PowerNet Annual Report 2006

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Contents

Directory

Directors

Philip Mulvey (Chairman)

Cam McCulloch (Deputy Chairman)

Neil Boniface

Douglas Fraser

Alan Harper

Maryann Macpherson

Geoffrey Piercy

Ross Smith

Executives

Chief Executive
Martin Walton

Chief Financial Officer
Greg Buzzard

Engineering Manager
Roger Paterson

Contracts Manager
Graeme Webby

Network Connections Manager
Alaister Marshall

Network Manager (OtagoNet Area)
Terry Jones

System Control Manager
Kana Shanmuganathan

Corporate Services Manager
Jim Dawson

Head Office

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

Principal Bankers

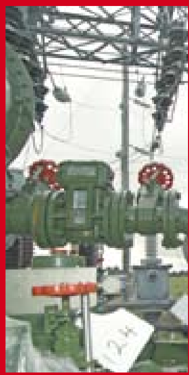
The National Bank of New Zealand Limited

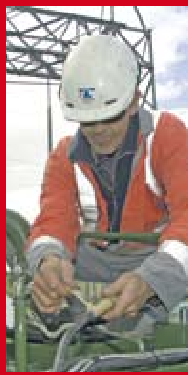
Auditors

PricewaterhouseCoopers, Dunedin

Solicitors

AWS Legal





"The Company has again substantially met the expectations of the three different major network owners."

The Year In Review

Overview

PowerNet has completed another successful year managing the assets of its two shareholder network owners Electricity Invercargill Limited (EIL) and The Power Company Limited (TPCL) and OtagoNet Joint Venture (OJV) which is jointly owned by PowerNet's two shareholders and Marlborough Lines Limited (MLL).

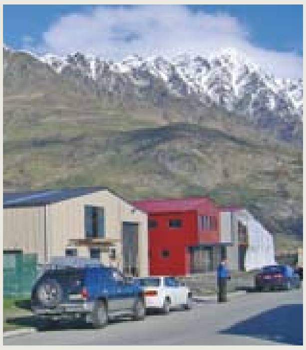
Business Plans, Asset Management Plans, Information Disclosure Regulation returns, Commerce Commission Threshold Statements and Annual Reports.

The total Optimised Deprival Valuations (ODVs) of the three major networks managed is over $350 million with 13,400km of lines, 69 zone substations,

out the planning and development of the Remarkables Park electricity reticulation.

Progress also continued on the development of the final Alliance Agreements with Continuity Contracting Limited (CCL), Otago Power Services Limited (OPSL) and Transfield Services Limited (TSL). Progress on the final Alliance Agreements with OPSL

"The PowerNet networks represent diverse topography, climate zones, customer density, technical design and equipment."



Shotover Park

The Company has again substantially met the expectations of the three different major network owners, EIL whose shareholder is Invercargill City Holdings Limited, TPCL whose shareholder is the Southland Electric Power Supply Consumer Trust and OJV's ultimate shareholders EIL, TPCL and MLL. At the end of 2005 PowerNet also entered into an agreement with Southland District Council's subsidiary Stewart Island Electricity Supply Authority (SIESA) to manage its generation and distribution assets on Stewart Island. PowerNet also manages a small embedded network at Frankton, near Queenstown, owned by Electricity Southland Limited (ESL), the ultimate shareholders of which are EIL and TPCL.

In addition to managing the operations and maintaining the required level of line services to the network owners and their consumers, PowerNet also prepares for each network comprehensive operational and financial monthly reports, annual

14,500 transformers and 64,000 connected installations. The three networks represent diverse topography, climate zones, customer density, technical design and equipment.

The past year again involved an increased effort by PowerNet staff to ensure successful compliance with the increasing regulatory requirements governing the distribution part of the industry. It was pleasing to once again receive unqualified audit reports for all three network owners and PowerNet.

Agreement was also reached during the year with Remarkables Park Limited to provide line services to its new development at Frankton adjacent to Queenstown Airport. The network is owned by Electricity Southland Limited (ESL), the shareholders of which are EIL and TPCL. ESL already owns an embedded network at Shotover Park, Frankton and PowerNet, on ESL's behalf, will be carrying

and CCL was delayed due to executive changes within CCL but discussions had recommenced prior to the end of the financial year. Working together as a party to the Alliance Agreement with TSL has been very positive and both parties have been satisfied with results to date.

A major problem within the industry is a general shortage of qualified and experienced line mechanics and technicians. Steps have been taken by all three alliance contractors to remedy the situation through the recruitment of additional trainees and, in the case of TSL, the transfer and recruitment of staff from further north. The shortage of suitable resources is the result of a general lack of commitment to long term succession training by the industry over the past few years following corporatisation in 1992. This situation is also reflected in a shortage of technical engineers qualified to the equivalent of the previous New Zealand Certificate in

Engineering (NZCE). Contributing to this situation has been the replacement of the NZCE by various technical institute based diploma qualifications and a lack of distance learning options for staff employed by the many provincially based line companies. The New Zealand situation has also been exacerbated by the acute shortage of similar skilled resources in Australia and the payment of higher wages across the Tasman. This year wage increases awarded to field and technical staff far exceeded CPI in an effort just to retain sufficient resources to "keep the lights on".

Higher wage rates and improved conditions have assisted the recruitment of trainees and the restructure of PowerNet's service providers has also ensured that adequate succession training can be maintained into the long term future.

Notwithstanding the increase in trainees employed by all three contractors, the situation for the next two or three years will still be influenced by the scarcity of skilled resources and the challenge will then be to retain the line mechanics and technicians in Southland after completion of their training.

Although the restructure of the field service contracts has caused some serious short term issues, it is becoming increasingly apparent that a major move in this direction was necessary to ensure adequate resources will be available for PowerNet on a long term sustainable basis.

