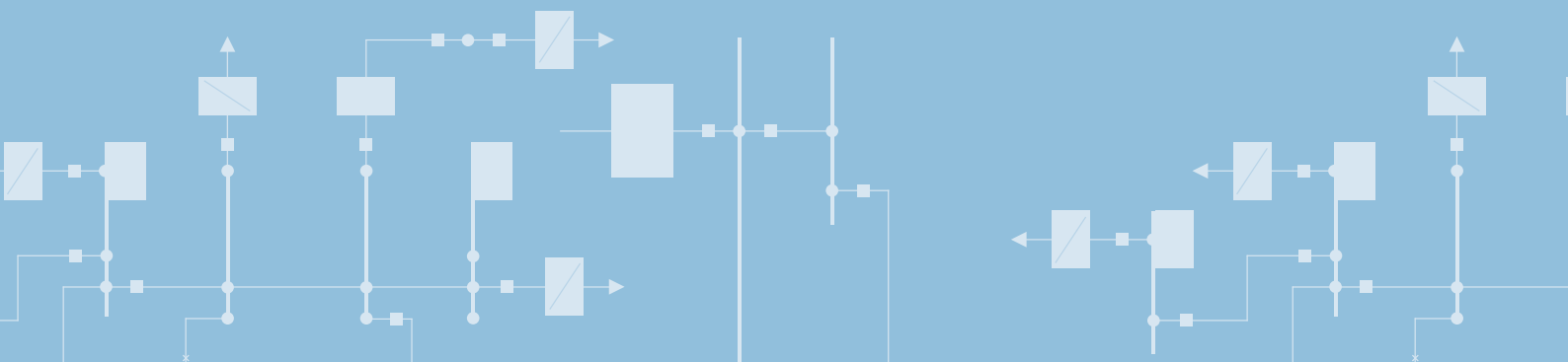
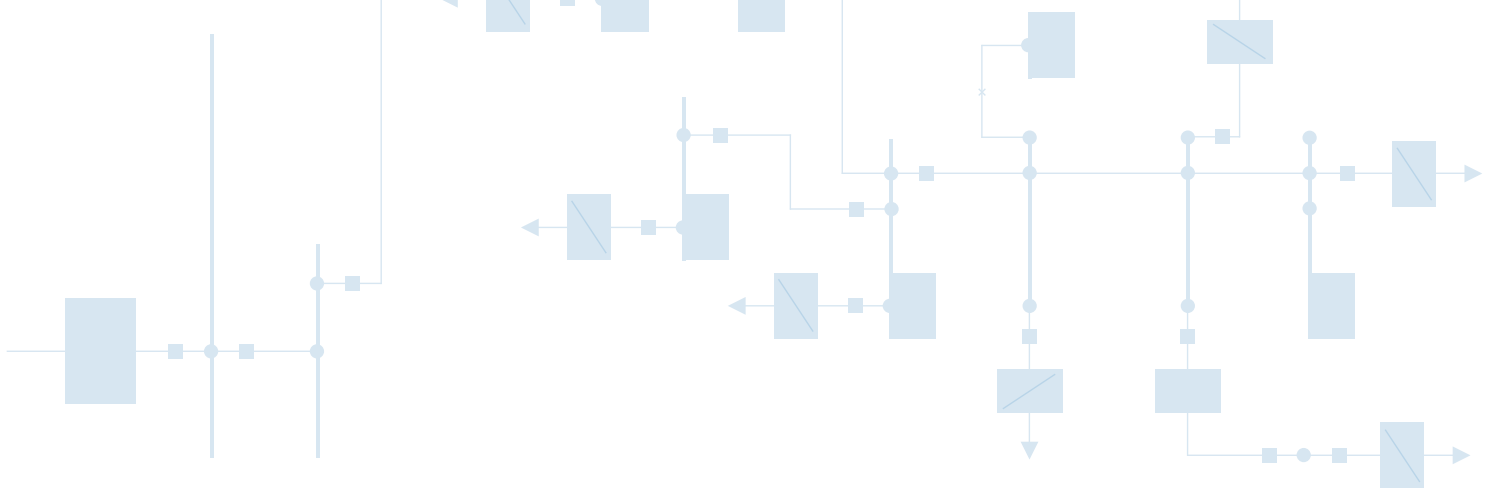




