Genesis Energy

Statement of Corporate Intent

Financial Year

2010/11-2013

INTRODUCTION

This Statement of Corporate Intent ("**SCI**") is submitted by the Board of Directors of Genesis Power Limited trading as Genesis Energy ("**Genesis Energy**") in accordance with section 14 of the State Owned Enterprises Act 1986 ("**Act**"). This SCI specifies the following information that is to be included in the SCI:

Table of Contents

The financial projections in this SCI do not take account of the possible impacts of the recommendations from the Ministerial Review of Electricity Market Performance announced on 9 December 2009.

For the purposes of this SCI and except to the extent it is necessary to distinguish between the two, Genesis Energy together with its subsidiary companies is referred to as either Genesis Energy or the company.

OBJECTIVES

The principal statutory objective of Genesis Energy is to "operate as a successful business, and to this end, to be:

- As profitable and efficient as comparable businesses that are not owned by the Crown;
- A good employer; and
- An organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so".[1]

This is the principal objective for Genesis Energy and forms the basis of all commercial decisions. To meet this objective and to deliver shareholder value, Genesis Energy will focus on the following business objectives:

- **Financial** – To be fiscally responsible while delivering on shareholder value and performance expectations;
- **Production and Generation** – To provide economic production and new generation solutions that demonstrate strong sustainability performance;
- **Customers** – To be recognised as a leading New Zealand energy provider with excellent customer service;
- **Employees** – To partner with our people for success;
- **Community, Iwi, Hapu and Stakeholders** – To engage meaningfully with the communities, Iwi and hapu in the areas in which we operate, and other key stakeholders;
- **Our Environmental and Social Impact** – To manage responsibly Genesis Energy's environmental and social impact while growing our business; and
- **Governance and Benchmarking** – To follow best practice in corporate governance and benchmark the company's sustainability performance.

By implementing these strategic themes in the provision of production, retail and trading as well as other services, Genesis Energy will deliver on shareholder value expectations and make a positive contribution to New Zealand's energy sector and the broader communities in which Genesis Energy operates.

NATURE AND SCOPE OF ACTIVITIES

Genesis Energy's core business is located in New Zealand and involves:

- The generation of electricity;
- The retailing and trading of energy.
- The development and procurement of fuel sources; and

To support these, Genesis Energy's scope of business includes:

- The retailing and trading of related complementary products designed to support its key energy business.

[1] State Owned Enterprises Act 1986, section 4.

FINANCING AND CAPITAL STRUCTURE

Effective capital structure management enables Genesis Energy to deliver on its key strategies over time. This capital structure management is primarily measured through the company's gearing ratio, which assesses the level of debt to debt plus equity that Genesis Energy plans to maintain. Genesis Energy estimates that the company's gearing ratio over the next three financial years will be, as follows:

Year ending 30 June	2010/11	2011/12	2012/13
Gearing Ratio (Net Debt to Net Debt + Equity)	27.5%	26.2%	25.5%

These terms have the following definitions:

Net Debt is all short and long term borrowings less cash.

Equity is the share capital of the company together with any revaluation reserves and retained earnings of the company. Retained earnings are net after-tax profits of the company, less dividends paid, calculated in accordance with Generally Accepted Accounting Practice in New Zealand ("**GAAP**").

RATIO OF CONSOLIDATED SHAREHOLDERS' FUNDS TO TOTAL ASSETS

Genesis Energy estimates that the ratio of Consolidated Shareholders' Funds to Total Assets over the next three financial years will be, as follows:

Year ending 30 June	2010/11	2011/12	2012/13
Consolidated Shareholders' Funds: Total Assets	54.7%	55.1%	54.6%

These terms have the following definitions:

Consolidated Shareholders' Funds has the same definition as Equity.

Total Assets is the aggregate net book value of the assets of the company calculated in accordance with GAAP.

ACCOUNTING POLICIES

Genesis Energy's accounting policies, as at the date of this SCI, are set out in Appendix 1.

PERFORMANCE TARGETS

Genesis Energy's performance targets for the next three financial years are, as follows:

Financial Performance Targets	2010/11	2011/12	2012/13
Shareholder Returns			
Total shareholder returns	2.4%	4.7%	5.3%
Dividend yield	4.7%	6.1%	7.2%
Dividend payout	86%	87%	105%
Return on equity	2.8%	4.9%	6.1%
Return on equity adjusted for IFRS fair value movements and asset revaluations	3.2%	4.6%	5.5%
Profitability and Efficiency			
Return on capital employed[2]	5.7%	7.1%	8.0%
Operating margin	11.9%	12.9%	12.4%
Generator efficiency	$36.21	$38.97	$39.48
Earnings before interest and tax to average total assets	4.0%	5.6%	6.5%
Solvency			
Interest cover	5.8	6.5	7.0
Solvency	1.0	1.3	1.0
Non-Financial Performance Targets	**2010/11**	**2011/12**	**2012/13**
Number of significant[3] RMA non-compliances	0	0	0
Customer satisfaction[4]	85%	85%	85%
Power Station Availability			
Hydro	94%	90%	98%
Thermal			
Huntly Units 1 to 4	83%	83%	70%
Huntly Unit 5[5]	92%	92%	89%
Huntly Unit 6[6]	80%	80%	80%
Forced Outage Factor			
Hydro	0.27%	0.26%	0.26%
Thermal	1.95%	1.95%	1.95%
Lost Time Injuries	0	0	0

Descriptions, calculation methods and definitions for the financial performance targets are provided in Appendix 3.

A comparison with last years SCI targets is provided in Appendix 4.

[2] Replaced Return on Capital performance measure.
[3] 'Significant' refers to those incidents which are more than minor and for which it is appropriate to notify the consent authority (over and above standard notification of minor consent non-compliances in consent monitoring reports).
[4] Based on the survey question: "How do you rate the performance of your energy supplier?"Percentage of customers rating Genesis Energy good, very good or excellent.
[5] Huntly Unit 5 major outage in November 2012.
[6] Huntly Unit 6 operated as a peaking plant.

