.3	37.3	0.2	1,136.8
Inter-segment revenue	–	(32.2)	–	(32.2)
Revenue from external customers	1,099.3	5.1	0.2	1,104.6
Segment EBITDAF	**356.0**	**2.7**	**(30.9)**	**327.8**
Segment assets	**4,612.0**	**68.1**	**214.8**	**4,894.9**

Energy Markets

Energy Markets revenue represents the majority of total revenue, and as such the discussion of revenue under the heading "Discussion Of Historical Operational And Financial Performance" in 6.2 Analysis Of Historical Financial And Operational Performance explains the movements in Energy Markets revenue since FY2010.

In HY2013 Energy Markets EBITDAF increased by 8.0% to $290.9 million from $269.3 million in HY2012. This was mainly driven by the increase in energy margin as a consequence of a decrease in energy costs and increase in other revenue, partially offset by the increase in employee, maintenance and other expenses.

Energy Markets EBITDAF increased by 6.1% in FY2012 from $470.1 million in FY2011 to $499.0 million. This was largely due to the increased volume weighted average price of electricity sales to customers, and to a lesser extent the increase in generation volume in FY2012. In FY2011 Energy Markets EBITDAF increased by 32.1% from $356.0 million in FY2010 to $470.1 million. This was largely due to higher generation volume in FY2011, particularly hydro generation (as a result of relatively wet North Island conditions) and geothermal generation (as a result of the commissioning of the Nga Awa Purua power station in April 2010), and an increase in the volume weighted average price of electricity sold to residential and business customers in FY2011.

Other Segments

In HY2013 revenue from Other Segments increased to $15.7 million from $4.0 million in HY2012, primarily due to an increase in other income from the GGE Fund. This difference largely carried through to EBITDAF.

Revenue from external customers increased by 29.9% to $8.7 million in FY2012 compared with $6.7 million in FY2011, primarily due to an increase in Metrix revenue. In FY2011 revenue from external customers increased by 31.4% from $5.1 million in FY2010 to $6.7 million. This was largely due to an increase in Metrix revenue and other income from the GGE Fund.

Other Segment EBITDAF decreased by 75.0% in FY2012 from $2.8 million in FY2011 to $0.7 million due to increased GGE Fund-related expenses despite the increase in revenue over the same period. In FY2011 EBITDAF increased slightly from $2.7 million in FY2010 to $2.8 million.

Unallocated

In HY2013 the unallocated EBITDAF decreased by 199% to a loss of $41.9 million from a loss of $14.0 million in HY2012, largely due to a foreign exchange loss being realised which was previously taken to the foreign currency translation reserve of $22.4 million associated with the distribution from the GGE Fund.

Segment EBITDAF decreased by 27.8% in FY2012 to negative $38.2 million from negative $29.9 million in FY2011, primarily due to the indirect and direct costs relating to the preparation for listing. In FY2011 segment EBITDAF improved slightly from negative $30.9 million in FY2010 to negative $29.9 million.

Liquidity And Capital Resources

Capital Resources

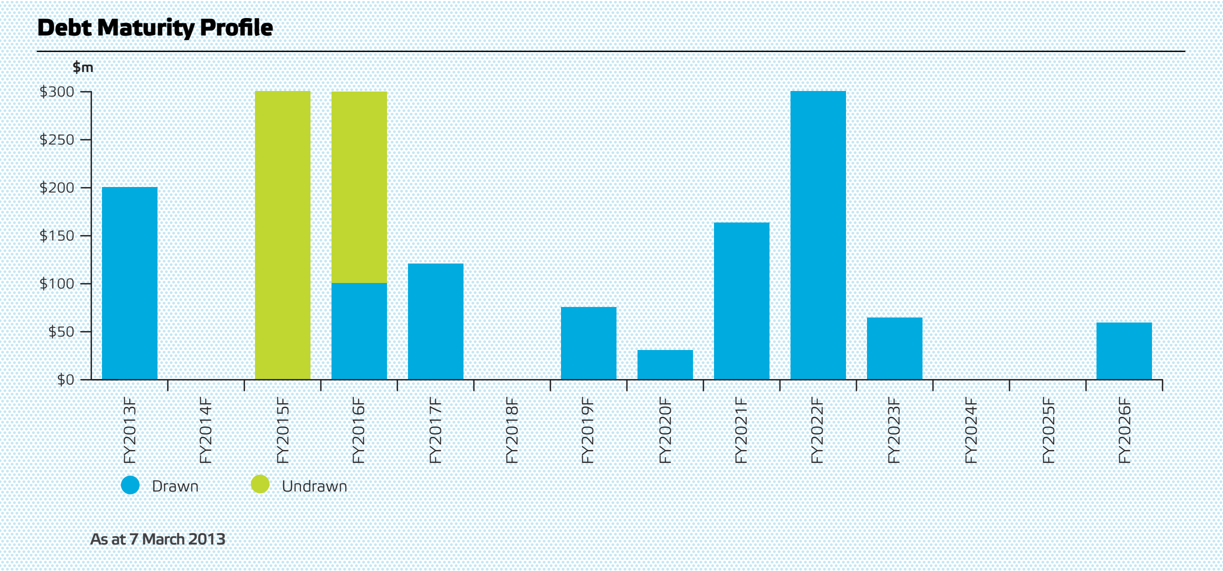
During FY2010, FY2011, FY2012, HY2012 and HY2013 Mighty River Power funded its capital requirements out of surplus operating cash flow, supplemented by borrowings and the issuance of debt securities. Mighty River Power anticipates that the future capital requirements for its New Zealand business (including equity requirements for consolidated joint ventures) with respect to its international geothermal investments will be funded through operating cash flow, supplemented by borrowings and the issuance of debt securities. The other parties to the joint ventures are also expected to contribute equity to the joint ventures if required.

Capitalisation And Outstanding Debt

The table below outlines the consolidated cash, current and non-current loans, and total capitalisation of Mighty River Power as at 31 December 2012.

$ million	As at 31 December 2012
Cash and cash equivalents	62.5
Loans	
Current loans	305.7
Non-current loans	727.0
Equity	
Contributed equity	377.6
Retained earnings and reserves	2,731.3
Non-controlling interest	0.3
Total shareholders' equity	**3,109.1**

The graph below illustrates Mighty River Power's existing debt maturity profile.



Further information about the existing debt facilities, including maturities and interest rate structures can be found in 6.3 Prospective Financial Information and in the notes attached to 6.7 Audited Interim Financial Statements For The Six Months Ended 31 December 2012 and 6.8 Audited Financial Statements for the Year Ended 30 June 2012.

Representations, Undertakings, Events Of Default And Review Events

Mighty River Power's debt arrangements contain certain representations, undertakings, events of default and review events which are usual for debt arrangements of their nature. The events of default include, broadly, non-payment (whether under that debt arrangement or another debt arrangement); a failure to remedy a breach of financial covenants within the specified period; a breach of warranty or other obligations under a debt arrangement; Mighty River Power or any of its guaranteeing subsidiaries becoming insolvent, ceasing business or having a receiver or similar officer appointed in respect of it; or the occurrence of other circumstances which would or would be likely to have a material adverse effect in respect of Mighty River Power and its guaranteeing subsidiaries taken together as a whole.

On the occurrence of an event of default or a review event, certain remedies may be exercised by the lenders, which include requiring funds borrowed to become due and payable. The events of default are subject to materiality thresholds and grace periods where appropriate. There have been no events of default or review events.

In addition, some debt arrangements are subject to financial covenants which are customary for arrangements of their nature, which are described under the heading "Restrictions On Issuing Group" 7.2 Statutory Information.

Liquidity

The following liquidity risk disclosures reflect all contractually fixed payoffs, repayments and interest from recognised financial liabilities as well as the liquidity risk arising from derivative liabilities of the Group as at 31 December 2012. While the table gives the impression of a liquidity shortfall, the analysis does not take into account expected future operating cash flows or the refinancing of debt instruments prior to expiry. For further guidance as to the interpretation of the table please refer to note 25 of 6.8 Audited Financial Statements For The Year Ended 30 June 2012.

As at 31 December 2012 ($ million)	Less than 6 months	6 to 12 months	1 to 5 years	Later than 5 years	Total
NON DERIVATIVE FINANCIAL LIABILITIES					
Cash and cash equivalents	62.5	–	–	–	62.5
Receivables	183.5	–	15.9	–	199.4
Payables and accruals	(186.1)	–	(16.3)	–	(202.4)
Loans	(322.8)	(14.4)	(182.7)	(701.2)	(1,221.1)
Net inflow / (outflow)	**(262.9)**	**(14.4)**	**(183.1)**	**(701.2)**	**(1,161.6)**
DERIVATIVE FINANCIAL LIABILITIES					
Derivative liabilities – Net settled	(33.9)	(40.3)	(228.2)	(187.8)	(490.2)
Derivative liabilities – Gross settled					
Inflows	(26.5)	–	–	–	(26.5)
Outflows	25.9	–	–	–	25.9
Net maturity	**(34.5)**	**(40.3)**	**(228.2)**	**(187.8)**	**(490.8)**

Seasonality Of Capital Requirements

Mighty River Power's business is subject to seasonality due to hydrological conditions and weather patterns. This seasonality can affect the level of borrowings required. However, the level of expected variation during the forecast period is within the unutilised debt capacity currently available in the debt facilities, and the amount of debt capacity headroom required by Mighty River Power's treasury policies.

Capital And Contractual Commitments

Mighty River Power's capital expenditure and contractual commitments are set out in note 17 of 6.7 Audited Interim Financial Statements For The Six Months Ended 31 December 2012.

Off-Balance Sheet Arrangements

Mighty River Power does not have any off-balance sheet financing arrangements.

Financial Risk Management Framework

Mighty River Power is exposed to a variety of financial risks through its business activities: market risk (including electricity price, foreign currency and interest rate risk), credit risk and capital risk. These risks are further described in 5 What Are The Risks? and note 25 in 6.8 Audited Financial Statements For The Year Ended 30 June 2012.

Mighty River Power manages financial risk through board approved policies and procedures, notably the market and credit risk management policy (MCRMP) and the Treasury Policy.

The MCRMP and Treasury Policy both specify the responsibilities of the board and senior management with regards to the management of financial risk. Risk exposures are primarily managed through delegated authority limits. Compliance with these limits is measured and monitored independently within the business and is reported to the Risk Assurance and Audit Committee on a quarterly basis. Any non-compliance is escalated as per policy requirements. Policies are reviewed annually and are subject to regular internal audit.

Mighty River Power's Treasury Policy

The Treasury Policy is applicable to all wholly owned entities and majority controlled entities of Mighty River Power where specifically approved treasury policies do not exist.

The Treasury Policy defines the obligations and responsibilities of the board, Chief Executive and treasury and finance functions. It is approved by the board and subject to annual review. The Risk Management Committee is responsible for monitoring compliance with the Policy. A key objective of the Policy is to manage funding and liquidity requirements by securing debt funding that provides sufficient liquidity for future funding requirements, an appropriate debt forecast profile, and funding costs at least as favourable as those of similar rated entities.

Key terms of the Treasury Policy are:

- committed facilities are to be maintained with a buffer higher than the maximum monthly forecast debt level for the following six months;
- no more than 25% of debt facilities should mature within the next 12 months without specific board approval;
- no more than 25% of debt facilities should be provided in a single facility without specific board approval;
- funding for capital expenditure is made by way of either working capital or venturer contribution and should be forecast well in advance;
- separate bank accounts should be maintained for each joint venture;
- all committed foreign exchange exposures exceeding a certain limit should be hedged; and
- in respect of joint ventures, excess cash should be distributed to the venturers.

Financial Instruments

The Treasury Policy outlines approved instruments for cash management and borrowing. These are: committed bank facilities, commercial paper, corporate bonds and notes and bank loans. Approved instruments for investment of cash (excluding balances held in transactional accounts) are bank certificates of deposit, treasury bills, money market deposits and term deposits. Approved instruments for managing interest rate risk are forward rate agreements, interest rate swaps (vanilla and cross currency) and interest rate options. Financial instruments denominated in any currency can be entered into for hedging purposes. The Policy is to secure hedge cover for known cash flows and to provide surety around projects' effective rate. Hedging for probable expenditure is assessed on a case-by-case basis.

Electricity Price Risk

Electricity price risk is managed through delegated authority limits established in the MCRMP. The Policy provides limits on the volume of electricity contracts traded depending on the type of financial instrument employed. To measure overall portfolio risk, a VaR delegated authority limit is applied.

Foreign Currency Risk

Foreign currency transaction risk is managed as required by the Treasury Policy. Foreign exchange forward contracts are entered into with banks to hedge currency risk on highly probable forecast transactions to hedge foreign currency exposures of cash flows.

Foreign currency translation risk is managed as required by the Treasury Policy. Investment values denominated in foreign currencies are currently unhedged but may be managed on a case-by-case basis through the use of financial instruments as approved by the board.

Interest Rate Risk

As mandated by the Treasury Policy, interest rate financial instruments including swaps, options and forward rate agreements are used to manage Mighty River Power's interest rate risk. The Policy specifies a minimum level of fixed-rate cover of 20% of total forecast borrowing in each quarter of the next five years and a maximum of 70% in each quarter beyond five years. This is intended to reduce the variability of interest expense from year to year (as a result of changes in market rates). Mighty River Power's fixed rate cover in each quarter beyond five years is currently in excess of 70% (and this is expected to continue until 2018 unless debt levels increase or swap positions are closed). The Mighty River Power board has authorised the non-compliance with policy. Mighty River Power has not historically hedge accounted for its interest rate derivatives, therefore non cash fair value movements may cause volatility in reported net profit.

Credit Risk

Mighty River Power's exposure to credit risk is managed through evaluation of the creditworthiness of prospective counterparties under criteria specified in the relevant board approved policy. Financial instruments will only be entered into with counterparties with which Mighty River Power has signed an ISDA master agreement.[76] Mighty River Power's policy is to enter into financial transactions with banks with a minimum S&P credit rating of A– (or equivalent).

For large business and industrial contracts, the MCRMP specifies counterparty credit and concentration limits. Credit assessments are performed for all new business, industrial and retail customers, with security required from customers with low credit scores or unsuitable credit histories.

Retail customers with low credit scores are offered prepay products which assist with reducing receivables credit risk in the residential market segment.

Capital Risk Management

The Chief Financial Officer is responsible for the assessment of capital at risk through analysis of the impact of cash flow variability on financial ratios which are used as measures of Group risk capacity and risk appetite. Group risk capacity is defined as the ability to meet banking covenants on existing debt facilities, while risk appetite is defined as the ability to target an S&P BBB+ credit rating. In order to maintain or adjust the capital structure to meet risk capacity and appetite limits and achieve value targets, changes may be made to dividend policy, capital returned or injected and/or assets sold, constructed or purchased.

76. International Swaps and Derivatives Association.

Section 6.6: Summary Historical Financial Information

A summary of historical financial information, as required by clause 9(1)(a) and (b) of Schedule 1 of the Securities Regulations, is set out below. The summary financial statements are presented for the consolidated Mighty River Power Limited Group.

The summary financial statements are presented in New Zealand dollars and are rounded to the nearest hundred thousand dollars, which may result in some discrepancies between the sum of components and totals within tables.

The summary financial statements comply with Financial Reporting Standard-43 Summary Financial Statements, subject to the Securities Regulations, which do not require the summary financial statements to include:

- a comparison of, and explanations for major variances between, prospective and historical financial statements;
- information about events occurring after the balance date of a period; and
- comparative information for any period before the earliest period presented.

The summary financial statements have been authorised for issue by a resolution of the directors dated 5 April 2013. The board of Mighty River Power authorised the issue of the full financial statements on the following dates:

- six months ended 31 December 2012 – 21 February 2013;
- six months ended 31 December 2011 – 27 March 2012;
- year ended 30 June 2012 – 28 August 2012;
- year ended 30 June 2011 – 30 August 2011;
- year ended 30 June 2010 – 30 August 2010;
- year ended 30 June 2009 – 26 August 2009; and
- year ended 30 June 2008 – 27 August 2008.

The summary financial statements have been extracted from Mighty River Power's audited financial statements and unqualified audit opinions were received for each of those financial statements. Summary financial statements cannot be expected to provide as complete an understanding as that provided by full financial statements.

You can obtain copies of Mighty River Power's annual financial statements and related audit reports from the public register at the Companies Office of the Ministry of Business, Innovation and Employment which you may inspect, including on the Companies Office website at www.business.govt.nz/companies. You can obtain copies of Mighty River Power's interim financial statements and related audit reports at www.nzx.com. The full financial statements for each period shown in the summary financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS as appropriate for profit-oriented entities. These financial statements also comply with International Financial Reporting Standards (IFRS).

Summary Consolidated Income Statement

$ million	FY2008	FY2009	FY2010	FY2011	FY2012	31 Dec HY2012	31 Dec HY2013
Total revenue	1,178.6	1,119.9	1,104.6	1,163.9	1,520.6	729.1	706.3
Energy costs	(699.1)	(460.7)	(500.7)	(446.0)	(761.2)	(344.0)	(289.5)
Other expenses	(174.9)	(212.1)	(276.1)	(274.9)	(297.9)	(130.6)	(156.7)
Earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments, impairments and equity accounted earnings (EBITDAF)	**304.6**	**447.1**	**327.8**	**443.1**	**461.5**	**254.5**	**260.1**
Depreciation and amortisation	(86.5)	(104.9)	(98.7)	(145.4)	(158.4)	(73.2)	(75.3)
Change in fair value of financial instruments	(9.7)	(47.2)	8.1	(25.6)	(92.8)	(85.7)	(12.4)
Impaired assets	(28.1)	(46.9)	(31.4)	(19.8)	(4.0)	(2.7)	(91.4)
Equity accounted earnings	2.3	2.9	(33.7)	5.0	(24.8)	(19.4)	58.8
Earnings before net interest expense and income tax (EBIT)	**182.7**	**251.0**	**172.1**	**257.2**	**181.5**	**73.4**	**139.9**
Net interest expense	(20.9)	(24.2)	(30.7)	(71.8)	(72.6)	(36.9)	(31.5)
Profit before income tax	**161.9**	**226.8**	**141.4**	**185.5**	**109.0**	**36.5**	**108.4**
Income tax expense	(50.9)	(67.2)	(56.7)	(58.4)	(41.3)	(18.8)	(32.9)
Net profit	**111.0**	**159.6**	**84.6**	**127.1**	**67.7**	**17.6**	**75.5**
Net profit attributable to:							
Owners of the parent	111.0	159.6	84.6	127.1	67.8	17.7	75.4
Non-controlling interests	–	–	0.0	0.0	(0.1)	0.0	0.1

Summary Consolidated Statement Of Comprehensive Income[77]

$ million	FY2008	FY2009	FY2010	FY2011	FY2012	31 Dec HY2012	31 Dec HY2013
Net profit	**111.0**	**159.6**	**84.6**	**127.1**	**67.7**	**17.6**	**75.5**
Fair value revaluations	836.0	244.3	371.1	412.3	170.0	–	0.5
Equity accounted share of movements in associates' and jointly controlled entities' reserves (including exchange movements)	(12.9)	11.1	19.9	(3.1)	32.8	(1.3)	1.3
Cash flow hedges gain/(loss) taken to/(released from) equity	(119.1)	114.2	(89.3)	(107.4)	27.8	(1.3)	62.8
Movements in foreign currency translation reserve	–	0.0	0.6	(31.1)	(1.5)	6.2	15.6
Movements in available for sale investment reserve	–	(3.1)	3.1	(0.9)	(0.6)	(0.4)	1.5
Income tax on items of comprehensive income	(215.1)	(106.6)	(85.0)	(91.2)	(68.1)	0.5	(17.1)
Impact of tax rate change	3.4	–	48.2	6.8	–	–	–
Total consolidated comprehensive income	**603.4**	**419.5**	**353.2**	**312.4**	**228.0**	**21.3**	**140.1**
Total comprehensive income attributable to:							
Owners of the parent	603.4	419.5	353.2	312.4	228.1	21.3	140.0
Non-controlling interests	–	–	–	–	(0.1)	–	0.1

77. A statement of comprehensive income was a new requirement from FY2010. For comparative purposes FY2008 has been presented on the same basis as would have been required if NZ IAS 1 had applied to that period.

Summary Consolidated Statements Of Changes In Equity

$ million	FY2008	FY2009	FY2010	FY2011	FY2012	31 Dec HY2012	31 Dec HY2013
Opening equity	1,710.5	2,257.7	2,621.6	2,689.0	2,906.5	2,906.5	3,014.2
Total comprehensive income	603.4	419.5	353.2	312.4	228.0	21.3	140.1
Dividends paid	(56.2)	(55.5)	(286.0)	(95.0)	(120.5)	(45.7)	(45.0)
Non-controlling interest	–	–	0.2	0.2	0.1	0.1	(0.1)
Total equity	**2,257.7**	**2,621.6**	**2,689.0**	**2,906.5**	**3,014.2**	**2,882.2**	**3,109.1**
Represented by:							
– Issued capital	377.6	377.6	377.6	377.6	377.6	377.6	377.6
– Retained earnings	605.3	709.4	508.3	540.4	487.6	512.3	520.8
– Available for sale investment reserve	–	(2.2)	–	(0.6)	(1.1)	(0.9)	–
– Foreign currency translation reserve	–	–	0.6	(30.5)	(32.0)	(24.3)	(16.4)
– Asset revaluation reserve	1,363.1	1,534.0	1,865.7	2,159.5	2,300.7	2,159.5	2,296.8
– Cash flow hedge reserve	(88.3)	2.7	(63.4)	(140.0)	(118.9)	(142.3)	(69.8)
– Non-controlling interests	–	–	0.2	0.3	0.3	0.3	0.3

Summary Consolidated Balance Sheets

$ million	FY2008	FY2009	FY2010	FY2011	FY2012	31 Dec HY2012	31 Dec HY2013
SHAREHOLDERS' EQUITY							
Issued capital	377.6	377.6	377.6	377.6	377.6	377.6	377.6
Reserves	1,880.1	2,244.0	2,311.3	2,528.7	2,636.3	2,504.3	2,731.3
Non-controlling interest	–	–	0.2	0.3	0.3	0.3	0.3
Total shareholders' equity	**2,257.7**	**2,621.6**	**2,689.0**	**2,906.5**	**3,014.2**	**2,882.2**	**3,109.1**
ASSETS							
Current assets							
Cash and cash equivalents	34.0	56.8	7.9	28.7	38.3	43.2	62.5
Derivative financial instruments	42.9	39.3	35.5	20.1*	15.8	18.1	37.1
Other	314.3	291.0	194.9	222.9	340.2	236.7	218.1
Total current assets	**391.3**	**387.2**	**238.2**	**271.7**	**394.3**	**298.0**	**317.7**
Non-current assets							
Property, plant and equipment	3,498.7	3,859.9	4,307.5	4,749.5	5,064.1	4,827.2	5,045.3
Derivative financial instruments	74.1	19.4	77.6	128.5*	158.4	160.7	152.7
Other	93.9	121.6	271.5	226.9	260.6	219.1	186.3
Total non-current assets	**3,666.7**	**4,000.9**	**4,656.7**	**5,104.9**	**5,483.1**	**5,207.1**	**5,384.3**
TOTAL ASSETS	**4,058.0**	**4,388.1**	**4,894.9**	**5,376.6**	**5,877.4**	**5,505.2**	**5,702.0**
Liabilities							
Current liabilities							
Current portion loans	67.5	42.5	6.0	12.1	305.7	6.2	305.7
Derivative financial instruments	90.2	92.7	143.2	24.5*	23.8	27.6	35.2
Other	245.2	219.8	161.7	188.9	312.6	226.5	219.1
Total current liabilities	**402.9**	**355.0**	**310.8**	**225.5**	**642.1**	**260.3**	**560.1**
Non-current liabilities							
Loans	591.3	600.1	972.8	973.4	875.7	1,051.4	727.0
Derivative financial instruments	115.8	67.5	132.7	374.5*	419.9	444.1	380.7
Other	690.4	743.9	789.6	896.6	925.5	867.2	925.1
Total non-current liabilities	**1,397.5**	**1,411.5**	**1,895.1**	**2,244.6**	**2,221.1**	**2,362.7**	**2,032.8**
TOTAL LIABILITIES	**1,800.4**	**1,766.5**	**2,205.9**	**2,470.0**	**2,863.2**	**2,623.0**	**2,592.9**
NET ASSETS	**2,257.7**	**2,621.6**	**2,689.0**	**2,906.5**	**3,014.2**	**2,882.2**	**3,109.1**

* Restated in FY2012. Please refer to note 26 in Section 6.8 Audited Financial Statements For The Year Ended 30 June 2012. FY2008, FY2009 and FY2010 have not been restated.

Summary Consolidated Statements Of Cash Flows

$ million	FY2008	FY2009	FY2010	FY2011	FY2012	31 Dec HY2012	31 Dec HY2013
Net cash provided by operating activities	207.4	317.1	199.5	292.8	277.0	185.4	212.0
Net cash used in investing activities	(345.3)	(221.8)	(296.4)	(202.4)	(291.6)	(149.5)	(2.1)
Net cash provided by/(used in) financing activities	85.0	(72.5)	48.0	(68.8)	27.8	(21.7)	(185.0)
Net increase/(decrease) in cash and cash equivalents held	(52.9)	22.8	(48.9)	21.6	13.2	14.2	24.9

For further information please refer to 6.2 Analysis Of Historical Financial And Operational Performance, 6.7 Audited Interim Financial Statements For The Six Months Ended 31 December 2012 and 6.8 Audited Financial Statements For The Year Ended 30 June 2012.

In addition refer note 18 Subsequent Events in 6.7 Audited Interim Financial Statements For The Six Months Ended 31 December 2012 for a discussion of material events subsequent to the last audited balance date.

Section 6.7: Audited Interim Financial Statements For The Six Months Ended 31 December 2012

Consolidated Income Statement For The Six Months Ended 31 December 2012

	Note	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000
Sales		**927,237**	930,730	1,903,515
Less line charges		**(244,348)**	(214,359)	(424,247)
Other revenue		**23,432**	12,686	41,295
Total revenue		**706,321**	729,057	1,520,563
Energy costs		**289,477**	344,011	761,158
Other direct cost of sales, including metering		**15,229**	15,454	33,524
Employee compensation and benefits		**38,904**	36,554	76,139
Maintenance expenses		**29,368**	26,612	71,808
Sales and marketing		**6,790**	8,877	20,898
Contractors' fees		**5,894**	4,773	11,136
Professional services		**10,020**	7,732	18,958
Other expenses		**50,538**	30,587	65,445
Total expenses		**446,220**	474,600	1,059,066
Earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments, impairments and equity accounted earnings (EBITDAF)		**260,101**	254,457	461,497
Depreciation and amortisation		**(75,274)**	(73,201)	(158,397)
Change in the fair value of financial instruments	7	**(12,427)**	(85,746)	(92,751)
Impaired assets	4	**(91,390)**	(2,727)	(4,004)
Equity accounted earnings of associate companies	9	**1,610**	2,066	2,852
Equity accounted earnings/(losses) of interest in jointly controlled entities	11	**57,236**	(21,464)	(27,655)
Earnings before net interest expense and income tax (EBIT)		**139,856**	73,385	181,542
Interest expense		**(33,229)**	(38,131)	(75,360)
Interest income		**1,739**	1,225	2,808
Net interest expense		**(31,490)**	(36,906)	(72,552)
Profit before income tax		**108,366**	36,479	108,990
Income tax expense	5	**(32,884)**	(18,832)	(41,289)
Net profit for the period		**75,482**	17,647	67,701
Net profit for the period is attributable to:				
Owners of the parent		**75,404**	17,696	67,775
Non-controlling interests		**78**	(49)	(74)
		75,482	17,647	67,701
Earnings per share attributable to owners of the parent:				
Basic and diluted earnings per share (cents)	6	**5.39**	1.26	4.84

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

Consolidated Statement Of Comprehensive Income For The Six Months Ended 31 December 2012

	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000
Net profit for the period	**75,482**	17,647	67,701
Other comprehensive income			
Fair value revaluation of hydro and thermal assets	**500**	–	166,000
Fair value revaluation of other generation assets	**–**	–	4,000
Equity accounted share of movements in associates' reserves	**3,829**	(1,347)	1,165
Equity accounted share of movements in jointly controlled entities' reserves	**(1,548)**	–	31,621
Exchange movements on equity accounted share of movements in jointly controlled entities' reserves	**(1,001)**	–	–
Movement in available for sale investment reserve	**1,476**	(429)	(619)
Movements in foreign currency translation reserve	**15,631**	6,181	(1,531)
Cash flow hedges gain/(loss) taken to or released from equity	**62,775**	(1,261)	27,758
Income tax on items of other comprehensive income	**(17,092)**	472	(68,083)
Other comprehensive income for the period, net of taxation	**64,570**	3,616	160,311
Total comprehensive income for the period	**140,052**	21,263	228,012
Total comprehensive income for the period is attributable to:			
Owners of the parent	**139,974**	21,312	228,090
Non-controlling interests	**78**	(49)	(78)
	140,052	21,263	228,012

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

Consolidated Statement Of Changes In Equity For The Six Months Ended 31 December 2012

	Issued capital $000	Retained earnings $000	Available for sale investment reserve $000	Foreign currency translation reserve $000	Asset revaluation reserve $000	Cash flow hedge reserve $000	Non-controlling interest $000	Total equity $000
Balance as at 1 July 2011	377,561	540,353	(617)	(30,521)	2,159,494	(140,023)	295	2,906,542
Equity accounted share of movements in associates' reserves	–	–	–	–	–	(1,347)	–	(1,347)
Net loss on available-for-sale investments, net of taxation	–	–	(310)	–	–	–	–	(310)
Movements in foreign currency translation reserve	–	–	–	6,181	–	–	–	6,181
Cash flow hedges gain/(loss) taken to equity, net of taxation	–	–	–	–	–	(908)	–	(908)
Other comprehensive income	–	–	(310)	6,181	–	(2,255)	–	3,616
Net profit for the period	–	17,696	–	–	–	–	(49)	17,647
Total comprehensive income for the period	–	17,696	(310)	6,181	–	(2,255)	(49)	21,263
Non-controlling interest	–	–	–	–	–	–	90	90
Dividend	–	(45,700)	–	–	–	–	–	(45,700)
Balance as at 31 December 2011	377,561	512,349	(927)	(24,340)	2,159,494	(142,278)	336	2,882,195
Balance as at 1 January 2012	377,561	512,349	(927)	(24,340)	2,159,494	(142,278)	336	2,882,195
Fair value revaluation of hydro and gas-fired generation assets, net of taxation	–	–	–	–	119,520	–	–	119,520
Fair value revaluation of other generation assets, net of taxation	–	–	–	–	2,880	–	–	2,880
Equity accounted share of movements in jointly controlled entities' reserves, net of taxation	–	–	–	–	18,758	–	(21)	18,737
Equity accounted share of movements in associates' reserves	–	–	–	–	–	2,512	–	2,512
Net loss on available-for-sale investments, net of taxation	–	–	(136)	–	–	–	–	(136)
Movements in foreign currency translation reserve	–	–	–	(7,708)	–	–	(4)	(7,712)
Cash flow hedges gain/(loss) taken to equity, net of taxation	–	–	–	–	–	19,986	–	19,986
Impact of tax rate change	–	–	–	–	–	908	–	908
Other comprehensive income	–	–	(136)	(7,708)	141,158	23,406	(25)	156,695
Net profit for the period	–	50,079	–	–	–	–	(25)	50,054
Total comprehensive income for the period	–	50,079	(136)	(7,708)	141,158	23,406	(50)	206,749
Non-controlling interest	–	–	–	–	–	–	18	18
Dividend	–	(74,800)	–	–	–	–	–	(74,800)
Balance as at 30 June 2012	377,561	487,628	(1,063)	(32,048)	2,300,652	(118,872)	304	3,014,162
Balance as at 1 July 2012	**377,561**	**487,628**	**(1,063)**	**(32,048)**	**2,300,652**	**(118,872)**	**304**	**3,014,162**
Fair value revaluation of other generation assets, net of taxation	**–**	**–**	**–**	**–**	**360**	**–**	**–**	**360**
Equity accounted share of movements in associates' reserves	**–**	**–**	**–**	**–**	**–**	**3,829**	**–**	**3,829**
Equity accounted share of movements in jointly controlled entities' reserves, net of taxation	**–**	**–**	**–**	**–**	**(1,509)**	**–**	**(2)**	**(1,511)**
Net loss on available-for-sale investments, net of taxation	**–**	**–**	**(34)**	**–**	**–**	**–**	**–**	**(34)**
Release of reserve to the income statement, net of taxation	**–**	**–**	**1,097**	**–**	**–**	**–**	**–**	**1,097**
Movements in foreign currency translation reserve	**–**	**–**	**–**	**15,629**	**–**	**–**	**2**	**15,631**
Release of asset revaluation reserve following disposal of assets	**–**	**2,744**	**–**	**–**	**(2,744)**	**–**	**–**	**–**
Cash flow hedges gain/(loss) taken to equity, net of taxation	**–**	**–**	**–**	**–**	**–**	**45,198**	**–**	**45,198**
Other comprehensive income	**–**	**2,744**	**1,063**	**15,629**	**(3,893)**	**49,027**	**–**	**64,570**
Net profit for the period	**–**	**75,404**	**–**	**–**	**–**	**–**	**78**	**75,482**
Total comprehensive income for the period	**–**	**78,148**	**1,063**	**15,629**	**(3,893)**	**49,027**	**78**	**140,052**
Non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**(120)**	**(120)**
Dividend	**–**	**(45,000)**	**–**	**–**	**–**	**–**	**–**	**(45,000)**
Balance as at 31 December 2012	**377,561**	**520,776**	**–**	**(16,419)**	**2,296,759**	**(69,845)**	**262**	**3,109,094**

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

Consolidated Balance Sheet As At 31 December 2012

	Note	31 Dec 2012 $000	31 Dec 2011 $000	30 June 2012 $000
SHAREHOLDERS' EQUITY				
Issued capital		**377,561**	377,561	377,561
Reserves		**2,731,271**	2,504,298	2,636,297
Non-controlling interest		**262**	336	304
Total shareholders' equity		**3,109,094**	2,882,195	3,014,162
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents		**62,459**	43,185	38,296
Receivables		**195,916**	214,502	316,097
Inventories		**22,161**	22,245	24,147
Derivative financial instruments	7	**37,138**	18,114	15,769
Total current assets		**317,674**	298,046	394,309
NON-CURRENT ASSETS				
Property, plant and equipment	8	**5,045,271**	4,827,246	5,064,100
Intangible assets		**48,728**	45,287	49,795
Emissions units		**4,707**	794	4,323
Available-for-sale financial assets		**524**	762	572
Investment and advances to associates	9	**71,896**	76,917	78,022
Investment in jointly controlled entities	11	**31,131**	84,500	108,104
Advances		**13,438**	10,470	13,992
Receivables		**15,919**	402	5,751
Derivative financial instruments	7	**152,683**	160,726	158,438
Total non-current assets		**5,384,297**	5,207,104	5,483,097
TOTAL ASSETS		**5,701,971**	5,505,150	5,877,406
LIABILITIES				
CURRENT LIABILITIES				
Payables and accruals		**186,078**	201,268	289,221
Provisions	12	**7,729**	4,390	6,546
Current portion loans	14	**305,701**	6,234	305,684
Derivative financial instruments	7	**35,234**	27,600	23,779
Taxation payable		**25,309**	20,813	16,887
Total current liabilities		**560,051**	260,305	642,117
NON-CURRENT LIABILITIES				
Payables and accruals		**16,285**	21,366	17,163
Derivative financial instruments	7	**380,658**	444,100	419,910
Loans	14	**727,036**	1,051,398	875,688
Deferred tax	13	**908,847**	845,786	908,366
Total non-current liabilities		**2,032,826**	2,362,650	2,221,127
TOTAL LIABILITIES		**2,592,877**	2,622,955	2,863,244
NET ASSETS		**3,109,094**	2,882,195	3,014,162

For and on behalf of the Board of Directors who authorised the issue of the Financial Statements on 21 February 2013.

JOAN WITHERS
Chair
21 February 2013

TREVOR JANES
Deputy Chair
21 February 2013

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

Consolidated Cash Flow Statement For The Six Months Ended 31 December 2012

	Note	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers		**799,608**	731,419	1,387,480
Payments to suppliers and employees		**(502,752)**	(473,221)	(964,112)
Interest received		**1,740**	1,225	2,808
Interest paid		**(45,429)**	(42,675)	(86,333)
Taxes paid		**(41,154)**	(31,378)	(62,850)
Net cash provided by operating activities	15	**212,013**	185,370	276,993
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property, plant and equipment		**(142,570)**	(140,748)	(311,720)
Proceeds from sale of property, plant and equipment		**5,394**	2	349
Advances to joint venture partner repaid		**553**	407	891
Partial disposal of interest in jointly controlled assets		**–**	–	40,526
Investment in jointly controlled entities		**(1,488)**	(2,188)	(2,001)
Distribution received from jointly controlled entities	11	**140,321**	–	–
Acquisition of intangibles		**(5,129)**	(8,560)	(24,904)
Acquisition of emission units		**(570)**	–	(5,285)
Disposal of emission units		**–**	–	7,005
Dividends received from associate		**1,416**	1,613	3,513
Net cash used in investing activities		**(2,073)**	(149,474)	(291,626)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from loans		**–**	30,000	228,728
Repayment of loans		**(140,000)**	(6,000)	(80,439)
Dividends paid		**(45,000)**	(45,700)	(120,500)
Net cash used in provided by financing activities		**(185,000)**	(21,700)	27,789
Net increase in cash and cash equivalents held		**24,940**	14,196	13,156
Net foreign exchange movements		**(777)**	267	(3,582)
Cash and cash equivalents at the beginning of the period		**38,296**	28,722	28,722
Cash and cash equivalents at the end of the period		**62,459**	43,185	38,296
Cash balance comprises:				
Cash		**62,459**	43,185	38,296
Cash balance at the end of the period		**62,459**	43,185	38,296

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

Note 1. Accounting Policies

1) Reporting Entity

Mighty River Power (the "Company") Limited is a company incorporated in New Zealand, registered under the Companies Act 1993 and is a reporting entity for the purposes of the Financial Reporting Act 1993. The condensed consolidated interim financial statements have been prepared in accordance with the Financial Reporting Act 1993 and the Companies Act 1993.

The condensed consolidated interim financial statements are for Mighty River Power Limited Group (the "Group"). The condensed consolidated interim financial statements comprise the Company and its subsidiaries, including its investments in associates and interests in jointly controlled assets and entities.

Mighty River Power Limited is wholly owned by Her Majesty the Queen in Right of New Zealand (the Crown). Consequently, the Company is bound by the requirements of the State-Owned Enterprises Act 1986.

The liabilities of the Company are not guaranteed in any way by the Crown.

The Group's principal activities are to invest in, develop and produce electricity from renewable and other energy sources and to sell energy and energy related services and products to retail and wholesale customers.

2) Basis Of Preparation

(a) Statement of compliance

The condensed interim financial statements have been prepared in accordance with the New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting. In complying with NZ IAS 34, these statements comply with International Accounting Standard 34 Interim Financial Reporting. For the purposes of financial reporting, Mighty River Power is a profit-oriented entity.

These condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements. Consequently, these condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 June 2012.

(b) Accounting policies and methods of computation

Apart from the change in computation below, the accounting policies and methods of computation are consistent with those of the annual financial statements for the year ended 30 June 2012, as described in those annual financial statements.