No major Information Systems were introduced during the year but further development, integration and improved utilisation of existing systems, including Finance 1 and WASP, continued.

Financial Results

The compartmentalised financial results for the two shareholder network owners EIL and TPCL for the year were satisfactory despite the shortage of resources.

Company expenditure was slightly over budget for the year due to several items including higher staff training costs and increased costs resulting from regulatory compliance.

Operations

The Company's operation of its 24-hour manned control room continued to provide a high level of monitoring and control of network operations and a faults call service for the 64,000 customers connected to the five networks PowerNet manages. It is only one of two such facilities in the South Island providing an informed and efficient faults call centre service for its customers and a safety enhancing operations control room.

The EIL network continues to be one of the most reliable networks in the country. The System Average Interruption Duration Index (SAIDI) this year was 19 minutes compared to the Business Plan target of 31 minutes and the Commerce Commission target of 35 minutes. Reflecting the extensive underground city network, the SAIDI for the Invercargill City customers was only 9.4 minutes

The SAIDI for TPCL of 158 minutes was also significantly better than the Commerce Commission target of 237 minutes but did not meet the Business Plan target of 142 minutes. Weather patterns in Southland were more typical this year with lightning storms and more prevalent strong winds contributing to the slight deterioration in the network reliability figures for TPCL.

"A major problem within the industry is a general shortage of qualified and experienced line mechanics and technicians. Steps have been taken by all three alliance contractors to remedy the situation."

The SAIDI for OJV was 307 minutes compared to the Business Plan target of 247 minutes and the Commerce Commission target of 250 minutes. The OJV results reflect the increased level of targeted maintenance and renewals carried out during the year and the increasing efforts to trim trees and clear vegetation away from the lines. This has resulted in the SAIDI for planned work of 174 minutes, far exceeding both recent annual levels and the original Business Plan target of 102 minutes. The SAIDI for unplanned interruptions was 133 minutes compared to the Business Plan target of 145 minutes, the increased investment indicating an improving trend in quality.

Photo courtesy of Barry Harcourt, Southland Times

"The fifth PowerNet Cycle Tour of Southland was again a very successful sponsorship event for the Company."

MasterTrade continued to provide materials procurement and management services to PowerNet through its Invercargill and Balclutha stores.

Customer Survey

PowerNet commissioned its second Customer Satisfaction Survey in November 2005.

Customers who had recent contact with PowerNet through either new or altered connection arrangements, tree trimming or a supply interruption were interviewed by an independent consultant. The results were very favourable and showed a further improvement on a similar survey carried out in March 2005.

PowerNet also commissioned a customer benchmark survey in February 2006 as part of its "Price and Quality" consultation. Good information was received from the survey relating to the number and duration of planned interruptions acceptable to consumers and PowerNet's performance in the event of unplanned interruptions.

Industry Developments

Directors of all three major networks and PowerNet are in general happy with the performance of PowerNet in managing their networks and recognise the year's price breaches by OJV and TPCL were determined by the network owners taking into account the price path regulation and the financial requirements of the businesses. They also recognise the quality breach by OJV is mainly attributable to the increased capital expenditure which has resulted in more planned supply interruptions.

Through contracting their business management to PowerNet, the three network owners and their stakeholders have already obtained significant financial and operational benefits from the resulting economies of scale and yet still retain their individual sovereignty over their respective assets.

Some of these benefits are being eroded through the increasing cost each year to meet regulatory and governance levies. With the ever increasing bureaucratic creep into the management and governance of lines businesses, PowerNet, as a specialised distribution network management company, is beginning to experience a concerning pull on its resources away from its core business of network management towards industry administration and regulatory compliance.

Directors still remain concerned at the increasing time and costs involved in the regulatory regime and are still of the opinion that there will be minimal, if any, cost benefit to the consumers while diverting scarce resources from focussing on improving the business to regulatory compliance.

Sponsorship

The fifth PowerNet Cycle Tour of Southland was again a very successful sponsorship

Martin Walton - Chief Executive

"We are pleased with the Company's achievements this year...making it another very successful year for PowerNet."

event for the Company. This international race continued to be excellently managed and is a great opportunity for PowerNet to support the communities throughout Southland and parts of Central Otago in hosting this great event.

During the year PowerNet awarded six $2,000 scholarships to Southland first year, full-time, tertiary students and a second electrical engineering scholarship for a student to complete his degree with suitable vacation employment and training provided by PowerNet.

PowerNet also made a one-off contribution to the refurbishment of the Invercargill Civic Theatre.

Human Resources

Training, personal development and welfare of staff are key priorities for the Company.

Human resources are a key strength of PowerNet and retention and development of good staff is a high priority. One manager completed his MBA during the year.

Staff continue to be based in Balclutha and up to date communications technology, including the video conferencing facility, ensures full participation and efficient operation of staff in both locations.

The Company's policy to encourage staff involvement in sporting activities saw PowerNet tennis, volleyball and table tennis teams in action this year.

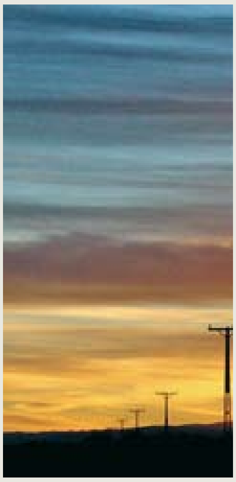
Social team-building events were well supported including fund raising for the local Relay for Life campaign.

