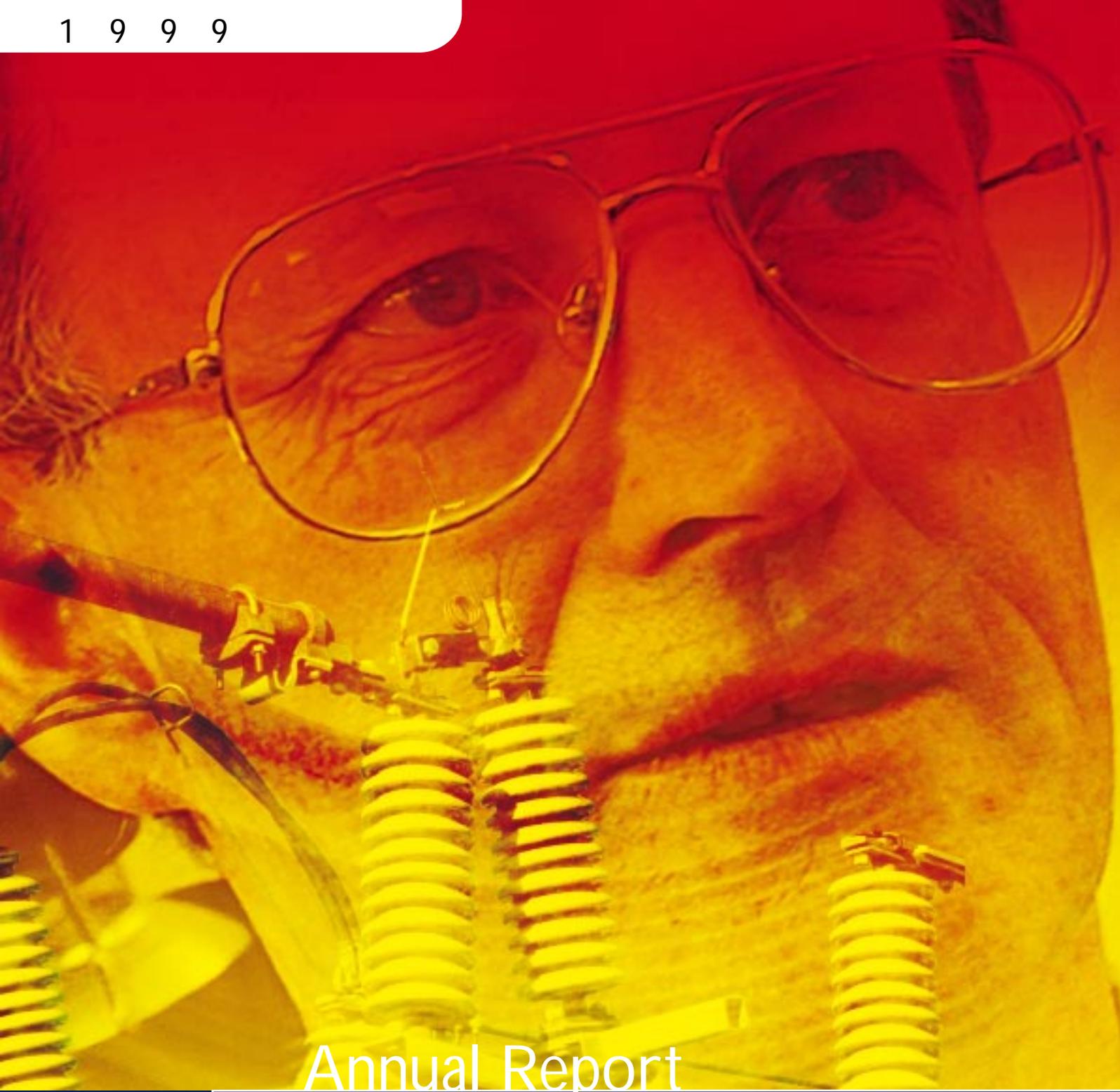


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Annual Report

PowerNet Ltd

PNL
PowerNet Limited

Executive Profile

Martin Walton

General Manager - Networks

Martin is a Registered Engineer. He began his career as a student apprentice with Yorkshire Electricity in the United Kingdom. After five years as an engineer at chemical plants in the UK he came to New Zealand to join the New Zealand Electricity Department. In 1976 he became Deputy City Electricity Manager of the Invercargill City Electricity Department, where he stayed until his appointment as Engineering Manager and subsequently Commercial Manager of The Power Company. In 1994 he was appointed Network Manager of PowerNet, a position he held until his promotion to General Manager - Networks in 1999.



Directory

Directors

Ross Wensley (Chairman)
Warren Conway (Deputy Chairman)
Neil Boniface
Owen Buckingham
Murray Farley (from 1/11/98)
Jim Fenton (to 31/10/98)
Cam McCulloch

Executives

General Manager - Networks

Martin Walton

Operations Manager

Michael Price

Financial Controller

Grant Smith

Head Office

251 Racecourse Road
PO Box 1642
Invercargill Telephone: 03 217 1899
New Zealand Facsimile: 03 217 1875

Principal Bankers

The National Bank of New Zealand Limited

Auditors

Audit New Zealand on behalf of the Controller and Auditor General

Solicitors

Arthur Watson Savage

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The year in Review

INTRODUCTION

During 1999 PowerNet celebrated its fifth anniversary as an asset management company specialising in the management of electricity network assets.

From its inception in 1994, it has successfully managed the two electricity networks owned by Electricity Invercargill Limited (EIL) and The Power Company Limited (TPCL) and improved both the financial and operational performance of both networks over the five years.

PowerNet was established as a break-even company for the respective shareholders and network owners, EIL and TPCL. Each shareholder owns 50% of the PowerNet shares. As EIL is owned by the Invercargill City Council, PowerNet is classed as a Local Authority Trading Enterprise so the financial statements now include a Statement of Service Performance.

OPERATIONS

The Company's performance is judged by its costs and results such as reliability and quality of supply to the end use customers.



These performance indicators are dependent on operational efficiency, effective maintenance and prudent capital investment. The Ten-Year Plan prepared by PowerNet for each network has been the blueprint adopted by each respective network owner for the past four years.

Some of the benefits of the capital investment by both network owners and the improved operational management of the assets began to show results this year.

The La Nina weather pattern this year resulted in less continuous prevailing winds and storms experienced during the previous El Nino year so there was a significant reduction in the SAIDI for both networks. In the case of the TPCL network, this reduction was also influenced by major renewal and reinforcement of the subtransmission network in addition to the completion of the SCADA system and installation of sophisticated control and protection systems. Although most systems are fully operational, the technical complexity of the 66kV ring in Western Southland with its multiple injection points has led to delays in the final commissioning and full reliability of that system.

The introduction of partial discharge and ultrasonic testing, in addition to the routine infrared camera surveys, resulted in the identification of several weak points on both networks. This gave PowerNet the opportunity to correct situations before faults occurred.

PowerNet achieved significant savings of approximately \$340,000 (7%) in maintenance costs for both networks this year mainly through improvements in the maintenance contracts such as quarterly tendering and reduction in fixed lump sum payments, less storm damage and the increasing use of the GIS information and software.

There were also further reductions in expenditure of approximately \$400,000 due to deferment of some projects and delays in commencing the tree programme due to protracted negotiations with the Local Authorities.

The contract with MasterTrade for the supply of materials was renewed for a further three years following a review of costs and performance, which showed PowerNet had benefited through competitive pricing and good service.

FINANCIAL

Financial results, in particular cash flows, were affected by the agreement of the shareholding network owners with firstly United Electricity, Fernhill Power and then Contact Energy to allow the deferment of wheeling fee payments to PowerNet by up to 70 days for the EIL and 40 days for the TPCL networks until 30 September 1999. The network owners in turn permitted a corresponding deferral of the Use Charge payments by PowerNet. In all cases, commercial rates of interest were paid on the transactions.

Estimates of revenue from both the fixed and variable wheeling fees were slightly optimistic and income was 3.4% and 2.2% below budget for EIL and TPCL respectively. The main reasons include a downsizing of capacities by customers reducing the fixed charge component and the mild winters experienced during the financial year reducing the variable component. There was also a small overall downturn in the customer base and consumption in the EIL network. The decrease in wheeling fee income was offset by reductions in Transpower charges due to minimal excess demand charges being incurred and higher than anticipated transmission rental rebates.