Valuation of ASX electricity futures contracts

A change in the valuation approach for ASX electricity futures contracts has been adopted. The valuation of these contracts are now taken directly from the Credit Suisse (ASX clearing house) mark-to-market figures for open trades. Previously the valuations had been performed internally based on a future price path which was derived from ASX price information. At the date the valuation approach changed for the ASX futures contracts a valuation difference of $0.1 million existed between the two methodologies which resulted in a decrease in the fair value asset.

(c) Estimates and judgements

The preparation of interim financial statements in conformity with NZ IAS 34 and IAS 34 requires Management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below:

Generation plant and equipment

The Group's generation assets are stated at fair value as determined by an independent valuer. The basis of the valuation is the net present value of the future earnings of the assets, excluding any reduction for costs associated with restoration and environmental rehabilitation. The major inputs and assumptions that are used in the valuation model that require judgement include the forecast of the future electricity price path, sales volume forecasts, projected operational and capital expenditure profiles, capacity and life assumptions for each generation plant and discount rates. The last revaluation was performed in June 2012. Management expect to test the assumptions as at 30 June 2013 and if required engage an independent valuer to determine whether carrying values remain materially consistent with fair value.

Retail revenue

Management has exercised judgement in determining estimated retail sales for unread gas and electricity meters at balance date. Specifically this involves an estimate of consumption for each unread meter, based on the customer's past consumption history. The estimated balance is recorded in sales and as an accrual balance within receivables.

Restoration and environmental rehabilitation

Liabilities are estimated for the abandonment and site restoration of areas from which natural resources are extracted. Such estimates are valued at the present value of the expenditures expected to settle the obligation. Key assumptions have been made as to the expected expenditures to remediate based on the expected life of the assets employed on the sites and an appropriate discount rate.

Valuation of financial instruments

ASX electricity futures contracts are classified as level 1 and valuations are recorded directly from Credit Suisse (ASX clearing house) valuations. Energy contracts classified as level 3 are valued by reference to the Group's financial model for future electricity prices. Foreign exchange and interest rate derivatives are classified as level 2 and are valued based on quoted market prices. Detailed information about assumptions and risk factors relating to financial instruments and their valuation are included in the annual financial statements.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Other assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Evaluation and exploration assets are assessed for impairment when there is an indication that the carrying amount of the asset may exceed its recoverable amount.

Deferred tax

In May 2010 the Government announced that tax depreciation deductions for buildings would be disallowed effective from 1 July 2011. As there is no definition of a building in the Income Tax Act, Management have had to make an assessment of whether its generation assets, which have historically been classified as buildings, have been appropriately classified or whether they would more appropriately be classified as plant. In the event the Inland Revenue Department disagrees with the position Management takes when filing the 2012 tax returns in March 2013, then an additional deferred tax liability and tax expense of $21.3 million would need to be recognised associated with the portion of powerhouses that Management considered should be more appropriately classified as plant.

(d) Functional and presentation currency

These financial statements are presented in New Zealand Dollars ($). The functional currency of Mighty River Power Limited and all its subsidiaries, apart from Mighty Geothermal Power Limited and its direct subsidiaries and PT ECNZ Services Indonesia, is New Zealand Dollars. The functional currency of PT ECNZ Services Indonesia and Mighty Geothermal Power Limited, and its subsidiaries except the German subsidiaries, is the United States Dollar. The German subsidiaries have a functional currency of Euro. The financial statements of these entities have been translated to the presentation currency for these Group Accounts. All financial information has been rounded to the nearest thousand.

(e) Seasonality of operations

The energy business operates in an environment that is dependent on weather as one of the key drivers of supply and demand. Fluctuations in seasonal weather patterns, particularly over the short term, can have a positive or negative effect on the reported result. It is not possible to consistently predict this seasonality and some variability is common.

(f) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive.

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 operating decision-maker on at least a monthly basis.

Operating segments are aggregated into reportable segments only if they share similar economic characteristics.

During the year ended 30 June 2012 Mighty River Power ceased producing and reporting to the chief operating decision-maker separate Retail and Wholesale segments to align with the manner in which the Group views and manages its energy business. As a result, the Retail and Wholesale results which have previously been reported separately have been combined into an "Energy Markets" segment. The previously reported Retail and Wholesale segments have been incorporated into the Energy Markets segment in their entirety.

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 in the "Other Segments" column. Activities include metering, upstream gas and international geothermal development.

Unallocated

Represents other corporate support services and other elimination adjustments.

Accounting Policies And Inter-segment Transactions

The accounting policies used by the Group in reporting segments are the same as those contained in note 1 to the annual financial statements and in the prior comparative periods. The Chief Executive 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, depreciation and amortisation, share of profits of associates and jointly controlled entities, change in fair value of financial instruments, impairments, finance costs and income tax expense.

Transactions between segments are carried out on an arm's length basis.

Six months ended 31 December 2012	Energy Markets $000	Other Segments $000	Unallocated $000	Total $000
Total segment revenue	**689,797**	**31,707**	**794**	**722,298**
Inter-segment revenue	**–**	**(15,977)**	**–**	**(15,977)**
Revenue from external customers	**689,797**	**15,730**	**794**	**706,321**
Segment EBITDAF	**290,941**	**11,091**	**(41,931)**	**260,101**
Segment Assets	**5,324,374**	**208,992**	**168,605**	**5,701,971**

Six months ended 31 December 2011	Energy Markets $000	Other Segments $000	Unallocated $000	Total $000
Total segment revenue	724,554	20,702	527	745,783
Inter-segment revenue	–	(16,726)	–	(16,726)
Revenue from external customers	724,554	3,976	527	729,057
Segment EBITDAF	269,337	(838)	(14,042)	254,457
Segment Assets	5,064,722	330,258	110,170	5,505,150

Twelve months to 30 June 2012	Energy Markets $000	Other Segments $000	Unallocated $000	Total $000
Total segment revenue	1,510,922	41,751	951	1,553,624
Inter-segment revenue	–	(33,061)	–	(33,061)
Revenue from external customers	1,510,922	8,690	951	1,520,563
Segment EBITDAF	499,048	680	(38,231)	461,497
Segment Assets	5,309,913	376,422	191,071	5,877,406

Reconciliation of segment revenue to the income statement

	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000
Total segment revenue	**722,298**	745,783	1,553,624
Inter-segment sales elimination	**(15,977)**	(16,726)	(33,061)
Total revenue per the income statement	**706,321**	729,057	1,520,563

Reconciliation of segment assets to total assets

	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000
Segment assets	**5,533,366**	5,394,980	5,686,335
Unallocated	**168,605**	110,170	191,071
Total assets	**5,701,971**	5,505,150	5,877,406

Note 3. Underlying Earnings

Underlying earnings after tax 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.

	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000
Net profit for the period	**75,482**	17,647	67,701
Change in the fair value of financial instruments	**12,427**	85,746	92,751
Equity accounted share of the change in the fair value of financial instruments of associate entities	**1,604**	(374)	1,510
Equity accounted share of the change in the fair value of financial instruments of jointly controlled entities	**(37,599)**	20,601	24,207
Equity accounted share of the income statement impact of the capital return from jointly controlled entities (refer note 11)	**(6,021)**	–	–
Impaired assets	**91,390**	2,727	4,004
Adjustments before income tax expense	**61,801**	108,700	122,472
Income tax expense on adjustments	**(4,084)**	(24,668)	(27,514)
Adjustments after income tax expense	**57,717**	84,032	94,958
Underlying earnings after tax	**133,199**	101,679	162,659

Tax has been applied on all taxable adjustments at 28%

Note 4. Other Income Statement Disclosures

	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000
Auditing the financial statements – Ernst & Young (New Zealand)	**315**	383	763
Auditing the financial statements – BDO (United States, Chile & Germany)	**305**	402	318
Other services – Investigating Accountant role in preparation of IPO – Ernst & Young	**383**	–	322
Total auditor's remuneration	**1,003**	785	1,403
Foreign currency exchange (gains)/losses	**21,628**	516	(217)
Interest charged	**47,072**	43,704	90,249
Interest capitalised to capital work in progress	**(13,843)**	(5,573)	(14,889)
Total interest expense	**33,229**	38,131	75,360
Impaired property, plant and equipment	**(46,596)**	–	(30)
Impaired exploration and development expenditure	**(33,446)**	(3,604)	(4,843)
Impaired available for sale financial asset	**(1,525)**	–	–
Impaired investment in associate	**(9,823)**	877	869
	(91,390)	(2,727)	(4,004)

Management performed a review of all international geothermal development projects and related interests to identify whether any indicators of impairment exist. Drilling results on the Tolhuaca project in Southern Chile over 2011/12 delivered less productivity than planned and were more expensive than expected. In addition, significant delays in progressing the Weilheim project in Germany due to environmental court challenges (now resolved), combined with the need to move drilling locations, led to increased costs. As a consequence, at 31 December 2012 the Company recognised an impairment charge against the German and Tolhuaca assets. While the carrying value of the interests in Jointly Controlled Entities reduced significantly this period, as a consequence of the cash distribution received, management also assessed these interests for impairment, none were noted. As at 31 December 2012, the GeoGlobal Energy Fund had not raised third party capital as planned and the Company had decided that it would decline the opportunity to invest further capital into the existing structure. This has led to the recognition of an impairment in its investment in the management company GeoGlobal Energy LLC. Impairment charges against international geothermal interests total $88.9 million and adjust these assets to their recoverable value, which is based on management estimates of their fair value less costs to sell, leaving a residual book value of $91.8 million. Impairments against domestic assets total $2.5 million taking total impairments to $91.4 million.

Expenses incurred by the Company during the period relating to the preparation for a potential listing totalled $3.0 million ($3.8 million for the full year to 30 June 2012), comprising $2.4 million ($3.1 million for the full year to 30 June 2012) of direct issue expenses (predominantly professional services including audit costs) and an additional $0.6 million ($0.7 million for the full year to 30 June 2012) relating to employee compensation and benefits and other expenses. An agreement has yet to be reached with the Crown on recovery of issue expenses.

Note 5. Income Tax Expense

	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000
(i) Income tax expense			
Profit before income tax	**108,366**	36,479	108,990
Prima facie income tax expense at 28% on profit before tax	**(30,342)**	(10,214)	(30,517)
Increase/(decrease) in income tax due to:			
● share of associates' tax paid earnings	**451**	578	799
● share of jointly controlled entities' tax paid earnings	**16,026**	(6,010)	(7,743)
● foreign entities' losses not recognised for deferred tax	**(23,962)**	(3,725)	(3,598)
● foreign entities' losses recognised for deferred tax	**11,721**	–	–
● non-deductible foreign exchange loss	**(6,273)**	–	–
● other differences	**(498)**	345	(892)
Over/(under) provision in prior period	**(7)**	194	662
Income tax expense attributable to profit from ordinary activities	**(32,884)**	(18,832)	(41,289)
Represented by:			
Current tax expense	**(49,912)**	(46,535)	(74,381)
Deferred tax expense recognised in the consolidated income statement	**17,028**	27,703	33,092
Total income tax expense	**(32,884)**	(18,832)	(41,289)
(ii) Income tax reported in other comprehensive income			
Tax on movements in asset revaluation reserve	**898**	–	(60,484)
Tax on movements in cash flow hedge reserve	**(17,577)**	353	(7,772)
Tax on movements in available for sale investment reserve	**(413)**	119	173
Income tax reported in other comprehensive income	**(17,092)**	472	(68,083)

Tax on movements in the cash flow hedge reserve includes both current and deferred tax. The current tax component arises due to realised foreign exchange gains or losses on hedge transactions that are rolled on an instalment basis which accumulate in the cash flow hedge reserve until the underlying transaction occurs.

Note 6. Earnings Per Share

	6 Months 31 Dec 2012	6 Months 31 Dec 2011	12 Months 30 June 2012
Numerator:			
Net profit for the period ($000)	**75,482**	17,647	67,701
Less net profit attributable to non-controlling interests ($000)	**78**	(49)	(74)
Net profit attributable to owners of the parent ($000)	**75,404**	17,696	67,775
Denominator (thousands of shares)	**1,400,000**	1,400,000	1,400,000
Basic and diluted earnings per share (cents)	**5.39**	1.26	4.84

On 30 June 2012 the Company made a taxable bonus issue of 1,022,439,546 ordinary shares to its existing shareholders, bringing total shares on issue to 1.4 billion. All shares have equal voting rights and share equally in dividends and any surplus on winding up.

Note 7. Derivative Financial Instruments

	Assets 31 Dec 2012 $000	Liabilities 31 Dec 2012 $000	Assets 31 Dec 2011 $000	Liabilities 31 Dec 2011 $000	Assets 30 June 2012 $000	Liabilities 30 June 2012 $000
Interest rate derivatives	**28,695**	**248,068**	31,291	239,418	29,676	249,127
Cross currency interest rate derivatives	**8,659**	**–**	19,161	–	19,787	–
Cross currency interest rate derivatives–margin	**–**	**11,326**	–	9,507	–	10,014
Electricity price derivatives	**152,448**	**156,056**	125,878	216,910	124,744	181,266
Foreign exchange rate derivatives	**19**	**442**	2,510	5,865	–	3,282
	189,821	**415,892**	178,840	471,700	174,207	443,689
Current	**37,138**	**35,234**	18,114	27,600	15,769	23,779
Non-current	**152,683**	**380,658**	160,726	444,100	158,438	419,910
	189,821	**415,892**	178,840	471,700	174,207	443,689

Interest rate derivatives, short term low value foreign exchange rate derivatives, and short term low value electricity price derivatives, 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 foreign exchange rate and electricity price derivatives (except the Tuaropaki Power Company Foundation Hedge, Virtual Asset Swap with Meridian, the Nga Awa Purua outage cover contract and the Genesis swaption) 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 purposes 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.

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

	Income Statement			Other Comprehensive Income		
	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000
Cross currency interest rate derivatives	**(11,105)**	49,302	49,235	**–**	–	–
Borrowings – fair value change	**9,011**	(47,638)	(46,568)	**–**	–	–
	(2,094)	1,664	2,667	**–**	–	–
Interest rate derivatives	**(248)**	(84,802)	(94,969)	**–**	–	–
Cross currency interest rate swaps – margin	**–**	–	–	**(941)**	3,001	2,765
Electricity price derivatives	**(7,644)**	(691)	(693)	**63,219**	(15,766)	21,005
Foreign exchange derivatives	**–**	108	108	**497**	11,504	3,988
	(9,986)	(83,721)	(92,887)	**62,775**	(1,261)	27,758
Ineffectiveness of cash flow hedges	**(2,441)**	(2,025)	136			
Total fair value movements recognised through the consolidated income statement	**(12,427)**	(85,746)	(92,751)			

Note 8. Property, Plant And Equipment

	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000
Significant property plant and equipment related transactions during the period			
Assets acquired at cost	**138,592**	152,956	329,643
Net book value of assets disposed	**5,211**	28	4,629
Gain/(loss) on disposal	**183**	(26)	(4,280)
Asset revaluations	**500**	–	170,000
Impaired other generation assets	**(46,596)**	–	(30)
Impaired exploration and development expenditure	**(33,446)**	(3,604)	(4,843)

Note 9. Investment And Advances To Associates

	31 Dec 2012 $000	31 Dec 2011 $000	30 June 2012 $000
Balance at the beginning of the period	**78,022**	76,252	76,252
Equity accounted earnings	**1,610**	2,066	2,852
Equity accounted share of movement in other comprehensive income	**3,829**	(1,347)	1,165
Dividends received during the period	**(1,416)**	(1,613)	(3,513)
Exchange movements	**(326)**	682	397
Impaired investment in associate reversed	**–**	877	869
Impaired investment in associate	**(9,823)**	–	–
Balance at the end of the period	**71,896**	76,917	78,022

Associates include:

	Interest Held				
Name of entity	**31 Dec 2012**	**31 Dec 2011**	**30 June 2012**	**Principal activity**	**Country of incorporation**
TPC Holdings Limited	25.00%	25.00%	25.00%	Investing in Tuaropaki Power Company Limited	New Zealand
Hot Water Innovations Limited	34.71%	34.71%	34.71%	Development of a hot water storage solution	New Zealand
GeoGlobal Energy LLC	29.23%	29.23%	29.23%	Geothermal development	United States

The investment in TPC Holdings Limited includes a $15 million prepayment made in 2008 for an additional interest which will be acquired upon the commissioning of an expansion, or at another date agreed by both parties. It also includes an $8 million payment in compensation for the extension and variation of the shareholders agreement from 2027 to 2037 at which point the equity in TPC Holdings Limited will revert to Tuaropaki Kaitiaki Limited for $1 plus working capital adjustments. The impairment charge recognised in 2011 was reversed in 2012 following an internal valuation that supported the previous carrying value of the investment.

Note 10. Investment In Jointly Controlled Assets

	Interest Held			
Name of joint venture	**31 Dec 2012**	**31 Dec 2011**	**30 June 2012**	**Principal activity**
Rotokawa	64.80%	74.68%	64.80%	Steamfield operation
Nga Awa Purua	65.00%	75.00%	65.00%	Electricity generation

The joint venture partner in Rotokawa and Nga Awa Purua exercised an option to acquire an additional 9.88% and 10% interest in the respective joint ventures. Proceeds of $40.5 million were recognised on the disposal of the interests which was effective from 31 March 2012.

Note 11. Investment In Jointly Controlled Entities

	31 Dec 2012 $000	31 Dec 2011 $000	30 June 2012 $000
Balance at the beginning of the period	**108,104**	98,970	98,970
Additions during the period	**1,487**	2,188	2,001
Equity accounted earnings	**57,236**	(21,464)	(27,655)
Equity accounted share of movements in other comprehensive income	**(1,548)**	–	31,621
Cash distribution received	**(131,534)**	–	–
Exchange movements	**(2,614)**	4,806	3,167
Balance at the end of the period	**31,131**	84,500	108,104

Jointly controlled entities include:

	Economic Interest Held				
Name of entity	**31 Dec 2012**	**31 Dec 2011**	**30 June 2012**	**Principal activity**	**Country of incorporation**
Energy Source LLC	20.15%	20.31%	20.31%	Investment holding	United States
Hudson Ranch Holdings LLC	75.00%	75.00%	75.00%	Investment holding	United States

The Group's interest in the above jointly controlled entities is held by GeoGlobal U.S. EnergySource LLC.

Due to the nature of the contractual arrangement that surround these 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 the current period Hudson Ranch Holdings LLC contributed its direct interest in Hudson Ranch Power LLC, the owner of the John L Featherstone plant commissioned last financial year, to a new 100% owned subsidiary Hudson Ranch TE Holdings LLC. Shortly after, a new tax equity investor contributed capital to Hudson Ranch TE Holdings in return for a class B membership interest which entitles it to tax losses which arise as a consequence of accelerated depreciation deductions allowable under the US tax code. In addition, Hudson Ranch Power LLC refinanced its construction loan, closing out its interest rate derivative position at the same time, and replaced it with long term debt. It also received a grant from the government under the American Recovery and Reinvestment Act of 2009. The excess cash from these three sources was used to make distributions to the original joint venture parties. This cash is first applied against the carrying value of the investment with the balance recognised within other revenue in the consolidated income statement.

	$000
Total cash distributed per the consolidated cash flow statement	**140,321**
Cash distribution recognised above	**131,534**
Cash distribution recognised within other revenue in the consolidated income statement	**8,787**
	140,321

The cash distribution has triggered a release of $22.4 million from the foreign currency translation reserve to other expenses within the consolidated income statement. This has arisen as a consequence of the movement in exchange rate between the date of the initial investment and rate on the day the cash was received.

As the distribution is a significant one-off item an adjustment has been made to calculate underlying earnings. The adjustment has been derived as follows:

	$000
Equity accounted earnings as recognised above	**57,236**
Add back fair value gain on derecognition of derivatives, retired as part of debt refinancing, recognised separately	**(37,599)**
Distribution income recognised in the income statement	**8,787**
Impact of the release from the foreign currency translation reserve	**(22,403)**
Adjustment to underlying earnings	**6,021**

Note 12. Provisions

	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000
Balance at the beginning of the period	**6,546**	4,200	4,200
Provisions made during the period	**1,013**	9	2,217
Movement in effect of discounting	**184**	181	129
Translation adjustment	**(14)**	–	–
Balance at the end of the period	**7,729**	4,390	6,546

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. Deferred Tax

	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000
Balance at the beginning of the period	**(908,366)**	(875,342)	(875,342)
Charged/(credited) to the income statement	**17,028**	27,703	33,092
Charged/(credited) to other comprehensive income	**(17,509)**	1,853	(66,838)
Partial disposal of interest in jointly controlled assets	**–**	–	722
Balance at the end of the period	**(908,847)**	(845,786)	(908,366)

Note 14. Loans

	Borrowing Currency Denomination	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000
Bank loans (unsecured)	NZD	**–**	115,842	140,144
Fixed Rate Bonds (unsecured)	NZD	**304,254**	304,254	304,254
Floating rate bonds (unsecured)	NZD	**351,121**	351,139	351,076
US Private Placement (unsecured)	USD	**260,882**	260,212	260,906
Commercial paper programme (unsecured)	NZD	**99,657**	–	99,517
Deferred financing costs		**(1,650)**	(2,369)	(2,010)
Fair value adjustments		**18,473**	28,554	27,485
Carrying value of loans		**1,032,737**	1,057,632	1,181,372
Current		**305,701**	6,234	305,684
Non-current		**727,036**	1,051,398	875,688
		1,032,737	1,057,632	1,181,372

Subsequent to 31 December 2012 the Group established new unsecured bank loan facilities totalling $200 million. These facilities replace $150 million of unsecured bank loan facilities maturing in December 2013.

Note 15. Reconciliation Of Profit For The Period To Net Cash Flows From Operating Activities

	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000
Profit for the period	**75,482**	17,647	67,701
Items classified as investing /or financing activities			
Loan charges	**360**	370	1,092
Dividend from jointly controlled entities	**(8,787)**	–	–
Adjustments for:			
Depreciation and amortisation	**75,274**	73,201	158,397
Capitalised interest	**(13,843)**	(5,573)	(14,889)
Net (gain)/loss on sale of property, plant and equipment	**(183)**	26	4,280
Net loss on sale of intangibles	**–**	–	25
Net gain on disposal of emission units	**–**	–	(7,005)
Net gain on disposal of interest in jointly controlled assets	**–**	–	(8,252)
Change in the fair value of financial instruments	**12,427**	85,746	92,751
Impaired assets	**91,390**	2,727	4,004
Movement in effect of discounting on long-term provisions	**184**	190	372
Share of earnings of associate companies	**(1,610)**	(2,066)	(2,852)
Share of earnings of jointly controlled entities	**(57,236)**	21,464	27,655
Release from the foreign currency translation reserve	**22,403**	–	–
Other non-cash items	**(106)**	504	1,652
Net cash provided by operating activities before change in assets and liabilities	**195,755**	194,236	324,931
Change in assets and liabilities during the period:			
• (Decrease)/increase in trade receivables and prepayments	**104,574**	(9,611)	(114,497)
• Decrease/(increase) in inventories	**1,987**	771	(1,363)
• (Decrease)/increase in trade payables and accruals	**(82,028)**	12,508	89,477
• Increase in provision for taxation	**8,325**	16,550	14,637
• Decrease in deferred taxation	**(16,600)**	(29,084)	(36,192)
Net cash inflow from operating activities	**212,013**	185,370	276,993

Note 16. Related Party Transactions

Ultimate Shareholder

The ultimate shareholder of Mighty River Power Limited is the Crown. All transactions with the Crown and other State-Owned Enterprises are at arms length and at normal market prices and on normal commercial terms. Transactions cover a variety of services including trading energy, postal, travel and tax.

Transactions With Related Parties

Notes 9, 10 and 11 provide details of subsidiaries, associates, jointly controlled assets and jointly controlled entities. All of these entities are 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		
	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000
Management fees and service agreements received (paid)			
Associates	**(5,290)**	(4,560)	(6,842)
Jointly controlled assets	**2,482**	2,429	4,857
Energy contract settlements received (paid)			
Associates	**1,209**	(183)	6,533
Jointly controlled assets	**(10,009)**	205	14,013
Interest income (expense)			
Jointly controlled assets	**776**	863	1,666

For the terms and conditions of these related party transactions refer to note 30 of the 30 June 2012 annual financial statements.

Key Management Personnel

Key management personnel compensation (paid and payable) comprised:

	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000
Directors' fees	**411**	317	657
Salary and other short term benefits of the Chief Executive and Senior Management	**2,133**	1,881	4,560
Long term benefits of the Chief Executive and Senior Management	**1,525**	290	1,094
	4,069	2,488	6,311

Other Transactions With Key Management Personnel

Directors and employees of the Group deal with Mighty River Power Limited as electricity consumers on normal terms and conditions within the ordinary course of trading activities.

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. A number of these entities transacted with the Group on an arms length basis in the reporting period.

Note 17. Commitments And Contingencies

	6 Months 31 Dec 2012 $000	6 Months 31 Dec 2011 $000	12 Months 30 June 2012 $000
Commitments			
Commitments for future capital expenditure include:			
Property, plant and equipment	**67,299**	206,696	101,189
Emission units	**104,203**	62,921	98,124
Other commitments			
Commitments for future operating expenditure	**56,508**	39,705	52,240

In the event the emissions trading scheme is terminated the forward purchase agreements for the acquisition of emissions units which cover a 15 year period will also terminate.

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. At the time of signing the accounts both claims are before the Supreme Court. In relation to the land claim, the Company has received advice that, if the claim succeeds, it is unlikely that the remedy granted by the Court will impact the Company's ability to operate its hydro assets. A separate claim relating to fresh water and geothermal resources was lodged with the Waitangi Tribunal. The Tribunal concluded that Maori have residual proprietary rights in fresh water and geothermal resources. If this claim succeeds, it will be for the Crown to determine how any rights and interests may best be addressed. The impact of this claim 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.

Geotermia Curacautin Limitada (formerly GGE Chile SpA), a subsidiary of GeoGlobal Partners I, L.P. and indirectly Mighty River Power Limited, is involved in two contract disputes which are currently before the Courts with a potential liability of up to $2.9 million New Zealand Dollar equivalent.

The group has no other material contingent assets or liabilities.

Note 18. Subsequent Events

The Board has approved an interim dividend of $67.2 million to be paid on 28 March 2013.

The Company announced on 15 February 2013 that it had reached agreement with the managing partners of GeoGlobal Energy LLC (GGE) and GeoGlobal Partners 1. L.P (the Fund) that the Company would acquire the non-controlling interests in the Fund and GeoGlobal US Holdings LLC and that it would transfer its 29.23% interest in GGE to the managing partners. The company will take direct control of investments in Chile, and via GeoGlobal U.S. EnergySource LLC, the interests in jointly controlled entities. GGE will take direct ownership and control of the Fund's German interests and the remaining non-EnergySource related investments in the United States. The Company has retained an option for an economic interest in the German assets but will have no on-going management involvement. Under the terms of the agreement all parties will now be free from geographic restriction or exclusivity in pursuing future geothermal opportunities. By terminating the existing agreements half-way through the 10-year term of the Fund the Company also avoids, among other things, future obligations for management fee payments to GGE. The consideration payable to the managing partners under this agreement is US$24.8 million.

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

Independent Auditor's Report

ERNST & YOUNG

Chartered Accountants

TO THE SHAREHOLDERS OF MIGHTY RIVER POWER LIMITED
REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF MIGHTY RIVER POWER LIMITED FOR THE SIX MONTH PERIOD ENDED 31 DECEMBER 2012

The Auditor-General is the auditor of Mighty River Power Limited and its subsidiaries. We have carried out the audit of the condensed consolidated interim financial statements of Mighty River Power Limited (hereafter referred to as the financial statements of the group), on behalf of the Auditor-General.

We have audited the financial statements of the group on pages 147 to 163, that comprise the consolidated balance sheet as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six month period ended on that date and the notes to the financial statements that include accounting policies and other explanatory information.

Opinion

Opinion on the financial statements of the group

In our opinion the financial statements of the group on pages 147 to 163:

- comply with generally accepted accounting practice in New Zealand as it relates to interim financial statements;
- comply with International Financial Reporting Standards as it relates to interim financial statements; and
- give a true and fair view of the group's:
  - financial position as at 31 December 2012; and
  - financial performance and cash flows for the six month period ended on that date.

Opinion on other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the group as far as appears from an examination of those records.

Our audit was completed on 21 February 2013. This is the date at which our opinion is expressed.

The basis of 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 shareholder's 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 that give a true and fair view of the matters to which they relate. We consider internal control 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 all 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. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the group's financial position, financial performance and cash flows.

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.

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 Ernst & Young may deal with the group on normal terms within the ordinary course of trading activities of the business of the group. Ernst & Young Transaction Advisory Services Limited has also been engaged as investigating accountants in connection with the proposed public offer of shares in the company. Other than these matters and the audit, we have no relationship with or interests in the group.

BR Penrose

Brent Penrose
Ernst & Young
On behalf of the Auditor-General
Auckland, New Zealand

Section 6.8: Audited Financial Statements For The Year Ended 30 June 2012

Income Statement For The Year Ended 30 June 2012

	Note	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Sales		**1,903,515**	1,546,740	**1,730,868**	1,421,536
Less line charges		**(424,247)**	(404,031)	**(408,186)**	(395,552)
Other revenue		**41,295**	21,172	**43,188**	22,580
Total revenue		**1,520,563**	1,163,881	**1,365,870**	1,048,564
Energy costs		**761,158**	445,971	**761,158**	446,344
Other direct cost of sales, including metering		**33,524**	42,025	**18,039**	25,319
Employee compensation and benefits		**76,139**	74,599	**67,421**	68,751
Maintenance expenses		**71,808**	55,866	**54,507**	41,545
Sales and marketing		**20,898**	19,458	**19,961**	18,979
Contractors' fees		**11,136**	11,268	**9,878**	10,919
Professional services	4	**18,958**	15,051	**15,019**	11,321
Other expenses		**65,445**	56,590	**43,377**	69,090
Total expenses		**1,059,066**	720,828	**989,360**	692,268
Earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments, impairments and equity accounted earnings (EBITDAF)		**461,497**	443,053	**376,510**	356,296
Depreciation and amortisation	4	**(158,397)**	(145,404)	**(98,010)**	(99,842)
Change in the fair value of financial instruments	26	**(92,751)**	(25,621)	**(92,458)**	(26,739)
Impaired assets	4	**(4,004)**	(19,786)	**(4,952)**	(56,823)
Equity accounted earnings of associate companies	17	**2,852**	2,069	**–**	–
Equity accounted earnings of interest in jointly controlled entities	19	**(27,655)**	2,935	**–**	–
Earnings before net interest expense and income tax (EBIT)		**181,542**	257,246	**181,090**	172,892
Interest expense	4	**(75,360)**	(74,629)	**(63,174)**	(72,230)
Interest income		**2,808**	2,843	**937**	719
Net interest expense		**(72,552)**	(71,786)	**(62,237)**	(71,511)
Profit before income tax		**108,990**	185,460	**118,853**	101,381
Income tax expense	5	**(41,289)**	(58,387)	**(35,199)**	(46,469)
Net profit for the year		**67,701**	127,073	**83,654**	54,912
Net profit for the year is attributable to:					
Owners of the parent		**67,775**	127,087	**83,654**	54,912
Non-controlling interests		**(74)**	(14)	**–**	–
		67,701	127,073	**83,654**	54,912
Earnings per share attributable to owners of the parent:					
Basic and diluted earnings per share (cents)	8	**4.84**	9.08		

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

Statement Of Comprehensive Income For The Year Ended 30 June 2012

	Note	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Net profit for the year		**67,701**	127,073	**83,654**	54,912
Other comprehensive income					
Fair value revaluation of hydro and thermal assets	12	**166,000**	219,000	**166,000**	219,000
Fair value revaluation of other generation assets	12	**4,000**	193,250	**–**	–
Equity accounted share of movements in associates' reserves	17	**1,165**	(3,065)	**–**	–
Equity accounted share of movements in jointly controlled entities' reserves	19	**31,621**	–	**–**	–
Movement in available for sale investment reserve		**(619)**	(858)	**(619)**	(858)
Retained losses acquired on amalgamation		**–**	–	**(869)**	–
Movements in foreign currency translation reserve		**(1,531)**	(31,146)	**–**	–
Cash flow hedges gain/(loss) taken to or released from equity	26	**27,758**	(107,445)	**10,046**	(88,517)
Income tax on items of other comprehensive income	5	**(68,083)**	(91,184)	**(49,120)**	(38,888)
Impact of tax rate change		**–**	6,797	**–**	3,305
Other comprehensive income for the year, net of taxation		**160,311**	185,349	**125,438**	94,042
Total comprehensive income for the year		**228,012**	312,422	**209,092**	148,954
Total comprehensive income for the year is attributable to:					
Owners of the parent		**228,090**	312,436	**209,092**	148,954
Non-controlling interests		**(78)**	(14)	**–**	–
		228,012	312,422	**209,092**	148,954

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

Statement Of Changes In Equity For The Year Ended 30 June 2012

	Issued capital $000	Retained earnings $000	Available for sale investment reserve $000	Foreign currency translation reserve $000	Asset revaluation reserve $000	Cash flow hedge reserve $000	Non-controlling interest $000	Total equity $000
GROUP								
Balance as at 1 July 2010	377,561	508,266	–	625	1,865,749	(63,390)	159	2,688,970
Fair value revaluation of hydro and thermal assets, net of taxation	–	–	–	–	153,300	–	–	153,300
Fair value revaluation of other generation assets, net of taxation	–	–	–	–	135,275	–	–	135,275
Equity accounted share of movements in associate's reserves	–	–	–	–	(3,075)	10	–	(3,065)
Net loss on available for sale investment reserve	–	–	(600)	–	–	–	–	(600)
Movements in foreign currency translation reserve	–	–	–	(31,146)	–	–	–	(31,146)
Cash flow hedges gain/(loss) taken to or released from equity, net of taxation	–	–	–	–	–	(75,212)	–	(75,212)
Impact of tax rate change	–	–	(17)	–	8,245	(1,431)	–	6,797
Other comprehensive income	–	–	(617)	(31,146)	293,745	(76,633)	–	185,349
Net profit for the year	–	127,087	–	–	–	–	(14)	127,073
Total comprehensive income	–	127,087	(617)	(31,146)	293,745	(76,633)	(14)	312,422
Non-controlling interest	–	–	–	–		–	150	150
Dividend	–	(95,000)	–	–	–	–	–	(95,000)
Balance as at 30 June 2011	377,561	540,353	(617)	(30,521)	2,159,494	(140,023)	295	2,906,542
Balance as at 1 July 2011	**377,561**	**540,353**	**(617)**	**(30,521)**	**2,159,494**	**(140,023)**	**295**	**2,906,542**
Fair value revaluation of hydro and thermal assets, net of taxation		**–**	**–**	**–**	**119,520**	**–**	**–**	**119,520**
Fair value revaluation of other generation assets, net of taxation	**–**	**–**	**–**	**–**	**2,880**	**–**	**–**	**2,880**
Equity accounted share of movements in associate's reserves	**–**	**–**	**–**	**–**	**–**	**1,165**	**–**	**1,165**
Equity accounted share of movements in jointly controlled entities' reserves	**–**	**–**	**–**	**–**	**18,758**	**–**	**(21)**	**18,737**
Net loss on available for sale investment reserve	**–**	**–**	**(446)**	**–**	**–**	**–**	**–**	**(446)**
Movements in foreign currency translation reserve	**–**	**–**	**–**	**(1,527)**	**–**	**–**	**(4)**	**(1,531)**
Cash flow hedges gain/(loss) taken to or released from equity, net of taxation	**–**	**–**	**–**	**–**	**–**	**19,986**	**–**	**19,986**
Other comprehensive income	**–**	**–**	**(446)**	**(1,527)**	**141,158**	**21,151**	**(25)**	**160,311**
Net profit for the year	**–**	**67,775**	**–**	**–**	**–**	**–**	**(74)**	**67,701**
Total comprehensive income	**–**	**67,775**	**(446)**	**(1,527)**	**141,158**	**21,151**	**(99)**	**228,012**
Non-controlling interest	**–**	**–**	**–**	**–**	**–**	**–**	**108**	**108**
Dividend	**–**	**(120,500)**	**–**	**–**	**–**	**–**	**–**	**(120,500)**
Balance as at 30 June 2012	**377,561**	**487,628**	**(1,063)**	**(32,048)**	**2,300,652**	**(118,872)**	**304**	**3,014,162**

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

Statement Of Changes In Equity For The Year Ended 30 June 2012

	Issued capital $000	Retained earnings $000	Available for sale investment reserve $000	Asset revaluation reserve $000	Cash flow hedge reserve $000	Total equity $000
COMPANY						
Balance as at 1 July 2010	377,561	611,526	–	1,584,972	(56,829)	2,517,230
Fair value revaluation of hydro and thermal assets, net of taxation	–	–	–	153,300	–	153,300
Net loss on available for sale investment reserve	–	–	(600)	–	–	(600)
Cash flow hedges gain/(loss) taken to or released from equity, net of taxation	–	–	–	–	(61,963)	(61,963)
Impact of tax rate change	–	–	(17)	4,380	(1,058)	3,305
Other comprehensive income	–	–	(617)	157,680	(63,021)	94,042
Net profit for the year	–	54,912	–	–	–	54,912
Total comprehensive income	–	54,912	(617)	157,680	(63,021)	148,954
Dividend	–	(95,000)	–	–	–	(95,000)
Balance as at 30 June 2011	377,561	571,438	(617)	1,742,652	(119,850)	2,571,184
Balance as at 1 July 2011	**377,561**	**571,438**	**(617)**	**1,742,652**	**(119,850)**	**2,571,184**
Fair value revaluation of hydro and thermal assets, net of taxation	**–**	**–**	**–**	**119,520**	**–**	**119,520**
Net loss on available for sale investment reserve	**–**	**–**	**(446)**	**–**	**–**	**(446)**
Cash flow hedges gain/(loss) taken to or released from equity, net of taxation	**–**	**–**	**–**	**–**	**7,233**	**7,233**
Retained losses acquired on amalgamation	**–**	**(869)**	**–**	**–**	**–**	**(869)**
Other comprehensive income	**–**	**(869)**	**(446)**	**119,520**	**7,233**	**125,438**
Net profit for the year	**–**	**83,654**	**–**	**–**	**–**	**83,654**
Total comprehensive income	**–**	**82,785**	**(446)**	**119,520**	**7,233**	**209,092**
Dividend	**–**	**(120,500)**	**–**	**–**	**–**	**(120,500)**
Balance as at 30 June 2012	**377,561**	**533,723**	**(1,063)**	**1,862,172**	**(112,617)**	**2,659,776**

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

Balance Sheet As At 30 June 2012

	Note	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
SHAREHOLDERS' EQUITY					
Issued capital	6	**377,561**	377,561	**377,561**	377,561
Reserves		**2,636,297**	2,528,686	**2,282,215**	2,193,623
Non-controlling interest		**304**	295	**–**	–
Total shareholders' equity		**3,014,162**	2,906,542	**2,659,776**	2,571,184
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	9	**38,296**	28,722	**15,750**	3,758
Receivables	10	**316,097**	199,868	**943,347**	886,369
Inventories	11	**24,147**	23,015	**17,718**	17,970
Derivative financial instruments	26	**15,769**	20,100	**18,648**	28,727
Taxation receivable		**–**	–	**6,494**	2,571
Total current assets		**394,309**	271,705	**1,001,957**	939,395
NON-CURRENT ASSETS					
Property, plant and equipment	12	**5,064,100**	4,749,506	**3,632,940**	3,495,519
Intangible assets	13	**49,795**	38,821	**27,615**	25,336
Emissions units	14	**4,323**	429	**3,954**	425
Available for sale financial assets	15	**572**	1,191	**572**	1,191
Investment in subsidiaries	16	**–**	–	**441,505**	231,455
Investment and advances to associates	17	**78,022**	76,252	**4,542**	4,535
Investment in jointly controlled entities	19	**108,104**	98,970	**–**	–
Advances	20	**13,992**	10,877	**–**	–
Receivables	10	**5,751**	378	**–**	1,511
Derivative financial instruments	26	**158,438**	128,458	**163,197**	145,375
Total non-current assets		**5,483,097**	5,104,882	**4,274,325**	3,905,347
Total assets		**5,877,406**	5,376,587	**5,276,282**	4,844,742
LIABILITIES					
CURRENT LIABILITIES					
Payables and accruals	21	**289,221**	180,431	**246,655**	156,603
Provisions	22	**6,546**	4,200	**1,993**	230
Current portion loans	23	**305,684**	12,081	**305,684**	12,081
Derivative financial instruments	26	**23,779**	24,498	**23,771**	24,498
Taxation payable		**16,887**	4,271	**–**	–
Total current liabilities		**642,117**	225,481	**578,103**	193,412
NON-CURRENT LIABILITIES					
Payables and accruals	21	**17,163**	21,298	**17,163**	21,298
Derivative financial instruments	26	**419,910**	374,524	**421,593**	378,031
Loans	23	**875,688**	973,400	**875,688**	973,400
Deferred tax	24	**908,366**	875,342	**723,959**	707,417
Total non-current liabilities		**2,221,127**	2,244,564	**2,038,403**	2,080,146
Total liabilities		**2,863,244**	2,470,045	**2,616,506**	2,273,558
NET ASSETS		**3,014,162**	2,906,542	**2,659,776**	2,571,184

For and on behalf of the Board of Directors who authorised the issue of the Financial Statements on 28 August 2012.

