



STATEMENT OF INTENT 2010/2015

INTRODUCTION

This Statement of Intent for 2010/2015 is submitted by the Board of Directors of the Company. It sets out the Board's overall intentions and objectives for the Company for the year ending 31 March 2011 and the four succeeding financial years.

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THE POWER COMPANY LIMITED

CORE BUSINESS

To commercially manage all Assets, Business Units, Products and Investments within the Electrical Energy Sector as a successful Business for the Shareholders of The Power Company Limited (“the Company”).

COMMERCIAL OBJECTIVES

The Directors intend that the Company operate as a successful business.

To achieve this, the Company intends to:

- 1.0 Manage its operations in a progressive and commercial manner.
- 2.0 Undertake new investments, which are:
 - Relevant to the core business.
 - Aimed at yielding a return appropriate for the degree of risk.
 - Undertaken in a manner which will maximise the commercial value of the business.
- 3.0 Strive to become an efficient and effective operation within the electricity industry and provide its customers with competitive prices and above average levels of service.

THE NATURE AND SCOPE OF COMMERCIAL ACTIVITY

The core business of the Company will be the ownership and management of assets involved in the distribution of electricity or similar products and associated services.

The management of the assets will be mainly through its joint venture subsidiary PowerNet Limited or through other wholly owned business units, associate companies, strategic joint ventures with compatible partners or strategic investment.

The Company will remain focussed around its existing operations and will look for opportunities through mergers, acquisitions or joint ventures where there is a definite benefit.

PERFORMANCE TARGETS

FINANCIAL

Listed below are the Group forecast returns for the next five years:-

EBIT% - PERCENTAGE EARNINGS BEFORE TAX AND INTEREST ON ASSETS EMPLOYED

	2011	2012	2013	2014	2015
NPBT	18,788,328	18,679,228	19,488,410	20,082,270	20,498,737
Interest	1,447,777	1,245,262	930,190	849,312	863,047
Net Profit Before Interest & Tax	20,236,105	19,924,489	20,418,600	20,931,582	21,361,784
Total Assets	356,745,147	362,677,538	373,726,871	389,355,752	404,768,998
EBIT %	5.67%	5.49%	5.46%	5.38%	5.28%

NPAT% - PERCENTAGE TAX PAID PROFIT ON EQUITY

	2011	2012	2013	2014	2015
NPAT	13,880,800	13,557,480	14,107,850	14,445,198	14,736,520
Equity	263,763,084	278,314,107	293,454,122	308,863,030	324,682,892
NPAT %	5.26%	4.87%	4.81%	4.68%	4.54%

PERCENTAGE OF CONSOLIDATED EQUITY TO TOTAL ASSETS

	2011	2012	2013	2014	2015
Equity	263,763,084	278,314,107	293,454,122	308,863,030	324,682,892
Total Assets	356,745,147	362,677,538	373,726,871	389,355,752	404,768,998
% Equity/ Total Assets	73.94%	76.74%	78.52%	79.33%	80.21%

SUPPLY QUALITY TARGETS

SAIFI - SYSTEM AVERAGE INTERRUPTION FREQUENCY INDEX (THE AVERAGE NUMBER OF TIMES EACH CUSTOMER CONNECTED TO THE NETWORK IS WITHOUT SUPPLY)

2011	2012	2013	2014	2015
3.24	3.23	3.22	3.21	3.20

SAIDI - SYSTEM AVERAGE INTERRUPTION DURATION INDEX (THE AVERAGE TOTAL TIMES IN MINUTES EACH CUSTOMER CONNECTED TO THE NETWORK IS WITHOUT SUPPLY)

2011	2012	2013	2014	2015
162.98	162.57	162.16	161.75	161.34

THE COMMERCE COMMISSION SUPPLY QUALITY LIMITS ARE:

SAIFI	3.71
SAIDI	185 minutes

PROPOSED DISTRIBUTIONS

DIVIDEND

The operating expenditure of the Company's shareholder is offset at year end by the interest payable by the Company to a Loan from the Shareholder, it is therefore not intended to make any dividend payments.

