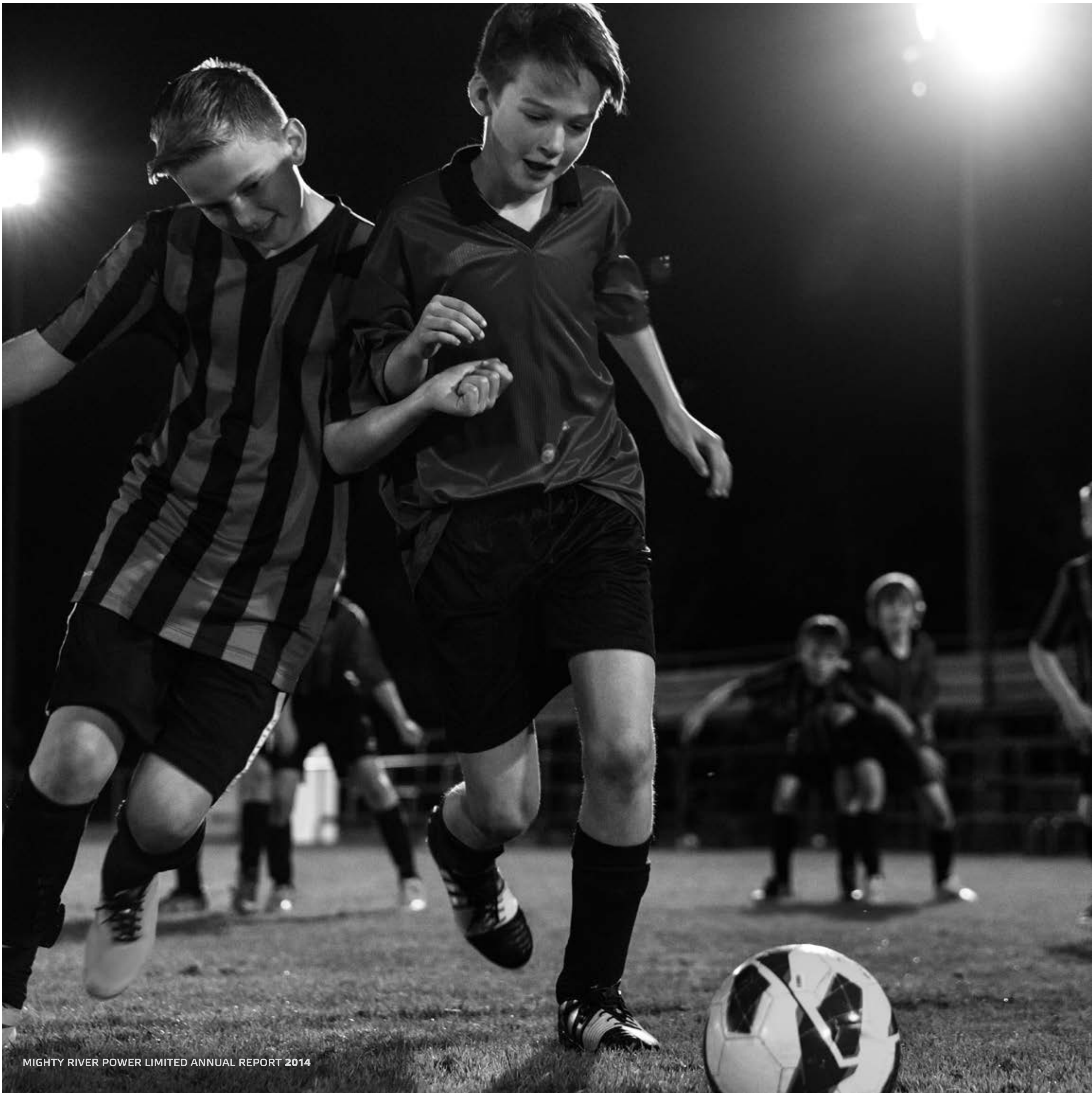
ANNUAL REPORT **2014**

Positive Energy.



Directors' Responsibility Statement

The Directors are responsible for ensuring that the financial statements comply with generally accepted accounting practices and represent a true and fair view of Mighty River Power Limited's financial position as at 30 June 2014, and of the financial performance and cash flows for the current financial year.

The Directors consider that the Group and Company's financial statements have been prepared using the appropriate accounting policies, that these have been consistently applied and are supported by reasonable judgements and estimates, and that all relevant financial and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which allow for the determination of the Group and Company's financial position with reasonable accuracy, and that the financial statements themselves comply with the Financial Reporting Act 1993 and the Companies Act 1993.

The Directors consider that they have taken adequate steps to safeguard the Group and Company's assets and to prevent and, where necessary, detect fraud and any other irregularities.

The Auditor-General is required to be the Company's auditor, and has appointed Mr Simon O'Connor of Ernst & Young to undertake the audit on her behalf.

The Directors are pleased to present Mighty River Power Limited's annual financial report and financial statements for the year ended 30 June 2014.

Events Subsequent to Balance Date

As at the date of this report, the Directors are not aware of any circumstances since the end of the year that have significantly affected or may significantly affect the operations of the Group.

Annual Report Certificate

This Annual Report is dated 31 August 2014 and is signed on behalf of the Board by:

Joan Withers Chair 31 August 2014

Keith Smith Director 31 August 2014

Building a better working world

Chartered Accountants

Independent Auditor's Report

TO THE SHAREHOLDERS OF MIGHTY RIVER POWER LIMITED AND GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

The Auditor-General is the auditor of Mighty River Power Limited (the company) and group. The Auditor-General has appointed me, Simon O'Connor, using the staff and resources of Ernst & Young to carry out the audit of the financial statements of the company and group, on her behalf.

We have audited the financial statements of the company and group on pages 5 to 55 that comprise the balance sheet as at 30 June 2014, 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

Financial statements

In our opinion the financial statements of the company and group on pages 5 to 55:

- 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 2014; and
  - financial performance and cash flows for the year ended on that date.

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 20 August 2014. 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 shareholders' overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the 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.

Chartered Accountants

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 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 is also responsible for the publication of the financial statements, whether in printed or electronic form.

The Board of Directors' responsibilities arise from 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.

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.

In addition to the audit we have performed a review of the interim financial statements for the six months ended 31 December 2013, which is compatible with those independence requirements.

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.

Other than the audit and the review of the interim financial statements, we have no relationship with or interests in the company or any of its subsidiaries.

Simon O'Connor Ernst & Young

On behalf of the Auditor-General
Auckland, New Zealand

Financial Statements 2014.

For year ended 30 June 2014

CONTENTS

For further information on the business operations and performance of Mighty River Power during the year ended 30 June 2014, please refer to the 2014 Mighty River Power Annual Review which has been provided to shareholders and is available in the Investor Centre of the company's website at www.mightyriver.co.nz

Income Statement

FOR THE YEAR ENDED 30 JUNE 2014

	Note	Group 2014 $M	Group 2013 $M	Company 2014 $M	Company 2013 $M
Sales		1,672	1,806	1,473	1,650
Other revenue		33	31	33	27
Total revenue		1,705	1,837	1,506	1,677
Energy costs		505	636	504	636
Line charges		431	454	407	435
Other direct cost of sales, including metering		44	37	24	21
Employee compensation and benefits		80	78	71	70
Maintenance expenses		54	66	40	45
Sales and marketing		18	20	17	20
Contractors' fees		9	12	9	12
Professional services		13	27	10	17
Other expenses		47	117	52	35
Total expenses		1,201	1,447	1,134	1,291
Earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments, impairments and equity accounted earnings (EBITDAF)		504	390	372	386
Depreciation and amortisation	4	(161)	(150)	(88)	(96)
Change in the fair value of financial instruments	22	32	25	32	27
Impaired assets	4	–	(85)	–	(3)
Equity accounted earnings of associate companies	14	8	5	–	–
Equity accounted earnings/(losses) of interest in joint ventures	16	(4)	58	–	–
Earnings before net interest expense and income tax (EBIT)		379	243	316	314
Interest expense	4	(87)	(61)	(81)	(55)
Interest income		3	4	1	2
Net interest expense		(84)	(57)	(80)	(53)
Profit before income tax		295	186	236	261
Income tax expense	5	(83)	(71)	(65)	(76)
Net profit for the year		212	115	171	185
Net profit for the year is attributable to:					
Owners of the parent		212	115	171	185
Net profit for the year		212	115	171	185
Earnings per share attributable to owners of the parent:					
Basic and diluted earnings per share (cents)	7	15.27	8.19		

The accompanying notes form an integral part of these financial statements

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2014

	Note	Group 2014 $M	Group 2013 $M	Company 2014 $M	Company 2013 $M
Net profit for the year		212	115	171	185
Other comprehensive income					
Items that will not be reclassified subsequently to profit or loss					
Fair value revaluation of hydro and thermal assets	10	5	43	5	43
Fair value revaluation of other generation assets	10	35	37	–	–
Equity accounted share of movements in associates' reserves	14	(8)	13	–	–
Equity accounted share of movements in joint ventures' reserves	16	–	(2)	–	–
Exchange movements on equity accounted share of movements in joint ventures' reserves		(2)	1	–	–
Income tax on items of other comprehensive income that will not be reclassified subsequently to profit or loss	5	(11)	(22)	(2)	(12)
Items that may be reclassified subsequently to profit or loss					
Movements in available for sale investment reserve		1	1	–	1
Movements in foreign currency translation reserve		(8)	22	–	–
Cash flow hedges gain/(loss) taken to or released from equity	22	47	104	55	71
Income tax on items of other comprehensive income that may be reclassified subsequently to profit or loss	5	(13)	(29)	(15)	(20)
Other comprehensive income for the year, net of taxation		46	168	43	83
Total comprehensive income for the year		258	283	214	268
Total comprehensive income for the year is attributable to:					
Owners of the parent		258	283	214	268
Total comprehensive income for the year		258	283	214	268

The accompanying notes form an integral part of these financial statements

Balance Sheet

AS AT 30 JUNE 2014

	Note	Group 2014 $M	Group 2013 $M	Company 2014 $M	Company 2013 $M
SHAREHOLDERS' EQUITY					
Issued capital	6	378	378	378	378
Treasury shares	6	(52)	(3)	(52)	(3)
Reserves		2,893	2,808	2,480	2,438
Total shareholders' equity		3,219	3,183	2,806	2,813
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents		19	11	15	7
Receivables	8	218	240	664	888
Inventories	9	24	20	16	13
Derivative financial instruments	22	31	41	31	41
Total current assets		292	312	726	949
NON-CURRENT ASSETS					
Property, plant and equipment	10	5,095	5,141	3,581	3,620
Intangible assets	11	55	52	33	30
Emissions units	12	16	11	15	10
Available for sale financial assets		12	13	–	–
Investment in subsidiaries	13	–	–	565	442
Investment and advances to associates	14	78	82	4	4
Investment in joint ventures	16	23	29	–	–
Advances		13	13	2	–
Receivables	8	6	6	–	–
Derivative financial instruments	22	99	143	89	132
Total non-current assets		5,397	5,490	4,289	4,238
Total assets		5,689	5,802	5,015	5,187
LIABILITIES					
CURRENT LIABILITIES					
Payables and accruals	17	169	213	152	176
Provisions	18	–	4	–	2
Loans	19	56	105	56	105
Derivative financial instruments	22	22	44	27	51
Taxation payable		24	33	1	16
Total current liabilities		271	399	236	350
NON-CURRENT LIABILITIES					
Payables and accruals	17	6	12	6	12
Provisions	18	16	9	2	–
Derivative financial instruments	22	209	291	215	299
Loans	19	985	953	985	953
Deferred tax	20	983	955	765	760
Total non-current liabilities		2,199	2,220	1,973	2,024
Total liabilities		2,470	2,619	2,209	2,374
NET ASSETS		3,219	3,183	2,806	2,813

For and on behalf of the Board of Directors who authorised the issue of the Financial Statements on 20 August 2014.

Joan Withers
Chair
20 August 2014

Keith Smith
Director
20 August 2014

The accompanying notes form an integral part of these financial statements

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2014

GROUP	Issued capital $M	Retained earnings $M	Foreign currency translation reserve $M	Asset revaluation reserve $M	Cash flow hedge reserve $M	Other reserves $M	Total equity $M
Balance as at 1 July 2012	378	488	(32)	2,301	(119)	(1)	3,015
Fair value revaluation of hydro and thermal assets, net of taxation	–	–	–	31	–	–	31
Fair value revaluation of other generation assets, net of taxation	–	–	–	26	–	–	26
Equity accounted share of movements in associates' reserves	–	–	–	8	5	–	13
Release of reserve to the income statement, net of taxation	–	–	–	–	–	1	1
Movements in foreign currency translation reserve	–	–	22	–	–	–	22
Cash flow hedges gain/(loss) taken to or released from equity, net of taxation	–	–	–	–	75	–	75
Release of asset revaluation reserve following disposal of assets	–	3	–	(3)	–	–	–
Other comprehensive income	–	3	22	62	80	1	168
Net profit for the year	–	115	–	–	–	–	115
Total comprehensive income	–	118	22	62	80	1	283
Acquisition of treasury shares	–	–	–	–	–	(3)	(3)
Dividend	–	(112)	–	–	–	–	(112)
Balance as at 30 June 2013	378	494	(10)	2,363	(39)	(3)	3,183
Balance as at 1 July 2013	378	494	(10)	2,363	(39)	(3)	3,183
Fair value revaluation of hydro and thermal assets, net of taxation	–	–	–	4	–	–	4
Fair value revaluation of other generation assets, net of taxation	–	–	–	25	–	–	25
Equity accounted share of movements in associates' reserves	–	–	–	(6)	(2)	–	(8)
Equity accounted share of movements in joint ventures' reserves	–	–	–	(2)	–	–	(2)
Net loss on available for sale investment reserve	–	–	–	–	–	1	1
Movements in foreign currency translation reserve	–	–	(8)	–	–	–	(8)
Cash flow hedges gain/(loss) taken to or released from equity, net of taxation	–	–	–	–	34	–	34
Release of asset revaluation reserve following disposal of assets	–	1	–	(1)	–	–	–
Other comprehensive income	–	1	(8)	20	32	1	46
Net profit for the year	–	212	–	–	–	–	212
Total comprehensive income	–	213	(8)	20	32	1	258
Acquisition of treasury shares	–	–	–	–	–	(49)	(49)
Dividend	–	(173)	–	–	–	–	(173)
Balance as at 30 June 2014	378	534	(18)	2,383	(7)	(51)	3,219