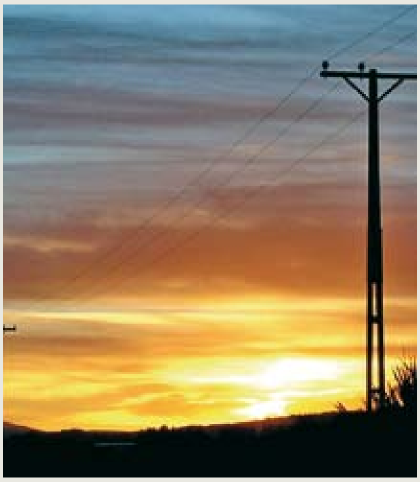
Acknowledgements

We are pleased with the Company's achievements this year and would like to convey our appreciation to all the Directors and staff for their support and efforts, making it another very successful year for PowerNet and the five networks it now manages.

Philip Mulvey
Chairman

Martin Walton
Chief Executive





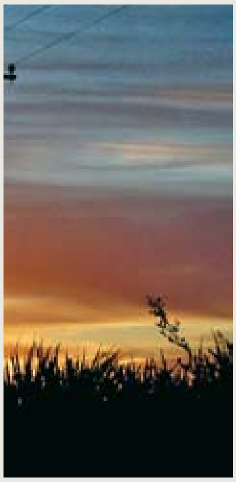


Photo courtesy of Chris Garden

Major Projects

Electricity Invercargill Limited

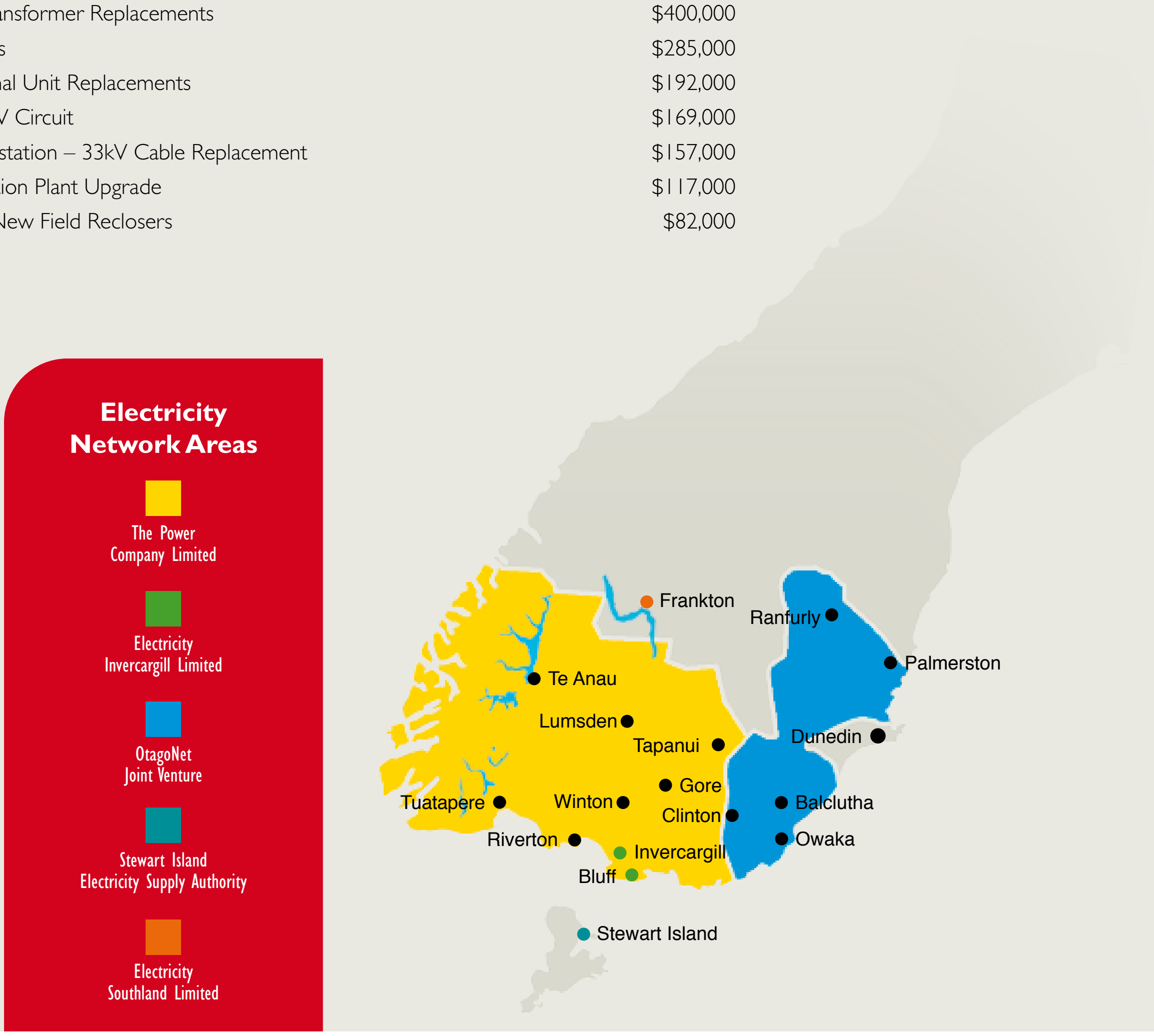
Project	*Approximate Expenditure*
Inglewood Road Area, Invercargill – Undergrounding	$820,000
Newcastle Street Area, Invercargill – Undergrounding	$415,000
New Customer Connections	$292,000
Doon Street Substation Protection Upgrade	$103,000
Ring Main Unit Replacements	$51,000

OtagoNet Joint Venture

Project	*Approximate Expenditure*
11kV Line Rebuilds – 24 Projects	$1,350,000
New Customer Connections	$1,104,000
Vegetation Management	$533,000
Clydevale to Popotunoa 11kV Line Rebuild	$425,000
Hindon 22kV Line Rebuild	$316,000
33kV Line Rebuilds – 5 Projects	$246,000
11kV SWER Line Upgrades – 5 Projects	$187,000
Paerau 22kV Line Conversion	$147,000
Balclutha Main Street Underground LV Lines	$102,000

