THE POWER TO MAKE IT HAPPEN

MAINPOWER NEW ZEALAND LIMITED
STATEMENT OF CORPORATE INTENT
2014 - 2015

Statement

of

Corporate Intent

2014-2015

Directory

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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 2014, 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.
* 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 and management"

"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 intelligent 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:

  - 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.

  - Transpower's transmission system supplying North Canterbury is sound with adequate spare capacity. Known future constraints are manageable.

2.7 Community and Customer Expectations

2.7.1 Customer Survey

* A comprehensive customer survey is undertaken on an annual basis. The 2013 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. The survey was taken across all customer categories. Survey questions continued to focus on the Company's overall performance, brand awareness, safety, price-quality trade-off, outage perceptions and customer service generally.

* During the recent survey, MainPower customers experienced a significant wind storm resulting in increased and extended outages well outside normal seasonal conditions. As a result, particularly in relation to outages, restoration time and some service deliverable satisfaction ratings, certain survey results were affected by this weather-related event.

* The Company's overall performance for 2013 was maintained at 8.1 out of 10, indicating a high to very high level of performance. Urban categories continue to provide higher performance ratings than those from rural and remote rural categories.

* Customer awareness of MainPower as the respondent line company, customer awareness of MainPower as the organisation to contact when an outage occurs, and customer awareness of safety all improved significantly in 2013. It was these three areas in particular that Management targeted its communication during 2013 with encouraging results as noted below. MainPower will continue to strive to improve on its performance.

* The 2013 survey result can be summarised as follows and will be used by Management once again as the benchmark for targeting, measuring and reporting on future years' performance.

  - Awareness of MainPower as the respondent Lines Company increased 13.7% over the previous 12 months to 63.5%.

  - The most important deliverable across all customers was reliability, 41.2% followed by price, keeping costs down, 33.7% followed by the need for quick responses to faults, 21.5%.

  - Recalled outages during the year were on a par with those recalled in the 2011 Christchurch earthquake representing an increase in the number of outages experienced in 2013 over 2012. Significant changes were noted across most customer groups. Management has assumed that this decline was attributed to the wind storm that occurred during this survey period.

  - Customer awareness of MainPower as the organisation to call following a power outage increased significantly over the previous year, 13.3% from 45.4% to 58.7%.

  - Nine out of ten respondents stated that any increase in price would be too much to pay for an improvement in service.

  - The survey result identified a significant decline in preference for uniform charges across both residential and commercial customers with a more even 50:50 split now being recorded after three years of addressing this issue.

  - Most respondents across both residential and commercial groups indicated that they would definitely not be prepared to accept a poorer level of service if it resulted in a reduction in their power account.

  - Amidst a declining level of awareness during the four year period 2009 to 2012, in 2013 there is a statistically significant jump in awareness of communications or messages in relation to safety such as taking care around power lines and buried power cables.

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 $821,000 has been budgeted for the 2014-2015 financial year for this purpose. These include:

- Youth development	$134,700
- Energy efficiency	$95,000
- Regional economic development	$21,000
- Environmental sustainability	$10,000
- Other sponsorship initiatives	$27,000

  Approximately $468,300 has been provided in support of the Company's branding promotion, public relations and other promotional and market research.

2.8 Health and Safety

Vision

"Our workplace will be injury free"

Beliefs

Health and Safety is our highest priority.

We all have a responsibility for health and safety.

Our assets are safe.

All harm in the workplace is preventable.

At MainPower

The workplace will be safe for employees and the public.

Employees will be fit for work.

Employees will be empowered to participate in workplace health and safety.

Our electricity network and other assets will be safe and not pose a risk to health.

Health and safety performance will continually improve.

Health and safety legislation will be complied with.

* The Government has proposed major system-wide changes to New Zealand's workplace health and safety regulatory framework, following work undertaken by the Independent Taskforce on Workplace Health and Safety.

* New legislation, the Health and Safety at Work Bill, was introduced into Parliament earlier this year. The Bill when enacted will replace the Health and Safety in Employment Act 1992.

* The intention under the proposed Health and Safety at Work Act is to allocate duties to those people who are in the best position to control risks to health and safety, as appropriate to their role in the workplace.

* There is to be a change from a hazard based approach to a broader risk based approach that has a presumption in favour of safety.

* A revised standard requiring those having responsibilities under the Act to take "reasonably practicable" steps to secure a safe workplace will be implemented.

