



Statement of Corporate Intent 2011
(covering periods ending 31 March 2012-2014)

STATEMENT OF CORPORATE INTENT 2011

A. Objectives

VISION

To be the service provider of choice for energy and infrastructure solutions.

MISSION

To be a growing and successful business through excellence in customer service, innovation, performance and leadership.

GOALS AND OUTCOMES

Unison Networks Limited is a primary provider of infrastructure services for the conveyance of energy to consumers in the Hastings, Napier, Taupo and Rotorua districts. The quality and efficiency in which these services are provided has a significant impact on the economic and social wellbeing of these areas.

Key Objective

The key objective of Unison Networks Limited and its subsidiaries ("the Company") is to operate as a successful and sustainable business for the benefit of its shareholders. This will be achieved by ensuring shareholder value is enhanced while meeting the needs of consumers by providing a quality and efficient service.

While excellence in performance across the business remains a key focus, the Company will continue to develop the business in ways that will enhance the value and returns to shareholders.

In order to operate as a successful and sustainable business, the Company must:

- Continue to meet customer demands for quality and reliability using innovative technological solutions;
- Remain cost-efficient in its operations;
- Achieve a commercial rate of return (see Clause L);
- Invest in the network to the extent necessary to meet the needs and demands of consumers;
- Continue to look for investment opportunities both within its core business and outside its core business. The Company will ensure that such investments can obtain a satisfactory return commensurate with the risk of the investment; and
- Conduct its business in a manner which is consistent with that of a responsible corporate citizen.

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The key operational outcomes that the Company aims to achieve are as follows:

- Reliable, efficient network;
- Satisfied customers and stakeholders;
- Safe and healthy workplace;
- Motivated and committed employees; and
- Commercial rate of return.

B. Scope of Activities

The Company currently owns and operates the electricity distribution and fibre optic networks in the Hastings, Napier, Taupo and Rotorua districts. The scope of activities may extend to the provision of other energy and infrastructure services, such as:

- Distributed generation and back up supply;
- Electricity generation;
- Network management services;
- Contracting services;
- Telecommunication Services; and
- Supply of related energy infrastructure products.

C. Ratio of Consolidated Shareholders' Funds to Total Assets

To provide the Company with the capacity to grow and enhance value to the shareholders, whilst maintaining an efficient capital structure that minimises risk, the Company will target the ratio of consolidated shareholders' funds to total assets for each year at not less than forty per cent (40%).

"Shareholders' Funds" means the total issued capital, the balance of undistributed profits and all revenue and capital reserves of the Company.

"Total Assets" means all the recorded tangible and intangible assets of the Company at current book values.

D. Accounting Policies

The Company's accounting policies comply with the requirements of the Financial Reporting Act 1993 and are consistent with generally accepted accounting principles.

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Details of the accounting policies, their application and prospective changes are contained in **Appendix 1**.

E. Performance Targets

The Company has determined objective targets against which its performance can be measured. The performance targets that have been set for the period are detailed in **Appendix 2**.

F. Dividend

The Directors intend to distribute to the shareholder each year a dividend of approximately 50% of Unison Networks Limited's prior year's Group Net Profit after Tax less the agreed value of the benefits shared by the beneficiaries of the Hawke's Bay Power Consumers' Trust through Unison's ongoing under grounding programme. At the time of approving the dividend the Directors will have due regard to the forecast economic conditions in which the Company is expected to be operating, the Company's efficient capital structure and future funding requirements, plus the ability to meet the statutory solvency provisions of the Companies Act 1993.

G. Information to be Provided to Shareholders

▪ Financials

Summary monthly financial statements for the Company will be delivered to the Hawke's Bay Power Consumers' Trust within five days after the Board has considered them during the ensuing month.

▪ Interim Reports

Half yearly reports for the Company will be delivered to the Hawke's Bay Power Consumers' Trust within three months of the end of September each year. These reports will comprise:

- i. A report from the Directors of the Company covering the operations for the period 1 April to 30 September each year; and
- ii. Financial statements in respect of the Company for that period.

▪ Annual Reports

Annual Reports for the Company will be delivered to the Hawke's Bay Power Consumers' Trust within three months of the end of March each year. These reports will comprise:

- i. A report from the Directors of the Company covering the operations for the period 1 April to 31 March of each financial year, including the maximum dividend (if any) recommended to be payable by the Company in respect of

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- its equity securities (other than fixed interest securities) for the financial year to which the report relates;
- ii. Audited financial statements in respect of the Company for the period; and
 - iii. The Auditor's Report on the financial statements, the performance targets and any other information by which the performance of the Company can be judged in relation to its objectives and goals.

The Company's audited financial statements will comprise not less than the information required by Section 44 of the Energy Companies Act 1992.