JOAN WITHERS
Chair
28 August 2012

TREVOR JANES
Deputy Chair
28 August 2012

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

Cash Flow Statement For The Year Ended 30 June 2012

	Note	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		**1,387,480**	1,123,166	**1,245,128**	1,012,703
Payments to suppliers and employees		**(964,112)**	(691,283)	**(885,502)**	(629,804)
Interest received		**2,808**	2,534	**937**	411
Interest paid		**(86,333)**	(78,578)	**(85,915)**	(76,769)
Taxes paid		**(62,850)**	(63,013)	**(62,850)**	(63,000)
Net cash provided by operating activities	27	**276,993**	292,826	**211,798**	243,541
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment		**(311,720)**	(174,091)	**(59,035)**	(62,601)
Proceeds from sale of property, plant and equipment		**349**	312	**349**	44
Advances to associate		**–**	(52,251)	**–**	(631)
Advances to associates repaid		**–**	27,005	**–**	27,005
Advances to joint venture partner repaid		**891**	964	**–**	–
Partial disposal of interest in jointly controlled assets		**40,526**	–	**–**	–
Investment in jointly controlled entities		**(2,001)**	(4,130)	**–**	–
Acquisition of intangibles		**(24,904)**	(20,776)	**(15,342)**	(17,025)
Acquisition of subsidiaries	31	**–**	18,448	**–**	–
Acquisition of emission units		**(5,285)**	–	**(3,300)**	–
Disposal of emission units		**7,005**	–	**–**	–
Dividends received		**3,513**	1,525	**–**	–
Proceeds from disposal of other non-current assets		**–**	600	**–**	600
Net cash used in investing activities		**(291,626)**	(202,394)	**(77,328)**	(52,608)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from loans		**228,728**	266,212	**228,728**	266,212
Repayment of loans		**(80,439)**	(240,000)	**(80,439)**	(240,000)
Loans to subsidiaries		**–**	–	**(150,267)**	(120,611)
Dividends paid		**(120,500)**	(95,000)	**(120,500)**	(95,000)
Net cash provided by/(used in) financing activities		**27,789**	(68,788)	**(122,478)**	(189,399)
Net increase in cash and cash equivalents held		**13,156**	21,644	**11,992**	1,534
Net foreign exchange movements		**(3,582)**	(827)	**–**	–
Cash and cash equivalents at the beginning of the year		**28,722**	7,905	**3,758**	2,224
Cash and cash equivalents at the end of the year		**38,296**	28,722	**15,750**	3,758
Cash and cash equivalents comprises:					
Cash		**38,296**	28,722	**15,750**	3,758
Cash and cash equivalents at the end of the year		**38,296**	28,722	**15,750**	3,758

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

Notes To The Financial Statements For The Year Ended 30 June 2012

Note 1. Accounting Policies

(1) Reporting Entity

Mighty River Power Limited (the "Company") is a company incorporated in New Zealand, registered under the Companies Act 1993 and is an issuer for the purposes of the Financial Reporting Act 1993. The consolidated financial statements have been prepared in accordance with the Financial Reporting Act 1993 and the Companies Act 1993.

The consolidated financial statements are for Mighty River Power Limited Group (the "Group"). The consolidated financial statements comprise the Company, its subsidiaries, associates and interests in jointly controlled assets and entities.

Mighty River Power Limited is wholly owned by Her Majesty the Queen in Right of New Zealand (the Crown). Consequently, the Company is bound by the requirements of the State-Owned Enterprises Act 1986.

The liabilities of the Company are not guaranteed in any way by the Crown.

The Group's principal activities are to invest in, develop and produce electricity from renewable and other energy sources and to sell energy and energy related services and products to retail and wholesale customers.

(2) Basis Of Preparation

(a) Statement of compliance

These consolidated financial statements have been prepared 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 accounting policies set out below have been applied consistently to both periods presented in these consolidated financial statements. Certain comparative figures have been restated to conform with current year presentation.

The group has elected not to early adopt the following standards which have been issued but are not yet effective:

- NZ IAS 28 – Investment in Associates and Joint Ventures. This standard supersedes NZ IAS 28 – Investments in Associates as a result of the issue of NZ IFRS – 11 Joint Arrangements and NZ IFRS 12 – Disclosure of Interests in Other Entities. The standard, which prescribes the accounting for investments in associates and sets out the requirements for the application of equity accounting, will be effective for periods beginning on or after 1 January 2013. Management does not consider that this will have an impact on the financial statements.
- NZ IFRS 9 – Financial Instruments. This standard is part of the project to replace NZ IAS 39 – Financial instruments: Recognition and Measurement. The standard, which will be effective for periods beginning on or after 1 January 2015, applies to financial assets and liabilities, their classification and measurement. Management is yet to determine the impact of this new standard on the financial statements.
- NZ IFRS 10 – Consolidated Financial Statements. This standard establishes a new control model which broadens the situation when an entity is considered to control another entity, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority interest may give control. Management does not consider that this will have any impact on the financial statements. The standard will be effective for periods beginning on or after 1 January 2013.
- NZ IFRS 11 – Joint Arrangements. This standard, effective for periods beginning on or after 1 January 2013, replaces NZ IAS 31 – Interests in Joint Ventures and removes the option to account for jointly controlled entities using proportionate consolidation, instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give a right to the underlying assets and obligations themselves are accounted for by recognising the share of those assets and obligations. Joint ventures that give rise to a right to the net assets are accounted for using the equity method. Management does not consider that this will have any impact on the accounting for joint arrangements in the financial statements.
- NZ IFRS 12 – Disclosure of Interests in Other Entities. This standard includes new disclosures about judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests. The new standard will be effective for periods beginning on or after 1 January 2013.
- NZ IFRS 13 – Fair Value Measurement. This standard does not change when an entity is required to use fair value but provides guidance on how to determine fair value. It also expands the disclosure requirements about the assumptions made and the qualitative impact of those assumptions on the fair value determined. This may result in more detailed disclosure around the valuation assumptions but should not materially impact the reported fair values. The standard will be effective for periods beginning on or after 1 January 2013.

(b) Basis of measurement

The NZ IFRS financial statements are prepared on the basis of historical cost with the exception of certain items for which specific accounting policies are identified, as noted below.

(c) Estimates and judgements

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

Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below:

Generation plant and equipment

The Group's generation assets are stated at fair value as determined by an independent valuer. The basis of the valuation is the net present value of the future earnings of the assets, excluding any reduction for costs associated with restoration and environmental rehabilitation. The major inputs and assumptions that are used in the valuation model that require judgement include the forecast of the future electricity price path, sales volume forecasts, projected operational and capital expenditure profiles, capacity and life assumptions for each generation plant and discount rates.

Retail revenue

Management has exercised judgement in determining estimated retail sales for unread gas and electricity meters at balance date. Specifically this involves an estimate of consumption for each unread meter, based on the customer's past consumption history. The estimated balance is recorded in sales and as an accrual balance within receivables.

Restoration and environmental rehabilitation

Liabilities are estimated for the abandonment and site restoration of areas from which natural resources are extracted (see note 22). Such estimates are valued at the present value of the expenditures expected to settle the obligation. Key assumptions have been made as to the expected expenditures to remediate based on the expected life of the assets employed on the sites and an appropriate discount rate.

Valuation of Financial instruments

Energy contracts are valued by reference to the Group's financial model for future electricity prices. Foreign exchange and interest rate derivatives are valued based on quoted market prices. Detailed information about assumptions and risk factors relating to financial instruments and their valuation are included in note 25.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Other assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Evaluation and exploration assets are assessed for impairment when there is an indication that the carrying amount of the asset may exceed its recoverable amount.

Deferred tax

In May 2010 the Government announced that tax depreciation deductions for buildings would be disallowed effective from 1 July 2011. As there is no definition of a building in the Income Tax Act, Management have had to make an assessment of whether its generation assets, which have historically been classified as buildings, have been appropriately classified or whether they would more appropriately be classified as plant (see note 24 for further detail).

Undesirable trading situation

The Electricity Authority (EA) declared that an undesirable trading situation occurred on 26 March 2011 and determined that final prices should be reduced from the interim price level. In Auckland this resulted in prices during the affected trading periods falling from approximately $20,000/MWh to approximately $3,200/MWh. The EA decision was appealed to, and upheld by, the High Court. However, the High Court's decision has, in turn, been appealed to the Court of Appeal. The hearing is set down for April 2013. In the event that the decision is overturned, and the prices return to the interim price level, EBITDAF could reduce by approximately $24 million in the year of recognition.

(d) Functional and presentation currency

These financial statements are presented in New Zealand Dollars ($). The functional currency of Mighty River Power Limited and all its subsidiaries, apart from Mighty Geothermal Power Limited and its direct subsidiaries and PT ECNZ Services Indonesia, is New Zealand Dollars. The functional currency of PT ECNZ Services Indonesia and Mighty Geothermal Power Limited, and its subsidiaries except the German subsidiaries, is the United States Dollar. The German subsidiaries have a functional currency of Euro. The financial statements of these entities have been translated to the presentation currency for these Group financial statements. All financial information has been rounded to the nearest thousand.

(3) Significant Accounting Policies

(a) Basis of consolidation

Subsidiaries

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group. The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values. The difference between these items and the fair value of consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or discount on acquisition.

All material inter-company transactions, balances and unrealised profits and losses arising from transactions between Group companies are eliminated on consolidation.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated balance sheet separately from the equity of the owners of the parent.

A change in ownership interest of a subsidiary that does not result in the loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, the carrying amount of any non-controlling interest and the cumulative foreign currency translation differences recorded in reserves if any. Further, the Group will recognise the fair value of any consideration received, the fair value of any investment retained, with any surplus or deficit recognised in profit or loss. The parent's share of components previously recognised in other comprehensive income will also be reclassified to profit or loss.

Associates

Associates are those entities in which the Company holds an equity interest and over which the Company has the capacity to significantly affect but not unilaterally determine the operating and/or financial policy decisions. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill identified on acquisition.

The Group and Company's share of its associates' post acquisition profits or losses is recognised in the income statement, and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment.

Provision is made for any impairment in the value of investments in associates where the estimated recoverable amount is less than the carrying value.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Jointly controlled assets

Jointly controlled assets are joint arrangements in which the Group jointly controls or owns one or more assets and is consequently entitled to a share of the future economic benefit through its share of the jointly controlled asset. The Group's interests in jointly controlled assets are accounted for by recognising its share of the jointly controlled assets, liabilities incurred jointly, income and expenses in the consolidated financial statements.

Jointly controlled entities

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. The Group's interests in jointly controlled entities, similar to its interest in associates are accounted for using the equity method.

Where an entity becomes or ceases to be a Group entity during the year, the results of that entity are included in the net profit of the Group from the date of acquisition or up to the date of disposal.

(b) Property, plant and equipment

Owned assets

Generation assets, which include freehold land and buildings and generation plant and equipment, are measured at fair value based on periodical valuations by third party valuation experts, less accumulated depreciation and less any impairment recognised after the date of the revaluation. The underlying assumptions are reviewed for reasonableness on an annual basis to ensure that recorded value is not materially different to fair value.

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 benefit. These costs are amortised over the life of the consent on a straight-line basis.

Office land and buildings are measured at fair value based on periodical valuations as determined by third party valuation experts, less accumulated depreciation on buildings and less any impairment losses since the last revaluation.

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.

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 service.

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, direct labour specifically associated 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 cease to be capitalised as soon as an asset is ready for productive use.

Where appropriate, the cost of property, plant and equipment includes site preparation costs, installation costs, and the cost of obtaining resource consents.

Provision is made for any impairment in the value of property, plant and equipment where the estimated recoverable amount is less than the carrying value.

The cost of improvements to leasehold property is capitalised and amortised over the estimated useful life of the improvements, or over the unexpired portion of the lease, whichever is shorter.

Capitalised leased assets are depreciated over the shorter of their estimated useful lives or the lease term.

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:

	2012	**2011**
Office land and buildings	**1–20%**	1–20%
Generation assets:		
• Hydro and thermal generation	**1–20%**	1–15%
• Other generation	**2–25%**	5–10%
Meters	**3–33%**	3–33%
Computer hardware and tangible software	**5–33%**	15–33%
Other plant and equipment	**2–50%**	4–33%
Vehicles	**5–33%**	20–33%

Distinction between capital and revenue expenditure

Capital expenditure is defined as all expenditure on the purchase or creation of a new asset, and any expenditure that results in a significant improvement to the original functionality of an existing asset.

Revenue expenditure is defined as expenditure that restores an asset to its original operating capability and all expenditure incurred in maintaining and operating the business.

(c) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred by the Group is accounted for using the successful efforts method.

Exploration expenditure, which includes geological, geochemical and geophysical costs, is recognised in the income statement in the period incurred except where future benefits are expected to exceed such expenditure in which case it is included in capital work in progress.

Exploratory drilling costs are initially deferred and are subject to regular review to confirm the ability to develop or otherwise extract value from expenditure. If an exploratory field is appraised as unsuccessful, such costs are charged to the income statement.

(d) Government grants – asset related

Government grants received to support capital expenditure programmes are offset against the cost of the related asset once all conditions for the retention of the grant have been satisfied. Where conditions for retention are yet to be satisfied the grant will temporarily be recognised as deferred income on the balance sheet.

(e) Rehabilitation costs

Estimations are made for the expected cost of environmental rehabilitation of commercial sites that require some level of reinstatement resulting from present operations. Any liability is recognised when an exposure is identified and the rehabilitation costs can be reasonably estimated. Any changes in the estimated liability is accounted for in accordance with NZ IFRIC 1.

(f) Insurance

The Group's property, plant and equipment is predominantly concentrated at power station locations which have the potential to sustain major losses through damage to plant and resultant consequential costs.

To minimise the financial impact of such exposures, the major portion of the assessed risk is transferred to insurance companies by taking out insurance policies with appropriate counterparties. Any uninsured loss is charged to the income statement in the year in which the loss is incurred.

(g) Intangible assets

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the consideration transferred over the fair value of the net identifiable assets acquired and liabilities assumed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment.

Software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of between 2.5 – 5 years (2011: between 2.5 – 5 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 between 3 and 25 years (2011: between 3 and 11 years). Testing for impairment will only arise when there is an indication that the asset may be impaired.

(h) Emission units and emissions obligations

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

Emissions units received as consideration for sales to compensate for emission obligations are initially measured at fair value and recognised as revenue in the income statement and initially as a receivable. On receipt of the emissions unit the receivable balance is cleared and a transfer made to intangible assets in the Balance Sheet. This fair value becomes the cost of the unit for the purposes of initial and subsequent measurement of the intangible asset.

Emissions units that are surrendered to creditors in compensation for their emission 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.

Emission obligations are recognised as a current liability as the emissions obligation is incurred. Up to the level of units held, the liability is recorded at the carrying value of those units. When emission obligations exceed the units held the liability is calculated either at contract prices under forward purchase agreements for the number of units contracted, where these exist, or at fair value.

Forward contracts for the purchase of emissions units are recognised when the contracts are settled on an accruals basis.

(i) Impairment

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Other assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Evaluation and exploration assets are assessed for impairment when there is an indication that the carrying amount of the asset may exceed its recoverable amount.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units).

Non-financial assets, other than goodwill, that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have been reversed.

(j) Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined on a weighted average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

(k) Cash flow statement

The following are the definitions of the terms used in the cash flow statement:

- Cash includes cash on hand and bank current accounts.
- Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments can include securities not falling within the definition of cash.
- Financing activities are those activities that result in changes in the size and composition of the equity structure of the Group. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to equity structure are included in financing activities.
- Operating activities include all transactions and other events that are not investing or financing activities.

The cash flow statement includes net cash flows from loan advances as the rollover of loans and deposits is covered by an arranged finance facility.

(l) Financial instruments

Financial instruments are recognised in the financial statements when the Group has become party to the contract. They include cash balances, receivables, payables, investments and loans. In addition members of the Group are party to financial instruments to meet future financing needs and to reduce exposure to fluctuations in foreign currency exchange rates and energy prices. These financial instruments include cross-guarantees of related entities guaranteed indebtedness, swaps, options, foreign currency forward exchange contracts and energy contracts.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short term deposits with an original maturity of three months or less that are readily converted to known amounts of cash and which are subject to an insignificant risk of changes in value.

Interest income on cash and cash equivalent balances is recognised as interest accrues using the effective interest method.

Receivables and payables

Receivables and payables are initially recorded at fair value and subsequently carried at amortised cost using the effective interest method, less (in the case of trade receivables) any provision for impairment (doubtful debts). A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Financial difficulties of the debtor, default payments or overdue debts are considered objective evidence of impairment.

Investments

The Group classifies its investments in the following categories: financial assets held at fair value through the income statement, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the initial classification of its investments upon acquisition.

Realised and unrealised gains and losses on investments classified as financial assets at fair value through the income statement are included in the income statement in the period in which they arise. Investments classified as available for sale are held at fair value and any related unrealised gains and losses are recognised in other comprehensive income and accumulated in equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss is reclassified to the income statement. Held to maturity investments are carried at amortised cost.

Loans

Loans are initially recorded at fair value net of transaction costs incurred. Loans are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the loan using the effective interest method. Borrowing costs are expensed to the income statement unless they relate to qualifying assets in which case they are capitalised to capital work in progress.

Foreign exchange and interest rate derivatives

The Group enters into various financial instruments for the purpose of reducing its exposure to fluctuations in interest rates and foreign exchange rates. These are classified as financial instruments at fair value through the income statement.

Derivative contracts are classified as held for trading and are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to fair value. The method of recognising the resulting gain or loss depends on whether the derivative is recognised as a hedging instrument, and if so, the type of hedge. The Group designates certain derivatives as either: a) hedges of the fair value of recognised assets and liabilities or a firm commitment (fair value hedge); or b) hedges of highly probable forecast transactions or variable interest cash flows on recognised liabilities (cash flow hedge).

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Ineffectiveness arises where the movement in the fair value of the derivative instrument does not perfectly offset the movement in the fair value or cash flows of the hedged item.

Amounts included in reserves are reallocated to the income statement in the periods when the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a liability, the gains and losses previously accumulated in equity are transferred and included in the initial measurement of the asset or liability.

Any gains or losses on derivatives that do not qualify for hedge accounting are recognised immediately in the income statement.

Energy contracts

The Group has entered into a number of contracts to manage its exposure to price fluctuations on the electricity spot market. These contracts are in the form of power supply agreements, contracts for difference, and option based instruments. They are not undertaken for speculative purposes. These energy contracts establish the price at which future specified quantities of electricity are purchased, sold or otherwise exchanged. These contracts are classified as financial instruments at fair value through the income statement.

Energy contracts are a form of derivative and are accounted for on the same basis as other derivatives described above.

The fair value of energy contracts is based on the net present value of anticipated cash flows from each contract. Management's internal view of forward prices 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 external market prices are not available, the Group estimates fair values of derivative financial instruments using internally generated future price paths, the instrument is fair valued at inception and the difference arising between the estimated fair value and its cost (nil) is a valuation inception adjustment.

(m) Foreign currencies

Transactions in foreign currencies are recognised in the functional currency of the relevant operating unit.

Foreign currency transactions are translated to the functional currency using the spot rate on the transaction date. At balance date monetary assets and liabilities denominated in foreign currencies are translated at the closing rate. Exchange variations arising from these translations and the settlement of these items are recognised in the income statement, except when they are recognised in other comprehensive income and accumulated in equity as qualifying cash flow hedges.

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.

(n) Employee entitlements

A liability for employee entitlements is recognised for benefits earned by employees but not yet received at balance date. Where payment is expected to be within 12 months of balance date, the liability is the amount expected to be paid by the Group. Where payment is expected to be longer term the liability is determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current assessment of the time value of money. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(o) Operating leases

Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the income statement in the periods in which they are incurred on a straight-line basis over the lease term.

(p) Revenue

Revenue recognised in the income statement includes the amounts received and receivable for energy and related energy services supplied to customers in the ordinary course of business. Revenue is stated exclusive of:

- distribution costs paid to lines companies as collected from customers on their behalf, and
- goods and services tax collected from customers.

Revenue includes the value of units assessed as being recorded on meters as at balance date, but for which invoices have not yet been rendered.

(q) Income tax

The income tax expense charged to the income statement includes both the current year's provision and the income tax effect of:

- taxable temporary differences, except those arising from initial recognition of goodwill; and
- deductible temporary differences to the extent that it is probable that they will be utilised.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of the assets and liabilities and their carrying amounts in the NZ IFRS consolidated financial statements. A deferred tax asset is only recognised to the extent that there will be future taxable profit to utilise the temporary difference.

Temporary differences arising from transactions, other than business combinations, affecting neither accounting profit nor taxable profit on initial recognition are not recognised.

Deferred tax is not recognised on temporary differences associated with investments in subsidiaries because:

- the parent company is able to control the timing of the reversal of the differences; and
- they are not expected to reverse in the foreseeable future.

(r) Goods and Services Tax

The income statement and cash flow statement have been prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST with the exception of receivables and payables which include GST invoiced.

(s) Capital and reserves

Cash flow hedge reserve

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Asset revaluation reserve

The asset revaluation reserve is used to record the increments and decrements in the fair value of property, plant and equipment identified as being carried at valuation.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Available for sale investment reserve

The available for sale investment reserve records movements in the fair value of available for sale financial assets.

(t) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive.

(u) Related parties

The Group considers its related parties to be key management personnel, its subsidiaries, associates, jointly controlled assets and jointly controlled entities.

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.

Note 2. Underlying Earnings

Underlying earnings after tax 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.

	GROUP	GROUP	COMPANY	COMPANY
	2012 $000	2011 $000	2012 $000	2011 $000
Net profit for the year	**67,701**	127,073	**83,654**	54,912
Change in the fair value of financial instruments	**92,751**	25,621	**92,458**	26,739
Change in the fair value of financial instruments of associate entities	**1,510**	1,429	**–**	–
Change in the fair value of financial instruments of jointly controlled entities	**24,207**	1,962	**–**	–
Impaired assets	**4,004**	19,786	**4,952**	56,823
Adjustments before income tax expense	**122,472**	48,798	**97,410**	83,562
Income tax expense on taxable adjustments	**(27,514)**	(12,874)	**(27,275)**	(8,022)
Impact of deferred tax rate change through the income statement	**–**	(823)	**–**	(647)
Adjustments after income tax expense	**94,958**	35,101	**70,135**	74,893
Underlying earnings after tax	**162,659**	162,174	**153,789**	129,805

Tax has been applied on all taxable adjustments at 28% (2011: 30%).

Note 3. 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 operating decision-maker on at least a monthly basis.

Operating segments are aggregated into reportable segments only if they share similar economic characteristics.

During the year Mighty River Power ceased producing and reporting to the chief operating decision maker separate Retail and Wholesale segments to align with the manner in which the Group views and manages its energy business. As a result the Retail and Wholesale results which have previously been reported separately have been combined into an "Energy Markets" segment. The previously reported Retail and Wholesale segments have been incorporated into the Energy Markets segment in their entirety.

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 in the "Other Segments" column. Activities include metering, upstream gas and international geothermal development.

Unallocated

Represents other corporate support services and other elimination adjustments.

Accounting Policies And Inter-Segment Transactions

The accounting policies used by the Group in reporting segments are the same as those contained in note 1 to the financial statements and in the prior period. The Chief Executive 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 profits of associates, change in fair value of financial instruments, depreciation and amortisation, impairment of exploration expenditure, finance costs and income tax expense.

Transactions between segments are carried out on an arm's length basis.

GROUP	Energy Markets $000	Other segments $000	Unallocated $000	Total $000
June 2012				
Total segment revenue	1,510,922	41,751	951	1,553,624
Inter-segment revenue	–	(33,061)	–	(33,061)
Revenue from external customers	1,510,922	8,690	951	1,520,563
Segment EBITDAF	499,048	680	(38,231)	461,497
Depreciation and amortisation	134,518	16,140	7,739	158,397
Impaired assets	2,032	30	1,942	4,004
Additions to non-current assets excluding financial instruments	270,931	84,184	7,202	362,317
Segment Assets	5,309,913	376,422	191,071	5,877,406

GROUP	Energy Markets $000	Other segments $000	Unallocated $000	Total $000
June 2011				
Total segment revenue	1,156,532	37,247	647	1,194,426
Inter-segment revenue	–	(30,545)	–	(30,545)
Revenue from external customers	1,156,532	6,702	647	1,163,881
Segment EBITDAF	470,144	2,830	(29,921)	443,053
Depreciation and amortisation	125,284	13,902	6,218	145,404
Impaired assets	15,867	3,520	399	19,786
Additions to non-current assets excluding financial instruments	78,977	135,101	6,015	220,093
Segment Assets	5,045,829	289,367	41,391	5,376,587

Reconciliation of segment revenue to the income statement	GROUP 2012 $000	GROUP 2011 $000
Total segment revenue	**1,553,624**	1,194,426
Inter-segment sales elimination	**(33,061)**	(30,545)
Total revenue per the income statement	**1,520,563**	1,163,881

Revenue from external customers by geographic locations is detailed below.
Revenue is attributed to geographic locations based on the location of the customers.

New Zealand	**1,520,563**	1,163,881
Other foreign countries	**–**	–
	1,520,563	1,163,881

Reconciliation of segment assets to total assets in the balance sheet	GROUP 2012 $000	GROUP 2011 $000
Segment assets	**5,686,335**	5,335,196
Unallocated	**191,071**	41,391
Total assets	**5,877,406**	5,376,587

The analysis of the location of non-current assets excluding financial instruments is as follows:

New Zealand	**5,068,175**	4,804,664
Other foreign countries	**256,484**	171,382
	5,324,659	4,976,046

Note 4. Other Income Statement Disclosures

	Note	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Auditing the financial statements		**763**	454	**670**	291
Other advisory services – assurance related		**322**	–	**322**	–
Total auditor's remuneration		**1,085**	454	**992**	291
Rental and operating lease costs		**4,990**	4,067	**4,400**	3,688
Net loss on sale of property, plant and equipment		**4,280**	727	**1,174**	794
Net loss on sale of intangibles		**25**	–	**25**	–
Foreign currency exchange (gains)/losses		**(217)**	2,471	**(2,451)**	30,824
Interest charged		**89,783**	81,499	**77,597**	79,100
Interest capitalised to capital work in progress		**(14,423)**	(6,870)	**(14,423)**	(6,870)
Total interest expense		**75,360**	74,629	**63,174**	72,230
Depreciation	12	**138,014**	130,676	**82,543**	85,753
Amortisation of intangible assets	13	**14,016**	10,798	**13,038**	10,159
Amortisation of fair values and the release from cash flow hedge reserve relating to forecast transactions that are no longer expected to occur	26	**6,367**	3,930	**2,429**	3,930
Total depreciation and amortisation		**158,397**	145,404	**98,010**	99,842
Impaired property, plant and equipment	12	**(30)**	(11,476)	**–**	–
Impaired exploration and development expenditure	12	**(4,843)**	(4,933)	**(4,944)**	(1,423)
Impaired intangible asset	13	**–**	(2,500)	**–**	(2,500)
Impaired investment in subsidiary	16	**–**	–	**–**	(52,900)
Impaired investment in associate	17	**869**	(877)	**(8)**	–
Total impaired assets		**(4,004)**	(19,786)	**(4,952)**	(56,823)

Expenses incurred by the Company during the year relating to the preparation for a potential listing totalled $3.8 million, comprising $3.1 million of direct issue expenses (predominantly professional services) and an additional $0.7 million relating to employee compensation and benefits and other expenses. An agreement has yet to be reached with the Crown on recovery of issue expenses.

Note 5. Income Tax

	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
(i) Income tax expense				
Profit before income tax	**108,990**	185,460	**118,853**	101,381
Prima facie income tax expense at 28% (2011: 30%) on the profit before tax	**(30,517)**	(55,638)	**(33,279)**	(30,414)
Increase/(decrease) in income tax due to:				
• effect of tax rate change on deferred tax	**–**	823	**–**	647
• share of associates' tax paid earnings	**799**	621	**–**	–
• share of jointly controlled entities' tax paid earnings	**(7,743)**	881	**–**	–
• foreign entities tax losses not recognised for deferred tax	**(3,598)**	(3,792)	**–**	–
• capital loss	**–**	(1,440)	**–**	(17,047)
• other differences	**(892)**	164	**(1,187)**	191
Over/(under) provision in prior period	**662**	(6)	**(733)**	154
Income tax expense attributable to profit from ordinary activities	**(41,289)**	(58,387)	**(35,199)**	(46,469)
Represented by:				
Current tax expense	**(74,381)**	(69,935)	**(66,534)**	(62,612)
Deferred tax recognised in the income statement	**33,092**	11,548	**31,335**	16,143
Total income tax expense	**(41,289)**	(58,387)	**(35,199)**	(46,469)
(ii) Income tax reported in other comprehensive income				
Tax on movements in asset revaluation reserve	**(60,484)**	(123,675)	**(46,480)**	(65,700)
Tax on movements in cash flow hedge reserve	**(7,772)**	32,233	**(2,813)**	26,554
Tax on movements in available for sale investment reserve	**173**	258	**173**	258
Income tax reported in other comprehensive income	**(68,083)**	(91,184)	**(49,120)**	(38,888)

Tax on movements in the cash flow hedge reserve includes both current and deferred tax. The current tax component arises due to realised foreign exchange gains or losses on hedge transactions that are rolled on an instalment basis which accumulate in the cash flow hedge reserve until the underlying transaction occurs.

Note 6. Share Capital

The share capital is represented by 1,400,000,092 (2011: 377,560,546) ordinary shares authorised, issued and fully paid. These shares do not have a par value. On 30 June 2012 the Company made a taxable bonus issue of 1,022,439,546 ordinary shares to its existing shareholders. All shares have equal voting rights and share equally in dividends and any surplus on winding up.

Note 7. Dividends Paid And Proposed

	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
(i) Dividends declared and paid during the year				
Final dividend for 2011: 3.26¢ (2010: 2.16¢)	**45,700**	30,300	**45,700**	30,300
Interim dividend for 2012: 5.34¢ (2011: 4.62¢)	**74,800**	64,700	**74,800**	64,700
	120,500	95,000	**120,500**	95,000
(ii) Dividends proposed				
Final dividend for 2012: 3.21¢ (2011: 3.26¢)	**45,000**	45,700	**45,000**	45,700

After the reporting date the final dividend was approved for payment by the Board of Directors. This amount has not been recognised as a liability as at 30 June 2012 but will be brought to account during the 2013 financial year. The 2012 dividend per share has been calculated based on the number of shares outstanding after the bonus share issue on 30 June 2012. The interim and comparative dividend per share figures have been restated as though they had been calculated using the equivalent number of shares on issue to aid comparability.

	COMPANY 2012 $000	COMPANY 2011 $000
(iii) Imputation credits		
Balance at the beginning of the year	**200,149**	177,863
Imputation credits attached to dividends paid during the year	**(19,587)**	(40,714)
Income tax payments made during the year	**62,850**	63,000
Imputation credits attached to bonus issue of shares	**(258,000)**	–
Third provisional tax payment made in July 2012	**17,500**	–
Future imputation credits available	**2,912**	200,149
Imputation credits available to the shareholder in the future are:		
Through direct shareholding in the Company	**2,912**	200,149
Through indirect interests in subsidiaries	**–**	–
	2,912	200,149

Note 8. Earnings Per Share

	GROUP 2012	GROUP 2011
Numerator:		
Net earnings for the year ($000)	**67,701**	127,073
Less net earnings attributable to non-controlling interests ($000)	**(74)**	(14)
Net earnings attributable to owners of the parent ($000)	**67,775**	127,087
Denominator (thousands of shares)	**1,400,000**	1,400,000
Basic and diluted earnings per share (Cents)	**4.84**	9.08

This is a first time disclosure for the Company and to aid comparability, the 2011 earnings per share has been calculated using a consistent number of shares on issue at the end of the period as existed at 30 June 2012.

Note 9. Cash And Cash Equivalents

	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Bank balances	**38,296**	28,722	**15,750**	3,758

Bank balances earn interest at floating rates based on the daily bank deposit rates.

Short term deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates.

The carrying amounts of cash and cash equivalents represent fair value.

Note 10. Receivables

	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Trade receivables and accruals	**315,992**	198,854	**277,356**	181,311
Allowance for impairment loss	**(5,026)**	(6,359)	**(3,879)**	(6,304)
Net trade receivables and accruals	**310,966**	192,495	**273,477**	175,007
Prepayments	**9,838**	7,514	**8,228**	6,323
Related party receivables	**1,044**	237	**661,642**	706,550
	321,848	200,246	**943,347**	887,880
Current	**316,097**	199,868	**943,347**	886,369
Non-current	**5,751**	378	**–**	1,511
	321,848	200,246	**943,347**	887,880

Trade receivables are non-interest bearing and are generally on 30 day terms, except for international VAT recorded as non-current relating to project development which is recoverable on commencement of operations. For terms and conditions of related party receivables refer to note 30.

Movements in the allowance for impairment loss were as follows:				
Balance at the beginning of the year	**6,359**	3,085	**6,304**	3,035
Charge for the year	**2,025**	7,002	**933**	6,997
Amounts written off	**(3,358)**	(3,728)	**(3,358)**	(3,728)
Balance at the end of the year	**5,026**	6,359	**3,879**	6,304

Receivables past due but not considered impaired:				
Less than one month past due	**8,278**	8,110	**8,053**	7,929
Two to three months past due*	**64**	513	**40**	468
Three to six months past due*	**8**	9	**5**	–
Later than six months past due*	**96**	328	**96**	328
	8,446	8,960	**8,194**	8,725

* Old overdue balances that are subject to approved payment plans, with payments being made as scheduled, are not considered to be impaired.

Note 11. Inventories

	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Consumable stores	**20,427**	17,806	**13,998**	12,761
Meter stock	**3,720**	5,209	**3,720**	5,209
	24,147	23,015	**17,718**	17,970

Consumable stores are held to service and repair operating plant. Meter stock is held in inventory until it is deployed into the field at which time it is transferred into property, plant and equipment.

Note 12. Property, Plant And Equipment

	Hydro and thermal assets at fair value $000	Other generation assets at fair value $000	Other plant and equipment at cost $000	Meters at cost $000	Office land and buildings at fair value $000	Computer hardware and tangible software at cost $000	Vehicles at cost $000	Capital work in progress at cost $000	Total $000
GROUP									
Balance at 1 July 2010									
Cost or valuation	3,149,753	911,921	28,121	91,291	5,997	23,153	1,559	176,515	4,388,310
Accumulated depreciation	–	(626)	(17,387)	(45,480)	–	(16,397)	(873)	–	(80,763)
Net book value	3,149,753	911,295	10,734	45,811	5,997	6,756	686	176,515	4,307,547
Year ended 30 June 2011									
Opening net book value	3,149,753	911,295	10,734	45,811	5,997	6,756	686	176,515	4,307,547
Additions, including transfers from capital work in progress	13,058	56,802	11,908	25,846	1,001	10,147	305	24,293	143,360
Acquisition of subsidiaries	–	–	53	–	–	–	–	41,461	41,514
Increase in interest in jointly controlled assets	–	202	–	–	–	–	–	–	202
Disposals	(3)	(3,021)	(111)	–	(24)	(84)	(7)	–	(3,250)
Revaluation	219,000	193,250	–	–	–	–	–	–	412,250
Impaired assets	–	(11,476)	–	–	–	–	–	–	(11,476)
Impairment of exploration and development expenditure	–	–	–	–	–	–	–	(4,933)	(4,933)
Exchange difference	–	–	(37)	–	–	–	–	(4,995)	(5,032)
Depreciation charge for the year	(66,081)	(44,658)	(3,823)	(10,754)	(618)	(4,521)	(221)	–	(130,676)
Closing net book value	3,315,727	1,102,394	18,724	60,903	6,356	12,298	763	232,341	4,749,506
Balance at 30 June 2011									
Cost or valuation	3,315,727	1,102,394	33,977	117,133	6,972	33,065	1,656	232,341	4,843,265
Accumulated depreciation	–	–	(15,253)	(56,230)	(616)	(20,767)	(893)	–	(93,759)
Net book value	3,315,727	1,102,394	18,724	60,903	6,356	12,298	763	232,341	4,749,506
Year ended 30 June 2012									
Opening net book value	**3,315,727**	**1,102,394**	**18,724**	**60,903**	**6,356**	**12,298**	**763**	**232,341**	**4,749,506**
Additions, including transfers from capital work in progress	**14,444**	**40,355**	**4,170**	**15,124**	**1,495**	**6,585**	**32**	**247,438**	**329,643**
Decrease in interest in jointly controlled assets	**–**	**(40,086)**	**–**	**–**	**–**	**–**	**(16)**	**(66)**	**(40,168)**
Disposals	**(1,332)**	**(3,106)**	**(191)**	**(120)**	**–**	**–**	**–**	**–**	**(4,749)**
Revaluation	**166,000**	**4,000**	**–**	**–**	**–**	**–**	**–**	**–**	**170,000**
Impaired assets	**–**	**(30)**	**–**	**–**	**–**	**–**	**–**	**–**	**(30)**
Impairment of exploration and development expenditure	**–**		**–**	**–**	**–**	**–**	**–**	**(4,843)**	**(4,843)**
Exchange difference	**–**	**221**	**32**	**–**	**–**	**–**	**–**	**2,502**	**2,755**
Depreciation charge for the year	**(62,846)**	**(55,855)**	**(3,833)**	**(8,843)**	**(489)**	**(5,974)**	**(174)**	**–**	**(138,014)**
Closing net book value	**3,431,993**	**1,047,893**	**18,902**	**67,064**	**7,362**	**12,909**	**605**	**477,372**	**5,064,100**
Balance at 30 June 2012									
Cost or valuation	**3,431,993**	**1,050,844**	**37,269**	**131,848**	**7,851**	**39,746**	**1,639**	**477,372**	**5,178,562**
Accumulated depreciation	**–**	**(2,951)**	**(18,367)**	**(64,784)**	**(489)**	**(26,837)**	**(1,034)**	**–**	**(114,462)**
Net book value	**3,431,993**	**1,047,893**	**18,902**	**67,064**	**7,362**	**12,909**	**605**	**477,372**	**5,064,100**

Exploration Work In Progress

The Group has completed its gas exploration project. There are no costs (2011: $85 thousand) associated with this project remaining within capital work in progress.

