

PowerNet Limited  
2007 Annual Report



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## Directory

### Directors

Cam McCulloch (Chairman)  
Philip Mulvey (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

*Operations Manager*  
Gary Pritchard

*Network Manager (OtagoNet Area)*  
Terry Jones

*Network Connections Manager*  
Alaister Marshall

*System Control Manager*  
Kana Shanmuganathan

*Corporate Services Manager*  
Jim Dawson

*Business Development Manager*  
Lyn Daly

### Head Office

251 Racecourse Road  
PO Box 1642  
Invercargill 9840  
New Zealand  
Telephone: 03 211 1899  
Facsimile: 03 211 1875  
Website: [www.powernet.co.nz](http://www.powernet.co.nz)  
E-Mail: [powernet@powernet.co.nz](mailto:powernet@powernet.co.nz)

### Principal Bankers

The National Bank of New Zealand Limited

### Auditors

PricewaterhouseCoopers, Christchurch

### Solicitors

AWS Legal

**“We are again pleased with the Company's achievements this year...making it another successful year for PowerNet and the five networks it manages.”**

**Martin Walton**  
Chief Executive

## Overview

PowerNet Limited has completed another satisfactory year managing the network assets and operations of its two shareholder network owners Electricity Invercargill Limited (EIL) and The Power Company Limited (TPCL). It has also continued its management of similar network assets in Otago owned by the OtagoNet Joint Venture (OJV) and both network and generation assets of the Stewart Island Electricity Supply Authority (SIESA). The embedded network in Frankton, owned by Electricity Southland Limited, has also been expanded with plans well developed to establish its own supply from Transpower during late 2007.

Meeting the expectations of the different network owners, EIL whose shareholder is Invercargill City Holdings Limited, TPCL whose shareholder is the Southland Electric Power Supply Consumer Trust, OJV whose shareholders are EIL, TPCL and Marlborough Lines Limited and SIESA whose owner is the Southland District Council has been challenging with the increasing workload and resource constraint pressures. Administration processes however, including separate monthly reporting to the three network owner Boards of Directors, preparation of respective annual Information Disclosure Regulation returns, Commerce Commission Threshold Statements, Asset Management Plans and Annual Reports have all met governance and regulatory requirements. It was pleasing to once again receive unqualified audit reports for all three network owners and PowerNet.

An independent system condition survey of both the EIL and TPCL networks was carried out by Graeme Watson in September. This five yearly survey is a requirement of the Asset Management Agreements between PowerNet and the two network owners. The results of the survey were pleasing and showed that there had been no deterioration in the condition of the assets due to unsatisfactory maintenance and in some cases the condition of the assets had improved.

Increasing regulatory requirements have again involved time consuming efforts by PowerNet staff to ensure compliance in addition to addressing some major development work required for the different networks. The volume of work processed this year through PowerNet is almost unprecedented and future medium term projections of growth and regulatory creep will lead to further strain on resources.

In order to address this ongoing pressure, a Business Development Manager has been appointed to expedite and facilitate improvement in internal processes and to ensure integration and standardisation of all processes within the PowerNet managed networks. At the end of the year a new Operations Manager was also appointed to manage all operations and external service provisions. These two senior appointments will ensure PowerNet continues its development as the leading electricity network asset management company in New Zealand. It has also become evident during the past few months that further resources will be required to enable PowerNet to meet its operational and regulatory obligations and provide a sound foundation for meeting its opportunities for future development.

Following the restructure of the contracts for field services over the past two years and the establishment of Continuity Contracting Limited (CCL), the joint venture between EIL, TPCL and Netcon Limited, further developments during the year saw the acquisition of Netcon's shares in CCL by EIL and TPCL. The Company was renamed Power Services Limited (PSL) and is now managed locally under the governance of a board comprising of two Directors, one from EIL and one from TPCL.

The operation of the Alliance Agreement between Transfield Services Limited and PowerNet has been generally very satisfactory albeit that work has been deferred due to design resource constraints mainly attributable to the large volume of design work required on the network in connection with the White Hill wind farm.

## The Year In Review

# The Year In Review continued

It has been pleasing to see the emphasis of the two contracting companies, Otago Power Services Limited (OPSL) and Power Services Limited, on significantly increasing the number of trainees to provide for the future. It was this lack of investment in both staff and plant by the previous smaller contracting companies that led to the move by PowerNet three years ago to restructure its contracts to prepare for the projected increase in workload in the future.

