Scanpower Limited

Statement of Corporate Intent

For the Year Ending 31 March 2020

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1.0 Introduction

1.1 This statement is submitted by the Board of Directors of Scanpower Limited to the Trustee Shareholders as required by Section 39 of the Energy Companies Act 1992.

1.2 It sets out the Board's overall intentions and objectives for the company to 31 March 2020 and two succeeding financial years as required by the Act. It provides details of:

- Principal objectives
- Nature and scope of commercial activities
- Capital structure
- Accounting policies
- Performance targets
- Dividend policy
- Information to be reported to the Trustee Shareholders
- Acquisition procedures

2.0 Principal Objectives of Scanpower Limited

2.1 Company Mission

"Delivering more to our community by providing a high quality electricity distribution network and promoting economic growth"

2.2 Company Vision

"To provide our region with a reliable, safe, cost-effective and sustainable electricity distribution network, whilst using our innovation and skills to develop new business and employment opportunities within our local communities"

2.3 Principal Objectives

"To deliver a reliable and safe supply of electricity to our customers"

"To provide a cost effective supply of electricity to our customers"

"To earn a commercially appropriate rate of return on our assets"

"To generate additional earnings from other commercial activities"

"To deliver financial benefits to our community via the network discount"

"To add value to our region through our operating practices and community initiatives"

2.4 Scanpower intends to operate in a socially responsible manner and recognises the importance of maintaining a reputation as a good employer. The company will continue its commitment to training and development with the intention of maintaining a motivated, well qualified and loyal team of staff. Scanpower will continue to operate as an equal opportunities employer.

2.5 Scanpower will aim to comply fully with its obligations under the Health and Safety at Work Act 2015, the Electricity Act 1992, the Electricity Regulations 1997, the Electricity Industry Reform Act 1998 (and subsequent amendments), the Commerce Act 1986, the Resource Management Act 1991, the Electricity Line Business Price and Reliability Threshold Regulations 2003, and the Electricity (Hazards from Trees) Regulations 2005. In addition to this, the company will observe all other legal and environmental requirements.

3.0 Nature and Scope of Commercial Activities

3.1 Scanpower has a number of business activities, operating both in the non-contestable, regulated electricity network industry and in the general, unregulated market. These activities are currently summarised as follows:

3.2 Regulated Business Activities

- Electricity network ownership, operation and maintenance

3.3 Non Regulated Business Activities

- Power line contracting
- Tree and vegetation management contracting
- Investment in property and joint venture companies (Kiwi Sock Company, Oringi Business Park)
- Investment in related energy products / solutions

3.4 In carrying out these activities the company will ensure the efficient utilisation of staff and capital assets.

3.5 Within the limits of its resources and after Scanpower's electricity network requirements have been met, the company will respond to the needs of the community by supporting Civil Defence and other emergency situations.

3.6 Scanpower will continue to maintain a focus on business development and seek to identify and implement initiatives which over their life will:

- Yield a return at least 5% above Scanpower's weighted average cost of capital

- Deliver value to Trustee Shareholders and / or the local community

3.7 Scanpower recognises the value of business development activity in providing protection and growth of Trustee Shareholder and community value whilst mitigating regulatory risk associated with the electricity lines industry.

4.0 Capital Structure

4.1 Issued and Paid Up Capital

As at date of vesting:	$7,500,000 (comprising 7,500,000 Ordinary Shares)

It is not intended that this shareholding structure be altered during the coming period.

4.2 Net Assets

As audited at 31 March 2018:	$40.27m

5.0 Accounting Policies

5.1 Scanpower will apply accounting policies required by the Financial Reporting Act 1993, the Ministry of Economic Development Regulations 1994 and International Financial Reporting Standards (IFRS). Accounting policies are attached as Appendix Four.

6.0 Performance Targets and Measures

6.1 Scanpower's intended performance targets for the coming three successive years are attached in Appendix One of this document.

