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PowerNet
Limited

[Annual Report]

[2002]



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[Directory]

Directors

Owen Buckingham (Chairman)
Ross Wensley (Deputy Chairman)
Neil Boniface
Alan Harper
Cam McCulloch
Philip Mulvey

Executives

Chief Executive

Martin Walton

Engineering Manager

Roger Paterson

Distribution Manager

Graeme Webby

Network Connections Manager

Alaister Marshall

Network Manager (OtagoNet Area)

Terry Jones

System Control Manager

Kana Shanmuganathan

Financial Controller

Greg Buzzard

Corporate Services Manager

Jim Dawson

Head Office

251 Racecourse Road
PO Box 1642
Invercargill Telephone: 03 211 1899
New Zealand Facsimile: 03 211 1875
E-mail: powernet@powernet.co.nz

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



[The Year in Review]



OVERVIEW

PowerNet completed another successful year managing the assets of Otago Power Limited (OPL) and its two shareholder network owners The Power Company Limited (TPCL) and Electricity Invercargill Limited (EIL).

The total Optimised Deprival Valuations (ODVs) of the three networks PowerNet manages is just under \$240 million which is equivalent to the fifth largest network in the country.

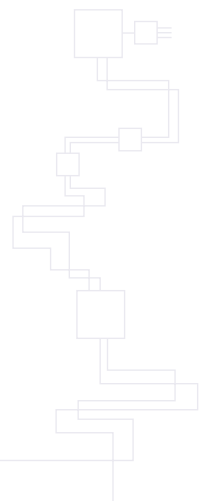
The total number of installations connected to the three networks is 63,400, the low customer density providing significant challenges to manage the assets cost effectively and thus maintain competitive line charges for the rural customers.

The operational performance of the three networks substantially met or exceeded all the targets and continued an improving trend.

During the year the Company took over the corporate responsibilities for EIL. It now carries out all management functions for all three network owners.

The Company has pursued its policy of looking for and investigating opportunities for its shareholders. These investigations have included renewable distributed generation and broadband networks.

In the latter part of the year PowerNet staff were involved in the successful acquisition of the assets of OPL by its two shareholders and Marlborough Lines Limited.



A customer survey was carried out during the year to gauge, amongst other things, the public awareness of the Company and its role in the community. Not surprisingly, the results indicated a low awareness of PowerNet's ownership and role in bringing electricity to the customers.

OPERATIONS

The Company's performance is judged by the performance of the three networks it manages. The performance of the networks is measured by their costs and customer service levels, including reliability and quality of supply indices.

These latter performance indicators are dependent on operational efficiency, effective maintenance and prudent capital investment. These are determined by PowerNet.

The System Average Interruption Duration Index (SAIDI) for EIL improved to 32 minutes for the year ending 30 June 2002, inside the target of 35 minutes. SAIDI represents the equivalent average time in minutes that every customer's supply of electricity was interrupted over a period of one year and the result for EIL will maintain its position as one of the most reliable networks in the country.

In the case of the TPCL and OPL networks, the SAIDI was within the target levels and maintained the overall improving trend.

The sustained improvement in TPCL's performance is attributable in the main to the investment by the network owner in upgrading assets and by PowerNet through improved control and automation, the increasing use of live line techniques and the effective targeting of the Maintenance Works Programmes.

The Company operates a 24-hour manned control room providing not only a high level of monitoring and control of network operations but also a faults call service for customers connected to the three networks.

The Company in its Business Plan had resolved that to be a leading line company in the future it needed to invest and embrace appropriate technology to meet the ever increasing customer, industry and regulatory expectations and demands.

In December PowerNet installed the TVD Avalanche system to enhance its customer service to both the retailers and individual customers. Through this system customers can be updated quickly and efficiently on the status of the three networks. During a storm the number of calls handled by the operators and staff decreased by an estimated 80% as customers received up to date information through the Avalanche system.

During the year the Company continued the implementation of the Works and Asset Management Scheduling and Procurement (WASP) software package. Although the full application has been slower than anticipated, the benefits are now being realised and it will improve the Company's asset management performance over the next few years.

At the end of the year the Company purchased the Intergraph G/Electric GIS software as a replacement for the two systems it had previously used.

In conjunction with the existing SCADA systems, the full implementation and application of the above software purchases will provide an integrated operational and management system for the Company.

MasterTrade continued to provide materials procurement and management services under its second three-year contract.

FINANCIAL

The compartmentalised financial results for the two shareholder network owners EIL and TPCL for the year were again better than anticipated.

The favourable results for both networks were due to higher line charge revenues resulting from increases in energy conveyed across the networks and more connected installations.

The high level of transmission rental rebates also contributed to an operating surplus before tax of \$1,919,000 for PowerNet.

This increased profitability has resulted in a dividend of \$1,280,000 being declared in addition to a Surcharge on the Use Charge based on the increased use of the network.



