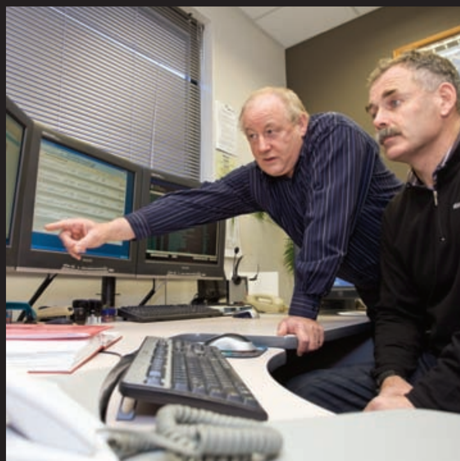
mainpower

THE POWER TO MAKE IT HAPPEN



MAINPOWER NEW ZEALAND LIMITED
STATEMENT OF CORPORATE INTENT
2013 - 2014

Statement

of

Corporate Intent

2013-2014

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*

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

Address:

C/o Ms K Hansell
Trust Secretary
MainPower Trust
P O Box 370
Rangiora

Telephone: (03) 313 8103
Facsimile: (03) 313 4509

www.mainpowertrust.org.nz

Contents

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 2013, and the two succeeding financial years.

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

  - Corporate Governance Statement
  - 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 Intentions: A Strategic Perspective

2.1 Vision

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

2.2 Values

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

These Values reflect our relationship, commitment and obligation to our customers, our community and to each other.

2.3 Principal Assumption

"MainPower will continue to be owned by the MainPower Trust on behalf of its beneficiaries".

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".

Therefore the Board will:

* Provide leadership in Health and Safety and will ensure employee and public safety remain at the core of the organisation - it will remain as an integral part of the Company's organisational culture, its values and performance standards.

* Promote and adopt excellence in governance practices which is underpinned by values of responsibility, accountability, fairness and transparency.

* Establish the strategic direction for the Company and will set the policy framework within which the Company will operate.

* Continue to operate throughout the North Canterbury and Kaikoura regions and will make available to its customers a safe, secure and reliable electricity distribution network.

* Accept that the development and operation of the electricity network is the Company's core business.

* Adopt responsible, sustainable practices and will provide its services in a manner that is consistent with the Company's commitment to sustainability.

* Ensure that the Company is a good corporate citizen.

* Value the benefits of price/quality regulation by customers as opposed to regulation being imposed by Central Government agencies.

* Take into account, when making investment decisions, the Trustees' obligations under Sections 13B and 13E of Part 2, Investment, of the Trustee Act 1956, which requires Trustees as the Ordinary Shareholders of the Company, to act prudently in terms of the Trust's own investments and to have regard to the need for the Trust to maintain the real value of the capital of the Trust and the potential for capital value appreciation.

* Diversify into other energy-related business, where such diversification utilises complementary skills and the existing resources of the Company's core Lines Business.

* Achieve a fair rate of return on the assets employed in the business.

* Maintain a strong balance sheet and therefore will regulate its borrowings and/or maintain its reserves at levels consistent with this objective. Funds, which at the Board's discretion are considered surplus to the Company's requirement, will be distributed directly to Qualifying Customers as Rebates.

2.5 Strategic Objectives

"MainPower will continually strive to achieve the highest standards of Health and Safety governance, management and practice"

"MainPower will carry out its business activities in accordance with industry best practice and 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, 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"

"MainPower will develop, either solely or in collaboration with others, Renewable Generation opportunities which offer long term strategic, economic, technical and operational benefits to the network"

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

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

2.6 Environmental Scan

* MainPower's electricity network extends from the north of Christchurch city; i.e. Kainga, Stewarts Gully, Coutts Island; and across the Waimakariri, Hurunui and Kaikoura districts. Waimakariri district will, for the foreseeable future, remain one of New Zealand's three fastest growing districts, along with the Selwyn district and Lakes district.