* A new focus is placed on corporate governance and those in senior positions who make decisions and influence an organisation's policies, finances, systems and activities. The indications are that directors and officers health and safety responsibilities should reflect their statutory responsibilities for good governance, and be similar to existing fiduciary duties which directors and officers have to other stakeholders.

* The proposed act will provide a new due diligence duty, which means that those in governance roles must proactively manage workplace health and safety. The due diligence duty will be owed by directors, chief executives and others in senior roles. The due diligence duty will be commensurate with the designated role. Accordingly, the director or person with the designated role must take reasonable steps to familiarise themselves with the business and its activities, operations and associated risks and hazards and ensure that the business complies with its duties.

* Worker participation in health and safety will be given far greater emphasis. The act will provide specific obligations on employers and will provide expanded powers and responsibilities for health and safety representatives.

* The Board has recently adopted a Health and Safety Policy and approved a framework which will support policy management in the form of a number of management objectives and a questionnaire which will go some way to strengthening the Board's due diligence responsibilities.

  Management will continue to monitor the passage of the Bill through parliament and therefore will continue to view the policy and associated documents as transitional only pending final enactment.

* Health and safety related education will be given far greater attention. MainPower's existing two Health and

Safety Committees, i.e. employee and executive, will be combined and new terms of reference will be drafted.

* MainPower's health and safety responsibilities now form part of the company's SHEQ division which also includes quality and communications which are closely linked to health and safety and the culture within the organisation.

2.9 Succession Planning

* Management's current succession planning documentation and associated processes are reviewed on an annual basis. A formal Succession Plan will be completed and made available to the Board for its consideration on an annual basis.

* 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.
* All key positions and the status of succession across the Company will be subject to this review.

* 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

* Line services charges, including the structure and level of these charges, are reviewed on an annual basis.

* The 2014-2015 review will be more 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 Projects

3.1 Relocation

* MainPower's head office and operating activities will be relocated to the Southbrook Business Park during early June 2014.

* MainPower's properties at High Street and Keir Street have been sold, with settlement dates of early August 2014.

* The facilities at the new site have been purposely designed and constructed, recognizing that the region is one of the fastest growing in New Zealand and that the Company will be operating in this region for the long term.

* The head office facility has been designed and constructed to Importance Level 4; i.e. 180% of New Building Standard. The workshop and garaging have been designed to Importance Level 3, or 130% of New Building Standard.

* The facility supports one of the region's essential services, requiring particular attention to business continuity.

* MainPower's head office building is likely to be one of very few buildings of IL4 status in the region, and given its commitment to community leadership, will make this facility available to Councils and other essential service providers when required for Civil Defence or other emergency circumstances, should their own facilities be compromised.

3.2 Transmission and Electricity Distribution Network Development

MainPower's transmission and distribution network planning horizon will continue to encompass a minimum period of 10 years and up to 20 years in the case of transmission.

3.2.1 Transpower 66kV Transmission Development

* MainPower's Sub-Transmission and Distribution Network operates at 66kV, 33kV, 22kV and 11kV. MainPower is supplied from 5 Grid Exit Points; viz Southbrook, Kaiapoi, Ashley, Waipara and Culverden. MainPower purchased the previous Kaikoura Grid Exit Point and 66kV Culverden Kaikoura line in 2012.

* The Kaiapoi, Southbrook and Ashley grid exit points are supplied via Transpower's two 66kV circuits between Islington and Ashley. The Waipara and Kaikoura grid exit points are supplied from Transpower's two 220kV circuits between Islington and Stoke. There are also two 66kV interconnecting circuits between Ashley and Waipara.

* Transmission constraints can exist depending on the load sharing on the circuits between Islington and Waipara. It is uncertain how the proposed replacement of the 66kV supply transformer at Islington during 2022 will impact on these constraints. An upgrade of the 66kV interconnecting circuit between Ashley and Waipara will be required by 2030.

* Recent changes to Transpower's transmission operational policies and procedures are beginning to impact on the security of the North Canterbury 66kV network when faults, maintenance or when upgrades are required. A study of the security offered by the current 66kV system has been initiated in order to identify improvement options.

* The following Transpower development projects are progressing in accordance with an agreed timetable.

  Kaiapoi Grid Exit Point
  Two new 11kV feeders where commissioned during 2013 to supply the area north of Kaiapoi through to Woodend.

