

# MainPower New Zealand Limited Group of Companies



**Statement of  
Corporate Intent  
2008 - 2009**

Statement  
of  
Corporate Intent

2008-2009

# Directory

## MainPower New Zealand Limited

### Board of Directors

W G Cox	<i>Chairman</i>
P A Cox	<i>Deputy Chairman</i>
A Berge	<i>Group Managing Director</i>
J A Hoban	<i>Director</i>
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J R Abernethy	<i>Trustee</i>
D J Crossen	<i>Trustee</i>
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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 2008, and the two succeeding financial years. It provides a summary of MainPower’s strategic intent, the scope of MainPower’s business, key strategic objectives and initiatives, and MainPower’s key performance targets and other measures by which MainPower’s performance will be judged.

A summary of these is attached.

The MainPower Group’s Statement of Values is also attached.

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

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

The Code of Sustainable Practice now forms part of the SCI. This sets out the requirement for MainPower to move towards sustainability. The Board and Management of MainPower are of the view that a commitment to the Code as a central business philosophy and as a major driver for the business will be recognised as being responsible and progressive.

The Code covers three broad areas of sustainability; viz. Economic Strategy, Environmental Strategy and Social Strategy, and will require MainPower to report on its sustainability performance to stakeholders, and assess and report on this performance against the Code.

MainPower’s Strategic Plan and Business Plan 2008-09 and for future years reflects the importance given to sustainability. A number of initiatives have been developed in accordance with the Code and these will be reported on at year end as part of MainPower’s Annual Review to Shareholders and Customers.

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

- (i) the performance targets and other measures (including the Return on Equity after payment of tax) by which the performance of MainPower’s Lines Business and the MainPower Group of

Companies overall performance may be judged in relation to its objectives;

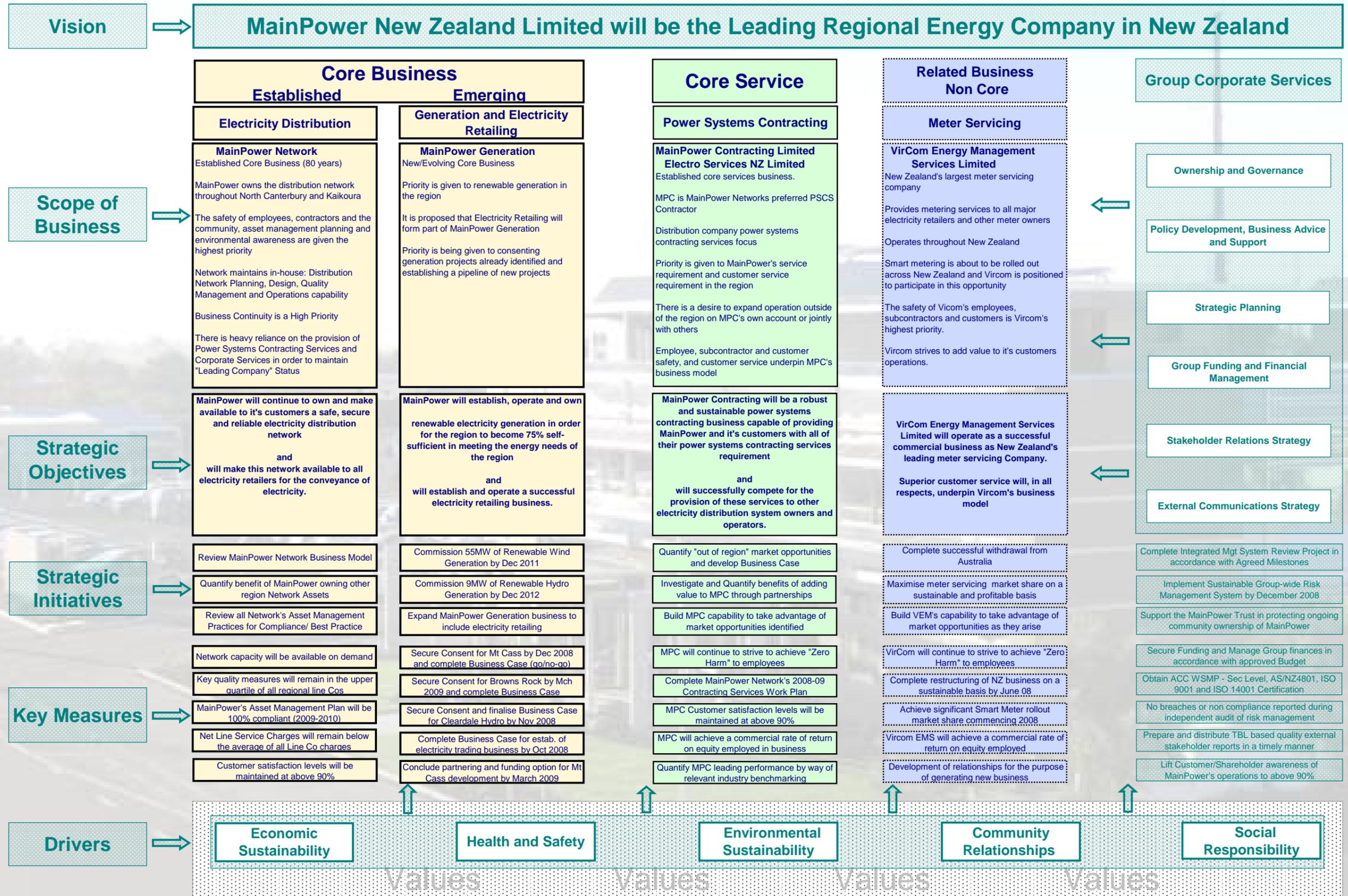
- (ii) the ratio of consolidated Shareholders’ funds to total assets;
- (iii) an estimate of the amount or proportion of accumulated profits and capital reserves that is intended to be distributed to Shareholders;
- (iv) an estimate of the amount of line charges to be distributed to Qualifying Customers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

It has been the practice during recent years, for the Board to take the opportunity in this SCI to provide an update on a number of matters impacting on the region’s economic wellbeing and prosperity.

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

The opportunity will also be taken to provide an update on MainPower’s Generation Strategy.

# Statement of Corporate Intent



# Values

## We Value People

Our Employees, Customers, Shareholders.

## We Value Our Community

Its Environment, its Economic Progress.

## We Value

Integrity, Honesty, Fairness and Respect.

## We Value

The Safety of our Employees.

## We Value

Quality, Service, Innovation.

## We Value

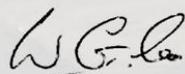
Local Control, Local Accountability, Local Employment.

## We Value

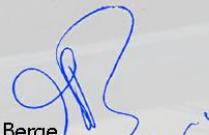
Easy Accessibility, Communication.

## We Value

A Fair Profit.



W G Cox  
Chairman



A Berge  
Group Managing Director

## 2. Vision

The strategic direction and priorities for MainPower were the subject of a comprehensive review carried out during 2007. This review followed the 2006 MainPower Ownership Review undertaken by the MainPower Trust in accordance of the requirements of its Trust Deed.

MainPower's strategic direction is clearly reflected in the Vision for the Company adopted by the Board,

**“MainPower New Zealand Limited will be the Leading Regional Energy Company in New Zealand”.**

A summary of the Board's intentions in support of this Vision follows:

- MainPower will continue to own and make available to its customers, a safe, secure and reliable electricity distribution network and will make this network available to all electricity retailers for the conveyance of electricity;
- MainPower will establish, operate and own renewable electricity generation in order for the region to become 75% self sufficient in meeting the energy needs of the region, and in addition will establish and operate a successful electricity retailing business;
- MainPower Contracting will be a robust and sustainable power systems contracting business, capable of providing MainPower and its customers with all of their power systems contracting services requirement, and will successfully compete for the provision of these services to other electricity distribution system owners and operators;
- MainPower's other business interests will operate as successful commercial businesses in an operating environment where superior customer service underpins their business model.

The Board also determined that the degree to which MainPower has delivered on this Vision, and how the Company's success will be viewed and measured will, in reality, be determined by the following key stakeholder groups:

- **Customers**

Customers will express their total confidence and satisfaction that the safety, security and reliability of the services delivered by MainPower, represent best practice and are delivered at a competitive and fair price.