7.0 Network Discount Policy

7.1 The Trustees of the Scanpower Customer Trust have directed the Board of Scanpower Limited to minimise the cost of electricity distribution to connected customers through the application of regular network discounts. Subject to normal operating conditions, such discounts will be paid on an annual basis via electricity retailers and appear as credits on customers' power accounts.

7.2 The Scanpower Board of Directors will set and post notice of the value of annual network discounts in advance and prior to the commencement of the financial year in which they will be paid.

7.3 The structure of how annual discounts are allocated to specific customer groups will be decided by the Scanpower Board of Directors having regard for various commercial and social factors, and any other factors considered to be of importance by the Trustees of the Scanpower Customer Trust. Such factors may include (but not be limited to):

- Maximising customer satisfaction and approval ratings.
- Identifying those customers most susceptible to competing energy products (such as gas, solar etc).
- Having consideration for those customers in situations of hardship or social difficulty.
- Not penalising customers for practicing energy efficiency.
- Not discriminating between rural and urban customer groups.
- Recognising those customer groups that are potentially indifferent to the application of discounts.
- Recognising uneconomic supplies which do not currently contribute positively to the financial performance of the business.
- Wishing to ensure that the cost of electricity distribution on the Scanpower network is competitive relative to peer group companies in the industry.

8.0 Network Pricing Policy

8.1 Scanpower's network pricing policy is to remain competitive relative to the electricity distribution industry in general, whilst earning a commercially appropriate level of return on our network assets.

8.2 In setting prices the company will adopt an average pricing methodology across all network customers and will not discriminate based on geographical location within the region. Accordingly urban and rural customers will be charged on an equal basis.

9.0 Dividend Policy

9.1 It is Scanpower's intention to retain an appropriate level of earnings for profitable investment in the business, including expansion of the company's operations, and to distribute funds to the Trustee Shareholders where the use of funds within the business is surplus to Scanpower's investment policy.

9.2 In recommending the dividends payable to the Trustee Shareholders, Scanpower will follow the procedure laid down in the Companies Act 1993. No dividend will exceed that recommended by the Directors at the Annual General Meeting.

10.0 Information to be Reported to Trustee Shareholders

10.1 To enable the Trustee Shareholders to assess the value of their shareholding in Scanpower, all information normally available to shareholders will be provided together with any information required to be disclosed in relevant legislation.

10.2 Within one month of the start of the new financial year a draft Statement of Corporate Intent will be delivered to the Trustee Shareholders.

10.3 Within three months of the end of the first half of the financial year, a report will be produced which will contain a statement of financial performance, a statement of financial position, cash flow statement and the Chief Executive's interim commentary for the first six months period. This report will include such details as are necessary to permit an informed assessment of Scanpower's performance during the reporting period.

10.4 Within four months of the end of each financial year, an annual report will be produced which will contain:

- A report on the operations of the company including a recommended dividend.
- An audited set of financial statements for that financial year, containing a statement of financial performance, a statement of financial position, and a statement of cash flows, and other such statements as may be necessary to fairly reflect the financial position and performance of the company.

11.0 Acquisition Procedure

11.1 The Directors will only consider the acquisition of shares in other companies or organisations where such acquisition is consistent with the long term commercial objectives of Scanpower Limited.

The Directors will consider an acquisition of shares in the following circumstances:

i) To better manage risk in the best interest of Scanpower Limited and its shareholders; and

ii) Where, in the Directors opinion, the acquisition is in the best interests of Scanpower Limited in terms of creating wealth or potential wealth for the shareholders; and

iii) Under other circumstances which, in the opinion of the Directors, are in the best interests of Scanpower Limited.

The Directors will not authorise the acquisition of shares in any other company or organisation without the prior written consent of the majority of the Trustees.

12.0 Other Matters Agreed by the Trustees and the Directors

Provision of Monthly Information

12.1 The Directors will provide the Trustees with a summary report on company financial performance and a summary copy of Board meeting minutes on a monthly basis.

Sponsorship and Charitable Activities

12.2 The Directors acknowledge that spending by the company on sponsorships or charitable activities is an indirect cost to the overall customer base. However, the Directors and Trustees agree that the company may be involved in modest sponsorship / charitable activities where these activities contribute positively to the achievement of the company's strategic objectives. In any event, the total amount spent in any one year on such activities will not exceed $50,000.

