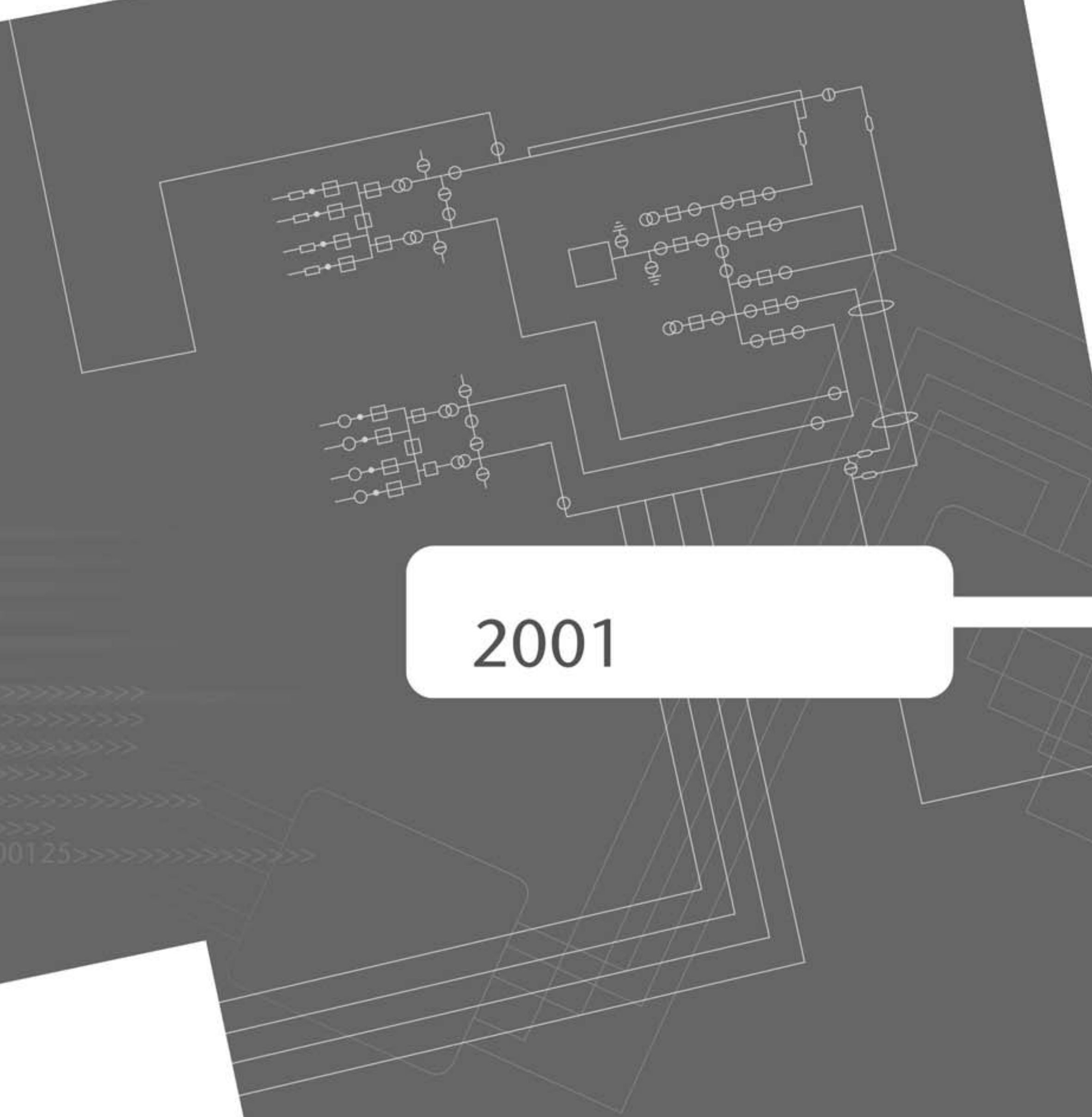
The Power Company Limited Annual Report



2001

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Directory

Directors
Alan Harper (Chairman)
Owen Buckingham (Deputy Chairman)
Murray Frost
Cam McCulloch

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New Zealand

Telephone: 03 211 1870
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Principal Bankers
The National Bank of New Zealand Limited

Auditors
Audit New Zealand on behalf of the Controller and Auditor General

Solicitors
Arthur Watson Savage

1.0 Financial

The Group produced a pre-tax Operating Surplus before Discount of $6.887 million (2000 - $5.059 million). It was pleasing to see a significant part of the increase resulted from increased revenue due to growth related consumption. The increased revenue and reduced Transpower costs enabled the Company to credit an inaugural discount to consumers of $2.290 million (inclusive of GST).

The Operating Surplus before Taxation of $4.851 million (2000 - $5.059 million) was achieved after crediting the discount of $2.038 million (excluding GST). The discount was credited to consumers with the co-operation of electricity retailers in May 2001.

During the year the Company revalued its Network System Assets to Depreciated Replacement Cost (DRC) and this contributed to an increase in equity of $122.485 million through the Asset Revaluation Reserve. Total equity of the Group is now $176.954 million. The adoption of the DRC valuation recognises the value of the Company's reticulation system and brings the Company into line with the vast majority of New Zealand's line businesses.

Following the revaluation a change in the basis of depreciation was necessary and was adopted to result in depreciation more truly reflecting the capital expenditure required to maintain the existing condition of the network. The increase in depreciation for the three months following the revaluation was $605,000. This equates to an annual depreciation of $7.7 million, or an increase in the region of $2.4 million.

Overall, the operating results supported by the strong financial position and operating cashflow and continued growth prospects in the Southland region has the Company well positioned for the future.