The accompanying notes form an integral part of these financial statements

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2014

COMPANY	Issued capital $M	Retained earnings $M	Asset revaluation reserve $M	Cash flow hedge reserve $M	Other reserves $M	Total equity $M
Balance as at 1 July 2012	378	534	1,862	(113)	(1)	2,660
Fair value revaluation of hydro and thermal assets, net of taxation	–	–	31	–	–	31
Release of reserve to the income statement, net of taxation	–	–	–	–	1	1
Cash flow hedges gain/(loss) taken to or released from equity, net of taxation	–	–	–	51	–	51
Release of asset revaluation reserve for assets taken out of service, net of taxation	–	1	(1)	–	–	–
Other comprehensive income	–	1	30	51	1	83
Net profit for the year	–	185	–	–	–	185
Total comprehensive income	–	186	30	51	1	268
Acquisition of treasury shares	–	–	–	–	(3)	(3)
Dividend	–	(112)	–	–	–	(112)
Balance as at 30 June 2013	378	608	1,892	(62)	(3)	2,813
Balance as at 1 July 2013	378	608	1,892	(62)	(3)	2,813
Fair value revaluation of hydro and thermal assets, net of taxation	–	–	4	–	–	4
Cash flow hedges gain/(loss) taken to or released from equity, net of taxation	–	–	–	40	–	40
Release of asset revaluation reserve for assets taken out of service, net of taxation	–	1	(1)	–	–	–
Other comprehensive income	–	1	3	40	–	44
Net profit for the year	–	171	–	–	–	171
Total comprehensive income	–	172	3	40	–	215
Acquisition of treasury shares	–	–	–	–	(49)	(49)
Dividend	–	(173)	–	–	–	(173)
Balance as at 30 June 2014	378	607	1,895	(22)	(52)	2,806

The accompanying notes form an integral part of these financial statements

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2014

	Note	Group 2014 $M	Group 2013 $M	Company 2014 $M	Company 2013 $M
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		1,706	1,889	1,505	1,729
Payments to suppliers and employees		(1,214)	(1,459)	(1,123)	(1,339)
Interest received		3	4	1	2
Interest paid		(90)	(88)	(89)	(89)
Taxes paid		(88)	(60)	(88)	(60)
Net cash provided by operating activities	23	317	286	206	243
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisition of property, plant and equipment		(82)	(201)	(41)	(35)
Proceeds from sale of property, plant and equipment		–	5	–	5
Advances to joint operations' partner repaid		1	1	–	–
Investment in joint ventures		(3)	(5)	(2)	–
Distribution received from joint ventures		–	141	–	–
Acquisition of intangibles		(15)	(14)	(13)	(14)
Disposal of subsidiaries		–	(8)	–	–
Acquisition of emission units		(5)	(7)	(5)	(7)
Disposal of emission units		–	–	–	1
Dividends received from associate		5	4	–	–
Net cash used in investing activities		(99)	(84)	(61)	(50)
CASH FLOWS FROM FINANCING ACTIVITIES					
Acquisition of treasury shares		(50)	(3)	(50)	(3)
Proceeds from loans		60	100	60	100
Repayment of loans		(50)	(215)	(50)	(215)
Loans to subsidiaries		–	–	76	28
Dividends paid		(173)	(112)	(173)	(112)
Net cash used in financing activities		(213)	(230)	(137)	(202)
Net (decrease) / increase in cash and cash equivalents held		5	(28)	8	(9)
Net foreign exchange movements		3	1	–	–
Cash and cash equivalents at the beginning of the year		11	38	7	16
Cash and cash equivalents at the end of the year		19	11	15	7
Cash and cash equivalents comprises:					
Cash		19	11	15	7
Cash and cash equivalents at the end of the year		19	11	15	7

The accompanying notes form an integral part of these financial statements

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

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 (the "Group financial statements") have been prepared in accordance with the Financial Reporting Act 1993 and the Companies Act 1993.

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

Mighty River Power Limited is majority owned by Her Majesty the Queen in Right of New Zealand (the Crown) and is dual listed on the NZSX and ASX. The Company, as a mixed ownership model company, is bound by the requirements of the Public Finance Act 1989.

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

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 Group 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 adopted in the preparation of these Group financial statements include the adoption of new standards and interpretations effective as of 1 July 2013 which the Group applies for the first time. As required by NZ IAS 1, the nature and the effect of these changes are disclosed below. Several other new standards and amendments apply for the first time in 2014, however, they do not impact the financial statements. The nature and the impact of each new standard/amendment that impacts the Group is described below:

- NZ IFRS 7 – Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities. These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g. collateral agreements). The disclosures are required for all recognised financial instruments that are set-off in accordance with NZ IAS 32 – Financial Instruments: Presentation. The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set-off under NZ IAS 32. The Group provides these disclosures in Note 21.
- NZ IFRS 11 – Joint Arrangements. This standard 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.
- 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 Group provides these disclosures in Note 14 to 16.
- NZ IFRS 13 – Fair Value Measurement. NZ IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. NZ IFRS 13 does not change when an entity is required to use fair value measurements, but rather provides guidance on how to determine fair value. The application of NZ IFRS 13 has impacted the fair value measurements carried out by the Group as it is now required to incorporate counterparty credit risk within these measurements. NZ IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including NZ IFRS 7 Financial Instruments: Disclosures.

(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.

(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.

Information about significant areas of estimation uncertainty and critical judgements required in the application of accounting policies 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 discounted cash flow valuation approach assumes 100% control and consequently a control premium should be applied if using an equity valuation technique to derive asset values.

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 18). 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

Non-exchange traded 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 21.

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 20 for further detail).

(d) Functional and presentation currency

These financial statements are presented in New Zealand Dollars ($) which is the Group's functional currency, apart from Mighty Geothermal Power Limited and its direct subsidiaries and PT ECNZ Services Indonesia as their functional currency is the United States Dollar. The financial statements of these entities have been translated to the presentation currency for these Group financial statements.

Unless otherwise stated, financial information has been rounded to the nearest million dollars ($M).

(3) SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

Subsidiaries

Subsidiaries are all those entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. They 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 entity, 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 Group holds an equity interest and over which the Group 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. Losses of an associate in excess of the Group's interest in the associate are not recognised unless the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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.

Joint operations

Joint operations 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 joint operation. The Group's interests in joint operations are accounted for by recognising its share of the jointly controlled assets, liabilities incurred jointly, income and expenses in the consolidated financial statements.

Under NZ IAS 31 – Investments in Joint Ventures (prior to the transition to NZ IFRS 11), the Group's interests in its joint operations were classified as jointly controlled assets and were proportionately consolidated in the consolidated financial statements. Upon adoption of NZ IFRS 11 Joint Arrangements, the Group has determined its interests to be joint operations and accounts for its share of the operations, assets, liabilities, revenue and expenses. There is no material impact on the Group financial statements.

Joint ventures

A joint venture 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 joint ventures, similar to its interest in associates are accounted for using the equity method.

Under NZ IAS 31 – Investments in Joint Ventures (prior to the transition to NZ IFRS 11), the Group's interests in its joint ventures were classified as jointly controlled entities and were equity accounted for in the consolidated financial statements. Upon adoption of NZ IFRS 11 Joint Arrangements, the Group has determined its interests to be joint ventures and continues to equity accounted for its interests. There is no material impact on the Group financial statements.

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 PricewaterhouseCoopers, a third party valuation expert, 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.

Office land and buildings are measured at historic cost less accumulated depreciation on buildings.

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 of testing whether the assets are functioning properly, after deducting the net proceeds from power generation, are also capitalised. Costs cease to be capitalised as soon as an asset is ready for productive use.

Where appropriate, the cost of property, plant and equipment includes site preparation costs, installation costs, and the cost of obtaining resource consents.

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.

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:

	2014	2013
Office land and buildings	2–20%	2–20%
Generation assets:		
• Hydro and thermal generation	1–33%	1–33%
• Other generation	2–33%	2–25%
Meters	3–33%	3–33%
Computer hardware and tangible software	5–50%	5–50%
Other plant and equipment	2–50%	2–50%
Vehicles	5–33%	5–33%

Distinction between capital and revenue expenditure

Capital expenditure is defined as all expenditure utilised for 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 effort 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 as the loss is incurred.

(g) Intangible assets

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.

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 remaining estimated useful lives of between 2 – 15 years (2013: 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 (2013: between 3 and 25 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. As "line charges" are now reflected as part of "total expenses" on the face of the income statement, the cash impact from the prior year has been reallocated from "Receipts from customers" to "Payments to supplier and employees" accordingly.

The cash flow statement includes net cash flows from loan advances as the rollover of loans and deposits are covered by arranged finance facilities.

(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 original maturities between one day and three months, depending on the immediate cash requirements of the Group. They are readily converted to known amounts of cash, are subject to an insignificant risk of changes in value and hence represent fair value.

Bank balances earn interest at floating rates based on the daily bank deposit rates whilst short-term deposits earn interest at the respective short-term deposit rates. Interest income 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. Overdue balances that are subject to approved payment plans, with payments being made as scheduled, are not considered to be impaired.

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 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, futures 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 exchange traded (NZSX and ASX) energy contracts is recognised based on exchange quoted prices. The fair value of non-exchange traded 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 paid 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 the 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.

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.

(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 exclusive of GST with the exception of receivables and payables which include GST invoiced.

(s) Share Based Payments

Employees (including Senior Management) of the Company may receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (equity-settled transactions). The cost of equity-settled transactions with employees is measured by reference to the fair value at grant date.

The cost of equity-settled transactions is recognised, together with a corresponding increase to the share based payments reserve within equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. The expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

(t) Capital and reserves

Treasury Shares

Own equity instruments held (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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.

Share based payments reserve

The share based payments reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration.

(u) Segment reporting

Operating segments are identified by Management based on the nature of the products and services provided. Discrete financial information about each of these operating segments is reported to the chief executive, being the chief operating decision-maker, on at least a monthly basis, who assesses the performance of the operating segments on a measure of EBITDAF. Segment EBITDAF represents profit earned by each segment exclusive of any allocation of central administration costs, share of 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 normal commercial terms and represent charges by Other Segments to Energy Markets.

(v) Related parties

The Group considers its related parties to be key management personnel, its subsidiaries, associates and joint arrangements and other Crown related 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. NON STATUTORY MEASURE – 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 equity accounted share of changes in the fair value of derivative financial instruments.

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Net profit for the year	212	115	171	185
Change in the fair value of financial instruments	(32)	(25)	(32)	(27)
One-off and/or infrequently occurring events	–	37	–	2
Impaired assets	–	85	–	3
Equity accounted share of the change in the fair value of financial instruments of associate entities	(5)	(2)	–	–
Equity accounted share of the change in the fair value of financial instruments of joint ventures	–	(38)	–	–
Adjustments before income tax expense	(37)	57	(32)	(22)
Income tax expense on taxable adjustments	10	8	9	7
Adjustments after income tax expense	(27)	65	(23)	(15)
Underlying earnings after tax	185	180	148	170

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

NOTE 3. SEGMENT REPORTING

IDENTIFICATION OF REPORTABLE SEGMENTS

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 and international geothermal development and operations.

Unallocated

Represents other corporate support services and other elimination adjustments.

GROUP	Energy Markets $M	Other segments $M	Unallocated $M	Inter-segment $M	Total $M
June 2014					
Total segment revenue	1,696	44	(2)	(33)	1,705
Direct costs	(1,013)	–	–	33	(980)
Other operating expenses	(160)	(28)	(33)	–	(221)
Segment EBITDAF	523	16	(35)	–	504

GROUP	Energy Markets $M	Other segments $M	Unallocated $M	Inter-segment $M	Total $M
June 2013					
Total segment revenue	1,824	47	(2)	(32)	1,837
Direct costs	(1,159)	–	–	32	(1,127)
Other operating expenses	(170)	(82)	(68)	–	(320)
Segment EBITDAF	495	(35)	(70)	–	390

NOTE 4. OTHER INCOME STATEMENT DISCLOSURES

	Note	Group 2014 $M	Group 2013 $M	Company 2014 $M	Company 2013 $M
Rental and operating lease costs		6	5	5	5
Net (gain)/loss on sale of property, plant and equipment		(4)	–	(4)	–
Net loss on disposal of subsidiaries		–	4	–	–
Foreign currency exchange (gains)/losses		–	(24)	(18)	4
Interest charged		93	92	87	86
Interest capitalised to capital work in progress		(6)	(31)	(6)	(31)
Total interest expense		87	61	81	55
Depreciation	10	150	136	79	83
Amortisation of intangible assets	11	13	13	11	12
Amortisation of fair values and the release from cash flow hedge reserve relating to forecast transactions that are no longer expected to occur	22	(2)	1	(2)	1
Total depreciation and amortisation		161	150	88	96
Impaired property, plant and equipment	10	–	(52)	–	–
Impaired exploration and development expenditure	10	–	(28)	–	(1)
Impaired exploration and development expenditure reversed	10	–	6	–	–
Impaired investment and advances to associate	14	–	(10)	–	–
Impaired investment and advances to associate reversed	14	–	1	–	–
Impaired available for sale financial asset		–	(2)	–	(2)
Total impaired assets		–	(85)	–	(3)

Audit fees

Fees incurred during the year for audit and review of the financial statements by EY (NZ) was $608,000 (2013: $899,000). Fees incurred relating to the audit of the financial statements of offshore entities (US and Chile) during the year were $231,000 (2013: $570,000). In the prior year fees of $1.3m were also paid to EY(NZ) for other services relating to the investigating accountants' role for the Company's IPO.

NOTE 5. INCOME TAX

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
(i) Income tax expense				
Profit before income tax	295	186	236	261
Prima facie income tax expense at 28% on the profit before tax	(83)	(52)	(66)	(73)
Increase/(decrease) in income tax due to:				
• share of associates' tax paid earnings	2	1	–	–
• share of joint ventures' tax paid earnings	(1)	16	–	–
• non-deductible cost of restructure of international geothermal interests	–	(10)	–	(1)
• foreign entities' current losses not recognised for deferred tax	–	(27)	–	–
• foreign entities' prior losses recognised for deferred tax	–	12	–	–
• capital gain/(loss)	1	(3)	1	–
• non-deductible foreign exchange loss	–	(6)	–	–
• Assessable dividends not reported in profit before income tax	(2)	(1)	–	–
• other differences	(2)	(2)	–	(3)
Over/(under) provision in prior period	2	1	–	1
Income tax expense attributable to profit from ordinary activities	(83)	(71)	(65)	(76)
Represented by:				
Current tax expense	(78)	(81)	(62)	(73)
Deferred tax recognised in the income statement	(5)	10	(3)	(3)
Total income tax expense	(83)	(71)	(65)	(76)
(ii) Income tax reported in other comprehensive income				
Tax on movements in asset revaluation reserve	(11)	(22)	(2)	(12)
Tax on movements in cash flow hedge reserve	(13)	(29)	(15)	(20)
Income tax reported in other comprehensive income	(24)	(51)	(17)	(32)

NOTE 6. SHARE CAPITAL AND DISTRIBUTION

The share capital of the Company is represented by 1,400,012,517 ordinary shares (30 June 2013: 1,400,000,094) issued and fully paid. These shares do not have a par value. All shares have equal voting rights and share equally in dividends and any surplus on winding up.