Impaired Exploration And Development Expenditure

Impaired gas exploration expenditure during the year to 30 June 2012 was nil (30 June 2011: $3.5 million).

Management performed a review of development expenditure within capital work in progress to identify whether any indication for impairment exists. An impairment charge was recognised during the year to 30 June 2012 of $4.8 million which readjusts the assets to recoverable value which is based on fair value less costs to sell (2011: $1.4 million).

	Hydro and thermal assets at fair value $000	Other generation assets at fair value $000	Other plant and equipment at cost $000	Meters at cost $000	Office land and buildings at fair value $000	Computer hardware and tangible software at cost $000	Vehicles at cost $000	Capital work in progress at cost $000	Total $000
COMPANY									
Balance at 1 July 2010									
Cost or valuation	3,149,753	2,656	26,939	91,283	5,997	22,896	1,536	82,676	3,383,736
Accumulated depreciation	–	(626)	(16,726)	(45,479)	–	(16,255)	(863)	–	(79,949)
Net book value	3,149,753	2,030	10,213	45,804	5,997	6,641	673	82,676	3,303,787
Year ended 30 June 2011									
Opening net book value	3,149,753	2,030	10,213	45,804	5,997	6,641	673	82,676	3,303,787
Additions, including transfers from capital work in progress	13,058	823	10,909	25,846	1,001	9,970	154	1,212	62,973
Disposals	(3)	(2,835)	(109)	–	(24)	(88)	(6)	–	(3,065)
Revaluation	219,000	–	–	–	–	–	–	–	219,000
Impairment of exploration and development expenditure	–	–	–	–	–	–	–	(1,423)	(1,423)
Depreciation charge for the year	(66,081)	(2)	(3,689)	(10,754)	(618)	(4,408)	(201)	–	(85,753)
Closing net book value	3,315,727	16	17,324	60,896	6,356	12,115	620	82,465	3,495,519
Balance at 30 June 2011									
Cost or valuation	3,315,727	18	31,778	117,125	6,972	32,628	1,482	82,465	3,588,195
Accumulated depreciation	–	(2)	(14,454)	(56,229)	(616)	(20,513)	(862)	–	(92,676)
Net book value	3,315,727	16	17,324	60,896	6,356	12,115	620	82,465	3,495,519
Year ended 30 June 2012									
Opening net book value	**3,315,727**	**16**	**17,324**	**60,896**	**6,356**	**12,115**	**620**	**82,465**	**3,495,519**
Additions, including transfers from capital work in progress	**14,444**	**15,318**	**2,917**	**15,124**	**1,495**	**6,430**	**32**	**4,791**	**60,551**
Disposals	**(1,332)**	**–**	**(191)**	**(120)**	**–**	**–**	**–**	**–**	**(1,643)**
Revaluation	**166,000**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**166,000**
Impairment of exploration and development expenditure	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,944)**	**(4,944)**
Depreciation charge for the year	**(62,846)**	**(1,022)**	**(3,347)**	**(8,841)**	**(489)**	**(5,843)**	**(155)**	**–**	**(82,543)**
Closing net book value	**3,431,993**	**14,312**	**16,703**	**67,059**	**7,362**	**12,702**	**497**	**82,312**	**3,632,940**
Balance at 30 June 2012									
Cost or valuation	**3,431,993**	**15,334**	**33,790**	**131,840**	**7,851**	**39,058**	**1,486**	**82,312**	**3,743,664**
Accumulated depreciation	**–**	**(1,022)**	**(17,087)**	**(64,781)**	**(489)**	**(26,356)**	**(989)**	**–**	**(110,724)**
Net book value	**3,431,993**	**14,312**	**16,703**	**67,059**	**7,362**	**12,702**	**497**	**82,312**	**3,632,940**

Assets Carried At Fair Value

All hydro, thermal and other generation assets shown at valuation (except consents) were revalued using a net present value methodology by PricewaterhouseCoopers, an independent valuer as at 30 June 2012. This resulted in an increase to the carrying value of generation assets of $170 million in the current year. This is in addition to the $412 million revaluation increase recognised in 2011. As a consequence of the revaluation, accumulated depreciation on these assets was reset to nil.

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.

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
Future wholesale electricity price path	+/- 10%	$616 million / ($616 million)
Discount rate	+/- 0.5%	($547 million) / $416 million
Operational expenditure	+/- 10%	($210 million) / $210 million

Revalued office land and buildings were restated to net market value as determined by Darroch Limited, an independent valuer, on 18 May 2010. At that time the revaluation accumulated depreciation was reset to nil.

The carrying amount of revalued assets had they been recognised at cost are as follows:

	GROUP	GROUP	COMPANY	COMPANY
	2012 $000	2011 $000	2012 $000	2011 $000
Hydro and thermal assets	**1,096,421**	1,106,684	**1,096,421**	1,106,684
Other generation assets	**545,151**	602,158	**–**	11
Office land and buildings	**6,434**	5,433	**6,434**	5,433

Note 13. Intangible Assets

	GROUP				COMPANY		
	Intangible software $000	Rights $000	Goodwill $000	Total $000	Intangible software $000	Rights $000	Total $000
Balance at 1 July 2010							
Cost	64,643	20,839	1,296	86,778	64,619	9,755	74,374
Accumulated amortisation	(47,179)	(7,485)	–	(54,664)	(47,154)	(5,504)	(52,658)
Net book value	17,464	13,354	1,296	32,114	17,465	4,251	21,716
Year ended 30 June 2011							
Opening net book value	17,464	13,354	1,296	32,114	17,465	4,251	21,716
Additions	14,927	5,425	–	20,352	14,898	1,727	16,625
Acquisition of subsidiaries	17	–	–	17	–	–	–
Disposals	(361)	–	–	(361)	(346)	–	(346)
Impaired assets	–	(2,500)	–	(2,500)	–	(2,500)	(2,500)
Exchange difference	(3)	–	–	(3)	–	–	–
Amortisation for the year	(9,100)	(1,698)	–	(10,798)	(9,099)	(1,060)	(10,159)
Closing net book amount	22,944	14,581	1,296	38,821	22,918	2,418	25,336
Balance at 30 June 2011							
Cost	78,222	23,764	1,296	103,282	78,169	8,983	87,152
Accumulated amortisation	(55,278)	(9,183)	–	(64,461)	(55,251)	(6,565)	(61,816)
Net book value	22,944	14,581	1,296	38,821	22,918	2,418	25,336
Year ended 30 June 2012							
Opening net book value	**22,944**	**14,581**	**1,296**	**38,821**	**22,918**	**2,418**	**25,336**
Additions	**13,842**	**11,546**	**–**	**25,388**	**13,735**	**1,607**	**15,342**
Decrease in interest in jointly controlled assets	**–**	**(20)**	**–**	**(20)**	**–**	**–**	**–**
Disposals	**(25)**	**–**	**–**	**(25)**	**(25)**	**–**	**(25)**
Exchange difference	**2**	**(355)**	**–**	**(353)**	**–**	**–**	**–**
Amortisation for the year	**(11,112)**	**(2,904)**	**–**	**(14,016)**	**(11,087)**	**(1,951)**	**(13,038)**
Closing net book amount	**25,651**	**22,848**	**1,296**	**49,795**	**25,541**	**2,074**	**27,615**
Balance at 30 June 2012							
Cost	**91,986**	**34,935**	**1,296**	**128,217**	**91,826**	**10,589**	**102,415**
Accumulated amortisation	**(66,335)**	**(12,087)**	**–**	**(78,422)**	**(66,285)**	**(8,515)**	**(74,800)**
Net book value	**25,651**	**22,848**	**1,296**	**49,795**	**25,541**	**2,074**	**27,615**

The majority of the rights relate to land access agreements for generation development.

All intangible assets except goodwill have been assessed as having a finite life. The costs of finite life intangible assets are amortised over the life of the assets on a straight line basis.

If an indication of impairment arises for finite life intangible assets, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

Goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever there is an indication of impairment.

For the purposes of impairment testing, all goodwill is allocated to one cash generating unit which is not a separately reportable segment. The recoverable amount has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five-year period. The pre-tax cash flow projections are discounted using a pre-tax discount rate of 12%.

Key assumptions in the value in use calculation include gross margin and the discount rate. Gross margin has been based on past performance and Management's expectations of market development. The discount rate reflects Management's estimate of the time value of money and the risks specific to the cash generation unit that are not already reflected in the cash flows.

No impairment charge has been recognised against goodwill as a result of the value in use calculation.

Note 14. Emissions Units

	2012				2011			
	GROUP Units	GROUP $000	COMPANY Units	COMPANY $000	GROUP Units	GROUP $000	COMPANY Units	COMPANY $000
Balance at the beginning of the year	**332,020**	**429**	**331,822**	**425**	–	–	–	–
Allocated units	**307,493**	**–**	**–**	**–**	416,000	–	416,000	–
Purchased units	**461,977**	**5,285**	**261,159**	**3,300**	50,463	1,018	21,213	425
Units received as consideration for sales	**12,861**	**229**	**12,861**	**229**	–	–	–	–
Units surrendered as consideration for purchases	**(51,619)**	**–**	**(51,619)**	**–**	(56,025)	–	(56,025)	–
Surrendered to the Crown	**(131,088)**	**(377)**	**(81,281)**	**–**	(78,418)	(589)	(49,366)	–
Sale of units	**(410,811)**	**(1,243)**	**–**	**–**	–	–	–	–
Balance at the end of the year	**520,833**	**4,323**	**472,942**	**3,954**	332,020	429	331,822	425

The New Zealand Emissions Trading Scheme sets out a transition period which runs from 1 July 2010 to 31 December 2012. During the transition period there is a requirement to surrender one New Zealand Unit (NZU) to the Crown for every two tonnes of emissions produced. After the transition period one NZU will need to be surrendered for every one tonne of emissions produced. The Government announced in July 2012 that it intends to extend the transitional measures beyond 2012.

The Group has agreements with the Crown under the Projects to Reduce Emissions Scheme. These agreements result in the receipt of emission units upon verification of emission reductions generated. The projects have been completed and the first units allocated under those agreements.

The Group has entered into several forward purchase agreements to acquire emissions units to be used to meet its obligations under the emissions trading scheme. The cost of the acquisitions under these contracts are recognised when the units are acquired. Under these contracts the Company expects to acquire 3.6 million emissions units over a 15 year period which will partially satisfy the Group's obligations under the Emissions Trading Scheme. The commitments under these forward purchase agreements are included in note 28.

Note 15. Available For Sale Financial Assets

	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Shares – New Zealand listed	**572**	1,191	**572**	1,191

Available for sale financial assets consist of investments in ordinary shares, they therefore have no fixed maturity date or coupon rates. The fair value has been determined by reference to published price quotations in an active market.

Note 16. Investment In Subsidiaries

	COMPANY 2012 $000	COMPANY 2011 $000
Shares in subsidiaries at cost	**441,505**	231,455

Subsidiaries include:

Name of Entity		% Holding 2012	% Holding 2011	Principal Activity	Country of Incorporation	Balance Date
Direct Subsidiaries						
Mighty River Power Geothermal Limited		100	100	Investment holding	New Zealand	30 June
Mighty River Power Gas Investments Limited		–	100	Investment holding	New Zealand	30 June
Mercury Energy Limited		100	100	Non trading	New Zealand	30 June
Metrix Limited		100	–	Non trading	New Zealand	30 June
ECNZ International Limited		100	100	Investment holding	New Zealand	30 June
Bosco Connect Limited		100	100	Retail of utilities	New Zealand	30 June
Indirect Subsidiaries – Domestic						
Rotokawa Geothermal Limited		100	100	Investment holding	New Zealand	30 June
Rotokawa Generation Limited		100	100	Electricity generation	New Zealand	30 June
Kawerau Geothermal Limited		100	100	Geothermal development	New Zealand	30 June
Ngatamariki Geothermal Limited		100	100	Geothermal development	New Zealand	30 June
Mighty Geothermal Power Limited		100	100	Investment holding	New Zealand	30 June
Mighty Geothermal Power International Limited		100	100	Investment holding	New Zealand	30 June
Special General Partner Limited		100	100	Investment holding	New Zealand	30 June
Indirect Subsidiaries – International						
PT ECNZ Services Indonesia		100	100	Non trading	Indonesia	31 December
Mighty River Power (US) LLC		100	100	Investment holding	United States	30 June
Mighty River Power (UK) Limited		–	100	Non trading	United Kingdom	30 June
GeoGlobal Partners 1 Limited Partnership		99.86	99.86	Investment holding	United Kingdom	30 June
GeoGlobal U.S. Holdings LLC		99.86	99.86	Investment holding	United States	30 June
GeoGlobal U.S. EnergySource LLC		99.86	99.86	Investment holding	United States	30 June
GeoGlobal U.S. Gabbs LLC		99.86	99.86	Geothermal development	United States	30 June
GGE NRI-Peru Holdings Limited		99.86	99.86	Investment holding	Ireland	30 June
GGE FinCo-Peru Limited		99.86	99.86	Finance management	Ireland	30 June
GGE Holdings-Peru Limited		99.86	99.86	Investment holding	Ireland	30 June
GGE Peru Holding LLC		99.86	99.86	Investment holding	United States	30 June
GGE Peru S.R.L.		99.86	99.86	Geothermal development	Peru	30 June
GGE NRI-Chile Holdings Limited		99.86	99.86	Investment holding	Ireland	30 June
GGE FinCo-Chile Limited		99.86	99.86	Finance management	Ireland	30 June
GGE Holdings-Chile Limited		99.86	99.86	Investment holding	Ireland	30 June
GGE Chile Holding LLC		99.86	99.86	Investment holding	United States	30 June
GGE Chile Holdings II Limitada		99.86	99.86	Investment holding	Chile	30 June
Geotermia Curacautín Limitada (formerly GGE Chile SpA)		99.86	99.86	Geothermal development	Chile	30 June
GeoGlobal Energy Exploración Limitada	*	99.86	99.86	Geothermal development	Chile	30 June
GGE NRI-Germany Holdings Limited		99.86	99.86	Investment holding	Ireland	30 June
GGE FinCo-Germany Limited		99.86	99.86	Finance management	Ireland	30 June
GGE Holdings-Germany Limited		99.86	99.86	Investment holding	Ireland	30 June
Erdwärme Bayern Management GmbH		99.86	99.86	Investment holding	Germany	30 June
Erdwärme Bayern GmbH & Co. KG		99.86	99.86	Investment holding	Germany	30 June
Erdwärme Bayern Asset Management GmbH & Co. KG		99.86	99.86	Investment holding	Germany	30 June
Erdwärme Oberland GmbH		99.86	99.86	Geothermal development	Germany	30 June
Erdwärme Chiemgau GmbH	#	99.86	–	Geothermal development	Germany	30 June
Erdwärme Aying GmbH	#	99.86	–	Geothermal development	Germany	30 June
Erdwärme Alz GmbH	#	99.86	–	Geothermal development	Germany	30 June
Erdwärme Isar GmbH	#	99.86	–	Geothermal development	Germany	30 June

Erdwärme Bayern Asset Management GmbH & Co. KG acquired four shell companies on 7 November 2011.

* GGE Chile SpA performed a spin off effective 2 March 2012 which resulted in the creation of GeoGlobal Energy Exploración Limitada. At that time GGE Chile SpA also changed its name to Geotermia Curacautín Limitada.

During the year the company recapitalised a number of its subsidiaries by $210,050,000. Consideration was by way of reduction in related party loans.

Mighty River Power Gas Investments was amalgamated, by way of short-form amalgamation under section 222 of the Companies Act 1993, with Mighty River Power Limited on 31 December 2011.

In the 2011 parent financial statements a write down of the investment in Mighty River Power Gas Investments Limited, previously recorded at cost, was recorded for $52.9 million. The exploration and development expenditure associated with this investment was impaired at Group level progressively over several years. As this impairment has already been recorded in the Group's financial statements, it had no impact on the 2011 reported results of the Group.

Note 17. Investment And Advances To Associates

	GROUP	GROUP	COMPANY	COMPANY
	2012 $000	2011 $000	2012 $000	2011 $000
Balance at the beginning of the year	**76,252**	113,614	**4,535**	31,806
Additions during the year	**–**	52,251	**–**	631
Equity accounted earnings	**2,852**	2,069	**–**	–
Equity accounted share of movement in other comprehensive income	**1,165**	(3,065)	**–**	–
Dividends received during the year	**(3,513)**	(1,525)	**–**	–
Repayment of advances during the year	**–**	(27,006)	**–**	(27,006)
Loans originally made to associates converted to equity when the entities became subsidiaries of GeoGlobal Partners 1 Limited Partnership	**–**	(54,289)	**–**	–
Accrued interest on advances	**–**	339	**–**	308
Exchange movements	**397**	(5,259)	**15**	(1,204)
Impaired investment in associate	**869**	(877)	**(8)**	–
Balance at the end of the year	**78,022**	76,252	**4,542**	4,535

Associates include:

Name of entity	Interest Held 2012	Interest Held 2011	Principal activity	Country of incorporation
TPC Holdings Limited	**25.00%**	25.00%	Investing in Tuaropaki Power Company Limited	New Zealand
Hot Water Innovations Limited	**34.71%**	34.71%	Development of a hot water storage solution	New Zealand
GeoGlobal Energy LLC	**29.23%**	29.23%	Geothermal development	United States
EnergyHedge Limited	**0.00%**	20.00%	Operator EnergyHedge electricity hedge trading market	New Zealand

The investment in TPC Holdings Limited includes a $15 million prepayment made in 2008 for an additional interest which will be acquired upon the commissioning of an expansion, or at another date agreed by both parties. It also includes an $8 million payment in compensation for the extension and variation of the shareholders agreement from 2027 to 2037 at which point the equity in TPC Holdings Limited will revert to Tuaropaki Kaitiaki Limited for $1 plus working capital adjustments. The impairment charge recognised in the prior year has been reversed following an internal valuation that supported the previous carrying value of the investment.

On 21 November 2011 EnergyHedge Limited was liquidated and removed from the Companies Office register.

Aggregate summary financial information of associates, not adjusted for the percentage held by the Group

	GROUP	GROUP
	2012 $000	2011 $000
Total assets	**562,536**	566,668
Total liabilities	**361,498**	372,272
Total revenues	**83,196**	72,060
Total profit for the year	**16,072**	16,109

Note 18. Investment In Jointly Controlled Assets

	Interest Held		
Name of joint venture	**2012**	**2011**	**Principal activity**
Rotokawa	**64.80%**	74.68%	Steamfield operation
Nga Awa Purua	**65.00%**	75.00%	Electricity generation

The joint venture partner in Rotokawa and Nga Awa Purua exercised an option to acquire an additional 9.88% and 10% interest in the respective joint ventures. Proceeds of $40.5 million were recognised on the disposal of the interests which was effective from 31st March 2012.

Note 19. Investment In Jointly Controlled Entities

	GROUP	GROUP	COMPANY	COMPANY
	2012 $000	**2011 $000**	**2012 $000**	**2011 $000**
Balance at the beginning of the year	**98,970**	111,926	**–**	–
Additions during the year	**2,001**	4,130	**–**	–
Equity accounted earnings	**(27,655)**	2,935	**–**	–
Equity accounted share of movements in other comprehensive income	**31,621**	–	**–**	–
Exchange movements	**3,167**	(20,021)	**–**	–
Balance at the end of the year	**108,104**	98,970	**–**	–

Jointly controlled entities include:

	Economic Interest Held			
Name of entity	**2012**	**2011**	**Principal activity**	**Country of incorporation**
Energy Source LLC	**20.31%**	20.27%	Investment holding	United States
Hudson Ranch Holdings LLC	**75.00%**	75.00%	Investment holding	United States

The Group's interest in the above jointly controlled entities is held by GeoGlobal U.S. EnergySource LLC.

Due to the nature of the contractual arrangement that surround these 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. The Hypothetical Liquidation at Book Value method closely approximates the equity accounting method at balance date.

Aggregate summary financial information of jointly controlled entities, not adjusted for the percentage held by the Group

	GROUP	GROUP
	2012 $000	**2011 $000**
Total assets	**705,302**	414,386
Total liabilities	**546,095**	258,686
Total revenues	**22,735**	1,942
Total loss for the year	**(50,048)**	(11,942)

The losses of jointly controlled entities in the current year mainly relate to fair value losses on interest rate derivatives. The losses of jointly controlled entities in the 2011 year mainly arose due to an increase in the level of feasibility expenditure.

Note 20. Advances

	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Loan to Rotokawa joint venture partner	**13,992**	10,877	**–**	–

For terms and conditions of related party receivables refer to note 30.

Note 21. Payables And Accruals

	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Trade payables and accruals	**294,597**	189,733	**255,141**	169,888
Employee entitlements	**8,521**	6,582	**7,642**	6,191
Sundry creditors	**1,606**	2,790	**1,035**	1,822
Related party payables	**1,660**	2,624	**–**	–
	306,384	201,729	**263,818**	177,901
Current	**289,221**	180,431	**246,655**	156,603
Non-current	**17,163**	21,298	**17,163**	21,298
	306,384	201,729	**263,818**	177,901

Trade payables are non-interest bearing and are normally settled on 30 – 60 day terms, except for a swaption premium which is payable over 5 years.

Note 22. Provisions

	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Balance at the beginning of the year	**4,200**	2,673	**230**	211
Provisions made during the year	**2,217**	1,215	**1,746**	–
Movement in effect of discounting	**129**	312	**17**	19
Balance at the end of the year	**6,546**	4,200	**1,993**	230

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 23. Loans

	Borrowing Currency Denomination	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Notional value of bank loans	NZD	**140,144**	91,087	**140,144**	91,087
Notional value of fixed rate bonds (unsecured)	NZD	**304,254**	304,243	**304,254**	304,243
Notional value of floating rate bonds (unsecured)	NZD	**351,076**	351,082	**351,076**	351,082
Notional value of US Private Placement	USD	**260,906**	260,881	**260,906**	260,881
Notional value of commercial paper programme (unsecured)	NZD	**99,517**	–	**99,517**	–
Deferred financing costs		**(2,010)**	(2,728)	**(2,010)**	(2,728)
Fair value adjustments		**27,485**	(19,084)	**27,485**	(19,084)
Carrying value of loans		**1,181,372**	985,481	**1,181,372**	985,481
Current		**305,684**	12,081	**305,684**	12,081
Non-current		**875,688**	973,400	**875,688**	973,400
		1,181,372	985,481	**1,181,372**	985,481

The NZD denominated bank loans represent $140 million drawn against $650 million of committed and unsecured bank loan facilities with final repayment due in December 2015. The remaining undrawn $510 million provides liquidity support, with $250 million due in December 2013, $200 million in March 2015, and $60 million due in December 2015. The average interest rate for the drawn $140 million bank facility at 30 June 2012 was 3.4% (3.4% as at 30 June 2011).

The $300 million Fixed Rate Bonds consist of $200 million retail bonds with an interest rate of 8.36% expiring in May 2013, $70 million wholesale bonds with an interest rate of 7.55% expiring in October 2016, and $30 million wholesale bonds with an interest rate of 8.21% expiring in February 2020.

The unsecured and unsubordinated credit wrapped Floating Rate Bonds of $300 million have a maturity in September 2021, unless the Company exercises its early repayment option to redeem the Bonds annually from the 7th anniversary (7 Sep 2013) of the issue date.

The unsecured and unsubordinated wholesale Floating Rate Bonds of $50 million mature on 12 October 2016. The average interest rate as at 30 June 2012 was 4.6% (4.5% as at 30 June 2011).

The US Private Placement are USD denominated Notes issued in December 2010 to US based institutional investors and consist of US$125 million 10 year notes, US$30 million 12 year notes, and US$45 million 15 year notes with fixed rate coupons of 4.25%, 4.35% and 4.6% respectively. The proceeds from the US Private Placements have been swapped to NZD through cross currency interest rate swaps to eliminate foreign exchange and USD interest rate risks. Foreign borrowings are held at amortised cost less deferred financing costs adjusted by fair value movements associated with fair value hedges.

In February 2012 the Group established a $200 million Commercial Paper programme which is fully backed by committed and undrawn bank facilities. Notes issued under the programme are short-term money market instruments, unsecured and unsubordinated and targeted at professional investors. The programme is rated A2 by Standard & Poor's and as at 30 June 2012 $100 million of notes have been issued.

The Company has entered into a Master Trust Deed and Supplementary Trust Deeds for all its NZD denominated Fixed and Floating Rate Bonds with the New Zealand Guardian Trust Company Limited, acting as trustee for the holders of the Fixed and Floating Rate Bonds, 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 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.

Note 24. Deferred Tax

(i) Recognised deferred tax assets and liabilities

	Assets 2012 $000	Assets 2011 $000	Liabilities 2012 $000	Liabilities 2011 $000	Net 2012 $000	Net 2011 $000
GROUP						
Property, plant and equipment	**–**	–	**(1,001,381)**	(950,201)	**(1,001,381)**	(950,201)
Financial instruments	**104,704**	92,900	**(15,580)**	(21,319)	**89,124**	71,581
Employee benefits and other provisions	**1,193**	1,162	**–**	–	**1,193**	1,162
Other	**2,894**	2,286	**(196)**	(170)	**2,698**	2,116
	108,791	96,348	**(1,017,157)**	(971,690)	**(908,366)**	(875,342)
COMPANY						
Property, plant and equipment	**–**	–	**(814,241)**	(775,160)	**(814,241)**	(775,160)
Financial instruments	**110,058**	86,308	**(22,931)**	(21,570)	**87,127**	64,738
Employee benefits and other provisions	**1,152**	1,133	**–**	–	**1,152**	1,133
Other	**2,123**	2,042	**(120)**	(170)	**2,003**	1,872
	113,333	89,483	**(837,292)**	(796,900)	**(723,959)**	(707,417)

(ii) The movement in deferred tax

	Property, plant and equipment $000	Financial instruments $000	Employee entitlements $000	Other $000	Total $000
GROUP					
Balance as at 1 July 2010	(838,140)	45,952	1,498	1,096	(789,594)
Charged/(credited) to the income statement	2,743	7,177	(269)	1,074	10,725
Charged/(credited) to other comprehensive income	(125,040)	20,782	–	–	(104,258)
Balance transferred to joint venture partner	165	–	–	–	165
Change in tax rate recognised in the income statement	1,826	(882)	(67)	(54)	823
Change in tax rate recognised in other comprehensive income	8,245	(1,448)	–	–	6,797
Balance as at 30 June 2011	(950,201)	71,581	1,162	2,116	(875,342)
Balance as at 1 July 2011	**(950,201)**	**71,581**	**1,162**	**2,116**	**(875,342)**
Charged/(credited) to the income statement	**5,387**	**27,069**	**31**	**605**	**33,092**
Charged/(credited) to other comprehensive income	**(58,358)**	**(8,480)**	**–**	**–**	**(66,838)**
Partial disposal of interest in jointly controlled assets	**1,791**	**(1,046)**	**–**	**(23)**	**722**
Balance as at 30 June 2012	**(1,001,381)**	**89,124**	**1,193**	**2,698**	**(908,366)**
COMPANY					
Balance as at 1 July 2010	(721,721)	44,193	1,481	911	(675,136)
Charged/(credited) to the income statement	7,264	7,511	(284)	1,005	15,496
Charged/(credited) to other comprehensive income	(67,065)	15,014	–	–	(52,051)
Balances transferred	322	–	–	–	322
Change in tax rate recognised in the income statement	1,660	(905)	(64)	(44)	647
Change in tax rate recognised in other comprehensive income	4,380	(1,075)	–	–	3,305
Balance as at 30 June 2011	(775,160)	64,738	1,133	1,872	(707,417)
Balance as at 1 July 2011	**(775,160)**	**64,738**	**1,133**	**1,872**	**(707,417)**
Charged/(credited) to the income statement	**5,297**	**25,888**	**19**	**131**	**31,335**
Charged/(credited) to other comprehensive income	**(44,354)**	**(3,499)**	**–**	**–**	**(47,853)**
Balances transferred	**(24)**	**–**	**–**	**–**	**(24)**
Balance as at 30 June 2012	**(814,241)**	**87,127**	**1,152**	**2,003**	**(723,959)**

The corporate income tax rate changed from 30% to 28% effective for the Group from 1 July 2011. An adjustment was made to deferred tax in 2011 in relation to temporary differences that reverse after that date.

Tax depreciation deductions are disallowed for buildings from 1 July 2011. An adjustment to deferred tax was made in the 2010 year relating to office and other buildings. While it is Management's view that powerhouse assets should not be captured, they accept that there is a potential risk that a portion of the asset may be considered by the Inland Revenue to be a building for tax purposes with the balance more appropriately being identified as plant. Consequently, as a prudent measure, a deferred tax liability was also recognised for a portion of the powerhouse assets. Deferred tax was increased by $9.8 million as a result of this change. In the event that all powerhouse assets were deemed to be buildings by the Inland Revenue an additional deferred tax liability of $21.3 million would need to be recognised.

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 forseeable future under existing income tax legislation.

Note 25. Financial Risk Management

The Group's principal financial instruments comprise receivables, payables, cash and short term deposits, debt, available for sale investments and derivatives.

Exposure to price, credit, foreign exchange, liquidity and interest rate risks arises in the normal course of the Group's business. 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. The Group uses derivative financial instruments to hedge these exposures.

Risk management is carried out by a central Treasury function (Treasury) for interest rate and foreign exchange exposures. Risk management activities in respect of electricity exposures are undertaken by the Generation Group (Generation). Both Treasury and Generation operate under policies approved by the Board of Directors.

Price Risk – Energy Contracts

The Group enters into energy contracts that establish a fixed price at which future specified quantities of electricity are purchased, sold or otherwise exchanged. The Group's exposure to spot electricity prices is limited by the Board approved Market and Credit Risk Policy.

On maturity of the energy contracts, any difference between the contract price and the spot market price is settled between the parties. Settlement occurs irrespective of the amount of electricity actually supplied or consumed.

At balance date, the principal value of energy contracts, including both buy and sell contracts, some with terms of up to 15 years, were:

	GROUP	GROUP	COMPANY	COMPANY
	2012 $000	2011 $000	2012 $000	2011 $000
Energy contracts	**3,419,863**	3,408,191	**3,462,622**	3,325,934

Sensitivity analysis

The following table summarises the impact of increases and decreases in the relevant electricity forward prices on the Group and Company's post tax profit for the year and on other components of equity. The sensitivity analysis is based on an assessment of the reasonably possible movements in forward price, with all other variables held constant.

	Impact on post tax profit		Impact on equity	
	2012 $000	2011 $000	2012 $000	2011 $000
GROUP				
Electricity forward price increased by 10%	**15,331**	7,613	**(61,211)**	(45,737)
Electricity forward price decreased by 10%	**(14,702)**	(7,319)	**61,211**	45,737
COMPANY				
Electricity forward price increased by 10%	**15,198**	7,596	**(57,500)**	(39,247)
Electricity forward price decreased by 10%	**(14,572)**	(7,303)	**57,500**	39,247

Credit Risk

To the extent that the Group has a receivable from another party there is a credit risk in the event of non-performance by that counterparty. Financial instruments that potentially subject the Group to credit risk principally consist of bank balances, receivables, investments and derivative financial instruments.

The Group manages its exposure to credit risk under policies approved by the Board of Directors. The Group performs credit evaluations on all electricity customers and normally requires a bond from customers who have yet to establish a suitable credit history. Customer bonds of $1.2 million are held in a separate bank account (2011: $1.9 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. The Group monitors the credit quality of the major counterparties to its derivative financial instruments and does not anticipate non-performance by them.

With respect to energy contracts, the Group has potential credit risk exposure to the counterparty dependent on the spot market price at settlement, although it does not anticipate any non performance of any obligations which may exist on maturity of these contracts. Credit risk in relation to these counterparties is managed in accordance with the Market and Credit Risk Policy.

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. However, in the case of offshore bank accounts credit risk is reduced in the United States (through FDIC insurance) and in Chile (under Chilean law) while German law offers partial protection. Credit risk through these means has been reduced by $7.8 million.

Included in receivables are the following balances:

	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Energy Clearing House Limited	**65,260**	32,013	**51,469**	25,618

The Group does not have any other significant concentrations of credit risk.

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, New Zealand dollars (NZD). The currencies giving rise to this risk are primarily US dollar, Japanese yen, Pound sterling, Euro, Australian dollar, Chilean peso and Peruvian Nuevo Sol.

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 support its domestic capital expenditure programme. To do this foreign exchange contracts are taken out to hedge spot rate risk on highly probable forecast transactions where there is some uncertainty around timing. These contracts are rolled on an instalment basis until there is certainty around both the amount and timing of payments at which time the contracts are rolled into specific contracts hedging those cash flows.

The hedged anticipated transactions denominated in foreign currency are expected to occur at various dates between 1 month and 5 years from balance date. Gains and losses in the cash flow hedge reserve on foreign currency forward exchange contracts as at 30 June will be released when the underlying anticipated transactions occur and will be recognised in the income statement or capitalised to the cost of the asset acquired.

At balance date the principal or contract amounts of foreign currency forward exchange contracts are:

	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Foreign currency forward exchange contracts	**97,588**	218,365	**97,717**	218,365

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 through the use of derivative contracts or through borrowings denominated in the same currency.

At balance date the Group has US funds of US$0.5 million (2011: US$1.2 million), Japanese funds of ¥0.3 million (2011: ¥0.6 million), Euro funds of €0.2 million (2011: €0.0 million), Australian funds of A$0.0million (2011: A$0.1 million) Chilean Pesos of $4.2 million (2011: $0.7 million) and Peruvian Nuevo Sol of $8.1 thousand (2011: nil) held in foreign currency bank accounts that are not hedged. This excludes bank accounts held in the functional currency of offshore subsidiaries.

Sensitivity analysis

The following table summarises the impact on post tax profits and other components of equity of the New Zealand dollar weakening or strengthening against the most significant currencies for which the Group has foreign exchange exposure. The sensitivity analysis is based on an assessment of the reasonably possible movements in foreign exchange rates over a one year period based on the average actual movements experienced over the prior 10 years, with all other variables held constant.

	Impact on post tax profit		Impact on equity	
	GROUP 2012 $000	GROUP 2011 $000	GROUP 2012 $000	GROUP 2011 $000
New Zealand Dollar – United States Dollar				
Currency strengthens by 10% (2011: 7.5%)	**195**	153	**(19,836)**	(17,754)
Currency weakens by 10% (2011: 10%)	**(238)**	(244)	**24,245**	28,276
New Zealand Dollar – Japanese Yen				
Currency strengthens by 10% (2011: 7.5%)	**–**	–	**(207)**	(312)
Currency weakens by 10% (2011: 10%)	**–**	–	**253**	497
New Zealand Dollar – Euro				
Currency strengthens by 10% (2011: 7.5%)	**–**	–	**(408)**	(418)
Currency weakens by 10% (2011: 10%)	**–**	–	**408**	665

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.

Financial instruments are held to protect a portion of future borrowings forecast to fund the capital expenditure programme, even though the underlying facility is not yet placed.

At balance date the principal or contract amounts of interest rate swaps and interest rate options outstanding (including forward starts) are:

	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Interest rate swaps	**2,715,824**	2,745,824	**2,715,824**	2,745,824
Interest rate options	**100,000**	100,000	**100,000**	100,000

Sensitivity analysis

The following table summarises the impact on post tax profit due to movements in interest rates. The 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, with all other variables held constant. 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. There would be no effect on other components of equity.

	Impact on post tax profit	
	GROUP and COMPANY	
	2012 $000	2011 $000
Interest rates higher by 100 bpts (2011: 100 bpts)	**47,019**	44,680
Interest rates lower by 100 bpts (2011: 50 bpts)	**(51,804)**	(23,785)

Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of various funding sources. The Group's ability to readily attract cost effective funding is largely driven by its credit rating.

Liquidity risk is monitored by continuously forecasting cash flows and matching these to funding facilities. Policy requires that prescribed headroom is available in undrawn and committed facilities to cover unanticipated needs and that only a limited amount of facilities mature over the immediate 12 month forward-looking period.

Non derivative financial liabilities

The following liquidity risk disclosures reflect all contractually fixed payoffs, repayments and interest from recognised financial liabilities as of 30 June. The timing of cash flows for liabilities is based on the contractual terms of the underlying contract. However, where the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay. It should be noted that the amounts presented are contracted undiscounted cash flows consequently the totals will not reconcile with the amounts recognised on the Balance Sheet.

Liquid non-derivative assets comprising cash and receivables are considered in the Group's overall liquidity risk. The Group ensures that a combination of liquid assets and undrawn facilities are available to meet all the required short term cash payments.

	Less than 6 months $000	6 to 12 months $000	1 to 5 years $000	Later than 5 years $000	Total $000
GROUP JUNE 2012					
Liquid financial assets					
Cash and cash equivalents	**38,296**	**–**	**–**	**–**	**38,296**
Receivables	**305,688**	**571**	**5,751**	**–**	**312,010**
	343,984	**571**	**5,751**	**–**	**350,306**
Financial liabilities					
Payables and accruals	**(289,221)**	**–**	**(17,163)**	**–**	**(306,384)**
Loans	**(125,269)**	**(224,892)**	**(391,451)**	**(715,262)**	**(1,456,874)**
	(414,490)	**(224,892)**	**(408,614)**	**(715,262)**	**(1,763,258)**
Net inflow/(outflow)	**(70,506)**	**(224,321)**	**(402,863)**	**(715,262)**	**(1,412,952)**

	Less than 6 months $000	6 to 12 months $000	1 to 5 years $000	Later than 5 years $000	Total $000
GROUP JUNE 2011					
Liquid financial assets					
Cash and cash equivalents	28,722	–	–	–	28,722
Receivables	192,354	–	378	–	192,732
	221,076	–	378	–	221,454
Financial liabilities					
Payables and accruals	(180,431)	–	(21,298)	–	(201,729)
Loans	(29,492)	(23,837)	(445,411)	(890,169)	(1,388,909)
	(209,923)	(23,837)	(466,709)	(890,169)	(1,590,638)
Net inflow/(outflow)	11,153	(23,837)	(466,331)	(890,169)	(1,369,184)

	Less than 6 months $000	6 to 12 months $000	1 to 5 years $000	Later than 5 years $000	Total $000
COMPANY JUNE 2012					
Liquid financial assets					
Cash and cash equivalents	**15,750**	**–**	**–**	**–**	**15,750**
Receivables	**271,847**	**1,630**	**–**	**–**	**273,477**
	287,597	**1,630**	**–**	**–**	**289,227**
Liabilities					
Payables and accruals	**(246,655)**	**–**	**(17,163)**	**–**	**(263,818)**
Loans	**(125,269)**	**(224,892)**	**(391,451)**	**(715,262)**	**(1,456,874)**
	(371,924)	**(224,892)**	**(408,614)**	**(715,262)**	**(1,720,692)**
Net inflow/(outflow)	**(84,327)**	**(223,262)**	**(408,614)**	**(715,262)**	**(1,431,465)**

	Less than 6 months $000	6 to 12 months $000	1 to 5 years $000	Later than 5 years $000	Total $000
COMPANY JUNE 2011					
Liquid financial assets					
Cash and cash equivalents	3,758	–	–	–	3,758
Receivables	173,496	–	1,511	–	175,007
	177,254	–	1,511	–	178,765
Liabilities					
Payables and accruals	(156,603)	–	(21,298)	–	(177,901)
Loans	(29,492)	(23,837)	(445,411)	(890,169)	(1,388,909)
	(186,095)	(23,837)	(466,709)	(890,169)	(1,566,810)
Net inflow/(outflow)	(8,841)	(23,837)	(465,198)	(890,169)	(1,388,045)

While the above table gives the impression of a liquidity shortfall, the analysis does not take into account expected future operating cash flows or committed and undrawn debt facilities which will provide additional liquidity support. For example, net cash provided by operating activities over the last two financial years has averaged $284.9 million. At balance date, $510 million of committed and undrawn debt facilities existed which will enable the Group to meet its short-term obligations.

