



**2008/09-
2013.**

PLANNING THE FUTURE
OF NEW ZEALAND ENERGY



DATE	NAME	AREA
2008 - 2013	Genesis Energy	Statement of Corporate Intent

STATEMENT OF CORPORATE INTENT

GENESIS ENERGY
STATEMENT OF CORPORATE INTENT
FINANCIAL YEAR 2008/09 - 2013

INTRODUCTION

This Statement of Corporate Intent (“**Statement**”) 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 Statement specifies the following information for the next five financial years:

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Although required by the Act to provide the information for the SCI for three years, Genesis Energy has elected to provide information for the next five financial years.

For the purposes of this Statement and except to the extent it is necessary to distinguish the two, Genesis Energy together with its subsidiary companies are 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 over-arching principal objective for Genesis Energy and forms the basis of all commercial decisions.

Vision

Genesis Energy’s vision is:

Making a difference to New Zealand

Genesis Energy will deliver this vision and the company’s principal objective by:

- Delivering responsible energy solutions to our customers;
- Providing more customers with electricity, gas and a choice of energy related products;
- Building new renewable generation and high efficiency ‘peaking’ plant to offset carbon intensive generation plant;
- Bringing more fuel to market;
- Partnering with our people for success;
- Integrating corporate social responsibility throughout our business; and
- Delivering on shareholder value expectations.

By implementing these strategic themes within the energy value chain (fuel, generation, retail) 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 development and procurement of fuel sources;
- The retailing and trading of energy.

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

¹ State Owned Enterprises Act 1986, section 4.

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

CORPORATE SOCIAL RESPONSIBILITY

Genesis Energy has obligations as a State Owned Enterprise under the Act to be a good employer and to exhibit a sense of social responsibility. However, the company seeks to go beyond a strict legal compliance approach with corporate social responsibility (CSR). To this end, Genesis Energy has adopted the following three strategic themes to guide the company's CSR efforts:

- 1) Building practical ways to address the impacts of climate change
 - As it affects all our stakeholders but with specific focus on our customers and employees; and
 - Through the way we manage and operate our energy generation and retail business.
- 2) Managing and reducing Genesis Energy's environmental footprint; and
 - Ensuring consistency and congruence between our own behaviour and what we say publicly in relation to energy efficiency and climate change in a carbon constrained world.
- 3) Making a difference in the communities in which we operate and beyond;
 - Through an intelligent and focused community contributions programme.

Activities under each of these three themes all form part of Genesis Energy's CSR programme the "Hello Tomorrow Programme" which builds on our brand message of "Hello Tomorrow".

In addition and supporting this programme,

- Genesis Energy seeks to follow best practice in corporate governance;
- Genesis Energy adopts a responsible approach to its customer base through the promotion of energy efficiency and the application of the Electricity Commission's 'Guidelines on arrangements to assist low income and vulnerable consumers';
- Genesis Energy pursues excellence in environmental practices across the company;
- Genesis Energy continues to develop its relationships with Maori and will be sensitive to the principles and intent of the Treaty of Waitangi and the aspirations of Maori; and
- Genesis Energy aspires to be an "Employer of Choice" through maintaining the highest standards of occupational health and safety and offering numerous staff development initiatives.

Reporting frameworks used by Genesis Energy in respect of CSR are the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines Version 3.0 (G3) and the associated Energy Sector supplement, and the London Benchmarking Group (LBG) social investment methodology. The GRI guidelines provide a voluntary reporting framework for sustainability reporting. The LBG reporting framework is a methodology for measuring the inputs, outputs and impacts of community contributions.

The three strategic themes together with the GRI and LBG reporting frameworks will enable Genesis Energy to strengthen commitments already made and will enable the company to develop new programmes that complement or enhance existing CSR initiatives.

In 2008/09 Genesis Energy will

- 1) Develop a five year CSR plan for Genesis Energy;
- 2) Undertake a business process review to ensure that CSR aligns with and is integrated into business processes so that an infrastructure exists to harness, leverage and sustain the company's commitment to CSR over the long term;
- 3) Continue to work to raise employees' awareness of and build their engagement in CSR by using tools such as performance management, e-learning and other training methods and creating opportunities for engagement; and
- 4) Continue to enhance the CSR reporting and measurement processes to identify areas for improvement both at an individual and company-wide level and to enable the regular reporting of progress and performance to stakeholders and customers.