The Power Company Limited

Project	*Approximate Expenditure*
New Customer Connections	$2,066,000
Reticulation of New Subdivisions	$883,000
Vegetation Management	$730,000
Refurbishment of 11kV Lines	$590,000
Distribution Transformer Replacements	$400,000
Earth Upgrades	$285,000
Remote Terminal Unit Replacements	$192,000
Riversdale 22kV Circuit	$169,000
Invercargill Substation – 33kV Cable Replacement	$157,000
Edendale Injection Plant Upgrade	$117,000
Installation of New Field Reclosers	$82,000



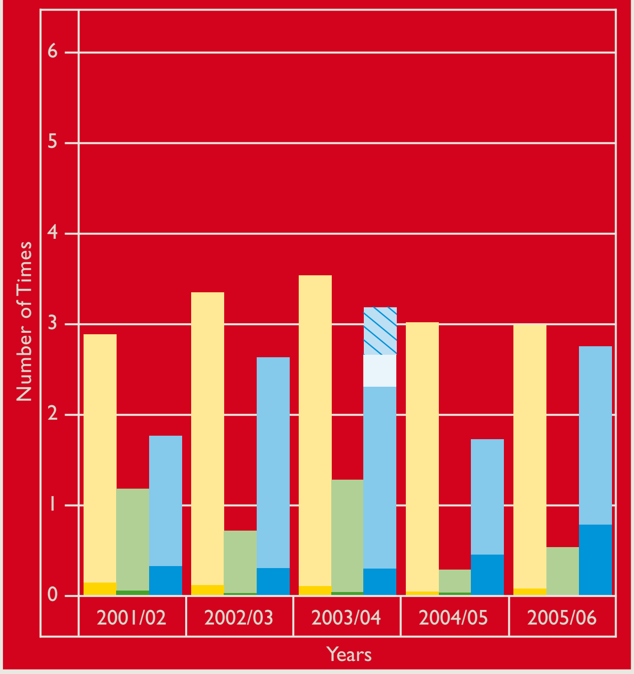
PowerNet Network Comparisons

Network	TPCL	EIL	OJV	ESL	SIESA
Connected Consumers	32,200	16,900	14,500	59	416
Network Length	8,500km	700km	4,200km	3km	36km
Consumer Density	3.8/km	24.1/km	3.5/km	19.7/km	11.6/km
Number of Distribution Transformers	9,900	440	4,100	2	35
Distribution Transformer Capacity	335MVA	145MVA	146MVA	0.8MVA	1.8MVA
Distribution Transformer Capacity Density	39kVA/km	207kVA/km	35kVA/km	267kVA/km	50kVA/km
Maximum Demand	114MW	58 MW	55 MW	-	-
Total Energy Conveyed	674GWh	277GWh	372GWh	-	-

Reliability

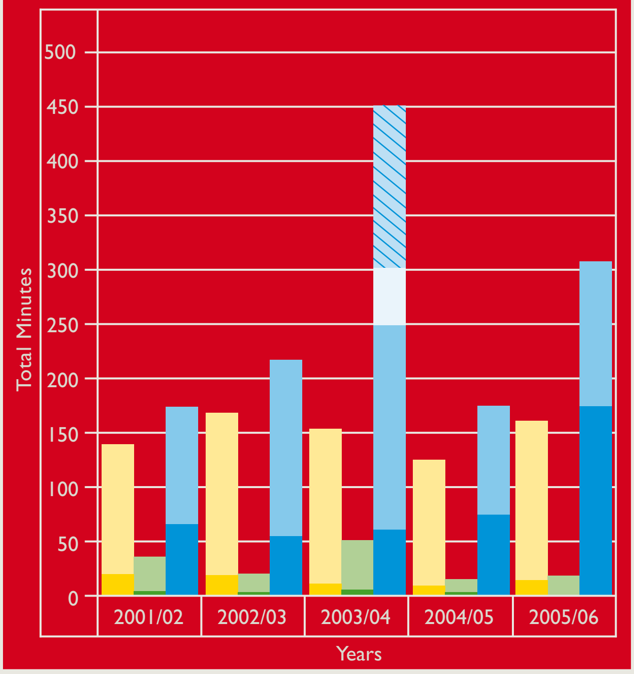
System Average Interruption Frequency Index (SAIFI)

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

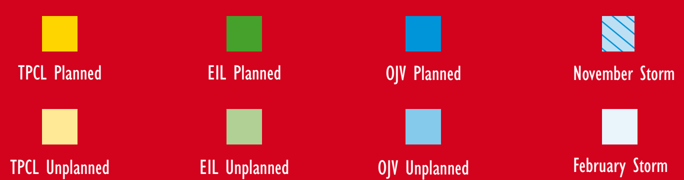


System Average Interruption Duration Index (SAIDI)

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



Graph Legend



Directors' Report

The Directors have pleasure in presenting their Annual Report together with the Financial Statements of PowerNet Limited for the year ended 31 March 2006.

Principal Activities

PowerNet Limited is a joint venture company which manages the electricity networks of The Power Company Limited, Electricity Invercargill Limited, OtagoNet Joint Venture, Stewart Island Electricity Supply Authority and Electricity Southland Limited. The parties to the PowerNet Limited joint venture are The Power Company Limited and Electricity Invercargill Limited and their interests are represented through their respective wholly owned subsidiaries Last Tango Limited and Pylon Limited. PowerNet Limited'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 profit for the year under review was $97,000. The Directors have not declared a dividend for the year ended 31 March 2006.

