



MAINPOWER NEW ZEALAND LIMITED
STATEMENT OF CORPORATE INTENT
2010 - 2011

Statement
of
Corporate Intent

2010-2011

Directory

MainPower New Zealand Limited

Board of Directors

W G Cox	<i>Chairman</i>
P A Cox	<i>Deputy Chairman</i>
A Berge	<i>Managing Director</i>
T Burt	<i>Director</i>
J A Hoban	<i>Director</i>
A C King	<i>Director</i>
S P Lewis	<i>Director</i>

Address:

5 High Street
P O Box 346
Rangiora

Telephone: (03) 311 8300
Facsimile: (03) 311 8301

www.mainpower.co.nz

MainPower Trust

Trustees

A Hall	<i>Chairman</i>
R W Allison	<i>Deputy Chairman</i>
J R Abernethy	<i>Trustee</i>
K W Brookfield	<i>Trustee</i>
D J Crossen	<i>Trustee</i>
B R Hassall	<i>Trustee</i>
S M Smith	<i>Trustee</i>

Address:

C/o Mr L R Martin
Trust Secretary
MainPower Trust
P O Box 370
Rangiora

Telephone: (03) 311 8008
Facsimile: (03) 313 4383

www.mainpowertrust.org.nz

Contents

- 1. Introduction 1
- 2. Vision and Strategic Objectives..... 3
- 3. Structure and Scope of MainPower’s Business 4
- 5. Network Capacity, Security and Reliability, and Pricing..... 6
- 6. Generation Strategy..... 9
 - Generation..... 9
 - Electricity Retailing 9
- 7. Financial Performance 10
- 8. Other Measures 12
- Appendix 1: Corporate Governance Statement 13
- Appendix 2: Code of Sustainable Practice 16
- Appendix 3: Statement of Accounting Policies..... 19

1. Introduction

This Statement of Corporate Intent (“SCI”) is submitted to the MainPower Trust (the “Trust”) by the Board of MainPower New Zealand Limited (“MainPower”) (the “Board”).

This SCI is prepared in accordance with clause 3 of MainPower’s Constitution.

The SCI covers the activities of MainPower and its subsidiaries, and sets out MainPower’s intentions and the objectives agreed between the Board and the Trustees for the Financial Year commencing 1 April 2010, and the two succeeding financial years.

The following appendices are made available in support of the SCI:

- Corporate Governance Statement
- Code of Sustainable Practice
- Statement of Accounting Policies

Clause 3 of MainPower’s Constitution requires the SCI to provide detail on the following:

- (i) the performance targets and other measures (including the Return on Equity after payment of tax) by which the performance of MainPower’s Lines Business and the MainPower Group of Companies overall performance may be judged in relation to its objectives;
- (ii) the ratio of consolidated Shareholders’ funds to total assets;
- (iii) an estimate of the amount or proportion of accumulated profits and capital reserves that is intended to be distributed to Shareholders;
- (iv) an estimate of the amount of line charges to be distributed to Qualifying Customers during the year in the form of Rebates;
- (v) the information to be provided to Shareholders by the Board;
- (vi) the procedure to be followed by MainPower or any of its subsidiaries or associates, when it subscribes for, purchases or otherwise acquires shares in any company or other organisation;
- (vii) a statement of performance relating to Adjusted Shareholders’ Funds; i.e. Equity, as defined in the Trust Deed, which will provide:
 - the total value of Adjusted Shareholders’ Funds (Equity);
 - a statement specifying the Board’s opinion on the optimum, before the payment of tax, weighted average cost of capital for MainPower;
 - the estimated rate of return on Equity and the estimated shortfall (if any) before the payment of tax and before the payment of Customer Rebates.

The Board has also taken the opportunity to provide Trustees with an update on a number of key services provided by the Company. These have the potential to impact on the region’s economic wellbeing and prosperity; namely,

- The need to have sufficient distribution network capacity available to meet the needs of one of New Zealand’s fastest growing regions;
- The need for this network to be safe, secure and reliable;
- The need for network capacity and security to be made available to customers at a competitive and fair price.

An update on MainPower’s Generation Strategy also forms part of this SCI.

Our Vision and Values

Our Vision

MainPower will be recognised by its community as a leading regional electricity distribution and electricity supply company

Our Values

MainPower's Values reflect our relationship, commitment and obligation to our community and to each other.

Safety First

Teamwork

Loyalty

Pride

Fairness

Integrity



"MainPower cares about the community, its people and the environment"

W G Cox
Chairman

A Berge
Group Managing Director

2. Vision and Strategic Objectives

Vision

“MainPower will be recognised by its community as a leading regional electricity distribution and electricity supply company”.

MainPower’s Vision, its Principal Objective and other Strategic Objectives were reviewed and adopted as part of the 2009 Strategic and Business Planning round. A number of supporting Key Strategic Initiatives were also agreed as part of this earlier round on the basis that they more accurately reflected a regionally focused service company structured in the first instance to deliver on community and customer expectations in accordance with industry best practice.

The Strategic Objectives of the business that reflect this Vision are:

- MainPower will continue to be owned by its customers comprising the North Canterbury and Kaikoura communities.
- MainPower will continue to operate and make available to its customers, a safe, secure and reliable electricity distribution network;
- MainPower will, through the management and operation of its electricity distribution network, technical support and field services, ensure a level of security and reliability of electricity supply that places MainPower in the top 10% when compared to other regional line companies in New Zealand.
- MainPower will seek to develop, either solely or in collaboration with others, renewable generation opportunities that move the North Canterbury and Kaikoura regions towards 75% self sufficiency in distributed electricity supply within 10 years. MainPower will also, either on its own account or jointly with others, become a recognised and preferred retailer of electricity to its electricity distribution network customers;
- MainPower will co-operate with other electricity distribution network operators in all matters which enhance MainPower’s ability to pursue its Vision;
- MainPower will carry out its business activities in accordance with commercial and industry best practice and will give particular emphasis to safety, superior customer service, sustainability and value creation.

The degree to which MainPower delivers on its Vision, and how the Company will be viewed and measured will be determined by the following key stakeholder groups:

Customers

Customers will measure success in terms of the safety, security, reliability and price of the services delivered by MainPower.

Community

The Community will measure success in terms of the economic and social contribution by MainPower to the local community. This will be demonstrated by the community’s willingness to stand up in support of MainPower’s continuing to remain a valued locally-owned and operated company. The Community will also value MainPower for taking a leadership role on matters of importance to the Community such as water management.

Shareholders

Ordinary and Redeemable Preference Shareholders will measure success in terms of the Company’s economic, social and environmental performance, the ability to operate in accordance with its stated Values and the ability to increase shareholder wealth.

Employees

Employees will measure success in terms of the opportunities provided for career enhancement, security of employment, safe working practices, equity of treatment as between employees and the openness and honesty of the employment relationship.

The Regulator

Electricity industry regulating agencies will measure MainPower’s performance against other regional line companies across all regulatory measures as being in the top 10% when compared with other regional electricity distribution network operators in New Zealand.

Electricity Industry

The electricity industry will measure success in terms of MainPower’s performance relative to other network operators.

MainPower’s Future Strategic Direction

The Strategic Direction of the Company is continually under review.

The Board has recently engaged the services of the New Zealand Institute of Economic Research (“NZIER”) to assist in this review process. NZIER will, during 2010, undertake an independent study, comprising a detailed analysis of the economic, legal, regulatory, tax and other market environments in which MainPower currently operates and how these may change in the future. This process will also identify the challenges, opportunities and risks that these changes are likely to present for MainPower over the next 10-20 years. The Board will take the results of this study into account when determining an appropriate strategy for the Company.

3. Structure and Scope of MainPower's Business

All of the voting equity securities (Ordinary Shares) in MainPower are held by the MainPower Trust on trust for the Trust's beneficiaries; i.e. Qualifying Customers and the North Canterbury and Kaikoura community as a whole.

The MainPower Trust's and the Board's reconfirmation last year of their commitment to long term community ownership, and their support for a strong regionally-based operation, albeit with some refinement to the scope of the Company's business, clearly signalled the need to change MainPower's business model. The following initiatives were agreed by the Board and a number of these have now been completed or will be completed during 2010.

Electro Services NZ Limited

During 2009 the Board agreed to divest MainPower Contracting's subsidiary Electro Services NZ Limited as its retention was no longer viewed as being consistent with the Company's strategic direction.

Electro Services was sold to Buller Electricity on 31 March 2010.

MainPower Contracting Limited

During 2009, the Board also agreed to withdraw from any further opportunity to rationalise power systems contracting operations throughout the top of the South Island, and therefore considered it appropriate to disestablish MainPower Contracting as a separate legal entity and reconstitute this operation as a Field Services operating division within MainPower.

