



MAINPOWER NEW ZEALAND LIMITED
STATEMENT OF CORPORATE INTENT

2011 - 2012

Statement
of
Corporate Intent

2011-2012

Directory

MainPower New Zealand Limited

Board of Directors

W G Cox	<i>Chairman</i>
P A Cox	<i>Deputy Chairman</i>
A Berge	<i>Managing Director</i>
T Burt	<i>Director</i>
J A Hoban	<i>Director</i>
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MainPower Trust

Trustees

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R W Allison	<i>Deputy Chairman</i>
J R Abernethy	<i>Trustee</i>
K W Brookfield	<i>Trustee</i>
C M Elliott	<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 2011, and the two succeeding financial years.

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

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

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

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



OUR VISION

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



OUR VALUES

SAFETY FIRST • TEAMWORK • LOYALTY • PRIDE • FAIRNESS • INTEGRITY

MainPower's Values reflect the way we interact with our community and with each other

"We will not compromise on safety for our staff or community."

**W G Cox
Chairman**

**A Berge
Group Managing Director**

2. MainPower's Operating Environment

2.1 Regional Economy

The North Canterbury region has, during the past decade, been one of the fastest growing regions in New Zealand and although the recent global downturn slowed regional economic activity, indications are that this slowdown has reversed and the recent increase in the number of new connections supports this.

Growth in Gigawatthour terms will continue to be positive and it is expected to exceed 3% during the 2011-2012 year.

Regional economic growth (GDP) increased 0.5% last year and compares with a negative 0.5% on a New Zealand wide basis. Regional economic growth in the region has averaged 3.7% per annum between 2000 and 2010 (New Zealand average 2.4%) and although last year's growth represents a significant decrease on the average, it still represents an increase on 2009 which was negative 0.4%.

It is expected that the 4 September and 22 February earthquakes will also have a positive impact on the region's economy. A number of major property developments, including the further development of Pegasus Town, are being progressed with urgency in anticipation of this increased demand. It is expected that subdivision and therefore population driven growth will not be as dramatic as the 2003-2004 period when the GDP increase peaked at 10.5%, but will continue to increase steadily over time.

2.2 Legislative and Regulatory Change

Legislation and resulting regulatory change will continue to impact on MainPower's operating environment. The electricity distribution businesses that meet the "consumer owned" criteria set out in Section 54D of the Commerce Act 1956, are exempt from Default and Customised Price-Quality Regulation. Line companies that are not defined as consumer-owned under Section 54D will continue to be price and quality regulated.

MainPower meets the criteria set out in Section 54D and therefore is exempt these regulations, however MainPower, along with all other lines companies, are required to comply with the Commerce Commission Information Disclosure Regulations. These are currently being reviewed and it is expected that the Commerce Act Electricity Distribution Services Input Methodologies Determination 2010 will dictate the form of disclosure regulation and will, in many respects, bring exempt and non-exempt lines companies closer together for monitoring and comparative purposes.

The Electricity Authority has recently published a consultation paper proposing a new Part 12A of the Participation Code under the Electricity Industry Act to review and possibly provide for more standardisation of distributors' use of system agreements and lines services pricing. MainPower will continue to monitor developments with respect to this matter, as it has the potential to negatively impact on the Company's pricing arrangements, given its earlier adoption of a conveyance only use of system agreement rather than the standard use of system agreement used by the rest of the lines industry. The Company's rebate scheme is reliant on the retention of the conveyance only contractual arrangement.

2.3 Water Management

The availability and use of water will have a significant impact on demand and therefore on available network capacity. Ngai Tahu's announcement that it intends to progress the conversion of Eyrewell Forest to dairying using consented Waimakariri River water via an upgraded Browns Rock intake and canal structure, the on-going conversion of border dyke irrigation to spray irrigation, and the irrigation schemes that will emerge from the Waiau-Hurunui Zone Committee and subsequent ECan decisions on water management in the region, all have the potential to create significant growth for the Company.