INFORMATION TO BE REPORTED

The Company will report on a six-month and annual basis, in the form set down by legislation. An audited Annual Report is required to be delivered to the Shareholder with the opportunity to assess the performance of the Company, and the value of the investment.

Un-audited half-yearly accounts will include an Income Statement and a Balance Sheet, together with such other supporting information as may be required to enable an informed assessment of the Company's performance during the reporting period, as agreed between the Shareholder and the Directors.

In addition, a monthly Consolidated Summary report will be provided to the Shareholder showing the Financial Performance of the Group together with The Power Company Limited's Lines Interruptions Reports.

Transactions with related parties primarily consist of administration and management services.

All related party transactions are eliminated in the preparation of the Annual Financial Statements.

ACQUISITION PROCEDURES

Except by a special resolution of shareholders the Company may not enter into a major transaction.

A major transaction includes the acquisition of, or an agreement to acquire assets, the value of which are more than half the value of The Power Company Limited's assets before the acquisition.

BOARD ESTIMATE OF THE VALUE OF SHAREHOLDERS' INVESTMENT

The Directors estimate the commercial value of the shareholder's investment in the group to be at least the value of shareholder's equity reported in The Power Company Limited's financial statements and Statement of Intent.

Each year as part of the financial reporting process the Board considers its investments for signs of impairment. Presently there are no signs of impairment however this may be subject to future adverse consequences of any central government decision to place the company under the regulatory provisions of Part 4 of the Commerce Act.

STATEMENT OF ACCOUNTING POLICIES

The Accounting Policies of The Power Company Limited disclosed in the previous year's annual Financial Statements were:

Reporting Entity

The Parent Entity, The Power Company Limited, is a profit oriented limited liability company that was incorporated on 30 October 1990 and the address of its registered office is 251 Racecourse Road, Invercargill. The Company is wholly owned by a Consumer Trust (Southland Electric Power Supply Consumer Trust) and is registered under the Companies Act 1993. The Group consists of The Power Company Limited, its subsidiaries, and its interest in associates and jointly controlled entities referred to in Notes 9, 10 and 11.

The principal activity of The Power Company Limited is the provision of electricity distribution services.

Basis of Preparation

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

These financial statements have been prepared in accordance with the requirements of the Energy Companies Act 1992, the Companies Act 1993, and the Financial Reporting Act 1993. They follow New Zealand Generally Accepted Accounting Practice (NZ GAAP) and comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). These financial statements also comply with International Financial Reporting Standards.

These financial statements have been prepared on the basis of historical cost except for the revaluation of certain financial instruments as outlined in note 22 and property, plant and equipment as outlined in note 13.

Use of Estimates and Judgements

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

In particular estimates and assumptions have been used in the following areas:

- Property, Plant and Equipment
- Value of Donated Assets
- Employee Benefits
- Recoverable Amount from Cash Generating Units

In the process of applying the Group's accounting policies, management has made the following judgements, estimates and assumptions that have the most significant impact on the amounts recognised in these financial statements.

The Group operates extensive integrated electricity distribution networks 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 plans. The costs associated with recording and tracking all individual components replaced and removed from the networks substantially outweigh the benefits of doing so. Management has estimated the quantities and the carrying values of components removed from the networks 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 surpluses or carrying values of the networks.

The Group enters into arrangements with customers to purchase new network assets at below current replacement costs. Management has estimated the difference between the cash costs and the replacement costs of these assets and the differences are reported within revenue. Any errors in estimating the carrying values of these assets 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.

The Group invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of an estimation of usage, adjusted for the latest wash-up data available from the electricity wholesale market and certain metering data from electricity retailers. Management has made an allowance in revenue and in current assets/liabilities for any amounts which are estimated to be under/over charged during the reporting period. However, as final wash-up metering data is not available for in excess of twelve months, it is possible the final amounts payable or receivable may vary from that calculated.

Other areas where judgement has been exercised in preparing these financial statements are in relation to calculating the recoverable amounts from Cash Generating Units and the amounts of employee entitlements.

Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of financial performance and financial position have been applied:

(a) Principles of Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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 financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

Minority interests in the results and equity of subsidiaries are shown separately in the Income Statement and Balance Sheet.