FINANCING AND CAPITAL STRUCTURE

Effective capital structure management enables Genesis Energy to deliver on its key strategies over time. This 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, as at the date of this Statement, that the company's gearing ratio over the next five financial years will be as follows:

Year ending 30 June	2009	2010	2011	2012	2013
Gearing Ratio (Debt to Debt + Equity)	34.2%	33.5%	31.4%	30.6%	41.5%

These terms have the following definitions:

- Debt** is comprised of all short and long term borrowings
- Equity** is issued capital plus retained earnings

RATIO OF CONSOLIDATED SHAREHOLDERS' FUNDS TO TOTAL ASSETS

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

Year ending 30 June	2009	2010	2011	2012	2013
Consolidated Shareholders' Funds: Total Assets	51.3%	50.4%	50.3%	51.0%	44.9%

These terms have the following definitions:

Consolidated Shareholders' Funds comprises the paid-up equity capital of the company together with any revaluation reserves and retained earnings of the company. Retained earnings are comprised of the net after-tax profits of the business, less dividends paid, computed in accordance with Generally Accepted Accounting Practice in New Zealand ("GAAP").

Total Assets is the aggregate net book value of the assets of the company computed in accordance with GAAP. In particular, total assets include the results of the revaluation process required by the shareholders upon the establishment of Genesis Energy in 1999.

ACCOUNTING POLICIES

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

PERFORMANCE TARGETS

Genesis Energy's performance targets for the next five financial years are:

Year ending 30 June	2009	2010	2011	2012	2013
Financial Performance Targets					
Return on capital (NOPAT/Avg Debt + Equity)	3.4%	3.0%	3.2%	4.4%	5.5%
Return on equity (NPAT/Avg Shareholders' Funds)	3.5%	1.6%	1.9%	3.9%	6.6%
Earnings before interest and tax to average total assets	3.8%	3.3%	3.4%	4.6%	5.9%
Non-Financial Performance Targets					
Number of significant ² RMA non-compliances	0	0	0	0	0
Trainee employees	10%	10%	10%	10%	10%
Customer satisfaction ³	85%	85%	85%	85%	85%
Power Station Availability					
Hydro	98%	98%	98%	98%	98%
Thermal	92%	92%	92%	92%	92%

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.

The financial performance targets outlined in this Statement assume annual dividend payments being made at a payout ratio of 40% of Net Profit after Tax.

REPORTING REQUIREMENTS

An annual report will be delivered in accordance with section 15 of the Act.

A half-yearly report will be delivered in accordance with section 16 of the Act. This report will include unaudited Statements of Financial Performance, Financial Position

² '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).

³ 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.

and Cash Flows, and such details as are necessary to allow an informed assessment of Genesis Energy's performance during that reporting period.

Genesis Energy will supply quarterly reports to shareholding Ministers comprising summarised financial statements together with a brief commentary on key events for the previous quarter and performance against key targets.

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.

The company 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.

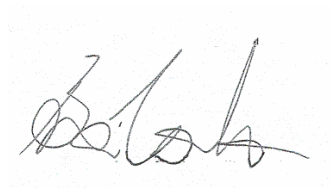
In order to facilitate Genesis Energy committing to the Huntly e3p project within normal commercial parameters, a risk sharing agreement was entered into with the Crown. Under the agreement, the Crown assumes certain risks with respect to the long term supply of gas to enable Genesis Energy to make a full commitment to construct Huntly e3p.

VALUE OF THE CROWN'S INVESTMENT IN THE COMPANY

The current commercial value of the Crown's investment in Genesis Energy, as at 30 June 2008, is estimated to be \$1,744 million. This estimate is based on an independent valuation of generation assets conducted in 2005 and a current estimate of the value of other assets including the retail business.

OTHER MATTERS

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

A handwritten signature in black ink, appearing to read 'B.P.N. Corban', is written over a light grey rectangular background.

B P N Corban QSO
Chairman of the Board of Directors
On behalf of the Board of Genesis Energy
30 June 2008

APPENDIX 1: STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

Genesis Power Limited trading as Genesis Energy (“**Genesis Energy**”) is a company registered under the Companies Act 1993 and is a reporting entity for the purposes of the Financial Reporting Act 1993. Genesis Energy prepares its financial statements in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the State-Owned Enterprises Act 1986.

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 significant 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

The financial statements have been prepared in accordance with New Zealand generally accepted accounting practice (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 'Parent' 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.

The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

Application of NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards.

These financial statements are the first Genesis Power Limited financial statements to be prepared in accordance with NZ IFRS. NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of Genesis Power Limited until 30 June 2006 had been prepared in accordance with previous New Zealand Financial Reporting Standards (NZ FRS). NZ FRS differs in certain respects from NZ IFRS. When preparing Genesis Power Limited 2007 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the NZ FRS financial statements to comply with NZ IFRS. The comparative figures in respect of 2007 were restated to reflect these adjustments.

The adoption of these standards has resulted in changes to the Groups' accounting policies in the following areas that have affected the amounts reported for the current or prior years:

- Financial instruments;
- Deferred taxation;
- Goodwill;
- Long Service leave; and
- Property Plant & Equipment.

