WHAT DOES A BILLION DOLLARS BUY YOU?...

GENESIS ENERGY
ANNUAL REPORT
2006

CONFID

genesis ENERGY

DENCE!

CONFIDENCE IS WORTH A LOT. This year the credibility of the energy industry has once again been brought into question. It brings into sharp focus the importance and value of our ongoing investment in the energy infrastructure needed to deliver confidence to our customers and prosperity to the country as a whole.

+ $525m

INVESTMENT: **HUNTLY e3p**

New Zealand's largest new power station, at 385MW, is forecast to meet demand growth for around three years.

A single-shaft turbine fuelled by clean-burning natural gas, with a steam generator for extra efficiency. Situated at Huntly, it will initially displace less efficient and higher CO_2-emitting generation.

RETURN:

BUSINESS CONFIDENCE

Demand for electricity has been growing at around 120MW per year.

Hydro storage shortage in late summer 2006 highlighted the need for more baseload gas-fuelled generation. Commercial and industrial customers will be able to gain confidence from the reliable and secure supply of electricity from e3p.

$35m

INVESTMENT: **HUNTLY COOLING TOWER**

Waikato River temperatures have constrained generation output from Huntly Power Station since operations started in the early 1980s.

Genesis Energy trialled several methods of cooling water – finally deciding to invest in a substantial cooling tower. Hot water is taken from any of the four 250MW units and cooled before being discharged into the river.

RETURN:

SUMMER CONFIDENCE

Recently, security of electricity supply to the upper North Island during summer has been an issue.

The cooling tower has created certainty that even during summer when our generation can be constrained, Huntly Power Station can produce enough power for the upper North Island to rest easy.

$420m

INVESTMENT: **RODNEY POWER STATION**

Initial stages of development will provide for a 240MW power station, with subsequent extension lifting capacity to 360MW.

Planned for commissioning in 2009, it will feature clean-burning natural gas-fired turbines, connected to a heat recovery steam generator for greater efficiency.

RETURN:

COMMUNITY CONFIDENCE

As communities grow... These days, power generation is being built closer to areas of high demand.

Multiple-shaft turbines mean greater flexibility and ability to supply throughout the year during planned and unplanned outages.

+ $334m

INVESTMENT: **KUPE GAS PROJECT**

The offshore Kupe oil and gas field is expected to be online by mid-2009, producing around 20PJ per annum of sales gas or 15% of New Zealand's annual current demand.

The project will also produce 1.7m barrels of condensate and 90,000 tonnes of LPG per annum. Genesis Energy owns 31% of the field and total development is budgeted at $980m.

RETURN:

CONSUMER CONFIDENCE

The decision to develop Kupe assures Genesis Energy of long-term gas supplies for our new e3p power generation project.

Both Kupe and e3p are critical assets which will help underpin New Zealand's energy future and stripping out LPG will preserve New Zealand's ability to meet the bottled gas market.

+ $3.2m

INVESTMENT: **COMMUNITY & ENVIRONMENTAL INITIATIVES**

Genesis Energy supports many community and environmental initiatives around New Zealand.

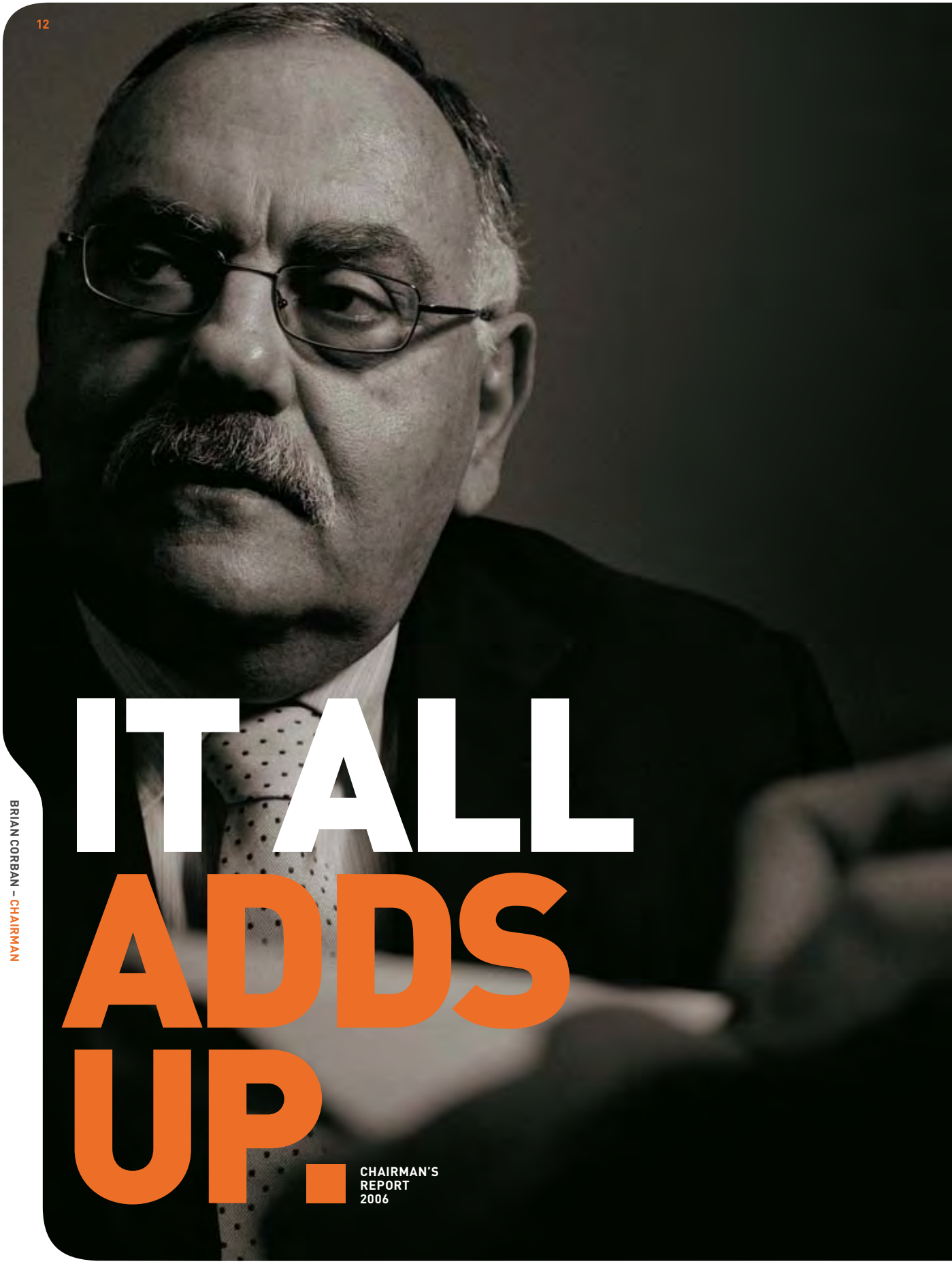
One of these initiatives is the Lake Waikaremoana Hapu Restoration Trust, which manages a kiwi recovery programme on the Puketukutuku Peninsula, part of the lake area.

RETURN:

ENVIRONMENTAL CONFIDENCE

The Trust's work on the Peninsula has meant the chance of kiwi surviving to maturity has greatly improved.

Without the work of volunteers at the Hapu Restoration Trust and others, such as the Central North Island Blue Duck Trust, and the support of Genesis Energy, the future of kiwi and blue ducks would be further endangered.



IT ALL ADDS UP.

CHAIRMAN'S REPORT 2006

BRIAN CORBAN – CHAIRMAN

"**During the past year** a number of our most important strategic investments and plans began to take shape."

Our strategic goals of building more generation, bringing more fuel to market and providing more customers with energy-related products all moved forward.

The growth in the company resulted in a strong net profit after tax of $83.7 million. Total revenue for the year of $1,987 million increased from $1,496 million in 2004/2005 due to increased wholesale electricity market prices and increased retail sales.

The increased revenue and profit were achieved in an ever-challenging environment, where fuel costs continued to rise and southern hydro water shortages put increasing pressure on thermal plants to cover the renewable generation deficit. The average cost of fuel rose 13.1 per cent from the previous year. The total fuel bill increased 32.2 per cent over the previous year to $280 million, which is the cost of providing certainty of power supply when the hydro reserves are in decline.

Reduced inflow and rapid draw-downs of South Island hydro electricity during the spring of 2005 and late summer of 2006 resulted in our 1040MW Huntly Power Station producing its highest ever annual amount of electricity generation with 6,009GWH output.

Whenever the Huntly plant is available, it is offered into the market. This year's high dispatch reflects the current narrow gap between supply and demand. The company has to balance its strategic importance to New Zealand's economy against its contribution to the country's total greenhouse gas emissions.

However, Genesis Energy is not limited to thermal generation. It generates electricity from more sources than any other generator in the country. Around one third of our generation comes from renewable sources such as hydro, biomass and wind.

Continual maintenance is required at our hydro schemes in order to optimise their performance. During the year, new transformers were installed at the 75-year-old Tuai Power Station; a major refurbishment of the flood-damaged Kourarau Power Scheme was completed; and a programme to remote-control the Waikaremoana Power Scheme from the control room at Tokaanu Power Station was also completed. A major weed problem causing blockages at the intake gate at Lake Rotoaira has been addressed by introducing new technology for weed removal.

NET PROFIT 2006

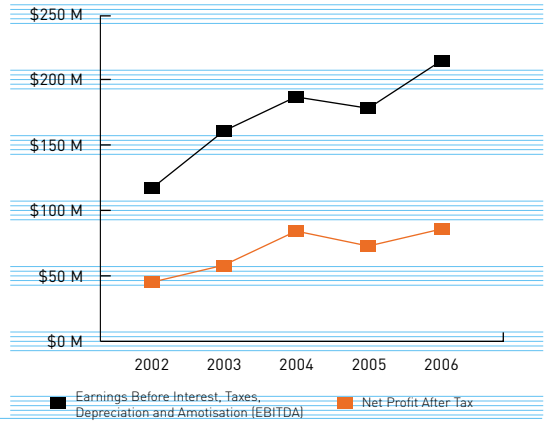
$83.7m

TOTAL REVENUE 2006

$1,987m

GENESIS ENERGY CUSTOMERS

702,000



Tuai Power Station

'We will continue to be an organisation that is flexible in thinking and fast in action.'

A major strength of Genesis Energy is its ability to move quickly to take advantage of market opportunities as they arise. There are examples of quick thinking throughout the business – from signing new gas contracts to managing an embedded network in the major new retail development of Sylvia Park in Auckland. Genesis Energy will continue to be an organisation that is flexible in thinking and fast in action in order to deliver what our customers need.

The company's total capital expenditure for the financial year of $265 million is a direct result of taking our opportunities when they arise. The bulk of the capital expenditure ($200 million) went towards e3p, the new 385MW gas turbine at Huntly, which advanced greatly during the year towards its commissioning date of April 2007.

The arrival of components of e3p in November 2005 was also a catalyst for developing the beginning of a new relationship with Huntly Power Station's iwi neighbours. On 5 December 2005, Genesis Energy, Waahi Whaanui Trust, and local marae – Taupiri Marae, Waahi Paa, Te Kauri Marae, Kaitumutumu Marae, Te Ohaaki Marae and Matahuru Marae – signed a Memorandum of Understanding.

The signing of the Memorandum of Understanding represented an acknowledgment of the impact of the Huntly Power Station on local iwi and the importance of the relationship between Genesis Energy and local iwi to the continuing operation of the Huntly Power Station.

In past reports I have referred to the time and cost taken to gain resource consents for new generation projects. After a two-year process, resource consents for the Awhitu Wind Farm were finally granted by the Environment Court in December 2005. Three agreements were reached with community groups in order to clear the final hurdle. However, the two-year time delay has placed much pressure on this project and the rising costs of wind generators now have to be considered in evaluating the economics of the Awhitu Wind Farm.

Genesis Energy's strategy of providing more customers with a choice of electricity, gas and other energy-related products advanced during the year. Through organic growth the company passed the 700,000 customer milestone.

A marketing campaign launched in March 2005 continued through the financial year to attract new gas customers. The campaign emphasised Genesis Energy's position as a major gas retailer with sufficient gas supplies to continue to provide customers with

CAPITAL EXPENDITURE

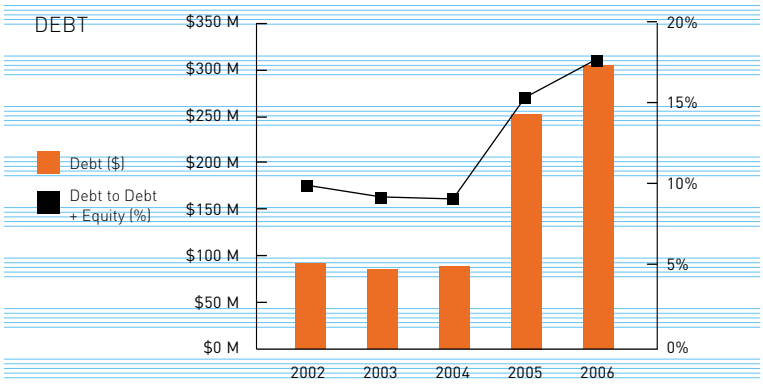
$265m

FUEL BILL

$280m

STAFF NUMBERS

444



reticulated gas into the future. The company worked with channel partners such as Plumbing World and Vector to ensure a smoother connection process for customers taking gas as a new domestic fuel.

Residential customers are now benefiting from our introduction of new prepay metering technology. During the year, around 8,000 customers on first-generation prepay meters were converted to new InCharge prepay meters. InCharge meters allow customers who are either budget conscious or who wish to have greater control of their electricity usage to buy their electricity in advance with a variety of payment options. The meters provide a digital display of electricity consumption and also provide an option of flat-rate tariff or peak/off-peak rates.

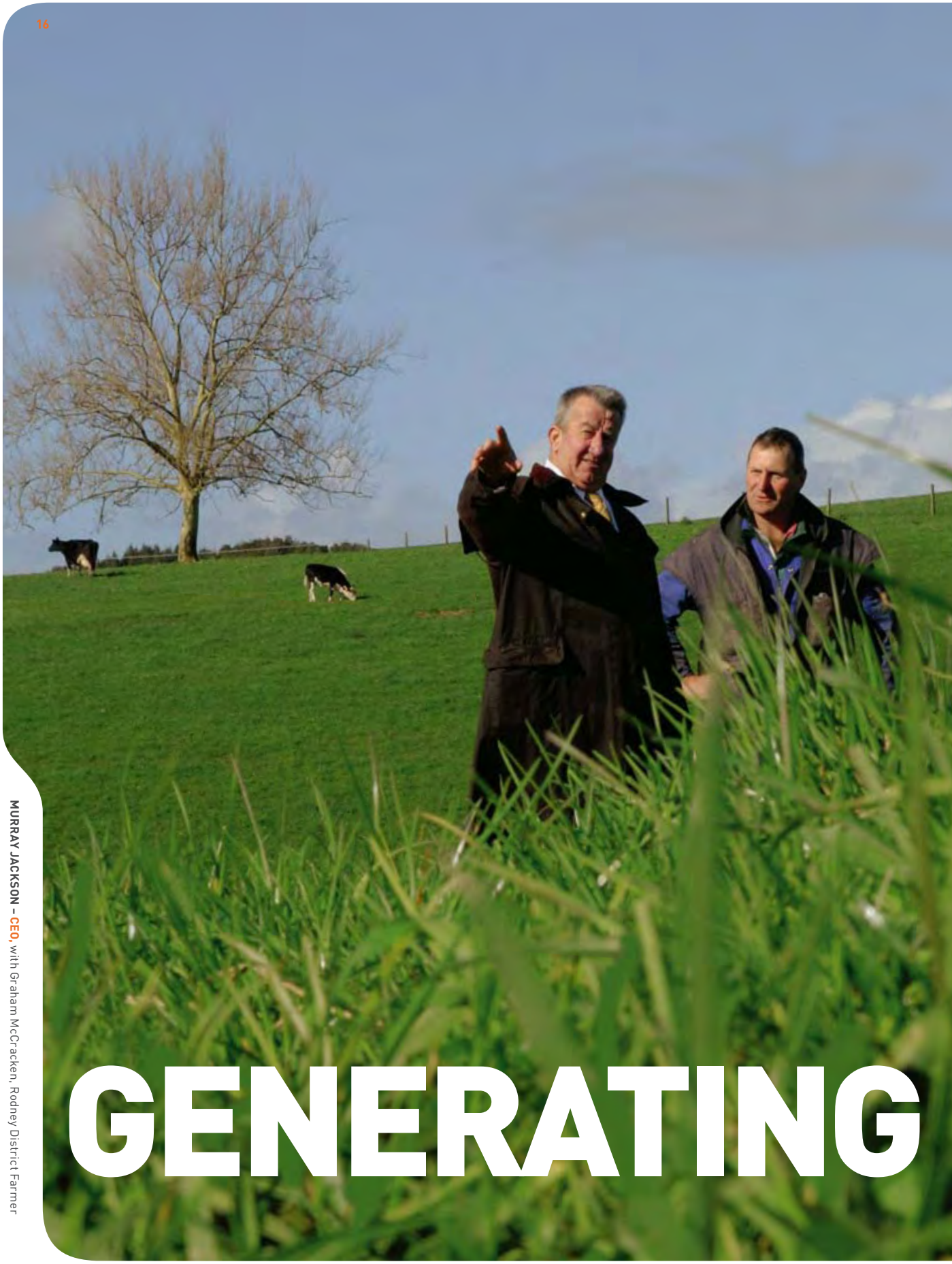
Genesis Energy's contribution to the wider community has been enhanced by the growth of the Genesis Oncology Trust which this year awarded more than $500,000 in research grants to support the fight against cancer.

It has been another active year for Genesis Energy, its management and staff. New projects came to fruition, others were announced and new records of generation were set. At the same time, two experienced members of the management team left the company. General Managers Bruce Cole and Vince Hawksworth moved on to fresh pastures; Bruce to retirement and Vince to the Chief Executive's role at Hydro Tasmania. Their departure saw one senior executive change roles and three managers moving to the Senior Executive team (see page 22).

I thank my Board colleagues for their commitment and record our thanks to retired Deputy Chairman Keith Smith. Keith was chairman of the Interim Development Group that formed Genesis Energy and was also the company's first chairman. We thank Keith for his contribution to the establishment and growth of the company. John Stace was welcomed to the Board during the year as a new director.

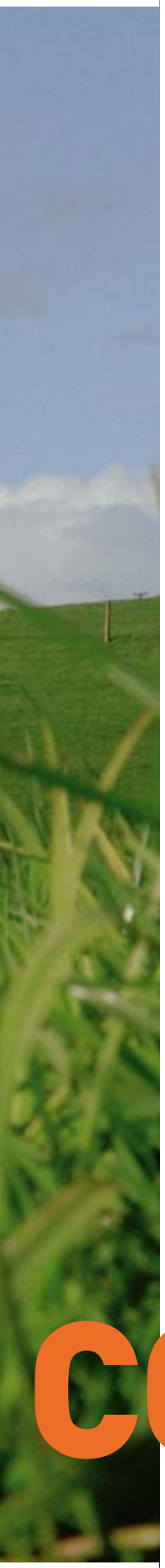
The Board thanks our Chief Executive Murray Jackson and his team for the excellent performance in 2005/2006; a performance set against a background of challenges for the company to meet higher expectations and to deliver on its commitments to its customers and the wider community.

BRIAN CORBAN
CHAIRMAN



GENERATING

MURRAY JACKSON – CEO, with Graham McCracken, Rodney District Farmer



CONFIDENCE

"**This year** the country's confidence in the energy industry has, once again, been tested."

A number of factors conspired to heighten attention on the industry; below average inflows during spring and summer into the South Island hydro lakes, failing shackle bolts at Auckland's main substation and an unduly cold month of June which pushed the supply of electricity for the country to its very limits.

Electricity demand in New Zealand is growing and this past winter demonstrated how the gap between supply and demand has narrowed to a point where a lengthy outage of one thermal generator can drain the lakes and threaten the entire system.

All of which bring into sharp focus the importance and value of our ongoing investment in the energy infrastructure needed to deliver confidence to our customers and prosperity to the country as a whole. Genesis Energy has commitments for $1 billion of investment in oil and gas fields and new power plant.

Completion of our new 385MW combined-cycle gas turbine (CCGT) at Huntly is scheduled for mid-April 2007 and will bring much-needed relief to the generation capacity of the country for a few years to come.

The construction of the Huntly CCGT was Genesis Energy's largest project during the year under review. In the past 12 months, much of the civil construction was completed and the heavy gas and steam turbines, generator and transformer were transported from the Ports of Auckland to Huntly.

A delay caused by faulty welds in the heat recovery boiler casing has set the project back a few months, but the repair work has gone well and the plant will begin its commissioning phase by early December this year.

The Huntly CCGT will meet around three years of demand growth and will enable us to catch up on refurbishing the 1000MW of coal-fired plant at Huntly in preparation for a second 20-year operating cycle. However, the growth in demand is showing no sign of slowing and we need to look beyond Huntly to where the demand is and to where constraint in the transmission system is putting pressure on supply.

There are constraints on transmission through the Auckland isthmus and yet demand growth in the Rodney District and North Shore is outpacing national growth. To add extra pressure on the supply, there is presently no significant electricity generation north of Auckland. As the incumbent retailer in this region we are well aware of the concerns about the reliability and security of electricity supply.

For that reason, we announced in October 2005 a plan to build a new 360MW CCGT power station just north of Helensville, in the Rodney District. This plant will be different to the Huntly CCGT as it will have a multi-shaft arrangement, will allow for greater operational flexibility and will ensure year-round availability to maintain security of supply during maintenance outages.

Towards the end of the financial year, the Kupe Gas Project advanced significantly when the joint venture

partners of Genesis Energy, Origin Energy, New Zealand Oil & Gas, and Mitsui agreed to proceed to development of the offshore production wells, pipeline and onshore processing facility.

Kupe is expected to be online by mid-2009 and will produce around 20PJ per annum of sales gas – approximately 15 per cent of New Zealand's current annual demand. Genesis Energy is contracted to receive 100 per cent of the sales gas from the field. The Kupe field will also produce 1.7 million barrels per annum of condensate and 90,000 tonnes per annum of LPG.

The decision to develop Kupe assures Genesis Energy of long-term gas supplies for our power generation projects and helps underpin New Zealand's energy future. Stripping out LPG at Kupe will preserve New Zealand's ability to supply the bottled gas market.

