THE POWER TO MAKE IT HAPPEN

MAINPOWER NEW ZEALAND LIMITED
STATEMENT OF CORPORATE INTENT
2012 - 2013

Statement

of

Corporate Intent

2012-2013

Directory

MainPower New Zealand Limited

Board of Directors

W G Cox	*Chairman*
P A Cox	*Deputy Chairman*
A Berge	*Managing Director*
T Burt	*Director*
J A Hoban	*Director*
A C King	*Director*
S P Lewis	*Director*

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MainPower Trust

Trustees

A J Hall	*Chairman*
R W Allison	*Deputy Chairman*
J R Abernethy	*Trustee*
K W Brookfield	*Trustee*
C M McMillan	*Trustee*
B R Hassall	*Trustee*
N R Jones	*Trustee*

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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 2012, 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

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

(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.

2. Statement of Intent: A Strategic Perspective

2.1 Vision

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

2.2 Principal Assumption

"MainPower will continue to be owned by its customers comprising the North Canterbury and Kaikoura communities".

MainPower will continue to be wholly owned by the MainPower Trust on behalf of the Trust's beneficial interests; i.e. MainPower's line services customers as to 80% and the North Canterbury and Kaikoura communities for the remaining 20%.

The MainPower Trust has commenced a review of a proposed 60% Capital Distribution. The subject of this review relates to a possible distribution of 60% of MainPower's Ordinary Shares which are currently held by the MainPower Trust. These Shares will, if a distribution is to proceed, be distributed to MainPower's Qualifying Customers and to a charitable trust to be known as the MainPower Foundation.

The Board of MainPower has advised the Trust that they oppose the 60% Capital Distribution. Directors, when formulating their view on the 60% Capital Distribution Plan, concluded:

- That the availability of a safe, secure and reliable electricity network at a time when MainPower is experiencing unprecedented demand for new network development and capacity, and the need to deliver customer service in accordance with industry best practice will be better served through on-going customer and community ownership represented by the MainPower Trust;
- A Capital Distribution will result in the cessation of the current Rebate Scheme, which has had the effect of providing customers with line service charges on favourable terms;
- That a tightly-held and stable shareholding structure rather than one that is widely distributed and potentially unstable, is more advantageous at this stage of the Company's development of its core lines and generation business.

<u>Other Key Assumptions</u>

- Commerce Commission intervention and the electricity industry's regulatory environment will have minimal impact on MainPower's operation. MainPower will therefore retain its "Exempt Status" under the Commerce Act.
- Electricity industry governance arrangements promulgated by the Electricity Authority including anticipated changes to the Electricity Industry Participation Code will have minimal impact on the Company's operation. MainPower will therefore continue to apply the provisions of the Income Tax Act with respect to its Rebate Scheme.
- New Zealand's financial systems will remain stable and therefore funding from bank and other sources will continue to be available to further the Company's generation development and Smart Grid strategies.
- Uninsured catastrophic and other events resulting from natural causes will not exceed the levels of self assurance already established and separately funded by the Company.
- The Health and Safety of our employees and the safety associated with MainPower's electricity network in the community will continue to underpin all that we do at MainPower.

The above Key Assumptions also represent key risks for the Company. MainPower will continue to monitor these risks and will respond on the basis that any change must be in the best interests of the Company and its Shareholders.

2.3 Values

"Safety First, Teamwork, Loyalty, Pride, Fairness and Integrity".

MainPower's Statement of Values has been reviewed and no changes were recommended. These Values reflect our relationship, commitment and obligation to our customers, our community and to each other.

2.4 Principal Objective

"MainPower will operate as a successful business in accordance with the requirements of Section 36 of the Energy Companies Act 1992".

Section 36 of the Energy Companies Act 1992 states,

"(1) The principal objective of an energy company shall be to operate as a successful business.

(2) In seeking to attain its principal objective, an energy company shall have regard, among other things, to the desirability of ensuring the efficient use of energy."

"MainPower will continually strive to optimize the value to the shareholder in the provision of regulated lines services and to achieve a full commercial return from its investment in the provision of all unregulated services"

2.5 Scope of Business and Strategic Objectives

The provision of distribution lines services, and generation development coupled with electricity retailing represents MainPower's core business.