scanPOWER ANNUAL REVIEW

2010





WELCOME TO THE 2010 ANNUAL REVIEW OF SCANPOWER

scanPOWER



scanPOWER

REGISTERED OFFICE

SCANPOWER LIMITED

PO Box 157, Gordon Street, Dannevirke

Telephone: 06 374 8039

Facsimile: 06 374 8631

Freephone: 0800 80 80 39

Email: enquiries@scanpower.co.nz

Website: www.scanpower.co.nz

BOARD OF DIRECTORS

MICHAEL DODSON Chairman

ALLAN BENBOW Deputy Chairman

PETER CLAYTON

CHRISTINE DONALD

BOB HENRY

EXECUTIVES

LEE BETTLES Chief Executive

BEN VAN DER SPUY Company Finance Manager

BOB COLLINS Network Contracting
Division Manager

MIKE HEARN Network Division Manager

MARK HOLDAWAY Oringi Cold Stores
Division Manager

JOHN SCHMIDT Servicing Division Manager

BANKERS

Bank of New Zealand, Dannevirke

SOLICITORS

Lloyd, Dodson & Pringle - Barristers and Solicitors
Ward Street, Dannevirke

AUDITORS

Audit New Zealand, Palmerston North

KEY FACTS

- › Scanpower owns and operates an electricity network supplying **6,822** customer installations in the Tararua region, including Dannevirke, Woodville, Norsewood and the outlying rural areas.
- › The network covers a geographic area of **2,000km²** and has a current value of **\$23.5m**.
- › The shares in the company are owned by the Scanpower Customer Trust which represents all connected electricity customers in our area.
- › Revenue for the past year was **\$12.55m** and Shareholders' Equity as at 31 March 2010 was **\$24.7m**.
- › Scanpower currently employs **73** staff (**64** full time, **9** part time).
- › In addition to the electricity network, the company operates the following business divisions:
 - › Power line contracting (now incorporating Rural Power and Treemart)
 - › Electrical, plumbing and gas fitting contracting
 - › Meter reading and retailer field services
 - › Bulk frozen and chilled storage (trading as OCS)
 - › Supply and installation of solar water heating systems and heat pumps
 - › Property development and leasing
 - › Manufacture of knitwear (through JV partnership in Kiwi Sock Company Limited)
- › Over the past year the company distributed **89.6 GWh** of electricity with a system peak demand of **16.6 MW**.
- › Scanpower publishes information disclosures on its website **www.scanpower.co.nz** which include:
 - › Schedule of Network Prices
 - › Network Pricing Methodology Disclosure
 - › Asset Management Plans
 - › Threshold Compliance Statements
 - › Annual Reports
 - › Participant Outage Plans
 - › Distributed Generation Guidelines
 - › Regulatory Disclosure Accounts

ANNUAL HIGHLIGHTS 2009/10

- › Operating profit (before tax, customer discounts and loss on discontinued operations) of **\$1.88m**.
- › **\$1.5m** announced for distribution to customers as network discounts, equating to **\$250** each for typical residential customers.
- › **\$1.4m** of capital work completed on the electricity network including:
 - › **17 km** of 11kV line rebuilt, primarily in the northern area of the network.
 - › Continued undergrounding of urban supplies in Dannevirke and Woodville.
 - › Ongoing improvements to our communications systems
 - › Another year of our tree clearance programme completed.
- › A network reliability SAIDI result of **65.87** (minutes supply lost per customer) and an availability of supply of **99.99%**.
- › **28%** growth in total revenues, with the majority coming from our Power Line Contracting and Oringi Cold Stores divisions.
- › The establishment and ongoing development of Oringi Business Park, with numerous new tenants now located on site.
- › Another excellent performance from our joint venture manufacturing business, Kiwi Sock Company Limited.
- › Relocation of the company's offices to Oringi and the sale of two commercial properties in Dannevirke.
- › Continued commitment to staff development and training, including the following apprenticeships:
 - › Plumber
 - › Electrician
 - › Service Technician
 - › Arborist
 - › Line Mechanic
 - › Cable Joints
- › A number of successful community sponsorships including the Scanpower Ruahine Mountain Bike Challenge, Dannevirke Ross Shield team and Radio Woodville.

CHAIRMAN'S REPORT

"Creating local employment opportunities has always been important to the Company, which continues to operate as a highly responsible corporate citizen."



OVERVIEW

The Directors have pleasure in presenting the Scanpower Limited Annual Report and audited financial statements for the year ended 31 March 2010.