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

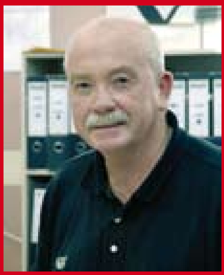
Each of the Shareholding Companies has appointed four Directors.

Appointed by Electricity Invercargill Limited are:

Philip Mulvey (Chairman)
Neil Boniface
Geoffrey Piercy
Ross Smith

Appointed by The Power Company Limited are:

Cam McCulloch (Deputy Chairman)
Douglas Fraser
Alan Harper
Maryann Macpherson



Maurice Henderson

Dyson Gentle

Trefor Jones

"PowerNet Limited's core business is to efficiently and effectively manage the electricity networks under its control."

Stewart Island Powerhouse

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.

Mary-Anne Bricknell

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
Pylon Ltd	Director
ABCO Meats Ltd	Director
Electricity Southland Ltd	Director

Cam McCulloch

McCulloch and Partners	Consultant
Southfish Ltd	Chairman
Invercargill City Holdings Ltd	Deputy Chairman
The Power Company Ltd	Director
Invest South Ltd	Director
Last Tango Ltd	Director
Electricity Southland Ltd	Director
Invercargill Te Ara a Kewa Primary Health Organisation	Chairman

Neil Boniface

Electricity Invercargill Ltd	Chairman
Invercargill Licensing Trust	Member
Invercargill City Council	Deputy Mayor
Southland Driving School	Director
Pylon Ltd	Director
OtagoNet Joint Venture	Member, Management Committee
OtagoNet Ltd	Director
Electricity Southland Ltd	Director

Douglas Fraser

The Power Company Ltd	Director
Last Tango Ltd	Director
Electricity Southland Ltd	Director
NZ Wool Board Disestablishment Company	Director

Alan Harper

The Power Company Ltd	Chairman
Bond Contracts Ltd	Chairman
Southland Finance Ltd	Director
AWS Legal	Partner
Last Tango Ltd	Director
OtagoNet Joint Venture	Chairman, Management Committee
OtagoNet Ltd	Director
Electricity Southland Ltd	Director

Maryann Macpherson

The Power Company Ltd	Director
Last Tango Ltd	Director
Electricity Southland Ltd	Director
Continuity Contracting Ltd	Director

Geoffrey Piercy

Invercargill City Council	Councillor
Electricity Invercargill Ltd	Director
Pylon Ltd	Director
Electricity Southland Ltd	Director
Invercargill Te Ara a Kewa Primary Health Organisation	Director
Grey Power Southland	President

Ross Smith

Southland Building Society	Director, Chief Executive Officer
Southsure Assurance Ltd	Director
Finance Now Ltd	Director
Funds Administration NZ Ltd	Director
Fraser Properties Ltd	Director
James Hargest High School	Trustee
Electricity Invercargill Ltd	Director
Pylon Ltd	Director
Electricity Southland Ltd	Director
Continuity Contracting Ltd	Director

Remuneration of Directors

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

Philip Mulvey	- Chairman, Member Audit Committee, Chairman Remuneration Committee
Cam McCulloch	- Deputy Chairman, Chairman Audit Committee, Member Remuneration Committee
Neil Boniface	- Director
Douglas Fraser	- Director
Alan Harper	- Director
Maryann Macpherson	- Director
Geoffrey Piercy	- Director
Ross Smith	- Director

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

Philip Mulvey	$30,000	Alan Harper	$15,000
Cam McCulloch	$18,000	Maryann Macpherson	$15,000
Neil Boniface	$15,000	Geoffrey Piercy	$15,000
Douglas Fraser	$15,000	Ross Smith	$15,000

Employee Remuneration

Four continuing employees received remuneration in the following bands:

$120,000 - $130,000	1	$150,000 - $160,000	1
$130,000 - $140,000	1	$260,000 - $270,000	1

Scholarships, Awards and Donations

During the year the Company promoted learning through various scholarships and awards which totalled $22,000. In addition, donations made by the Company totalled $1,000.

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 the previous year.

Auditor

Refer to Note 3 of the Financial Statements for Auditor remuneration.

For and on behalf of the Directors.

Philip Mulvey
Chairman

Cam McCulloch
Deputy Chairman

"During the year the Company promoted learning through various scholarships and awards."

Directors' Profiles

Philip Mulvey
Chairman
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.

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

Cam McCulloch
Deputy Chairman
FCA

Cam is a Consultant with McCulloch and Partners, Chartered Accountants.

He is Chairman of Southfish Limited, Deputy Chairman of The Power Company Limited and Deputy Chairman of Invest South Limited.

Cam is also Deputy Chairman of Invercargill City Holdings Limited and Chairman of Invercargill Te Ara a Kewa Primary Health Organisation.

Neil Boniface JP

Neil is Chairman of Electricity Invercargill Limited, Deputy Mayor of the Invercargill City Council, Board Member of the Invercargill Licensing Trust, Board Member of the ILT Foundation and operates a Driving School business in Southland.

He also serves on several charitable trusts.

Douglas Fraser
BSc (Chemistry)

Doug farms sheep and dairy cows on 495 hectares in Western Southland.

He is a Director of the NZ Wool Board Disestablishment Company and The Power Company Limited.

Alan Harper
LLB BCom

Alan is a partner in the law firm of AWS Legal. 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.

Maryann Macpherson

Maryann currently operates a home and garden retail business and café at Dacre.

Her career background is farming and taxation management.

Previous governance roles have included Chairman of Southern Health Limited and Landbase Trading Society Limited.

Maryann is also a Director of The Power Company Limited and Continuity Contracting Limited.

Geoffrey Piercy

Geoff is a fourth term Invercargill City Councillor, Chairman of the Works and Services Committee and appointed member of the Bluff Community Board.