The consolidated result and returns for the Group are:

	30 June 2001 $000	30 June 2000 $000
Operating Surplus before Discount	6,887	5,059
Less Discount to Consumers	(2,036)	-
Operating Surplus before Taxation	**4,851**	**5,059**
Less Taxation Expense	(1,499)	(1,674)
Less Share of Associate Companies Deficit	(12)	(239)
Net Surplus	**3,340**	**3,146**

	Projected	Actual (Exclusive of Revaluation)	Actual (Inclusive of Revaluation)
Earnings Before Interest & Tax	7.36%	7.79%	2.57%
Return on Equity	5.29%	6.13%	1.89%

2.0 Industry Environment

The main impact on the industry during the year eventuated from the Ministerial Inquiry, subsequent Electricity Reform Bill and Select Committee submission process. The Bill included targeted regulation of line companies through the Commerce Commission, a model Use of System Agreement, a 10% maximum fixed line charge option for domestic consumers and an ability for line companies to generate from new renewable energy sources.

Submissions to the Select Committee included more stringent requirements for line companies to gain access to their equipment on private property.

Although the Bill had not been enacted at the end of the financial year, it was due to be enacted during August 2001.

3.0 Line Business

The ownership of electricity distribution network assets provides the major source of income for the Company.

The net contribution is mainly attributable to the Use Charge received from PowerNet Limited for the lease of the network assets.

This Use Charge calculation takes into account a specified rate of return on the book value of the assets, depreciation and the corporate costs of the Company.

The statistics provided to the Ministry of Commerce under the Electricity (Information Disclosure) Regulations showed a continuing improvement in the performance of the network during the 2000/2001 year.

The reliability statistics also exceeded the targets in the Statement of Corporate Intent for the year and are as follows:

SAIFI - System Average Interruption Frequency Index

(the average number of times each customer connected to the network is without supply)

	Target	Actual
Planned	0.53	0.13
Unplanned	5.10	3.09

SAIDI - System Average Interruption Duration Index

(the average total times in minutes each customer connected to the network is without supply)

	Target	Actual
Planned	57.50	19.15
Unplanned	300	130.69

This continuing improvement in performance can be attributed to the continuing investment of the Company in improving the control and automation of the subtransmission network, the reconstruction of older lines and replacement of obsolete switchgear, improved targeted maintenance programmes and increased live line working. Only one storm was declared during the year.

As well as the improvement in the network performance figures, it was also pleasing to the Directors that operational costs reduced for this year.

Metering assets and load control relays were also retained by the Company and managed by PowerNet Limited during this year.

The fixed assets of the Company were revalued to the depreciated replacement cost.

4.0 PowerNet Limited

The Power Company Limited retained its 50% shareholding in PowerNet Limited, a joint venture with Electricity Invercargill Limited. PowerNet is responsible for managing the Company's network and meter assets.

This management is executed through a capital and maintenance works programme which constitutes the major part of the Business Plan approved by the PowerNet and The Power Company Limited Directors.

PowerNet publishes its own annual report and as it is a break-even company its performance is reflected in the reliability statistics and line charges for each of its respective networks that it manages. In this regard, PowerNet has shown a further improvement on its previous years' performances.

Although PowerNet was established as a break-even company, the revenue and expenditure are compartmentalised for each of the networks that it manages and the profit or loss for each compartment is identifiable as a component of the overall profit or loss.

The profit in The Power Company Limited compartment for 2000/2001 was much higher than anticipated due to increased revenue mainly from higher consumption and lower than anticipated Transpower costs. As a result PowerNet has been in a position to pay a dividend of $830,000 (2000 - $700,000) to The Power Company Limited.

5.0 Investment and Development

All investigations to increase investment and development have been channelled through the joint venture company PowerNet Limited, particularly those with a view to obtaining further economies of scale and improved efficiencies of network management.

The Year In Review (cont)

The following major projects were completed during the year.

Project	Approximate Expenditure
North Makarewa Upgrade	$3,056,000
New Customer Connections	$1,471,000
Mining Operation, Waikaka New Supply	$1,071,000
Heddon Bush Substation Upgrade	$792,000
Riverton Substation Transformer Replacement	$465,000
Otautau Substation Transformer Replacement	$377,000
Winton Substation Upgrade	$375,000

6.0 Monowai Power Station

Although TrustPower now effectively owns and manages the power station, the final step in the sale process had still not been completed at 30 June 2001. The issue still to be resolved is the requirement by the Department of Conservation to charge resource rentals on the lake easements. The proceeds from the sale are held in a trust account until all sale conditions are met.

7.0 Platinum Partnership

The Company retained its 40% shareholding in the joint venture company, Platinum Investments Limited, through its subsidiary Electricity Southland (Transoil) Limited, which had endeavoured to enter the transformer oil refurbishment market with its new mobile machine.

During the year the Invercargill machine was sold and the proceeds distributed but there are still some issues to be resolved with the sale of the Auckland machine. No further transactions were executed during the year.

Alan Harper
Chairman

Owen Buckingham
Deputy Chairman

Directors' Report

The Directors have pleasure in presenting their Annual Report and Financial Statements for the year ended 30 June 2001.

Principal Activities

The principal activity of the parent entity is the provision of electricity distribution services. The parent entity reports on the network assets along with its joint venture interest in PowerNet Limited. Activities also include the leasing of metering equipment.

PowerNet Limited was established on 1 July 1994 to manage the electricity reticulation networks of the Company and Electricity Invercargill Limited. The Company and Electricity Invercargill Limited each own 50% of PowerNet Limited, whilst still retaining ownership of their respective networks.

Group activities included investment in transformer oil refurbishment. During the year the Company sold its assets in that partnership.

Result and Distribution

The Directors report that the Group's profit after tax and interest for the year under review was $3,340,000. A dividend of $102,763 is recommended. The dividend will carry full imputation credits.

State of Company's Affairs

The Directors consider the state of the Company's affairs to be satisfactory.

Directors

The Directors are appointed by the Shareholder.

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.