Although Kupe, Pohokura and other smaller domestic gas fields plus Maui ROFR gas are giving the New Zealand economy some short-term comfort, the long-term gas situation remains uncertain. During the financial year, work continued on the LNG project with our joint venture partner, Contact Energy. While an LNG import terminal may not be built for some years, it is necessary to start the resource consenting process now, as the consenting and construction periods for an LNG terminal could stretch over several years. The high cost of developing small domestic fields is likely to see imported LNG as a long-term competitive fuel source.

During the year, Genesis Energy's retail business passed a notable milestone – we added our 700,000th customer. The growth was in part created by strong marketing campaigns in non-incumbent regions and a campaign to connect more homes to the reticulated natural gas network. With 121,000 gas customers and 581,000 electricity customers, Genesis Energy is the country's largest energy retailer. The increased electricity customer base places a greater demand on our generation business while underpinning the business model. The continued growth in customer numbers is a credit to our retail staff, the SITEL customer contact centre and our many field service providers.

To meet the increased customer demand and to cover for the shortage of hydro generation in the South Island, Huntly Power Station set new records during the financial year for both generation output and fuel consumed. The Station consumed 2.52 million tonnes of coal on its way to generating a record 6,009GWH.

The records are given greater weight given Unit 3 was out of action for the summer months for a scheduled four-year survey and conversion to a new digital control and instrumentation system. The remaining units will be converted over the next three summers. The C&I upgrade removes the problem of sourcing new parts for 30-year-old technology and will give the plant operators finer control over the plant, resulting in improved thermal efficiency.

Our end-of-year net profit after tax of $83.7 million reflects the hard work of our 444 staff in the face of rising costs.

The New Zealand electricity market is said by some to be at a crossroads, with a new government National Energy Strategy in the pipeline, and big decisions to be reached on transmission and generation investment. In this year's Annual Report we have highlighted the investment under way or planned by Genesis Energy into the country's energy infrastructure.

Rest easy – Genesis Energy is doing its part in generating confidence in the supply of energy for New Zealand now and well into the future.

MURRAY JACKSON
CHIEF EXECUTIVE

TE PŪRONGO A TE MANAHAUTŪ

CHIEF EXECUTIVE'S REPORT 2006

I tēnei tau kua whakamātauria anō te whakapono o te motu ki te ahumahi whakarato pūngao.

Nā te putanga tahi mai o ētahi āhuatanga kua āta arotahitia ai tēnei ahumahi: he rerenga toharite iti iho i te rerenga o te wai ki ngā roto whakaputa hiko o te Waipounamu i tērā kōanga, raumati hoki ka tahi; ngā herenga whaowiri i pakaru i te teihana iti o Tāmaki ka rua; me te marama kaha mātao o Pipiri i pana i te whakanaonga hiko o Aotearoa ki tōna mutunga ka toru.

Kei te nui haere te tononga hiko i Aotearoa, nā i kitea i tēnei hōtoke nā te kūtitanga o te āputa i waenganui i te tononga, i te whakaratonga, ki te roa te katinga o te whakahiko wera kotahi tērā e whakamaroketia ngā roto, ā, e mōrea anō hoki te pūnaha hiko katoa.

Nā ēnei mea katoa kei te arotahi nuitia ai te hiranga, te uara hoki o te haeretonutanga o tō tātou haumi ki te angaroto pūngao ka hiahiatia e tuku ai ki ā tātou kiritaki te whakapono, ki te motu katoa te whai rawa. $1 piriona rawa te moni haumi kua whakaū e Genesis Energy ki te hinu, ki ngā papa kapuni, ki ngā rawa whakanao hiko hōu.

Ka tuwhera tō tātou pukuhiko kapuni e 385MW i Rāhui Pōkeka i te waenga o Paenga-whāwhā 2007, ā, māna te kaha whakanao hiko o te motu e whakamāmā mō ētahi tau e heke ana.

Ko te hanganga o taua pukuhiko kapuni i Rāhui Pōkeka tā Genesis Energy kaupapa rahi rawa i tēnei tau e kōrero nei tātou. I ngā marama tekau mā rua nei, i oti te nuinga o te mahi hanga, otirā i kawea iho ngā pukuhiko kapuni, pukuhiko korohū taumaha, te whakahiko me te whakahuri iahiko atu i te Wāpu o Tāmaki ki Rāhui Pōkeka.

Nā tētahi whakaroanga kua pana whakamuri tēnei kaupapa mā ētahi marama ruarua nei. Ko ētahi hononga whakapiri kino i te kiri o te paera pupuri wera te take, engari kua pai te haere o ngā whakatikatika nā wai ka timata te wā kōkiri o tēnei teihana ā te marama o Hakihea o tēnei tau.

Ka rite i te pukuhiko kapuni o Rāhui Pōkeka te pikinga o te tononga hiko mō ngā tau e toru pea, ā, ka tuku kia oti i a tātou ngā whakahoutanga o te whare hiko 1000MW kai waro o Rāhui Pōkeka kia rite mō te huringa wā mahi tuarua o te 20 tau. Heoi anō kāore he tohu ka heke te tononga hiko, nā reira me titiro tātou ki tua o Rāhui Pōkeka ki ngā wāhi o te tononga taumaha, o te kūtitanga o te pūnaha kawehiko hoki e whakararu nei i te ratonga.

Arā noa ngā kūtitanga ki te kawenga hiko rā te kūtitanga o Tāmaki, engari kua mahue te pikinga o te tononga ā-motu i tō Rodney me North Shore. Hei tāpiri pēhanga āpiti ki te ratonga, kāore he whakanaonga hiko nui tonu ki te raki o Tāmaki. Nātemea ko tātou te kaihoko hiko o tēnei rohe, e mōhio pai ana tātou ki ngā āwangawanga mō te ratonga hiko, arā, kia mau tonu, kia whita hoki.

Nō konei tā tātou pānuitanga i Whiringa-ā-nuku 2005 i te kaupapa ki te hanga i tētahi pukuhiko kapuni e 360MW ki te raki o Helensville, i te rohe o Rodney. Ka rerekē tēnei rawa ahumahi i tō Rāhui Pōkeka ina he pukuhiko tuaka maha tōna āhuatanga, ka tukua he tikanga mahi ngāwari ake, ā, ka whakaū hoki i te ratonga ngaohiko huri noa i te tau hei tiaki kei te whita tonu te rerenga hiko ahakoa ngā wā kore whakangao hiko mō ngā mahi whakatikatika.

Tata ana ki te mutunga o te tau pūtea, i rere whakamua te Kaupapa Hinu, Kapuni o Kupe i te whakaaetanga o te hunga mahitahi, o Genesis Energy, o Origin Energy, o New Zealand Oil and Gas, o Mitsui hoki, ki te nuku ake ki te whanaketanga o ngā poka whakanaonga ki tai, ngā kōrere, me te whare hurihuri ki uta.

TE PŪRONGO A TE MANAHAUTŪ

CHIEF EXECUTIVE'S REPORT 2006

E tūmanakohia ana ka timata te rere a Kupe hei te timatanga o te tau 2009, ā, ka tata ki te 20 PJ te whakanaonga kapuni ia tau mai mō te hokonga, arā, he 15% āwhiwhi o te tononga kapuni o Aotearoa ia tau i tēnei wā. Kua kirimanahia a Genesis Energy ki te whiwhi 100% o ngā hokonga kapuni mai i te papa kapuni. Ka whakanao anō te papa o Kupe i ngā kāho 1.7 miriona ia tau o te wē whakatōtā me 90,000 tana haui (LPG) ia tau.

Nā te whakatau ki te whanake i a Kupe kua whakaū ki a Genesis Energy ngā putunga kapuni wā roa mō ō tātou kaupapa whakanao hiko, otirā kua toko ake tō Aotearoa āmua pūngao. Ko te hohore LPG i Kupe e tohu i tā Aotearoa kaha whakanao i te mākete kapuni i rō pounamu.

Ahakoa kei te whakamarie wā pototia te ōhanga o Aotearoa i a Kupe, Pohokura me ērā atu papa kapuni iti ake, tae atu ki te papa kapuni o Maui ROFR, kei te āhua ruarua tonu te tirohanga wā roa. I waenganui i tēnei tau pūtea kua haere tahi tonu ngā mahi i te kaupapa LNG i te taha i tō tātou hoa mahi, i a Contact Energy. Ahakoa maha noa pea ngā tau ki te hanganga o tētahi tauranga hoko LNG, he mea nui kia timatatia ināianei tonu te mahi whakaaetanga rawa, tātemea tērā e maha pea ngā tau e haere ai ngā wā o te whakaaetanga, o te hanganga anō hoki o tētahi tauranga LNG. Nā te nui o te utu o te whakawhanake i ngā papa kapuni iti nei o kei Aotearoa, tērā pea te LNG kua whakaurua mai tāwāhi e tirohia hei mātāpuna kora tauwhāinga mō te wā roa.

I roto anō i tēnei tau i ekengia e te pakihi hokohoko a Genesis Energy tētahi taumata, arā, i tāpiritia e tātou tā tātou kiritaki 700,000. Nā ngā kaupapa hokohoko kaha tonu i ētahi takiwā hōu, nā te kaupapa hoki kia nui ake anō ngā kāinga kia honoa ki te hononga kapuni kōrere tēnei tipunga i hanga. Me ā tātou kiritaki kapuni 121,000 rātou ko ngā kiritaki hiko 581,000 ko Genesis Energy te kaihokohoko pūngao rahi rawa o te motu. Nā tēnei pūtake kiritaki hiko e rahi ake te kaha tononga kei tō tātou pakihi whakahiko, te tokonga anō o te tauira pakihi. Nā te mahi pai a ā tātou kaimahi hokohoko, a te pokapū whakapā mō ngā kiritaki, a SITEL, a ā tātou kaiwhakarato maha tonu e mahi ana i waho tēnei tipunga kiritaki e haere tonu nei.

E tutuki ai tēnei tononga kiritaki rahi ake, e taupokina anō te potonga whakahiko ā-wai o te Waipounamu, i whakaritea e te teihana kei Rāhui Pōkeka ētahi rekoata hōu i tēnei tau pūtea mō te whakaputanga hiko, mō te kora hoki i whakapau. I pau i taua Teihana ētahi tana kora 2.52 miriona i tōna whakaputanga i te nuinga 6,009GWH he mea rekoata.

Kaha taumaha kē ēnei rekoata ina whakaarohia i whakakorea te Wae 3 i roto i ngā marama o te raumati mō tētahi tirotirohanga whā-tau, mō te hurihanga hoki ki tētahi pūnaha inenga, whakahaere ā-mati hōu. Ka hurihia ngā wae e toe ana rā waenga ngā raumati e toru e tū mai. Mā tēnei whakahoutanga pūnaha ka tangohia te rarururu o te kimi wāhi hōu mō te hangarau 30 tau te pakeke, ā, ka hoatu ki ngā kaiwhakamahi o tēnei rawa he huarahi whakahaere pai ake, e pai ake anō te whakaputanga hiko.

Kei te whakaata tō tātou hua i muri i te tāke o $83.7 miriona i te mahi werawera a ā tātou kaimahi e 444, ahakoa te piki haere o ngā utu whakaputa hiko.

E ki ana ētahi kua tae te mākete whakanao hiko o Aotearoa ki tētahi pekanga huarahi, arā, kei te whakaarohia tētahi Rautaki Pūngao ā-Motu a te kāwanatanga, ā, kei te whakaritea ētahi whakatau hira mō te haumi kawehiko, haumi whakahiko. I roto i tēnei Pūrongo ā-Tau kua miramira e mātou te haumi kei te haere ināianei, kei te whakaarohia rānei e Genesis Energy mō te angaroto pūngao o te motu. Kia mōhio mai koutou, e kawe ana a Genesis Energy i tōna wāhi i te atawhai i te whakapono ki te whakanaotanga pūngao mō Aotearoa ināianei tonu, mō āpōpō ake anō.

TE PŪRONGO A TE HEAMANA

CHAIRMAN'S REPORT 2006

"I te tau ka taha nei, i whakawhaihuatia ai ētahi o ō tātou haumi rautaki, kaupapa rautaki anō hoki."

I āki whakamua ai ā tātou whāinga rautaki mō te whakanui ake i te whakahikotanga, mō te whakarahinga i te nui o te kora ka taea te hoko atu ki te mākete, mō te whakarato hoki i ngā rawa pūngao ki ngā kiritaki maha ake anō.

Mā te tiputanga o te kamupene i riro he hua more o te $83.7 miriona i muri i te tāke. Ko ngā moni whiwhi o te tau ko $1,987 miriona, arā, he pikitanga i te $1,496 o 2004/05 nā te piki o ngā utu hiko hoko rārawe, o ngā utu hokohoko mai anō.

I riro ēnei pikitanga moni whiwhi, pikitanga hua, i tētahi taiao pakihi uaua. I utaina ki runga i ngā rawa whakahiko wera te pēhanga kia taupokina te potonga o te pūngao ka taea te whakahou i puta i te piki haeretanga o ngā utu kora, i te potonga anō o te wai i ngā roto whakahiko o te Waipounamu. I piki te utu toharite o te kora mā te 13.1 ōrau ina e whakatauritea ana ki te tau o mua atu. I piki hoki te utu tapeke mō te kora mā te 32.2 ōrau i runga o te tau o mua atu ki te $280 miriona, arā, tēnei te utu o te whakaū i te whakaratonga hiko ina heke ngā putunga hiko ā-wai.

Nā te hekenga o te rere o te wai ki ngā roto, nā te whakapaunga hohoro anō o te hiko ā-wai o te Waipounamu i waenga te kōanga o te tau 2005, te mutunga o te raumati o te tau 2006 hoki, ko te mutunga ko te whakanaonga a tō tātou Teihana Whakahiko 1040MW o Rāhui Pōkeka i tōna whakaputanga hiko ā-tau rahi rawa, arā, 6,009GWH.

Ki te wātea te Teihana i Rāhui Pōkeka, ka whakaratoa te hiko ki te mākete, arā, he whakaataranga o te āputa kūiti i waenga i te whakanaonga me te tononga. Me āta whārite te kamupene i tōna hiranga rautaki ki te ōhanga o Aotearoa ki tōna whaiwāhi ki ngā whakaputanga tapeke o ngā hau kati kōtuhi.

Heoi anō, kāore a Genesis Energy i te mauheretia ki te whakanaonga i te whakahikonga wera. Nui atu ōna mātāpuna whakahiko i ō ērā atu kaiwhakahiko huri noa te motu. He hautoru pea te nui o a tātou whakahikonga e puta ana i ngā rawa e taea ana te whakahou, pēnā i te wai, i te matū koiora, i te hau.

Hei whiwhi i te whakaputanga teitei rawa e tika ana kia whakatikatikatia mutukoretia ai ngā rawa whakahiko wai. I tēnei tau i whakatūria he whakahuri hōu i te Teihana Whakahiko o Tuai e 75 tau te tawhito; i oti anō he whakapaipaitanga o te Rawa Hiko o Kourarau i tukitukia e te waipuke; i oti anō te whakauru ki te Rawa Hiko o Tokaanu he pūnaha hei whakahaere mai tawhiti i te Rawa Hiko o Waikaremoana. Kua oti anō te whakatikatika i tētahi rarururu i katia ai te kuwaha whakauru o Rotoaira i te nui o te tarutaru, mā te whakamahi i te hangarau hōu mō te patu tarutaru.

Ko tētahi kaha nui tonu o Genesis Energy ko tōna hohoro ki te nekeneke ina puta mai he whaiwāhitanga i te mākete. Arā noa ētahi tauira o te whakaarohanga hohoro puta noa te pakihi – mai i te hainatanga o ngā kirimana kapuni hōu, tae noa ki te whakahaerenga o te hononga hiko pūtaketake i te whanaketanga hokohoko hōu o Sylvia Park i Tāmaki-makau-rau. Ka kaha tonu a Genesis ki te noho hei whakahaere whakaaro auaha, hei whakahaere hohoro ki te mahi kia whakaratotia ai tā ngā kiritaki e hiahiatia ana.

Ko te whakapaunga haupū tapeke o te kamupene i tēnei tau pūtea ko te $265 miriona, he hua hāngai o te kapo huanga ina ara ake. Ko te nuinga o ēnei whakapaunga haupū ($200 miriona) i tuku ki te pārere kapuni hōu 385MW o Rāhui Pōkeka , tērā i tino neke whakamua ai i roto i tēnei tau ki tōna rā whakatuwhera o Paenga-whāwhā 2007.

I noho tonu te taenga mai o ētahi wāhanga o te e3p i Whiringa-ā-rangi 2005 hei whakakōki mō te whakawhanaketanga o tētahi hononga hōu ki ngā iwi nohotata o te Teihana o Rāhui Pōkeka. I te 5 o Hakihea 2005 i hainatia e Genesis Energy, e te Waahi Whaanui Trust, e te marae kāinga a Taupiri Marae, e Te Waahi Paa, e Te Kauri Marae, e Te Kaitumutumu Marae, e Te Ohaaki Marae, e Te Matahuru Marae anō hoki i tētahi Whakaaetanga Mahi Ngātahi.

I tū tēnei Whakaaetanga Mahi Ngātahi hei whakaaetanga ki te pānga o te Teihana Whakahiko o Rāhui Pōkeka ki te iwi kāinga, o te hiranga hoki o te hononga i waenganui i a Genesis Energy me ngā iwi kāinga mō te haeretonutanga o te Teihana Whakahiko o Rāhui Pōkeka.

I ētahi pūrongo o mua kua kōrero ahau mō te wā me te utu i whakapau ki te whiwhinga o ngā whakaaetanga mātāpuna mō ngā kaupapa whakahiko hōu. Mutu ai te tukanga rua tau, i Hakihea 2005 ka tukua mai he whakaaetanga mātāpuna mō te Pāmu Hau o Awhitu e te Kōti Taiao. E toru ngā whakaaetanga i whakaritea tahitia ai me ngā rōpū hapori hei peke i te taepa whakamutunga.

Heoi anō, nā tēnei whakaroa rua tau kua utaina ki tēnei kaupapa he pēhanga nui, nā reira me āta whakaarohia te pikitanga o ngā utu o ngā whakahiko hau i te arotakenga o ngā huanga ohaoha e pā ana ki te Pāmu Hau o Awhitu.

I tēnei tau i neke whakamua te rautaki a Genesis Energy ki te whakarato ki ngā kiritaki maha noa ake he whiringa o te hiko, o te kapuni, me ētahi atu whakanaonga pūngao. Rā te tipu nahanaha kua ekengia te taumata o te kiritaki 700,000.

I haere tonu i tēnei tau pūtea tētahi kaupapa kukume kiritaki kapuni hōu, tērā i tīmatatia ai i Poutū-te-rangi 2005. I whakatairangatia ai e tēnei kōkiri te tūranga o Genesis Energy koia tonu te kaiwhakarato kapuni matua e whai putunga kapuni ana hei whakarato i te kapuni kōrere ki āna kiritaki mō ake noa atu. I mahitahi hoki te kamupene i te taha o ōna hoa ahumahi, pērā i a Plumbing World me Vector hei whakarite i te tukanga whakahono mārie ake mō ngā kiritaki e tango ana i te kapuni hei kora hōu mō te kāinga.

Ināianei e whiwhi painga ana ngā kiritaki kāinga i tō tātou whakaurunga o te hangarau inenga ututōmua hōu. I waenganui i tēnei tau e 8,000 pea ngā kiritaki i runga i ngā mita ututōmua momo tuatahi i hurihia ki ngā mita ututōmua InCharge hōu. Ka tuku ēnei mita InCharge kia hokona tōmua ai te hiko, mā ētahi tikanga utu rerekē, e te kiritaki penapena moni, te kiritaki rānei e hiahia ana kia nui ake tōna kaha whakahaere i tana whakapaunga hiko. Hōmai ai e ēnei mita he whakaaturanga mati o te whakapaunga hiko, ka hōmaingia hoki he whiringa o ngā utu, arā, te tikanga utu rite, tikanga utu tononga nui/tononga iti rānei.

Kua whakarei aketia te takoha a Genesis Energy ki te hapori whānui e te tipunga ake o te Genesis Oncology Trust, i nui atu i te $500,000 ngā takuhe rangahau i tukua hei tautoko i te whawhai ki te mate pukupuku.

He tau kaha te mahi anō tēnei mō Genesis Energy, āna kaiwhakahaere me āna kaimahi. I whaihua ētahi kaupapa hōu, i pānuitia ētahi atu, i taea hoki ētahi rēkoata whakahikonga hōu. I tēnei wā tonu i wehe atu ētahi kaiwhakahaere tokorua i te kamupene. I haere ngā kaiwhakahaere matua, a Bruce Cole rāua ko Vince Hawksworth ki ētahi mahinga hōu; ko Bruce ki te ritāiatanga, ko Vince ki te tūnga o Manahautū i Hydro Tasmania. Nā tō rāua wehenga atu i kitea he whakawhitinga o te mahi a tētahi kaiwhakahaere matua, he nekehanga ake anō o ētahi kaiwhakahaere tokotoru ki te Kapa Kaiwhakahaere (tirohia te whārangi 22).

E mihi ana ahau ki ōku hoamahi o te Poari mō tō rātou ūnga mai, e pūrongotia ana hoki e ahau ā tātou whakamihi ki te Heamana Tuarua kua ritāia, ki a Keith Smith. Ko Keith te Heamana o te Rōpū Whakawhanake Wā-Poto nāna a Genesis Energy i hanga, ko ia tonu te Heamana tuatahi o te kamupene. E whakawhetai ana mātou ki a Keith mō tāna wāhi i te whakaūtanga, i te tipunga hoki o te kamupene. I whakamanuhiritia hoki a John Stace i tēnei tau hei mema hōu o te Poari.

E whakawhetai ana hoki te Poari ki tō tātou Manahautū a Murray Jackson rātou ko tōna kapa kaimahi mō ā rātou mahi kairangi i te tau 2005/2006; he mahi i mahia i te takotoranga o ngā tino wero ki te kamupene ki te tutuki i ngā manakohanga teitei ake, ki te tutuki hoki i ōna ki taurangi ki āna kiritaki, ki te hapori whānui hoki.

1.

2.

3.

1. Brian Corban **QSO, MA (Hons), LLB, FinstD, FNZIM** – Brian Corban is a professional company director, lawyer and business and community leader. He has experience in successfully leading companies through restructuring and deregulatory changes in the television, telecommunications, transport and electricity sectors. He is currently Chairman of the Melanesian Mission Trust Board, Chairman of Ngatarawa Wines, chairman of a number of private companies and a trustee of various community trusts. In 2000, Brian Corban was appointed a Fellow of the Institute of Directors in New Zealand and in 2001 was appointed a Fellow of the New Zealand Institute of Management.

