



## MIGHTY RIVER POWER LIMITED

### Results for Announcement to the Market

**Reporting Period:** 6 months to 31 December 2010

**Previous Reporting Period:** 6 months to 31 December 2009

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	<b>31 Dec 2010</b> <b>\$000s</b>	<b>31 Dec 2009</b> <b>\$000s</b>	<b>% Change</b>
Revenue from ordinary activities	618,245	521,757	18%
Profit from ordinary activities after tax	85,194	73,905	15%
Net Profit after tax	85,194	73,905	15%
Underlying earnings after tax	88,690	85,496	4%
Dividend- interim	64,700	56,200	15%
Interim dividend payment date	31 March 2011	30 March 2010	

### Commentary

1. Revenue from ordinary activities was up 18% percent on the previous year. This was driven by increased generation, primarily from additional geothermal capacity and reflects the value of the Company's \$1 billion investment over the past five years in new geothermal plant, and optimisation of the gas-fired Southdown facility. There was a 69% increase in geothermal generation on the same period last year, with geothermal now over 30% of total generation.
2. The increased total capacity and balance of Mighty River Power's portfolio enabled an 18% lift in generation volumes to 3,504GWh. This cushioned the impact of weather extremes – ranging from drought to some of the highest inflows in the Waikato. Despite these challenges, overall hydro generation was also up 6% from 2,075GWh in the prior period to 2,209GWh.
3. The Company's retail businesses, Mercury Energy, BOSCO Connect and Tiny Mighty Power, held market share (of around 20%) in a highly competitive environment, and grew sales in the South Island by 49%, while maintaining a focus on managing credit risk. Customer numbers at the end of the half year were 402,000, an increase of 2,000 on the prior comparable period but below the peak of 412,000 at 30 June 2010.

4. NPAT (net profit after tax) was up 15% at \$85.2 million. After-tax profit was impacted by higher interest expenses (up \$19.8 million to \$34.4 million) due to lower capitalised interest and higher debt levels following last year's special dividend payment and the capital investment programme undertaken in recent years, and higher depreciation charges (up \$10 million) relating to the higher valuation of generation assets at 30 June 2010.
5. Underlying earnings at \$88.7 million, up 4%, were not materially different from NPAT. Adjustments relate to unfavourable pre-tax fair value movements in derivatives (both domestic and international) of \$4.0 million and pre-tax gas exploration impairments of \$3.5 million.
6. The Company has announced an interim dividend of \$64.7 million, up 15% from last year.

### **EBITDAF guidance**

Based on the results for six months to 31 December 2010 and a positive outlook, the Company has increased its EBITDAF guidance from \$391 million to \$420-435 million, subject to any unforeseen market or hydrology conditions.



## MEDIA RELEASE

1 March 2011

### **Mighty River Power Limited**

#### **2011 Interim Results (for the six months to 31 December 2010)**

#### **GEOHERMAL POWERS MIGHTY RIVER EARNINGS UP 22%**

Mighty River Power today announced earnings (EBITDAF) of \$233.6 million for the six months to 31 December 2010, up 22% on the prior period – driven by increased generation, primarily from additional geothermal capacity.

Mighty River Power Chair, Joan Withers, said the result reflected the value of the \$1 billion investment over the past five years in new geothermal plant, which has broadened the Company's domestic generation portfolio with hydro now only 63% of total production.

"We've really seen the contribution from the newly-commissioned 140MW Nga Awa Purua joint venture plant show through in these results – a 69% increase in our geothermal generation on the same period last year, with geothermal now over 30% of our total generation. This was the main driver of the lift in energy margin and EBITDAF," Mrs Withers said.

#### **Financial results**

NPAT (net profit after tax) was up 15% at \$85.2 million. After-tax profit was impacted by higher interest expenses (up \$19.8 million to \$34.4 million) due to lower capitalised interest and higher debt levels following last year's special dividend payment and the capital investment programme undertaken in recent years, and higher depreciation charges (up \$10 million) relating to the higher valuation of generation assets at 30 June 2010. Underlying earnings at \$88.7 million, up 4%, were not materially different from NPAT. Adjustments relate to unfavourable pre-tax fair value movements in derivatives (both domestic and international) of \$4.0 million and after-tax gas exploration impairments of \$2.5 million.

#### **Dividend and revised forecast**

The Company has announced an interim dividend of \$64.7 million, up 15% from last year. This is consistent with the dividend policy targeting a 75% payout ratio and will be paid in March 2011. Based on a strong half year and positive outlook, Mrs Withers said the Board has revised the FY2011 forecast EBITDAF: "The Company is increasing its EBITDAF guidance from \$391 million to \$420-435 million, subject to any unforeseen market or hydrology conditions."

#### **Performance and operations**

Mighty River Power Chief Executive, Doug Heffernan, said the six months to 31 December 2010 highlighted the considerable investment the Company has made over the past decade in base-load geothermal capacity and the optimisation of the gas-fired Southdown facility.

“The increased total capacity and balance of our portfolio enabled an 18% lift in generation volumes to 3,504GWh. This cushioned the impact of weather extremes – ranging from drought to some of the highest inflows in the Waikato. Despite the challenges this created for our operations on the Waikato River, overall hydro generation was up 6% from 2,075GWh in the prior period to 2,209GWh.

