Scanpower Limited

Statement of Corporate Intent

For the Financial Year Ending 31 March 2021

Introduction

Welcome to the Statement of Corporate Intent of Scanpower Limited for the financial year ending 31 March 2021.

Scanpower Limited is an electricity lines company supplying power to customers in the Northern Tararua District, including the towns of Woodville, Dannevirke, Norsewood and out east to Wimbledon. Shares in the company are owned by the Scanpower Customer Trust on behalf of customers connected to our network.

As required by the Energy Companies Act 1992, this document has been prepared and submitted to the company's shareholders (the Trustees of the Scanpower Customer Trust) for their comment and approval. It contains both mandatory and discretionary information, including:

Mandatory Information

- A statement of the company's objectives.
- A description of the nature and scope of business activities that will be undertaken.
- The ratio of shareholders' funds to total assets.
- A statement of accounting policies.
- Performance measures by which the performance of the company may be judged.
- An estimate of any distributions that are intended to be made to shareholders / customers.
- A description of reporting protocols, including monthly / half yearly / annual reporting.
- Procedures for the acquisition of shares in any company or other organisation.
- Details of any planned transactions with related parties or shareholding local authorities.

Discretionary Information

- A summary of the company's long-term asset management plan and scheduled network asset renewal / replacement activity.
- An explanation of the company's approach to tree and vegetation management on the network, with expenditure forecasts.
- An analysis of budgeted operating expenditure.
- A description of social and community initiatives the company intends to support or undertake.

The Statement of Corporate Intent is published on an annual basis, and the next one will be published by 30 April 2021 in respect of the financial year ending 31 March 2021.

Further information about Scanpower can be found at the disclosures section of our company website at http://www.scanpower.co.nz/disclosures including:

- Our asset management plan covering the ten-year period 2020 to 2030.
- Recent annual reports and audited financial statements.
- Annual schedule of network charges.
- Annual regulatory information disclosures.

Company Objectives

Scanpower's primary objective is to run a successful, profitable and sustainable business for the benefit of our shareholder and consumers. We strive to do this by providing our customers with access to a reliable, safe, and cost-effective electricity distribution network, whilst also using our innovation and skills to develop new business and employment opportunities within our local communities. Correspondingly our high-level objectives and associated performance metrics are as follows:

Objective	Performance Metrics
To deliver a reliable and safe supply of electricity to our customers.	• SAIDI (minutes loss of supply per customer) • SAIFI (supply interruptions per customer) • NZS 7901:2014 approved public safety management system in place. • Ratio of asset renewals to depreciation. • Planned asset renewals completed to plan. • Vegetation management work completed to plan.
To manage organisational health and safety risks effectively and protect staff from harm.	• Total Injury Frequency Rate per 200,000 hours worked.
To provide cost effective electricity distribution services to our customers.	• Average cents per delivered kWh. • Periodic benchmarking to neighbouring lines companies
To earn a commercially appropriate rate of return on our network assets.	• % return on assets. • Net earnings.
To generate additional earnings from other commercial activities.	• Revenue from unregulated activities. • % of total revenue derived from unregulated activities.
To deliver financial benefit to our community via the network discount.	• Discount per customer paid. • Discount per customer declared.
To add value to our region through our operating practices and community initiatives.	• Value of annual sponsorships / donations. • Programme of planned sponsorships completed effectively.

Nature and Scope of Business Activities

Scanpower's primary business activity is the ownership and operation of an electricity distribution network. This comprises numerous assets including overhead power lines, underground cables, transformers, switchgear, voltage regulators and peripheral communications and load control systems.

The company's network connects to the national electricity transmission grid operated by Transpower at two locations (Woodville and Dannevirke substations) and distributes electricity, on behalf of electricity retailers, to customer installations over a geographic area of ~2,500 square kilometres in the Northern Tararua district of New Zealand.

Key characteristics of Scanpower's electricity network as at March 2019 are summarised below.

Measure	Value	Industry Median
Customer Connections (ICPs)	6,659	32,156
Connection Density (ICPs per circuit km)	6.3	9.7
Energy Density (kWh per ICP)	11,629	15,031
Demand Density (kW per circuit km)	15.2	32.4
Total System Length	1,050	3,949
Value of Regulatory Asset Base ($'000)	41,069	206,316

In addition to the core network business, Scanpower has three other trading / operating divisions:

- Power Line Contracting Division
- Treesmart (specialist utility arborist business)
- Property Investment Division

Revenues for these businesses for the financial year ending 31 March 2019 were as follows:

Measure	Annual Revenue	% of Total Revenue
Power Line Contracting	$8,226,000	43%
Treesmart	$490,000	3%
Property Investment Division	$745,000	4%

The Power Line Contracting Division is dedicated to providing power line construction and maintenance services to customers outside of the Scanpower network area, and has depots / offices in Feilding, Paraparaumu and Mangatainoka. Key customers include:

- Powerco.
- Fletcher Construction.
- The Rural Connectivity Group.
- Chatham Islands Enterprise Trust.
- Private property developers / new subdivisions.
- Centralines.