Procedure for Acquisition or Disposal of Major Assets

12.3 The Directors will not authorise the acquisition or disposal of assets (by a transaction or series of transactions) if the value of the assets is greater than $1,000,000 without the prior written consent of the majority of Trustees.

12.4 This requirement does not apply to routine capital expenditure associated with the replacement or upgrade of electricity distribution assets held within Scanpower's network business.

On behalf of the Board

Allan Benbow
Chairman

April 2019

Appendix One   Forecast Key Performance Indicators

Performance Measures	Year End 31/03/20	Year End 31/03/21	Year End 31/03/22
Earnings Before Discount and Tax	$3,352,444	$3,478,512	$3,613,763
Earnings Before Interest, Discount and Tax	$3,664,444	$3,778,512	$3,893,763
Earnings Before Interest and Tax	$2,064,444	$2,128,512	$2,193,763
Earnings Before Tax	$1,752,444	$1,828,512	$1,913,763
Net Profit After Interest, Discount and Tax	$1,261,760	$1,316,529	$1,377,910
Value of Net Assets / Shareholders' Equity	$41,975,000	$43,200,000	$44,525,000
Total Assets	$58,860,000	$59,870,000	$60,865,000
Return on Assets *(earnings before interest, discount & tax / net assets)*	8.73%	8.75%	8.75%
Equity Ratio *(Shareholders' funds / total assets)*	71.31%	72.16%	73.15%
Network Customer Discount	$1,600,000	$1,650,000	$1,700,000
Network Charges per KWH *(cents, net of transmission costs)*	9.30	9.58	9.87
Outage Minutes per Customer *(SAIDI Class B & C)*	115.0	115.0	115.0
Interruptions per Customer *(SAIFI Class B & C)*	1.00	1.00	1.00
Total Injury Frequency Rate *(Per 200,000 hours worked)*	8.6	8.1	7.6

Appendix Two Forecast Earnings Statements

	Year End 31/3/20	Year End 31/3/21	Year End 31/3/22
Earnings from Network Operations	$3,865,207	$3,981,163	$4,100,597
Earnings from Contracting Activities	$1,120,850	$1,232,935	$1,356,229
Earnings from Property & Investments	$456,855	$465,992	$475,312
Earnings from Treesmart	$219,552	$223,943	$228,422
Less Net Indirect Costs / Overheads	-$2,310,020	-$2,425,521	-$2,546,797
Earnings before Discount and Tax	**$3,352,444**	**$3,478,512**	**$3,613,763**
Network Customer Discount	$1,600,000	$1,650,000	$1,700,000
Earnings before Tax	**$1,752,444**	**$1,828,512**	**$1,913,763**
Tax at 28%	$490,684	$511,983	$535,853
Net Earnings After Tax	**$1,261,760**	**$1,316,529**	**$1,377,910**
Dividend	$125,000	$125,000	$125,000
Transferred to Retained Earnings	**$1,136,760**	**$1,191,529**	**$1,252,910**

