

Northpower

# 2008

Annual Report



# “safe, reliable, hassle free service”

Northpower is a Northland Company and is divided into two main business areas:-

**Northpower Network.** This division includes the Northland based Head Office and regional electricity distribution network. Northpower owns and manages one of the most consistently efficient networks to reticulate electricity from the national grid.

**Northpower Contracting.** This division is the largest distribution contractor in New Zealand with electricity distribution network design, maintenance and construction capabilities in Whangarei, Dargaville, Maungaturoto, North Shore, East Tamaki, Hamilton, Tauranga, Rotorua, Hawke's Bay, Wellington, and Perth.

The Board of Directors are pleased to present the annual review of Northpower Ltd and its subsidiaries (Metro Power Ltd, PSM Services, West Coast Energy Pty Ltd and Northpower Western Australia Pty Ltd) for the year ended 31 March 2008.

For and on behalf of the Board of Directors.



**Warren Moyes**  
Chairman



**Bob Steed**  
Director

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# Chairmans' report

## This has been an extremely eventful and challenging year for Northpower.

The company has been successful in managing 10 years of strong growth in good market conditions. This year Northpower employees have shown their commitment, resilience, determination and resourcefulness, under extremely demanding circumstances.

Some of the challenges such as establishing our first offshore contracting business in Western Australia, building a broadband communications network in Northland and major additions to our Wairua Hydro Power Scheme, are projects we have had planned for several years.

Other challenges included the worst Northland storm in at least 19 years, a massive drop in the new subdivision reticulation market combined with decreases in electricity network construction work by some major clients, extraordinary cost increases for fuel and power line construction materials and "raids" on skilled power line construction people by offshore companies. These are all challenges we expect to face at some time, and the fact that they all came at once gave us a chance to truly prove our resilience.

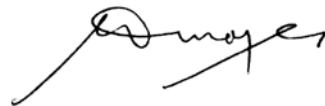
In these circumstances we achieved a very satisfying result and are well positioned going forward.

I'm pleased to report that this year's independent review of the Board of

Directors' performance highlighted that the board is well balanced in terms of capability and commitment. There is a good level of consistency between directors and strong mutual support. The Chairman is regarded as providing positive and constructive leadership and particular strengths of individual directors were clearly identified. The management group is very supportive of the board and is well integrated into board activities. Overall the board is in very good health.

I wish to thank the Chairman and Trustees of the Northpower Electric Power Trust for the highly professional and supportive way they carry out their role as Northpower's owner. Without this support, the company could not achieve the progress it has.

Looking forward, there will be aspects of our contracting markets that continue to be challenging due to the tight economic conditions and particularly around reticulation for new subdivisions. We expect the current electricity network contracting market will result in some consolidation and this should favour Northpower because of our commitment, track record and capability. More importantly the initiatives put in place this year add essential diversity to Northpower's business and revenue sources. This will enable better utilisation of our highly skilled staff and specialist resources, and ensure more robust revenues under changing conditions.



**Warren Moyes**  
Chairman



### Warren Moyes

The company has been successful in managing 10 years of strong growth in good market conditions. This year Northpower employees have shown their commitment, resilience, determination and resourcefulness, under extremely demanding circumstances.

## Chief Executive's report

This year has seen Northpower achieve four important strategic milestones in its plans to provide ongoing profitable growth through the delivery of safe, reliable, hassle free services to its customers and local communities.

The commissioning of the Gentrack billing system this year marks the completion of a five year multi-million dollar programme. This has created the key asset management systems required to be a top performing network operator and efficiently meet regulatory requirements. These achievements, along with a strong customer focus and the broad experience gained from Northpower's overall business activities, puts Northpower at the leading edge of network asset management capability for this type of network.

Another very significant strategic move was the establishment of a broadband fibre network in Northland. The initial network, in partnership with TelstraClear, provides access to voice and high speed broadband services for 900 Whangarei businesses, schools and medical health sites. Northpower's fibre business model is based on overbuilding the existing electricity distribution network using PON (Passive Optical Network)

technology and is a very cost effective way to deliver world class high speed broadband to the region.

The \$5.7M refurbishment and extension of Northpower's Wairua Hydro Power Station has extended the life of this almost 100 year old asset for at least another 40 years and increased capacity to an optimum 25GWh per year. This means the station can now provide enough hydro power to run the equivalent of 3125 households. Local iwi were integral in assisting and supporting the design and construction of the site, to ensure sensitive ancestral land was not compromised. The timing was perfect, with Northland's weather enabling the station to generate at high levels during the national hydro shortage.

The successful establishment of a contracting base in Perth has been a huge effort for the company, resulting in access to very substantial contracting markets with diversity to New Zealand's economic cycles and seasonal factors.

These achievements are combined with the very successful growth of our Optical Fibre (Comms) contracting in Auckland and good progress in establishing a substantial client base for power line construction and maintenance services in the Tauranga, Hawkes Bay, Rotorua and Waikato regions.



### Mark Gatland

This year has seen Northpower achieve four important strategic milestones in its plans to provide ongoing profitable growth through the delivery of safe, reliable, hassle free services to its customers and local communities.

All these projects reflect our objective to achieve diversity and scale in our business. This will result in variety and security to employees, flexibility and efficiency to clients, and robust returns to shareholders.

### Financial overview

The Net Profit After Tax was \$11.87M for the group with the New Zealand operations recording NPAT of \$14.1M, slightly below last year's record result (\$14.7M) and the newly established business in Australia recording a \$2.6M loss.

Return on shareholders' funds was 5.41%. This is above the target of 5% set out in the Statement of Corporate Intent (SCI). Return on capital employed was 4.37%, which means we did not meet the SCI target for the year of 6.5%.

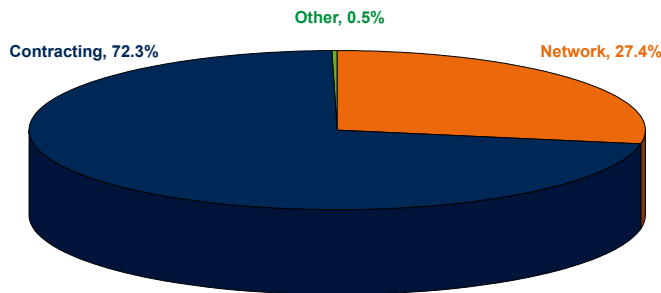
These results reflect the resources being put into developing new areas of business and a very difficult contracting market for most of our New Zealand operations. \$1.5M of additional costs were also incurred during a very severe July 2007 storm in Northland. The Return on Shareholders' funds is higher than expected due to a reduction in deferred taxation liability.

Significant capital investments continued in 2007, with \$34.6M invested for the year. \$21.1M was invested in the Northland electricity network, including \$5.7M in electricity generation.

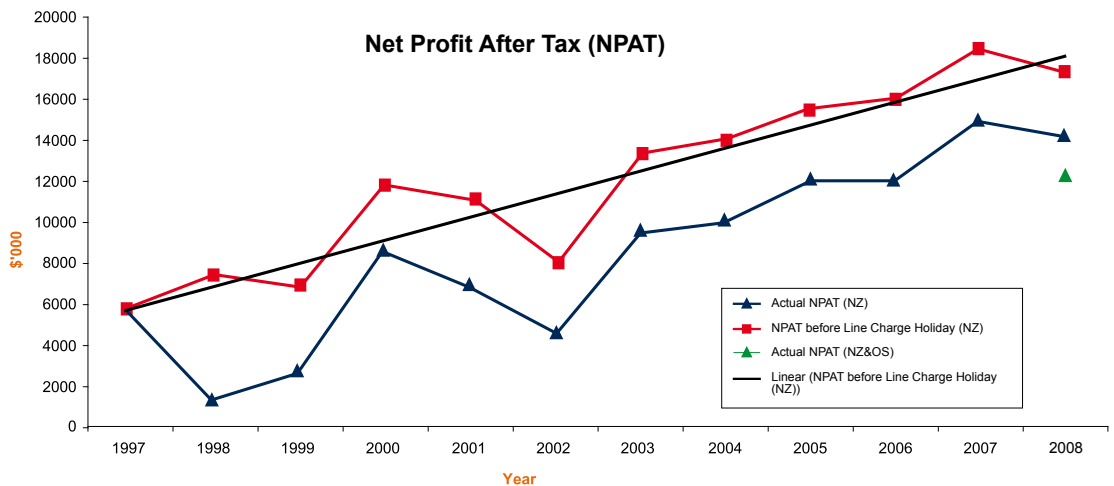
Overall, revenue has grown by 8.8% to \$162.8M  
Revenue comprises:

Electricity network	<b>\$45.1M</b>
New Zealand contracting activities	<b>\$110.1M</b>
Australian contracting activities	<b>\$7.6M</b>

Northpower Revenue 2008



Northpower paid out \$5M as a line charge holiday to electricity consumers in February 2008 and a \$4.1M dividend is to be paid to the Northpower Electric Power Trust.



## Key Performance Indicators

KPI	Target	Actual	Summary
Net Profit After Tax Shareholders' Funds x100	5%	5.41%	The Net Profit After Tax (NPAT) was \$11.87M for the group, with the New Zealand operations recording NPAT of \$14.1M and the new Australian operations recording a loss of \$2.6M. This final result was slightly below last year's record profit \$14.7M for the New Zealand operations.
Earnings Before Interest and Tax Total Capital Employed x100	6.5%	4.37%	Network valuation is \$214.6M
Network Reliability (SAIDI) - Statement of Corporate Intent	<120 minutes	783.08	The actual final figure is made up of: Planned outages – 22.10 minutes Unplanned outages – 760.98 minutes → Storm – 623.64 minutes → Unplanned excluding storm – 137.34 minutes  Overall total SAIDI excluding the storm was 159.44 (which was within the Threshold compliance target set by the Commerce Commission)
Average Number of Faults per 100 km of line	<10	13.73	Taking the storm into account, the figure would have been 10.19.
Customer Satisfaction (Residential)	> 85% satisfied	92%	Residential satisfaction has improved, while commercial is lower at 79%.
Customer Satisfaction (Commercial)	> 85% satisfied	79%	Results for both the residential and commercial markets also show an increased proportion of customers who are 'very satisfied'.
Lost Time Accidents (includes all sites)	≤ 1	6	Lost Time Injury Freq = 4.12. The number of lost time injuries (as defined by international standards) per million hours worked by employees, calculated on a 12 month rolling average.

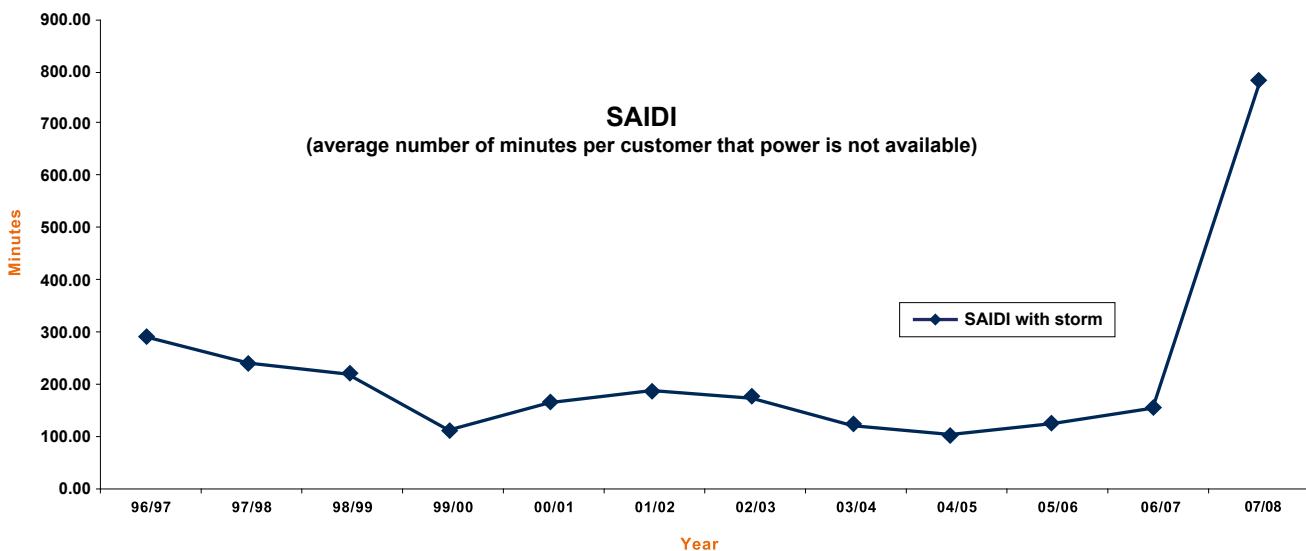


**connectNORTH**

### brings high speed broadband to Whangarei

One of the major strategic projects for 2007 was the establishment of the broadband fibre network in Northland. Working closely with TelstraClear, Northpower developed a plan to bring Next Generation telecommunication services to Whangarei businesses.

Over the last year, Northpower developed competitive, high paced communications capabilities, and now owns and maintains a fibre optic network in Whangarei. This is supported with specialist local design, project management, construction and maintenance capabilities which further strengthens Northpower's ability to provide services to other fibre optic network owners.



*“Local customers will soon be tapping into world class communication services, giving Whangarei an edge over other New Zealand cities. ”*

The joint initiative launched at the beginning of the new financial year will see TelstraClear deliver voice and high speed broadband services over Northpower’s fibre optic core network. The network runs through the major part of Whangarei and its CBD. The partnership will provide more than 900 businesses, schools and medical health sites with true choice and access to services currently only available in the heart of the country’s largest cities. Local customers will soon be tapping into world class communication services, giving Whangarei an edge over other New Zealand cities.

Our intention is to extend this network as viability is confirmed. Recent Government announcements are expected to result in the network being extended sooner than planned.