The amalgamation of MainPower and MainPower Contracting was completed on 31 March 2010.

MainPower will continue to withdraw from the power systems contracting market outside the region on a staged and professional basis.

The re-organisation of MainPower and MainPower Contracting following the amalgamation is on-going and will continue to be progressed on the following basis:

- Workplace Health and Safety will be elevated in importance within the new amalgamated structure;
- Health and Safety, employee productivity, quality and customer service will become the major drivers of MainPower's Field Services cost centre;
- MainPower Contracting's brand will be disestablished in favour of a single MainPower brand for the region;

VirCom Energy Management Services Limited

MainPower continues to hold a 77.6% interest in VirCom Energy Management Services Limited ("VirCom"), New Zealand's largest meter servicing company. VirCom provides metering services to all New Zealand's electricity retailers and other major meter owners. VirCom has major operating divisions in Auckland, Hastings, Nelson and Rangiora, and operates throughout the rest of New Zealand through a successful sub-contractor network.

The Board will continue to ensure that VirCom operates as a viable and successful business in its own right in the best

interest of the Company, both shareholders and the customers that it serves. Once again Health and Safety, Quality and Customer Service will continue to be the major drivers underpinning VirCom's performance.

Wigram

MainPower continues to own a small embedded electricity distribution network at Wigram.

The Board will take the opportunity during 2010 to review its position on ownership of networks outside the North Canterbury and Kaikoura region.

Generation Strategy

MainPower's commitment to the development of renewable generation within the North Canterbury and Kaikoura regions, so that the Company can move towards self-sufficiency in energy supply, is now viewed as core business along with the development of the electricity distribution network.

The Board recognises that the success of MainPower's Generation Strategy could lead to the separation of the Generation Division from MainPower as other business partners are introduced.

Non-Core Activity

The Board will continue to give priority to its core network and generation business and to other related activity.

The Board does however, recognise the importance of other regional infrastructure and the contribution that these make to the region's prosperity and economic wellbeing. The Board is not seeking to acquire any long-term ownership interest in these other assets, however will continue to take a leadership role and where appropriate, will facilitate their development in order to ensure that the region is well placed to take advantage of emerging opportunities.

For example, the Board recognises the opportunity that the region's water resource presents and the need for this resource to be well managed from an economic, social, environmental and cultural perspective. The Board therefore will continue to support Hurunui Water Project Limited's endeavours to establish a community irrigation scheme based on water storage at Lake Sumner and the South Branch of the Hurunui River. This scheme will irrigate approximately 42,000 hectares in the Hurunui and Upper Waipara catchments.

Likewise, the Board also recognises the contribution that a Broadband network will have on the region's economy and therefore will continue to support Enterprise North Canterbury's endeavours with respect to this matter. MainPower will continue to be the major corporate sponsor of Enterprise North Canterbury.

4. MainPower's Operating Environment

The rapidly changing market conditions and on-going legislative and regulatory change will continue to impact on MainPower's operating environment and therefore its business.

Regional Economy

The North Canterbury region has, during the past decade and for even longer, been one of the fastest growing regions in New Zealand, and although the recent global downturn slowed regional economic activity dramatically, indications are that growth during this period continued to exceed the growth experienced by most other regions in New Zealand. The economic recovery throughout North Canterbury has been immediate and the number of requests for new services, in particular new subdivisions and line extensions, continues to increase.

Legislative and Regulatory Change

The electricity industry has once again become the focus of legislative and regulatory change. Legislation currently before Parliament has the potential to impact on MainPower's business.

These include:

Electricity Industry Bill 2010

This legislation is currently before the Finance and Expenditure Select Committee. It is expected that the Bill will be passed into law by 1 October 2010.

This is a major piece of legislation for the electricity industry and will, without question, provide the framework for further electricity industry re-organisation for some years. The Bill replaces Sub Part 2 of Part 14 and Part 15 of the Electricity Act 1992 and repeals the Electricity Industry Reform Act 1998. It also makes minor amendments to Part 4 of the Commerce Act 1986.

The overall aim of the Bill is to improve competition in the electricity sector and improve security of supply.

The Bill is the direct result of the findings of the Ministerial Review of the Electricity Market undertaken by the Electricity Technical Advisory Group and officials during 2009. This Group concluded:

- current governance arrangements for the industry are unsatisfactory;
- market power in the generation sector is inappropriate;
- electricity pricing has been evolving without the pressures of effective competition, thereby resulting in inappropriate retail margins.

With respect to pricing, the Group concluded:

"Although a large part of the increase in electricity prices over the last decade is justified, prices to some customer groups, especially residential customers, have risen faster than justified by underlying increases in generation costs."

"Retail margins for residential customers are high and increasing, and competition is weak outside the main centres, particularly in the South Island."

New governance arrangements, the requirement for standardisation of electricity pricing and pricing methodologies and use-of-system agreements, and the provision of further incentives for line companies to enter the generation and/or retailing markets for the purpose of facilitating further competition within these markets, have all been provided for in the Bill.

A number of these new provisions have the potential to impact negatively on MainPower's business while the removal of further restrictions on the need for separation of generation, retail and distribution will most likely be positive, more so if the Committee responds favourably to the request of a number of submitters, including MainPower and the MainPower Trust who actively recommended that these restrictions be relaxed even further.

Part 4 of the Commerce Act 1986

Line companies' line services are subject to the regulatory provisions under Sub Part 9 of Part 4 of the Commerce Act 1986.

Line companies are therefore subject to:

- Information Disclosure Regulation; and
- Default/Customised Price-Quality Regulation.

Suppliers that are "consumer-owned", as defined in Section 54D, are exempt Default/Customised Price-Quality Regulation.

The manner by which the Commission intends to determine "consumer-owned" status for the period 1 April 2009 to 31 March 2010 is the subject of its Paper "Treatment of Consumer-Owned Electricity Distribution Businesses under the Initial Default Price-Quality Path", dated October 2009. The assessments as to "consumer-owned" status and notification requirements are ex-post, and as such, "consumer-owned" status for each line company will not be confirmed until mid 2010.

It is assumed that MainPower is an exempt company under Section 54D(1), in that it meets the criteria with respect to control rights, equity return rights, trustee election criteria and income distribution rules. The MainPower Trust has already completed the Commission's formal Statutory Declaration to this effect and this, together with a copy of the MainPower Trust Deed with Amendments, has been forwarded to the Commission for review purposes.

The Commission is currently giving priority to determining Input Methodologies for electricity lines services regulated under Sub Part 9 and expects to have these completed by 31 December 2010.

The Commerce Commission has already published its Section 52P Determination on the Default Price-Quality Path (Initial Re-set Determination) to apply from 1 April 2010.

Draft Determinations with respect to Input Methodologies will be available by June 2010 and final Input Methodology Determinations by November 2010.

5. Network Capacity, Security and Reliability, and Pricing

Network Capacity

Government-owned SOE, Transpower, is responsible for New Zealand's backbone transmission grid, including the HVDC Cook Strait link. The electricity distribution network linking this grid with the many businesses and homes in MainPower's region is solely MainPower's responsibility. Transpower retains ownership of the connection assets between the grid and the network, and will only make additional capacity available at the point of connection on request from MainPower, and at MainPower's cost.

The Canterbury Region is supplied from the Waitaki Catchment by Transpower's four main 220kV transmission circuits into the Islington substation; three from Twizel and one from Livingstone.

The transmission network supplying electricity to the MainPower region from Islington comprises two 220kV and two 66kV transmission circuits with dual 220/66kV interconnections to the MainPower Network at Waipara and dual 220/33kV interconnections to the MainPower Network at Culverden. Two Islington 66kV circuits supply Southbrook.

Kaikoura Supply Security and Capacity

MainPower is currently negotiating with Transpower for the purchase of the Culverden-Kaikoura 66kV pole line and the substation at Kaikoura.

Kaikoura has no n-1 security. It is supplied from Culverden through a 33/66kV, 20 MVA step-up transformer at Culverden, a 66kV Culverden-Kaikoura single circuit rated at 38 MVA, and a 66/33kV, 10 MVA supply transformer at the Kaikoura substation.

The peak load at Kaikoura is forecast to exceed the supply transformer's capacity by approximately 0.2 MW in 2014, increasing to approximately 1.0 MW in 2020.

Management is currently discussing options with Transpower to increase the security and capacity at Kaikoura. Initially this may involve thermally upgrading the existing Kaikoura supply transformer to 16 MVA by adding fans and pumps. This would be MainPower's intention if it took ownership of these assets.

A longer-term solution would involve installing a second 66/33kV supply transformer at Kaikoura. This would be supplied from MainPower's upgraded 33/66kV Waipara-Kaikoura line.