2. Michael Williams **MA (Hons)** – Mike Williams is the President of the New Zealand Labour Party, Chairman of the Transport Board Reference Group, a Director of the Institute of Geological and Nuclear Sciences, Auckland Regional Transport Authority, New Zealand Railways Corporation and the New Zealand Picture Company and is a Trustee of Enterprise Waitakere and an Authority member of Transit New Zealand Limited.

Geraldine Baumann (NOT PICTURED) **LLB** – Geraldine Baumann is a member of the Energy Efficiency and Conservation Authority, a trustee of the Royal New Zealand Ballet Trust and Meridian Energy Katherine Mansfield Fellowship and senior legal adviser to the New Zealand Historic Places Trust.

3. John Stace John Stace returned to New Zealand in February 2005. He is Chairman of Methodware Limited and a member of NZTE's Beachhead Advisory Board having previously been chairman of the UK Beachhead Board. He is Deputy Chairman of Aardvark EM, a UK based environmental consultancy, a Consultant to City of London Chartered Surveyors Hexell Wylie Ltd, a Trustee of The Tank Museum at Bovington in Dorset, UK, and a Vice President of Save the Children UK. His career in London centred on financial services and more particularly Lloyd's of London. He founded Stace Barr Underwriting Agencies which was subsequently acquired by Angerstein Underwriting Trust plc (now Amlin plc) of which he was its first CEO and he was deputy chairman of Lloyd's in 1995 and 1996 and was Master of The Worshipful Company of World Traders, a London Livery Company, in 2002-2003.

BOARD OF DIRECTORS.

4. 5. 6. 7.

4. Nicola Crauford **BSc, PhD, FIPENZ, MInstD** – Dr Nicki Crauford is the Chief Executive of the Institute of Directors. She is a director of the Centre of Advanced Engineering, director and minority shareholder of iYomu Limited and a director of a number of private companies. She has over 15 years experience in the oil, electricity and gas sectors in the UK and New Zealand and holds a Doctorate in engineering.

5. Annabel Cotton **BMS (Accounting & Finance), ACA, CSAP** – Through her consultancy firm Merlin Consulting Limited, Annabel Cotton advises New Zealand-based listed companies on their investor relations programmes. A qualified investment analyst and accountant, Ms Cotton is a member of the New Zealand Securities Commission. She is also a director of NZSX-listed Kingfish Limited and subsidiaries, and of a number of private companies.

6. Denis McNamara **LLB (Hons)** – Denis McNamara is a senior partner in the law firm Simpson Grierson, the Honorary Consul of Mexico, Deputy Chairman and board member of the New Zealand Committee of the Pacific Economic Co-operation Council and is a director of a number of private companies. He is also a member on the Advisory Board of the New Zealand Centre for Latin American Studies at Auckland University and is a council member on the Inter Pacific Bar Association.

7. Ian Kusabs **MSc (Hons) Biological Sciences** – Ian Kusabs is of Ngati Tuwharetoa and Te Arawa descent and resides in the Te Arawa district. He is Principal of his own consultancy specialising in freshwater fisheries, is a freshwater advisor to the Tuwharetoa Maori Trust Board, Chairman of the 2020 Taupo-nui-a-tia project, and a member of the Taupo-nui-a-tia management board. He is a member of the Upper Waikato Liaison sub-committee and is also a member of the Royal Society of New Zealand, New Zealand Freshwater Society and a fisheries associate of Wildland Consultants and Charles Mitchell and Associates.

SENIOR MANAGEMENT.

1. Maureen Shaddick LLB, BA **GENERAL COUNSEL AND COMPANY SECRETARY, GENESIS ENERGY.** As General Counsel, Maureen is responsible for management of the provision of legal services to the company and legal compliance and regulatory support. She is the Company Secretary of Genesis Energy and Deputy Chair of the Genesis Oncology Trust.

2. Murray Jackson MBA, BEc, FTSE, FIEAust **CHIEF EXECUTIVE, GENESIS ENERGY.** Charged with overall management and strategic leadership of all Genesis Energy's business interests, Murray has more than 40 years' experience in the Australasian power industry. Prior to joining Genesis Energy, he was Commissioner for the Snowy Mountains Hydro Electric Scheme in southern New South Wales and Director of Production for Pacific Power (NSW). Murray is Chairman of the Genesis Oncology Trust, Chairman of Energy Online Ltd and a Board member of the Gas Industry Company.

3. Nic McCondach CA **GENERAL MANAGER, ENERGY ONLINE**. Nic is responsible for managing the Energy Online retail business, providing leadership to ensure the ongoing successful operation of Genesis Energy's wholly owned subsidiary.

4. Richard Pearce MBA, BE (Hons) **GENERAL MANAGER GENERATION DEVELOPMENT, GENESIS ENERGY**. Richard is responsible for new thermal and renewable development projects from investigation through to commissioning and integration.

5. Mark Anderson BCom, ACA **GENERAL MANAGER FINANCE, GENESIS ENERGY.** In addition to the management of Genesis Energy's financial, audit, treasury and insurance functions, Mark has responsibility for the company's information systems and risk management framework including management of the Genesis Energy's trading risk position and risk reporting to the Board.

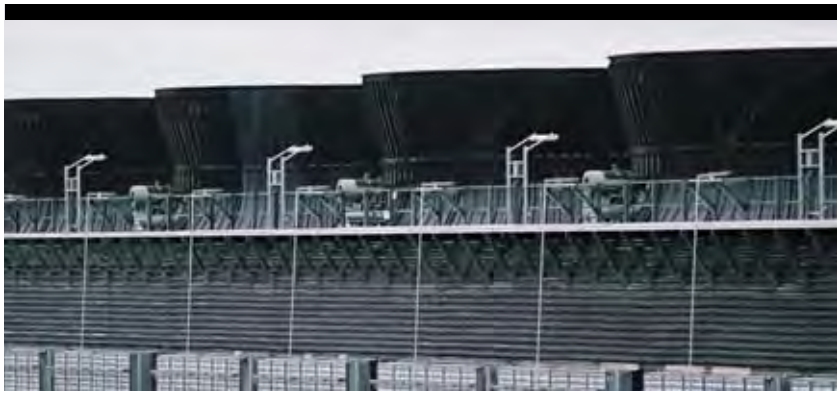
6. Allan Melhuish BE (Hons), BCA (Hons), PGDipBusAdmin **GENERAL MANAGER FUEL DEVELOPMENT, GENESIS ENERGY.** Allan is charged with the management of fuel purchases and fuel transportation, building and growing Genesis Energy's portfolio of fuel development and exploration prospects and managing Genesis Energy's fuel capital development projects such as the Kupe Oil and Gas Field.

7. Bob Weir MBA, BEe, MIEAust, CPEng, MIPENZ **GENERAL MANAGER PRODUCTION, GENESIS ENERGY.** Bob is responsible for the management and operation of all Genesis Energy's generation assets; thermal fuel procurement and logistics, trading strategy development and implementation; transmission and intra-generator hedge trading desk.

8. Peggy Molyneux MBA, BA, MIPM **GENERAL MANAGER CORPORATE SERVICES, GENESIS ENERGY**. Peggy's role includes management of property and administration, Genesis Energy's recruitment, development training, NZQA training, e-learning and performance, employee relationships, payroll services, health and safety, remuneration and internal communication. Peggy is also Project Manager for the Rodney Power Station project.

9. Malcolm Alexander LLB, BA (Hons) **GENERAL MANAGER CORPORATE AFFAIRS, GENESIS ENERGY.** Management of Genesis Energy's strategic planning, government relations, regulatory affairs, environmental policy, including climate change, and public relations. Malcolm is a member of the Electricity Commission's Transmission Advisory Group.

10. Dean Carroll BSc **GENERAL MANAGER RETAIL, GENESIS ENERGY.** Dean is responsible for the management of Genesis Energy's retail business, leading the retail business unit to provide services driven by the needs of our customers in the residential, commercial, industrial and derivative markets.



Cooling off

Since Huntly Power Station was first commissioned in 1983 its operators have faced generation constraints during summer when the Waikato River warms up to near or above resource consent conditions of the plant. The maximum temperature allowed is 25°C 1km downstream of the plant.

Various operating and engineering solutions were tested during the past 20 years. Aware that security of supply of electricity to the upper North Island was becoming more critical each summer, Genesis Energy decided to invest $35 million in a new cooling tower for the station.

The helper cooling tower was operational in early 2006 and used to alleviate river heating issues over summer. The project came in under budget and exceeded the performance requirements required under the contract.

The tower takes heated water from any one of the four 250MW turbines and cools it before pumping the cold water back into the Waikato River. In a worst case scenario the cooling tower allows 250MW of generation if the other three units are entirely shut down due to high river temperatures.

Digital control

The installation of the new control and instrumentation system on Unit 3 at Huntly Power Station was completed and the unit returned to service in March 2006.

This was the first of the four original control systems at Huntly to be replaced. The current manual system dates back to the 1970s, when the plant was designed. Installed by Siemens, the new digital and computer-based system will provide plant operators with greater reliability and finer control, which should result in increased efficiency of the four 250MW units.

Since March, further fine-tuning of the system has occurred to maximise the benefits of the system. Plans are well advanced to upgrade Unit 1, starting in January 2007.

Climate change demands we change

As a major supplier of energy, Genesis Energy is very conscious of the environmental effects of burning fossil fuels and the role we can play in meeting the country's climate change objectives.

During the financial year, Genesis Energy launched a Climate Change Strategy which responds to climate change through investment in energy-efficiency enhancement projects, retail customer energy-efficiency initiatives, development of new renewable energy projects and a commitment to environmental excellence.

Genesis Energy primarily emits CO_2 from generation activities at Huntly Power Station. An increased reliance on coal at Huntly has resulted in increasing CO_2 emissions since 2003. The company is seeking to reduce emissions by investing in more efficient technology at the plant, including the digital control system on the four 250MW units, which will bring enhanced control and greater efficiency from the generators.

As a responsible energy provider, Genesis Energy is conscious of the role it can play in reducing the greenhouse gas footprint of its customers and stakeholders. During 2005/2006 we launched a number of initiatives aimed at reducing CO_2 emissions. These included the Curtain Bank (see page 31), and a heat pump installation and refrigeration programme in the Waikato in partnership with Fisher & Paykel, Panasonic, WEL Networks and the Electricity Commission.

The company has also sought ways to reduce emissions from its own non-generational activities. New initiatives in this sector include a print and mailhouse tender which resulted in the selection of Norcross for our mailhouse printing. This has enabled Genesis Energy to significantly reduce the environmental impact of our brochures and newsletters. Another outcome has been the introduction of reusable envelopes for billing our residential and small business customers.

For more information about Genesis Energy's Climate Change Strategy and objectives, please see page 15 of the Genesis Energy 2006 Corporate Responsibility Report.

Black belt

With 2.52m tonnes of coal consumed at Huntly during the year, one significant issue for the plant management is getting coal to the station.

Around half of the coal was imported via the Port of Tauranga and railed across to Huntly by Toll New Zealand via an unloading terminal at Rotowaro. From there, imported and local Solid Energy coal is trucked on a private road to the Huntly West Mine stockpile and conveyor head.

The conveyor runs across farmland for just over 3km before terminating at the coal plant behind the station. For some time the conveyor has suffered from a number of outages caused by wear and tear on the belts and rollers. During these outages trucks were required to shift coal from the stockpiles to the station along public roads.

An investment of around $1 million during the year replaced 7km of conveyor belts and rollers. The refurbishment work resulted in a vastly more reliable conveyor, removed trucks from the roads and has benefited nearby residents as it now operates with much reduced noise levels.

Red-hot performance

It is indicative of the country's energy needs that Huntly Power Station produced its highest ever annual amount of electricity generation with 6,009GWH output.

Huntly has been running at high production levels for the past few winters, but it also increased its output during spring 2005 to cover the shortage of water in the southern hydro lakes.

When Huntly plant is available it is dispatched into the market, reflecting the current supply/demand balance and its strategic importance to New Zealand.

For the financial year, Huntly Power Station fired 2.5m tonnes of coal which equates to 85.2 per cent of the fuel used. Total fuel fired on all units, including Huntly Unit 6 (40MW gas turbine) and Te Awamutu, equalled 66PJ.

Despite the age of Huntly (Unit 1 is a few months short of 25 years old and the other three units are 24, 23 and 22 years old respectively), the plant performance was excellent with availability 86.42 per cent Equivalent Availability Factor (EAF measures the proportion of time plant is available allowing for planned maintenance) and reliability.

That the availability and reliability of the plant performed so well during the year is a testament to the operations, maintenance and engineering teams and contractors at the station.

Cleaning up the ash

At the end of 2005, Genesis Energy was granted land use consent to remove ash from the ash ponds on Te Ohaki Road in Huntly.

With Huntly Power Station being run at close to full capacity during the 2005 winter and coal being the primary source of fuel at the Station, the ash ponds were filling up fast.

The ash is excavated and transported to the Solid Energy New Zealand Rotowaro coal mine for placement in a designated area within the mine backfill. This takes place between October and May. The route used to transport the ash avoids local schools. Road improvements, vegetation trimming, contractual requirements with the trucking contractor and increased signage in the area ensure the safe operation of trucks.

Genesis Energy consulted widely with its stakeholders on the Ash Management Project including local residents, iwi and council. During the trial period of March to May 2006, approximately 30,000 tonnes of ash was excavated and transported.

Kourarau ready to go again

Albeit less than 1MW, the Kourarau hydro power scheme provides a useful source of renewable energy in the Wairarapa region.

Kourarau has two small and now historically valuable powerhouses, the lower power house and upper dam of which were damaged by floods in early 2005.

The flood caused significant damage to the lower power station, controls and protection equipment. The flood also damaged parts of the power scheme catchment which required the reinstatement of stream channels, erosion protection and desedimentation of waterways. Refurbishment of the stations and the catchment was completed by the middle of 2006.

In addition to flood repairs, Genesis Energy undertook a life assessment study of the scheme highlighting longer-term work to ensure the ageing station remains compliant and safe, and as reliable and efficient as practical.

The green plague

Weed build-up on intake screens at the Tokaanu Intake on Lake Rotoaira has plagued the hydro scheme since commissioning in 1972.

However, since 1999 a new, fast-growing and floating weed called Hornwort (Ceratophyllum demersum) has infested the lake. In autumn and winter months as the weed breaks free from the lake bed, rafts of Hornwort can quickly grow up to 10m deep. In periods of heavy wind and high generation these weed rafts can be blown or dragged into the Tokaanu Intake screens, very quickly blocking the screens, creating a damming effect and in severe conditions requiring the reduction or cessation of electricity generation with little or no warning. Our existing weed grabber and conveyor system has struggled to clear the weed from the intake in these situations.

A significant weed build-up occurred at Tokaanu Intake on 19 June 2006 largely driven by storm winds. The weed constrained generation at Tokaanu for several days. Manual 24-hour operation of the screen cleaner occurred for several days (at times during extreme weather conditions), with additional support provided by two long-reach excavators brought in to work alongside the screen cleaner and on the lake edge, removing weed washed along the weed boom.

Before the 19 June event Genesis Energy had decided to replace the weed grabber with a new $3 million system from the United States called a "self-cleaning trash rake" This is effectively a rolling rake screen, 34m wide, that lifts weed up from the water in front of the intake screens and deposits it on to a conveyor belt for removal.

The area in front of the Tokaanu Intake screens has now been successfully cleared of several tonnes of organic debris in preparation for the fitting of the new screens at the end of 2006.

Watching the river

Continuous improvements to Genesis Energy's hydrology data collection network and new developments in communication systems have allowed the company to adopt new and more robust data collection solutions.

This has improved the reliability, timeliness and quality of hydrology information used by hydro power station operators.

The data collected includes river flow, water level, rainfall and water quality parameters such as conductivity and pH. The data is provided to operators, in real-time, for scheme operations and resource consent compliance reporting. It is also provided to regional councils and other relevant agencies for emergency response planning. Genesis Energy is operating a state-of-the-art recording and data transfer system.

Up-to-date hydrology information is available to the public via the Genesis Energy website **www.hydro.genesisenergy.co.nz**. The river flow, lake level and rainfall data is updated hourly. The website is very popular, with a wide range of people utilising the site including fishermen, kayakers and tourism operators. Over the next six months, the site will be expanded to include further site information from Tongariro and Waikaremoana power schemes.

Transforming more than meets the eye

The end of an era occurred at Waikaremoana with commissioning of three new transformers at Tuai.

The original single-phase machine transformers had been in service on Units 1 and 2 since 1929, and Unit 3 since 1939.

Though all units were overhauled in 1997 and given a further 15 years or so residual life, a decline in the condition-monitoring results instigated the decision to replace these transformers to avoid potential supply disruptions.

The new transformers consist of one three-phase unit per machine, as opposed to the previous three single-phase units per machine, and were manufactured in Jakarta by Pauwels Tranfo, Asia. The transformers are 11/110kV with a rating of 28MVA, on-load tap changing with state-of-the-art protection and online condition monitoring. They are also air-cooled using natural oil convection, negating the need for the previously water-cooled units.

A major aspect of the project was the civil works in designing and installing foundations for the new units. Each transformer is housed in a concrete-bonded enclosure, and separated from the adjacent unit with a firewall. Foundations for the new pads were installed on piles that were drilled down to solid rock to ensure a rigid foundation base.

Remote control

The Waikaremoana Power Scheme had its 24/7 operational control transferred to the Tongariro Power Scheme's control room located at the Tokaanu Power Station.

This move allowed for the formation of one centralised Renewable Energy Control Centre controlling both the Waikaremoana and Tongariro Power Schemes.

The project involved a technical upgrade to ensure the full remote control of the seven generators and the ancillary plant is robust enough to cope with any situation that may arise. The operators underwent a six-month training period to become competent in controlling the extra power scheme.

Two staff were transferred from Waikaremoana to Tongariro, boosting the control centre team to seven members. The larger team allows the operators to become more involved in the broader business facets that impact on operations.

The remaining operations staff at Waikaremoana were combined into a new multi-disciplined maintenance team of 10 members. This team is responsible for maintaining operational competency should serious situations arise that require local control.

The final journey

The largest components for Huntly e3p – the gas and steam turbines, generator and generator transformer – were manufactured in Japan and Australia.

Arriving at the Ports of Auckland, the components had to be transported by road to Huntly. Working with consulting engineers Connell Wagner, Genesis Energy spent more than two years preparing the heavy haulage route.

The preparation required resource consents from City, District and Regional Councils and permits from Transit New Zealand. A total of 27 structures along the route had to be temporarily bridged, bypassed, or permanently strengthened, including the virtual rebuilding of the Tainui Bridge crossing the Waikato River at Huntly.

First to arrive was the generator transformer from Queensland, Australia. The 255-tonne generator transformer's crawl south took place over five days and required a 13-axle, 208-wheel flat-deck truck and a police escort to traverse the heavy haulage route through Auckland and Manukau City to State Highway 1 at Drury and on to Huntly.

The largest unit to arrive was the 372-tonne gas turbine manufactured in Japan. It arrived at the port with the 356-tonne generator and two steam turbines. The 14m-long, 6m-tall and 6m-wide gas turbine was loaded onto a 16-axle trailer, pushed and pulled by two tractor units. Travelling only by night, the gas turbine wended its way south and arrived safely at Huntly after a week on the road.

The loads were the heaviest to be transported over the distance of 97km on a road network in New Zealand.

e3p

A TIMELINE OF CONSTRUCTION

OCT 05

2005

JULY

Civil works and structural steel erection progressing steadily

Turbine hall column erection commenced 7 July 05

Heat recovery steam generator (HRSG) foundations poured

AUGUST

HRSG structural steel commenced 6 August 05

Heavy haulage – minor bridge strengthening works complete

Tainui bridge strengthening work complete, available for first heavy load

Heavy haulage bypass construction works progressing steadily

SEPTEMBER

Gas turbine control system factory acceptance testing complete

OCTOBER

Generator transformer successfully delivered to site 3 October 05

NOVEMBER

Turbine hall civil works and structural steel erection nears completion

DECEMBER

Turbine pedestal civil works complete ready for installation of power train

HRSG structural steel works substantially complete

Transformer (255t), gas turbine (372t), steam turbine (179t) and generator (356t) safely delivered to site by 2 December 05

Turbine power train lifted 10m to turbine pedestal base


JAN 06


MAR 06


MAY 06


JUNE 06

2006

JANUARY

Installation of the turbine power train (gas turbine, steam turbine, and generator complete)

Over 1000t (total) turbine load on pedestal

HRSG harps and drums delivered from Korea to New Zealand and erected

Switchyard civil works complete

FEBRUARY

350,000 man-hours completed

Approximately 250 contractors' staff on site

Installation of electrical high voltage (HV), medium voltage (MV), and low voltage (LV)

Switchgear installation progressing steadily

Cooling tower takes shape

MARCH

Training simulator installation completed for operator training

Transpower 220kV switchyard for connection of the e3p machine successfully commissioned and livened on 8 March 06

The 220kV cabling between the generator transformer and the transpower switchyard installed and cable terminations completed

APRIL

633,000 man-hours complete

Approximately 450 contractors' staff on site

Interconnection service works complete (raw water, demin water, hydrogen gas, potable water, auxiliary steam)

MAY

HRSG remedial works under way

JUNE

740,000 man-hours complete

Approximately 450 contractors' staff on site

Operator training 20-day classroom session commences

JULY

853,000 man-hours complete

Approximately 450 contractors' staff on site

Green light for Kupe

Gas supply certainty for Huntly e3p moved ahead significantly in June 2006 when the partners in the Kupe Gas Project announced the project would proceed following the final investment decision.

The decision to develop Kupe assures Genesis Energy of long-term gas supplies for our new Huntly e3p 385MW power generation project. Both Kupe and e3p are critical assets which will help underpin New Zealand's energy future.

The Kupe Gas Project is a joint venture operated by Origin Energy Resources (Kupe) Ltd and joint venture partners Genesis Energy, New Zealand Oil & Gas Limited and Mitsui E&P New Zealand Limited.

Now that the final investment decision has been reached, construction is expected to commence in Taranaki in late 2006. The final development is expected to be online in 2009 and is expected to produce around 20PJ per annum of sales gas – approximately 15 per cent of New Zealand's current annual demand. The project will also produce condensate and LPG commencing at 1.7 million barrels per annum and 90,000 tonnes per annum, respectively.

The Kupe Gas Project will comprise:

- An unmanned offshore platform constructed above the Kupe Field production wells and supporting up to six wellheads;
- A new onshore production station;
- A shore crossing, bored under the coastline cliffs, connecting the offshore pipelines from the platform to the production station; and
- A network of onshore pipelines.

Talking 'bout new generation

Growth in the demand for power in the rapidly growing district of Rodney, north of Auckland, is outstripping the rest of the country. At the same time, Transpower's transmission lines through the Auckland isthmus are constrained.