The Power Line Contracting division employs 25 staff of a company total of 62.

Treesmart is a specialist utility arborist business and was originally established by Scanpower in 2008 to meet the Network Division's requirements in terms of tree / vegetation clearance around power lines. This was motivated by a shortage of suitably competent contractors in the local market and a desire to keep tree related operating costs down as low as possible. Key customers include:

- Scanpower Network Division.
- Powerco.
- Palmerston North City Council.
- Chatham Islands Enterprise Trust.

Treesmart has a team of 7 staff. Whilst relatively small, it is strategically important to the Network business and provides valuable resources / services on an 'on call' basis.

The Property Investment Division holds and operates the portfolio of commercial buildings that Scanpower owns at Oringi Business Park. The company purchased the site in 2008 following the closure of the former Oringi Freezing Works and has since developed it into a range of commercial properties leased to third party tenants. These include:

- Icepak / Halls frozen storage and distribution.
- NNNZ Casings Limited.
- The True Honey Company Limited.
- Downer / Tararua Alliance

As at 31 March 2019 Scanpower's Investment Property was valued at $8,518,000 representing 15% of total assets and generated rental income of $745,000. The Property Division is managed by 1 dedicated staff member working under the management of the CEO.

For the coming financial year to 31 March 2021 Scanpower will continue to operate the four business activities described above. The company will also continue to investigate potential business opportunities associated with complementary energy technologies such as solar, energy storage and other distributed generation opportunities.

Any major diversification into areas of new business will be subject to consultation with Trustee Shareholders.

Capital Structure and Ratio of Shareholders' Funds to Total Assets

Scanpower Limited has issued and paid up capital (as at date of vesting) of $7,500,000 comprising 7,500,000 Ordinary Shares ($1 each). It is not intended or expected that this structure will change during the coming period.

The ratio of Shareholders' Funds to Total Assets as at 31 March 2019 was as follows:

Description	Value
Shareholders' Funds	$41,383,000
Total Assets	$57,163,000
Equity Ratio (Shareholders' Funds to Total Assets)	72.4%

Statement of Accounting Policies (per Annual Report for Year Ending 31 March 2019)

A full Statement of Accounting Policies is provided in Appendix One.

Forecast Financial Performance and Performance Measures

Provided below are a forecast Earnings Statement, Statement of Financial Position, Summary of Key Financial Metrics and Performance Measures for the three-year period through to 31 March 2023.

Forecast Earnings Statement

	Year End 31/3/21	Year End 31/3/22	Year End 31/3/23
Network Division Profit	$3,823,296	$3,937,995	$4,056,135
Contracting Division Profit	$1,251,754	$1,376,929	$1,514,622
Property & Investments Division Profit	$365,562	$372,873	$380,331
Treesmart Division Profit	$420,379	$428,787	$437,362
Less: Corporate Division Overhead Costs	-$2,431,897	-$2,553,492	-$2,681,166
Profit before Discount and Tax	**$3,429,094**	**$3,563,092**	**$3,707,284**
Network Customer Discount	$1,650,000	$1,700,000	$1,750,000
Profit before Tax	**$1,779,094**	**$1,863,092**	**$1,957,284**
Tax at 28%	$498,146	$521,666	$548,039
Net Profit After Tax	**$1,280,948**	**$1,341,426**	**$1,409,244**
Dividend	$135,000	$135,000	$135,000
Transferred to Retained Earnings	**$1,145,948**	**$1,206,426**	**$1,274,244**