* Customer demand for new connections and capacity continues to be positive. Development of new residential sections and lifestyle blocks within the Waimakariri district in particular, is only just keeping up with demand. Growth forecasts, based on injected load at Transpower's five North Canterbury points of supply, and anticipated demand growth at the Company's zone substations, are detailed in MainPower's Asset Management Plan. Weighted average growth of 2.5% per annum across MainPower's region is anticipated, although this is still viewed as slightly conservative.

* Customer demand for new capacity will increase significantly following the conversion of Eyrewell Forest to other land use - most likely dairying, and following the development of Hurunui Water Project's irrigation scheme in the Hurunui district. This scheme will, if it proceeds, result in additional irrigation of up to 58,000 hectares, including both Balmoral and Medbury Forest land.

* Demand forecasting has also taken into account a number of other environmental factors; none of which are expected to have a negative impact on the business. These include:

    - The uncertainty surrounding the future of Tiwai Aluminium Smelter, although it is expected that a closure will have a negative impact on Company's generation revenues in the short term.

    - A change in Government. Further regulation is inevitable, irrespective of which party is in power. Suggested changes to the structure of the electricity industry being promoted by Labour and the Greens have been noted.

    - The possibility of further Local Government (Christchurch Super City) and electricity sector rationalisation.

2.7 Community and Customer Expectations

2.7.1 Customer Survey

* A comprehensive customer survey is undertaken on an annual basis. The 2012 survey was designed to independently and objectively survey customers to determine their satisfaction with existing levels of service, and potential future service deliverables and network upgrades and/or enhancements. Survey questions focused on the Company's overall performance, its brand performance, safety, the price-quality trade-off, and customer service generally.

* The Company's overall performance for 2012 was recorded at 8.1 out of 10, indicating a high to very high level of performance. Urban categories provided higher performance ratings than those from rural and remote rural categories.

* A summary follows and these results will be used by Management as the benchmark for measuring and reporting future years' performance. MainPower will continue to strive to improve on these results.

    - 50% of all customers recalled MainPower, unprompted, as owning and running the region's lines. Of those who did not, 96%, when prompted, stated that they had heard of MainPower.

    - MainPower was recalled as the organisation to contact in the event of a power supply fault by 45% of customers in 2012, representing a decrease on the 2011 result. This result is of particular concern to Management, as any delay in notifying a fault can potentially become a matter of public safety. Corrective action will be taken during 2013.

    - Reliability and price continue to be the two most important deliverables to customers. 86% of customers do not require an improvement in the quality of their power supply.

    - 84% of customers stated that they would definitely not be willing to exchange poorer levels of power quality and reliability for a lower price.

    - MainPower's overall customer service was rated at 76.5%, indicating a high level of service.

    - Awareness of MainPower's safety messages was recorded at 36% and represents a decrease in safety message awareness across all customer groups. This result is also of particular concern and corrective action will be taken during 2013.

    - Awareness of tree trimming messages was recorded at 53%, representing a minor improvement on the 2011 result.

2.7.2 Community Leadership

* MainPower is the largest customer/community-owned public company in the region and has a history as a local operation spanning more than nine decades. MainPower provides an essential infrastructure and service. Although it is disappointing that customer and community awareness of MainPower reduced significantly following sector reform, the Board and Management are still firmly of the view that visibility is important. Customer knowledge of the Company is also important if self-regulation is to be effective.

* MainPower will continue to support its local community and in doing so, will take a leadership role. Initiatives that support energy efficiency and conservation, and regional economic development will be given priority. Youth development and the environment will continue to be targeted.

* MainPower's leadership in the community is promoted through the Company's communications, sponsorship and other support programmes. Approximately

$700,000 has been budgeted for the 2013-2014 financial year for this purpose. These include:

-	Youth development	$134,700
-	Energy efficiency	$115,000
-	Regional economic development	$45,000
-	Environmental sustainability	$15,000
-	Other sponsorship initiatives	$54,000

Approximately $340,000 has been provided in support of the Company's branding promotion, public relations and other promotional and market research.