The Strategic Direction of the Company has not changed in recent years and is not expected to change for the foreseeable future. MainPower's Business Development and Growth Strategy will continue to focus on its:

- Lines Business
- Generation and Electricity Retailing; and
- Leadership Role in the Community

The following Strategic Objectives remain unchanged:

"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"

"MainPower will co-operate with other electricity distribution network operators in all matters which enhance MainPower's ability to pursue its Vision"

Lines Business

The following Strategic Objectives remain unchanged:

"MainPower will continue to operate and make available to its customers, a safe, secure and reliable electricity distribution network"

"MainPower will ensure, through the management and operation of its electricity distribution network, technical support and field services contracting capability, a level of security and reliability of electricity supply that places MainPower in the upper quartile when compared to other regional line companies in New Zealand"

Delivery on these objectives is the subject of the Company's 2012-2022 Asset Management Plan. The Company's capital development and maintenance programmes during this period are also detailed in the Plan.

Generation and Electricity Retailing

The following Strategic Objectives remain unchanged:

"MainPower will develop, either solely or in collaboration with others, Renewable Generation opportunities that support and move MainPower's Electricity Retail business towards 75% self-sufficiency in electricity supply within 10 years"

"MainPower will, either solely or in collaboration with others, become the preferred retailer of electricity to its electricity distribution network customers"

The establishment of MainPower's electricity retailing business in the region will continue to be on hold until such time as:

- the Company has developed sufficient generation capacity and/or has agreed an arrangement with an established generator in order to manage the supply/pricing risk associated with the retailing of electricity.
- there is greater certainty as to the effectiveness of New Zealand's hedge market.
- there is greater certainty with respect to Smart Meter ownership and the contribution that Smart Meters will make to the success of an electricity retailing business.

Priority during 2012-2013 will continue to be given to:

- identifying and progressing a pipeline of small renewable generation projects; i.e. Browns Rock;
- preparing for the development of the Mt Cass Wind Farm, either on our own account or in association with others.

Community Leadership

"MainPower will continue to take a leadership role in the North Canterbury and Kaikoura communities."

MainPower is the largest community/customer owned public company in the region. MainPower has taken a leadership role with respect to regional development and also supports the community financially by way of sponsorship and a community support programme.

$9.039 million will be distributed to customers and the community during the 2012-2013 financial year. Approximately 95% or $8.593 million will be returned to customers as tax free Rebates. The remaining 5% or approximately $446,000 will be returned to the community in accordance with an approved sponsorship and community funding programme.

<u>Hurunui Water Project</u>

MainPower will continue to support Hurunui Water Project Limited in its endeavours to establish water storage and irrigation in the Hurunui region. MainPower is a major shareholder in this company, although no further investment is anticipated during 2012-2013.

Economic benefits to the region and MainPower will be substantial if the Project proceeds.

Operating Environment

<u>Regional Economy</u>

The North Canterbury region remains one of the fastest growing regions in New Zealand. The major Canterbury earthquakes have resulted in a significant increase in demand for the Company's services. A number of major property developers in the region are giving urgency to the development of new residential and lifestyle sections.

<u>Legislative and Regulatory Change</u>

MainPower is defined as an "Exempt" company under the Commerce Act and therefore its line service charges and quality of delivery continue to be unregulated. It is assumed that MainPower's Exempt status will not change. MainPower will however continue to determine its line charges on the basis that they will be acceptable to the Commerce Commission as if the Company was regulated.

Section 42 of the Electricity Industry Act 2010 dealing with the Requirements under the Participation Code provisions, and the new Part 4 of the Commerce Act 1986, dictate to a large extent the level of regulation currently being introduced by the Electricity Authority and the Commerce Commission.

The Commerce Commission's Proposal for Changes to the Information Disclosure Requirements for all Line Companies has recently been released. Key changes include:

- Amendment of the financial disclosures to incorporate the new asset valuation, cost allocation and regulatory tax input methodologies;
- A proposed new ROI approach;

- New related party transaction disclosure requirements;

- Amendments to the disclosure requirements for prices, pricing methodologies and contracts including new requirements in respect of capital contribution policies and income;

- Amended Asset Management Plan requirements including optional biannual disclosures of full Asset Management Plans, with a more limited update in the interim and a new self assessment process for asset management maturity;

- Considerably more quantitative asset management related disclosures, in the form of new templates.