GIS

The data conversion of the underground systems of both networks was commenced during the year. The opportunity has also been taken to review and improve the accuracy of the detailed and extensive EIL records during the conversion process. More GIS equipment databases were completed by a student during the summer vacation.

| MAJOR PROJECTS | | | |
|--|-------------------------|-----------------|---------------|
| Project | Approximate Expenditure | Completion Date | Network Owner |
| Riverton-Otautau 66kV Line | \$2,381,000 | June 1999 | TPCL |
| Kennington Substation and 33kV Line | \$935,000 | March 1999 | TPCL |
| Heddon Bush-Ohai 66kV Line Rebuild | \$616,000 | March 1999 | TPCL |
| Invercargill-Bluff 33kV Line Rebuild | \$572,000 | February 1999 | TPCL |
| Seaward Bush Substation Upgrade | \$385,000 | May 1999 | TPCL |
| Layard Street, Invercargill Undergrounding | \$341,000 | May 1999 | EIL |
| Southern Substation, Invercargill Upgrade | \$244,000 | August 1999 | EIL |
| Venus Street, Invercargill Undergrounding | \$204,000 | July 1999 | EIL |
| Thomson Street Area, Invercargill Undergrounding | \$132,000 | April 1999 | EIL |
| Gorge Road Substation Upgrade | \$110,000 | March 1999 | TPCL |
| Adamson Crescent, Invercargill Undergrounding | \$97,000 | June 1999 | EIL |
| | | | |

| NETWORK DETAILS | | | |
|--|------------|------------|------------|
| | TPCL | EIL | TOTAL |
| Length of overhead line | 7,299 km | 229 km | 7,528 km |
| Length of underground cable | 151 km | 480 km | 631 km |
| Number of distribution transformers | 9,253 | 427 | 9,680 |
| Distribution transformer capacity (does not include customer owned transformers) | 287,492kVA | 136,980kVA | 424,472kVA |
| Network connection points | 30,134 | 16,812 | 46,946 |
| | | | |

The use of the GIS system was also extended to the contractors following training and provision of a subsidy towards the cost of suitable computer hardware to those contractors with maintenance and faults contracts. The software was made available to all contractors and is now used predominantly by several contractors for their work plans and reports back to PowerNet.

POWERTRACK

PowerTrack, a PowerNet designed and developed software for managing projects and work orders from initiation to completion, reached the stage of full implementation this year. It enables staff to track any project, obtain status reports at any time, compiles the PowerNet tender bulletin, facilitates the closing off of contracts and interfaces with the Intech accounting software to minimise data entry.



CONTROL ROOM

Design, scoping and award of the contract for a new SCADA system was completed by the end of the financial year. The new system will be supplied by BJS Industrial Control and should be in operation by the end of 1999. At the same time, the Control Room desk is being upgraded to improved ergonomic standards. The policy of PowerNet is to retain its 24-hour/day manned control room and direct faults number for all retailers' customers with installations connected to our networks and at the same time work with retailers to improve the transfer of information about the status of the networks.

COMMERCIAL

The MARIA Retail Competition Project impacted on PowerNet as the company established systems to implement the requirements of a "Profile Market". PowerNet was recognised as one of the leaders in meeting the requirements of the National Registry and enabling its networks to be available for competitive trading using profile reconciliation.



Further refinements were made to the Line Charge methodology for the TPCL network. These changes made the location factor for large customers more equitable and consistent in its application. Following more analysis of the network costs, the “urban” classified areas for small customers were extended to include all the smaller towns. The application of the line charges as a 50% fixed and 50% variable charge based on daytime consumption continues to be well received by both retailers and end use customers as it shares some of the risk and is a good compromise to reduce the cross-subsidisation in either direction between large and small customers in the same load group.



MANAGEMENT OF CAPITAL WORKS PROGRAMMES

Easements and softwood poles had a significant influence on the outcome of the capital works programmes for 1998/99.

The programme for the EIL network was completed on time and within the budget of approximately \$1.4million.

Major projects included the provision of a second 33kV supply to and provision for the speedy installation of a second 33/11kV transformer at the Southern substation. The underground conversion of Kelvin, Venus, Tweed and Layard Streets was also completed.

The capital works programme for TPCL included several major projects, most of which were completed by the target dates. However some difficulties were encountered which delayed some projects.



The extended negotiation of easements, roads not following the legal boundaries and difficulties with the specification, delivery and subsequent replacement of some softwood poles all contributed to the deferral of the Underwood to Riverton subtransmission line upgrading from 1998/99 to 1999/2000. The Riverton to Otatau 66kV line was completed by the end of June as planned but earlier delays due to the above resulted in extra costs being incurred to meet the deadline.

On a positive note PowerNet completed a 33/11kV substation at Kennington to supply increasing industrial growth in that area. The project included a 33kV line with sections of underground cable to improve reliability and meet Telecom requirements. There were significant savings achieved in other projects such as the replacement of an 11kV switchboard at Seaward Bush substation. The total value of the capital works programme for TPCL was approximately \$8million.

Managing these projects also included the public relations. PowerNet used newspaper advertising and public meetings to inform the public of its plans before work commenced on the major projects. Good feedback was received on this initiative and it is planned to extend the principle for other projects.

PowerNet introduced Capacity Guarantee Agreements during the year. These agreements are to protect the network owner's investment without making the customer pay twice for the assets or imposing multiple variations on the line charge methodology. It is a shareholder agreement to guarantee a specific line charge payment or pay compensation based on actual costs for stranded or under-utilised assets.

Y2K

During the year the company formed a steering committee to address the issues surrounding the millennium bug. By the end of June testing of both network and administrative software based equipment was in progress and contingency plans were well advanced.

STRATEGIC TECHNOLOGY PROGRAMME

At the end of the year PowerNet became a founding member of the Strategic Technology Programme (STP). The objective of this programme is to fund research and development on a group basis utilising resources both inside and outside New Zealand. The idea is modelled on a similar structure between power companies in the UK.

ISO

PowerNet retained its ISO 9002 accreditation and compliance with the procedures is helping ensure the continuing improvement in its overall performance.

SPONSORSHIP

PowerNet's sponsorship this year was to award ten \$2,000 scholarships to Southland first year full-time tertiary students. The recipients are undertaking a variety of courses of study at either the Southland Polytechnic, Otago University, Otago Polytechnic or Lincoln University.

HUMAN RESOURCES

PowerNet's assets are its people.

The company prides itself on the support it gives to its staff. Training and personal development rank high on the list of objectives for PowerNet and during the year most staff received investment in their skills or education. This included training at the Outward Bound school at Anakiwa, attendance at conferences in New Zealand, Australia and the USA, specialised training in contract law and management and attendance at seminars on such topics as asset management.

Towards the end of the financial year both the Financial Controller/Company Secretary Susan Robb and Operations Manager Michael Price moved further north to advance their careers with larger organisations. Both Susan and Michael had been members of the executive management team from the conception of PowerNet.

To maintain PowerNet's position as a leader in the industry, it is important for staff to be involved in the industry at a national level whenever appropriate. During the year the General Manager - Networks was selected to be a member of the MARIA Retail Competition Committee and latterly was elected to the MARIA Governance Board.

The depth of skills and commitment to the company by all staff was demonstrated during the year when two of the senior managers were on extended vacation and the Chief Executive was hospitalised followed by a period of convalescence.