CAPITAL WORKS PROGRAMMES

PowerNet had another busy year completing the Capital Works Programmes with in excess of \$14 million being spent on the three networks it manages.

The major projects on the EIL network were the undergrounding in the Centre, Pomona, O'Hara and George Street areas, the completion of stage 1 of the Racecourse Road substation upgrade and the completion of the 33kV link to the TPCL subtransmission system.

The TPCL Capital Works Programme included a new zone substation at the New Zealand Milk Products factory at Edendale, the first stage of rebuilding one of the Invercargill to Bluff 33kV lines and the upgrading of the SCADA equipment at several zone substations.

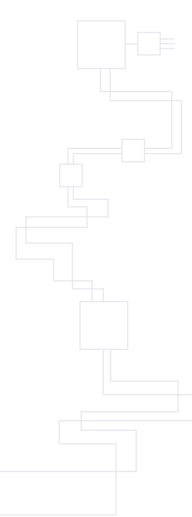
Capital projects on the OPL network included the installation of a new ripple injection plant at Balclutha, rebuilding the first stage of the Clinton to Waiwera 11kV line and reinforcing the network in several areas.

SPONSORSHIP

The PowerNet Tour of Southland saw the Company's first major foray into a major high profile sponsorship.

The sponsorship met all expectations and provided an opportunity for the Company to raise its profile and be recognised for its contribution to a national sporting event which involved most of the communities throughout Southland and parts of Central Otago.

During the year PowerNet again awarded ten \$2,000 scholarships to Southland first year full-time tertiary students and also contributed



\$5,000 towards the free fees scheme at the Southern Institute of Technology.

The Company is pleased to use these sponsorships as a way of demonstrating its commitment to the community in which it operates.

HUMAN RESOURCES

At the beginning of the year a management reorganisation took place resulting in a flatter management structure. There has been an improvement in the team culture with each manager having clearer accountabilities and involvement in the management of the Company.

Training and personal development were again priorities for PowerNet.

Several staff attended technical workshops and conferences, including the EEA Conference in Christchurch.

In addition, staff attended a Residential Executive Management course conducted by the New Zealand Institute of Management.

Staff were also involved at a national level in the industry.

We would like to convey our appreciation to all the Directors and staff for their support and efforts during another very successful year for PowerNet and the three networks it manages.



Martin Walton, Chief Executive

A handwritten signature in blue ink, appearing to read 'Owen Buckingham'.

Owen Buckingham - Chairman

A handwritten signature in blue ink, appearing to read 'Martin Walton'.

Martin Walton - Chief Executive





[Major Projects]

THE POWER COMPANY LIMITED

Project	Approximate Expenditure
Edendale Substation Upgrade	\$2,260,000
New Customer Connections	\$1,800,000
Invercargill-Bluff 33kV Line Rebuild (Stage 1)	\$655,000
Riverton Substation - Install spare 66/11kV Transformer	\$372,000
SCADA RTU Replacements - Waikiwi, Seaward Bush, Kennington and Awarua Substations	\$294,000
Ohai & Underwood Substations Oil Containment and seismic reinforcement	\$237,000
Monowai-Redcliff 66kV Line Rebuild (Stage 1)	\$135,000

ELECTRICITY INVERCARGILL LIMITED

Project	Approximate Expenditure
Centre, Nichol and Norwood Streets, Invercargill - Undergrounding	\$752,000
George and Clifton Streets, Invercargill - Undergrounding	\$483,000
Pomona Street Area, Invercargill - Undergrounding	\$409,000
New Customer Connections	\$216,000
Racecourse Road Substation Upgrade (Stage 1)	\$171,000
Leven Street Substation Backup Line	\$139,000