As the Directors anticipated, worsening economic conditions and ongoing development costs resulted in the past year being a challenging one for Scanpower Limited. In addition to this, the closure of the Oringi Freezing Works in the previous year, and the substantial financial impact that this had on the company, has made it difficult to produce a level of profit similar to historical norms.

The profit result of **\$1.88m** (excluding loss on discontinued operations) did not reach our SCl target of **\$2.5m**, although does represent a small improvement on the prior year. The year end result would have otherwise been higher had it not been for a series of exceptional costs associated with the company's decision to exit the appliance retailing business and downwards valuation of two commercial properties intended for sale immediately prior to year end.

However, the Directors have always expected that it will take the company several years to recover from the closure of Oringi, and numerous positive developments occurred over the past twelve months that I believe will contribute strongly to this recovery. These include:

- › A variety of new tenants, including a fertiliser manufacturing facility, have established operations at Oringi Business Park. These businesses contribute both rental incomes and increased electricity network revenues for the company.
- › A growth in Power Line Contracting revenues from **\$1.47m** to **\$3.48m** as our business expands to cover a greater proportion of the Lower / Central North Island.
- › The first full year of operation for our new division, Oringi Cold Stores, that generated revenues of **\$1.23m** for the period.

One very large advantage for the whole community of our growth in the Power Line Contracting division and in the setting up of the Oringi Cold Stores has been the creation and retention of jobs in the district. Despite recessionary conditions, the company has in fact grown staff numbers over the past year, and now employs **73** people. Creating local employment opportunities has always been important to the Company, which continues to operate as a highly responsible corporate citizen.

SALE OF GORDON STREET

As the company has grown in recent years, its fleet of vehicles also expanded. Parking space and the movement of trucks within the township became increasingly inappropriate in the commercial sector. Similarly, the expansion of our contracting services required more storage and there was room to accommodate all services at Oringi. The decision to sell the Gordon Street premises, and the adjoining investment property, became increasingly obvious, and was completed in April 2010.

Refurbishment of the administration block at Oringi is presently being undertaken, to provide suitable offices for management and staff and is expected to be completed by August 2010.

THE RETAIL SHOP

The Directors had long been aware that the business of the Retail Shop was, on a strict accounting basis, not an economic proposition. Rather, its value was to be found in providing the community with a competitive choice of electrical products which were complementary to the Company's core business of distributing electricity.

The Company's decision to sell its premises in Gordon Street and relocate all of its business, except the Servicing Department (which remains where it has always been), hastened the end for a Retail Shop which could not exist several kilometres away from the centre of town. Nevertheless, we were sorry to see the Shop go, as it has been at the hub of the Company's activities for a very long time. All of the Shop staff were offered re-employment within the Company.

EQUALITY OF NETWORK PRICING

In recent years, successive Boards of Directors have implemented a policy of equality of network charges for urban and rural customers. The urban townships in Scanpower's network area are vitally dependent upon farming, just as farming requires a strong urban infrastructure, and the benefits of the network should therefore be shared equally by those who use it. The Directors will continue to maintain this policy.

THE TRUSTEES OF THE SCANPOWER CUSTOMER TRUST

The Directors continue to enjoy a special relationship with the Trustees of the Scanpower Customer Trust. This relationship encourages regular meetings, sharing of plans, and discussion of the direction we want to take the company in. The Trustees are fully briefed on issues that affect consumers. Working together in this way is one of the things small, rural communities do well.

FUTURE OUTLOOK

The Directors believe that Scanpower's performance reveals a continuing ability to deliver high quality, cost effective network services for the benefit of all customers in our region. In the coming one to two years the company will focus on consolidating its operations and getting its existing and new business activities running effectively under the new market conditions it faces. The company remains in excellent health and we anticipate that the adverse impact of the Oringi closure will be more than offset by new revenue streams in the short to medium term.

THANKS TO THE STAFF

The Board would like to record their thanks to Chief Executive, Lee Bettles, his senior management team and the entire Scanpower staff for another successful year. Their commitment and enthusiasm have contributed enormously to the ongoing success of the company. The Directors are most grateful to them all.



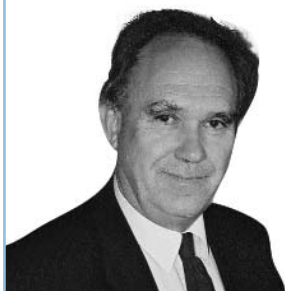
MICHAEL DODSON
CHAIRMAN

SCANPOWER BOARD OF DIRECTORS



MICHAEL DODSON

Michael Dodson is the Chairman of Scanpower Limited. As a Barrister and Solicitor, he was formerly a senior partner in a leading regional law firm. Now retired from legal practice, Michael resides in Waikanae.