Customers will also value their shareholding interest in MainPower and the return they

receive from the Company in the form of Customer Rebates.

- **Shareholders**

Ordinary and Redeemable Preference Shareholders will support the direction MainPower is taking (including Generation) and will acknowledge MainPower's position in the industry as best in class. Shareholders will, in coming to this conclusion, have placed considerable emphasis on MainPower's economic, social and environmental performance and the Company's ability to deliver on its stated Values and on its ability to increase shareholder wealth as this is measured by shareholders.

- **Community**

Key decision-makers and those in positions of influence within the local community will recognise the importance of MainPower's economic and social contribution to the local community, and that the loss of such a major contributor would be detrimental to the community's wellbeing. These key decision-makers will willingly stand up in support of MainPower's retention as a valued locally-owned and operated company.

- **Electricity Industry**

Key industry participants will hold MainPower up as being best in class.

- **The Regulator**

The electricity industry regulating agencies will record MainPower's performance across all regulatory measures as being upper quartile or best in class, whichever is superior, and will promote MainPower's status on this basis.

- **Employees**

Good employer status will be a key driver of how employees view the Company and its success. Employees will understand the rationale and drivers represented by the Vision and employees at all levels within the organisation will take ownership in terms of its delivery. Employees will participate and take pride in the Company's successes and therefore will continue to build on MainPower's community-focused culture that has been its hallmark for many decades. Employees will seek to benefit from the Company's success in terms of job security and career development.

### 3. Structure of MainPower Group of Companies

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

MainPower holds 100% of the Ordinary Shares in MainPower Contracting Limited, a successful power systems contracting company based in Rangiora. MainPower Contracting provides MainPower with nearly all of its power systems contracting services requirement.

MainPower Contracting Limited holds a 100% interest in Electro Services NZ Limited, based in Nelson. Electro Services provides power systems contracting services to the Nelson and Marlborough markets.

MainPower also holds a 77% interest in VirCom Energy Management Services Limited, New Zealand's largest meter servicing company. VirCom EMS provides services to all New Zealand's electricity retailers and other major meter owners. VirCom EMS has major operating divisions in Auckland, Hastings, Nelson and Rangiora, and operates throughout the rest of New Zealand through a successful sub-contractor network.

MainPower has also established within the Group structure, major divisions to manage the operation of the electricity distribution network and the establishment of its electricity generation business.

A summary of the MainPower Group structure is as follows:

#### Core Business:

- Electricity Distribution  
- MainPower Network Division
- Generation and Electricity Retailing  
- MainPower Generation Division

#### Core Services:

- Power Systems Contracting Services  
- MainPower Contracting Limited  
- Electro Services NZ Limited
- Group Corporate Services  
- MainPower NZ Group of Companies

#### Related Business - Non Core:

- Meter Servicing  
- VirCom EMS Limited

This Group Company Structure continues to be supported for the following reasons:

- It separates core business from core services and other related businesses.
- It recognises the inevitability in certain circumstances that separation from MainPower as the parent company will be required under legislation.
- It provides each of MainPower's businesses with an independent and clear business focus, accountability and discipline in an operating environment where growth beyond traditional boundaries is encouraged.
- It is value driven and encourages economies of scale through growth where reliance and support on MainPower as the parent company is reduced or removed.
- It recognises the linkage between an organisation's culture and success and further that this culture may vary from business to business depending on the operating environment and demands associated with each business.
- It provides employees with a greater challenge and an opportunity to develop and advance their careers in an environment which more adequately addresses continuity of employment.
- It provides the opportunity for each business activity to expand on its own account through mergers and joint ventures where these are in the best interests of MainPower without having to give unreasonable consideration to the demands of other operating divisions or related businesses.
- It encourages best practice processes and procedures with respect to inter-company communications, resource management and reporting.
- It provides high levels of transparency and accountability and therefore can facilitate initiatives involving such matters as divestment, contestability, mergers, etc.

## 4. Operating Environment

Regional economic growth, the ever-increasing demand for additional capacity on MainPower's distribution network and on-going changes in Government Policy, will continue to be the major drivers impacting on the Company's operating environment.

### Legislative and Regulatory Change

The Government Policy direction signalled in the New Zealand Energy Strategy, the New Zealand Energy Efficiency and Conservation Strategy, and the more recent Government Policy Statement on Electricity Governance, together with the expected changes in the regulatory environment will continue to have a significant influence on MainPower's business.

The Commerce Amendment Bill currently before Parliament will, if enacted, require MainPower to continue to participate in the Commerce Commission's price-quality thresholds regime in addition to the normal disclosure requirements. The current drafting of the Bill singles MainPower out from nearly all other Trust-owned line companies because of the terms of the MainPower Trust Deed restricting income distributions to certain classes of customer, as Beneficiaries, to the exclusion of others.

The proposed amendments to the Energy Industry Reform Act providing the way for MainPower to participate more actively in generation and electricity retailing, will also have an immediate impact.

MainPower has already taken the opportunity to submit on both these proposed legislative changes, and will continue to monitor their progress through the House.

Government's request for the Electricity Commission to develop principles or model approaches to distribution pricing and the requirement to monitor line company uptake, has the potential to impact on the Company's operation and therefore any proposed change will be monitored closely. Government has instructed the Commission to recommend regulation if required, to ensure compliance. The Commission has been asked to take into account the interests of consumers, retailers and distributors and should be consistent with:

- Arrangements for connecting distributed generation to distribution networks;
- Obligations imposed on retailers as a result of arrangements relating to contracts between retailers and consumers;
- Arrangements covering distribution pricing methodologies;

- Arrangements for the use of ripple control for load management.

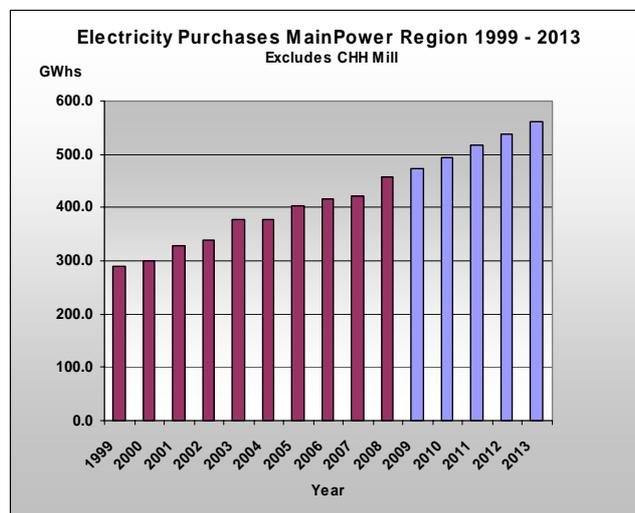
Government's Reform Programme is driven by climate change and the need to advance sustainability and economic transformation in support of this. MainPower's adoption of a Code of Sustainable Practice was viewed as being consistent with this shift in Government emphasis. Energy efficiency and energy conservation are being promoted in all proposed changes impacting on the electricity sector and this matter has been given prominence in the Environmental section of the Code.

An Energy Efficiency and Conservation Strategy has been developed by the Company. This Strategy has been developed in accordance with the Board's earlier decision to structure the Community Dividend to more accurately reflect MainPower's ownership; i.e. Qualifying Customers 80%; Community 20%.

### Growth and the Ever-Increasing Need for Additional Capacity

MainPower's region is still one of the fastest growing in New Zealand and during the last ten years, growth in terms of electricity supplied to the region has increased by approximately 60%. MainPower's growth profile is not expected to change significantly, although the promotion of its energy efficiency and conservation strategy will have some impact.

Actual growth during recent years and anticipated growth is presented in the following graph:



## 5. Network Capacity, Security and Reliability, and Pricing

### 5.1 Network Capacity

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

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

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

The availability of capacity via Transpower's system to the MainPower region is constrained in a number of areas and all of these constraints are being addressed.

#### Transpower's Transmission Network

##### Overloading of the Kaiapoi Supply Transformer

Peak load at Kaiapoi is forecast to exceed the existing transformer's N-1 Winter capacity by approximately 8MW this year and would have increased to approximately 12MW by 2018.