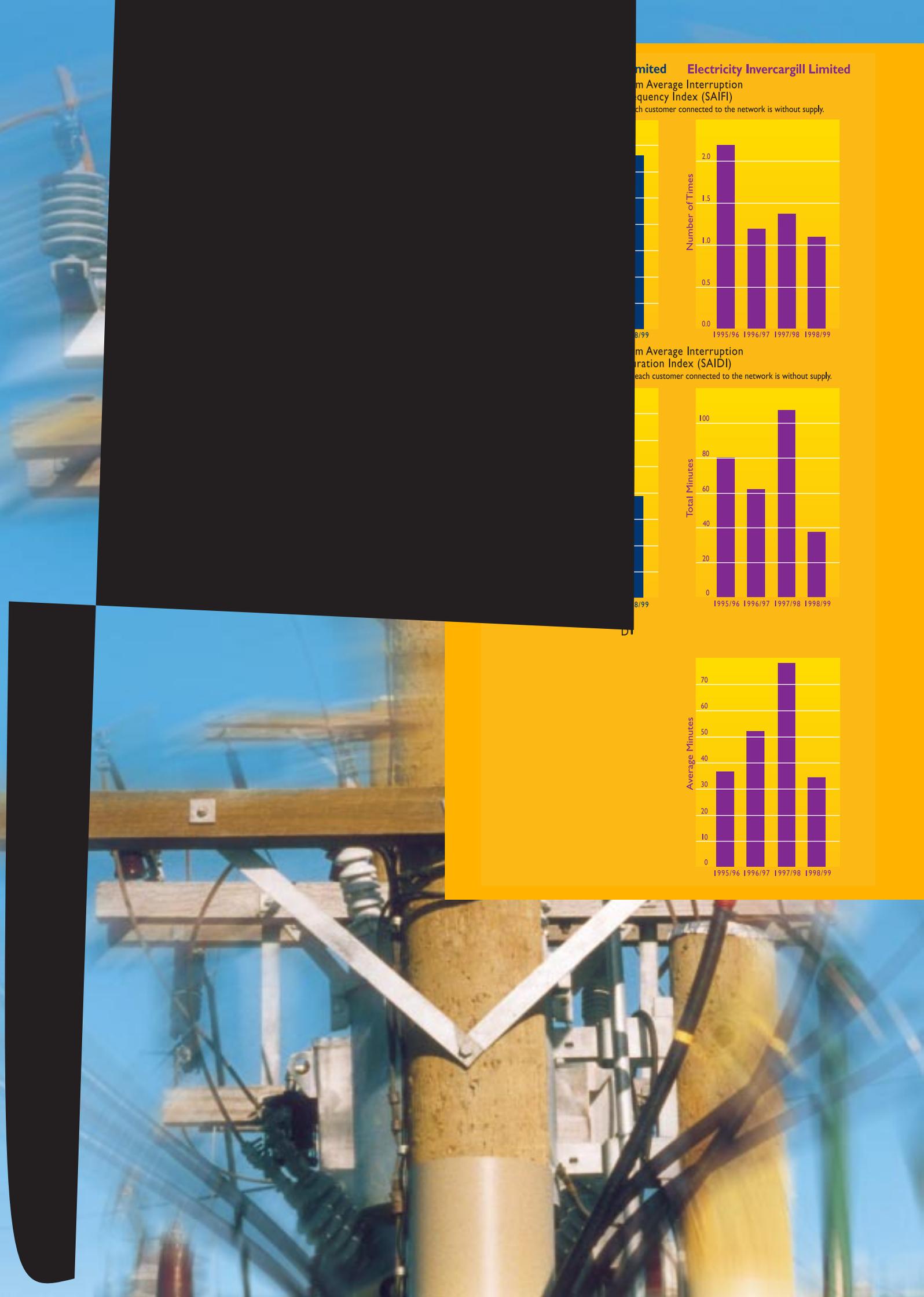
The Chief Executive, Mohan Selvaraj, later stepped aside as the Company and the two shareholders restructured as a result of industry reforms.

Our appreciation is conveyed to all the staff, Directors and Mohan for their support and efforts during the year which has seen major changes to the industry and further achievements and the development of PowerNet.




Ross Wensley
Chairman

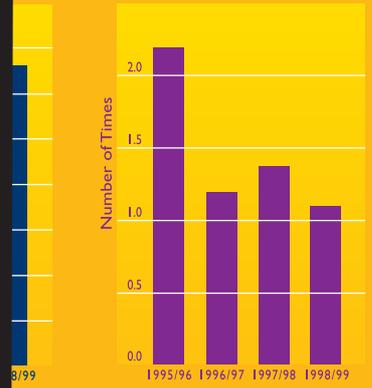

Martin Walton
General Manager - Networks



Electricity Invercargill Limited

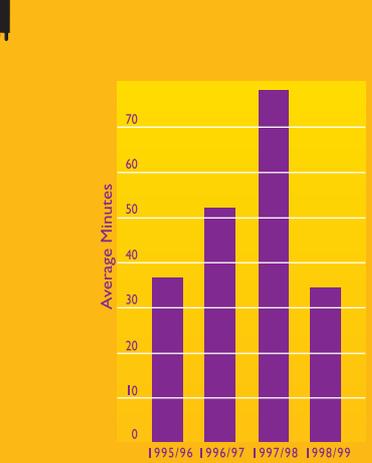
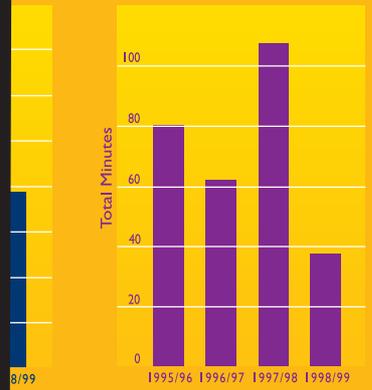
System Average Interruption
Frequency Index (SAIFI)

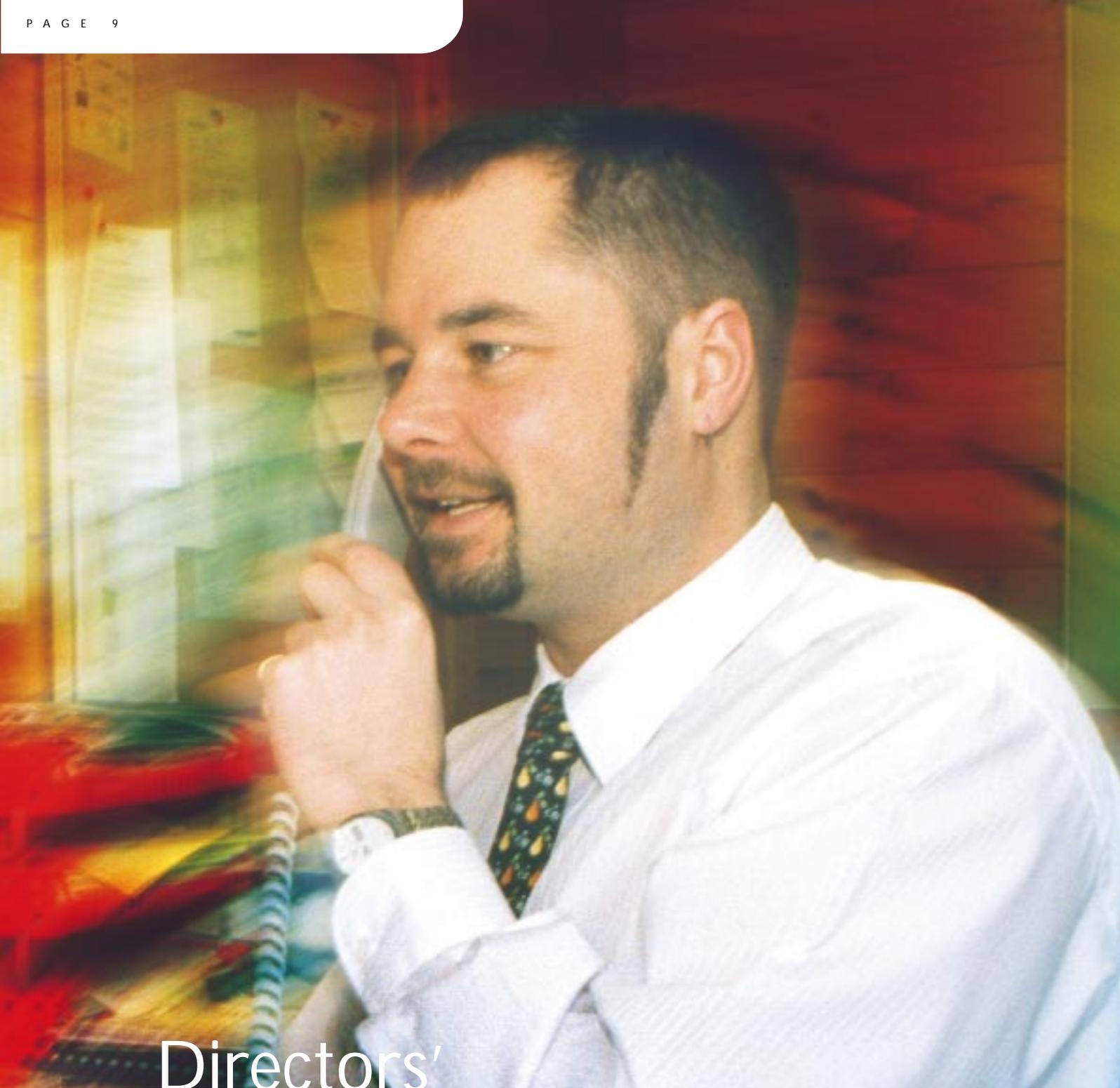
Number of times each customer connected to the network is without supply.