Extensive capital development work on the TPCL 66kV subtransmission network to transport the output of the 58 MW Meridian Energy Limited White Hill wind farm and a vigorously expanding Southland economy has resulted in minimal line maintenance and renewal work being carried out this year on that network. As this constraint on resources applies throughout New Zealand, non urgent line maintenance and renewals may again be deferred in 2007/08 to allow the Company to meet its obligations in satisfying the growing demands on the two Southland networks. This situation should ease in the coming years as the current high investment in training provides a return.

Although some line maintenance and renewals have been deferred, all major equipment maintenance has been carried out and in ensuring compliance with the Tree Regulations, tree trimming costs have doubled compared to previous years.

A decline in the number of new connections to the OJV network has permitted a major increase in maintenance and renewal expenditure over the past year. Recent increases in line charge revenue and a three year training programme has allowed the expenditure on the network to increase from about \$4 million to over \$8 million during the past two years. This extra work is beginning to make a noticeably favourable impact on both the overall average age of the assets and supply reliability.

It was pleasing to see that in spite of work pressures on our two major line contracting companies, they both sent line crews to

Canterbury to assist during the severe snow storm in June. This industry has always been renowned for each company's willing co-operation and assistance to each other in times of a catastrophic event and the contribution of our contracting staff who volunteered to assist further north at that time is much appreciated.

The total Optimised Deprival Valuations (ODV's) of the three large networks managed by PowerNet is over \$350 million with 13,500 kms of lines, 69 zone substations, 14,400 transformers and 64,700 connected installations. The three networks represent diverse topography, climate zones, customer density and technical design and equipment.

Investigation continued into a suitable Business Process System for PowerNet. As the system will impact on all PowerNet's operations it is vital that the investigation and planning is thorough and well executed. Good progress is being made and implementation should commence in 2007/08.

## Financial Results

The compartmentalised financial results for the two shareholder network owners EIL and TPCL for the year were satisfactory. Although line charge revenue for all three networks was above the respective estimates, major equipment faults and increased vegetation control costs adversely affected the results for the year for TPCL and OJV.

OtagoNet Joint Venture provided a better than estimated return on investment but capital expenditure also continued to increase as additional investment was required on the OJV network to renew aged and deteriorated assets before long term network reliability is adversely affected.

All networks experienced significant increases in capital costs due to the sharp increases in the price of metals, most noticeably copper. In conjunction with labour cost increases in excess of CPI due to "supply and demand" forces, including strong

international competition for skilled and experienced staff, typical capital costs have increased in the region of 35% since 2004.

## 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 64,700 customers connected to all the networks. 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. This facility also enables PowerNet to meet its Commerce Commission quality threshold regulation monitoring and reporting requirements in an efficient and technologically effective manner.

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 35.65 minutes compared to the Business Plan target of 35 minutes and the Commerce Commission target of 35.44 minutes. Reflecting the extensive underground city network, the SAIDI for the Invercargill City customers (ie excluding Bluff township) was only 17.5 minutes. Both SAIDI and SAIFI (System Average Interruption Frequency Index) breached the Commerce Commission quality threshold targets, the main reason being attributable to an interruption to supply (equivalent SAIDI of 3.4 minutes) caused by a changed protection configuration at one of the zone substations.

The SAIDI for TPCL of 178 minutes was significantly better than the Commerce Commission target of 240 minutes but did not meet the Business Plan target of 146 minutes. The main reason for this result was the increased level of tree trimming activity and a relaxation in live line work policy limits to allow more work to be carried out on the lines at a lower cost.

The SAIDI for OJV was 470 minutes compared to the Business Plan target of 355

minutes and the Commerce Commission target of 250 minutes. The OJV results again 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 293 minutes, far exceeding both recent annual levels and the original Business Plan target of 215 minutes. The SAIDI for unplanned interruptions was 177 minutes compared to the Business Plan target of 140 minutes. The predominance of radial lines and pole failures during periods of gale force winds reflected not only the design of the network but also the need for the current high level of expenditure on the lines to avoid further deterioration of supply quality.

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

## Industry Developments

Directors of all three major networks and PowerNet are in general pleased 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 after taking into account the price path regulation and the financial requirements of the businesses. They also recognise the quality breaches by EIL and OJV are attributable to a protection incident on the EIL network and the increased capital expenditure which has resulted in more planned supply interruptions on the OJV network. Results for both networks do not indicate a serious deterioration in performance of the network assets.

Through contracting their business management to PowerNet, the network owners and their stakeholders are continuing to obtain financial and operational benefits from the resulting economies of scale and yet still retain their individual sovereignty over their respective assets.

With the ever increasing bureaucratic creep into the management and governance of lines businesses, PowerNet, a specialised distribution network management company, is continuing to experience a concerning pull on its resources away from its core business of network management towards industry administration and regulatory compliance.