DIVIDEND POLICY

In determining dividends payable to shareholding Ministers, Genesis Energy will comply with the solvency levels specified in the Companies Act 1993 and will follow the processes and procedures generally adopted by directors of publicly listed companies.

Under ordinary business circumstances, the dividend to be declared will be determined by reference to:

- Genesis Energy's working capital requirements;
- Genesis Energy's medium-term fixed asset expenditure programme;
- Genesis Energy's investment in new business opportunities; and
- Genesis Energy's risk profile, taking into account the sustainable financial structure for the business and considering predictions of short and medium term economic and market conditions.

Subject to the above circumstances that will affect from year to year the quantum of dividend paid, the financial performance targets outlined in this SCI assume annual dividend payments being made at a payout ratio of 80% of "Free Cash Flows"[7].

REPORTING REQUIREMENTS

Section 15 of the State Owned Enterprises Act 1986 requires the company to submit to shareholding Ministers no later than three months after the end of a financial year:

- An Annual Report of the operations of the company and its subsidiaries;
- Audited consolidated financial statements for that financial year; and
- The auditor's report on those financial statements.

The Annual Report is required to contain such information as is necessary to enable an informed assessment of the operations of the company and its subsidiaries, including a comparison of the performance of the company and subsidiaries with the relevant Statement of Corporate Intent. It must also state the dividend payable to the Crown.

For Half-Yearly Reports, section 16 requires that they be delivered within two months of the end of the first half of the financial year. The report must include the information that is required by the Statement of Corporate Intent.

In addition to the required statutory reports, Genesis Energy will supply:

- Quarterly reports to shareholding Ministers which will include summarised financial statements together with a brief commentary on key events for the previous quarter and performance against key targets; and
- Information to the public that is required to be disclosed under the shareholders continuous disclosure regime, which came into effect on 1 January 2010.

[7] "Free Cash Flows" is the net cash inflow from operating activities less net cash outflow to investing activities less interest paid and other finance charges.

A summary of Genesis Energy's Business Plan and a draft Statement of Corporate Intent will be supplied to shareholding Ministers for discussion prior to the start of the financial year to which they relate.

Genesis Energy will also provide, in a timely manner, any other information requested by shareholding Ministers, pursuant to section 18 of the Act.

PROCEDURES FOR SHARE SUBSCRIPTIONS OR PURCHASES

Subscriptions for shares in any company or interests in any other organisation will, where substantial, or which involve a significant overseas equity investment, be subject to consultation with shareholding Ministers. The procedures for the establishment of subsidiary companies and the sale of substantial assets in the company are set out in Appendix 2.

COMPENSATION FROM THE CROWN

In general, Genesis Energy will seek full compensation from the Crown for any activities or obligations which will result in a reduction of the company's net profit or net worth, which the company is required by the Crown to undertake under the provisions of the Act, and for which a commercial return is not forthcoming.

Genesis Energy is also entitled to compensation or other adjustments in certain circumstances, under agreements relating to its formation and to the purchase of assets from the Electricity Corporation of New Zealand Limited.

In order to facilitate Genesis Energy committing to the Huntly Unit 5 project within normal commercial parameters, a risk sharing agreement was entered into with the Crown. Under the agreement, the Crown assumes certain risks with respect to the long term supply of gas.

VALUE OF THE CROWN'S INVESTMENT IN THE COMPANY

The Board of Directors' estimate of the current consolidated commercial value of the Crown's investment in Genesis Power Limited ("**Genesis Energy**") is $1,624 million. Key points about the manner in which that value was assessed are:

- The valuation was calculated as at 30 June 2010;
- The valuation was reviewed independently by PricewaterhouseCoopers ("**PwC**");
- The valuation takes into account the existing operations of Genesis Energy and does not value any assets under construction, business development opportunities currently under consideration or other future generation opportunities;
- A discounted cash flow ("**DCF**") analysis was used to calculate the valuation of Genesis Energy's consolidated business (including all subsidiaries), on an after-tax basis;
- The DCF is based on nominal (i.e., including inflation) future "free cash flows" projections until 2034. The cashflow projections incorporate:
    - → Genesis Energy's 20010/11-15 Business Plan and projections based thereon;
    - → A wholesale electricity price path derived from a range of estimates including Genesis Energy's in-house modelling and externally sourced views of price path; and
    - → A terminal value of $207 million to account for the cash flows from 2035 until the end of the expected life of each asset.
- Genesis Energy's estimate of WACC (excluding Kupe[8]) used for the valuation fits within the range of WACC estimated by PwC of 8.6% to 9.5%.

The valuation of $1,624 million compares favourably by $185 million with the commercial value reported at 30 June 2009 of $1,439 million. The key reasons for the increase in commercial value are:

- An increase of $141 million in the value of the generation business. Contributing to this increase is an improved performance from the older Huntly Units 1 to 4 due to an increase in projected generation volume and commercial arrangements entered into since the previous valuation;
- An increase of $104 million in the value of the Kupe oil and gas field which has moved from the development phase to the production phase of its lifecycle; and
- A reduction of $85 million in the value of the retail business due to lower volumes and lower prices.

[8] Due to commercial confidentiality no comment is made around the Kupe WACC.

CAPITAL EXPENDITURE

Genesis Energy projects capital expenditure of approximately $200 million over the next three financial years[9]. Capital expenditure includes both reinvestment expenditure and new generation development activities.