System Average Interruption
Duration Index (SAIDI)

Total minutes each customer connected to the network is without supply.





Directors' Report

The Directors have pleasure in presenting their Annual Report together with the Accounts of PowerNet Limited for the year ended 30 June 1999.

Principal Activities

PowerNet Limited is a joint venture company which was established on 1 July 1994 to manage the electricity reticulation networks of The Power Company Limited and Electricity Invercargill Limited. The Power Company and Electricity Invercargill retain ownership of their respective networks and each own 50% of PowerNet Limited. PowerNet's core business is to efficiently and effectively manage the electricity networks under its control.

Result And Distribution

The Directors report that the Company's after tax loss for the year under review was \$9,209. The Directors have recommended no dividend be declared.

State Of Company's Affairs

With the continuing support of PowerNet's shareholders, the Directors consider the state of the Company's affairs to be satisfactory.

Directors

Each of the Shareholding Companies has appointed three Directors.

Appointed by The Power Company Limited are:

Warren Conway (Deputy Chairman)
Owen Buckingham
Cam McCulloch

Appointed by Electricity Invercargill Limited are:

Ross Wensley (Chairman)
Neil Boniface
Murray Farley (from 1/11/98)
Jim Fenton (to 31/10/98)

Directors' Interests

The following entries were made in the Interests Register of the Company with regard to the Directors:

General

All Directors are interested in transactions with the Company involving the supply of standard network services, on standard terms and conditions, to premises in which they may have one or more of the following interests:

- (a) Owner, either alone or jointly with others.
- (b) Parent, child or spouse of another person who may have a material interest in a property.
- (c) Director, officer or shareholder of a body corporate which may have a material interest in a property.
- (d) Trustee or beneficiary of a trust which may have a material interest in a property.

Because the interest which Directors may have in such transactions is no different in kind, quality, benefit or obligation from transactions which the Company has with other network services customers, it is not intended to list such premises or properties in the Interests Register.

Ross Wensley

| | |
|-------------------------------|-----------------|
| Electricity Invercargill Ltd | Deputy Chairman |
| Wensley Consulting Ltd | Director |
| Southland Chamber of Commerce | Chairman |
| W.E. Investments Ltd | Director |

Warren Conway

| | |
|-------------------------------|-----------------|
| Conway Investments Ltd | Chairman |
| Hardwood Forests Ltd | Director |
| Invercargill City Forests Ltd | Chairman |
| Jones Group Ltd | Director |
| Southern Health Ltd | Deputy Chairman |
| Southland Building Society | Director |
| The Power Company Ltd | Director |

Neil Boniface

| | |
|------------------------------|------------------|
| Electricity Invercargill Ltd | Director |
| Invercargill Licensing Trust | Deputy President |
| Invercargill City Council | Deputy Mayor |
| Southland Driving School | Director |

Owen Buckingham

| | |
|-----------------------|----------|
| Alliance Group Ltd | Director |
| The Power Company Ltd | Director |
| Invest South Ltd | Director |

Murray Farley

| | |
|------------------------------|----------|
| Electricity Invercargill Ltd | Chairman |
| Electricity Southland Ltd | Director |
| Invest South Ltd | Chairman |

Jim Fenton

| | |
|------------------------------|------------|
| Electricity Invercargill Ltd | Director |
| Invercargill City Council | Councillor |

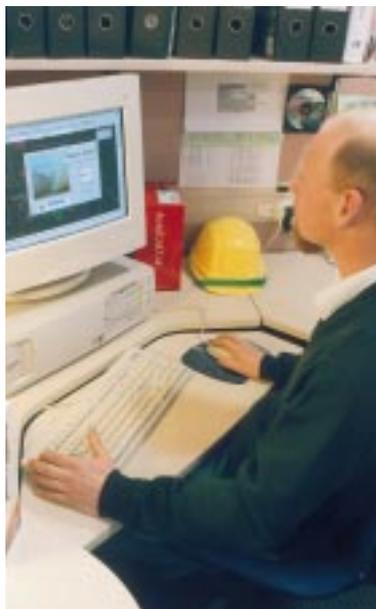
Cam McCulloch

| | |
|--------------------------------|-----------------|
| McCulloch and Partners | Partner |
| Southfish Ltd | Chairman |
| Invercargill City Holdings Ltd | Deputy Chairman |
| The Power Company Ltd | Director |
| Invest South Ltd | Director |

Remuneration Of Directors

The following Directors held office during the year under review and were paid fees accordingly:

| | |
|-----------------|---|
| Ross Wensley | - Chairman, Chairman Audit Committee, Chairman Remuneration Committee. |
| Warren Conway | - Deputy Chairman, Member Audit Committee, Member Remuneration Committee. |
| Neil Boniface | - Director. |
| Owen Buckingham | - Director. |
| Murray Farley | - Director (from 1/11/98). |
| Jim Fenton | - Director (to 31/10/98). |
| Cam McCulloch | - Director. |
| Geoff Piercy | - Alternate Director for Murray Farley. |



Remuneration paid or due and payable to Directors for services as a Director, and in any other capacity, during the year were:

| | | | |
|---------------|----------|-----------------|----------|
| Ross Wensley | \$15,000 | Warren Conway | \$11,000 |
| Neil Boniface | \$8,000 | Owen Buckingham | \$8,000 |
| Murray Farley | \$4,889 | Jim Fenton | \$2,667 |
| Cam McCulloch | \$8,000 | Geoff Piercy | \$444 |

Employee Remuneration

Two continuing employees:

| | |
|-----------------------|---|
| \$110,000 - \$120,000 | 1 |
| \$120,000 - \$130,000 | 1 |

Bursaries, Scholarships And Awards

During the year the Company promoted learning through various bursaries, scholarships and awards which totalled \$22,067.

Use Of Company Information

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

Directors' And Employees' Indemnity And Insurance

Liability Insurance was effected for Directors and certain Executives of the Company.

Accounting Policies

There have been no changes in accounting policies during the year. These have been applied on a basis consistent with those used in previous periods.

Auditor

It is proposed that the Auditor, Audit New Zealand on behalf of the Controller and Auditor General, continue in office in accordance with Section 594ZC of the Local Government Act 1974. Refer to Note 3 of the Financial Statements for Auditor remuneration.

For and on behalf of the Directors.


 Ross Wensley
 Chairman


 Warren Conway
 Deputy Chairman

Directors' Profiles



ROSS WENSLEY

WARREN CONWAY

NEIL BONIFACE



OWEN BUCKINGHAM

CAM MCCULLOCH

MURRAY FARLEY

**Ross Wensley
(Chairman)**

Ross is the Deputy Chairman of Electricity Invercargill Limited and a Director of Wensley Developments Limited and W.E. Investments Limited. Ross has had experience in the farming industry and the ownership and operation of retail outlets. He is a past Chairman of Blue Sky Meats (NZ) Limited.

**Warren Conway
(Deputy Chairman)**

Warren is a Director of The Power Company Limited, Southern Health Limited, Jones Group Limited and the Southland Building Society.

Neil Boniface

Neil is a Director of Electricity Invercargill Limited, Deputy Mayor of the Invercargill City Council, Deputy President of the Invercargill Licensing Trust and operates a Driving School business in Southland.