The upgrade of the Company's 33/66kV line from Waipara through to Kaikoura has been on-going for a number of years. Urgency was earlier given to upgrading the line section between Waipara and Cheviot and installing a step-down transformer at Cheviot. This was completed in 2008 and the additional capacity that was provided was sufficient to remove the risk of non-supply at Kaikoura through to at least 2013; i.e. in circumstances where the 66kV Culverden-Kaikoura line was out of service for any reason.

Stage 2 of this project, which is viewed as being less urgent, provides for the upgrade of the line between Cheviot and Kaikoura and this work is on-going. It is expected that the

line work associated with this Stage will be completed in 2010-2011.

Two important issues have yet to be resolved. Firstly the impact that the proposed Rakanui subdivision will have on a preferred configuration; and secondly the option to avoid establishing the fifth Skid 66/22/11kV zone substation at Oaro which is dependent on the outcome of the Rakanui negotiation.

Ashley Point-of-Supply Transformer

Two 66/11kV supply transformers supply Ashley's load, providing a nominal installed capacity of 20 MVA and an n-1 capacity of 11.2 MVA summer and 12.1 MVA winter. The peak load at Ashley is forecast to exceed the transformer's n-1 summer capacity by approximately 1.0 MW in 2010.

Both short- and long-term solutions to the capacity problem at Ashley have been discussed with Transpower and it is proposed in the short term to rely on load transfer and load management. A longer term solution involves replacing the existing transformers with two new 40 MVA transformers in conjunction with MainPower's wider network development programme.

New Rangiora East Point-of-Supply and Rangiora-Oxford Capacity Upgrade

Transpower has been contracted to prepare designs for the new Rangiora East Point-of-Supply and for the establishment of two new 66kV feeders from the Southbrook Point-of-Supply; the latter in anticipation of converting the Rangiora-Oxford supply area to 66kV.

Distribution Network Development

The Company's Network Development Programme is detailed in MainPower's Asset Management Plan. A copy of this Plan is available to the MainPower Trust. High level development considered essential to maintain an appropriate level of capacity and service include the following:

- Reconductoring to a higher capacity the 33kV Southbrook to Fernside feeder, 2010.
- Upgrade the 11kV Underground Kaiapoi North Feeder, 2010.
- Construction of a new Oaro 22kV line supplying the Kaikoura area and new dual circuit 11kV feeders in Rangiora East, 2011-2013.
- Construction of a double circuit 33kV line between Cust and Oxford in 2013 and the upgrade of the sub-transmission in the Swannanoa, Cust, Oxford and Bennetts area to 66kV, 2013-2015.
- The Hawarden and Hanmer 33kV overhead lines will require upgrading during 2012-2013.

Network Security and Reliability

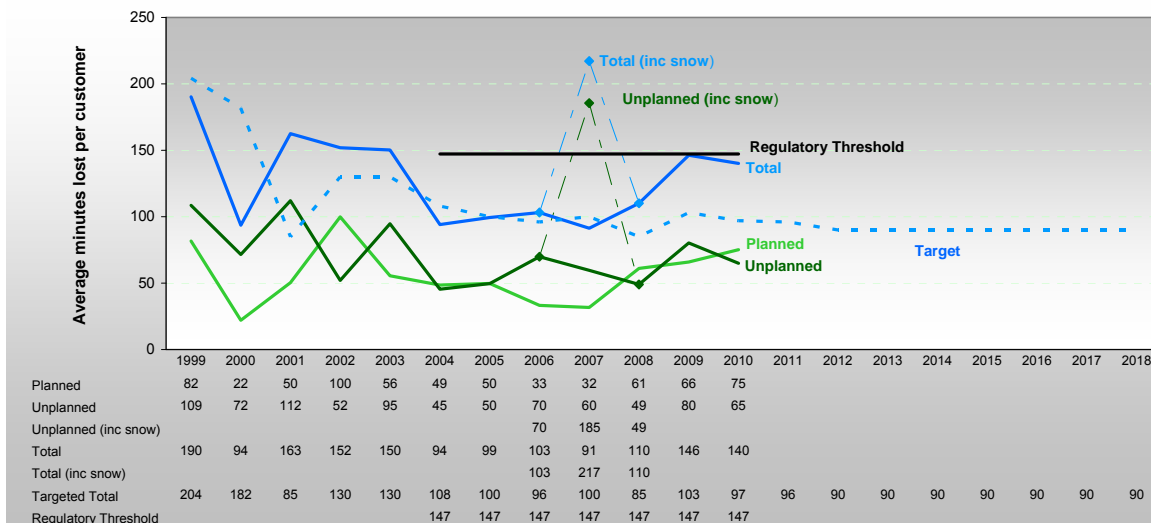
The higher level of maintenance across the distribution network has had a direct and positive impact on quality and reliability of supply. Maintenance of the network has always been given the highest priority, and as a result, MainPower's Quality Performance Statistics, SAIDI and SAIFI, as disclosed by the Commerce Commission have remained in the upper quartile of performance of all line companies for many years.

MainPower's SAIDI and SAIFI performance compared to the Commerce Commission's regulatory threshold broken down

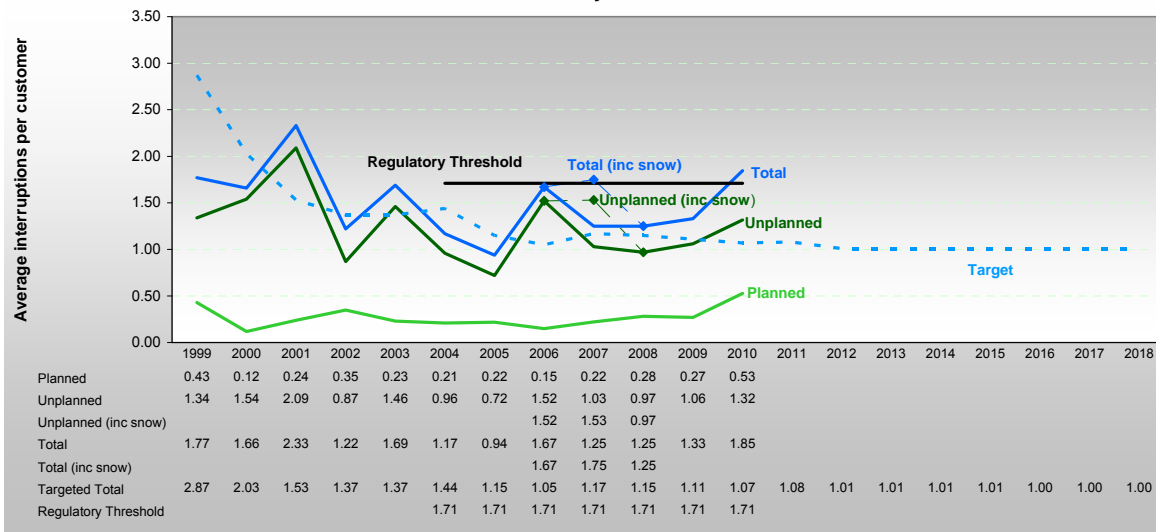
into planned and unplanned interruptions, together with SAIDI and SAIFI targets going forward, are detailed in the following two graphs:

During the year ended March 2010, Rebates totalling \$7.594 Million were credited to Qualifying Customers' power accounts and it is expected that the level of Rebates credited during the coming year will increase to \$8.022.

