MIGHTY RIVER POWER ANNUAL PUBLIC MEETING

6 OCTOBER 2010, KARAPIRO

Address from Mighty River Power's Chair, Joan Withers

A very big highlight this year was the opening in May of the 140MW Nga Awa Purua Power Station – a joint venture with the Tauhara North No.2 Trust. Nga Awa Purua provides enough electricity to power 140,000 homes. Hot on the heels of that celebration and again together with the Trust, we secured resource consents for development on the Ngatamariki geothermal field. We also this year advanced the consenting process on the Turitea Wind Farm.

With the contribution from Nga Awa Purua for just one quarter, geothermal generation made up more than a quarter of our total production, and this proportion will increase further with the full-year contribution of the power station in the current year. In a year when we experienced extremely difficult climatic conditions, the advantage of our more diversified fuel portfolio has become very clear.

Our retail businesses Mercury Energy, Bosco Connect and Tiny Mighty Power had another strong year of growth, increasing our customer base by 30,000 to reach more than 400,000 customers at year end. We now hold 21 percent retail market share after a period of growth that was faster and went further than the Company anticipated.

Mighty River Power increased its commitment to the GGE Fund to US$250m during the year, and this leads me to another big milestone, which was that we also made our first major international geothermal investment – through our international partner GGE – in the US-based geothermal company EnergySource. EnergySource is building a 49.9MW geothermal power station named Hudson Ranch I in the Californian Imperial Valley. The GGE Fund has committed up to US$107m to EnergySource, with an initial investment of US$92m.

The Fund is also seeing strong progress in Chile, where it has been successful in securing one extraction permit and participating in four exploration permits. What we have found is that being one of the ten largest and fastest growing geothermal companies globally, with a strong reputation for geothermal development expertise, makes Mighty River Power an attractive investment partner.

The Company achieved a solid financial performance, despite hydro volumes being adversely impacted by the autumn drought.

For those of you who are not familiar with the Company, here's a quick overview.

Mighty River Power is an integrated energy generation, trading, retailing and metering business. Our generation production is predominantly from renewable energy sources, and we own and/or operate a diverse and expanding portfolio of generation assets throughout the North Island. Our portfolio includes the Waikato Hydro System, which comprises nine power stations along the Waikato River including Karapiro right behind me. We own geothermal plants within the Taupo and Bay of Plenty regions, we have the Southdown gas-fired station in Auckland; and we have an active development programme encompassing advanced wind and geothermal projects.

As I mentioned before, Mighty River Power has grown to become one of the ten largest geothermal companies globally. Through our international partner GeoGlobal Energy, we are leveraging our geothermal expertise by investing in offshore geothermal development opportunities.

In terms of our retailing activities the Company sells electricity and gas to more than 400,000 customers through our retail businesses Mercury Energy, Bosco Connect and Tiny Mighty Power. Our metering business, Metrix, provides meters and meter-reading services to residential and commercial sites across Auckland, and for electricity retailers in the Auckland market.

On behalf of the board of directors, I would like to now report on the Company's performance for the financial year ended 30 June 2010 as recorded in the 2010 Annual Report, tabled in Parliament last Thursday the 30th of September.

2010 was a year in which Mighty River Power delivered a solid financial result despite the Waikato catchment experiencing a severe drought and the second driest autumn in 80 years.

The EBITDAF (earnings before interest, tax, depreciation, amortisation and financial instruments) result came in at $327.8m. This was within our forecast range but 27% down on last year's record result, due to those significantly reduced hydro volumes and lower wholesale prices, combined with necessarily higher operating expenses due to increased power station maintenance.

Underlying after tax earnings were $139.6m, down 34 percent on the previous financial year, with headline net profit after tax (NPAT) at $84.6m. NPAT was impacted by movements in the fair value of derivatives and impairment charges. For the first time this year the fair value of the Tuaropaki Power Company Foundation Hedge contract was recognised, following its reactivation after a long period of suspension. This contract is not hedge accounted so the fair value movement was recognised in the income statement. Mighty River Power doesn't hedge account for interest rate derivatives either, consequently fair value movements on these contracts have also been recognised through the income statement. NPAT was further adversely impacted by $31.4m in impairments – most of which was due to writing off costs associated with upstream gas exploration. Early in the current financial year, we announced our decision to exit upstream gas exploration.