Forecast Statement of Financial Position

	Year End 31/3/21	Year End 31/3/22	Year End 31/3/23
Assets			
Current Assets			
Cash and cash equivalents	$50,000	$50,000	$50,000
Debtors and Other Receivables	$2,500,000	$2,525,000	$2,500,000
Inventories	$350,000	$375,000	$400,000
Total Current Assets	**$2,900,000**	**$2,950,000**	**$2,950,000**
Non-Current Assets			
Capital Work in Progress	$25,000	$50,000	$50,000
Property, Plant & Equipment	$48,681,000	$49,748,000	$50,597,000
Intangible Assets	$780,000	$800,000	$820,000
Investment Properties	$8,600,000	$8,700,000	$8,750,000
Total Non-Current Assets	**$58,086,000**	**$59,298,000**	**$60,217,000**
Total Assets	**$60,986,000**	**$62,248,000**	**$63,167,000**
Liabilities			
Current Liabilities			
Borrowings	-	-	-
Creditors and Other Payables	$1,600,000	$1,800,000	$1,850,000
Employee Benefits	$550,000	$575,000	$590,000
Liabilities for Current Tax	$300,00	$325,000	$350,000
Total Current Liabilities	**$2,450,000**	**$2,700,000**	**$2,790,000**
Non-Current Liabilities			
Term Loan	$5,750,000	$5,500,000	$5,000,000
Employee Benefits	$240,000	$245,000	$250,000
Deferred taxation	$7,550,000	$7,575,000	$7,600,000
Total Non-Current Liabilities	**$13,540,000**	**$13,320,000**	**$12,850,000**
Total Liabilities	**$15,990,000**	**$16,020,000**	**$15,640,000**
Net Assets	**$44,996,000**	**$46,228,000**	**$47,527,000**
Equity			
Issued Capital	$7,500,000	$7,500,000	$7,500,000
Retained Earnings	$18,796,000	$20,003,000	$21,277,000
Reserves	$18,700,000	$18,725,000	$18,750,000
Total Equity	**$44,996,000**	**$46,228,000**	**$47,527,000**

Summary of Forecast Key Financial Metrics and Performance Measures

Forecast Financial Metrics

Financial Metric	**31/3/21**	**31/3/22**	**31/3/23**
Gross Earnings *(Profit Before Interest, Discount and Tax)*	$3,693,094	$3,823,092	$3,963,284
Tax Payable *(at the company tax rate of 28%)*	$498,146	$521,666	$548,040
Interest Paid	$264,000	$260,000	$256,000
Total Discounts Paid *(budgeted amount, exclusive of GST)*	$1,650,000	$1,700,000	$1,750,000
Net Earnings *(Profit after Interest, Discount and Tax)*	$1,280,948	$1,341,426	$1,409,244
Net Assets / Shareholders' Equity	$44,996,000	$46,228,000	$47,527,000
Total Assets	$60,986,000	$62,248,000	$63,167,000
Return on Assets *(Gross earnings / Shareholders' Equity)*	8.21%	8.27%	8.34%
Equity Ratio *(Shareholders' Funds / Total Assets)*	73.78%	74.26%	75.24%

Health and Safety Performance

Performance Metric	**31/3/21**	**31/3/22**	**31/3/23**
Total Injury Frequency Rate *(Per 200,000 hours worked)*	7.6	7.1	6.6

Network Reliability and Asset Management Performance

Performance Metric	**31/3/21**	**31/3/22**	**31/3/23**
Minutes Loss of Supply Per Customer *(SAIDI Class B & C)*	172	172	172
Annual Interruptions per Customer *(SAIFI Class B & C)*	1.53	1.53	1.53
Public Safety Management System in Place *(NZS 7091:2014 compliant)*	Achieved / Not Achieved	Achieved / Not Achieved	Achieved / Not Achieved
Asset Renewal Rate *(Network capex / depreciation)*	>115%	>115%	>115%
Network Asset Capital Works Complete *(as per Asset Management Plan)*	Achieved / Not Achieved	Achieved / Not Achieved	Achieved / Not Achieved
Value of Tree Clearance Completed) *(as per Asset Management Plan)*	$600,000	$612,000	$624,000

Network Pricing Performance

Performance Metric	**31/3/21**	**31/3/22**	**31/3/23**
Network Revenue per kWh *(cents per kWh, net of transmission costs)*	9.40	9.45	9.50

Non-regulated Revenue Performance

Performance Metric	31/3/21	31/3/22	31/3/23
Total Non-regulated Revenue *(Contracting+Treesmart+Property Revenue)*	$10,300,000	$10,500,000	$10,700,00
Non-Regulated Revenue Ratio *(total non-regulated revenue / total revenue)*	>50%	>51%	>52%

Customer Discount Performance

Performance Metric	31/3/21	31/3/22	31/3/23
Discount Paid per Customer *(Per standard residential and commercial customers)*	$325	$335	$345