## New lease of life for Wairua Hydro Power Scheme

Last year Northpower completed a \$5.7M upgrade of the Wairua Hydro Power Scheme. The project will allow the run-of-river hydro electricity scheme to produce an increased 5.4GWh per year – enough to power 675 homes with renewable energy.

The upgrade was completed ahead of schedule and commissioned in July 2007.

Northpower carried out this upgrade under the Government’s ‘Projects to Reduce Emissions’ (PRE) framework and received more than 17,000 Kyoto Protocol carbon credits. The upgraded hydro scheme was officially re-opened by Energy and Climate Change Minister, David Parker, in November 2007.

The Wairua Hydro Scheme is one of the oldest continuously operating power schemes in New Zealand and its life has now been extended for at least another 40 years as a result of the upgrade.

Northpower has completed extensive investigative work on another potential scheme up river from the iconic station, with a decision expected in the next financial year.

Northpower directors, management, guests and the Minister for Energy and Climate Change celebrate the upgrade of the Wairua Hydro Power Scheme



## Whangarei Contracting face another busy year ahead

Whangarei Contracting division had a productive year achieving very good results. The key to its strong growth was external work for its Electrical Services Division and development of its fibre optics business. Increased productivity is being achieved in all areas through effective management and forward planning for a solid work load. Both our Lines team and the Electrical Services construction team assisted Top Energy through the peaks of the expansion of the Ngawha geothermal project.

Development has begun within the Whangarei Contracting team to form high level engineering and support capability for 'Fibre to the premise' and PON (Passive Optical Network) technology. This technology and expertise is required for the future expansion of the high speed broadband fibre network in Northland, and is a key strategic direction for future growth. A down turn in the subdivision market is expected in the coming year. However the continuing rollout of Northpower's fibre network, supporting the TelstraClear partnership, and the ongoing network maintenance and customer work will be keeping Whangarei Contracting very busy in the year ahead.

## Northpower's Network planning receives national recognition

Northpower monitors the local network to project growth areas and to ensure timely planning and investment in our infrastructure. This allows Northpower to make sound decisions about network requirements and future needs.



The Northpower network division achieved a number of key milestones last year with the commissioning of new systems and upgrades.

Good progress was made with our customer engagement process which has enhanced our ability to plan, by effectively gauging customer perceptions, requirements and expectations.



Pole replacement - Mt Manaia

*“Northpower's vision is to become the best rural network company in New Zealand and, to support this vision, strong systems are needed to support our people and our business.”*

Our Annual Management Plan (AMP) received recognition as one of the top five reports by the Commerce Commission, an extremely high level acknowledgement.

Consistent with the foresight and planning of our predecessors, Northpower invested significantly in the upgrade of existing network assets, to ensure appropriate asset replacement. Several 33kV upgrades took place this year, the most significant being the Maungaturoto / Kaiwaka 33kV feeder line covering these areas and Mangawhai.

This job involved over 50 staff and five mobile generators in the replacement of 356 insulators, 155 cross arms and 22 poles. This impressive mix of Northpower staff and electrical equipment ensured the success of one of the largest line maintenance jobs undertaken in the last 30 years.

By utilising five mobile generators, Northpower was able to create a unique situation, where the two substations that feed power to the Mangawhai and Kaiwaka areas were shut down, but supply was maintained. Northpower's specialist electrical fitters also took the opportunity to carry out maintenance on the substations while they were not in use.

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## Gentrack supports vision to be best rural network in New Zealand

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This year Northpower successfully automated network billing and energy retailer reconciliation processes to improve overall billing accuracy. We also consolidated the management of metering asset data onto Gentrack.

Northpower's vision is to become the best rural network company in New Zealand and, to support this vision, strong systems are needed to support our people and our business. Given Gentrack's extensive user base and proven capabilities, it was considered the best available solution. There were a number of key objectives to meet as a result of this project, none more important than improving the accuracy of our network billing and asset information. Following extensive testing and the successful go live, Northpower is now well on the way to meeting these objectives.

*“ This impressive mix of Northpower staff and electrical equipment ensured the success of one of the largest line maintenance jobs undertaken in the last 30 years. ”*

## Planning for future growth in Maunu

Whangarei has experienced steady growth over recent years and further developments are likely, particularly in the Raumanga and Maunu areas. To cater for this anticipated demand Northpower obtained a consent order from the Environment Court in March 2008 for a new substation site in the vicinity.

## July storm proves commitment and camaraderie of Northpower crews

The commitment and skill of the Northpower team was demonstrated when crews from across the company banded together to assist during the July storms in Northland. Staff readily volunteered to put up their hands and muck in where needed. This was a challenging and testing time which all staff handled with great ability and camaraderie, from the linemen and control operators right through to office staff and managers.

The damage on the Northpower Network was the worst we had seen in many years. In fact, it was much greater than that caused by Cyclone Bola in 1988. Northpower has 52,000 consumers connected to our network and at the peak of the storm there were 18,600 consumers (36% of the network) without power.

After seven hectic days, Northpower returned to a manageable level of operation. It is estimated that up to 80% of the damage was caused by trees falling on power lines, further highlighting the need to keep trees well maintained around lines.



The storm caused more destruction than Cyclone Bola

Trees damaged many poles in the storm



*“The damage on the Northpower Network was the worst we had seen in many years.”*



The storm uprooted both trees and poles

*“The unsolicited words of encouragement and gratitude made a real difference for all our staff involved in the storm.”*

During the storm, priority was given first to safety, and then to faults that would restore the maximum number of consumers. The last consumers to be restored were those whose own service lines had significant damage, such as broken poles.

The storm highlighted several issues, such as our phone system, which was unable to cope with the intense influx of calls

during the extreme weather conditions. We acknowledge the frustration that some customers experienced when trying to make contact with the company. Improvements have been made to the system and a full upgrade is planned for the 2008/2009 year.

Amidst the understandably unhappy customers without power, we received a great deal of positive feedback.

### Storm statistics

- 36% of consumers were without power at the peak of the storm
- The damage caused was greater than Cyclone Bola in 1988
- At least 150 field staff from around the country worked to restore power (three times the number normally engaged in fieldwork)
- Over 16,000 calls were received and over 5,500 faults were logged in the database. Of these, 146 (the number normally experienced over 6 months) were network faults
- Consumer outage times totalled that typically expected over a seven year period.

## Northpower faces network pricing challenge in face of rising costs

Northpower is one of only three lines companies in New Zealand permitted by the Commerce Commission to increase lines charges by the maximum factor of CPI +1%. This is due to our low prices and high productivity.

Our actual overall increase was 0.8% compared to 3.7% in the previous year. This final result saw Northpower remain well within its regulated threshold set by the Commerce Commission.

The Company has the lowest average industry price for electricity delivery in New Zealand.

All network companies, including Northpower, have incurred substantial increases in construction and maintenance costs due to worldwide demands for materials and labour.

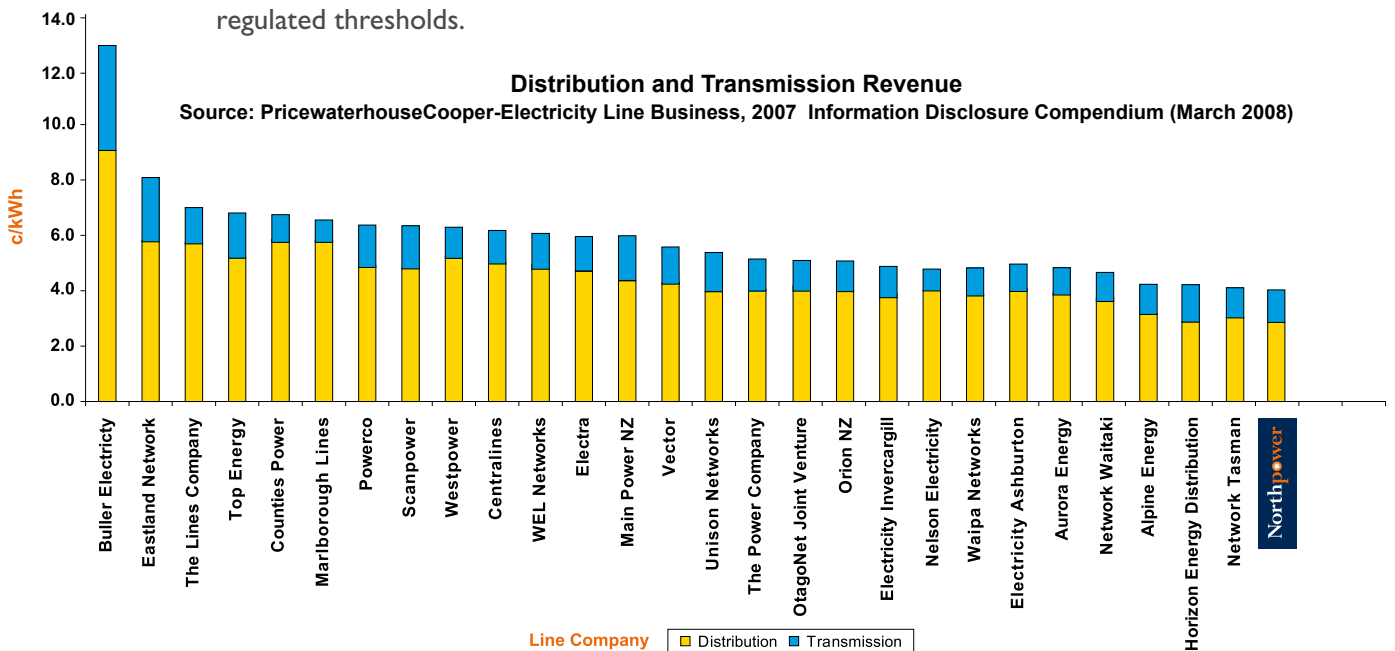
However, Northpower is enjoying steady growth on the network and is confident that prices will be kept within regulated thresholds.

## Northland supply security remains a priority

Transpower's proposals to carry out major upgrades necessary to provide secure transmission capacity across Auckland into the North Shore and Northland continued to receive national attention.

In the past year Northpower worked closely with other local authorities to lobby Transpower to ensure adequate secure transmission capacity into Northland. We strongly support moves to have the alternative cross harbour cable proposal in place by 2013 to support our region.

Transpower and the Electricity Commission have joint total responsibility to ensure there is appropriate secure transmission capacity. Both are accountable to the Government and, while there are processes to help select the best options, the focus must be on having the cable in place in time to prevent any chance of supply insecurity.



## Industry issues facing Northpower

Pending changes to the Electricity Reform Act will create a more favourable environment for Northpower if they are approved, with more clarity around investment in generation by the company.

Proposed Commerce Act changes should also see a reduction in a double-barrelled approach to compliance and control. These changes reflect acknowledgement from the Government that Northpower and other Trust owned companies have appropriate systems in place to effectively monitor compliance, price and stakeholder issues. This should result in lower compliance costs and allow more focus on local needs rather than those stipulated by the Commerce Commission.

Notwithstanding the above, lines businesses continue to be bombarded with regulatory issues and reviews.



# \$349,000

raised for the Electricity Rescue Helicopter last year.

## Community sponsorships remain strong company focus

Northpower has maintained its strong interest in the local community and continues to provide funding assistance to its three core sponsorships.

The **Northpower Native Bird Recovery Centre** has cared for and treated thousands of birds since 1st August 1992, when it was first established. The Centre's operations focus on rescuing, caring for and rehabilitating over 1100 birds each year. The Centre also runs education programmes for around 6000 school children and fosters environmental consciousness in Northland's communities.



Bird centre gives injured birds a second chance



“ These students, from Te Wharekura O Te Rawhiti Roa, the full immersion kura in Tikipunga, are part of the Northland Education for Enterprise (E4E) initiative. Their company name is Rangatahi Maori and they have produced t-shirts printed with unique Maori designs. The programme involves developing their own business plan, and products. Students from L-R: Arohaina Patira, Oranoa Henare, Paane Thomas, Hana Cooper, Jimmy Waipouri and Anthony Richards. ”

A key component of Northland's strategy to lift the attitudes and aspirations of young Northlanders is the **Education 4 Enterprise (E4E)** initiative. The key aim of the strategy is to develop an enterprise culture across the school curriculum and to provide the resources, training and motivation to enable this to happen. Schools involved make a commitment to delivering enterprise programmes and developing an enterprise culture in their school.

Our flagship sponsorship remains the **Northland Electricity Rescue Helicopter**. It has a longer range, is faster and has more room inside than any other rescue helicopter in New Zealand. This means that more patients can be transported and there is more room for medical staff to treat accident victims in-flight. The helicopter performed 600 rescues around Northland during the year. The paramedics and crew are fully trained for any situation which may arise, including winching and rappelling from the aircraft. The helicopter is able to respond immediately to any rescue call, and is capable of operating in most weather conditions.



## Northpower helps educate about electrical safety and energy efficiency

Northpower offers the community unique opportunities through this well established programme, which has seen Northpower recognised as an industry leader in electrical safety education.

The dedicated customer advisory role, held by Jan Thomsen, gives Northpower the opportunity to promote energy efficiency and electrical safety by visiting schools and community groups, and also through regular features in Northland's print media.

In the last year Jan visited 24 schools, spoke to 21 community groups and gave countless energy efficient appliance demonstrations. She also attended the Dargaville Field Days and the Northland Home Show to provide Northpower customers with the opportunity to ask questions and try her delicious cooking. Jan also provides a free guest speaking service.

“ In the last year Jan visited 24 schools, spoke to 21 community groups and gave countless energy efficient appliance demonstrations. ”

“ Residential satisfaction improved to 92%, while commercial was down to 79%. Results for both the residential and commercial markets also show an increased proportion of customers who are ‘very satisfied’. Reliability of supply remains the key deliverable for any energy supply company, and Northpower’s ratings on power reliability remains high. ”

### Customer Research shows Northpower still a top provider

To ensure the company is providing the best service possible to all its customers, Northpower undertakes customer research in a number of ways. Northpower stakeholders range from large industrial and commercial customers to residential customers, so this research takes several forms.