Appendix Three Forecast Balance Sheet

	Year End 31/3/20	Year End 31/3/21	Year End 31/3/22
Assets			
Current Assets			
Cash and cash equivalents	$50,000	$50,000	$50,000
Debtors and Other Receivables	$2,500,000	$2,600,000	$2,750,000
Inventories	$625,000	$500,000	$400,000
Total Current Assets	**$3,175,000**	**$3,150,000**	**$3,200,000**
Non-Current Assets			
Capital Work in Progress	$25,000	$50,000	$50,000
Property, Plant & Equipment	$45,685,000	$46,600,000	$47,405,000
Intangible Assets	$825,000	$820,000	$810,000
Investment Properties	$8,500,000	$8,600,000	$8,750,000
Investment in Joint Venture	$650,000	$650,000	$650,000
Total Non-Current Assets	**$55,685,000**	**$56,720,000**	**$57,665,000**
Total Assets	**$58,860,000**	**$59,870,000**	**$60,865,000**
Liabilities			
Current Liabilities			
Borrowings	-	-	-
Creditors and Other Payables	$2,600,000	$2,650,000	$2,750,000
Employee Benefits	$510,000	$515,000	$520,000
Liabilities for Current Tax	$300,00	$250,000	$260,000
Total Current Liabilities	**$3,410,000**	**$3,415,000**	**$3,530,000**
Non-Current Liabilities			
Term Loan	$5,750,000	$5,500,000	$5,000,000
Employee Benefits	$225,000	$230,000	$235,000
Deferred taxation	$7,500,000	$7,525,000	$7,575,000
Total Non-Current Liabilities	**$13,475,000**	**$13,255,000**	**$12,810,000**
Total Liabilities	**$16,885,000**	**$16,670,000**	**$16,340,000**
Net Assets	**$41,975,000**	**$43,200,000**	**$44,525,000**
Equity			
Issued Capital	$7,500,000	$7,500,000	$7,500,000
Retained Earnings	$15,900,000	$17,100,000	$18,350,000
Reserves	$18,575,000	$18,600,000	$18,675,000
Total Equity	**$41,975,000**	**$43,200,000**	**$44,525,000**

Appendix Four Statement of Accounting Policies

REPORTING ENTITY

Scanpower Limited is 100% owned by the Scanpower Customer Trust. The financial statements presented are for Scanpower Limited.

The Company is designated as a for-profit entity for financial reporting purposes.

The financial statements of Scanpower Limited for the year ended 31 March 2018 were authorised for issue in accordance with a resolution by the Board of Directors on 2 July 2018.

BASIS OF PREPARATION

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Companies Act 1993 and the Energy Companies Act 1992.

The financial statements have been prepared on a historical cost basis modified by the revaluation of network assets, land and buildings and investment properties.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000).

NZIFRS Reduced Disclosure Regime **-** For the purposes of complying with NZ GAAP, the company is eligible to apply Tier 2 For Profit Accounting Standards (New Zealand equivalents to International Standards Reduced Disclosure Regime ('NZ IFRS RDR')) on the basis that it does not have public accountability and is not a large for-profit public sector entity. The Company has elected to report in accordance with NZ IFRS RDR and has applied disclosure concessions. The accounts have been prepared on a going concern basis.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Basis of consolidation

Associates and Joint Ventures

Scanpower Limited accounts for an investment in an associate in the financial statements using the equity method. An associate is an entity over which the company has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Scanpower Limited has applied NZ IFRS 11 to its joint arrangements. Under NZ IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Scanpower Limited has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

The investment in an associate and joint venture is initially recognised at cost and the carrying amount is increased or decreased to recognise the company's share of the surplus or deficit of the associate and joint venture after the date of acquisition. The company's share of the surplus or deficit of the associate and joint venture is recognised in Scanpower Limited's statement of comprehensive income.

Distributions received from an associate and joint venture reduce the carrying amount of the investment.

If the company's share of deficits of an associate and joint venture equal or exceed its interest in the associate and joint venture, the company discontinues recognising its share of further deficits. After the company's interest is reduced to zero, additional deficits are provided for, and a liability is recognised, only to the extent that the company has incurred legal or constructive obligations or made payments on behalf of the associate and joint venture.

If the associate and joint venture subsequently report surpluses, the company will resume recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.

Scanpower Limited's share in the associate and joint venture's surplus or deficits resulting from unrealised gains on transactions between the company and its associate and joint venture are eliminated.

Business combinations

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The excess of the cost of acquisition over fair value of the identifiable net assets acquired is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the business acquired, the difference is recognised directly in the income statement.

Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Revenue

Revenue is measured at the fair value of consideration given for the sale of goods and services, net of goods and services tax.

Revenue from 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 goods can be estimated reliably and there is no continuing management involvement with the goods.

Deposits received from the provision of services will be initially recorded as revenue in advance. Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual services provided as a percentage of the total service to be provided.