During the year we are reporting on we paid dividends of $286m to our shareholder. These included a final dividend of $79.8m and a special dividend of $150m – both for the 2009 financial year - and an interim for the 2010 year of $56.2m. A final dividend for the 2010 financial year of $30.3m was paid on 30 September 2010, in line with our dividend policy of a payout ratio of 75% of NPAT after adjusting for fair value movements.

In the 2010 year our lower than planned EBITDAF meant that our Return on Capital Employed was below target at 8.2%. However, Mighty River Power achieved a 9.7% Return on Equity, exceeding the target specified in the SCI. Total Equity/Total Assets, Free Funds from Operations/ Interest expense and EBITDAF/GWh targets were also achieved.

While most of the targets in this area were exceeded, two critical non-financial targets were missed in the year ended 30 June 2010.

Firstly, our generation assets were not as available for use as planned due to a higher number of forced outages. This was a result of the more stressful conditions due to the drought requiring us to run the plants harder than normal, which in turn created forced maintenance. We also experienced a well failure at Kawerau that had an impact here however we are pleased to report that Kawerau will be restored to full capacity this month. You will hear more today about our plans to focus on preventative plant maintenance to improve plant availability.

The Health and Safety of our employees is paramount at Mighty River Power and we were very disappointed to have not achieved our lost time accident frequency rate following the adoption of a much tougher target in FY2009. While we are thankful that the incidents causing us to miss the target were all minor, we are committed to improving performance in this area and this is something the board discusses and reviews at each meeting.

Over the past five years the Company's capital investment totalled more than $1 billion. The majority of this was in domestic geothermal but we have also invested $210m as "stay-in-business" capital over that 5 year period. The 'other new investment' category was made up of gas exploration and metering expenditure.

During the year in review we maintained our strong liquidity position with extra facilities negotiated. At the end of the period, debt facilities totalled $1.05b, with $975m drawn. Debt is low when compared with our assets, but it did increase significantly in FY2010 due to the $150m special dividend that was paid to the shareholder.

During the year Mighty River Power undertook an independent revaluation of its generation assets on a discounted cash flow basis. This resulted in a positive revaluation of $371m on those assets to a total of $4.307bn.

In May, Standard & Poor's confirmed Mighty River Power's triple B plus long-term rating but revised the outlook from "stable" to "negative" as a result of a forecast drop in interest cover ratios – due to our substantial development plans and pipeline for FY11 and FY12 - earnings contribution from that planned capital expenditure ramps up from FY13.

A few weeks ago we were delighted to see these achievements - and our delivery on the objectives we set a decade ago- recognised at the inaugural Deloitte Energy Excellence Awards, which were held in September. The Nga Awa Purua Power Station – which is the joint venture with our partners the Tauhara North No.2

Trust that I spoke about earlier – was named Energy Project of the Year. Our partnerships are an integral part of the way we operate and we look to deepen and extend those relationships so it is highly rewarding to see the fruits of such collaboration acknowledged in this way.

Mercury Energy was a finalist in the Energy Retailer of the Year category. And Mighty River Power was given the premier award, being named the 2010 Overall Energy Company of the Year. The judges said Mighty River Power stood out from the other high quality finalists for the award because of the growth the Company had seen in its retail and geothermal businesses, and its strong financial performance. We are immensely proud of these awards and share this pride with all our people.

I would like to take this opportunity to thank our outstanding executive team led in an exemplary manner by Doug, all of our people across the company and my fellow directors for the contribution they have made and continue to make to the Company's ongoing success.

On that note, I would now like to invite our Chief Executive, Doug Heffernan to talk about the operating environment and the Company's strategic direction.

Address from Mighty River Power's Chief Executive, Doug Heffernan

I would like to start today with an overview of current market conditions.

Growth in electricity demand over the last 3 years has been well below the historic average of 2%, with essentially no growth at all since autumn 2007 as a result of the weak economic conditions that followed the onset of the global financial crisis. However, during this time 5,850GWh per annum has been added to the supply side. Some of that new capacity provided a necessary improvement in security margins, and New Zealand's ability to cope with hydro and wind variability. But energy security margins are now at a very healthy level and able to deal with any short-term rebound in demand.