When working with large commercial customers, Northpower relies on direct consultation and service line agreements to ensure quality communication regarding price, quality, reliability and security of supply.

To make sure residential customers are kept up to date with Northpower activities, the Company relies on bi-annual customer newsletters, the Annual Report, the customer advisory service and trade exhibits at events like the Dargaville Field Days.

To ensure customers can also share their views, Northpower conducts both residential and commercial customer surveys every year. Through these surveys, customers have the opportunity to consider, amongst other things, service, price and quality trade-offs. In recent months Northpower has also begun ‘door knocking’ after planned shutdowns to get direct feedback on the entire Northpower service, from the initial notification through to completion.

“ In recent months Northpower has also begun ‘door knocking’ after planned shutdowns to get direct feedback on the entire Northpower service, from the initial notification through to completion. ”

A programme of independent monitoring of customer satisfaction is also in place to track current customer perceptions of Northpower and its services through independent researchers Colmar Brunton. Residential satisfaction improved to 92%, while commercial was down to 79%. Results for both the residential and commercial markets also show an increased proportion of customers who are 'very satisfied'. Reliability of supply remains the key deliverable for any energy supply company, and Northpower's ratings on power reliability remains high.

Consultation also takes place through the Northpower Electric Power Trust, which is required, under its Trust Deed, to approve the Statement of Corporate Intent (SCI). As customer representatives, the Trust reviews this document, containing financial, price and quality information, to look at whether appropriate price and quality trade-offs are available.

## Northpower contracting faces challenges in tightening market

Several of our contracting branches had an extremely difficult year. The long expected downturn in subdivisions, coupled with regulatory issues affecting our major network clients' works programmes, had a severe impact everywhere south of Whangarei. These issues were compounded by extraordinary increases in material costs and overseas competition for our highly skilled employees.

During the year the General Manager of our Contracting Division departed. It is a huge credit to the Interim Leadership Team and every branch manager, that we have been able to utilise all of Northpower's scale, diversity, experience and relationships to refocus the business and manage our way through an uncertain market, while delivering very good results to clients.



As an example, in response to a request from Unison Networks to get a large amount of work completed within a very short deadline, we were able at short notice to deploy line construction teams from Whangarei, North Shore, Auckland and Hamilton to work with our Rotorua based crews, completing the work on time.

The response by Northpower Contracting to the very severe storms that battered Northland, Auckland and the Coromandel peninsular in July 2007 highlighted the extent of our capability and the commitment of our staff. Around 400 Northpower field staff were deployed from all over the North Island to assist the Powerco, Vector and Northpower networks, to make lines safe, and restore supply.

While we expect the tight market conditions to continue, every branch is acutely focussed on improved performance and coming through the next year in a much stronger position. Plans to achieve this are well under way, with very significant opportunities being pursued. Two examples are our Electrical Services division's bid to win a

large share of several hundred thousand advanced meter installations planned for the Auckland region and a bid by Northpower's Wellington Branch for a substantial contract to maintain the electrified rail network in Wellington.

## Auckland Communications Contracting takes off

Northpower added a Communications division to its growing list of activities to support Vector's plans to build a fibre optic network throughout Auckland. The considerable effort put in to establish a very effective business model and work processes with Vector is really showing results this year, as Vector ramps up the expansion of its fibre network. The financial performance of the Northpower division has remained on target, while our client was rewarded with challenging projects completed on time and with a significant reduction in costs. The Vector Communications/ Northpower Communications relationship is an excellent example of the performance gains achieved through a partnership approach to service delivery.





**Electrical Services**

## Northpower Electrical Services (NPES) merges with PSM Services

This year a great deal of work went into consolidating the existing electrical service operations with PSM Services, a Hamilton based electrical services company acquired by Northpower in early 2007.

Northpower provides quality electrical, design, construction and technical maintenance services to a range of customers across the private, industrial and commercial sectors. This merger will see Northpower strengthen this side of the business, particularly in the Auckland and Waikato areas. The merger will take full effect in the new financial year with the formation of a new division, Northpower Electrical Services, comprising teams from Hamilton and Auckland.

## Health, safety and people critical keys to success

One major key to our growth and progress is our people. Our ability to attract driven and motivated employees who constantly strive to improve the way we do things will ensure we stay on the right track for years to come.

The success of our expanding business relies on an increasingly large number of skilled staff. Despite the labour market for skilled electricity industry people being very competitive, Northpower has had great success in recruiting, up-skilling and deploying people, both across our New Zealand branches and in Western Australia. A very effective strategy has been to shift a core of committed Northpower staff from the New Zealand team over to Western Australia, to ensure the Company's values and culture are understood and acknowledged in all areas of the company.

We take pride in our family culture, including employees and their families, as well as the wider community. The Northpower family is growing rapidly, with staff numbers reaching up to 750 in 2007.

*“Health, safety and people are critical keys to Northpower's success.”*



Safety is the most critical value for Northpower. Electricity networks are potentially very dangerous if not operated and maintained properly. Northpower has 750 employees, most of whom work in unpredictable conditions. We worked some 1.6 million man hours in the year so Northpower's safety performance needs to be outstanding to ensure no-one gets seriously hurt. A few minutes of inattention out of 1.6 million hours may result in serious injury if our safety processes are not 100% effective. This year we had six Lost Time Injuries (LTI's), three of which were from situations that could have been life threatening. Fortunately no lives were lost, and those staff involved are now all back at work.

Northpower's objective is to be 100% safe and we have a strategy in place to achieve this result. It is an objective that will always be challenging and success requires an ongoing total commitment from every person involved with Northpower. It is a journey of continuous improvement towards a safer and healthier workplace. The principles of Behavioural Based Safety underpin our strategy. Each phase has a strong initial impact but, as performance

improves, a new approach is required to move to the next level.

Northpower has comprehensive safety structures in place to facilitate communication and involve all levels of the organisation in improving safety performance. Examples range from field staff safety team meetings to regular site safety visits by individual directors and senior managers.

Northpower has introduced a number of industry-leading safety programmes, including the unique Trade Coach programme which was established to mentor field staff, both on the job and in the classroom. We have also initiated a separate programme to engage the families of Northpower staff to help keep their father, mother or spouse safe. The overall impact of our programmes is that Northpower is a very safe place to work.



## Family Safety Day proves a hit

One of the biggest highlights for staff across the country was the Central Region Family Day, which followed on a year after the Auckland and Whangarei events. Family safety days were initiated during 2006 to provide an environment where families can safely explore the work done in the field, the safety gear used and the types of challenges our field workers face. The message of the day is 'Safety' and this is conveyed through the inclusion of only safety related displays and demonstrations.

A Family Safety Day was held in Hamilton this year. The day was also attended by our clients and was supported by our suppliers and key stakeholders such as ACC, the Fire Service and St John's Ambulance Service.

Feedback from the family days has been overwhelming and hugely satisfying and, importantly, has reinforced that our safety messages are on track.



### The planned outcomes for the Family Safety Days are to:

- Promote family support and understanding of health and safety at Northpower.
- Increase awareness of the work the field staff do and why safety precautions and procedures are vital and non negotiable.
- Ensure children and families are proud of the work their Mum or Dad does.
- Reinforce the role of the family in ensuring Mum or Dad stays safe and is always motivated to follow procedure and wear personal protective equipment (PPE).
- Reinforce that safety is never to be compromised.

“ The overall impact of our programmes is that Northpower is a very safe place to work. ”



## Northpower Offshore

The success of Northpower's business nationally meant the Company was in a position to start looking offshore for future growth. This resulted in the purchase of electrical contracting company West Coast Energy in Western Australia and enquiries into the Tongan electricity network. These opportunities to expand reflect our goal of building a substantial, profitable business that provides a safe, reliable, hassle free service to our customers. The real success for us has been our ability to grow into new areas and markets, while still maintaining a strong focus on the existing business.

## West Coast Energy

In July 2007 Northpower purchased West Coast Energy, an emerging Perth based electrical contracting company.

We were optimistic about the opportunities available for Northpower with this expansion, and made sure we carried our company vision and philosophy over to our many new customers in Western Australia. Nearly one year down the track, West Coast Energy has come into its own and has



grown from a small contracting business with strong links to local business, to a larger scale competitive contractor.

The market in Perth is significant, with approximately AUS \$4.2 billion of capital expenditure planned by the State owned electricity network company Western Power, over the next five years. Subdivisions and other works are estimated at AUS \$110 million per annum.

Such expansion brings genuine advantages to Northpower and all its customers. With increased scale will come increased buying power, as well as improvements in our skill base and an opportunity to leverage from expanded markets to improve the overall company performance.

## Tonga

Another opportunity pursued during the year was Northpower's future participation in the management and / or operation of the electricity network and generation in Tonga. Due to the unforeseen riots during 2007, Northpower was unable to purchase the state owned network. Fortunately, Northpower has been able to maintain a close and valuable relationship with the Tongan Government, and Shoreline, the current owner of the electricity generation and distribution assets. ■



# Governance statement

The Board of Directors of the Company is appointed by the Northpower Electric Power Trust, as representatives of the shareholders. Their role is to supervise the management of the Company and its subsidiary companies. The Board establishes the Group's objectives, strategies and overall policy framework. The Board delegates day-to-day management of the Group to the Chief Executive and monitors management's performance.

## Code of Conduct

As part of the Board's commitment to the highest standards of behaviour and accountability, the Company adopts a code of conduct to guide executives, management and employees in carrying out their duties and responsibilities. The code covers such matters as:

- responsibilities to shareholders
- relations with customers and suppliers
- employment practices
- responsibilities to the community

## Board Operations and Membership

The Board comprises five directors; a non-executive Chairman and four non-executive directors. Board members have an appropriate range of proficiencies, experience and skills to ensure compliance with all governance responsibilities.

The Board meets monthly and has additional meetings as required to address specific issues.

The primary responsibilities of the Board include:

- Ensuring preparation of the annual and half-year financial statements.
- The establishment of the long term goals of the Company and strategic plans to achieve those goals.
- The review and adoption of annual budgets for the financial performance of the

Company, monitoring results on a monthly basis.

- Managing risk by ensuring that the Company has implemented adequate systems of internal controls, together with appropriate compliance monitoring.
- Working with management to create shareholder value.

## Audit Committee

The Audit Committee is responsible for overseeing the financial accounting and audit activities of the Group, including reviewing the adequacy and effectiveness of internal controls, meeting with and reviewing the performance of the external auditors, reviewing the consolidated financial statements and making recommendations on financial and accounting policies. The Committee met four times during the year.

## Statement of Corporate Intent

In accordance with Section 39 of the Energy Companies Act 1992, the Board submits to the Northpower Electric Power Trust a draft Statement of Corporate Intent (SCI) for the coming financial year. The SCI sets out the Company's overall objectives, intentions and financial performance targets.

## Risk Management

The Board has overall responsibility for the Group's internal control systems. The Board has established policies and procedures that are designed to provide effective internal control.

In addition, the Board reviews ways of enhancing existing risk management strategies, including the segregation of duties, the employment of suitably qualified and experienced staff, and the implementation, where considered necessary and effective, of recommendations made by the external auditors.



Safety message on T-shirts

Nikki Davies-Colley      John Ward      David Ballard      Bob Steed      Warren Moyes



# Board of Directors' report

The Board of Directors are appointed by the Northpower Electric Power Trust to supervise the management of the Company. The Board establishes the Company's objectives, overall policy framework, and monitors management performance.

## PRINCIPAL ACTIVITIES

The group's principal activities are the transmission of electricity and electrical contracting.

## SUBSIDIARY COMPANIES

Northpower Limited has two subsidiaries incorporated in Australia:-

- West Coast Energy Pty Ltd
- Northpower Western Australia Pty Ltd.

All Northpower directors are also directors of the subsidiaries. Mark Giglia is a director of the Australian subsidiaries.

## RESULTS

The group recorded an after tax profit of \$11.87M for the period, as set out in the Income Statement.

## DIVIDEND

The Directors recommended a dividend of \$4,156,000.

## INSURANCE OF DIRECTORS

The company has insured all its Directors against liabilities to other parties, that may arise from their positions as Directors.

## SHARE DEALINGS

It is not possible for any Director to acquire or dispose of any interest in shares in the Company.

## USE OF COMPANY INFORMATION

The Board received no notices during the year from Directors requesting use of Company information received in their capacity as Directors, which would not otherwise have been available to them.

## DIRECTORS' INTEREST

The following Directors have made general disclosures of interest pursuant to Section 140 of the Companies Act 1993, that the named Directors are to be regarded as having an interest in any contract that may be made with the entities listed below by virtue of their directorship of those organisations.

W W Moyes:

Board Member – Electricity Networks Association

N P Davies-Colley

Director – The Tree People Ltd

Director – MP Logging Ltd

R L Steed

Far North Area Delegate – Meat NZ

Director – Auckland Romney Development Group

D Ballard

Director/Shareholder – New Zealand Bloom (NZ) Ltd

Director/Shareholder – New Zealand Bloom (California) Ltd

Director – Flowerpac International Ltd

Canterbury Fields Ltd

Canterbury Fields Packhouse Ltd

## DIRECTORS' REMUNERATION

Directors' remuneration paid during the period was:-

D Ballard	\$ 46,750
N P Davies-Colley	\$ 46,750
R L Steed	\$ 46,750
J J Ward	\$ 46,750
W W Moyes	\$ 97,500
	<u>\$284,500</u>

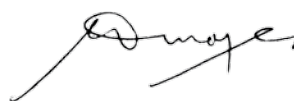
## REMUNERATION OF EMPLOYEES

Bands:	No. of Employees
\$100,000 - \$109,999	19
\$110,000 - \$119,999	11
\$120,000 - \$129,999	5
\$130,000 - \$139,999	3
\$140,000 - \$149,999	3
\$150,000 - \$159,999	2
\$180,000 - \$189,999	2
\$250,000 - \$259,999	1
\$350,000 - \$359,999	1
\$400,000 - \$409,999	1

## CHANGES IN DIRECTORS

In accordance with the Company's Constitution, N Davies-Colley and R Steed will retire and offer themselves for re-election.