(ii) Associates

Associates are those entities over which the Group has significant influence, but not control, over the financial and operating policies. The financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

(iii) Joint Ventures

Joint Ventures are those entities over which the Group has joint control established by contractual agreement. The financial statements include the Group's proportionate share of the joint venture entities' assets, liabilities, revenues and expenses with items of a similar nature on a line by line basis, from the date that joint control commences to the date that joint control ceases.

(iv) Transactions eliminated on consolidation

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's

interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

(v) Parent Investments

Investments in subsidiaries, associates and joint ventures are accounted for at cost in the Parent financial statements.

(b) Revenue

Revenue is measured at the fair value of the consideration given for the sale of goods and services, net of Goods and Services Tax. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably and there is no continuing management involvement with the goods.

(i) Network Charges

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

(ii) Customer Contributions

Contributions from customers in relation to the construction of new lines for the network and donated assets are accounted for as revenue in the year in which they are received.

(iii) Government Grants

Government grants that compensate the Group for the cost of an asset are recognised initially in the Balance Sheet as deferred income and then recognised in the Income Statement as other operating income on a systematic basis over the useful life of the asset.

(iv) Financial Income

Financial income comprises interest income on funds invested, dividend income and changes in the fair value of financial assets through the Income Statement. Interest income is recognised as it accrues, using the effective income method. Dividend income is recognised on the date the Group's right to receive payment is established.

(c) Finance Costs

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets through the Income Statement and impairment losses recognised on financial assets (except for trade receivables). All borrowing costs are recognised in the Income Statement using the effective interest method.

(d) Inventories

Inventories are stated at the lower of cost at weighted average cost price, and net realisable value. Obsolete items of inventory (if any) have been written off.

(e) Property, Plant and Equipment

All property, plant and equipment is recognised at cost less accumulated depreciation and impairment losses. The cost of purchased property, plant and equipment is the fair value of the consideration given to acquire the assets and the value of other attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The deemed value of property, plant and equipment at 1 April 2006, the date of transition to NZ IFRS, was determined by reference to its fair value at that date.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item if, when that cost is incurred, it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the Income Statement as an expense as incurred.

The electricity distribution network is valued at fair value. Fair value is determined on the basis of a periodic valuation at a maximum of every three years, based on depreciated replacement cost methodology. The fair values are recognised in the financial statements of the Group and are reviewed at the end of each reporting period to ensure that the carrying amount of the distribution network is not materially different from its fair value.

Any revaluation increase arising on the revaluation of assets 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 the Income Statement, 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 revaluation 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.

When a revalued asset is sold or retired the attributable revaluation surplus remaining in the Asset Revaluation Reserve, net of any related deferred taxes, is transferred directly to Retained Earnings.

Easements

Easements obtained in relation to access, construction and maintenance of network assets are capitalised. Such easements represent a right in perpetuity and are not depreciated.

(f) Depreciation

Depreciation is charged to the Income Statement on a combination of straight line and diminishing value bases on all property, plant and equipment with the exception of land, at rates calculated to allocate the assets' fair value, less any residual value, over their useful lives. The primary annual rates used are:

Buildings	2.5-15.0%	Straight line/Diminishing value
Network Assets (excluding land)	1.82-16.67%	Straight line/Diminishing value
Metering Assets	10.0-14.4%	Diminishing value
Plant and Office Equipment	7.0-80.4%	Straight line/Diminishing value
Motor Vehicles	9.6-36.0%	Straight line

(g) Impairment

At each reporting date the Group reviews the carrying amounts of its assets and assesses them for indications of impairment. If indications of impairment exist, then the assets' recoverable amounts are estimated in order to determine the extent of the impairment. 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 the market assessments of the time value of money and the risks specific to the assets involved. If the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down to its recoverable amount and an impairment loss is recognised in the Income Statement, except to the extent that the impairment loss reverses a previous revaluation increase for that asset to the extent of that revaluation increase. When the asset does not generate cash flows independent of other assets, the cash generating unit (CGU) to which the asset belongs is tested for impairment.

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

(h) Capital Work in Progress

Capital Work in Progress is stated at cost and is not depreciated. It includes an accrual for the proportion of work completed at the end of the period.