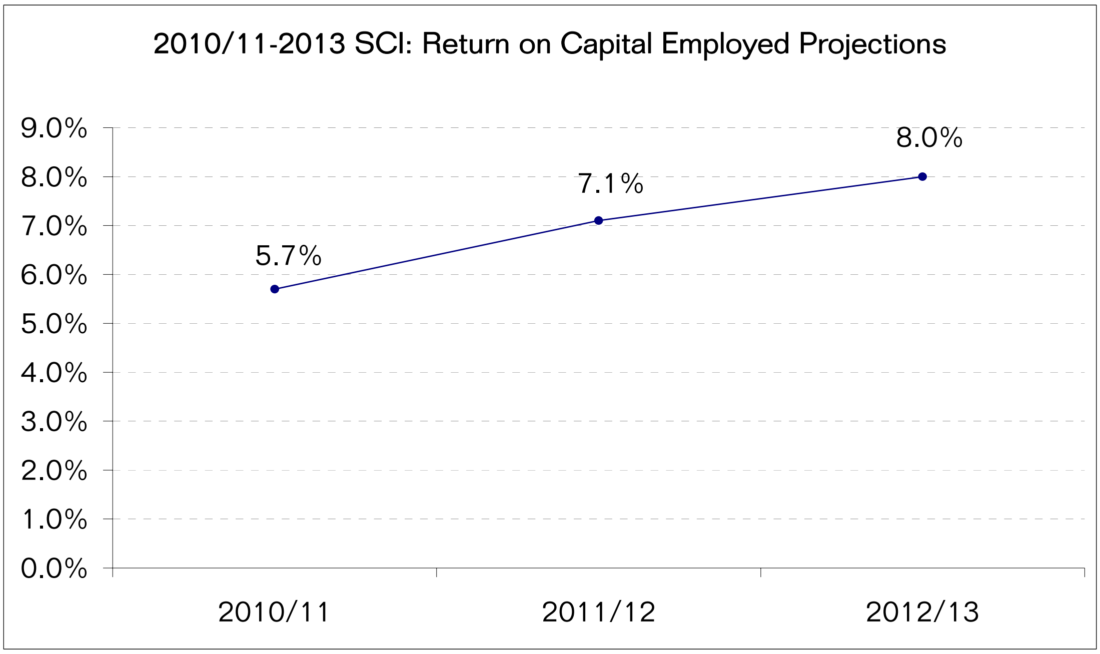
OTHER MATTERS

No other matters have been agreed by shareholding Ministers and the Board of Directors for inclusion in this SCI pursuant to section 14(2)(j) of the Act.

ECONOMIC VALUE ADDED ANALYSIS

Economic Valued Added ("**EVA**") is a measure of "economic profit" that indicates how well the company expects to perform over the forecast period relative to the cost of the capital invested in the company, as measured by the Weighted Average Cost of Capital ("**nominal WACC**").

Genesis Energy's return on capital projections shown in the chart below reflect an approximation for the company's EVA over the next three financial years. Genesis Energy's return on capital projections show an expected improvement in performance over last year's SCI and the company's EVA year-on-year over the business planning horizon. The 'Strategy and Performance Commentary' outlines the business strategy in place to raise performance and increase shareholder value.



[9] Financial years include 2010/11, 2011/12 and 2012/13.

STRATEGY AND PERFORMANCE COMMENTARY

The following commentary summarises the major market forces expected to impact the company's strategy and projected performance over the business planning period:

Business Environment

Economic conditions suggest that the growth in electricity demand will be below historic trends in the short term before resuming higher longer term levels from early 2012. Based on this expectation, Genesis Energy projects electricity demand to grow by 1.3% for the first year of the Business Plan before, rising to 1.5% for the subsequent years.

Development activity in the last few years has brought new baseload renewable and mid-merit gas-fired thermal generation into the market. The company projects approximately 332MW of "effective" new generation will be commissioned by competitors by 2014/15. This new and generally lower cost or "must-run" generation will continue to displace the coal/gas fired Huntly Units 1 to 4 in the merit order, and will require the Huntly Units 1 to 4 to be placed on a profile which will remove one or more units from service over the next few years.

The stationary energy sector will face a carbon price from 1 July 2010 under current Emission Trading Scheme ("**ETS**") legislation. Genesis Energy will face a financial liability that will increase over time and remain a key issue. Commercially, the ability to recoup the cost of carbon from the retail market is an uncertainty. Any failure to recoup the cost of carbon would result in adverse commercial outcomes should carbon intensive plant run.

Recent announcements by competitors suggest modest price increases will occur across the market to reflect underlying cost pressures (including carbon) and the price of new generation.

Official gas reserve figures still show New Zealand's total gas demand exceeding gas supply from the middle of the next decade.

Strategy, Opportunities and Investment

Genesis Energy's strategy is designed to deliver long-term shareholder value. The company operates in a competitive business environment and adapts its commercial strategy accordingly.

Assets Transfers and Hedge Arrangements

On 9 December 2009, the Minister for Energy and Resources announced the outcome of the Ministerial Review of Electricity Market Performance (the "**Review**"). The Government agreed to 29 new measures to improve electricity market performance, which are planned for implementation by 1 October 2010.

As a result of the Review, Meridian Energy is required to transfer Tekapo A and B power stations and sell 450GWh/per year of 'South Island' energy to Genesis Energy. In return Genesis Energy is required to sell 450GWh/per year of 'North Island' energy to Meridian Energy.

Legislation to effect these policy decisions is before Parliament but has not been enacted at the time of writing. Accordingly, the financial projections in this Statement of Corporate Intent are based on the position as at 1 July 2010 and do not take account of the possibility of either the transfer of the Tekapo A and B assets or the "virtual swap" of 450 GWh proceeding. In the event either or both measures proceed, the Board will consider amending the Statement of Corporate Intent in accordance with section 14(5) of the State Owned Enterprises Act 1986.