	GROUP AND COMPANY		GROUP AND COMPANY	
	2014	2014	2013	2013
	Number of shares (M)	$M	Number of shares (M)	$M
TREASURY SHARES				
Balance at the beginning of the year	1	3	–	–
Acquisition of treasury shares	23	50	1	3
Disposal of treasury shares	–	(1)	–	–
Balance at the end of the year	24	52	1	3

In May 2013, 1.3 million shares were acquired, and in December 2013 12,423 new shares were issued by the Group, to meet the current and future obligations under long-term incentive plans and the Employee Share Purchase Programme. In August 2013, 0.3 million shares were transferred to some of the participants of the long-term incentive plan.

In October 2013, the Group announced an on-market share buy-back programme. Under the programme, the Group purchased $50 million of the Group's issued share capital, a total of 23.4 million shares representing an average cost of $2.1356 per share. These shares are held as treasury shares and no decision has been made by the Board of Directors whether to re-issue or cancel these shares.

		GROUP	GROUP	COMPANY	COMPANY
	Cents per share	2014 $M	2013 $M	2014 $M	2013 $M
DIVIDENDS DECLARED AND PAID					
Final dividend for 2012	3.21	–	45	–	45
Interim dividend for 2013	4.80	–	67	–	67
Final dividend for 2013	7.20	101	–	101	–
Interim dividend for 2014	5.20	72	–	72	–
		173	112	173	112

After the reporting date a final dividend of 8.3 cents per share was approved by the Board of Directors. This dividend will be fully imputed utilising imputation credits arising from tax payments made by the Group. This amount has not been recognised as a liability as at 30 June 2014 but will be brought to account during the 2015 financial year.

Imputation credits available to shareholders in the future amount to $45.8 million (2013: $32.5 million).

NOTE 7. EARNINGS PER SHARE

Basic and diluted earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year. The weighted average number of shares takes into account the weighted average effect of changes in treasury share transactions during the year.

	GROUP	GROUP
	2014	2013
Net earnings attributable to owners of the parent ($M)	212	115
Weighted average ordinary shares (millions) for basic and diluted earnings per share calculation	1,388	1,400
Basic and diluted earnings per share (Cents)	15.27	8.19

NOTE 8. RECEIVABLES

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Trade receivables and accruals	216	238	187	201
Allowance for impairment loss	(5)	(5)	(3)	(4)
Net trade receivables and accruals	211	233	184	197
Prepayments	12	11	9	9
Related party receivables	1	2	471	682
	224	246	664	888
Current	218	240	664	888
Non-current	6	6	–	–
	224	246	664	888

Trade receivables are non-interest bearing and are generally on 30 day terms, except for international VAT recorded as non-current which is recoverable on commencement of operations. For terms and conditions of related party receivables refer to note 27.

Movements in the allowance for impairment loss were as follows:

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Balance at the beginning of the year	5	5	4	4
Charge for the year	4	4	5	4
Amounts written off	(4)	(4)	(6)	(4)
Balance at the end of the year	5	5	3	4

Receivables past due but not considered impaired:

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Less than one month past due	7	5	7	4
Two to three months past due	–	–	–	–
Three to six months past due	–	–	–	–
Later than six months past due	–	–	–	–
	7	5	7	4

NOTE 9. INVENTORIES

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Consumable stores	21	19	13	12
Meter stock	3	1	3	1
	24	20	16	13

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 10. PROPERTY, PLANT AND EQUIPMENT

GROUP	Hydro and thermal assets at fair value $M	Other generation assets at fair value $M	Other plant and equipment at cost $M	Meters at cost $M	Office land and buildings at fair value $M	Computer hardware and tangible software at cost $M	Vehicles at cost $M	Capital work in progress at cost $M	Total $M
Year ended 30 June 2013									
Opening net book value	3,432	1,048	19	67	7	13	1	476	5,063
Additions, including transfers from capital work in progress	22	220	2	6	–	5	–	(30)	225
Disposals of subsidiaries	–	(10)	–	–	–	–	–	(2)	(12)
Disposals	–	–	–	–	(5)	–	–	–	(5)
Revaluation	43	37	–	–	–	–	–	–	80
Impaired assets	–	(52)	–	–	–	–	–	–	(52)
Impairment of exploration and development expenditure	–	–	–	–	–	–	–	(28)	(28)
Impairment of exploration and development expenditure reversed	–	–	–	–	–	–	–	6	6
Exchange movements	–	1	–	–	–	–	–	(1)	–
Depreciation charge for the year	(62)	(55)	(4)	(9)	–	(6)	–	–	(136)
Closing net book value	3,435	1,189	17	64	2	12	1	421	5,141
Balance at 30 June 2013									
Cost or valuation	3,435	1,193	39	138	2	45	2	421	5,275
Accumulated depreciation	–	(4)	(22)	(74)	–	(33)	(1)	–	(134)
Net book value	3,435	1,189	17	64	2	12	1	421	5,141
Year ended 30 June 2014									
Opening net book value	3,435	1,189	17	64	2	12	1	421	5,141
Additions, including transfers from capital work in progress	41	362	3	7	4	9	–	(355)	71
Disposals	–	–	–	–	–	(1)	–	–	(1)
Revaluation	5	35	–	–	–	–	–	–	40
Exchange movements	–	(4)	–	–	–	–	–	(2)	(6)
Depreciation charge for the year	(59)	(72)	(3)	(10)	–	(6)	–	–	(150)
Closing net book value	3,422	1,510	17	61	6	14	1	64	5,095
Balance at 30 June 2014									
Cost or valuation	3,422	1,517	42	145	6	53	2	64	5,251
Accumulated depreciation	–	(7)	(25)	(84)	–	(39)	(1)	–	(156)
Net book value	3,422	1,510	17	61	6	14	1	64	5,095

COMPANY	Hydro and thermal assets at fair value $M	Other generation assets at fair value $M	Other plant and equipment at cost $M	Meters at cost $M	Office land and buildings at fair value $M	Computer hardware and tangible software at cost $M	Vehicles at cost $M	Capital work in progress at cost $M	Total $M
Year ended 30 June 2013									
Opening net book value	3,432	14	17	67	8	13	–	82	3,633
Additions, including transfers from capital work in progress	22	7	1	6	–	4	–	(8)	32
Disposals	–	–	–	–	(5)	–	–	–	(5)
Revaluation	43	–	–	–	–	–	–	–	43
Impairment of exploration and development expenditure	–	–	–	–	–	–	–	(1)	(1)
Depreciation charge for the year	(62)	(2)	(3)	(9)	–	(6)	–	–	(82)
Closing net book value	3,435	19	15	64	3	11	–	73	3,620
Balance at 30 June 2013									
Cost or valuation	3,435	22	35	138	3	43	1	73	3,750
Accumulated depreciation	–	(3)	(20)	(74)	–	(32)	(1)	–	(130)
Net book value	3,435	19	15	64	3	11	–	73	3,620
Year ended 30 June 2014									
Opening net book value	3,435	19	15	64	3	11	–	73	3,620
Additions, including transfers from capital work in progress	41	–	2	7	4	6	–	(24)	36
Disposals	–	–	–	–	–	(1)	–	–	(1)
Revaluation	5	–	–	–	–	–	–	–	5
Depreciation charge for the year	(59)	(2)	(3)	(10)	–	(5)	–	–	(79)
Closing net book value	3,422	17	14	61	7	11	–	49	3,581
Balance at 30 June 2014									
Cost or valuation	3,422	22	37	145	7	48	1	49	3,731
Accumulated depreciation	–	(5)	(23)	(84)	–	(37)	(1)	–	(150)
Net book value	3,422	17	14	61	7	11	–	49	3,581

ASSETS CARRIED AT FAIR VALUE

All hydro, thermal and other generation assets shown at valuation (except Resource Management Act consents) were revalued using a net present value methodology by PricewaterhouseCoopers, an independent valuer as at 30 June 2014. This resulted in an increase to the carrying value of generation assets of $40 million in the current year. This is in addition to the $80 million revaluation increase recognised in 2013. 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 as they make use of level 3 inputs including wholesale electricity prices of between $70/MWh and $95/MWh, average operational expenditure of $188 million p.a. and average production volumes of 7,107/GWh p.a. The valuation also assumed the on-going operation of New Zealand Aluminium Smelters Limited at Tiwai Point and that the current regulatory environment is retained. The net present value methodology implicitly assumes control over the assets versus a valuation using share prices.

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%	$684 million / ($687 million)
Discount rate	+/– 0.5%	($489 million) / $645 million
Operational expenditure	+/–10%	($230 million) / $230 million

The carrying amount of revalued assets had they been recognised at cost are as follows:

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Hydro and thermal assets	1,111	1,095	1,111	1,095
Other generation assets	978	698	17	19
Office land and buildings	6	2	6	2

NOTE 11. INTANGIBLE ASSETS

	GROUP			COMPANY		
	Intangible software $M	Rights $M	Total $M	Intangible software $M	Rights $M	Total $M
Year ended 30 June 2013						
Opening net book value	26	24	50	26	2	28
Additions	11	4	15	11	3	14
Amortisation for the year	(11)	(2)	(13)	(11)	(1)	(12)
Closing net book amount	26	26	52	26	4	30
Balance at 30 June 2013						
Cost	103	40	143	103	7	110
Accumulated amortisation	(77)	(14)	(91)	(77)	(3)	(80)
Net book value	26	26	52	26	4	30
Year ended 30 June 2014						
Opening net book value	26	26	52	26	4	30
Additions	14	2	16	13	1	14
Amortisation for the year	(11)	(2)	(13)	(10)	(1)	(11)
Closing net book amount	29	26	55	29	4	33
Balance at 30 June 2014						
Cost	117	42	159	116	8	124
Accumulated amortisation	(88)	(16)	(104)	(87)	(4)	(91)
Net book value	29	26	55	29	4	33

The majority of the rights relates to land access agreements for generation development and includes a goodwill amount of $1 million.

NOTE 12. EMISSIONS UNITS

	2014				2013			
	GROUP		COMPANY		GROUP		COMPANY	
	Units (M)	$M	Units (M)	$M	Units (M)	$M	Units (M)	$M
Balance at the beginning of the year	2	11	2	10	1	4	1	4
Allocated units	–	–	–	–	1	–	1	–
Purchased units	–	5	–	5	–	7	–	7
Sale of units	–	–	–	–	–	–	–	(1)
Balance at the end of the year	2	16	2	15	2	11	2	10

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 is recognised when the units are acquired. Under these contracts the Group expects to acquire 3.8 million emissions units over a 14 year period which will satisfy the Group's obligations under the Emissions Trading Scheme. The commitments under these forward purchase agreements are included in note 24.

NOTE 13. INVESTMENT IN SUBSIDIARIES

The Group financial statements include the following subsidiaries:

Name of Entity	% Holding 2014	% Holding 2013	Principal Activity	Country of Incorporation
Direct Subsidiaries				
Mighty River Power Geothermal Limited	100	100	Investment holding	New Zealand
Mercury Energy Limited	100	100	Non trading	New Zealand
Metrix Limited	100	100	Metering services	New Zealand
ECNZ International Limited	100	100	Investment holding	New Zealand
Bosco Connect Limited	100	100	Retail of utilities	New Zealand
GLO-BUG Limited	100	100	Retail of electricity	New Zealand
Mighty River Power ESPP Limited	100	100	Trustee Company	New Zealand
Mighty River Power LTI Limited	100	100	Trustee Company	New Zealand
Mighty River Power Limited Employee Share Purchase Programme Trust	–	–	Trust	New Zealand
Mighty River Power Limited Executive Long Term Incentive Plan Trust	–	–	Trust	New Zealand
Mighty River Power Limited On-going Executive Long Term Incentive Plan Trust	–	–	Trust	New Zealand
Indirect Subsidiaries – Domestic				
Rotokawa Geothermal Limited	100	100	Investment holding	New Zealand
Rotokawa Generation Limited	100	100	Electricity generation	New Zealand
Kawerau Geothermal Limited	100	100	Geothermal development	New Zealand
Ngatamariki Geothermal Limited	100	100	Geothermal development	New Zealand
Mighty Geothermal Power Limited	100	100	Investment holding	New Zealand
Mighty Geothermal Power International Limited	100	100	Investment holding	New Zealand
Special General Partner Limited	100	100	Investment holding	New Zealand
Indirect Subsidiaries – International				
PT ECNZ Services Indonesia	100	100	Non trading	Indonesia
Mighty River Power (US) LLC	100	100	Investment holding	United States
Mighty River Power UK Limited Partnership	100	100	Investment holding	United Kingdom
MRP U.S. Holdings LLC	100	100	Investment holding	United States
MRP U.S. EnergySource LLC	100	100	Investment holding	United States
MRP NRI-Peru Holdings Limited	100	100	Investment holding	Ireland
MRP FinCo-Peru Limited	100	100	Finance management	Ireland
MRP Holdings-Peru Limited	100	100	Investment holding	Ireland
MRP Peru Holdings LLC	100	100	Investment holding	United States
MRP Peru S.R.L.	100	100	Geothermal development	Peru
MRP NRI-Chile Holdings Limited	100	100	Investment holding	Ireland
MRP FinCo-Chile Limited	100	100	Finance management	Ireland
MRP Holdings-Chile Limited	100	100	Investment holding	Ireland
MRP Chile Holdings LLC	100	100	Investment holding	United States
MRP Chile Energia Limitada	100	100	Investment holding	Chile
MRP Geotermia Curacautín Limitada	100	100	Geothermal development	Chile
MRP Chile Exploración Limitada	100	100	Geothermal development	Chile
MRP Geotermia Chile Limitada	100	100	Geothermal development	Chile

During the year the Company recapitalised a number of its subsidiaries by $123 million. Consideration was by way of reduction in related party loans.

Mighty River Power Limited Employee Share Purchase Programme Trust, Mighty River Power Limited Executive Long Term Incentive Plan Trust and Mighty River Power Limited On-going Executive Long Term Incentive Plan Trust are entities created to facilitate the Company's long term incentive plans and employee share purchase programme. As the substance of the relationship between the parties indicates these entities are controlled by the Company they have been consolidated into the Group.