He is also a Director of Electricity Invercargill Limited and Invercargill Te Ara a Kewa Primary Health Organisation.

Geoff is a retired hospital and Area Health Board administrator, Life Member and President of Grey Power Southland and an Anglican Lay Minister.

Ross Smith

BCom

Ross joined the Board of PowerNet Limited in November 2003. He is Chief Executive of SBS, the largest Building Society in New Zealand.

Ross is also a Director of SBS, Finance Now Limited, Funds Administration NZ Limited, Southsure Assurance Limited, Electricity Invercargill Limited and Continuity Contracting Limited.

Approval By Directors

The Directors have approved the Financial Statements of PowerNet Limited for the year ended 31 March 2006 on pages 12 to 24.

Philip Mulvey
Chairman of Directors

Cam McCulloch
Deputy Chairman of Directors

For and on behalf of the Board of Directors
25 May 2006

Statement of Financial Performance

for the year ended 31 March 2006

	Note	2006 $000	2005 $000
Operating Revenue	(2)	60,914	52,191
Operating Expenses	(3)	(60,821)	(52,026)
Operating Surplus before Taxation		93	165
Taxation (Expense)/Benefit	(4)	4	(3)
Net Surplus after Taxation		**97**	**162**

Statement of Movements in Equity

for the year ended 31 March 2006

	2006 $000	2005 $000
Net Surplus for the Year	97	162
Total Recognised Revenues and Expenses	**97**	**162**
Contributions from Shareholders	-	-
Distributions to Shareholders	-	-
Movements in Equity for the Year	**97**	**162**
Equity at start of Year	225	63
Equity at end of Year	**322**	**225**

The accompanying notes on pages 15-24 form part of and should be read in conjunction with these Financial Statements.

Statement of Financial Position

as at 31 March 2006

	Note	2006 $000	2005 $000
Equity			
Paid in Capital	(5)	20	20
Retained Earnings	(5)	302	205
Total Equity		**322**	**225**
Represented By:			
Current Assets			
Cash and Short Term Bank Deposits	(6)	378	118
Receivables and Prepayments	(7)	8,031	6,981
Construction Work in Progress	(8)	2,446	1,522
Inventories	(9)	108	94
Taxation Receivable		15	158
Total Current Assets		10,978	8,873
Non-Current Assets			
Property, Plant & Equipment	(13)	1,851	1,857
Capital Work in Progress	(13)	59	23
Total Non-Current Assets		1,910	1,880
Total Assets		**12,888**	**10,753**
Current Liabilities			
Creditors and Accruals	(10)	7,251	6,411
Provision for Employee Entitlements	(11)	365	367
Total Current Liabilities		7,616	6,778
Non-Current Liabilities			
Advances	(12)	4,950	3,750
Total Non-Current Liabilities		4,950	3,750
Total Liabilities		**12,566**	**10,528**
Net Assets		**322**	**225**

The accompanying notes on pages 15-24 form part of and should be read in conjunction with these Financial Statements.

Statement of Cash Flows

for the year ended 31 March 2006

	Note	2006 $000	2005 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers		58,882	50,515
Income Tax Received		158	21
Interest Received		56	39
		59,096	50,575
Cash Was Applied To:			
Payments to Suppliers and Employees		59,315	49,964
Income Tax Paid		11	158
Interest Paid		276	237
		59,602	50,359
Net Cash Flows (Used In) /From Operating Activities	(17)	**(506)**	**216**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Proceeds from Property, Plant & Equipment Sales		4	1
		4	1
Cash Was Applied To:			
Purchase of Property, Plant & Equipment		438	504
		438	504
Net Cash Flows Used In Investing Activities		**(434)**	**(503)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Advances		2,700	900
		2,700	900
Cash Was Applied To:			
Advances		1,500	900
		1,500	900
Net Cash Flows From Financing Activities		**1,200**	**-**
Net Increase/(Decrease) in Cash Held		260	(287)
Add Opening Cash Brought Forward		118	405
Closing Cash To Be Carried Forward		**378**	**118**

The accompanying notes on pages 15-24 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 31 March 2006

1. Statement of Accounting Policies

Reporting Entity

PowerNet Limited is a joint venture company and is registered under the Companies Act 1993. The parties to the joint venture are The Power Company Limited and Electricity Invercargill Limited and their interests are represented through their respective wholly owned subsidiaries Last Tango Limited and Pylon Limited.

PowerNet Limited manages the Networks of The Power Company Limited, Electricity Invercargill Limited, OtagoNet Joint Venture, Electricity Southland Limited and Stewart Island Electricity Supply Authority, those entities 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* and the *Financial Reporting Act 1993*.

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%-15.0%	straight line/diminishing value
Plant and Equipment	7.0%-48.0%	straight line/diminishing value
Motor Vehicles	26.0%	diminishing value
Office Equipment and EDP Equipment	9.0%-60.0%	straight line/diminishing value
Shared Assets	11.4%-48.0%	straight line/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) Revenue -

Line and Metering charges represent amounts invoiced to retailers in relation to services provided on behalf of the joint venture parties.

Network Revenue comprises amounts charged to the joint venture parties in relation to asset construction on their behalf.

(d) 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.

(e) Construction Work in Progress -

Work in Progress related to The Power Company Limited's and Electricity Invercargill Limited's 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.

(f) 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.

(g) 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.

(h) Income Tax -

The income tax expense charged against the surplus for the year is the estimated liability in respect of that surplus and is calculated after allowance for permanent differences between accounting and tax rules, and timing differences between accounting and tax rules that are not expected to crystallise in future periods.

The Company uses the liability method of accounting for deferred taxation and applies this on a partial basis.

Future tax benefits attributable to tax losses or timing differences are only recognised where there is virtual certainty of realisation.

(i) 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.

(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 year ended 31 March 2006.