MainPower Reliability Statistics - SAIDI



MainPower Reliability Statistics - SAIFI



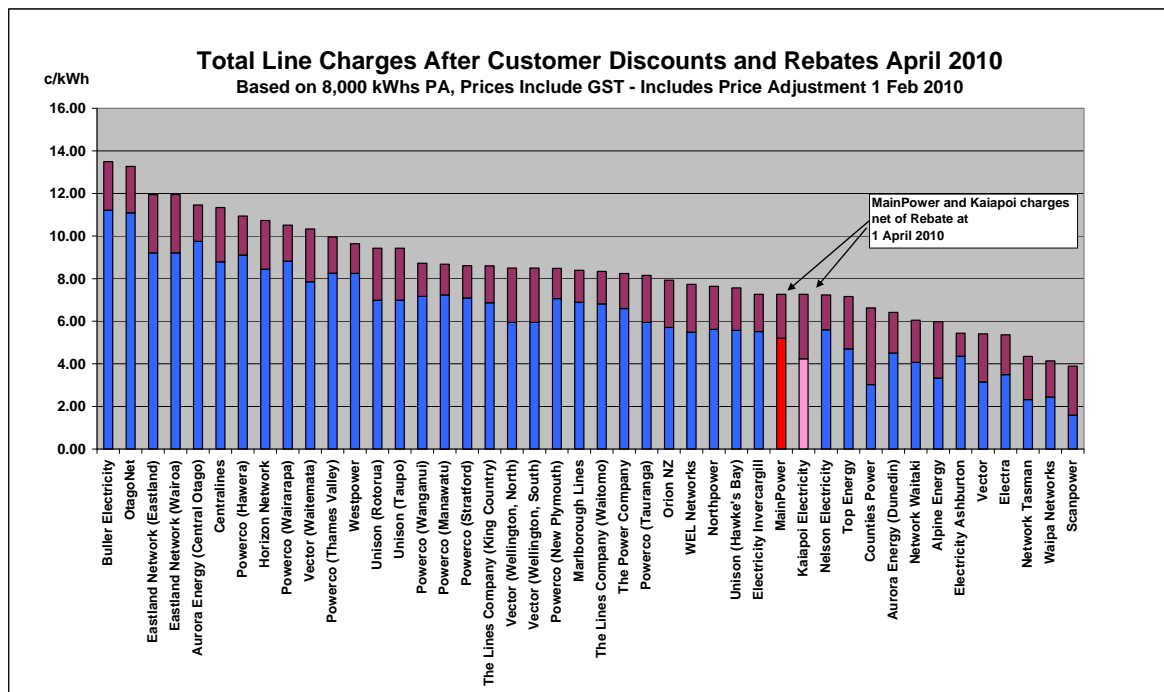
Line Service Charges

During recent years, the Board has taken every opportunity to maintain line service charges at the lowest possible level and, consistent with this policy, has rebated to Qualifying Customers all surpluses that were not required to be retained in the business for either network capital development or operations.

MainPower's distribution line service charges were increased on average by 7.9% effective 1 February 2010. This increase was the first increase in these charges since 1 April 2008.

The Board has maintained Rebates credited to Qualifying Customers' accounts at current levels; i.e. 1.905 cents per unit.

The following graph highlights MainPower's line service charges relative to other New Zealand line companies. The graph includes both Transpower's transmission charge and MainPower's distribution charge net of MainPower's Qualifying Customer Rebate.



Line service charges applicable to customers residing in Kaiapoi are shown separately to highlight the differences in transmission and distribution prices which collectively, net of Rebate, are applied on a uniform basis across MainPower's region.

MainPower's line charges, net of Rebates, will, within each supply category, continue to be charged on a uniform cents-per-kilowatt hour basis across the region irrespective of location of residence or business and quantity consumed.

6. Generation Strategy

“MainPower will seek to develop, either solely or in collaboration with others, renewable generation opportunities that move the North Canterbury and Kaikoura regions towards 75% self-sufficiency in distributed electricity supply within 10 years”

and

“MainPower will, either on its own account or jointly with others, become a recognised and preferred retailer of electricity to its electricity distribution network customers”.

Generation

Priority during the coming year will focus on the development and commissioning those projects currently being progressed, while at the same time identifying a greater pipeline of potential projects, and where appropriate investigating and progressing these through the various development phases.

Cleardale Hydro

This project is located on Little River in the Rakaia Gorge and involves the construction of an 825 kilowatt hydro power station. The station will involve the installation of a river intake weir and gravel exclusion intake, a 2.2 kilometre high pressure penstock, generating facility, tailrace and river discharge system. It is expected to produce approximately 4.5 gigawatt-hours of electricity per annum.

The Cleardale Hydro project will move from construction through commissioning to full operation by September 2010. Construction of the station is well advanced.



Mt Cass Wind Farm

A number of options are available to MainPower for the construction of the wind farm at Mt Cass. These range from approximately 23, 3 megawatt turbines, and up to 68, 0.5 megawatt turbines, generating up to 200 Gigawatt-hours per annum. Thirteen kilometres of new road, 19 kilometres of underground on-site cabling, and 12 kilometres of overhead transmission lines to Waipara will be required.

This project is at the Appeal stage of a Resource Consent Application, having been declined on ecological grounds by the Hurunui District Council.

The Mt Cass wind farm is expected back in the Environment Court later this year with a decision anticipated during early 2011. It has been necessary to change the wind farm turbine configuration as a result of mediation. In order to progress this, a further application for a Resource Consent for that area of the wind farm that was agreed during the mediation process but which was outside of the original Consent Application will be required and it is expected that this will be lodged during May 2010.

The Hurunui District Council has agreed that the revised proposal will be referred direct to the Environment Court and the wind farm therefore, will be progressed as an integrated proposal.

Browns Rock Hydro

The future of the Browns Rock Hydro project remains uncertain because of the lack of security involving a water supply agreement.

The project involves the Consenting and construction of a 10.5 cumec or 3.9 megawatt, hydro generation station from the Waimakariri Irrigation Limited's main irrigation race at Thongcaster Road.

If agreement can be reached with Waimakariri Irrigation Limited on security of water supply, then it will be necessary for the Company to commence an Application for a Resource Consent. It is expected that the Consent process will take 6 to 8 months to bring to a conclusion. Design work for this station will commence once the Resource Consent is approved.

Electricity Retailing

The opportunity for MainPower to re-enter the electricity retailing market and the risk that this opportunity represents will only become clear once certainty surrounding Government's intentions for this sector is passed into law and the new Electricity Authority has established new operating rules, in particular hedge market liquidity.

During late 2010, the Company's Cleardale Hydro Scheme will be commissioned and it will be necessary for the energy that is generated to be sold, irrespective of how certain the retailing sector has become by then.

Priority during the next few months will be to better understand and prepare the detailed business case for entering the electricity retail sector.

This objective will be progressed on the basis that the value of the energy generated at Cleardale will be maximised in the interests of the Company, while at the same time appropriately managing the associated risks.

7. Financial Performance

Financial Performance

A summary of Budgeted Financial Performance, Financial Position and other financial measures and performance statistics for the 2010-2011 financial year and the forecast for the following two financial years for the MainPower Group and for MainPower's Lines Business are provided in the following tables.

The summary forecast for the year ended March 2010 compared to the Financial Budget for this year and the actual financial performance for the years ended March 2008 and 2009, is also made available. The financial performance and financial position for the years ending March 2012 and March 2013 are also provided.

The following should be noted:

- The Group accounts represent the Consolidated Financial Performance of the MainPower Group of Companies, including MainPower's Lines Business (MainPower New Zealand Limited), Electro Services NZ Limited and VirCom Energy Management Services Limited.
- The business and assets of Electro Services NZ Limited were sold to Buller Electricity on the 31 March 2010.
- The Accounting Policies adopted are based on NZ IFRS and are consistent with those detailed in Appendix 3.
- Distribution System Assets have been revalued at 31 March 2010 and ODV based depreciation has been applied to MainPower's Lines Business.
- In preparing the financial information, an allowance for inflation has been made.
- Line services growth forecasts have been applied, taking into account recent trends and known changes to MainPower's load characteristics.
- Increases in the cost of Transpower's transmission services have been "passed through" and recovered through future additional price movements.
- Estimates of distribution line service charges have been determined on the basis that any increase, inclusive of any adjustment to Rebates and the recovery of any increase in Transpower's transmission charge, will not exceed 10% or 3% of the cost of delivered electricity in any year.
- Capital and maintenance expenditure included in the Financial Statements is consistent with the estimates provided in MainPower Network's Asset Management Plan.
- Only the costs of construction of Consented generation projects have been included in the budgeted Statements of Financial Performance and Financial Position.
 - The costs associated with the development and construction of the Cleardale Hydro Project are included in the Financial Statements.
- Taxation at 30 cents in the dollar has been applied in future years.
- All significant inter-company transactions have been eliminated for performance measurement and comparative purposes.
- New business acquisitions or new business establishment beyond the investigation stage have been excluded.
- The Financial Statements exclude any further transfer of funds other than interest to MainPower's Disaster Insurance Fund.
- The costs associated with the development of the Mt Cass wind farm and Browns Rock hydro have been excluded from the Financial Statements.