NOTE 14. INVESTMENT IN AND ADVANCES TO ASSOCIATES

The Group financial statements include the following associates:

Name of Entity	% Holding 2014	% Holding 2013	Principal Activity	Country of Incorporation
TPC Holdings Limited	25	25	Investment holding	New Zealand
Hot Water Innovations Limited	–	33.46	Development of a hot water storage solution	New Zealand

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Balance at the beginning of the year	82	78	4	5
Equity accounted earnings	8	5	–	–
Equity accounted share of movement in other comprehensive income	(8)	13	–	–
Dividends received during the year	(4)	(4)	–	–
Impaired investments in associates	–	(10)	–	–
Other	–	–	–	(1)
Balance at the end of the year	78	82	4	4

NOTE 15. INVESTMENT IN AND ADVANCES TO JOINT OPERATIONS

The Group financial statements include the following Joint Operations:

Name of joint operation	% Holding 2014	% Holding 2013	Principal Activity	Principal Place of Business
Rotokawa	64.8	64.8	Steamfield operation	New Zealand
Nga Awa Purua	65.0	65.0	Electricity generation	New Zealand

At the end of the year the Group had an outstanding advance to its Rotokawa joint venture partner in the amount $12 million (2013: $13 million). For terms and conditions of this related party receivable refer to note 27.

NOTE 16. INVESTMENT IN JOINT VENTURES

The Group financial statements include the following joint ventures:

Name of Entity	% Holding 2014	% Holding 2013	Principal Activity	Country of Incorporation
Energy Source LLC	20.86	20.86	Investment holding	United States
Hudson Ranch Holdings LLC	75	75	Investment holding	United States

Due to the nature of the contractual arrangements 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.

Aggregate summary financial information of joint ventures:

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Balance at the beginning of the year	29	108	–	–
Additions during the year	1	5	–	–
Equity accounted earnings	(4)	58	–	–
Equity accounted share of movement in other comprehensive income	–	(2)	–	–
Cash distribution received	–	(139)	–	–
Exchange movements	(3)	(1)	–	–
Balance at the end of the year	23	29	–	–

In compliance with the equity method under NZ IAS 28 – Investments in Associates and Joint Ventures, the Group has yet to recognise its share of losses relating to Energy Source LLC amounting to US$7.3 million (2013: US$nil).

NOTE 17. PAYABLES AND ACCRUALS

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Trade payables and accruals	166	215	150	178
Employee entitlements	8	9	7	9
Sundry creditors	1	1	1	1
	175	225	158	188
Current	169	213	152	176
Non-current	6	12	6	12
	175	225	158	188

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 18. PROVISIONS

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Balance at the beginning of the year	13	7	2	2
Provisions made during the year	3	7	–	–
Provisions used during the year	(1)	–	–	–
Disposal of subsidiaries	–	(1)	–	–
Discounting movement	1	–	–	–
Balance at the end of the year	16	13	2	2
Current	–	4	–	2
Non-current	16	9	2	–
	16	13	2	2

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 19. LOANS

	Borrowing Currency Denomination	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Bank loans (unsecured)	NZD	185	125	185	125
Fixed Rate Bonds (unsecured)	NZD	204	204	204	204
Floating Rate Bonds (unsecured)	NZD	351	351	351	351
US Private Placement (unsecured)	USD	261	261	261	261
Commercial paper programme (unsecured)	NZD	50	100	50	100
Deferred financing costs		(1)	(2)	(1)	(2)
Fair value adjustments		(9)	19	(9)	19
Carrying value of loans		1,041	1,058	1,041	1,058
Current		56	105	56	105
Non-current		985	953	985	953
		1,041	1,058	1,041	1,058

The NZD denominated bank loans represent $185 million drawn against $520 million of committed and unsecured bank loan facilities with final repayment due in December 2015. The remaining undrawn $335 million provides liquidity support, with $120 million of facility maturing in March 2015, $15 million in December 2015, $100 million in February 2016 and a rolling bank loan facility of $100 million currently maturing in December 2015. The average interest rate for the drawn $185 million bank facility at 30 June 2014 was 4.21% (3.41% as at 30 June 2013).

The $200 million Fixed Rate Bonds consist of $70 million wholesale bonds with an interest rate of 7.55% expiring in October 2016, $75 million wholesale bonds with an interest rate of 5.029% expiring in March 2019, $30 million wholesale bonds with an interest rate of 8.21% expiring in February 2020 and $25 million wholesale bonds with an interest rate of 5.793% expiring in March 2023.

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 2014 was 5.09% (4.51% as at 30 June 2013).

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 2014 $50 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.

On 11 July 2014 the Company issued $300 million of unsecured subordinated Capital Bonds. The Capital Bonds have a legal maturity of 11 July 2044 and have an interest rate of 6.90% to the first reset date (11 July 2019). The Company has the right, but no obligation, to redeem all or some of the Capital Bonds on a reset date or on any quarterly interest payment date after the first reset date (and on the occurrence of certain events as outlined in the Supplemental Trust Deed). On the first reset date and every five years thereafter, the interest rate will reset to be the sum of the five-year swap rate on the relevant reset date plus a margin of 2.50 per cent.

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

NOTE 20. DEFERRED TAX

(i) Recognised deferred tax assets and liabilities

GROUP	Assets 2014 $M	Assets 2013 $M	Liabilities 2014 $M	Liabilities 2013 $M	Net 2014 $M	Net 2013 $M
Property, plant and equipment	–	–	(1,030)	(1,027)	(1,030)	(1,027)
Financial instruments	31	87	–	(34)	31	53
Employee benefits and other provisions	16	19	–	–	16	19
	47	106	(1,030)	(1,061)	(983)	(955)
COMPANY						
Property, plant and equipment	–	–	(804)	(824)	(804)	(824)
Financial instruments	36	80	–	(20)	36	60
Employee benefits and other provisions	3	4	–	–	3	4
	39	84	(804)	(844)	(765)	(760)

(ii) The movement in deferred tax

GROUP	Property, plant and equipment $M	Financial instruments $M	Employee entitlements $M	Other $M	Total $M
Balance as at 1 July 2012	(1,001)	89	1	3	(908)
Charged/(credited) to the income statement	2	(7)	–	14	9
Charged/(credited) to other comprehensive income	(22)	(29)	–	–	(51)
Prior period adjustment	(6)	–	–	1	(5)
Balance as at 30 June 2013	(1,027)	53	1	18	(955)
Balance as at 1 July 2013	(1,027)	53	1	18	(955)
Charged/(credited) to the income statement	7	(9)	–	(2)	(4)
Charged/(credited) to other comprehensive income	(11)	(13)	–	–	(24)
Prior period adjustment	1	–	(1)	–	–
Balance as at 30 June 2014	(1,030)	31	–	16	(983)
COMPANY					
Balance as at 1 July 2012	(814)	87	1	2	(724)
Charged/(credited) to the income statement	2	(7)	–	–	(5)
Charged/(credited) to other comprehensive income	(12)	(20)	–	–	(32)
Prior period adjustment	–	–	–	1	1
Balances transferred	–	–	–	–	–
Balance as at 30 June 2013	(824)	60	1	3	(760)
Balance as at 1 July 2013	(824)	60	1	3	(760)
Charged/(credited) to the income statement	8	(9)	–	–	(1)
Charged/(credited) to other comprehensive income	(2)	(15)	–	–	(17)
Prior period adjustment	–	–	–	–	–
Balances transferred	14	–	(1)	–	13
Balance as at 30 June 2014	(804)	36	–	3	(765)

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 foreseeable future under existing income tax legislation.

NOTE 21. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise trade receivables and accruals (not prepayments), cash and cash equivalents, loans, available for sale financial assets, derivatives and financial instruments.

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.

(A) MARKET RISK

Price Risk – Energy Contracts

The Group enters into energy contracts that establish a fixed price at which future specified quantities of electricity are purchased, sold or otherwise exchanged. The Group's exposure to spot electricity prices is limited by the Board approved Market and Credit Risk Management 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 initial terms of up to 15 years, were:

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Energy contracts	2,762	2,816	2,729	2,833

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	
	2014 $M	2013 $M	2014 $M	2013 $M
GROUP				
Electricity forward price increased by 10%	4	12	(37)	(47)
Electricity forward price decreased by 10%	(5)	(9)	37	47
COMPANY				
Electricity forward price increased by 10%	3	12	(37)	(46)
Electricity forward price decreased by 10%	(5)	(9)	37	46

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 and Chilean peso.

Foreign exchange risk arises from future commercial transactions (including the purchase of capital equipment and maintenance services), recognised assets and liabilities (including borrowings) and net investments in foreign operations.

It is the Group's policy to enter into forward exchange contracts to hedge its expenditure programme. To do this foreign exchange contracts are taken out to hedge spot rate risk on highly probable forecast transactions. 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 highly probable forecast transactions denominated in foreign currency are expected to occur at various dates between one month and five 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 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Foreign currency forward exchange contracts	38	11	33	11

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.

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 GROUP		Impact on equity GROUP	
	2014 $M	2013 $M	2014 $M	2013 $M
New Zealand Dollar – United States Dollar				
Currency strengthens by 10% (2013: 10%)	2	–	(1)	(1)
Currency weakens by 10% (2013: 10%)	(3)	–	1	1
New Zealand Dollar – Japanese Yen				
Currency strengthens by 10% (2013: 10%)	–	–	–	–
Currency weakens by 10% (2013: 10%)	–	–	–	–
New Zealand Dollar – Euro				
Currency strengthens by 10% (2013: 10%)	–	–	(2)	–
Currency weakens by 10% (2013: 10%)	–	–	2	–

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 support the Company's capital structure and credit rating, even though the underlying facility is not yet placed.

At balance date, the principal or contract amounts of interest rate swaps outstanding (including forward starts) are:

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Interest rate swaps	2,651	2,646	2,651	2,646

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. The movements in other components of equity result from fair value changes in interest rate swaps and options that have qualified for hedge accounting.

	Impact on post tax profit		Impact on equity	
	GROUP AND COMPANY		GROUP AND COMPANY	
	2014 $M	2013 $M	2014 $M	2013 $M
Interest rates higher by 100 bpts (2013: 100 bpts)	14	27	9	9
Interest rates lower by 100 bpts (2013: 100 bpts)	(15)	(28)	(10)	(11)

(B) 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 million are held in a separate bank account (2013: $1 million).

It is the Group's policy to only enter into derivative transactions with banks that it has signed an ISDA master agreement with, and which have a minimum long-term Standard & Poor's (or Moody's equivalent) credit rating of A– or higher. 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 Management 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). Credit risk through these means has been reduced by $0.4 million (2013: $1.1 million).

Included in receivables are the following balances:

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Energy Clearing House Limited	32	38	29	34

(C) 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 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 at 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 in 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.

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

GROUP JUNE 2013	Less than 6 months $M	6 to 12 months $M	1 to 5 years $M	Later than 5 years $M	Total $M
Liquid financial assets					
Cash and cash equivalents	11	–	–	–	11
Receivables	240	–	6	–	246
	251	–	6	–	257
Financial liabilities					
Payables and accruals	(213)	–	(12)	–	(225)
Loans	(119)	(19)	(399)	(804)	(1,341)
	(332)	(19)	(411)	(804)	(1,566)
Net inflow/(outflow)	(81)	(19)	(405)	(804)	(1,309)

COMPANY JUNE 2014	Less than 6 months $M	6 to 12 months $M	1 to 5 years $M	Later than 5 years $M	Total $M
Liquid financial assets					
Cash and cash equivalents	15	–	–	–	15
Receivables	664	–	–	–	664
	679	–	–	–	679
Liabilities					
Payables and accruals	(152)	–	(6)	–	(158)
Loans	(74)	(26)	(535)	(694)	(1,329)
	(226)	(26)	(541)	(694)	(1,487)
Net inflow/(outflow)	453	(26)	(541)	(694)	(808)

COMPANY JUNE 2013	Less than 6 months $M	6 to 12 months $M	1 to 5 years $M	Later than 5 years $M	Total $M
Liquid financial assets					
Cash and cash equivalents	7	–	–	–	7
Receivables	888	–	–	–	888
	895	–	–	–	895
Liabilities					
Payables and accruals	(176)	–	(12)	–	(188)
Loans	(119)	(19)	(399)	(804)	(1,341)
	(295)	(19)	(411)	(804)	(1,529)
Net inflow/(outflow)	600	(19)	(411)	(804)	(634)

While the above tables 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 $302 million (2013: $281 million). At balance date, $335 million (2013: $475 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.

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

GROUP JUNE 2013	Less than 6 months $M	6 to 12 months $M	1 to 5 years $M	Later than 5 years $M	Total $M
Derivative liabilities – net settled	(45)	(35)	(187)	(144)	(411)
Derivative liabilities – gross settled					
Inflows	(11)	–	–	–	(11)
Outflows	11	–	–	–	11
Net maturity	(45)	(35)	(187)	(144)	(411)

COMPANY JUNE 2014	Less than 6 months $M	6 to 12 months $M	1 to 5 years $M	Later than 5 years $M	Total $M
Derivative liabilities – net settled	(39)	(21)	(97)	(47)	(204)
Derivative liabilities – gross settled					
Inflows	32	–	–	–	32
Outflows	(33)	–	–	–	(33)
Net maturity	(40)	(21)	(97)	(47)	(205)

COMPANY JUNE 2013	Less than 6 months $M	6 to 12 months $M	1 to 5 years $M	Later than 5 years $M	Total $M
Derivative liabilities – net settled	(46)	(35)	(187)	(144)	(412)
Derivative liabilities – gross settled					
Inflows	(11)	–	–	–	(11)
Outflows	11	–	–	–	11
Net maturity	(46)	(35)	(187)	(144)	(412)

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.

(D) FAIR VALUE ESTIMATION

Fair values

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 30 June 2014:

	Carrying Amount $M	Fair Value $M
Financial assets:		
Interest rate derivatives	6	6
Cross currency interest rate derivatives	1	1
Electricity price derivatives	24	24
Total current	31	31
Interest rate derivatives	10	10
Electricity price derivatives	89	89
Available for sale financial assets	12	12
Total non-current	111	111
Total financial assets	142	142
Financial liabilities:		
Interest rate derivatives	8	8
Electricity price derivatives	14	14
Total current	22	22
Interest rate derivatives	121	121
Cross currency interest rate derivatives	33	33
Electricity price derivatives	55	55
Total non-current	209	209
Total financial liabilities	231	231

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 $207 million (2013: $212 million) and $243 million (2013: $266 million) respectively based on quoted market prices for each bond issue.

Valuation techniques

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

- Level 1 – the fair value is calculated using quoted prices in active markets;
- Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – the fair value is estimated using inputs 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.