Major uncertainties still exist over the type of regulatory regime to be introduced after the reset in 2009 with the picture now more clouded by the review of the Commerce Act Section 4A. To meet consumer demand on the networks, significant investment is required over the next few years and Directors must be confident of receiving an adequate commercial return if the necessary investment is to be realised. This is especially important following the large increases in costs making the last

ODV review in 2004 seriously outdated.

Two of the large networks managed by PowerNet have consumers who also exercise governance control either through elected consumer trustees or a local body. Directors of these two companies remain concerned that the increasing time and costs involved in the regulatory regime will bring minimal, if any, cost benefit to their consumers while diverting scarce resources from focussing on improving the business to regulatory compliance.

## Corporate Citizenship

PowerNet and its shareholding companies are keen to demonstrate that they are meeting the expectations of the communities they serve as a good corporate citizen.

The continuing sponsorship of the PowerNet Cycle Tour of Southland and a one-off contribution to the new indoor ILT Velodrome shows PowerNet's commitment to the people of Southland.

The fiftieth PowerNet Cycle Tour of Southland was again an extremely successful sponsorship for the Company. It was the sixth year PowerNet has sponsored the event and it is proving a popular and important sponsorship in Southland.



Graeme Webby

# The Year In Review continued

This international race is increasingly recognised throughout the cycling world and is a great opportunity for PowerNet to support the communities throughout Southland and parts of Central Otago in hosting this great event.

The new velodrome is an enormous asset within Southland and is already attracting increasing numbers of young and older riders. Cycling is a growing sport and leisure activity and adds to the well being of the people of Southland and the Tour and velodrome encourage participation in this environmentally friendly and healthy sport.

During the year PowerNet awarded a scholarship for a second electrical engineering student to complete his degree with suitable vacation employment and training provided.

The vehicle provided to the Deep Cove Outdoor Education Trust over ten years ago reached the end of its life during the year. Almost all school children in Southland will spend time at Deep Cove and this vehicle provides a necessary service in the area. The Company was pleased to provide a suitable replacement vehicle for the Trust.

A major campaign conducted this year by PowerNet was the offer of energy efficient light bulbs at a discounted price to all EIL and TPCL residential consumers. This campaign was on behalf of and funded by EIL and TPCL and their respective owners, Invercargill City Council and the Southland Electric Power Supply Consumer Trust together with the Electricity Commission.

## Human Resources

Human resources are a key strength to PowerNet and the retention and development of staff are a high priority.

Increasing workloads due to business expansion, the need for better business processes and information availability to improve asset management efficiency and regulatory compliance resulted in a small restructure and four extra staff appointments in Invercargill.

A further project engineer was appointed in the Balclutha office to cope with the sharp increase in maintenance and capital work on the OJV network.

Further reviews of our staff complement will be carried out to ensure PowerNet employs enough suitably qualified and trained staff to maintain its essential services in the future.

The Company again encouraged staff involvement in sporting activities and this year two cycle teams competed in a corporate cycling challenge at the velodrome. PowerNet volleyball and table tennis teams also competed in local competitions.

We are again 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 successful year for PowerNet and the five networks it manages.



**Cam McCulloch**  
Chairman

**Martin Walton**  
Chief Executive



Photo courtesy of The Southland Times

“The fiftieth PowerNet Cycle Tour of Southland was again an extremely successful sponsorship for the Company”



White Hill Wind Farm - Photo courtesy of Graham Dainty

# Major Projects

## Electricity Invercargill Limited

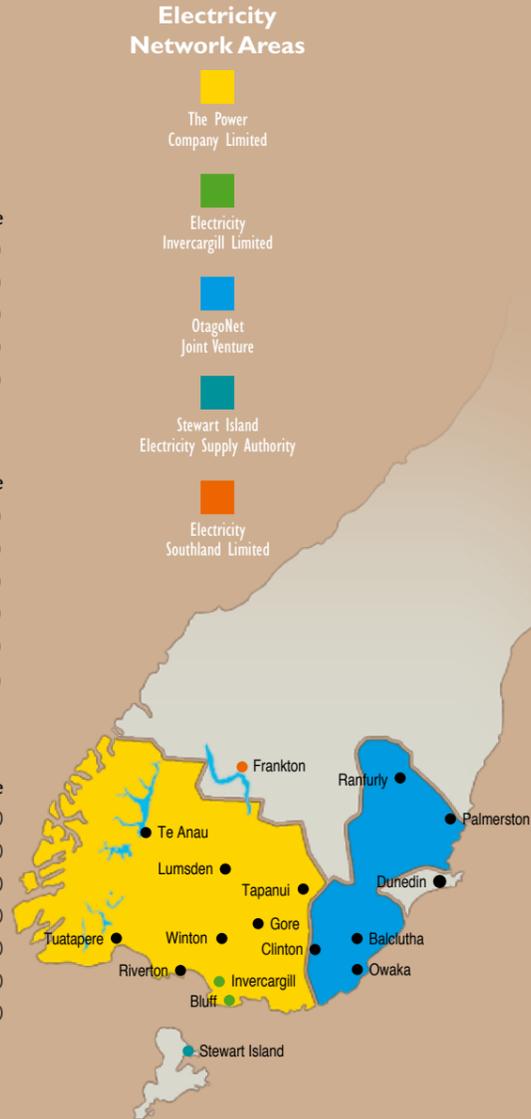
Project	Approximate Expenditure
Lamond and Salford Street Area, Invercargill – Undergrounding	\$439,000
New Customer Connections	\$276,000
Distribution Transformer Replacements	\$221,000
Racecourse Road and Thurso Street Area, Invercargill - Undergrounding	\$89,000
Ring Main Unit Replacements	\$52,000