Government's intervention in water resource management in Canterbury, including changes to the governance arrangements at ECan and the establishment of the Zone Committee structure to review opportunities for water storage, irrigation, and to identify better management practices for Canterbury's water resource, will inevitably provide significant benefits to MainPower. It is expected that returns from additional network capacity associated with irrigation development will be significant. The down stream benefits in terms of a more dynamic regional economy will also produce significant benefits to MainPower.

MainPower's involvement to date in the Hurunui Water Project has been driven from a commercial, as well as a community perspective. Improved water management, irrigation and possibly hydro development is in the best interests of MainPower, the region and New Zealand's economy as a whole.

MainPower will continue to be a major shareholder of Hurunui Water Project Limited. The opportunity to exercise a Put Option following the oversubscription of the recent public offering of shares in Hurunui Water Project, was rejected by the Board in favour of maintaining an interest in this Project. MainPower will continue to provide a community perspective in addition to a commercial perspective as the Project progresses.

2.4 Health and Safety

The Health and Safety of our employees and the safety associated with MainPower's electricity network in the community remains paramount and underpins all that we do at MainPower. The Company continues to promote a positive "Safety First" culture and encourages employees to be involved in the continual improvement of workplace Health and Safety practices.

Safety performance within the Company and its subsidiaries continues to improve year on year. VirCom Energy Management Services Limited experiences no lost time incidents during the past year, representing a first for this Company. MainPower experienced six lost time incidents during the year and compares with 10 and 18 during 2010 and 2009 respectively.

The introduction on 1 April 2011 of random drug and alcohol testing within the Company represents a further step towards safety improvement both within the Company and while working in the community.

3. MainPower's Future Direction, A Strategic Perspective

3.1 Vision

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

3.2 Principal Assumption

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

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

Other Key Assumptions

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

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

3.3 Values

“Safety First, Teamwork, Loyalty, Pride, Fairness and Integrity”.

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

3.4 Principal Objective

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

Section 36 of the Energy Companies Act 1992 states,

- “(1) The principal objective of an energy company shall be to operate as a successful business.
- (2) In seeking to attain its principal objective, an energy company shall have regard, among other things, to the desirability of ensuring the efficient use of energy.”

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

3.5 Scope of Business and Strategic Objectives

The Scope of MainPower's business has been reviewed on a number of occasions during recent years. The Restructuring Plan approved by the Board as part of the 2010 Strategic/Business Planning round resulted in:

- the amalgamation of MainPower New Zealand Limited and MainPower Contracting Limited;
- the divestment of the Company's “out of region” power systems contracting business;
- the need for the Board to review on a regular basis, the appropriateness of retaining its ownership interest in VirCom Energy Management Services Limited, recognising that the activities of this subsidiary are no longer closely aligned to the Company's core business;
A further review will be undertaken during 2011.
- the decision to divest at the appropriate time, the Company's ownership of the network assets located at Wigram.

The Company's core business interests will be confined to the North Canterbury and Kaikoura region although it has been agreed that generation development outside the region may be viewed as being appropriate if this development provided greater risk management for the Company's emerging electricity retail business.

The following Scope of Business has been agreed by the Board:

Core Business

The Scope of MainPower's core business has been agreed as follows:

- the construction and maintenance of the electricity network throughout the North Canterbury and

Kaikoura regions and the provision of lines services via this network - the Lines Business;

- the development of renewable generation;
- electricity retailing.

The Company will only support other business initiatives if they are closely related and add significant value to its core business.

The following two high level strategic objectives were agreed as part of the 2010 Business Planning round and remain unchanged:

STRATEGIC OBJECTIVES

“MainPower will carry out its business activities in accordance with commercial and industry best practice and will give particular emphasis to safety, superior customer service, sustainability and value creation”

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

3.6 Core Business - Priorities

Lines Business

The September 2010 and February 2011 earthquakes will, over time, have a significant impact on the Company’s lines business. The southern part of MainPower’s region, the exception being Kaiapoi, is already being viewed as being “earthquake-safe” and the recent positive regional economic activity as noted by Council, developers and the wider business community generally, clearly signals that this growth has the potential to be significant and will impact positively on the Company’s lines business.