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. As mentioned previously 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 $000	6 to 12 months $000	1 to 5 years $000	Later than 5 years $000	Total $000
GROUP JUNE 2012					
Derivative liabilities – net settled	**(26,988)**	**(24,530)**	**(200,734)**	**(212,363)**	**(464,615)**
Derivative liabilities – gross settled					
Inflows	**97,219**	**–**	**–**	**–**	**97,219**
Outflows	**(100,997)**	**–**	**–**	**–**	**(100,997)**
Net maturity	**(30,766)**	**(24,530)**	**(200,734)**	**(212,363)**	**(468,393)**

	Less than 6 months $000	6 to 12 months $000	1 to 5 years $000	Later than 5 years $000	Total $000
GROUP JUNE 2011					
Derivative liabilities – net settled	(16,881)	(30,852)	(141,049)	(167,056)	(355,838)
Derivative liabilities – gross settled					
Inflows	206,622	–	–	–	206,622
Outflows	(216,120)	–	–	–	(216,120)
Net maturity	(26,379)	(30,852)	(141,049)	(167,056)	(365,336)

	Less than 6 months $000	6 to 12 months $000	1 to 5 years $000	Later than 5 years $000	Total $000
COMPANY JUNE 2012					
Derivative liabilities – net settled	**(27,050)**	**(24,615)**	**(200,801)**	**(212,363)**	**(464,829)**
Derivative liabilities – gross settled					
Inflows	**97,348**	**–**	**–**	**–**	**97,348**
Outflows	**(101,132)**	**–**	**–**	**–**	**(101,132)**
Net maturity	**(30,834)**	**(24,615)**	**(200,801)**	**(212,363)**	**(468,613)**

	Less than 6 months $000	6 to 12 months $000	1 to 5 years $000	Later than 5 years $000	Total $000
COMPANY JUNE 2011					
Derivative liabilities – net settled	(16,935)	(30,983)	(141,312)	(167,056)	(356,286)
Derivative liabilities – gross settled					
Inflows	206,622	–	–	–	206,622
Outflows	(216,120)	–	–	–	(216,120)
Net maturity	(26,433)	(30,983)	(141,312)	(167,056)	(365,784)

The above tables summarise the payments that are expected to be made in relation to derivative liabilities. The Group and Company also expect 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 and Company to meet its obligations.

Fair Values

The carrying amount of financial assets and liabilities recorded in the financial statements approximates their fair values except for the Fixed Rate Bonds and the US Private Placement, the fair values for which have been calculated at $324 million (2011: $326 million) and $262 million (2011: $234 million) respectively based on quoted market prices for each bond issue.

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 for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

	Quoted market price	Valuation technique market observable inputs	Valuation technique non-market observable inputs	Total
GROUP JUNE 2012	Level 1 $000	Level 2 $000	Level 3 $000	$000
Financial assets				
Derivative instruments				
Interest rate derivatives	**–**	**29,676**	**–**	**29,676**
Cross currency interest rate derivatives	**–**	**19,787**	**–**	**19,787**
Electricity price derivatives	**–**	**–**	**124,744**	**124,744**
Available for sale investments				
Listed investments	**572**	**–**	**–**	**572**
	572	**49,463**	**124,744**	**174,779**
Financial liabilities				
Derivative instruments				
Interest rate derivatives	**–**	**249,127**	**–**	**249,127**
Cross currency interest rate derivatives	**–**	**10,014**	**–**	**10,014**
Electricity price derivatives	**–**	**–**	**181,266**	**181,266**
Foreign exchange rate derivatives	**–**	**3,282**	**–**	**3,282**
	–	**262,423**	**181,266**	**443,689**

	Quoted market price	Valuation technique market observable inputs	Valuation technique non-market observable inputs	Total
GROUP JUNE 2011	Level 1 $000	Level 2 $000	Level 3 $000	$000
Financial assets				
Derivative instruments				
Interest rate derivatives	–	21,106	–	21,106
Electricity price derivatives	–	–	127,448	127,448
Foreign exchange rate derivatives	–	4	–	4
Available for sale investments				
Listed investments	1,191	–	–	1,191
	1,191	21,110	127,448	149,749
Financial liabilities				
Derivative instruments				
Interest rate derivatives	–	144,431	–	144,431
Cross currency interest rate derivatives		42,324		42,324
Electricity price derivatives	–	–	201,863	201,863
Foreign exchange rate derivatives	–	10,404	–	10,404
	–	197,159	201,863	399,022

	Quoted market price	Valuation technique market observable inputs	Valuation technique non-market observable inputs	Total
COMPANY JUNE 2012	Level 1 $000	Level 2 $000	Level 3 $000	$000
Financial assets				
Derivative instruments				
Interest rate derivatives	**–**	**29,676**	**–**	**29,676**
Cross currency interest rate derivatives	**–**	**19,787**	**–**	**19,787**
Electricity price derivatives	**–**	**–**	**132,382**	**132,382**
Available for sale investments				
Listed investments	**572**	**–**	**–**	**572**
	572	**49,463**	**132,382**	**182,417**
Financial liabilities				
Derivative instruments				
Interest rate derivatives	**–**	**249,127**	**–**	**249,127**
Cross currency interest rate derivatives	**–**	**10,014**	**–**	**10,014**
Electricity price derivatives	**–**	**–**	**182,949**	**182,949**
Foreign exchange rate derivatives	**–**	**3,274**	**–**	**3,274**
	–	**262,415**	**182,949**	**445,364**

COMPANY JUNE 2011	Quoted market price Level 1 $000	Valuation technique market observable inputs Level 2 $000	Valuation technique non-market observable inputs Level 3 $000	Total $000
Financial assets				
Derivative instruments				
Interest rate derivatives	–	21,106	–	21,106
Electricity price derivatives	–	–	152,992	152,992
Foreign exchange rate derivatives	–	4	–	4
Available for sale investments				
Listed investments	1,191	–	–	1,191
	1,191	21,110	152,992	175,293
Financial liabilities				
Derivative instruments				
Interest rate derivatives	–	144,431	–	144,431
Cross currency interest rate derivatives	–	42,324	–	42,324
Electricity price derivatives	–	–	205,370	205,370
Foreign exchange rate derivatives	–	10,404	–	10,404
	–	197,159	205,370	402,529

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs. The fair value of the listed equity investments are based on quoted market prices.

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 rate derivatives not traded on a recognised exchange.

Financial instruments that use a valuation technique which includes non-market observable data include electricity derivatives which are valued using a discounted cash flow methodology using a combination of ASX market prices for the first five years, combined with Management's internal view of forward prices for the remainder of the contracts. Management's internal view of forward prices 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 variables 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 variable. The selection of the variables requires significant judgement, and therefore there is a range of reasonably possible assumptions in respect of these variables that could be used in estimating the fair values of these derivatives. Maximum use is made of observable market data when selecting variables and developing assumptions for the valuation technique.

Reconciliation of Level 3 fair value movements

	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Opening balance	**(74,415)**	(42,844)	**(52,378)**	(36,523)
New contracts	**4,448**	21,482	**5,029**	18,865
Matured contracts	**(2,197)**	(5,081)	**(13,100)**	(4,532)
Ineffectiveness of electricity derivative cash flow hedges recognised through the income statement	**37**	(1,959)	**37**	(1,850)
Gains and losses				
Through the income statement	**(3,347)**	2,770	**(1,523)**	2,770
Through other comprehensive income	**18,952**	(48,783)	**11,368**	(31,108)
Closing balance	**(56,522)**	(74,415)	**(50,567)**	(52,378)

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 ASX 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.

	GROUP	GROUP	COMPANY	COMPANY
Electricity price derivatives	2012 $000	2011 $000	2012 $000	2011 $000
Opening deferred inception gains/(losses)	**41,765**	27,740	**25,497**	4,874
Deferred inception gains/(losses) on new hedges	**1,830**	13,056	**1,830**	16,149
Deferred inception gains/(losses) realised during the year	**(3,698)**	969	**(1,829)**	4,474
Closing inception gains/(losses)	**39,897**	41,765	**25,498**	25,497

Capital Risk Management Objectives

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 the shareholders, capital may be returned or injected or assets sold to reduce borrowings.

Consistent with others in the industry, the Group monitors capital on the basis of the 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:

	GROUP	GROUP
	2012 $000	2011 $000
Loans at carrying value	**1,181,372**	985,481
Fair value adjustments US Private Placement	**(27,485)**	19,084
Less cash and cash equivalents	**(38,296)**	(28,722)
Net debt	**1,115,591**	975,843
Total equity	**3,014,162**	2,906,542
Total capital	**4,129,753**	3,882,385
Gearing Ratio	**27.0%**	25.1%

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 minimum shareholder's equity.

The Group also seeks to maintain its current credit metrics sufficient to support the credit rating on an ongoing basis and monitors its position against the following thresholds:

		GROUP	GROUP
	Threshold	2012 $000	2011 $000
Free funds from operations interest coverage (x)	4.0	**4.1**	4.8
Free funds from operations to total debt (%)	25.0%	**25.0%**	30.9%

Note 26. Derivative Financial Instruments

The fair values of derivative financial instruments together with the designation of their hedging relationship are summarised below:

	GROUP 2012 $000	Restated GROUP 2011 $000	COMPANY 2012 $000	Restated COMPANY 2011 $000
CURRENT				
Interest rate derivative assets	**6,570**	4,335	**6,570**	6,421
Electricity price derivative assets	**8,506**	15,761	**11,385**	22,302
Foreign exchange rate derivative assets	**–**	4	**–**	4
Cross currency interest rate derivative asset	**693**	–	**693**	–
	15,769	20,100	**18,648**	28,727
Interest rate derivative liabilities	**7,434**	4,388	**7,434**	4,388
Electricity price derivative liabilities	**13,063**	9,706	**13,063**	9,706
Foreign exchange rate derivative liabilities	**3,282**	10,404	**3,274**	10,404
	23,779	24,498	**23,771**	24,498
NON-CURRENT				
Interest rate derivative assets	**23,106**	16,771	**23,106**	14,685
Electricity price derivative assets	**116,238**	111,687	**120,997**	130,690
Cross currency interest rate derivative asset	**19,094**	–	**19,094**	–
	158,438	128,458	**163,197**	145,375
Interest rate derivative liabilities	**241,693**	140,043	**241,693**	140,043
Cross currency interest rate derivative liabilities	**–**	30,287	**–**	30,287
Cross currency interest rate derivative liabilities – margin	**10,014**	12,037	**10,014**	12,037
Electricity price derivative liabilities	**168,203**	192,157	**169,886**	195,664
	419,910	374,524	**421,593**	378,031

The current/non-current split of the fair value of interest rate derivatives was restated in the 31 December 2011 interim financial statements. Accounting standards state that derivatives are classified as held for trading unless they are accounted for as hedges. The held for trading category would usually be expected to carry a designation of current. However, if the intent is not to actually trade instruments with maturities greater than one year but to hold them long term to match the maturities of the underlying debt that they are hedging, then those instruments would more appropriately be classified as non-current. As a consequence the fair value of interest rate derivatives with maturities greater than 12 months have now been reclassified from current to non-current for the comparative period.

Interest rate derivatives, short term low value foreign exchange derivatives, and short term low value electricity price derivatives that are traded on the ASX, while economic hedges, are not designated as hedges under NZ IAS 39 but are recognised at fair value through profit and loss. All other foreign exchange and electricity price 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 has been amended and now 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 the virtual asset swap with Meridian Energy which is a 15 year contract.

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.

Swaptions: The Company has entered into swaptions to provide optionality around hedging its exposure to wholesale electricity spot prices 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.

The Company has entered into an 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	
	GROUP	GROUP	GROUP	GROUP
	2012 $000	2011 $000	2012 $000	2011 $000
Cross currency interest rate derivatives	**49,235**	(30,141)	**–**	–
Borrowings – fair value change	**(46,568)**	19,084	**–**	–
	2,667	(11,057)	**–**	–
Interest rate derivatives	**(94,969)**	(13,822)	**–**	–
Cross currency interest rate derivatives – margin	**–**	–	**2,765**	(11,604)
Electricity price derivatives	**(693)**	2,397	**21,005**	(56,851)
Foreign exchange rate derivatives	**108**	(588)	**3,988**	(38,990)
Total change in fair value of financial instruments	**(92,887)**	(23,070)	**27,758**	(107,445)

	Income Statement		Other Comprehensive Income	
	COMPANY	COMPANY	COMPANY	COMPANY
	2012 $000	2011 $000	2012 $000	2011 $000
Cross currency interest rate derivatives	**49,235**	(30,141)	**–**	–
Borrowings	**(46,568)**	19,084	**–**	–
	2,667	(11,057)	**–**	–
Interest rate derivatives	**(94,969)**	(13,822)	**–**	–
Cross currency interest rate derivatives – margin	**–**	–	**2,765**	(11,604)
Electricity price derivatives	**(125)**	1,279	**3,296**	(37,921)
Foreign exchange rate derivatives	**108**	(588)	**3,985**	(38,990)
Total change in fair value of financial instruments	**(92,319)**	(24,188)	**10,046**	(88,515)

Movement in cash flow hedge reserve

	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Opening balance	**(140,023)**	(63,390)	**(119,850)**	(56,829)
The effective portion of cash flow hedges recognised in the reserve	**28,959**	(115,803)	**15,185**	(96,875)
Amortisation of fair values[1]	**742**	433	**742**	433
The amount transferred to the income statement relating to forecast transactions that are no longer expected to occur[1]	**1,687**	3,497	**1,687**	3,497
The amount transferred to the income statement on disposal of interest in jointly controlled asset[1]	**3,938**	–	**–**	–
The amount transferred to balance sheet	**(7,568)**	4,428	**(7,568)**	4,428
Equity accounted share of associates' movement in other comprehensive income	**1,165**	10	**–**	–
Tax effect of movements	**(7,772)**	32,233	**(2,813)**	26,554
Deferred tax rate change adjustment	**–**	(1,431)	**–**	(1,058)
Closing balance	**(118,872)**	(140,023)	**(112,617)**	(119,850)

Total income statement fair value movements

	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Ineffectiveness of cash flow hedges recognised in the income statement	**136**	(2,551)	**(139)**	(2,551)
Other changes in fair value recognised through the income statement	**(92,887)**	(23,070)	**(92,319)**	(24,188)
Fair value movements recognised through the income statement	**(92,751)**	(25,621)	**(92,458)**	(26,739)

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

Note 27. Reconciliation Of Profit For The Year To Net Cash Flows From Operating Activities

	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Profit for the year	**67,701**	127,073	**83,654**	54,912
Items classified as investing or financing activities				
• Capitalised interest	**(14,889)**	(6,870)	**(14,889)**	(6,870)
• Loan charges	**1,092**	1,835	**1,092**	1,835
• Transfers between group companies and related parties	**–**	–	**(1,886)**	2,942
• Net foreign exchange loss	**–**	–	**(3,023)**	28,281
Adjustments for:				
Depreciation and amortisation	**158,397**	145,404	**98,010**	99,842
Net loss on sale of property, plant and equipment	**4,280**	727	**1,174**	794
Net loss on sale of intangibles	**25**	–	**25**	–
Net gain on disposal of emission units	**(7,005)**	–	**–**	–
Net gain on disposal of interest in jointly controlled assets	**(8,252)**	–	**–**	–
Change in the fair value of financial instruments	**92,751**	25,621	**92,458**	26,739
Impaired assets	**4,004**	19,786	**4,952**	56,823
Movement in effect of discounting on long term provisions	**372**	312	**17**	19
Share of earnings of associate companies	**(2,852)**	(2,069)	**–**	–
Share of earnings of jointly controlled entities	**27,655**	(2,935)	**–**	–
Other non-cash items	**1,652**	1,996	**(745)**	3,226
Net cash provided by operating activities before change in assets and liabilities	**324,931**	310,880	**260,839**	268,543
Change in assets and liabilities during the year:				
• Increase in trade receivables and prepayments	**(114,497)**	(21,402)	**(96,987)**	(15,642)
• (Increase)/decrease in inventories	**(1,363)**	(2,790)	**252**	(2,509)
• Increase in trade payables and accruals	**89,477**	10,880	**84,065**	13,063
• Increase/(decrease) in provision for tax	**14,637**	(6,325)	**(3,923)**	(16,536)
• (Decrease)/increase in deferred tax	**(36,192)**	1,583	**(32,448)**	(3,378)
Net cash inflow from operating activities	**276,993**	292,826	**211,798**	243,541

Note 28. Commitments

	GROUP	GROUP	COMPANY	COMPANY
	2012 $000	**2011 $000**	**2012 $000**	**2011 $000**
Capital commitments				
Commitments for future capital expenditure include:				
Property, plant and equipment	**101,189**	325,238	**15,906**	91,486
Emission units	**98,124**	41,288	**98,124**	41,288
	199,313	366,526	**114,030**	132,774
Within one year	**103,423**	236,915	**19,657**	92,179
One to two years	**5,942**	84,644	**4,426**	878
Two to five years	**18,390**	11,604	**18,390**	6,354
Later than five years	**71,557**	33,363	**71,557**	33,363
	199,313	366,526	**114,030**	132,774

In the event the emissions trading scheme is terminated the forward purchase agreements for the acquisition of emission units which cover a 15 year period will also terminate.

	GROUP 2012 $000	GROUP 2011 $000	COMPANY 2012 $000	COMPANY 2011 $000
Operating lease commitments				
Future minimum lease payments under non cancellable operating leases are:				
Within one year	**5,243**	3,688	**5,124**	3,446
One to two years	**5,001**	3,035	**4,956**	2,972
Two to five years	**13,872**	8,021	**13,832**	7,984
Later than five years	**20,210**	7,011	**20,202**	7,011
	44,326	21,755	**44,114**	21,413
Other operating commitments				
Commitments for other operating items are:				
Within one year	**2,165**	2,421	**1,934**	2,400
One to two years	**2,393**	1,163	**2,198**	1,054
Two to five years	**1,894**	1,789	**1,446**	1,772
Later than five years	**1,462**	1,210	**1,305**	1,210
	7,914	6,583	**6,883**	6,436

The 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 29. Contingencies

Mighty River Power Limited holds land and interests that may be impacted by certain claims that have been brought or are pending against the Crown under the Treaty of Waitangi Act 1975. In the event that the Crown agrees to the return of some or all of the impacted land, resumption would be effected by the Crown under the Public Works Act 1981 and compensation would be payable to the Company. A claim relating to fresh water and geothermal resources is currently being heard by the Waitangi Tribunal. The outcome and impact of this claim 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 Group has no other material contingent assets or liabilities.

Note 30. Related Party Transactions

Ultimate Shareholder

The ultimate shareholder of Mighty River Power Limited is the Crown. All transactions with the Crown and other State-Owned Enterprises are at arm's length and at normal market prices and on normal commercial terms. Transactions cover a variety of services including trading energy, postal, travel and tax.

Transactions With Related Parties

Notes 16, 17, 18 and 19 provide details of subsidiaries, associates, jointly controlled assets and jointly controlled entities. All of these entities are related parties of the Company.

During the year the Company entered into the following transactions with these entities:

	Transaction Value For the year ended 30 June		Balance Outstanding As at 30 June	
	2012 $000	2011 $000	2012 $000	2011 $000
Management fees and service agreements received (paid)				
Subsidiaries	**5,965**	3,350	**–**	–
Associates	**(6,842)**	(8,077)	**73**	(2,038)
Jointly controlled assets	**4,857**	4,817	**–**	–
Energy contract settlements received (paid)				
Associates	**6,533**	(3,618)	**679**	(752)
Jointly controlled assets	**14,013**	(25,610)	**4,012**	(3,113)
Interest income (expense)				
Subsidiaries	**10,605**	327	**10,269**	–
Associates	**–**	339	**–**	–
Jointly controlled assets	**1,666**	1,929	**–**	–

Energy contracts, management and other services are made in arm's length transactions at normal market prices and on normal commercial terms. The Tuaropaki Power Company Foundation Hedge contract as described in note 26 while it is at arm's length and negotiated on commercial terms does not settle at normal market prices for energy contracts.

Advances to subsidiaries are interest free and repayable on demand with the exception of Mighty River Power Geothermal Limited's advances to Rotokawa Geothermal Limited and Mighty River Power Limited's advances to Mighty Geothermal Power Limited, Mighty Geothermal Power International Limited and Special General Partner Limited which carry a floating market interest rate and are repayable on demand.

Advances to TPC Holdings Limited of $4 million (2011: $4 million) are interest free and repayable on demand subject to certain conditions being met.

The remaining outstanding advance to GeoGlobal Energy LLC, $0.5 million, is also interest free and repayable on demand subject to certain conditions being met. All other advances made to GeoGlobal Energy LLC and its subsidiaries were repaid during the prior year, or were converted to equity as part of the acquisition programme described in note 31.

The advance from GeoGlobal Energy LLC to GGE Peru S.R.L. of US$0.6 million carries a simple interest rate of 2.03%.

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.

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

Key Management Personnel

Key management personnel compensation (paid and payable) comprised:

	GROUP	GROUP	COMPANY	COMPANY
	2012 $000	2011 $000	2012 $000	2011 $000
Directors fees	**657**	502	**657**	502
Salary and other short term benefits of the Chief Executive and Senior Management	**4,560**	3,927	**4,560**	3,927
Long term benefits of the Chief Executive and Senior Management	**1,094**	643	**1,094**	643
	6,311	5,072	**6,311**	5,072

Other transactions with key management personnel

Directors and employees of the Group deal with Mighty River Power Limited as electricity consumers on normal terms and conditions within the ordinary course of trading activities.

A number of key management personnel provide directorship services to other entities as part of their employment without receiving any additional remuneration. A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with key management personnel were conducted on an arms length basis.

Note 31. Business Combinations

There were no business combinations entered into in the current year.

On 28 February 2011 GeoGlobal Partners 1 Limited Partnership acquired from GeoGlobal Energy LLC, an associate company, the following entities:

- GGE Chile Holdings and its subsidiary GGE Chile SpA
- GeoGlobal U.S. Gabbs LLC
- Erdwärme Oberland GmbH
- Erdwärme Bayern Management GmbH and its subsidiaries Erdwärme Bayern GmbH & Co. KG and Erdwärme Bayern Asset Management GmbH & Co. KG

On 23 May 2011 GeoGlobal Partners 1 Limited Partnership made a further acquisition from GeoGlobal Energy LLC, as follows:

- GGE Peru Holding LLC and its subsidiary GGE Peru S.R.L.

GeoGlobal Partners 1 Limited Partnership acquired 100% of the voting rights of these subsidiaries.

These acquisitions were part of an implementation of an efficient holding, financing and management investment structure for Chilean, German and Peruvian geothermal exploration and development opportunities which will facilitate third party investment at multiple entry points as required.

The fair values of the identifiable assets and liabilities of these entities as of the date of acquisition were:

	Consolidated fair value at acquisition date $000
Cash and cash equivalents	18,900
Receivables	3,427
Property, plant and equipment	41,514
Intangible assets	17
	63,858
Payables and accruals	(9,117)
Fair value of identifiable net assets	54,741
Acquisition date fair value of consideration transferred:	
Cash paid	452
Agreement to convert related party debt funding to equity	54,289
	54,741
Direct costs relating to the acquisition	48
The net cash inflow on acquisition was as follows:	
Net cash acquired	18,900
Cash paid	(452)
Net cash inflow	18,448
The impact on the income statement if the acquisition had occurred at the beginning of the reporting period:	
Revenue	1,115
Net loss	(4,062)

Note 32. Subsequent Events

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

Independent Auditor's Report

ERNST & YOUNG

Chartered Accountants

TO THE SHAREHOLDERS OF MIGHTY RIVER POWER LIMITED AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

The Auditor-General is the auditor of Mighty River Power Limited (the company) and group. The Auditor-General has appointed me, Brent Penrose, using the staff and resources of Ernst & Young to carry out the audit of the financial statements of the company and group, on her behalf.

We have audited the financial statements of the company and group on pages 166 to 212 that comprise the balance sheet as at 30 June 2012, the income statement, statement of comprehensive income, statement of changes in equity and 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.

Opinion on the financial statements

In our opinion the financial statements of the company and group on pages 166 to 212:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards; and
- give a true and fair view of the company and group's:
  - financial position as at 30 June 2012 and
  - financial performance and cash flows for the year ended on that date.

Opinion on other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 28 August 2012. This is the date at which our opinion is expressed.

The basis of 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 would affect a reader's 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 company and group's financial statements that give a true and fair view of the matters to which they relate. We consider internal control 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 company and 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 all 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.

In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements that:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of the company and group's financial position, financial performance and cash flows.

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' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

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 and section 19(1) of the State-Owned Enterprises Act 1986.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

Partners and staff of Ernst & Young may deal with the group on normal terms within the ordinary course of trading activities of the business of the group. Ernst & Young on behalf of the Auditor-General performed an audit of the group's financial statements for the six months ended 31 December 2011. Ernst & Young Transaction Advisory Services Limited has also been engaged as investigating accountants in connection with the proposed public offer of shares in the company. Other than these matters and the audit, we have no relationship with or interests in the company and group.

BR Penrose

Brent Penrose
Ernst & Young

On behalf of the Auditor-General
Auckland, New Zealand

Section 6.9: Statutory Auditor's Report

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5 April 2013

The Directors
Mighty River Power Limited
PO Box 90399
Victoria Street West
Auckland 1142

Dear Directors

This report is issued in respect of the public offer of ordinary shares in Mighty River Power Limited (the "Company") by Her Majesty the Queen in Right of New Zealand (the "Crown"), in terms of the offer document dated 5 April 2013.

This report is made solely to the directors of the Company (the "directors"), in accordance with clause 28 of Schedule 1 to the Securities Regulations 2009 ("Schedule 1"). Our work has been undertaken so that we might state to the directors those matters we are required to state to them in a report from the auditor and for no other purpose. To the fullest extent permitted by law and subject to Section 61 of the Securities Act 1978, we do not accept or assume responsibility to anyone other than the directors for this report, or for the opinions we have formed.

Directors' Responsibilities

The directors are responsible for the preparation and presentation of:

(a) financial statements as required by clause 23 of Schedule 1. The financial statements provide information about the past financial performance and cash flows of the Company and its subsidiaries (the "Group") for the year ended 30 June 2012 and the Group's financial position as at that date;

(b) interim financial statements as per clause 24 of Schedule 1 for the period ended 31 December 2012;

(c) the summary of financial statements of the Group for the years ended 30 June 2008, 2009, 2010, 2011, 2012 and the periods ended 31 December 2011 and 2012 as required by clause 9 of Schedule 1; and

(d) the prospective financial information of the Group for the years ending 30 June 2013 and 30 June 2014, including the assumptions on which the prospective financial information is based, as required by clause 11 of Schedule 1.

Auditor's Responsibilities

We are responsible for:

(a) expressing an independent opinion on the financial statements of the Group as at 30 June 2012 and for the year ended on that date, prepared and presented by the directors, and reporting our opinion in accordance with clause 28(1) of Schedule 1;

(b) expressing an independent audit opinion on the interim financial statements of the Group as at 31 December 2012 and for the period ended on that date, prepared and presented by the directors;

(c) reporting, in accordance with clause 28(1)(h) of Schedule 1, on the amounts included in the summary of financial statements; and

(d) reporting, in accordance with clause 28(2) of Schedule 1, on the prospective financial information for the years ending 30 June 2013 and 30 June 2014.

This report has been prepared for inclusion in the Offer Document for the purpose of meeting the requirements of clause 28 of Schedule 1. We disclaim any assumption of responsibility for reliance on this report or the amounts included in the financial statements, the interim financial statements, the summary of financial statements and the prospective financial information for any purpose other than that for which they were prepared. In addition, we take no responsibility for, nor do we report on, any part of the Offer Document not mentioned in this report.

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 Ernst & Young 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 audits, we have carried out assurance services for the Group and Ernst & Young Transaction Advisory Services Limited have acted as the investigating accountant in respect of this public offer, which are services that are compatible with these independence requirements. Other than these matters and the audit, we have no relationship with or interests in the Company and Group.

Basis of Opinion

Our audit of financial statements for the year ended 30 June 2012 and the interim financial statements for the period ended 31 December 2012 included examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also included assessing:

(a) the significant estimates and judgements made by the directors in the preparation of the financial statements and the interim financial statements; and

(b) whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We have conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and interim financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the information in the financial statements and the interim financial statements.

We have also undertaken procedures to provide reasonable assurance that the amounts in the summary of financial statements, pursuant to clause 9 of Schedule 1, have been correctly taken from audited financial statements.

In addition, we have examined the prospective financial information to confirm that, so far as the accounting policies and calculations are concerned, they have been properly compiled on the footing of the assumptions made or adopted by the directors of the Group and are presented on a basis consistent with the accounting policies normally adopted by the Group. The assumptions relate to future events. However, we are not in a position to, and do not express an opinion on, these assumptions on a stand-alone basis.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

(a) proper accounting records have been kept by the Group as far as appears from our examination of those records; and

(b) the financial statements on pages 166 to 212 that are provided pursuant to clause 23 of Schedule 1, and that are required to be audited:

(i) subject to the Securities Regulations 2009, comply with generally accepted accounting practice in New Zealand;

(ii) subject to the Securities Regulations 2009, comply with International Financial Reporting Standards; and

(iii) give a true and fair view of the matters to which they relate;

(c) the interim financial statements on pages 147 to 163 that are provided pursuant to clause 24 of Schedule 1:

(i) comply with generally accepted accounting practice in New Zealand as it relates to interim financial statements;

(ii) comply with International Financial Reporting Standards as it relates to interim financial statements; and

(iii) give a true and fair view of the matters to which they relate;

(d) the amounts in the summary of financial statements, on pages 142 to 146, pursuant to clause 9 of Schedule 1, have been correctly taken from audited financial statements of the Group for the years ended 30 June 2008, 2009, 2010, 2011, 2012 and the periods ended 31 December 2011 and 2012; and

(e) the prospective financial information on pages 109 to 115, so far as the accounting policies and calculations are concerned, have been properly compiled on the footing of the assumptions made or adopted by the directors of the Company set out on pages 116 to 130 of this Offer Document and is presented on a basis consistent with the accounting policies normally adopted by the Group.

Actual results are likely to be different from the prospective financial information since anticipated events frequently do not occur as expected and the variation could be material. Accordingly we express no opinion as to whether results consistent with the prospective financial information will be achieved.

We completed our work for the purposes of this report on 5 April 2013 and our unqualified opinion is expressed as at that date.

Yours faithfully

BR Penrose

Brent Penrose
Partner
Ernst & Young
On behalf of the Auditor-General

Section 6.10: Investigating Accountant's Report

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5 April 2013

The Directors
Mighty River Power Limited

Her Majesty the Queen in Right of New Zealand

INVESTIGATING ACCOUNTANT'S REPORT ON PROSPECTIVE FINANCIAL INFORMATION

1. Introduction

We have prepared this Investigating Accountant's Report (the "Report") on the prospective financial information of Mighty River Power Limited (the "Company") and each of its subsidiaries (together, the "Group") for inclusion in the combined prospectus and investment statement ("Offer Document") to be dated on or about 5 April 2013 and to be issued by the Company and the Crown in respect of the Initial Public Offering of ordinary shares in Mighty River Power Limited by the Crown.

Expressions defined in the Offer Document have the same meaning in this Report.

2. Scope

Ernst & Young Transaction Advisory Services has been requested to prepare this Report to cover the prospective financial information:

The prospective financial information as set out in pages 109 to 132 of the Offer Document comprises:

- Prospective consolidated income statements and statements of comprehensive income of the Group for the year ending 30 June 2013 and 30 June 2014;
- Prospective consolidated balance sheets of the Group as at 30 June 2013 and 30 June 2014;
- Prospective consolidated statements of changes in equity for the year ending 30 June 2013 and 30 June 2014;
- Prospective consolidated statements of cash flows of the Group for the year ending 30 June 2013 and 30 June 2014; and
- Notes and assumptions to these consolidated prospective income statements, statements of comprehensive income, changes in equity, balance sheet and cash flows,

(the "Prospective Financial Information").

The Prospective Financial Information is based on the assumptions as outlined on pages 116 to 130 of the Offer Document.

We disclaim any assumption of responsibility for any reliance on this Report or on the Prospective Financial Information to which this Report relates for any purposes other than the purpose for which it was prepared. This Report should be read in conjunction with the Offer Document.

3. Directors' Responsibility for the Prospective Financial information

The Directors of the Group have prepared and are responsible for the preparation and presentation of the Prospective Financial Information. The Directors are also responsible for the determination of the best-estimate assumptions as set out on pages 116 to 130 of the Offer Document.

4. Our Responsibility

Our responsibility is to express a conclusion on the Prospective Financial Information based on our review.

We have conducted an independent review of the Prospective Financial Information in order to state whether on the basis of the procedures described, anything has come to our attention that would cause us to believe that:

a. The Directors' best-estimate assumptions do not provide a reasonable basis for the preparation of the Prospective Financial Information;
b. The Prospective Financial Information was not prepared on the basis of the best-estimate assumptions;

c. The Prospective Financial Information is not presented fairly in accordance with the recognition and measurement principles prescribed in New Zealand Financial Reporting Standards and other mandatory professional reporting requirements in New Zealand, and the accounting policies adopted by the Group disclosed in the annual financial statements of Mighty River Power Limited as at and for the year ended 30 June 2012 on pages 166 to 212 of the Offer Document; and

d. The Prospective Financial Information is unreasonable.

The Prospective Financial Information has been prepared by the Directors to provide investors with a guide to the Group's potential future financial performance based upon the achievement of certain economic, operating, developmental and trading assumptions about future events and actions that have not yet occurred and may not necessarily occur. There is a considerable degree of subjective judgement involved in the preparation of the Prospective Financial Information. Actual results may vary materially from this Prospective Financial Information and the variation may be materially positive or negative. Accordingly, investors should have regard to the Risk Factors set out in the "What Are My Risks?" section in the "Answers To Important Questions" section of the Offer Document and in the "What Are The Risks?" section of the Offer Document.

Our review of the best estimate assumptions underlying the Prospective Financial Information was conducted in accordance with International Standard on Assurance Engagements (New Zealand) 3000, issued by the Council of the New Zealand Institute of Chartered Accountants, applicable to assurance engagements other than audits or reviews of historical financial information.

Our procedures consisted primarily of enquiry and comparison and other such analytical review procedures we considered necessary so as to form the conclusion set out below.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion on the Prospective Financial Information.

5. Review conclusion on Prospective Financial Information

Based on our review of the Prospective Financial Information, which is not an audit, and based on an investigation of the reasonableness of the Directors' best-estimate assumptions giving rise to the Prospective Financial Information, nothing has come to our attention which causes us to believe that:

- The Directors' best-estimate assumptions do not provide a reasonable basis for the preparation of the Prospective Financial Information;
- The Prospective Financial Information was not prepared on the basis of the best-estimate assumptions;
- The Prospective Financial Information is not presented fairly in accordance with the recognition and measurement principles prescribed in New Zealand Financial Reporting Standards and other mandatory professional reporting requirements in New Zealand, and the accounting policies adopted by the Group disclosed in the annual financial statements of Mighty River Power Limited as at and for the year ended 30 June 2012 on pages 166 to 212 of the Offer Document; and
- The Prospective Financial Information is unreasonable.

The best-estimate assumptions, set out in pages 116 to 130 of the Offer Document, are subject to significant uncertainties and contingencies often outside the control of the Group and the Directors. If events do not occur as assumed, actual results achieved and distributions provided by the Group may vary significantly from the Prospective Financial Information. Accordingly, we do not confirm or guarantee the achievement of the Prospective Financial Information, as future events, by their very nature, are not capable of independent substantiation.

6. Independence or Disclosure of Interest

Ernst & Young Transaction Advisory Services does not have any pecuniary interests that could reasonably be regarded as being capable of affecting its ability to give an unbiased conclusion in this matter. Ernst & Young, on behalf of the New Zealand Controller and Auditor-General provides audit and other assurance services to the Group, and Ernst & Young Transaction Advisory Services will receive a professional fee for the preparation of this Report.

Yours faithfully

Ernst & Young Transaction Advisory Services Limited

Andrew Taylor

Andrew Taylor
Director

SECTION 7

OFFER DETAILS

IN THIS SECTION

Why should you read this section?

You will find detailed information about the Offer and the New Zealand taxation implications of investing in the Shares, as well as information which is prescribed by the Securities Regulations.

Section 7.1: Details Of The Offer

The Offer

The Offer comprises the offer of up to 686,000,000 Shares in the Company, which represents up to 49% of the Shares on issue in the Company. This includes the Loyalty Bonus Shares to which New Zealand Applicants may become entitled under the terms of the Offer.

The Indicative Price Range is $2.35 to $2.80 per Share.

The Offer is made on the terms, and is subject to the conditions, set out in this Offer Document.

The Offer comprises the General Offer, the Institutional Offer and the Participating Iwi Offer.

Determination Of The Final Price

The Final Price will be determined by the Crown, in its sole discretion, on or before the date on which Shares are allocated under the Offer after the close of the General Offer and Institutional Offer. It is expected that the Final Price will be announced on 8 May 2013 and the basis of Share allocation on 10 May 2013.

In determining the Final Price, consideration may be given to the following factors (amongst others):

- the objectives of the Government under the extension of the mixed ownership model programme;
- the level of demand for Shares in the General Offer and the Participating Iwi Offer;
- the level of demand for Shares in the Institutional Offer at various prices; and
- any other factors the Crown considers relevant in meeting its objectives.

The Final Price will not necessarily be the highest price at which Shares could be sold under the Offer and may be set above, within or below the Indicative Price Range. Accordingly, successful Applicants under the General Offer and the Participating Iwi Offer and successful bidders under the Institutional Offer will pay a Final Price which may be above, within or below the Indicative Price.

Purpose Of The Offer

The purpose of the Offer is to provide:

- an opportunity for the Crown to sell up to 49% of its current shareholding in Mighty River Power as part of the extension of the mixed ownership model; and
- Mighty River Power with greater access to capital markets and commercial independence in the form of greater external oversight and transparency, increasing the incentive for improved performance.

Use Of Proceeds

The Crown will receive the proceeds of the Offer and pay the majority of the costs and expenses of the Offer. None of the proceeds will be received by Mighty River Power.

Shareholding Structure

On completion of the Offer, assuming the maximum Offer size, the Crown will hold 714,000,094 Shares (51%) in the Company (together with any Shares retained by the Crown and reserved for future transfer, such as Loyalty Bonus Shares, and any Shares acquired by Crown entities under the Offer).