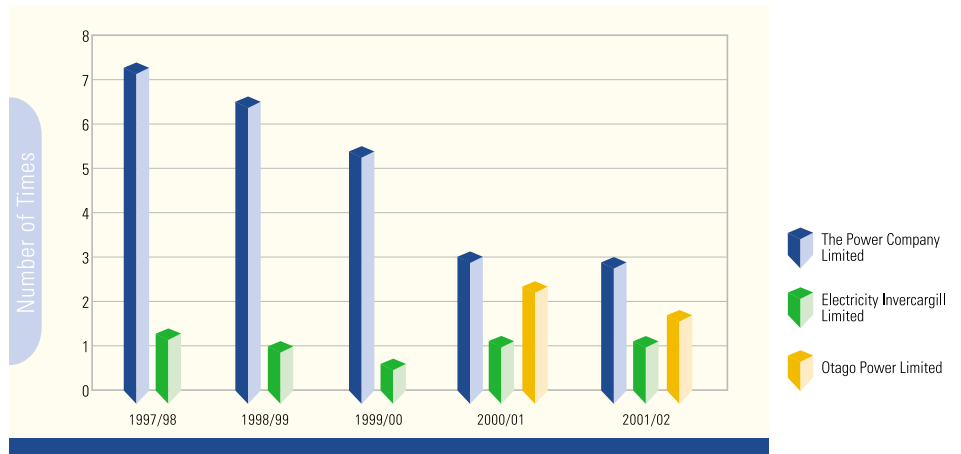
OTAGO POWER LIMITED

Project	Approximate Expenditure
New Customer Connections	\$1,180,000
North Balclutha Ripple Injection Transmitter	\$291,000
Clinton-Clydevale 11kV Tie Line	\$163,000
Oil Containment - Four Substations	\$125,000
Purakanui LV Lines Upgrade	\$118,000
Palmerston-Tumai 33kV Line Extension	\$107,000
Waipiata-Gimmerburn 11kV Line Upgrade	\$97,000
Clinton-Waiwera 11kV Line Upgrade (Stage 1)	\$94,000
Stirling-Kaitangata 11kV Tie Line	\$86,000

[Network Details]

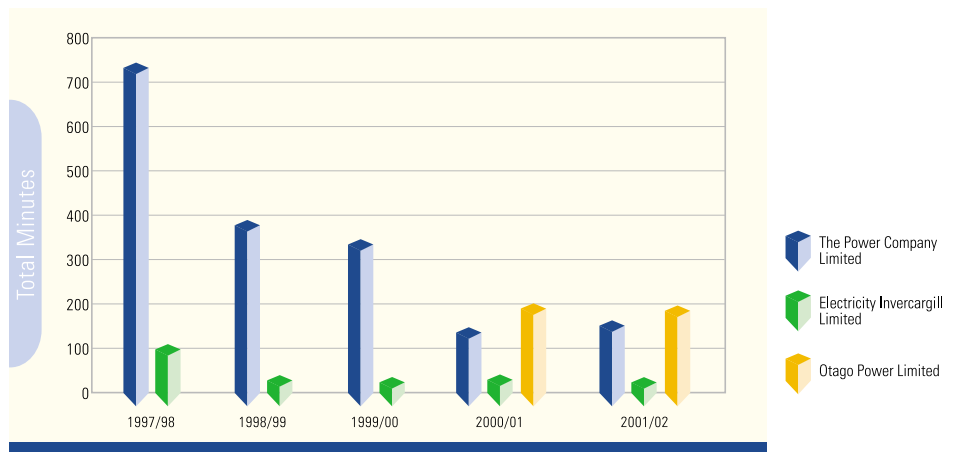
	TPCL	EIL	OPL	TOTAL
Length of overhead line	7,379km	112km	4,185km	11,676km
Length of underground cable	160km	579km	23km	762km
Number of distribution transformers	9,514	436	3,847	13,797
Distribution transformer capacity (does not include customer owned transformers)	305MVA	142MVA	134MVA	581MVA
Energised Installation Connection Points	31,912	17,009	14,523	63,444

[Reliability]



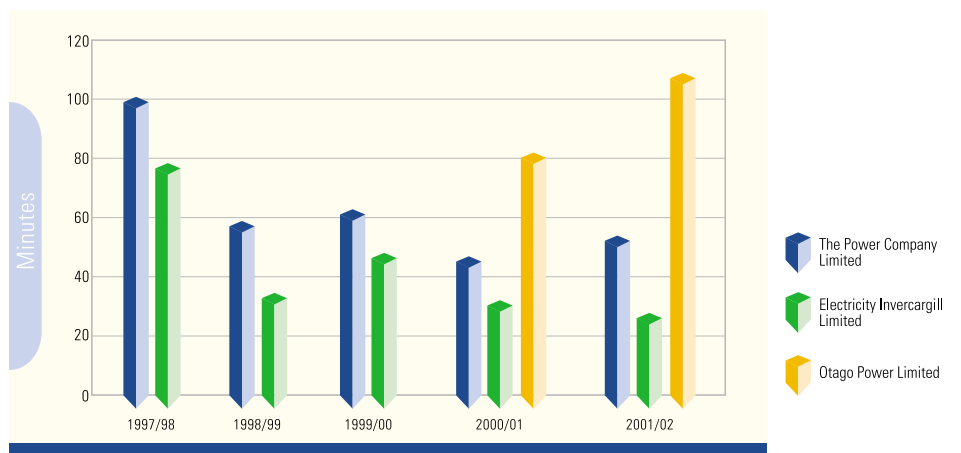
System Average Interruption Frequency Index (SAIFI)

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



System Average Interruption Duration Index (SAIDI)

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



Customer Average Interruption Duration Index (CAIDI)

The average duration in minutes of each interruption to supply.