Ensuring that the Company’s electricity network has sufficient capacity to meet this anticipated demand will remain a high priority.

The following two strategic objectives remain unchanged:

STRATEGIC OBJECTIVES

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

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

Delivery on these objectives is the subject of the Company’s 2011-2021 Asset Management Plan which should be read in conjunction with this SCI. The Company’s capital development and maintenance programmes during this period are also detailed in the Asset Management Plan.

Transmission Development

MainPower is currently in discussions with Transpower to transfer to MainPower the ownership of Transpower’s Culverden-Kaikoura 66kV wooden pole line and substation assets based at Kaikoura. It is expected that the transfer of assets will take place during late 2011.

Kaikoura has no n-1 security and is supplied from Culverden through a:

- 33/66 kV, 20 MVA step-up transformer at Culverden;
- 66 kV Culverden-Kaikoura circuit rated at 38/38 MVA, summer/winter;
- 66/33 kV, 9.3 MVA supply transformer at Kaikoura.

The supply situation at Kaikoura is not of major concern, given the Company’s back-up supply arrangements. This will improve following completion of the conversion of the Cheviot-Kaikoura 33 kV line upgrade to 66 kV.

In the longer term, security and capacity at Kaikoura can be addressed by installing a second 66/33 kV supply transformer at Kaikoura to be supplied from the Company’s 66 kV network, and by thermally upgrading the existing Kaikoura supply transformer to 16 MVA by adding fans and pumps.

A single 66/33 kV 16 MVA transformer supplies load at Waipara, resulting in no n-1 security. The Company is in the process of transferring most of its load to a new 66 kV feeder and therefore the opportunity will be provided to transfer the residual load from the 33 kV distribution network to the Company’s 66 kV network during a contingency.

Distribution

A number of constraints are beginning to develop on the Company’s distribution network, as follows:

- There is limited capacity available to accommodate the anticipated growth at Pegasus Town, although for the moment, the growth has slowed somewhat. It is possible that the recent earthquakes will reverse this trend.
- The Southbrook 11 kV bus supplying most of Rangiora’s urban area has reached its firm capacity.
- The Rangiora North substation, which supplies mainly the Ashley and Loburn districts, is at near full capacity.
- Supply reliability at Loburn, Ashley and Balcairn is becoming more difficult to maintain.
- Transpower’s switchgear at its Kaiapoi point of supply currently limits feeder capacity from Kaiapoi and is overdue for replacement.

Two options to address these emerging constraints are being investigated. Priority has, during 2010, focused on the development of a new Transpower point of supply north-east of Rangiora. It is proposed that this option will be tested against strengthening the Company’s own network and it is expected that a final decision on a preferred option will be made during 2011, which will satisfy capacity requirements through to well beyond 2020. Both options will be subject to peer review.

Load growth to the west of Rangiora, including further development of dairy farming, will require a major upgrade of the Company’s network in this area. It is anticipated that this upgrade will commence during 2012, and will involve upgrading the 33 kV network between Southbrook and Oxford to 66 kV. The four existing 33/11 kV zone substations in this area will be reconfigured as two 66/22 kV substations. A new Oxford substation will need to be built and the recently constructed Swannanoa substation would be upgraded as originally planned and designed. Significant conversion from 11 kV to 22 kV will also be required with the remaining conversion being driven by future load growth.

Renewable Generation Development

STRATEGIC OBJECTIVE

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

The ownership of MainPower’s generation and retailing business will remain with MainPower until such time as legislative separation is triggered or where joint venture activity is determined to be in the best interests of the Company at which time, these business interests would no longer be wholly owned by MainPower.

Cleardale Hydro

The Cleardale hydro power station was commissioned during December 2010 and is expected to achieve at least 95% availability and, depending on river flows, produce approximately 4.3 GWh of energy on an annual basis.