Further Information

The Company will provide such additional information or reports to the Hawke's Bay Power Consumers' Trust as it may require in order to properly undertake its duties and to act as a diligent trustee shareholder as prescribed in the Trust Deed acting collectively in the best interests of the Trust Fund and of the Consumers as beneficiaries.

H. Procedures for Acquisition of Shares in Other Companies or Organisations

No acquisition by the Company of shares in another company or organisation, the value of which exceeds \$10 million (other than in the course of a re-organisation, reconstruction, merger etc, as defined in Clause 9.9 of the Trust Deed), shall be undertaken without prior Shareholder approval. Any such acquisition will necessitate modifying this Statement of Corporate Intent.

I. Transactions between the Company and Local Authorities (that are Shareholders) or Related Companies

There are no local authorities that are shareholders of the Company. Material transactions (excluding transactions which constitute normal trading activities), between the Parent (or any member of the Group) and any related companies would be disclosed to the shareholder in a timely manner.

J. Other Matters Agreed by the Shareholders and Directors

The Company will assist the Hawke's Bay Power Consumers' Trust to carry out the separate roles of Shareholder in the Company and Trustees under the Trust Deed by making any consumer information from existing databases available to the Trust, within the limitations of the Privacy Act 1993.

S T A T E M E N T O F C O R P O R A T E I N T E N T 2 0 1 1

The Company will keep the Trustees informed in a timely manner about new initiatives the Company is undertaking.

K. Projections

The financial information and assumptions, on which the Statement of Corporate Intent for the period 1 April 2011 to 31 March 2012 is based, are contained in the Company's approved Business Plan.

The financial forecasts in the Statement of Corporate Intent for the period 1 April 2012 to 31 March 2014 have been prepared for the purposes of this document and may not be appropriate for other purposes. The actual results achieved for any period are likely to vary from the information presented and the variations may be material.

L. Commercial Rates of Return

The Company will assess appropriate commercial rates of return for its activities based on the Capital Asset Pricing Model methodology. The rates will vary from time to time based on prevailing market conditions and the regulatory environment. The effect of price control regulations may be to limit the Company's ability to achieve a full commercial rate of return on its electricity lines business over the forthcoming period.

Appendix 1:

Summary of Significant Accounting Policies

Summary of significant accounting policies

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with New Zealand generally accepted accounting practice (NZ GAAP). They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable New Zealand Financial Reporting Standards, as appropriate for profit orientated entities.

Statutory base

The consolidated financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993, Companies Act 1993 and Energy Companies Act 1992.

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments and property, plant and equipment. Cost is based on the fair value of the consideration given in exchange for assets.

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

(b) Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Unison Networks Limited and the results of all subsidiaries for the financial year. Unison Networks Limited and its subsidiaries together are referred to in the financial statements as the Group or the consolidated entity.

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

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

(c) Critical judgements in applying accounting policies

All critical judgements applied to accounting policies have been included in the applicable notes to the consolidated financial statements.

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(d) Critical accounting estimates and assumptions

All critical accounting estimates and assumptions have been included in the applicable notes to the consolidated financial statements.

(e) Property, plant and equipment**Electrical Distribution Network**

An election was made to use the electrical distribution network revaluation as at 31 March 2006 as deemed cost on the date of transition (i.e. 1 April 2006) to New Zealand's equivalent to IFRS.

Subsequent additions are recognised at cost and are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Fibre Network

Additions are recognised at cost and are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Land and buildings

Land and buildings are stated at fair value based on periodic, but at least five yearly, valuations determined by an independent registered valuation company, and are adjusted for additions at cost and depreciation at appropriate rates.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Increases in the carrying amounts arising on revaluation of land and buildings are credited to other reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in the income statement, the increase is first recognised in the statement of comprehensive income. Decreases that reverse previous increases of the same asset are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged to the statement of comprehensive income.

Other Property, Plant and Equipment

All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Assets under Construction

The cost of assets under construction includes direct materials, labour and an allocation of overheads that directly relate to the work performed.

Disposal of Property, Plant and Equipment

When an item of property, plant or equipment is disposed of, any gain or loss is recognised in the statement of comprehensive income and is calculated as the difference between the sale price and the carrying value of the asset.

On disposal of an item of property, plant or equipment, any revaluation surplus in respect of that class of asset is transferred to retained earnings.

Depreciation*Electrical Distribution Network*

Depreciation is provided on a straight line basis on all tangible items or property, plant and equipment other than freehold land, at rates calculated to allocate the assets' cost or valuation less any residual value, over their estimated useful life.

Fibre Network

Depreciation is provided on a straight line basis on all tangible items or property, plant and equipment other than freehold land, at rates calculated to allocate the assets' cost or valuation less any residual value, over their estimated useful life.