The Public Finance Act and the Constitution provide that the Crown must hold at least 51% of any shares issued by Mighty River Power (including the Shares forming part of this Offer) and any other securities with voting rights in Mighty River Power and that, other than the Crown, no person may have a relevant interest in more than 10% of any class of shares or voting securities in Mighty River Power.

Following completion of the Offer, the Crown will continue to be Mighty River Power's majority Shareholder with a holding of at least 51% of the Shares. The Crown intends that its shareholding in Mighty River Power (including any Shares retained by the Crown and reserved for future transfer, such as Loyalty Bonus Shares) will continue to be held by and through the Shareholding Ministers.

Shareholding Structure

	Prior to Completion of the Offer	Following Completion of the Offer (assuming maximum Offer size)
Crown shareholding	1,400,000,094 Shares (100%)	714,000,094 Shares (51%)*
New Shareholders – pursuant to the Offer	–	686,000,000 Shares (49%)**
Total	**1,400,000,094 Shares (100%)**	**1,400,000,094 Shares (100%)**

* Excluding the Loyalty Bonus Shares and any Shares acquired by Crown entities under the Offer.
** Including the Loyalty Bonus Shares reserved for future transfer to new Shareholders.

Allocation Between General Offer And Institutional Offer

As at the date of this Offer Document, no allocation decisions have been made by the Crown. Allocations between the General Offer and the Institutional Offer will be determined by the Crown, in consultation with its advisers and Mighty River Power. This determination will be made following the close of the Institutional Offer.

Discretion Regarding The Offer

The Crown reserves the right to withdraw the Offer at any time prior to the allotment of Shares to Applicants. If the Offer or any part of it is withdrawn then all Application amounts, or the relevant Application amounts, will be refunded without interest no later than five Business Days after the announcement of the decision to withdraw the Offer. Any such refund will be made in the manner in which you elect any future dividend payments to be paid.

The Crown also reserves the right to close the Offer or any part of it early, extend the Offer or any part of it, accept late Applications either generally or in particular cases, reject any Application, or allocate to any Applicant fewer Shares than applied for.

If the Crown amends the Closing Date of the General Offer any such amendment will be announced through NZX.

Questions About The Offer

If you have any queries about the risk or suitability of an investment in the Shares you should consult your financial adviser or an NZX Firm. If you have questions about how to apply under the Offer, you can call 0800 90 30 90 (New Zealand only) during the Offer period or visit www.mightyrivershares.govt.nz.

Right To Refuse Applications

The Crown reserves the right to refuse any Application or to accept an Application in part only, without providing a reason. If the Crown refuses an Application or accepts an Application in part, all or the relevant balance of the Application amount will be refunded no later than five Business Days after the Allotment Date. No interest will be paid on any Application amount that is refunded to the Applicant. Any such refund will be made in the manner in which you elect any future dividend payments to be paid.

The General Offer

The General Offer is open to New Zealand Applicants and Eligible Employees in New Zealand.

Summary Of The General Offer

Who can apply for Shares in the General Offer?[78]	How many Shares can you apply for?	Will you be allocated all the Shares that you apply for?	Are you eligible for Loyalty Bonus Shares?	How do you apply?
New Zealand Applicants who pre-registered	The minimum Application size is $1,000 and multiples of $100 thereafter	Applications up to $2,000 will not be scaled. Applications in excess of $2,000 will not receive less than $2,000 worth of Shares If the Offer is over-subscribed, your Application may be scaled back, but you will receive an amount of Shares which is up to 25% higher than that of a New Zealand Applicant who applied for the same amount of Shares under the General Offer but did not pre-register. This benefit does not apply to the first $2,000 worth of Shares applied for, which is guaranteed irrespective of pre-registration. No Applicant will receive more Shares than they apply for	✓	Apply online at: www.mightyrivershares.govt.nz using your Unique Reference Number, or by completing the personalised Application Form if you received a hard copy of the Offer Document
New Zealand Applicants who did not pre-register	The minimum Application size is $1,000 and multiples of $100 thereafter	Applications up to $2,000 will not be scaled. Applications in excess of $2,000 will not receive less than $2,000 worth of Shares If the Offer is over-subscribed your Application may be scaled back	✓	Apply online at: www.mightyrivershares.govt.nz or by completing the Application Form included with this Offer Document
Eligible Employees	The minimum Application size is $1,000 and multiples of $100 thereafter	Eligible Employees apply under the General Offer but will receive a minimum guaranteed allocation of $5,000 worth of Shares, provided the requirements for an Eligible Employee are met If over-subscribed, Applications in excess of $5,000 are potentially subject to scaling. This scaling may be on a more favourable basis than scaling of other Applicants to the General Offer This minimum guaranteed allocation of $5,000 worth of Shares (for each Eligible Employee) includes any Shares to be allocated to that employee under the Mighty River Power Employee Share Purchase Programme	✓ For any Shares allocated directly to an Eligible Employee[79]	Apply by completing the Eligible Employee Application Form provided to you by the Company. If you are an Eligible Employee and have not received an Eligible Employee Application Form, you can call 0800 90 30 90 to request one You will need to include your Mighty River Power employee number on the Eligible Employee Application Form

78. The General Offer is only open to New Zealand Applicants and Eligible Employees resident in, and applying from, New Zealand. The General Offer is not open to persons in the United States or elsewhere outside New Zealand.

79. Participants under the Employee Share Purchase Programme will not receive Loyalty Bonus Shares under the Offer in respect of Shares purchased under the Programme.

New Zealand Applicants

A New Zealand Applicant is an Applicant for Shares who is in New Zealand and provides the following information with their Application Form:

- a valid New Zealand IRD number;
- a valid New Zealand bank account number;
- a New Zealand address;
- a confirmation that such investor is in New Zealand and is not acting for the account or benefit of a person in the United States; and
- a declaration that:
  - in the case of an individual, the individual is a New Zealand citizen or permanent resident; or
  - in the case of a company, it is incorporated in New Zealand and the majority of its ultimate beneficial owners consists of persons who are New Zealand citizens or permanent residents; or
  - in the case of a trust, it is established in New Zealand and the majority of its ultimate beneficiaries consists of persons who are New Zealand citizens or permanent residents; or
  - in the case of any other legal entity, it is incorporated or established in New Zealand and the majority of its ultimate beneficial owners, beneficiaries or members consists of persons who are New Zealand citizens or permanent residents.

This information must be included in the relevant fields in the Application Form.

The General Offer is not open to persons outside New Zealand (for the avoidance of doubt the General Offer is not open to persons in the United States or persons acting for the account or benefit of a person in the United States).

Minimum Investment

The minimum dollar amount of Shares you can apply for is $1,000 and multiples of $100 thereafter. There is no limit on the maximum Application you may make (however, the number of Shares allocated to you will be subject to the 10% shareholding limit).

Number Of Shares

Applicants in the General Offer will pay the Final Price per Share, which will be determined following the bookbuild process. Because the Final Price will not have been determined at the time you apply, you will be asked to apply for a dollar amount of Shares rather than a specific number of Shares when applying under the General Offer.

Once the Final Price has been determined, your Application amount will be divided by the Final Price to calculate the number of Shares for which you have applied, rounded down to the nearest whole Share and subject to scaling. Any difference between the dollar amount of Shares for which you apply and the value (based on the Final Price) of the Shares you receive solely due to rounding will be retained by the Crown.

If the difference between the dollar amount of Shares for which you apply and the value (based on the Final Price) of the Shares you receive due to scaling of your Application is more than the Final Price, this difference will be refunded to you no later than five Business Days after the Allotment Date without interest. Any such refund will be made in the manner in which you elect any future dividend payments to be paid.

Incentives For New Zealand Applicants

The Crown is providing incentives to New Zealand Applicants under the General Offer as follows:

Guaranteed allocation	Applications up to $2,000 will not be scaled. Applications in excess of $2,000 will not receive less than $2,000 worth of Shares.
Preferential allocation for pre-registration	If the Offer is over-subscribed and scaling of Applications is required, New Zealand Applicants who pre-registered for the Offer and go on to apply as part of the General Offer will receive an amount of Shares which is up to 25% higher than a New Zealand Applicant who applied for the same amount of Shares but did not pre-register. This benefit does not apply to the first $2,000 worth of Shares applied for, which is guaranteed irrespective of pre-registration. No Applicant will receive more Shares than they apply for. In the event of significant over-subscription it may not be possible to allocate pre-registrants the full 25% pre-registration benefit.
Loyalty Bonus Shares	New Zealand Applicants who continue to hold their Shares in the same registered name for a period of 24 months will be entitled to Loyalty Bonus Shares based upon the ratio of 1 for 25 up to a maximum number of 200 Loyalty Bonus Shares for each New Zealand Applicant.

New Zealand Applicants applying through Custodians will be entitled to these incentives on the same basis as if they were applying directly in the Offer, provided that the eligibility criteria is satisfied.

Details of the process for applying through a Custodian are set out in 8 Application Instructions.

Loyalty Bonus Shares

You may be entitled to receive Loyalty Bonus Shares from the Crown if you:

- are a New Zealand Applicant who receives an allocation in the General Offer; and
- hold the Shares allocated to you continuously in the same registered name until 24 months from the Allotment Date.

The Loyalty Bonus Shares have the effect of providing New Zealand Applicants who retain their Shares for 24 months with additional Shares for no further cash investment (if certain conditions are met). Loyalty Bonus Shares are only available to New Zealand Applicants in the General Offer.

The number of Loyalty Bonus Shares that you are entitled to receive will be calculated on the basis of one Loyalty Bonus Share for every 25 Shares allocated to you under the General Offer and held continuously in the same registered name until 24 months from the Allotment Date, with no individual Loyalty Bonus Share entitlement exceeding 200 Loyalty Bonus Shares.

The number of Loyalty Bonus Shares you will be eligible to receive will be calculated based on the lowest number of Shares held continuously by you between the Allotment Date and 24 months following that date, with any fractional entitlements to Loyalty Bonus Shares to be rounded down to the nearest whole number.

In submitting your Application Form, New Zealand Applicants are automatically applying for Loyalty Bonus Shares to which you may become entitled under the terms of the General Offer.

The Loyalty Bonus Shares will be transferred by the Crown from its retained holding of Shares to Shareholders who meet the conditions of eligibility.

The Loyalty Bonus Shares will be fully paid ordinary shares in the Company and, on transfer, will confer equal rights as the Shares transferred on completion of the Offer.

The value of any Loyalty Bonus Shares at the date on which they are transferred to you should reflect the market price of the Shares in the Company at that date.

The table below sets out examples of how to determine the number of Loyalty Bonus Shares to which you may be entitled if you are allocated $2,000 worth of Shares in the General Offer. Your entitlement to Loyalty Bonus Shares will be determined on the second anniversary of the Allotment Date and Loyalty Bonus Shares will be transferred to you within five Business Days following the determination of entitlements.

Determining the number of Loyalty Bonus Shares to which you may be entitled

	Indicative Price Range			
Final Price per Share	$2.35	$2.50	$2.65	$2.80
Number of Shares allocated ($2,000 divided by Final Price per Share)	851	800	754	714
Entitlement ratio for Loyalty Bonus Shares	1 for 25	1 for 25	1 for 25	1 for 25
Number of Loyalty Bonus Shares entitled to	34	32	30	28
Implied value of entitlement	$79.90	$80.00	$79.50	$78.40

Note:

1. The Final Price per Share may be set within, above or below the Indicative Price Range.
2. The number of Shares allocated and the number of Loyalty Bonus Shares entitled to after applying the entitlement ratio are rounded down to the nearest whole number.
3. The implied value of your entitlement has been calculated using a value for a Loyalty Bonus Share equal to the applicable price in the Indicative Price Range. There is no guarantee that a Loyalty Bonus Share will have a value equal to that price at the time received by you.

Applications under the Institutional Offer and the Participating Iwi Offer have no entitlement to Loyalty Bonus Shares, as these Applications will not have been made under the General Offer.

Conditions of entitlement for Loyalty Bonus Shares

Entitlement to Loyalty Bonus Shares will be subject to certain conditions. One of these conditions is that successful Applicants hold the Shares allocated to them continuously in the same registered name until the second anniversary of the Allotment Date. The requirement to hold Shares in the same registered name means entitlements to Loyalty Bonus Shares will expire in respect of any Shares where ownership changes, including where:

- there is a transfer of Shares from the New Zealand Applicant to another person, including to a family member or trust in which they are a beneficiary; or
- there is a voluntary change in joint ownership arrangements.

The exceptions to this 'same registered name' requirement are:

- a bona fide change of name of the registered holder (for example, by marriage, divorce or deed poll) provided that appropriate documentary evidence in support of the change is provided;
- a transmission to a legal personal representative (for example, an executor or administrator) of a deceased holder pending final administration of the holder's estate;
- a transmission from a deceased holder to a beneficiary (either directly or via the legal personal representative of the deceased);
- a transfer to the surviving joint holder(s) where a joint holder dies;
- a transfer as a result of a Court order or relevant legislation, for example following a marriage dissolution (although the Crown reserves the right to assess each such transfer to determine if it is legitimately out of the control of the original holder);
- an amendment to the register to correct certain registry or broker errors; or
- a transfer to or from a nominee, trustee or other fiduciary party requiring a change in the registered holder details but where there is no change in the underlying beneficial shareholder, provided that the nominee or custodian completes and lodges the necessary nominee declaration form by the end of the calendar month in which the transfer was effected on the register.

All changes within the categories listed above will require the timely lodgement of appropriate documentary evidence with the Share Registrar, in order for the continued Loyalty Bonus Share entitlement to be recognised. Shareholders or their representatives (including brokers) should make themselves familiar with the process and contact the Share Registrar to ensure that any transaction they are planning to effect will carry the entitlement to receive Loyalty Bonus Shares to the new holding and that the supporting documentation is in order prior to giving effect to the transaction.

Any change of registered holdings of Shares that does not fall within one of the above exceptions (or for which appropriate supporting documentation is not provided on time) will result in the right to receive the Loyalty Bonus Shares expiring in respect of those Shares, unless the Crown, in its sole discretion, decides to extend the above categories.

The Crown may request documentary evidence from a person seeking to rely on an exception to the 'same registered name' requirement. The Crown may request that such documentary evidence comprises original documents, certified copies of original documents or statutory declarations.

Risk of non-delivery of Loyalty Bonus Shares

If on the second anniversary of the Allotment Date, any legal impediments to the delivery of Loyalty Bonus Shares to you exist (for example, where you have moved from New Zealand and the securities laws in the jurisdiction where you reside prevent the delivery of such Shares to you or require a regulatory filing or offering document to be made or prepared for such delivery, or where the delivery of such Shares is prohibited by Court order) or it is unduly onerous on the Crown to determine whether any such legal impediments exist, you will not receive Loyalty Bonus Shares. Instead, the Shares to which you would have become entitled will be issued to a nominee who will sell those Shares on your behalf. The Crown may conduct a sale of Loyalty Bonus Shares for this purpose in any manner it considers appropriate. You will be paid the proceeds of the sale after any costs of the sale have been deducted.

Reconstructions

If, prior to the second anniversary of the Allotment Date, the Company reconstructs its capital by way of share consolidation, share split or bonus share issue, the number of Loyalty Bonus Shares you are entitled to receive will be adjusted as appropriate to take account of such capital reconstruction.

Dividends

You will not have any entitlement to any dividends paid on Loyalty Bonus Shares prior to any Loyalty Bonus Shares being transferred to you.

Exemptions relating to Loyalty Bonus Shares

By virtue of the Securities Act (Mighty River Power Limited Crown share offer) Exemption Notice 2013, the Crown and the Company have been exempted from sections 37A(1)(b) and 37A(1)(c) of the Securities Act in respect of the allotment in the future of Loyalty Bonus Shares to investors under this Offer. The exemption was granted on the condition that this Offer Document include certain material information in relation to the offer of the Loyalty Bonus Shares.

You should also consider the New Zealand taxation implications of receiving Loyalty Bonus Shares, which are explained in 7.3 New Zealand Taxation Implications.

Application Information

You can apply for Shares by completing the online Application process at www.mightyrivershares.govt.nz, or by completing and submitting the Application Form contained in this Offer Document.

If you are an Eligible Employee, to ensure that you receive any available preference on allocation, you must apply by completing the Eligible Employee Application Form provided to you by the Company. You will need to provide your Mighty River Power employee number on the Eligible Employee Application Form, together with the other requirements for a General Offer Application. If you are an Eligible Employee and have not received an Eligible Employee Application Form, you can call 0800 90 30 90 to request one. Eligible Employee Applications must be received by the Share Registrar no later than 5.00pm on 2 May 2013.

Full details on how to apply are set out in 8 Application Instructions.

Online Applications must be completed by 5.00pm on 3 May 2013. If you apply online and choose to pay by cheque, your remittance receipt and cheque should be posted to the Share Registrar using the freepost number provided in time to be received by 5.00pm on 3 May 2013. If you are submitting a paper Application Form, it must be received by the Share Registrar no later than 5.00pm on 3 May 2013.

Allocations

The Crown will determine allocations of Shares, in consultation with its advisers and Mighty River Power.

If the General Offer is over-subscribed, your Application for Shares in the General Offer may be scaled. This means that the dollar amount of Shares you receive may be less than the dollar amount of Shares you apply for.

Scaling will be determined by the Crown, in consultation with its advisers and Mighty River Power, and may not be pro rata. The Government has stated that New Zealanders will be at the front of the queue for Shares. If scaling is required for the General Offer:

- New Zealand Applicants who apply for up to $2,000 worth of Shares will not be scaled, and those who apply for amounts in excess of $2,000 will receive an allocation of not less than $2,000 worth of Shares;
- New Zealand Applicants who pre-registered for the Offer will receive an allocation preference. In that event, those Applicants will receive an amount of Shares which is up to 25% higher than a New Zealand Applicant who applied for the same dollar amount of Shares but did not pre-register. This benefit does not apply to the first $2,000 worth of Shares applied for, which is guaranteed irrespective of pre-registration. This benefit is subject always to no Applicant receiving more Shares than they applied for;
- Eligible Employees will receive a minimum guaranteed allocation of $5,000 worth of Shares, with Applications in excess of $5,000 worth of Shares potentially subject to scaling. This scaling may be on a more favourable basis than scaling of other Applicants to the General Offer. The minimum guaranteed allocation of $5,000 worth of Shares (for each Eligible Employee) includes the Shares to be allocated to that employee under the Mighty River Power Employee Share Purchase Programme (for a description of the Employee Share Purchase Programme, see 4.2 Board, Management And Corporate Governance); and
- the trustee of the Mighty River Power Executive LTI Plans will receive an allocation priority in respect of any Shares for which it applies on behalf of participating executives (for a description of the executive LTI plans, see 4.2 Board, Management And Corporate Governance).

If the Offer is over-subscribed, it is the intention of the Crown to allocate New Zealand Applicants who pre-registered for the Offer an amount of Shares which is up to 25% higher than that for those New Zealand Applicants who applied for the same amount but did not pre-register. However, this preferential allocation is one of a number of features of the allocation policy which will apply to New Zealand Applicants in the General Offer (for example, there is also a guaranteed minimum allocation). In the event of a significant over-subscription of the General Offer it may not be possible to allocate pre-registrants with the full pre-registration benefit and a New Zealand Applicant who pre-registered may receive an amount of Shares which is less than 25% higher than that for a New Zealand Applicant who did not pre-register.

Shares allocated under the General Offer are expected to be transferred to successful Applicants on 14 May 2013.

Institutional Offer

The Institutional Offer comprises two parts:

- an invitation to New Zealand and Australian resident Institutional Investors and other investors – made under this Offer Document (and, in respect of Australian resident Institutional Investors, accompanied by the Additional Australian Information); and
- an invitation to Institutional Investors resident in certain jurisdictions outside New Zealand and Australia – made under the International Offering Memorandum.

The Bookbuild Process And Indicative Price Range

The Institutional Offer will be conducted using a bookbuild process. A 'bookbuild' is the term used in initial public offerings to refer to the process of collating demand for shares from eligible retail investors who apply for shares in the offer and demand for shares at various prices from institutional investors who bid for shares. The bookbuild process collates the demand of the parties that want shares, how many shares will be sold and the price applicants bid for shares. The information collated in the bookbuild is then used to assist with the determination of the pricing and allocation of shares.

Full details of how to participate, including bidding instructions, will be provided by the Joint Lead Managers to invited participants in due course. Participants can only bid into the book for Shares through the Joint Lead Managers. They may bid for Shares at specific price(s). Participants may bid above, within or below the Indicative Price Range of $2.35 to $2.80 per Share. The Indicative Price Range may be varied at any time by the Crown.

All successful participants will pay the Final Price for each Share allocated to them.

Allocation Policy Under The Institutional Offer

The Crown will determine the allocation of Shares among Institutional Investors that have bid for Shares in the Institutional Offer, after consultation with its advisers and Mighty River Power. There is no assurance that any participant in the Institutional Offer will be allocated any Shares or the number of Shares for which it has bid. The allocation policy will be influenced, but not constrained, by factors such as whether the participant is a New Zealand institution managing significant investments on behalf of New Zealanders (including KiwiSaver or superannuation) or a participant representing collective interests in New Zealand such as Māori trusts, the price and number of Shares bid for by particular participants, the timeliness of the bid and any other factors that the Crown considers appropriate, after consultation with its advisers and Mighty River Power.

Participating Iwi Offer

Iwi Pool

A pool of up to $65 million of Shares (the Iwi Pool) representing approximately 1.8%[80] of the Shares on issue in the Company has been reserved by the Crown for allocation to iwi that currently have unsettled historical claims against the Crown under the Treaty of Waitangi. Iwi that elect to participate in the Offer through the Iwi Pool will receive a payment from the Crown, in the form of Shares, on account of their potential settlement amount. As a result, Applications from Participating Iwi need not be accompanied by a cash payment in full for the dollar amount of Shares applied for.

Participating Iwi that apply for Shares in the Participating Iwi Offer will not be scaled and will receive a guaranteed allocation of Shares. However, Participating Iwi have no entitlement to Loyalty Bonus Shares.

For Participating Iwi that have established a ratified Post-Settlement Governance Entity (PSGE), the Shares will be transferred by the Crown to the PSGE. For Participating Iwi that are yet to establish a PSGE, the Shares will be transferred by the Crown to the Public Trust or its nominee (the Public Trust) to be held on trust for Participating Iwi and the Crown (Trust Shares), for their respective rights and interests, on the terms set out in a deed of trust between the Crown and the Public Trust (Trust Deed).

All Shares transferred to PSGEs or the Public Trust under this arrangement will be transferred at the Final Price.

To the extent that reserved Shares in the Iwi Pool are not taken up by Participating Iwi, those Shares will be made available for allotment under the General Offer or the Institutional Offer, as determined by the Crown in its sole discretion.

Embargo

The PSGE of each Participating Iwi will be required to enter into an embargo agreement with the Crown prior to Shares being transferred to it under the Offer (in the case of Participating Iwi that have a PSGE at that time) or otherwise prior to the Shares being released to it in accordance with the Trust Deed. Under the embargo arrangements, the Shares transferred or released to a PSGE must not be sold, transferred or otherwise disposed of until the later of:

80. Calculated at the mid-point of the Indicative Price Range.

- the date that is two years from the Allotment Date; and
- the date on which an Agreement in Principle (or equivalent) settling the Participating Iwi's outstanding historical Treaty of Waitangi claims against the Crown has been signed by the Crown and the Participating Iwi,

(the Embargo Period). Under the embargo arrangements, a direction will be given to the Share Registrar to tag the affected Shares in its system as being unavailable for transfer until the expiry of the Embargo Period, or earlier if the PSGE and the Crown so direct.

Release Of Shares To Iwi Under Trust Deed

The Shares will be held by the Public Trust until:

- a recognised PSGE is established by the relevant Participating Iwi; and
- that PSGE enters into an embargo agreement with the Crown on the terms set out above.

If these conditions are satisfied in respect of a Participating Iwi, the Crown will direct the Public Trust to release the Shares held on behalf of the Participating Iwi to the relevant PSGE together with any funds held by the Public Trust on behalf of the Participating Iwi.

Sale Of Shares Under Trust Deed

The Crown may direct the Public Trust to sell all of the Trust Shares held by it for a Participating Iwi if:

- the conditions described above under "Release Of Shares To Iwi Under Trust Deed" have not been satisfied in respect of that Participating Iwi by 31 December 2019; or
- prior to that date, the Participating Iwi initiates proceedings in respect of the Offer, or the initial public offering of shares in Genesis Energy, Meridian Energy or Solid Energy (if and when such offering occurs), or otherwise in connection with the Government's proposed extension of the mixed ownership model programme to Mighty River Power, Genesis Energy, Meridian Energy or Solid Energy.

If the Crown directs the Public Trust to sell all of the Trust Shares held by it for a Participating Iwi, the Public Trust will be required to pay the net proceeds of sale and the Participating Iwi's share of any funds held by the Public Trust on its behalf to the Crown.

Rights Attached To Trust Shares

Except as expressly provided under the Trust Deed, Participating Iwi will not have any rights in relation to Trust Shares while they are held by the Public Trust. Participating Iwi may direct the Public Trust to exercise voting rights attached to Trust Shares held on its behalf, in which case the Public Trust must vote the relevant Trust Shares in accordance with the relevant iwi's direction. If such a direction is not received from a Participating Iwi, the Public Trust must not exercise the votes attached to the Trust Shares held for that Participating Iwi.

The Trust Deed also provides that:

- if Mighty River Power makes a rights issue to Shareholders, the Public Trust will sell any entitlements attaching to the Trust Shares held by it and hold the proceeds of sale in trust on the terms of the Trust Deed;
- the Public Trust will not accept any form of takeover offer made under the Takeovers Code Approval Order 2000 in respect of any of the Trust Shares held by it;
- the Public Trust will participate, in respect of all of the Trust Shares held by it, in any dividend reinvestment plan implemented by Mighty River Power and the Shares issued to it will be held on trust on the terms of the Trust Deed;
- the Public Trust will not accept any share buy back offers made by Mighty River Power in respect of any Trust Shares held by it;
- any dividends paid on, or other distributions made in respect of, the Trust Shares will be placed by the Public Trust in interest bearing bank deposits in its name with a registered bank in New Zealand until paid to a PSGE or the Crown (as the case may be) in accordance with the terms of the Trust Deed; and
- any shares issued by Mighty River Power as bonus shares in respect of the Trust Shares will be held by the Public Trust as Trust Shares on the terms of the Trust Deed (for the avoidance of doubt, this does not include the Loyalty Bonus Shares which are not available to Participating Iwi).

Application Information

Participating Iwi should contact the Office of Treaty Settlements to confirm whether they may be allocated Shares under the Participating Iwi Offer and for Application instructions. Applications in the Participating Iwi Offer must be received by the Office of Treaty Settlements no later than 5.00pm on 3 May 2013.

Payment And Allotments

Payment

Applications must be made online at www.mightyrivershares.govt.nz or on the Application Form set out in the back of this Offer Document. Applications must be accompanied by payment in full for the dollar amount of Shares applied for. Payment may be made to the Crown by direct debit or cheque and will be held by the Crown in a special purpose account until Shares are allotted to successful Applicants or Application monies are refunded.[81]

Your Application, together with payment for the dollar amount of Shares for which you have applied, must be completed online or received by the Share Registrar by 5.00pm on 3 May 2013 or by 5.00pm on 2 May 2013 if you are applying as an Eligible Employee. If you do not return your Application and payment by this time, you may not receive any Shares.

Brokerage, Commission And Stamp Duty

No brokerage, commission or stamp duty is payable by Applicants on subscribing for Shares under the Offer.

For details of the brokerage payable to NZX Firms or brokers, see the information under the heading "Preliminary And Issue Expenses" in 7.2 Statutory Information.

Allotments

New Zealand residents with a CSN will have their Shares allotted under their CSN, if the CSN was provided on the Application Form.

Applicants who do not have a CSN will be allocated a CSN at the time of Application. The CSN will be advised at the time the allotment of Shares is confirmed and the associated Authorisation Code (FIN) will be sent as a separate communication.

Shares allocated under the Offer are expected to be allotted on 14 May 2013.

Confirming Allocations

Successful Applicants in the General Offer who applied online will be able to confirm their allocation at www.mightyrivershares.govt.nz using their Unique Reference Number from 10 May 2013. Successful Applicants in the General Offer who did not apply online (including any Eligible Employees who have applied for Shares) will be able to confirm their allocation by calling 0800 90 30 90 from 10 May 2013.

Holding statements are expected to be sent to all successful Applicants on 14 May 2013. None of the Crown, Mighty River Power, the Joint Lead Managers or any of their respective directors, officers or employees accepts any liability or responsibility should any person attempt to sell or otherwise deal with the Shares before the statements confirming allotments are received by the Applicants or the successful bidders under the Institutional Offer (as applicable) for the Shares.

Cancellation Of Sale Of Shares

The Crown may cancel the sale of Shares to an Applicant under this Offer if the Applicant misrepresented its entitlement to be allocated Shares under the Offer as a New Zealand Applicant. 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 this Offer, irrespective of whether or not those Shares were acquired by the Applicant under this 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 Mighty River Power; 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.

81. Other than Applications from Participating Iwi.

Listing And Quotation of Shares

NZX

Application has been made to NZX for permission to list Mighty River Power and to quote the Shares on the NZX Main Board, and all the requirements of NZX relating thereto that can be complied with on or before the date of this Offer Document have been duly complied with. However, NZX accepts no responsibility for any statement in this Offer Document. NZX has authorised NZX Firms to act on the Offer. The NZX Main Board is a registered market operated by NZX, which is a registered exchange regulated under the Securities Markets Act 1988. The Company's NZX stockcode is 'MRP'.

ASX

An application will be made to ASX after the Offer Document (accompanied by the Additional Australian Information) has been lodged with ASIC for the Company to be admitted to the official list of the ASX and for quotation of the Shares on the ASX. The Company's ASX stockcode is 'MYT'.

ASX takes no responsibility for the contents of this Offer Document and the Additional Australian Information or for the merits of the investment to which this Offer Document and the Additional Australian Information relate. The fact that ASX may admit the Company to the official list and quote the Shares on the ASX is not to be taken as an indication of the merits, or as an endorsement by ASX, of the Company or the Shares. The ASX is not a registered market under the Securities Markets Act 1988.

Conditional And Deferred Settlement Trading

Initial quotation of the Shares on the NZX Main Board and the ASX is expected to occur on or about 10 May 2013. The NZX Main Board quotation will be initially on a conditional basis. The ASX quotation is expected to be initially on a conditional and deferred settlement basis. If you wish to sell your Shares on the NZX Main Board after confirming your allocation you must contact an NZX Firm.

The contracts formed on acceptance of Applications in the General Offer and Participating Iwi Offer and bids in the Institutional Offer will be conditional on NZX agreeing to quote Shares on the NZX Main Board and on completion occurring under the Offer Management Agreement, including allotment of Shares to successful Applicants.

You can find further information about the Offer Management Agreement under the heading "Material Contracts" in 7.2 Statutory Information.

Trades occurring on the NZX Main Board will be on a conditional basis until the Crown has advised NZX that completion under the Offer Management Agreement has occurred, which is expected to be on or about 14 May 2013.

Trading of Shares on a normal settlement basis on the NZX Main Board is expected to commence on 15 May 2013.

Trades occurring on the ASX are expected to be on a conditional and deferred settlement basis until Mighty River Power has advised ASX that completion under the Offer Management Agreement has occurred. This means that any Applicant who sells their shares on the ASX on or before completion under the Offer Management Agreement (which is expected to occur on 14 May 2013) will not receive the proceeds of such a sale until after 20 May 2013, being the expected date of settlement of all deferred trades.

Trading of Shares on a normal settlement basis on the ASX is expected to commence on 15 May 2013.

In the event that admission to list on the NZX Main Board is denied, or the sale of Shares under the Offer does not proceed for any other reason, including if the conditions are not satisfied and completion does not occur under the Offer Management Agreement, all Application amounts will be refunded in full without interest no later than five Business Days after announcement of the decision not to proceed. Failure to achieve admission to the list on the ASX will not, of itself, prevent the sale of Shares under the Offer from proceeding.

You should not attempt to sell your Shares until you know whether, and how many, Shares have been allocated to you. None of the Crown, Mighty River Power, the Joint Lead Managers, or any of their respective directors, officers or employees accepts any liability or responsibility should any person attempt to sell or otherwise deal with Shares before notices confirming allotments of Shares are received by the Applicants or the successful bidders under the Institutional Offer (as applicable).

CHESS

The Company will apply to participate in ASX's Clearing House Electronic Subregister System (CHESS), in accordance with the ASX Settlement Operating Rules. CHESS is an automated transfer and settlement system for transactions in securities quoted on the ASX under which transfers are effected in a paperless form.

When the Shares become CHESS Approved Securities, holdings will be registered in one of two subregisters, an electronic CHESS subregister or a Company sponsored subregister. The Shares of a Shareholder who is a participant in CHESS or a person sponsored by a participant in CHESS will be registered on the CHESS subregister. All other Shares will be registered on the Company sponsored subregister.

Following the allotment of Shares, any Shareholder who has elected to have their Shares registered in CHESS will be sent an initial statement of holding that sets out the number of Shares that have been allocated. This statement will also provide details of the Shareholder's Holder Identification Number (HIN) or, where applicable, the Shareholder Reference Number (SRN) for Company sponsored holders. Shareholders will subsequently receive statements showing any changes to their shareholding in the Company.

Supplementary Disclosure

If any significant adverse developments occur prior to commencement of the bookbuild process, the Crown and Mighty River Power may advise investors of those developments by publishing advertisements in newspapers, with additional information on the Offer website www.mightyrivershares.govt.nz, or which is available by calling 0800 90 30 90, pursuant to an exemption granted by the Financial Markets Authority under the Securities Act. Further details of this exemption are discussed under the heading "Other Material Matters" in 7.2 Statutory Information.

In the case of a significant adverse development prior to the commencement of the bookbuild process, then in addition to any other rights of withdrawal that an Applicant may have, an Applicant may withdraw their Application:

- in the case of a supplementary disclosure being made before 5.00pm on the Closing Date: if the Application is dated on or before the date of the supplementary disclosure and received before 5.00pm on the Closing Date; or
- in the case of a supplementary disclosure being made after the closing of the General Offer and the Participating Iwi Offer: if the Application has been validly made in accordance with the terms and conditions of the Offer,

provided that in each case that notice of withdrawal is received by or on behalf of the Crown or Mighty River Power within five working days after the publication of the supplementary disclosure.

Notice of withdrawal must be given in one of the following manners:

- by calling 0800 90 30 90; or
- by completing the withdrawal form that will be made available on the Offer website www.mightyrivershares.govt.nz.

Withdrawals made by any other method may not be accepted by the Crown.

If an Applicant does not take any action to effect withdrawal within the relevant time period, the Crown will be entitled to accept the Applicant's Application.

The Crown and Mighty River Power must refund any Applicant who has validly withdrawn their Application (not including any interest on their Application monies) within 10 working days after the earlier of:

- the last date of despatch of share holding statements to successful Applicants in the Offer; and
- the cancellation of the Offer (if any).

Offer Management Agreement

The Crown, Mighty River Power and the Joint Lead Managers have entered into an Offer Management Agreement. Under the Offer Management Agreement, once the Final Price has been determined, the Joint Lead Managers or their affiliates will be obliged to provide settlement support in respect of successful bids in the Institutional Offer to the extent that the Crown does not retain any Shares in respect of which Institutional Investors have defaulted on their payment obligations. The Offer Management Agreement sets out a number of circumstances under which the Joint Lead Managers may terminate the Offer Management Agreement and their settlement support obligations.

You can find further information about the Offer Management Agreement under the heading "Material Contracts" in 7.2 Statutory Information.

Selling Restrictions

The Offer is only being made to New Zealand Applicants and Participating Iwi in New Zealand and to Institutional Investors in New Zealand, Australia and certain other jurisdictions.

No person may offer, sell (including resell) or deliver or invite any other person to so offer, sell (including resell) or deliver any Shares or distribute any documents (including this Offer Document) in relation to the Shares to any person outside New Zealand except in accordance with all of the legal requirements of the relevant jurisdiction.

Unless otherwise agreed with the Crown, any person or entity subscribing for Shares in the Offer shall, by virtue of such subscription, be deemed to represent that he, she or it is not in a jurisdiction which does not permit the making to him, her or it of an offer or invitation of the kind described in this Offer Document, and is not acting for the account or benefit of a person within such jurisdiction. None of the Crown, Mighty River Power, the Joint Lead Managers, or any of their respective directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate in the Offer.

This Offer Document may not be released or distributed in the United States or elsewhere outside New Zealand or Australia unless it is attached to, or constitutes part of, the International Offering Memorandum that describes selling restrictions applicable in the United States and other jurisdictions outside New Zealand and Australia, and may only be distributed to persons to whom the Offer may lawfully be made in accordance with the laws of any applicable jurisdiction.

The Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and may not be offered or sold in the United States except in accordance with an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and any other applicable securities laws. Offers to any persons in the United States are only being made pursuant to, and in accordance with the terms described in, the International Offering Memorandum.

Each Applicant in the General Offer and the Participating Iwi Offer will be taken to have represented, warranted and agreed as follows:

- it understands that the Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state of the United States and may not be offered, sold or resold in the United States, except in a transaction exempt from, or not subject to, registration under the US Securities Act and any other applicable securities laws;
- it is not in the United States and is not acting for the account or benefit of a person in the United States;
- it has not and will not send the Offer Document or any other material relating to the Offer to any person in the United States; and
- it will not offer or sell the Shares in the United States or in any other jurisdiction outside New Zealand and Australia except in transactions exempt from, or not subject to, registration under the US Securities Act and in compliance with all applicable laws in the jurisdiction in which Shares are offered and sold.

Each successful bidder under the Institutional Offer will be required to make certain representations, warranties and covenants set out in the confirmation of allocation letter distributed to it.

Section 7.2: Statutory Information

This section contains the information required by Schedule 1 to the Securities Regulations.

1 Main Terms Of Offer

The issuer of the Shares is Mighty River Power. Its registered office is set out in the Directory.

The securities offered under this Offer are fully paid ordinary shares in Mighty River Power.

The maximum number of Shares (including the Loyalty Bonus Shares) being offered under the Offer is 686,000,000.

The consideration to be paid for each Share transferred on the Allotment Date is the Final Price.

New Zealand Applicants who continue to hold their Shares in the same registered name for a period of 24 months will be entitled to Loyalty Bonus Shares for no further cash investment based upon the ratio of 1 for 25, up to a maximum number of 200 Loyalty Bonus Shares for each New Zealand Applicant.

An Indicative Price Range of $2.35 to $2.80 per Share has been set by the Crown, however, the Crown, in its sole discretion may set the Final Price within, above or below this range. Information about how the Final Price will be determined is set out under the heading "Determination Of The Final Price" in 7.1 Details Of The Offer. It is expected that the Final Price will be announced on 8 May 2013, including under Mighty River Power's NZX stockcode 'MRP'.

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.

A Shareholder's ability to exercise these rights is subject to restrictions contained in the Constitution, the NZSX Listing Rules and the ASX Listing Rules. You can find out more about the restrictions contained in the Constitution under the heading "Shareholding Restrictions" in 4.3 Relationship Between Mighty River Power And The Crown.

2 Name And Address Of Offeror

The Crown is the offeror of the Shares. The Crown's address in New Zealand is set out in the Directory.

The net amount of consideration received by Mighty River Power in respect of its existing ordinary shares was $377,560,548. Mighty River Power will not receive any consideration for the allotment of Shares to be offered under this Offer.