Energy generated at Cleardale is sold to Meridian Energy by way of a fixed price variable volume contract.

Mt Cass Wind Farm

The Mt Cass Wind Farm Consent Application is currently going through the Environment Court Appeal process. The mediation between the parties to the Appeal undertaken during 2010 resulted in extensive modification to the wind farm turbine configuration. The agreement reached at mediation resulted in a number of opponents withdrawing from the Appeal process, including the Department of Conservation, Forest and Bird, and Environment Canterbury.

The Environment Court Hearing is programmed for June 2011 and a decision by year end is anticipated.

The current year’s work programme will include:

- The review of opposition evidence, preparation of rebuttal, and the attendance at Environment Court Hearing
- Further negotiation with the Hurunui District Council and other opponents in an attempt to reach settlement prior to the Environment Court Hearing
- The need to secure landowner agreements which will be necessary to support the revised proposal
- The development of a funding plan with the likelihood that equity partners will be introduced

Browns Rock

The development of the proposed Browns Rock hydro generation is dependant on reaching agreement for the supply of water from Waimakariri Irrigation Limited (“WIL”) when this water is not in use for irrigation.

The expansion of WIL’s irrigation infrastructure to accommodate Ngai Tahu’s expansion plans including the Eyrewell Forest land conversion to dairy, has provided all three parties with the opportunity to progress a commercial agreement which will be necessary if any generation is to be developed.

Priority during 2011 will include:

- Reach a commercial agreement with WIL and Ngai Tahu
- Complete the Assessment of Effects for the proposed development, given greater certainty as to water supply security
- Complete the preliminary design phase
- Submit an application for the Resource Consent
- Conclude the various landowner agreements
- Maintain stakeholder engagement
- Develop the necessary Business Case

Cleardale B

The opportunity to develop Cleardale B is currently being investigated. This project represents an extension of Cleardale hydro which was commissioned during December 2010.

The project is relatively small and is currently at the pre-feasibility stage. Discussions with Environment Canterbury to determine whether this proposal falls within their planning framework, are on-going.

Other Mini-Hydro Projects

The review of the region’s mini-hydro potential is on-going. These projects will be typically less than 5 megawatts in capacity and a number of promising sites have been identified.

Three potential projects will be investigated during 2011

Wind Farm - Doctors Hills

The wind farm at Doctors Hills has been subject to monitoring for over 6 years. Pre-feasibility investigation has been completed, confirming the site, albeit quite small in the first instance, as an economic prospect utilizing second hand wind turbines. Wind resource monitoring at Doctors Hills will continue and it is intended to re-establish the 50m mast at the site during May 2011.

The region’s wind monitoring programme will be expanded during 2011 with the aim of providing a future pipeline of small wind farm sites and possibly a second large wind farm opportunity.

Electricity Retailing

STRATEGIC OBJECTIVE

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

“Preferred”, in this context means - being the dominant retailer in the region by ICP market share.

The “Preferred” Market Share threshold currently approximates 14,500 ICPs, or approximately 200 Gigawatthours; i.e. 44%. The “Preferred” threshold range is dependent on market share aggregation and the number of participating electricity retailers (currently 5). A possible threshold therefore could be as low as 20% in these circumstances.

The equivalent generation at 75% self sufficiency therefore, would currently range between 20% and 44%, or 70-155 Gigawatthours of generation respectively.

A detailed Retail Business Plan is being prepared in anticipation of entering the electricity retail sector at some time in the future. However, the establishment of the Company's electricity retailing business is currently being held over until such time as:

- there is greater certainty as to the effectiveness of the liquid hedge market which will be established under the Electricity Industry Act 2010 Participation Code provisions;
- Smart Meter ownership and the contribution that Smart Meters will contribute to the success of the electricity retailing business becomes more certain.