Mr Heffernan said the Company’s retail businesses, Mercury Energy, BOSCO Connect and Tiny Mighty Power, held market share in a highly competitive environment, and grew sales in the South Island by 49%, while maintaining a focus on managing credit risk.

Customer numbers at the end of the half year were 402,000, an increase of 2,000 on the prior comparable period but below the peak of 412,000 at 30 June 2010.

“We had increased our customer numbers over the past financial year at a faster rate and to a higher level than planned, and remain comfortable with a market share around 20%, with a good South Island customer base in what continues to be an intensely-competitive electricity market.” He said the 15-year Virtual Asset Swap (VAS) with Meridian Energy, which took effect on 1 January 2011, would provide an energy hedge to mitigate risks associated with supplying customers in the South Island.

### **International and domestic development**

Mr Heffernan said Mighty River Power had continued to advance international and domestic generation development options.

“We have made good progress in the period on our international geothermal investment programme in partnership with GeoGlobal Energy (GGE) in the US and Chile, and its extension into Germany. In total, GGE now has a development pipeline that involves eight different geothermal reservoirs reflecting the good growth opportunities for international geothermal development.”

He said Mighty River Power’s geothermal competencies and experience and New Zealand’s institutional capability in geothermal were “highly-regarded and globally rare” in what is a niche renewable energy field with significant growth potential. In New Zealand, Mr Heffernan said the Company was working with its partners the Tauhara North No.2 Trust on the plans to build a geothermal power station on the Ngatamariki geothermal field, which was consented in FY2010.

“We are now working through the commercial considerations for the project, including with equipment suppliers, and will be making further announcements with our joint venture partners as this work evolves. The earliest this project will come to market is late 2013 with the actual date governed by these commercial negotiations.”

### **Highlights**

- \$233.6m EBITDAF, a 22% increase
- NPAT up 15% to \$85.2m. Underlying earnings of \$88.7m, up 4%
- US\$200m (NZ\$260m) debt raised in US private placement, extending average maturity
- 3,504GWh total generation up 18%, with 69% increase in contribution from geothermal
- Geothermal 31% of generation, an increase of more than 400% on the same period in 2007
- Entered into 15-year virtual asset swap, providing South Island energy hedge
- Retail expanded into new geographies; 49% growth in South Island sales
- International geothermal investment in eight geothermal reservoirs across three countries
- \$64.7m interim dividend announced, a 15% increase on last year
- FY2011 EBITDAF guidance increased from \$391 million to \$420-435 million.

**For further information please contact:**

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**About Mighty River Power**

Mighty River Power is a New Zealand-based integrated energy company, with a flexible portfolio of electricity generation assets, a strong national retail presence and a focus on domestic generation and international geothermal development opportunities. More than 90% of our generation is from renewable sources. We supply both electricity and thermal energy to major commercial users and have more than 400,000 retail customers in New Zealand with our brands, Mercury Energy, BOSCO Connect and Tiny Mighty Power.

# Condensed Consolidated Income Statement

For the six months ended 31 December 2010

		Unaudited 6 Months 31 Dec 2010 \$000	Unaudited 6 Months 31 Dec 2009 \$000	Audited 12 Months 30 June 2010 \$000
Sales		822,173	720,183	1,485,088
Less line charges		(213,985)	(209,606)	(403,286)
Other revenue		10,057	11,180	22,773
<b>Total revenue</b>		<b>618,245</b>	521,757	1,104,575
Energy costs		246,423	208,787	500,737
Other expenses		138,174	121,783	276,050
<b>Total expenses</b>		<b>384,597</b>	330,570	776,787
<b>Earnings before net interest expense, income tax, depreciation, amortisation and financial instruments (EBITDAF)</b>		<b>233,648</b>	191,187	327,788
Depreciation and amortisation		(67,699)	(57,603)	(98,707)
Change in the fair value of financial instruments	11	(10,193)	(1,540)	8,081
Impaired assets	4	(3,514)	(15,019)	(31,373)
Equity accounted earnings of associate companies	7	(29)	1,753	(11,703)
Equity accounted earnings of interest in jointly controlled entities	8	4,005	0	(21,992)
<b>Earnings before net interest expense and income tax (EBIT)</b>		<b>156,218</b>	118,778	172,094
Interest expense		(34,459)	(14,691)	(34,394)
Interest income		913	696	3,653
<b>Net interest expense</b>		<b>(33,546)</b>	(13,995)	(30,741)
<b>Profit before income tax</b>		<b>122,672</b>	104,783	141,353
Income tax expense	5	(37,478)	(30,878)	(56,739)
<b>Net profit for the period</b>		<b>85,194</b>	73,905	84,614
<b>Net profit for the period is attributable to:</b>				
Owners of the parent		85,198	73,905	84,647
Non controlling interests		(4)	0	(33)
		<b>85,194</b>	73,905	84,614

## Supplementary disclosure

Underlying earnings after tax is presented to enable stakeholders to make an assessment and comparison of underlying earnings after removing significant one-off items and the change in the fair value of financial instruments.

<b>Underlying earnings after tax</b>	3	<b>88,690</b>	85,496	139,554
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The accompanying notes form an integral part of these financial statements.

# Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2010

	Unaudited 6 Months 31 Dec 2010 \$000	Unaudited 6 Months 31 Dec 2009 \$000	Audited 12 Months 30 June 2010 \$000
Net profit for the period	85,194	73,905	84,614
<b>Other comprehensive income</b>			
Fair value revaluation of hydro and co-generation assets	0	0	287,000
Fair value revaluation of other generation assets	0	0	85,048
Fair value revaluation of office land and buildings	0	0	(950)
Equity accounted share of movements in associates' reserves	1,320	(2,418)	19,865
Fair value movements on available-for-sale investment reserve	(24)	(826)	0
Release of the available-for-sale investment reserve to the income statement	0	0	3,097
Movements in foreign currency translation reserve	(16,147)	(9)	610
Cash flow hedges loss taken to equity, net of taxation	(74,766)	(101,231)	(89,281)
Income tax on items of other comprehensive income	22,437	30,611	(85,041)
Impact of tax rate change	0	0	48,216
<b>Other comprehensive income for the period, net of taxation</b>	<b>(67,180)</b>	<b>(73,873)</b>	<b>268,564</b>
<b>Total comprehensive income for the period</b>	<b>18,014</b>	<b>32</b>	<b>353,178</b>
<b>Total comprehensive income for the period is attributable to:</b>			
Owners of the parent	18,018	32	353,211
Non controlling interests	(4)	0	(33)
	<b>18,014</b>	<b>32</b>	<b>353,178</b>

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

# Consolidated Statement of Changes in Equity

For the six months ended 31 December 2010

	Issued capital \$000	Retained earnings \$000	Available- for-sale investment reserve \$000	Foreign currency translation reserve \$000	Asset revaluation reserve \$000	Cash flow hedge reserve \$000	Non- controlling interest \$000	Total equity \$000
<b>Balance as at 1 July 2009 (Audited)</b>	377,561	709,461	(2,168)	15	1,534,035	2,696	0	2,621,600
Equity accounted share of movements in associates' reserves	0	0	0	0	0	(2,418)	0	(2,418)
Net loss on available-for-sale investments, net of taxation	0	0	(584)	0	0	0	0	(584)
Movements in foreign currency translation reserve	0	0	0	(9)	0	0	0	(9)
Cash flow hedges loss taken to equity, net of taxation	0	0	0	0	0	(70,862)	0	(70,862)
<b>Other comprehensive income</b>	0	0	(584)	(9)	0	(73,280)	0	(73,873)
Net profit for the period	0	73,905	0	0	0	0	0	73,905
<b>Total comprehensive income for the period</b>	0	73,905	(584)	(9)	0	(73,280)	0	32
Dividend	0	(229,800)	0	0	0	0	0	(229,800)
<b>Balance as at 31 December 2009 (Unaudited)</b>	377,561	553,566	(2,752)	6	1,534,035	(70,584)	0	2,391,832
<b>Balance as at 1 January 2010 (Unaudited)</b>	377,561	553,566	(2,752)	6	1,534,035	(70,584)	0	2,391,832
Fair value revaluation of hydro and co-generation assets, net of taxation	0	0	0	0	200,900	0	0	200,900
Fair value revaluation of other generation assets, net of taxation	0	0	0	0	60,250	0	0	60,250
Fair value revaluation of office land and buildings	0	0	0	0	(950)	0	0	(950)
Equity accounted share of movements in associates' reserves	0	0	0	0	21,020	1,263	0	22,283
Net loss on available-for-sale investments, net of taxation	0	0	2,752	0	0	0	0	2,752
Movements in foreign currency translation reserve	0	0	0	619	0	0	0	619
Cash flow hedges gain taken to equity, net of taxation	0	0	0	0	0	8,367	0	8,367
Release of asset revaluation reserve for assets taken out of service	0	158	0	0	(158)	0	0	0
Impact of tax rate change	0	0	0	0	50,652	(2,436)	0	48,216
<b>Other comprehensive income</b>	0	158	2,752	619	331,714	7,194	0	342,437
Net profit for the period	0	10,742	0	0	0	0	(33)	10,709
<b>Total comprehensive income for the period</b>	0	10,900	2,752	619	331,714	7,194	(33)	353,146
Non-controlling interest	0	0	0	0	0	0	192	192
Dividend	0	(56,200)	0	0	0	0	0	(56,200)
<b>Balance as at 30 June 2010 (Audited)</b>	377,561	508,266	0	625	1,865,749	(63,390)	159	2,688,970
<b>Balance as at 1 July 2010 (Audited)</b>	377,561	508,266	0	625	1,865,749	(63,390)	159	2,688,970
Equity accounted share of movements in associates' reserves	0	0	0	0	(3,075)	4,395	0	1,320
Net loss on available-for-sale investments, net of taxation	0	0	(17)	0	0	0	0	(17)
Movements in foreign currency translation reserve	0	0	0	(16,147)	0	0	0	(16,147)
Cash flow hedges loss taken to equity, net of taxation	0	0	0	0	0	(52,336)	0	(52,336)
<b>Other comprehensive income</b>	0	0	(17)	(16,147)	(3,075)	(47,941)	0	(67,180)
Net profit for the period	0	85,198	0	0	0	0	(4)	85,194
<b>Total comprehensive income for the period</b>	0	85,198	(17)	(16,147)	(3,075)	(47,941)	(4)	18,014
Non-controlling interest	0	0	0	0	0	0	2	2
Dividend	0	(30,300)	0	0	0	0	0	(30,300)
<b>Balance as at 31 December 2010 (Unaudited)</b>	377,561	563,164	(17)	(15,522)	1,862,674	(111,331)	157	2,676,686