In October 2005, Genesis Energy announced plans to build a new gas-fired power station on a greenfield site 8km north of Helensville.

To be called the Rodney Power Station, the facility will consist of a number of combined cycle gas turbines (CCGT) with a total electricity generation capacity of 240MW in the first stage, rising to 360MW over time. Natural gas and CCGTs were chosen for their ability to provide efficient and reliable base-load generation. A multi-shaft format will give the district and region greater security of supply during planned and unplanned outages at the power station.

The site was chosen for its position north of the transmission constraint and proximity to the existing 220kV lines, existing gas pipeline, water source and State Highway 16. An option to purchase the 17ha site was secured with a local landowner and Genesis Energy will acquire the site following the gaining of consents and the decision to proceed with the investment.

Following the announcement, a number of workstreams commenced, including the engineering design, assessment of environmental effects (AEE), resource consent application and community consultation. Feedback from the community and AEE was taken into consideration during the design process.

Consultation with the community included local neighbours, residents and ratepayer associations, iwi, and District and Regional councillors and officials.

Genesis Energy is also working closely with Vector and Transpower on planning for upgrading the gas transmission to the site and on connection to the National Grid at the site.

Working with iwi neighbours

While threats to block the transport of e3p heavy loads across the Tainui Bridge at Huntly received much media attention, a more positive outcome was the signing of a Memorandum of Understanding with the iwi neighbours of Huntly Power Station.

On 5 December 2005 Genesis Energy, Waahi Whaanui Trust, and local marae – Taupiri Marae, Waahi Paa, Te Kauri Marae, Kaitumutumu Marae, Te Ohaaki Marae and Matahuru Marae – signed the Memorandum of Understanding.

The signing of the Memorandum of Understanding represented an acknowledgment of the impact of the Huntly Power Station on local iwi and the importance of the relationship between Genesis Energy and local iwi to the continuing operation of the Huntly Power Station.

The Memorandum of Understanding recorded the commitment of all the parties to work together in good faith to pursue a mutually beneficial relationship. By way of an initial step, it established a framework for Genesis Energy, the Waahi Whaanui Trust and local marae to identify and record past and present issues, undertakings and understandings. A research project to establish a database of past and present issues commenced during the financial year.

For Genesis Energy, it is important to ensure the ongoing wellbeing of the Waikato River, the environment surrounding the Power Station and the local people.

The Curtain Bank

"A community partnership between Genesis Energy and HEET."

Genesis Energy and the Huntly Energy Efficiency Trust (HEET) embarked on a partnership this year to provide curtains to low-income families in the Waikato region. A substantial amount of warmth in the home is lost through uncovered windows. When curtains are fitted, the house uses energy more efficiently and its occupants stay warmer. As well as keeping families warm throughout the year, the curtains also offer privacy to the people inside.

The partnership between Genesis Energy and HEET involved an integrated media and advertising campaign calling for donations of second-hand curtains. Small businesses in the area that were identified as potential donors were also sent flyers asking for donations.

The donated curtains are relined with thermal backing by HEET and distributed to families with assistance from social agencies.

The Genesis Energy Shakers

In early 2006, Genesis Energy signed on for three years as the principal sponsor of Wellington region's franchise netball team, the Genesis Energy Shakers.

The sponsorship was not the only exciting news for the Genesis Energy Shakers this season – former Silver Fern Waimarama Taumaunu joined the side as their Head Coach. With a new coach, new sponsor and three new directors including the Chairperson, the team had a strong start to the 2006 National Bank Cup Competition.

During the 2006 season, Genesis Energy ran several promotions to increase community awareness of the sponsorship and get more supporters along to games. 50,000 residential customers and 10,000 commercial customers were targeted through a direct mail campaign. Mail drop and press advertising communications ran throughout the season.

The Genesis Energy Shakers finished sixth in the competition in 2006, improving their 2005 ranking by two places. The team are continuing to train hard and Genesis Energy looks forward to an exciting 2007 season.

La Traviata

Genesis Energy is proud to be the principal sponsor of the Spring Opera Season. In 2005, Genesis Energy brought La Traviata to Auckland and Wellington where the timeless tragedy was well received by audiences in both cities.

One of the motifs in La Traviata is the camellia worn by Violetta, the story's heroine. Genesis Oncology Trust saw an opportunity to encourage further donations to the Trust by tying in a theme from the opera and offering Genesis Energy customers a special price on camellia bushes.

The camellia bushes cost $30 and were couriered out to customers. Of that $30, a $5 donation went directly to the Trust to further their research into the prevention, detection and treatment of cancer.

Genesis Energy's partnership with the NBR New Zealand Opera provides the opportunity to profile Genesis Energy as a significant partner in the arts, and raises awareness of the Genesis Oncology Trust with an influential audience.

Genesis Energy supports Helensville Medical Centre

Genesis Energy has pledged its support to the Helensville District Health Trust's (HDHT) plans for a new medical centre complex in the form of a 10-year funding package.

As the incumbent electricity retailer in the area, Genesis Energy saw the opportunity to support the Helensville Medical Centre as a positive move to reaffirm the company's commitment to the community.

Genesis Energy aims to make a positive difference to the lives of people in the communities where it operates. Ensuring residents in Helensville and the surrounding areas have access to leading medical services is an excellent way to achieve this goal.

The development of the medical centre complex aligns positively with the work Genesis Energy is doing through the Genesis Oncology Trust in the areas of detection, diagnosis and treatment of cancer. There will be opportunities for Genesis Energy to facilitate bringing educational programmes to the district through the medical centre.

Photo courtesy of Tangata Whenua mai Tongariro Charitable Trust

Supporting iwi initiatives

In the past year, progress has been made by the Tuwharetoa Genesis Group, particularly in the area of funding environmental and scientific projects.

As an outcome of the Tongariro Power Scheme resource consents process, a side agreement was reached with Ngati Tuwharetoa to mitigate adverse effects of the scheme on their rohe (boundary).

The Tuwharetoa Genesis Group was established to allocate funding to specific objectives, including cultural, scientific and environmental enhancement initiatives in and around the power scheme and also for education, health and wellbeing.

In 2004, the Group (comprising representatives of Tuwharetoa and Genesis Energy) employed Dayle Fenton as a funding coordinator. Dayle helped to establish a strategic plan and facilitate many projects, especially in the environmental enhancement or scientific area, an area that the group had previously struggled to fund.

Recently funded projects include:

Rongomai Marae Flood Protection and Environmental Enhancement Project – this project is aimed at protecting the marae from the adverse effects of flooding and to restore the adjacent wetland. This is critical to the future of the marae and the hapu (tribe) are right behind the works. The selection of plants will be based upon traditional methods associated with activities such as weaving and traditional medicines.

Opotaka Restoration and Enhancement Project – this project was set up to protect, restore and enhance Opotaka in accordance with Ngati Hikairo tikanga (custom) for the benefit of current and future generations. Opotaka is an historic Maori settlement of important cultural significance and the project will be completed over a period of 12 months. When complete, Tongariro Whenua Operations will investigate implementing a tourism project, in a joint venture with Ngati Hikairo, to accommodate the increased visitor numbers to the site.

The group has also continued to fund a number of local sporting and cultural groups/events, including Tuwharetoa Marae Sports Day, Tuwharetoa Cultural Schools Festival, Tuwharetoa Snowboard School, and Tuwharetoa Polocrosse Squad.

GOT recipient, Graham Stevens

genesis oncology trust | genesis energy

Giving hope

Genesis Energy customers have continued to build their support of the Genesis Oncology Trust (GOT).

In 2005/2006, the number of customers who have elected to make a monthly $1 donation to GOT by adding it on to their monthly power bill has more than doubled from the previous year. All Genesis Energy customers have the option of adding $1 each month to their bill which goes directly to the Trust.

GOT was set up in 2004 to fund research into the prevention, detection and treatment of cancer. To date, the Trust has administered around $2 million worth of funding in the form of research grants.

Contributions from our customers have substantially bolstered the amount of money Genesis Energy is able to contribute to the fight against cancer. After many requests from customers, there will soon be the option for people to increase their donation from $1 to $2 each month.

Whanganui River Enhancement Trust

The Whanganui River Enhancement Trust was established in 2002 during the Tongariro Power Scheme (TPS) resource consent process.

Concerns about environmental effects on the river led to an agreement being signed between Genesis Energy, the Ruapehu District Council and Wanganui District Council. The agreement included conditions around the formation of a trust, whose focus would be enhancing the Whanganui River. The Trust has two representatives from each of the founding organisations and will run for 20 years or until the expiry of the TPS resource consents.

A key purpose of the Trust is to promote the enhancement of the waters and catchment of the Whanganui River.

This is achieved by providing funding to groups or organisations that are carrying out projects in the catchment. The three areas where funding is distributed to are:

- water quality enhancement;
- social, environmental and economic projects; and
- annual tertiary scholarships awarded to students whose work will have a direct benefit to the Whanganui catchment.

In 2005, the Trust agreed to support Horizons Regional Council with funding for three years for work being carried out to assist landowners with land management practices in the Whanganui River tributaries. Efficient land management lowers the amount of sediment and nutrients that enters a river, so, over time, water quality improves. The annual social, environmental and economic funding round closes in late October each year. Applicants must fit into the criteria set down by the Trust; in particular they must demonstrate clear benefits to the river and the communities living along it.

Taupo for Tomorrow Whakapumautanga Opening

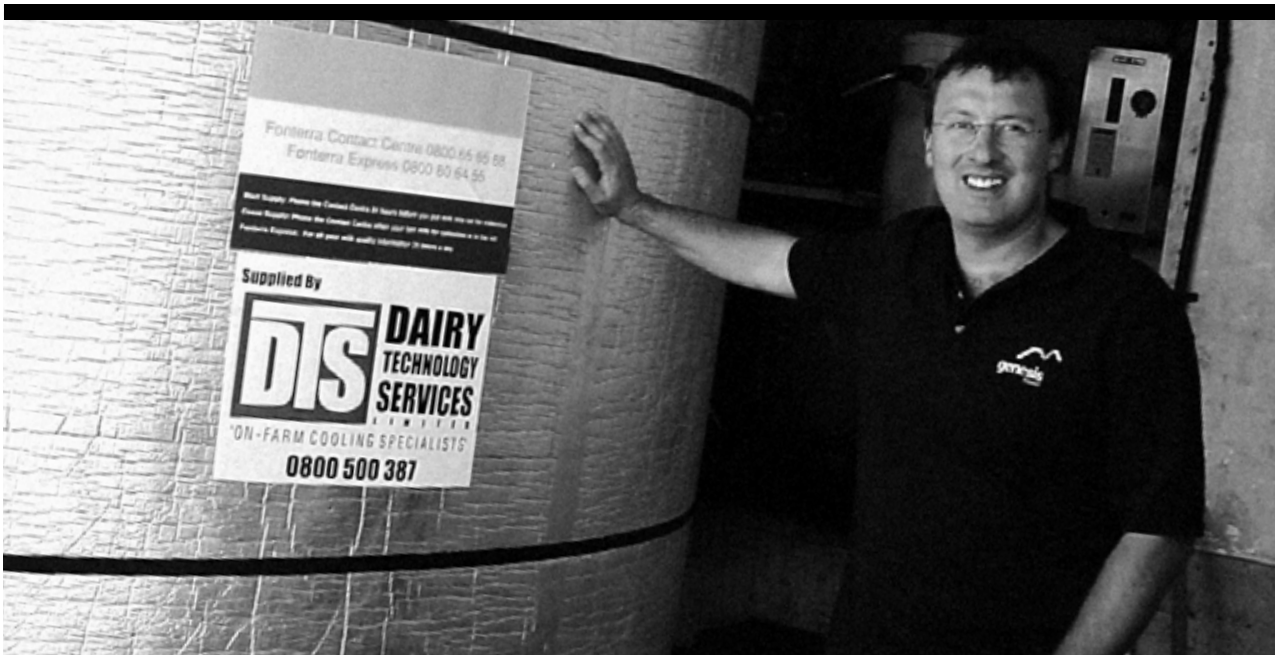
Genesis Energy's education partnership with the Tongariro National Trout Centre Society and the Department of Conservation (DOC), achieved a major milestone in April 2006, with the opening of "Whakapumautanga", the Learning Centre located adjacent to the children's fishing pond at the National Trout Centre.

It is named after Whakapumautanga "Darkie" Downs, a Ngati Tuwharetoa kaumatua (elder) who passed away in 2005. The Downs whanau originally gifted the land where the Trout Centre is located. The centre will be utilised by school groups from throughout the country who visit the site to take part in the education programme, coordinated by DOC Educator Thea DePetris tdepetris@doc.govt.nz

The five-year partnership, which commenced in 2004, is over and above the Tongariro Power Scheme resource consent requirements and is a way for Genesis Energy to contribute to enhancing the environment in which we operate.

In the past year, around 3,000 students from more than 100 schools have been through the Taupo for Tomorrow programme. Programme options have been developed from a guided tour to a full day's hands-on learning course.

Milk vat insulation wrap installed in Taranaki, with Genesis Energy's Chris White



Saving energy on the farm

Dairy farmers account for around half of Genesis Energy's rural customers, who make up around a third of our total mass commercial customer base. Dairy farming is energy intensive, with energy use forecast to increase.

Within a dairy shed, a dairy farmer uses electricity mainly to heat water (32 per cent), for their milking systems (26 per cent), to chill milk (21 per cent), and to pump water (10 per cent).

As a result of their high consumption, dairy farmers are always looking for ways to reduce their energy bills and are interested in energy-efficiency initiatives and products. Often these customers lack the time or opportunity to research topics like energy efficiency, and look to their energy supplier to provide independent practical efficiency advice.

As a result, it was decided our presence at National Agricultural Fieldays in June 2006 would build on the success of the 2005 stand's theme "Sustainable Energy Efficiency on the Dairy Farm" by offering energy-saving advice to the rural market, particularly the high-value dairy farming segment.

We aimed to help customers with energy efficiency information by having energy experts on the stand, as well as showcasing various products that could help dairy farmers reduce their energy consumption and costs. The products included a De-superheater and Mahana Blue for heat recovery, a Smart Air and Varivac variable speed drive to control the vacuum pump and various milk vat insulation wraps.

We also promoted our updated web-based dairy savings calculator which shows our own case studies of energy savings that have been achieved and gives customers the opportunity to assess their own farm's efficiency options.

Acquiring Auckland

This year Genesis Energy launched a campaign to increase its market share in the Auckland Vector area.

Price changes by the incumbent retailer in the area, Mercury Energy, made Genesis Energy's pricing particularly competitive. With many consumers not realising they have a choice of which retailer they are with, the Sales and Marketing team launched the campaign "Acquiring Auckland", to promote the benefits of being a customer of Genesis Energy.

The campaign comprised of a mail drop and press advertising in Auckland suburbs. These communications were followed up with outbound calling, and if people switched to Genesis Energy before the end of May 2006 they received a free book voucher worth $20 as a token of our appreciation.

The campaign has been a huge success, with over 3,000 customers switching to Genesis Energy as a result. As well as an increased customer base in Auckland City, Genesis Energy is enjoying more brand recognition in the country's most populated region.

FSS gets the job done

Every day, thousands of requests for customer services are received by Genesis Energy's customer contact centre.

Prior to the implementation of a new field services system, we had been using our customer asset and billing database to manage jobs, which did a very good job internally. But as this database was inaccessible to third parties, human error often meant work orders could go to the wrong place, jobs could be poorly recorded or work wasn't charged for.

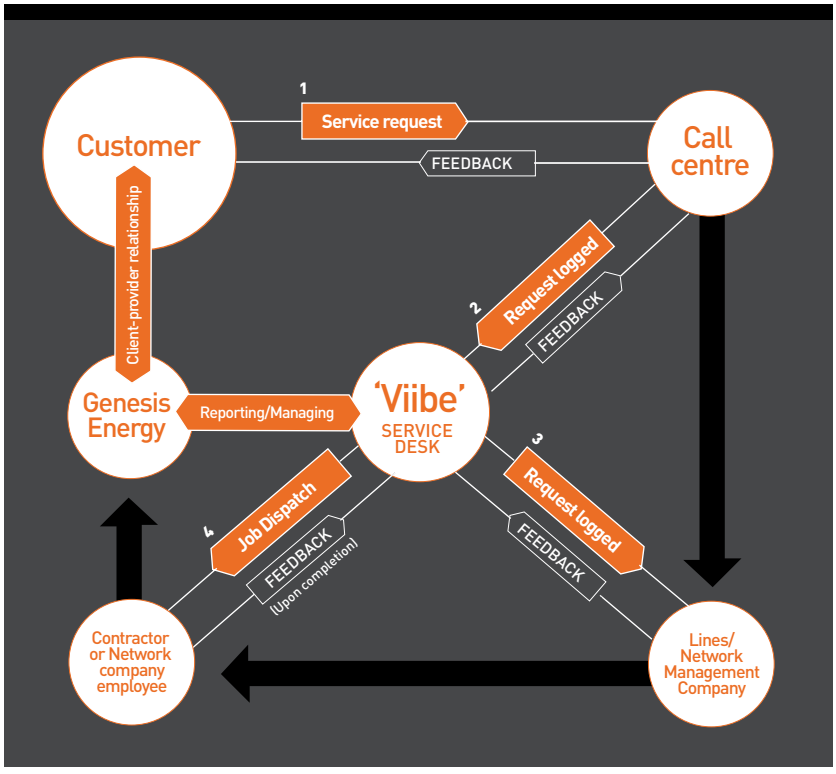
Fieldwork Services System (FSS) was developed for Genesis Energy as a workflow system to manage and track the progress of work orders from customer calls to invoiced service.

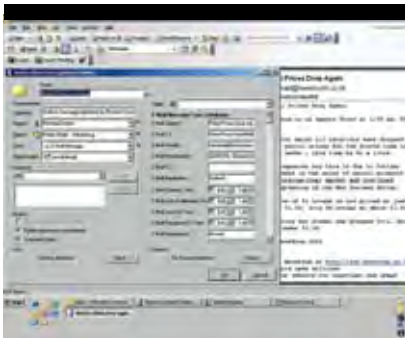
Interacting with Genesis Energy's customer, asset and mapping databases, FSS is used for all work orders (except general faults) – including new connections, disconnections and reconnections, upgrades and downgrades (for businesses) and maintenance on metering equipment.

The FSS solution utilises a New Zealand-designed and built web-based workflow engine, Viibe, configured to support the specific requirements of the 23 different work types that Genesis Energy performs on customer installations throughout the country.

Call centre staff, contractors and Genesis Energy staff now work within the FSS system, with field staff accessing the system via the web or mobile devices. This means 60 per cent of work orders can now be completed automatically.

The potential for human error has been reduced as all staff and partners now use a single application, which has full visibility, in real-time. Complaints concerning field services have also halved.





Capturing knowledge

Technology investments by Genesis Energy enhance the value proposition for all of our stakeholders – shareholders, customers, and employees.

To maximise the value, the effective capture, sharing, and preservation of organisational knowledge has been one of our focuses for the past 12 months. In the past year, Genesis Energy has implemented solutions which enhance the capture, sharing, management and archiving of organisational knowledge.

Digital capture of knowledge at the points of contact with stakeholders enables effective sharing of knowledge. Once captured in digital format, it can be shared within the enterprise with authorised parties and preserved for prosperity.

The introduction of technology solutions such as the Electronic Records and Document Management System (EDRMS), Customer Portal, Fieldwork Services System, Stakeholder Management System, and Internet-based Recruitment Module has enabled us to digitally capture organisational knowledge within and external to Genesis Energy. Once captured, the systems allow authorised participants to share the knowledge and complete business processes.

Preservation of organisational knowledge is facilitated using the EDRMS. Archiving organisational knowledge is achieved

through the enhanced archiving and document management capabilities of the EDRMS.

Genesis Energy's modern and robust infrastructure enables digital capture of knowledge at stakeholder touch points. The integrity of the organisational knowledge is protected by a mature security policy and security environment. Continuous improvement of the industry standard Information Technology Information Library (ITIL) framework and processes has enhanced the availability and reliability. Updates to the Genesis Energy technology Business Continuity Plan (BCP) alongside the improved Disaster Recovery capability ensures high availability of organisational knowledge.

The implementation of industry best practice solutions for Systems Management, Enterprise Application Architectures, and project management methodologies enables the Genesis Energy technology investments to add to the value our service offers.

National Apprenticeship Programme

In 2006, plumbing and gas fitting was added to Genesis Energy's National Apprenticeship Programme.

Five plumbing and gas-fitting apprentices started in January 2006 bringing the total number of apprentices now in the programme to 38.

Working in partnerships with 25 host companies nationwide, Genesis Energy seeks to:

- Mitigate the effects of a pending trade shortage by increasing the number of apprenticeships available to industry through a national training and assessment programme.
- Promote trade-based training across New Zealand to all school-leavers and polytechnic students aged 16-22 as part of the National Modern Apprenticeship Programme.
- Provide career opportunities for trades qualified personnel to enter the fields of power-plant operator, technician and professional engineer.
- Develop and implement training and assessment pathways to support apprenticeships in mechanical, electrical and technical trades in partnerships with local industries throughout New Zealand.

New-look website

Genesis Energy's website has been redeveloped to reflect the brand and values of the company.

The content of the website has been updated so people can easily access information about Genesis Energy, our generation portfolio and the company's activities in the community.

A key new feature of the website is the "Get Connected" service for potential and existing residential and business customers. This service allows people to sign up to become a customer of Genesis Energy, notify of a change of address and add other properties to an existing account.

The new website provides people with an interactive channel to communicate with Genesis Energy. It is a valuable resource for people wishing to find out more about the company or about energy generation in New Zealand. The site is updated regularly, so customers can be sure they always have access to the latest Genesis Energy news and initiatives.

Looking after ourselves

Staff at Genesis Energy now have access to an Employee Benefits and Retirement Savings Programme.

The programme provides some valuable benefits to Genesis Energy staff, including life, accident and terminal illness insurance, income protection, trauma insurance and medical insurance

The Retirement Savings Scheme, administered by ASB, has Genesis Energy matching staff contributions of up to 1.5 per cent of the staff member's total salary annually, progressively increasing to 3 per cent after three years.

The Benefits Programme was introduced to attract and retain staff while demonstrating the company's values. As well as supporting staff members by offering financial assurance and peace of mind, the programme also aims to educate staff about the importance of preparing for retirement by saving now.

Genesis Energy strives to look after the physical and emotional wellbeing of staff through the Wellness Programme.