(i) *Network and Service Charges*

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

(ii) *Investment income*

Interest income is recognised using the effective interest method.

(iii) *Other Revenue*

Other Income is recognised when earned.

Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Goods and Services Tax

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cashflow in the statement of cash flows.

Income Tax

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax.

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

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial 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 difference 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 and associates, and interests in joint ventures, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Debtors and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured as amortised cost using the effective interest method, less any provision for impairment. A provision for impairment of receivables is established when there is no objective evidence that the Company will not be able to collect all amounts due according to the original term of the receivables. The amount of the provision is the difference between the assets carrying amount and the present value of the estimated future cash flows, discounted using the effective interest method.

The carrying amount of an impaired receivable is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income. When the receivable is uncollectible, it is written off against the allowance account. Overdue receivables that have been renegotiated are classified as current (i.e. not past due).

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off during the year that they are identified.

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of activities less the estimated costs necessary to make the sale.

Property, Plant and Equipment

Property, plant and equipment consists of network distribution, land, buildings and fixtures, the Oringi site land and buildings, plant and equipment, motor vehicles and computer hardware.

Property, Plant and Equipment is shown at cost or valuation, less accumulated depreciation and impairment losses. Initial cost includes the purchase consideration and those costs directly attributable to bringing the asset to the location and condition necessary for its intended use. These costs include, where appropriate, site preparation costs, installation costs, borrowing costs and the cost of obtaining initial resource consents. Costs cease to be capitalised when substantially all the activities necessary to bring an asset to the location and condition for its intended use are complete.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the company and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at cost. Where an asset is acquired at no cost, or nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

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

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefit or service potential associated with the item will flow to the company and the cost of the item can be measured reliably.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment other than land, at rates that will write off the cost (or valuation) of the asset to their estimated residual values over their useful lives. The useful lives of major classes of assets have been estimated as follows (in years):

Lines – wood	45
Lines – concrete	60
Lines – underground	45
Transformers	45 to 55
Substations	45
Switchgear	45
Air break switches	35
Customer connections	45
Circuit breakers	45
Sectionalisers	40
Ring main units	40

Voltage regulators	55
Fuses	35
Reclosers	40
Non standard assets	15 to 60
Buildings and fixtures	10 to 50
Motor vehicles	3 to 15
Plant and equipment	3 to 12
Computer equipment	3 to 5
Oringi site buildings	50

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

Revaluation

Operational land and buildings are valued on a three yearly valuation cycle. Network Distribution assets are revalued to Discounted Cash Flow (DCF) on a five yearly cycle. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value.

Operational land and buildings

Fair value is determined from market-based evidence by an independent valuer. The most recent valuation was performed by MR. I.R. Mollison ANZIV, of the firm Ian Mollison & Associates, Dannevirke, and the valuation is effective as at 31 March 2016.

Network Distribution assets

The electricity distribution network is measured at fair value. Fair value has been determined on the basis of a valuation prepared by Scanpower using a discounted cash flow methodology (DCF).

Accounting for revaluations

Scanpower Limited accounts for revaluation of property, plant and equipment on an individual asset basis.

The results of revaluing are credited or debited to an asset revaluation reserve for the individual asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the statement of comprehensive income. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the statement of comprehensive income will be recognised first in the statement of comprehensive income up to the amount previously expensed, and then credited to the revaluation reserve for the individual asset.

Intangible Assets

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of identifiable assets, liabilities and contingent liabilities acquired, and is recognised as an asset.

Goodwill is not amortised but instead separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. An impairment loss recognised for goodwill is not reversed in any subsequent period.

Software acquisition

Acquired computer software licenses are capitalised on a basis of the cost incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software are recognised as an expense when incurred.

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. The useful lives of major classes of intangible assets have been estimated as follows:

Computer software 3 to 10 years

Impairment of Property, Plant & Equipment and Intangibles

The carrying amounts of the assets, other than inventory and investment property, 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 of other assets, Scanpower Limited estimates the recoverable amount of the cash-generating unit to which the asset belongs. 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.