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

# Consolidated Balance Sheet

As at 31 December 2010

	Note	Unaudited 31 Dec 2010 \$000	Unaudited 31 Dec 2009 \$000	Audited 30 June 2010 \$000
<b>SHAREHOLDERS' EQUITY</b>		<b>2,676,686</b>	2,391,832	2,688,970
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		41,821	19,252	7,905
Receivables		209,285	256,823	174,635
Inventories		24,349	18,280	20,226
Derivative financial instruments	11	27,524	34,421	35,476
<b>Total current assets</b>		<b>302,979</b>	328,776	238,242
<b>NON-CURRENT ASSETS</b>				
Property, plant and equipment	6	4,297,668	3,892,424	4,307,547
Intangible assets		33,202	35,106	32,114
Available-for-sale financial assets		2,025	3,224	2,049
Investment and advances to associates	7	123,000	96,042	113,614
Investment to jointly controlled entities	8	104,648	0	111,926
Advances		11,399	0	11,841
Derivative financial instruments	11	80,801	5,503	77,567
<b>Total non-current assets</b>		<b>4,652,743</b>	4,032,299	4,656,658
<b>TOTAL ASSETS</b>		<b>4,955,722</b>	4,361,075	4,894,900
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Payables and accruals		178,217	141,304	148,469
Provisions	9	2,829	2,176	2,673
Current portion loans	12	0	30,064	0
Derivative financial instruments	11	139,785	90,227	143,155
Taxation payable		8,926	16,303	10,596
<b>Total current liabilities</b>		<b>329,757</b>	280,074	304,893
<b>NON-CURRENT LIABILITIES</b>				
Derivative financial instruments	11	192,709	147,774	132,685
Loans	12	985,552	831,500	978,758
Deferred tax	10	771,018	709,895	789,594
<b>Total non-current liabilities</b>		<b>1,949,279</b>	1,689,169	1,901,037
<b>TOTAL LIABILITIES</b>		<b>2,279,036</b>	1,969,243	2,205,930
<b>NET ASSETS</b>		<b>2,676,686</b>	2,391,832	2,688,970

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

# Consolidated Cash Flow Statement

For the six months ended 31 December 2010

	Unaudited 6 Months 31 Dec 2010 \$000	Unaudited 6 Months 31 Dec 2009 \$000	Audited 12 Months 30 June 2010 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	579,194	558,600	1,109,232
Payments to suppliers and employees	(357,742)	(355,299)	(782,430)
Interest received	1,515	443	3,555
Interest paid	(36,396)	(22,483)	(52,807)
Taxes paid	(35,300)	(59,300)	(78,040)
<b>Net cash provided by operating activities</b>	<b>151,271</b>	<b>121,961</b>	<b>199,510</b>
	13		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment	(87,709)	(107,027)	(199,256)
Proceeds from sale of property, plant and equipment	772	100	696
Advances to associate	(15,164)	(19,111)	(27,866)
Advances to associates repaid	1,875	3,902	4,402
Advances to joint venture partner	0	0	(11,841)
Repayment from joint venture partner	442	0	100,563
Investment in jointly controlled entities	(1,342)	0	(133,835)
Acquisition of intangibles	(6,141)	(7,769)	(7,350)
Acquisition of other non-current assets	0	(18,824)	(21,938)
<b>Net cash used in investing activities</b>	<b>(107,267)</b>	<b>(148,729)</b>	<b>(296,425)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from loans	260,212	230,000	375,000
Repayment of loans	(240,000)	(11,003)	(41,003)
Dividends paid	(30,300)	(229,800)	(286,000)
<b>Net cash (used in)/provided by financing activities</b>	<b>(10,088)</b>	<b>(10,803)</b>	<b>47,997</b>
Net increase/(decrease) in cash and cash equivalents held	33,916	(37,571)	(48,918)
Cash and cash equivalents at the beginning of the period	7,905	56,823	56,823
<b>Cash and cash equivalents at the end of the period</b>	<b>41,821</b>	<b>19,252</b>	<b>7,905</b>
<i>Cash balance comprises:</i>			
Cash	41,821	5,550	7,905
Short term deposits	0	13,702	0
<b>Cash balance at the end of the period</b>	<b>41,821</b>	<b>19,252</b>	<b>7,905</b>

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

# Notes to the Financial Statements

For the six months ended 31 December 2010

## **NOTE 1. ACCOUNTING POLICIES**

### **(1) Reporting entity**

Mighty River Power Limited is a company incorporated in New Zealand, registered under the Companies Act 1993 and is a reporting entity for the purposes of the Financial Reporting Act 1993. The condensed consolidated interim NZ IFRS financial statements have been prepared in accordance with the Financial Reporting Act 1993 and the Companies Act 1993.

The condensed consolidated interim financial statements are for Mighty River Power Limited Group (the "Group"). The condensed consolidated financial statements comprise the Company, its subsidiaries, associates and interests in jointly controlled assets and entities.