Smart Meters / Smart Network

STRATEGIC OBJECTIVE

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

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

MainPower has worked closely with 12 other line companies to develop a strategy to take this opportunity forward. It is expected that a formal joint venture company with appropriate governance arrangements will be established during June 2011. The ownership, technology and contractual arrangements, together with appropriate protocols, rules and other business relationships between each line company, participating retailers and suppliers will also be agreed.

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

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

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

Community

STRATEGIC OBJECTIVE

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

Taking a leadership role within the region is viewed as an essential part of MainPower's core business.

Water resource use and management, and Government's Broadband initiative, in terms of their potential to impact positively on the region's economic wellbeing, will remain a clear focus for the Company.

MainPower is, without question, the largest community/customer owned public company in the region. MainPower will continue to take a leadership role with respect to regional development and will continue to support the community financially by way of its reasonably generous sponsorship, energy related education and efficiency, and other community support programmes.

MainPower will continue to be the major corporate sponsor of Enterprise North Canterbury.

4. Financial Performance

Financial Performance

A summary of Budgeted Financial Performance, Financial Position and other financial measures and performance statistics for the 2011-2012 financial year and the forecast for the following two financial years for the MainPower Group and for MainPower's Lines Business are provided in the following tables.

The summary forecast for the year ended March 2011 compared to the Financial Budget for this year and the actual financial performance for the years ended March 2009 and 2010, is also made available. The financial performance and financial position for the years ending March 2013 and March 2014 are also provided.

The following should be noted:

- The Group accounts represent the Consolidated Financial Performance of the MainPower Group of Companies, including MainPower's Lines Business (MainPower New Zealand Limited), Electro Services NZ Limited and VirCom Energy Management Services Limited.
- The Group accounts through to 2014 include the Financial Performance and Balance Sheet of VirCom Energy Management Services Limited, even though the retention of MainPower's ownership interest in this business is subject to periodic review.
- The Accounting Policies adopted are based on NZ IFRS and are consistent with those detailed in Appendix 3.
- Distribution System Assets have been revalued at 31 March 2011.
- In preparing the financial information, an allowance for inflation has been made.
- Line services growth forecasts have been applied, taking into account recent trends and known changes to MainPower's load characteristics.
- Increases in the cost of Transpower's transmission services have been recovered in full.
- Increases in distribution line service charges, inclusive of any adjustment to Rebates and the recovery of any increase in Transpower's transmission charge, will not exceed 7.5% in any year.
- Capital and maintenance expenditure included in the Financial Statements is consistent with the estimates provided in MainPower Network's Asset Management Plan.
- An investment in Smart Meters and associated communications network, representing the replacement of all old technology electricity meters throughout the region, has been provided in the Statement of Financial Performance and Financial Position.
- Transpower's transmission line between Culverden and Kaikoura, and Transpower's substation assets at Kaikoura, will be purchased by the Company during 2011.
- The capital cost and operating revenue associated with the development of the Mt Cass wind farm, other than Consenting-related costs, have been excluded from the budgeted Statement of Financial Performance and Financial Position.
- The capital cost and operating revenue associated with Cleardale B Hydro, Browns Rock Hydro and Doctors Hills Wind Farm have been included in the Statement of Financial Performance and Financial Position.
- Taxation at 28 cents in the dollar has been applied in future years.
- All significant inter-company transactions have been eliminated for performance measurement and comparative purposes.
- New business acquisitions or new business establishment beyond the investigation stage, including the investment in Smart Meters, have been excluded.