Two 66/11kV transformers currently supply Kaiapoi's load, providing a nominal installed capacity of 30 MVA, rated at 10 MVA and 20 MVA respectively.

MainPower has recently entered into a new investment contract with Transpower to replace both these transformers with two 40 MVA transformers. It is expected that these will be commissioned during November 2008.

##### Waipara Single Supply Security

A single 66/33kV, 16 MVA transformer supplies the load from the Waipara point-of-supply. This transformer has a capacity limit of 13.6 MVA and it was expected that the region's demand would exceed the transformer capacity by up to 1 MW this year, and increase to approximately 4MW in 2018.

The upgrade of MainPower's Waipara-Kaikoura 33kV line to 66kV and the commissioning of the Cheviot zone substation during 2007 as part of Stage One of the upgrade, has removed this potential overloading problem. The load between Waipara and Cheviot is now supplied direct off Transpower's 220kV circuit, and the situation will further improve following the commissioning of Stage Two of this project.

The remaining load at the Waipara point-of-supply, supplying customers in the Culverden and Amberley districts, is now secure and it is possible, given that Transpower's 33kV system at Waipara is down for any reason - to supply this load from MainPower's own 33kV distribution network.

##### Kaikoura Single Supply Security

Kaikoura has no N-1 security available via Transpower's system. Kaikoura is supplied through a single 33/66kV 20 MVA step-up transformer at Culverden, a 66kV Culverden-Kaikoura circuit rated at 37 MVA Summer and 41 MVA Winter, and a 66/33kV 10 MVA supply transformer at Kaikoura.

The peak load at Kaikoura is forecast to exceed the supply transformer's Winter capacity by approximately 0.2 MW in 2015, increasing to approximately 1 MW in 2018. The Kaikoura peak load has now increased to a level where Transpower's circuit cannot be taken out of service without back-up from MainPower's Waipara-Kaikoura supply.

The completion of Stage One of MainPower's Waipara-Kaikoura 33/66kV line upgrade through to Cheviot has removed any immediate security problem at Kaikoura.

Options for addressing N-1 security via Transpower's network in the longer term are the subject of on-going discussions with Transpower and a number of possible solutions have been identified.

MainPower will closely monitor load growth in the Kaikoura region but does not expect any project to proceed until at least 2015.

##### 66/33kV Step-down Transformer at Kaikoura

This Transpower 66/33kV step-down transformer is currently installed at MainPower's Cheviot zone substation and will need to be shifted to Kaikoura on completion of Stage Two of the 33/66kV Waipara-Kaikoura line upgrade. Arrangements for the relocation of this transformer are being progressed with Transpower.

##### New Rangiora Point-of-Supply

Expected load growth in the Waimakariri District will require a new Transpower point-of-supply to be located North-East of Rangiora. Load forecast modelling indicates that the new substation will be required during 2011-2012.

It is expected that the new point-of-supply would comprise two 66/11kV 40 MVA supply transformers and will connect into the Ashley-Waipara and Southbrook-Waipara circuits.

### MainPower's Distribution Network

MainPower's investment during recent years and further investment to take place through to 2013 is summarised in the following graph. Customer capital contribution; i.e. the amount of development funded directly by customers, is noted separately. The graph excludes Transpower transmission investment that is funded by MainPower through the normal transmission charging regime.

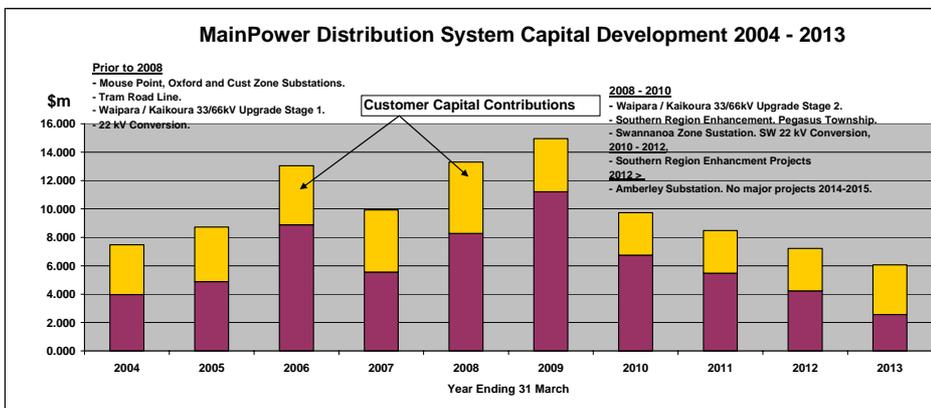
It is expected that capital investment will taper off during the next three to four years and then start to lift again following 2015 as demand catches up with the capacity available.

expected to be completed prior to September 2008; i.e. the commencement of the 2008 irrigation season.

The establishment of this substation will provide the opportunity to de-load the 11kV bus at MainPower's Southbrook substation in order to provide additional capacity to the North and East of Rangiora and the expected load growth during the early stages of the Pegasus town development.

### Dual High Capacity 11kV Underground Cables, Southbrook Substation to Johns Road, Rangiora

Dual 300mm<sup>2</sup> high capacity 11kV underground cables will be installed between MainPower's Southbrook Substation and Johns Road, Rangiora, early in the new financial year. This contract was awarded jointly to MainPower Contracting Limited (cable laying and jointing), and Connectrix (civil works). These cables will provide additional capacity to the West side of Rangiora and will enhance security to this part of the Waimakariri District.



The southern region enhancement programme will continue through until 2011.

MainPower's distribution system capital projects during 2008-2009 include:

#### Stage 2 of the 33/66kV Waipara-Kaikoura Upgrade

It is expected that Stage 2 of the 33/66kV Waipara-Kaikoura upgrade will be completed during mid to late 2009.

It is expected that most of the work associated with the upgrade between Claverley and Kaikoura, including the establishment of a 66/22/11kV zone substation at Leader and the removal of the Claverley zone substation, will be completed this financial year.

The need to establish a 66/22/11kV zone substation to replace the existing substation at Oaro remains uncertain as its establishment is dependent on the requirements associated with the Rakanui/Kaikoura property development. A final resolution on this matter is expected in June 2008.

#### New 33/11kV Zone Substation at Swannanoa

The contract for the establishment of a new 33/11kV zone substation at Swannanoa was awarded to ABB Limited during March 2008 and its construction is

## 5.2 Network Security and Reliability

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

The delivery of the 2008-2009 Maintenance Works Programme will be challenging, given the level of resources available, but its completion is considered essential if quality standards, and therefore customer service is to be maintained at these high levels.

The following two tables clearly demonstrate MainPower's SAIDI and SAIFI ranking during the period 1999 through 2007 as disclosed by the Commerce Commission, and when compared with other line companies falling within the category of regional line companies; i.e. excludes major city-based line companies.

**Commerce Commission Quality Thresholds  
Line Company Quality (SAIDI) Performance 1999 - 2007**

SAIDI (Regional Line Cos) Network Planned and Unplanned	Average 5 Years		Average 4 Years		Improvement %	Average 9 Years	
	1999-2003	Ranking	2004-2007	Ranking		1999-2007	Ranking
Alpine Energy*	87.9	3	79.3	1	9.8	84.1	2
Electra	78.3	2	88.2	2	-12.6	82.7	1
<b>MainPower*</b>	<b>147.1</b>	<b>7</b>	<b>97.0</b>	<b>3</b>	<b>34.1</b>	<b>124.8</b>	<b>4</b>
Network Waitaki*	70.3	1	122.2	4	-73.8	93.3	3
Network Tasman	147.4	8	124.6	5	15.5	137.3	7
Counties Power	127.1	5	143.1	6	-12.5	134.2	5
The Power Company	240.3	14	153.3	7	36.2	201.6	13
Unison	121.5	4	157.0	8	-29.2	137.3	6
Electricity Ashburton*	198.3	13	157.9	9	20.4	180.3	11
Buller Electricity	343.2	18	183.0	10	46.7	272.0	16
Westpower	169.3	11	189.9	11	-12.2	178.5	8
Waipa Networks	273.4	16	191.7	12	29.9	237.1	15
Horizon Distribution	160.6	9	207.3	13	-29.0	181.3	9
Northpower	169.2	10	212.8	14	-25.8	188.6	12
Centralines	313.2	17	220.3	15	29.7	271.9	17
Powerco	144.5	6	229.1	16	-58.5	182.1	10
Marlborough Lines	195.9	12	232.7	17	-18.8	212.3	14
The Lines Company	537.0	21	297.3	18	44.6	430.4	20
Eastland Network	366.6	19	305.0	19	16.8	339.2	19
OtagoNet	249.3	15	351.4	20	-40.9	294.7	18
Top Energy	456.2	20	419.3	21	8.1	439.8	21