Owen Buckingham

Owen, in partnership with his wife, presently farms 260 hectares in the Te Anau basin. Their predominant activities include sheep and deer farming. The partnership also operates a tourist retail business in Te Anau. Owen is a Director of Alliance Group Limited, The Power Company Limited and Invest South Limited.

Cam McCulloch

FCA Member of Institute of Directors

Cam is a senior partner in McCulloch and Partners, Chartered Accountants. He is the Chairman of Southfish Limited and a Director of The Power Company Limited and Invest South Limited. Cam is also Deputy Chairman of Invercargill City Holdings Limited.

Murray Farley

FACA (Retired)

Murray is retired from practice as a Chartered Accountant and since then has taken up a number of Directorships - mostly in the energy sector. He is currently Chairman of Electricity Invercargill Limited and was also Chairman of SouthRoads Limited until its sale to the Richardson Group. He is also the Deputy Chairman of the Calvary Hospital Trust Board.

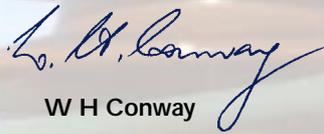
Approval By Directors

The Directors have approved the Financial Statements of PowerNet Limited for the year ended 30 June 1999 on pages 13 to 27.



R M Wensley

Chairman of Directors



W H Conway

Deputy Chairman of Directors

For and on behalf of the Board of Directors, 24 August 1999.

S t a t e m e n t O f S e r v i c e P e r f o r m a n c e

for the year ended 30 JUNE 1999

The objectives of PowerNet Limited for this financial year are clearly specified in the Statement of Corporate Intent, which was approved by the Shareholders. The performance targets and measures identified in the Statement of Corporate Intent, along with the performance achieved during the financial year, are detailed below.

Performance Targets

- **Network Management Activities**

The aim of PowerNet Limited's Network Management activities is to break even. This is achieved by ensuring that the combined Wheeling Fee revenue is offset by the aggregate of the Use Charges, Transpower charges, maintenance costs and other related overheads (including Interest on Shareholder Loans).

- **Achievement**

The result for the year ended 30 June 1999 was an Operating Surplus Before Taxation of \$23,000.

Annual Reliability Performance Measures

- **System Average Interruption Frequency Index (SAIFI)**

The average number of times each customer connected to the network is without supply.

| | Target | Achievement | |
|--|--------------|--------------|--------------|
| | 30 June 1999 | 30 June 1999 | 30 June 1998 |
| The Power Company Limited (times) | 6.60 | 6.61 | 7.37 |
| Electricity Invercargill Limited (times) | 1.15 | 1.09 | 1.37 |

Results show a significant improvement compared to 1998 and have met the year's targets.

- **System Average Interruption Duration Index (SAIDI)**

The average total time in minutes each customer connected to the network is without supply.

| | Target | Achievement | |
|---|--------------|--------------|--------------|
| | 30 June 1999 | 30 June 1999 | 30 June 1998 |
| The Power Company Limited (mins) | 600 | 387.15 | 741.74 |
| Electricity Invercargill Limited (mins) | 75 | 37.39 | 107.06 |

Results for both networks are well inside the targets. The improvements can be attributed to the increased use of live line techniques and less extreme weather conditions affecting both networks. In the case of The Power Company Limited network, the completion of the SCADA installations, more sophisticated protection schemes and subtransmission reinforcement have also contributed to this achievement.

The results do not include two major losses of supply by Transpower which affected both networks.

- **Other Activities**

The aim is to produce an acceptable commercial return based on the funds invested and the risks incurred for that activity. PowerNet Limited continues to focus on its core business of network management, with other minor activities comprising of streetlighting, metering and customer driven work. These activities make up 9% of PowerNet Limited's Network/External Revenue disclosed in Note 2. The commercial returns on these activities throughout the year were acceptable to the Board, considering the nature of the work performed.

S t a t e m e n t O f F i n a n c i a l P e r f o r m a n c e

for the year ended 30 JUNE 1999

| | (Note) | 1999 (\$000) | 1998 (\$000) |
|--|--------|-----------------|-----------------|
| Operating Revenue | (2) | 43,760 | 42,189 |
| Operating Expenses | (3) | (43,737) | (41,663) |
| Contracting Out/Restructuring Expenses | | - | (317) |
| Operating Surplus/(Deficit) before Taxation | | 23 | 209 |
| Taxation Expense | (4) | (32) | (60) |
| Net Surplus/(Deficit) after Taxation | | (9) | 149 |
| Retained Earnings at 1 July 1998 | | 495 | 346 |
| Retained Earnings at 30 June 1999 | | \$486 | \$495 |

S t a t e m e n t O f M o v e m e n t s I n E q u i t y

for the year ended 30 JUNE 1999

| | 1999 (\$000) | 1998 (\$000) |
|--|-----------------|-----------------|
| Total Equity at 1 July 1998 | 515 | 366 |
| Net Surplus/(Deficit) for the year | (9) | 149 |
| Total Recognised Revenues and Expenses for the Period | (9) | 149 |
| Advances from Shareholders | - | - |
| Distributions to Shareholders | - | - |
| Total Equity at 30 June 1999 | \$506 | \$515 |

The accompanying notes on pages 17-27 form part of and should be read in conjunction with these Financial Statements.

S t a t e m e n t O f F i n a n c i a l P o s i t i o n

as at 30 JUNE 1999

| | (Note) | 1999 (\$000) | 1998 (\$000) |
|--------------------------------------|--------|-----------------|-----------------|
| Equity | | | |
| Share Capital - 20,000 Shares | | 20 | 20 |
| Retained Earnings | | 486 | 495 |
| Total Equity | | \$506 | \$515 |
| Represented By: | | | |
| Current Assets | | | |
| Cash and Short Term Bank Deposits | (5) | 1,616 | 602 |
| Receivables and Prepayments | (6) | 7,886 | 5,110 |
| Inventories | (7) | 498 | 414 |
| Work in Progress | | 52 | 205 |
| Provision for Taxation | | 309 | 93 |
| Total Current Assets | | \$10,361 | \$6,424 |
| Non-Current Assets | | | |
| Fixed Assets | (10) | 1,637 | 1,710 |
| Capital Work in Progress | (10) | 26 | - |
| Total Non-Current Assets | | \$1,663 | \$1,710 |
| Total Assets | | \$12,024 | \$8,134 |
| Current Liabilities | | | |
| Creditors, Accruals and Provisions | (8) | 7,068 | 3,919 |
| Total Current Liabilities | | \$7,068 | \$3,919 |
| Non-Current Liabilities | | | |
| Shareholder Advances | (9) | 4,450 | 3,700 |
| Total Non-Current Liabilities | | \$4,450 | \$3,700 |
| Total Liabilities | | \$11,518 | \$7,619 |
| Net Assets/(Liabilities) | | \$506 | \$515 |

The accompanying notes on pages 17-27 form part of and should be read in conjunction with these Financial Statements.

S t a t e m e n t O f C a s h f l o w s

for the year ended 30 JUNE 1999

| | (Note) | 1999 (\$000) | 1998 (\$000) |
|---|-------------|-----------------|-----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash Was Provided From: | | | |
| Receipts from Customers | | 40,877 | 41,256 |
| Interest Received | | 223 | 143 |
| Income Tax Received | | 2 | - |
| | | 41,102 | 41,399 |
| Cash Was Applied To: | | | |
| Payments to Suppliers and Employees | | 39,871 | 40,064 |
| Fringe Benefit Tax Paid | | 27 | 26 |
| Income Tax Paid | | 250 | 150 |
| Interest Paid | | 328 | 361 |
| | | 40,476 | 40,601 |
| Net Cash Flows From Operating Activities | (14) | 626 | 798 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Cash Was Provided From: | | | |
| Proceeds from Fixed Asset Sales | | 31 | 35 |
| | | 31 | 35 |
| Cash Was Applied To: | | | |
| Purchase of Fixed Assets | | 393 | 626 |
| | | 393 | 626 |
| Net Cash Flows Used In Investing Activities | | (362) | (591) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Cash Was Provided From: | | | |
| Shareholder Advances | | 1,250 | - |
| | | 1,250 | - |
| Cash Was Applied To: | | | |
| Shareholder Advances | | 500 | 600 |
| | | 500 | 600 |
| Net Cash Flows From (Used in) Financing Activities | | 750 | (600) |
| Net Increase/(Decrease) in Cash Held | | 1,014 | (393) |
| Add Opening Cash Brought Forward | | 602 | 995 |
| Closing Cash To Be Carried Forward | | \$1,616 | \$602 |

The accompanying notes on pages 17-27 form part of and should be read in conjunction with these Financial Statements.