Performance Statement

Financial

MainPower Group:

	Actual 2009 \$000	Actual 2010 \$000	Budget 2011 \$000	Forecast 2011 \$000	Budget 2012 \$000	Budget 2013 \$000	Budget 2014 \$000
For the year ending March							
Financial performance							
Operating revenue	65,033	62,572	58,162	59,673	63,974	68,043	75,995
Profit before tax and after rebates	5,174	3,307	6,871	5,742	6,032	7,400	11,004
Taxation	(1,158)	(1,208)	(2,076)	(1,840)	(1,681)	(2,127)	(3,164)
Profit for the year	4,016	2,099	4,795	3,902	4,351	5,273	7,840
Rebates credited to qualifying customer power accounts	7,561	7,627	8,022	8,076	8,408	9,311	10,311
Total maintenance expenditure	4,799	3,666	3,359	3,464	3,465	3,439	3,479
Total capital development expenditure	15,829	17,102	23,389	18,413	15,899	35,894	29,018
Financial position							
Net working capital	11,997	558	(7,400)	(2,949)	(4,116)	(22,883)	(30,288)
Non current assets	165,469	214,879	197,109	234,168	239,036	263,364	279,034
Total assets	177,466	215,437	189,709	231,219	234,920	240,481	248,746
Liabilities	(36,393)	(42,747)	(30,109)	(46,379)	(46,542)	(46,830)	(47,255)
Net assets	141,073	172,690	159,600	184,840	188,378	193,651	201,491
Share capital	30,400	56,774	56,774	56,774	56,774	56,774	56,774
Reserves and minority interests	110,673	115,916	102,826	128,066	131,604	136,877	144,717
Equity	141,073	172,690	159,600	184,840	188,378	193,651	201,491
Financial ratios							
MainPower Group	%	%	%	%	%	%	%
Profit before tax / net assets	3.72	2.43	4.38	3.21	3.23	3.87	5.57
Profit after tax / total assets	2.29	1.07	2.56	1.75	1.87	2.22	3.21
Profit after tax / equity	2.89	1.34	3.05	2.18	2.33	2.76	3.97
Lines business only:							
	%	%	%	%	%	%	%
Profit before community, rebates & tax / net assets	5.63	8.94	9.41	7.77	7.76	8.98	11.01
Profit after tax, before community and rebates / total assets	5.17	4.83	5.45	4.25	4.56	5.18	6.38
Profit after tax before community and rebates / equity	4.11	4.87	6.59	5.36	5.68	6.44	7.89
Profit after tax / equity			2.65	2.28	2.24	2.73	3.93

Customer Service and Statistics

	Actual 2009	Actual 2010	Budget 2011	Actual 2011	Forecast 2012	Forecast 2013	Forecast 2014
For the year ending March							
Quality of Supply							
SAIDI - Average minutes customer is without power during the year	146.25	140.12	97.00	337.80	130.00	125.00	120.00
SAIFI - Average supply interruptions per customer during the year	1.33	1.84	1.07	2.89	1.50	1.40	1.30
Unplanned faults per 100 kms during the year	2.38	4.48	2.00	5.95	4.00	2.60	2.00
Statistics							
Lines business							
Total line service customers (number)	33,248	33,793	34,874	34,247	34,800	35,990	37,142
Gigawatthours purchased (GWHs)	537.67	545.11	571.17	571.83	583.18	603.59	621.70
Gigawatthours sold (GWHs)	509.15	516.36	539.34	539.60	550.69	569.96	589.91
Electricity loss ratio (%)	5.31	5.28	5.57	5.64	5.57	5.57	5.57
Network maximum demand (MW)	91.00	89.25	94.00	91.80	93.00	102.00	106.00
Load factor (%)	70.40	69.72	69.40	71.11	69.90	69.90	69.90
Transformer capacity (kW)	380.00	411.52	426.00	430.00	441.00	456.00	471.00
Transformer capacity utilisation factor (%)	22.65	21.69	22.06	21.35	21.20	21.20	21.20
Circuit length lines (kms)	4,556	4,741	4,771	4,921	4,960	5,000	5,040
Efficiency Performance							
		\$	\$		\$	\$	\$
Capital cost per km		2,548	2,982	2,263	2,116	2,368	1,865
Capital cost per ICP		341	392	314	273	300	232
Operating cost per km		849	867	729	878	888	899
Operating cost per ICP		113	114	101	113	112	112
MainPower Group							
Number of work related accidents resulting in lost time	18	10	Nil	6	Nil	Nil	Nil
Total number of lost days as a result of work related accidents	132	106	Nil	136	Nil	Nil	Nil
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
Total ACC levies paid	218	266	247	251	331	340	345
Total local body rates paid	164	147	151	151	152	167	184

5. Other Measures

Distributions to Shareholders and Rebates

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

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

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

The 2011-2012 Financial Budget provides for \$8.408 million to be credited to Qualifying Customers as Rebates. This represents approximately 75% of Lines Business pre-tax profits before capital contributions from customers, or approximately 26% of total distribution lines revenue.