Manufacturing

Depreciation is provided on a diminishing value basis for all tangible items of property, plant and equipment, using the relevant tax depreciation rates. Diminishing value is more appropriate than the straight line method in a manufacturing environment, for allocating the assets cost or valuation less any residual value, over their useful life.

Other Property, Plant and Equipment

Depreciation is provided on a straight line basis on all tangible items or property, plant and equipment other than freehold land, at rates calculated to allocate the assets' cost or valuation less any residual value, over their estimated useful life.

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The estimated useful lives of property, plant and equipment are as follows:

Electrical Distribution Network

33kv sub transmission	45 - 80 years
Zone substations, structures and equipment	16 - 60 years
Distribution transformers	45 - 55 years
Distribution switchgear	35 - 45 years
Overhead Lines	35 - 80 years
Underground cables	30 - 70 years
Other distribution equipment	30 - 70 years

Other Property, Plant and Equipment

Freehold buildings	60 - 100 years
Land	Infinite
Motor vehicles	5 - 10 years
Plant and equipment	5 - 10 years
Office furniture and equipment	4 - 10 years
Information technology	3 - 10 years

Manufacturing

Plant and equipment	5 - 25 years
Motor vehicles	5 - 16 years
Office furniture and equipment	7 years
Information technology	3 - 10 years

Fibre Network

Core Network	15 - 30 years
Central Office	15 - 30 years
Feeder Network	15 - 30 years
Connections	15 years

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

(f) Intangible assets*(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired entity at the date of acquisition. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

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

Computer software development costs recognised as assets are amortised using the straight line method over their estimated useful lives (not exceeding three years).

(iii) Easements

Easements are not cash generating in nature as they give the Group the right to access private property where network assets are located. Easements are initially recorded at its cost plus the cost of registering the easement and any other directly attributable costs of preparing the easement for its intended use. Easements with a definite life are amortised over that period.

(iv) Indefeasible right of use (IRU)

IRU's are not cash generating in nature as the Group provides the right to connection to, and use of, fibre cable to third parties. The rights to connect and use fibre distribution networks are initially recorded at cost plus any other directly attributable costs of preparing the IRU for its intended use. IRU's are amortised using the straight line method over their useful lives (6 to 21 years).

(g) Impairment of non financial assets

The carrying amount of the Group's assets, other than inventories and derivative financial instruments, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of assets is estimated to determine the extent of any impairment loss. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Statement of comprehensive income except impairment losses on revalued assets are first taken to the revaluation reserve if there is a surplus in respect of that asset.

Irrespective of any indications of impairment, goodwill acquired in a business combination and intangible assets that have an indefinite useful life are tested annually for impairment.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). The recoverable amount is the higher of an asset's net selling price and 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.

Non financial assets other than goodwill which suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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(h) Held to maturity investments

Held to maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the Group has positive intention and ability to hold to maturity. They are included in current assets, except for maturities greater than 12 months after the balance date, which are included in noncurrent assets.

After initial recognition investments are measured at amortised cost using the effective interest method less impairment. Gains and losses when the asset is impaired or derecognised are recognised in the statement of comprehensive income.

(i) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of Goods and Services Tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- The Group has transferred to the buyer the significant risk and rewards of ownership of the goods;
- The amount of revenue can be measured reliably;
- It is probable the economic benefits with the transaction will flow to the entity; and
- The costs incurred in respect of the transaction can be measured reliably.

Capital contributions

Where the Group constructs assets at its own cost and receives a cash payment from a third party as part, or full, payment for the development of such assets, the Group recognises the asset at the cost incurred to construct the asset and recognises the cash received as revenue.

Contract revenue

Contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract at balance date. The stage of completion is measured by reference to the contract costs incurred up to balance date as a percentage of total estimated costs of each contract. Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable under the terms of the contract, and an allocation of overhead expenses incurred in connection with the Group's construction activities in general.

Sale of services

Sales of services are recognised in the accounting period in which the services are rendered, based upon usage or volume through put during that period.

Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

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Rental Income

Rental income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

(j) Trade receivables

Trade receivable are stated at cost less impairment losses.

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

(k) Inventories

Inventories held for sale or use in the production of goods and services on a commercial basis are valued at the lower of cost and net reasonable value. The cost of purchased inventory is determined using the weighted average cost method. The write downs from cost to current replacement cost or net realisable value is recognised in the statement of comprehensive income in the period when the write down occurs. The cost of work in progress includes direct materials and labour and an allocation of overheads directly related to the work performed.

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

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

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(m) Contributed Equity

Ordinary shares are classified as equity.