## OtagoNet Joint Venture

Project	Approximate Expenditure
Refurbishment of 11kV Lines and Distribution Transformer Replacements	\$1,929,000
New Customer Connections	\$1,296,000
Vegetation Management	\$1,031,000
Transformer Replacements at Palmerston, Port Molyneux and Kaitangata Substations	\$992,000
Purakanui and Kaka Point Township Upgrades	\$289,000
Single Wire to Two/Three Phase Conversions	\$200,000

## The Power Company Limited

Project	Approximate Expenditure
White Hill Wind Farm Network Re-inforcement	\$3,752,000
New Customer Connections	\$2,164,000
Reticulation of New Subdivisions	\$1,691,000
North Makarewa - Winton 66kV Line and Bainfield Road, Invercargill 33kV Cables	\$1,414,000
Vegetation Management	\$1,220,000
Winton, Waikiwi and Monowai Substation Upgrades	\$1,154,000
Refurbishment of 11kV Lines and Distribution Transformer Replacements	\$1,117,000



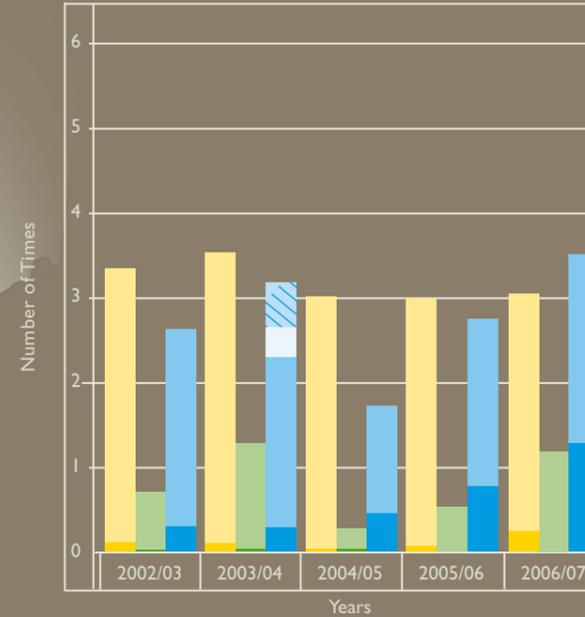
# PowerNet Network Comparisons

	TPCL	EIL	OJV	ESL	SIESA
	Southland Electric Power Supply Consumer Trust	Invercargill City Holdings Limited	Joint Venture	Electricity Invercargill Limited/The Power Company Limited	Southland District Council
Network Ownership					
Connected Consumers	32,600	16,900	14,700	101	416
Network Length	8,500km	680km	4,300km	3.5km	36km
Consumer Density	3.8 consumers/km	24.8 consumers/km	3.4 consumers/km	28.9 consumers/km	11.5 consumers/km
Number of Distribution Transformers	10,000	440	4,000	2	35
Distribution Transformer Capacity	340MVA	146MVA	146MVA	0.8MVA	1.8MVA
Distribution Transformer Capacity Density	40kVA/km	215kVA/km	34kVA/km	229kVA/km	50kVA/km
Maximum Demand	114MW	64MW	55MW	0.6MW	0.5MW
Total Energy Conveyed	698GWh	288GWh	376GWh	2GWh	1.8GWh