For and on behalf of the Board.



**Warren Moyes**  
Chairman

# Financials



## Audit report



### TO THE READERS OF NORTHPOWER LIMITED AND GROUP'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 31 MARCH 2007.

The Auditor-General is the auditor of Northpower Limited (the company) and group. The Auditor General has appointed me, John Scott, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the company and group, on his behalf, for the year ended 31 March 2008.

#### Unqualified Opinion

In our opinion:

- The financial statements of the company and group on pages 26 to 57:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of:
    - the company and group's financial position as at 31 March 2008.
    - the results of its operations and cash flows for the year ended on that date.
- The performance information of the company and group on page 57 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 31 March 2008.
- Based on our examination the company and group kept proper accounting records.

The audit was completed on 30 June 2008, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

#### Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and performance information did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and performance information. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all required disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information.

We evaluated the overall adequacy of the presentation of information in the financial statements and performance information. We obtained all the information and explanations we required to support our opinion above

#### Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the company and group as at 31 March 2008. They must also give a true and fair view of the results of operations and cash flows for the year ended on that date. The Board of Directors is also responsible for preparing performance information that gives a true and fair view of service performance achievements for the year ended 31 March 2008. The

## Audit report

Board of Directors' responsibilities arise from the Energy Companies Act 1992 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 45(1) of the Energy Companies Act 1992.

### Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit of the annual financial statements we have carried out an assignment for the company. This involved issuing an audit certificate pursuant to the

Electricity Information Disclosure Requirements 2004. This assignment is compatible with those independent requirements. Other than the audit and this assignment, we have no relationship with or interests in the company or any of its subsidiaries.



**John Scott**

Audit New Zealand  
On behalf of the Auditor-General  
Auckland, New Zealand

## Directors' responsibility statement

The Directors are responsible for preparing the financial statements and ensuring that they comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Company and the subsidiary as at 31 March 2008 and the results of their operations and cash flows for the year ended on that date.

The Directors consider that the financial statements of the Company and the Subsidiaries have been prepared using appropriate accounting policies which have been consistently applied and supported by reasonable judgments and estimates, and that all relevant financial reporting and accounting standards have been followed.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Directors consider that they have taken adequate steps to safeguard the assets of the Company with the Subsidiary, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide a reasonable assurance as to the integrity and reliability of the financial statements.

The Directors are pleased to present the financial statements of Northpower Limited and its Subsidiaries for the year ended 31 March 2008.

For and on behalf of the Board of Directors.



**Bob Steed**  
Director



**Nikki Davies-Colley**  
Director

## Income statement

	Notes	GROUP		PARENT	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
Continuing operations					
Revenue	1	162,848	149,668	152,109	146,728
Other income		526	279	451	276
Changes in Inventories of finished goods and work in progress					
		(622)	2,552	(576)	2,552
Raw materials and consumables used		83,051	72,383	76,534	70,774
Employee benefits expense		53,281	41,689	47,650	41,266
Depreciation and amortisation expense		11,525	10,038	11,174	9,445
Impairment of non-current assets		-	-	-	-
Other expenses	2	2,113	2,453	1,989	2,407
Finance Costs		2,210	713	1,721	713
Profit before tax		11,816	20,119	14,068	19,847
Taxation Refund/(Expense)	3	56	(5,336)	56	(5,245)
Profit from continuing operations after income tax		11,872	14,783	14,124	14,602

## Balance sheet

	Notes	GROUP		PARENT	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Current Assets</b>					
Cash and Cash Equivalent	4	3,185	228	951	146
Trade and Other Receivables		22,713	20,135	20,537	19,738
Construction Contract	5	6,356	6,283	5,651	6,283
Inventory	29	6,402	6,392	6,402	6,392
Fair Value Contract for Differences		46	235	46	235
Tax Refund Due		2,099	53	2,099	-
<b>Total Current Assets</b>		<b>40,801</b>	<b>33,326</b>	<b>35,686</b>	<b>32,794</b>
<b>Non Current Assets</b>					
Investments	6	856	813	856	-
Investments in Subsidiaries	7	-	-	3,781	3,235
Assets under Construction		2,167	8,496	2,167	8,496
Intangible Assets	8	5,275	2,828	3,391	1,353
Property, Plant and Equipment	9	287,784	259,098	284,535	255,884
<b>Total Non Current Assets</b>		<b>296,082</b>	<b>271,235</b>	<b>294,730</b>	<b>268,968</b>
<b>Total Assets</b>		<b>336,883</b>	<b>304,561</b>	<b>330,416</b>	<b>301,762</b>
<b>Current Liabilities</b>					
Short Term Loan	10	28,364	10,600	23,681	10,600
Trade and Other Payables	11	13,155	14,794	12,156	14,600
Tax Payable		-	444	-	444
Provision for Dividend	12	4,156	5,177	4,156	5,177
GST Owed		641	690	609	649
Employee Entitlements	28	5,970	4,689	5,489	4,595
<b>Total Current Liabilities</b>		<b>52,286</b>	<b>36,394</b>	<b>46,091</b>	<b>36,065</b>
<b>Non Current Liabilities</b>					
Employee Entitlements	28	1,455	1,361	1,455	1,361
Long term loans	10	2,906	-	-	-
Deferred Taxation	3	53,283	55,672	53,283	55,431
<b>Total Non Current Liabilities</b>		<b>57,644</b>	<b>57,033</b>	<b>54,738</b>	<b>56,792</b>
<b>Total Liabilities</b>		<b>109,930</b>	<b>93,427</b>	<b>100,829</b>	<b>92,857</b>
<b>Net Assets</b>		<b>226,953</b>	<b>211,134</b>	<b>229,587</b>	<b>208,905</b>
<b>Equity</b>					
Share Capital	13	35,989	35,989	35,989	35,989
Asset Revaluation Reserve		42,337	34,208	42,337	34,208
Retained Earnings		148,627	140,937	151,261	138,708
<b>Equity Attributable to Equity Holders</b>		<b>226,953</b>	<b>211,134</b>	<b>229,587</b>	<b>208,905</b>
<b>Total Equity</b>		<b>226,953</b>	<b>211,134</b>	<b>229,587</b>	<b>208,905</b>

## Cash flow statement

	Notes	GROUP		PARENT	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Cash Flows From Operating Activities -</b>					
Cash was provided from:					
Receipts from Customers		153,335	144,752	148,569	142,272
Interest Received		106	30	100	30
Cash was distributed to:					
Payments to Suppliers		(83,900)	(72,302)	(79,962)	(70,914)
Payments to Employees		(51,728)	(41,027)	(47,640)	(40,301)
Interest Paid		(2,210)	(713)	(1,721)	(713)
Income Tax Paid		(3,848)	(5,800)	(3,847)	(5,669)
<b>Net Cash Inflow from Operating Activities</b>	14	<b>\$11,755</b>	<b>\$24,940</b>	<b>\$15,499</b>	<b>\$24,705</b>
<b>Cash Flows from Investing Activities -</b>					
Cash was provided from:					
Proceeds from Sale of Fixed Assets		529	1,072	522	1,059
Proceeds from Sale of Properties		-	-	-	-
Term Receivable		-	-	-	-
Repayment by Subsidiary		121	-	121	115
Short Term Deposits Matured		-	-	-	-
Cash was applied to:					
Transfer to Subsidiary		(42)	0	(42)	(79)
Purchase of Goodwill		(165)	(96)	(165)	(96)
Purchase of Fixed Assets		(22,850)	(23,815)	(19,335)	(23,679)
Purchase of Investment		(5,665)	(1)	(3,781)	-
<b>Net Cash Outflow from Investing Activities</b>		<b>(\$28,072)</b>	<b>(\$22,840)</b>	<b>(\$22,680)</b>	<b>(\$22,680)</b>
<b>Cash Flows from Financing Activities -</b>					
Cash was provided from:					
Short Term Loan		20,670	2,100	13,081	2,100
Issue of Shares		3,781	-	-	-
Cash was applied to:					
Dividends		(5,177)	(4,155)	(5,177)	(4,155)
<b>Net Cash Outflow from Financing Activities</b>		<b>\$19,274</b>	<b>(\$2,055)</b>	<b>\$7,904</b>	<b>(\$2,055)</b>
Net Increase/(Decrease) in Cash Held					
		2,957	45	723	(30)
Add Cash from amalgamation of subsidiaries		82	-	82	-
Add Opening Cash Brought Forward		146	183	146	176
<b>Ending Cash Carried Forward</b>		<b>\$3,185</b>	<b>\$228</b>	<b>\$951</b>	<b>\$146</b>

## Statement of changes in equity

### GROUP

At 1 April 2006  
 Shares issued during year  
 Revaluation of distribution systems  
**Total income and expenses for the period recognised directly in equity**

Profit for the period  
**Total income and expense for the period**

#### Equity Transaction:

Dividends paid

**At 31 March 2007**

At 1 April 2007  
 Revaluation of land and buildings  
**Total income and expenses for the period recognised directly in equity**

Profit for the period  
**Total income and expense for the period**

#### Equity Transaction:

Deferred tax on change in tax rate

Deferred tax on revaluation

Adjustments from amalgamation

Dividends paid

**At 31 March 2008**

### PARENT

At 1 April 2006  
 Revaluation of distribution systems  
**Total income and expenses for the period recognised directly in equity**

Profit for the period  
**Total income and expense for the period**

#### Equity Transaction:

Dividends paid

**At 31 March 2007**

At 1 April 2007  
 Revaluation of Land & Buildings  
**Total income and expenses for the period recognised directly in equity**

Profit for the period  
**Total income and expense for the period**

#### Equity Transaction:

Deferred tax on changes in tax rate

Deferred tax on revaluation

Amalgamation of Subsidiaries

Dividends paid

**At 31 March 2008**

	Ordinary Shares	Retained Earnings	Revaluation Reserves	Total
	\$000	\$000	\$000	\$000
At 1 April 2006	35,989	131,331	-	167,320
Shares issued during year	-	-	-	-
Revaluation of distribution systems	-	-	34,208	34,208
<b>Total income and expenses for the period recognised directly in equity</b>	-	-	34,208	34,208
Profit for the period	-	14,783	-	14,783
<b>Total income and expense for the period</b>	-	14,783	34,208	48,991
<b>Equity Transaction:</b>				
Dividends paid	-	(5,177)	-	(5,177)
<b>At 31 March 2007</b>	35,989	140,937	34,208	211,134
At 1 April 2007	35,989	140,937	34,208	211,134
Revaluation of land and buildings	-	-	7,162	7,162
<b>Total income and expenses for the period recognised directly in equity</b>	-	-	7,162	7,162
Profit for the period	-	11,872	-	11,872
<b>Total income and expense for the period</b>	-	11,872	7,162	19,034
<b>Equity Transaction:</b>				
Deferred tax on change in tax rate	-	-	1,570	1,570
Deferred tax on revaluation	-	-	(603)	(603)
Adjustments from amalgamation	-	(26)	-	(26)
Dividends paid	-	(4,156)	-	(4,156)
<b>At 31 March 2008</b>	35,989	148,627	42,337	226,953
<b>PARENT</b>				
At 1 April 2006	35,989	129,283	-	165,272
Revaluation of distribution systems	-	-	34,208	34,208
<b>Total income and expenses for the period recognised directly in equity</b>	-	-	34,208	34,208
Profit for the period	-	14,602	-	14,602
<b>Total income and expense for the period</b>	-	14,602	34,208	48,810
<b>Equity Transaction:</b>				
Dividends paid	-	(5,177)	-	(5,177)
<b>At 31 March 2007</b>	35,989	138,708	34,208	208,905
At 1 April 2007	35,989	138,708	34,208	208,905
Revaluation of Land & Buildings	-	-	7,162	7,162
<b>Total income and expenses for the period recognised directly in equity</b>	-	-	7,162	7,162
Profit for the period	-	14,124	-	14,124
<b>Total income and expense for the period</b>	-	14,124	7,162	21,286
<b>Equity Transaction:</b>				
Deferred tax on changes in tax rate	-	2,204	-	2,204
Deferred tax on revaluation	-	-	1,570	1,570
Amalgamation of Subsidiaries	-	-	(603)	(603)
Amalgamation of Subsidiaries	-	-	2,585	2,585
Dividends paid	-	(4,156)	-	(4,156)
<b>At 31 March 2008</b>	35,989	151,261	42,337	229,587

#### Nature and Purpose of Asset Revaluation Reserve:

The asset revaluation reserve is used to record increases in the fair value of distribution system assets. When an asset is sold, that portion of the asset revaluation reserve which relates to that asset and is effectively realised is transferred directly to retained earnings.

## Statement of accounting policies

### Reporting Entity

Northpower Limited (the Company) is a profit oriented limited liability company incorporated in New Zealand.

The Company is formed under the Energy Companies Act 1992 and registered under the Companies Act 1993. The group consists of Northpower Limited and its subsidiaries Metro Power Limited, PSM Services Limited, West Coast Energy Pty Ltd and Northpower Western Australia Pty Ltd. The Northpower Electric Power Trust is the sole shareholder of the Company.

The principal activities of the Company are the transmission of electricity and electricity contracting. The principal activities for the subsidiaries are as follows:

- Metro Power Limited operates a dairy farm near Dargaville. This land is set aside for wind power development.
- PSM Services is based in the Waikato and operates an electricity contracting business.
- West Coast Energy Pty Ltd is based in Western Australia. It operates an electricity contracting business.
- Northpower Western Australia Pty Ltd is based in Western Australia. It is an intermediate holding company.