Director	Company	Position
Craig Boyce		
	Smiths City Group Ltd	Chairman
	Christchurch City Holdings Ltd	Director
	Television New Zealand Ltd	Director
Owen Buckingham		
	Alliance Group Ltd	Director
	PowerNet Ltd	Director
	Invest South Ltd	Director
	Southern Flora Ltd	Director
	Bay of Plenty Co-operative Ltd - Southfert	Director
Murray Frost		
	Sinclair Knight Merz	Manager/Shareholder
	Bond Contracts Ltd	Director
	James Hargest High School Board of Trustees	Chairman
Alan Harper		
	Arthur Watson Savage	Partner
	Bond Contracts Ltd	Chairman
	Southland Finance Ltd	Director
	PowerNet Ltd	Director
Cam McCulloch		
	Invercargill City Holdings Ltd	Deputy Chairman
	McCulloch & Partners	Partner
	Southfish Ltd	Chairman
	Invest South Ltd	Director
	PowerNet Ltd	Director
	Abalone New Zealand Ltd	Chairman
	Southern Fresh Milk Company Ltd	Director

Alan Harper is a partner of Arthur Watson Savage, Solicitors, and both The Power Company Limited and PowerNet Limited have engaged this firm for legal services on a commercial basis.

Remuneration of Directors

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

Alan Harper	-	Chairman, Member of Audit Committee
Craig Boyce	-	Director (until 5.12.00)
Owen Buckingham	-	Director
Murray Frost	-	Director (from 6.12.00)
Cam McCulloch	-	Director, Chairman of Audit Committee

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

Alan Harper	$27,000
Craig Boyce	$5,843
Owen Buckingham	$17,250
Murray Frost	$7,657
Cam McCulloch	$13,500

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

Owen Buckingham	$15,000
Alan Harper	$5,022
Cam McCulloch	$8,000

Employee Remuneration

No employees or former employees received remuneration to the value of $100,000 or greater during the year.

Donations

The Company did not make any donations during the year.

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 of the Company and its subsidiary companies.

Accounting Policies

There was one change in accounting policy during the year. Refer to Note 1 of the Consolidated Financial Statements for details of that change in policy.

Auditor Remuneration

Refer to Note 2 of the Consolidated Financial Statements for Auditor remuneration.

For and on behalf of the Directors.

Alan Harper	**Owen Buckingham**
Chairman	**Deputy Chairman**

Left to Right: Owen Buckingham, Murray Frost, Cam McCulloch, Alan Harper.

Alan Harper LLB BCom (Chairman)	Alan is a partner in the Invercargill law firm of Arthur Watson Savage. He has practised with the firm since 1979, specialising particularly in commercial and company affairs. He is the Chairman of Bond Contracts Limited and is a Director of Southland Finance Limited, PowerNet Limited and The Highlanders Franchise Limited.
Owen Buckingham (Deputy Chairman)	Owen, in partnership with his wife, presently farms 330 hectares in the Te Anau basin. Sheep and deer dominate their farming activities. The partnership also operates a tourist retail business in Te Anau. Owen is a Director of Alliance Group Limited, PowerNet Limited and Ballance Agri Nutrients Limited.
Murray Frost BE (Hons) ME MIPENZ	Murray is a Principal of Sinclair Knight Merz and is the Invercargill Manager. He has 27 years consulting engineering experience across industry in Southland/Otago. He is a Board Member of the Association of Consulting Engineers New Zealand, Chairman of James Hargest High School Board of Trustees and a Director of Bond Contracts Limited.
Cam McCulloch FCA Member of Institute of Directors	Cam is a Senior Partner in McCulloch and Partners, Chartered Accountants. He is the Chairman of Southfish Limited and Abalone New Zealand Limited, and a Director of PowerNet Limited, Invest South Limited and Southern Fresh Milk Company Limited. Cam is also Deputy Chairman of Invercargill City Holdings Limited.

Trustees' Report

Left to Right: Vaughan Templeton (seated), Geoff Thompson, Don Nicolson, Penny Hutchins, Owen O'Connor

The Statement of Corporate Intent and Business Plan for the year ended 30 June 2001 were presented to the Trustees by the Directors. The Trustees were given the opportunity to comment on the documents before the projections and targets were finalised and the documents adopted. As required by the Trust Deed, the Trustees monitored the Company's performance during the year, particularly as it related to the Business Plan.

Core Business

There has been no change in the core business of the Company. The Company is a lines owning company managing all ancillary assets relating to that business through its joint venture company PowerNet Limited.

Asset Management and Lines Operation

The Company's Asset Management Plan was approved by the Trustees. The continuing improvement in performance of the network has been monitored regularly by the Trustees and can be attributed to the continued investment of part of the Company's profit into upgrading of the electricity network.

The Trustees are pleased to note that interruption times as shown in the Company's Annual Report were again substantially reduced during the year and bettered the targets set in the Statement of Corporate Intent.

Consumer Discount

A discount of $2.29 million was credited to consumers in May 2001. The discount is the most commercially effective method of returning surpluses to consumers and further discounts are envisaged subject to the financial performance of the Company.

Financial

The Company exceeded the financial targets set in the Statement of Corporate Intent. This was achieved after deducting the discount credited to consumers. The return on equity shown in the Company Annual Report also exceeded the targets set.

Total net assets of the Group at 30 June 2001 at book value and after revaluation were $177 million.

Line Charges

There has been no increase in line charges during the year and no increases in line charges are envisaged at balance date.

Energy Trust Association New Zealand

The Trustees have retained membership of the above association and supports representations to have "line charges" shown separately on electricity accounts. Retail and generating companies oppose this move but there is widespread consumer dissatisfaction throughout New Zealand with the present situation.

The Electricity Reform Bill targeted regulation of lines companies and was passed by Parliament in August 2001.

Directors

Following the resignation of Craig Boyce from the Board, the Trustees appointed Murray Frost of Invercargill as the Director to replace Craig on 6 December 2000.

The Directors' performance is monitored regularly by the Trustees as required by the Trust Deed.

A good liaison between Trustees and Directors is maintained with both working to ensure security of supply in future years at the lowest practical cost.

The Trustees acknowledge the continued cooperation of Directors and management during the year.

Owen O'Connor
Chairman
SEPS Consumer Trust

For the Year Ended 30 June 2001

Approval by Directors

The Directors have approved the Consolidated Financial Statements of The Power Company Limited for the year ended 30 June 2001 on pages 9 to 23.