Mighty River Power Limited is wholly owned by Her Majesty the Queen in Right of New Zealand (the Crown). Consequently, the Company is bound by the requirements of the State-Owned Enterprises Act 1986.

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

The Group's principal activities are to invest in, develop and produce electricity from renewable and other energy sources and to sell energy and energy related services and products to retail and wholesale customers.

### **2) Basis of preparation**

#### **(a) Statement of compliance**

These condensed consolidated interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") as applicable to interim financial statements and as appropriate to profit-oriented entities.

These condensed consolidated interim financial statements comply with NZ IAS 34 Interim Financial Reporting. These condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should therefore be read in conjunction with the annual financial statements for the year ended 30 June 2010, which have been prepared in accordance with the New Zealand equivalents to International Financial Reporting Standards and comply with International Financial Reporting Standards.

#### **(b) Accounting policies**

The accounting policies and methods of computation, apart from the ones noted below, are consistent with those of the annual financial statements for the year ended 30 June 2010, as described in those annual financial statements.

The following amending standard has been adopted from 1 July 2010.

NZ IAS 24 (revised) – Related Party Disclosures. This revised standard simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities.

The Group has elected not to early adopt the following standard which has been issued but is not yet effective:

NZ IFRS 9 – Financial Instruments. This standard is part of the project to replace NZ IAS 39 - Financial Instruments: Recognition and Measurement. The standard, which will be effective for periods beginning on or after 1 January 2013, applies to financial assets, their classification and measurement. Management have yet to determine the impact of this new standard on the financial statements.

#### **(c) Estimates and judgements**

The preparation of interim financial statements in conformity with NZ IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described below:

#### **Generation plant and equipment**

The Group's generation assets are stated at fair value 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 judgment 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.

# Notes to the Financial Statements

For the six months ended 31 December 2010

## *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 customers past consumption history. The estimated balance is recorded in sales and as an accrual balance within receivables.

## *Restoration and environmental rehabilitation*

Liabilities are estimated for the abandonment and site restoration of areas from which natural resources are extracted. Such estimates are valued at the present value of the expenditures expected to settle the obligation. Key assumptions have been made as to the expected expenditures to remediate based on the expected life of the assets employed on the sites and an appropriate discount rate.

## *Valuation of financial instruments*

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 the annual financial statements.

## *Deferred tax*

In May 2010 the Government passed a bill decreasing the headline company tax rate from 30% to 28% effective from 1st July 2011. Management have calculated the impact of the tax rate change on deferred tax based on an estimate of the deferred tax liability as at 30 June 2011. The Government also announced that tax depreciation deductions for buildings would be disallowed effective the same date. As there is no definition of a building in the Income Tax Act, the Company has had to make an assessment of whether those generation assets, which have historically been classified as buildings, have been appropriately classified or whether they would more appropriately be classified as plant. While the government has issued some additional guidance about what constitutes a building several areas were left open for further discussion. As a consequence the Company has not adjusted their position taken at 30 June 2010. In the event the Inland Revenue Department disagree with the position that has been taken an additional deferred tax liability of \$21.3m would need to be recognised associated with the portion of the powerhouses that the Company had considered to be more appropriately classified as plant.

## **(d) Functional and presentation currency**

These financial statements are presented in New Zealand Dollars (\$). The functional currency of Mighty River Power Limited and all its subsidiaries, apart from Mighty Geothermal Power Limited and its direct subsidiaries and PT ECNZ Services Indonesia, is New Zealand dollars. The functional currency of Mighty Geothermal Power, and its subsidiaries and PT ECNZ Services Indonesia is United States Dollars which has been translated to the presentation currency for these Group accounts. All financial information has been rounded to the nearest thousand.

## **(e) Seasonality of operations**

The energy business operates in an environment that is dependent on weather as one of the key drivers of supply and demand. Fluctuations in seasonal weather patterns, particularly over the short term, can have a positive or negative effect on the reported result. It is not possible to consistently predict this seasonality and some variability is common.

## **(f) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive.

## **NOTE 2. SEGMENT REPORTING**

### **Identification of reportable segments**

The operating segments are identified by management based on the nature of the products and services provided. Discrete financial information about each of these operating businesses is reported to the chief-operating decision maker on at least a monthly basis.

Operating segments are aggregated into reportable segments only if they share similar economic characteristics.

### **Types of products and services**

#### **Wholesale**

The wholesale segment encompasses activity associated with the production of energy from all power stations, the purchase of energy related products and services, and the sale of power to the retail segment, generation development activities together with activities such as risk and asset management. The wholesale segment is exposed to volatility in wholesale prices which may result in significant fluctuations in segmental results from year to year.

#### **Retail**

The retail segment encompasses activity associated with the purchase of power from the wholesale segment and the subsequent sale of energy and energy related services and products to customers. The retail segment is also exposed to fluctuation in wholesale prices relating to energy purchases, electricity sales at spot and the settlement of electricity price derivatives. The results of wholesale price volatility will have a partially offsetting impact between the wholesale and retail segments.

#### **Other Segments**

Other operating segments that are not considered to be reporting segments are grouped together in the "Other Segments" column. Activities include metering, upstream gas and other corporate support activities.