2.8 Health and Safety

* MainPower will continue to strive to achieve the highest standards of employee and public Health and Safety.

* Recent recommendations and guidelines forming part of the Royal Commission report on the Pike River Coal Mine Tragedy; and Guidelines on Governance issued by the New Zealand Institute of Directors, and the guide published jointly by the UK Health and Safety Executive and the UK Institute of Directors, represent current best practice and the Board will ensure that these guidelines and practices form part of MainPower's Health and Safety management regime.

* In addition, the Board will:

  - Set the direction for effective health and safety management and make it an integral part of organisational culture and performance standards;

  - Ensure that health and safety is properly resourced, risk assessments are carried out, specialist advice is received where necessary, and employees are involved;.

  - Recognise that health and safety is a key business risk;

  - Recognise that health and safety must be part of business decisions at all levels;

  - Ensure that directors and management are adequately trained to assess health and safety risks and promote their understanding throughout the organisation;

  - Ensure that directors receive adequate information on the organisation's performance, including lead indicators (preventative or process safety information) as well as lag indicators (incidents and injury rates);

  - Undertake periodic audits of the effectiveness of the management structures, risk controls and performance.

* In particular, the Board will:

  - Develop a comprehensive Health and Safety Management Plan;

  - Ensure that the Plan is fit for purpose and reviewed regularly;

  - Ensure that adequate resources and time for that Plan to be implemented are provided;

  - Ensure that independent evidence of the effectiveness of the Plan is obtained.

2.9 Succession Planning

* Management's current succession planning documentation and associated processes will be reviewed during 2013 and a more formal Succession Plan will be developed.

* MainPower has an ageing work force and a number of key staff are nearing retirement.

* The major driver will be to ensure that the Company continues to operate effectively when critical positions are vacated, either in a planned or unforeseen way.

* Other succession planning drivers will include:

  - the need to prepare employees for advancement opportunities for all middle and senior management positions;

  - the need to provide a link between the Company's strategic and business planning, and individual career development processes;

  - the need to complete competency assessments for certain employees in order to identify training and development requirements.

2.10 Line Services Charges

* It is intended that line services charges, including the structure and level of these charges will in future be subject to an annual review.

* The 2013-2014 review will be comprehensive, recognising that it has been many years since the Company's line services pricing methodology has been tested against best practice and regulatory requirements.

* PricewaterhouseCoopers has been engaged to assist with this review in light of recent changes to the regulatory frameworks governing pricing and against current best practice distribution pricing.

* The appropriateness and sustainability of MainPower's Rebate scheme will form part of this review. PricewaterhouseCoopers will in addition, be asked to independently determine whether MainPower's Rebates are in fact being passed on as intended by the Board, to Qualifying Customers now that the electricity retail market has become more competitive.

* In addition, the following will also form part of the review process:

- The derivation of annual revenue requirement;

- Best practice approaches to setting consumer load groups and the allocation of revenue requirements to these load groups;

- The derivation of appropriate tariff structures, including the importance or relevance of capacity-based tariff structures;

- Capital contributions policy as it impacts on pricing;

- Distributed generation pricing policies;

- The requirement to disclose any changes in structure and price level.

3. Major Network Development and Other Projects

3.1 Transmission and Network Development and Operation

* The Company's Asset Management Plan should be read in conjunction with this SCI. The Asset Management Plan is available on MainPower's website.

* Major projects will be covered under the following headings:

  - Transpower 220kV and 66kV Transmission Development

  - Development of MainPower's Electricity Network

3.1.1 Transpower 220kV and 66kV Transmission Development

* MainPower's Sub-Transmission and Distribution Network operates at 66kV, 33kV, 22kV and 11kV. MainPower's region is supplied from Transpower's five Grid Exit Points at Southbrook, Kaiapoi, Ashley, Waipara and Culverden. MainPower purchased the Kaikoura Grid Exit Point and 66kV Culverden Kaikoura line in 2012.