\* Excludes 12 June 2006 Snow Storm

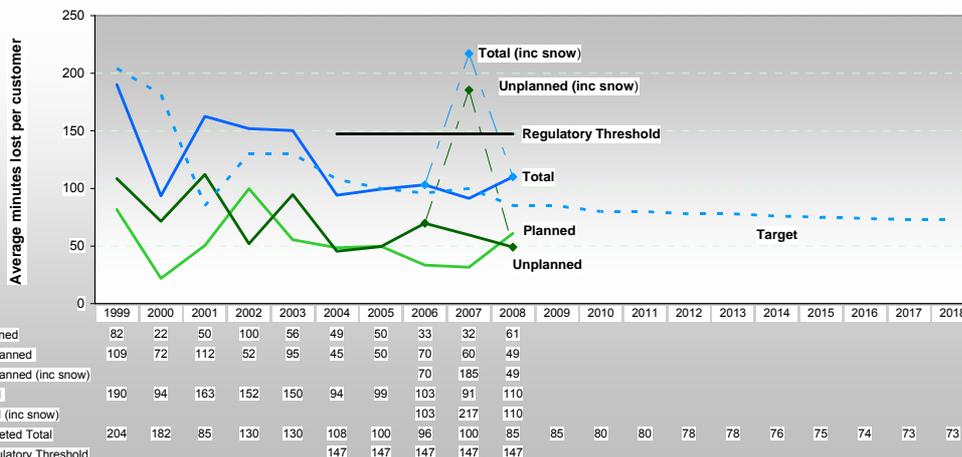
**Commerce Commission Quality Thresholds  
Line Company Quality (SAIFI) Performance 1999 - 2007**

SAIFI (Regional Line Cos) Network Planned and Unplanned	Average 5 Years		Average 4 Years		Improvement %	Average 9 Years	
	1999-2003	Ranking	2004-2007	Ranking		1999-2007	Ranking
Alpine Energy*	1.1	1	1.2	1	-9.1	1.1	1
Electricity Ashburton*	1.6	3	1.3	2	17.2	1.5	3
Network Tasman	2.1	9	1.4	3	35.7	1.8	6
<b>MainPower*</b>	<b>1.7</b>	<b>6</b>	<b>1.4</b>	<b>4</b>	<b>19.1</b>	<b>1.6</b>	<b>4</b>
Network Waitaki*	1.1	2	1.4	5	-27.3	1.2	2
Buller Electricity	2.4	12	1.6	6	32.4	2.1	9
Electra	1.6	4	1.8	7	-9.8	1.7	5
Horizon Distribution	1.9	7	1.9	8	-2.0	1.9	7
Eastland Network	3.6	17	2.7	9	26.2	3.2	17
Marlborough Lines	1.9	8	2.3	10	-22.4	2.1	10
Counties Power	2.7	14	2.4	11	11.1	2.6	13
Northpower	3.3	16	2.4	12	26.7	2.9	15
Westpower	1.6	5	2.4	13	-52.7	2.0	8
Powerco	2.2	10	2.8	14	-26.6	2.5	12
Unison	2.2	11	2.6	15	-19.9	2.4	11
OtagoNet	2.4	13	2.8	16	-16.9	2.6	14
The Power Company	4.3	18	3.1	17	27.2	3.8	18
Waipa Networks	3.2	15	3.1	18	2.0	3.2	16
The Lines Company	6.3	20	3.5	19	44.5	5.1	19
Top Energy	6.7	21	5.0	20	25.0	6.0	21
Centralines	5.8	19	4.9	21	15.3	5.4	20

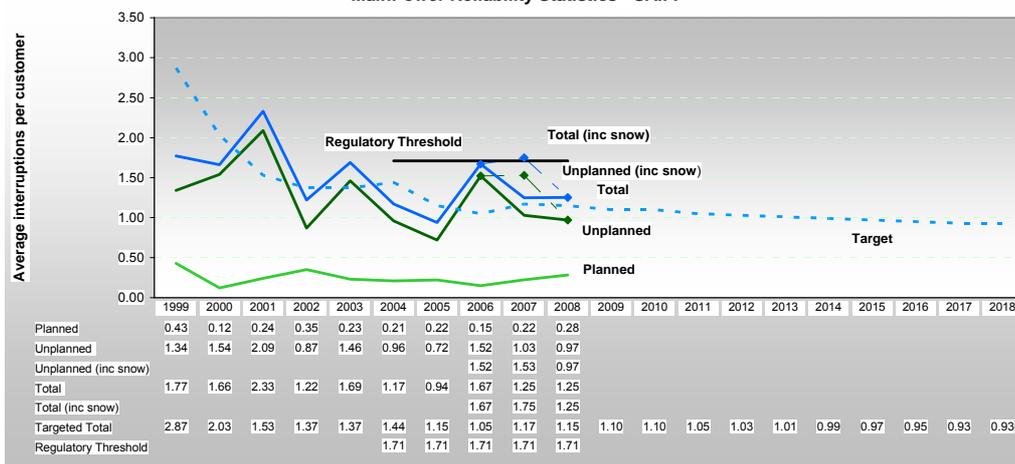
\* Excludes 12 June 2006 Snow Storm

MainPower's SAIDI and SAIFI performance compared to the Commerce Commission's regulatory threshold broken down into planned and unplanned interruptions, together with SAIDI and SAIFI targets going forward, are detailed in the following two graphs:

**MainPower Reliability Statistics - SAIDI**



MainPower Reliability Statistics - SAIFI



Growth and demand for new connections impacts on the level of planned interruptions and although these have been offset to some extent by the use of a mobile generation unit, they still have a significant impact on our overall quality performance when compared to other line companies who are not experiencing growth at similar levels.

### 5.3 Line Service Charges

#### Background

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

MainPower's line service charges were restructured on a revenue-neutral basis on 1 September 2001 as part of a re-balancing to coincide with the commencement of the new regulatory arrangements under Part 4A of the Commerce Act.

MainPower's rebates were reduced from 2.152 cents per kilowatthour to 1.905 cents per kilowatthour from 1 November 2005 as an alternative to increasing line service charges.

Average distribution and transmission line charges were increased by approximately 6.89% on 1 April 2007 and will increase again on 1 April 2008 by approximately 5.10% in order to recover increases in Transpower transmission charges and to maintain sufficient cash flows for normal business operations.

The Commerce Commission price threshold will not be breached as a result of the 1 April 2008 increase.

The level that MainPower can charge for its line services is regulated by the Commerce Commission

and is currently based on CPI-2%. The price path threshold allows for the pass-through of uncontrollable costs associated with any increase in Transpower transmission charge, local body rates on Network fixed assets, and levies charged by the Electricity Commission.

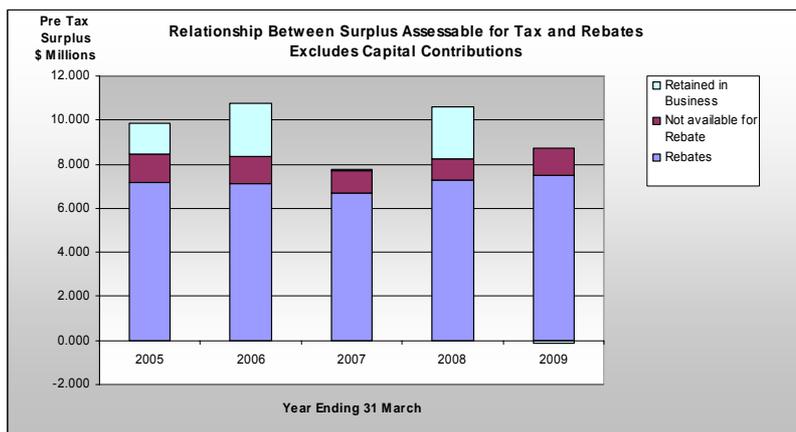
The following table made available by the Commerce Commission highlights the ratio of notional revenue to maximum allowable revenue, and clearly signals MainPower's accumulated unrecovered allowable revenue under the CPI-X regime, which at 2007 totalled approximately \$1.607 million. This is in addition to the \$7.270 million rebated to customers during 2007-2008.