The Commerce Commission will require line companies to complete the new Disclosure Requirements by October 2012. The Commission has acknowledged that it will be necessary for line companies to revisit their Disclosures from 2004 and to re-state these in accordance with the Commission's new Requirements.

2.6 Core Business - Priorities

Lines Business

The Capital Development Programme for MainPower's Lines Business for 2012-2013 and for the 10 Year Planning Horizon is significant and represents the largest building development programme for several decades.

<u>Transpower 66kV Transmission Development</u>

MainPower's Sub-Transmission and Distribution Network operates at 66 kV, 33 kV, 22 kV and 11 kV. MainPower is supplied from six Grid Exit Points; viz. Southbrook, Kaiapoi, Ashley, Waipara, Culverden and Kaikoura. MainPower is to take ownership of the Kaikoura Point of Supply and Transmission line from Culverden on 1 May 2012.

MainPower is supplied by two 66 kV circuits from Islington to Southbrook and two 220/66 kV inter-connecting transformers at Waipara and Culverden. The 220/66 kV inter-connection at Culverden is in two stages via two 220/33 kV transformers, stepping down the voltage to supply the local load; and one 33/66 kV transformer stepping the voltage back up to 66 kV to supply Kaikoura.

Transmission constraints are affected by the load sharing between Islington and Waipara. The 66 kV transmission constraints on MainPower's region are affected by the impedances of the replacement Islington 220/66/11 kV transformers planned for 2022-2024.

MainPower will continue to monitor load growth throughout the region, recognising the lead time for Transpower to address transmission constraints.

<u>Distribution Network Development</u>

It is anticipated that the Waimakariri District in particular will experience unprecedented growth for the foreseeable future resulting from the Canterbury earthquakes. Waimakariri District Council's own forecast is anticipating that the District's population will increase by 25% to 60,000 within seven years.

New residential connections and irrigation, commercial and industrial development represent a significant increase in the level of capacity required. Looming capacity constraints across the southern region will require urgent action if shortfalls in network capacity are to be avoided.

A number of major projects have been planned.

Waimakariri West Capacity Upgrade

This project, totalling approximately $22 million will be completed within three years. Approximately $5 million will come to charge during 2012-2013.

This project will result in the establishment of a 66kV ring – Southbrook, Swannanoa, Burnt Hill, Oxford, Cust, Southbrook – with a switching station at Bennetts.

The project will involve:

- The purchase of a zone substation site at Burnt Hill.

- The need to negotiate a number of easements for line routes and kiosk sites along the Oxford/Burnt Hill/Bennetts route.

- The completion of the Southbrook 66kV feeder design solution. Transpower will supply two new 66kV circuit breaker feeders at Southbrook to supply the upgraded 66kV lines to Swannanoa and Burnt Hill zone substations.

- The installation of two new 66kV feeder cables at Southbrook to connect to the two new western 66kV circuits.

- Construction of the 66kV Southbrook to Burnt Hill circuit including a new 66kV line at South Eyre Road between Bennetts and the new Burnt Hill substation, a new 66kV line from Burnt Hill to the existing Cust/Oxford 66kV line and the reinsulation of the existing Southbrook/Cust/Oxford 33kV line to 66kV.

- An upgrade of the Swannanoa zone substation, including the provision of an additional 66kV circuit breaker for a second transformer bank, additional protection and control systems, and an additional 22kV circuit breaker to supply to the Swannanoa West district. Two new 66/22kV 20MVA transformer banks will be purchased and installed during 2013.

- Completion of the design and construction of the new Burnt Hill zone substation, including the installation of two new 66/22kV 20MVA transformer banks.

- The conversion of the existing Horrelville to Warren region from 11kV to 22kV, including the changeout of associated transformers.

Kaiapoi - Woodend Capacity Upgrade.

This project will commence during 2012 and will continue for several years at a cost of approximately $5 million. The project will require the establishment of a:

- Kaiapoi North switching station

- Kaiapoi North cabling

- New network development at Woodend

- GXP feeder upgrades at Kaiapoi

Ashley District Upgrade

This project, totalling approximately $1.5 million, will require a major upgrade of Transpower's Ashley point-of-supply. It will be necessary for MainPower to fund Transpower's GXP design stage and following the upgrade, to establish load plant and up to seven new 11kV circuit breaker feeders to feed the Ashley region.