Huntly Units 1 to 4

Genesis Energy continues to keep under active consideration and review the role of Huntly Units 1 to 4 within its generation portfolio. The degree of re-positioning required of Huntly Units 1 to 4 will be determined by the ability of the company to make a commercial return on these assets.

In addition to outright retirement, the company is considering both short and long-term storage options for these units. Such storage options may reduce costs but still allow Genesis Energy to capture revenue by returning stored units to the market, if commercial market opportunities are available. Additionally, commercial hedge arrangements will continue to be pursued.

Progress made during the past financial year on achieving such satisfactory commercial outcomes has resulted in the date for taking the first Huntly unit out of service moving to 2012, (2011 in last year's SCI) and the date for the second unit moving to 2015 (last year 2014). If such arrangements deliver an acceptable return on the units, then the commercial life of those units will be extended.

Optimising Fuel Supplies

Genesis Energy is rebalancing and optimising its fuel requirements to meet more closely the company's commercial needs for coal and gas.

Generation Development

Genesis Energy is investing in developing a pipeline of additional economic generation opportunities. The company is advancing a range of wind farm options including two potentially significant wind farm sites (Castle Hill and Hau Nui 3) in the Wairarapa region. Both Castle Hill and Hau Nui 3 consenting activities are proposed to commence in 2010. Genesis Energy is also progressing work on hydro, geothermal and thermal prospects.

Genesis Energy has a target to consent and construct 300MW of renewable energy projects by 2015. The company will invest only in economically viable projects.

Retail Business Development

Genesis Energy's efforts are focussed on improving service to its retail customers, thereby satisfying customer expectations. Genesis Energy aims to deliver excellent customer service, enhance the value to customers through its loyalty programme and on-line website, and develop a range of innovative product and service offerings in conjunction with the company's smart meter roll-out.

A major retail initiative in the coming year is the expansion into South Island retail markets. This initiative is being pursued in anticipation of the recommendations of the Review being implemented, which will address in an acceptable commercial manner the transmission basis risk faced by Genesis Energy in the South Island. In the event that the recommendation of the Ministerial Review does not occur, the South Island expansion strategy will be reconsidered.

The company is continuing to reshape its retail business to address cost and service level issues, to reflect its generation capability, and to improve the profitability of its retail market customers. Genesis Energy will rebalance its retail load profile, where possible, to accommodate its South Island expansion.

Fuel Management Kupe

Genesis Energy will continue to exit its upstream gas exploration activities to further manage its costs and balance sheet risk. However the company's investment in the producing Kupe Oil and Gas Project will be maintained, largely due to the strong cash flows generated by liquids and LPG production at Kupe.

Commissioning of Kupe was completed on 21 March 2010. Genesis Energy holds a 31% interest in this field and has contracted 100% of the gas.

Financial Performance and Risks

Genesis Energy faces significant challenges from changes in market conditions, and these are reflected in the financial projections contained in this SCI for the next three years. Genesis Energy's commercial strategy manages these issues, and repositions the business to deliver sustainable shareholder value.

However, projections inevitably involve risks and uncertainties, which increase as the horizon extends. Relevant risks include economic, regulatory, political and operational uncertainties, many of which are outside the control of Genesis Energy and cannot be accurately predicted. Actual results may therefore differ from the projections presented in this SCI. Key risks include the pass through of the price of carbon, the level of generation and demand, and the future price of oil.

Genesis Energy's enterprise-wide risk management framework helps to manage the business risks that are specific to the company and which may pose a threat to future operations and profitability.

Rt Hon Dame Jenny Shipley, DNZM
Chairman of the Board of Directors
On behalf of the Board of Genesis Energy
30 June 2010

Appendix 1: Statement of Accounting Policies

General information

The financial statements have been prepared for Genesis Power Limited (the Company) and its subsidiaries (together the Group). The Company was incorporated and became a state-owned enterprise on 16 December 1998 pursuant to the State-Owned Enterprises Act 1986. The Company is a profit oriented entity and is wholly owned by Her Majesty the Queen in Right of New Zealand ("the Crown"). The Group's core business is the generation, trading and retailing of energy in New Zealand.

The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 602 Great South Road, Auckland.

Summary of accounting policies

The financial statements include separate financial statements for Genesis Power Limited as an individual entity and the consolidated entity consisting of Genesis Power Limited and its subsidiaries.

(a) Basis of preparation

Financial statements are prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit-orientated entities. These financial statements are presented in New Zealand dollars rounded to the nearest thousand.

Compliance with IFRS

The separate and consolidated financial statements of Genesis Power Limited also comply with International Financial Reporting Standards (IFRS).

Entities reporting

The financial statements of the 'Company' are for Genesis Power Limited as a separate legal entity.

The consolidated financial statements of the 'Group' are for the economic entity comprising Genesis Power Limited and its subsidiaries.

Statutory base

Genesis Power Limited is a company registered under the Companies Act 1993.

Financial statements are prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Historical cost convention

Financial statements are prepared on the basis of historical cost, except for the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, and certain classes of property, plant and equipment.

Critical accounting estimates and judgements

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Groups' accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in the notes or the relevant accounting policy.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Goods and Services Tax

The income statement and the cash flow statement are prepared so that all components are stated exclusive of GST. All items in the balance sheet are stated net of GST, with the exception of receivables and payables, which include GST.

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Genesis Power Limited (the 'Company') as at 30 June 2010 and the results of all subsidiaries for the year then ended. Genesis Power Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of settlement, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share 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 subsidiary acquired, the difference is recognised directly in the income statement.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of settlement. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively. The Company financial statements show investments in subsidiaries at cost.

Joint ventures

Jointly controlled assets involve the joint control, or the joint ownership, by the joint venturers of one or more assets contributed to, or acquired for the purpose of, the joint venture and dedicated to the purposes of the joint venture. The assets are used to obtain benefits for the joint venturers. Each joint venturer may take a share of the output from the assets and each bears an agreed share of the expenses incurred.