Reconciliations and descriptions of the effect of the transition to NZ IFRS from previous NZ FRS on the Group's reported financial position, financial performance, and cash flows of the Group are provided in the Notes to the Financial Statements.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment.

Critical accounting estimates

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's 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 relevant accounting policy or in the relevant note.

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 have been 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 financial statements incorporate the assets and liabilities of all subsidiaries of Genesis Power Limited ('company') as at 30 June 2008 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 exchange, 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 exchange. 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.

Intercompany 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 parent financial statements show investments in subsidiaries at cost.

Business combinations that occurred prior to the date of transition to NZ IFRS have not been restated retrospectively.

Joint ventures

Jointly controlled assets involve the joint control, or the joint ownership, by the 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 venturers. Each 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 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.

(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 from the translation at period-end 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.

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 a time-proportion 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 revenue for the period is the tax payable on the current period's taxable income based on the New Zealand tax rate 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 to 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 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 rate on the finance balance outstanding. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and 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 (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

i. Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment 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. 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 suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

ii. 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.

iii. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the expected recoverable amount.

(j) Inventories

Raw materials and stores 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.

(D) Investments and other financial assets

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

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. The policy of management is to designate a financial asset 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.

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the 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.

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.

Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets

unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. 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 method. 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 or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. 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, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. 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. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(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 and interest rate swaps. The Group enters into these contracts to hedge its foreign currency exposures and interest rate exposures. The Group has also entered into contracts to manage its exposure to price fluctuations on the electricity spot market. These forward contracts are contracts for differences.

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 are disclosed 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.

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 in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. 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 estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(o) Property, plant and equipment

Generation assets are stated in the balance sheet at their revalued amounts, being the 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, such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of generation assets 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 land and buildings 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, less any recognised impairment loss. 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.

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
Improvements	10 to 50 years
Other freehold buildings	10 to 50 years
Other plant and equipment	3 to 15 years
Leased plant	20 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) **Intangible assets**

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 arising on acquisitions before the date of transition to NZ IFRS has been retained at the previous NZ GAAP amounts subject to being tested for impairment at that date. 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.

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. 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.

Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation. 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 over their estimated useful lives (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 over their estimated useful lives (not exceeding four years).

Other intangible assets

Assets with indefinite useful lives are not amortised, but are tested at least annually for impairment. 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 depreciation and subsequent accumulated impairment losses. Revaluations are done for each intangible asset, not for a class of asset.

Intangible assets with finite lives are reviewed at least annually to determine if there is any indication of impairment. An intangible asset with an indefinite life is tested for impairment annually. Where an intangible asset's recoverable amount is less than its carrying amount, it will be reported at its recoverable amount and an impairment loss will be recognised. Losses resulting from impairment are reported in the income statement, unless the asset is carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease.

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.

(q) 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.

(r) 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.

(s) Borrowing costs

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 at the specific project finance interest rate 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 as soon as 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 period.

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

(i) Interest expense

Interest expense is accrued using the effective interest rate method. The effective interest rate exactly 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.

(t) Provisions

Provisions for legal claims 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.

(i) 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.

(ii) Provision for Rehabilitation

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.

(u) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual 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.

(ii) 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 the current market interest rate for instruments of periods matching as closely as possible the expected timing of the payments.

(iii) Retirement benefit obligations

Current and former employees of the Group are entitled to benefits on retirement, disability or death 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.

(iv) 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.

(v) Contributed equity

Ordinary shares are classified as equity.

(w) 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.

(x) Exploration 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, if it is found that an exploratory well did not find proved reserves, such capitalised costs are charged to the income statement, as dry hole costs at that 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 reviewed annually for impairment. Any impairment in value is taken to the income statement.

(y) Mining Licence

The acquisition costs of a mining licence 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.

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

(z) Resource Consents

Costs incurred in obtaining resource consents are capitalised and recognised as a term asset. These costs are amortised over the life of the consent on a straight line basis beginning from the date that the resource is granted.

(aa) Financial Liabilities

Financial liabilities 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 due to accounting mismatches or, financial assets and financial liabilities are 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 interest expense policy).

Financial liabilities entered into with duration less than 12 months are recognised at their nominal value. Amortisation and, in the case of monetary items, foreign exchange gains and losses, are recognised in the income statement as is any gain or loss when the liability is derecognised.

(ab) Related Parties

The ultimate shareholder of the Company is the Crown. The Group undertakes many transactions with state-owned enterprises and government departments, carried out on an arms length basis. All members of the group are considered to be related parties of Genesis Power Limited.

Related parties also include the key management personnel of the Company. The key management personnel are deemed to be the Directors and Executive team for the purpose of related party disclosure.

(ac) Contingent Assets and Contingent liabilities

Contingent liabilities and contingent assets are recorded in the Statement of Contingent Liabilities and Contingent Assets 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.

(ad) 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 fixed assets 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, 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.