Physical health checks are offered to all employees annually. To complement this, regular seminars are held where employees can learn more about how to keep themselves healthy and a nurse is available to help with any other health or wellness issues. Genesis Energy supports the Employee Assistance Programme (EAP) where staff are confidentially able to talk to an external, independent counsellor in times of stress.

In April 2005, wellness was taken to a new level, with the introduction of a pedometer competition. Teams were formed and the team who collectively walked from North Cape to Wellington first was the winner.

Building better futures together

Genesis Energy is committed to making a making a positive difference to the lives of people who live in the communities in which we operate.

When the Huntly e3p project commenced in 2000, one of the company's objectives was to help as many local people as possible towards employment opportunities on site. Genesis Energy went about this by developing a Community Training Programme, which was supported by the Waahi Whaanui Trust, Work and Income, and the Tertiary Education Commission.

Last year saw the second roll-out of the Community Training Programme. Building on the success of the initial programme which saw 90 per cent of the trainees employed by Singer Maintenance at Huntly Power Station, in February 2005 the first of four six-week Community Training Programme courses commenced.

The course subjects were Pre-Construction and Pre-Call Centre, with the aim for the participants to be employed at Huntly Power Station or SITEL, the company's call centre provider.

Fifty people participated in the Community Training Programme courses, with 47 completing the programme. By the end of 2005, most of the successful participants had moved into employment in a variety of areas, some of these at the Huntly e3p site or at SITEL.

Staff numbers

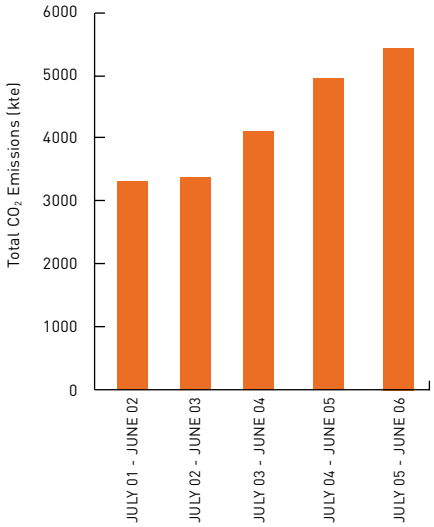
Total permanent staff numbers in Genesis Energy Business Units 2000-2005

BY BUSINESS UNIT	JUL 00	JUL 01	JUL 02	JUL 03	JUL 04	JUL 05	JUL 06
CHIEF EXECUTIVE	9	10	11	12	9	9	**9**
CORPORATE AFFAIRS					2	8	**8**
CORPORATE SERVICES	3	7	17	17	23	24	**36**
BUSINESS DEVELOPMENT	1	2	2	3			
ENGINEERING/ BUSINESS DEVELOPMENT					38	41	**49**
FINANCE/RISK	15	16	13	18	16	18	**20**
GENERATION & TRADING	175	181	189	193	178	194	**201**
LEGAL SERVICES	7	9	6	3	5	6	**7**
RETAIL	17	20	50	77	87	99	**114**
TOTAL PERMANENT STAFF	**227**	**245**	**288**	**323**	**358**	**399**	**444**

Waikato River temperature breaches

DATE	MAXIMUM TEMPERATURE	CAUSE	ACTION
14 JAN 2006	25.05°C	Due to sudden clearing of cloud cover, leading to increased ambient river temperature.	Action was taken in anticipation of consent breach. Station generation was reduced by 100MW and re-offered to the electricity market twice within a two-hour period.
17 JAN 2006	25.01°C	Commissioning of Helper Cooling Tower activities occurring; cooling tower was one hour late coming on.	Reduced station generation and re-offered to the electricity market.

CO_2 emissions



Water flow and level compliance

There were a few minor non-compliances at some hydro sites during the year. The non-compliances were classed as being minor as in each case they were small variations outside of the consent limits and were for very short durations with no downstream effects.

INTAKE	FLOW AND LEVEL	COMPLIANCE (PER CENT)
WAIKAREMOANA POWER SCHEME		
Lake Waikaremoana	Minimum (580.29m) Maximum (583.29m)	100.00 100.00
Lake Kaitawa	Minimum (450.10m) Maximum (453.50m)	100.00 99.99
Whakamarino Diversion Canal	Minimum (0.025 cumecs)	100.00
Lake Whakamarino	Minimum (246.30m) Maximum (248.10m)	100.00 100.00
TONGARIRO POWER SCHEME		
Whanganui River (Te Maire)	Minimum (29 cumecs)	99.99
Whakapapa River	Minimum (3 cumecs)	100.00
Lake Rotoaira	Minimum (564.03m) Maximum (564.64m)	100.00 99.97
Poutu Dam minimum flows	1 Feb -31 Oct 0.6 cumecs 1 Nov - 31 Dec 0.3 cumecs 1 Jan - 31 Jan 0.45 cumecs	99.91 99.91 99.91
Poutu Intake	Minimum (16 cumecs)	99.85
Rangipo Dam	Minimum (0.6 cumecs)	100.00
Moawhango River at Waiouru	Minimum (0.6 cumecs)	99.83

**This is a high level report on environmental compliance at our generation assets. Detailed compliance reporting will appear in the 2007 Genesis Energy Corporate Responsibility Report.*

Company culture values for change

When Genesis Energy was formed in 1999, the executive team developed a set of values to provide a cultural framework for the new company.

In the past year, the company has been reassessing those values. We wanted to ensure our values were still relevant, fresh and accurately reflected both the company we have grown in to, and the one we plan to become.

We embarked on a comprehensive project to develop a new set of values; a set that would reflect the attitudes at work within Genesis Energy but would also provide a target and an ideal for our people to aim for.

To get the project rolling, a number of themes were developed by a cross-functional team. These themes were then tested by several focus groups held throughout the company. In all, around 80 staff were involved in the focus groups.

Four distinct themes appeared in the focus groups and these were then further refined. The new values have been promulgated via an internal marketing campaign and are in the process of being integrated into a broad range of key people processes, systems and company documents.

National Gateway Programme

The National Gateway Programme seeks to provide both traditional and workplace learning by placing secondary school students one day a week throughout the school year within the workplace.

Genesis Energy, in partnership with Huntly College, Te Kura O Rakaumunga, Te Kauwhata, Ngaruawahia High School and Fraser High School, seeks to broaden student options when it comes to deciding on a future career pathway by providing industry-based training.

With more than 120 students going through the Genesis Energy programmes each year, the company takes the opportunity to promote industry and trade-based career pathways in the areas of mechanical, electrical, technical, and administration.

Earlier this year, Genesis Energy Gateway included a new WeldGen programme. Students from Huntly College, Te Kura O Rakaumunga, Te Kauwhata, and Ngaruawahia High School took up an 18-week welding course at Wintec's Avalon Drive campus in Hamilton.

One day a week, 20 students attend class at Wintec, looking to achieve NZQA welding standards towards a lucrative career within the welding industry.

In addition to achieving nine NZQA welding credits each student will be building an electric go-kart which is seen as a fun outcome for demonstrating the mechanical, electrical and welding skills obtained throughout the programme.

Through this programme, Genesis Energy is seeking to promote entry into its National Apprenticeship Programme in support of the welding industry which, along with many trades throughout New Zealand, is suffering long-term shortages of trained and skilled tradespeople.

Keeping track of consents

Genesis Energy uses a Resource Consents Management System, a web-based application, to manage resource consents at all its generation sites. It is simple to use and available to all Genesis Energy staff.

The system stores electronic copies of all Genesis Energy's resource consents. To ensure full compliance with resource consent conditions, all tasks associated with each condition are assigned to a nominated staff member within the system, who are automatically emailed when a task is due to be actioned.

As tasks are completed, the system is updated with the appropriate information to demonstrate compliance. The resource is regularly monitored, with performance and compliance reported to management at regular intervals.

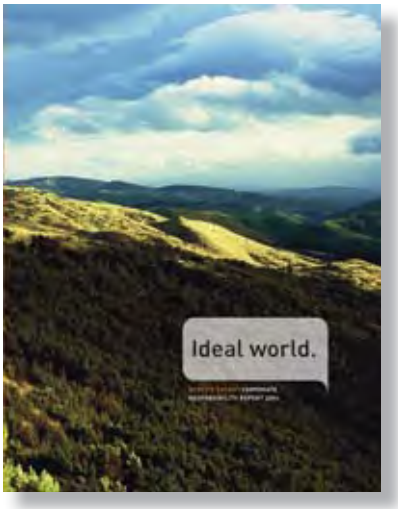
Reporting on our business

In the past year, Genesis Energy has been reviewing the way it reports its business activities and environmental impacts to its various groups of stakeholders.

As a result of this review, the company will be producing a hierarchy of reports, each level addressing a different stakeholder need.

At the base of the pyramid, an Annual Environment Report will provide territorial local authorities and other interested stakeholders with a large degree of detail on the resource consents that Genesis Energy operates under and an annual update on how the company has complied with the consents and conditions. An Annual Environment Report is planned for each power station operated by Genesis Energy.

Earlier this year, the company produced and distributed a Corporate Responsibility Report. This annual report will pick up on key issues from the Annual Environment Reports and will report on the progress of community and social programmes initiated or supported by Genesis Energy.



Finally, the Annual Report will provide an overview of all business activity from new investment and business development projects to ongoing performance and customer-facing activities. It will also provide a high level report on environmental performance and compliance issues, if any. In the financial year under review, there were no significant resource consent breaches.

Reporting on environmental performance

Genesis Energy is presently developing an Annual Environmental Reporting framework for all its key generation assets, with the target audience being its key stakeholders.

The purpose of each report is to provide an overview of the scheme and its environs, as well as the key outcomes of resource consent processes, including both resource consent conditions and third party agreements.

The reports will measure progress made against these key outcomes, describe environmental performance and report back on any other environmental initiatives that have occurred within the past year.

The company's aim is to make these reports informative, easy to read, easy to navigate around and as short as practicably possible. Both the Tongariro and Waikaremoana Power Schemes' first Annual Environmental Reports will be produced later this year, with the first Huntly Annual Environmental Report due in 2007.

Gas emissions

In order to be fully confident of the content of its thermal generation emissions, Genesis Energy has installed four permanent Continuous Emissions Monitoring Systems (CEMS) on all four units at Huntly Power Station.

One portable CEMS unit is also available to measure emissions from Unit 6 (the stand-alone 40MW open-cycle gas turbine) and Genesis Energy's cogeneration plant at the Fonterra dairy factory in Te Awamutu.

The purpose of the CEMS is to measure gases in real-time. CEMS will allow Genesis Energy to better understand combustion and plant efficiency, coal quality and determine actual carbon dioxide emissions.

Gases measured include: oxides of nitrogen, sulphur dioxide, carbon dioxide, carbon monoxide and oxygen. In addition, the moisture, temperature, pressure and velocity of the flue gases (gases resulting from the combustion of gas and coal) are measured.

CEMS works by withdrawing a sample of flue gas. This sample is cooled to remove any moisture then passed over a detector to measure the gas oxygen content. From here, the sample is diluted to 50:1 using clean, dry air. The sample then travels to a control hut where ambient-level gas analysers measure the concentration of each gas. The results are then collected by a data logger and fed directly into the station's data systems.

FINANCIAL STATEMENTS.

The Directors have pleasure in presenting the financial statements of Genesis Power Limited (trading as Genesis Energy) for the year ending 30 June 2006. For and on behalf of the Board of Directors:

BRIAN CORBAN QSO Chairman

ANNABEL COTTON Director

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

STATEMENT OF FINANCIAL PERFORMANCE	Notes	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Operating Revenue	1	**1,986,665**	1,495,694	**1,898,159**	1,418,729
Operating Expenses	2	**(1,844,762)**	(1,377,042)	**(1,771,252)**	(1,305,354)
OPERATING SURPLUS BEFORE INCOME TAX		**141,903**	118,652	**126,907**	113,375
Less Income Tax	3	**(58,173)**	(48,407)	**(53,484)**	(45,306)
NET SURPLUS		**83,730**	70,245	**73,423**	68,069
COMPRISING					
Operating Surplus from Continuing Activities		**83,730**	70,245	**73,423**	68,069

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

OPENING EQUITY		**1,369,556**	991,813	**1,309,378**	933,811
Net Surplus		**83,730**	70,245	**73,423**	68,069
Movement in Property Revaluation Reserve	13	**(58)**	330,718	**(58)**	330,718
TOTAL RECOGNISED REVENUES AND EXPENSES		**83,672**	400,963	**73,365**	398,787
Dividends Paid	4	**-**	(23,220)	**-**	(23,220)
EQUITY AT END OF YEAR		**1,453,228**	1,369,556	**1,382,743**	1,309,378

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2006

ASSETS					
Current Assets	5	**297,013**	311,778	**327,076**	298,142
Non-Current Assets – Other	6	**217,913**	223,741	**139,496**	156,000
Non-Current Assets – Property, Plant and Equipment	9	**1,526,589**	1,331,849	**1,525,690**	1,330,886
TOTAL ASSETS		**2,041,515**	1,867,368	**1,992,262**	1,785,028
LIABILITIES AND EQUITY					
Current Liabilities	10	**275,493**	240,059	**308,585**	240,922
Non-Current Liabilities – Other	11	**284,852**	240,318	**284,852**	226,907
Non-Current Liabilities – Deferred Taxation	3	**27,942**	17,435	**16,082**	7,821
TOTAL LIABILITIES		**588,287**	497,812	**609,519**	475,650
EQUITY	13	**1,453,228**	1,369,556	**1,382,743**	1,309,378
TOTAL LIABILITIES AND EQUITY		**2,041,515**	1,867,368	**1,992,262**	1,785,028

The above statements should be read in conjunction with the accompanying notes.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

STATEMENT OF CASH FLOWS	Notes	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash was provided from:					
Receipts from Customers		**1,958,321**	1,464,438	**1,870,810**	1,388,982
Interest Received		**1,745**	2,053	**1,655**	2,021
Taxation Credits		**7,067**	-	**6,979**	-
		1,967,133	1,466,491	**1,879,444**	1,391,003
Cash was applied to:					
Payments to Suppliers		**1,693,713**	1,261,775	**1,632,513**	1,198,450
Payments to Employees		**41,312**	38,768	**39,171**	36,612
Interest Paid		**1,789**	3,936	**899**	1,922
Taxation Paid		**50,926**	48,655	**48,358**	46,458
		1,787,740	1,353,134	**1,720,941**	1,283,442
NET CASH FROM OPERATING ACTIVITIES	18	**179,393**	113,357	**158,503**	107,561
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash was provided from:					
Sale of Property, Plant and Equipment		**87**	413	**75**	409
Principal Repayments of Finance Lease		**3,255**	2,775	**-**	-
Advances and Loans Repaid		**112**	-	**112**	-
Proceeds from Disposal of Subsidiaries (2004)		**21,000**	-	**-**	-
Advances and Loans from Subsidiaries		**-**	-	**6,961**	-
		24,454	3,188	**7,148**	409
Cash was applied to:					
Advances and Loans to Subsidiaries		**-**	-	**-**	13,350
Gas Exploration and Development		**19,032**	20,069	**-**	-
Purchase of Investments		**-**	241	**-**	241
Purchase of Property, Plant and Equipment		**238,233**	241,361	**237,999**	240,848
		257,265	261,671	**237,999**	254,439
NET CASH FROM/(TO) INVESTING ACTIVITIES		**(232,811)**	(258,483)	**(230,851)**	(254,030)
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash was provided from:					
Proceeds from Borrowings		**73,100**	169,155	**73,100**	169,155
		73,100	169,155	**73,100**	169,155
Cash was applied to:					
Repayment of Principal on Borrowings		**18,238**	4,543	**-**	-
Dividends Paid		**-**	23,220	**-**	23,220
		18,238	27,763	**-**	23,220
NET CASH FROM/(TO) FINANCING ACTIVITIES		**54,862**	141,392	**73,100**	145,935
NET INCREASE/(DECREASE) IN CASH HELD		**1,444**	(3,734)	**752**	(534)
Cash at Beginning of Year		**8,165**	11,899	**6,945**	7,479
CASH AT END OF YEAR		**9,609**	8,165	**7,697**	6,945
Composition of Cash:					
Cash		**9,609**	8,165	**7,697**	6,945
		9,609	8,165	**7,697**	6,945

The above statement should be read in conjunction with the accompanying notes.

STATEMENT OF ACCOUNTING POLICIES

FOR THE YEAR ENDED 30 JUNE 2006

These financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the State-Owned Enterprises Act 1986.

REPORTING ENTITY

The Parent Company's financial statements are for Genesis Power Limited ("the Company") as a separate entity and the consolidated financial statements are for the Genesis Power Limited Group ("the Group"), which includes the Company and all its subsidiaries. The significant subsidiaries are disclosed in Note 7.

CONSTITUTION, OWNERSHIP AND ACTIVITIES

The Company was incorporated and became a state-owned enterprise on 16 December 1998 pursuant to the State-Owned Enterprises Act 1986.

The Company is wholly owned by Her Majesty the Queen in Right of New Zealand ("the Crown").

The Group's core business is the generation, trading and retailing of energy in New Zealand.

GENERAL ACCOUNTING POLICIES

The general accounting policies recognised as appropriate for the measurement and reporting of results, cash flows and financial position under the historical cost method have been followed in the preparation of these financial statements, with the exception of property, plant and equipment which have been revalued. The one-off review of the value of the net assets as at 1 April 1999 as agreed with the shareholding Ministers was deemed to be historical cost.

PARTICULAR ACCOUNTING POLICIES

The following particular accounting policies which significantly affect the measurement of financial performance, financial position and cash flows have been applied:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements are prepared from the financial statements of the Company and its subsidiaries, using the purchase method.

The results of subsidiaries acquired or disposed of during the year are included in the Statement of Financial Performance from the date of acquisition or up to the date of disposal.

All transactions between Group companies are eliminated on consolidation.

GOODWILL

Goodwill represents the excess of the purchase consideration over the fair value of the net tangible and identifiable intangible assets on the acquisition of a business or an equity interest in a subsidiary. Goodwill is amortised on a straight-line basis over the shorter of the period of expected benefits or 20 years. The carrying amount of goodwill is reviewed annually for impairment.

SUBSIDIARIES

Subsidiaries are those entities in which the Company or another Group subsidiary holds a controlling interest.

JOINT VENTURES

Joint ventures are arrangements with other parties in which the Group has several liability in respect of costs and liabilities, and shares in any resulting output. The Group's share of the assets, liabilities, revenues and expenses of joint ventures is recognised in the financial statements on a line-by-line basis using the proportional method.

INVESTMENTS (PARENT COMPANY ONLY)

Investments in subsidiaries are stated at cost. Where the carrying value of the investment exceeds the recoverable amount, the investment is written down to its recoverable amount.

TRADING REVENUE

Revenue shown in the Statement of Financial Performance comprises the amounts received and receivable by the Group for electricity and energy-related services supplied to customers in the ordinary course of business.

TAXATION

The Group follows the liability method of accounting for deferred tax on a comprehensive basis.

The taxation charge against the net surplus for the year is the estimated liability in respect of that net surplus after allowance for permanent differences.

Future taxation benefits attributable to timing differences or losses carried forward are recognised in the financial statements only where there is virtual certainty that the benefits will be utilised by the Group.

GOODS AND SERVICES TAX

The Statement of Financial Performance and Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Statement of Financial Position are stated net of GST, with the exception of receivables and payables, which include GST.

ACCOUNTS RECEIVABLE

Accounts receivable are stated at estimated realisable value, after providing for debts where collection is doubtful.

STATEMENT OF ACCOUNTING POLICIES – CONT

INVENTORIES
Inventories are stated at the lower of cost and net realisable value. Cost is determined on an average cost basis.

DISTINCTION BETWEEN CAPITAL AND REVENUE EXPENDITURE
Capital expenditure is defined as all expenditure on the purchase or creation of new property, plant and equipment, and any expenditure, which results in a significant improvement to the original functionality of an existing asset.

Revenue expenditure is defined as expenditure that restores an asset to its original operating capability and all expenditure incurred in maintaining assets used in operating the business.

RESOURCE CONSENTS
Costs incurred in obtaining a resource consent are capitalised and recognised as a term asset. These costs are amortised over the life of the consent on a straight-line basis.

PROPERTY, PLANT AND EQUIPMENT
All property, plant and equipment is initially recorded at cost.

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, including capital work in progress, is the cost of all materials used in construction, direct labour costs of construction, resource consent costs, and an appropriate proportion of applicable variable and fixed overheads. Financing costs on capital work in progress are capitalised at the specific project finance interest rate during the construction period. Costs cease to be capitalised as soon as the asset is commissioned.

REVALUATIONS
Generation assets are subsequently revalued to fair value as determined by an independent registered valuer on a periodic basis, not exceeding five years. Fair value is determined based upon a discounted cash flow model.

Any revaluation surplus arising on the revaluation of a class of property, plant and equipment is transferred directly to the asset revaluation reserve. A revaluation deficit in excess of the asset revaluation reserve balance for the class of property, plant and equipment is realised in the Statement of Financial Performance in the period it arises.

When an item of property, plant and equipment is disposed of, any gain or loss is recognised in the Statement of Financial Performance.

LEASED ASSETS
LESSEE

The Group leases certain plant, equipment, land and buildings. Leases under which the Group assumes substantially all the risks and rewards incidental to ownership have been classified as finance leases and are capitalised. All other leases are classified as operating leases. The asset and corresponding liability are recorded at inception of a finance lease at the fair value of the leased asset, at amounts equivalent to the value of minimum lease payments, including residual values.

The cost of improvements to leasehold property is capitalised and amortised over the estimated useful life of the improvements, or over the unexpired portion of the lease, whichever is shorter.

Capitalised leased assets are depreciated over their expected lives in accordance with rates adopted for other similar asset categories.

Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the Statement of Financial Performance as incurred.

LESSOR

The Group leases certain plant and equipment to others under finance lease arrangements.

Finance leases receivable are recorded in the Statement of Financial Position at present value. Periodic lease receipts are allocated between the receivable and interest revenue on a yield-to-maturity basis.

DEPRECIATION
Depreciation of property, plant and equipment, other than freehold land, is charged on a straight-line basis so as to apportion the cost of the assets less their estimated residual value over their expected remaining useful lives.

ESTIMATED USEFUL LIFE

Generation Assets	10-50 years
Non-Plant-Related Buildings	10-50 years
Other Plant and Equipment	3-15 years

PROVISION FOR MITIGATION COSTS
A provision for mitigation costs is recognised when the Group has a legal or constructive obligation. The provision is based upon contractual commitments over the shorter of the contract period or the life of the resource consent. The provision is stated at the present value of the future net cash outflows expected to be incurred. The provision is reassessed at each balance date. Changes in the present value of cash flow estimates are recognised as interest charges in the Statement of Financial Performance. The provision is reduced by actual expenditure incurred.