These joint ventures do not involve the establishment of a corporation, partnership or other entity, or a financial structure that is separate from the joint venturers themselves.

The Group's share of jointly controlled assets and liabilities and share of revenue and expenses are accounted for using the proportionate consolidation method. The proportionate interests in the assets, liabilities, income and expenses of the jointly controlled assets have been incorporated into the financial statements under the appropriate headings together with any liabilities incurred by the Group.

Associates

Associates are all entities over which the Group has significant influence but not control, generally evidenced by a holding between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statement they reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred further obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in New Zealand dollars, which is Genesis Power Limited's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and or from their translation at balance sheet date using balance date exchange rates, are recognised in the income statement except for differences arising on the retranslation of non monetary items in respect of which gains and losses are recognised directly in equity. For such non monetary items, any exchange component of that gain or loss is also recognised directly in equity.

Translation differences on non monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue recognised for the major activities comprises the amounts received and receivable by the Group for electricity, gas and energy-related services supplied to customers in the ordinary course of business including estimates for unread meters.

Revenue is recognised as follows:

Sales of goods

Revenue from the supply of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

Sales of services

Revenue from the supply of services is recognised at balance date on a straight line basis over the specified period for the services unless an alternative method better represents the stage of completion of the transaction.

Interest income

Interest income is recognised on an accrual basis using the effective interest method. The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Rental income

Rental income is recognised in the income statement on a straight line basis over the term of the lease. Lease incentives granted are recognised evenly over the term of the lease as a reduction in total rental income.

Dividend income

Dividend income is recognised when the right to receive payment is established.

(e) Income tax

The income tax expense or income for the period is the tax payable or receivable on the current period's taxable income or expense based on the New Zealand tax rate. This is adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and unused tax losses.

Deferred tax is recognised for temporary differences and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised, based on those tax rates that are enacted or substantively enacted. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. 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 deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they related to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(f) Leases

The Group is the lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the finance balance outstanding. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

The Group is the lessor

When assets are leased out under a finance lease, the present value of the minimum lease payments is recognised as a receivable. Finance lease receipts are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Assets leased to third parties under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income is recognised on a straight-line basis over the lease term.

(g) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or whenever there is an indication that the asset may be impaired. Assets that are subject to amortisation are reviewed for impairment annually where required, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value at a rate that reflects current market assessments of the time value of money. This is adjusted for the risks specific to the asset where the estimated cash flows have not been adjusted.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non financial assets other than goodwill that have been impaired are reviewed for possible reversal of the impairment at each reporting date.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. A reversal of an impairment loss is recognised in profit and loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less impairment loss. Trade receivables are due for settlement no more than 30 days from the date of recognition.

The collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An impairment loss is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate.

(j) Inventories

Raw materials and consumables are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(k) Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held-for-sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use; that is, where such assets are available for immediate sale and where the sale is highly probable.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non current asset (or disposal group) is recognised at the date of de-recognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held-for-sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held-for-sale continue to be recognised.

Non-current assets classified as held-for-sale and the assets of a disposal group classified as held-for-sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held-for-sale are presented separately from other liabilities in the balance sheet.

(l) Investments and other financial assets

Investments

Purchases and sales of investments are recognised on the trade date, being the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value net of transaction costs. Financial assets classified as fair value through profit or loss are initially measured at fair value.

Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company financial statements. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the Company financial statements.

Quoted investments are measured at fair value. Fair value for quoted investments is based on current bid prices.

Other financial assets

The Group classifies its other financial assets 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 nature of the financial assets and the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held-for-trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. A financial asset is designated as held-for-trading if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held-for-trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held-for-trading or are expected to be realised within 12 months of the balance sheet date.

(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 and are measured at an amortised cost. They arise when the Group 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 Group'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 derivative financial assets 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.

Other financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

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 rate method less impairment. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, estimated discounted cash flow analyses, and option pricing models refined to reflect the issuer's specific circumstances.

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that as a result of events occurring after initial recognition the estimated future cash flows of the asset have been impacted. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss, is removed from equity and recognised in the income statement. In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the income statement. Changes in the carrying amount of the allowance account are usually recognised in the income statement.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(m) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group has entered into transactions using financial instruments within predetermined policies and limits in order to reduce risks from carrying out its ongoing business. These instruments include forward exchange contracts, interest rate swaps, oil price options, fuel hedges, and electricity derivatives including options and contracts for differences (CfDs). The Group enters into these contracts to hedge underlying exposures to foreign currency, interest rates, oil prices and wholesale electricity prices.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various financial instruments used for hedging purposes and movements in the hedging reserve in shareholders' equity are shown in the Notes to the Financial Statements.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The fair value of hedging derivatives is classified as non current assets or non-current liabilities if the remaining maturity of the hedging relationship is more than 12 months and as a current asset or current liability if the remaining maturity of the hedging relationship is less than 12 months.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

Embedded derivatives

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

(n) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded on an active market (for example, over the counter derivatives) is determined using valuation techniques which include assumptions on both observable data when such data is available and non-observable data in all other instances. The fair value of the financial instruments is based on the discounted value of future cash flows. Assumptions on the determination of cash flows are based on publicly available forecast prices where available and internal models when a forecast price is not available. Quoted market prices or dealer quotes for similar instruments are used for long term debt instruments held. The fair value of electricity CfDs traded on the energy hedge market is based on closing market prices at the balance sheet due date. In relation to forecast prices used to determine cash flow forecasts for all other electricity CfDs the following significant assumptions are used where relevant:

- Forecast of the forward wholesale electricity price based on an analysis of expected demand, existing supply, the cost of new supply, and fuel and carbon costs;
- That all CfDs run to full term; and
- Forecast of the inflation rate.