There are a number of consented projects in New Zealand – with a total capacity of 1565MW, not counting 264MW under construction. Even with 2% load growth this is almost a decade's worth of growth. We expect that, due to these soft demand conditions, a large number of these consented generation developments will now come to market much later than previously projected. Ordinarily, one would expect the best projects to be developed first.

Mighty River Power has had two very successful geothermal projects at Kawerau and Nga Awa Purua that have delivered project costs that were lower than $80/MWh. There are a few more geothermal developments that have cost estimates in this order but on the whole new generation developments will be more expensive than those we have invested in recently, requiring price support for investment of closer to $100/MWh. Investors will need to have confidence that they will be able to recover these costs over the life of the projects. In this context, the low wholesale prices of the past two years are not conducive to investment, and with current retail margins indicative of wholesale costs at just $80/MWh there will need to be upward retail price movement to support new investment.

The very strong growth in Mighty River Power's retail businesses - Mercury Energy, Bosco Connect and Tiny Mighty Power - has taken place in the most competitive retail market since deregulation, with as many as 35,000 customers now changing electricity retailer each month. The increase in churn, while positive for the market in that it signals increased competition, also brings with it increased costs. The challenge for the industry is therefore to reduce cost-to-serve so that we may fully or partially avoid these churn costs, resulting in upward pressure on retail prices.

Another factor impacting industry costs as a consequence of the sharp rise in customer churn is bad debt, as there are a small percentage of customers who fail to settle their final account when changing power supplier. While our retail business performed well in FY2010, we still wrote off $4m in bad debt and our estimate is that the industry as a whole wrote off around $30m. We will continue to focus on reducing bad debt over the coming year. One of the key mechanisms for doing this will be our increasing use of our pre-pay product, GLO-BUG, which we have upgraded in the past financial year so that we can offer it to a greater number of customers. We believe pre-pay offerings will become much more widespread throughout the industry's retail segment over coming years as they are the most effective way to put customers in control of their energy consumption and for them to avoid debt or repay debt if they have found themselves in that position.

Having exceeded our targeted portfolio growth over the past two years, designed to match our generation portfolio growth, we will now look to maintain our retail share close to current levels and in excess of 20%. Our continued efforts to reduce operational expenditure and cost-to-serve will be a focus and Mercury Energy in particular will continue to introduce measures to bring greater transparency to our pricing and service levels. An example of this transparency is our move to ensure that customers cover the real costs of their bill payment options, such as paying a bill by cheque or paying over-the-counter at the Post Office (which are relatively expensive for us) as opposed to setting up a direct debit (very little cost) and choosing to receive an electronic bill.

The 15-year Virtual Asset Swap (or VAS), with Meridian, which was required as part of the suite of changes introduced by the government during the financial year, has been negotiated and will commence on 1 January 2011.We expect that the various physical and virtual asset swaps included in the government's suite of changes to the electricity industry, will further increase retail customer churn for a period as some of the affected generators seek to rebalance their generation and retail portfolios. There are clear signs some of our competitors started this process several months ago in anticipation. Our VAS does not make a fundamental difference to our business. In essence it has the potential to reduce the downside financial risks associated with extreme market conditions in the South Island – for example poor hydro conditions leading to very high wholesale prices, which is something our existing North Island based assets could not mitigate. Conversely the impact of the VAS could cause a slight increase in exposure to high wholesale market price conditions in the North Island, but this is something for which we have a generation portfolio well suited to mitigate. This means that we are well placed to continue to service our existing customers across the country and to acquire customers throughout New Zealand.

During the calendar year, the Waikato Region has seen the second driest autumn in 80 years, during which the lake level dropped to within 7cm of the lower end of our operating range, followed by extremely high inflows in late winter and early spring. In September, Lake Taupo rose to 5cms above the normal operating range of 357.25 meters above sea level – a predicted one in five year event (the last time this occurred was actually in 2004). We exercised the limited control we had during this period by fully opening the Lake Taupo gates and spilling past dams. We work closely with Environment Waikato – who is both drought and flood manager – during these periods. They have a tricky job since more water will quickly flow into Taupo than can also be released through the Lake Taupo gates and the inflow from Waipa at Ngaruawahia is completely uncontrollable. Getting the balance between Taupo and the Waikato north is a challenge for Environment Waikato – something they do very well and we are only too happy to assist to our maximum capability.