Performance Statement

Financial:

MainPower Group:

Year Ending March	Actual 2008 \$000	Actual 2009 \$000	Budget 2010 \$000	Forecast 2010 \$000	Budget 2011 \$000	Budget 2012 \$000	Budget 2013 \$000
Financial Performance							
Operating Revenue	65,645	65,033	62,759	67,092	58,162	55,609	53,440
Profit Before Tax and After Rebates	5,389	5,174	3,538	3,046	6,871	8,208	11,195
Taxation	(2,140)	(1,158)	(1,512)	(1,683)	(2,076)	(2,512)	(3,119)
Profit for the year	3,249	4,016	2,026	1,363	4,795	5,696	8,076
Rebates Credited to Qualifying Customers Power Accounts	7,172	7,561	7,826	7,594	8,022	7,854	7,702
Total Maintenance Expenditure	3,586	4,799	4,285	3,593	3,359	3,310	3,370
Total Capital Development Expenditure	13,338	15,829	16,028	14,935	23,389	15,210	15,581
Financial Position							
Net Working Capital	16,103	11,997	644	1,862	(7,400)	(4,723)	(2,175)
Non Current Assets	157,720	165,469	172,691	182,576	197,109	199,531	205,279
Total Assets	173,823	177,466	173,335	184,438	189,709	194,808	203,104
Liabilities	36,766	36,393	30,416	30,013	30,109	30,257	30,477
Net Assets	137,057	141,073	142,919	154,425	159,600	164,551	172,627
Share Capital	30,400	30,400	30,408	56,774	56,774	56,029	56,029
Reserves and Minority Interests	106,657	110,673	112,511	97,651	102,826	108,522	116,598
Equity	137,057	141,073	142,919	154,425	159,600	164,551	172,627
Financial Ratios							
<u>MainPower Group</u>	%	%	%	%	%	%	%
Profit Before Tax / Net Assets	3.98	3.72	2.39	2.76	4.38	5.45	6.64
Profit after Tax / Total Assets	1.90	2.29	1.18	0.77	2.56	2.96	4.06
Profit after Tax / Equity	2.40	2.89	1.43	0.92	3.05	3.51	4.79

Lines Business Only:

<u>Lines Business</u>	%	%	%	%	%	%	%
Profit Before Tax / Net Assets	5.91	5.63	4.08	8.94	9.41	10.49	11.65
Profit after Tax / Total Assets	4.18	5.17	3.19	4.83	5.45	5.67	6.87
Profit after Tax / Equity	4.16	4.11	2.63	4.87	6.59	6.89	8.29

Financial information for the Lines Business 2008 financial year has not been restated to reflect the adoption of NZ IFRS, while the financial information Budget and Forecast for 2009 onwards has been prepared under NZ IFRS. Lines Business Ratios for 2010 Forecast and later years are before Rebates.

Customer Service and Statistics

Year Ending March	Actual 2008	Actual 2009	Budget 2010	Actual 2010	Budget 2011	Budget 2012	Budget 2013
Quality of Supply							
SAIDI - Average Minutes Customer is without Power during year	110.67	146.25	103.00	140.12	97.00	96.00	90.00
SAIFI - Average Supply Interruptions per Customer during year	1.26	1.33	1.11	1.84	1.07	1.08	1.01
Unplanned Faults per 100 Kms during year	2.40	2.38	2.08	4.48	2.00	2.00	1.96
Statistics							
Lines Business							
Total Line Service Customers (Number)	32,545	33,248	34,245	33,793	34,874	35,990	37,142
Gigawatthours Purchased (GWHs)	520.33	537.67	554.50	545.11	571.17	584.93	599.10
Gigawatthours Sold (GWHs)	492.23	509.15	523.57	516.36	539.34	553.11	567.28
Electricity Loss Ratio (%)	5.40	5.31	5.58	5.28	5.57	5.44	5.31
Network Maximum Demand (MW)	86.38	91.00	94.00	89.25	94.00	96.00	99.00
Load Factor (%)	68.76	70.40	70.40	69.72	69.40	69.6	69.1
Transformer Capacity (kW)	374.30	380.00	395.00	411.52	426.00	441	456
Transformer Capacity Utilisation Factor (%)	23.08	22.65	22.65	21.69	22.06	22.22	22.36
Circuit Length Lines (kms)	4,526	4,556	4,580	4,741	4,771	4,801	4,831
Efficiency Performance							
Capital Cost per km				\$ 2,548	\$ 2,982	\$ 2,116	\$ 2,368
Capital Cost per ICP				341	392	273	300
Operating Cost per km				849	867	878	888
Operating Cost per ICP				113	114	113	112
MainPower Group							
Number of Work Related Accidents resulting in Lost Time	12	18	Nil	10	Nil	Nil	Nil
Total Number of Lost Days as a result of Work Related Accidents	293	132	Nil	106	Nil	Nil	Nil
Total ACC Levies Paid	\$000 215	\$000 218	\$000 291	\$000 266	\$000 247	\$000 254	\$000 262
Total Local Body Rates Paid	142	164	166	147	151	156	160

8. Other Measures

Distributions to Shareholders and Rebates

Clause 4.3 of the Trust's Deed requires Trustees to waive their rights to receive any dividends from MainPower until there has been a distribution of 60% of the Trust's Capital.

The gifting by the Trust of Redeemable Preference Shares to Qualifying Customers in accordance with clause 4.11 and Schedule 8 of the Deed provides the Board with the opportunity to maintain its Rebate Scheme in favour of Qualifying Customers.

This Scheme will remain in place until such time as a 60% Capital Distribution has occurred. The Board therefore will not be recommending any dividend for the current financial year.

The 2010-2011 Financial Budget provides for \$8.022 million to be credited to Qualifying Customers as Rebates. This represents approximately 61% of Lines Business pre-tax profits before capital contributions from customers, or approximately 27.5% of total distribution lines revenue.

A further \$957,000, representing the "Community Dividend" which is in addition to the customer Rebates of \$8.022 million, will fund a range of initiatives associated with the promotion of regional economic development, energy efficiency and related matters, and targeted community sponsorship. This additional dividend represents approximately 10.6% of total distributions; i.e. including Rebates.

Acquisition of Shares in Other Companies

The acquisition of shares in other companies or organisations will only proceed where the Board concludes such an acquisition is in the best interests of MainPower.

The Board will consult the Trust in circumstances where an acquisition is considered to be significant. The Board will be guided by the Major Transaction Rule provided in MainPower's Constitution. A major transaction is defined as the acquisition of, or an agreement to acquire, whether contingent or not, assets equivalent in value to 25% or more of the assets of MainPower before the acquisition.

Return on Shareholders' Equity for the MainPower Lines Business

MainPower's budgeted Return on Equity for the Lines Business for the financial year ending 31 March 2011 after rebates and taxation is expected to be \$4.241 million or 2.65%. The Return on Equity for the Lines Business, before rebates and after adjusting for notional tax on rebates is 6.59%. This is considered an adequate return, given the expected level of new investment in the Network and the current level of Rebate credited to Qualifying Customers.

Return on Shareholders' Equity for the MainPower Group of Companies (Consolidated)

MainPower's budgeted Return on Equity for the Group for the financial year ending 31 March 2011 after rebates and taxation is expected to be \$4.795 million or 3.05%.

Information to be Provided to Shareholders

The following information will be made available to the Trust and, where applicable, to other Shareholders, i.e., all information required to be disclosed to Shareholders under the Companies Act 1993 and the Financial Reporting Act 1993 and any other information the Board considers should be in the public arena including:

- Annual Report
- Interim Report
- Statement of Corporate Intent
- Asset Management Plan
- Business Continuity Plan
- Thresholds Compliance Statement
- Electricity Information Disclosure Information

The Board will meet with Trustees on a regular basis throughout the year in order to update Trustees on the performance of MainPower and its subsidiaries.

The Board will also report to Trustees on significant operational matters, changes to MainPower's company structure and progress on current and new business initiatives.

Appendix 1: Corporate Governance Statement

1. Role of the Board

The Board is responsible for the overall corporate governance of MainPower. The Board guides and monitors the business and affairs of MainPower on behalf of both the Ordinary Shareholder, the MainPower Trust, to whom it is primarily accountable and the Preference Shareholders of the Company, ie, the Qualifying Customers in the region.

The Board's primary objective is to satisfy the shareholder's wish of enhancing shareholder value through a commitment to customer service and regional prosperity. Customer service is measured in terms of both financial return and MainPower's ability to deliver excellence in electricity distribution system security and reliability, responsiveness to customers, quality and price competitiveness. Regional prosperity is measured in terms of MainPower's role in leading and/or supporting regional initiatives for economic development.

The Board also aims to ensure that MainPower is a good employer and corporate citizen.

2. Board Responsibilities

The Board acts on behalf of and is accountable to the shareholders. The Board seeks to identify the expectations of shareholders, as well as other legislative and ethical expectations and obligations. In addition, the Board ensures areas of significant business risk are identified by management and that arrangements are in place to adequately manage these risks.