Alan Harper
Chair of Directors

Owen Buckingham
Deputy Chair of Directors

For and on behalf of the Board of Directors

26 September 2001

Consolidated Statement of Financial Performance

For the Year Ended 30 June 2001

	Note	GROUP 30 June 2001 $000	GROUP 30 June 2000 $000	PARENT 30 June 2001 $000	PARENT 30 June 2000 $000
Total Income		26,093	24,555	26,093	24,555
Total Expenses		(19,206)	(19,496)	(19,318)	(19,561)
Operating Surplus/(Deficit) before Discount		6,887	5,059	6,775	4,994
Less Discount to Consumers		(2,036)	-	(2,036)	-
Operating Surplus/(Deficit) before Taxation		**4,851**	**5,059**	**4,739**	**4,994**
Derived from Net Contributions from:					
The Power Company Limited		5,022	3,807	5,021	3,703
Less Discount to Consumers		(2,036)	-	(2,036)	-
PowerNet Limited		1,754	1,291	1,754	1,291
Electricity Southland (Transoil) Limited		111	(39)	-	-
Operating Surplus/(Deficit) before Taxation	(2)	**4,851**	**5,059**	**4,739**	**4,994**
Less Taxation Expense	(3)	(1,499)	(1,674)	(1,499)	(1,674)
Net Surplus/(Deficit) After Taxation		**3,352**	**3,385**	**3,240**	**3,320**
Share of Retained Deficit of Associate Companies After Taxation	(4)	(12)	(239)	-	-
Net Surplus Attributable to the Shareholders of the Parent Company		**3,340**	**3,146**	**3,240**	**3,320**

Consolidated Statement of Movements in Equity

For the Year Ended 30 June 2001

	GROUP 30 June 2001 $000	GROUP 30 June 2000 $000	PARENT 30 June 2001 $000	PARENT 30 June 2000 $000
Total Equity at Beginning of Year	**51,232**	**48,230**	**51,407**	**48,231**
Revaluation of Assets	122,485	-	122,485	-
Net Surplus/(Deficit) for the Year	3,340	3,146	3,240	3,320
Total Recognised Revenues and Expenses for the Period	125,825	3,146	125,725	3,320
Distribution to Shareholders	(103)	(144)	(103)	(144)
Total Equity at End of Year	**176,954**	**51,232**	**177,029**	**51,407**

The accompanying notes on pages 12 to 23 form part of and should be read in conjunction with these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2001

	Note	GROUP 30 June 2001 $000	GROUP 30 June 2000 $000	PARENT 30 June 2001 $000	PARENT 30 June 2000 $000
Equity					
Share Capital (29,621,736 shares)		29,622	29,622	29,622	29,622
Asset Revaluation Reserve		122,485	-	122,485	-
Retained Earnings		24,847	21,610	24,922	21,785
Total Equity		**176,954**	**51,232**	**177,029**	**51,407**
Represented By:					
Current Assets					
Cash and Bank Deposits	(5)	2,270	1,335	2,270	1,335
Receivables & Prepayments	(6)	5,269	4,541	5,269	4,533
Inventories	(7)	508	450	508	450
		8,047	6,326	8,047	6,318
Current Liabilities					
Creditors, Accruals & Provisions	(8)	(4,105)	(2,913)	(4,105)	(2,865)
Provision for Taxation		(207)	(318)	(207)	(318)
		(4,312)	(3,231)	(4,312)	(3,183)
Net Working Capital/(Deficit)		3,735	3,095	3,735	3,135
Non Current Assets					
Investments:					
Shares in Subsidiaries	(9)	-	-	-	-
Advances to Subsidiaries	(9)	-	-	75	180
Investments in Associates	(10)	-	45	-	-
		-	45	75	180
Fixed Assets	(11)	191,708	51,767	191,708	51,767
Capital Work in Progress		923	666	923	666
		192,631	52,433	192,631	52,433
Non Current Liabilities					
Provision for Deferred Taxation	(3)	(11,912)	(201)	(11,912)	(201)
Term Liabilities	(12)	(7,500)	(4,140)	(7,500)	(4,140)
		(19,412)	(4,341)	(19,412)	(4,341)
Net Assets		**176,954**	**51,232**	**177,029**	**51,407**

The accompanying notes on pages 12 to 23 form part of and should be read in conjunction with these financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2001

	Note	GROUP 30 June 2001 $000	GROUP 30 June 2000 $000	PARENT 30 June 2001 $000	PARENT 30 June 2000 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Was Provided From:					
Receipts from Customers		23,136	26,669	23,128	26,676
Taxation Refunds		-	539	-	539
Interest & Dividends Received		320	352	320	352
		23,456	27,560	23,448	27,567
Cash Was Disbursed To:					
Payments to Suppliers and Employees		11,908	13,435	11,900	13,442
Taxes Paid		1,964	1,045	1,964	1,045
Interest Paid		303	741	303	741
		14,175	15,221	14,167	15,228
Net Cash Flows From Operating Activities	(15)	**9,281**	**12,339**	**9,281**	**12,339**
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash Was Provided From:					
Proceeds from Fixed Asset Sales		110	439	110	439
		110	439	110	439
Cash Was Applied To:					
Purchase of Fixed Assets		11,672	6,390	11,672	6,390
		11,672	6,390	11,672	6,390
Net Cash Flows Used in Investing Activities		**(11,562)**	**(5,951)**	**(11,562)**	**(5,951)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash Was Provided From:					
Term Loans		3,360	-	3,360	-
		3,360	-	3,360	-
Cash Was Applied To:					
Loan Repayments		-	5,490	-	5,490
Dividend Payment		144	118	144	118
		144	5,608	144	5,608
Net Cash Flows From/(Used in) Financing Activities		**3,216**	**(5,608)**	**3,216**	**(5,608)**
Net Increase/(Decrease) in Cash Held		935	780	935	780
Add Opening Cash Brought Forward		1,335	555	1,335	555
Closing Cash To Be Carried Forward	(5)	**2,270**	**1,335**	**2,270**	**1,335**

The accompanying notes on pages 12 to 23 form part of and should be read in conjunction with these financial statements.

For the Year Ended 30 June 2001

1. Statement of Accounting Policies

Reporting Entity

The Power Company Limited is wholly owned by a Consumer Trust and is registered under the Companies Act 1993.