* MainPower's region continues to be supplied by two 66kV circuits from Islington to Southbrook, two 220/66kV transformers at Waipara and two 220/33kV transformers at Culverden. A 33/66kV step up transformer at Culverden supplies 66kV to Kaikoura.

* Transmission constraints are affected by the load sharing between Islington and Waipara, and also by the impedance of replacement Islington 220/66/33kV transformers planned for 2022-2024. There will be a need to increase the 66kv transmission capacity between Waipara and Ashley by 2030.

Kaiapoi Grid Exit Point

Transpower is upgrading the 11kV switchboard to provide two new feeders for local distribution and higher capacity feeders to the Kaiapoi North switching station. A Customer Investment Contract has been signed and work will be completed by March 2014.

Southbrook Grid Exit Point

Transpower has completed a Solution Study Report for the addition of two 66kV feeders and an optional 66kV Bus Sectionalising circuit breaker. Construction completion is expected in 2014.

Ashley Grid Exit Point

Transpower will complete a Solution Study Report and Customer Investment Contract for the addition of a new transformer and 11kV switchboard. Commissioning is expected in 2015.

Culverden Grid Exit Point

Long term load forecasting suggests that the demand may exceed the n-1 capacity of the 220/33kV transformers by 2021.

Rangiora East Grid Exit Point

A new Rangiora East Grid Exit Point may be required by 2018. Negotiations to secure a suitable site are continuing.

* MainPower will take every opportunity to acquire the remaining Transpower 66kV transmission lines and associated substation assets in the region. The acquisition of Transpower's 66kV transmission line and Transpower's substation assets at Kaikoura was successfully concluded during the 2012-2013 financial year.

3.1.2 Development of MainPower's Electricity Network

* It is anticipated that the Waimakariri District in particular will experience unprecedented growth for the foreseeable future. Waimakariri District Council's forecast anticipates that the District's population will increase by 25% to 60,000 within six years. Additional irrigation connections and commercial and industrial development will also require additional capacity.

* A number of major projects have been planned. A summary follows.

Waimakariri West Capacity Upgrade

It is expected that this project will be completed in 2016. This project will result in the establishment of a 66kV ring – Southbrook, Swannanoa, Burnt Hill, Oxford, Cust, Southbrook – with a switching station at Bennetts, and will involve:

- The acquisition of a new zone substation site at Burnt Hill.

- The need to negotiate easements for new line routes.

- The 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 reinsulation of the existing Southbrook/Cust/Oxford 33kV line to 66kV.

- The completion of the 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.

- The completion of 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 is on-going. The Kaiapoi North switching station and the associated Kaiapoi North cabling for this project was completed during 2012-2013.

- Further network development at Woodend and the Grid Exit Point feeder upgrades at Kaiapoi are still to be completed.

- The acquisition of a suitable site for the new Rangiora East Grid Exit Point is planned for 2014.

Ashley District Upgrade
MainPower has agreed to fund the Transpower Solution Study and design costs associated with the upgrade of the Ashley Grid Exit Point. MainPower will also cable the new feeder circuit breakers to the existing network, reconfigure the local network, and install new load plant at the site. This project will double the capacity to the Ashley district and will remove the risk associated with the current Ashley river line crossing. Commissioning is planned for 2015.

New Rangiora East Feeder
This project will result in the installation of two new high capacity high capacity 300mm 11kV underground cables from Southbrook through to Northbrook Waters in order to supply new residential growth to the East and North of Rangiora. These cables will, during Stage Two, be extended from Northbrook Waters to the new Northbrook Road switching station.

Waipara-Kaikoura 33/66kV Upgrade
Securing the line route at Rakanui continues to be high priority. Limited line conversion will take place during 2013-2014 at Ocean Ridge and Boat Harbour.

3.2 Maintenance of the Electricity Network

* Maintenance of MainPower's electricity network will continue to be given high priority.