ALLAN BENBOW

Allan Benbow is the Deputy Chairman of Scanpower Limited. He is a specialist in operational and manufacturing processes, and is General Manager of Metalform Limited. Allan lives in the Dannevirke area and is committed to the region, serving on a number of local Boards.



PETER CLAYTON

Peter Clayton is a prominent Dannevirke farmer and businessman, and is the proprietor of a regional real estate company. In addition to this he has a number of beef, deer and dairy farming interests. Peter lives with his family in Napier.



CHRISTINE DONALD

Having previously served as a Trustee of the Scanpower Customer Trust, Christine Donald is now a Director of Scanpower Limited. As a Chartered Accountant, she is also Director of Donald & Associates Ltd specialising in farm accounting.



BOB HENRY

As a successful local entrepreneur, Bob has developed and owned numerous businesses in the Scanpower region, including a New World supermarket. Through his involvement with New World, Bob served for a number of years on the board of Foodstuffs and hence brings valuable governance experience to the Scanpower board.

CHIEF EXECUTIVE'S REPORT

"Scanpower has forged ahead with numerous new business development initiatives and recorded some encouraging achievements during the year."



INTRODUCTION AND OVERVIEW

As a trust owned company and provider of key electricity infrastructure assets to our region, Scanpower remains focused on the following strategic objectives:

- › Providing a safe, reliable and cost effective electricity distribution network.
- › Maintaining and replacing network assets on a sustainable basis for the long term benefit of all consumers.
- › Increasing shareholder value and returns through the development of new business opportunities.
- › Creating value for our customers, shareholders, staff members and local communities.

Following the closure of Scanpower's largest network customer, the Oringi Freezing Works, during the prior year and the company's subsequent acquisition of the Oringi site, it was always anticipated that the 2009 / 2010 financial year would be a challenging one. Coupled with perhaps the worst recessionary economic conditions in recent history this was certainly the case, however Scanpower has forged ahead with numerous new business development initiatives and recorded some encouraging achievements during the year. These include:

- › The conversion of the former freezing works into "Oringi Business Park" that has seen several new tenants establish operations at the site, including:
 - › A fertiliser manufacturing and distribution facility.
 - › A regional yarn store for a major carpet manufacturer.
 - › A food production facility.
- › The first full year of operation for Scanpower's cold storage division, Oringi Cold Stores, with several major contracts secured and peak storage loads reaching 4,400 tonnes.
- › The integration of Rural Power Limited into Scanpower's own power line contracting division which has given rise to significant revenue growth and given the company a presence in the Manawatu region.
- › An excellent year for Kiwi Sock Company Limited in which Scanpower is a joint venture partner, including growth in export sales to the North American, European and Australian markets.
- › Rationalisation of the company's property portfolio, including the sale of two commercial properties in Dannevirke, and the commencement of a new office building development at the Oringi site.

Also of significance during the year was the Directors' decision to exit the company's appliance retailing business, with a sale being made just prior to the year end to a local businessman. It was pleasing that all staff affected by the sale of the business were able to be redeployed into other areas of the company's operations.

In many ways, the past year has been one of consolidation for Scanpower as the company strives to restore the revenues and profits lost as a result of the Oringi closure through our own development initiatives. Whilst we are not quite there yet, I anticipate that this will occur over the coming one to two years as our new investments come to fruition.