Ratio of Notional to Maximum Allowable Revenue				
Year Ended 31 March	CPI-X	2005	2006	2007
	X	%	%	%
WEL Networks	2.00	87.89	93.72	<b>88.32</b>
Northpower	-1.00	96.15	93.48	<b>91.27</b>
<b>MainPower</b>	<b>2.00</b>	<b>95.59</b>	<b>97.90</b>	<b>92.67</b>
Counties Power	2.00	91.69	89.63	<b>93.75</b>
Electricity Ashburton	1.00	98.65	98.16	<b>93.97</b>
Network Tasman	1.00	95.73	100.31	<b>96.69</b>
Buller Electricity	1.00	90.55	97.50	<b>96.71</b>
Network Waitaki	0.00	99.43	94.65	<b>96.77</b>
Nelson Electricity	1.00	97.81	103.55	<b>97.00</b>
Electricity Invercargill	0.00	99.59	99.44	<b>97.39</b>
Aurora Energy	1.00	97.49	97.74	<b>97.71</b>
Westpower	1.00	98.73	99.31	<b>97.72</b>
Electra	2.00	95.75	100.49	<b>97.93</b>
Alpine Energy	1.00	96.60	103.77	<b>98.03</b>
Vector	0.00	97.71	99.42	<b>98.68</b>
Orion NZ	1.00	99.17	98.92	<b>98.79</b>
Scanpower	0.00	100.92	112.08	<b>98.96</b>
Powerco	2.00	98.99	99.16	<b>99.05</b>
The Lines Company	2.00	99.60	95.20	<b>99.23</b>
Waipa Networks	-1.00	95.43	99.66	<b>99.73</b>
Eastland Network	2.00	99.86	98.28	<b>99.76</b>
Top Energy	0.00	98.17	105.30	<b>99.85</b>
Horizon Energy	1.00	98.35	98.81	<b>99.93</b>
Unison	0.00	117.26	110.79	<b>99.96</b>
Centralines	2.00			<b>111.70</b>
The Power Company	0.00	99.15	113.83	<b>120.35</b>
Marlborough Lines	2.00	113.16	128.24	<b>124.30</b>
OtagoNet	-1.00	99.80	143.22	<b>142.09</b>

Source: Meyrick and Associates estimates supplied by the Commerce Commission.

The following table highlights the relationship between pre-tax surpluses assessable for tax, excluding customers' capital contributions, and rebates credited to Qualifying Customers. During recent years only a small portion of the pre-tax surplus has been retained within the business and it is expected that during the financial year ending March 2009, only that surplus which is not available for rebates will in fact be retained.

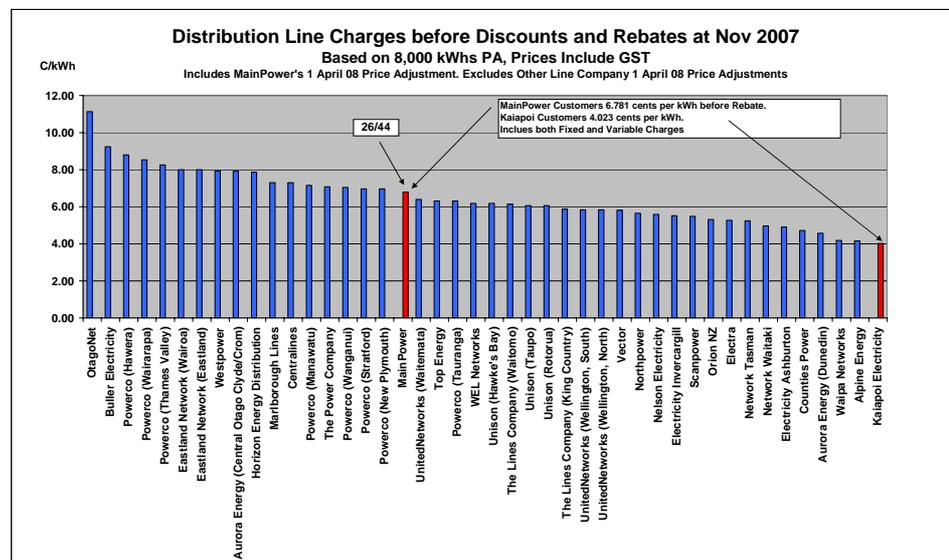
Rebates credited to customer accounts are expected to total \$7.521 million during 2008-09.

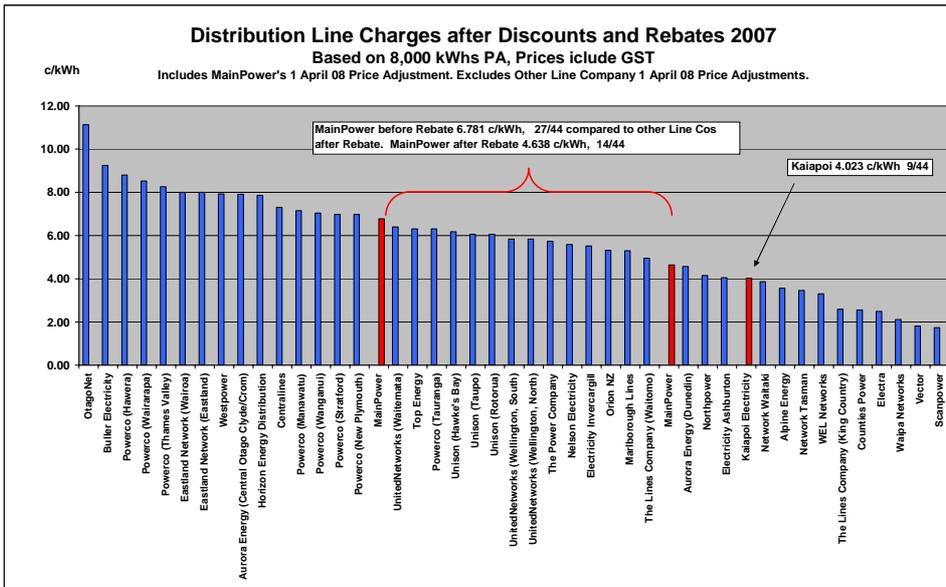


The following three graphs highlight MainPower's line service charges relative to other New Zealand line companies.

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

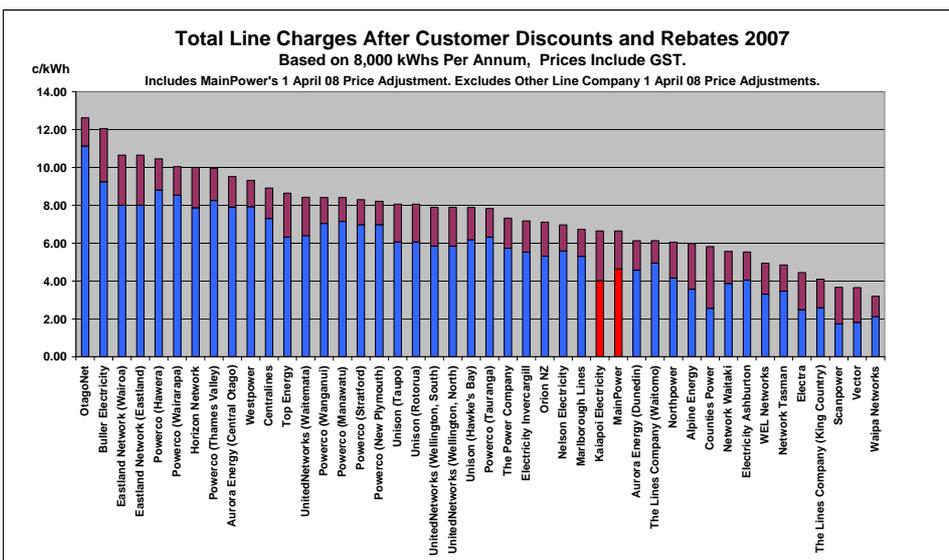
All three graphs include MainPower's 1 April 2008 price adjustment but excludes any 1 April price adjustment applicable to other line companies as these have yet to be disclosed.