	2006 $000	2005 $000
2. Operating Revenue		
Operating Revenue Comprises:		
Line and Metering Charges	45,458	42,035
Network Revenue	13,851	8,798
External Revenue	288	538
Interest Revenue	69	41
Surplus on Disposal of Property, Plant & Equipment	2	1
Other Revenue	1,246	778
Total Operating Revenue	**60,914**	**52,191**

	2006 $000	2005 $000
3. Operating Expenses		
Operating Expenses Include:		
Direct Costs	17,395	13,325
Transmission Charges	10,144	10,382
Use Charges	25,505	22,042
Interest Expense	301	251
Deficit on Disposal of Property, Plant & Equipment	3	5
Operating Lease Expenses		
- Tenancy and Repeater Site Leases	95	82
- Motor Vehicle Leases	107	104
- Office Equipment Leases	8	12
Total Operating Leases	210	198
Auditor's Fees		
- Audit of Financial Report	23	21
- Other Services	15	-
Bad Debts Written Off	7	4
Depreciation		
- Buildings	16	33
- Plant & Equipment	22	27
- Motor Vehicles	-	1
- Office Equipment & EDP Equipment	279	318
- Shared Assets	86	111
Total Depreciation	403	490
Directors' Fees	138	109
Scholarships and Awards	22	21
Donations	1	11
Subvention Payment	39	37

	2006 $000	2005 $000
4. Taxation		
Operating Surplus Before Taxation	93	165
Prima Facie Taxation at 33%	31	54
Plus/(Less) Taxation Effect Of:		
- Items Not Deductible for Taxation (Permanent Differences)	3	4
- Timing Differences between Taxable Income & Accounting Income not Recognised	(27)	(55)
- Prior Period Adjustment	(11)	-
Taxation Expense/(Benefit)	**(4)**	**3**

The total tax effect of timing differences not recognised is a deferred tax benefit of Nil (2005: $28,000).

Taxable Losses of $12,000 (2005: Nil) which have a taxation effect of $4,000 have been recognised.

	2006 $000	2005 $000
Imputation Credit Account		
Opening Credit Balance	227	90
Credits		
Income Tax Payments	11	158
Debits		
Income Tax Refunded	(158)	(21)
Closing Credit Balance	**80**	**227**

	2006 $000	2005 $000
5. Equity		
Paid in Capital		
20,000 ordinary shares fully paid	**20**	**20**
Retained Earnings		
Opening Balance	205	43
Net Surplus for the Period	97	162
Closing Balance	**302**	**205**
Total Equity	**322**	**225**

	2006 $000	2005 $000
6. Cash and Short Term Bank Deposits		
Current Account	38	28
Short Term Bank Deposits	340	90
Total Cash and Short Term Bank Deposits	**378**	**118**

	2006 $000	2005 $000
7. Receivables and Prepayments		
Owing by:		
Trade Debtors	4,662	3,852
The Power Company Limited	2,522	2,434
Electricity Invercargill Limited	654	502
	7,838	6,788
Prepayments	193	193
Total Receivables and Prepayments	**8,031**	**6,981**
8. Construction Work in Progress		
On behalf of:		
The Power Company Limited	2,206	1,182
Electricity Invercargill Limited	207	179
Third Party Customers	33	161
Total Construction Work in Progress	**2,446**	**1,522**
9. Inventories		
Network Spares and Sundry Network Consumables	**108**	**94**
10. Creditors and Accruals		
Owing to:		
Trade Creditors	4,574	4,412
Inland Revenue - GST Payable	199	75
The Power Company Limited	1,638	631
Electricity Invercargill Limited	840	1,293
Total Creditors and Accruals	**7,251**	**6,411**
11. Provision for Employee Entitlements		
Balance at start of period	367	314
Additional Provision Made	311	297
Amount Utilised	(313)	(244)
Total Provision for Employee Entitlements	**365**	**367**

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.

	2006 $000	2005 $000
12. Advances		
Advances from:		
The Power Company Limited	3,300	2,500
Electricity Invercargill Limited	1,650	1,250
Total Advances	**4,950**	**3,750**

Interest on the 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 each month.

The advance facility has no specified repayment terms.

13. Property, Plant & Equipment

	2006 $000	2005 $000
Land (at cost)	97	97
Buildings (at cost)	660	660
Accumulated depreciation	(359)	(343)
	301	317
Plant and Equipment (at cost)	423	415
Accumulated depreciation	(349)	(328)
	74	87
Motor Vehicles (at cost)	-	7
Accumulated depreciation	-	(5)
	-	2
Office Equipment & EDP Equipment (at cost)	3,625	3,387
Accumulated depreciation	(2,522)	(2,353)
	1,103	1,034
Shared Assets (at cost)	1,187	1,148
Accumulated depreciation	(911)	(828)
	276	320
Total Property, Plant and Equipment	**1,851**	**1,857**
Capital Work in Progress (at cost)	**59**	**23**

Valuation of Buildings

The Directors consider the carrying value for Land and Buildings to be representative of the fair value as at 31 March 2006.

14. Transactions with Related Parties

The parties to the PowerNet Limited Joint Venture consist of The Power Company Limited and Electricity Invercargill Limited through their respective subsidiaries Last Tango Limited and Pylon Limited. Electricity Southland Limited also has the same ownership as the PowerNet Limited Joint Venture. All transactions between PowerNet Limited, its joint venture parties 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 period.