A further \$600,000, representing a "Community Dividend", is in addition to the customer Rebates of \$8.408 million. This Community Dividend will fund a range of initiatives associated with the promotion of regional economic development, energy efficiency and related matters, and targeted community sponsorship. The Community Dividend represents approximately 6.7% of total distributions to Qualifying Customers and the Community.

Acquisition of Shares in Other Companies

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

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

Return on Shareholders' Equity for the MainPower Lines Business

MainPower's budgeted Return on Equity for the Lines Business for the financial year ending 31 March 2012, after Rebates and Taxation, is expected to be \$4.208 million or 2.24%. The Return on Equity for the Lines Business, before rebates and after adjusting for notional tax on rebates is 5.68%.

MainPower's cost of capital (post-tax) is calculated at 7.12% and is derived using the Capital Asset Pricing Model based on a risk-free rate of 5.3% (as per PricewaterhouseCoopers Cost of Capital Report 31 December 2010), an asset beta as the measure of a lines business systematic risk of 0.45, a debt equity ratio of 40:60, an investor tax rate of 28 cents in the dollar and a post tax market risk premium for equity of 7.5%.

The pre-Rebate, pre-Taxation shortfall between the budgeted Return on Shareholders' Equity of 5.68% and

MainPower's Weighted Average Cost of Capital totals approximately \$3.995 million.

The Return of 5.68% on Shareholders' Equity for MainPower's lines business is considered adequate, given the expected level of new investment in the Network and the current level of Rebates being credited to Qualifying Customers.

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

MainPower's budgeted Return on Equity for the Group for the financial year ending 31 March 2012 after rebates and taxation is expected to be \$4.351 million or 2.33%.

Information to be Provided to Shareholders

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

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

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

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

Appendix 1: Corporate Governance Statement

1. Role of the Board

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

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

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

2. Board Responsibilities

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

To this end the Board will:

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

- approve operating and development budgets, review performance against these budgets, and monitor corrective actions by management;
- ensure the preparation of the Statement of Corporate Intent, Interim and Annual Reports;
- enhance relationship with all stakeholders.

3. Delegation

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

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

4. Codes and Standards

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

5. Conflicts of Interest

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

6. Board Review

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

7. Company Constitution

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

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

The Directors of the Company currently in office are:

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

8. Meetings

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

9. Committees

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

9.1. Audit Committee

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

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

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

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

9.2 Remuneration Committee

The Remuneration Committee's primary role is to advise the Board on performance reviews, remuneration policies and practices and to make recommendations on remuneration packages and other terms of employment for non executive directors, executive directors and senior

executives which fairly reward individual performance in relation to their contribution to the Company's overall performance.

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

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

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

9.3 Generation and Retail Committee

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

9.4 Community Relationships Committee

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

10. Risk Management

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

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

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

11. Non Executive Directors' Fees

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

12. The Role of Shareholders

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

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

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

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

13. Customers

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

14. Subsidiary Companies

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

Appendix 2: Code of Sustainable Practice

1. Introduction

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

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

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

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

2. Sustainability for MainPower

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

Sustainable development is defined as:

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

Consistent with this definition, MainPower is expected to:

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

Such a balance will result in MainPower:

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

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

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

3. Code of Sustainable Practice

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

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

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

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

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

4. Economic Strategy

4.1 Policy

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

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

4.2 Actions

4.2.1 Comply with legislation and regulations

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

4.2.2 Support ethical business practice

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

4.2.3 Integrate sustainability principles into planning and decision-making

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

4.2.4 Deliver competitive return on assets/equity

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

4.2.5 Improve productivity and efficiency

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

4.2.6 Apply transparent, fair and affordable prices

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

4.2.7 Support research and development

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

4.2.8 Provide training and education

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

4.2.9 Support business development

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

4.2.10 Manage liabilities and risk

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

4.2.11 Measure and report performance

MainPower will develop and use appropriate indicators to measure 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.