PROVISION FOR REHABILITATION
A provision for rehabilitation is recognised when the Group has a legal obligation or has publicly announced its intended rehabilitation policy for a particular site. The provision is based on independent engineering advice as to the appropriate action to rehabilitate each site. The provision is stated at the present value of the future net cash outflows expected to be incurred, and is reassessed at each balance date. Changes in the present value of cash flow estimates are recognised in the Statement of Financial Performance with the provision being reduced by expenditure incurred for site restoration.

LOANS

Loans in existence at 1 April 1999 were revalued to fair value in accordance with the review of the net assets acquired at 1 April 1999. New loans obtained since 1 April 1999 are stated at face value less unamortised discounts, premiums and prepaid interest.

Discounts, premiums and prepaid interest and borrowing costs such as origination, commitment and transaction fees are amortised to interest expense on a yield-to-maturity basis over the period of the borrowing.

FOREIGN CURRENCIES

Foreign currency transactions are recorded at the exchange rates in effect at the date of the transaction except where hedging contracts are taken out to cover short-term foreign currency commitments in which case the transaction is translated at the rate contained in the hedging contract.

Monetary assets and liabilities denominated in a foreign currency are translated at the rates of exchange ruling at balance date.

Exchange differences on translation are taken to the Statement of Financial Performance.

FINANCIAL INSTRUMENTS

The Group has entered into transactions using financial instruments within predetermined policies and limits in order to reduce risks from carrying out its ongoing business.

TREASURY

The Group enters into various financial instruments to reduce its exposure to fluctuations in foreign exchange rates and interest rates. The instruments are accounted for on the same basis as the underlying position being hedged.

ENERGY CONTRACTS

The Group enters into financial instruments to manage its exposure to price fluctuations on the electricity spot market. The contract settlements are recognised in the Statement of Financial Performance in the same period in which the purchase or sale of electricity occurs.

GAS OPERATIONS

MINING LICENCE

The acquisition costs of a mining licence are capitalised.

The licence costs of successful efforts are amortised over the estimated life of the field based on the unit of production depletion method, commencing from the first year of commercial production from that field.

Licence costs are reviewed annually for impairment. Any impairment in value is taken to the Statement of Financial Performance.

EXPLORATION EXPENDITURE

Exploration costs, including geological and geophysical costs and costs of carrying unproved properties, are included in the Statement of Financial Performance.

Exploratory drilling costs are capitalised initially; however, if it is found that an exploratory well did not find proved reserves, such capitalised costs are charged to the Statement of Financial Performance, as dry-hole costs at that time.

The exploratory drilling costs of successful efforts are amortised over the estimated life of the field based on the unit of production depletion method, commencing from the first year of commercial production from that field.

Exploration expenditure is reviewed annually for impairment. Any impairment in value is taken to the Statement of Financial Performance.

DEVELOPMENT EXPENDITURE

Development costs are capitalised. The development costs of successful efforts are amortised over the estimated life of the field based on the units of production depletion method, commencing from the first year that a completed development enters commercial production. Development expenditure is reviewed annually for impairment. Any impairment in value is taken to the Statement of Financial Performance.

STATEMENT OF CASH FLOWS

The following are the definitions of the terms used in the Statement of Cash Flows:

- Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts;
- Investing activities are those activities relating to the acquisition, holding and disposal of fixed assets and of investments;
- Financing activities are those activities that result in changes in the size and composition of the capital structure of the Group. This includes both equity and debt not falling within the definition of cash; and
- Operating activities include all transactions and other events that are not investing or financing activities.

CHANGES IN ACCOUNTING POLICIES

There have been no significant changes in accounting policies during the current year. Accounting policies have been applied on a basis consistent with the prior year.

COMPARATIVE INFORMATION

Comparative information has been reclassified, where necessary, to achieve consistency in disclosure with the current year.

NOTES TO THE FINANCIAL STATEMENTS

1. OPERATING REVENUE	Notes	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
TRADING REVENUE					
Electricity		**1,808,973**	1,350,643	**1,734,216**	1,281,927
Gas		**118,306**	101,269	**118,306**	101,269
Other		**51,971**	41,482	**43,935**	33,266
INVESTMENT REVENUE					
Interest		**1,745**	2,053	**1,655**	1,627
Interest from Subsidiaries		**-**	-	**-**	394
OTHER REVENUE					
Gain on Sale of Property, Plant and Equipment		**47**	247	**47**	246
Gain on Consolidation of Joint Venture	7	**5,623**	-	**-**	-
		1,986,665	1,495,694	**1,898,159**	1,418,729

2. OPERATING EXPENSES					
OPERATING EXPENSES INCLUDE:					
Depreciation of Property, Plant and Equipment					
Generation Plant – Thermal Stations		**14,988**	12,844	**14,988**	12,844
Generation Plant – Hydro Stations		**19,887**	13,556	**19,887**	13,556
Generation Plant – Other Generation Assets		**4,466**	889	**4,466**	889
Other Freehold Buildings		**19**	18	**19**	18
Other Freehold Land and Improvements		**69**	76	**69**	76
Other Plant and Equipment – Other Fixed Assets		**11,161**	9,512	**10,919**	9,326
Other Plant and Equipment – Retail Assets		**639**	491	**639**	491
		51,229	37,386	**50,987**	37,200
Loss on Sale of Property, Plant and Equipment		**172**	242	**170**	232
Amortisation of Investments		**4,160**	3,695	**-**	-
Amortisation of Goodwill	8	**16,818**	16,818	**16,392**	16,391
Amortisation of Intangibles		**281**	267	**281**	267
Rental Expenses on Operating Leases		**4,153**	2,842	**3,913**	2,599
Net Loss on Foreign Currency Transactions		**65**	3	**65**	3
Bad Debts Written Off		**9,018**	5,847	**8,592**	5,437
Decrease in Doubtful Debts Provision		**(5,144)**	(1,200)	**(5,129)**	(1,200)
Interest and Other Financing Costs		**1,789**	5,652	**899**	3,638
Directors' Fees		**315**	294	**315**	294
Audit Fees		**214**	195	**214**	195
Fees for Other Services Provided by Auditors		**60**	-	**60**	-
Donations		**1,056**	132	**1,056**	132
Sponsorship		**1,919**	1,450	**1,919**	1,450
Release of Prior Year Electricity Accruals		**-**	(10,603)	**-**	(10,603)

FOR THE YEAR ENDED 30 JUNE 2006

3. INCOME TAX

	Notes	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Operating Surplus before Income Tax		**141,903**	118,652	**126,907**	113,375
Permanent Differences		**35,411**	30,288	**36,189**	26,170
EARNINGS SUBJECT TO TAX		**177,314**	148,940	**163,096**	139,545
TAX AT 33%		**58,512**	49,150	**53,821**	46,049
Prior Year Adjustments		**(339)**	(743)	**(337)**	(743)
TAX EXPENSE		**58,173**	48,407	**53,484**	45,306
COMPRISING:					
Current Year Tax Assessment		**49,603**	36,022	**46,967**	38,645
Overestimation in Prior Year		**(339)**	(743)	**(337)**	(743)
Deferred Income Tax Liability		**8,909**	13,128	**6,854**	7,404
TAX EXPENSE		**58,173**	48,407	**53,484**	45,306
DEFERRED TAX LIABILITY					
Opening Balance		**17,435**	6,221	**7,821**	2,554
Prior Year Adjustments		**1,598**	(1,914)	**1,407**	(2,137)
Movement in Current Year		**8,909**	13,128	**6,854**	7,404
CLOSING BALANCE		**27,942**	17,435	**16,082**	7,821
IMPUTATION CREDIT ACCOUNT					
Imputation Credits at Start of Year		**170,103**	129,200	**157,805**	119,343
Prior Year Adjustments		**(2,668)**	-	**(1,665)**	-
Income Tax Paid		**50,926**	52,340	**48,358**	49,899
Withholding Tax Paid		**60**	-	**58**	-
Use of Money Interest		**284**	-	**284**	-
Distributed and Disposed		**(8,379)**	(11,437)	**(8,379)**	(11,437)
IMPUTATION CREDITS AT END OF YEAR		**210,326**	170,103	**196,461**	157,805

4. DIVIDENDS

Prior Year Final Dividend Paid		**-**	23,220	**-**	23,220
TOTAL DIVIDENDS PAID		**-**	23,220	**-**	23,220

5. CURRENT ASSETS

Cash		**9,609**	8,165	**7,697**	6,945
Fuel Stocks		**46,781**	59,604	**46,781**	59,604
Consumable Spares		**4,654**	4,181	**4,494**	3,999
Prepayments		**12,752**	10,606	**12,518**	9,976
Accounts Receivable		**201,735**	204,355	**192,185**	174,710
Inter-company Receivables	17	**-**	-	**49,845**	30,651
Taxation Receivable		**13,163**	16,970	**13,209**	11,775
Other Current Assets		**348**	482	**347**	482
Current Portion Finance Lease Receivable	6	**7,971**	7,415	**-**	-
TOTAL CURRENT ASSETS		**297,013**	311,778	**327,076**	298,142

The interest rate for cash ranges from 0.3% to 6.9% per annum.

NOTES TO THE FINANCIAL STATEMENTS – CONT

6. NON-CURRENT ASSETS

	Notes	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Mining Licence		**16,518**	16,518	**-**	-
Non-Current Mining Stores		**147**	106	**-**	-
Non-Current Kinleith Finance Lease Receivable	5, 7	**56,624**	64,595	**-**	-
Investments – Unlisted Subsidiaries	7	**-**	-	**37,538**	37,538
Goodwill	8	**102,599**	119,417	**99,866**	116,258
Other – Intangibles		**1,967**	1,954	**1,967**	1,954
Investments – Other Unlisted Shares		**125**	250	**125**	250
Development Expenditure		**19,479**	4,720	**-**	-
Exploration Expenditure		**20,454**	16,181	**-**	-
TOTAL NON-CURRENT ASSETS		**217,913**	223,741	**139,496**	156,000

7. INVESTMENT IN SUBSIDIARIES

Significant subsidiaries comprise:

NAME OF ENTITY	PRINCIPAL ACTIVITIES	INTEREST HELD BY GROUP
Genesis Power Investments Limited	Holding Company for Kupe Holdings Limited	100%
Energy Online Limited	Energy Retailer	100%
Kupe Holdings Limited	Holding Company for Kupe Joint Venture Investment	100%
Kinleith Cogeneration Limited	Special-Purpose Finance Company	100%
GP No. 2 Limited	Holding Company for Kupe Joint Venture Investment	100%
Cardiff No. 1 Limited	Holding Company for Cardiff Joint Venture Investment	100%
Cardiff No. 2 Limited	Holding Company for Cardiff Joint Venture Investment	100%

All subsidiary companies have a 30 June balance date.

JOINT VENTURES

KUPE JOINT VENTURE

The Group has a 31 per cent interest in the Kupe Joint Venture, formed for the purpose of the exploration and, in the event of a discovery, development of the Kupe South Toru (PML38146) gas and condensate field. The Kupe Joint Venture partners committed to proceed with the development of the field on 29 June 2006. Under the arrangement, costs are shared in proportion to the respective interest held.

On 29 June 2006, GP No. 2 Limited, a subsidiary company holding an 11 per cent non-participating interest in the Kupe Joint Venture, decided to participate in the activities, assets and liabilities of the joint venture. This decision resulted in a net gain on consolidation of the joint venture of $5.6 million (2005: Nil).

Also included in the Group's results is an operating profit of $73,750 (2005: $66,255) for the year, which primarily comprises investment revenues earned by the joint venture.

Kupe Joint Venture has a 31 December balance date.

CARDIFF JOINT VENTURE

The Group has a 40 per cent equity interest in respect of the Deep petroleum rights in Petroleum Exploration Permit 38738. The Group has the right to purchase 100 per cent of the Deep gas reserves in return for $15.0 million spent on the drilling and testing of the Cardiff-2 well. No capital commitment remains at 30 June 2006 (2005: $1.9 million).

Included in the Group's results is an operating loss of $12,100 (2005: $4,065) for the year, which reflects administration and exploration activities by the venture. Development of the Cardiff-2 field is yet to commence.

The Cardiff Joint Venture has a 31 December balance date.

KINLEITH FINANCE LEASE RECEIVABLE

Kinleith Cogeneration Limited owns a cogeneration plant at Kinleith which it leases under a finance lease arrangement. The gross investment in the lease at 30 June 2006 is $100.3 million (2005: $113.4 million) with unearned income totalling $35.7 million (2005: $41.4 million), resulting in a net investment position of $64.6 million (2005: $72.0 million).

FOR THE YEAR ENDED 30 JUNE 2006

8. GOODWILL

	Notes	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Goodwill (gross) at Beginning of Year		**181,508**	181,508	**177,249**	177,249
Accumulated Amortisation at Beginning of Year		**(62,091)**	(45,273)	**(60,991)**	(44,600)
UNAMORTISED BALANCE AT BEGINNING OF YEAR		**119,417**	136,235	**116,258**	132,649
Current Year Amortisation	2	**(16,818)**	(16,818)	**(16,392)**	(16,391)
UNAMORTISED BALANCE AT END OF YEAR		**102,599**	119,417	**99,866**	116,258
Comprising:					
Goodwill (gross)		**181,508**	181,508	**177,249**	177,249
Accumulated Amortisation		**(78,909)**	(62,091)	**(77,383)**	(60,991)
	6	**102,599**	119,417	**99,866**	116,258

9. PROPERTY, PLANT AND EQUIPMENT

GENERATION ASSETS					
Cost		**726,300**	701,720	**726,300**	701,720
Valuation		**330,660**	330,718	**330,660**	330,718
		1,056,960	1,032,438	**1,056,960**	1,032,438
Less: Accumulated Depreciation		**(37,521)**	(13,523)	**(37,521)**	(13,523)
BOOK VALUE		**1,019,439**	1,018,915	**1,019,439**	1,018,915
OTHER FREEHOLD LAND AND IMPROVEMENTS					
Cost		**5,784**	6,187	**5,784**	6,187
Less: Accumulated Depreciation		**(313)**	(429)	**(313)**	(429)
BOOK VALUE		**5,471**	5,758	**5,471**	5,758
OTHER FREEHOLD BUILDINGS					
Cost		**957**	978	**957**	978
Less: Accumulated Depreciation		**(90)**	(74)	**(90)**	(74)
BOOK VALUE		**867**	904	**867**	904
CAPITAL WORK IN PROGRESS		**474,226**	283,409	**474,226**	283,409
OTHER PLANT AND EQUIPMENT					
Cost		**75,799**	60,961	**74,340**	59,676
Less: Accumulated Depreciation		**(49,213)**	(38,098)	**(48,653)**	(37,776)
BOOK VALUE		**26,586**	22,863	**25,687**	21,900
TOTAL PROPERTY, PLANT AND EQUIPMENT					
Cost		**1,283,066**	1,053,255	**1,281,607**	1,051,970
Valuation		**330,660**	330,718	**330,660**	330,718
		1,613,726	1,383,973	**1,612,267**	1,382,688
Less: Accumulated Depreciation		**(87,137)**	(52,124)	**(86,577)**	(51,802)
TOTAL BOOK VALUE		**1,526,589**	1,331,849	**1,525,690**	1,330,886
LATEST RATEABLE VALUE OF FREEHOLD LAND		**5,927**	5,927	**5,927**	5,927

NOTES TO THE FINANCIAL STATEMENTS – CONT

VALUATION INFORMATION

All existing generation assets were revalued to a fair value of $1,056.9 million at 30 June 2005, including capital works in progress amounting to $37.2 million. This was a Directors' valuation based on an independent review of future cash flows. The independent review was carried out by First NZ Capital.

As a consequence of the revaluation, accumulated depreciation on revalued assets was reset to nil at 30 June 2005. Depreciation resumed as normal from that date and the current year's depreciation charge on the revalued portion amounted to $10.5 million (2005: Nil).

CAPITALISED INTEREST

During the past two financial years, Genesis Power Limited has constructed various plant and equipment. Finance costs that are directly attributable to the cost of an asset are included in the initial cost. The finance costs capitalised during the year to 30 June 2006 amounted to $19.7 million (2005: $8.6 million), of which $18.8 million (2005: $8.6 million) was capitalised to capital work in progress and $0.9 million (2005: Nil) was capitalised to generation assets.

10. CURRENT LIABILITIES

	Notes	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Accounts Payable		**4,417**	12,547	**1,169**	8,776
Accrued Liabilities		**205,244**	164,031	**192,682**	155,868
Employee Entitlements		**3,780**	3,085	**3,721**	3,035
Loans Repayable Within One Year	11	**39,000**	29,227	**39,000**	24,400
Inter-company Payables	17	**-**	-	**49,348**	17,915
Other Current Liabilities		**17,824**	13,989	**17,437**	13,748
Electricity Hedge Contracts Due Within One Year		**(55)**	3,034	**(55)**	3,034
Provisions Due Within One Year	12	**5,283**	14,146	**5,283**	14,146
TOTAL CURRENT LIABILITIES		**275,493**	240,059	**308,585**	240,922

11. NON-CURRENT LIABILITIES

General-Purpose Loans		**307,500**	234,400	**307,500**	234,400
Special-Purpose Loans		**-**	18,238	**-**	-
		307,500	252,638	**307,500**	234,400
Repayable Within One Year	10	**(39,000)**	(29,227)	**(39,000)**	(24,400)
Total Term Liabilities		**268,500**	223,411	**268,500**	210,000
Provision for Rehabilitation	12	**10,028**	10,077	**10,028**	10,077
Electricity Hedge Contracts		**-**	(55)	**-**	(55)
Provision for Mitigations	12	**6,324**	6,885	**6,324**	6,885
TOTAL NON-CURRENT LIABILITIES		**284,852**	240,318	**284,852**	226,907
PRINCIPAL REPAYMENT SCHEDULE					
Between One and Two Years		**175,000**	5,140	**175,000**	-
Between Two and Five Years		**93,500**	218,271	**93,500**	210,000
TOTAL REPAYMENTS		**268,500**	223,411	**268,500**	210,000

INTEREST RATES

Loans have interest rates ranging from 6.9% to 8.9% per annum.

FOR THE YEAR ENDED 30 JUNE 2006

	Notes	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
RE-PRICING ANALYSIS					
LOAN BALANCES SUBJECT TO RE-PRICING					
Within One Year		**79,228**	64,226	**87,500**	59,400
Between One and Two Years		**105,466**	20,140	**100,000**	15,000
Between Two and Five Years		**102,806**	148,272	**100,000**	140,000
Later Than Five Years		**20,000**	20,000	**20,000**	20,000
		307,500	252,638	**307,500**	234,400

The re-pricing analysis incorporates relevant derivative contract maturities.

SECURITY

The General-Purpose loans are secured by a negative pledge deed over Genesis Power Limited (Parent).
Prior to its settlement, the Special-Purpose loan was secured by a fixed charge over the assets of Kinleith Cogeneration Limited.

COMMITTED FUNDING FACILITIES

At 30 June 2006, the Company had a maximum committed funding facility of $675 million from a syndicate of major New Zealand trading banks.

12. PROVISIONS

	Notes	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
PROVISION FOR REHABILITATION					
Balance at Beginning of Year		**21,927**	9,822	**21,927**	9,822
Current Year Provision		**-**	15,375	**-**	15,375
Rehabilitation Expenses Incurred		**(9,239)**	(3,270)	**(9,239)**	(3,270)
		12,688	21,927	**12,688**	21,927
Current Portion This Year	10	**(2,660)**	(11,850)	**(2,660)**	(11,850)
BALANCE AT END OF YEAR		**10,028**	10,077	**10,028**	10,077
PROVISION FOR MITIGATIONS					
Balance at Beginning of Year		**9,181**	-	**9,181**	-
Current Year Provision		**1,454**	9,798	**1,454**	9,798
Mitigation Expenses Incurred		**(1,688)**	(617)	**(1,688)**	(617)
		8,947	9,181	**8,947**	9,181
Current Portion This Year	10	**(2,623)**	(2,296)	**(2,623)**	(2,296)
BALANCE AT END OF YEAR		**6,324**	6,885	**6,324**	6,885

PROVISION FOR REHABILITATION

A provision of $12.7 million (2005: $21.9 million) has been recognised for site rehabilitation. These costs are expected to be incurred over seven years. The provision has been estimated using existing technology, at current prices and discounted to reflect net present value given the appropriate risks.

PROVISION FOR MITIGATION

A provision of $8.9 million (2005: $9.2 million) has been recognised for mitigation costs. These costs are expected to be incurred over the period of the resource consent. The provision has been estimated based upon contracted expenditures, discounted to reflect net present value.

NOTES TO THE FINANCIAL STATEMENTS – CONT

13. EQUITY

	Notes	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Issued and Fully Paid-up Share Capital		**540,565**	540,565	**540,565**	540,565
Asset Revaluation Reserve		**330,660**	330,718	**330,660**	330,718
Balance Sheet Reset Reserve		**226,500**	226,500	**188,313**	188,313
Retained Earnings		**355,503**	271,773	**323,205**	249,782
TOTAL EQUITY		**1,453,228**	1,369,556	**1,382,743**	1,309,378

As at 30 June 2006, there were 540,565,002 (2005: 540,565,002) shares issued and fully paid to the extent of $1.00 each. All shares rank equally with one vote attached to each share.

The Company is a state-owned enterprise and all shares are owned by the Crown, as represented by the shareholding Ministers, Hon. Dr Michael Cullen, Minister of Finance, and Hon. Trevor Mallard, Minister for State-Owned Enterprises.

ANALYSIS OF MOVEMENT IN RESERVES ASSET REVALUATION RESERVE	Notes	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Balance at Beginning of Year		**330,718**	-	**330,718**	-
Revaluation of Generation Assets		**-**	330,718	**-**	330,718
Disposal of Revalued Assets		**(58)**	-	**(58)**	-
BALANCE AT END OF YEAR		**330,660**	330,718	**330,660**	330,718

14. COMMITMENTS

	Notes	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
CAPITAL COMMITMENTS					
CAPITAL EXPENDITURE COMMITMENTS		**46,103**	204,427	**46,103**	202,483
OPERATING LEASE COMMITMENTS					
Within One Year		**7,810**	5,458	**7,611**	5,458
Between One and Two Years		**6,873**	5,536	**6,869**	5,536
Between Two and Five Years		**19,314**	14,878	**19,314**	14,878
Later than Five Years		**39,114**	46,367	**39,114**	46,367
OPERATING LEASE COMMITMENTS		**73,111**	72,239	**72,908**	72,239

OTHER COMMITMENTS

FUEL

The Company has contracted to purchase coal and gas supplies for future thermal generation and retail gas sales requirements. The contracts are for varying periods, annual quantities and prices. The coal contracts include a supply of approximately 277PJ (2005: 252.49PJ) of coal, with one major contract extending out to 30 June 2014. In addition at 30 June 2006 the coal stockpile was approximately 12.7PJ (2005: 17.16PJ). The firm gas contracts amount to approximately 340PJ (2005: 353.17PJ), with two contracts extending out 15 years from 2009.