3 Details Of Incorporation Of Issuer

Mighty River Power was incorporated in New Zealand on 16 December 1998 under the Companies Act. Mighty River Power's registration number is 936901. You can inspect the public file relating to Mighty River Power maintained by the Companies Office of the Ministry of Business, Innovation and Employment on its website at www.business.govt.nz/companies.

4 Principal Subsidiaries Of Issuer

As at the date of this Offer Document, the principal subsidiaries of Mighty River Power, each of which is 100% owned by the Group, are Mighty River Power Geothermal Limited, Ngatamariki Geothermal Limited, Kawerau Geothermal Limited and Rotokawa Geothermal Limited.

5 Names, Addresses And Other Information

Directorate

The directors of Mighty River Power, and the city, town or district in which their principal residence is based as at the date of this Offer Document are Joan Withers (Karaka), Dr Michael David Allen (Auckland), Prudence Mary Flacks (Queenstown), Trevor David Janes (Auckland), James Bruce Miller (Auckland), Tania Joy Te Ranginganagana Simpson (Hamilton) and Keith Raymond Smith (Auckland).

You can contact the directors at the registered office of Mighty River Power as set out in the Directory.

None of the directors is an employee of Mighty River Power or an associated person of Mighty River Power.

Promoter

Under the Securities Act, the Crown is a 'promoter' of the Offer. The contact address of the Crown is set out in the Directory.

Secretary

The Company Secretary of Mighty River Power is Tony Nagel.

Share Registrar

The share registrar of Mighty River Power is Computershare Investor Services Limited. The contact address of the Share Registrar is set out in the Directory.

Auditor

Pursuant to the Public Audit Act 2001, the auditor of Mighty River Power must be the New Zealand Controller and Auditor-General. The New Zealand Controller and Auditor-General has appointed Brent Penrose of Ernst & Young to perform the audit on her behalf. The contact address of the Auditor is set out in the Directory.

Advisers

The names and addresses of the solicitors and other professional advisers who have been involved in the preparation of this Offer Document are set out in the Directory.

Experts

Ernst & Young Transaction Advisory Services Limited, Chartered Accountants, gave its consent and has not withdrawn its consent before delivery of this Offer Document for registration under section 41 of the Securities Act to the distribution of this Offer Document with the inclusion of the Investigating Accountant's Report in this Offer Document in the form and context in which it is included. The registered address of Ernst & Young Transaction Advisory Services Limited is set out in the Directory.

Beca Carter Hollings & Ferner Limited, Consulting Engineers, gave its consent and has not withdrawn its consent before delivery of this Offer Document for registration under section 41 of the Securities Act to the distribution of this Offer Document with the inclusion of the Independent Engineer's Report in this Offer Document in the form and context in which it is included. The registered address of Beca Carter Hollings & Ferner Limited is Ground Floor, Beca House, 21 Pitt Street, Auckland 1010, New Zealand.

Neither Ernst & Young Transaction Advisory Services Limited nor Beca Carter Hollings & Ferner Limited is or intends to be a director, officer or employee of either of Mighty River Power or the Crown. However, both Ernst & Young Transaction Advisory Services Limited and Beca Carter Hollings & Ferner Limited have provided, and may in the future provide, professional advisory services to Mighty River Power.

6 Restrictions On Directors' Powers

The Constitution incorporates by reference the requirements of the NZSX Listing Rules and the ASX Listing Rules and requires Mighty River Power to comply with the NZSX Listing Rules and the ASX Listing Rules for so long as the Shares are quoted on the NZX Main Board and the ASX respectively. The principal restrictions on the powers of the board imposed by the Constitution (including the requirements of the NZSX Listing Rules and the ASX Listing Rules incorporated into the Constitution), the NZSX Listing Rules and the ASX Listing Rules (which will apply once the Shares are quoted on the NZX Main Board and ASX respectively) are as follows:

- the board may not issue or acquire any equity securities except in accordance with the provisions of the Companies Act, Part 5A of the Public Finance Act, the Constitution, the NZSX Listing Rules and the ASX Listing Rules;
- the board may not give financial assistance for the purpose of, or in connection with, the acquisition of equity securities issued or to be issued by Mighty River Power, except in limited circumstances and in accordance with the provisions of the Companies Act, the Constitution, the NZSX Listing Rules and the ASX Listing Rules;
- the board may not cause Mighty River Power to enter into any transaction or series of linked or related transactions to acquire, sell, lease, exchange or otherwise dispose of (otherwise than by way of charge) assets of Mighty River Power which would change the essential nature of the business of Mighty River Power, or in respect of which the gross value is in excess of 50% of the average market capitalisation of Mighty River Power, without the prior approval of Shareholders in accordance with the Constitution, the NZSX Listing Rules and the ASX Listing Rules; and
- the board may not allow Mighty River Power to enter into certain material transactions with related parties, a subsidiary, certain substantial holders of Shares, or any associates of any of those persons, if those persons or their associates are, or are likely to be become, a direct or indirect party to the material transaction without the prior approval of Shareholders in accordance with the Constitution, the NZSX Listing Rules and the ASX Listing Rules.

In addition, a director may not vote on any matter in which he or she is interested unless the matter is one in respect of which directors are required under the Companies Act to sign a certificate or which relates to the grant of an indemnity for a director or employee.

The Companies Act contains a number of other provisions that could have the effect, in certain circumstances, of imposing restrictions on the powers of the board. For example, directors cannot allow Mighty River Power to:

- enter into any major transaction (as that term is defined in the Companies Act) without the prior approval of a special resolution of Shareholders; or
- take any action which affects the rights attaching to the Shares without the prior approval of a special resolution of each interest group (being a group of Shareholders with similar or identical rights).

These provisions apply to any company registered under the Companies Act.

7 Substantial Equity Security Holders Of Issuer

The Crown holds its Shares by and through the Shareholding Ministers. The Shareholding Ministers hold Shares for and on behalf of the Crown, which is the beneficial owner of the Shares.

The following table sets out the only registered holdings of equity securities of Mighty River Power as at the date of this Offer Document, together with the nature of the relevant interest held by them and the consideration and other terms and conditions of the transactions under which they acquired their Shares:

Shareholder and Nature of Relevant Interest	Number of Shares (%)	Consideration and Other Terms
Minister for State-Owned Enterprises (Registered holder)	700,000,047 (50%)	188,780,274 Shares were issued in three tranches for a total cash consideration of $188,780,274. The Company also made a taxable bonus issue of 511,219,773 Shares.
Minister of Finance (Registered holder)	700,000,047 (50%)	188,780,274 Shares were issued in three tranches for a total cash consideration of $188,780,274. The Company also made a taxable bonus issue of 511,219,773 Shares.

None of the persons named above guarantees or undertakes any liability in respect of the Shares.

8 Description Of Activities Of Issuing Group

The principal activities carried out by Mighty River Power are those involved in operating an electricity company with hydro, geothermal and gas-fired generation complemented by sales to homes and businesses. You can read a full description of the business of the Group in 4.1 Business Description.

Mighty River Power's principal assets are its geothermal and hydro power stations, which Mighty River Power uses to generate electricity for sale to its direct customers and the wholesale spot market. Mighty River Power owns these assets. Some of these assets are subject to obligations in favour of other persons that modify or restrict Mighty River Power's ability to deal with them. You can find further details of Mighty River Power's generation assets in 4.1 Business Description.

9 Summary Financial Statements

Summary financial statements for each of the five consecutive financial years preceding 30 June 2012 and for the six months ended 31 December 2012 and 31 December 2011 are set out in 6.6 Summary Historical Financial Information.

10 Prospects And Forecasts

4.1 Business Description describes generally the Group, together with material information relevant to its trading prospects, and its trading prospects are described more particularly in 6.3 Prospective Financial Information.

Special trade factors and risks which could materially affect the prospects of Mighty River Power and which are not likely to be known or anticipated by the general public are set out in 5 What Are The Risks?

11 Provisions Relating To Initial Flotations And Minimum Subscription

Directors' plans

The plans of the directors in respect of the Group during the 12 month period commencing on the date of this Offer Document are to continue to implement its strategy as described under the heading "Business Strategy" in 4.1 Business Description.

The sources of finance required for these plans will be Mighty River Power's operating cash flow, supplemented by borrowings and the issuance of debt securities.

Use of proceeds

The Company will not receive any proceeds of the Offer. Accordingly, the proceeds of the Offer will not be applied towards the directors' plans set out above.

The Government intends to use the proceeds of the Offer to provide funding for its Future Investment Fund. The Future Investment Fund will be used to invest in capital projects that the Government believes will help grow the economy and improve public services, including schools, hospitals and broadband internet infrastructure. Using the proceeds in this way will reduce pressure on the Government to borrow to fund those projects.

Prospective statement of financial position, financial performance and cash flows

A prospective statement of financial position (balance sheet), a prospective statement of financial performance (income statements) and a prospective statement of cash flows for the accounting periods ending 30 June 2013 and 30 June 2014 are set out in 6.3 Prospective Financial Information.

Minimum amount

All of the Offer proceeds are payable to the Crown. Accordingly there is no amount that must be raised by the issue of the Shares for the purposes of section 37(2) of the Securities Act.

12 Acquisition Of Business Or Subsidiary

Not applicable.

13 Securities Paid Up Otherwise Than In Cash

Not applicable.

14 Options To Subscribe For Securities Of Issuing Group

Not applicable.

15 Appointment And Removal Of Directors

Mighty River Power is or will be party to a listing agreement with NZX (a registered exchange) and the method by which directors of Mighty River Power may be appointed to or removed from, or otherwise vacate, office is the same as that contained in the NZSX Listing Rules. Directors can be appointed by the Shareholders in a general meeting, or by the board to fill a casual vacancy or as an addition to the existing directors.

Each director has the power to appoint any person as an alternate director, who may be any person not disqualified under the Companies Act from holding the position of a director of a company other than another director of the Company and who is approved by a majority of the other directors.

In addition, the Minister of Finance must approve the appointment of the Chairperson nominated by the board.

16 Interested Persons

For the purposes of the information set out under this heading, 'specified person' means:

- a director or proposed director of Mighty River Power, or an associated person of any of them; and
- the Crown, the Shareholding Ministers (as holders of the Shares at the time of the Offer) and an associated person of any of them.

No specified person will be entitled to any remuneration from the Group other than by way of directors' fees and reasonable travelling, accommodation and other expenses incurred in the course of performing duties or exercising powers as a director. There is no dollar limit on the expenses that the directors are entitled to recover from Mighty River Power.

The table below sets out details of any shareholdings in Mighty River Power that specified persons have, or have had, at any time during the five years preceding the date of this Offer Document.

Specified Person	Number of Shares Held[82]
Minister for State-Owned Enterprises	700,000,047
Minister of Finance	700,000,047

The Ministers hold their Shares on behalf of the Crown, and accordingly the Crown has a material interest in Mighty River Power through the Shares held by the Ministers.

Transpower is an associated person of the Crown. Under the Electricity Industry Participation Code, a Default Transmission Agreement (also known as the Benchmark Agreement) applies as a binding contract between Mighty River Power and Transpower. The Agreement sets out the terms for connection to Transpower's grid from Mighty River Power's points of connection and the maintenance of associated land, facilities and connection assets. It provides for grid charges payable by Mighty River Power to Transpower in accordance with a transmission pricing methodology set out in the Code. Mighty River Power may terminate any point of connection on six months notice, and Transpower may de-energise any point of connection in certain circumstances, including if Mighty River Power does not comply with its obligations. The Default Transmission Agreement is material to either or both of Transpower and the Group.

Except as set out above, no specified person has, or has had at any time during the five years preceding the date of this Offer Document, any direct or indirect material interest in the Group, or in any contract or arrangement entered into on behalf or in respect of the Group, that is material to either or both of the person who has the interest and the Group.

82. The number of Shares held includes the 511,219,773 Shares which were issued to each of the Minister for State-Owned Enterprises and the Minister of Finance on 30 June 2012. This was the only issue of Shares by the Company in the last five years.

17 Material Contracts

Mighty River Power has entered into the following material contracts in the past two years:

Negative Pledge Deed

The Company is party to a negative pledge deed dated 7 March 2001 (Negative Pledge Deed). The Negative Pledge Deed contains certain financial and other covenants and guarantees of certain subsidiaries.

Mighty River Power has extended the benefit of the Negative Pledge Deed to all of its bank lenders and a number of its bank swap counterparties. Mighty River Power extends the benefit of the Negative Pledge Deed to new counterparties by signing an acknowledgement in the form scheduled to the Negative Pledge Deed (such an acknowledgement has been signed in the previous two years).

A number of subsidiaries of the Company were party to the Negative Pledge Deed when it was executed in March 2001, and a number of other subsidiaries have subsequently acceded to the Negative Pledge Deed as guarantors. The subsidiaries of the Company which currently are guarantors are Mighty River Power Geothermal Limited, Rotokawa Geothermal Limited, Rotokawa Generation Limited, Kawerau Geothermal Limited, Ngatamariki Geothermal Limited, Mighty Geothermal Power Limited and Mighty Geothermal Power International Limited.

Company Indemnity

On 4 April 2013 the Crown and the Company entered into a deed of indemnity (the Company Indemnity) under which the parties provide certain warranties to each other and the Crown is required to indemnify the Company in respect of certain liabilities which the Company may incur as a result of any claim or proceedings brought or threatened against the Company in respect of the Offer. The Company Indemnity applies only to the extent that any such liability is not covered by insurance effected by the Company in respect of its potential liability under or in relation to any such claim or proceedings. The Crown's and the Company's obligations under the Company Indemnity are subject to certain exclusions and limitations (for example, the indemnity does not apply in respect of criminal liability or liability resulting from wilful misconduct, malice, fraud or recklessness on the part of the Company).

Offer Management Agreement

On 4 April 2013 Mighty River Power, the Crown and the Joint Lead Managers entered into the Offer Management Agreement, which sets out the obligations of the Joint Lead Managers in relation to the operation of the bookbuild and also in relation to the provision of settlement support in certain circumstances described below.

Under the Offer Management Agreement, the Joint Lead Managers commit to conduct the bookbuild in the manner described in this Offer Document.

Once the Final Price has been determined by the Crown, if Institutional Investors default in payment for allocations of Shares or payments by Institutional Investors are uncleared, the Crown, at its discretion, may either require the Joint Lead Managers to purchase some or all of the relevant Shares at the Final Price (and those Shares may then be on-sold by the Joint Lead Managers) or retain some or all of those Shares and sell them as and when it determines, subject to the 180 day lock-up period described below. The Joint Lead Managers will be obliged, subject to various conditions and terms, to provide settlement support in respect of Applications under the Institutional Offer (excluding in respect of Broker Sponsored Bids) in such circumstances described above where the Crown requires the Joint Lead Managers to purchase any Shares that are not retained by the Crown (if any). The Offer is not underwritten other than in respect of such settlement support.

The Joint Lead Managers may terminate the Offer Management Agreement and their settlement support obligations in respect of the Institutional Offer in certain circumstances, including, where on or before settlement of the Institutional Offer (on the Allotment Date, which is expected to occur on 14 May 2013):

- the Offer is withdrawn by the Crown;
- the Crown is prevented from transferring the Shares by any applicable laws or as a result of an order or judgment of a Court or regulatory authority;
- any information or statement in this Offer Document is or becomes untrue, inaccurate, misleading or deceptive in any material respect or a material matter is omitted;
- an insolvency event occurs in relation to Mighty River Power;
- any of the following occurs and, in the reasonable opinion of the Joint Lead Managers, is likely to have a material adverse effect on certain specified matters, including the settlement of the Offer or the Joint Lead Managers' ability to perform their functions:
  - » a material adverse change or any event which would give rise to a material adverse change in the Group;
  - » particular disruptions in certain major financial markets;
  - » a representation or warranty contained in the Offer Management Agreement on the part of Mighty River Power or the Crown is not true or correct;
  - » a director of Mighty River Power is charged with an indictable offence; or
  - » a breach of any material obligations under the Offer Management Agreement on the part of Mighty River Power or the Crown.

The obligations of the Joint Lead Managers under the Offer Management Agreement are subject to certain conditions. These conditions include:

- receipt by the Joint Lead Managers of various legal and accounting reports, opinions, comfort letters and other sign-offs;
- registration of this Offer Document; and
- all necessary regulatory approvals being granted.

Pursuant to the Offer Management Agreement, the Crown has granted an indemnity to the Joint Lead Managers in relation to losses resulting from a breach by the Crown or the Company of their respective obligations under the Offer Management Agreement or any unlawful, negligent, reckless or deliberate wrongful act or omission by the Crown or the Company in relation to the Offer. The Crown has also granted an indemnity to the Joint Lead Managers in relation to losses suffered in connection with the offer and sale of Shares to Institutional Investors located in the United States as a result of the International Offering Memorandum containing an untrue statement of a material fact or omitting to state a material fact necessary in order to make the statements in the International Offering Memorandum not misleading.

The Offer Management Agreement also sets out a number of representations, warranties and undertakings given by Mighty River Power and the Crown to the Joint Lead Managers, and by the Joint Lead Managers to the Crown and Mighty River Power customary for an offering of this nature.

The Company has agreed that, subject to certain exceptions, during the lock-up period of 180 days from the date of this Offer Document, it will not, without the prior written consent of the Joint Lead Managers (not to be unreasonably withheld), allot or issue, issue or grant any right or option in respect of an issue of, create any debt obligation which may be convertible or exchangeable into or redeemable by, or otherwise enter into an agreement entitling a person to the allotment and issue of, in each case, Shares or other equity securities of the Company.

The Crown has agreed that it will not, during the lock-up period of 180 days from the date of this Offer Document, without the prior written consent of the Joint Lead Managers (not to be unreasonably withheld), sell or accept offers for any Shares or other equity securities issued by the Company.

Deed of Relinquishment

On 26 March 2013 the Crown and the Company entered into a deed of relinquishment under which historical indemnities in relation to water and geothermal energy and land resumption (the ECNZ Indemnities) given to the Company by the Crown were relinquished. The Company had been entitled to the benefit of them since the split of ECNZ in 1999. The first of these indemnities provided a right to compensation from the Crown in the event that any tax, royalty, levy or impost was imposed upon Mighty River Power's use of water in respect of its hydro power stations and as a consequence Mighty River Power incurred costs or expenses (which were not reflected in increased prices for energy generally) or was deprived of revenue. The second of these indemnities placed an obligation on the Crown to compensate Mighty River Power for any costs arising from any resumption for use in a Treaty settlement of the land acquired by the Company from ECNZ that were not covered by compensation under the Public Works Act 1981.

18 Pending Proceedings

There are no legal proceedings or arbitrations that are pending as at the date of the Offer Document that may have a material adverse effect on Mighty River Power. For an overview of the current disputes involving Mighty River Power, refer to the information under the heading "Litigation And Dispute Risks" in 5 What Are The Risks?

19 Preliminary And Issue Expenses

Issue expenses (including brokerage and commission fees, management fees, share registry expenses, legal fees, audit and accounting fees, other professional consulting fees, employee compensation and benefits specifically related to the Offer, advertising costs, printing costs and postage and courier costs) relating to the Offer are estimated to amount to an aggregate of approximately $48.7 million, assuming the maximum Offer size.

The Crown has entered into a Joint Lead Manager Engagement Agreement with the Joint Lead Managers under which each Joint Lead Manager is entitled to receive a base fee of $666,666 in consideration for the performance of its services as a joint lead manager of the Offer. In addition, the Joint Lead Managers may each receive up to a further $1,333,334 by way of performance fees based on the achievement of certain agreed performance criteria relating to the achievement of agreed demand and value targets.

The Crown has also agreed to pay the following selling commissions and fees:

- the Joint Lead Managers will be paid, jointly, a commission of 0.4% of the aggregate proceeds of all Shares sold under the Institutional Offer to Institutional Investors in New Zealand;
- the Joint Lead Managers will be paid, jointly, a commission of 0.8% of the aggregate proceeds of all Shares sold under the Institutional Offer to Institutional Investors outside New Zealand;
- each NZX Firm and selected trading banks will be paid a fee of 0.6% of the aggregate proceeds of all Shares sold

under the Institutional Offer to Institutional Investors in New Zealand under Broker Sponsored Bids bearing their stamp;

- each NZX Firm and selected trading banks will be paid a broker stamping fee equal to 1.0% of the aggregate proceeds of all Shares sold under the General Offer under valid Applications bearing their stamp; and
- the Joint Lead Managers will be paid, jointly, a fee equal to 0.2% of the aggregate proceeds of all Shares sold under valid Applications made under the General Offer.

20 Restrictions On Issuing Group

There are no restrictions on the Group making a distribution or borrowing, being restrictions that result from any undertaking given, or contract or deed entered into, by a member of the Group.

Nonetheless, there are a number of covenants which indirectly affect the Group's ability to borrow further sums or to make distributions. The principal relevant covenants are as follows:

- under the Negative Pledge Deed referred to under the heading "Material Contracts" above:
  - » Shareholders' Funds are at no time to be less than $625,000,000;
  - » the ratio of Total Debt to Total Debt plus Shareholders' Funds is not to exceed 55% at any time;
  - » on a rolling 12 month basis calculated semi annually, EBITDA is required to be at least 250% of Interest and Financing Costs;
  - » the Total Assets of the Guaranteeing Group (being Mighty River Power and its guaranteeing subsidiaries) are at all times to be not less than 90% of Total Assets of the Group (excluding assets funded by Project Finance Debt); and
  - » no member of the Guaranteeing Group may create a security interest over any of its assets to secure any indebtedness unless it is a Permitted Security Interest or unless the aggregate principal amount secured by all such security interests (i.e. excluding Permitted Security Interests) does not exceed 5% of Total Assets;
- the Company, together with certain of its subsidiaries, has entered into a US Note Purchase Agreement, pursuant to which the Company issued three series of senior guaranteed notes to institutional investors in the United States on 8 December 2010 with an aggregate principal amount of US$200,000,000 and maturity dates ranging from 2020 to 2025. If the Company elects to redeem the Notes early, it may need to pay an early repayment penalty. If a default occurs under the Notes, the Company must immediately repay (or, in the case of certain defaults, can be required by noteholders to repay) the principal sum, plus all unpaid interest and any applicable early repayment penalty. The default would also trigger a default under the Company's bank facilities.

  Under the US Note Purchase Agreement, the Company has given certain additional covenants which could affect the ability to borrow or make distributions:
  - » the Company has agreed that it will not, and will not permit any of its subsidiary guarantors to, create any security interest over their respective assets in favour of any person securing any financial indebtedness, with the exception of a number of permitted security interests similar to those permitted under the Negative Pledge Deed referred to above, unless the liabilities under the USD notes are equally and rateably secured with such security interest. In addition, and notwithstanding the various permitted security interests contained in the US Note Purchase Agreement, the Company has agreed that it will not, and will not permit any of its subsidiary guarantors to, create any security interest over their respective assets in favour of any lender under what is defined as the Primary Credit Facility (described as being the facility agreement with the Bank of Tokyo-Mitsubishi UFJ, Ltd dated 3 December 2008 as amended or replaced, and each other agreement constituting the primary working capital facility of the Group) unless the indebtedness under the USD notes is equally and rateably secured with such other security interest; and
  - » the Company has agreed that, should it give to a third party financier any covenant or default event that provides for limitations on or which measures:
    - · indebtedness, financial condition or performance; or
    - · changes in control or transfers of interests in assets of the group,

    where such provision has no equivalent in the US Note Purchase Agreement or is more onerous on the Company and its subsidiaries than a comparable provision in the US Note Purchase Agreement, then that provision is deemed to be incorporated into the US Note Purchase Agreement. This is described as the Most Favoured Lender's covenant; and
- the Group is subject to a number of other business covenants in its borrowing documentation which relate to, amongst other things, restrictions on asset sales and other dispositions, restrictions on changes in the nature of its business or operations, related party dealing restrictions, restrictions on amalgamations and other general business covenants. There is also a prohibition on repayments of any subordinated debt if default conditions subsist or if the making of the payment will result in a breach of its borrowing documentation.

As a consequence of the unremedied breach of any of the above covenants, the relevant parties may demand immediate repayment of all outstanding monies owed by the Company and its guaranteeing subsidiaries to those parties, and if these are not repaid the relevant parties may then apply to the High Court of New Zealand to appoint a liquidator to the Company and its guaranteeing subsidiaries.

Moreover, the Company would need to continue to comply with its financial covenants following the payment of any dividend. The Company is in any event subject to general company law restrictions (such as satisfaction of the solvency test under the Companies Act) in relation to the payment of dividends, which operate as fetters on the ability to make distributions.

21 Other Terms Of Offer And Securities

All of the terms of the Offer, and all the terms of the Shares, are set out in this Offer Document, other than any terms implied by law or any terms set out in a document that has been registered with a public official, is available for public inspection and is referred to in this Offer Document.

22–23 Financial Statements

Audited financial statements for the 12 month accounting period to 30 June 2012 are set out in 6.8 Audited Financial Statements For The Year Ended 30 June 2012.

24 Additional Interim Financial Statements

Audited interim financial statements for the six month period to 31 December 2012 are set out in 6.7 Audited Interim Financial Statements For The Six Months Ended 31 December 2012.

Statements as to all material changes in matters contained in the audited interim financial statements for the six month period to 31 December 2012 from the matters contained in the audited financial statements for the 12 month accounting period to 30 June 2012 are set out in the notes to the financial statements in 6.7 Audited Interim Financial Statements For The Six Months Ended 31 December 2012 and in 6.2 Analysis Of Historical Financial And Operational Performance and 6.3 Prospective Financial Information.

Statements as to all transactions that are material related party transactions under generally accepted accounting practice and were entered into or were being performed in the six month period to 31 December 2012 are set out in note 16 to the financial statements in 6.7 Audited Interim Financial Statements For The Six Months Ended 31 December 2012.

25 Places Of Inspection Of Documents

You may inspect (without charge) during the period of the Offer, during normal business hours, the Constitution, copies of the material contracts referred to above under the heading "Material Contracts" and copies of the financial statements referred to under the heading "Financial Statements" above, at Level 38, ANZ Centre, 23-29 Albert Street, Auckland 1010. You may also inspect copies of those documents on the Companies Office website at www.business.govt.nz/companies.

26 Other Material Matters

Director Indemnity

On 4 April 2013 the Crown and each of the directors of the Company entered into substantively identical deeds of indemnity (each a Director Indemnity). The Director Indemnity requires the Crown to indemnify each director in respect of certain liabilities which the director may incur as a result of any claim or proceedings brought or threatened against the director in respect of the Offer. The Director Indemnity also requires the Crown to indemnify each director for costs incurred in the defence of criminal proceedings where the director is found guilty, if the relevant director acted honestly and in good faith and did not know, and was not reckless as to whether, the relevant act would result in criminal liability, or if the Company or the director acted with the express consent or concurrence of the Crown. The Director Indemnity applies only to the extent that any such liability is not covered by insurance effected by the Company, or by an indemnity granted by the Company in favour of the director, in respect of the director's potential liability under or in relation to any such claim or proceedings. The Crown's obligations under the Director Indemnity are subject to certain exclusions and limitations (for example, the indemnity does not apply in respect of liability resulting from wilful misconduct, malice, fraud or recklessness on the part of the director).

By virtue of the Securities Act (Mighty River Power Limited Crown share offer) Exemption Notice 2013, the Crown has been exempted from the prohibition on issuers indemnifying directors set out in section 61 of the Securities Act.

Exemptions relating to supplementary disclosure

By virtue of the Securities Act (Mighty River Power Limited Crown share offer) Exemption Notice 2013, the Crown and Mighty River Power have been exempted from section 37A(1)(b) of the Securities Act and Regulation 21 of the Securities Regulations. This exemption enables the Crown and Mighty River Power to produce and publicise a supplementary disclosure document so that potential Mighty River Power investors can be informed of any significant adverse developments that may arise without the Crown and Mighty Power River incurring costs or delay in producing new offer documents and distributing them to Applicants and potential investors. The exemption is limited to where any significant adverse developments occur prior to the commencement of the bookbuild process. The conditions of the exemptions require, amongst other things, that (i) the Crown and Mighty Power River alert potential investors to the publication of the supplementary disclosure; and (ii) any Applicant whose Application is dated on or before the publication of the supplementary disclosure and received by 5.00pm on the Closing Date is given the right to withdraw their Application within five working days and have their Application monies (excluding interest) refunded.

Investors will not be contacted or notified personally of any supplementary disclosure made pursuant to this exemption.

NZSX Listing Rule waivers and approval

NZX has granted a waiver in respect of the requirement in Rule 7.11.1 of the NZSX Listing Rules that allotments must be made within five Business Days after the Closing Date for making applications for Shares under this Offer. The effect of this waiver is to permit the Allotment Date to be seven Business Days after the Closing Date.

NZX has granted a waiver in respect of the prohibition in Rule 11.1.6 of the NZSX Listing Rules on the cancellation or variation of a benefit or right attaching to a share by reason only of a transfer of that share. The effect of this waiver is to permit the suspension of voting and dividend rights under the Constitution if a person other than the Crown has a relevant interest in more than 10% of the Shares.

NZX has approved, under Rule 11.1.5 of the NZSX Listing Rules, the inclusion in the Constitution of provisions giving effect to Part 5A of the Public Finance Act 1989 which provides, amongst other things, that the Crown must hold at least 51% of the Shares and that no person other than the Crown may have a relevant interest in more than 10% of the Shares. These provisions of the Constitution are discussed in more detail under the heading "Shareholding Restrictions" in 4.3 Relationship Between Mighty River Power And The Crown.

As a condition of these waivers and approvals the Company will bear a 'non-standard' designation on the NZX Main Board.

ASX Listing Rule waivers and confirmations

ASX has made an in principle decision to grant certain waivers and confirmations in respect of the ASX Listing Rules of a similar nature to those granted by NZX 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 to be 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 made an in-principle decision to grant 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.

There are no other material matters relating to the Offer, other than those set out in this Offer Document, the financial statements or in contracts entered into in the ordinary course of business of a member of the Group.

27 Directors' Statement

The directors of Mighty River Power, after due inquiry by them, are of the opinion that none of the following have materially and adversely changed during the period between 31 December 2012 and the date of registration of this Offer Document:

- the trading or profitability of the Group;
- the value of the Group's assets; or
- the ability of the Group to pay its liabilities due within the next 12 months.

28 Auditor's Report

The Auditor's report required by clause 28 of Schedule 1 to the Securities Regulations is set out in 6.9 Statutory Auditor's Report. The financial statements required by clause 28 of Schedule 1 to the Securities Regulations have been audited by Ernst & Young on behalf of the New Zealand Controller and Auditor-General. Ernst & Young and its partners have obtained a transitional licence under the Auditor Regulation Act 2011, effective from 1 May 2012.

29 Signatures Required Under The Securities Act

A copy of this Offer Document has been signed by each director of Mighty River Power (or his or her agent authorised in writing) as issuer, and for and on behalf of Her Majesty the Queen in Right of New Zealand by Her Minister of Finance and Her Minister for State-Owned Enterprises.

Signed for and on behalf of **Her Majesty the Queen in Right of New Zealand** by **Her Minister of Finance** and **Her Minister for State-Owned Enterprises**:

Hon Simon William English
Minister of Finance

Hon Anthony Boyd Williams Ryall
Minister for State-Owned Enterprises

Signed by each director of **Mighty River Power Limited:**

Joan Withers

James Bruce Miller

Dr Michael David Allen

Tania Joy Te Rangingangana Simpson

Prudence Mary Flacks

Keith Raymond Smith

Trevor David Janes

Section 7.3: New Zealand Taxation Implications

In this section, 'you' refers to the person who acquires the Shares.

Tax will affect your return from the Shares.

The following comments are of a general nature. They are based on the law at the date of this Offer Document and do not deal with your specific circumstances.

You should seek your own tax advice in relation to your Shares.

Are You Tax Resident In New Zealand?

Your tax residence status will affect how New Zealand taxes apply to your return on the Shares. If you are a natural person and you:

- have a permanent place of abode in New Zealand; and/or
- have been present in New Zealand for more than 183 days in a 12 month period, and not subsequently absent from New Zealand for more than 325 days in a 12 month period,

you will be a New Zealand tax resident.

A company is tax resident in New Zealand if it is incorporated in New Zealand, has its head office or centre of management in New Zealand, or if its directors exercise control of the company in New Zealand.

Generally Shares held by a trustee will be treated as held by a New Zealand resident if a New Zealand resident has contributed to the trust.

If you are also tax resident in another country, the following summary applying to New Zealand residents may not apply to you, and you should seek your own tax advice.

Mighty River Power will assume you are a New Zealand tax resident unless you notify Mighty River Power otherwise.

When Distributions Taxable

Distributions you receive from Mighty River Power will generally be taxable dividends for New Zealand tax purposes. Mighty River Power may attach imputation tax credits to dividends, representing income tax paid by Mighty River Power on its income.

Some distributions you receive from Mighty River Power may not be dividends (for example, non-taxable bonus issues and certain returns of capital).

New Zealand Tax Implications For New Zealand Tax Resident Shareholders

The following is a summary of the New Zealand tax implications of investing in the Shares if you are tax resident in New Zealand.

Resident withholding tax

Mighty River Power will generally be required to withhold resident withholding tax (RWT) from dividends it pays. Currently, the rate of RWT on a fully imputed dividend is approximately 7% of the cash dividend. Mighty River Power will not withhold RWT from dividends you receive if you hold a current RWT exemption certificate that you have produced to Mighty River Power before the dividend is paid to you.

Filing an income tax return

If you do not have to file an income tax return, receiving dividends from Mighty River Power will not change that. If you are on a tax rate of less than 33% you may be able to reduce your other tax liabilities, or get a refund of any RWT on dividends, by filing a tax return.

If you file a tax return, you must include in your taxable income not only the cash dividend you receive, but also the imputation credits attached to, and RWT withheld from, your Mighty River Power dividend. The total amount included in your taxable income is referred to as the gross dividend. You will be able to use attached imputation credits and a credit for RWT deducted to satisfy (or partially satisfy) your tax liability on the gross dividend. If the attached imputation credits and RWT deducted exceed the amount of tax on the gross dividend, your tax liability on other income you earn will be reduced as a result of receiving the Mighty River Power dividend.

Loyalty Bonus Shares

The following statement applies to New Zealand Applicants eligible to receive the Loyalty Bonus Shares. You will not be taxable on the receipt of the Loyalty Bonus Shares. The Loyalty Bonus Shares are not a dividend. Although the financial arrangements rules apply to your agreement to purchase the Shares (including the Loyalty Bonus Shares), IRD has issued a ruling confirming no income arises to you under those rules. For the purposes of the financial arrangements rules, the Crown confirms that the Final Price is the lowest price it would have accepted for the Shares on the basis of payment in full on the Allotment Date.

Tax on sale or disposal of Shares

Although New Zealand does not have a capital gains tax, there are instances where you will be subject to New Zealand tax on gains you make on the sale or disposal of your Shares (including the Loyalty Bonus Shares) or be allowed a deduction for any loss you make. You must consider your individual circumstances to determine whether any gain on the sale or disposal of your Shares will be taxable.

Generally, you will be subject to tax on any gain (or allowed to deduct any loss) arising from the sale or disposal of your Shares if you:

- are in the business of dealing in shares;
- acquire your Shares as part of a profit making undertaking or scheme; or
- acquire your Shares with the dominant purpose of selling them.

Your taxable gain (or tax deductible loss) will be the difference between the cost of your Shares and the market value of the consideration received for their sale or disposal. If you receive Loyalty Bonus Shares, a pro rata portion of the cost of your Shares will be treated as the cost of your Loyalty Bonus Shares. If you have a taxable gain you will most likely be required to include that gain in a tax return for the tax year in which the sale occurs. You will need to pay any tax owing in respect of that gain at your marginal tax rate.

New Zealand Tax Implications For Non-resident Shareholders

The following is a summary of the New Zealand tax implications of investing in the Shares if you are not tax resident in New Zealand and hold less than 10% of the shares in Mighty River Power.

Distributions you receive on your Shares

Mighty River Power will withhold non-resident withholding tax (NRWT) from taxable dividends on your Shares. Most distributions by Mighty River Power will be taxable dividends, but non-taxable bonus issues and certain returns of capital will not be taxable dividends. A 15% rate of NRWT will apply:

- to the extent the dividend is fully imputed; or
- if you are resident in a country with which New Zealand has a Double Taxation Agreement that provides for such a rate,

otherwise a 30% rate of NRWT will apply.

If Mighty River Power pays a fully imputed dividend, then Mighty River Power may pay you an additional supplementary dividend which effectively offsets the NRWT on the dividend.

The NRWT withheld may entitle you to a tax credit in your home country.

Sale or disposal of Shares

Although New Zealand does not have a capital gains tax, there are instances where you will be subject to New Zealand tax on gains you make on the sale or disposal of your Shares (or allowed a deduction for any loss you make). You must consider your individual circumstances to determine whether any gain on the sale or disposal of your Shares will be taxable.

Generally, you will be subject to tax on any gain (or be allowed to deduct any loss) arising from the sale or disposal of your Shares where you:

- are in the business of dealing in shares;
- acquire your Shares as part of a profit making undertaking or scheme; or
- acquire your Shares with the dominant purpose of selling them.

Your taxable gain (or tax deductible loss) will be the difference between the cost of your Shares and the market value of the consideration received for their sale or disposal.

If you are a resident of a country which has a Double Taxation Agreement with New Zealand, New Zealand may generally not be entitled to tax any income you derive from the sale of shares in New Zealand companies unless:

- you have a 'permanent establishment' in New Zealand through which the Shares are held; or
- the shares are in a company whose value is derived as to 50% or more from land, buildings and other real property.

Because Mighty River Power's assets largely comprise land, structures affixed to land and natural resources, you may not be entitled to relief from tax on sale income by reason of a Double Taxation Agreement.

If you derive a taxable gain on the sale or disposal of your Shares you will be required to include that gain in a New Zealand tax return for the tax year in which the sale occurred and pay tax on the gain in New Zealand at your applicable rate.

No Stamp Duty Or GST

New Zealand does not have stamp duty. New Zealand GST should not apply to your investment in the Shares.

SECTION

8

APPLICATION INSTRUCTIONS

IN THIS SECTION

Why should you read this section?

You will find out how to apply for Shares if you decide to invest in Shares.

To apply online, go to: www.mightyrivershares.govt.nz

OPTION 1

Applying Online

Step 1 – Go to www.mightyrivershares.govt.nz

You will only be able to apply online if you are in New Zealand. You cannot apply online as an Eligible Employee. If you have pre-registered you will need your Unique Reference Number, which was sent to you when you pre-registered. If you pre-registered, some of the personal details section of the online Application Form may be pre-populated. Complete the Application Form online following the on-screen instructions. You will be required to download a copy of the Offer Document as part of the online Application process.

Step 2 – Pay and submit your Application

Option 1 **One-time withdrawal:** You will need to have your bank account details ready and make sure you have funds available when you complete the online Application Form. Submit your Application payment online by authorising a one-time withdrawal from your bank account. You can submit an online Application with electronic payment until 5.00pm on 3 May 2013.

Option 2 **Cheque:** If you choose to pay by cheque your remittance receipt and cheque (made payable to Mighty River Power Offer) should be posted to the Share Registrar using the freepost number provided in time to be received by 5.00pm on 3 May 2013. Please do not post-date your cheque as it will be banked on receipt.

You will be asked to confirm that the download of the Offer Document was completed before submitting your online Application.

OPTION 2

Applying Using The Paper Application Form

Step 1 – Completing the paper Application Form

If you pre-registered, you should use the personalised Application Form sent to you with your Offer Document. If you are applying as an Eligible Employee, you will need to use the Eligible Employee Application Form provided to you by the Company. If you are an Eligible Employee and have not received an Eligible Employee Application Form, you can call 0800 90 30 90 to request one. Otherwise use the blank Application Form at the back of this Offer Document. Instructions for completing the Application Form are contained on the following pages.