Social and Community Performance

Performance Metric	31/3/21	31/3/22	31/3/23
Budgeted Sponsorships and Donations *(per annual operating budgets)*	$42,000	$43,000	$44,000
Community Activities Completed to Plan *(planned initiatives completed)*	Achieved / Not Achieved	Achieved / Not Achieved	Achieved / Not Achieved

Dividends and Discounts

Annual Dividend

Scanpower Limited will pay an annual dividend to the Scanpower Customer Trust, subject to the requirements and procedures laid down in the Companies Act 1993. The purpose of the dividend is to fund the running of the Trust, including such costs as:

- Trustee remuneration and expenses.
- Secretarial costs.
- ETNZ membership fees.
- Conference related costs.
- Audit fees.
- Insurance.
- Trustee election costs.
- Ownership review preparation costs.
- Other general operating costs.

The dividend will be set based on consultation between the Directors of Scanpower Limited and the Trustees of the Scanpower Customer Trust and confirmed / approved at the annual general meeting of Scanpower Limited.

The forecast dividend for the financial year ending 31 March 2021 is $135,000.

Annual Customer Discount

The Trustees of the Scanpower Customer Trust have an expectation that Scanpower Limited will provide an annual network discount to customers with electricity supplies connected to the company's network.

The Board of Directors will set the value of annual network discounts in advance of the financial year in which they will be paid and post notice in the company's annual Schedule of Network Charges. The value and structure of annual discounts will be decided by the Board of Directors.

The details of the annual discount to be paid during the financial year 1 April 2020 to 31 March 2021 are as follows:

Customer Category	Discount
All residential customers (D1)	$325.00
Non-residential customers (<4,000 kWh consumption per year)	$24.30
Non-residential customers (<50,000 kWh consumption per year)	$325.00
Non-residential customers (<100,000 kWh consumption per year)	$431.94
Non-residential customers (<250,000 kWh consumption per year)	$755.89
Non-residential customers (<1,000,000 kWh consumption per year)	$1,619.76
Non-residential customers (>1,000,000 kWh consumption per year)	$2,620.97

Reporting Requirements

To enable the Trustees of the Scanpower Customer Trust to assess the value of their shareholding in Scanpower Limited, the company will provide all information normally available to shareholders and any other information required by relevant legislation. The table below summarises reporting requirements for the coming year.

Report / Document	Timing	Next Due Date
Monthly Summary Report and Board Minutes	Within one week of each scheduled board meeting	15 April 2020
Annual Report and Audited Financial Statements (2020 FY)	Within four months of the end of each financial year	31 July 2020
Half Year Accounts and Interim Report (2021 FY)	Within three months of the first half of the financial year	31 December 2020
Draft Annual Statement of Corporate Intent (2022 FY)	Within one month of the start of each new financial year	30 April 2021

The Half Year Accounts and Interim Report will contain a Statement of Financial Performance, a Statement of Financial Position, a cash flow statement and a report providing the Chief Executive's commentary on the six-month period.

The Annual Report will contain a full audited set of financial statements, a statement of performance against key objectives and a report from the Chairman and Chief Executive.

Procedures for the Acquisition of Shares in any Company or Other Organisation

The Directors will only consider the acquisition of shares in other companies or organisations where such acquisition is consistent with the long term commercial and operational objectives of Scanpower Limited. The Directors will consider an acquisition of shares in the following circumstances:

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

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

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

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

Details of any Planned Transactions with Related Parties or Shareholding Local Authorities.

Scanpower Limited does not intend to enter into any transactions that require disclosure under Section 39, Clause (2)(i) of the Energy Companies Act 1992.

Procedure for Acquisition or Disposal of Major Assets

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

This requirement does not apply to routine capital expenditure associated with the replacement or upgrade of electricity distribution assets held within Scanpower's network business (i.e. the annual network capital expenditure budget as disclosed in the Asset Management Plan).

Asset Management and Network Asset Replacement Expenditure

On annual basis Scanpower Limited prepares and publishes an Asset Management Plan. The purpose of this plan is to document the strategies, resources, operating expenditure and capital expenditure that the company intends to employ in the management of its electricity distribution assets.

Each Asset Management Plan covers a timeframe of ten years. The most recent plan was published on 31 March 2020 and relates to the period 1 April 2020 to 31 March 2030. It is publicly available via the Information Disclosures section of the company website (www.scanpower.co.nz) and is the best resource for parties with an interest in understanding Scanpower Limited's asset management practices and associated expenditure.

Planned network capital expenditure over the current planning horizon of the Asset Management Plan is summarised in the table below.