(i) Intangible Assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill (if it exists) has been recognised in the acquisitions of subsidiaries, associates and joint ventures. In respect of business acquisitions since 1 April 2006, Goodwill represents the difference between the cost of the acquisition and the fair value of the net assets acquired.

In respect of acquisitions prior to this date, Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous NZ GAAP at the transition date. The classification and accounting treatment of business combinations that occurred prior to transition have not been reconsidered in preparing the Group's opening NZ IFRS Balance Sheet as at 1 April 2006.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to CGUs and is no longer amortised but tested annually for impairment. In respect of Associates, the carrying amount of Goodwill is included in the carrying amount of the investment in the associate.

Negative Goodwill arising on an acquisition is recognised directly in the Income Statement. Impairment relating to Goodwill is not able to be reversed.

(ii) Computer Software

Under NZ IFRS computer software is classified as an intangible asset and amortised on a straight line/diminishing value basis over its estimated useful life.

(iii) Research and Development

Research costs are expensed in the year in which they are incurred. Development costs are capitalised to the extent that future benefits (exceeding the costs) are expected to accrue.

(iv) Amortisation

Amortisation is charged to the Income Statement on a straight line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated amortisation rates for current and comparative periods are as follows:

Software	12.5-48%	Straight line/Diminishing value
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(j) Goods and Services Tax (GST)

All amounts in the financial statements are shown exclusive of GST, with the exception of receivables and payables which are shown inclusive of GST.

(k) Taxation

Income tax on the profit or loss for the period presented comprises current tax and additional or reversed deferred tax. Income tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in Equity, in which case it is recognised in Equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at Balance Sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised using the Balance Sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxation profit or loss.

Deferred tax is recorded using tax rates enacted or substantially enacted at the Balance Sheet date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) Operating Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments under these leases are recognised in the periods when they are incurred.

(m) Employee Entitlements

Provision is made for benefits accruing to employees in respect of salaries and wages, annual leave and long service leave when it is probable that they will be required and they are capable of being measured reliably.

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 at the time of settlement.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to balance date.

(n) Seasonality

The Group's revenues and profits are generally evenly distributed throughout the year hence the results are not subject to seasonality.

(o) Financial Assets

Where applicable the Group classifies its investments in the following categories:

Financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designated as hedges.

(ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the Balance Sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the Balance Sheet.

(iii) Held-to-Maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity.

(iv) Available-for-Sale Financial Assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the Balance Sheet date.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the Income Statement within Other Income or Other Expenses in the period in which they arise.

(p) Financial Instruments

(i) Derivative Financial Instruments

The Group enters into interest rate swaps. These transactions are undertaken within board approved policies and limits for the primary purpose of managing exposure to fluctuations in interest rates arising from financing activities. While these financial instruments are subject to the risk that market rates may change subsequent to the acquisition of the financial instrument, such changes would generally be offset by opposite effects on the items being hedged. The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

The Group has not designated any derivatives as hedges. Derivatives are initially recognised at fair value on the date the derivative is entered into. Subsequent to any initial recognition derivatives are revalued to their fair value at each reporting date. The resulting gain or loss is recognised in the Income Statement.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the Balance Sheet date, taking into account current interest rates and the credit worthiness of the swap counterparties.

(ii) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant amount of risk of changes in value.

(iii) Trade and Other Payables

Trade and other payables are stated at fair value.

(iv) Receivables

Trade and other receivables are recognised initially at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

(v) Borrowings

Borrowings are recognised initially at fair value, net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the

redemption value is recognised in the Income Statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability at least 12 months after balance date.

New Standards and Interpretations not yet Adopted

In preparing these financial statements in accordance with NZ IFRS, the following standards have been issued but are not applicable at this time:

NZ IFRS 8	Operating Segments
NZ IAS 1 (Revised)	Presentation of Financial Statements
NZ IAS 23	Borrowing Costs

The above Standards become effective from 1 January 2010 and are expected to be initially applied in the year ending 31 March 2011.

The impact of NZ IAS1 (Revised) is expected only to have an impact on presentation and the effects of NZ IAS 23 and NZ IFRS 8 are not able to be reliably measured or estimated at this stage.