Step 2 – Pay and submit your Application

Option 1 **One-time withdrawal:** Complete the Application Form payment section to authorise a one-time withdrawal from your bank account. Please ensure that the terms and conditions of the account allow a one-time withdrawal.

Option 2 **Cheque:** Attach a cheque (made payable to Mighty River Power Offer) to your Application Form as payment for your Shares. Please do not post-date your cheque as it will be banked on receipt.

Please contact your broker if you want them to pay on your behalf using your broker cash management account.

Your Application Form (with cheque if not paying by one-time withdrawal) should be posted to the Share Registrar using the freepost number provided in time to be received by 5.00pm on 3 May 2013. If you submit your Application Form to your broker they will forward your Application and payment to the Share Registrar. Alternatively, Applications can be lodged with any NZX Firm, the Joint Lead Managers or any other channel approved by NZX so as to be received in time to enable forwarding to the Share Registrar by 5.00pm on 3 May 2013.

General Application Instructions

The General Offer is expected to open on 15 April 2013 and will remain open until 5.00pm on 3 May 2013 (or until 5.00pm on 2 May 2013 for Eligible Employee Applications) or such other date as the Crown may choose.

The minimum Application amount is $1,000 and multiples of $100 thereafter. There is no maximum Application amount (however, the number of Shares allocated to you will be subject to the 10% shareholding limit).

These Application instructions will help you to apply correctly.

You will not be able to reverse or change your Application after it has been submitted, except in the case of a supplementary disclosure document being produced (see below for further detail). By submitting an Application you agree to purchase and subscribe for the value of Shares you specify and you agree to be bound by the terms and conditions set out in this Offer Document (including the Application Form).

If you attempt to sell or otherwise deal with the Shares before receiving confirmation of the number of Shares they have been allotted, no other person shall accept any liability or responsibility.

By submitting an Application Form, you also agree:

- to become a Shareholder of the Company and to be bound by the Constitution as applicable from time to time;
- that you understand that the Shares have not been and will not be registered under the US Securities Act or the securities laws of any state of the United States and may not be offered, sold or resold in the United States or in any other jurisdiction outside New Zealand;
- that you are not a person of the United States and are not acting for the account or benefit of a person in the United States and you will not send the Offer Document or any other material relating to the offer of Shares in the Company to any person in the United States;
- that you will not offer or sell the Shares in the United States or in any other jurisdiction outside New Zealand except in transactions exempt from, or not subject to, registration under the US Securities Act and in compliance with all applicable laws in the jurisdiction in which Shares are offered and sold; and
- that, if any significant adverse developments occur prior to the commencement of the bookbuild process which result in a supplementary disclosure document being produced, you will be permitted to withdraw your Application Form in the manner and within the timeframe prescribed in the supplementary disclosure document and set out under the heading "Supplementary Disclosure" in 7.1 Details Of The Offer. Withdrawals made by any other method may not be accepted. If you do not take any action to effect withdrawal within the relevant time period, the Crown will be entitled to accept your Application Form.

Unless otherwise stated, capitalised words in the Application Form have the same meaning as given to them in this Offer Document.

General Offer Applications

The General Offer is only being made to New Zealand Applicants and Eligible Employees.

Eligible Employee Applications

If you are an Eligible Employee, to ensure that you receive any available preference on allocation, you must apply by completing the Eligible Employee Application Form provided to you by the Company. If you are an Eligible Employee and have not received an Eligible Employee Application Form, you can call 0800 90 30 90 to request one. You will need to include your Mighty River Power employee number on your Eligible Employee Application Form, together with the other requirements for a General Offer Application.

Participating Iwi Offer Applications

Participating Iwi will be provided with their Application instructions by the Office of Treaty Settlements. Participating Iwi that apply for Shares in the Participating Iwi Offer will not be required to make a cash payment for the Shares for which they apply. Rather they will receive a transfer of such Shares on account of their potential settlement amount.

Applying Through A Broker Custodian Or A Nominee Account

To apply using a broker custodian or nominee account, contact your broker and they will provide you with Application instructions.

If you are applying using a Custodian, you must provide your Custodian with all the information necessary to establish the validity of your Application as if you were applying directly for Shares in the Offer.

If your Custodian provides this information with its Application in accordance with the instructions it has been given, you will be entitled to the same incentives for New Zealand Applicants and your application will be scaled (in the event of over-subscriptions) on the same basis as if you had applied directly for Shares in the Offer.

Treatment Of Application

If your Application Form is not completed correctly, or if the accompanying payment is for the wrong amount, it may still be treated as valid. The Crown reserves the right to refuse any Application or to accept an Application in part only, without providing a reason.

The decision of the Crown as to whether to treat your Application Form as valid, and any changes made by the Crown to complete your Application Form, will be final. The decision on the number of Shares (if any) to be allocated to you will also be final. You will not, however, be required to purchase a greater number of Shares than can be purchased with the payment you have made. If your Application is not accepted, or is accepted in part, you will receive a refund of the balance payment without interest, within five Business Days after the Allotment Date. Any such refund will be made to you in the manner in which you elect any future dividend payments to be paid.

Once the Final Price has been determined, your Application amount will be divided by the Final Price to calculate the number of Shares for which you have applied, rounded down to the nearest whole Share and subject to scaling. Any difference between the dollar amount of Shares for which you apply and the value (based on the Final Price) of the Shares you receive due to rounding will be retained by the Crown.

If scaling is required for the General Offer:

- New Zealand Applicants who apply for up to $2,000 worth of Shares will not be scaled, and those who apply for amounts in excess of $2,000 will receive an allocation of not less than $2,000 worth of Shares;
- New Zealand Applicants who pre-registered for the Offer will receive an allocation preference. In that event, those Applicants will receive an amount of Shares which is up to 25% higher than that of a New Zealand Applicant who applied for the same dollar amount of Shares but did not pre-register. This benefit does not apply to the first $2,000 worth of Shares applied for, which is guaranteed irrespective of pre-registration. This benefit is subject always to no Applicant receiving more than the dollar amount of Shares applied for; and
- Eligible Employees will receive a minimum guaranteed allocation of $5,000 worth of Shares, with Applications in excess of $5,000 worth of Shares potentially subject to scaling, which may be on a more favourable basis than scaling of other Applicants to the General Offer. The minimum guaranteed allocation of $5,000 worth of Shares (for each Eligible Employee) includes the Shares to be allocated to that employee under the Mighty River Power Employee Share Purchase Programme (for a description of the Employee Share Purchase Programme, see 4.2 Board, Management And Corporate Governance); and
- the trustee of the Mighty River Power Executive LTI Plans will receive an allocation priority in respect of any Shares for which it applies on behalf of participating executives (for a description of the executive LTI plans, see 4.2 Board, Management And Corporate Governance).

If the difference between the dollar amount of Shares for which you apply and the value (based on the Final Price) of the Shares you receive due to scaling of your Application is more than the Final Price, this difference will be refunded to you without interest no later than five Business Days after the Allotment Date. Any such refund will be made to you in the manner in which you elect any future dividend payments to be paid.

Paper Application Form Instructions

If you pre-registered, use your personalised Application Form (which you will receive if you requested a copy of the Offer Document). If you did not pre-register, use the blank Application Form at the back of this Offer Document. If you are applying as an Eligible Employee, use the Eligible Employee Application Form provided to you by the Company and refer to the instructions provided to you with that form. Valid Applications by New Zealand Applicants must include:

- a valid IRD number;
- a valid New Zealand bank account number;
- a New Zealand address;
- a confirmation that such investor is in New Zealand and is not acting for the account or benefit of a person in the United States; and
- a declaration that:
  - » in the case of an individual, the individual is a New Zealand citizen or permanent resident; or
  - » in the case of a company, it is incorporated in New Zealand and the majority of its ultimate beneficial owners consists of persons who are New Zealand citizens or permanent residents; or
  - » in the case of a trust, it is established in New Zealand and the majority of its ultimate beneficiaries consists of persons who are New Zealand citizens or permanent residents; or
  - » in the case of any other legal entity, it is incorporated or established in New Zealand and the majority of its ultimate beneficial owners, beneficiaries or members consists of persons who are New Zealand citizens or permanent residents.

Sections A, B, D, E, G and H are mandatory sections.

A = Applicant Details

- Insert your title, full name(s), postal address, New Zealand bank account number, Unique Reference Number (if you pre-registered) and telephone numbers.

Applications must be in the names of natural persons, companies or other legal entities, up to a maximum of three names per Application. Applications by unincorporated bodies (such as trusts, funds, estates or partnerships) cannot be accepted unless they are made in the individual names of the persons who are the trustees, proprietors, partners or office bearers (as appropriate).

Use the below table to see how to write names correctly:

Type of Investor	Correct Way to Write Name	Incorrect Way to Write Name
Individual person	JOHN ALFRED SMITH	J SMITH
More than one person	JOHN ALFRED SMITH MICHELLE JANE SMITH	J & M SMITH
Company	ABC LIMITED	ABC
Trusts	JOHN ALFRED SMITH (SMITH FAMILY A/C)	SMITH FAMILY TRUST
Partnerships	JOHN ALFRED SMITH MICHELLE JANE SMITH (JOHN SMITH AND SONS A/C)	JOHN SMITH & SONS
Unincorporated bodies	JANE ANNABEL SMITH (SMITH INVESTMENT CLUB A/C)	SMITH INVESTMENT CLUB

If you are applying on behalf of your children, or some other person in respect of whom you have the required authority, you should complete the Application Form in their name.

Multiple Applications containing the same Unique Reference Number may not be accepted (at the Crown's discretion).

By completing and returning your Application Form you:

- confirm that you have received this Offer Document and apply for Shares subject to the terms and conditions set out in this Offer Document;
- represent, warrant and agree that you are in New Zealand and are not acting for the account or benefit of a person in the United States; and
- consent to the use of your personal information in accordance with the Privacy Policy set out in these Application instructions.

B = Application Payment

- Specify the dollar amount of Shares you wish to buy.

Note the minimum Application amount is $1,000 and any greater Application must be in multiples of $100 (for example $1,100, $1,200).

- Select a payment method for your Shares:

Option 1: One-time bank account withdrawal

If you choose to make a one-time payment out of your bank account, tick the box authorising the Share Registrar to deduct your payment. The payment will be processed on the first Business Day following receipt of your Application Form by the Share Registrar. The bank account must be with a New Zealand registered bank. You must ensure that:

- the bank account details supplied are correct;
- there are sufficient funds in the specified bank account;
- you have the authority to operate the account solely/jointly; and
- the bank account you nominated is one which will allow the withdrawal to be made. For example, certain savings accounts may not allow money to be withdrawn. If you are uncertain you should contact your bank.

If the withdrawal from your bank account is not successful, your Application will be rejected. The terms and conditions for one-time withdrawal can be obtained by calling 0800 90 30 90 during the Offer period.

Option 2: Cheque

Cheques must be made payable to "Mighty River Power Offer", crossed "Not Transferable" and must not be post-dated. If your cheque is post-dated or dishonoured, your Application will be rejected.

C = CSN

- If you have other investments in shares or other securities which are quoted on a market operated by NZX and are registered under a CSN, please supply your CSN in the space provided.

- The name and address details on your Application Form must match the registration details of the CSN you have supplied.
- If you do not provide a CSN, the Share Registrar will assume you do not have one and you will be allocated a CSN and Authorisation Code (FIN).
- Please leave this section blank if you do not have a CSN or if you are unsure.

D = IRD Number Or RWT Exemption

- Insert your IRD number.
- Multiple Applications containing the same IRD number may not be accepted (at the Crown's discretion).
- If you are applying on behalf of a minor (under the age of 18), use their IRD number.
- If the Applicant is a trust, company, partnership or other entity, use that entity's IRD number.
- If you are making a joint Application, you only need to supply one IRD number.
- Resident withholding tax (RWT) will be deducted from any dividends paid to the Shareholder (unless you provide a valid RWT exemption certificate).
- If you are exempt from RWT, please tick the exempt box and attach a photocopy of your RWT exemption certificate (your IRD number should match the IRD number on the certificate).
- If you are a non-resident for tax purposes please tick the box to indicate this. You will be treated as a New Zealand tax resident unless this box has been ticked.

E = Future Dividend Payments

- The Company may pay dividends to you as a Shareholder in the future.
- Select how you wish to be paid any such dividends:

Option 1: Payment direct to your bank account

If you chose to make your Application payment through a one-time withdrawal from your bank account (see B above), you can elect to have any dividends paid into the same bank account.

Alternatively, if you would like any dividends paid to a different account, or if you have chosen to pay for your Application by cheque, insert the bank account details in the space provided.

The bank account provided must be with a New Zealand registered bank.

Option 2: Payment to your Broker Cash Management Account

If you have a Cash Management Account with a broker, you can elect to have any dividends paid directly to it.

Insert the name of the NZX Firm where your Cash Management Account is held and enter your account number.

Option 3: Payment by cheque

Tick if you wish to have any dividends paid to you by cheque.

F = Electronic Communications

- Insert your email address in the space provided.

Your email address will enable Mighty River Power to provide you with Company communications electronically.

G = Declaration

Complete the declaration of citizenship or permanent residency and check that you have provided all of the required information.

If you do not complete the declaration, or your bank account number or the IRD number is invalid, your Application will be rejected.

By completing and returning your Application Form you acknowledge and agree that if you have misrepresented that you are a New Zealand Applicant by making a false declaration, the Crown may cancel the sale of Shares to you under the General Offer, and Shares held by you, up to the number of Shares allocated to you under the General Offer, may be sold.

H = Signature

Sign your Application Form.

The Application Form must be signed by, or on behalf of, each Applicant. If the Applicant is a company or other entity, it should be signed by a duly authorised person in accordance with any applicable constitution or by-laws.

If the Applicant is a minor (under the age of 18) the parent or legal guardian should sign the Application Form on the Applicant's behalf.

If you elect to pay by one-time withdrawal, you should ensure that the signatories are consistent with your bank authorities.

I = Certificate Of Non-Revocation Of Power Of Attorney

If you are not an attorney, please ignore this section.

If the Application Form is completed by an attorney, the power of attorney document is not required to be lodged, but the attorney must complete the certificate of non-revocation of power of attorney on the Application Form.

J = Certificate Of Non-Revocation Of Agent

If you are not an agent, please ignore this section.

If the Application Form is completed by an agent, the agent must complete the certificate of non-revocation of agent on the Application Form.

Privacy Policy

If you apply for Shares, you will be asked to provide personal information to The Treasury, Mighty River Power, the Share Registrar and their respective agents who will collect and hold the personal information provided by you in connection with your Application at their respective addresses shown in the Directory. If you are applying as an Eligible Employee under the Employee Share Purchase Programme, personal information provided by you in connection with your Application will also be provided to, and held by, the trustee of the Programme at Mighty River Power's address shown in the Directory.

Personal information provided by you will be used for: (a) the purposes of considering, processing and corresponding with you about your Application; (b) managing and administering your holding of Shares, including sending you information concerning Mighty River Power, your Shares and other matters Mighty River Power considers may be of interest to you by virtue of your holding of Shares; (c) conducting an audit or review of the activities contemplated in (a) or (b); and (d) sending you information about special offers for Shareholders in relation to Mighty River Power's products and services. Company and tax law requires some personal information to be collected.

To do these things, The Treasury, Mighty River Power (including on behalf of the trustee of the Employee Share Purchase Programme) or the Share Registrar may disclose your personal information to their related companies, respective agents, contractors or third party service providers to whom they outsource services such as mailing and registry functions. For the avoidance of doubt, this may include the Joint Lead Managers, Solution Dynamics Limited and Reach Investor Solutions Pty Ltd. However, all of these parties will be bound by the same privacy policies as The Treasury, Mighty River Power and the Share Registrar.

In addition, if you elect to pay by one-time withdrawal, the Share Registrar will communicate with your nominated bank (including providing your personal information) for the purposes of processing your payment. If you identify in your Application Form that you have a relationship with a broker, financial adviser or private banker (including submitting an Application Form that has a broker, financial adviser or private banker's stamp or code in the top right hand corner), The Treasury, Mighty River Power or the Share Registrar may provide the details of your Application to your nominated broker, financial adviser or private banker.

Failure to provide the required personal information may mean that your Application Form is not able to be processed efficiently, if at all.

You have a right to access and seek correction of any personal information about you under the Privacy Act 1993 by contacting The Treasury, Mighty River Power (including on behalf of the trustee of the Employee Share Purchase Programme) and the Share Registrar by contacting their respective privacy officers at their respective addresses shown in the Directory. You can also access your information on the Share Registrar's website: www.computershare.co.nz (You will be required to enter your CSN and Authorisation Code (FIN)).

Terms And Conditions For One-time Withdrawal

The terms and conditions applying to your payment if you choose to pay by one-time withdrawal from your bank account can be obtained by calling 0800 90 30 90 during the Offer period.

Glossary

Additional Australian Information	Additional information containing disclosure relevant to Australian Institutional Investors and to comply with requirements for a recognised offer under Chapter 8 of the Australian Corporations Act 2001 (Cth) and the Australian Corporations Regulations 2001 (Cth), which accompanies or is attached to this Offer Document for the purposes of the Institutional Offer made in Australia
Adjusted NPAT	NPAT adjusted for the change in fair value of financial instruments, income statement impacts related to the investments in jointly controlled entities, impairments and all associated tax impacts from the aforementioned
Allotment Date	The date on which Shares are allotted to successful Applicants, which is expected to be 14 May 2013, unless varied by the Crown
Applicant	Any person named as an applicant on an Application Form
Application	An application to subscribe for Shares offered pursuant to this Offer Document made on the Application Form and accompanied by the Application amount
Application Form	An application form attached to, or accompanying, this Offer Document
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited, or the financial market operated by ASX Limited, as the context requires, also known as the Australian Stock Exchange
Auditor	The New Zealand Controller and Auditor-General pursuant to section 14 of the Public Audit Act 2001. Brent Penrose of Ernst & Young was appointed by the New Zealand Controller and Auditor-General to perform the audit on behalf of the New Zealand Controller and Auditor-General
base-load	The component of the electricity system load which is continuously present over a stated period. A base-load power station serves mainly to meet expected base-load, usually producing electricity at a constant rate and running continuously
Broker Sponsored Bids	Bids by participants in the Institutional Offer who are in New Zealand and who are clients of NZX Firms and selected trading banks and who are sponsored to participate in the Institutional Offer
Business Day	A day on which the NZX Main Board is open for trading
CFD	A contract for difference is an agreement to pay the difference between an agreed price and the wholesale electricity price for a nominated volume of electricity
churn	Customers switching from one electricity retailer to another
Closing Date	The last day on which Applications will be accepted under the Offer, which is expected to be 3 May 2013, unless varied by the Crown
Companies Act	Companies Act 1993
Company	Mighty River Power Limited
Constitution	The constitution of the Company, as amended from time to time
Crown	Her Majesty the Queen in Right of New Zealand
CSN	Common Shareholder Number

Custodian	An Applicant for Shares that satisfies the Share Registrar that it: • is a trustee corporation or a nominee company; • will hold Shares by reason only of acting for another person in the ordinary course of business of that trustee corporation or nominee company; • holds a range of other securities which are quoted on a market operated by NZX on the same basis for defined beneficial owners; and • provides regular reporting and corporate actions services to the underlying beneficial owners; and » is owned by or affiliated to an NZX Firm, or routinely and in the ordinary course of business provides these services to NZX Firms or clients of NZX Firms; or » has a demonstrable history of applying for shares in public offers on behalf of underlying beneficial owners
derivative	A financial instrument, the price of which is derived from the value of one or more underlying securities, equity indices, debt instruments, commodities, other derivative instruments or any agreed pricing index or arrangement. It can either be a private agreement negotiated between two parties or a standardised agreement traded on an exchange
DPS	Dividend per Share declared for the FY
EBIT	Earnings before interest and tax
EBITDAF	Earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments, impairments and equity accounted earnings
ECNZ	Electricity Corporation of New Zealand Limited
Eligible Employee	A permanent employee of Mighty River Power in New Zealand who, as at the date the General Offer opens, is employed to work at least 20 hours per week and has performed at least a minimum of three months' continuous service or a director of Mighty River Power in New Zealand
energy margin	Sales less lines charges, energy costs and other direct costs of sales including metering
EnergySource	EnergySource LLC, a Delaware limited liability company
ETS	New Zealand Emissions Trading Scheme
EV	Enterprise Value
Final Price	The price per share at which the Shares will be allotted, expected to be determined on or about 8 May 2013
firm-load or **firming-load**	Firm-load refers to the component of the electricity system load during periods of high demand occurring regularly or periods when generation from base-load power stations is constrained. Firming-load power stations meet regular periods of high demand or when generation from other sources is constrained. Firming-load power stations do not typically generate continuously but operate regularly
FPVV	A contract for electricity that allows the consumer to use as much electricity as they want at a fixed price per unit
FY	Financial year ended 30 June. If followed by 'F', this indicates prospective information for a future financial year
Genesis Energy	Genesis Power Limited
General Offer	The portion of the Offer that is open to any New Zealand Applicant or Eligible Employee
GGE Fund	GeoGlobal Partners I LP, an English limited partnership
Group	Mighty River Power Limited and each of its subsidiaries
GWh	Gigawatt hour. One gigawatt hour is equal to 1,000 MWh or 1,000,000 kWh
hapū	Māori term used to describe a division or subset of a larger iwi
HVDC	High voltage direct current
HY	The first half of a financial year

Glossary

ICP	Installation control point. A point of connection on a local network or an embedded network that the distributor nominates as the point at which a retailer is deemed to supply electricity to a consumer
IFRS	International Financial Reporting Standards
Indicative Price Range	$2.35 to $2.80 per Share
Institutional Investor	(i) An investor outside the United States to whom offers or invitations in respect of securities can be made without the need for a lodged prospectus (or other formality, other than a formality which Mighty River Power and the Crown are willing to comply with), including in New Zealand persons to whom offers or invitations can be made without the need for a registered prospectus under the Securities Act or including in New Zealand persons making Broker Sponsored Bids or (ii) a person located in the United States who is reasonably believed to be a 'qualified institutional buyer', as defined in Rule 144A under the US Securities Act, in transactions exempt from the registration requirements of the US Securities Act pursuant to Rule 144A under the US Securities Act
Institutional Offer	The invitation to Institutional Investors under this Offer Document and the International Offering Memorandum, as described in Section 7.1 Details Of The Offer
International Offering Memorandum	The international offering memorandum under which the Institutional Offer will be made in certain jurisdictions other than New Zealand and Australia, which consists of this Offer Document, a prospectus wrap and certain other information
IRD	New Zealand Inland Revenue Department
iwi	Māori term for a set of people bound together often by descent from common ancestors or waka (canoe) that migrated to New Zealand. Modern meaning: tribe or tribes
John L. Featherstone power station	The 49.9 MW geothermal power station on the Salton Sea reservoir in Southern California, United States, formerly known as the Hudson Ranch Power I power station
Joint Lead Managers	First NZ Capital Securities Limited and Credit Suisse (Australia) Limited, Goldman Sachs New Zealand Limited and Macquarie Capital (New Zealand) Limited or in the context of the Offer Management Agreement Macquarie Securities (NZ) Limited
kaitiakitanga	Māori term used for the Māori concept of guardianship, particularly relevant in respect of the environment. Increasingly used in New Zealand for broader roles of trusteeship or guardianship
kotahitanga	Māori term used for the Māori concept of creating unity
Locally Net Pivotal	A locally pivotal generator is a generator that must be called upon to generate in order that all demand in an area is served. This can occur when there is insufficient transmission or other local generation to serve the local demand. If the quantity of this necessary generation is greater than the generator's own retail and hedge commitments in that same area, then the generator is 'locally net pivotal' and has a commercial incentive to set higher wholesale prices in the area during the period it is locally net pivotal
long	In the context of electricity portfolio management, when the aggregate of generation and buy-side contract volumes is greater than the aggregate of customer sales and sell-side contract volumes
Loyalty Bonus Shares	Fully paid ordinary shares in the Company to be transferred by the Crown to successful Applicants under the General Offer subject to the terms and condiitions set out in this Offer Document including as to eligibility
Meridian Energy	Meridian Energy Limited
Mighty River Power	The Company or the Group, as the context requires
Mighty River Power Executive LTI Plans	The long term incentive share plans offered to senior executives of the Company, as described in Section 4.2 Board, Management And Corporate Governance
MW	A megawatt (MW) is a unit of power and equal to 1,000,000 watts (W) or 1,000 kilowatts (kW)

MWh	A megawatt hour (MWh) is the amount of electricity equivalent to a steady power of one MW running for one hour. Megawatt hours are the metering standard unit for the wholesale spot market
New Zealand Applicant	An Applicant for Shares who is in New Zealand and provides the following information with their Application Form: • a valid New Zealand IRD number; • a valid New Zealand bank account number; • a New Zealand address; • a confirmation that such investor is in New Zealand and is not acting for the account or benefit of a person in the United States; and • a declaration that: » in the case of an individual, the individual is a New Zealand citizen or permanent resident; or » in the case of a New Zealand incorporated company, it is incorporated in New Zealand and the majority of its ultimate beneficial owners consists of persons who are New Zealand citizens or permanent residents; or » in the case of a trust, it is established in New Zealand and the majority of its ultimate beneficiaries consists of persons who are New Zealand citizens or permanent residents; or » in the case of any other legal entity, it is incorporated or established in New Zealand and the majority of its ultimate beneficial owners, beneficiaries or members consists of persons who are New Zealand citizens or permanent residents
node	A location where electricity flows into or out of the national grid
NPAT	Net profit from the period after tax
NZ GAAP	New Zealand Generally Accepted Accounting Practice
NZ IFRS	New Zealand equivalents to International Financial Reporting Standards
NZX	NZX Limited, also known as the New Zealand Stock Exchange
NZX Firm	Any person designated as a Primary Market Participant by NZX
NZX Main Board	The main board equity security market, operated by NZX
Offer	The offer of Shares pursuant to this Offer Document or the International Offering Memorandum, as applicable
Offer Document	This combined prospectus and investment statement
Offer Management Agreement	The agreement dated 4 April 2013 between Mighty River Power, the Crown and the Joint Lead Managers, as described in Section 7.2 Statutory Information
Participating Iwi	Iwi that currently have unsettled historical claims against the Crown under the Treaty of Waitangi and that elect to participate in the Offer and receive a payment from the Crown, in the form of Shares, on account of their potential settlement amount, provided that all decisions with regard to whether and to what extent an iwi will participate in the Offer will be made exclusively by such iwi's mandated negotiators in New Zealand and without the approval or authorisation of members of that iwi that are outside New Zealand
Participating Iwi Offer	The Offer of Shares to Participating Iwi pursuant to this Offer Document
PDA	A prudent discount agreement (formerly known as an avoided cost of transmission agreement) allows a distribution company to receive a discount on the lines charges paid to Transpower by having a generator connected or physically or notionally 'embedded' within its network. The discount can be shared between the generator and the distribution company

Glossary

peak-load or **peaking**	Peak-load refers to the component of the electricity system load caused by peaks or spikes due to peak demand. Peak-load or peaking power stations meet peaks or spikes in electricity demand (known as peak demand). Peak-load power stations need to be responsive to quickly achieve the levels of electricity generation required to meet peak demand or take advantage of high wholesale electricity prices. Some power stations may be operating at certain times as peak-load power stations and at other times serve as base-load or firming
PSGE	Post-Settlement Governance Entity
Public Finance Act	Public Finance Act 1989
rangatiratanga	Māori term broadly used for the concept of chieftainship or leadership
RMA	Resource Management Act 1991
S&P	Standard & Poor's (Australia) Pty. Limited, a financial services company that carries out credit ratings and other services
Securities Act	Securities Act 1978
Securities Regulations	Securities Regulations 2009
Share	A fully paid ordinary share in the Company
Share Registrar	Computershare Investor Services Limited
Shareholder	A holder of one or more Shares in the Company
Shareholding Ministers	The Minister of Finance and Minister for State-Owned Enterprises
short	In the context of electricity portfolio management, when the aggregate of generation and buy-side contract volumes is less than the aggregate of customer sales and sell-side contract volumes
SOE	A state-owned enterprise under the State-Owned Enterprises Act 1986
Solid Energy	Solid Energy New Zealand Limited
Transpower	Transpower New Zealand Limited
Trust Deed	A deed of trust between the Crown and the Public Trust in relation to Trust Shares
Trust Share	For a Participating Iwi that has yet to establish a PSGE, a Share that is transferred by the Crown to the Public Trust to be held on trust for that Participating Iwi and the Crown
Underlying Earnings	NPAT 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
Unique Reference Number	The unique reference number you will have received if you pre-registered or, if you did not pre-register, if you apply for Shares
US Securities Act	The United States Securities Act of 1933, as amended

I. Certificate Of Non-Revocation Of Power Of Attorney

(Complete this section if you are acting on behalf of the Applicant on this Application Form for whom you have power of attorney)

I, ______ (full name)

of ______ (place and country of residence)

______ (occupation), certify:

That by deed dated ______ (date of instrument creating the power of attorney)

______ (full name of person/body corporate which granted the power of attorney)

of ______ (place and country of residence of person/body corporate which granted the power of attorney)*

Appointed me ______ (his/her/its) attorney;

That I have executed the Application for Shares printed on this Application Form under that appointment and pursuant to the powers thereby conferred on me; and

That I have not received notice of any event revoking the power of attorney.

Date ____ / ____ / ____

Signature of attorney ______

Signed at ______

J. Certificate Of Non-Revocation Of Agent

(Complete this section if you are acting as agent on behalf of the Applicant on this Application Form)

I, ______ (full name)

of ______ (place and country of residence)

______ (occupation), certify:

That by the agency agreement dated ______ (date of instrument creating the agency)

______ (full name of person/body corporate which appointed you as agent)

of ______ (place and country of residence of person/body corporate which appointed you as agent)*

Appointed me ______ (his/her/its) agent;

That I have executed the Application for Shares printed on this Application Form under that appointment and pursuant to the powers thereby conferred on me; and

That I have not received any notice or information of the revocation of my appointment as agent.

Date ____ / ____ / ____

Signature of attorney ______

Signed at ______

* If the donor is a body corporate, state the place of the registered office or the principal place of business of the donor and, if that is not in New Zealand, state the country in which the principal place of business is situated.

If you require assistance with filling in this Application Form, call 0800 90 30 90.

D. IRD Number Or RWT Exemption

Applicant's IRD number (only one IRD number is required in respect of a joint Application). Multiple Applications containing the same IRD number may not be accepted (at the Crown's discretion).

◯ **Exempt** – please tick this box if you hold a resident withholding tax (RWT) exemption certificate from IRD and attach a copy of your RWT exemption certificate.

◯ Please tick this box if you are a **non-resident for New Zealand tax purposes** under the Income Tax Act 2007.

E. Future Dividend Payments

The Company may pay dividends to you as a Shareholder in the future. **Choose ONE of the DIVIDEND PAYMENT options below. Please tick the box next to your selected option.**

◯ **Option 1:** Pay dividends directly into **my bank account**.

◯ Please pay dividends directly into the bank account provided above in B. Application Payment.

◯ Please pay dividends directly into the bank account provided below:

New Zealand bank account details for payment of dividends

Name of Bank

Account Holder Name

Bank Branch No. Account No. Suffix

◯ **Option 2:** Pay dividends directly into **my Cash Management Account:**

Name of NZX Firm where Cash Management Account is held

Cash Management Client Account number

◯ **Option 3:** Pay dividends **by cheque**

F. Electronic Communications

I wish to receive Shareholder communications via email:

◯ Please tick this box and enter your email address below if you wish to receive all Shareholder communications by email, where applicable (including notification of the availability of annual reports and interim reports, transaction statements, payment advices, meeting documents and any other Company related information).

Email

G. Declaration

To confirm you are a New Zealand Applicant, please complete the relevant declaration below:

I/We declare that:

Individuals:

◯ the Applicant(s) is a (are) New Zealand citizen(s) or permanent resident(s)

Company:

◯ the Applicant is incorporated in New Zealand and the majority of its ultimate beneficial owners consists of New Zealand citizens or permanent residents

Trust:

◯ the Applicant is established in New Zealand and the majority of its ultimate beneficiaries consists of New Zealand citizens or permanent residents

Other legal entity:

◯ the Applicant is incorporated or established in New Zealand and the majority of its ultimate beneficial owners, beneficiaries or members consists of New Zealand citizens or permanent residents

I/We acknowledge and agree that if I/we have misrepresented that I/we am/are a New Zealand Applicant by making a false declaration, the Crown may cancel the sale of Shares to me/us under the General Offer, and Shares held by me/us, up to the number of Shares allocated to me/us under the General Offer, may be sold.

H. Signature

All Applicants named on the Application Form must sign.

Date / /

YOUR APPLICATION FORM AND PAYMENT MUST BE RECEIVED BY THE SHARE REGISTRAR AT THE ADDRESS BELOW, BY 5.00PM (NEW ZEALAND TIME) ON 3 MAY 2013

Freepost 119872
Computershare Investor Services Limited
Private Bag 92119
Auckland Mail Centre
Auckland 1142

Or deliver to:
Level 2, 159 Hurstmere Road
Takapuna
Auckland 0622

Warning – If any significant developments occur prior to the commencement of the bookbuild process which result in a supplementary disclosure document being produced, you will be permitted to withdraw your Application Form in the manner and within the timeframe prescribed in the supplementary disclosure document and set out under the heading "Supplementary Disclosure" in Section 7.1 of the Offer Document. Withdrawals made by any other method may not be accepted. If you do not withdraw your Application Form in the prescribed manner and within the prescribed timeframe, the Crown will be entitled to accept this Application Form.

General Offer Application Form

Equity Investment Advisers Ltd
PO Box 1314,
Shortland Street,
Auckland
Ph: 0800474669

Broker Stamp / Code

Mighty River Power Share Offer

This Application Form is issued with the Offer Document dated and prepared as at 5 April 2013 for the General Offer of fully paid ordinary shares in Mighty River Power Limited. This Application Form represents an offer to purchase the Shares described in the Offer Document. Any capitalised terms used in this Application Form but not defined have the same meaning as given to those terms in the Offer Document.

See the accompanying instructions to assist with completing this Application Form. Please complete Sections A to H.

A. Applicant Details

Mr / Mrs / Miss / Ms (please circle) First Name(s) Surname

Mr / Mrs / Miss / Ms (please circle) First Name(s) Surname

Mr / Mrs / Miss / Ms (please circle) First Name(s) Surname

Company or Entity Name / Account Designation (if applicable)

Postal Address Street address or PO Box Suburb / Town

City Postcode Country

New Zealand Bank Account

Bank Branch No. Account No. Suffix

Telephone Mobile Daytime

Your Unique Reference Number from pre-registration (if you pre-registered) **MRP**

Multiple Applications containing the same Unique Reference Number may not be accepted (at the Crown's discretion).

I/We have received the Mighty River Power Offer Document dated 5 April 2013. I/We apply for Shares as set out below subject to the terms and conditions of the Offer Document. By lodging this Application Form, I/we represent, warrant and agree that I/we am/are in New Zealand and I/we am/are not acting for the account or benefit of a person in the United States. I/We understand that the Shares have not been and will not be registered under the US Securities Act and may not be offered, sold or resold in the United States or any other jurisdiction outside New Zealand except in transactions exempt from or not subject to registration under the US Securities Act and in compliance with all applicable laws in the jurisdiction in which such Shares are offered and sold. By lodging this Application Form, I/we consent to the use of my/our personal information in accordance with the Privacy Policy set out in Section 8 of the Offer Document.

B. Application Payment

Applications must be accompanied by payment. This Application Form and your payment must be received by the Share Registrar (Computershare Investor Services Limited) at the address on the back of this Application Form by 5.00pm (New Zealand time) on 3 May 2013. **The minimum amount for which you can apply is $1,000, and in multiples of $100 thereafter.**

I / We apply for: Enter the dollar amount of Shares you wish to apply for **NZ$**

Choose ONE of the PAYMENT options below. Please tick the box next to your selected option.

◯ **Option 1:**

Please make a one-time withdrawal from the bank account stated below. By ticking this box and submitting this Application Form, I agree that the Share Registrar is authorised to withdraw from this account the full dollar amount of Shares applied for on the terms and conditions for one-time withdrawal, which can be obtained by calling 0800 90 30 90. **Please confirm with your bank that payments can be withdrawn from this account.**

New Zealand bank account details for one-time withdrawal payment

Name of Bank

Account Holder Name

Bank Branch No. Account No. Suffix

◯ **Option 2:**

Please find attached my payment by **cheque** for the dollar amount of Shares applied for above made payable to "Mighty River Power Offer" and crossed "Not Transferable".

C. Common Shareholder Number (CSN)

A CSN is required to trade the Shares on the NZX Main Board once the Offer has closed and Shares have been allocated.

If you have a CSN, please enter it below. The registered holder name(s) for the CSN must match the name(s) on this Application Form. If the names do not match, you will be allocated a new CSN under the name(s) provided on this Application Form.

If you do not have a CSN, leave the space below blank and you will be allocated a CSN when your Application is received.

If the Applicant currently has a CSN please enter it here

Please unfold to complete your Application

Directory

The Company
Mighty River Power Limited
Level 14, ANZ Centre
23-29 Albert Street
Auckland 1010

The Crown
C/- The Treasury
1 The Terrace
Wellington 6011

Share Registrar
Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna
Auckland 0622

Legal Advisers To The Company
Chapman Tripp
Level 35, ANZ Centre
23-29 Albert Street
Auckland 1010

Legal Advisers To The Crown
Bell Gully
Level 21, Vero Centre
48 Shortland Street
Auckland 1010

Financial Adviser To The Crown
Deutsche Bank AG, New Zealand branch
Level 36, Vero Centre
48 Shortland Street
Auckland 1010

Auditor
Ernst & Young
(on behalf of the New Zealand Controller and Auditor-General)
Ernst & Young Building
2 Takutai Square Britomart
Auckland 1010

Investigating Accountant
Ernst & Young Transaction Advisory Services Limited
Ernst & Young Building
2 Takutai Square Britomart
Auckland 1010

Joint Lead Managers
First NZ Capital Securities Limited and Credit Suisse (Australia) Limited
First NZ Capital Securities Limited
Level 39, ANZ Centre
23-29 Albert Street
Auckland 1010

Credit Suisse (Australia) Limited
Level 31, Gateway Building
1 Macquarie Place
Sydney NSW 2000
Australia

Goldman Sachs New Zealand Limited
Level 38, Vero Centre
48 Shortland Street
Auckland 1010

Macquarie Capital (New Zealand) Limited
Level 17, Lumley Centre
88 Shortland Street
Auckland 1010

Retail Affiliates of the Joint Lead Managers
JBWere (NZ) Pty Limited
Level 38, Vero Centre
48 Shortland Street
Auckland 1010

Macquarie Equities New Zealand Limited
Level 17, Lumley Centre
88 Shortland Street
Auckland 1010

New Zealand Retail Offer Managers
Craigs Investment Partners Limited
Level 32, Vero Centre
48 Shortland Street
Auckland 1010

Forsyth Barr Limited
Level 9, Forsyth Barr House
The Octagon
Dunedin 9054

New Zealand Retail Offer Co-Managers
ANZ Bank New Zealand Limited
Level 10
170-186 Featherston Street
Wellington 6011

ASB Bank Limited
Level 13, ASB Bank Centre
135 Albert Street
Auckland 1010

New Zealand Government

MIGHTY RIVER POWER