Stage 1 Rangiora East Feeder

The installation of a new high capacity 300mm 11kV underground cable from Southbrook through to Northbrook Waters as the first stage of a new Eastern feeder to supply new residential growth East of Rangiora.

Waipara-Kaikoura 33/66kV Upgrade

Completion of this project will be deferred until 2013-2014. It is anticipated that the procurement of an easement through the Kaikoura-Rakanui section of the line will take most of 2012 to complete.

Extension of the Hanmer Zone Substation Site

It is intended that a buffer zone be created between the Hanmer Substation and the proposed residential subdivision surrounding the substation (currently farm land).

Secure Site for the Proposed Amberley Zone Substation

It is anticipated that the Company will need to establish a 66/11kV zone substation at Amberley during 2017-2018. An early purchase is recommended as a suitable site is becoming more difficult to secure.

Secure Site for the New Rangiora East Transpower Point of Supply

Construction of a new Point of Supply North-East of Rangiora is expected to commence sometime after 2017. Securing a suitable site along Transpower's existing Northern circuit will be progressed with urgency.

Generation

<u>Generation Operations</u>

Cleardale Hydro

The Cleardale power station has been operating for over 12 months and is now achieving monthly availability in excess of 98%. Initial 'running in' issues with control software and with screening of grass have largely been resolved.

<u>Generation Development</u>

Mt Cass Wind Farm

The proposed Mt Cass wind farm is located on the Mt Cass ridge near Waipara. The wind farm site is along 8km of the ridge crest at elevations from 400m to 560m.

Resource Consent for the proposed wind farm was awarded by final decision of the Environment Court on 3 February 2012. The consent has a lapse period of eight years, that is, works must be commenced within an eight year time frame unless an extension of time is sought and granted.

Conditions for baseline monitoring mean that the earliest start date for construction work on site is November 2013.

The ridge is a limestone cuesta with a steep scarp on the north slope and a gentler dip slope to the south. The ridge crest is incised by a number of relic "dry valleys" up to 20m deep forming rocky "ridgelets" in between. The "ridgelets" and deeper valleys on the south slope support communities of significant indigenous vegetation including 185 ha of broadleaf/podocarp forest, 200 ha of shrublands and herbfields associated with exposed rock. These ecological features are within a patchwork of ground cover which includes extensive areas of pasture.

The wind farm mostly uses the pasture corridors and is carefully designed to integrate into the terrain and the vegetation. The Consent provides for a choice of turbines (up to 26 turbines at 90m rotor diameter, 40 turbines at 60m rotor diameter, 67 turbines at 33m rotor diameter), 15 km of new roads, a substation and 12 km transmission line back to Waipara. This involves clearance of 0.71 ha of shrubland, 0.09 ha of forest and 2.29 ha of surface limestone features.

The coming year's work programme includes:

- Develop a financing plan (with consideration of equity partners)
- Tender for supply of turbines
- Select Balance of Plant contractors
- Complete commercial arrangements for development
- Develop the final design around the selected turbine
- Baseline surveys for bird populations and groundwater quality
- Trial of cut restoration techniques

Browns Rock Hydro

Browns Rock is a 7.3 MW cascade hydro scheme with 3 to 4 power stations taking water from a new storage facility proposed by Waimakariri Irrigation Ltd (WIL) and discharging back to the Waimakariri River.

WIL is expected to lodge a resource consent application for their storage project before June 2012.

The coming year's work programme includes:

- Finalise commercial agreements with WIL, Ngai Tahu and other landowners
- Apply for resource consent
- Commence detailed design
- Confirm business case

Construction is expected to take place throughout the 2014 financial year with project commissioning expected by winter 2014.

Avalanche Creek

Avalanche Creek is a sister project to the existing Cleardale station, being in an adjacent catchment and similar in concept but smaller in scale. Stream flows have been monitored since 2009 and further project development commenced in early 2011. The concept design has been revised based on early consultation with stakeholders and the current proposal has received a positive reception.

The upcoming year work programme includes:

- Obtain resource consent
- Detailed engineering design.

Kakapo Brook

The Kakapo Brook hydro scheme is a 2.6 MW mini hydro that takes water from Kakapo Brook and drops it down the Hope River terrace near the Hope River Bridge on State Highway 7.

It is proposed to progress this development through feasibility and resource consent in the coming year.