  Southbrook Grid Exit Point
  Transpower has completed its solution study relating to the proposed addition of two 66kV feeders for the supply to Waimakariri west and a 66kV bus sectionalising circuit breaker. It is expected that this project will be completed by the end of 2015.

  Ashley Grid Exit Point
  Transpower will complete its solution study by May 2014 relating to the addition of a new transformer bank and 11kV switchboard. MainPower has entered into a pre-purchase agreement to provide Transpower with sufficient lead time so that this project can be completed by the end of 2015.

  Culverden Grid Exit Point
  It is proposed that the capacity at this location be increased to provide MainPower with the opportunity to establish its new zone substation at this same location. A solution study has been initiated and it is expected that the project will be completed by the end of 2017. This project has been brought forward several years recognising that load growth will increase significantly following the establishment of new irrigation schemes in the region and the subsequent conversion of up to 50,000 hectares to dairying and other land uses requiring irrigation including the Balmoral Forest area.

  Rangiora East Grid Exit Point
  It has been determined that a new grid exit point will be required by 2018 to be located east of Rangiora in order to satisfy anticipated demand between Rangiora, Woodend and further north. MainPower has engaged property consultants to acquire a suitable site.

  Waipara Grid Exit Point
  Additional 66kV feeders will be required at the Waipara grid exit point to supply Hawarden and Amberley by 2021. A solution study will be initiated during 2016.

3.2.2 MainPower's Distribution Network Development

MainPower's major network development projects are detailed below.

Waimakariri West

This project commenced during 2013.

* The peak load on the Southbrook GXP has reached the rating of one of two existing transformers. In order for MainPower to maintain its security standard at this GXP it was necessary to either increase the transformer capacity or reduce the 33kV load.

* The peak load on the 33 kV subtransmission lines to Swannanoa, Cust, Bennetts and Oxford now exceeds the 20 MW rating available with one circuit out of service. The annual increase in the connected capacity of irrigation motors in the area has been very consistent for the last 10 years averaging 800 kW. The load growth expected from this is approximately 1 MVA per year including the capacity for associated dairies, pivot irrigators, cottages, and general growth. The continuing conversion of the Eyrewell forest area means this growth rate is unlikely to decrease in the next 5 years.

* The Oxford substation has a peak load approaching 7 MVA and is on a spur line with a single transformer making it our highest loaded, low security zone substation.

* Bennetts substation has two transformers but requires the full capacity of both at peak load. Both Cust and Swannanoa are single transformers. The 11 kV distribution in the area is at full capacity and in most cases cannot provide backup supply without extending the load curtailment to a much wider area.

* The Southbrook Cust 33 kV line is a 46 year old wooden pole line. Significant maintenance benefits will also be realised from its rebuild for 66 kV.

Approved Upgrade

* MainPower is in the process of converting the Rangiora West area from 33/11 kV to 66/22 kV. This will double the existing capacity and will remove the Rangiora West load from the Southbrook GXP 33 kV transformers.

* A new 66/22 kV zone substation is being built at Burnt Hill to supply the Oxford and Bennetts areas and the Swannanoa substation upgraded to 66/22 kV. Both will have dual 23 MVA transformers.

* The Southbrook–Swannanoa–Bennetts 33 kV line was originally constructed for 66 kV, as was the Swannanoa substation. The existing 33 kV lines will be upgraded to 66 kV, rerouted and extended to provide a dual feed to both substations. The existing Cust, Bennetts, and Oxford transformers will be decommissioned.

* The upgrade of the Swannanoa substation will be largely completed by late 2014 following the delivery of transformers in March 2014. The Bennetts - Burnt Hill 66 kV circuit will be completed by mid 2014. Conversion of the existing Oxford Rd 33kV circuit to 66kV will continue in 2015. Completion of the Burnt Hill substation is expected by March 2015. Conversion of key areas of the distribution system to 22kV is 75% complete and will be ongoing through this period, and continue in the following years as required by growth.

Further Waimakariri West Upgrades

* The two 33kV overhead lines currently supplied from our Southbrook zone substation are to be converted to 66 kV and supplied from two new 66 kV feeders to be established at Transpower's Southbrook GXP. MainPower has signed an investment agreement with Transpower, and project completion is planned for late 2015.