The Power Company Limited also wholly owns Electricity Southland (Southgas) Limited and Electricity Southland (Transoil) Limited and has a 50% interest in PowerNet Limited and Electricity Southland Limited.

The Parent Entity reports on the network assets along with the joint venture interest in PowerNet Limited.

The Group financial statements consolidate the results of the wholly owned subsidiaries and Electricity Southland Limited.

The principal activity of the Parent Entity is the provision of electricity distribution services. Electricity Southland (Southgas) Limited reflected the Group's investment in Southgas Resources whose primary purpose was exploration of methane gas. Electricity Southland (Southgas) Limited sold its shares in Southgas Resources in December 1999. Electricity Southland (Transoil) Limited reflects the Group's investment in Platinum Partnership whose primary purpose is to refurbish transformer oil. Platinum Partnership sold its assets in June 2000. Electricity Southland Limited was established to provide management services. This company was reverted to dormant status in December 1999.

The financial statements have been prepared in accordance with the Financial Reporting Act 1993.

Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis are followed by the Group, with the exception that certain fixed assets have been revalued.

Specific Accounting Policies

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

a) Principles of Consolidation -

The Parent financial statements are prepared from the financial statements of The Power Company Limited and its joint venture company PowerNet Limited, using the proportionate method.

All significant inter-company transactions between The Power Company Limited and its joint venture company are eliminated.

The Group financial statements consolidate the financial statements of the parent (as outlined above) and its wholly owned subsidiary companies Electricity Southland (Southgas) Limited and Electricity Southland (Transoil) Limited.

The financial results of Electricity Southland Limited have been reflected in the Group financial statements using the equity method.

The financial results of Southgas Resources have been reflected in the financial statements of Electricity Southland (Southgas) Limited using the proportionate method.

The financial results of Platinum Partnership have been reflected in the financial statements of Electricity Southland (Transoil) Limited using the equity method.

b) Fixed Assets -

All fixed assets are initially recorded at cost less accumulated depreciation. The cost of purchased fixed assets is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Revaluation

The network assets were revalued as at 31 March 2001 to Depreciated Replacement Cost (DRC) as assessed by independent valuers KPMG and Kerslake & Partners. Previously these assets were recorded at cost less accumulated depreciation.

Network assets are revalued on a cyclical basis with no asset being recognised at a valuation undertaken more than three years previously.

Revaluation increments are transferred to the Asset Revaluation Reserve. Where this results in a revaluation deficit, the balance is expensed in the Statement of Financial Performance.

c) Depreciation -

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

The primary annual rates used are:

Buildings	1.0-11.4%	Straight Line/Diminishing Value
Network Assets	1.4-22.6%	Straight Line/Diminishing Value
Distribution Metering	5.0-14.4%	Diminishing Value
Plant and Equipment	3.55-39.6%	Straight Line/Diminishing Value
Motor Vehicles	26.0-31.2%	Straight Line/Diminishing Value
Office Furniture	9.0-60.0%	Straight Line/Diminishing Value
GIS and EDP Equipment	20.0-48.0%	Straight Line/Diminishing Value

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) Inventories -
Inventories are stated at the lower of cost at weighted average cost price, and net realisable value. Obsolete items of inventory (if any) have been written off.

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

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

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

h) Financial Instruments -
The Group is party to financial instrument arrangements as part of its everyday operations. Revenues and expenses in relation to all financial instruments are recognised in the Statement of Financial Performance on an accrual basis.

The Group has no off-balance sheet exposures with the exception of interest rate swaps which are disclosed in note 12 and 16. The Group values all financial instruments at fair value in the Statement of Financial Position.

i) Recoverable Amount -
Where the estimated recoverable amount of an asset is less than its carrying value, the asset is written down to its estimated recoverable amount.

j) Capital Work in Progress -
Capital Work In Progress is stated at cost and is not depreciated.

k) 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.

l) 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

Network system assets have been revalued at 31 March 2001. The effect of the revaluation has been to increase the value of the assets by $134,549,000. Of the revaluation, $122,485,000 has been credited to the Asset Revaluation Reserve and the balance of $12,064,000 has been credited to Deferred Tax.

The network assets have been depreciated on a straight line basis from 1 April 2001. Previously these assets were depreciated using a diminishing value basis. The effect has been to increase the depreciation expense by $605,000.

There have been no other changes in accounting policies. With the exception of the change in accounting policy regarding the Revaluation of Network Assets, policies have been applied on a basis consistent with those used in previous years.

2. Operating Surplus/(Deficit) Before Taxation

	GROUP		PARENT	
	30 June 2001 $000	30 June 2000 $000	30 June 2001 $000	30 June 2000 $000
Operating Surplus/(Deficit) Before Taxation	**4,851**	**5,059**	**4,739**	**4,994**
After Charging:				
Audit of Financial Report - Audit NZ	37	29	37	29
Other Services - Audit NZ	-	-	-	-
Bad Debts Written Off	8	1	8	1
Increase/(Decrease) in Provision for Doubtful Debts	-	-	-	-
Bursaries, Scholarships and Awards	17	14	17	14
Depreciation	5,952	4,989	5,952	4,989
Directors' Fees	100	141	100	141
Donations	4	-	4	-
Interest Expense	303	570	303	570
Leasing and Renting Costs	75	93	75	93
Loss on Disposal of Fixed Assets	6	511	6	511
Loss on Disposal of Investment	-	2	-	2
Prepayment Meter Equipment Write Down	9	11	9	11
Subvention Payment	-	-	72	70
Provision for Writedown/(Writeback) of Loan	(39)	(276)	-	(242)
After Crediting:				
Discount to Consumers	(2,036)	-	(2,036)	-
Interest Received	320	352	320	352
Profit on Disposal of Fixed Assets	53	100	53	100