Capital Expenditure	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Consumer connection	32	33	33	34	35
System growth	32	33	33	34	35
Asset replacement and renewal	1,731	1,784	1,820	1,856	1,899
Asset relocations	0	0	0	0	0
Quality of supply	86	169	173	176	180
Other reliability, safety and environment	53	0	0	0	0
Expenditure on Network Assets	**1,934**	**2,019**	**2,059**	**2,100**	**2,149**
Expenditure on Non-network Assets	599	92	94	96	97
Total Capital Expenditure on Assets	**2,533**	**2,111**	**2,153**	**2,196**	**2,246**

Capital Expenditure	31/03/2026	31/03/2027	31/03/2028	31/03/2029	31/03/2030
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Consumer connection	35	36	37	37	38
System growth	35	36	37	37	38
Asset replacement and renewal	1,935	1,959	2,012	2,052	2,081
Asset relocations	0	0	0	0	0
Quality of supply	183	187	191	194	198
Other reliability, safety and environment	0	0	0	0	0
Expenditure on Network Assets	**2,188**	**2,218**	**2,277**	**2,320**	**2,355**
Expenditure on Non-network Assets	99	101	103	105	108
Total Capital Expenditure on Assets	**2,287**	**2,319**	**2,380**	**2,425**	**2,463**

The capital expenditure forecast has been prepared on the basis of the assumptions detailed in the Asset Management Plan, the most significant of which are:

- Electrical load on the network remains flat over the planning horizon (this is consistent with the current trend); and
- The number of connected installations remains flat (again, this is consistent with the current trend).

Whilst the decarbonisation of the economy and increased usage of electric vehicles offers potential upside to Scanpower in terms of load, this may be offset by increasing consumer investment in new energy technologies such as solar photovoltaic systems and other distribution generation sources.

In regard to specific network asset renewal / replacement expenditure, the details by asset type are shown in the table below.

Asset Category	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Poles	1,170	1,071	1,092	1,114	233
Transformers	71	428	437	446	1,299
Switchgear	223	-	-	-	-
Air break switches	77	79	80	82	84
HV fuses	-	12	12	13	78
Overhead 11kV conductor	-	-	-	-	-
Overhead 400v conductor	-	-	-	-	-
Underground 11kv cable	-	-	-	-	-
Underground 400v cable	-	-	-	-	-
Unplanned renewals	190	193	197	201	205
Total Asset Renewal and Replacement	**1,731**	**1,784**	**1,820**	**1,856**	**1,899**

Asset Category	31/03/2026	31/03/2027	31/03/2028	31/03/2029	31/03/2030
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Poles	116	118	121	123	125
Transformers	1,435	1,492	1,442	1,470	1,446
Switchgear	-	-	-	-	-
Air break switches	85	-	-	-	-
HV fuses	89	106	109	111	108
Overhead 11kV conductor	-	-	92	94	96
Overhead 400v conductor	-	28	32	32	33
Underground 11kv cable	-	-	-	-	23
Underground 400v cable	-	-	-	-	24
Unplanned renewals	209	214	218	222	227
Total Asset Renewal and Replacement	**1,935**	**1,959**	**2,012**	**2,052**	**2,081**

In making asset renewal / replacement decisions, Scanpower uses a risk based approach and takes into account factors such as:

- Asset age relative to expected useful life.
- Condition, based on assessments / inspections.
- Criticality; the customer impact and public safety consequences of an asset failing in service.

As is evident from the above asset category data, over the first four years of the plan (through to 31 March 2024) there is a strong focus on pole replacement.

This is in line with our asset management objective of removing all hardwood poles on the network and replacing them with concrete structures. Beyond this our focus switches to transformer replacement which will be starting to age to unacceptable levels at this point.

Unplanned renewals are asset replacements that occur due to unexpected failure (usually as a result of foreign interference such as car vs pole events and similar).

Tree / Vegetation Management Activity

Scanpower maintains a proactive programme of tree trimming and felling in and around power lines on the network, in line with the requirements of the Electricity (Hazards from Trees) Regulations 2003. Forecast expenditure on vegetation management per the Asset Management Plan and annual regulatory information disclosures (Schedule 11b) is shown in the table below.

Operating Expenditure Category	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Vegetation Management	600	612	624	637	649

Operating Expenditure Category	31/03/2026	31/03/2027	31/03/2028	31/03/2029	31/03/2030
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Vegetation Management	662	676	689	703	717

Vegetation management activity on the network is undertaken by Treesmart, a wholly owned trading division of Scanpower Limited. The above budget is based on:

- One utility arborist crew of three men working on the network on a full-time basis.
- Treesmart providing all related project management, traffic management and customer liaison work.
- Treesmart being available on call for emergency / outage response on a full-time basis.
- A 2% annual inflationary increase in costs.