Notes To And Forming Part Of The Financial Statements

for the year ended 30 JUNE 1999

1. Statement of Accounting Policies

Reporting Entity

PowerNet Limited is a Local Authority Trading Enterprise as defined in Section 594B of the *Local Government Act 1974*. The company is a joint venture company and is registered under the *Companies Act 1993*. The joint venture shareholders of PowerNet Limited are The Power Company Limited (50% shareholding) and Electricity Invercargill Limited (50% shareholding).

PowerNet Limited manages the Networks of The Power Company Limited and Electricity Invercargill Limited, those companies retaining ownership of their respective Network assets.

The financial statements of PowerNet Limited have been prepared in accordance with the requirements of the *Companies Act 1993*, the *Financial Reporting Act 1993* and the *Local Government Act 1974*.

Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis are followed by the Company.

Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of financial performance and the financial position have been applied:

(a) Fixed Assets -

All fixed assets are recorded at cost less accumulated depreciation. The cost of purchased fixed assets 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.

(b) Depreciation -

Depreciation is provided on a combination of straight line/diminishing value bases on all tangible fixed assets, with the exception of Land, at rates calculated to allocate the costs of the assets, less any estimated residual value, over their estimated useful lives.

The primary annual rates used are:

| | | |
|------------------------------------|-------------|---------------------------------|
| Buildings | 4.0%-10.0% | straight line/diminishing value |
| Plant and Equipment | 7.0%-39.6% | straight line/diminishing value |
| Motor Vehicles | 20.0%-31.2% | straight line/diminishing value |
| Office Furniture and EDP Equipment | 9.0%-60.0% | straight line/diminishing value |
| Shared Assets | 9.0%-26.4% | diminishing value |

Capital Work in Progress is not depreciated. Costs for a specific project are transferred to Fixed Assets once the project is commissioned, and then depreciated.

(c) Receivables -

Receivables are stated at their estimated realisable value. All known losses are written off in the period in which it becomes apparent that the debts are not collectable.

(d) Inventories -

Inventories are stated at the lower of cost at weighted average cost price, and net realisable value.

Obsolete items of inventory (if any) have been written off.

(e) Goods and Services Tax -

All amounts in the financial statements have been shown exclusive of Goods and Services Tax, with the exception of debtors and creditors which are shown inclusive of Goods and Services Tax.

Notes to the Financial Statements (continued)

(f) Income Tax -

The income tax expense charged to the Statement of Financial Performance includes both the current year's provision and the income tax effects of timing differences calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation.

(g) Financial Instruments -

The Company is party to financial instrument arrangements as part of its everyday operations. Revenues and expenses including gains and losses in relation to all financial instruments are recognised in the Statement of Financial Performance on an accrual basis. The Company has no off-balance sheet exposures with the exception of the guarantees referred to in Note 13 and values all financial instruments at fair value in the Statement of Financial Position.

(h) Operating Leases -

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments under these leases are recognised as expenses in the periods in which they are incurred.

(i) Employee Entitlements -

Provision is made in respect of the Company's liability for annual and long service leave. Annual leave has been calculated on an actual entitlement basis at current rates of pay.

Changes in Accounting Policies

There have been no changes in accounting policies during the year. These have been applied on a basis consistent with those used in previous periods.

Notes to the Financial Statements (continued)

2. Operating Revenue*Operating Revenue Comprises:*

| | 1999 (\$000) | 1998 (\$000) |
|------------------------------------|-----------------|-----------------|
| Wheeling Fees | 32,137 | 31,850 |
| Network/External Revenue | 11,166 | 10,003 |
| Interest Revenue | 251 | 143 |
| Profit on Disposal of Fixed Assets | 5 | 9 |
| Other Revenue | 201 | 184 |
| Total Operating Revenue | \$43,760 | \$42,189 |

3. Operating Expenses*Operating Expenses Include:*

| | 1999 (\$000) | 1998 (\$000) |
|---|-----------------|-----------------|
| Transmission Charges | 10,031 | 10,254 |
| Use Charges | 14,764 | 13,204 |
| Interest Expense | 309 | 369 |
| Loss on Disposal of Fixed Assets | 11 | 11 |
| Operating Lease Expenses | | |
| • Tenancy Leases | 58 | 48 |
| • Motor Vehicle Lease | 57 | 47 |
| • Office Equipment | 4 | 5 |
| Auditor's Fees | 22 | 22 |
| Bad & Doubtful Debts | | |
| • Debts Written Off | 7 | 23 |
| • (Decrease)/Increase in Estimated Doubtful Debts | (1) | (39) |
| Depreciation | 403 | 446 |
| Directors' Fees | 58 | 58 |
| Bursaries, Scholarships and Awards | 22 | 1 |

Notes to the Financial Statements (continued)

4. Taxation

| | 1999 (\$'000) | 1998 (\$'000) |
|--|------------------|------------------|
| Net Surplus/(Deficit) Before Taxation | 23 | 209 |
| Prima Facie Taxation at 33% | 8 | 69 |
| Plus/(Less) Taxation Effect Of: | | |
| • Items Not Deductible for Taxation (Permanent Differences) | 3 | - |
| • Timing Differences between Taxable Income & Accounting Income not Recognised | 21 | 15 |
| • Losses not Previously Recognised | - | (24) |
| Taxation Expense | \$32 | \$60 |

There is a deferred taxation benefit of \$38,000 (1998 - \$17,000) which has not been recognised due to there not being virtual certainty of realisation.

Imputation Credit Account

| | 1999 (\$'000) | 1998 (\$'000) |
|--|------------------|------------------|
| Credit Balance as at 1 July 1998 | 152 | 2 |
| <i>Credits</i> | | |
| Income Tax Payments | 350 | 150 |
| Current Year Adjustment re Change in Shareholding Continuity | 102 | - |
| <i>Debits</i> | | |
| Income Tax Refunds | (102) | - |
| Prior Year Adjustment (Imputation Credits Not Retained Due to Change in Shareholding Continuity) | (152) | - |
| Credit Balance as at 30 June 1999 | \$350 | \$152 |

5. Cash and Short Term Bank Deposits

| | 1999 (\$'000) | 1998 (\$'000) |
|--|------------------|------------------|
| Current Account | 30 | 12 |
| Short Term Bank Deposits | 1,586 | 590 |
| Total Cash and Short Term Bank Deposits | \$1,616 | \$602 |

6. Receivables and Prepayments

| | 1999 (\$'000) | 1998 (\$'000) |
|---|------------------|------------------|
| Trade Debtors | 4,253 | 355 |
| GST Receivable | 13 | - |
| Sundry Debtors - The Power Company Ltd | 2,520 | 3,200 |
| Sundry Debtors - Electricity Invercargill Ltd | 560 | 619 |
| Work in Progress - The Power Company Ltd | 418 | 769 |
| Work in Progress - Electricity Invercargill Ltd | 76 | 92 |
| Provision For Doubtful Debts | - | (1) |
| | 7,840 | 5,034 |
| Prepayments | 46 | 76 |
| Total Receivables and Prepayments | \$7,886 | \$5,110 |

Notes to the Financial Statements (continued)

7. Inventories

| | 1999 (\$000) | 1998 (\$000) |
|--------------------------|-----------------|-----------------|
| Network Spares | 498 | 414 |
| Total Inventories | \$498 | \$414 |

No inventories are pledged as security for liabilities nor are inventories subject to retention of title clauses.