3. Taxation

	GROUP		PARENT	
	30 June 2001 $000	30 June 2000 $000	30 June 2001 $000	30 June 2000 $000
Operating Surplus/(Deficit) Before Taxation	**4,851**	**5,059**	**4,739**	**4,994**
Prima Facie Taxation at 33%	1,601	1,669	1,564	1,648
Plus/(less) Taxation Effect of:				
Items Not Deductible for Taxation (Permanent Differences)	(51)	62	(27)	85
Timing Differences between Taxable Income and Accounting Income Not Recognised	(18)	(14)	(5)	(16)
Taxation Effect of Losses Not Previously Recognised	(24)	(23)	-	-
Prior Year Under/(Over) Provision	(9)	(20)	(9)	(20)
Prior Year Group Loss Transfer	-	-	(24)	(23)
Taxation Expense for Year	**1,499**	**1,674**	**1,499**	**1,674**
Comprising of:				
Current Taxation	1,852	1,621	1,852	1,621
Deferred Taxation	(353)	53	(353)	53
	1,499	**1,674**	**1,499**	**1,674**
Deferred Taxation Account:				
Deferred Taxation at Beginning of Year	(201)	(144)	(201)	(144)
Plus Current Year Movement	353	(53)	353	(53)
Prior Year Under/(Over) Provision	-	(4)	-	(4)
Deferred Tax on Revalued Assets	(12,064)	-	(12,064)	-
Deferred Taxation at End of Year	**(11,912)**	**(201)**	**(11,912)**	**(201)**
Imputation Credit Account:				
Balance at Beginning of Year			3,450	2,953
Credits:				
Income Tax Payments During Year			1,260	1,074
Imputation Credits on Dividend Received			379	-
Resident Withholding Tax on Interest Received			-	31
Debits:				
Imputation Credits on Dividend Paid			(71)	(59)
Income Tax Refund During Year			-	(549)
Balance at End of Year			**5,018**	**3,450**

The Imputation Credit Account relates to The Power Company Limited only.

4. Associate Companies

	Percentage Held By Group 30 June 2001	Percentage Held By Group 30 June 2000	Balance Date
Platinum Partnership	40%	40%	30 June
Electricity Southland Limited	50%	50%	30 June

	GROUP		PARENT	
	30 June 2001 $000	30 June 2000 $000	30 June 2001 $000	30 June 2000 $000
Share of Profits Less Losses of Associate Companies Before Taxation	(12)	(239)	-	-
Share of Retained Earnings Less Losses of Associate Companies	**(12)**	**(239)**	**-**	**-**

5. Cash and Bank Deposits

	GROUP		PARENT	
	30 June 2001 $000	30 June 2000 $000	30 June 2001 $000	30 June 2000 $000
Current Account	95	32	95	32
Bank Deposits (Short term)	2,065	1,628	2,065	1,628
Share of PowerNet Limited's Bank	110	(325)	110	(325)
Total Cash and Bank Deposits	**2,270**	**1,335**	**2,270**	**1,335**

6. Receivables & Prepayments

	GROUP		PARENT	
	30 June 2001 $000	30 June 2000 $000	30 June 2001 $000	30 June 2000 $000
Trade Debtors	917	606	917	598
Prepayments	198	18	198	18
Proceeds and Interest Earned from Sale of Monowai Power Station Not Yet Received	4,154	3,917	4,154	3,917
Total Receivables & Prepayments	**5,269**	**4,541**	**5,269**	**4,533**

7. Inventories

	GROUP		PARENT	
	30 June 2001 $000	30 June 2000 $000	30 June 2001 $000	30 June 2000 $000
Inventories	508	450	508	450
Total Inventories	**508**	**450**	**508**	**450**

No inventories are pledged as security for liabilities nor are inventories subject to retention of title clauses. Inventories consist of PowerNet Limited network spares and prepayment meters held by The Power Company Limited.

8. Creditors, Accruals & Provisions

	GROUP		PARENT	
	30 June 2001 $000	30 June 2000 $000	30 June 2001 $000	30 June 2000 $000
Trade Creditors & Accruals	4,048	2,539	4,048	2,491
GST Payable/(Refundable)	(255)	26	(255)	26
Provision for Employee Entitlements	209	192	209	192
Provision for Dividend	103	144	103	144
Provision for Interest	-	12	-	12
Total Creditors, Accruals & Provisions	**4,105**	**2,913**	**4,105**	**2,865**

9. Investments in Subsidiaries

	GROUP		PARENT	
	30 June 2001 $000	30 June 2000 $000	30 June 2001 $000	30 June 2000 $000
Shares in Subsidiaries	-	-	-	-
Advances to Subsidiaries	-	-	75	180
	-	**-**	**75**	**180**

The Power Company Limited owns the authorised capital of both Electricity Southland (Southgas) Limited and Electricity Southland (Transoil) Limited. However, because this capital remains uncalled at 30 June 2001, it is not reflected in these accounts.

Subsidiaries:

	Percentage Held By Group		
	30 June 2001	30 June 2000	Balance Date
Electricity Southland (Southgas) Limited	100%	100%	30 June
Electricity Southland (Transoil) Limited	100%	100%	30 June

10. Investments in Associates

	GROUP		PARENT	
	30 June 2001 $000	30 June 2000 $000	30 June 2001 $000	30 June 2000 $000
Investments in Associates - Share of Net Assets	-	45	-	-
	-	**45**	**-**	**-**

Associates:

	Percentage Held By Group		
	30 June 2001	30 June 2000	Balance Date
Platinum Partnership	40%	40%	30 June
Electricity Southland Limited	50%	50%	30 June

11. Fixed Assets

	GROUP		PARENT	
	30 June 2001 $000	30 June 2000 $000	30 June 2001 $000	30 June 2000 $000
Land	710	471	710	471
Buildings (At Cost/Valuation)	1,898	1,949	1,898	1,949
Accumulated Depreciation	(443)	(451)	(443)	(451)
	1,455	1,498	1,455	1,498
Furniture, Fittings & EDP (At Cost)	4,519	4,202	4,519	4,202
Accumulated Depreciation	(3,684)	(2,982)	(3,684)	(2,982)
	835	1,220	835	1,220
Motor Vehicles (At Cost)	88	97	88	97
Accumulated Depreciation	(53)	(64)	(53)	(64)
	35	33	35	33
Plant and Equipment (At Cost)	600	597	600	597
Accumulated Depreciation	(312)	(214)	(312)	(214)
	288	383	288	383
Metering Assets (At Cost)	8,881	8,544	8,881	8,544
Accumulated Depreciation	(5,419)	(4,999)	(5,419)	(4,999)
	3,462	3,545	3,462	3,545
Network (At Valuation)	186,396	76,438	186,396	76,438
Accumulated Depreciation	(1,473)	(31,821)	(1,473)	(31,821)
	184,923	44,617	184,923	44,617
Total Fixed Assets	**191,708**	**51,767**	**191,708**	**51,767**

Network Assets

The network assets were revalued as at 31 March 2001 to Depreciated Replacement Cost as assessed by independent valuers KPMG and Kerslake & Partners.