3.3 Development of a Smart Network

* The business case relating to further development of the Company's electricity network as a "smarter" network will be completed during 2013-2014.

* A smart network for electricity distribution purposes has been defined as:

  "The application of real time information, communication and emerging trends in new power system technologies that will improve capacity utilisation, asset management practices and reliability on the modern network thereby optimising network investment to the benefit of all stakeholders."

* MainPower has already made a significant investment in network communication and automation, although the investment to date would not qualify the network as a smart network.

* It is expected that the Company's operator interface – Supervisory Control and Data Acquisition System – used to operate all of the Company's remote equipment including load control, substations, switchgear, rural voltage regulators, etc; will be expanded to provide a higher level of automation across this equipment and also network air break switches, fuses, circuit breakers, ring main units, and line fault indicators. The Company's communications systems will also need to be upgraded.

3.4 Relocation of MainPower's Head Office and Operating Facilities

* It is expected that the relocation of MainPower's Head Office and other operating facilities to a 3.4 hectare site at the Southbrook Business Park will be completed by March 2014. The existing High Street and Keir Street sites will be sold.

* The lack of seismic related code compliance of the existing Head Office building, the benefits that will accrue from operating from a single site using purpose built facilities and the fact that the existing operation, located as it is in Rangiora's central business district, is becoming seriously constrained and unsafe left the Board with little alternative but to push ahead with the relocation, albeit earlier than had been anticipated prior to the Canterbury earthquakes.

* Leigh's Construction Limited will undertake the project and work at the site has commenced.

4. Generation Development

"MainPower will develop, either solely or in collaboration with others, Renewable Generation opportunities which offer long term strategic, economic, technical and operational benefits to the network"

A number of projects will be progressed during 2013-2014.

4.1 Cleardale Hydro

* Cleardale has been operating satisfactorily over the past year and with a return to more normal rainfall patterns from August 2012 to February 2013 has met expectations with regard to energy yield.

4.2 Mt Cass Wind

* Baseline environmental monitoring will continue in order to complete pre-construction consent conditions as follows:
  - Complete baseline bird population survey
  - Complete migratory shorebird survey (winter migration period)
  - Continue groundwater baseline monitoring
  - Continue wind resource assessment using Triton Sodar
  - Obtain landowner agreements and easement registrations

* Development options for Mt Cass will be considered during 2014-2015.

4.3 Browns Rock Hydro

* Browns Rock Hydro is a 5.7 MW cascade hydro scheme with 3 power stations taking water from a new storage facility proposed by Waimakariri Irrigation Limited and discharging back to the Waimakariri River. There is a possibility that the scheme can be expanded to a fourth station of 1.4 MW.

* Completing commercial negotiations with Waimakariri Irrigation will continue to be given high priority.

* The 2013-2014 work programme includes:
  - Finalise agreements with Waimakariri Irrigation and other landowners
  - Apply for Resource Consent
  - Commence detailed design
  - Confirm business case
  - Participate in canal upgrade design

* The forward capital program assumes that resource consent will be granted by the end of 2014 with construction taking place during 2015 and commissioning expected by late 2015.

4.4 Kakapo Brook Hydro

* 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. Kakapo Brook hydro has been identified as the best option available to provide security of supply to Hanmer and therefore its development will be given priority.

* Flow monitoring, feasibility design, environmental studies and preliminary consultation have taken place in the past year and will be progressed to the point of a feasibility report by July 2013.

* Construction is expected to occur during the 2015 financial year.

4.5 Doctors Hills Wind

* Feasibility work for Doctors Hills has been completed and further development will be held over meantime, pending a review of the options for the development of Mt Cass Wind.

5. Hurunui Water Project

MainPower will continue to support, at governance level, Hurunui Water Project Limited's endeavours to establish water storage and irrigation in the Hurunui district. MainPower's Managing Director will continue on the board of Hurunui Water Project Limited.