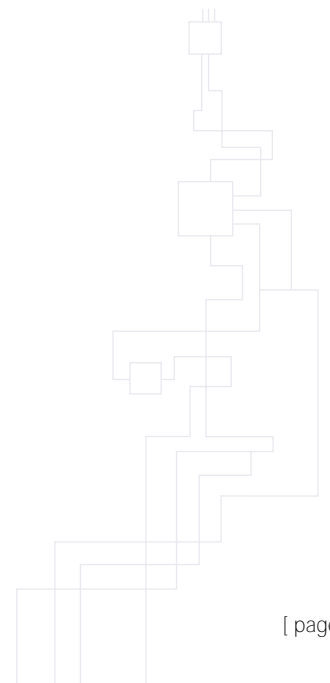
[Directors' Report]

The Directors have pleasure in presenting their Annual Report together with the Accounts of PowerNet Limited for the year ended 30 June 2002.

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, which includes Otago Power Limited. The contract in respect of the Otago Power Limited network will continue under the new owners OtagoNet Joint Venture.



RESULT AND DISTRIBUTION

The Directors report that the Company's after tax profit for the year under review was \$1,281,510. The Directors have declared a dividend totalling \$1,280,000 for the year ended 30 June 2002.

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 Electricity Invercargill Limited are:

Ross Wensley (Deputy Chairman)
Neil Boniface
Philip Mulvey

Appointed by The Power Company Limited are:

Owen Buckingham (Chairman)
Alan Harper
Cam McCulloch

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.

Owen Buckingham

Alliance Group Ltd Director
The Power Company Ltd Director
Ballance Agri Nutrients Ltd Director

Ross Wensley

Electricity Invercargill Ltd Deputy Chairman
WE Investments Ltd Director
Wensley Developments Ltd Director
Wensley Developments The Glebe Ltd Director

Neil Boniface

Electricity Invercargill Ltd Chairman
Invercargill Licensing Trust Deputy President
Invercargill City Council Deputy Mayor
Southland Driving School Director
Bluesparks Ltd Director
Power Surge Ltd Director
Shockwave Ltd Director
Lightswitch Ltd Director
Pylon Ltd Director

Alan Harper

The Power Company Ltd Chairman
Bond Contracts Ltd Chairman
Southland Finance Ltd Director
Arthur Watson Savage Partner
Bluesparks Ltd Director
Power Surge Ltd Director
Shockwave Ltd Director
Lightswitch Ltd Director
Last Tango Ltd Director

Cam McCulloch

McCulloch and Partners Partner
Southfish Ltd Chairman
Abalone New Zealand Ltd Chairman
Invercargill City Holdings Ltd Deputy Chairman
The Power Company Ltd Director
Invest South Ltd Director
Southern Fresh Milk Company Ltd Director

Philip Mulvey

Cook Adam and Co Managing Partner
Cook Adam and Co Ltd Director
Bond Contracts Ltd Director
Forest Dynamics Ltd Director
Zak Holdings Ltd Chairman
Southland Outdoor Stadium Trust Trustee
Electricity Invercargill Ltd Director
United Pacific Energy Ltd Director
Focus Computer Consultants Ltd Director
Investor Group New Zealand Ltd Director

REMUNERATION OF DIRECTORS

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

- Owen Buckingham
 - Chairman, Chairman Remuneration Committee.
- Ross Wensley
 - Deputy Chairman, Chairman Audit Committee, Member Remuneration Committee.
- Neil Boniface
 - Director.
- Alan Harper
 - Director.
- Cam McCulloch
 - Director, Member Audit Committee.
- Philip Mulvey
 - Director.
- Geoff Piercy
 - Alternate Director

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

Owen Buckingham	\$20,000	Ross Wensley	\$13,890
Neil Boniface	\$10,000	Alan Harper	\$10,000
Cam McCulloch	\$10,000	Philip Mulvey	\$10,000
Geoff Piercy	\$1,110		

EMPLOYEE REMUNERATION

Four continuing employees received remuneration in the following bands:

\$100,000 - \$110,000	2
\$110,000 - \$120,000	1
\$190,000 - \$200,000	1

BURSARIES, SCHOLARSHIPS, AWARDS AND DONATIONS

During the year the Company promoted learning through various bursaries, scholarships and awards which together with associated costs totalled \$24,605. In addition, donations made by the Company totalled \$6,780.

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.



Owen Buckingham - Chairman



Ross Wensley - Deputy Chairman



Photo courtesy of The Southland Times

[Directors' Profiles]

Owen Buckingham

(Chairman)

Owen, in partnership with his wife, presently farms 330 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 Ballance Agri Nutrients Limited.

Ross Wensley

(Deputy Chairman)

Ross is the Deputy Chairman of Electricity Invercargill Limited and Managing Director of Wensley Developments Limited, W E Investments Limited and other companies involved with property development in Queenstown and Invercargill. 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.

Neil Boniface JP

Neil is Chairman 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.

He also serves on several charitable trusts.