* An additional 66kV bus section circuit breaker is to be installed at the Southbrook GXP in conjunction with the two new 66kV feeders. The Southbrook 66kV bus is pivotal in supplying all loads between the Ashley and Waimakariri rivers. A single bus fault would result in the complete loss of supply. The new bus section circuit breaker will allow supply to be maintained to approximately 80% of the customers and speed up restoration to the remaining 20%.

Establishment of the new Rangiora East GXP

* This project involves the construction of a new 66kV Grid Exit Point east of Rangiora. MainPower will construct the associated 66/11kV substation.

* The Southbrook zone substation's secure 11kV capacity is now fully utilised. The 11kV capacity cannot be increased without a significant rebuild of the substation. MainPower's long term development plan provides for Southbrook to become a 66/11 kV GXP. The first stage of this project will coincide with the conversion of the Rangiora West feeders to 66 kV.

* There is rapid growth occurring in the Rangiora urban and the Woodend/Pegasus area. MainPower is currently managing this constraint through load control, by transferring load to the Kaiapoi GXP, and in the medium term the upgrade of the Ashley GXP in order to release an upgraded Rangiora North substation to be fully committed to Rangiora.

* The combined Woodend and Rangiora load is currently approaching 40 MVA, a large portion of which is to the east of Rangiora. MainPower's preferred option is to construct a new Rangiora East GXP close to the load centre which enhance security and provide far greater flexibility for future feeder configuration and development.

Upgrade of the Ashley GXP

* This project will require the replacement of the existing 10 MVA transformers with a 40 MVA transformer. The upgrade will also require the establishment of five new 11 kV feeder circuit breakers.

* The Rangiora North zone substation which supplies the rural areas of Loburn, Ashley, Balcairn and the north side of Rangiora town is at full capacity. There is significant load growth to the north of Rangiora and the alternative supply from Southbrook is also at full capacity. The upgrade will provide the opportunity to transfer the load to the north side of Rangiora which is currently on the Rangiora North substation to the Ashley GXP so that the Rangiora North substation can be fully committed to the supply of Rangiora.

* The project will also provide the opportunity to shift load from the area south of Amberley, which is currently supplied by Amberley substation, while at the same time strengthening the available interconnections.

Upgrade of the Culverden GXP

* This project will require an upgrade of Transpower's Culverden GXP from its current 30MVA at 33kV to 80 MVA at 66kV. This upgrade will coincide with the establishment of MainPower's 66/22kV substation at the same site.

* MainPower's Mouse Point substation has two 10/13 MVA 33/22kV transformers which are very highly loaded in summer currently at 17 MVA, predicted to rise to approx. 22 MVA by 2016 under a high growth scenario. The Culverden GXP peaked at 26MVA in Nov 2013 which is close to its 30MVA firm capacity. Load growth is expected to increase significantly as further irrigation resulting from use of water from both the Waiau and Hurunui River comes on stream which will include the irrigation of much of Balmoral forest.

* The existing 30MVA 220/33 kV transformers will be replaced with 80MVA 220/66 kV transformers. MainPower's preferred upgrade strategy is to combine both the Transpower GXP and MainPower's substation on the Transpower site. The upgrade will replace the 30 MVA 220/33kV GXP transformers with 80 MVA 220/66kV transformers replicating the Waipara GXP. The existing 33/66kV step up transformer supplying Kaikoura would be utilised to provide a 33kV supply to Hanmer.

* MainPower will establish a new 66/22kV substation at Transpower's GXP site with at least 40 MVA of firm capacity and eight 22kV feeders.

Upgrade of Waipara–Kaikoura 66kV line

* Upgrade of the 33kV subtransmission line from Waipara to Kaikoura to 66 kV, including the zone substations along the route.

* The Kaikoura 66 /33 kV substation is supplied from Culverden via a single wood pole line which is backed up, during faults or annual week long maintenance outages, from Waipara on the coastal 66 kV and 33 kV line. The load at Kaikoura is at the limit of that which can be backed up and MainPower is in the process of upgrading the remainder of the coastal line to 66 KV.

* Currently Waipara to Cheviot operates at 66 kV and Cheviot to Kie Kie just south of Kaikoura has been reinsulated for 66 kV. The Leader substation has been replaced with a new 66 kV substation operating at 33 kV. The upgrade to Cheviot has enabled irrigation load growth along the coastal route whilst still improving the capacity and stability of the line when supplying Kaikoura. The line is still constrained by the rating of 33 kV voltage regulators at Claverley and the voltage drop at Oaro and fixed tap distribution transformers between Oaro and Kaikoura.