* The proposed irrigation scheme will irrigate approximately 42,180 hectares in the Hurunui and Upper Waipara catchments, with the opportunity to expand this by up to a further 16,320 hectares; i.e. a total of 58,500 hectares.

* Hurunui Water Project Limited has applied for Resource Consents to take, use, dam and discharge water taken from the Hurunui and Waitohi Rivers. The dams are to be located at Hurricane Gully, Seven Hills, Inches Road and in the Lower Waitohi Gorge. The location of the on-plain storage is yet to be decided.

* The Consents for the design of the storage facilities will be prepared as part of Phase Two Consents for the project, along with the design of all other infrastructure.

* The project will have a significant impact on the Hurunui district's and the wider Canterbury economy. The regional impact analysis shows a total increase in GDP of $160m in the district and $470m in the region. Household incomes will increase by $70m per annum in the district and by $210m in the region, and employment will increase by 1,060 and 3,310 full time equivalents respectively. Hurunui district GDP will increase by approximately 52% and employment 28% if the project proceeds.

6. Financial Performance

6.1 Financial Performance

A summary of Budgeted Financial Performance, Financial Position and other financial measures and performance statistics for the 2013-2014 financial year and the forecast for the following two financial years for MainPower's Lines Business and for the MainPower Group are provided in the following tables.

The summary forecast for the year ended March 2013 compared to the Financial Budget for that year and the actual financial performance for the year ended March 2012 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 2013-2014 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 2.

* Distribution System Assets have been revalued at 31 March 2011. Assets acquired or developed after March 2011 are valued at cost.

* 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.

* Capital and maintenance expenditure included in the Financial Statements is consistent with the estimates provided in MainPower Network's Asset Management Plan.

* 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, were purchased by the Company on 1 May 2012 and are included in Net Assets.

* 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

Lines Business:

For the year ending March	Actual 2012 $000	Budget 2013 $000	Forecast 2013 $000	Forecast 2014 $000	Forecast 2015 $000	Forecast 2016 $000
Financial performance						
Operating revenue	42,540	52,249	53,475	55,012	54,203	55,558
Profit before rebates and tax	12,790	18,767	21,217	23,697	20,225	19,339
Rebates	(7,579)	(8,593)	(8,238)	(8,287)	(8,494)	(8,706)
Taxation	(1,760)	(2,847)	(3,340)	(3,648)	(2,431)	(2,349)
Profit after rebates and tax	3,451	7,327	9,639	11,762	9,300	8,284
Rebates credited to qualifying customer power accounts	7,579	8,593	8,238	8,287	8,494	8,706
Total maintenance expenditure	3,977	3,911	4,420	3,461	3,540	3,658
Total capital development expenditure	14,092	29,457	24,475	36,429	22,150	21,547
Financial position						
Net working capital	15,384	6,315	10,206	(160)	(302)	1,699
Non current assets	228,652	244,985	243,723	269,647	280,248	286,971
Term Liabilities	(44,728)	(44,989)	(44,982)	(48,778)	(49,937)	(50,376)
Net assets	199,308	206,311	208,947	220,709	230,009	238,294
Share capital	56,774	56,774	56,774	56,774	56,774	56,774
Reserves	142,534	149,537	152,173	163,935	173,235	181,520
Equity	199,308	206,311	208,947	220,709	230,009	238,294
Lines Business Financial Ratios	%	%	%	%	%	%
Profit before rebates and tax / net assets	6.47	9.26	10.39	10.68	8.64	8.26
Profit after tax, before rebates / total assets	4.56	6.43	7.18	7.37	6.20	5.98
Profit after tax / total assets	1.43	3.15	3.87	4.21	3.11	2.91
Profit after tax / equity	1.75	3.62	4.72	5.13	3.79	3.54