The following graph includes both Transpower's transmission charge and MainPower's distribution charge net of MainPower's Qualifying Customer Rebate. It is also inclusive of discounts and rebates given by other line companies during the 2006-2007 financial year.

Although the cents per kilowatt-hour transmission charge applicable to Kaiapoi customers is slightly higher than those applicable to other ManPower customers, this difference is offset through MainPower's distribution charge to achieve uniformity.



## Customer Satisfaction Levels

During December 2007, a reasonably large sample of customers (400 residential and 330 non-residential) was independently surveyed on a range of matters impacting on MainPower's business, including their assessment of the quality and reliability of their supply and customer service.

The research showed very high levels of satisfaction in both customer categories with both the reliability and quality of supply provided by MainPower and the level of customer service provided to those who interacted with MainPower.

- 84% of residential customers and 79% of business customers were either 'very satisfied' or 'satisfied' with the reliability and quality of supply provided by MainPower.
- 78% of residential customers and 81% of business customers were either 'very satisfied' or 'satisfied' with the level of customer service provided by MainPower.

In general, the results showed that the majority of respondents in both surveys were satisfied with the current levels of customer service; reliability and quality of supply; and price. The majority of respondents in both surveys would not be willing to accept lower standards of either customer service or reliability and quality of supply even if these lower standards resulted in a reduction in their power bill. Nor would they be willing to accept higher levels of service if those higher standards meant a higher power bill.

A further customer survey will be undertaken during November/December 2008.

## 6. Generation Strategy

*“MainPower will establish, operate and own renewable electricity generation in order for the region to become 75% self-sufficient in meeting the energy needs of the region*

*and  
will establish and operate a successful electricity retailing business”.*

Delivery of MainPower’s Generation Strategy will be given high priority during 2008-2009. Particular attention will be given to progressing the Mt Cass Wind Farm, Brown’s Rock Hydro and Cleardale Hydro projects. All three projects will proceed through the consenting process this year and construction could start on the Cleardale project later in the year.

### 6.1 Mt Cass Wind Farm

During March 2007, MainPower publicly announced it would seek resource consent for a windfarm development on Mt Cass.

During November 2007, consents were lodged with the Hurunui District Council for the windfarm with output ranging in size from 83 turbines at 0.5 megawatts each to 23 turbines at 3 megawatts each; with a total output of 42 megawatts to 69 megawatts or between 22% and 40% of the MainPower region’s total energy needs. A final decision on the size and number of turbines will be determined once the terms of consent are known and following an international tender process.

A generation project of this size will provide significant economic benefit to the region.

MainPower’s application for consent to build the windfarm is expected to be publicly notified during June 2008. Public submissions will be an important part of the consenting process. It is expected that a decision on the consent application will be made before year end.

MainPower has undertaken extensive public consultation on this project and will continue this consultation with stakeholders through to and during the hearing stage.

The issues and options relating to the funding of this project and other generation projects, and the opportunity for entering into partnership arrangements, will be considered and given high priority during the year.

### 6.2 Browns Rock Hydro

The proposed Brown’s Rock Hydro project is situated on the North bank of the Waimakariri River and will build on the existing Browns Rock irrigation scheme.

This 8-9 megawatt project makes use of irrigation water from the Waimakariri Irrigation Company’s existing scheme when the water is not required for irrigation. It is also proposed to upgrade the intake to the scheme and the associated water race structure to accommodate greater flows when Waimakariri River flows allow.

Preliminary design will be completed early in the new financial year to enable MainPower and the Waimakariri Irrigation Company to undertake a full risk/benefit analysis.

Water and land-based consent applications are expected to be lodged with the relevant authorities during the third quarter of 2008.

It is possible that this project could provide up to 11% of the region’s total energy needs.

### 6.3 Cleardale Hydro

The Cleardale Hydro Project is a small-scale (0.75 megawatts) hydro generation opportunity located on Little River in the Rakaia Gorge. This site has a 300 metre head with good water flows.

Consents for this project have been lodged and subject to MainPower obtaining the appropriate consent, a business case for more detailed design and construction will be prepared. It is expected that this stage of the process will be completed by the end of the fourth quarter 2008 with construction commencing soon thereafter.

Cleardale Hydro has the potential to provide approximately 1% of MainPower region’s total energy needs.

## 7. Financial Performance

### Financial Performance

A summary of Budgeted Financial Performance, Financial Position and other financial performance measures and statistics for the 2008-2009 financial year and the forecast for the following two financial years for the MainPower Group and for MainPower's Lines Business are provided in the following two tables.

The summary forecast for the year ended March 2008 compared to the Financial Budget for this year and the actual financial performance for the years ended March 2006 and 2007, 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 Contracting Limited, Electro Services NZ Limited, Electro Services NZ Limited and VirCom Energy Management Services Limited.
  - MainPower has adopted the New Zealand equivalent to International Reporting Standards, NZ IFRS, from the 2007 financial year.
  - The Accounting Policies adopted are based on NZ IFRS and are consistent with those detailed in Appendix 3.
  - ODV based depreciation has been applied to MainPower's Lines Business.
  - All financial information is in nominal terms reflecting estimated inflation.
  - Growth forecasts have been applied, taking into account recent trends and known changes to MainPower's load characteristics.
  - Lines price increases have been forecast at 2% below the movement in the Consumer Price Index from 2009 consistent with the Commerce Commission's current Thresholds Regime determinations, and all increases in the cost of Transpower's transmission services have been "passed through" and recovered through future price movements.
  - Capital and maintenance expenditure included in the Financial Statements is consistent with the estimates provided in MainPower Network's Asset Management Plan.
- All expenditure relating to acquiring the Consents associated with MainPower's Generation Strategy, have been included in the Financial Statements. Actual construction cost and therefore funding in support of construction, has been excluded from the Financial Statements.
  - Taxation at 30 cents in the dollar has been applied in future years.
  - All significant inter-company transactions have been eliminated for performance measurement and comparative purposes.
  - New business acquisitions or new business establishment beyond the investigation stage have been excluded.
  - The Financial Statements exclude any further transfer of funds other than interest to MainPower's Disaster Insurance Fund.

MainPower's Lines Business Performance Measures have been prepared in accordance with the requirements of the Commerce Act (Electricity Information Disclosure Requirements) Notice 2004.

**MAINPOWER NEW ZEALAND LIMITED**  
**Financial Measures and Statistics**

Year Ended/Ending 31 March	Actual 2006 \$000	Actual 2007 \$000	Budget 2008 \$000	Forecast* 2008 \$000	Forecast 2009 \$000	Forecast 2010 \$000	Forecast 2011 \$000
<b>MainPower New Zealand Limited - Group of Companies</b>							
<b>Income Statement</b>							
Operating Revenue	56,233	61,480	63,873	67,384	70,672	77,807	83,415
Profit Before Tax	8,113	4,994	5,587	7,142	6,966	8,039	9,105
Taxation	(2,332)	(1,075)	(1,464)	(2,384)	(2,193)	(2,381)	(2,569)
Profit After Tax	<u>5,781</u>	<u>3,919</u>	<u>4,123</u>	<u>4,758</u>	<u>4,773</u>	<u>5,658</u>	<u>6,536</u>
<b>Shareholder Distributions</b>							
Rebates	<u>7,093</u>	<u>6,669</u>	<u>7,024</u>	<u>7,270</u>	<u>7,521</u>	<u>7,862</u>	<u>8,216</u>
<b>Balance Sheet</b>							
Current Assets	20,055	19,821	11,137	11,924	4,554	7,853	13,214
Non Current Assets	144,081	148,838	160,703	155,395	168,418	171,450	173,237
<b>Total Assets</b>	<u>164,136</u>	<u>168,659</u>	<u>171,840</u>	<u>167,319</u>	<u>172,972</u>	<u>179,303</u>	<u>186,451</u>
Liabilities	(8,128)	(8,736)	(9,026)	(28,748)	(29,628)	(30,301)	(30,913)
<b>Net Assets</b>	<u>156,008</u>	<u>159,923</u>	<u>162,814</u>	<u>138,571</u>	<u>143,344</u>	<u>149,002</u>	<u>155,538</u>
Share Capital	30,404	30,403	30,405	30,408	30,408	30,408	30,408
Reserves	125,604	129,520	132,409	108,163	112,936	118,594	125,130
<b>Equity</b>	<u>156,008</u>	<u>159,923</u>	<u>162,814</u>	<u>138,571</u>	<u>143,344</u>	<u>149,002</u>	<u>155,538</u>
* Denotes MainPower Group's first financial statements prepared in accordance with NZ IFRS							
<b>Key Financial Performance Measures</b>							
Profit Before Tax/Net Assets	5.27%	3.16%	3.48%	4.85%	4.94%	5.50%	5.98%
Profit After Tax/ Total Assets	3.61%	2.36%	2.48%	2.87%	2.81%	3.21%	3.57%
Profit After Tax/ Equity	3.78%	2.48%	2.56%	3.23%	3.39%	3.87%	4.29%