Wholesale prices were at their highest when the Waikato drought had reduced our storage in Lake Taupo to historic lows in late autumn. Hydro volumes are now high as a result of the extremely high inflows, but wholesale prices remain very low due to a surplus of water throughout the country and the impact of take or pay thermal fuel contracts held by our competitors.

Growth in customer numbers over the past two years has been faster than we had predicted and we are now looking to maintain market share above 20% in the face of extremely competitive conditions. This may mean slight reductions in customer numbers in the short term as we seek to balance our portfolio against market activity. Electricity customer numbers were at 408,000 at the end of September, an increase of 15,000 on the same period in the previous year. Gas customer numbers remain the same as last year at 43,000. Total generation volumes (on an equity basis) were significantly up on the same period last year, with hydro up 26% due to much wetter conditions, geothermal up 54% due to the commissioning of Nga Awa Purua in April this year, and Southdown gas generation up 43% after a very low contribution in the same period last year. Wholesale prices this year averaged $52/MWh over the quarter, up on the $45/MWh last year, but still very low on a long term basis reflecting the wet conditions nationally and the benign demand conditions

In the current financial year – and beyond – we will continue our programme of geothermal development as well as preparing potential opportunities in wind. This will be done in the context of New Zealand's weak demand conditions. However, it is important that we continue to prepare opportunities through geothermal exploration, wind monitoring and securing resource consents so that we are ready to commit projects when the commercial conditions are appropriate.

Conversely, our offshore geothermal investments are not constrained by weak demand conditions and offer the potential for significant growth and enhancement to returns. They will be an important part in the execution of our geothermal strategy in coming years. Our participation in GGE is as an informed capital partner, providing investment funds supported by our in-depth knowledge and experience of the exploration, development and operational phases of geothermal development. Our focus is on early stage geothermal development where the level of international competition is relatively muted.

We will also ensure that our existing generation assets - particularly the Waikato Hydro System - are operating as reliably and efficiently as possible. The reality is that these very significant investments made over many generations on behalf of all New Zealanders rely on ongoing access to water and the storage in Lake Taupo, and they are reaching a stage in their life where more needs to be spent to bring them up to modern day equivalence.

In retail, we do not expect to see the rapid growth we have already discussed but we will look to maintain market share close to current levels and in excess of 20% and will focus on reducing cost to serve. Our metering business, Metrix, will continue to rollout of smart meters throughout the Auckland region, a change that will transform the business by adding data services to the traditional asset leasing function. We believe that consolidation within the metering industry will be required as it transitions to the smart meter environment, and we support this.

Mighty River Power has a focus on preserving access to, and the operational flexibility of, the Waikato River and Lake Taupo for the Waikato Hydro System. We appreciate that water is a valuable and contested resource and that many parties with access to the river and its storage have made significant investments. As in our case, some of these investments are in very large-long life assets – typically 10 years. We are committed to operating the hydro system as efficiently as we can and will reinvest in those assets with the expectation of ongoing utilisation of the river.

During the past year we undertook an international benchmarking exercise of our hydro asset maintenance and enhancement programme. This confirmed our forward planning and we have since begun major maintenance and refurbishment of the generation equipment in the hydro system to increase peaking capacity and the long-term efficiency of our hydro assets. This involves a substantial programme of work over the next decade, with a total investment of four to five hundred million dollars, an annual expenditure rate that is more than double that of the last decade.

Continued investment of this scale will of course require confidence in enduring water access and utilisation flexibility. Hydro storage is limited and is increasingly valuable to electricity generation. For example, the total storage in the Waikato Hydro System is less than 600GWh out of 4000GWh annual production, ie less than 2 months storage. We fully support the Environment Waikato decision on Variation 6 (water allocation) to retain the status quo on the Waikato River. Given the limited storage available and the economic value of this non-extractive use of the resource to New Zealand it is critical to the nation that no further water allocation is made from the Waikato Hydro System. Such allocation would transfer value from the people and businesses of New Zealand as a whole, through their use of the energy provided, to a very small number of irrigators.

On this same theme, we have also proactively and extensively participated in the Land and Water Forum. The Waikato River is the longest and most community complex in the country and for this reason we have for a long time worked closely with iwi and other groups to ensure it is managed sustainably. It is important that the Forum's recommendations are implemented in a pragmatic way that recognises the diverse needs of river users.