Under one of its gas supply contracts, the Company has committed to fund, in certain circumstances, up to $20.0 million of development expenditure.

The Company has also provided a secured bridging facility to a fellow joint venture partner for development expenditure for the period 29 June to 29 October 2006 with repayment required by the end of that period.

COAL TRANSPORTATION

The Company has contracted an independent third party to provide coal transportation services from the Port of Tauranga to the Rotowaro rail receipt facility for a fixed annual charge of $1.0 million per annum, plus a per tonne freight cost for coal transported. The contract extends out 14 years to 26 December 2019, with a right of renewal for a further three five-year terms.

COAL RECEIPT FACILITY

The Company has committed to a fixed annual rental and service fee of $1.7 million charged over the life of the contract for coal receipt facilities. The contract extends out eight years to 30 June 2014.

JOINT VENTURES

Kupe Joint Venture

The Kupe Joint Venture partners committed to proceed with the development of the Kupe field on 29 June 2006. Under the arrangement, costs of development are shared in proportion to the respective interest held (2005: Nil).

Cardiff Joint Venture

As a joint venture participant, the Group has ongoing commitments in order to maintain the Cardiff permit, as part of their normal operations (2005: $0.5 million).

15. FINANCIAL INSTRUMENTS

The Group is subject to a number of financial risks which arise as a result of its operational activities.

To manage and limit the effects of those financial risks, the Board of Directors has approved policy guidelines and authorised the use of various financial instruments. The policies approved, and financial instruments being utilised at balance date, are outlined below.

REVENUE RISK

As part of its energy supply contracts, the Group has entered into electricity price hedges with third parties. These hedges expire at various dates up to August 2010. Under these contracts, the Group enters into forward rate electricity contracts. Any difference on maturity between the fixed hedge price and the spot price is settled between the parties.

Unrecognised Balances

As at balance date, the aggregate face value of electricity hedge contracts amounted to $176.4 million (2005: $246.3 million) with terms up to four years. The carrying value reflects the unamortised balance of electricity contracts acquired.

CURRENCY RISK

Policies

Trading in foreign exchange is permitted only to support specified normal business purposes. This includes purchase or sale of foreign currency for the purpose of fixing the price of goods and services in New Zealand Dollars.

All transactions which are required to be settled in a foreign currency will be covered at the time of commitment by either purchase of the appropriate foreign currency, or the purchase of forward cover.

Trading in foreign currencies and related financial instruments for speculative purposes is not permitted by Company policy.

Unrecognised Balances

The notional or principal contract amount of foreign exchange instruments outstanding at balance date is $166.2 million principally denominated in US Dollars, Japanese Yen and Australian Dollars (2005: $284.0 million).

The cash settlement requirements of the forward exchange contracts equals the notional amount shown above.

INTEREST RATE RISK

Unrecognised Balances

The notional contract amount of interest rate hedge instruments outstanding at balance date is $248.4 million (2005: $268.2 million) with terms up to six years.

RE-PRICING ANALYSIS

The following tables identify the periods in which interest rates are subject to review on interest-bearing financial assets and liabilities, and provides the current weighted average interest rate of each item. The effective interest rate incorporates the effect of the relevant derivative contracts.

FINANCIAL INSTRUMENTS GROUP 2006	Effective Interest Rates	Current $000	1-2 Years $000	More than 2 Years $000	Non-Interest-Bearing $000	TOTAL $000
ASSETS						
Cash	**4.5%**	**9,609**	**-**	**-**	**-**	**9,609**
Receivables		**-**	**-**	**-**	**202,083**	**202,083**
Investments		**-**	**-**	**-**	**125**	**125**
Finance Lease Receivable	**18.7%**	**3,818**	**9,729**	**27,502**	**23,546**	**64,595**
TOTAL ASSETS		**13,427**	**9,729**	**27,502**	**225,754**	**276,412**
LIABILITIES						
Payables and Accruals		**-**	**-**	**-**	**231,210**	**231,210**
General-Purpose Loans (Floating)	**7.4%**	**39,000**	**175,000**	**93,500**	**-**	**307,500**
TOTAL LIABILITIES		**39,000**	**175,000**	**93,500**	**231,210**	**538,710**
GROUP 2005						
ASSETS						
Cash	5.8%	8,165	-	-	-	8,165
Receivables		-	-	-	204,837	204,837
Investments		-	-	-	250	250
Finance Lease Receivable	18.0%	3,255	8,295	32,754	27,706	72,010
TOTAL ASSETS		11,420	8,295	32,754	232,793	285,262
LIABILITIES						
Payables and Accruals		-	-	-	196,686	196,686
General-Purpose Loans (Floating)	7.1%	24,400	-	210,000	-	234,400
Special-Purpose Loan (Fixed)	8.6%	18,238	-	-	-	18,238
TOTAL LIABILITIES		42,638	-	210,000	196,686	449,324

NOTES TO THE FINANCIAL STATEMENTS – CONT

FINANCIAL INSTRUMENTS – CONT PARENT 2006	Effective Interest Rates	Current $000	1-2 Years $000	More than 2 Years $000	Non-Interest Bearing $000	TOTAL $000
ASSETS						
Cash	**4.8%**	**7,697**	**-**	**-**	**-**	**7,697**
Receivables		**-**	**-**	**-**	**192,532**	**192,532**
Investments		**-**	**-**	**-**	**37,663**	**37,663**
Inter-company Receivables	**7.2%**	**49,845**	**-**	**-**	**-**	**49,845**
TOTAL ASSETS		**57,542**	**-**	**-**	**230,195**	**287,737**
LIABILITIES						
Payables and Accruals		**-**	**-**	**-**	**214,954**	**214,954**
Inter-company Payables	**7.2%**	**49,348**	**-**	**-**	**-**	**49,348**
General-Purpose Loans (Floating)	**7.3%**	**39,000**	**175,000**	**93,500**	**-**	**307,500**
TOTAL LIABILITIES		**88,348**	**175,000**	**93,500**	**214,954**	**571,802**
PARENT 2005						
ASSETS						
Cash	5.8%	6,945	-	-	-	6,945
Receivables		-	-	-	175,192	175,192
Investments		-	-	-	37,788	37,788
Inter-company Receivables	6.9%	30,651	-	-	-	30,651
TOTAL ASSETS		37,596	-	-	212,980	250,576
LIABILITIES						
Payables and Accruals		-	-	-	184,461	184,461
Intercompany Payables	6.9%	17,915	-	-	-	17,915
General-Purpose Loans (Floating)	7.1%	24,400	-	210,000	-	234,400
TOTAL LIABILITIES		42,315	-	210,000	184,461	436,776

CREDIT RISK

The Group incurs credit risk from transactions with trade customers and financial institutions in the normal course of its business.

The counterparties used for banking and finance activities are financial institutions with commercially acceptable credit ratings. The Company's credit policy includes the requirement for an assessment of:

- Size and nature of the Group's aggregate credit exposure at any point of time;
- Credit risk appropriate to the size and nature of the relevant transaction. Where the customer or counterparty does not meet the Group's minimum credit quality, appropriate security is required; for example bond, guarantee or prepayment; and
- Credit concentration risk.

The Group does not have any significant concentration of credit risk. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position.

FAIR VALUES

METHODS AND ASSUMPTIONS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- Cash at bank, bank overdraft, borrowings, term deposits, receivables and trade creditors – the carrying value of these items is equivalent to their fair value.
- Foreign currency forward exchange contracts are based on valuations, estimated using the mark to market methodology.
- Interest rate swaps are based upon valuations, estimated using the mark to market methodology.
- Electricity hedge contracts are based upon valuations, estimated using discounted future cash flows.

FOR THE YEAR ENDED 30 JUNE 2006

FAIR VALUES SUMMARY – GROUP	2006 Carrying Value $000	2006 Fair Value $000	2005 Carrying Value $000	2005 Fair Value $000
ASSETS				
Investments*	**125**	**125**	250	250
DERIVATIVES				
Electricity Hedge Contracts	**55**	**833**	(2,979)	5,500
Foreign Exchange Contracts	**-**	**5,263**	-	(15,200)
Interest Rate Swaps	**-**	**1,291**	-	(2,000)
FAIR VALUES SUMMARY – PARENT				
ASSETS				
Investments*	**37,663**	**-**	37,788	-
DERIVATIVES				
Electricity Hedge Contracts	**55**	**833**	(2,979)	5,500
Foreign Exchange Contracts	**-**	**5,263**	-	(15,200)
Interest Rate Swaps	**-**	**1,468**	-	(2,000)

*It is not practical to estimate the fair value of the investments in unlisted shares.

For cash, receivables, the finance lease receivable, payables, accruals and borrowings, the fair values are equivalent to their carrying values and therefore have been excluded from the tables above.

16. RELATED PARTIES

CROWN

The ultimate shareholder of the Company is the Crown. The Group undertakes many transactions with state-owned enterprises and government departments, carried out on an arm's-length basis. Because it is considered that these do not fall within the intended scope of related party disclosures, they have not been treated as such in these financial statements.

KEY MANAGEMENT PERSONNEL AND MEMBERS OF THE BOARD OF DIRECTORS

Each company within the Group maintains an Interests Register in which members of the Board record all entities and transactions in which they have, or may have, a potential or actual self-interest. John Stace is the Chairman and minority shareholder of Methodware Limited which provided software to the Parent for $11,915 (2005: $16,371). These payments were made on standard terms (2005: $3.8 million paid in contracting fees to Fulton Hogan Limited, of which Hanlin Johnstone was a director. These payments were made on standard terms. Mr Johnstone retired at the end of his term in office as a director of Genesis Power Limited on 31 December 2004). During the year no other transactions took place between the directors and the Group or Parent.

SUBSIDIARY COMPANIES

All members of the Group are considered to be related parties of Genesis Power Limited. This includes the subsidiaries and the joint ventures identified in Note 7.

During the year, the Parent received a net repayment of $12.2 million from subsidiaries (2005: Parent advanced a net $13.4 million to subsidiaries). Net interest paid by the Parent during the year was $0.3 million (2005: Interest received by Parent of $0.4 million).

GENESIS ONCOLOGY TRUST

The Group has entered into a sponsorship agreement with the Genesis Oncology Trust. The annual sponsorship paid to the Trust amounted to $0.2 million (2005: $0.2 million). In addition to the sponsorship, the Group facilitates customers making donations via their monthly energy accounts. For the year ended 30 June 2005, the Group agreed to match its customers' donations. There was no matching donation for the year ended 30 June 2006 (2005: $0.07 million). In 2006, the Group donated an additional $1.0 million (2005: Nil). The total amount outstanding at year-end was $1.0 million (2005: $0.3 million).

The Group provides the Trust with accounting and administrative support free of charge.

Murray Jackson (Chief Executive of Genesis Power Limited) is the Chairman of the Trust.

Maureen Shaddick (General Counsel and Company Secretary of Genesis Power Limited) is the Deputy Chair of the Trust.

No related party debts have been written off or forgiven during the year.

NOTES TO THE FINANCIAL STATEMENTS – CONT

17. INTER-COMPANY BALANCES – PARENT ONLY

	Notes	2006 $000	2005 $000
INTER-COMPANY RECEIVABLES			
GP No. 2 Limited		**8,713**	8,684
Kupe Holdings Limited		**10,364**	4,384
Cardiff Holdings No. 1 Limited		**11,280**	11,429
Cardiff Holdings No. 2 Limited		**6,074**	6,154
Kinleith Cogeneration Limited		**13,414**	-
	5	**49,845**	30,651
INTER-COMPANY PAYABLES			
Kinleith Cogeneration Limited		**15,130**	12,433
Genesis Power Investments Limited		**27,040**	4,309
Energy Online Limited		**7,178**	1,173
	10	**49,348**	17,915

18. RECONCILIATION OF NET SURPLUS TO NET CASH FROM OPERATING ACTIVITIES

	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
NET SURPLUS FOR THE YEAR	**83,730**	70,245	**73,423**	68,069
ADD/(LESS) NON-CASH ITEMS & NON-OPERATING ITEMS				
Depreciation	**51,229**	37,386	**50,987**	37,200
Movement in Deferred Tax Provision	**10,507**	11,214	**8,261**	5,267
Movement in Mitigation Provision	**-**	9,181	**-**	9,181
Movement in Rehabilitation Provision	**(9,239)**	11,905	**(9,239)**	11,905
Amortisation of Goodwill	**16,818**	16,818	**16,392**	16,391
Amortisation of Finance Lease Receivable	**4,160**	3,396	**-**	-
Net Loss/(Gain) on Sale of Assets	**125**	(5)	**123**	(14)
Transfer of Tax Losses to Parent	**-**	-	**5,278**	-
Other Non-Cash Items	**(747)**	-	**(747)**	(298)
	72,853	89,895	**71,055**	79,632
ADD/(LESS) MOVEMENTS IN WORKING CAPITAL ITEMS				
Decrease/(increase) in Accounts Receivable	**2,621**	(30,152)	**(17,475)**	(28,626)
Decrease/(increase) in Prepayments	**(2,146)**	(2,126)	**(2,542)**	(1,668)
Decrease/(increase) in Inventories	**12,350**	(11,293)	**12,328**	(11,111)
Decrease/(increase) in Other Current Assets	**134**	(4)	**135**	(54)
Decrease/(increase) in Taxation Receivable	**3,807**	(11,462)	**(1,434)**	(6,419)
Increase/(decrease) in Accounts Payable	**37,613**	27,567	**33,582**	27,051
Increase/(decrease) in Other Liabilities	**(3,034)**	(3,033)	**(3,034)**	(3,033)
	51,345	(30,503)	**21,560**	(23,860)
ADD/(LESS) ITEMS CLASSIFIED AS INVESTING ACTIVITIES				
Proceeds from Disposal of Subsidiaries (2004)	**(21,000)**	-	**-**	-
Capital Expenditure Reclassified as Investing Activities	**(7,535)**	(16,280)	**(7,535)**	(16,280)
	(28,535)	(16,280)	**(7,535)**	(16,280)
NET CASH FROM OPERATING ACTIVITIES	**179,393**	113,357	**158,503**	107,561

19. CONTINGENT ASSETS AND LIABILITIES

The following matters have not been reflected in the financial statements because of the uncertainty associated with their outcomes.

LAND CLAIMS

Genesis Power Limited acquired interests in land and leases from ECNZ on 1 April 1999. These interests in land and leases may be subject to claims to the Waitangi Tribunal and may be resumed by the Crown. Genesis Power Limited would expect to negotiate with the new Maori owners for occupancy and usage rights of any sites resumed by the Crown. Certain claims have been brought to or are pending against ECNZ and/or the Crown under the Treaty of Waitangi Act 1975. Some of these claims may affect land and leases purchased by the Company or its subsidiaries from ECNZ. In the event that land is resumed by the Crown, there is provision for compensation to Genesis Power Limited.

LAWSUITS AND OTHER CLAIMS

CARTER HOLT HARVEY

Carter Holt Harvey commenced proceedings in May 2001 in the High Court against Genesis Power Limited as first defendant and Rolls Royce as second defendant in connection with a cogeneration agreement between ECNZ and Carter Holt Harvey signed in 1995. Carter Holt Harvey alleges failure to deliver in accordance with the agreement, and also alleges defects in the Kinleith Cogeneration plant and seeks damages.

EFFECT ON OPERATIONS

The Board of Directors cannot reasonably estimate the adverse effect (if any) on Genesis Power Limited if any of the foregoing claims are ultimately resolved against Genesis Power Limited's interest, or any contingent or currently unknown costs or liabilities crystallise. There can be no assurances that such litigation or costs will not have a material adverse effect on Genesis Power Limited's business, financial condition or results of operations.

20. RESOURCE CONSENTS

The Group requires land, air and water consents, obtained under the Resource Management Act 1991, to enable it to operate its thermal, hydro and wind-powered power stations. The duration of the consents varies up to a maximum of 35 years. The current resource consents within which the power stations operate are due for renewal at varying times. The renewal dates are fixed by the expiry date of the consent. Most consents are subject to periodic reviews.

21. SEGMENTAL INFORMATION

The Group operates predominantly in one industry – the generation, trading and retailing of electricity and gas. Its operations are carried out in New Zealand and are, therefore, within one geographical segment for reporting purposes.

22. SIGNIFICANT EVENTS AFTER BALANCE DATE

On 13 July 2006, Kupe Holdings Limited assigned a four per cent interest in the Kupe Joint Venture to GP No. 5 Limited (2005: Nil).

23. IMPACT OF ADOPTING NEW ZEALAND EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS)

In December 2002, the New Zealand Accounting Standards Review Board (ASRB) announced that New Zealand entities required to comply with NZ Generally Accepted Accounting Practice (NZ GAAP) under the Financial Reporting Act 1993 would be required to apply NZ IFRS for financial periods commencing on or after 1 January 2007 with earlier adoption permitted from 1 January 2005.

The Genesis Energy Group will adopt NZ IFRS from 1 July 2007 for the year ending 30 June 2008. Transition from existing NZ GAAP to NZ IFRS will be made in accordance with NZ IFRS 1 "First-Time Adoption of New Zealand Equivalents to International Financial Reporting Standards".

NZ IFRS 1 requires that an opening Statement of Financial Position be created at the start of the earliest period for which full NZ IFRS comparative information is presented in an entity's first NZ IFRS compliant financial statements (i.e. date of transition). Upon adoption of NZ IFRS, comparative information will be restated for the year from 1 July 2006 to 30 June 2007 and the impact that adoption of NZ IFRS has had on the Group's Financial Statements will be disclosed.

Resources have been allocated to analyse the impact of the transition to NZ IFRS. A project team has been established which reports progress regularly to the Audit Committee. The key areas that are likely to have an impact on the financial statements of the Group are listed below. At this stage the Group has not quantified the impacts on the financial statements as they would apply as at 30 June 2006.

FINANCIAL DERIVATIVES

All derivative contracts including electricity hedges will be recorded in the Statement of Financial Position at fair value under NZ IFRS and be adjusted against opening equity. Any movements in the fair value of these instruments from year to year will have the potential to affect the Statement of Financial Performance and the Statement of Financial Position, the extent to which will depend on whether hedge accounting is adopted. Currently not all derivatives are recognised in the Statement of Financial Performance.

DEFERRED TAXATION

The NZ IFRS basis of accounting for deferred tax is conceptually different to current NZ GAAP. Currently deferred taxation is calculated using an income statement approach whereas under NZ IFRS deferred taxation will be calculated based on a balance sheet approach. This method recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. The most significant impact for the Genesis Energy Group will be the recognition of a deferred tax liability in relation to the revaluation of generation assets.

GOODWILL

Under NZ IFRS, goodwill is not amortised but is reviewed annually for impairment. Currently goodwill is amortised over the period of expected benefits or 20 years, whichever is the shorter. This will impact the Statement of Financial Position by removing the annual amortisation. Any impairment adjustments will also be reflected in the Statement of Financial Position.

This summary should not be taken as an exhaustive list of all the differences between current NZ GAAP and NZ IFRS. Further, the effects of these differences have not been quantified by the Group. The actual impact of adopting NZ IFRS may vary from the information presented and that variation may be material.

TO THE READERS OF GENESIS POWER LIMITED AND GROUP'S FINANCIAL STATEMENTS The Auditor-General is the auditor of Genesis Power Limited (the company) and group. The Auditor-General has appointed me, Bruce Taylor, using the staff and resources of Deloitte, to carry out the audit of the financial statements of the company and group, on his behalf, for the year ended 30 June 2006.

UNQUALIFIED OPINION

In our opinion:

- The financial statements of the company and group on pages 43 to 59:
  - 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 30 June 2006; and
    - the results of operations and cash flows for the year ended on that date.
- Based on our examination the company and group kept proper accounting records.

The audit was completed on 29 August 2006, 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 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. 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. 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 financial statement disclosures are adequate.

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

We evaluated the overall adequacy of the presentation of information in the financial statements. 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 30 June 2006.

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' responsibilities arise from the State-Owned Enterprises Act 1986 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 19(1) of the State-Owned Enterprises Act 1986.

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 we have carried out an assignment in the area of International Financial Reporting Standards (IFRS) component evaluation review, which is compatible with those independence requirements. Other than the audit and this assignment, we have no relationship with or interests in the company or any of its subsidiaries.

BRUCE TAYLOR

DELOITTE
ON BEHALF OF THE AUDITOR-GENERAL
HAMILTON, NEW ZEALAND

The following is an overview of Genesis Energy's main corporate governance practices. Genesis Energy has a strong focus on corporate governance and aims to comply with internationally recommended best corporate governance practices as they apply in New Zealand.

SHAREHOLDERS

Genesis Energy is a state-owned enterprise pursuant to the State-Owned Enterprises Act 1986 and is wholly owned by Her Majesty the Queen in Right of New Zealand ("Crown"). The Crown's shareholding is held by the shareholding Ministers who as at 30 June 2006 were:

HON. DR MICHAEL CULLEN
Minister of Finance

HON. TREVOR MALLARD
Minister for State-Owned Enterprises

The shareholding Ministers appoint the Board of Directors. The Board provides shareholders with a Statement of Corporate Intent ("SCI") on an annual basis outlining goals, objectives and business plans in respect of the relevant financial year and each of the immediately following four financial years.

ROLE OF THE BOARD OF DIRECTORS

The Board is responsible for the proper direction and control of the activities of Genesis Energy and its subsidiaries. Generally, the principal functions of the Board are to:

- Confirm corporate objectives, establish policy and approve major strategies;
- Ensure business risks are appropriately identified and controlled;
- Oversee processes for financial reporting and compliance and ensure the integrity of the management information system;
- Select and review the performance of the Chief Executive and review succession planning; and
- Appoint directors to subsidiary companies.

The Board holds an annual strategic planning workshop with company management, and reviews strategic initiatives throughout the year.

While the Board acknowledges that it is responsible for the overall control framework of Genesis Energy, it recognises that no cost-effective internal control system will preclude all errors and irregularities. The system is based on written procedures, policies and guidelines, organisational structures that provide an appropriate division of responsibility, a programme of internal audit, and the careful selection and training of qualified personnel.

The Board has delegated the day-to-day management of the company to the Chief Executive.

In discharging its duties, the Board requires management to submit annually for its consideration a business plan embracing the Company's resource requirements. The Board also requires an annual budget based on the adopted business plan to be submitted for approval.