# Notes to the Financial Statements

For the six months ended 31 December 2010

## Accounting Policies and inter-segment transactions

The accounting policies used by the Group in reporting segments are the same as those contained in note 1 to the annual financial statements and in the prior periods. The Chief Executive assesses the performance of the operating segments on a measure of EBITDAF. Segment EBITDAF represents profit earned by each segment exclusive of any allocation of central administration costs, share of profits of associates, change in fair value of financial instruments, impairment of exploration expenditure, finance costs and income tax expense.

Transactions between segments are carried out on an arm's length basis.

	Wholesale \$000	Retail \$000	Other segments \$000	Total \$000
<b>Six months ended 31 December 2010 (Unaudited)</b>				
Total segment revenue	494,539	378,292	18,275	891,106
Inter-segment revenue	(258,141)	0	(14,720)	(272,861)
Revenue from external customers	<u>236,398</u>	<u>378,292</u>	<u>3,555</u>	<u>618,245</u>
<b>Segment EBITDAF</b>	<b>183,061</b>	<b>63,153</b>	<b>(12,566)</b>	<b>233,648</b>
<b>Segment Assets</b>	<b>4,461,019</b>	<b>152,176</b>	<b>342,527</b>	<b>4,955,722</b>

	Wholesale \$000	Retail \$000	Other segments \$000	Total \$000
<b>Six months ended 31 December 2009 (Unaudited)</b>				
Total segment revenue	411,210	353,570	16,828	781,608
Inter-segment revenue	(245,489)	0	(14,362)	(259,851)
Revenue from external customers	<u>165,721</u>	<u>353,570</u>	<u>2,466</u>	<u>521,757</u>
<b>Segment EBITDAF</b>	<b>153,160</b>	<b>51,501</b>	<b>(13,474)</b>	<b>191,187</b>
<b>Segment Assets</b>	<b>4,053,050</b>	<b>144,831</b>	<b>163,194</b>	<b>4,361,075</b>

	Wholesale \$000	Retail \$000	Other segments \$000	Total \$000
<b>Twelve months to 30 June 2010 (Audited)</b>				
Total segment revenue	855,065	720,601	37,482	1,613,148
Inter-segment revenue	(476,361)	0	(32,212)	(508,573)
Revenue from external customers	<u>378,704</u>	<u>720,601</u>	<u>5,270</u>	<u>1,104,575</u>
<b>Segment EBITDAF</b>	<b>229,848</b>	<b>126,163</b>	<b>(28,228)</b>	<b>327,783</b>
<b>Segment Assets</b>	<b>4,442,078</b>	<b>169,890</b>	<b>282,932</b>	<b>4,894,900</b>

## Reconciliation of segment revenue to the income statement

	Unaudited 6 Months 31 Dec 2010 \$000	Unaudited 6 Months 31 Dec 2009 \$000	Audited 12 Months 30 June 2010 \$000
Total segment revenue	891,106	781,608	1,613,148
Inter-segment sales elimination	(272,861)	(259,851)	(508,573)
Total revenue per the income statement	<u>618,245</u>	<u>521,757</u>	<u>1,104,575</u>

## Reconciliation of segment assets to total assets

	Unaudited 6 Months 31 Dec 2010 \$000	Unaudited 6 Months 31 Dec 2009 \$000	Audited 12 Months 30 June 2010 \$000
Segment assets	4,955,722	4,361,075	4,894,900
Current tax assets	0	0	0
Total assets	<u>4,955,722</u>	<u>4,361,075</u>	<u>4,894,900</u>

# Notes to the Financial Statements

For the six months ended 31 December 2010

## NOTE 3. UNDERLYING EARNINGS

	Unaudited 6 Months 31 Dec 2010 \$000	Unaudited 6 Months 31 Dec 2009 \$000	Audited 12 Months 30 June 2010 \$000
Net profit for the period	85,194	73,905	84,614
Change in the fair value of financial instruments	10,193	1,540	(8,081)
Change in the fair value of financial instruments of associate entities	(214)	0	17,534
Change in the fair value of financial instruments of jointly controlled entities	(5,949)	0	21,337
Impaired assets	3,514	15,019	31,373
Adjustments before income tax expense	7,544	16,559	62,163
Income tax expense on adjustments	(4,048)	(4,968)	(10,002)
Impact of deferred tax rate change through the income statement	0	0	(7,067)
Deferred tax impact of removal of building depreciation	0	0	9,846
Adjustments after income tax expense	3,496	11,591	54,940
Underlying earnings after tax	88,690	85,496	139,554

Tax has been applied on all taxable adjustments at 30%.

## NOTE 4. IMPAIRED EXPENDITURE

	Unaudited 6 Months 31 Dec 2010 \$000	Unaudited 6 Months 31 Dec 2009 \$000	Audited 12 Months 30 June 2010 \$000
Impaired property, plant and equipment	0	0	9,469
Impaired exploration and development expenditure	3,514	15,019	16,396
Impaired investment in associate	0	0	410
Impaired available-for-sale financial asset	0	0	5,098
Total impaired assets	3,514	15,019	31,373