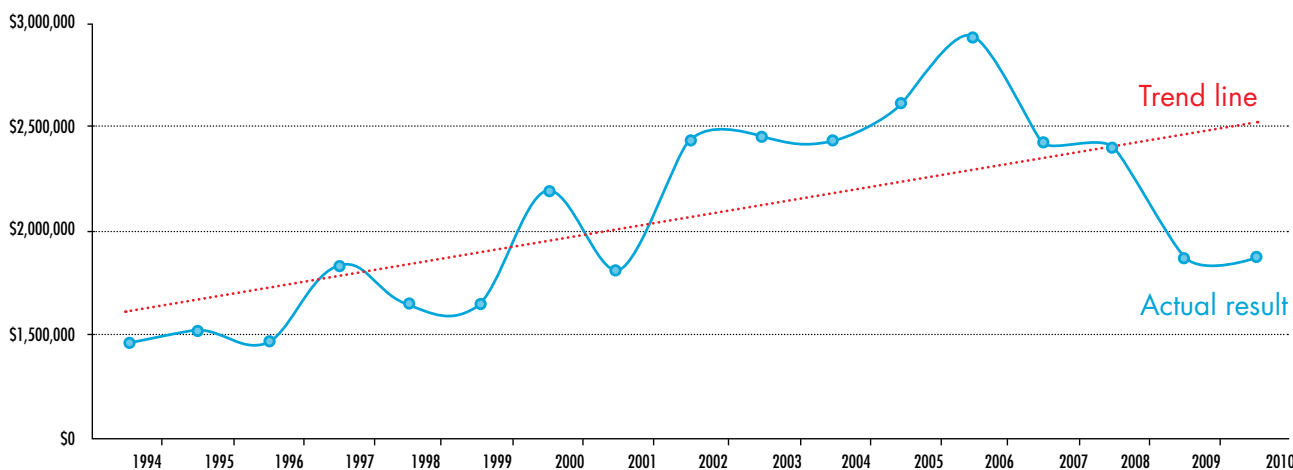
FINANCIAL PERFORMANCE

Company profit before interest, discounts and taxation reached **\$1.88m** this year and as such is consistent with the prior year result. The year end result would actually have been higher had it not been for a series of "one off" costs associated with the exit from the retail business, and some book losses on the sale of commercial properties in Dannevirke.

As the trend graph below illustrates, I believe the reduction in profit arising from the closure of Oringi has now bottomed out, and it is anticipated that company profitability will start moving back upwards in the coming year.

On the basis of this level of profit, the Directors announced an annual network discount payable to customers of **\$1.5m** in total, representing **\$250** each for typical residential customers. It was pleasing to be able to return this level of discount to our customers during what has been an economically challenging period all round.

OPERATING PROFIT BEFORE INTEREST, DISCOUNTS AND TAXATION (1994-2010)



OUR ELECTRICITY NETWORK

Whilst Scanpower has numerous projects underway outside of the electricity industry, the ownership and management of our electricity distribution network remains at the core of the company's operations. As such we remain committed to a relatively intensive period of capital asset replacement and development with the objective of ensuring that a safe and reliable supply of power is available now and into the future. During the past year **\$1.4m** was spent on network capital projects, including:

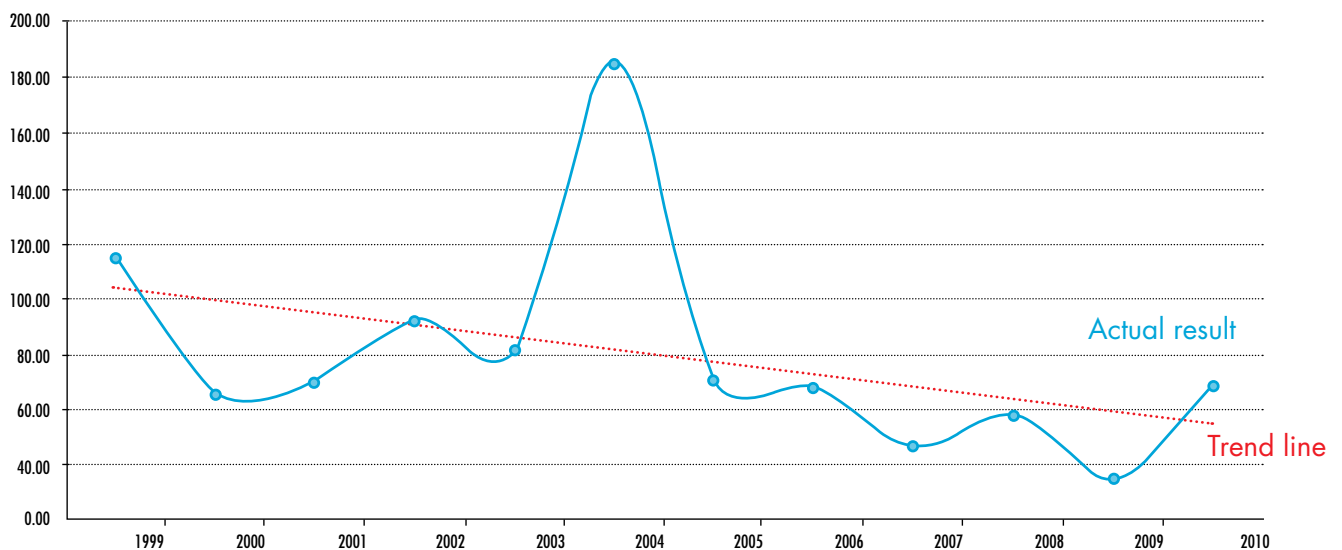
- > Undergrounding of overhead lines in York Street, Tennyson Street and Madrid Street.
- > Reconstruction of 17 kilometres of 11kV lines, primarily in the northern areas of the network.
- > A continuing programme of transformer and switchgear replacement.
- > Ongoing upgrades to our SCADA and other communications systems.
- > Replacement of legacy wooden transformer structures with concrete structures.