The Board monitors actual financial results compared to budget and forecasts on a monthly basis, and on a quarterly basis it reviews the Company's performance compared to its business plan objectives.

The Board recognises the particular importance of and the need to comply with legislation controlling the environment and management of natural resources and safety and health and monitors the Company's compliance with the statutes concerned through consideration of reports from management.

BOARD MEMBERSHIP

The Board comprises eight non-executive directors. All appointments to the Board are made by the shareholding Ministers in accordance with section 36 (1)(a)(i) of the Companies Act 1993 and the Company's constitution.

Genesis Energy's constitution requires that directors be appointed to the Board for a fixed term not exceeding three years. Shareholding Ministers may choose to renew an appointment for a further fixed term of up to three years.

The Board includes some of the country's most experienced business professionals and advisors. Directors' qualifications are set out over the page:

DIRECTOR, QUALIFICATIONS AND SPECIAL RESPONSIBILITIES

BRIAN CORBAN QSO, MA (Hons), LLB, FInstD, FNZIM
APPOINTED 21 DECEMBER 1998

- Deputy Chair of the Board of Directors from 15 February 1999
- Acting Chair of the Board from 15 April to 10 May 1999
- Chair of the Board of Directors from 11 May 1999
- Member of the Audit Committee
- Member of Remuneration Committee

GERALDINE BAUMANN LLB
APPOINTED 28 APRIL 2002

- Member of the Audit Committee from March 2003

DENIS McNAMARA LLB (Hons)
APPOINTED 29 APRIL 2002

- Member of Remuneration Committee from March 2003
- Chairman of Remuneration Committee from March 2005

KENNETH MICHAEL WILLIAMS MA (Hons)
APPOINTED 27 NOVEMBER 2002

- Member of Remuneration Committee from March 2005

IAN KUSABS MSc (Hons) Biological Sciences
APPOINTED 3 JUNE 2004

ANNABEL COTTON BMS (Accounting & Finance), ACA, CSAP
APPOINTED 8 JUNE 2004

- Member of Audit Committee from August 2004

DR NICOLA CRAUFORD BSc, PhD, FIPENZ, MInstD
APPOINTED 1 JANUARY 2005

JOHN STACE
APPOINTED 12 APRIL 2006

The directors support the principles set out in the Code of Proper Practice for Directors issued by the Institute of Directors in New Zealand. While recognising that the Code expresses principles and does not purport to determine the detailed course of conduct by directors on any particular matter, the directors support the need for the highest standards of governance, behaviour and accountability.

COMPOSITION OF THE BOARD

During the year Mr Keith Smith's term as a director ended on 30 April 2006. He had been a director of Genesis Energy since 16 December 1998.
Mr John Stace was appointed as a director of Genesis Energy with effect from 12 April, 2006.

BOARD COMMITTEES

The Board may constitute standing committees that focus on specific areas of the Board's responsibility. The Board also reserves the right to constitute temporary non-standing committees to consider agreed business or projects of the company. The current standing committees comprise the Audit Committee and the Remuneration Committee.

AUDIT COMMITTEE

The Audit Committee is scheduled to meet no less than four times a year, with additional meetings being convened when required. The role of the Audit Committee is to:

- Assist the Board in the proper and efficient discharge of its responsibilities relating to financial reporting; that is, in producing accurate financial statements in compliance with the law and accounting standards;
- Oversee, review and enhance the Company's external financial reporting procedures; and
- Monitor and enhance the Company's internal financial systems and controls.

REMUNERATION COMMITTEE

The Remuneration Committee is scheduled to meet no less than twice a year, with additional meetings being convened when required. The role of the Remuneration Committee is to oversee, review and monitor the remuneration of the Chief Executive and to act in an advisory capacity to the Chief Executive, as requested by the Chief Executive in respect of terms and conditions of employment, including remuneration for senior executives.

RISK MANAGEMENT

Genesis Energy has developed a comprehensive, enterprise-wide risk management framework. The Company's management actively participate in the identification, assessment, and monitoring of new and existing risks. Particular attention is given to the market risks that could impact on Genesis Energy. All trading activities are consistent with the policies and procedures stipulated in the Company's Market Risk Policy. Management undertake regular reporting to appraise the Board of the Company's risks and the treatment of those risks.

INTERNAL AUDIT

Genesis Energy has established an outsourced internal audit function that is responsible for monitoring the Company's internal control systems and the integrity of the financial information reported to the Board. Internal audit operates independently from management and reports its findings directly to the Audit Committee. Both the internal auditors and the external auditors have unrestricted access to the Audit Committee and to the Board.

DIVIDEND

No dividend was declared in respect of the financial year ending 30 June 2006.

DONATIONS

In accordance with section 211(1)(h) of the Companies Act 1993, the Company records that the total amount of donations made by the Company during the period was $1,055,773.72.

AUDITORS

In accordance with section 19 of the State-Owned Enterprises Act 1986, the Office of the Auditor-General ("OAG") is required to express an opinion on these financial statements. Pursuant to section 29 of the Public Finance Act 1977, the OAG has appointed Mr Bruce Taylor of Deloitte to undertake the audit on its behalf. The report of the Auditor-General is set out on page 60 of this Report.

In accordance with section 211(1)(j) of the Companies Act 1993, audit fees of $214,000 were paid or payable to Deloitte by Genesis Energy also; $60,000 was paid to Deloitte for additional services during the year.

REMUNERATION OF DIRECTORS

Shareholding Ministers advise the Board of the total amount of fees available to directors of Genesis Energy (including those of subsidiary companies). In accordance with section 211(1)(f) of the Companies Act 1993, the following sets out the total remuneration for the period from 1 July 2005 to 30 June 2006 (including remuneration for committee membership) and the value of other benefits received or receivable from Genesis Energy by them.

NAME	TOTAL
BRIAN CORBAN	69,192.84
KEITH SMITH (term ended 30 April 06)	40,140.69
GERALDINE BAUMANN	35,525.00
DENIS McNAMARA	35,238.92
KENNETH MICHAEL WILLIAMS	33,668.00
ANNABEL COTTON	35,525.00
IAN KUSABS	30,524.96
DR NICOLA CRAUFORD	30,524.96
JOHN STACE (appointed 12 April 06)	5,086.00

Genesis Energy has 10 subsidiary companies. The directors of nine of those companies were Messrs Brian Corban, Keith Smith and Murray Jackson until 30 April, 2006 when Mr Keith Smith's term as director of Genesis Energy ended. As at 30 June 2006 no new director of these subsidiary companies had been appointed. The directors of Energy Online Limited were Murray Jackson, Vince Hawksworth and Mark Anderson. None of the directors received any specific remuneration or other benefits during the period in relation to his duties as a director of these companies.

INTEREST REGISTER ENTRIES

In accordance with section 211(1)(e) of the Companies Act 1993, particulars of the entries in the Interests Register and the Interests Registers of its subsidiary companies made during the period are as set out below.

DISCLOSURE OF INTEREST

The general disclosures of interest made by the directors of Genesis Energy and its subsidiaries pursuant to section 140(2) of the Companies Act 1993 as at 30 June 2006 are shown below. There were no declarations of interest made pursuant to section 140(1) of the Companies Act 1993 entered in the Interests Registers of Genesis Energy or its subsidiaries. No director of Genesis Energy is a shareholder of Genesis Energy or any of its subsidiaries.

DIRECTOR	POSITION	ORGANISATION
BRIAN CORBAN	CHAIRMAN AND SHAREHOLDER	Corban Consultants Limited Lindsay Corban Associates Limited Ngatarawa Wines Limited
	CHAIRMAN	Radio New Zealand Limited Melanesian Mission Trust Board Corbans Viticulture Limited West Auckland Trust Services Limited Butts Bainbridge & Weir, Accountants Languages International Limited Corban Estate Arts Centre Frontier Global Limited
	CONSULTANT	Corban Revell Lawyers
	TRUSTEE	Royal New Zealand Navy Museum West Auckland Hospice Foundation Trust Corban Estate Arts Centre Prince of Wales Trust
	ADVISORY COUNCIL MEMBER	Church of Melanesia
KEITH SMITH (term ended 30 April 2006)	CHAIRMAN	The Warehouse Group Limited Healthcare Holdings Limited (and subsidiaries/associates) Electronic Navigation Limited Tourism Holdings Limited Skellmax Industries Limited
	DIRECTOR	Lowe Corporation Limited (and subsidiaries/associates) Enterprise Motor Group Limited (and subsidiaries) Macquarie Goodman (NZ) Ltd Wickliffe Limited PGG Wrightson Limited Tacron Investments Limited Hopper Fiji Limited
DENIS McNAMARA	PARTNER	Simpson Grierson
	HONORARY CONSUL	Mexico
	DEPUTY CHAIRMAN AND BOARD MEMBER	New Zealand Committee of the Pacific Economic Co-Operation Council
	MEMBER OF THE ADVISORY BOARD	New Zealand Centre for Latin American Studies at University of Auckland
	COUNCIL MEMBER	Inter Pacific Bar Association
	DIRECTOR	Companies associated with the partnership of Simpson Grierson
GERALDINE BAUMANN	MEMBER	Energy Efficiency and Conservation Authority
	TRUSTEE	Royal New Zealand Ballet Trust Meridian Energy Katherine Mansfield Fellowship
	SENIOR LEGAL ADVISOR	New Zealand Historic Places Trust
KENNETH MICHAEL WILLIAMS	PRESIDENT	New Zealand Labour Party
	CHAIRMAN	Transport Board Reference Group
	DIRECTOR	Institute of Geological and Nuclear Sciences Auckland Regional Transport Authority New Zealand Railways Corporation The New Zealand Picture Company
	TRUSTEE	Enterprise Waitakere
	AUTHORITY MEMBER	Transit NZ Limited

DIRECTOR	POSITION	ORGANISATION
IAN KUSABS	CHAIRMAN	Lake Taupo Sustainable Management Group
	MEMBER	Lake Taupo Management Board Lake Taupo Protection Project Joint Committee Upper Waikato Liaison Sub-Committee
	ADVISOR	Ngati Tuwharetoa
	FISHERIES ASSOCIATE	Wildland Consultants Mitchell and Associates
ANNABEL COTTON	DIRECTOR	Merlin Consulting Limited Equity Products Limited Kingfish Limited Kingfish Nursery Limited Kingfish Holdings Limited
DR NICOLA CRAUFORD	DIRECTOR	Centre for Advanced Engineering Institution of Professional Engineers New Zealand
	DIRECTOR AND SHAREHOLDER	Crauford Robertson Consulting Limited Martin Crauford Limited
	DIRECTOR AND MINORITY SHAREHOLDER	iYomu Limited
	CHIEF EXECUTIVE	Institute of Directors New Zealand
JOHN STACE	NON-EXECUTIVE CHAIRMAN AND MINORITY SHAREHOLDER	Methodware Limited
	DIRECTOR	The Kiwi Expat Association Incorporated
	MEMBER	New Zealand Trade and Industry Beachhead Advisory Board

INSURANCE

In accordance with section 162 of the Companies Act 1993, and the constitution of the Company, the Company has insured and indemnified all directors named in this report and current and former executive officers of the Company and its subsidiaries against all liabilities to persons (other than the Company or a related body corporate) to the extent permitted by law which arise out of the performance of their normal duties as director or executive officers unless the liability relates to conduct involving a lack of good faith.

USE OF COMPANY INFORMATION

No notice has been received by the Board under section 145 of the Companies Act 1993 with regard to the use of company information received by any directors in his/her capacity as a director.

REMUNERATION OF EMPLOYEES

In accordance with section 211(1)(g) of the Companies Act 1993, the number of employees, or former employees of Genesis Energy and/or members of the Company who, during the period, received remuneration and other benefits the value of which exceeded $100,000 is as follows:

BANDS	NUMBER OF EMPLOYEES	BANDS	NUMBER OF EMPLOYEES
$870,000 – $880,000	1	$180,001 – $190,000	1
$390,001 – $400,000	2	$170,001 – $180,000	2
$340,001 – $350,000	1	$160,001 – $170,000	1
$320,001 – $330,000	1	$150,001 – $160,000	4
$300,001 – $310,000	1	$140,001 – $150,000	9
$290,001 – $300,000	1	$130,001 – $140,000	8
$240,001 – $250,000	1	$120,001 – $130,000	7
$200,001 – $210,000	1	$110,001 – $120,000	24
$190,001 – $200,000	1	$100,001 – $110,000	40

STATEMENT OF CORPORATE INTENT (SUMMARISED)

FOR THE YEAR ENDED 30 JUNE 2006

The Statement of Corporate Intent (SCI) for the period 1 July 2005 to 30 June 2008 was submitted by the Board of Directors of Genesis Power Limited ("Genesis Energy") in accordance with section 14 of the State-Owned Enterprises Act 1986 ("Act"). The SCI, as required by the Act, specifies information in respect of the financial year in question and each of the two immediately following financial years. Genesis Energy also voluntarily provides information for an additional two years above the Act requirement (i.e. SCI covers the period 1 July 2005 to 30 June 2010).

This summary reports on performance against SCI targets for the year ended 30 June 2006.

NATURE AND SCOPE OF ACTIVITIES

Genesis Energy's primary business activities involve electricity generation, trading and retailing and gas supply and retailing in New Zealand. Within these primary activities, Genesis Energy pursues a range of initiatives to ensure that the Company's existing capital assets, energy sources and human resources are used efficiently.

SCI RESULTS

FINANCIAL PERFORMANCE TARGETS	NOTE	SCI TARGET	SCI ACTUAL
Net Profit After Tax to Average Debt Plus Equity		3.9%	5%
Net Profit After Tax to Average Shareholders' Funds		4.8%	5.9%
Earnings Before Interest and Tax to Average Total Assets		5.9%	7.3%
Debt to Debt Plus Equity		24%	17%
Consolidated Shareholders' Funds to Total Assets		65%	71%
NON-FINANCIAL PERFORMANCE TARGETS	**NOTE**	**SCI TARGET**	**SCI ACTUAL**
Number of Significant RMA Non-compliances	1	0	0
Trainees as a Percentage of Workforce	2	10%	13.24%
Customer Satisfaction	3	85%	83%
Power Station Availability			
• Hydro	4	90%	94.49%
• Thermal	5	87%	71.44%

NOTES

DEBT TO DEBT PLUS EQUITY

Debt is comprised of all short and long-term borrowings.

Equity is issued capital plus retained earnings.

RATIO OF CONSOLIDATED SHAREHOLDERS' FUNDS TO TOTAL ASSETS

Consolidated Shareholders' Funds is comprised of the paid-up equity capital of the Company together with any revaluation reserves and retained earnings of the Company. Retained earnings is comprised of the net after-tax profits of the business less dividends paid, computed in accordance with generally accepted accounting practice in New Zealand (GAAP).

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

Note 1: "Significant" refers to those incidents which are more than minor and for which it is appropriate to notify the consent authority (over and above standard notification of minor consent non-compliances in consent monitoring reports).

Note 2: Trainees as a percentage of the workforce is above target due to the second intake of the National Apprenticeship Programme with a total of 38 apprenticeship positions now being filled.

Note 3: Based on a survey completed in July 2006: "How do you rate the performance of your energy supplier?" Percentage of customers rating Genesis Energy good, very good or excellent.

Note 4: Hydro was above target due to changes to the planned maintenance programme.

Note 5: Thermal was under target for the year due to various changes to planned outages and unscheduled maintenance that occurred.

DIVIDEND POLICY

In recommending dividends payable to shareholding Ministers, Genesis Energy will comply with the solvency levels specified in the Companies Act 1993 and will follow the procedures generally adopted by directors of publicly listed companies.

Under ordinary business circumstances the dividend to be declared will be determined by reference to:

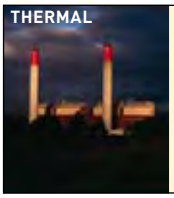
- Genesis Energy's working capital requirements;
- Genesis Energy's medium-term fixed asset expenditure programme;
- Genesis Energy's investment in new business opportunities; and
- Genesis Energy's risk profile, taking into account the sustainable financial structure for the business and considering predictions of short and medium-term economic and market conditions.

Given Genesis Energy's financial commitments to its investment in Huntly e3p, the Company's intention is not to pay a dividend in respect of the financial year ending 30 June 2006. This dividend policy is a key component of Genesis Energy's decision to proceed with its investment in Huntly e3p. Dividend payments are forecast to resume thereafter at 40 per cent of Net Profit After Tax.

PHYSICAL ASSETS

FOR THE YEAR ENDED 30 JUNE 2006

THERMAL



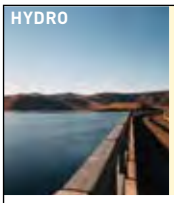
HUNTLY POWER STATION

With a present output of 1,040MW, Huntly is New Zealand's largest thermal power station. It has four separate generating units of 250MW utilising conventional boiler and steam turbine technology. Each unit is capable of burning coal, natural gas or a combination of the two.

Unit 6 – A nominal 40MW open-cycle gas turbine has been commissioned at Huntly. Unit 5 – A high-efficiency combined-cycle gas turbine power plant is under construction for Huntly. This 385MW plant will be about 50 per cent more energy efficient than existing technology.

Year commissioned:	1981
Capacity:	1040MW
Generation units:	250MWx4
Fuel:	coal / gas
Chimney height:	150m
Site area:	71 ha

HYDRO



TONGARIRO POWER DEVELOPMENT SCHEME

The Tongariro Power Development Scheme gathers water from the mountains of the central volcanic plateau in the North Island. The water passes through two power stations – Tokaanu (240MW) and Rangipo (120MW) – before entering into Lake Taupo. The scheme has a catchment area of more than 2,600 sq km and uses a series of lakes, canals and tunnels to bring water to the two stations that typically generate 1,300GWH p.a. – about four per cent of the country's total generation.

Years commissioned:		
Tokaanu	Rangipo	
1973	1983	
Total capacity:	360MW	
Generation units:		
Tokaanu	Rangipo	
60MWx4	60MWx2	

WAIKAREMOANA HYDRO SCHEME

The Waikaremoana Hydro Scheme includes the Tuai (60MW), Piripaua (42MW) and Kaitawa (36MW) hydro stations. The Waikaremoana storage reservoir was created by a landslide that closed off the valley and provided the opportunity to implement flood control while creating the characteristics for a high-head hydro scheme.

Years commissioned:		
Tuai	Piripaua	Kaitawa
1929	1943	1947/8
Total capacity:	138MW	
Generation units:		
Tuai	Piripaua	Kaitawa
20MWx3	21MWx2	18MWx2

KOURARAU HYDRO SCHEME

This scheme in the Wairarapa hills consists of two small power stations. Each station is fed by a small artificial reservoir that was formed by the damming of the Kourarau Stream.

Year commissioned:	1923
Capacity:	1MW
Fuel:	hydro

CO-GENERATION

TE AWAMUTU COGENERATION PLANT

This plant has been developed under a partnership between Fonterra and Genesis Energy, to provide electricity and steam to the major milk-processing site at Te Awamutu.

The plant is based on a 54MW Pratt and Whitney aero-derivative Twinpak gas turbine exhausting into a heat recovery boiler to raise steam for process use.

Year commissioned:	1995
Electrical output in co-generation mode:	27MW
Electrical output in open-cycle plus cogeneration mode:	54MW

KINLEITH COGENERATION PLANT

This plant is located at the Carter Holt Harvey Pulp and Paper Plant at Kinleith, Tokoroa. It is fuelled by wood waste biomass supplemented as necessary with gas or coal. Biomass fuel is considered a renewable energy source because it can be replenished by planting more plantations. The fuel is burnt in a boiler to produce steam for a 40MW steam turbine and for process use.

Year commissioned:	1998
Electrical output:	40MW
Wood waste burnt tonnes per year:	400,000 - 700,000

WIND

HAU NUI WIND FARM

Harnessing the strong and consistent winds of the South Wairarapa coast, the wind farm is aptly named "Hau Nui" – which means "strong wind" in Maori.

Hau Nui's present 15 wind turbines provide enough power for around 4,200 homes in the South Wairarapa. Hau Nui has excellent availability, recording 48 per cent capacity factor over the period since commissioning.

Year commissioned:	1996
Total capacity:	8.65MW

GAS

KUPE GAS PROJECT

Genesis Energy now owns 31 per cent of the proven oil and gas field of Kupe, located 30km offshore from South Taranaki. Pictured above is the Tangaroa surveying in the Kupe region.

CARDIFF

Genesis Energy holds 40 per cent equity interest in respect of the deep petroleum rights in Petroleum Exploration Permit 38738.

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DIRECTORY

BOARD OF DIRECTORS

CHAIRMAN	BRIAN CORBAN, QSO	
DIRECTORS	GERALDINE BAUMANN KENNETH MICHAEL WILLIAMS IAN KUSABS JOHN STACE	DENIS McNAMARA ANNABEL COTTON DR NICOLA CRAUFORD

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GENERAL MANAGER GENERATION DEVELOPMENT	RICHARD PEARCE
GENERAL MANAGER ENERGY ONLINE	NIC McCONDACH

CORPORATE OFFICE

THE GENESIS ENERGY BUILDING 602 Great South Road,
PO Box 17188, Greenlane, Auckland.
Telephone 64 9 580 2094. Facsimile 64 9 580 4894.

CUSTOMER CONTACT CENTRE

0800 300 400

GENESIS ENERGY WELLINGTON

THE GENESIS ENERGY BUILDING Level 1, 93 The Terrace,
Cnr Woodward St & The Terrace, PO Box 10568, The Terrace,
Wellington. Telephone 64 4 495 6350. Facsimile 64 4 495 6363.

GENESIS ENERGY NEW PLYMOUTH

THE GENESIS ENERGY BUILDING Ground Floor,
Cnr Gill & Liardet Streets, PO Box 8143, New Plymouth.
Telephone 64 6 759 1841. Facsimile 64 6 759 1843.

GENESIS ENERGY HAMILTON

THE GENESIS ENERGY BUILDING Ground Floor, 660 Victoria Street,
PO Box 1406, Hamilton. Telephone 64 7 857 1699.

AUDITOR

BRUCE TAYLOR of Deloitte has been appointed to perform
the audit on behalf of the Auditor-General

BANKER

WESTPAC

SOLICITORS

RUSSELL McVEAGH

WEBSITE

www.genesisenergy.co.nz

FOR FURTHER INFORMATION

EMAIL feedback@genesisenergy.co.nz

DESIGN

DesignWorks|Enterprise|IG

ACKNOWLEDGEMENT

Genesis Energy thanks Fletcher Building, Airborne Cymbidium and the Lake Waikaremoana Hapu Restoration Trust for their assistance with photography for this Annual Report.

genesis
ENERGY