To this end the Board will:

- set the strategic direction of the Company in consultation with management, having particular regard to rate of return expectations, financial policy and the review of performance against strategic objectives;
- maintain an understanding of the electricity industry, and continue to monitor industry reform, security of supply, industry governance and Government intervention in order to identify the impact on MainPower's business;
- monitor and understand the expectations and needs of the growing North Canterbury and Kaikoura communities;
- remain informed about Company affairs in order to exercise judgement about management and its procedures;
- identify risks and manage those risks by ensuring that the Company has implemented comprehensive systems of internal control together with appropriate monitoring of compliance activities;
- approve and foster a corporate culture which requires management and every employee to demonstrate the highest level of ethical behaviour;
- appoint, review the performance of, and set the remuneration of, the Group Managing Director;
- approve transactions relating to acquisitions and divestment, and capital expenditure above delegated authorities;
- approve operating and development budgets, review

performance against these budgets, and monitor corrective actions by management;

- ensure the preparation of the Statement of Corporate Intent, Interim and Annual Reports;
- enhance relationship with all stakeholders.

3. Delegation

The Board delegates the day-to-day responsibility for the operation and administration of MainPower, including management of human resources and implementation of the risk management strategy set by the Board, to the Group Managing Director.

The Group Managing Director is responsible for ensuring MainPower achieves its business objectives and values. The Board ensures that the Group Managing Director, and through him, the senior management are appropriately qualified, experienced and remunerated to discharge their responsibilities.

4. Codes and Standards

All Directors, executives and staff of MainPower New Zealand Limited are expected to act with integrity and to promote and enhance the Company's reputation with its various stakeholders. Behavioural standards and accountabilities, the use of confidential information, trade practices, health, safety and environmental management are set out in a range of formal codes, policies and procedures. These are subject to regular independent review to ensure they remain current and appropriate.

5. Conflicts of Interest

All Directors and senior managers are required to disclose any specific or general interests which could be in conflict with their obligations to MainPower New Zealand Limited and its subsidiaries.

6. Board Review

The Board will undertake a self-assessment of its performance and the performance of individual Directors on at least a biennial basis. The result of this review will be made available to the MainPower Trust.

7. Company Constitution

The Company's Constitution sets out policies and procedures on the operations of the Board, including the appointment and removal of Directors. The Constitution specifies that the number of Directors will not at any time be more than eight nor less than four, and that one-third of the Directors, other than the Managing Director will retire by rotation each year.

Non-Executive Directors of MainPower are elected by the Ordinary Shareholders. The Board currently comprises seven Directors, being six Non-Executive Directors and the Group Managing Director.

The Directors of the Company currently in office are:

Wynton Gill Cox	Chairman
Peter Antony Cox	Deputy Chairman
Allan Berge	Group Managing Director
Trevor Burt	Director
Anthony Charles King	Director
Judith Anne Hoban	Director
Stephen Paul Lewis	Director

8. Meetings

The Board meets monthly to review, monitor, and initiate action in respect of the strategic direction, financial performance and compliance of the Company and its subsidiaries. MainPower's Business Plan details matters which require Board consideration, including long-term strategic direction, operating and capital budgeting, statutory and risk management. In addition to the scheduled meetings, the Board meets several times each year to consider specific opportunities and other matters of importance to the Company. Annually the Board takes the opportunity to debate and review its long term strategic direction.

9. Committees

The Board has four standing committees. They provide guidance and assistance to the Board with overseeing certain aspects of the Board's corporate governance. Each standing committee is empowered to seek any information it requires and to obtain independent legal or other professional advice if it is considered necessary.

9.1. Audit Committee

The Audit Committee operates under a comprehensive Charter, which outlines the Audit Committee's authority, membership, responsibilities and activities and which is approved by the Board. The Charter is reviewed annually against best practice and emerging trends. The Audit Committee's primary role is to review MainPower's Financial Statements and related announcements and to liaise with the external auditor on external and internal audit matters on behalf of the Board.

The activities of the Audit Committee are reported annually. The Audit Committee invites the Managing Director, Finance Manager and the external auditor to be in attendance at meetings of the Committee from time to time in accordance with the Audit Committee Charter. The Audit Committee also monitors the independence of the auditor, and approves and reviews those services provided by the auditor other than in their statutory audit role. In addition, the auditor provides a quarterly certificate to the Audit Committee of any non-statutory audit service provided to the MainPower Group.

Current membership of the Audit Committee, Mr P A Cox, Chairman, Mr W G Cox and Mr T Burt.

Following meetings of the Committee, the Chairman reports all findings and recommendations to the Board.

9.2 Remuneration Committee

The Remuneration Committee's primary role is to advise the Board on performance reviews, remuneration policies and practices and to make recommendations on remuneration packages and other terms of employment for non executive directors, executive directors and senior executives which fairly reward individual performance in relation to their contribution to the Company's overall performance.

Two Non-Executive Directors are appointed to the Remuneration Committee on an annual basis.

In order to retain and attract Directors and Executives of sufficient calibre to facilitate the efficient and effective governance and management of the Company's operations, the Remuneration Committee seeks advice of external advisors on remuneration practices.

Current membership of the Remuneration Committee is Mr W G Cox, Chairman, and Mr T Burt.

9.3 Generation and Retail Committee

The Generation and Retail Committee's primary role is to assist, guide and facilitate the implementation of the Company's generation strategy. Current membership of the Generation and Retail Committee is Mr T King, Chairman and Mr S Lewis.

9.4 Community Relationships Committee

The Community Relationships Committee's primary role is to advise the Board on matters and issues affecting and impacting upon the Community. Current membership of the Committee is Mrs J A Hoban, Chairperson.

10. Risk Management

The Board puts considerable emphasis on risk management, given the critical nature of this aspect to the Company's operations, and continually monitors the operational and financial aspects of the Company's activities and the Company's exposure to risk. "Risk Management and Compliance" is a permanent item on the Agenda of the monthly meeting of Directors. An annual review of the level and appropriateness of the Company's insurance cover and a six monthly report by management addressing all areas of statutory compliance, supports the Board's risk management process.

To fulfil its responsibility, management maintains appropriate accounting records and systems of internal control.

MainPower has developed a comprehensive Business Continuity Plan. This Plan details the criteria and guidelines to apply to cope with a number of crisis scenarios. The Company actively participates with Civil Defence and other relevant agencies in order to test the Plan for effectiveness.

11. Non Executive Directors' Fees

Fees for non executive directors are based on the nature of their work and responsibilities. Independent professional advice on the level and structure of non executive directors' fees, is made available to the Board on an annual basis. Any recommendation made to shareholders at the Annual Meeting on a change in directors' fees is in accordance with this independent advice.

12. The Role of Shareholders

The Board aims to ensure that shareholders are informed of all major developments affecting the Group's state of affairs. Each year, a Statement of Corporate Intent is developed between the Board and the MainPower Trust. This Statement details the Company's intent with respect to:

- Corporate Strategy
- Strategic Development
- MainPower's Operating Environment

- Financial Performance
- Corporate Governance

Information is also communicated to shareholders in the Annual Report, the Interim Report and at regular formal and informal meetings with the MainPower Trust. The Board encourages full participation of all shareholders at the Annual Meeting.

The Statement of Corporate Intent is the subject of a joint Board and Trustee Workshop prior to its adoption.

13. Customers

During the last few years MainPower has developed and expanded its relationship with its customers through the publication of Live Lines, customer surveys, sponsorships, community based initiatives, publication of its Asset Management Plan, Annual and Interim Reports and Statement of Corporate Intent.

14. Subsidiary Companies

MainPower's subsidiary companies each have a formally constituted Board of Directors. The MainPower New Zealand Limited Board receives monthly updates on and monitors the performance of each of its subsidiary companies.

Appendix 2: Code of Sustainable Practice

1. Introduction

This Code of Sustainable Practice sets out MainPower's requirements for achieving sustainability. Conformance to the Code will assist MainPower in its implementation of sustainability in its business practices.

This Code has been developed from the Energy Supply Association of Australia Code of Sustainable Practice 2004. The Energy Supply Association of Australia has made available the Code for MainPower's use, and has given notice that the current issue is subject to further review. MainPower will review its Code following the completion of the Australian review.

The Code was developed by the Energy Supply Association of Australia from the former Electricity Supply Association of Australia Code of Environmental Practice 2001, which included a commitment to the principles of sustainable development. It takes into account a number of publications including the World Business Council for Sustainable Development 2002 report, "Sustainability in the Electricity Sector", and Standards such as the ISO 14000 series on Environmental Management and the Australian Standard 8000 series on Corporate Governance.

MainPower acknowledges the encouragement of the Energy Supply Association of Australia with respect to promoting the use of the Code.

2. Sustainability for MainPower

MainPower notes that the concept of sustainability and its application to business is still evolving. MainPower is strongly of the view that any business adopting sustainability as a central business philosophy will be recognised by stakeholders as being responsible and progressive.