* MainPower is negotiating with landowners on the remainder of the route to allow completion of the upgrade, particularly across the hills between Goose Bay and Kaikoura. A design review of the substation termination is required now that MainPower has purchased the Kaikoura 66 kV line and substation.

3.3 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"

Distributed generation development will only proceed on the basis that projects will need to demonstrate quantifiable long term economic, strategic, technical and operational benefits to the network.

3.3.1 Generation Operations

Cleardale Hydro

* Cleardale continues to run well. Revenue has been low following a change to sales via the spot market and a softening of spot prices. This is expected to continue in the short term.

3.3.2 Generation Development

Kakapo Brook Hydro

* Kakapo Brook is a 2.6MW mini hydro that takes water from Kakapo brook and drops it down to the Hope river near the State Highway 7 bridge. Annual generation would be approximately 11.9GWh.

* It is proposed that the project is structured as a joint venture with Rooney Holdings Limited.

Browns Rock Hydro

* Network benefits associated with the development of Browns Rock Hydro will be minimal and therefore, unless the terms agreed with Waimakariri Irrigation Limited are commercially attractive, in particular the guarantee as to future water supply and a range of risk related matters, then this project will not proceed.

* Browns Rock is a 5.7MW cascade hydro scheme with three power stations taking water from a new irrigation storage facility, owned by Waimakariri Irrigation Limited, with tailwater discharged back to the Waimakariri River. Annual generation is estimated at 29.5 GWh.

Mt Cass Wind

* Mt Cass has been nominally on hold pending a better outlook for generation development and an assessment of compatibility with the MainPower generation strategy. In the meantime priority has been given to addressing all outstanding issues.

* The work programme for the coming year includes:

  - Preparation of an options paper for the next steps of any development .

  - Conclude access arrangements with the various landowners involved.

  - Continue environmental baseline monitoring.

  - Continue wind resource assessment.

Regional Wind Monitoring

* Regional wind monitoring will be continued to be scaled back. Only promising sites will be continued to be monitored. The intention is that these will be banked rather than developed.

Regional Hydro Monitoring

* Flow monitoring is being carried out at a number of sites with a view for future hydro development:

  - Grantham River, Hanmer basin- potential follow on project to Kakapo Brook with a further 1MW capacity to support Hanmer

  - Jordan Stream, Kaikoura- possible long term development option

  - Hapuka, Kaikoura- possible long term development option

3.4 Hurunui Water Project

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

* MainPower is the second largest shareholder in HWP and continues to hold 4,089 shares, or 12.5%. MainPower is one of four founding shareholders who collectively contributed $2.26m as an unincorporated joint venture. Ngai Tahu Forest Estates Limited, David

Teese, and the Hurunui Irrigation and Power Trust, are the other three founding shareholders.

* Ngai Tahu Forest Estates Limited is the largest shareholder and currently holds 9,182 shares. Ngai Tahu owns 9,380 hectares in the command area; i.e. 8,597 hectares at Balmoral Forest, and 783 hectares at Medbury. David Teese is the owner of the pastoral lease at Eskhead Station; the location of one of the original water storage sites proposed by the company. David Teese holds 2,027 shares. The Hurunui Irrigation and Power Trust currently holds 149 shares.

* 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.

* The Company has been granted Resource Consents to take, use, dam and discharge water taken from the Hurunui and Waitohi Rivers. The current proposed development configuration includes a series of water storage dams to be located at Hurricane Gully, Seven Hills, Inches Road and in the Lower Waitohi Gorge. The location of the on-plain storage has yet to be decided.

* Nine Resource Consent have been granted as

    - To take and divert up to 17 cumecs from the main stem of the Hurunui River downstream of the Surveyors Stream confluence.

    - To take and divert up to 26.1 cumecs from the Hurunui River on the south bank downstream of the Mandamus confluence.

    - To take and divert up to 12.3 cumecs from the Hurunui River on the north bank downstream of the Mandamus confluence.

    - To take and divert up to 42.4 cumecs from the Waitohi River.

    - To dam water in the main stem of the Waitohi River to create 4 dams.

    - To discharge water into the Waitohi River immediately downstream of each dam.