The forecast electricity price is used to determine a best estimate of the expected cash flows to be settled on CfD's. The expected cash flows are then discounted using the Company's weighted average cost of capital.

The fair value determined for instruments not traded on an active market can vary significantly (particularly in respect of electricity CfD's) due to the assumptions used when forecasting wholesale electricity price. The sensitivity to the movement in assumptions is explained in the notes to the Financial Statements.

The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date. The nominal value less estimate credit adjustments of trade receivables and payables are assumed to approximate their fair values.

Deferred 'day 1' gains/losses

Where the Group estimates fair values of derivative financial instruments using internally generated future price paths, as is the case with energy hedges, the instrument is fair valued at inception and the difference arising between the estimated fair value and its cost (nil) is a valuation adjustment. To eliminate this valuation adjustment at inception the future price path used to ascertain fair value is adjusted by a constant dollar amount to return the initial fair value to nil. This dollar adjustment is then applied to the internally generated future price path for each subsequent valuation period over the life of the energy hedge.

(o) Property, plant and equipment

Generation assets are stated in the balance sheet at cost, or in the case of previously revalued items, at fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity, not to exceed five years, to ensure the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any increase on the revaluation of generation asses is credited to the assets revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised 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 such generation assets is charged to profit or loss to the extent that it exceeds the balance, if any, held in the assets revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued generation assets is charged to profit or loss. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the assets revaluation reserve is transferred directly to retained earnings.

Property and plant in the course of construction for production or administrative purposes, are carried at cost, or in the case of previously revalued items, at fair value at the date of revaluation, less any subsequent accumulated impairment losses. The cost of assets constructed by the Group, including capital work in progress, is the cost of all materials used in construction, direct labour costs of construction, resource management consent costs, and an appropriate proportion of applicable variable and fixed overheads.

Where capital work in progress and leased assets are classed as generation assets, the value will be include in the revaluation calculation as at the revaluation date and any impairment applied to that asset will reduce the capital work in progress value accordingly.

Capital expenditure on assets that have been impaired will be expensed as the expenditure is incurred unless the impairment or downward revaluation has been reversed.

All property, plant and equipment except generation assets are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of property, plant and equipment, other than freehold land and property and plant under construction, is charged on a straight-line basis at rates calculated to allocate the costs or valuation of an item of property, plant and equipment, less any estimated residual value, over its estimated useful life. Typically, the estimated useful lives of different classes of property plant and equipment are as follows:

	Estimated Useful Life
Generation assets	10 to 50 years
Buildings and improvements	10 to 50 years
Other property, plant and equipment	3 to 15 years
Leased plant and equipment	20 to 25 years

Freehold land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount 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 are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(p) Oil and gas exploration and development assets

Exploration and evaluation expenditure

Exploration costs, including geological and geophysical costs and costs of carrying unproved properties are included in the income statement. Exploratory drilling costs are capitalised initially, however, capitalised costs relating to unsuccessful efforts are charged to the income statement as dry hole costs at the time.

The exploratory drilling costs of successful efforts are amortised over the estimated life of the field based on the unit of production depletion method, commencing from the first year of commercial production from that field.

Exploration expenditure is assessed annually for indicators of impairment. Any impairment in value is taken to the income statement.

Oil and gas development expenditure

Capitalised development expenditure relates to the development of gas and condensate fields in which the group has an interest.

Development expenditure is amortised over the estimated useful life of the field based on the unit of production depletion method, commencing from the first year of commercial production from that field. Development expenditure is assessed annually for indicators of impairment. Any impairment in value is taken to the income statement.

Mining licences

The acquisition costs of mining licences are capitalised as intangible assets. The licence costs of successful efforts are amortised over the estimated life of the field based on the unit of production depletion method, commencing from the first year of commercial production from that field.

The licence costs of unsuccessful efforts are considered impaired, and expensed to the income statement when the decision to abandon an area of interest or licence is made.

Licence costs are assessed annually for indicators of impairment. Any impairment in value is taken to the income statement.

(q) Intangible assets

Intangible assets include goodwill, research and development, computer software and naming rights. Assets with indefinite useful lives are not amortised, but are tested at least annually for impairment and whenever there is an indication that the asset may be impaired. Where there is an active market for an intangible asset, the asset is recorded at a revalued amount, being fair value less any subsequent accumulated amortisation and subsequent accumulated impairment losses. Revaluations are done for each intangible asset, not for a class of asset. Realised gains and losses arising from disposal of intangible assets are recognised in the income statement in the period in which the transaction occurs. Unrealised gains and losses arising from changes in the value of intangible assets are recognised as at balance date. To the extent that a gain reverses a loss previously charged to the income statement, the gain is credited to the income statement. Otherwise, gains are credited to an asset revaluation reserve for that asset. To the extent that there is a balance in the asset revaluation reserve for the intangible asset a revaluation loss is debited to the reserve. Otherwise losses are reported in the income statement.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. 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. Impairment losses on goodwill are not reversed. 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.

Research and development

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred. Expenditure incurred on research of an internally generated intangible asset is expensed when it is incurred. Where the research phase cannot be distinguished from the development phase, the expenditure is expensed when it is incurred.

The cost of an internally generated intangible asset represents expenditure incurred in the development phase of the asset only. The development phase occurs after the following can be demonstrated: technical feasibility; ability to complete the asset; intention and ability to sell or use; and development expenditure can be reliably measured.

Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is calculated using the straight-line method to allocate the cost over the period of the expected benefit.

Computer Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised to the income statement on a straight-line basis over their estimated useful lives (not exceeding four years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised to the income statement on a straight-line basis over their estimated useful lives (not exceeding four years).

Emissions Units

Emissions units held are treated as intangible assets, and initially recorded at fair value. Fair value is cost in the case of purchased units or their initial market value in the case of government granted units. Emissions units are not revalued subsequent to initial recognition.