The group financial statements comply with International Financial Reporting Standards (IFRS). The parent entity financial statements also comply with IFRS.

2. Basis of Financial Statement Preparation

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

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

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

The accounting policies set out below have been applied in preparing these financial statements for the year ended 31 March 2011 and the comparative information presented in these financial statements for the year ended 31 March 2010.

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

Preparing financial statements to conform with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances.

These estimates and assumptions have formed the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

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

In the process of applying the company's accounting policies, management has made the following judgements, estimates and assumptions that have had the most

significant impact on the amounts recognised in these financial statements.

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

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

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

4. Significant accounting policies

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

4.1 Basis of consolidation

4.1.1 Subsidiaries

Subsidiaries are entities controlled by the group.

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

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired, exceeds the cost of acquisition, the difference is credited to profit or loss in the period of acquisition. The consolidated financial statements include the information and results of each subsidiary from the date on which the group obtains control and until such time as the group ceases to

control the subsidiary. In preparing the consolidated financial statements, all intergroup balances and transactions, and unrealised profits arising within the group are eliminated in full.

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

4.1.2 Associate Companies - equity accounting

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

Equity accounting involves recognising the Group's share of net surpluses or deficits as part of operating revenue in profit or loss. In the Balance Sheet, the Group's interest in the associate company is carried at an amount that reflects the Group's share of the net assets of that Company.

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

4.2 Goods and Services Tax

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

4.3 Foreign currency

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

4.4 Cash and cash equivalents

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

In the parent financial statements, investments in subsidiaries and associates are stated at cost less impairment. Details of the impairment tests performed are disclosed in note 1(i).

The classification into the following categories depends on the purpose for which the investments were acquired. Management determines the classification of its investments

at initial recognition and re-evaluates this designation at every reporting date.

4.5.1 Held to maturity investments

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

In the parent financial statements, investments in subsidiaries and associates are stated at cost less impairment. Details of the impairment tests performed are disclosed in note 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 Contract work in progress is stated at cost plus attributable profit to date (based on percentage of completion of each contract) less progress billings. Cost includes all costs directly related to specific contracts and an allocation of general overhead expenses incurred by the contracting subsidiaries. Losses on contracts are taken to profit or loss in the period in which they are identified.

Details of the impairment tests performed are disclosed in note 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 substantively enacted by balance date.

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

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

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

4.8 Leased assets

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

4.9 Impairment of assets

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

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

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

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. Any impairment is recognised immediately in the Statement of comprehensive income and is not subsequently reversed.

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

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

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

4.10 Property, plant and equipment

Land and buildings are valued at fair value. Fair value is determined on the basis of a periodic independent valuation prepared by external valuers, based on discounted cash flows or capitalisation of net income (as appropriate). The

fair values are recognised in these financial statements of the group, and are reviewed at the end of each reporting period to ensure that the carrying value of land and buildings is not materially different from fair value.

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

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

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

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

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

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

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

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

4.11 Intangible assets

4.11.1 Computer software

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

4.11.2 Lease Premiums

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

4.11.3 Research and development costs

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

4.12 Goodwill

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

4.13 Payables

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

4.14 Borrowings

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

4.15 Employee benefits

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

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

4.16 Financial instruments issued by the group

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. Interest and dividends are classified as expenses or as distributions of profit consistent with the 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 profit or loss as it accrues, using the effective interest rate method.

4.18 Distinction between capital and revenue expenditure

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

4.19 Capital contributions

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

4.20 Borrowing costs

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