The subsidiaries Metro Power and PSM Services were amalgamated with Northpower on the 28th March 2008.

### Statement of Compliance

The financial statements comply with the Financial Reporting Act 1993, the companies Act 1993 and section 44 of the Energy Companies Act 1992.

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards, and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. Compliance with NZ IFRS ensures compliance with International Financial Reporting Standards (IFRS).

This is the first set of financial statements prepared based on NZ IFRS and comparatives for the year ended 31 March 2007 have been restated accordingly. Reconciliations of equity at 1 April 2006 and 31 March 2007 and profit for the year ended 31 March 2007 under NZ IFRS to the balances reported in the 31 March 2007 financial statements are detailed in Note 21.

### Basis of Preparation

The general accounting policies recognised as appropriate for the measurement and reporting of results, cashflows

and Balance Sheet under the historical cost method, as modified by the revaluation of investments and the distribution system assets, have been followed in the preparation of these financial statements.

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

The financial statements for the year ended 31 March 2008 were authorised for issue in accordance with a resolution of the directors on 30 June 2008.

### Significant Accounting Policies

The accounting policies set out below have been applied in preparing the financial statements for the year ended 31 March 2008 and the comparative information presented in these financial statements is for the year ended 31 March 2007.

#### (i) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries controlled by the Company (its subsidiaries).

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the effective date of acquisition or disposal, as appropriate. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies

All significant intercompany transactions are eliminated on consolidation. In the parent company's financial statements, investments in the subsidiaries are stated at cost.

There are no minority interests in the group.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions under NZ IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with NZ

## Statement of accounting policies

IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

### (ii) Business Combination

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instrument is their published price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of the acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the Income Statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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

### (iii) Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the Balance Sheet date.

All exchange differences in the consolidated financial statements are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss. On disposal of a foreign operation, the cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss. Tax charges and credits attributable to exchange differences in those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

### (iv) Revenue Recognition

#### *Sales of goods and services*

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services, including lines charges provided in the normal course of business, net of Goods and Services Tax.

#### *Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

#### *Construction contract*

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at Balance Sheet date, as measured by the proportion that contract costs for work performed to date bear to the total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs

## Statement of accounting policies

are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

### *Farming*

Revenue is derived from the Group's share of milking income from the farm.

### **(v) Investments**

Investments in unlisted equity instruments are stated at fair value. The fair value of the investment is based on the unlisted entity's published fair valuation at which share and notes are traded.

### **(vi) Property, Plant and Equipment**

#### *Distribution System*

Distribution system assets held for use are stated in Balance Sheet at their revalued amount, being the fair value at the date of valuation, less any subsequent accumulated depreciation and subsequent accumulated impairment loss. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at Balance Sheet date. Additions between revaluations are recorded at cost.

Any revaluation increase in the revaluation of distribution system assets is credited to the assets' revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in the Income Statement, in which case the increase is credited to the Income Statement to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such assets is charged to Income Statement to the extent it exceeds the balance, if any, held in the distribution system assets revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to the Income Statement. On the subsequent sale or retirement of a revalued property the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

#### *Land and building*

Land and Buildings held for use in the production of supply of goods and services, or for administrative purposes are stated in the Balance Sheet at their revalued amount, being the fair value at the date of

valuation, less any subsequent accumulated depreciation and subsequent accumulated impairment loss. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at Balance Sheet date. Additions between revaluations are recorded at cost.

Depreciation on revalued buildings is charged to the Income Statement. On the subsequent sale or retirement of a revalued property the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

No depreciation is charged on land.

#### *Plant, equipment and vehicles*

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by the Group includes the cost of all materials used in construction, direct labour on the project and an appropriate proportion of production overhead. Costs cease to be capitalised as soon as the asset is ready for productive use.

#### *Depreciation*

Depreciation is charged on a straight line basis so as to write off the cost or valuation of the fixed assets to their estimated residual value over their expected economic lives. The estimated economic lives are as follows:-

Distribution system:	
Lines/transformers/substations	45-70 years
Distribution switchgear	35-55 years
Meters/communication/SCADA	5-15 years
Generation	5-50 years
Buildings - structural	50 years
- electrical and mechanical	20 years
- other	10 years
Motor vehicles	5-15 years
Plant and equipment	3-20 years

## Statement of accounting policies

### *Disposal*

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on the derecognition of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year the asset is derecognised.

### **(vii) Impairment of assets**

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset 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 from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication of that the asset may be impaired

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in Income Statement immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

A reversal of an impairment loss is recognised in the Income Statement immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment is treated as a revaluation increase.

### **(viii) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost includes the cost of direct materials and other charges, such as freight cost, that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

### **(ix) Taxation**

Current tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the Income Statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at Balance Sheet date.

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

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

## Statement of accounting policies

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the Consolidated Income Statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity (such as asset revaluations).

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

- (x) **Research and Development Costs**  
Research and development costs are normally expensed in the period incurred except that development costs are deferred where future benefits are expected to exceed these costs. Deferred development costs are amortised over future periods on a basis related to expected future revenue.

- (xi) **Financial Instruments**  
Financial assets and financial liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

### *Accounts Receivable*

Accounts Receivable are measured at initial recognition at fair value and subsequently measured at amortised cost using effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the Income Statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted using effective interest rate.

### *Cash and cash equivalents*

Cash and cash equivalent comprise cash on hand and demand deposit, and other short-term highly liquid investments that are readily convertible to a

known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the Balance Sheet.

### *Bank borrowings*

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. At difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs (see below).

### *Derivative Financial Instruments*

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. These derivative financial instruments do not qualify for hedge accounting and changes in fair value are recognised immediately in profit or loss in other revenue and expenses. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The fair value forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profile.

### *Contract for Differences*

The contract for differences (CFD) relates to an electricity settlement agreement. The fair value is determined on a discounted cash flow basis, with the future cash flows being estimated based on the Group's view of the future electricity spot price compared to the CFD settlement price.

- (xii) **Goods and Services Tax**  
These Financial Statements are prepared on a GST exclusive basis, with the exception of accounts receivable and accounts payable, which are GST inclusive. Where GST is irrecoverable as an input tax, it is recognised as part of the related asset or expense.
- (xiii) **Provisions and Employee Benefits**  
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result

## Statement of accounting policies

of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits including accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at their nominal values using the remuneration rate expected at the time of settlement. Expenses for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to Balance Sheet date

Contributions to defined contribution superannuation plans are expensed when incurred.

### (xiv) Goodwill and Intangibles

#### *Goodwill*

Goodwill acquired in a business combination is initially measured at cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units. Each unit or group of units to which the goodwill is so allocated:

- Represents the lowest level within the Group at

which the goodwill is monitored for internal management purposes; and

- Is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with NZ IAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss in disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

#### *Intangible Assets*

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or infinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefit embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate.

## Statement of accounting policies

The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is accounted for as a change in accounting estimate and is thus accounted for on a prospective basis.

Software costs have a finite useful life and are amortised over a period of expected future benefit of 5 years on a straight line basis.

### (xv) Leases

Northpower Group entities lease certain plant and equipment. Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the lease items, are included in the determination of the net surplus in equal instalments over the period of the lease.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the profit or loss

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

### (xvi) Loans and Borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fee paid on the establishment of loan facilities that

are yield related are included as part of the carrying amount of the loans and borrowings.

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

### (xvii) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

### (xviii) Cash Flow Statement

*Cash and cash equivalent* comprise cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Group invests as part of its day-to-day cash management.

*Operating activities* include all activities other than investing and financing activities. The cash inflows include all receipts from the sale of goods and services and other sources of revenue that support Northpower's operating activities. Cash outflows include payments made to employees, suppliers and for taxes.

*Investing activities* are those activities relating to the acquisition and disposal of current and non-current securities and any other non-current assets.

*Financing activities* are those activities relating to changes in equity and debt capital structure of the Group and those activities relating to the cost of servicing the Group's equity capital, excluding interest

(xix) Standards and Interpretations that have been recently issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 31 March 2008. These are outlined in the table on next page.

## Statement of accounting policies

Reference	Title	Summary	Application date of standard*	Impact on Group financial statements	Application date for Group*
NZ IFRS 8	Operating Segments	New standard replacing NZ IAS 14 Segment Reporting, which adopts a management approach to segment reporting.	1 January 2009	NZ IFRS 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However the amendments may have an impact on the Group's segment disclosures as segment information included in internal management reports is more detailed than is currently reported under NZ IAS 14 Segment Reporting.	1 April 2009
NZ IAS 23 (revised)	Borrowing Costs	The amendments to NZ IAS 23 require that all borrowing costs associated with a qualifying asset must be capitalised.	1 January 2009	The amendments to NZ IAS 23 require that all borrowing costs associated with a qualifying asset be capitalised. The Group has no borrowing costs associated with qualifying assets and as such the amendments are not expected to have any impact on the Group's financial statements.	1 April 2009
NZ IAS 1 (revised)	Presentation of Financial Statements	Introducing a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statement, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	The amendments are expected to only effect the presentation on the Group's financial statements and not to have a direct impact on the measurement and recognition of amounts under the current NZ IAS 1. The Group has not determined at this stage whether to present the new statement of comprehensive income as a single or two statement.	1 April 2009

### Changes in Accounting Policies

Accounting policies have been changed to comply with NZ IFRS. All accounting policies have been applied on a consistent basis for the periods presented.

## Financial risk management objectives and policies

The Group's principal financial instruments comprise receivables, payables, bank loans and cash.

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

The Group enters into forward exchange currency contracts to manage currency risks arising from the Group's operations. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate, foreign exchange and commodity prices. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below, including the setting of limits for hedging cover of foreign currency and interest risk, credit allowances and future cash flow forecast projections

### Credit Risk:

Credit risk is the risk that a third party will default on its contractual obligation resulting in financial loss to the Group.

Financial instruments which potentially subject the Group to credit risk principally consist of cash and bank balances, short term deposits and accounts receivable. Northpower does not generally require collateral from customers.

The Group places its cash and short term deposits with high credit quality financial institutions (A1 or better), and limits the proportion of credit exposure to any one institution in accordance with Company policy.

The Group trades only with recognised, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There is no significant concentration of credit risk. The maximum amount of credit risk for each class is the carrying amount in the Balance Sheet.

The carrying amount of receivables that are past due, but not impaired, whose terms have been renegotiated is \$980,000 (2007 – \$1,502,000) Details of ageing and impairment of trade receivables are in note 4.

### Fair Values:

With the exception of shares in subsidiaries, the fair value of all financial instruments is approximated by the carrying value recorded in the Balance Sheet. The fair value (as approximated by the net assets) of Northpower's investment in subsidiaries are:

West Coast Energy Pty Ltd &  
Northpower Western Australia Pty Ltd

	2008 \$000	2007 \$000
Fair Value	991,682	
Carrying Value	991,682	NIL

## Financial risk management objectives and policies

### Liquidity Risk

The Group's objective is to maintain a balance between continuity in funding and flexibility through the use of bank overdrafts and bank loans.

The contractual maturities of the Group's and parent entity's financial liabilities are:

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
6 month or less	18,064	10,600	13,381	10,600
6-12 months	10,300	-	10,300	-
1-5 years	2,906	-	-	-

The Group has a long term funding agreement with banks. Currently loans are taken out on short to medium term as management believe interest rates are moving downwards.

### MARKET RISKS.

#### a) Price Risk

The group is not exposed to price risk as it has no instruments subject to market prices.

#### b) Foreign Currency Risk:

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

As a result of investment operations in Australia, the Group's balance sheet can be affected significantly by movements in the exchange rates. The Group seeks to mitigate the effect of its foreign currency exposure by borrowing in Australian dollars. The Group's investment in foreign operations will be hedged in this manner.

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating entity in currencies other than the functional currency. There are no forward exchange contracts in place at balance date.

The following sensitivity analysis is based on the foreign currency risk exposures in existence at the balance sheet date:

**At 31 March 2008, had the New Zealand Dollar moved, as illustrated in the table below with all other variables held constant, post tax profit and equity would have been affected as follows:**

	Post Tax Profit Higher / (Lower)		Equity Higher / (Lower)	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Group</b>				
NZD/AUD +5%	-	-	(180)	-
NZD/AUD -10%		-	420	-
<b>Parent</b>				
NZD/AUD +5%	-	-	(180)	-
NZD/AUD -10%		-	420	-

## Financial risk management objectives and policies

### c) Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. There are no interest rate options or interest rate swap options in place as at 31 March 2008 (2007 Nil). The interest rates for Northpower's financial instruments are as follows:-

Bank Deposit	(2007: N/A)	
	(2008: N/A)	
Bank Loan	(2007: 8.40%)	floating rate
	(2008: 9.18%)	floating rate
	(2008: 9.12%)	fixed rate

The level of debt is disclosed in note 10.

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, hedging positions and the mix of fixed and variable interest rates.

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date:

**At 31 March 2008, if interest rates had moved as illustrated in the table below with all other variables held constant, post tax profit and equity would have been affected as follows:**

	Post Tax Profit Higher / (Lower)		Equity Higher / (Lower)	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Group</b>				
+1% (100 basis points)	(182)	(90)	(182)	(90)
-.5% (50 basis points)	91	45	91	45
<b>Parent</b>				
+1% (100 basis points)	(144)	(90)	(144)	(90)
-.5% (50 basis points)	72	45	72	45

The movement in profit and in equity is due to the higher/lower interest costs from variable rate debt. The sensitivity is less in 2007 due to the lower level of debt in 2007.

## Critical accounting judgement and key sources of estimation uncertainty

### Critical Accounting Estimates and Assumptions

In the process of applying the entity's accounting policies, which are described in Statement of Accounting Policy, management has made the following judgments that have the most significant effect on the amounts recognised in the Financial Statements (apart from those involving estimations, which are dealt with below).