# Reliability

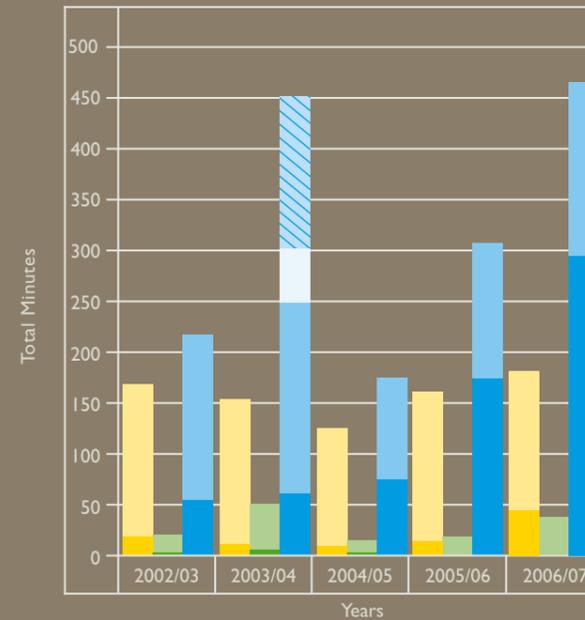
## System Average Interruption Frequency Index (SAIFI)

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 2007.

## 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 \$206,000. A dividend of \$200,000 was paid out during the year. No other dividends have been declared for the year ended 31 March 2007.

## 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 (Deputy Chairman)
- Neil Boniface
- Geoffrey Piercy
- Ross Smith

Appointed by The Power Company Limited are:

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

## 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:

- Owner, either alone or jointly with others.
- Parent, child or spouse of another person who may have a material interest in a property.
- Director, officer or shareholder of a body corporate which may have a material interest in a property.
- 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.



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

### Cam McCulloch

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

Consultant  
Chairman  
Deputy Chairman  
Director  
Director  
Director  
Director  
Chairman

### Neil Boniface

Electricity Invercargill Ltd  
Invercargill Licensing Trust  
Invercargill City Council  
Southland Driving School  
Bond Contracts Ltd  
Pylon Ltd  
OtagoNet Joint Venture  
OtagoNet Ltd  
Electricity Southland Ltd

Chairman  
Member  
Deputy Mayor  
Director  
Alternate Director  
Director  
Member,  
Governing Committee  
Director  
Director

### Maryann Macpherson

The Power Company Ltd  
Last Tango Ltd  
Electricity Southland Ltd  
Power Services Ltd  
Invercargill City Council  
Electricity Invercargill Ltd  
Pylon Ltd  
Electricity Southland Ltd  
Invercargill Te Ara a Kewa Primary Health Organisation  
Grey Power Southland

Director  
Director  
Director  
Director  
Councillor  
Director  
Director  
Director  
Director  
President

### Geoffrey Piercy

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

Director  
Director  
Director  
Director  
Director  
President

### Ross Smith

Southland Building Society  
Southsure Assurance Ltd  
Finance Now Ltd  
Funds Administration NZ Ltd  
Fraser Properties Ltd  
Rural Livestock Finance Ltd  
Electricity Invercargill Ltd  
Pylon Ltd  
Electricity Southland Ltd  
Power Services Ltd

Director, Chief Executive Officer  
Director  
Director  
Director  
Director  
Director  
Director  
Director  
Director

### Philip Mulvey

Cook Adam and Co  
Cook Adam and Co Ltd  
Forest Dynamics Ltd  
Zak Holdings Ltd  
Southland Outdoor Stadium Trust  
Electricity Invercargill Ltd  
United Pacific Energy Ltd  
Investor Group New Zealand Ltd  
Pylon Ltd  
ABCO Meats Ltd  
Electricity Southland Ltd  
WHK (New Zealand) Ltd

Managing Partner  
Director  
Director  
Chairman  
Trustee  
Director  
Director  
Director  
Director  
Director  
Director

### Douglas Fraser

The Power Company Ltd  
Last Tango Ltd  
Electricity Southland Ltd  
NZ Wool Board  
Disestablishment Company  
The Power Company Ltd  
Bond Contracts Ltd  
Southland Finance Ltd  
AWS Legal  
Last Tango Ltd  
OtagoNet Joint Venture  
OtagoNet Ltd  
Electricity Southland Ltd

Director  
Director  
Director  
Director  
Director  
Chairman  
Chairman  
Director  
Partner  
Director  
Chairman,  
Governing Committee  
Director  
Director

### Alan Harper

The Power Company Ltd  
Bond Contracts Ltd  
Southland Finance Ltd  
AWS Legal  
Last Tango Ltd  
OtagoNet Joint Venture  
OtagoNet Ltd  
Electricity Southland Ltd

Chairman  
Chairman  
Director  
Partner  
Director  
Chairman,  
Governing Committee  
Director  
Director

## Remuneration of Directors

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

Cam McCulloch	-	Chairman, Chairman Audit Committee, Chairman Remuneration Committee
Philip Mulvey	-	Deputy Chairman, Member 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:

Cam McCulloch	\$27,000	Alan Harper	\$15,000
Philip Mulvey	\$21,000	Maryann Macpherson	\$15,000
Neil Boniface	\$15,000	Geoffrey Piercy	\$15,000
Douglas Fraser	\$15,000	Ross Smith	\$15,000

## Employee Remuneration

Five continuing employees received remuneration in the following bands:

\$100,000 - \$110,000		\$160,000 - \$170,000	
\$120,000 - \$130,000		\$290,000 - \$300,000	
\$140,000 - \$150,000			

## Scholarships, Awards and Donations

During the year the Company promoted learning through various scholarships and awards which totalled \$9,000. 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.

Cam McCulloch  
Chairman

Philip Mulvey  
Deputy Chairman

# Directors' Profiles

## Cam McCulloch

Chairman  
FCA

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

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

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

## Philip Mulvey

Deputy Chairman  
BCom CA

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

He is Chief Executive of WHK Cook Adam Ward Wilson, 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.

## 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 OtagoNet 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 Chairman of Power Services 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 Power Services Limited.



## Approval By Directors

The Directors have approved the Financial Statements of PowerNet Limited for the year ended 31 March 2007 on pages 12 to 24.

  
**Cam McCulloch**  
Chairman of Directors

  
**Philip Mulvey**  
Deputy Chairman of Directors

For and on behalf of the Board of Directors  
31 May 2007

## Statement of Financial Performance

for the year ended 31 March 2007

	Note	2007 \$000	2006 \$000
Operating Revenue	(2)	67,066	60,914
Operating Expenses	(3)	(66,856)	(60,821)
<b>Operating Surplus before Taxation</b>		210	93
Taxation (Expense)/Benefit	(4)	(4)	4
<b>Net Surplus after Taxation</b>		<b>206</b>	<b>97</b>

## Statement of Movements in Equity

for the year ended 31 March 2007

	2007 \$000	2006 \$000
Net Surplus for the Year	206	97
<b>Total Recognised Revenues and Expenses</b>	<b>206</b>	<b>97</b>
Contributions from Shareholders	-	-
<b>Distributions to Shareholders</b>		
Dividend Paid	(200)	-
<b>Movements in Equity for the Year</b>	<b>6</b>	<b>97</b>
Equity at start of Year	322	225
<b>Equity at end of Year</b>	<b>328</b>	<b>322</b>

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 2007

	Note	2007 \$000	2006 \$000
<b>Equity</b>			
Paid in Capital	(5)	20	20
Retained Earnings	(5)	308	302
<b>Total Equity</b>		<b>328</b>	<b>322</b>
<b>Represented By:</b>			
<b>Current Assets</b>			
Cash and Short Term Bank Deposits	(6)	303	378
Receivables and Prepayments	(7)	8,382	8,031
Construction Work in Progress	(8)	3,452	2,446
Inventories	(9)	137	108
Taxation Receivable		30	15
<b>Total Current Assets</b>		<b>12,304</b>	<b>10,978</b>
<b>Non-Current Assets</b>			
Property, Plant & Equipment	(13)	1,912	1,851
Capital Work in Progress	(13)	257	59
<b>Total Non-Current Assets</b>		<b>2,169</b>	<b>1,910</b>
<b>Total Assets</b>		<b>14,473</b>	<b>12,888</b>
<b>Current Liabilities</b>			
Creditors and Accruals	(10)	8,783	7,251
Provision for Employee Entitlements	(11)	412	365
<b>Total Current Liabilities</b>		<b>9,195</b>	<b>7,616</b>
<b>Non-Current Liabilities</b>			
Advances	(12)	4,950	4,950
<b>Total Non-Current Liabilities</b>		<b>4,950</b>	<b>4,950</b>
<b>Total Liabilities</b>		<b>14,145</b>	<b>12,566</b>
<b>Net Assets</b>		<b>328</b>	<b>322</b>