Alan Harper

LLB BCom

Alan is a partner in the Invercargill law firm of Arthur Watson Savage. He has practised with the firm since 1979, specialising particularly in commercial and company affairs. He is Chairman of The Power Company Limited and Bond Contracts Limited and is a Director of Southland Finance Limited and The Highlanders Franchise Limited.

Cam McCulloch

FCA Member of Institute of Directors

Cam is a senior partner in McCulloch and Partners, Chartered Accountants. He is Chairman of Southfish Limited and a Director of The Power Company Limited, Invest South Limited and Southern Fresh Milk Company Limited.

Cam is also Deputy Chairman of Invercargill City Holdings Limited.

Philip Mulvey

BCom CA

Philip joined the Board of PowerNet Limited on 1 February 2001.

He is Managing Principal of Cook Adam & Co, Chartered Accountants and has a number of Directorships, including Electricity Invercargill Limited and Bond Contracts Limited.

He also acts as financial advisor to a large number of local and national companies.





[Approval By Directors]

The Directors have approved the Financial Statements of PowerNet Limited for the year ended 30 June 2002 on pages 12 to 24.

O D Buckingham - Chairman of Directors

R M Wensley - Deputy Chairman of Directors

For and on behalf of the Board of Directors
22 August 2002

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 on an annual basis. This is achieved by ensuring that the combined Line Charge revenue is offset by the aggregate of the Use Charges, Transpower charges, maintenance costs and other related overheads (including Interest on Shareholder Advances).

Achievement

The result for the year ended 30 June 2002 was an Operating Surplus Before Taxation of \$1,919,000 (2001: \$2,582,000).

NETWORK 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 2002	30 June 2002	30 June 2001
The Power Company Limited - Planned	0.26	0.12	0.13
The Power Company Limited - Unplanned	3.70	2.87	2.97
Electricity Invercargill Limited - Planned	0.07	0.02	0.06
Electricity Invercargill Limited - Unplanned	0.77	1.11	1.16

Results to 30 June are within or close to the 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 2002	30 June 2002	30 June 2001
The Power Company Limited - Planned	30.00	16.99	18.43
The Power Company Limited - Unplanned	180.00	132.01	125.41
Electricity Invercargill Limited - Planned	5.50	2.07	4.15
Electricity Invercargill Limited - Unplanned	29.30	29.99	34.92

Results to 30 June are within or close to the targets.

Other Activities

The aim is to produce an acceptable commercial return based on the funds invested, the risks incurred and the long-term strategic benefit 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.

[Statement of Financial Performance]

[for the year ended 30 June 2002]

	(Note)	2002 (\$000)	2001 (\$000)
Operating Revenue	(2)	48,243	48,865
Operating Expenses	(3)	<u>(46,324)</u>	<u>(46,283)</u>
Operating Surplus/(Deficit) before Taxation		1,919	2,582
Taxation Expense	(4)	<u>(637)</u>	<u>(846)</u>
Net Surplus/(Deficit) after Taxation		1,282	1,736
Retained Earnings at 1 July		588	1,602
Dividend Proposed/Paid		<u>(1,280)</u>	<u>(2,750)</u>
Retained Earnings at 30 June		<u>590</u>	<u>588</u>

[Statement of Movements in Equity]

[for the year ended 30 June 2002]

	2002 (\$000)	2001 (\$000)
Total Equity at 1 July	<u>608</u>	<u>1,622</u>
Net Surplus/(Deficit) for the year	1,282	1,736
Total Recognised Revenues and Expenses for the Period	<u>1,282</u>	<u>1,736</u>
Contributions from Shareholders	<u>-</u>	<u>-</u>
Distributions to Shareholders		
Dividend Proposed/Paid	<u>(1,280)</u>	<u>(2,750)</u>
Total Distributions	<u>(1,280)</u>	<u>(2,750)</u>
Total Equity at 30 June	<u>610</u>	<u>608</u>

[Statement of Financial Position]

[as at 30 June 2002]

	(Note)	2002 (\$000)	2001 (\$000)
Equity			
Share Capital - 20,000 Shares		20	20
Retained Earnings		590	588
Total Equity		610	608
<i>Represented By:</i>			
Current Assets			
Cash and Short Term Bank Deposits	(5)	1,211	3,792
Receivables and Prepayments	(6)	7,993	5,284
Inventories	(8)	572	471
Construction Work in Progress	(7)	424	603
Provision for Taxation		1	3
Total Current Assets		10,201	10,153
Non-Current Assets			
Property, Plant & Equipment	(12)	1,944	1,867
Capital Work in Progress	(12)	424	69
Total Non-Current Assets		2,368	1,936
Total Assets		12,569	12,089
Current Liabilities			
Creditors, Accruals and Provisions	(9) & (10)	7,979	8,311
Provision for Dividend	(10)	1,280	1,220
Total Current Liabilities		9,259	9,531
Non-Current Liabilities			
Shareholder Advances	(11)	2,700	1,950
Total Non-Current Liabilities		2,700	1,950
Total Liabilities		11,959	11,481
Net Assets		610	608

The accompanying notes on pages 16-24 form part of and should be read in conjunction with these Financial Statements.