#### *Revenue recognition*

Part of the network charges are based on normalisation, where consumption is estimated to the end of the billing period based in historical actual meter readings. Occasionally the meter reading history data is not consistent and subsequent adjustments are made to customers' accounts, where further charges are applied or refund given. These adjustments amounts are not significant compared with total network revenue.

### Key Sources of Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at Balance Sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

#### *Construction Contracts*

The Group recognised revenue from construction contract by applying percentage of completion method. Percentage of completion is determined using the cost incurred compared to the total cost estimated for the completion of the contract.

#### *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill is allocated.

#### *Allowance for impairment loss on trade receivables*

Where receivables are outstanding beyond the normal trading terms, the likelihood of the recovery of these receivables is assessed by management. This assessment is based on supportable past collection history and historical write-offs of bad debts.

#### *Estimation of useful lives of assets*

The estimation of useful lives of assets has been based on historical experience as well as manufacturers' warranties for plant and equipment (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary.

#### *Long service leave and retirement leave provision*

The liability for long service leave and retirement leave are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at Balance Sheet date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

## Notes to and forming part of the financial statements

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>I Revenue</b>				
Line Charges	39,438	37,528	39,438	37,528
Line Contributions	5,263	4,042	5,263	4,042
Contracting Work	117,703	107,670	107,408	105,158
Income from Farming	444	428	-	-
	<b>162,848</b>	<b>149,668</b>	<b>152,109</b>	<b>146,728</b>
<b>2 Other Expenses</b>				
Changes in fair value of CFDs	(189)	200	(189)	200
Loss on foreign exchange contracts	50		50	
Auditors Remuneration				
- Auditing Financial Statements	83	85	82	54
- Auditing Disclosure Regulations	15	9	15	9
- Auditing IFRS adoption	-	-	-	-
Bad Debts Written Off	73	17	73	17
Directors' Fees	285	215	285	215
Rental and Operating Lease Costs	1,101	514	988	434
Research and Development	534	1,502	534	1,567
Donations	-	-	-	-
Loss/(Gains) on Sale of Assets	161	(89)	151	(89)
	<b>2,113</b>	<b>2,453</b>	<b>1,989</b>	<b>2,407</b>
<b>3 Taxation</b>				
Profit/(loss) before Taxation Per Income Statement	<b>11,816</b>	<b>20,119</b>	<b>14,068</b>	<b>19,847</b>
Prima Facie Taxation @ 33%	<b>3,899</b>	<b>6,639</b>	<b>4,642</b>	<b>6,550</b>
Plus/(Less) Tax Effect of:				
Non Taxable Income	(962)	(1,276)	(1,705)	(1,278)
Prior Period Adjustment	765	(27)	765	(27)
Deferred Taxation Resulting from Reduction in Tax Rate	(3,758)	-	(3,758)	-
	<b>(\$56)</b>	<b>\$5,336</b>	<b>(\$56)</b>	<b>\$5,245</b>
The Taxation Charge is Represented by:				
Current Taxation	3,210	5,386	3,210	5,297
Deferred Taxation	2,335	(50)	2,335	(52)
Prior Period Adjustment	(1,843)	-	(1,843)	-
Deferred Taxation Resulting from Reduction in Tax Rate	(3,758)	-	(3,758)	-
	<b>(\$56)</b>	<b>\$5,336</b>	<b>(\$56)</b>	<b>\$5,245</b>
Imputation Credit Account:				
Opening Balance	21,481	17,753	20,900	17,303
Imputation Credits Attaching to Dividends Paid in the Year	(2,549)	(2,046)	(2,549)	(2,046)
Income Tax Payments During Year	3,847	5,774	3,847	5,643
Imputation Credits Attaching to Dividends Received in the Year	-	-	-	-
Amalgamation of Subsidiaries	-	-	581	-
	<b>\$22,779</b>	<b>\$21,481</b>	<b>\$22,779</b>	<b>\$20,900</b>

## Notes to and forming part of the financial statements

**Taxation (continued)****Recognised deferred tax assets and liabilities**

	Property plant & equipment \$000	Financial instructions \$000	Employee entitlements \$000	Other provisions \$000	Total \$000
<b>GROUP</b>					
Balance as at 1 April 2007	(56,696)	(246)	1,515	(245)	(55,672)
Charged to Income	2,701	73	(157)	(1,195)	(1,422)
Charged to equity	967	-			967
Balance as at 31 March 2008	(53,028)	(173)	1,358	(1,440)	(53,283)
<b>PARENT</b>					
Balance as at 1 April 2007	(56,682)	(19)	1,515	(245)	(55,431)
Charged to Income	2,701	73	(157)	(1,195)	(1,422)
Charged to equity	967	-			967
Amalgamation Subsidiaries	(16)	(225)			(241)
Balance as at 31 March 2008	(53,030)	(171)	1,358	(1,440)	(53,283)
<b>GROUP</b>					
Balance as at 1 April 2006	(39,755)	(389)	1,515	(245)	(38,874)
Charged to Income	50	-	-	-	50
Charged to equity	(16,991)	143			(16,848)
Balance as at 31 March 2007	(56,696)	(246)	1,515	(245)	(55,672)
<b>PARENT</b>					
Balance as at 1 April 2006	(39,743)	(162)	1,515	(245)	(38,635)
Charged to Income	52	-	-	-	52
Charged to equity	(16,991)	143			(16,848)
Balance as at 31 March 2007	(56,682)	(19)	1,515	(245)	(55,431)

## Notes to and forming part of the financial statements

### 4 Current Asset - Cash and cash equivalents

Bank  
Cash

GROUP		PARENT	
2008 \$000	2007 \$000	2008 \$000	2007 \$000
3,183	227	950	145
2	1	1	1
<b>3,185</b>	<b>228</b>	<b>951</b>	<b>146</b>

Cash and cash equivalent comprise: cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets equate the fair value.

Current Assets - Trade and other receivables

Gross trade receivables  
Less Provision for Impairment  
Other receivables

22,863	20,135	20,687	19,738
(150)	-	(150)	-
-	-	-	-
<b>22,713</b>	<b>20,135</b>	<b>20,537</b>	<b>19,738</b>

Due to the short term nature of these receivables the carrying value of receivables approximates their fair value.

The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

As at 31 March 2008 the ageing analysis of trade receivables is as follows:

	2008			2007		
	Gross	Impairment	Net	Gross	Impairment	Net
<b>PARENT</b>						
0 - 30 days	17,180	-	17,180	15,901	-	15,901
31 - 60 days	1,620	-	1,620	1,714	-	1,714
61 - 90 days	758	-	758	642	-	642
91 days plus	1,129	(150)	979	1,481	-	1,481
	<b>20,687</b>	<b>(150)</b>	<b>20,537</b>	<b>19,738</b>	<b>-</b>	<b>19,738</b>
<b>GROUP</b>						
0 - 30 days	19,188	-	19,188	16,181	-	16,181
31 - 60 days	1,787	-	1,787	1,764	-	1,764
61 - 90 days	758	-	758	688	-	688
91 days plus	1,130	(150)	980	1,502	-	1,502
	<b>22,863</b>	<b>(150)</b>	<b>22,713</b>	<b>20,135</b>	<b>-</b>	<b>20,135</b>

The provision for impairment has been calculated based on expected losses for Northpower's pool of debtors. Expected losses have been determined by review of specific debtors.

Movements in the provision for impairment of receivables are as follows:

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Balance at 1 April	-	-	-	-
Additional provisions made during the year	150	-	150	-
Receivables written off during the year	-	-	-	-
Balance at 31 March	<b>150</b>	<b>-</b>	<b>150</b>	<b>-</b>

## Notes to and forming part of the financial statements

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>5 Construction Contracts</b>				
Aggregate of costs incurred	19,943	21,990	19,238	21,990
Recognised profits (less recognised losses) to date	8,995	6,421	8,995	6,421
	<b>28,938</b>	<b>28,411</b>	<b>28,233</b>	<b>28,411</b>
Advances received	(22,582)	(22,128)	(22,582)	(22,128)
Retentions	-	-	-	-
	<b>6,356</b>	<b>6,283</b>	<b>5,651</b>	<b>6,283</b>

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>6 Investments</b>				
<b>At fair value</b>				
Unlisted shares				
Fonterra Co-operative Group Limited	832	790	832	-
Ravensdown Fertiliser Co-operative Limited	24	23	24	-
	<b>856</b>	<b>813</b>	<b>856</b>	<b>-</b>

The investments consists of 122,534 (2007: 120,480) Fonterra Co-operative shares and 24,197 (2007: 22,648) Ravensdown Fertiliser Co-operative Limited shares.

The shares held as investments are un-listed. Fair value has been calculated by Fonterra Co-operative Group Ltd and Ravensdown Fertiliser Co-operative Ltd.

	PARENT	
	2008 \$000	2007 \$000
<b>7 Shares in Subsidiaries</b>	<b>3,781</b>	<b>3,235</b>

Subsidiary	Principal Activity	Balance Sheet Date	Interest held at 31 March 2008	Interest held at 31 March 2007
West Coast Energy Pty Ltd	Electricity contracting	31 March	100%	-
Northpower Western Australia Pty Ltd	Intermediate holding company	31 March	100%	-
Metro Power Limited	Dairy Farming	31 March	-	100%
PSM Services Limited	Electricity contracting	31 March	-	100%

## Notes to and forming part of the financial statements

	<b>GROUP</b>		
	Goodwill \$000	Softwares \$000	Total \$000
<b>8 Intangible Assets</b>			
<b>Cost or fair value</b>			
At 1 April 2007	2,212	2,717	4,929
Addition	2,049	671	2,720
Disposal			-
At 31 March 2008	4,261	3,388	7,649
<b>Accumulated Amortisation</b>			
At 1 April 2007	-	2,101	2,101
Amortisation for the year	-	273	273
Disposal	-		-
At 31 March 2008	-	2,374	2,374
<b>Net carrying amount at 31 March 2008</b>	<b>4,261</b>	<b>1,014</b>	<b>5,275</b>
<b>Cost or fair value</b>			
At 1 April 2006	2,116	2,405	4,521
Addition	96	312	408
Disposal	-	-	-
At 31 March 2007	2,212	2,717	4,929
<b>Accumulated Amortisation</b>			
At 1 April 2006	-	1,774	1,774
Amortisation for the year	-	327	327
Disposal	-	-	-
At 31 March 2007	-	2,101	2,101
<b>Net carrying amount at 31 March 2007</b>	<b>2,212</b>	<b>616</b>	<b>2,828</b>
		<b>PARENT</b>	
	Goodwill \$000	Softwares \$000	Total \$000
<b>Cost or fair value</b>			
At 1 April 2007	737	2,717	3,454
Addition	1,640	671	2,311
Disposal			-
At 31 March 2008	2,377	3,388	5,765
<b>Accumulated Amortisation</b>			
At 1 April 2007	-	2,101	2,101
Amortisation for the year	-	273	273
Disposal	-		-
At 31 March 2008	-	2,374	2,374
<b>Net carrying amount at 31 March 2008</b>	<b>2,377</b>	<b>1,014</b>	<b>3,391</b>
<b>Cost or fair value</b>			
At 1 April 2006	2,116	2,405	4,521
Addition	-	312	312
Disposal	(1,379)	-	(1,379)
At 31 March 2007	737	2,717	3,454
<b>Accumulated Amortisation</b>			
At 1 April 2006	-	1,774	1,774
Amortisation for the year	-	327	327
Disposal	-	-	-
At 31 March 2007	-	2,101	2,101
<b>Net carrying amount at 31 March 2007</b>	<b>737</b>	<b>616</b>	<b>1,353</b>

## Notes to and forming part of the financial statements

### 9 Property, Plant and Equipment

Group	Freehold Land \$000	Freehold Buildings \$000	Distribution System \$000	Fibre \$000	Generation \$000	Plant & Equipment \$000	Motor Vehicles \$000	Total \$000
<b>Cost or fair value</b>								
At 1 April 2007	13,953	12,891	206,656	-	5,813	14,763	26,995	281,071
Addition	33	1,241	13,272	891	5,690	3,453	9,186	33,766
Transfers		(1,550)	-			881	37	(632)
Revaluation adjustment	5,082	1,829						6,911
Disposal						(283)	(2,269)	(2,552)
At 31 March 2008	19,068	14,411	219,928	891	11,503	18,814	33,949	318,564
<b>Accumulated Depreciation</b>								
At 1 April 2007	-	425	-	-	3,449	7,365	10,748	21,987
Depreciation Charge for the year	-	299	5,264	2	398	1,978	3,339	11,280
Transfers		(720)				107		(613)
Revaluation adjustment								
Disposal	-					(216)	(1,658)	(1,874)
At 31 March 2008	-	4	5,264	2	3,847	9,234	12,429	30,780
<b>Net carrying amount at 31 March 2008</b>	19,068	14,407	214,664	889	7,656	9,580	21,520	287,784
<b>Cost or fair value</b>								
At 1 April 2006	13,930	12,495	163,347	-	5,809	13,714	25,213	234,508
Addition	23	396	9,101	-	4	1,968	4,373	15,865
Revaluation increase	-	-	34,208	-	-	-	-	34,208
Disposal	-	-	-	-	-	(919)	(2,591)	(3,510)
At 31 March 2007	13,953	12,891	206,656	-	5,813	14,763	26,995	281,071
<b>Accumulation Depreciation</b>								
At 1 April 2006	-	36	11,968	-	3,214	6,104	9,392	30,714
Depreciation Charge for the year	-	389	4,401	-	235	1,475	2,695	9,195
Transfer to revaluation reserve	-	-	(16,369)	-	-	-	-	(16,369)
Disposal	-	-	-	-	-	(214)	(1,339)	(1,553)
At 31 March 2007	-	425	-	-	3,449	7,365	10,748	21,987
<b>Net carrying amount at 31 March 2007</b>	13,953	12,466	206,656	-	2,364	7,398	16,247	259,084
<b>Parent</b>								
<b>Cost or fair value</b>								
At 1 April 2007	11,681	12,336	206,656	-	5,813	14,245	26,995	277,726
Addition	33	1,241	13,272	891	5,690	3,180	5,926	30,233
Transfers	2,272	(401)	-			1,398	37	3,306
Revaluation adjustment	5,082	1,829						6,911
Disposal						(283)	(2,269)	(2,552)
At 31 March 2008	19,068	15,005	219,928	891	11,503	18,540	30,689	315,624
<b>Accumulation Depreciation</b>								
At 1 April 2007	-	337	-	-	3,449	7,308	10,748	21,842
Depreciation Charge for the year	-	299	5,264	2	398	1,920	3,114	10,997
Transfers		(39)				163		124
Revaluation adjustment								
Disposal	-					(216)	(1,658)	(1,874)
At 31 March 2008	-	597	5,264	2	3,847	9,175	12,204	31,089
<b>Net carrying amount at 31 March 2008</b>	19,068	14,408	214,664	889	7,656	9,365	18,485	284,535
<b>Cost or fair value</b>								
At April 2006	11,658	11,940	163,347	-	5,809	12,939	25,213	230,906
Addition	23	396	9,101	-	4	1,968	4,373	15,865
Revaluation increase	-	-	34,208	-	-	-	-	34,208
Disposal	-	-	-	-	-	(662)	(2,591)	(3,253)
At 31 March 2007	11,681	12,336	206,656	-	5,813	14,245	26,995	277,726
<b>Accumulated Depreciation</b>								
At 1 April 2006	-	25	11,968	-	3,214	6,160	9,392	30,759
Depreciation Charge for the year	-	312	4,401	-	235	1,475	2,695	9,118
Transfer to revaluation reserve	-	-	(16,369)	-	-	-	-	(16,369)
Disposal	-	-	-	-	-	(327)	(1,339)	(1,666)
At 31 March 2007	-	337	-	-	3,449	7,308	10,748	21,842
<b>Net carrying amount at 31 March 2007</b>	11,681	11,999	206,656	-	2,364	6,937	16,247	255,884