Sustainable development is defined as:

"forms of progress that meet the needs of the present without compromising the ability of future generations to meet their needs".

Consistent with this definition, MainPower is expected to:

"consistently balance the economic, environmental, social and corporate governance needs of the business with a view to understanding and protecting the potential needs of future generations".

Such a balance will result in MainPower:

- Achieving a fair return on the assets employed in the business
- Using appropriate technology
- Being environmentally responsible
- Being socially responsible

MainPower will provide services and benefits which are consistent with the Company's commitment to sustainability; the advantages of which will include:

- Enhancing MainPower's efficiency through continuous improvement
- Improving MainPower's business culture

- Improving accountability to all stakeholders
- Reducing MainPower's risk profile
- Optimising resource use and reduce costs; and
- Enhancing MainPower's reputation

3. Code of Sustainable Practice

The Code covers three broad areas of sustainability; i.e.

- An economic strategy
- An environmental strategy; and
- A social strategy.

The commitment by MainPower to the Code of Sustainable Practice requires:

- Implementation and adherence to the Code;
- Reporting of sustainability performance to stakeholders; and
- Assessment and reporting of performance against the Code.

Guidelines providing more detail on appropriate actions under the three strategies (Economic, Environmental and Social) to assist in the implementation and assessment of the Code are attached.

4. Economic Strategy

4.1 Policy

MainPower is committed to meeting its stakeholders' expectations in relation to providing sound business practice and ethics.

MainPower will encourage the efficient supply and responsible use of electricity, promote sound resource management practices, and support research into improving the sustainability of electricity supply.

4.2 Actions

4.2.1 Comply with legislation and regulations

MainPower as a minimum will comply with all legislation and regulations relevant to the business.

4.2.2 Support ethical business practice

MainPower will maintain and develop further, policies, codes of conduct and company practices which promote a high level of business ethics and practice, and corporate governance in relation to management, employees, customers, suppliers, the environment, the community and other stakeholders.

4.2.3 Integrate sustainability principles into planning and decision-making

MainPower will integrate sustainability principles (economic, environmental and social) into corporate planning and decision-making. This will include environmental impact assessments, social impact assessment on local communities and consideration of resource utilisation in operational and investment planning.

4.2.4 Deliver competitive return on assets/equity

MainPower will seek to provide a competitive

return on assets and equity in order to achieve targets, to ensure assets are responsibly maintained and to increase shareholder value prudently.

4.2.5 Improve productivity and efficiency

MainPower will seek to improve productivity by improved operational, resource use and investment efficiencies.

4.2.6 Apply transparent, fair and affordable prices

MainPower will support pricing regimes and further electricity reforms that are fair and reasonable.

4.2.7 Support research and development

MainPower will maintain and develop further, industry capabilities in management, technology, environmental protection and social understanding by monitoring and supporting where appropriate, research and development.

4.2.8 Provide training and education

MainPower will provide staff training and education programs to ensure that its capabilities and succession strategy are developed and continuous improvement achieved.

4.2.9 Support business development

MainPower will encourage, and where appropriate support, business development initiatives in the community where these initiatives advance regional prosperity.

4.2.10 Manage liabilities and risk

MainPower will have risk assessment and management systems which reduce liabilities and mitigate risks through efficient financial and operational planning, audit programs and the implementation of continual improvement mechanisms.

4.2.11 Measure and report performance

MainPower will develop and use appropriate indicators to measure "triple bottom line" (economic, environmental and social) performance and will regularly report on its performance as well as general sustainability issues in the business.

5. Environmental Strategy

5.1 Policy

MainPower is committed to the development and implementation of environmental management systems, including performance standards and management plans and the adoption of continual improvement principles to minimise environmental impacts.

MainPower is:

- Committed to employee environmental education, safe waste management and avoidance of potentially hazardous materials.
- Committed to complying fully with relevant environmental legislation and regulations.
- MainPower supports research into reducing

environmental impacts of the energy supply system, including support for renewable and alternative energy technologies and the protection of natural areas.

5.2 Actions

5.2.1 Comply with environmental legislation and regulations

MainPower will, as a minimum, comply with all environmental legislation and regulations.

5.2.2 Implement environmental management systems

MainPower will adopt sound environmental management practices and will maintain its environmental management in line with internationally recognised and verified standards. This includes the use of environmental policies, management plans, risk analysis, continuous improvement, employee education and training, emergency preparedness and reporting. MainPower will continue to be certified at ISO 14001.

5.2.3 Develop and implement low environmental impact technologies and measures

MainPower will strive to manage the continual improvement of discharges to the environment, develop cost-effective, low environmental impact technologies and measures, and the management of emergency situations.

5.2.4 Develop greenhouse gas reduction strategies

MainPower will quantify its carbon footprint and will develop and implement appropriate greenhouse gas reduction or mitigation strategies.

5.2.5 Develop renewable energy

MainPower will seek to develop opportunities for the greater use of renewable energy in the region.

5.2.6 Promote energy and resource efficiency

MainPower will seek to promote cost-effective energy and resource efficiency in its own operation, in co-operation with the community, among its customers and in the broader regional economy. This includes promoting the responsible use of electricity and reducing electricity waste.

5.2.7 Undertake energy efficiency and energy conservation-related education and training

MainPower will raise awareness and skills among employees, contractors and other stakeholders concerning the efficient use of electricity.

5.2.8 Rehabilitate sites

MainPower will plan for and rehabilitate land and the local environment affected by its operation.

5.2.9 Support conservation programs

MainPower will support nature conservation and heritage preservation.

5.2.10 Project Development

MainPower will ensure that projects are delivered in an environmentally responsible manner.

6. Social Strategy

6.1 Policy

MainPower will promote a socially responsible approach to the management of all its business activities. MainPower will continue to work with all stakeholders including employees, Government, Government agencies, Tangata Whenua, business and the local community to develop and implement practices that are equitable, safeguard the environment, and which minimise adverse social impacts and risks. In order to achieve this, MainPower will seek to achieve clear, open and honest communication with all stakeholders.

6.2 Actions

6.2.1 Achieve equitable outcomes

MainPower will adopt decision-making processes and policies which take into account the views of all stakeholders - including shareholders, employees, customers and the community - in achieving equitable outcomes and contributing to social advancement in the region.

6.2.2 Provide safe and reliable service

MainPower will develop and maintain energy supply and distribution systems to provide a safe and reliable service through sound asset management practices, and provide advice to the community on the safe use of electricity.

6.2.3 Adopt a Precautionary Approach

MainPower will use a precautionary (prudent) approach on issues (such as electric and magnetic fields) where scientific knowledge is inconclusive to reduce the risk of serious or irreversible consequences.

6.2.4 Promote employee health and safety

MainPower will, as a minimum, comply with all health and safety legislation and regulations, and provide high standards of health and safety for employees and contractors in all aspects of business management and operations.

6.2.5 Promote employee wellbeing

MainPower will support employee wellbeing in all aspects of employment (such as pay and conditions, training, equal opportunity, human rights, etc.) with a view to enhancing business performance, and providing a balanced lifestyle and job satisfaction for employees.

6.2.6 Consult stakeholders

MainPower will have processes for identifying, engaging and openly consulting relevant stakeholders, and consult stakeholders (through for example surveys or community meetings) on significant sustainability issues related to the electricity business.

6.2.7 Provide information

MainPower will provide timely information and education for stakeholders and the community on business actions and operations, particularly those which have significant effects, including the regular reporting of performance.

6.2.8 Support key social programs

MainPower will, from an electricity supply perspective, maintain awareness of social issues, concerns and priorities of its stakeholders and support social development programs, particularly those of benefit in the region, in consultation with the community.

6.2.9 Support employment

MainPower will recognise the value of local employment and suppliers, and support such activities where feasible.

Appendix 3: Statement of Accounting Policies

1. Statement of Compliance

MainPower New Zealand Limited (the company) is a profit-oriented company incorporated in New Zealand under the Companies Act 1993. The group consists of MainPower New Zealand Limited and its subsidiaries (refer also to note 12). The company is a reporting entity for the purposes of the Financial Reporting Act 1993 and its financial statements comply with that Act.

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for profit-orientated entities.

Compliance with NZ IFRS ensures that the group financial statements comply with International Financial Reporting Standards (IFRS). The parent entity financial statements also comply with IFRS.

2. Basis of Financial Statement Preparation

These financial statements are presented in New Zealand dollars, rounded to the nearest thousand.

These financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments as outlined in note 1(e) and property, plant and equipment as outlined in note 1(j) below. Cost is based on the fair value of the consideration given in exchange for assets.

Accounting policies have been selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing these financial statements for the year ended 31 March 2009 and the comparative information presented in these financial statements for the year ended 31 March 2008.