[Statement of Cash Flows]

[for the year ended 30 June 2002]

	(Note)	2002 (\$000)	2001 (\$000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers		45,561	46,627
Interest Received		80	102
Income Tax Received		4	-
		<u>45,645</u>	<u>46,729</u>
Cash Was Applied To:			
Payments to Suppliers and Employees		45,884	41,704
Income Tax Paid		640	1,003
Interest Paid		169	154
		<u>46,693</u>	<u>42,861</u>
Net Cash Flows (Used In)/From Operating Activities	(16)	<u>(1,048)</u>	<u>3,868</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Proceeds from Property, Plant & Equipment Sales		36	29
		<u>36</u>	<u>29</u>
Cash Was Applied To:			
Purchase of Property, Plant & Equipment		1,099	687
		<u>1,099</u>	<u>687</u>
Net Cash Flows Used In Investing Activities		<u>(1,063)</u>	<u>(658)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Shareholder Advances		750	1,050
		<u>750</u>	<u>1,050</u>
Cash Was Applied To:			
Repayment of Shareholder Advances		-	1,350
Dividend Paid		1,220	1,530
		<u>1,220</u>	<u>2,880</u>
Net Cash Flows Used in Financing Activities		<u>(470)</u>	<u>(1,830)</u>
Net Increase/(Decrease) in Cash Held		(2,581)	1,380
Add Opening Cash Brought Forward		3,792	2,412
Closing Cash To Be Carried Forward		<u>1,211</u>	<u>3,792</u>

The accompanying notes on pages 16-24 form part of and should be read in conjunction with these Financial Statements.

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, Electricity Invercargill Limited and Otago Power 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 a 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) Property, Plant & Equipment -

All property, plant and equipment is recorded at cost less accumulated depreciation. 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.

(b) Depreciation -

Depreciation is provided on a combination of straight line/diminishing value bases on all tangible property, plant and equipment, 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	26.0%-31.2%	diminishing value
Office Furniture and EDP Equipment	9.0%-60.0%	straight line/diminishing value
Shared Assets	9.0%-48.0%	diminishing value

Capital Work in Progress is not depreciated. Costs for a specific project are transferred to Property, Plant & Equipment 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) Construction Work in Progress -

Work in Progress related to the Shareholders' Capital Work includes direct material and labour costs plus an accrual for the proportion of work completed at the end of the period, plus a mark up designed to cover PowerNet Limited's associated indirect overheads. Where charges relate to external customers, a profit element may be included depending on the circumstances.

Mark ups on contracts are recognised progressively over the period of each contract. Foreseeable losses on a contract are recognised immediately.

(e) 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.

(f) 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.

(g) 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.

(h) 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 and values all financial instruments at fair value in the Statement of Financial Position.

(i) Foreign Currency -

Transactions covered by short-term forward exchange contracts are translated at the exchange rates specified in those contracts. Other foreign currency transactions are translated to New Zealand currency at the exchange rates ruling at the dates of the transactions. There are no assets or liabilities in foreign currencies at balance date.

(j) 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.

(k) 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 period. These have been applied on a basis consistent with those used in previous periods.

2. Operating Revenue	2002	2001
<i>Operating Revenue Comprises:</i>	(\$000)	(\$000)
Line and Metering Charges	35,125	34,317
Network/External Revenue	12,249	13,897
Interest Revenue	72	108
Profit on Disposal of Property, Plant & Equipment	10	4
Other Revenue	787	539
Total Operating Revenue	48,243	48,865
3. Operating Expenses	2002	2001
<i>Operating Expenses Include:</i>	(\$000)	(\$000)
Direct Costs	16,010	17,207
Transmission Charges	7,791	9,417
Use Charges	17,352	15,167
Interest Expense	175	146
Loss on Disposal of Property, Plant & Equipment	1	9
Operating Lease Expenses		
Tenancy and Repeater Site Leases	71	96
Motor Vehicle Leases	95	73
Office Equipment Leases	15	16
Computer Leases	-	3
Auditor's Fees		
Audit of Financial Report	26	24
Other Services	5	-
Bad & Doubtful Debts		
Debts Written Off	2	10
(Decrease)/Increase in Estimated Doubtful Debts	-	-
Depreciation	640	524
Directors' Fees	75	58
Bursaries, Scholarships and Awards	25	24
Donations	7	6