#### Revaluation of distribution system

The Group engages PriceWaterhouseCoopers, Registered valuer, to determine the fair value of its distribution systems. The fair value has been based on Depreciated Replacement Cost (DRC). Fair value is the amount for which the assets could be exchanged between a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions on arm's length terms for distribution systems comparable in size and location to those held by the Group, and to market based yields for comparable assets. The effective date of the revaluation was 31 March 2007.

## Notes to and forming part of the financial statements

### 9 Property, Plant and Equipment (continued)

#### Deemed cost approach on NZ IFRS adoption

The company elected to take the deemed cost approach on adoption of NZ IFRS, in accordance with NZ IFRS 1. This approach has utilised the fair value determined for each asset category at its most recent valuation and then adjusted for subsequent additions at cost, removals and depreciation to determine deemed cost at the date of IFRS adoption.

#### Revaluation of Land and Buildings

The Group engages Telfar Young (Northland), A registered independent valuer, to determine the fair value of its land and buildings. Fair value is determined by direct reference to recent market transactions on arms length terms. Effective date of the revaluation was 31 March 2008.

The carrying value that would have been recognised had the following revalued assets been carried under the cost model would be as follows:

	2008			2007		
	Freehold Land	Freehold Buildings	Distribution System	Freehold Land	Freehold Buildings	Distribution Systems
<b>Group</b>						
Cost	15,716	14,604	184,775	13,411	12,774	171,989
Accumulated Depreciation and impairment	-	384	4,760	-	404	15,903
Net Carrying amount	15,716	14,220	180,015	13,411	12,370	156,086
<b>Parent</b>						
Cost	13,986	14,166	184,775	11,681	12,336	171,989
Accumulated Depreciation and impairment	-	384	4,760	-	336	15,903
Net carrying amount	13,986	13,782	180,015	11,681	12,000	156,086

10 Loans and borrowings	Maturity	GROUP		PARENT	
		2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Current</b>					
Bank overdrafts	On demand	-	-	-	-
Unsecured loan	30-270 days	27,927	10,600	23,681	10,600
Hire purchase liability		437	-	-	-
<b>Non Current</b>					
Hire purchase liability		2,906	-	-	-

#### (a) Fair Values

The carrying amount of borrowing repayable within one year approximate their fair value.

#### (b) Terms and Conditions

Bank overdrafts and loans

The Group has no overdraft at balance sheet date. The short term loans mature between 30-270 days. The floating rate loans are unsecured. Average interest rate was 9.18% (2007 8.40%).

## Notes to and forming part of the financial statements

### 10 Loans and borrowings (continued)

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
(c) Financing Facilities Available				
Bank Overdraft	649	360	360	-
Multi option facility	44,272	16,750	40,000	16,750
	44,921	17,110	40,360	16,750

Refer to section (b) above for information on the facilities available, including the nature of each arrangement and where applicable, the terms of extension.

#### (d) Assets Pledged as Security

All loans are unsecured, no assets were pledged as security as at 31 March 2008 (2007 Nil).

Security held by the bank is in the form of a Negative pledge Deed, where an undertaking has been given that certain actions will not be undertaken and key financial ratios will be maintained.

#### (e) Set-off Assets and Liabilities

The Group has established a legal right of set off with a bank enabling it to set off certain deposits with that bank against an overdraft.

#### (f) Effective Interest Rate Risk

Information regarding the effective interest rate risk of the loans and borrowings is set out in note 21.

Subsequent to balance date, the Group refinanced \$4,600,000 of the current portion of its unsecured loans. The loans were refinanced for a 60 day period at a floating rate of interest set quarterly at the 90 day bank bill rate. The Group anticipates that the remaining amount of current loans will be refinanced on similar terms.

### Analysis of finance leases

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Minimum lease payments payable:				
Not later than one year	752	-	-	-
Later than one year and not later than five years	3,372	-	-	-
Later than five years	-	-	-	-
Total minimum lease payments	4,124	-	-	-
Future finance charges	(781)	-	-	-
Present value of minimum lease payments	3,343	-	-	-
Present value of minimum lease payments payable:				
Not later than one year	518	-	-	-
Later than one year and not later than five years	2,825	-	-	-
Later than five years	-	-	-	-
Total present value of minimum lease payments	3,343	-	-	-

The Group has entered into finance leases for Motor Vehicles and the net carrying amount of these assets at balance date are \$3,036,000. The leases can be renewed at the Groups option, with rents set by reference to current market rates for items of equivalent age and condition. The Group has the option to purchase the asset at the end of the lease term. There are no restrictions placed on the Group by any of the finance leasing arrangements.

### 11 Trade and other payables

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Trade Payables (GST Inclusive)	7,483	14,154	6,484	6,238
Accrued Payables (GST Exclusive)	5,015	62	5,015	7,784
Income in advance	657	578	657	578
	13,155	14,794	12,156	14,600

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

## Notes to and forming part of the financial statements

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>12 Dividends Paid and Proposed</b>				
<b>Recognised amounts</b>				
<i>Declared during the year</i>				
Dividends on ordinary shares:				
Final imputed dividend for 2008: 11.55 cents (2007: 14.39 cents)	4,156	5,177	4,156	5,177
<b>13 Share Capital</b>				
<b>(a) Ordinary Shares</b>				
Opening Balance	35,989	35,989	35,989	35,989
Represented by 35,988,848 ordinary shares				
Total Issued and Paid Up Capital	35,989	35,989	35,989	35,989

Ordinary shares have no par value. Fully paid shares carry one vote per share and carry the right to dividends. All ordinary shares are ranked equally.

### (b) Capital Management

When managing capital, the board's objective is to ensure the entity continues as a going concern as well as maintain returns to shareholders as set out in the Statement of Corporate Intent.

For year ended 31 March 2008 the Group paid dividend of \$4,156,000 (\$2007 - \$5,177,000). Dividend policy is to pay 35% of Net Group Profit after Tax as a dividend.

The gearing ratios based on continuing operations at 31 March 2008 and 2007 were as follows:

Total borrowings	52,491	32,578	43,390	32,249
Less cash and cash equivalents	(3,185)	(228)	(951)	(146)
Net Debt	49,306	32,350	42,439	32,103
Total Equity	226,953	211,134	229,587	208,905
Total Capital	276,259	243,484	272,026	241,008
Gearing Ratio	22%	15%	18%	15%

### 14 Reconciliation with Cash Inflow

from Operating Activities:

Reported Net Surplus after Taxation	11,872	14,783	14,124	14,602
Add (Less) Non-Cash Items:				
Depreciation and amortisation	11,525	9,523	11,174	9,445
Movements Deferred Tax	(2,389)	(50)	(2,389)	(52)
Movement on revaluation of investment	(43)	(45)	(43)	-
Movement on revaluation of forward exchange contracts	-	269	-	269
Movement in valuation of CFDs	189	180	189	180
Income Tax on items taken directly to equity	(3,244)	-	(3,244)	-
(Gain) Loss on Sale of Assets	161	(89)	151	(89)
Others	-	(18)	-	-
Movements in Working Capital -				
Increase (Decrease) in Creditors	(758)	6,866	(2,240)	6,642
(Increase) Decrease in Other Assets	(734)	-	-	-
(Increase) Decrease in Taxation Refund	(2,046)	(404)	(2,046)	(352)
(Increase) Decrease in Accounts Receivable	(2,768)	(4,875)	(167)	(4,710)
(Increase) Decrease in Inventory	(10)	(1,200)	(10)	(1,230)
<b>Net Cash Inflow from Operating Activities</b>	<b>11,755</b>	<b>24,940</b>	<b>15,499</b>	<b>24,705</b>

## Notes to and forming part of the financial statements

### 15 Derivatives

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Instruments used by the Group				
(i) Forward exchange contracts To Pay	-	2,406	-	2,406

These contracts are fair valued by comparing the contracted rate to the market rates for contracts with the same length of maturity. All movements in fair value are recognised in Income Statement in the period they occur. The net fair value loss on forward exchange contracts during the year was \$49,898 for the Group (2007: \$180,000 gain) and \$49,898 for the Parent (2007: \$180,000)

(ii) Contract for differences  
Fair value

	46	235	46	235
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### 16 Contingent Liabilities

Performance Bonds in relation to contract work

	3,720	3,873	3,720	3,873
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### 17 Commitments

The Company has the following non-recoverable operating leases on depots.

Due within 1 year	658	727	658	699
Due within 1-2 years	1,183	603	1,183	603
Due within 3-5 years	1,113	1,585	1,113	1,585
Due within 5 years and more	1,102	1,461	1,102	1,461
Capital commitments contracted for at balance sheet date Commitments relate to purchase of plant.	899	2,406	899	2,406

## Notes to and forming part of the financial statements

### 18 Related Parties

#### (a) Subsidiaries

##### (i) Metro Power Ltd.

1. Metro Power repaid \$149,000 to Northpower (2007 \$115,000).
2. The balance owed to Northpower prior to amalgamation was \$1,092,000 (2007 \$1,241,000).
3. Metro Power was amalgamated with Northpower Ltd on 28 March 2008. The net value of assets & liabilities was \$2,178,750.

##### (ii) PSM Services Ltd.

1. Northpower transferred assets and liabilities of the PSM division to a PSM Services Ltd subsidiary in May 2006. Net value of assets and liabilities was \$1,994,000.
2. Northpower provided services to PSM Services Ltd for \$456,000 (2007 \$275,000). PSM Services Ltd provided services to Northpower for \$180,000 (2007 \$117,000). At balance date PSM Services owed Northpower \$0 (2007 \$58,000) and Northpower owed PSM Services \$22,278 (2007 \$3,000).  
The amount outstanding on Northpower's funding for PSM Services at balance date was \$1,994,053. Northpower has provided a guarantee for \$360,000 (2007 \$360,000) for PSM Services' overdraft facility.
3. PSM was amalgamated with Northpower Ltd on 28 March 2008. The net value of assets & liabilities was \$115,911.

##### (iii) West Coast Energy Pty Ltd

1. As referred to in note 19, Northpower Limited acquired 100% of the voting shares of West Coast Energy Pty Limited through a holding company Northpower Western Australia Limited.

##### (iv) Northpower Western Australia Pty Ltd

1. As referred to in note 19, Northpower Limited acquired 100% of the voting shares of West Coast Energy Pty Limited through a holding company Northpower Western Australia Limited.
2. Northpower Western Australia Pty Ltd issued 3,275,000 ordinary \$1 (AUD) to Northpower Ltd in consideration of a cash payment of \$3,275,000 (AUD).

##### (v) Terms and conditions of transactions with related parties

1. Sales to and purchases from related parties are made in arms length transactions both at normal market prices and on normal commercial terms.

##### (vi) Outstanding balances

1. Outstanding balances at year end are unsecured, interest free and settlement occurs in cash.

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Transactions during the year</b>				
Sales to subsidiaries	456	275	456	-
Purchases from subsidiaries	180	117	180	-
<b>Outstanding balances as at 31 March</b>				
Accounts payable to subsidiaries	-	58	-	-
Accounts receivable from subsidiaries	22	3	22	-

#### (c) Directors

The Directors of Northpower Ltd are also the Directors of West Coast Energy Pty Ltd and Northpower Western Australia Pty Ltd.

#### (d) Key Management

The compensation of the directors and executives, being the key management personnel of the entity is set out below:

	2008 \$000	2007 \$000	2008 \$000	2007 \$000
<b>Compensation of key management personnel</b>				
Short-term employee benefits	2,135	1,616	2,135	1,616

## Notes to and forming part of the financial statements

There are close family members of key management personnel employed by the Group. The term and conditions of these arrangements are no more favourable than the Group would otherwise have adopted if there were no relationships to key management personnel.

There were no transactions between Northpower Limited and any organisations in which the Directors have a financial interest.

No provision has been required, nor any expenses recognised for impairment of receivables from related parties. (2007 \$nil).