Finally, on the topic of water, I would like to note the establishment of the Waikato River Authority. I understand a scoping report for this body is imminent and would like to recognise the excellent work that has been done by the Guardians Establishment Committee. We are looking forward to the Independent Scoping Study in the coming days and the activities that will follow to ensure the continued health and wellbeing of the river

In May, together with our partner Tauhara North No.2 Trust, we were granted resource consents for a geothermal development on the Ngatamariki field, just out of Taupo. This was a great outcome, with the consent process completed without appeals and all over within 10 months from the time of the application. We are currently working through the commercial side of the development, including equipment procurement options. We had originally anticipated electricity market conditions would support commissioning of the plant by winter 2013, but we now believe the excess capacity in the market and benign demand conditions will probably mean a target date of 2014. We are also reviewing the ideal capacity of this first stage development for Ngatamariki.

We are also exploring with a number of Maori partners greenfield opportunities on geothermal fields in the Taupo volcanic zone. These further domestic geothermal opportunities are typically smaller in scale and will have higher development costs and risks than recent projects. Ministry for Economic Development forecasts that over the next 5 to 10 years electricity prices will rise to levels that support these investments and we are confident that subject to successful exploration, this next tier of geothermal developments will be competitive with other technologies such as wind and hydro.

We are awaiting a decision from the Board of Inquiry for the Turitea Wind Farm, in the Tararua Ranges east of Palmerston North. We are also investigating a range of other wind opportunities throughout the country, as well as some potential small hydro developments.

Our geothermal development experience is now recognised around the world and this has opened up opportunities for us to make informed investments in the early stage of international geothermal projects. International geothermal provides high-value growth opportunities that are consistent with our core business and leverage our rare skills and capabilities and the scale of these opportunities is not limited by weak domestic economic conditions.

Geothermal development internationally is concentrated in the 'Pacific rim of fire', with a few smaller concentrated developments in Iceland, Turkey, Italy and Kenya.

New Zealand is a world-leader in geothermal electricity production, number 6 by installed capacity.

Mighty River Power is the sole and cornerstone capital investor in the GGE Fund and we have a little over 25 percent shareholding in the GGE management company. In the past financial year we have increased our commitment to the GGE Fund to $US250 million. GGE will continue to build a portfolio of geothermal development interests allowing it to diversify risks across a number of markets and opportunities.

Hudson Ranch I (in Imperial Valley, Southern California) is the significant current investment by GGE: Geothermal development company EnergySource (which GGE has a 20 percent interest in) is building a 49.9MW plant in the Salton Sea area. There is potential for further development beyond this first project. The GGE Fund has invested US$92m out of a total potential equity investment of US$107m. Commissioning is planned for 2012.

The second most significant investments by GGE are in Chile where an extraction permit (allowing development) has been secured at Tolhuaca, about 700km south of Santiago. Two slim hole wells have proven a very high temperature resource not unlike New Zealand's resources. A full size well is planned for this summer to help dimension the power development potential. In addition, GGE has secured 4 exploration permits at Puchuldiza, Ranquil, Alitar and Colimapu. The latter two permits are held in a joint venture with Colbun.

As well as these two prime investment areas in Chile and US, GGE has also acquired an interest in the Gabbs Value project in Western Nevada with surface exploration currently underway ahead of potential drilling in 2012. In Germany, in response to German government incentives for renewable energy, GGE has secured permits in Bavaria for low temperature geothermal developments and is currently undertaking geo-scientific surveys.

As an electricity SOE we are not covered in depth by market analysts in the same way that listed companies are. As a result, there is no basis on which the market is independently informed of forward-looking estimates of the Company's earnings. The Company has therefore decided to assist market awareness by disclosing its planned EBITDAF for FY2011. The planned EBITDAF for FY2011 is $391m, a 20% increase on last year, based on mean hydrology. It is important to note that our earnings can vary over quite a large range (as seen over the last 5 years) depending on market conditions. At this stage however, 3 months into the year the Company is comfortable that $391m EBITDAF still represents a reasonable estimate of the year end outcome.

It has been a big year for the Company and the outlook is for things to carry on at pace. We were delighted to have everyone's hard work recognised at the recent Energy Excellence Awards where, as Joan mentioned earlier, we were named Overall Energy Company of the Year. The challenge for us is to continue performing at that level as we go forward, a challenge that I am confident we will meet.