Operating Expenditure

Forecast operating expenditure (as per the Asset Management Plan and Information Disclosure Schedule 11b) is provided in the table below. It should be noted that this is expenditure specific to Scanpower's electricity distribution business and excludes items that relate to the company's non-regulated activities such as contracting and property investment.

Operating Expenditure Category	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Service Interruptions & Emergencies	395	403	411	419	428
Vegetation Management	600	612	624	637	649
Routine / Corrective Maintenance	247	252	257	262	267
Maintenance Renewals	446	455	464	473	483
Network System Operations	865	882	900	918	936
Business Support	1,659	1,692	1,726	1,761	1,796
Total Operating Expenditure	**4,212**	**4,296**	**4,382**	**4,470**	**4,559**

Operating Expenditure Category	31/03/2026	31/03/2027	31/03/2028	31/03/2029	31/03/2030
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Service Interruptions & Emergencies	436	445	454	463	472
Vegetation Management	662	676	689	703	717
Routine / Corrective Maintenance	273	278	284	289	295
Maintenance Renewals	492	502	512	523	533
Network System Operations	955	974	994	1,013	1,034
Business Support	1,832	1,868	1,906	1,944	1,983
Total Operating Expenditure	**4,650**	**4,743**	**4,838**	**4,935**	**5,034**

Actual audited operating expenditure data for the financial year ending 31 March 2021 will be publicly available as per the Electricity Distribution Information Disclosure Determination 2012 will be available by 31 August 2021.

Community Initiatives and Support

Scanpower will continue to maintain an active programme of community initiatives and support including the following events / organisations:

- Dannevirke Community Vehicle Trust.
- Palmerston North Rescue Helicopter Trust.
- Sport Manawatu Tararua Sports Awards.

- Dannevirke Ross Shield Team.
- Dannevirke Craft and Garden Expo.
- Radio Woodville.
- Radio Dannevirke.
- Dannevirke Theatre Company.
- CACTUS youth development programme.
- School diaries throughout the District.
- Dannevirke High School prize giving and golf day.
- Dannevirke Golf Club
- Dannevirke Bowls Club.
- Library quiz nights.
- Woodville Christmas Lights.
- Dannevirke Christmas Lights.
- Wai Splash Pool.
- Lindauer Gallery Artist in Residence programme.
- Woodville Motocross Grand Prix.
- Kumeroa Sheep Dog Trials.
- Dannevirke A&P Association.
- BAMS Boxing and Fitness.
- Police Managers' Guild.

The majority of these events / organisations provide Scanpower with reciprocal advertising opportunities as part of any funding arrangement.

Appendix One – Statement of Accounting Policies

Reporting Entity

Scanpower Limited is 100% owned by the Scanpower Customer Trust. The financial statements presented are for Scanpower Limited. It is registered under the Companies Act 1993 and is an energy company in terms of the Energy Companies Act 1992.

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

The financial statements of Scanpower Limited for the year ended 31 March 2019 were authorised for issue in accordance with a resolution by the Board of Directors on 1 July 2019.

Basis of Preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice (GAAP). The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other New Zealand accounting standards and authorities notices that are applicable to entities that apply NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR).

The company is eligible and has elected to report in accordance with Tier 2 for-profit accounting standards (NZ IFRS RDR) on the basis that the company has no public accountability and is not a large, for-profit, public sector entity. The company has elected to report in accordance with NZ IFRS RDR and has applied disclosure concessions.

The accounts have been prepared on a going concern basis.

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

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

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

Basis of consolidation

Associates and Joint Ventures

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

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

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

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

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

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

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

Business combinations

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

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

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

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

Revenue

Revenue from contracts with customers

Network Lines Revenue
Line revenue relates to the provision of electricity distribution services and includes pass-through revenue and recoverable cost revenue. Prices are regulated, and customers are charged through a mix of fixed charges which are recognised on a straight-line basis and variable charges which are recognised based on the volume of distribution services provided.

Consistent with NZ IFRS 15 this revenue is recognised over time at the fair value of services provided based on an output method as the service is delivered to match the pattern of consumption. Pass through

From the year ended 31 March 2020, the Company pays a discount to eligible consumers registered on its network as at 31 August of each year. The discount is paid to consumers via their retailer in the financial year.