### 19 Business Combination

Acquisition of West Coast Energy Pty Ltd.

On 1st June 2007, Northpower Limited acquired 100% of the voting shares of West Coast Energy Pty Limited through a holding company Northpower Western Australia Limited. West Coast Energy Pty Limited is an unlisted company based in Perth Western Australia, specialising in the electrical contracting industry.

The total cost of the combination was \$1,962,822 and comprises payment of cash and costs directly attributable to the combination.

The fair value of the identifiable assets and liabilities of West Coast Energy Pty Ltd as at the date of acquisition were:

	<b>GROUP</b>	
	Recognised on acquisition \$000	Carrying value \$000
Plant and equipment	196	196
Cash and cash equivalents	20	20
Trade receivables	212	212
Other current assets	15	15
Work in Progress	166	166
	<b>609</b>	<b>609</b>
Trade payables	(351)	(351)
Interest bearing liabilities	(170)	(170)
Provisions	(10)	(10)
	<b>(531)</b>	<b>(531)</b>
Fair value of identifiable net assets	79	79
Goodwill arising on acquisition	1,884	1,884
	<b>1,963</b>	<b>1,963</b>
Cost of combination		
Cash paid	1,963	1,963
Total cost of the combination	<b>1,963</b>	<b>1,963</b>
The cash outflow on acquisition is as follows:		
Net cash acquired with the subsidiary	(20)	(20)
Cash paid	1,963	1,963
Net consolidated cash outflow	<b>1,943</b>	<b>1,943</b>

From the date of acquisition, West Coast Energy Pty Ltd has recorded a loss of \$2,283,319 which has been deducted from the net profit of the Group. The loss is a result of set up costs and the building of a stable platform for growth.

If the combination had taken place at the beginning of the year, the profit from continuing operation for the Group would have been (\$2,585,000) and revenue from continuing operations would have been \$8,179,000.

The key factors contributing to the \$1,962,822 of goodwill relate to the synergies existing within the acquired business and also synergies expected to be achieved as a result of combining West Coast Energy with the Northpower Group.

## Notes to and forming part of the financial statements

### 20 Fair value and Interest Rate Risk

#### (i) Fair values

All assets and liabilities recognised in the balance sheet, whether they are carried at cost or at fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

#### (ii) Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

As at 31 March 2007

<b>GROUP</b>				
	Weighted average effective interest rate	Variable interest rate  \$'000	Fixed maturity dates <1 yr \$'000	Total  \$'000
<b>Financial assets</b>				
<b>Floating rate</b>				
Cash assets	5.5%	228	-	228
<b>Financial liabilities</b>				
<b>Fixed rate</b>				
Bank overdraft			-	-
Loan	8.4%	-	10,600	10,600
		228	10,600	10,828

**Financial assets**  
**Floating rate**  
Cash assets  
**Financial liabilities**  
**Fixed rate**  
Bank overdraft  
Loan

<b>PARENT</b>				
		\$'000	\$'000	\$'000
<b>Financial assets</b>				
<b>Floating rate</b>				
Cash assets	5.5%	146	-	146
<b>Financial liabilities</b>				
<b>Fixed rate</b>				
Bank overdraft			-	-
Loan	8.4%	-	10,600	10,600
		146	10,600	10,746

As at 31 March 2008

<b>GROUP</b>				
	Weighted average effective interest rate	Variable interest rate  \$000	Fixed maturity dates <1 yr \$000	Total  \$000
<b>Financial assets</b>				
<b>Floating rate</b>				
Cash assets	5.8%	3,185	-	3,185
<b>Financial liabilities</b>				
<b>Fixed rate</b>				
Bank overdraft		-	-	-
Loan	9.2%	-	28,364	28,364
		3,185	28,364	31,549

**Financial assets**  
**Floating rate**  
Cash assets  
**Financial liabilities**  
**Fixed rate**  
Bank overdraft  
Loan

<b>PARENT</b>				
		\$000	\$000	\$000
<b>Financial assets</b>				
<b>Floating rate</b>				
Cash assets	5.8%	951	-	951
<b>Financial liabilities</b>				
<b>Fixed rate</b>				
Bank overdraft		-	-	-
Loan	9.2%	-	23,681	23,681
		951	23,681	24,632

## Notes to and forming part of the financial statements

### 21 Impact of Adoption of New Zealand Equivalents to International Reporting Standards (NZ IFRS)

The impact of adopting NZ IFRS on the total equity and profit after tax as reported under previous New Zealand Generally Acceptable Accounting Practice (NZ GAAP) are illustrated below.

(i) Reconciliation of Total Equity as Presented Under Previous NZ GAAP to that Under NZ IFRS

	GROUP		PARENT	
	31 March 2007 \$'000	1 April 2006 \$'000	31 March 2007 \$'000	1 April 2006 \$'000
Total equity under previous GAAP	265,327	204,832	264,418	203,784
Adjustment to retained earnings:				
Tax effect of revalued fixed assets (A)	(55,534)	(38,594)	(55,534)	(38,594)
Fair value of CFDs (B)	157	268	157	268
Provision for Sick Leave (C)	(10)	(8)	(8)	(8)
Provision for Insurance (D)	(178)	(178)	(178)	(178)
Fair value of investments (E)	367	270		-
Fair value of land and building (F)	661	663		-
Fair value of Forward Exchange Contracts (G)	(180)	-	(180)	-
Write back of goodwill (H)	505	-	230	-
Consol adjustment	19	-	-	-
Total equity under NZ IFRS	211,134	167,253	208,905	165,272

- (A) The revaluation of network assets, land and building recognised under previous NZ GAAP has been tax-effected under NZ IAS 12 Income Taxes at the rate of 33%. This has resulted in a decrease in total equity.
- (B) Derivative instrument are classified as fair value through profit and loss under NZ IAS 39 Financial Instruments: Recognition and Measurement and are carried at their fair values. The changes in fair value was not recognised under previous NZ GAAP. This has resulted in an increase in total equity.
- (C) Sick leave provision has been provided under NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets. This has resulted in a decrease in total equity.
- (D) Insurance provision has been provided under NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets. This has resulted in a decrease in total equity.
- (E) Investment in Fonterra shares was previously carried at cost. It is fair valued under IAS 39 Financial Instruments: Recognition and Measurement. This has resulted in an increase in total equity.
- (F) The Land and Building for Metro Power Ltd was re-valued by Alistair Nicholls, independent valuer, on 1 April 2006. The fair value is considered deemed costs at date of transition into NZ IFRS.
- (G) Forward exchange contracts have been fair valued at balance sheet date using the forward rate for forward exchange contracts with similar maturity profile. Unrealised gain or loss is recognise in the Income statement.
- (H) Amortisation of goodwill has been reversed in accordance with NZ IFRS 3. This has resulted in an increase in total equity.

## Notes to and forming part of the financial statements

### 21 Impact of Adoption of New Zealand Equivalents to International Reporting Standards (NZ IFRS)(Continue)

(ii) Reconciliation of Profit After Tax Under Previous NZ GAAP to that under NZ IFRS

	GROUP		PARENT	
	31 March 2007 \$000's		31 March 2007 \$000's	
Prior period profit after tax as previously reported	14,614		14,754	
<b>NZ GAAP to NZ IFRS transition adjustment</b>				
Tax effect of revalued fixed assets (A)	(91)		(91)	
Fair value of CFDs (B)	(111)		(111)	
Provision for Sick Leave (C)	(2)		-	
Fair value of land and building	(1)		-	
Fair value of Forward Exchange Contracts (D)	(180)		(180)	
Write back of goodwill (E)	505		230	
Consol adjustment	18		-	
Fair value of investment (F)	31		-	
Prior period profit after tax under NZ IFRS	14,783		14,602	

- (A) Fair value movements in land and building are recorded in the income statement under NZ IAS 16 *Property Plant & Equipment* but were recorded in the asset revaluation reserve under previous NZ GAAP. The gain from fair value adjustment caused a decrease in profit for the year.
- (B) Derivative instrument are classified as fair value through profit and loss under NZ IAS 39 *Financial Instruments: Recognition and Measurement* and are carried at their fair values. The changes in fair value was not recognised under previous NZ GAAP. The unfavourable movement has resulted in a decrease in net profit.
- (C) Sick leave provision has been provided under NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. This provision is provided current year by PSM Limited and has resulted in a decrease in net profits.
- (D) Forward exchange contracts has been fair valued at balance sheet date using the forward rate for forward exchange contracts with similar maturity profile. Unrealised gain or loss is recognise in the Income statement.
- (E) Amortisation of goodwill has been reversed in accordance with NZ IFRS 3. This has resulted in an increase in net profits.
- (F) Investment in Fonterra shares was previously carried at cost. It is fair valued under IAS 39 *Financial Instruments: Recognition and Measurement*. This has resulted in an increase in net profits.

### 22 Significant Events After Balance Date

No significant events has occurred after balance sheet date.

### 23 Categories of financial assets and liabilities

The carrying amount of financial assets and liabilities in each of the NZ IAS 39 categories are as follows:

#### *Cash and Receivable*

Cash and cash equivalents  
Trade and other receivables  
Total cash and receivables

#### *Held for trading fair value through P&L*

Fair value Contract for Differences

#### *Financial liabilities measured at amortised cost*

Short term borrowings  
Trade and other payables

GROUP		PARENT	
2008 \$000	2007 \$000	2008 \$000	2007 \$000
3,185	228	951	146
22,711	20,135	20,537	19,738
25,896	20,363	21,488	19,884
46	235	46	235
28,364	10,600	23,681	10,600
13,667	14,794	12,156	14,600
42,031	25,394	35,837	25,200

## Notes to and forming part of the financial statements

### 24 Impact of amalgamation of subsidiaries

Subsidiaries consisted of Metropower Ltd and PSM Services Ltd. Both were amalgamated with Northpower on the 28th March 2008.

As such their results are consolidated in the group figures for 2007 and included in the Parent of 2008.

The value of net assets transferred were \$2,178,750 for Metropower Ltd and \$115,911 for PSM Services Ltd.

### 25 PERFORMANCE REPORT:

	2007-8 Target	2007-8 Results
Net Profit After Tax		
Shareholders' Funds	5.00%	5.41%
Earnings Before Interest and Tax		
Total Capital Employed	6.50%	4.37%
Network Reliability (SAIDI)	< 120 minutes	783.08
Average Number of Faults per 100 km of Line	< 10	14.57
Customer Satisfaction (Residential)	> 85% satisfied	92%
Customer Satisfaction (Commercial)	> 85% satisfied	79%
Lost Time Accidents (includes all sites)	1	6

### 26 Employee entitlements

Current employee entitlements are represented by:

Accrued salaries and wages

Annual leave

Sick leave

*Total-current portion*

Non-current employee entitlements are represented by:

Retirement and long service leave

*Total non-current portion*

Total employee entitlements

	GROUP		PARENT	
	2008 \$000	2007 \$000	2008 \$000	2007 \$000
Accrued salaries and wages	3,160	1,096	2,679	1,005
Annual leave	2,740	3,578	2,740	3,578
Sick leave	70	15	70	12
<i>Total-current portion</i>	5,970	4,689	5,489	4,595
Retirement and long service leave	1,455	1,361	1,455	1,361
<i>Total non-current portion</i>	1,455	1,361	1,455	1,361
Total employee entitlements	7,425	6,050	6,944	5,956

### 27 Inventories

Inventory held for use in the provision of goods and services.

The carrying amount of inventories held for distribution are measured at cost.

The write-down of inventories held for distribution were nil and there have been no reversals of write-downs.

No inventories are pledged as security for liabilities, however some inventories are subject to retention of title clauses.

	GROUP	PARENT
	2008 \$000	2008 \$000
Inventory held for use in the provision of goods and services	6,402	6,402

### 28 Defined Benefit Superannuation Scheme

Northpower contributes to a multi-employer defined benefit superannuation scheme operated by National Provident Fund. The scheme is not open to new members and currently 8 employees are members of the scheme.

It is not possible to determine the extent to which any deficit will affect future contributions by employers, as there is no prescribed basis for allocation. An actuarial valuation of the scheme is done yearly. The actuary to the scheme has recommended that the employer contribution be reduced from 2.0 to 1.0 times contributors' contributions from 1 April 2008.

**NORTHPOWER LIMITED AND SUBSIDIARIES**
**DIRECTORS:**
**Chairman**

W W Moyes, BA, AM Inst D.

**Directors:**

D J Ballard, BE (Hons), MBA.

N P Davies-Colley, BBS, MBA, AM Inst D.

R L Steed, JP.

J J Ward, BE (Hons), MIPENZ.

**EXECUTIVE OFFICERS:**
**Chief Executive**

M R Gatland, BE, MIPENZ, MBA.

**Chief Financial Officer**

B Petersen, ACIS, ACCM, Dip. Mgt.

**Divisional Manager, Network Asset Management**

R I Dempster, NZCE (Elect), REA, Tec IPENZ.

**New Business Manager**

L B Richards, NZCE, REA, Tec IPENZ.

**Group Manager, Safety & Human Resources**

B S Harrison, BBus.

**Group Manager, Logistics**

C J van der Werff, NZIPS, MCIPS, MBA.

**Divisional Manager, Communications**

F Jonker, B.Eng (Electrical), B.Com(Hons), Pr.Eng (SA)

**SOLICITORS** : Henderson Reeves Connell Rishworth, Whangarei.

: Simpson Grierson, Auckland.

**BANKERS** : The Bank of New Zealand, Whangarei.

**HEAD OFFICE** : Mount Pleasant Road, Raumanga, Whangarei.

**AUDITORS** : Audit New Zealand, Whangarei,  
on behalf of the Auditor-General.

**REGISTERED OFFICE** : 28 Mount Pleasant Road, Whangarei.



Perth

**AUSTRALIA**



Whangarei

North Shore

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Rotorua

Hawke's Bay

Wellington

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