Material transactions PowerNet Limited has had with the abovementioned related parties during the period, excluding on-charges incurred on behalf of related parties, are as follows:

	2006 $000	2005 $000
Asset Construction & Management Fees		
Supplied To:		
The Power Company Limited	11,653	7,018
Electricity Invercargill Limited	2,598	2,027
Electricity Southland Limited	10	10
Receivables Outstanding at Balance Date (GST incl):		
The Power Company Limited	2,522	2,434
Electricity Invercargill Limited	654	502
Electricity Southland Limited	1	1
Use Charges & Miscellaneous Charges		
Supplied By:		
The Power Company Limited	17,145	13,606
Electricity Invercargill Limited	8,704	8,728
Electricity Southland Limited	39	37
Creditors Outstanding at Balance Date (GST incl):		
The Power Company Limited	1,638	631
Electricity Invercargill Limited	840	1,293

Other Related Parties

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

- PowerNet Limited uses AWS Legal as its solicitors, of which Alan Harper is a Partner. Legal fees paid to AWS Legal during the period amounted to $25,000 (excl GST) (2005: $48,000 excl GST) of which $3,000 (incl GST) is owing at balance date.

All transactions between PowerNet Limited and AWS Legal relate to normal trading activities and have been conducted on a commercial basis.

	2006 $000	2005 $000

15. Commitments

Capital Commitments

There are no Capital Commitments as at 31 March 2006 (2005: $48,000).

Operating Lease Commitments

Operating Lease Commitments are payable as follows:

	2006 $000	2005 $000
- Not later than one year	152	84
- Later than one year and not later than two years	124	41
- Later than two years and not later than five years	98	41
Total Operating Lease Commitments	**374**	**166**

16. Contingent Liabilities

There are no Contingent Liabilities as at 31 March 2006 (2005: Nil).

17. Net Cash Flow from Operating Activities

The following is a reconciliation between the Net Surplus after Taxation shown in the Statement of Financial Performance and the net cash flow from operating activities.

	2006 $000	2005 $000
Net Surplus After Taxation	97	162
Add/(Less) Non Cash Items:		
Depreciation	403	490
	403	490
Add/(Less) Items Classified as Investing/Financing Activities:		
Deficit on Sale of Property, Plant & Equipment	3	5
Surplus on Sale of Property, Plant & Equipment	(2)	(1)
	1	4
Add/(Less) Movements in Working Capital:		
Increase/(Decrease) in Creditors, Accruals and Provisions	838	1,424
(Increase)/Decrease in Receivables and Prepayments	(1,050)	(1,246)
Decrease/(Increase) in Inventories	(14)	11
(Increase)/Decrease in Construction Work in Progress	(924)	(495)
(Increase)/Decrease in Taxation Receivable	143	(134)
	(1,007)	(440)
Net Cash Flow From/(Used In) Operating Activities	**(506)**	**216**

18. 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 Balance Date.

Maximum exposures to credit risk at balance date are:

	2006 $000	2005 $000
Current Account	38	28
Short Term Bank Deposits	340	90
Receivables	7,838	6,788
	8,216	**6,906**

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 7 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 related parties at balance date as disclosed in Note 14 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.

19. Disclosing the Impact of Adopting NZ International Financial Reporting Standards (NZ IFRS)

At the date of this report the Directors have established a project group which will assess the impact of adopting the New Zealand equivalents to New Zealand International Financial Reporting Standards (NZ IFRS) on the Company.

The project team has commenced a process of identifying those standards likely to impact on the Company's accounting policies, financial position, financial performance and disclosure but has not yet quantified the effect. The standards identified as likely to have some impact are as follows:

NZ IFRS 1 - First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards
NZ IAS 12 - Income Taxes
NZ IAS 16 - Property, Plant & Equipment
NZ IAS 17 - Leases
NZ IAS 18 - Revenue
NZ IAS 19 - Employee Benefits

Until the project team has completed the quantification phase of this exercise it is unable to conclude if the impact of adoption of NZ IFRS will result in a material variation in the Company's accounting policies and financial statements.

The Company is required to adopt NZ IFRS no later than for the year ending 31 March 2008. The project team is confident it will be able to achieve its plan for NZ IFRS implementation by that date.

The above differences from current accounting policy have not been quantified as, at this stage, the Company is unable to reliably quantify the effects. On adoption of NZ IFRS the majority of the transitional adjustments required will be made, retrospectively, against opening equity.

The areas identified above should not be taken as an exhaustive list of all the differences between NZ FRS and NZ IFRS.

The impacts discussed are based on management's current interpretation of the standards that have been released to date. There is potential for the significance of the impact to change when the Company prepares its first set of NZ IFRS financial statements due to changes in the standards, changes in our business, or changes in management's interpretation of the standards.

As we progress toward our proposed adoption date of 31 March 2008 the Company will continue to provide users of the financial statements with updated information about the likely impacts of NZ IFRS on the Company's earnings, cash flows and financial position.

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Auditors' Report

To the shareholders of PowerNet Limited

We have audited the financial statements on pages 12 to 24. The financial statements provide information about the past financial performance and cash flows of the Company for the year ended 31 March 2006 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 15 and 16.

Directors' Responsibilities

The Company's Directors are responsible for the preparation and presentation of the financial statements which give a true and fair view of the financial position of the Company as at 31 March 2006 and its financial performance and cash flows for the year ended on that date.

Auditors' Responsibilities

We are responsible for expressing an independent opinion on the financial statements presented by the Directors and reporting our opinion to you.

Basis of Opinion

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

(a) the significant estimates and judgements made by the Directors in the preparation of the financial statements; and
(b) whether the accounting policies are appropriate to the circumstances of the Company, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary 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 have no relationship with or interests in the Company other than in our capacity as auditors.

Unqualified Opinion

We have obtained all the information and explanations we have required.
In our opinion:

(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
(b) the financial statements on pages 12 to 24
   (i) comply with generally accepted accounting practice in New Zealand; and
   (ii) give a true and fair view of the financial position of the Company as at 31 March 2006 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 25 May 2006 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants
Dunedin

PowerNet
Limited