The difference between cost and fair value of government granted units is treated as revenue. The revenue is recognised over the period in which the government granted units are verified.

Emissions obligations are recognised as a current liability as the emissions obligation is incurred. Up to the level of units held, the liability is recorded at the carrying value of emissions units held on hand. When emission obligations exceed the units held, the liability is calculated using the contract price where a forward contract exists, up to the number of units contracted. The liability for any shortfall in units is calculated at the market price.

Forward contracts for the purchased of emissions units are recognised when the contracts are settled and the units are received (on an accruals basis) as they are contracts for the delivery of non financial items to meet Genesis Energy's expected emissions obligations.

Financial instruments including contracts for differences and future price options in relation to emissions units are accounted for in line with Genesis Energy's accounting policy for derivatives.

(r) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade Payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

(s) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount 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 for at least 12 months after the balance sheet date.

(t) Finance costs

Finance costs include origination, commitment and transaction fees and are amortised to the income statement as part of finance costs over the period of the borrowings using the effective interest rate method, unless such costs relate to capital work in progress.

Financing costs on capital work in progress and other qualifying assets that take a substantial period of time to construct or prepare for use or sale are capitalised during the construction period. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Costs cease to be capitalised when the asset is available for productive use. Depreciation of these assets on the same basis as other assets commences when the assets are ready for their intended use.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's outstanding borrowings during the year. The weighted average interest rate is disclosed in the Notes to the Financial Statements.

All other finance costs are recognised in profit or loss in the period in which they are incurred.

Interest expense

Interest expense is accrued using the effective interest rate method. The effective interest rate discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

(u) Provisions

Provisions for legal claims and service warranties are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Liabilities and provisions to be settled beyond 12 months are recorded at their present value. Provisions are re-assessed at each balance date. Changes in the present value of cash flow estimates are recognised in the income statement. The provisions are reduced by expenditure incurred relating to the provision.

Provision for mitigation costs

A provision for mitigation costs is recognised when the Group has a legal or constructive obligation. The provision is based upon contractual commitments over the shorter of the contract period or the life of the resource consent.

Provision for rehabilitation and restoration

A provision for rehabilitation is recognised when the Group has a legal obligation or has publicly announced its intended rehabilitation policy for a particular site. The provision is based on an independent engineering report as to the appropriate action to rehabilitate each site. The provision is stated at the present value of the future net cash outflows expected to be incurred.

(v) Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave

The liability for long service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using current market interest rates for instruments of periods matching as closely as possible to the expected timing of the payments.

Retirement benefit obligations

Current and former employees of the Group are entitled to benefits on retirement, disability or death and participation in the Group's superannuation schemes. There are both defined benefit and defined contribution schemes. The defined benefit scheme is part of the Government Superannuation Fund and as part of this scheme the Company has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Any shortfall in the cost of entitlements is met by a top up from the Government each year. As such, all schemes have been accounted for as defined contribution schemes. Contributions are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits settled within 12 months are reported at the amount expected to be paid, otherwise they are reported as the present value of the estimated future cash outflows.

The Group recognises a liability and an expense for bonuses and recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(w) Contributed equity

Ordinary shares are classified as equity.

(x) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

(y) Resource consents

Costs incurred in obtaining resource consents are capitalised and recognised as part of the cost of property, plant and equipment. These costs are amortised over the life of the consent on a straight line basis commencing from the date that the resource consent is granted.

(z) Financial liabilities

Financial liabilities that are classified as held-for-trading and financial liabilities designated at fair value through profit or loss are recorded at fair value with any realised and unrealised gains or losses recognised in the income statement. A financial liability is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management to eliminate or reduce accounting mismatches. It is part of financial assets and financial liabilities managed at fair value. Gains or losses reported in the income statement include any interest component. Transaction costs are expensed as they are incurred.

Other financial liabilities are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method (refer finance costs policy).

(aa) Contingent assets and liabilities

Contingent liabilities and contingent assets are recorded in the notes to the financial statements at the point at which the contingency is evident. Contingent liabilities are disclosed if the possibility that they will crystallise is not remote. Contingent assets are disclosed if it is probable that the benefits will be realised.

(bb) Statement of cash flows

The following are the definitions of the terms used in the statement of cash flows:

- cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts;
- investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments;
- financing activities are those activities that result in changes in the size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash; and
- operating activities include all transactions and other events that are not investing or financing activities.

Appendix 2: Subsidiary and Associated Companies

The terms "share" and "subsidiary" have the same meanings as in section 2 of the Act.

1. The company will ensure at all times that:

   (i) control of the affairs of every subsidiary of the company is exercised by a majority of directors appointed by the company; and

   (ii) a majority of the directors of every subsidiary of the company are persons who are also directors or employees of the company, or who have been approved by the company's Board for appointment as directors of the subsidiary.

2. The company will in relation with any single or connected series of transactions, consult with shareholding Ministers on items having a material impact on the company's financial position not contemplated in the company's Business Plan including:

   (i) any substantial capital investment in activities within the scope of its core business;

   (ii) any substantial expansion of activities outside the scope of its core business into new business areas;

   (iii) subscriptions for or sale of, shares in any company or equity interests in any other organisation which are material, involve a significant overseas equity investment, or are outside the company's scope of business;

   (iv) the sale or other disposal of the whole or any substantial part of the business or undertaking of the company; and

   (v) where the company holds 20 per cent or more of the shares in any company or other body corporate (not being a subsidiary of the company), the sale or disposal of any shares in that company.

The company will also consult on specific items included in the company's Business Plan as agreed between the company and shareholding Ministers from time to time.