**MainPower New Zealand Limited - Lines Business only**

	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Income Statement</b>							
Operating Revenue	32,098	32,484	33,966	36,463	38,620	40,211	43,202
Profit Before Tax	6,681	5,068	5,165	8,084	6,868	7,250	8,169
Taxation	(1,430)	(780)	(594)	(2,397)	(1,820)	(1,900)	(2,113)
Profit After Tax	<u>5,251</u>	<u>4,288</u>	<u>4,571</u>	<u>5,687</u>	<u>5,048</u>	<u>5,350</u>	<u>6,056</u>
<b>Shareholder Distributions</b>							
Rebates paid to Customers	<u>7,093</u>	<u>6,669</u>	<u>7,024</u>	<u>7,270</u>	<u>7,521</u>	<u>7,862</u>	<u>8,216</u>
<b>Balance Sheet</b>							
Current Assets	2,723	2,518	113	(1,306)	(4,276)	(2,183)	1,919
Non Current Assets	129,011	133,773	143,001	141,467	150,277	154,171	156,700
<b>Total Assets</b>	<u>131,734</u>	<u>136,291</u>	<u>143,114</u>	<u>140,161</u>	<u>146,001</u>	<u>151,988</u>	<u>158,619</u>
Liabilities	(2,907)	(3,177)	(6,735)	(1,189)	(1,981)	(2,618)	(3,193)
<b>Net Assets</b>	<u>128,827</u>	<u>133,114</u>	<u>136,379</u>	<u>138,972</u>	<u>144,020</u>	<u>149,370</u>	<u>155,426</u>
Share Capital	23,410	23,409	23,410	23,409	23,409	23,409	23,409
Reserves	105,417	109,705	112,969	115,563	120,611	125,961	132,017
<b>Equity</b>	<u>128,827</u>	<u>133,114</u>	<u>136,379</u>	<u>138,972</u>	<u>144,020</u>	<u>149,370</u>	<u>155,426</u>
<b>Key Financial Performance Measures (As per Commerce Commission Disclosure)</b>							
Return on Funds	5.27%	3.87%	3.75%	5.91%	4.80%	4.87%	5.26%
Return on Equity	4.16%	3.27%	3.41%	4.18%	3.57%	3.65%	3.97%
Return on Investments	4.16%	3.27%	3.75%	4.16%	3.53%	3.59%	3.90%

**MAINPOWER NEW ZEALAND LIMITED**  
**Statistics and Key Performance Measures**

Year Ended/Ending 31 March	Actual 2006	Actual 2007	Budget 2008	Forecast 2008	Forecast 2009	Forecast 2010	Forecast 2011
SAIDI Minutes (System Average Interruption Duration Index)	109.18	110.75	93.00	110.67	103.00	97.00	96.00
SAIFI Minutes (System Average Interruption Frequency Index)	1.84	1.77	1.35	1.26	1.11	1.07	1.08
CAIDI Minutes (Customer Average Interruption Duration Index)	59.16	62.47	68.89	87.64	92.79	90.65	88.88
Unplanned Faults per 100 kms	2.92	5.56	2.09	2.40	2.28	2.12	2.12
Electricity Purchased (GW/hrs)	485,537	491,655	519,474	520,327	541,014	563,198	584,778
Electricity Sold (GW/hrs)	460,728	466,518	487,351	492,226	511,948	531,284	551,471
Electricity Loss Ratio (%)	5.11	5.11	6.18	5.40	5.37	5.67	5.70
Network Maximum Demand (MW)	79.58	84.74	86.50	86.38	88.33	91.35	94.96
Load Factor (%)	69.65	66.24	69.65	68.76	69.92	70.38	70.30
Transformer Capacity (kW)	355,895	360,545	375,000	374,299	390,000	405,000	420,000
Transformer Capacity Utilisation Factor (%)	22.36	23.5	23.07	23.08	22.65	22.56	22.61
Circuit Length of Lines (kms)	4,420	4,477	4,510	4,526	4,556	4,587	4,620
Direct Line Costs per kilometer (\$)	799	1,087	1,093	986	1,161	1,072	1,085
Indirect Line Costs per customer (\$)	72	71	97	95	112	113	114
Number of Customers at 31 March	30,671	31,666	31,850	32,545	33,365	34,206	35,068

## 8. Other Measures

### Distributions to Shareholders and Rebates

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

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

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

The 2008-2009 Financial Budget provides for \$7.521 million to be credited to Qualifying Customers as Rebates. This represents approximately 70% of Lines Business pre-tax profits before capital contributions from customers, or approximately 30% of total distribution lines revenue.

### Acquisition of Shares in Other Companies

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

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

### Return on Shareholders' Equity for the MainPower Lines Business

MainPower's budgeted Return on Equity for the Lines Business for the financial year ending 31 March 2009 after rebates and taxation is expected to be \$5.048 million or 3.57%. The Return on Equity for the Lines Business before rebates and after adjusting for notional tax on rebates is 7.13%. Although this is less than MainPower's cost of capital calculated at 8.07%, it is considered an adequate return, given the expected level of new investment in the Network and the current level of Rebate credited to Qualifying Customers.

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

MainPower's budgeted Return on Equity for the Group for the financial year ending 31 March 2009 after

rebates and taxation, is expected to be \$4.773 million or 3.39%. The Return on Equity for the Group after adjusting for notional tax on rebates is 6.96%.

### Information to be Provided to Shareholders

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

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

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

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

# Appendix 1: Corporate Governance Statement

## 1. Role of the Board

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

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

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

## 2. Board Responsibilities

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

To this end the Board will:

- set the strategic direction of the Company in consultation with management, having particular regard to rate of return expectations, financial policy and the review of performance against strategic objectives;
- maintain an understanding of the electricity industry, and continue to monitor industry reform, security of supply, industry governance and Government intervention in order to identify the impact on MainPower's business;
- monitor and understand the expectations and needs of the growing North Canterbury and Kaikoura communities;
- remain informed about Company affairs in order to exercise judgement about management and its procedures;
- identify risks and manage those risks by ensuring that the Company has implemented comprehensive

systems of internal control together with appropriate monitoring of compliance activities;

- approve and foster a corporate culture which requires management and every employee to demonstrate the highest level of ethical behaviour;
- appoint, review the performance of, and set the remuneration of, the Group Managing Director;
- approve transactions relating to acquisitions and divestment, and capital expenditure above delegated authorities;
- approve operating and development budgets, review performance against these budgets, and monitor corrective actions by management;
- ensure the preparation of the Statement of Corporate Intent, Interim and Annual Reports;
- enhance relationship with all stakeholders.

## 3. Delegation

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

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

## 4. Codes and Standards

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

## 5. Conflicts of Interest

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

## 6. Board Review

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

## 7. Company Constitution

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

Non-Executive Directors of MainPower are elected by the Ordinary Shareholders. The Board currently comprises five Directors, being four 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
Anthony Charles King	Director
Judith Anne Hoban	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 three 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.

Audit Committee membership are Mr P A Cox, Chairman, Mr W G Cox and Mr A C King.

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.

## 10. Generation Development Committee

Mr T King represents the Board on the Generation Development Committee. The Board's Managing Director, Commercial Manager, and other staff members employed in the generation division, regularly attend meetings of this Committee.