The electricity line revenue recognised is net of the discount to be paid to consumers. A contract liability (included in trade and other payables) is recognised for the any discount payable to consumers in relation to electricity distribution made and unpaid at the end of the reporting period.

Capital Contributions
Customer contribution revenue relates to contributions received from customers towards the costs of reticulating electricity to new subdivisions, constructing uneconomic lines and relocating existing lines. The revenue recognised is the fair value of the asset being constructed. Revenue is recognised over time as a result of there being no alternative use to the asset without significant economic losses and the Company having a right to payment for performance completed to date.

Electrical Contracting Revenue
Contracting revenue relates to revenue from electrical contracting services provided to third parties and is recognised as the fair value of the service provided or asset being constructed. Where an asset is being constructed for a third party, revenue is recognised over time as a result of control of the asset transferring to the customer over the time. For electrical services revenue is recognised at a point in time when the performance obligation is satisfied.

Treesmart Revenue
Tree trimming services is recognised at a point in time when the service is consumed by the customer. Once the service has been performed the customer has obtained control of that service.

Variable Consideration
If the consideration in a contract includes a variable amount, Scanpower estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for assets being constructed include variable considerations such as penalties.

Contract balances

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If Scanpower performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which Scanpower has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before Scanpower transfers goods or services to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier).

Other Revenue

Rental income
Rental income from investment property is recognised in the Statement of Comprehensive income as it falls due.

Interest income
Interest income is recognised using the effective interest method.

Borrowing Costs

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

Goods and Services Tax

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

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

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

Income Tax

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

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

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary difference or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

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

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

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

Debtors and other receivables

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

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

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

Inventories

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

Property, Plant and Equipment

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

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

Additions

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

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

Disposals

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

Subsequent costs

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

Depreciation

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

Lines – wooden poles	45
Lines – concrete poles	60
Lines – underground	45
Transformers	45 to 55
Substations	45
Switchgear	45
Air break switches	35
Customer connections	45
Circuit breakers	45
Sectionalisers	40
Ring main units	40
Voltage regulators	55
Fuses	35
Reclosers	40
Non standard assets	15 to 60

Buildings and fixtures	10 to 50
Motor vehicles	3 to 15
Plant and equipment	3 to 25
Computer equipment	3 to 5
Oringi site buildings	50

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

Revaluation

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

Operational land and buildings

Fair value is determined from market-based evidence by an independent valuer. The most recent valuation was performed by Mr. C Southgate B.AG.COM.MNZIPIM ANZIV, of the firm Southgate Wilson, Dannevirke, and the valuation is effective as at 31 March 2019.

Network Distribution assets

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

Accounting for revaluations

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

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

Intangible Assets

Goodwill

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

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

Software Acquisition

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

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

Computer software	3 to 10 years

Impairment of Property, Plant & Equipment and Intangibles

The carrying amounts of the assets, other than inventory and investment property, are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists for an asset, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss (if any).

Where the asset does not generate cash flows that are independent of other assets, Scanpower Limited estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amounts are the higher of fair value (less costs to sell) or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

If a revalued asset is determined to be impaired, then the impairment is firstly applied against the revaluation reserve related to that asset, with any remaining impairment loss expensed in profit or loss. If the impairment loss is subsequently reversed, the reversal is firstly applied to profit or loss to the extent of previously expensed impairment losses relating to that asset, with any further increase taken to the revaluation reserve.

For assets which are not revalued, an impairment loss is expensed immediately in profit or loss. If an impairment loss is subsequently reversed, the carrying value of the asset is stated at not more than what its carrying value would have been had the earlier impairment not occurred.

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

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

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

Investment property

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

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

Leases

Operating leases

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

Employee benefits

Short term benefits

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

Long-term benefits

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

- likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information and

- the present value of the estimated future cash flows. A weighted average discount of 1.86% and a salary inflation factor of 2.0% were used. The discount rate is based on the weighted average of government bonds with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.

Superannuation Schemes

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

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

Creditors and other payables

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

Provisions

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

Provisions are not recognised for future operating losses.

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

Borrowings

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

Critical Accounting Estimates and Assumptions

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

Network Distribution assets

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

Goodwill

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

Changes in accounting policies

NZ IFRS 15 – Revenue from Contracts with Customers and NZ IFRS 9 – Financial Instruments became effective for Scanpower for the year ending 31 March 2019 and are subsequently being applied for the first time. The nature and effect of the changes as a result of the adoption of these new accounting standards are summarised in Note 20 for revenue from contracts with customers and under (ii) NZIFRS 9 financial Instruments.