GROUP JUNE 2014 Valuation technique	Quoted market price Level 1 $M	Market observable inputs Level 2 $M	Non-market observable inputs Level 3 $M	Total $M
Financial assets				
Derivative instruments				
Interest rate derivatives	–	16	–	16
Cross currency interest rate derivatives	–	1	–	1
Electricity price derivatives	4	–	109	113
Foreign exchange rate derivatives	–	–	–	–
Available for sale investments				
Investment option	–	–	12	12
	4	17	121	142
Financial liabilities				
Derivative instruments				
Interest rate derivatives	–	129	–	129
Cross currency interest rate derivatives	–	33	–	33
Electricity price derivatives	1	–	68	69
	1	162	68	231

GROUP JUNE 2013 Valuation technique	Quoted market price Level 1 $M	Market observable inputs Level 2 $M	Non-market observable inputs Level 3 $M	Total $M
Financial assets				
Derivative instruments				
Interest rate derivatives	–	20	–	20
Cross currency interest rate derivatives	–	8	–	8
Electricity price derivatives	3	–	152	155
Foreign exchange rate derivatives	–	1	–	1
Available for sale investments				
Investment option	–	–	13	13
	3	29	165	197
Financial liabilities				
Derivative instruments				
Interest rate derivatives	–	184	–	184
Cross currency interest rate derivatives	–	8	–	8
Electricity price derivatives	3	–	140	143
	3	192	140	335

COMPANY JUNE 2014 Valuation technique	Quoted market price Level 1 $M	Market observable inputs Level 2 $M	Non-market observable inputs Level 3 $M	Total $M
Financial assets				
Derivative instruments				
Interest rate derivatives	–	16	–	16
Cross currency interest rate derivatives	–	1	–	1
Electricity price derivatives	4	–	99	103
Foreign exchange rate derivatives	–	–	–	–
	4	17	99	120
Financial liabilities				
Derivative instruments				
Interest rate derivatives	–	129	–	129
Cross currency interest rate derivatives	–	33	–	33
Electricity price derivatives	1	–	79	80
Foreign exchange rate derivatives	–	–	–	–
	1	162	79	242

COMPANY JUNE 2013 Valuation technique	Quoted market price Level 1 $M	Market observable inputs Level 2 $M	Non-market observable inputs Level 3 $M	Total $M
Financial assets				
Derivative instruments				
Interest rate derivatives	–	20	–	20
Cross currency interest rate derivatives	–	8	–	8
Electricity price derivatives	3	–	141	144
Foreign exchange rate derivatives	–	1	–	1
	3	29	141	173
Financial liabilities				
Derivative instruments				
Interest rate derivatives	–	185	–	185
Cross currency interest rate derivatives	–	8	–	8
Electricity price derivatives	3	–	154	157
Foreign exchange rate derivatives	–	–	–	–
	3	193	154	350

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 non-exchange traded electricity contracts which are valued using a discounted cash flow methodology using a combination of ASX market prices for the first four years, combined with Management's internal view of forward prices for the remainder of the contract's term. Management's internal view of forward prices incorporates a minimum price of $70/MWh and a maximum price of $95/MWh over the period in question (in real terms) and is determined by a demand supply based fundamental model which takes account of current hydrological conditions, future inflows, an assessment of thermal fuel costs, anticipated demand and supply conditions and future committed generation capacity. The transfer of level 3 valuations to level 1 in 2013 represent those electricity price derivative contracts that, post inception, became observable via ASX quoted market prices.

The investment option held by the company represents a right to take an ownership interest in GGE Atlantic Holdings Limited the entity which holds the German interests previously held by Mighty River Power UK Limited Partnership. The option has been valued using a binomial option model which includes an assessment of the future value of the assets using a net present value methodology. As the option is contingent on the actions of a 3rd party, the assessment of the probability of execution and the underlying future value of the assets, it requires an element of judgement. Some of these inputs, most notably future asset values, represent non-market observable factors, of which Management do not have sufficient access to update. Accordingly, these factors are held constant at their original estimates until such time as further information becomes available. As with all options, ultimately it may not be exercised in which case the option costs will be foregone. The Group currently has no direct interest or on-going management involvement in GGE Atlantic Holdings Limited.

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 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Opening balance	25	(57)	(14)	(51)
New contracts	2	11	1	(2)
Matured contracts	(4)	–	3	(3)
Transfer to Level 1 valuations	–	6	–	6
Ineffectiveness of electricity derivative cash flow hedges recognised through the income statement	–	1	1	(1)
Gains and losses				
Through the income statement	(23)	(26)	(25)	(25)
Through other comprehensive income	53	90	54	62
Closing balance	53	25	20	(14)

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

Deferred 'inception' gains/(losses)

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

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

Electricity price derivatives	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Opening deferred inception gains	38	40	27	25
Deferred inception gains on new hedges	7	–	7	–
Deferred inception (losses) / gains realised during the year	(27)	(2)	(23)	2
Closing inception gains	18	38	11	27

(E) CAPITAL RISK MANAGEMENT

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

In order to maintain or adjust the capital structure, changes may be made to the amount paid as dividends to 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 2014 $M	GROUP 2013 $M
Loans at carrying value	1,041	1,058
Fair value adjustments US Private Placement	9	(19)
Less cash and cash equivalents	(19)	(11)
Net debt	1,031	1,028
Total equity	3,219	3,183
Total capital	4,250	4,211
Gearing Ratio	24.3%	24.4%

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 seeks to maintain a debt to EBITDAF ratio of less than 2.8 times to maintain credit metrics sufficient to support its credit rating on an on-going basis. For the year ended 30 June 2014, the Group had a debt to EBITDAF ratio of 2.1 times (2013: 2.7 times).

NOTE 22. DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments together with the designation of their hedging relationship are summarised below:

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
CURRENT				
Interest rate derivative assets	6	5	6	5
Electricity price derivative assets	24	34	24	34
Foreign exchange rate derivative assets	–	1	–	1
Cross currency interest rate derivative asset	1	1	1	1
	31	41	31	41
Interest rate derivative liabilities	8	9	8	9
Electricity price derivative liabilities	14	35	19	42
	22	44	27	51
NON-CURRENT				
Interest rate derivative assets	10	15	10	15
Electricity price derivative assets	89	121	79	110
Cross currency interest rate derivative asset	–	7	–	7
	99	143	89	132
Interest rate derivative liabilities	121	175	121	175
Cross currency interest rate derivative liabilities – margin	33	8	33	8
Electricity price derivative liabilities	55	108	61	116
	209	291	215	299

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

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

Electricity Contracts not designated as hedges for accounting purposes

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

Basis swaps: The company has entered into a number of contracts to hedge wholesale electricity price risk between the North and South Island generically called basis swaps. The most significant is the virtual asset swap with Meridian Energy which is a 15 year contract from its inception.

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 price exposure during pre-defined periods. If exercised, the Company will receive a swap (contract-for-difference) for the period exercised. This swap will be designated as a hedge for accounting purposes.

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

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

	Income Statement		Other Comprehensive Income	
	GROUP		GROUP	
	2014 $M	2013 $M	2014 $M	2013 $M
Cross currency interest rate derivatives	(30)	(12)	–	–
Borrowings – fair value change	27	9	–	–
	(3)	(3)	–	–
Interest rate derivatives	51	45	–	10
Cross currency interest rate derivatives – margin	–	–	(2)	3
Electricity price derivatives	(14)	(16)	51	89
Foreign exchange rate derivatives	–	–	(2)	2
Total change in fair value of financial instruments	34	26	47	104

	Income Statement		Other Comprehensive Income	
	COMPANY		COMPANY	
	2014 $M	2013 $M	2014 $M	2013 $M
Cross currency interest rate derivatives	(30)	(12)	–	–
Borrowings	27	9	–	–
	(3)	(3)	–	–
Interest rate derivatives	51	46	–	10
Cross currency interest rate derivatives – margin	–	–	(2)	3
Electricity price derivatives	(14)	(15)	59	56
Foreign exchange rate derivatives	–	–	(2)	2
Total change in fair value of financial instruments	34	28	55	71

Movement in cash flow hedge reserve	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Opening balance	(39)	(119)	(62)	(113)
The effective portion of cash flow hedges recognised in the reserve	44	101	52	68
Amortisation of fair values[1]	2	1	2	1
The amount transferred to balance sheet	1	2	1	2
Equity accounted share of associates' movement in other comprehensive income	(2)	5	–	–
Tax effect of movements	(13)	(29)	(15)	(20)
Closing balance	(7)	(39)	(22)	(62)
Total income statement fair value movements				
Ineffectiveness of cash flow hedges recognised in the income statement	(2)	(1)	(2)	(1)
Other changes in fair value recognised through the income statement	34	26	34	28
Fair value movements recognised through the income statement	32	25	32	27

1 Amounts reclassified to the income statement recognised in amortisation.

NOTE 23. RECONCILIATION OF PROFIT FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Profit for the year	212	115	171	185
Items classified as investing or financing activities				
• Dividend from joint venture	–	(2)	–	–
• Transfers between group companies and related parties	–	–	–	(14)
• Net foreign exchange loss	–	–	19	(4)
Adjustments for:				
Depreciation and amortisation	161	150	88	96
Capitalised interest	(6)	(31)	(6)	(31)
Net loss on disposal of subsidiaries	–	4	–	–
Change in the fair value of financial instruments	(32)	(25)	(32)	(27)
Impaired assets	–	85	–	3
Movement in effect of discounting on long-term provisions	1	–	–	–
Share of earnings of associate companies	(8)	(5)	–	–
Share of earnings of joint ventures	4	(58)	–	–
Release from the foreign currency translation reserve	–	22	–	–
Other non-cash items	2	–	–	–
Net cash provided by operating activities before change in assets and liabilities	334	255	240	208
Change in assets and liabilities during the year:				
• Decrease in trade receivables and prepayments	23	71	17	67
• (Increase)/decrease in inventories	(4)	4	(4)	5
• Decrease in trade payables and accruals	(29)	(55)	(20)	(63)
• (Decrease)/increase in provision for tax	(9)	16	(15)	23
• Increase/(decrease) in deferred tax	2	(5)	(12)	3
Net cash inflow from operating activities	317	286	206	243

NOTE 24. COMMITMENTS

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Capital commitments				
Commitments for future capital expenditure include:				
Property, plant and equipment	34	39	28	20
Emission units	103	102	103	102
	137	141	131	122
Within one year	24	39	18	20
One to two years	15	11	15	11
Two to five years	36	25	36	25
Later than five years	62	66	62	66
	137	141	131	122

In the event the emissions trading scheme is terminated the forward purchase agreements for the acquisition of emission units which cover a 14 year period will also terminate.

	GROUP 2014 $M	GROUP 2013 $M	COMPANY 2014 $M	COMPANY 2013 $M
Operating lease commitments				
Future minimum lease payments under non cancellable operating leases are:				
Within one year	6	5	6	5
One to two years	6	6	6	5
Two to five years	12	13	12	13
Later than five years	14	18	14	18
	38	42	38	41
Other operating commitments				
Commitments for other operating items are:				
Within one year	2	3	2	3
One to two years	1	1	1	1
Two to five years	1	2	1	2
Later than five years	1	1	1	1
	5	7	5	7

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 25. 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 the land claim is 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 by the New Zealand Maori Council relating to fresh water and geothermal resources was lodged in 2012 with the Waitangi Tribunal. The Tribunal concluded that Maori have residual (but as yet undefined) proprietary rights in fresh water and geothermal resources and it will be for the Crown to determine how any such rights and interests may best be addressed. The impact of this claim on the Company's operations is unknown at this time.

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

The Company is involved in a contract dispute over asset purchases which is currently before the Courts and has a potential cost of up to $6.4 million.

MRP Geotermia Curacautín Limitada is involved in two contract disputes which are currently before the Courts with a potential liability of up to $2.5 million New Zealand Dollar equivalent.

The Group has no other material contingent assets or liabilities.

NOTE 26. SHARE-BASED PAYMENTS

LONG-TERM INCENTIVE PLANS

The Group has operated two equity-settled share based long-term incentive (LTI) plans for senior executives. The plans are designed to enhance the alignment between shareholders and those executives most able to influence the performance of the Company. Under the plans the senior executives purchase shares at market value funded by an interest free loan from the Company, with the shares held on trust by the Trustee of the LTI plan until the end of the vesting period. Vesting of shares is dependent on continued employment through the vesting period and the Company's relative total shareholder return. If the shares vest, executives are entitled to a cash amount which, after deduction for tax, is equal to the loan balance for the shares which have vested. That cash amount must be applied towards repayment of their loan balance and the corresponding shares are released by the trustee to the individual. The vesting period for the first plan was from July 2010 to June 2013 except for the out-going Chief Executive where the vesting period is July 2011 to August 2014. The second executive plan has vesting periods commencing July 2013 and ending June 2015 and June 2016.

Under the plans, a relative total shareholder return measure is used. Performance is measured against a benchmark peer group comprising of i) under the first plan, other electricity generators who were listed on the NZX at the commencement of the relevant LTI period; and, ii) under the second plan, all NZX50 companies as at the start of the vesting period.

The LTI plans represent the grant of in-substance nil-price options to executives. The fair value of the options granted under the LTI plans is estimated as at the date of grant using binomial models taking into account the terms and conditions upon which the options were granted. In accordance with the rules of the plans, the models simulate the Company's total shareholder return and compares it against the peer group over the vesting period. The models take into account the historic dividends, share price volatilities and co-variances of the Company and peer group to produce a predicted distribution of relative share performance. This is applied to the relevant grant to give an expected value of the total shareholder return element.

During the year the Company expensed $501,403 in relation to equity-settled share based payment transactions (2013: $305,385).

Movements in the number of share options are as follows:

	2014	2013
Balance at the beginning of the year	570,943	–
Options granted	12,423	570,943
Options expired	(24,205)	–
Options exercised	–	–
Balance at the end of the year	559,161	570,943

No options were exercisable at the end of the year (2013: 24,205) with the remaining options under the plans having a weighted average life of 1.3 years (2013: 2.2 years).

EMPLOYEE SHARE PURCHASE PROGRAMME

The Group operates an employee share purchase programme. Eligible employees wishing to participate were each provided with a $2,340 interest-free loan, repayable through monthly salary deductions over three years, to acquire shares at market value which are held in trust until the vesting conditions are met and the loans repaid. Employees who leave during the three year vesting period must sell their shares back to the Trustee at the lower of the original purchase price and current market value and settle the outstanding balance of the loan. The equity-settled share-based payment expense is recognised over the three year vesting period and is equivalent to the fair value of the interest-free element of the loan provided to the employees, calculated as at grant date. The amount recognised as an expense takes into account an expectation of the number of employees who will leave during the three year vesting period and will therefore forfeit their shares. At each balance date the Company revises its estimates of the employees who have or are expected to leave during the three year period and on vesting date will be adjusted to reflect the actual number of employees not completing the service condition. A corresponding entry is recognised in equity as a share-based payment reserve.

NOTE 27. RELATED PARTY TRANSACTIONS

MAJORITY SHAREHOLDER

The majority shareholder of Mighty River Power Limited is the Crown, providing it with significant influence over the Group. All transactions with the Crown and other State-Owned Enterprises are on commercial terms. Transactions cover a variety of services including trading energy, postal, travel and tax.