8. Creditors, Accruals and Provisions

| | 1999 (\$000) | 1998 (\$000) |
|---|-----------------|-----------------|
| Trade Creditors | 3,788 | 3,103 |
| GST Payable | - | 223 |
| Sundry Creditors - The Power Company Ltd | 1,875 | 328 |
| Sundry Creditors - Electricity Invercargill Ltd | 1,159 | 34 |
| Provision for Accrued Leave | 246 | 231 |
| Total Creditors, Accruals and Provisions | \$7,068 | \$3,919 |

9. Shareholder Advances

| | 1999 (\$000) | 1998 (\$000) |
|-----------------------------------|-----------------|-----------------|
| The Power Company Ltd | 2,955 | 2,690 |
| Electricity Invercargill Ltd | 1,495 | 1,010 |
| Total Shareholder Advances | \$4,450 | \$3,700 |

Interest on the Shareholder Advances is paid quarterly. The interest rate in respect of the advances is 0.75% above the 90 day Bank Bill Rate at the end of the quarter.

The advance facility has no specified repayment terms.

A partial repayment of \$500,000 was made during the period. This was allocated \$335,000 to The Power Company Limited and \$165,000 to Electricity Invercargill Limited.

Additional advances of \$1,250,000 were made by the shareholders during the period. PowerNet Limited received \$600,000 from The Power Company Limited and \$650,000 from Electricity Invercargill Limited.

Notes to the Financial Statements (continued)

10. Fixed Assets

| | 1999 (\$'000) | 1998 (\$'000) |
|---|------------------|------------------|
| Land | \$97 | \$97 |
| Buildings (at cost) | 830 | 831 |
| <i>Accumulated depreciation</i> | (173) | (131) |
| | \$657 | \$700 |
| Plant and Equipment (at cost) | 421 | 403 |
| <i>Accumulated depreciation</i> | (311) | (286) |
| | \$110 | \$117 |
| Motor Vehicles (at cost) | 165 | 227 |
| <i>Accumulated depreciation</i> | (87) | (96) |
| | \$78 | \$131 |
| Office Furniture and EDP Equipment (at cost) | 1,848 | 1,807 |
| <i>Accumulated depreciation</i> | (1,317) | (1,149) |
| | \$531 | \$658 |
| Shared Assets (at cost) | 195 | 17 |
| <i>Accumulated depreciation</i> | (31) | (10) |
| | \$164 | \$7 |
| Total Net Book Value of Fixed Assets | \$1,637 | \$1,710 |

Valuation of Buildings

The Directors consider the carrying value for Land and Buildings to be representative of the fair value as at 30 June 1999.

Capital Work in Progress

PowerNet Limited's Capital Work in Progress was previously disclosed within Work in Progress as a current asset. This year however, Capital Work in Progress has been disclosed separately under non-current assets. This provides a more accurate reflection of the substance of the asset.

Notes to the Financial Statements (continued)

11. Transactions with Related Parties

The Power Company Limited and Electricity Invercargill Limited each have a 50% shareholding in PowerNet Limited and in Electricity Southland Limited.

The Power Company Limited and Electricity Invercargill Limited sold their shareholding in Contact Energy Limited (then United Electricity Limited) during the year and as a result, the Related Party Relationship has ceased.

All transactions between PowerNet Limited, The Power Company Limited (inclusive of wholly owned subsidiary companies), Electricity Invercargill Limited and Electricity Southland Limited, relate to the normal trading activities of PowerNet Limited and have been conducted on a commercial basis.

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

Material transactions with related parties were as follows:

- The value of goods and services supplied to the Company by The Power Company Limited amounted to \$10,471,000 (excluding GST), of which \$1,875,000 (including GST) is owed at balance date and is included in accounts payable.
- The value of goods and services supplied by the Company to The Power Company Limited amounted to \$8,706,000 (excluding GST), of which \$2,520,000 (including GST) is owed at balance date and is included in accounts receivable.
- The value of goods and services supplied to the Company by Electricity Invercargill Limited amounted to \$5,168,000 (excluding GST) of which \$1,159,000 (including GST) is owed at balance date and is included in accounts payable.
- The value of goods and services supplied by the Company to Electricity Invercargill Limited amounted to \$1,518,000 (excluding GST) of which \$560,000 (including GST) is owed at balance date and is included in accounts receivable.
- The value of goods and services supplied to the Company by Electricity Southland Limited amounted to \$325,000 (excluding GST) of which \$3,000 (including GST) is owed at balance date and is included in accounts payable.
- The value of goods and services supplied by the Company to Electricity Southland Limited amounted to \$13,000 (excluding GST).
- During the year the Company placed a Short-Term Investment with the Southland Building Society, of which Warren Conway is a Director. The interest earned on this investment amounted to \$8,000. There were no other short-term investments with the Southland Building Society during the year.

12. Commitments

Capital Commitments

GIS Mapping Project

Contractual commitments relating to the GIS Mapping Project as at 30 June 1999 amount to \$39,000 (1998 - \$20,000). This has been allocated to Electricity Invercargill Limited. There will be further costs for both The Power Company Limited and Electricity Invercargill Limited for which we are not presently contractually committed to.

Operating Lease Commitments

| | 1999 (\$000) | 1998 (\$000) |
|--|-----------------|-----------------|
|--|-----------------|-----------------|

Operating Lease Commitments are payable as follows:

- | | | |
|--|-----|----|
| • Not later than one year | 108 | 74 |
| • Later than one year and not later than two years | 98 | 48 |
| • Later than two years and not later than five years | 94 | 93 |

Total Operating Lease Commitments

| | | |
|--|--------------|--------------|
| | \$300 | \$215 |
|--|--------------|--------------|

Notes to the Financial Statements (continued)

13. Contingent Liabilities

There is a contingent liability of \$250,000 (1998 - \$50,000) in respect of potential liabilities arising from the Use of System Agreements.

There were a number of contingent liabilities in respect of guarantees given to contractors by PowerNet Limited. The amounts given ranged from \$20,000 to \$164,000 totalling \$1,338,000. The majority of these guarantees have been released with the remaining few in the process of being released. There is, however, a period of two years following the date of release for which the banks can enforce the above guarantees against PowerNet Limited in respect of any successful claim under Section 56 of the Insolvency Act 1967.

14. Net Cash Flow from Operating Activities

The following is a reconciliation between the net Surplus/(Deficit) after Taxation shown in the Statement of Financial Performance and the net cash flows from operating activities.

| | 1999 (\$000) | 1998 (\$000) |
|---|-----------------|-----------------|
| Net Surplus/(Deficit) After Taxation | (9) | 149 |
| Add/(Less) Non Cash Items: | | |
| Depreciation | 403 | 446 |
| | 403 | 446 |
| Add/(Less) Items Classified as Investing/Financing Activities: | | |
| Loss on Sale of Fixed Assets | 11 | 11 |
| Profit on Sale of Fixed Assets | (5) | (9) |
| | 6 | 2 |
| Add/(Less) Movements in Working Capital: | | |
| Increase in Creditors, Accruals and Provisions | 3,149 | 978 |
| Increase in Receivables and Prepayments | (2,776) | (937) |
| (Increase)/Decrease in Inventory | (84) | 153 |
| Decrease in Contractor Set Up Advance | - | 210 |
| Decrease/(Increase) in Work in Progress | 153 | (112) |
| Increase in Provision for Taxation | (216) | (91) |
| | 226 | 201 |
| Net Cash Flow From Operating Activities | \$626 | \$798 |

Notes to the Financial Statements (continued)

15. Financial Instruments**Off Balance Sheet Financial Instruments**

The Company does not have any off balance sheet financial instruments, with the exception of the guarantees referred to in Note 13.

Credit Risk -

Financial instruments which potentially subject the Company to credit risk principally consist of cash and short term deposits and accounts receivable. Bank deposits are placed with high credit quality financial institutions. The Company performs credit evaluations on all customers requiring credit, and generally does not require collateral.

Maximum exposures to credit risk at balance date are:

| | 1999 (\$000) | 1998 (\$000) |
|--------------------------|-----------------|-----------------|
| Current Account | 30 | 12 |
| Short Term Bank Deposits | 1,586 | 590 |
| Receivables | 7,840 | 5,034 |
| | \$9,456 | \$5,636 |

The above maximum exposures are net of any recognised provision for losses on these financial instruments. No collateral is held on the above amounts.

Concentrations of Credit Risk -

The Company has a concentration of credit risk with regards to the amounts owing by shareholders at balance date as disclosed in Note 11 Related Parties and by one significant energy retailer. However, these entities are considered to be high credit quality entities.

Foreign Exchange Risk -

The Company is not exposed to any foreign exchange risk.