3. Critical Judgements, Estimates and Assumptions in Applying the Entity's Accounting Policies

Preparing financial statements to conform with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and assumptions have formed the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the period if the change affects only that period, or into future periods if it also affects future periods.

In the process of applying the company's accounting policies, management has made the following judgements, estimates and assumptions that have had the most significant impact on the amounts recognised in these financial statements.

The company operates an extensive integrated electricity distribution network comprising large numbers of relatively minor individual network asset components. These components are replaced over time as part of an ongoing maintenance/refurbishment programme, consistent with the group's approved network asset management plan. The costs associated with recording and tracking all individual components replaced and removed from the network substantially outweighs the benefits of doing so. Management has estimated the quantities and the carrying values of components removed from the network in each reporting period. Any errors in the estimates of such removals are corrected at the next asset revaluation, and are not considered to be material on either an annual or a cumulative basis with respect to either reported net profits or carrying values of the network. Refer also note 1(j) property, plant and equipment regarding revaluations.

The company invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of an estimation of usage, adjusted for the latest washed-up data available from the electricity wholesale market and certain metering data from electricity retailers. When determining line revenue management recognise actual amounts billed during the financial period and, if material, make an adjustment to recognise the estimated value of unread meters where applicable.

Other areas where judgement has been exercised in preparing these financial statements are in relation to assessing the level of any unrecoverable work in progress and calculating provisions for employee benefits.

4. Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of these financial statements:

4.1 Basis of consolidation

4.1.1 Subsidiaries

Subsidiaries are entities controlled by the group. The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired, exceeds the cost of acquisition, the difference is credited to the income statement in the period of acquisition. The consolidated financial statements include the information and results of each subsidiary from the date

on which the group obtains control and until such time as the group ceases to control the subsidiary. In preparing the consolidated financial statements, all intergroup balances and transactions, and unrealised profits arising within the group are eliminated in full.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet.

4.1.2 Associate Companies - equity accounting

Associates are those entities in which MainPower New Zealand Limited holds an interest in the equity and over which MainPower New Zealand Limited exercises significant influence, generally a shareholding of between 20% and 50% of the voting rights.

MainPower New Zealand Limited's associate company, Hurunui Water Project Limited has been included in the financial statements on an equity accounting basis. Equity accounting involves recognising the Group's share of net surpluses or deficits as part of operating revenue in the Income Statement. In the Balance Sheet, the Group's interest in the associate company is carried at an amount that reflects the Group's share of the net assets of that Company.

In the parent financial statements, investments in subsidiaries and the associate companies are stated at cost.

4.2 Goods and Services Tax

Revenues, expenses, cash flows and assets are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense. Cash flows in respect of payments to and receipts from the Inland Revenue Department are shown net in the statement of cash flows.

4.3 Foreign currency

The functional and presentation currency is New Zealand dollars. Transactions in foreign currencies are translated at the foreign exchange rate ruling on the day of the transaction. Foreign currency monetary items at balance date are translated at the exchange rate ruling at that date. Exchange differences are recognised in the income statement in the period in which they arise.

4.4 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand; cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

4.5 Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the

investment within the timeframe established by the market concerned.

The classification into the following categories depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

4.5.1 Held to maturity investments

Certain deposits, notes and bonds held by the group classified as being held to maturity are measured at amortised cost using the effective interest method.

Investments in subsidiaries and associates are stated at cost less impairment.

4.5.2 Loans and receivables

Accounts receivable are stated at cost less impairment losses. All known bad debts are written off during the financial year. Intergroup balances due from subsidiaries and associates are stated at cost less impairment losses.

Contract work in progress is stated at cost plus attributable profit to date (based on percentage of completion of each contract) less progress billings. Cost includes all costs directly related to specific contracts and an allocation of general overhead expenses incurred by the contracting subsidiaries. Losses on contracts are taken to the income statement in the period in which they are identified.

Details of the impairment tests performed are disclosed in note 4.9.

4.6 Inventories

Inventories are valued at the lower of cost, determined on a weighted average basis, and net realisable value.

4.7 Income tax

Income tax expense in relation to the surplus for the year comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantially enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised. Deferred tax is not recognised if the temporary

difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit. Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantially enacted by balance date.

Current tax and deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

4.8 Leased assets

MainPower leases certain plant and equipment and land and buildings. All leases are classified as operating leases. Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are recognised as an expense on a straight-line basis over the lease term.

4.9 Impairment of assets

The carrying amounts of the group's assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists for an asset, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amounts are the higher of fair value (less costs to sell) and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

A cash generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. An impairment of goodwill is not subsequently reversed.

If a revalued asset is determined to be impaired, then the impairment is firstly applied against the related component of the revaluation reserve, with any remaining impairment loss expensed in the income statement. If the impairment loss is subsequently reversed, the reversal is firstly applied to the income statement to the extent of previously expensed impairment losses relating to that asset, with any further increase taken to the revaluation reserve.

For assets which are not revalued, an impairment loss is expensed immediately in the income statement. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Equity instruments, being shares in subsidiaries, are deemed to be impaired whenever there is a significant or prolonged decline in fair value below the original purchase price. Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit and loss.

4.10 Property, plant and equipment

Land and buildings are valued at fair value. Fair value is determined on the basis of a periodic independent valuation prepared by external valuers, based on discounted cash flows or capitalisation of net income (as appropriate). The fair values are recognised in these financial statements of the group, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from fair value.

The electricity distribution network is valued at fair value. Fair value is determined on the basis of a periodic independent valuation prepared by external valuers, based on an optimised depreciated replacement cost methodology. The fair values are recognised in these financial statements of the group and are reviewed at the end of each reporting period to ensure that the carrying value of the distribution system is not materially different from fair value. Consideration is given as to whether the distribution system is impaired as detailed in note 1(i).

Any revaluation increase arising on the revaluation of land and buildings and the distribution system is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in profit or loss, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of land and buildings and the distribution system is charged as an expense in the income statement to the extent that it exceeds the balance, if any, held in the asset revaluation reserve relating to a previous revaluation of that asset.

Depreciation is provided on property, plant and equipment, including freehold buildings and landscaping.

Depreciation on revalued buildings and the distribution system is charged to the income statement. On the subsequent sale or retirement of a revalued item, the attributable revaluation surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings. Plant and equipment are valued at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. The cost of self-constructed assets includes the cost of materials and direct labour and an allowance for overheads.

Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period. The main bases for the calculation of depreciation are as follows:

	Years
Electricity distribution network	7 to 70
Building	40 to 100
Landscaping	25
Office furniture and equipment	3 to 10
Plant and equipment	2 to 14
Vehicles	4 to 5

The carrying amount for an item of property, plant and equipment is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, the amounts included in the revaluation reserve in respect of those assets are transferred to retained earnings.

4.11 Intangible assets

4.11.1 Computer software

Acquired computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives. Usually this period does not exceed 5 years.

4.11.2 Lease Premiums

Lease premiums are valued at cost less accumulated amortisation. Cost is amortised over the period of the lease.

4.11.3 Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised if future benefits are expected to exceed these costs. Otherwise development expenditure is recognised as an expense in the period in which it is incurred.

4.12 Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and is not amortised, but it is tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Refer also to note 4.9.

4.13 Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the

purchase of goods and services. Trade payables are recognised at cost.

4.14 Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in the income statement over the period of the borrowing using the effective interest rate method.

4.15 Employee benefits

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months, such as long service, sickness and retiring leave, are measured as the present value of the estimated future cash outflows to be made by the group in respect of services provided by employees up to reporting date taking into account years of service, years to entitlement and the likelihood staff will reach the point of entitlement, determined annually by independent actuarial valuation.

4.16 Financial instruments issued by the group

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

4.17 Revenue recognition

Revenue from the sale of goods is recognised when the group has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract at the balance date as measured by progress invoices raised to customers in conjunction with an assessment of costs incurred to date.

Dividend revenue from investments is recognised when the shareholders' rights to receive payment have been established. Interest revenue is recognised in the income statement as it accrues, using the effective interest rate method.

4.18 Distinction between capital and revenue expenditure

Capital expenditure is defined as all expenditure incurred in the creation of a new asset and any expenditure that results in a significant restoration or increased service potential for existing assets. Constructed assets are included in property, plant and equipment as each becomes operational and available for use. Revenue expenditure is defined as expenditure that is incurred in the maintenance and operation of the property, plant and equipment of the group.

4.19 Capital contributions

Capital contributions from customers, relating to assets, are credited directly to income when the asset is connected to the network.

4.20 Borrowing costs

Borrowing costs are expensed using the effective interest rate method. Borrowing costs associated with major generation capital projects under construction have been capitalised.