Doctors Hills Wind Farm

MainPower has monitored the wind resource at Doctors Hills for 6 years and the location appears to have a suitable wind resource for a small scale embedded wind farm which may have scope for future expansion.

Work during 2011 improved the understanding of the wind resource at specific turbine locations and confirmed the requirements for connection of the wind farm to the Hawarden substation.

Project economics will be re-assessed and if favourable a resource consent application will be lodged in the coming year

Smart Network/Grid - Smart Meters

"MainPower will be recognised within the electricity industry for the implementation of Smart Grid Technologies"

The need for the Company to introduce Smart technologies such as Smart Meters, as a means to progress a Smart Network objective consistent with international trends for Smart Network/Grid operation, represents a major new initiative for the Company.

Smart Grid technology combines traditional distribution infrastructure with the advantages of advanced communications and internet technology with the aim of improving the efficiency of electricity supply as well as decreasing consumption by providing real time information.

The Electricity Authority Participation Code Part 10 requires recertification of Category 1 metering by 1 April 2015.

The vast majority of meters in MainPower's region are owned by Contact Energy. These meters are non-compliant and will require replacement by 1 April 2015. MainPower has signalled its desire to own the replacement Smart Meters as part of its Smart Grid objective.

MainPower has worked closely with 12 other line companies to develop a strategy to take this opportunity forward. A joint venture company, "SmartCo" with appropriate governance arrangements was established during 2011. The ownership, technology and contractual arrangements, together with appropriate protocols, rules and other business relationships between each line company, participating retailers and suppliers are being progressed with urgency.

The line companies involved have agreed five key objectives, namely:

- To change line company relationship with customers; transforming their role from uninformed and non-participative to informed, active and involved in order to stimulate demand side responses;
- To accommodate the connection of widely distributed renewable energy sources across the network and in particular at customers' premises, providing an energy clearing house function;
- To facilitate market interconnections, providing customers access to products and services with choice based on price and environmental concerns;
- To accommodate new energy storage technologies, enabling customers to choose the source of their energy and optimise the efficiency of their use of energy;
- To continue to improve the performance of the network by using greatly enhanced data gathering capabilities, detecting and responding to problems automatically, focusing on prevention, strengthening interconnections and optimising replacement investment.

A Business Case for both meter ownership and the region-wide communications infrastructure specific to MainPower's requirements is currently being developed. It is expected that the Smart Meter rollout will take place over two if not three financial years, commencing 2012.

Relocation of MainPower's Operation

Following the 4 September 2010 and 22 February 2011 Canterbury earthquakes, MainPower New Zealand engaged Spencer Holmes of Wellington to carry out a full seismic assessment of its Head Office Building. The resulting Engineering Report indicated a performance level of 10% of New Building Standard. Management being cognisant of the lack of code compliance of the building, the continued seismic activity in the region, the health and safety of staff and the public accessing the building initiated an immediate but controlled evacuation of the building.

Taking into account these circumstances and the existing issues of locational proximity to growing retail and small commercial operations and site congestion along with a growing region and workforce, the Board of MainPower approved the full relocation of MainPower's operation.

A 3.4 hectare site at the Southbrook Business Park, zoned Business 2, has been purchased for this purpose and it is expected that the relocation will take place prior to winter 2013.

4. Financial Performance

Financial Performance

A summary of Budgeted Financial Performance, Financial Position and other financial measures and performance statistics for the 2012-2013 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 2012 compared to the Financial Budget for this year and the actual financial performance for the years ended March 2010 and 2011, is also made available.

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 Group accounts for 2013 include the Financial Performance and Balance Sheet of VirCom Energy Management Services Limited.
- 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 2011.
- 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 recovered in full on a revenue neutral basis.
- Increases in distribution line service charges, inclusive of any adjustment to Rebates, will not exceed 5% 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.
- An investment in Smart Meters and associated communications network, representing the replacement of all old technology electricity meters throughout the region, has been provided in the Statement of Financial Performance and Financial Position.
- The relocation of MainPower's head office from High Street and Keir Street to the Southbrook Business Park has been provided in the Statement of Financial Performance and Financial Position.
- Transpower's transmission line between Culverden and Kaikoura, and Transpower's substation assets at Kaikoura, will be purchased by the Company on 1 May 2012.
- The capital cost and operating revenue associated with the development of an embedded Mt Cass wind farm have been included in the budgeted Statement of Financial Performance and Financial Position.
- The capital cost and operating revenue associated with Browns Rock, Kakapo Brook and Avalanche Peak Hydro and Doctors Hills Wind Farm have been included in the Statement of Financial Performance and Financial Position.
- Taxation at 28 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, other than those detailed above, have been excluded.