# Notes to the Financial Statements

For the six months ended 31 December 2010

## NOTE 5. INCOME TAX EXPENSE

	Unaudited 6 Months 31 Dec 2010 \$000	Unaudited 6 Months 31 Dec 2009 \$000	Audited 12 Months 30 June 2010 \$000
<b>Income tax expense</b>			
Profit before income tax	122,672	104,783	141,353
Prima facie income tax expense at 30% on profit before tax	(36,802)	(31,435)	(42,406)
Increase/(decrease) in income tax due to:			
• effect of tax rate change on deferred tax	0	0	7,067
• deferred tax impact of the removal of building tax depreciation	0	0	(9,846)
• share of associates' tax paid earnings	(9)	526	(3,511)
• share of jointly controlled entities tax paid earnings	1,202	0	(6,598)
• capital loss	0	0	(2,246)
• loss making offshore entities with no deferred tax	(2,209)	0	0
• other differences	(6)	(29)	(704)
Over provision in prior period	346	60	1,505
<b>Income tax expense attributable to profit from ordinary activities</b>	<b>(37,478)</b>	<b>(30,878)</b>	<b>(56,739)</b>
<i>Represented by:</i>			
Current tax expense	(44,184)	(34,252)	(49,546)
Deferred tax expense recognised in the income statement	6,706	3,374	(7,193)
<b>Total income tax expense</b>	<b>(37,478)</b>	<b>(30,878)</b>	<b>(56,739)</b>

## NOTE 6. PROPERTY, PLANT AND EQUIPMENT

	Unaudited 6 Months 31 Dec 2010 \$000	Unaudited 6 Months 31 Dec 2009 \$000	Audited 12 Months 30 June 2010 \$000
Assets acquired at cost	57,341	101,736	206,969
Net book value of assets disposed	1,072	95	752
(Loss)/gain on disposal	(300)	5	(56)

## NOTE 7. INVESTMENT AND ADVANCES TO ASSOCIATES

	Unaudited 6 Months 31 Dec 2010 \$000	Unaudited 6 Months 31 Dec 2009 \$000	Audited 12 Months 30 June 2010 \$000
<b>Balance at the beginning of the period</b>	<b>113,614</b>	84,713	84,713
Additions during the year	15,173	19,111	27,873
Equity accounted earnings	(29)	1,753	(11,703)
Equity accounted share of movements in reserves	1,320	(2,418)	19,865
Repayment of advances during the year	(1,875)	(3,902)	(4,402)
Accrued interest on advances	166	0	38
Exchange movements	(5,369)	(3,215)	(2,360)
Impaired investment in associate	0	0	(410)
<b>Balance at the end of the period</b>	<b>123,000</b>	96,042	113,614

# Notes to the Financial Statements

For the six months ended 31 December 2010

## NOTE 8. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Unaudited 6 Months 31 Dec 2010 \$000	Unaudited 6 Months 31 Dec 2009 \$000	Audited 12 Months 30 June 2010 \$000
<b>Balance at the beginning of the period</b>	<b>111,926</b>	0	0
Additions during the year	1,342	0	134,020
Equity accounted earnings	4,005	0	(21,992)
Exchange movements	(12,625)	0	(102)
<b>Balance at the end of the period</b>	<b>104,648</b>	0	111,926

## NOTE 9. PROVISIONS

	Unaudited 6 Months 31 Dec 2010 \$000	Unaudited 6 Months 31 Dec 2009 \$000	Audited 12 Months 30 June 2010 \$000
<b>Balance at the beginning of the period</b>	<b>2,673</b>	2,058	2,058
Provisions made during the year	0	0	366
Provisions used during the year	0	0	0
Provisions reversed during the year	0	0	0
Unwind of discount rate	156	118	249
<b>Balance at the end of the period</b>	<b>2,829</b>	2,176	2,673

Provisions have been recognised for the abandonment and subsequent restoration of areas from which geothermal resources have been extracted. The timing of expected cash out-flows required to settle the above provision is uncertain and will depend on the extent of the geothermal steam resource for the well and the field.

## NOTE 10. DEFERRED TAX

	Unaudited 6 Months 31 Dec 2010 \$000	Unaudited 6 Months 31 Dec 2009 \$000	Audited 12 Months 30 June 2010 \$000
<b>Balance at the beginning of the period</b>	<b>(789,594)</b>	(743,924)	(743,924)
Current period changes in temporary differences affecting tax expense	6,706	3,374	(14,261)
Current period changes in temporary differences affecting reserves	11,870	30,655	(87,240)
Balance transferred to joint venture partner	0	0	547
Change in tax rate recognised in tax expense	0	0	7,068
Change in tax rate recognised in reserves	0	0	48,216
<b>Balance at the end of the period</b>	<b>(771,018)</b>	(709,895)	(789,594)

# Notes to the Financial Statements

For the six months ended 31 December 2010

## NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS

	Assets Unaudited 31 Dec 2010 \$000	Liabilities Unaudited 31 Dec 2010 \$000	Assets Unaudited 31 Dec 2009 \$000	Liabilities Unaudited 31 Dec 2009 \$000	Assets Audited 30 June 2010 \$000	Liabilities Audited 30 June 2010 \$000
Interest rate derivatives	16,381	121,554	20,665	68,474	18,133	125,942
Cross currency interest rate derivatives	0	16,030	0	0	0	0
Cross currency interest rate derivatives - margin	0	8,636	0	0	0	0
Electricity price derivatives	91,915	178,487	11,992	145,033	93,990	136,834
Foreign exchange rate derivatives	29	7,787	7,267	24,494	920	13,064
	<b>108,325</b>	<b>332,494</b>	39,924	238,001	113,043	275,840
Current	28,466	139,785	34,421	90,227	35,476	143,155
Non-current	79,859	192,709	5,503	147,774	77,567	132,685
	<b>108,325</b>	<b>332,494</b>	39,924	238,001	113,043	275,840