Land and Buildings

The Directors consider that because of the quantity of surplus land and buildings, the very specific uses to which they are put and the present rents being earned from them, they are worth no more than their Book Values.

12. Term Liabilities

	GROUP		PARENT	
	30 June 2001 $000	30 June 2000 $000	30 June 2001 $000	30 June 2000 $000
National Bank Facility	7,500	4,140	7,500	4,140

Details of The Power Company Limited's hedged loan facility at 30 June 2001 are:

Amount	Effective Date	Maturity Date
$2,000,000	3 September 2001	3 September 2002

Under the terms of the Agreement, effective 1 October 2000, between The Power Company Limited and The National Bank of New Zealand Limited, a single facility was provided for a term of one year. It provides for drawdowns to be made for terms ranging from overnight to six months and is subject to an interest rate equal to the 90-Day Bank Bill Buy Rate plus a margin. The facility is provided on an unsecured basis.

13. Commitments

The Power Company Limited has an obligation to purchase land relating to the Monowai Redevelopment amounting to $290,000 (2000 $290,000). This obligation will be assigned to TrustPower once ownership has been passed from The Power Company Limited to TrustPower.

Operating Lease Commitments

Operating Lease Commitments are payable as follows:

	GROUP		PARENT	
	30 June 2001 $000	30 June 2000 $000	30 June 2001 $000	30 June 2000 $000
• Not later than one year	62	71	62	71
• Later than one year and not later than two years	29	52	29	52
• Later than two years and not later than five years	30	55	30	55
	121	**178**	**121**	**178**

Capital Commitments

The Power Company Limited through its joint venture management company PowerNet Limited has capital commitments at 30 June 2001 of $53,000 (2000 Nil) for the purchase of fixed assets.

Easement Agreements

The Power Company Limited has signed easement agreements with landowners for the purposes of constructing a line on private property. Compensation values have been agreed with the terms of payment being 50% payment on the signing of the agreement and the remaining 50% payable upon registration of easement on land title. The commitment outstanding as at 30 June 2001 is $7,000 (2000 $29,000).

For the Year Ended 30 June 2001

14. Contingent Liabilities

Monowai Power Station

The Power Company Limited entered into an agreement with TrustPower Limited for the sale and purchase of the Monowai Power Station. This agreement provided for certain conditions to be satisfied prior to settlement date. Although the agreement was not unconditional at balance date, it is anticipated the conditions will be satisfied and these accounts have therefore been prepared on the basis that possession and ownership passed to TrustPower Limited on 1 April 1999. Should it not be possible to satisfy the conditions, the agreement provides for the Monowai Power Station assets and business to be returned to The Power Company Limited. Net profit generated from 1 April 1999 will also be passed onto The Power Company Limited.

15. Reconciliation of Net Surplus/(Deficit) After Taxation with Net Operating Cash Flows

The following is a reconciliation between the net surplus/(deficit) after taxation shown in the Statement of Financial Performance and the Net Cash Flows From Operating Activities.

	GROUP		PARENT	
	30 June 2001 $000	30 June 2000 $000	30 June 2001 $000	30 June 2000 $000
Net Surplus/(Deficit) After Taxation	3,340	3,146	3,240	3,320
Plus/(Less) Non Cash Items:				
Depreciation	5,952	4,989	5,952	4,989
Movement in Deferred Tax	(354)	57	(354)	57
Investment Writedown/(Writeback)	45	(24)	105	(158)
	5,643	5,022	5,703	4,888
Plus/(Less) Items Classified as Investing:				
Loss on Disposal of Fixed Assets	15	522	15	522
Profit on Disposal of Fixed Assets	(53)	(100)	(53)	(100)
	(38)	422	(38)	422
Plus/(Less) Net Movements in Working Capital:				
Creditors, Accruals & Provisions	1,233	(151)	1,281	(199)
Receivables	(548)	2,887	(556)	2,895
Inventories	(58)	(118)	(58)	(118)
Prepayments	(180)	20	(180)	20
Provision for Taxation	(111)	1,111	(111)	1,111
	336	3,749	376	3,709
Net Cash Flows From Operating Activities	**9,281**	**12,339**	**9,281**	**12,339**

16. Financial Instruments

Off Balance Sheet Financial Instruments -

The Group does not have any off balance sheet financial instruments, with the exception of interest rate swaps detailed below.

Credit Risk -

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

Maximum exposures to credit risk at balance date are:

	GROUP		PARENT	
	30 June 2001 $000	30 June 2000 $000	30 June 2001 $000	30 June 2000 $000
Bank Balances	205	32	205	32
Short Term Deposits	2,065	1,628	2,065	1,628
Receivables	5,071	4,523	5,071	4,515
	7,341	**6,183**	**7,341**	**6,175**

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 Group is exposed to a concentration of credit risk by one significant energy retailer. This entity is considered to be a high quality entity.

Foreign Exchange Risk -

The Group entered into a foreign exchange forward contract for the purpose of purchasing materials for a particular contract. This contract was settled in February 2001.

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

Interest Rate Risk -

The Group is exposed to normal fluctuations in market interest rates except for $2,000,000 (2000 $8,500,000) of borrowings for which interest rates are hedged by way of interest rate swaps.