Performance Statement

Financial

MainPower Group:

For the year ending March	Actual 2010 $000	Actual 2011 $000	Budget 2012 $000	Forecast 2012 $000	Forecast 2013 $000	Forecast 2014 $000	Forecast 2015 $000
Financial performance							
Operating revenue	62,572	59,595	63,974	59,332	71,998	59,970	69,560
Profit before tax and after rebates	3,307	5,998	6,032	3,018	7,749	6,315	9,812
Taxation	(1,208)	75	(1,681)	(1,150)	(2,376)	(1,769)	(2,748)
Profit for the year [1]	2,099	6,073	4,351	1,868	5,373	4,546	7,064
Rebates credited to qualifying customer power accounts	7,627	8,076	8,408	7,690	8,593	8,894	9,205
Total maintenance expenditure	3,666	3,464	3,465	4,000	3,911	4,070	4,182
Total capital development expenditure	17,102	18,413	15,899	16,296	29,809	76,594	73,450
Financial position							
Net working capital	558	(1,518)	(4,116)	(4,978)	(18,562)	536	752
Non current assets	214,879	234,750	239,036	240,291	258,853	321,783	379,125
Total assets	215,437	233,232	234,920	235,313	240,291	322,319	379,877
Term Liabilities	(42,747)	(44,362)	(46,542)	(44,575)	(44,994)	(122,476)	(172,970)
Net assets	172,690	188,870	188,378	190,738	195,297	199,843	206,907
Share capital	56,774	56,774	56,774	56,774	56,774	56,774	56,774
Reserves and minority interests	115,916	132,096	131,604	133,964	138,523	143,069	150,133
Equity	172,690	188,870	188,378	190,738	195,297	199,843	206,907
Financial ratios							
MainPower Group	%	%	%	%	%	%	%
Profit before tax / net assets	2.43	3.32	3.23	1.57	4.01	3.20	4.82
Profit after tax / fixed assets	1.07	2.71	1.87	0.79	2.18	1.59	2.04
Profit after tax / equity	1.34	3.36	2.33	0.98	2.78	2.30	3.47
Lines business only:	%	%	%	%	%	%	%
Profit before community, rebates & tax / net assets	8.94	7.70	7.76	6.37	9.44	8.86	10.01
Profit after tax, before community and rebates / total assets	4.83	5.54	4.56	4.53	6.58	6.27	6.98
Profit after tax before community and rebates / equity		6.86	5.68	5.55	8.04	7.62	8.44
Profit after tax / equity	4.87	3.36	2.24	1.58	3.62	3.19	4.03

Note: [1] *A significant reduction in the provision of lines services resulting from a warmer than normal winter and wet irrigation season, has impacted on the 2012 profit.*

Customer Service and Statistics

For the year ending March	Actual 2010	Actual 2011	Budget 2012	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015
Quality of Supply							
SAIDI - Average minutes customer is without power during the year	140.12	337.80	130.00	116.40	125.00	124.00	124.00
SAIFI - Average supply interruptions per customer during the year	1.84	2.89	1.50	1.12	1.60	1.59	1.58
Unplanned faults per 100 kms during the year	4.48	5.90	4.00	3.70	4.67	4.62	4.57
Statistics							
Lines business							
Total line service customers (number)	33,793	34,247	34,800	34,746	35,946	37,246	38,546
Gigawatthours purchased (GWHs)	545.11	571.83	583.18	541.34	601.86	622.93	644.73
Gigawatthours sold (GWHs)	516.36	539.60	550.69	517.57	568.48	588.38	608.97
Electricity loss ratio (%)	5.28	5.64	5.57	4.39	5.55	5.600	5.60
Network maximum demand (MW)	89.25	91.80	93.00	99.75	104.00	110.00	114.00
Load factor (%)	69.72	71.11	69.90	61.95	71.10	71.10	71.10
Total Transformer capacity (kW)	411.52	430.00	441.00	447.00	465.00	481.00	497.00
Transformer capacity utilisation factor (%)	21.69	21.35	21.20	22.30	21.50	21.30	21.10
Circuit length lines (kms) [2]	4,741	4,921	4,960	4,707	4,767	4,827	4,887
Efficiency Performance	$	$	$	$	$	$	$
Capital cost per km	2,548	2,263	2,116	2,659	2,933	3,485	2,891
Capital cost per ICP	341	314	273	356	384	451	370
Operating cost per km [3]	849	729	878	2,206	2,340	2,348	2,345
Operating cost per ICP	113	101	113	295	306	304	300
MainPower Group							
Number of employees	214	211	150	224	224	150	150
Number of work related accidents resulting in lost time	10	6	Nil	3	Nil	Nil	Nil
Total number of lost days as a result of work related accidents	106	136	Nil	13	Nil	Nil	Nil
	$000	$000	$000	$000	$000	$000	$000
Total ACC levies paid	266	251	331	237	330	256	264
Total local body rates paid	147	151	152	162	180	194	210