MainPower Group

Financial performance *(includes continued and discontinued operations)*	$000	$000	$000	$000	$000	$000
Operating revenue	59,630	71,998	73,737	81,536	81,410	86,912
Profit after rebates, tax and dividends	2,680	5,373	9,601	9,820	6,328	3,387
Equity	191,550	195,297	201,151	210,971	217,299	219,873
MainPower Group Financial Ratios	%	%	%	%	%	%
Profit before tax / net assets	2.20	4.01	6.59	6.59	3.85	1.75
Profit after tax / total fixed assets	1.14	2.18	3.92	3.69	2.11	1.04
Profit after tax / equity	1.41	2.78	4.89	4.77	2.96	1.55

Customer Service and Statistics

For the year ending March	Actual 2012	Budget 2013	Forecast 2013	Forecast 2014	Forecast 2015	Forecast 2016
Lines Business:						
Quality of Supply						
SAIDI - Average minutes customer is without power during the year	116.40	125.00	137.60	124.00	124.00	123.00
SAIFI - Average supply interruptions per customer during the year	1.12	1.60	1.32	1.59	1.58	1.58
Unplanned faults per 100 kms during the year	3.70	4.67	4.20	6.34	6.27	6.21
Statistics						
Lines business						
Total line service customers (number)	34,746	35,946	35,936	36,836	37,536	38,236
Gigawatthours purchased (GWHs)	541.34	601.86	587.60	585.31	599.94	614.94
Gigawatthours sold (GWHs)	517.57	568.48	551.63	552.93	566.76	580.93
Electricity loss ratio (%)	4.39	5.55	6.12	5.53	5.53	5.53
Network maximum coincidental demand (MW)	99.75	104.00	93.65	101.00	104.00	107.00
Load factor (%)	61.95	71.10	71.60	68.00	68.00	68.00
Total Transformer capacity (MW)	447.00	465.00	460.00	475.00	490.00	505.00
Transformer capacity utilisation factor (%)	22.30	21.50	20.40	21.30	21.20	21.10
Circuit length lines (kms)	4,707	4,767	4,767	4,812	4,857	4,902
Efficiency Performance [1]	$	$	$	$	$	$
Capital cost per km	2,659	2,933	5,134	7,653	4,643	4,508
Capital cost per ICP	356	819	681	988	590	563
Operating cost per km	2,206	2,340	2,491	2,367	2,439	2,522
Operating cost per ICP	295	306	330	306	310	315
MainPower Group						
Number of employees	224	224	226	258	260	260
Number of work related accidents resulting in lost time	3	Nil	9	Nil	Nil	Nil
Total number of lost days as a result of work related accidents	13	Nil	14.5	Nil	Nil	Nil

Note: [1] *Efficiency Performance measures for the financial years ended March 2012 and 2013 excludes Non Distribution System Fixed Assets*

7. Other Measures

7.1 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 2013-2014 Financial Budget provides for $8.287 million to be credited to Qualifying Customers as Rebates. This represents approximately 50% of Lines Business pre-tax profits before capital contributions from customers, or approximately 25% of total distribution lines revenue.

* A further $363,000, representing a "Community Dividend", is in addition to the customer Rebates of $8.287 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 4.2% of total distributions to Qualifying Customers and the Community.

7.2 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.

7.3 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 2014, after Rebates and Taxation, is expected to be $11.762 million or 5.13%. The Return on Equity for the Lines Business, before rebates and after adjusting for notional tax on rebates is 8.25%; averaging 7.10% for the current year and succeeding two years.

* MainPower's cost of capital (post-tax) has been determined at 7.34% and is derived using the Capital Asset Pricing Model.

* The pre-Rebate, pre-Taxation shortfall between the budgeted Average Return on Shareholders' Equity of 7.10% and MainPower's Weighted Average Cost of Capital of 7.34% is not considered material.

* The Average Return of 7.10% 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.

7.4 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 2014 after rebates and taxation is expected to be $9.820 million or 4.77%.

7.5 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
    - 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: 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 . 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 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 recognises actual amounts billed during the financial period and, if material, makes 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, investments in money market instruments, and bank overdrafts.

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 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 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.

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.