A number of other new standards are also effective from 1 April 2018, but they do not have a material effect on the Company's financial statements. Scanpower has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

(i) *NZ IFRS 15 Revenue from contracts with customers*

NZ IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised.

It replaced NZ IAS 18 Revenue, NZ IAS 11 Construction Contracts and related interpretations. Under NZ IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

Scanpower has applied IFRS 15 retrospectively in accordance with paragraph C3(b). The current year's opening retained earnings balance has been adjusted by the cumulative effect of initially applying the standard at initial application. Prior year comparative figures have not been restated.

(ii) NZ IFRS 9 Financial Instruments

NZ IFRS 9 Financial Instruments replaces NZ IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; and impairment.

Scanpower has applied NZ IFRS 9 prospectively, with an initial application date of 1 January 2018. Scanpower has not restated the comparative information, which continues to be reported under NZ IAS 39.

Other than changes in the naming convention for financial assets there is other impact on classification and measurement arising from the adoption of NZ IFRS 9.

Appendix Two – Corporate Governance Statement

1. Role of the Board

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

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

The Board also aims to ensure that Scanpower is a good employer and corporate citizen.

2. Board Responsibilities

The Board acts on behalf of and is accountable to the shareholders. The Board seeks to identify the expectations of the shareholders, who represent persons and companies connected to the Scanpower Network, as well as other legislative and ethical expectations and obligations. In addition, the Board ensures that areas of significant business risk are identified by management and that arrangements are in place to adequately manage these risks.

To this end, the Board will:

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

ii) maintain an understanding of the electricity industry, and continue to monitor industry reform, security of supply, industry governance and Government intervention in order to identify the impact on Scanpower's business.

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

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

v) identify risks and manage those risks by ensuring that the Company has implemented comprehensive systems of internal control together with appropriate monitoring of compliance activities.

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

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

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

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

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

xi) enhance relationships with all stakeholders.

3. Delegation

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

The Chief Executive Officer is responsible for ensuring Scanpower achieves its business objectives and values. The Board ensures that the Chief Executive Officer, and through him / her, the senior management are appropriately qualified, experienced and remunerated to discharge their responsibilities.

4. Codes and Standards

All Directors, executives and staff of Scanpower are expected to act with integrity and to promote and enhance the Company's reputation with its various stakeholders. Behavioural standards and accountabilities, including the use of confidential information, trade practices, health, safety and environmental management are set out in a range of formal codes, policies and procedures. These are subject to regular review to ensure they remain current and appropriate.

5. Conflicts of Interest

All Directors and senior managers are required to disclose any specific or general interests which could be in conflict with their obligations to Scanpower.

6. Board Review

The Board will undertake a self-assessment of its performance and the performance of individual Directors on at least a biennial basis. The results of this review will be made available to the Scanpower Customer Trust.

7. Appointment and Reappointment of Directors

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

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

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

8. Meetings

The Board meets on a monthly basis (with the exception of December) to review, monitor and initiate action in respect of the strategic direction, financial performance and compliance of the Company and its subsidiaries. Scanpower's business plan details matters which require Board consideration including long-term strategic direction, operating and capital budgeting, statutory and risk management.

In addition to the scheduled meetings, the Board may meet on an ad hoc basis to consider specific opportunities as and when they arise, and other matters of importance to the Company. Annually the Board takes the opportunity to debate and review its long-term strategic direction.

9. Committees

The Directors of Scanpower have decided to take a 'whole of board' approach to resourcing committees, including:

- Audit Committee
- Risk Management Committee
- Health and Safety Committee

Correspondingly these topics are standing agenda items for all scheduled board meetings. One Director will serve as the Board's representative in attending regular staff Health and Safety Committee meetings. For the coming year, this will be Bob Henry.

Remuneration related matters will also be handled on a 'whole of board' basis.

10. Risk Management

The Board puts considerable emphasis on risk management, given the critical nature of this aspect of the Company's operations, and continually monitors the operational and financial aspects of the Company's activities and the Company's exposure to risk. "Risk Management and Compliance" is a permanent item on the agenda of the monthly meeting of Directors.

An annual review of the level and appropriateness of the Company's insurance cover supports the Board's risk management process.

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

11. Directors' Fees

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

12. Interaction Between the Board and Trust

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

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

i) Corporate strategy

ii) Strategic development

iii) Scanpower's operating environment

iv) Financial performance

v) Corporate governance

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