    - To discharge up to 17 cumecs from the Hurunui River via a rising main/tunnel to the Hurricane Dam reservoir in the Waitohi River.

    - To take and use water for irrigation and hydro generation.

    - To store up to 6.5m cubic metres of water in on-plain storage.

* 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.

Recent Developments

* The Amuri Irrigation Company ("AIC") has appealed the above consents granted to HWP. AIC already operates an irrigation scheme in the Hurunui catchment and is also a shareholder of HWP. Ngai Tahu Properties Limited ("NTP") has joined the AIC appeal proceedings. These proceedings are ongoing.

* NTP has lodged an application to take water from the Waiau River and to irrigate the Balmoral Forest land using water from both the Hurunui River and the Waiau River.

* HWP, NTP and AIC are currently in mediation in order to avoid HWP's consent's being referred to the Environment Court at significant cost to all parties.

* The issue of concern to AIC is the terms of allocation and management of nutrients under the HWP consents. All three parties have agreed various issues relating to this matter but a final agreement has yet to be agreed and signed.

* HWP will not commence its programmed engineering assessment until an optimum scheme arrangement and development strategy has the support of all its shareholders.

* HWP and NTP have agreed to undertake an engineering review of all of the potential scheme configurations and staging which is risk weighted and an optimum solution which can be presented to all shareholders.

4. Non-Core Activities

MainPower's investment in VirCom Energy Management Services Limited and its investment in the electricity network assets owned by the Company at Wigram, are not considered core activities.

4.1 VirCom Energy Management Services Limited

* The Board has, during recent years, continued to review whether to retain any ownership in VirCom Energy Management Services Limited. Further consideration will be given to this matter during 2014 and it is likely that our interest in this company will be divested.

4.2 Wigram

* MainPower's interest in the electricity network assets located at Wigram will be sold and this process has commenced. A settlement date of 1 April 2015 is anticipated.

5. Financial Performance

5.1 Financial Performance

A summary of Budgeted Financial Performance, Financial Position and other financial measures and performance statistics for the 2014-2015 financial year and the forecast for the following two financial years for MainPower's Parent Company and for the MainPower Group are provided in the following tables.

The summary forecast for the year ended March 2014 compared to the Financial Budget for that year and the actual financial performance for the year ended March 2013 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 2014-2015 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.

* 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.

* The divestment of VirCom Energy Management Services Limited during 2014-2015 is assumed.

* New business acquisitions or new business establishment beyond the investigation stage, other than those detailed above, have been excluded.

Performance Statement

Financial

Parent:

For the year ending March	Actual 2013 $000	Budget 2014 $000	Forecast 2014 $000	Forecast 2015 $000	Forecast 2016 $000	Forecast 2017 $000
Financial performance						
Operating revenue	56,533	57,621	55,555	58,462	58,453	60,247
Profit before rebates and tax	18,777	20,751	16,770	18,991	17,248	17,723
Rebates	(8,251)	(8,287)	(8,255)	(8,403)	(8,610)	(8,822)
Taxation	(2,868)	(3,033)	(2,180)	(2,508)	(1,673)	(1,726)
Profit after rebates and tax	7,658	9,431	6,335	8,080	6,965	7,175
Total maintenance expenditure	4,375	3,461	5,402	3,728	3,872	4,041
Total capital development expenditure	20,637	38,113	39,723	21,645	21,668	22,087
Financial position						
Net working capital	(9,947)	(1,795)	(1,160)	3,838	4,542	5,212
Non current assets	255,701	282,637	283,438	290,823	301,518	313,962
Term Liabilities	(45,071)	(69,978)	(75,260)	(79,563)	(83,998)	(89,937)
Net assets	200,683	210,864	207,018	215,098	222,062	229,237
Share capital	56,774	56,774	56,774	56,774	56,774	56,774
Reserves	143,909	154,090	150,244	158,324	165,288	172,463
Equity	200,683	210,864	207,018	215,098	222,062	229,237

MainPower Group

Financial performance *(includes continued and discontinued operations)*	$000	$000	$000	$000	$000	$000
Operating revenue	73,663	81,536	79,332	92,877	58,453	60,247
Profit after rebates, tax and dividends	8,341	9,820	7,074	6,570	6,965	7,175
Equity	199,891	210,971	206,965	212,721	219,686	226,861