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 2007

	Note	2007 \$000	2006 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash Was Provided From:</b>			
Receipts from Customers		65,689	58,882
Income Tax Received		11	158
Interest Received		55	56
		65,755	59,096
<b>Cash Was Applied To:</b>			
Payments to Suppliers and Employees		64,632	59,315
Income Tax Paid		30	11
Interest Paid		344	276
		65,006	59,602
<b>Net Cash Flows From / (Used In) Operating Activities</b>	(17)	<b>749</b>	<b>(506)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash Was Provided From:</b>			
Proceeds from Property, Plant & Equipment Sales		3	4
		3	4
<b>Cash Was Applied To:</b>			
Purchase of Property, Plant & Equipment		627	438
		627	438
<b>Net Cash Flows Used In Investing Activities</b>		<b>(624)</b>	<b>(434)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash Was Provided From:</b>			
Advances		4,200	2,700
		4,200	2,700
<b>Cash Was Applied To:</b>			
Advances		4,200	1,500
Dividend Paid		200	-
		4,400	1,500
<b>Net Cash Flows (Used In)/From Financing Activities</b>		<b>(200)</b>	<b>1,200</b>
Net (Decrease)/Increase in Cash Held		(75)	260
Add Opening Cash Brought Forward		378	118
<b>Closing Cash To Be Carried Forward</b>	(6)	<b>303</b>	<b>378</b>

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 2007

### I. 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
Office Equipment and EDP Equipment	9.0%-80.4%	straight line/diminishing value
System Control 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 2007.

**2. Operating Revenue**

*Operating Revenue Comprises:*

Line and Metering Charges	46,369	45,458
Network Revenue	18,335	13,851
External Revenue	326	288
Interest Revenue	42	69
Surplus on Disposal of Property, Plant & Equipment	-	2
Other Revenue	1,994	1,246

**Total Operating Revenue****2007  
\$000****2006  
\$000****67,066****60,914****3. Operating Expenses**

*Operating Expenses Include:*

Direct Costs	22,799	17,395
Transmission Charges	12,002	10,144
Use Charges	24,135	25,505
Interest Expense	403	301
Deficit on Disposal of Property, Plant & Equipment	-	3
Operating Lease Expenses		
- Tenancy and Repeater Site Leases	99	95
- Motor Vehicle Leases	123	107
- Office Equipment Leases	8	8
Total Operating Leases	230	210
Auditor's Fees		
- Audit of Financial Report	24	23
- Other Services	4	15
Bad Debts Written Off	1	7
Depreciation		
- Buildings	13	16
- Plant & Equipment	18	22
- Office Equipment & EDP Equipment	263	279
- System Control Assets	71	86
Total Depreciation	365	403
Directors' Fees	138	138
Scholarships and Awards	9	22
Donations	1	1
Subvention Payment	-	39

Notes to and Forming Part of the Financial Statements  
continued

for the year ended 31 March 2007

2007  
\$000

2006  
\$000

4. Taxation

Operating Surplus Before Taxation	210	93
Prima Facie Taxation at 33%	69	31
<b>Plus/(Less) Taxation Effect Of:</b>		
- Items Not Deductible for Taxation (Permanent Differences)	(36)	3
- Timing Differences between Taxable Income & Accounting Income not Recognised	(23)	(27)
- Prior Period Adjustment	-	(11)
- Losses Not Previously Recognised	(6)	-
<b>Taxation Expense/(Benefit)</b>	<b>4</b>	<b>(4)</b>

The total tax effect of timing differences not recognised is a deferred tax liability of \$23,000 (2006: Nil).

Taxable Losses of Nil (2006: \$18,000) which have a taxation effect of Nil (2006: \$6,000) have been recognised.

Imputation Credit Account

Opening Credit Balance	80	227
<i>Credits</i>		
Income Tax Payments	30	11
<i>Debits</i>		
Income Tax Refunded	(11)	(158)
Imputation Credits on Dividend Paid	(98)	-
<b>Closing Credit Balance</b>	<b>1</b>	<b>80</b>

5. Equity

<b>Paid in Capital</b>		
20,000 ordinary shares fully paid	20	20
<b>Retained Earnings</b>		
Opening Balance	302	205
Net Surplus for the Period	206	97
Dividend Paid	(200)	-
<b>Closing Balance</b>	<b>308</b>	<b>302</b>
<b>Total Equity</b>	<b>328</b>	<b>322</b>

6. Cash and Short Term Bank Deposits

Current Account	73	38
Short Term Bank Deposits	230	340
<b>Total Cash and Short Term Bank Deposits</b>	<b>303</b>	<b>378</b>

Notes to and Forming Part of the Financial Statements  
continued

for the year ended 31 March 2007

2007  
\$000

2006  
\$000

7. Receivables and Prepayments

<i>Owing by:</i>		
Trade Debtors	3,436	4,662
The Power Company Limited	4,076	2,522
Electricity Invercargill Limited	642	654
	8,154	7,838
Prepayments	228	193
<b>Total Receivables and Prepayments</b>	<b>8,382</b>	<b>8,031</b>

8. Construction Work in Progress

<i>On behalf of:</i>		
The Power Company Limited	3,164	2,206
Electricity Invercargill Limited	271	207
Third Party Customers	17	33
<b>Total Construction Work in Progress</b>	<b>3,452</b>	<b>2,446</b>