Note: [2] *Circuit length lines (kms) from 2012 exclude Street Lighting Circuits*

Note: [3] *Change in methodology 2012*

5. Other Measures

Distributions to Shareholders and Rebates

Clause 4.3 of the MainPower Trust's Trust 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 2012-2013 Financial Budget provides for $8.593 million to be credited to Qualifying Customers as Rebates. This represents approximately 75% of Lines Business pre-tax profits before capital contributions from customers, or approximately 25% of total distribution lines revenue.

A further $446,000, representing a "Community Dividend", is in addition to the customer Rebates of $8.593 million. This Community Dividend will fund a range of initiatives associated with the promotion of regional economic development, energy efficiency and related matters, and targeted community sponsorship. The Community Dividend represents approximately 5.00% of total distributions to Qualifying Customers and the Community.

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 2013, after Rebates and Taxation, is expected to be $7.327 million or 3.62%. The Return on Equity for the Lines Business, before rebates and after adjusting for notional tax on rebates is 6.67%.

MainPower's cost of capital (post-tax) is calculated at 6.90% and is derived using the Capital Asset Pricing Model based on a risk-free rate of 5.00% (as per PricewaterhouseCoopers Cost of Capital Report 31 March 2011), an asset beta as the measure of a lines business systematic risk of 0.45, a debt equity ratio of 40:60, an investor tax rate of 28 cents in the dollar and a post tax market risk premium for equity of 7.5%.

The pre-Rebate, pre-Taxation shortfall between the budgeted Return on Shareholders' Equity of 6.67% and MainPower's Weighted Average Cost of Capital is not material.

The Return of 6.67% on Shareholders' Equity for MainPower's lines business is considered adequate, given the expected level of new investment in the Network and the current level of Rebates being 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 2013 after rebates and taxation is expected to be $5.373 million or 2.78%.

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, the Financial Reporting Act 1993, Commerce Commission Information Disclosure documentation, 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
- 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 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, Interim Report, the Company's website, 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 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 11). 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.

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 4.5 and property, plant and equipment as outlined in note 4.10 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 2012 and the comparative information presented in these financial statements for the year ended 31 March 2011.

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 4.10 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 profit or loss 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 Statement of comprehensive income and Statement of financial position.

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.

Equity accounting involves recognising the Group's share of net surpluses or deficits as part of operating revenue in profit or loss. In the Statement of financial position, 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 less impairment.

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 profit or loss 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 Statement of financial position.

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.

In the parent financial statements, investments in subsidiaries and associates are stated at cost less impairment. Details of the impairment tests performed are disclosed in note 4.9.

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.

In the parent financial statements, investments in subsidiaries and associates are stated at cost less impairment. Details of the impairment tests performed are disclosed in note 4.9.

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 profit or loss 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 substantively 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 substantively enacted by balance date.

Current tax and deferred tax is charged or credited to profit or loss, 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, any impairment is recognised immediately in the Statement of comprehensive income and 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 profit or loss. If the impairment loss is subsequently reversed, the reversal is firstly applied to profit or loss 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 profit or loss. 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 4.9.

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 profit or loss 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 profit or loss 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 profit or loss. 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 profit or loss. 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 licences 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 profit or loss and is not subsequently reversed. Refer also to note 4.9.

4.13 Payables

Trade payables and other accounts payable are recognised when the Group and Company become 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, plus 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 profit or loss 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 Statement of financial position 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 profit or loss 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. No borrowing costs have been capitalised.