Appendix 3: Performance Targets – Descriptions, Calculation Methods and Definitions

Measure	Description	Calculation
Shareholder Returns		
Total shareholder return	Performance from an investor perspective – dividends and investment growth.	(Commercial value$_{end}$ *less* Commercial value$_{beg}$ *plus* dividends paid less equity injected)/Commercial value$_{beg.}$
Dividend yield	The cash return to the shareholder.	Dividends paid/Average commercial value.
Dividend payout	Proportion of a SOEs net operating cash flows less allowance for capital maintenance paid out as a dividend to the shareholder.	Dividends paid/Net cash flow from operating activities less depreciation expense.
Return on equity	How much profit a company generates with the funds the shareholder has invested in the company.	Net profit after tax/Average equity.
Return on equity adjusted for IFRS fair value movements and asset revaluations	Return on equity after removing the impact of IFRS fair value movements and asset revaluations.	Net profit after tax adjusted for IFRS fair value movements (net of tax)/Average of share capital plus retained earnings.
Profitability and Efficiency		
Return on capital employed	The efficiency and profitability of a company's capital from both debt and equity sources.	EBIT adjusted for IFRS fair value movements /Average capital employed.
Operating margin	The profitability of the company per dollar of revenue.	EBITDAF/Revenue.
Generator efficiency	The efficiency and profitability of the company's electricity generation.	EBITDAF/MWh.
Solvency		
Interest cover	The number of times that earnings can cover interest.	EBITDAF/Interest paid.
Solvency	Ability of the company to pay its debts as they fall due.	Current assets/Current liabilities.

Term	Definition
Capital employed	Interest-bearing debt plus share capital plus retained earnings.
Capital expenditure	Payments for the purchase of property, plant and equipment items taken from the cash flow statement.
Commercial value	This is the board's estimate of the current commercial value of the Crown's investment in the Group as per the company's Statement of Corporate Intent.
Depreciation expense	Depreciation expense per the profit and loss account.
Dividends paid	Dividends paid to the shareholder during the financial year per the cash flow statement.
EBIT	Earnings before interest and taxation.
EBITDA	Earnings before interest and taxation, depreciation and amortisation.
EBITDAF	Earnings before interest and taxation, depreciation and amortisation and fair value adjustments.
Equity	Total shareholders' equity taken from the balance sheet.
Fair value adjustments	Includes unrealised fair value gains/losses on derivatives or all fair value gains/losses on derivatives where the entity does not separately identify unrealised items. Also includes changes in the fair value of biological assets and investment properties.
Interest paid	Interest paid for the financial year on interest-bearing debt per the company's cash flow statement.
Net cash flow from operating activities	Taken directly from the cash flow statement – this is cash flows from operating activities less cash flows to operating activities. Ensure that interest paid is included in operating activities.
Net debt	Interest-bearing debt such as loans, bonds and commercial paper plus interest-bearing finance leases less cash.
Retained earnings	Profits retained in the business (i.e. after dividends to the shareholder).
Revaluation reserve	When an asset is revalued to fair market value for accounting purposes the increase in the value of the asset is reflected in a revaluation reserve within equity.
Revenue	Revenue from the operations of the business. Interest revenue should be excluded.
Share capital	The amount of capital originally invested by the shareholder and any subsequent equity injections.
Tax on fair value adjustments	This is the tax effect relating to changes in fair values.

Appendix 4: Performance Targets – Comparison with 2009/10-2014 Statement of Corporate Intent

The following table shows revised 2010/11-2013 SCI performance targets which vary to those in last year's 2009/10-2014 SCI:

	2010/11		2011/12		2012/13	
Period:	This Year	Last Year	This Year	Last Year	This Year	Last Year
Financial Performance Targets						
Return on equity	2.8%	0.5%	4.9%	1.7%	6.1%	3.8%
Return on capital employed[10]	5.7%	2.0%	7.1%	2.8%	8.0%	4.3%
EBIT to average total assets	4.0%	2.2%	5.6%	3.1%	6.5%	4.6%
Interest Cover	5.8	4.3	6.5	5.2	7.0	5.9
Operating Margin[11]	11.9%	9.1%	12.9%	10.5%	12.4%	11.1%
Generator Efficiency[12]	36	29	39	34	39	37
Non-Financial Performing Targets						
Power Station Availability Hydro Huntly Units 1 to 4	 94% 83%	 98% 78%	 90% 83%	 98% 63%	 98% 70%	 98% 60%

The following factors contributed to the change in these specific performance targets:

- The Financial Performance Targets have improved from last year due to increased earnings. The improvements include the 2010/11 return on equity improving from 0.5% in last year's SCI to 2.8% this year.
- The first three years are positively impacted by lower emissions expenses due to a 50 percent obligation in the period to 31 December 2012 and transitional arrangements in respect of the coal stockpile.
- Kupe earnings are higher across all years due to higher projected oil prices increasing earnings.
- Wholesale revenues are higher in the last two years due to delays in the introduction of new plant to the system resulting in higher Huntly generation and higher wholesale prices.

Hydro availability performance targets reflect major works on the first Rangipo Unit in 2010/11 and replacement of a Tokaanu transformer and major works on a second Rangipo Unit in 2011/12. Huntly Units 1 to 4 availability performance targets reflect:

- Huntly Unit 3 - Mar 2010 to Dec-2012 (3 weeks), Jan 2013 onwards, availability for this unit assumed to be zero as it would need three month outage minimum prior to return.
- Huntly Unit 1 - Dec-2013 to Dec-2014 (3 weeks), Dec- 2014 onwards, availability for this unit assumed to be zero as it would need three month outage minimum prior to return.
- Availability for Huntly 1 to 4 is calculated as a percentage of all 4 units (i.e. 1000MW).

[10] Replaced return on capital (NOPAT/Average Debt + Equity) measure used in 2009/10.
[11] Previously called 'Efficiency'
[12] Previously called 'Productivity' and now included as a financial measure. Figures have been rounded.