TRANSACTIONS WITH RELATED PARTIES

Notes 13 to 16 provide details of subsidiaries, associates and joint arrangements. 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		Balance Outstanding	
	For the year ended 30 June		As at 30 June	
	2014 $M	2013 $M	2014 $M	2013 $M
Subsidiaries				
Management fees and service agreements received	3	2	–	–
Interest income	4	4	18	14
Associates				
Management fees and service agreements received/(paid)	4	(30)	1	1
Energy contract settlements received	4	2	1	–
Joint operations				
Management fees and service agreements received	5	5	1	1
Energy contract settlements (paid)/received	(6)	(1)	–	2
Interest income	1	2	–	–

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

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 (2013: $4 million) are interest free and repayable on demand subject to certain conditions being met.

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

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

Key management personnel compensation (paid and payable) comprised:

	2014 $000	2013 $000
Directors' fees	756	785
Benefits for the Chief Executive and Senior Management:		
Salary and other short-term benefits	6,491	4,670
Share-based payments	501	1,516
	7,748	6,971

The above numbers have been disclosed in thousands of dollars.

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 Directors also provide directorship services to other third party entities. A number of these entities transacted with the Group on normal commercial terms during the reporting period.

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

NOTE 28. COMPARISON TO PROSPECTIVE FINANCIAL INFORMATION (PFI)

CONSOLIDATED INCOME STATEMENT

	GROUP 2014 Actual $M	GROUP 2014 Forecast $M
Sales	1,672	1,834
Other revenue	33	24
Total revenue	1,705	1,858
Energy costs	505	591
Line charges	431	473
Other direct cost of sales, including metering	44	46
Employee compensation and benefits	80	83
Maintenance expenses	54	64
Sales and marketing	18	19
Contractors' fees	9	10
Professional services	13	14
Other expenses	47	60
Total expenses	1,201	1,360
Earnings before net interest expense, income tax, depreciation, amortisation, change in fair value of financial instruments, impairments and equity accounted earnings (EBITDAF)	504	498
Depreciation and amortisation	(161)	(170)
Change in the fair value of financial instruments	32	32
Impaired assets	–	–
Equity accounted earnings of associate companies	8	3
Equity accounted earnings of interest in joint ventures	(4)	(13)
Earnings before net interest expense and income tax (EBIT)	379	350
Interest expense	(87)	(95)
Interest income	3	2
Net interest expense	(84)	(93)
Profit before income tax	295	257
Income tax expense	(83)	(97)
Net profit for the year	212	160

Sales revenue was below forecast due to lower volumes in both: residential and commercial fixed price variable volume (FPVV) retail segments; and generation. Lower FPVV volumes were a result of lower consumption within the residential segment, due in part to warmer than average temperatures, with lower commercial volumes due to the pro-active decision by Management not to compete aggressively in this segment due to lower renewal prices. Lower generation volumes were a result of lower than forecast inflows into the Waikato catchment area combined with lower geothermal generation volumes, predominantly due to the later than forecast commissioning of the Ngatamariki geothermal power station and the lower than forecast output of the Nga Awa Purua geothermal power station due to a damaged rotor.

The relative price paid for purchases compared to the wholesale price the Group received for its generation (LWAP/GWAP), was below 1.0 for the first time in four years helping to offset the impact of lower sales volumes. In addition, lower thermal production resulted in savings in gas purchase costs while net contract for difference (CFD) energy revenue was lower due to higher buy contracts entered into by the Group to cover lower generation volumes. Lower lines charges were reflective of lower retail sales volumes.

Total expenses, excluding energy costs, lines charges and other direct costs of sales, were lower than PFI by $30 million with the majority of savings coming from maintenance, employee related costs, insurance charges, professional service fees and international geothermal development costs. The PFI classified all international geothermal development costs within 'other expenses' while actual costs have been classified to their appropriate line items.

While the delay in the commissioning of Ngatamariki adversely affected sales volumes it also resulted in lower depreciation and interest charges for the year.

Similar to FY2013, the Group's equity accounted losses were smaller than expected due to changes in the equity accounting treatment resulting from better access to information following the restructure of our international geothermal operations. This also had flow-through effect on the Group's deferred tax estimate, which affects tax expense.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	GROUP 2014 Actual $M	GROUP 2014 Forecast $M
Net profit for the year	212	160
Other comprehensive income		
Fair value revaluation of hydro and thermal assets	5	–
Fair value revaluation of other generation assets	35	–
Equity accounted share of movements in associates' reserves	(8)	–
Equity accounted share of movements in joint ventures' reserves	–	–
Exchange movements on equity accounted share of movements in joint ventures' reserves	(2)	–
Movement in available for sale investment reserve	1	–
Movements in foreign currency translation reserve	(8)	–
Cash flow hedges gain/(loss) taken to or released from equity	47	(10)
Income tax on items of other comprehensive income	(24)	3
Other comprehensive income for the year, net of taxation	46	(7)
Total comprehensive income for the year	258	153

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	GROUP 2014 Actual $M	GROUP 2014 Forecast $M
Balance as at 1 July 2013	3,183	3,068
Fair value revaluation of hydro and thermal assets, net of taxation	4	–
Fair value revaluation of other generation assets, net of taxation	25	–
Equity accounted share of movements in associates' reserves	(8)	–
Equity accounted share of movements in joint ventures' reserves	(2)	–
Net loss on available for sale investment reserve	1	–
Movements in foreign currency translation reserve	(8)	–
Cash flow hedges gain/(loss) taken to or released from equity, net of taxation	34	(7)
Other comprehensive income	46	(7)
Net profit for the year	212	160
Total comprehensive income	258	153
Acquisition of treasury shares	(49)	–
Dividend	(173)	(174)
Balance as at 30 June 2014	3,219	3,047

The Group revalued its generation assets as at 30 June 2014. These revaluation increments were not included in the PFI as they are periodically undertaken at the end of a financial year by an independent valuer. Movements in interest rates, electricity prices, and foreign exchange rates on hedge contracts result in movements in the cash flow hedge reserve compared to PFI. Movements in foreign exchange rates also impact the foreign currency translation reserve.

The Group undertook a share buy-back programme during the year with the resulting shares being recorded as treasury shares.

CONSOLIDATED BALANCE SHEET

	GROUP 2014 Actual $M	GROUP 2014 Forecast $M
SHAREHOLDERS' EQUITY		
Issued capital	378	378
Treasury shares	(52)	–
Reserves	2,893	2,669
Total shareholders' equity	3,219	3,047
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	19	10
Receivables	218	248
Inventories	24	22
Derivative financial instruments	31	35
Total current assets	292	315
NON-CURRENT ASSETS		
Property, plant and equipment	5,095	5,154
Intangible assets	55	51
Emissions units	16	17
Available for sale financial assets	12	1
Investment and advances to associates	78	70
Investment in joint ventures	23	32
Advances	13	12
Receivables	6	27
Derivative financial instruments	99	134
Total non-current assets	5,397	5,498
Total assets	5,689	5,813
LIABILITIES		
CURRENT LIABILITIES		
Payables and accruals	169	215
Provisions	–	5
Current portion loans	56	106
Derivative financial instruments	22	29
Taxation payable	24	27
Total current liabilities	271	382
NON-CURRENT LIABILITIES		
Payables and accruals	6	8
Provisions	16	–
Derivative financial instruments	209	305
Loans	985	1,126
Deferred tax	983	945
Total non-current liabilities	2,199	2,384
Total liabilities	2,470	2,766
NET ASSETS	3,219	3,047

Current receivables and payables are impacted by both lower volumes and wholesale prices for the month of June compared to PFI.

The property, plant and equipment balance at 30 June 2014 was lower than PFI due to total capex expenditure being less than forecast, mainly related international geothermal, partially offset by the revaluation of the Group's generating assets.

The Group's retained interest in the German assets was reported in receivables in the PFI but has been classified as an available for sale financial asset in the actual results.

The balance of derivative financial instruments at 30 June reflects the impact of actual market movements on their fair values.

Lower debt levels are primarily due to lower capital expenditure in both FY2013 and FY2014.

CONSOLIDATED CASH FLOW STATEMENT

	GROUP 2014 Actual $M	GROUP 2014 Forecast $M
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	1,706	1,348
Payments to suppliers and employees	(1,214)	(855)
Interest received	3	3
Interest paid	(90)	(96)
Taxes paid	(88)	(72)
Net cash provided by operating activities	317	328
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(82)	(200)
Advances to joint venture partner repaid	1	1
Investment in joint ventures	(3)	(13)
Distribution received from joint ventures	–	2
Acquisition of intangibles	(15)	(15)
Acquisition of emission units	(5)	(6)
Dividends received	5	6
Net cash used in investing activities	(99)	(225)
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of treasury shares	(50)	–
Proceeds from loans	60	71
Repayment of loans	(50)	–
Dividends paid	(173)	(174)
Net cash used in financing activities	(213)	(103)
Net increase in cash and cash equivalents held	5	–
Net foreign exchange movements	3	–
Cash and cash equivalents at the beginning of the year	11	10
Cash and cash equivalents at the end of the year	19	10

Net cash provided by operating activities is unfavourable to PFI reflecting a higher final provisional tax payment in relation to FY2013 earnings. The PFI reported lines charges on a net basis against receipts from customers whereas actual results reflect lines payments on a gross basis against payments to suppliers and employees.

The Group's net cash used in investing activities was lower primarily due to actual investment in international geothermal development being less than that forecast within PFI.

The Group's lower than PFI net cash used in investing activities facilitated the Group's share buy-back programme during the year and lower loan drawdowns.

NOTE 29. SUBSEQUENT EVENTS

On 3 July 2014, the company entered into a long-term contract with Trustpower to provide metering services through its Metrix metering division, including the deployment of smart meters to Trustpower's 225,000 residential customers. This will commit capital expenditure of approximately $100 million over a three year period, with $20–25 million in FY15 increasing to $40 million in FY16 and the balance in FY17.

On 11 July 2014 the Company issued $300 million of unsecured subordinated Capital Bonds which have a legal maturity of 11 July 2044 and an interest rate of 6.90% to the first reset date being 11 July 2019. The Capital Bonds have a BB+ issue credit rating from Standard & Poor's and the proceeds will be used for general corporate purposes including the repayment of bank debt and extending the average term of the Company's funding profile.

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

The Board of Directors has approved a final dividend of 8.3 cents per share to be paid on 30 September 2014.

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

Corporate Governance & Other Disclosures.

For the year ended 30 June 2014

CONTENTS

Corporate Governance

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

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

Over the reporting period, the Company's corporate governance practices complied with the ASX Corporate Governance Principles and Recommendations ("ASX Principles") (second edition), the New Zealand Securities Commission Corporate Governance Principles and Guidelines and the NZX Corporate Governance Best Practice Code ("NZX Code"), except recommendations 3.2 and 3.3 of the ASX Principles second edition with respect to measurable objectives for achieving gender diversity. As at the date of this Corporate Governance Statement the Company is in the process of implementing appropriate changes to comply with recommendations 3.2 and 3.3 of the second edition of the ASX Principles[1].

The Company recognises that the ASX Corporate Governance Council has released the third edition of the ASX Principles. Although the requirement to report against the third edition does not apply to the Company until the 2015 Annual Report, the Company has chosen to adopt this requirement early by reporting against the third edition of the eight ASX Principles below.

Further commentary on ASX Principle 8 (remunerating fairly and responsibly) is contained in the Director and Employee Remuneration section of this report on pages 64-66.

Mighty River Power's constitution ("Constitution") and the Charters and policies referred to in this section (except the Delegations Policy) are available on the Company's website www.mightyriver.co.nz ("Company Website") in the Corporate Governance Section.

Principle 1: Lay solid foundations for management and oversight

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

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

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

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

The responsibilities of the Board are set out in the Company's Board Charter which is reviewed by the Board each year. The current version can be found on the Company Website. The Board's responsibilities include:

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

1 Following these changes the Company will also comply with recommendation 1.5 of the third edition of the ASX Principles

- ensuring the Company's environmental and health and safety culture and practices comply with all legal requirements, reflect best practice in New Zealand and are recognised by employees and other stakeholders as key priorities;
- ensuring that Board capability is reviewed and recommendations made for new directors; and
- ensuring that directors' board and committee fees are reviewed and recommendations are made to shareholders.

The Company has processes in place to undertake appropriate checks prior to appointing any directors or putting forward any candidate for election as a director. Where any director election or re-election is to occur at a shareholder meeting, the notice of meeting provided to shareholders includes all material information on candidates for director election or re-election.

During the reporting period the Company did not have a written agreement with all directors so did not comply with recommendation 1.3 of the third edition of the ASX Principles. As at the date of this report the Company is in the process of implementing written agreements that would enable compliance with recommendation 1.3. This will include all directors being provided with letters setting out the terms and conditions of their appointment. A copy of the standard form of this letter will be available on the Company Website.

All directors have access to the advice and services of the Company Secretary for the purposes of the Board's affairs. The Company Secretary is appointed on the recommendation of the Chief Executive, and must be approved by the Board. The Company Secretary is accountable to the Board, through the Chair, on all governance matters. As at the date of this report, Tony Nagel is the Company Secretary.[2]

Evaluations are regularly conducted to review the Board's role, Board processes and committees to support that role and the performance of the Board and each director. This is done using a variety of techniques including external consultants, questionnaires and Board discussion. No specific Board performance evaluation was completed in FY2014, with considerable focus over the course of the year on the appointment process for the new Chief Executive. The Board also completed a comprehensive analysis of the skills and tenure across the Board, leading to the appointments of Patrick Strange and Andrew Lark. A Board performance evaluation, assisted by an external consultant, is underway for FY2015.

The Chief Executive and Executive Management Team are responsible for:

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

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

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

Performance evaluations of the Chief Executive and each Executive Management Team member took place during FY2014 in accordance with this process.

The Company has adopted a Board-approved Diversity Policy which recognises that the sustained commercial success of the business is underpinned by the capability and performance of employees and relationships with key partners, customers, suppliers and the communities within which the Company operates. As such the Company has a commitment to and continued focus on investing in growing capability and recognising and valuing difference – as part of an inclusive and high performing culture. The Diversity Policy can be found on the Company Website.

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

There are two specific areas which demonstrate how diversity has been critical to success. The first is the Company's growth through diversification into geothermal. Our geothermal team that has been built internally has people from more than 16 nations bringing to the Company the diverse knowledge and experience from working on geothermal systems throughout the world, ensuring we have a rich set of perspectives when considering the sustainable management of our geothermal systems. The second is in our customer facing business, which is based in Auckland, where the composition of our staff is reflective of the diverse cultures that are now part of New Zealand society, ensuring we have a wide perspective on the expectations of our diverse customers.

We also support an Apprenticeship programme that has been able to successfully attract Maori and female participants into a sector which has traditionally been poorly represented relative to the overall population.