The Committee monitors progress of the Company's generation strategy. All major initiatives are reviewed by the Committee prior to consideration by the Board.

## 11. 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.

## 12. 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.

## 13. The Role of Shareholders

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

- Corporate Strategy
- Strategic Development
- MainPower's Operating Environment
- Financial Performance
- Corporate Governance

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

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

## 14. 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.

## 15. 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.

## 16. International Financial Reporting Standards ("IFRS")

The Financial Statements for the MainPower Group at 31 March 2008 will be prepared in accordance with NZ IFRS. The Accounting Policies forming part of these Financial Statements and made available in this Statement as Appendix 3, will be applied when preparing the Financial Statements, the comparative information presented in these Financial Statements and in the preparation of the opening NZ IFRS Balance Sheet at 1 April 2006.

# Appendix 2: Code of Sustainable Practice

## 1. Introduction

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

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

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

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

## 2. Sustainability for MainPower

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

Sustainable development is defined as:

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

Consistent with this definition, MainPower is expected to:

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

Such a balance will result in MainPower:

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

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

- Enhancing MainPower's efficiency through continuous improvement
- Improving MainPower's business culture
- Improving accountability to all stakeholders
- Reducing MainPower's risk profile
- Optimising resource use and reduce costs; and
- Enhancing MainPower's reputation

## 3. Code of Sustainable Practice

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

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

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

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

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

## 4. Economic Strategy

### 4.1 Policy

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

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

## 4.2 Actions

### 4.2.1 Comply with legislation and regulations

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

### 4.2.2 Support ethical business practice

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

### 4.2.3 Integrate sustainability principles into planning and decision-making

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

### 4.2.4 Deliver competitive return on assets/equity

MainPower will seek to provide a competitive return on assets and equity in order to achieve targets, to ensure assets are responsibly maintained and to increase shareholder value prudently.

### 4.2.5 Improve productivity and efficiency

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

### 4.2.6 Apply transparent, fair and affordable prices

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

### 4.2.7 Support research and development

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

### 4.2.8 Provide training and education

MainPower will provide staff training and education programs to ensure that its capabilities and succession strategy are

developed and continuous improvement achieved.

### 4.2.9 Support business development

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

### 4.2.10 Manage liabilities and risk

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

### 4.2.11 Measure and report performance

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

## 5. Environmental Strategy

### 5.1 Policy

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

MainPower is:

- Committed to employee environmental education, safe waste management and avoidance of potentially hazardous materials.
- Committed to complying fully with relevant environmental legislation and regulations.
- MainPower supports research into reducing environmental impacts of the energy supply system, including support for renewable and alternative energy technologies and the protection of natural areas.

### 5.2 Actions

#### 5.2.1 Comply with environmental legislation and regulations

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

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

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

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

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

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

**5.2.7 Undertake energy efficiency and energy conservation-related education and training**  
MainPower will raise awareness and skills among employees, contractors and other stakeholders concerning the efficient use of electricity.

**5.2.8 Rehabilitate sites**  
MainPower will plan for and rehabilitate land and the local environment affected by its operation.

**5.2.9 Support conservation programs**  
MainPower will support nature conservation and heritage preservation.

**5.2.10 Project Development**  
MainPower will ensure that projects are delivered in an environmentally responsible manner.

## **6. Social Strategy**

### **6.1 Policy**

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

### **6.2 Actions**

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

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

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

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

#### **6.2.5 Promote employee wellbeing**

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

#### **6.2.6 Consult stakeholders**

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

#### **6.2.7 Provide information**

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

#### **6.2.8 Support key social programs**

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

#### **6.2.9 Support employment**

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

# Appendix 3: Statement of Accounting Policies

## 1. Statement of Compliance

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

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

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

## 2. Basis of Financial Statement Preparation

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

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

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

The group changed its accounting policies on 1 April 2007 to comply with NZ IFRS. The transition to NZ IFRS is accounted for in accordance with NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards, with 1 April 2006 as the date of transition. An explanation of how the transition from superseded policies to NZ IFRS has affected the parent entity's and group's financial position, financial performance and cash flows is discussed in note 34.

The accounting policies set out below have been applied in preparing these financial statements for the year ended 31 March 2008, the comparative information presented in these financial statements for the year ended 31 March 2007, and in the preparation

of the opening NZ IFRS balance sheet at 1 April 2006, the group's date of transition.

## 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 outweigh the benefits of doing so. Management has estimated the quantities and the carrying values of components removed from the network in each reporting period. Any errors in the estimates of such removals are corrected at the next asset revaluation, and are not considered to be material on either an annual or a cumulative basis with respect to either reported net profits or carrying values of the network. Refer also note 1(j) property, plant and equipment regarding revaluations.

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

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

## 4. Significant accounting policies

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

### 4.1 Basis of consolidation

#### 4.1.1 Subsidiaries

Subsidiaries are entities controlled by the group.

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

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired, exceeds the cost of acquisition, the difference is credited to the income statement in the period of acquisition. The consolidated financial statements include the information and results of each subsidiary from the date on which the group obtains control and until such time as the group ceases to control the subsidiary. In preparing the consolidated financial statements, all intergroup balances and transactions, and unrealised profits arising within the group are eliminated in full.

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

### 4.2 Goods and Services Tax

Revenues, expenses, cash flows and assets are recognised net of the amount of goods and services tax (GST), except for receivables and payables which are recognised inclusive of GST. Where GST is not recoverable as an input tax it is recognised as part of the related asset or

expense. Cash flows in respect of payments to and receipts from the Inland Revenue Department are shown net in the statement of cash flows.

### 4.3 Foreign currency

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

### 4.4 Cash and cash equivalents

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

### 4.5 Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned.

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

#### 4.5.1 Held to maturity investments

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

Investments in subsidiaries are stated at cost less impairment. Details of the impairment tests performed are disclosed in note 1(i).

#### 4.5.2 Loans and receivables

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

Contract work in progress is stated at cost plus attributable profit to date (based on percentage of completion of each contract) less progress billings. Cost

includes all costs directly related to specific contracts and an allocation of general overhead expenses incurred by the contracting subsidiaries. Losses on contracts are taken to the income statement in the period in which they are identified.

Details of the impairment tests performed are disclosed in note 1(i).

#### 4.6 Inventories

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

#### 4.7 Income tax

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

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

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

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit. Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantially enacted by balance date.

Current tax and deferred tax is charged or credited to the income statement, except when it

relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

#### 4.8 Leased assets

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

#### 4.9 Impairment of assets

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

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

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

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

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

For assets which are not revalued, an impairment loss is expensed immediately in the income statement. An impairment loss is reversed only to the extent that the asset's

carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

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

#### 4.10 Property, plant and equipment

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

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

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

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

Depreciation on revalued buildings and the distribution system is charged to the income statement. On the subsequent sale or retirement of a revalued item, the attributable revaluation

surplus remaining in the asset revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings. Plant and equipment are valued at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. The cost of self-constructed assets includes the cost of materials and direct labour and an allowance for overheads.

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

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

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

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

#### 4.11 Intangible assets

##### 4.11.1 Computer software

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

##### 4.11.2 Lease Premiums

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

##### 4.11.3 Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. An intangible asset arising from

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

#### 4.12 Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and is not amortised, but it is tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Refer also to note 1(i).

#### 4.13 Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services. Trade payables are recognised at cost.

#### 4.14 Borrowings

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

#### 4.15 Employee benefits

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

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

#### 4.16 Financial instruments issued by the group

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

#### 4.17 Revenue recognition

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

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

#### 4.18 Distinction between capital and revenue expenditure

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

#### 4.19 Capital contributions

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

#### 4.20 Borrowing costs

Borrowing costs are expensed using the effective interest rate method. No borrowing costs have been capitalised.

### 5. New standards not yet adopted

IFRS 8 Operating Segments, which supersedes NZ IAS 14 Segment Reporting, is not yet effective for the year ended 31 March 2008, and has not been applied in preparing these consolidated financial statements. This standard provides guidance on the disclosure requirements in respect of the operating segments of entities and will become mandatory for the group's 2010 financial statements. The group has not yet determined the potential impact of the interpretation.