OUR ELECTRICITY NETWORK (CONT)

During the year, we also reached agreement with Transpower and industry governing bodies on a proposed upgrade to the Woodville substation. After due consultation with the Scanpower Customer Trust, it was agreed that the existing single transformer bank at Woodville be replaced with dual transformer units. This increases the level of security of supply to the Woodville community, and when complete will remove the need for an annual, network wide maintenance outage. Over time, this annual outage has become an increasing source of dissatisfaction to customers in the Woodville area, and we are pleased to have arrived at a solution which addresses this problem. Preparatory work is now underway on this project.

Scanpower measures and tracks network reliability performance using the SAIDI measurement. This reflects the average minutes loss of supply per customer over the period. The result this year came out at 65.9 minutes per customer. This was somewhat higher than the results seen in recent years with the increase attributable to some relatively severe gale force wind conditions experienced throughout the month of July. The long term trend however continues to show improvement, and I believe this is in large part due to the company's ongoing tree trimming programme, network automation, and increasing use of live line working techniques.

TEN YEAR SAIDI (CLASS B&C) PERFORMANCE TREND (1999-2010)



OUR OTHER BUSINESS ACTIVITIES

Scanpower continues to operate a diverse range of business activities outside of our core electricity network division, and these accounted for 50% of total company revenue in the past year. These now include:

- › Power line contracting (depots in Dannevirke and Feilding)
- › Electrical, plumbing and gas fitting contracting
- › Supply and installation of heat pumps and solar water heating systems
- › Meter reading and retailer field services
- › Bulk frozen and chilled storage services (Oringi Cold Stores)
- › Manufacture of knitwear (through Kiwi Sock Company Limited joint venture)
- › Property development and leasing

Some key highlights from these divisions are presented below.

POWER LINE CONTRACTING

Having acquired the business of Rural Power Limited, a Feilding based power line contracting company, in February 2009, a key focus of the past year has been integrating this with Scanpower's existing contracting business and expanding the geographic territory that we service. This has seen company revenues from power line contracting increase from **\$1.47m** in 2009 to **\$3.48m** for the current year. Whilst tough economic conditions have seen margins squeezed, Scanpower has been pleased with this result, and we now have line crews regularly working outside of our immediate network area, most notably in Palmerston North, Feilding, the Kapiti Coast, and as far north as Waiouru.

In addition to our existing line mechanic and glove barrier crews, over the past year we have established a cable jointing team within the division, with two staff recently completing their cable jointing qualifications. Our focus for the coming year is to fully rationalise branding, marketing and systems across the two parts of the business, and use this as a base from which to grow further.

PLUMBING & ELECTRICAL CONTRACTING

With the downturn in the construction sector, Scanpower's Plumbing & Electrical division was perhaps the business most adversely affected by the recent recession. This saw revenues fall from **\$1.4m** in 2009 to **\$1.28m** for the current year. Several larger contracts towards the end of the year boosted incomes, as did our establishment of a 24 hour, 7 day emergency call-out service.

Whilst the majority of Scanpower's operations have relocated to the Oringi site, the Plumbing & Electrical team has remained in central Dannevirke. This provides customers with a convenient and local point of contact with the company, and at the time of writing building renovations are about to commence on a new base of operations for the division.

ORINGI COLD STORES

The past twelve months has seen the first full year of operations for Oringi Cold Stores, a new division established using the extensive cold storage, blast freezing, and chiller assets at the Oringi site. Revenues from the division increased from **\$0.28m** in 2009 to **\$1.23m** for the current year, as the business builds its customer base and secures new contracts. We were pleased during the year to establish a four year contract with the Alliance Group, and are now servicing their needs for product from the Dannevirke and Levin plants.