Interest rate derivatives, short term low value foreign exchange rate derivatives, and short term low value electricity price derivatives, while economic hedges, are not designated as hedges under NZ IAS 39 but are treated as at fair value through profit and loss. All other foreign exchange rate and electricity price derivatives (except the Tuaropaki Power Company Foundation Hedge and the Virtual Asset Swap contracts) are designated as cash flow hedges under NZ IAS 39. Cross currency interest rate swaps, which are used to manage the combined interest and foreign currency risk on borrowings issued in foreign currency, have been split into two components for the purposes of hedge designation. The hedge of the benchmark interest rate is designated as a fair value hedge and the hedge of the issuance margin is designated as a cash flow hedge.

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

	Income statement Unaudited 6 Months 31 Dec 2010 \$000	Income statement Unaudited 6 Months 31 Dec 2009 \$000	Income statement Audited 12 Months 30 June 2010 \$000	Equity Unaudited 6 Months 31 Dec 2010 \$000	Equity Unaudited 6 Months 31 Dec 2009 \$000	Equity Audited 12 Months 30 June 2010 \$000
Cross currency interest rate swaps	(16,030)	0	0	0	0	0
Borrowings	12,445	0	0	0	0	0
	(3,585)	0	0	0	0	0
Interest rate derivatives	3,745	49	(61,597)	0	0	0
Cross currency interest rate swaps – margin	0	0	0	(1,216)	0	0
Electricity price derivatives	(1,474)	(1,543)	70,027	(41,696)	(91,232)	(73,094)
Foreign exchange derivatives	(3)	0	3	(31,854)	(9,999)	(16,187)
Income tax on changes taken to equity	0	0	0	22,430	30,369	26,786
	(1,317)	(1,494)	8,433	52,336	(70,862)	(62,495)
Ineffectiveness of cash flow hedges recognised in the income statement	(8,876)	(46)	(352)			

Fair value movements of derivative financial instruments recognised in the income statement are non cash movements.

# Notes to the Financial Statements

For the six months ended 31 December 2010

## NOTE 12. LOANS

	Unaudited 6 Months 31 Dec 2010 \$000	Unaudited 6 Months 31 Dec 2009 \$000	Audited 12 Months 30 June 2010 \$000
Current	0	30,064	0
Non-current	985,552	831,500	978,758
	<u>985,552</u>	<u>861,564</u>	<u>978,758</u>

The Company issued US\$200m (\$260m) of Notes in a private placement with US investors, which was used to repay and cancel a \$250m facility with banks in New Zealand. The Company also raised \$150m in revolving cash facilities with ASB Bank and ANZ National Bank in December 2010.

## NOTE 13. RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Unaudited 6 Months 31 Dec 2010 \$000	Unaudited 6 Months 31 Dec 2009 \$000	Audited 12 Months 30 June 2010 \$000
<b>Profit for the period</b>	<b>85,194</b>	73,905	84,614
<b>Items classified as investing/financing activities</b>			
• Fixed, intangible and investment asset charges	(2,447)	(9,781)	(20,237)
• Loan charges	1,108	1,114	(1,446)
<b>Non-cash items</b>			
Depreciation and amortisation	67,699	57,603	98,707
Net gain/(loss) on sale of property, plant and equipment	300	(5)	56
Change in the fair value of financial instruments	10,193	1,540	(8,081)
Impaired assets	3,514	15,019	31,373
Unwind of discount on long term provisions	156	118	249
Share of earnings of associate companies	29	(1,753)	11,703
Share of earnings of jointly controlled entities	(4,005)	0	21,992
Other non-cash items	909	4,434	5,261
<b>Net cash provided by operating activities before change in assets and liabilities</b>	<b>162,650</b>	142,194	224,191
Change in assets and liabilities during the period:			
• (Increase)/decrease in trade receivables and prepayments	(34,651)	38,728	19,268
• Increase in inventories	(4,123)	(3,981)	(5,927)
• Increase/(decrease) in trade payables and accruals	25,209	(26,555)	(16,156)
• Decrease in provision for taxation	(1,670)	(25,013)	(30,720)
• Increase/(decrease) in deferred taxation	3,856	(3,412)	8,854
<b>Net cash inflow from operating activities</b>	<b>151,271</b>	121,961	199,510

# Notes to the Financial Statements

For the six months ended 31 December 2010

## NOTE 14. COMMITMENTS AND CONTINGENCIES

### Commitments

	Unaudited 31 Dec 2010 \$000	Unaudited 31 Dec 2009 \$000	Audited 30 June 2010 \$000
Commitments for future capital expenditure	103,088	84,554	87,097
Commitments for future operating expenditure	30,924	43,795	30,444

### Contingencies

The Group has no material contingent assets or liabilities.

## NOTE 15. SUBSEQUENT EVENTS

The Board has approved an interim dividend of \$64.7 million to be paid on 31 March 2011.

There have been no other material events subsequent to 31 December 2010.