4. Taxation	2002	2001
	(\$000)	(\$000)
Net Surplus/(Deficit) Before Taxation	1,919	2,582
Prima Facie Taxation at 33%	633	852
Plus/(Less) Taxation Effect Of:		
Items Not Deductible for Taxation (Permanent Differences)	5	2
Timing Differences between Taxable Income & Accounting Income not Recognised	(1)	(7)
Prior Period Adjustment	-	(1)
Taxation Expense	637	846
The total tax effect of timing differences not recognised is a deferred tax liability of \$19,000 (2001: \$22,000).		
Imputation Credit Account	2002	2001
	(\$000)	(\$000)
Credit Balance as at 1 July	819	382
<i>Credits</i>		
Income Tax Payments	640	1,003
<i>Debits</i>		
Income Tax Refunds	(4)	-
Imputation Credits on Dividends Paid	(601)	(566)
Credit Balance as at 30 June	854	819
5. Cash and Short Term Bank Deposits	2002	2001
	(\$000)	(\$000)
Current Account	46	192
Short Term Bank Deposits	1,165	3,600
Total Cash and Short Term Bank Deposits	1,211	3,792
6. Receivables and Prepayments	2002	2001
	(\$000)	(\$000)
Trade Debtors	4,332	1,297
The Power Company Limited	2,971	3,459
Electricity Invercargill Limited	616	392
	7,919	5,148
Prepayments	74	136
Total Receivables and Prepayments	7,993	5,284

7. Construction Work in Progress	2002	2001
	(\$000)	(\$000)
The Power Company Limited	317	457
Electricity Invercargill Limited	3	110
PowerNet Limited	104	36
Total Construction Work in Progress	424	603

8. Inventories	2002	2001
	(\$000)	(\$000)
Network Spares and Sundry Network Consumables	572	471
Total Inventories	572	471

Inventories are neither pledged as security for liabilities nor subject to retention of title clauses.

9. Creditors, Accruals and Provisions	2002	2001
	(\$000)	(\$000)
Trade Creditors	4,310	5,431
GST Payable	484	141
The Power Company Limited	1,860	1,958
Electricity Invercargill Limited	999	468
Provision for Employee Entitlements	326	313
Total Creditors, Accruals and Provisions	7,979	8,311

10. Provisions	2002
Provision for Employee Entitlements	(\$000)
Balance at 1 July	313
Additional Provision Made	259
Amount Utilised	(246)
Balance at 30 June	326

The provision for employee entitlements relates to employee benefits such as accrued annual leave and long service leave and has been calculated on an actual entitlement basis at current rates of pay. The provision may be affected by the timing of benefits being taken. The liability is expected to be incurred during the next year.

Provision for Dividend	2002
	(\$000)
Balance at 1 July	1,220
Additional Provision Made	1,280
Amount Utilised	(1,220)
Balance at 30 June	1,280

The provision for dividend was declared prior to balance date and will be paid during the next financial year.

11. Shareholder Advances

	2002 (\$000)	2001 (\$000)
The Power Company Limited	1,800	1,300
Electricity Invercargill Limited	900	650
Total Shareholder Advances	2,700	1,950

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.

12. Property, Plant & Equipment

	2002 (\$000)	2001 (\$000)
Land (at cost)	97	97
Buildings (at cost)	830	830
<i>Accumulated depreciation</i>	(295)	(255)
	535	575
Plant and Equipment (at cost)	365	289
<i>Accumulated depreciation</i>	(210)	(181)
	155	108
Motor Vehicles (at cost)	67	132
<i>Accumulated depreciation</i>	(48)	(79)
	19	53
Office Furniture and EDP Equipment (at cost)	2,551	2,170
<i>Accumulated depreciation</i>	(1,831)	(1,451)
	720	719
Shared Assets (at cost)	864	599
<i>Accumulated depreciation</i>	(446)	(284)
	418	315
Total Net Book Value of Assets	1,944	1,867
Capital Work in Progress (at cost)	424	69

Valuation of Buildings

The Directors consider the carrying value for Land and Buildings to be representative of the fair value as at 30 June 2002.

13. Transactions with Related Parties

The Power Company Limited and Electricity Invercargill Limited each have a 50% shareholding in PowerNet Limited, Electricity Southland Limited, Bluesparks Limited, Lightswitch Limited, Power Surge Limited and Shockwave Limited.

All transactions between PowerNet Limited, The Power Company Limited (inclusive of wholly owned subsidiary companies), Electricity Invercargill Limited (inclusive of wholly owned subsidiary companies), Electricity Southland Limited, Bluesparks Limited, Lightswitch Limited, Power Surge Limited and Shockwave 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 period.