In addition to generating revenues and profits in its own right, Oringi Cold Stores is now a major electricity customer of the network division. Whilst there is some way to go to fully restore the load previously lost, approximately **30%** has now been replaced through the division and other tenants located at the site.

CONCLUDING COMMENTS

With the relocation of the majority of the company's operations and staff to Oringi, our ongoing programme of business development, and continuing network asset replacement, it has been another busy year for Scanpower. Whilst the financial returns on these endeavours are yet to be fully realised, I anticipate that company profitability will recover to more typical levels within the coming year or so, and with it the level of customer discounts.

As always, I would like to record my thanks to my management team and the Scanpower staff. It is their willingness to take on new challenges in a positive and constructive way that continues to ensure the company's success. I would also like to express my gratitude to the Chairman and the Directors for their ongoing guidance and support.



LEE BETTLES
CHIEF EXECUTIVE

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2010

	2010	2009
	\$'000	\$'000
OPERATING INCOME	12523	9770
OTHER INCOME	31	12
<i>TOTAL INCOME</i>	<u>12554</u>	<u>9782</u>
PERSONNEL COSTS	3325	2394
DEPRECIATION AND AMORTISATION EXPENSE	1287	1093
FINANCE EXPENSE	54	1
OTHER EXPENSE	7630	6431
<i>TOTAL EXPENDITURE</i>	<u>12296</u>	<u>9919</u>
SHARE OF ASSOCIATE SURPLUS/(DEFICIT)	68	65
SURPLUS/(DEFICIT) BEFORE TAX	326	(72)
INCOME TAX EXPENSE/(REFUND)	67	(40)
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	259	(32)
PROFIT/(LOSS) FOR THE YEAR FROM DISCONTINUED OPERATIONS	(97)	21
PROFIT/(LOSS) FOR THE YEAR	162	(11)
OTHER COMPREHENSIVE INCOME:		
GAINS/(LOSSES) ON PROPERTY REVALUATIONS	171	1622
DEFERRED TAX ON REVALUED ASSETS	(60)	(487)
<i>TOTAL OTHER COMPREHENSIVE INCOME</i>	<u>111</u>	<u>1135</u>
TOTAL COMPREHENSIVE INCOME	<u>273</u>	<u>1124</u>

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2010

	2010	2009
	\$'000	\$'000
BALANCE AT 1 APRIL	24499	23425
TOTAL COMPREHENSIVE INCOME	273	1124
DISTRIBUTION TO SHAREHOLDERS		
<i>DIVIDEND DECLARED AND PAID</i>	(60)	(50)
BALANCE AT 31 MARCH	<u>24712</u>	<u>24499</u>