MainPower Group Financial Ratios	%	%	%	%	%	%
Profit before tax / net assets	5.86	6.59	4.78	4.72	4.00	3.99
Profit after tax / total fixed assets	3.24	3.69	2.67	2.32	2.40	2.39
Profit after tax / equity	4.26	4.77	3.48	3.13	3.22	3.21

Customer Service and Statistics

For the year ending March	Actual 2013	Budget 2014	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017
Lines Business:						
Quality of Supply						
SAIDI - Average minutes customer is without power during the year	137.60	124.00	175.00	124.00	123.00	123.00
SAIFI - Average supply interruptions per customer during the year	1.32	1.59	1.80	1.58	1.58	1.57
Unplanned faults per 100 kms during the year	4.13	6.34	7.00	6.24	6.17	6.11
Statistics						
Lines business						
Total line service customers (number)	35,994	36,836	37,000	37,900	38,700	39,500
Gigawatthours purchased (GWHs)	587.60	585.31	588.91	629.00	652.00	677.00
Gigawatthours sold (GWHs)	551.63	552.93	559.53	594.00	617.00	640.00
Electricity loss ratio (%)	6.12	5.53	4.99	5.50	5.50	5.50
Network maximum coincidental demand (MW)	93.65	101.00	99.00	103.00	106.00	108.00
Load factor (%)	71.60	68.00	69.20	69.10	69.90	70.70
Total Transformer capacity (MW)	464.00	475.00	481.00	496.00	511.00	526.00
Transformer capacity utilisation factor (%)	20.40	21.30	20.00	19.80	19.60	19.40
Circuit length lines (kms)	4,786	4,812	4,835	4,905.00	4,955	5,000
Efficiency Performance [1]	$	$	$	$	$	$
Capital cost per km	4,930	7,241	7,206	4,247	3,912	3,976
Capital cost per ICP	646	946	942	550	501	503
Operating cost per km	2,220	2,264	2,254	1,817	1,932	1,981
Operating cost per ICP	291	296	294	235	247	251
MainPower Group						
Number of employees	251	258	272	289	175	180
Number of work related accidents resulting in lost time	10	Nil	3	Nil	Nil	Nil
Total number of lost days as a result of work related accidents	16.5	Nil	55	Nil	Nil	Nil

Note: [1] Efficiency Performance measures for the financial years ended 2013 excludes Non Distribution System Fixed Assets and are determined in accordance with the EDB Information Disclosure Requirements

6. Other Measures

6.1 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 2014-2015 Financial Budget provides for $8.403 million to be credited to Qualifying Customers as Rebates. This represents approximately 24% of total distribution lines revenue.

* A further $405,200, representing a "Community Dividend", is in addition to the customer Rebates of $8.403 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 4.8% of total distributions to Qualifying Customers and the Community.

6.2 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.

6.3 Return on Investment for the MainPower Regulatory Lines Business

* MainPower's cost of capital (post-tax) has been determined at 6.9% and is derived using the Capital Asset Pricing Model.

* MainPower's Return on Investment for the year ended March 2013 was 6.43%, slightly below the Commerce Commission's 75th percentile estimate of 6.56%. The Return on Investment for the year ended March 2014 is forecast to be 6.05%.

* MainPower's budgeted Return on Investment for the regulatory Lines Business for the financial year ending 31 March 2015, after Taxation, is expected to be $16.446 million or 6.23%.

* The shortfall between the budgeted Return on Investment of 6.23% and MainPower's Weighted Average Cost of Capital of 6.9% is not considered material.

* The Return of 6.23% on Investment for MainPower's regulatory lines business is considered adequate, given the expected level of new investment in the Network.

6.4 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 2015 after rebates and taxation is expected to be $6.570 million or 3.13%.

6.5 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
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 two standing committees and two oversight Groups. They provide guidance and assistance to the Board with overseeing certain aspects of the Board's corporate governance. Each 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 Network Development Group

The Network Development Group's primary role is to strengthen the relationships and therefore communications between the Board and Management on matters relating to Network Development. The Group focus is on the strategic direction of MainPower's core electricity network business, the introduction of intelligent network technologies, network planning, distributed generation and the principles relating to pricing.
Current membership is Lead Director, Mr S Lewis, and Managing Director, Mr A Berge.

9.4 Community Relationships Group

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

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 2014 and the comparative information presented in these financial statements for the year ended 31 March 2013.

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.

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.