Interest Rate Risk -

The Company is exposed to normal fluctuations in market interest rates.

Fair Values -

The estimated fair value of the Company's financial instruments are represented by the carrying values.

16. Apportionment of Income and Expenditure

Income earned and expenditure incurred by PowerNet Limited has been allocated to the joint venture shareholders to allow them to correctly account for their share of the joint venture on a consolidation basis, as required by SSAP 25. The bases used for allocation are as follows:

Income -

- (a) Income from Wheeling Fees received from energy traders is separately identifiable by network and accordingly, has been allocated directly to the respective network owners on an actual income earned basis.

On this basis, \$21,769,000 has been allocated to The Power Company Limited and \$10,368,000 allocated to Electricity Invercargill Limited.

- (b) Income received from capital work performed by PowerNet Limited on the joint venturers' respective networks is separately identifiable. The revenue covering the direct costs is allocated directly to the respective network owners on an actual income earned basis. The administration cost is allocated on the basis of the units of electricity wheeled through the respective networks.

On this basis, \$8,481,000 has been allocated to The Power Company Limited and \$1,677,000 allocated to Electricity Invercargill Limited.

- (c) Capital contributions are billed on behalf of the network owner, and revenue is forwarded on receipt of payment from the consumer.

- (d) Income from external contracting work performed by PowerNet Limited is, where directly attributable, allocated to each network. The balance is allocated on the basis of the units of electricity wheeled through the respective networks.

On this basis, \$677,000 has been allocated to The Power Company Limited and \$331,000 allocated to Electricity Invercargill Limited.

- (e) Interest received on deferred Wheeling Fees is separately identifiable by network and accordingly, has been allocated directly to the respective network owners on an actual income earned basis. All other interest received has been allocated on the basis of the units of electricity wheeled through the respective networks.

On this basis, \$146,000 has been allocated to The Power Company Limited and \$105,000 allocated to Electricity Invercargill Limited.

- (f) Profit generated from the sale of fixed assets and all other sundry revenue has been allocated on the basis of the units of electricity wheeled through the respective networks.

On this basis, \$138,000 has been allocated to The Power Company Limited and \$67,000 allocated to Electricity Invercargill Limited.

Expenditure -

- (a) Transmission Charges are separately identifiable by network and have been allocated to the respective networks on the basis of actual costs incurred.

On this basis, \$6,875,000 has been allocated to The Power Company Limited and \$3,156,000 allocated to Electricity Invercargill Limited.

- (b) Use Charges are separately identifiable by network and have been allocated to the respective networks on the basis of actual costs incurred.

On this basis, \$9,756,000 has been allocated to The Power Company Limited and \$5,007,000 allocated to Electricity Invercargill Limited.

- (c) Direct costs incurred in performing work on the networks have been allocated to the respective networks on the basis of actual costs incurred. Direct costs associated with work outside the networks have been allocated on the basis of the units of electricity wheeled through the respective networks.

On this basis, \$11,523,000 has been allocated to The Power Company Limited and \$2,952,000 allocated to Electricity Invercargill Limited.

Notes to the Financial Statements (continued)

(d) Overhead costs have been allocated on the following basis:

(i) Network Division -

Development, planning, construction and maintenance related expenditure is allocated in the same ratio as the total value of work, for both capital and maintenance performed on each network.

Expenditure relating to individual substations is allocated on the basis of actual costs incurred for each network.

A portion of Legal Fee expenditure is separately identifiable by network and has been allocated on the basis of actual costs incurred for each network.

All other Network Division overhead costs have been allocated on the basis of the units of electricity wheeled through the respective networks.

On this basis, total Network Division overhead costs have been allocated \$553,000 to The Power Company Limited and \$205,000 to Electricity Invercargill Limited.

(ii) Operations Division -

All Operations Division overhead costs, with the exception of advertising, have been allocated in the same ratio as the total value of work, for both capital and maintenance performed on each network.

The majority of advertising expenditure is allocated on the basis of actual costs incurred for each network, with the balance allocated on the basis of units of electricity wheeled through the respective networks.

On this basis, total Operations Division overhead costs have been allocated \$1,242,000 to The Power Company Limited and \$299,000 to Electricity Invercargill Limited.

(iii) Corporate Services Division -

Bad Debts are separately identifiable by network and have been allocated to the respective networks on the basis of actual costs incurred.

All other Corporate Services Division overhead costs have been allocated on the basis of the units of electricity wheeled through the respective networks.

On this basis, total Corporate Services Division overhead costs have been allocated \$665,000 to The Power Company Limited and \$322,000 to Electricity Invercargill Limited.

(iv) Executive Services Division -

Directors' Fees and Expenses, Audit Fees, Legal Fees and the majority of Management Fees have been allocated equally between the two joint venturers. The balance of Management Fees has been allocated on the basis of actual costs incurred for each network.

All other Executive Services Division overhead costs have been allocated on the basis of the units of electricity wheeled through the respective networks.

On this basis, total Executive Services Division overhead costs have been allocated \$511,000 to The Power Company Limited and \$361,000 to Electricity Invercargill Limited.

(e) Interest on Shareholder's loans and deferred Use Charges is separately identifiable by network and has been allocated to the respective networks on the basis of actual costs incurred.

On this basis, \$199,000 has been allocated to The Power Company Limited and \$110,000 allocated to Electricity Invercargill Limited.

Net Result -

As a result of the allocations outlined above, total Operating Surplus/(Deficit) before Taxation has been allocated (\$113,000) to The Power Company Limited and \$136,000 to Electricity Invercargill Limited.

Taxation has been allocated to the Shareholders in direct proportion to the relevant year's allocated Operating Surplus/(Deficit) before Taxation. On this basis, (\$279,000) has been allocated to The Power Company Limited and \$311,000 allocated to Electricity Invercargill Limited.

Total Net Surplus/(Deficit) after Taxation has been allocated \$166,000 to The Power Company Limited and (\$175,000) to Electricity Invercargill Limited.



**TO THE READERS OF THE FINANCIAL STATEMENTS OF POWERNET LIMITED
FOR THE YEAR ENDED 30 JUNE 1999**

We have audited the financial statements and performance information on pages 13 to 27. The financial statements provide information about the past financial performance of PowerNet Limited and its financial position as at 30 June 1999. The performance information specifies the performance targets and other measures by which the performance of PowerNet Limited can be judged in relation to its objectives. This information is stated in accordance with the accounting policies set out on pages 17 and 18.

Responsibilities of the Board of Directors

The Local Government Act 1974 and the Financial Reporting Act 1993 require the Board of Directors (the Board) to prepare financial statements which comply with generally accepted accounting practice and give a true and fair view of the financial position of PowerNet Limited as at 30 June 1999 and the results of its operations and cash flows for the year ended 30 June 1999. The Local Government Act 1974 also requires the Board to report the performance targets and other measures by which the performance of PowerNet Limited can be judged in relation to its objectives.

Auditor's Responsibilities

Section 594ZC of the Local Government Act 1974 requires the Audit Office to audit the financial statements and performance information presented by the Board. It is the responsibility of the Audit Office to express an independent opinion on the financial statements and the performance information and report its opinion to you.

The Controller and Auditor-General has appointed R Bruce Robertson, of Audit New Zealand, to undertake the audit.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements and performance information. It also includes assessing:

- the significant estimates and judgements made by the Board in the preparation of the financial statements and performance information; and
- whether the accounting policies are appropriate to PowerNet Limited's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards, including the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor acting on behalf of the Controller and Auditor-General, we have no relationship with or interests in PowerNet Limited.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by PowerNet Limited as far as appears from our examination of those records;
- the financial statements of PowerNet Limited on pages 13 to 27:
 - comply with generally accepted accounting practice; and
 - give a true and fair view of:
 - the financial position as at 30 June 1999; and
 - the results of its operations and cash flows for the year ended on that date; and
- the performance information of PowerNet Limited on page 13 gives a true and fair view of the achievements in relation to the performance targets and other measures adopted for the year ended 30 June 1999.

Our audit was completed on 24 August 1999 and our unqualified opinion is expressed as at that date.

R Bruce Robertson
Audit New Zealand
On behalf of the Controller and Auditor-General
Dunedin, New Zealand