Material transactions PowerNet Limited has had with the abovementioned related parties during the period are as follows:

	2002 (\$000)	2001 (\$000)
Supplied To:		
The Power Company Limited	8,710	10,131
Electricity Invercargill Limited	2,943	3,125
Electricity Southland Limited	-	-
<i>Receivables Outstanding at Balance Date (GST incl):</i>		
The Power Company Limited	2,971	3,459
Electricity Invercargill Limited	616	392
Electricity Southland Limited	-	-
Supplied By:		
The Power Company Limited	10,840	9,403
Electricity Invercargill Limited	6,704	6,018
Electricity Southland Limited	-	-
<i>Creditors Outstanding at Balance Date (GST incl):</i>		
The Power Company Limited	1,860	1,958
Electricity Invercargill Limited	999	468
Electricity Southland Limited	-	-

Other Related Parties

There have been no material transactions with Directors with the exception of the following:

PowerNet Limited uses Arthur Watson Savage as its solicitors, of which Alan Harper is a Partner. Legal fees paid to Arthur Watson Savage during the period amounted to \$29,000 (2001: \$45,000) of which \$2,000 (incl GST) is owing at balance date.

All transactions between PowerNet Limited and Arthur Watson Savage relate to normal trading activities and have been conducted on a commercial basis.

14. Commitments

Capital Commitments

There are no Capital Commitments as at 30 June 2002 (2001: \$80,000).

	2002	2001
	(\$000)	(\$000)
Operating Lease Commitments		
Operating Lease Commitments are payable as follows:		
Not later than one year	90	103
Later than one year and not later than two years	20	45
Later than two years and not later than five years	7	13
Later than five years	-	-
	<hr/>	<hr/>
Total Operating Lease Commitments	117	161

15. Contingent Liabilities

There are no Contingent Liabilities as at 30 June 2002 (2001: Nil).

16. 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 flow from operating activities.

	2002	2001
	(\$000)	(\$000)
Net Surplus/(Deficit) After Taxation	1,282	1,736
Add/(Less) Non Cash Items:		
Depreciation	640	524
	<hr/>	<hr/>
	640	524
Add/(Less) Items Classified as Investing/Financing Activities:		
Loss on Sale of Property, Plant & Equipment	1	9
Profit on Sale of Property, Plant & Equipment	(10)	(4)
	<hr/>	<hr/>
	(9)	5
Add/(Less) Movements in Working Capital:		
(Decrease)/Increase in Creditors, Accruals and Provisions	(332)	4,134
(Increase)/Decrease in Receivables and Prepayments	(2,709)	(2,268)
(Increase)/Decrease in Inventories	(101)	(131)
Decrease/(Increase) in Construction Work in Progress	179	25
Decrease/(Increase) in Provision for Taxation	2	(157)
	<hr/>	<hr/>
	(2,961)	1,603
	<hr/>	<hr/>
Net Cash Flow (Used In)/From Operating Activities	(1,048)	3,868

17. Financial Instruments

Off Balance Sheet Financial Instruments

The Company does not have any off balance sheet financial instruments.

Credit Risk -

Credit risk is the risk that a third party will default on its obligation to the Company, causing the Company to incur a loss.

Financial instruments which potentially subject the Company to credit risk principally consist of cash and short term deposits and accounts receivables. Bank deposits are placed with high credit quality financial institutions. The Company performs credit evaluations on all customers requiring credit, and the Company may in some circumstances require collateral. No collateral is held at 30 June 2002.

Maximum exposures to credit risk at balance date are:	2002	2001
	(\$000)	(\$000)
Current Account	46	192
Short Term Bank Deposits	1,165	3,600
Receivables	7,919	5,148
	9,130	8,940

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 regard to the amounts owing by energy retailers at balance date for Line Charges as disclosed in Note 6 Receivables and Prepayments (amongst Trade Debtors). However, these entities are considered to be high credit quality entities.

The Company has a concentration of credit risk with regard to the amounts owing by shareholders at balance date as disclosed in Note 13 Transactions With Related Parties. However, these entities are considered to be high credit quality entities.

Foreign Exchange Risk -

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

The Company does not use foreign exchange instruments for speculative purposes.

Interest Rate Risk -

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

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

Fair Values -

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



TO THE READERS OF THE FINANCIAL STATEMENTS OF POWERNET LIMITED

We have audited the financial statements and performance information on pages 12 to 24. The financial statements provide information about the past financial performance of PowerNet Limited and its financial position as at 30 June 2002. 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 16 and 17.

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 in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the financial position of PowerNet Limited as at 30 June 2002 and the results of its operations and cash flows for the year ended on that date. 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 15 of the Public Audit Act 2001 and Section 594ZC of the Local Government Act 1974 require the Auditor-General to audit the financial statements and the performance information presented by the Board. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and the performance information and report that opinion to you.

The Auditor-General has appointed Bede Kearney, 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 the Auditing Standards published by the Auditor-General, which incorporate 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.

We completed one assurance assignment during the year relating to cost and revenue apportionments. Other than this assignment, and in our capacity as auditor acting on behalf of the 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 12 to 24:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - PowerNet Limited's financial position as at 30 June 2002; 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 12 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 2002.

Our audit was completed on 27 August 2002 and our unqualified opinion is expressed as at that date.

A handwritten signature in blue ink, appearing to read "B F Kearney".

B F Kearney
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand



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