The recoverable amounts are the higher of fair value (less costs to sell) or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a 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.

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

If a revalued asset is determined to be impaired, then the impairment is firstly applied against the revaluation reserve related to that asset, 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. If an impairment loss is subsequently reversed, the carrying value of the asset is stated at not more than what its carrying value would have been had the earlier impairment not occurred.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the statement of comprehensive income. For assets not carried at a revalued amount, the total impairment loss is recognised in the statement of comprehensive income.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in the statement of comprehensive income, a reversal of the impairment loss is also recognised in the statement of comprehensive income.

For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the statement of comprehensive income.

Investment property

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation.

Investment property is measured initially at its cost, including transaction costs. After initial recognition, the Company measures all investment property at fair value as determined annually by an independent valuer. Gains or losses arising from a change in the fair value of investment property are recognised in the statement of comprehensive income.

Leases

Operating leases

An operating lease is a lease that does not transfer substantially all the risk and reward incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Employee benefits

Short term benefits

Employee benefits are measured at nominal values based on accrued entitlements at current rate of pay. Benefits include salaries and wages accrued to balance date, annual leave earned, but not yet taken at balance date, retiring and long service entitlements expected to be settled within 12 months. The Company recognises a liability and an expense for bonuses where contractually obliged.

Long-term benefits

Entitlements that are payable beyond 12 months, such as long service leave and retirement leave, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information and
- the present value of the estimated future cash flows. A weighted average discount of 2.74% and a salary inflation factor of 2.0% were used. The discount rate is based on the weighted average of government bonds with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.

Superannuation Schemes

Defined benefit schemes
A number of employees of Scanpower Limited belongs to the Defined Benefit Scheme (the scheme), which is managed by the Board of Trustees of the National Provident Fund. The scheme is a multi-employer defined benefit scheme.

Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the scheme, the extent to which the surplus/deficit will affect future contributions by individual employers, as there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme.

Creditors and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions

Scanpower Limited recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Borrowings

Borrowings are initially recognised at fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Critical Accounting Estimates and Assumptions

In preparing these financial statements Scanpower Limited has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual result. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Network Distribution assets

Electricity distribution network valuation - Scanpower Limited owns and operates an extensive integrated electricity distribution network in the Tararua area, comprising large numbers of individual network asset components. Scanpower Limited values its electricity distribution network on a discounted cash flow basis. Scanpower Limited has adopted assumptions and estimates in its discounted cash flow valuation, including the amounts and timing of future cash flows and the relevant discount rate. For more information refer to the property, plant and equipment note.

Goodwill

Determining whether there has been impairment in relation to goodwill requires an assessment of the value in use of the cash generating assets with which the goodwill is associated. This is undertaken by estimating the future cashflows expected to arise and using a suitable discount rate to estimate the present value of the future cash flows.

Changes in Accounting Policies

There have been no other changes in accounting policies during the year.

Appendix Five Corporate Governance Statement

1. Role of the Board

The Board is responsible for the overall corporate governance of Scanpower Limited. The Board guides and monitors the business and affairs of Scanpower on behalf of the shareholder, the Scanpower Customer Trust, to whom it is primarily accountable.

The Board's primary objective is to satisfy the shareholder's wish of enhancing value to all persons and companies connected to the Scanpower Network through a commitment to customer service and regional prosperity. Customer service is measured in terms of both financial benefit by way of discount, and by Scanpower's ability to deliver excellence in its electricity distribution system and in the security and reliability of that system. Regional prosperity is measured in terms of Scanpower's role in leading and/or supporting initiatives for economic development in its community.