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2010

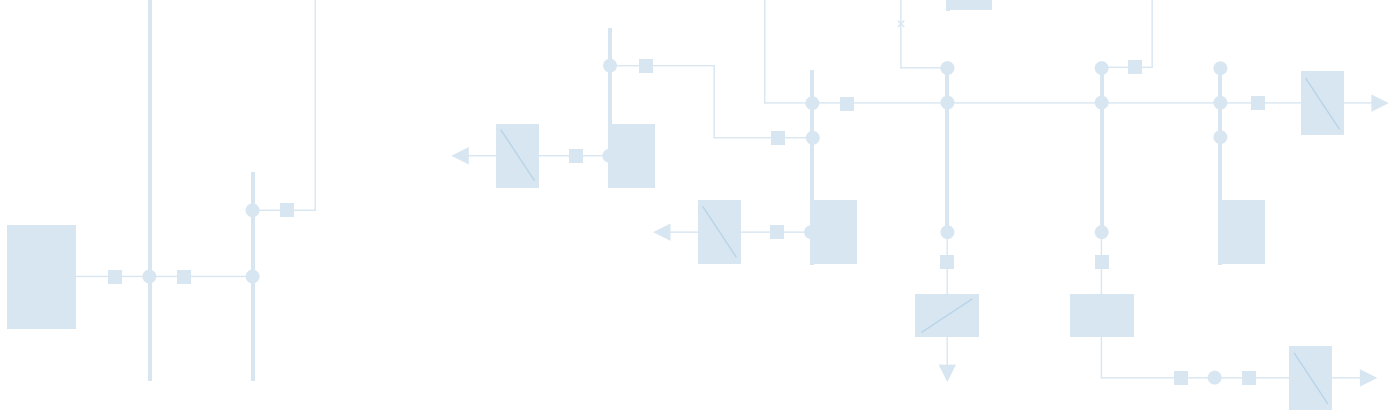
	2010 \$'000	2009 \$'000
ASSETS		
CURRENT ASSETS		
CASH AND CASH EQUIVALENTS	-	-
DEBTORS AND OTHER RECEIVABLES	1884	1216
INVENTORIES	545	1152
PROPERTIES INTENDED FOR SALE	490	-
TAX RECEIVABLE	-	121
TOTAL CURRENT ASSETS	<u>2919</u>	<u>2489</u>
NON-CURRENT ASSETS		
INVESTMENTS	2	2
CAPITAL WORK IN PROGRESS	667	514
PROPERTY, PLANT AND EQUIPMENT	28198	28174
INTANGIBLE ASSETS	617	626
INVESTMENT PROPERTY	1540	880
INVESTMENT IN ASSOCIATE	307	259
TOTAL NON-CURRENT ASSETS	<u>31331</u>	<u>30455</u>
TOTAL ASSETS	<u>34250</u>	<u>32944</u>
LIABILITIES		
CURRENT LIABILITIES		
BORROWINGS	997	184
CREDITORS AND OTHER PAYABLES	2472	2378
EMPLOYEE BENEFITS	375	278
TAX PAYABLE	54	-
TOTAL CURRENT LIABILITIES	<u>3898</u>	<u>2840</u>
NON-CURRENT LIABILITIES		
EMPLOYEE BENEFITS	251	255
DEFERRED TAXATION	5389	5350
TOTAL NON-CURRENT LIABILITIES	<u>5640</u>	<u>5605</u>
TOTAL LIABILITIES	<u>9538</u>	<u>8445</u>
NET ASSETS	<u>24712</u>	<u>24499</u>
EQUITY		
CONTRIBUTED CAPITAL	7500	7500
RETAINED EARNINGS	5815	5571
ASSET REVALUATION RESERVES	11397	11428
TOTAL EQUITY ATTRIBUTABLE TO PARENT	<u>24712</u>	<u>24499</u>

KEY PERFORMANCE MEASURES FOR THE YEAR ENDED 31 MARCH 2010

		2010 Actual	2010 Target	2009 Actual	2008 Actual	2007 Actual	2006 Actual
FINANCIAL MEASURES							
EARNINGS BEFORE INTEREST, CUSTOMER DISCOUNTS AND TAX*	\$'000	1880	2505	1869	2398	2452	2929
NETWORK DISCOUNTS TO CUSTOMERS	\$'000	1500	2000	1906	1939	1755	1878
EARNINGS BEFORE INTEREST AND TAX*	\$'000	380	505	(37)	459	697	1051
EARNINGS AFTER INTEREST, CUSTOMER DISCOUNTS AND TAX	\$'000	162	354	(11)	479	430	455
SHAREHOLDERS' EQUITY	\$'000	24712	26734	24499	23425	22559	25334
TOTAL ASSETS	\$'000	34250	38114	32944	31004	29509	28954
FINANCIAL RATIOS							
RETURN ON ASSETS (USING EBIDT)	%	7.61%	9.37%	7.63%	10.24%	10.87%	11.56%
EQUITY RATIO	%	72.15%	70.14%	74.37%	75.55%	76.45%	87.50%
NETWORK RELIABILITY MEASURES							
MINUTES LOSS OF SUPPLY PER CUSTOMERS (SAIDI B/C)		65.9	75.0	35.6	58.3	46.7	68.6
NUMBER OF INTERRUPTIONS PER CUSTOMER (SAIFI B/C)		0.74	0.85	0.89	1.29	0.84	0.98
OTHER MEASURES							
AVERAGE NETWORK CHARGE PER UNIT (KWH) DELIVERED	CENTS	5.33	4.80	4.78	4.72	4.59	4.97
DISABLING INJURY FREQUENCY PER 100,000 WORK HOURS		2.77	1.00	0.00	0.00	1.92	2.08

*Excludes the financial impact of discontinued operations.

A FULL COPY OF THE ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR SCANPOWER LIMITED FOR THE YEAR ENDED 31ST MARCH 2010 IS AVAILABLE UPON REQUEST.





scanPOWER

10-12 Gordon Street, PO BOX 157
Dannevirke, New Zealand
Phone: 06 374 8039 Fax: 06 374 8631
Freephone: 0800 80 80 39
email: enquiries@scanpower.co.nz

www.scanpower.co.nz