(n) Dividends

Dividend distributions to the Company's shareholders are recognised in the period in which the dividends are distributed to the Company's shareholders.

(o) Accounting for derivative financial instruments and hedging activities**Derivatives that qualify for hedge accounting**

Derivative financial instruments are used to manage interest rate risks which the Group aims to reduce the impact of short term fluctuations on the Group's earnings.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction cash flow.

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 20. Movements in the cash flow hedging reserve in shareholders' equity are shown in note 22.

The full fair value of hedging derivatives is classified as a non current asset or liability if the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the statement of financial performance. For derivatives that are not hedged, the gain or loss on changes in fair value is recognised in the statement of financial performance.

Amounts accumulated in equity are recycled in the statement of financial performance in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast interest payments that are hedged results in the recognition of a non financial asset (for example, property, plant and equipment) or a non financial liability, the gains and losses previously deferred in equity are transferred from

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equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

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

Derivatives that qualify for hedge accounting

Derivative financial instruments are used to manage exposure to foreign currency exchange risks arising from financing activities. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re measured to their fair value at each balance date with the resulting gain or loss recognised in the surplus or deficit.

The full fair value of a foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date, otherwise foreign exchange derivatives are classified as non-current.

(p) Cash and cash equivalents

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

(q) Employee benefits

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

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

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date based on net present value. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

Participating employees of the Group are entitled to benefits on retirement, disability or death from the Defined Benefit Plan Contributors Schemes as part of

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the National Provident Fund and entitled to retirement benefits from AMP. The schemes are multi employer defined benefit plan which provides a defined lump sum benefit based on years of service and final average salary. However, sufficient information is not available to use defined benefit accounting. Therefore the Group accounts for the scheme as if it were a defined contribution plan.

Accounting for defined contribution plans requires that an expense is recognised for the contributions paid/payable during the year and any outstanding contributions are recognised as a liability.

(iv) Bonus plans

The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(r) Goods and Services Tax (GST)

The statement of comprehensive income has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(s) Leases

(i) Financial leases

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

(ii) Operating leases

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

(t) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a realisable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of comprehensive income.

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Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a 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 in the statement of financial performance.

(u) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid, and are initially measured at fair value, net of any transaction costs. These are subsequently measured at amortised costs using the effective interest rate method. The amounts are unsecured and are usually paid within 30 to 60 days of recognition.

(v) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the financial position date.

(w) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. An asset qualifies when the cost of construction is greater than \$500,000 and the construction period is longer than 6 months. Interest on borrowing costs are calculated based on the effective yearly interest rate of 6.84% (2010: 6.97%). Other borrowing costs are expensed.

(x) Investments in subsidiaries

Investments in subsidiaries and associates in Parent financial statements are stated at cost less impairment.

(y) Foreign currency translation

Transactions in foreign currencies are translated at the New Zealand rate of exchange at the date of the transaction. At balance date foreign monetary assets and liabilities not hedged by foreign currency derivative instruments are translated at the closing rate, and exchange variances arising included in the statement of financial performance.

Monetary assets and liabilities in foreign currencies at balance date hedged by foreign currency derivative instruments are translated at the contract rates.

Appendix 2:

Performance Targets

The following are the budgeted and projected performance targets for the next three years ending 31 March 2014. The financial projections have been prepared based on certain assumptions and are subject to changes in the economic and regulatory environment in which the Company operates and would be subject to further discussion with the Shareholder.

	Budgeted 2011/2012	Projected 2012/2013	Projected 2013/2014
FINANCIAL MEASURES			
Profit before interest, taxation, depreciation & amortisation as a percentage of Average Assets employed	10.7%	11.3%	11.6%
Profit before interest & taxation as a percentage of Average Assets employed	6.8%	7.1%	7.5%
Profit as a percentage of Average Shareholders' Funds	6.8%	7.1%	7.5%
Ratio of Shareholders' Funds to Total Assets	46%	46%	47%
Total Line Business Operating Costs per Consumer			
Consumer Numbers	109,758	110,526	111,300
Direct Line Business Costs per Consumer	\$130	\$131	\$133
Indirect Line Business Costs per Consumer	\$142	\$143	\$158
Total Line Business Cost Per Consumer	\$272	\$274	\$291
Total Lines Business Cost Per km	\$3,080	\$3,116	\$3,201
NETWORK PERFORMANCE			
SAIDI	133.1	133.1	133.1
SAIFI	2.43	2.43	2.43
<i>SAIDI - System Average Interruption Duration Index</i>			
<i>SAIFI - System Average Interruption Frequency Index</i>			
Faults Per 100km Line			
Underground	5.0	5.0	5.0
Overhead	8.6	8.6	8.6
Total System	8.0	8.0	8.0