The Board also aims to ensure that Scanpower 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 the shareholders, who represent persons and companies connected to the Scanpower Network, as well as other legislative and ethical expectations and obligations. In addition, the Board ensures that 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:

i) set the strategic direction of the Company in consultation with management, having particular regard to rate of return expectations, financial policy, and a review of performance against strategic objectives.

ii) 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 Scanpower's business.

iii) monitor and understand the expectations and needs of the communities within Scanpower's electricity network area.

iv) remain informed about Company affairs in order to exercise judgement about management and procedures.

v) 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.

vi) approve and foster a corporate culture which requires management and every employee to demonstrate the highest level of ethical behaviour.

vii) appoint, review the performance of, and set the remuneration of the Chief Executive Officer.

viii) approve transactions relating to major items or programmes of capital expenditure that is above the delegated authority of management.

ix) approve operating budgets and review performance against these budgets, and monitor corrective actions put in place by management as they arise.

x) ensure the preparation of the Statement of Corporate Intent, and Interim and Annual reports.

xi) enhance relationships with all stakeholders.

3. Delegation

The Board delegates the day-to-day responsibility for the operation and administration of Scanpower, including management of human resources and the implementation of the risk management strategy set by the Board, to the Chief Executive Officer.

The Chief Executive Officer is responsible for ensuring Scanpower achieves its business objectives and values. The Board ensures that the Chief Executive Officer, 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 Scanpower are expected to act with integrity and to promote and enhance the Company's reputation with its various stakeholders. Behavourial standards and accountabilities, including 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 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 Scanpower.

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 results of this review will be made available to the Scanpower Customer Trust.

7. Appointment and Reappointment of Directors

The Trustees of the Scanpower Customer Trust are responsible for the appointment of Directors. In accordance with the Company constitution, the number of Directors shall not fall below three, nor be greater than five.

In accordance with clause 21.2 of the constitution, upon appointment each Director shall serve for a term of three years. At the end of this term, a Director may stand for reappointment. Per clause 21.3 of the constitution, a Director having served a term of office of a total of nine years shall not be eligible for reappointment unless the prior unanimous consent of all shareholder Trustees is granted.

When a Director is approaching the expiration of their term of appointment (typically occurring in July), the Trustees require that Director to make notification of whether they intend to seek reappointment or retire at that time. Such notification should be made 8 months in advance of the expiration of their term (typically in December). Should that Director wish to be considered for a further term of three years, the Chairperson of the Board of Directors will provide a full written assessment of that Director's performance within five months of the expiration of their term of appointment (typically in February). The purpose of this is process is to ensure that the Trustees have adequate time to consider the reappointment or to appoint a new Director.

8. Meetings

The Board meets on a monthly basis (with the exception of December) to review, monitor and initiate action in respect of the strategic direction, financial performance and compliance of the Company and its subsidiaries. Scanpower'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 may meet on an ad hoc basis to consider specific opportunities as and when they arise, 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 will establish and maintain two standing committees. They provide assistance and guidance 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.

i) Audit Committee

The Audit Committee's primary role is to review Scanpower's financial statements and related announcements and to liaise with external auditors on external and internal audit matters on behalf of the Board. The Audit Committee monitors the independence of the external auditor and approves and reviews those services provided by the auditor other than in their statutory audit role.

ii) 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 Directors and senior executives which fairly reward individual performance in relation to their contribution to the Company's overall performance.

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

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

10. Risk Management

The Board puts considerable emphasis on risk management, given the critical nature of this aspect of 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 supports the Board's risk management process.

To fulfill its responsibility, management maintains appropriate accounting records and systems of internal control. These are reviewed and reported on annually by external auditors.

11. Directors' Fees

Fees for Directors are based on the nature of their work and responsibilities. Independent advice, including industry remuneration surveys, may be obtained from time to time on the level and structure of Directors' fees. The Board will make recommendations to the Scanpower Customer Trust at the Annual General Meeting on any proposed changes to Directors' Fees in accordance with this independent advice.

12. Interaction Between the Board and Trust

The Board shall ensure that the Trustees are informed of all major developments affecting the Company's state of affairs. Each year, a Statement of Corporate Intent is developed between the Board and the Trust.

This statement details the Company's intent with respect to:

i) Corporate strategy

ii) Strategic development

iii) Scanpower's operating environment

iv) Financial performance

v) Corporate governance

Information is also communicated to the Trust in the Annual Report, Interim Report and via the provision of monthly agendas and summary Board minutes.