9. Inventories

Network Spares and Sundry Network Consumables	137	108
---	-----	-----

10. Creditors and Accruals

<i>Owing to:</i>		
Trade Creditors	5,306	4,574
Inland Revenue - GST Payable	200	199
The Power Company Limited	1,868	1,638
Electricity Invercargill Limited	1,409	840
<b>Total Creditors and Accruals</b>	<b>8,783</b>	<b>7,251</b>

11. Provision for Employee Entitlements

Balance at start of period	365	367
Additional Provision Made	349	311
Amount Utilised	(302)	(313)
<b>Total Provision for Employee Entitlements</b>	<b>412</b>	<b>365</b>

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.

## 12. Advances

Advances from:

	2007 \$000	2006 \$000
The Power Company Limited	3,300	3,300
Electricity Invercargill Limited	1,650	1,650
<b>Total Advances</b>	<b>4,950</b>	<b>4,950</b>

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

Land (at cost)	97	97
Buildings (at cost)	667	660
Accumulated depreciation	(371)	(359)
	296	301
Plant and Equipment (at cost)	483	423
Accumulated depreciation	(363)	(349)
	120	74
Office Equipment & EDP Equipment (at cost)	3,919	3,625
Accumulated depreciation	(2,775)	(2,522)
	1,144	1,103
System Control Assets (at cost)	1,237	1,187
Accumulated depreciation	(982)	(911)
	255	276
<b>Total Property, Plant and Equipment</b>	<b>1,912</b>	<b>1,851</b>
Capital Work in Progress (at cost)	257	59

### Valuation of Buildings

The Directors consider the carrying value for Land and Buildings to be representative of the fair value as at 31 March 2007.

## 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:

	2007 \$000	2006 \$000
<b>Asset Construction &amp; Management Fees</b>		
<b>Supplied To:</b>		
The Power Company Limited	16,444	11,653
Electricity Invercargill Limited	2,390	2,598
Electricity Southland Limited	124	10
<b>Receivables Outstanding at Balance Date (GST incl):</b>		
The Power Company Limited	4,076	2,522
Electricity Invercargill Limited	642	654
Electricity Southland Limited	10	1
<b>Use Charges &amp; Miscellaneous Charges</b>		
<b>Supplied By:</b>		
The Power Company Limited	15,443	17,145
Electricity Invercargill Limited	9,110	8,704
Electricity Southland Limited	-	39
<b>Creditors Outstanding at Balance Date (GST incl):</b>		
The Power Company Limited	1,868	1,638
Electricity Invercargill Limited	1,409	840

### 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 \$28,000 (excl GST) (2006: \$25,000 excl GST) of which \$1,000 (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.

2007  
\$0002006  
\$000**15. Commitments****Capital Commitments**

Capital Commitments as at 31 March 2007 total \$63,000 (2006: Nil).

**Operating Lease Commitments**

Operating Lease Commitments are payable as follows:

- Not later than one year	196	152
- Later than one year and not later than two years	108	124
- Later than two years and not later than five years	70	98

**Total Operating Lease Commitments**

374 374

**16. Contingent Liabilities**

There are no Contingent Liabilities as at 31 March 2007 (2006: 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.

<b>Net Surplus After Taxation</b>	206	97
<b>Add/(Less) Non Cash Items:</b>		
Depreciation	365	403
	365	403
<b>Add/(Less) Items Classified as Investing/Financing Activities:</b>		
Deficit on Sale of Property, Plant & Equipment	-	3
Surplus on Sale of Property, Plant & Equipment	-	(2)
	-	1
<b>Add/(Less) Movements in Working Capital:</b>		
Increase/(Decrease) in Creditors, Accruals and Provisions	1,579	838
(Increase)/Decrease in Receivables and Prepayments	(351)	(1,050)
(Increase)/Decrease in Inventories	(29)	(14)
(Increase)/Decrease in Construction Work in Progress	(1,006)	(924)
(Increase)/Decrease in Taxation Receivable	(15)	143
	178	(1,007)
<b>Net Cash Flow From/(Used In) Operating Activities</b>	<b>749</b>	<b>(506)</b>

**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:

	2007 \$000	2006 \$000
Current Account	73	38
Short Term Bank Deposits	230	340
Receivables	8,154	7,838
	<b>8,457</b>	<b>8,216</b>

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 2007 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 2007 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 and advisors on industry related matters.

### 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 2007 and its financial performance and cash flows for the year ended on that date.

Our audit was completed on 31 May 2007 and our unqualified opinion is expressed as at that date.



Chartered Accountants

Christchurch



**PowerNet**  
Limited

+ -