2 Under ASX Principles second edition, reported under Principle 2

3 Under ASX Principles second edition, reported under Principle 3

Our commercial Joint Ventures, in which Maori Land Trusts are also shareholders, were constructed to ensure our partners receive regular dividends from these JVs. They in turn have set up distribution policies that target educational assistance for the children of their owners (which number in the thousands) at an early secondary and tertiary level to encourage more Maori and female participants into the energy sector including our geothermal business.

At balance date, the overall Mighty River Power workforce had 34% female representation, with an even representation in the customer facing business offset by a relatively low ratio in the generation and engineering dominated side of the business. At a senior leader level, involving 147 members and typically representing employees in the top four remuneration bands across the organisation, the female representation was 15%. At balance date the proportion of women on the Executive Management Team (including the Chief Executive) was one out of eight (as at 30 June 2013 this was one out of seven). The proportion of women on the Board was three out of seven, including the Chair (as at 30 June 2013 this was also three out of seven).[3]

For the reporting period, the Board evaluates the Company's performance as having met the objectives of the Diversity Policy. During the reporting period the Diversity Policy did not require measurable objectives to be set with respect to gender diversity so did not comply with recommendation 1.5 of the third edition of the ASX Principles. As at the date of this report, the Diversity Policy has been updated to include a responsibility to set measurable objectives and the Board is in the process of adding quantifiable objectives to those already existing within the Diversity Policy.

Principle 2: Structure the Board to add value

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

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

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

Appointments are generally for a term of three years from the time a director is appointed to the Board at a properly convened meeting of shareholders. The Board may agree to offer further terms subject to shareholder approval being granted.

One director (Trevor Janes) retired during the 2014 financial year. The Board currently comprises eight directors, being Joan Withers, Michael Allen, Prue Flacks, Andrew Lark, James Miller, Tania Simpson, Keith Smith and Patrick Strange. All of the directors are considered by the Board to be "independent" directors – in that they are non-executive directors who are not substantial shareholders and who are free of any business or other relationship that would materially interfere with, or could reasonably be seen to materially interfere with, the independent exercise of their judgement. The Chief Executive is not a director of Mighty River Power.

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

The Board established the Nominations Committee 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 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, diversity of thought and appropriate size to discharge its responsibilities and duties in accordance with the law, high standards of governance and the Company's strategic objectives;
- identifying and recommending individuals to become Board members in the event of a vacancy, while recognising that directors are elected by shareholders;

The directors as at the date of this annual report and the dates of their appointment are:

Name	Originally Appointed	Last Reappointed/Elected
Joan Withers (Chair)	1 August 2009	7 November 2013
Michael Allen	1 November 2009	1 July 2012
Prue Flacks	1 May 2010	1 January 2013
Andrew Lark	10 July 2014	–
James Miller	1 May 2012	–
Tania Simpson	13 November 2001	7 November 2013
Keith Smith	1 May 2009	7 November 2013
Patrick Strange	4 February 2014	–

A brief biography of each director is set out on pages 18-19 of the Annual Review.

- 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 Nominations Committee Charter is available on the Company Website. The current members of the Nominations Committee are Joan Withers (Chair), Prue Flacks and James Miller. Trevor Janes was also a member during FY2014. The committee plays an important role in identifying people with the necessary expertise, experience, diversity and perspectives for selection as potential directors to be nominated for election at the next annual shareholder meeting or to fill a casual vacancy on the Board. The Nominations Committee met five times during the financial year, attended by all committee members.

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

The Board skills matrix sets out that the current Board have skills and experience in: electricity industry operations, governance, listed companies, retail and marketing, digital skills, regulatory, shareholder/investment community relationships, iwi relationship/connectivity, finance/accounting/audit committees, health and safety, business strategy, innovation and growth, entrepreneurialism, risk management, capital markets/capital structures, major projects and large company leadership.

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

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

Meeting attendance

The table below shows attendances at Board and committee meetings by directors during the year ended 30 June 2014. In addition to the usual meetings of the Board and its standing committees, additional meetings of the Board are convened as necessary to consider particular issues facing the Company.

Principle 3: Act ethically and responsibly

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

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

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

	Board	Risk Assurance and Audit Committee	Human Resources Committee	Nominations Committee	Board Strategy
Number of Meetings	10	4	4	5*	4
Joan Withers	10	4	4	5	4
Trevor Janes (retired 31 December 2013)	5	2	–	2	1
Michael Allen	10	–	4	–	4
Prue Flacks	10	–	4	5	4
James Miller	10	4	–	5	4
Tania Simpson	10	–	4	–	4
Keith Smith	10	4	–	–	4
Patrick Strange (appointed 4 February 2014)	4	1	–	–	3

* Including three meetings held by teleconference

All of those covered by the Code of Ethics are encouraged to report any breach or suspected breach of the Code.

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

Principle 4: Safeguard integrity in corporate reporting

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

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

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

The RAAC members are Keith Smith (Chair), James Miller and Patrick Strange. Joan Withers is also a member by virtue of her position as Board Chair. Trevor Janes was also a member during FY2014. The members' qualifications are set out on pages 18-19 of the Annual Review and details of their meeting attendance are set out on page 60 of this Annual Report.

The RAAC Charter can be found on the Company Website. The RAAC must meet at least three times per year. In FY2014, the RAAC met four times.

The Auditor–General is the auditor of the Company and each of its subsidiaries (together, the "Group"), pursuant to the Public Audit Act 2001. The Auditor–General appointed Simon O'Connor of Ernst & Young to carry out the FY2014 audit on her behalf. The NZSX Listing Rules require rotation of the lead audit partner at least every five years. The provision of external audit services is guided by the Audit Independence Policy which can be found on the Company Website. Consistent with the Stakeholder Communications Policy, the external auditor attends the Annual Shareholders' Meeting and is available to shareholders to answer questions relevant to the audit.

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

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

A letter of representation confirming those matters was received by the Board with respect to the Group's FY2014 financial statements[5].

Principle 5: Make timely and balanced disclosure

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

The Market Disclosure Policy is designed to ensure this occurs in compliance with the NZSX and ASX Listing Rules. The Policy can be found on the Company Website.

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

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

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

5 Under ASX Principles second edition, reported under Principle 7

Principle 6: Respect the rights of shareholders

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

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

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

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

Annual shareholder meetings are held in New Zealand at a time and location which will, over time, aim to maximise participation by shareholders. The annual meeting is also webcast to allow participation by shareholders who are unable to attend the meeting in person. The Company's second annual shareholder meeting since listing on the NZX Main Board and ASX will be held in Auckland on 6 November 2014.

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

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

Principle 7: Recognise and manage risk

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

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

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

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

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

As noted above, the RAAC is responsible for overseeing, reviewing and providing advice to the Board on Mighty River Power's risk management policies and processes. The Risk Assurance Officer reports regularly to the RAAC on the effectiveness of the Company's management of material business risks. In addition, the RAAC annually reviews the risk management framework. A review of the risk management framework took place in FY2014.

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

There are a number of risk factors that could have an impact on Company's ability to create or preserve value. Material business risks that could impact on the short, medium or long term financial performance of the Company, including material exposure to economic, environmental or social sustainability risks include: adverse changes in fuel availability and costs; power station operation failures; significant reduction or ceasing of electricity consumption by Tiwai aluminium smelter; unfavourable wholesale electricity prices; adverse changes in electricity sales; delays, increased costs or commercial failure of geothermal development; political, regulatory, foreign exchange, accounting and other international jurisdiction risks; adverse effects from regulatory changes; catastrophic events; restricted access to capital; and adverse effects from Treaty of Waitangi or other claims.

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

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

Principle 8: Remunerate fairly and responsibly

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

The Board has established the Human Resources Committee, which has the primary purpose of assisting 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.

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

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

The Human Resources Committee met four times in FY2014. The attendance records of committee members and other directors are detailed on page 60.

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

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

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

This Corporate Governance Statement is dated 31 August 2014 and is signed on behalf of the Board by:

Joan Withers
Chair
31 August 2014

Keith Smith
Director
31 August 2014

Director and Employee Remuneration

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

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

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

Directors' Remuneration

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

The total pool of fees paid to directors is subject to shareholder approval. Mighty River Power meets directors' reasonable travel and other costs associated with Mighty River Power business.

The following people held office as a director during the year to 30 June 2014 and received the following remuneration during the period:

Director	Total Fees Paid
Joan Withers (Chair)	$150,000
Trevor Janes (Deputy Chair) (1 July 2013 – 31 December 2013)	$62,120
Michael Allen	$91,855
Prue Flacks	$97,321
James Miller	$100,995
Tania Simpson	$102,137
Keith Smith	$114,704
Patrick Strange (from February 2014)	$37,158

Overall Remuneration Philosophy

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

Executive Remuneration

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

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

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

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 with reference to the fixed pay market median.

Short Term Performance Incentives

Short term performance incentives are at-risk payments aligned to annual performance scorecards. The purpose of performance scorecards is to align executives to a shared set of KPIs based on business priorities for the next 12 months. The objectives and measures within the scorecard set stretch targets focused on the key levers management have available to them to effect change.

The Company scorecard objectives are across the areas of finance, operational excellence and growth, reputation and people (including health and safety) with respective weightings applied across areas as outlined below.

Target Area	Weighting
Financial: Delivery against key financial targets	40%
Operational Excellence: Delivery against business plan including key metrics on customer experience, and growth	20%
Reputation: relationship management and growth of Company reputation	20%
People: health & safety, culture, leadership, engagement and talent, and succession	20%

The short-term performance incentive remuneration targets are expressed as a percentage of base salary and are set and evaluated annually. While consistent with the above objectives, the balanced scorecard for the Chief Executive contained additional strategy measures.

Long Term Performance Incentives

A three year Long Term Incentive Plan for the Chief Financial Officer and three of the General Managers concluded on 30 June 2013. Approved share based payments earned over the three years under this scheme occurred during the 2014 financial period and totalled $1,132,925.

A new Long Term Incentive Plan commenced on 1 July 2013 for the Executive Management Team members reporting to the Chief Executive. The new plan's performance targets incentivise the enhancement of long-term shareholder value. They are measured against multi-year targets over a two and three year period based on the Company's total shareholder return relative to the performance of the NZX 50. A payment is made only when the targets are achieved and is subject to continuous employment. In the event performance hurdles are not met, no benefit will be received.

Chief Executive Remuneration

The Chief Executive's Total Remuneration in the 2014 financial year was $2,184,828 ($1,300,894 in FY2013). The increase in earnings is attributable in large part to the payment of the previously disclosed retention arrangement of $500,000, which was contracted to in consideration for the Chief Executive's commitment in 2012 to remain with the Company until 31 August 2014 in line with the reporting date for the period covered by the Prospective Financial Information in the IPO Offer Document. The Chief Executive also received an increase to his base remuneration and an increased payment for his STI when compared to the previous year. The base salary had not previously been increased for four years.

In considering the Chief Executive's remuneration, directors receive regular independent advice to ensure the remuneration package is both appropriately constructed and at the appropriate level, taking into account the size, scope and complexity of the Chief Executive's role and the calibre and experience of the incumbent.

On 1 September 2014, Fraser Whineray commenced as the Company's new Chief Executive. As disclosed at the time of the announcement of his appointment, Mr Whineray's remuneration as Chief Executive includes a base salary of $850,000, and he will also be eligible to receive an annual 'at risk' short-term incentive, based on 35% of his base salary and he will be a participant in the long-term incentive scheme (with a potential annual cash value of up to $200,000).

Base Salary

The Chief Executive's base salary for FY2014 was $1,074,244. As part of the Company's annual remuneration review process in July 2013, this increased from $934,125 (having remained unchanged for the four previous years).

Fixed Remuneration

The Chief Executive's Fixed Remuneration (comprised of base salary and benefits) for the 2014 financial year was $1,101,720 ($959,919 in FY2013).

Short Term Performance Incentive

A short term incentive payment of $446,794 ($336,285 in 2013) was made to the Chief Executive in September 2013 for performance in the 2013 financial year and represented achievement of scorecard objectives for FY2013.

Long Term Performance Incentive

The current Long Term Incentive Plan commenced on 1 July 2011 and spans a 38-month period ending 31 August 2014 to coincide with the end of the Chief Executive's employment. Measurement is against multi-year targets which are based on the Company's total shareholder return as disclosed in the Company's IPO Offer Document. No Long Term Incentive Plan payments were made in FY2014.

KiwiSaver

The Chief Executive is a member of KiwiSaver. As a member of this scheme, the Chief Executive is eligible to contribute and receive a matching Company contribution of 3% of gross taxable earnings (including short and long-term incentives). For FY2014 the Company contribution was $64,721 ($27,839 in FY2013).

Employee Remuneration

The Group paid remuneration in excess of $100,000 including benefits to 333 employees (not including directors) during the year in the following bands:

Remuneration Band	Total
$100,001 – $110,000	49
$110,001 – $120,000	73
$120,001 – $130,000	43
$130,001 – $140,000	34
$140,001 – $150,000	22
$150,001 – $160,000	23
$160,001 – $170,000	14
$170,001 – $180,000	14
$180,001 – $190,000	11
$190,001 – $200,000	8
$200,001 – $210,000	5
$210,001 – $220,000	2
$220,001 – $230,000	7
$230,001 – $240,000	3
$240,001 – $250,000	2
$250,001 – $260,000	2
$260,001 – $270,000	1
$270,001 – $280,000	3
$280,001 – $290,000	2
$290,001 – $300,000	1
$300,001 – $310,000	2
$310,001 – $320,000	1
$330,001 – $340,000	2
$390,001 – $400,000	2
$420,001 – $430,000	1
$430,001 – $440,000	1
$780,001 – $790,000	1
$920,001 – $930,000	1
$1,000,001 – $1,010,000	1
$1,220,001 – $1,230,000	1
$2,180,000 – $2,190,000	1
Total	333

Disclosures of Directors' Interests

Section 140(1) of the New Zealand Companies Act 1993 requires a director of a company to disclose certain interests. Under subsection (2) a director can make disclosure by giving a general notice in writing to the company of a position held by a director in another named company or entity. The following are particulars included in the Company's Interests Register as at 30 June 2014:

Director	Position	Company
Joan Withers (Chair)	Chair	Auckland International Airport Limited[2]
	Deputy Chair	Television New Zealand Limited
	Director	The Treasury Advisory Board
	Director	ANZ Bank New Zealand Limited[1]
	Trustee	Sweet Louise Foundation
	Trustee	The Tindall Foundation
	Trustee	Pure Advantage
Michael Allen	Executive Director	Geothermal New Zealand Inc
	Chair/Shareholder	ReEx Capital Asia Private Limited (Singapore)
	Director/ Shareholder	Mid Century Design Limited
	Officer	Appointed Special Envoy for Renewable Energy by Ministry of Foreign Affairs and Trade
Prudence Flacks	Chair	BNZ Life Insurance Limited[2]
	Chair	BNZ Insurance Services Limited[2]
	Director	Bank of New Zealand Limited
	Director	BBull Family Trust Limited
	Director	Planboe Limited
	Director	Chorus Limited
	Trustee	Victoria University Foundation
James Miller	Deputy Chair/ Director/Shareholder	NZX Limited
	Director	ACC
	Director	New Zealand Clearing and Depository Corporation Limited
	Director/Shareholder	Auckland International Airport Limited
	Trustee	St Cuthbert's College Trust Board
	Member	Financial Markets Authority
Tania Simpson	Director	Landcare Research New Zealand Limited[2]
	Director	AgResearch Ltd
	Director/Shareholder	Kowhai Consulting Limited
	Director/Shareholder	Oceania Group Limited
	Director	Reserve Bank[1]
	Trustee	Kowhai Trust
	Trustee	Tui Trust
	Trustee	Te Reo Irirangi o Maniapoto Trust
	Trustee	Waikato Endowed Colleges Trust[2]
	Member	Waitangi Tribunal
	Member	King's Council[1]
Keith Smith	Chair	Healthcare Holdings Ltd & subsidiaries and associates
	Chair	Enterprise Motor Group Ltd & subsidiaries
	Chair	Mobile Surgical Services Limited and subsidiaries
	Chair/Director	Tourism Holdings Limited[2]
	Chair	Goodman (NZ) Limited and subsidiaries
	Deputy Chair	The Warehouse Group Limited & subsidiaries
	Director/Chair	H J Asmuss & Co Limited[3]
	Director	Community Financial Services Limited
	Director	Electronic Navigation Limited & subsidiaries
	Director	K One W One Limited & subsidiaries
	Director	Sheppard Industries Ltd
	Director	Westland Dairy Corporate Ltd[1]
	Director/Shareholder	Harpers Gold Limited & subsidiaries
	Director/Shareholder	James Raymond Holdings Limited (private family investment company)
	Director/Shareholder	Gwendoline Holdings Limited (private family investment company)
	Trustee	Cornwall Park Trust Board
	Trustee	Sir John Logan Campbell Residuary Estate
	Trustee	The Selwyn Trust
	Member	Advisory board of The New Zealand Tax Trading Company

Director	Position	Company
Patrick Strange	Director	Waitahoata Farms Limited
	Director	Ausgrid
	Director	Endeavour Energy & Essential Energy, NSW
	Director	WorkSafe New Zealand
		Holds 8,600 seven year Fixed Rate Bonds issued by Mighty River Power on 5 April 2011
Trevor Janes	Chair	Abano Healthcare Group
Retired 31 December 2013	Deputy Chair	Accident Compensation Corporation
	Director	Procare Health Limited
	Director/Shareholder	Selenium Corporation
	Director/Shareholder	Rovert Investments Limited
	Member	International Development Advisory and Selection Panel
	Member	NZ Post Network Access Committee
	Member	NZ Markets Disciplinary Tribunal

1 Entries added by notices given by directors during the year ended 30 June 2014

2 Entries removed by notices given by directors during the year ended 30 June 2014

3 Entries amended (eg, through change from director to Chair) by notices given by directors during the year ended 30 June 2014

Directors' and Officers' Indemnities

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

Disclosure of Directors' Interests in share and bond transactions

Directors disclosed the following acquisitions and disposals of relevant interests in shares and bonds during the period to 30 June 2014:

Name of director	Date of acquisition/ disposal of relevant interest	Nature of relevant interest	Consideration	Shares in which a relevant interest was acquired/(disposed)
James Miller	11 September 2013	On market purchase of shares by Custodial Services Limited on behalf of James Miller.	$19,800	9,000
	18 September 2013	On market purchase of shares by Custodial Services Limited on behalf of James Miller.	$32,550	15,000
Patrick Strange	14 May 2013	Shares acquired in Crown Share Offer.	$10,000	4,000 shares (including an interest in 160 loyalty bonus shares)
	5 April 2011	Fixed rate bonds issued by Mighty River Power. Patrick acquired an interest in 8,600 fixed rate bonds as trustee of the Three Kings Trust.	$9,123	8,600

Disclosure of Directors' Interests in Shares

Directors disclosed the following relevant interests in Shares as at 30 June 2014:

Director	Number of Shares in which a relevant interest is held
Joan Withers	39,900
Michael Allen	2,080
Prue Flacks	23,474
James Miller	40,200
Tania Simpson	2,080
Keith Smith	17,368
Patrick Strange	4,160

Twenty largest registered shareholders as at 31 August 2014

Name	Number of shares	% of shares
Her Majesty The Queen In Right Of New Zealand	724,615,722	51.75
New Zealand Central Securities Depository Limited	219,304,956	15.66
Mighty River Power Limited	23,412,151	1.67
FNZ Custodians Limited	10,068,357	0.71
Custodial Services Limited	9,249,771	0.66
Forsyth Barr Custodians Limited	6,820,677	0.48
National Nominees Limited	6,587,005	0.47
Citicorp Nominees Pty Limited	6,469,588	0.46
Investment Custodial Services Limited	6,027,083	0.43
RBC Investor Services Australia Nominees Pty Limited	5,499,701	0.39
JP Morgan Nominees Australia Limited	4,736,984	0.33
Forsyth Barr Custodians Limited	4,188,897	0.29
Custodial Services Limited	3,842,868	0.27
New Zealand Depository Nominee Limited – Cash A/C	2,912,423	0.20
Custodial Services Limited	2,575,729	0.18
Forsyth Barr Custodians Limited	2,426,976	0.17
Custodial Services Limited	2,321,244	0.16
HSBC Custody Nominees (Australia) Limited	2,267,537	0.16
Custodial Services Limited	2,222,688	0.15
Superlife Trustee Nominees Limited	1,803,200	0.12
Total	1,047,353,557	74.71

New Zealand Central Securities Depository Limited (NZCSD) provides a custodian depository service that allows electronic trading of securities to its members and does not have a beneficial interest in these shares. As at 31 August 2014, the 10 largest shareholdings in the Company held through NZCSD were:

Shareholder	Number of shares	% of NZCSD Holding
HSBC Nominees (New Zealand) Limited A/C State Street	49,051,262	22.37
National Nominees New Zealand Limited	37,265,493	16.99
JPMorgan Chase Bank NA NZ Branch-Segregated Clients Acct	26,351,786	12.02
Accident Compensation Corporation	22,135,263	10.09
Citibank Nominees (New Zealand) Limited	18,842,865	8.59
New Zealand Superannuation Fund Nominees Limited	17,470,983	7.97
HSBC Nominees (New Zealand) Limited	14,983,599	6.83
BNP Paribas Nominees (NZ) Limited	14,109,407	6.43
ANZ Wholesale Australasian Share Fund	4,908,738	2.24
Tea Custodians Limited	4,075,159	1.86

Substantial security holdings in the Company as at 31 August 2014

	Class of Securities	Number of Securities in Substantial Holding	Total Number of Securities in Class
HER MAJESTY THE QUEEN IN RIGHT OF NEW ZEALAND	Ordinary Shares	742,466,631	1,400,012,517

Distribution of shareholders and holdings as at 31 August 2014

Size of holding	Number of shareholders	%	Number of Shares	Holding Quantity %
1 to 1,000	41,157	40.00	30,098,219	2.15
1,001 to 5,000	47,791	46.45	117,552,467	8.40
5,001 to 10,000	8,939	8.69	65,646,486	4.69
10,001 to 100,000	4,824	4.69	99,081,824	7.08
100,001 and over	171	0.17	1,087,633,521	77.68
Total	102,882	100.00	1,400,012,517	100.00

As at 31 August 2014, there were 34 shareholders (with a total of 978 shares) holding less than a marketable parcel of shares under ASX listing Rules. The ASX Listing Rules define a marketable parcel of shares as a parcel of shares of not less than A$500.

Distribution of bondholders and holdings as at 31 August 2014

Size of holding	Number of Capital Bondholders	%	Number of Capital Bonds	Holding Quantity %
1 to 1,000	0	0	0	0
1,001 to 5,000	405	8.89	2,025,000	0.67
5,001 to 10,000	920	20.18	8,806,000	2.94
10,001 to 100,000	2,970	65.16	109,378,000	36.46
100,001 and Over	263	5.77	179,791,000	59.93
Total	4,558	100	300,000,000	100.00

Stock Exchange Listings

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

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

Mighty River Power Limited

The following persons held office as directors of Mighty River Power Limited as at the end of the 2013/2014 financial year, being 30 June 2014: Joan Withers, Michael Allen, Prue Flacks, James Miller, Tania Simpson, Keith Smith and Patrick Strange. Trevor Janes retired from the office of director during the 2014 financial year.

Subsidiary Companies

The following persons held office as directors of subsidiaries of Mighty River Power Limited during FY2014:

Company Name	Directors
Bosco Connect Limited	Doug Heffernan William Meek Tony Nagel
ECNZ International Limited	Doug Heffernan William Meek Tony Nagel
Glo-Bug Limited	James Munro Glenn Rockell
Kawerau Geothermal Limited	Doug Heffernan William Meek Tony Nagel
Mercury Energy Limited	Doug Heffernan William Meek Tony Nagel
Metrix Limited	Doug Heffernan William Meek Tony Nagel
Mighty Geothermal Power International Limited	Doug Heffernan William Meek Tony Nagel
Mighty Geothermal Power Limited	Doug Heffernan William Meek Tony Nagel
Mighty River Power ESPP Limited	William Meek Tony Nagel Marlene Strawson
Mighty River Power Geothermal Limited	Doug Heffernan William Meek Tony Nagel
Mighty River Power Limited	Michael Allen Prue Flacks James Miller Tania Simpson Keith Smith Joan Withers Patrick Strange Trevor Janes (retired December 2013)
Mighty River Power LTI Limited	Prue Flacks Tony Nagel Tania Simpson
Ngatamariki Geothermal Limited	Doug Heffernan William Meek Tony Nagel
Rotokawa Generation Limited	Aroha Campbell Kevin Mcloughlin William Meek Mark Trigg Fraser Whineray Paul Ware – alternate Mark Thompson – alternate
Rotokawa Geothermal Limited	Doug Heffernan William Meek Tony Nagel
Rotokawa Joint Venture Limited (50%)	Aroha Campbell Kevin Mcloughlin William Meek Mark Trigg Fraser Whineray – alternate Mark Thompson – alternate
Special General Partner Limited	Doug Heffernan William Meek Tony Nagel
MRP Chile Energia Limitada (formerly GeoGlobal Energy Chile Limitada)	Doug Heffernan Mark Trigg Rudiger Trenkle
MRP FinCo-Chile Limited (formerly GGE FinCo-Chile Limited)	Samuel Moore Carol Brougham Grant Halcomb
MRP Holdings-Chile Limited (formerly GGE Holdings-Chile Limited)	Samuel Moore Carol Brougham Grant Halcomb
MRP Holdings-Peru Limited (formerly GGE Holdings-Peru Limited)	Samuel Moore Carol Brougham Grant Halcomb
MRP NRI-Chile Holdings Limited (formerly GGE NRI-Chile Holdings Limited)	Samuel Moore Edward Carbone Nikolai de Giorgio
MRP NRI-Peru Holdings Limited (formerly GGE NRI-Peru Holdings Limited)	Samuel Moore Edward Carbone Nikolai de Giorgio
MRP Peru Holdings LLC (formerly GGE Peru Holding LLC)	Samuel Moore Carol Brougham Grant Halcomb
MRP FinCo-Peru Limited (formerly GGE FinCo-Peru Limited)	Samuel Moore Carol Brougham Grant Halcomb
PT ECNZ Services Indonesia	Agung Aryo Baskoro Ejoko Birmo Soegih Arto

Waivers from the New Zealand and Australian Stock Exchanges

ASX

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

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

Information about Mighty River Power Ordinary Shares

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

Rights and privileges

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

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

Restrictions on ownership and transfer

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

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

51% Holding

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

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

10% Limit

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

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

Ascertaining whether a breach has occurred

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

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

Determining whether a breach has occurred

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

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

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

Effect of exceeding the 10% Limit

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

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

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

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

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

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

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

Crown directions

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

Trustee corporations and nominee companies

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

Share Cancellation

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

Sale of less than a Minimum Holding

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

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

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

- first, in payment of any reasonable sale expenses.
- second, in satisfaction of any unpaid calls or any other amounts owing to the Company in respect of the Shares.

1 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.

- the residue, if any, must be paid to the person who was the holder immediately before the sale or his or her executors, administrators or assigns.

Cancellation of sale of Shares

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

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

  with any excess amount being payable to the Crown.

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

Donations

Donations of $18,350 were made by the Company during the year ended 30 June 2014 ($26,550 during the year ended 30 June 2013).

Other Disclosures

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

The Board declared a fully imputed final dividend of 8.3 cents per share to be paid on 30 September 2014 to all shareholders who are on the Company's share register at 5.00pm on the record date of 3 September 2014. The dividends will be imputed at a corporate tax rate of 28% which amounts to an imputation credit of 3.23 cents per share. The Company will also pay a supplementary dividend of 1.46 cents per share to non-resident shareholders. The Company will receive from the New Zealand Inland Revenue Department a tax credit equivalent to supplementary dividends.

The final dividend, together with the interim dividend of $72 million (5.2 cents per share) paid to shareholders on 31 March 2014 brings total declared dividends to $186 million (or 13.5 cents per share).

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

The Company completed an on-market buy-back from 16 October 2013 to 17 April 2014. The Company does not have a current on-market buy-back programme.

The Company has used its cash, and assets in a form readily convertible to cash, in the period from 1 July 2013 to 30 June 2014 in a way consistent with its business objectives.

The Company's Net Tangible Assets per Share as at 30 June 2014 was $2.30, compared with $2.24 at 30 June 2013.

Board of Directors
Joan Withers, Chair
Michael Allen
Prue Flacks
Andrew Lark
James Miller
Tania Simpson
Keith Smith
Patrick Strange

Executive Management Team

Fraser Whineray,
Chief Executive

Phil Gibson
General Manager Hydro/Wholesale

William Meek,
Chief Financial Officer

James Munro,
General Manager Customer

Tony Nagel,
General Manager Corporate Affairs

Matt Olde,
Chief Executive Metrix

Marlene Strawson,
General Manager People & Safety

Mark Trigg (Acting),
General Manager Geothermal

Company Secretary
Tony Nagel

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Auditor
The Auditor-General pursuant to section 14 of the Public Audit Act 2001. Simon O'Connor of Ernst & Young was appointed to perform the audit on behalf of the Auditor-General.

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Chapman Tripp
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Bankers
ANZ Bank
ASB Bank
Bank of Tokyo-Mitsubishi UFJ
Bank of New Zealand
Westpac

Credit Rating (reaffirmed May 2014)
Long term: BBB+
Outlook: Stable

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