Fair Values -

The estimated fair value of the Group's financial instruments are represented by the carrying values with the exception of interest rate swaps. The fair value of the interest rate swaps, associated with underlying debt, at 30 June 2001 is Nil (2000 - unrecognised loss of $11,000).

17. Segmental Reporting

The Power Company Limited operates predominantly in one segment, being the management of assets involved in the distribution of electricity in New Zealand.

18. Related Parties

All related party transactions have been eliminated in the preparation of the consolidated financial statements.

Related party transactions between the Parent and:

Electricity Southland Limited

Electricity Southland Limited is 50% owned by The Power Company Limited.

During the year there were no transactions between Electricity Southland Limited, The Power Company Limited and PowerNet Limited (2000 - subvention payment paid by PowerNet Limited $3,000).

There were no debts or obligations owing between the parties at balance date.

Platinum Partnership

Platinum Partnership is owned 40% by Electricity Southland (Transoil) Limited, a fully owned subsidiary of The Power Company Limited.

During the year there were no transactions between Platinum Partnership, The Power Company Limited and PowerNet Limited (2000 - services provided by PowerNet Limited $2,000).

There were no debts or obligations owing between the parties at balance date.

Electricity Southland (Transoil) Limited

Electricity Southland (Transoil) Limited is a fully owned subsidiary of The Power Company Limited. During the year the companies entered into the following transactions with The Power Company Limited.

The value of transactions and balances were as follows:

	Year Ended 30 June 2001 $000	**Year Ended** 30 June 2000 $000
Subvention payment paid by The Power Company Limited	72	70
Provision for Writedown/(Writeback) of Loan by		
The Power Company Limited	-	(242)
Accounts payable to The Power Company Limited	-	14
Accounts receivable from The Power Company Limited	-	-

Other Related Parties

There have been no material transactions between The Power Company Limited and Directors with the exception of legal fees paid to Arthur Watson Savage, for whom Alan Harper is a partner, amounting to $33,000 (2000 $45,000) and consultants fees paid to Sinclair Knight Merz, for whom Murray Frost is a shareholder, amounting to $4,000. Murray Frost was not a Director of the Company in the 2000 financial year.

All transactions between The Power Company Limited, Arthur Watson Savage and Sinclair Knight Merz relate to normal activities and have been conducted on a commercial basis.

The Southland Electric Power Supply Consumer Trust, which owns 100% of the shares in The Power Company Limited, is a related party. There have been no significant transactions between the parties during the period. During the year expenses were paid out on behalf of the Trust totalling $103,000 (2000 $144,000). There are no debts or obligations owing between the parties as at balance date.

Related Party Transactions Between The Power Company Limited and PowerNet Limited

PowerNet Limited is 50% owned by The Power Company Limited.

The value of transactions and balances were as follows:

	Year Ended 30 June 2001 $000	Year Ended 30 June 2000 $000
Services provided by PowerNet Limited	10,131	6,247
Services provided to PowerNet Limited	9,403	9,365
Accounts Receivable from PowerNet Limited	1,958	140
Accounts Payable to PowerNet Limited	3,459	1,676

19. Performance Target Comparisons

EBIT - Earnings Before Interest & Tax	**Projected**	**Actual** (Exclusive of Revaluation)	**Actual** (Inclusive of Revaluation)
EBIT %	7.36%	7.79%	2.57%
Return on Equity			
Return on Equity %	5.29%	6.13%	1.89%
Equity to Total Assets			
% Equity to Total Assets	87.00%	82.37%	88.18%

SAIFI - System Average Interruption Frequency Index

(the average number of times each customer connected to the network is without supply)

	Target	**Achievement**	
	30 June 2001	30 June 2001	30 June 2000
Planned	0.53	0.13	0.43
Unplanned	5.10	2.97	5.06

SAIDI - System Average Interruption Duration Index

(the average total times in minutes each customer connected to the network is without supply)

	Target	**Achievement**	
	30 June 2001	30 June 2001	30 June 2000
Planned	57.50	18.43	56.85
Unplanned	300.00	125.41	286.83

TO THE READERS OF THE FINANCIAL STATEMENTS OF THE POWER COMPANY LIMITED AND GROUP FOR THE YEAR ENDED 30 JUNE 2001

We have audited the financial statements on pages 9 to 23. The financial statements provide information about the past financial performance of The Power Company Limited and Group and its financial position as at 30 June 2001. This performance information specifies the performance targets and other measures by which the performance of The Power Company Limited and Group can be judged in relation to its objectives. This information is stated in accordance with the accounting policies set out on pages 12 and 13.

Responsibilities of the Board of Directors

The Financial Reporting Act 1993 requires the Board of Directors (the Board) to prepare financial statements which comply with generally accepted accounting practice and give a true and fair view of the financial position of The Power Company Limited and Group as at 30 June 2001 and the results of its operations and cash flows for the year ended 30 June 2001. The Board is also required to report the performance targets and other measures by which the performance of The Power Company Limited and Group can be judged in relation to its objectives.

Auditor's Responsibilities

It is the responsibility of the Audit Office to express an independent opinion on the financial statements and the performance information and report its opinion to you.

The Controller and Auditor-General has appointed Bede Kearney of Audit New Zealand, to undertake the audit.

Basis of Opinion

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

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

We conducted our audit in accordance with generally accepted auditing standards, including the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and performance information 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 carried out one assurance related assignment for The Power Company Limited and Group. This involved issuing audit certificates pursuant to the Electricity (Information Disclosure) Regulations 1999. Other than this assignment, and in our capacity as auditor acting on behalf of the Controller and Auditor-General, we have no other relationship with or interests in The Power Company Limited and Group.

Unqualified Opinion

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

- proper accounting records have been kept by The Power Company Limited and Group as far as appears from our examination of those records; and
- the financial statements of the The Power Company Limited and Group on pages 9 to 23:
  - comply with generally accepted accounting practice; and
  - give a true and fair view of:
    - the financial position as at 30 June 2001; and
    - the results of its operations and cash flows for the year ended on that date; and
- the performance information in note 19 on page 23 gives a true and fair view of the achievements in relation to the performance targets and other measures adopted for the year ended 30 June 2001.

Our audit was completed on 28 September 2001 and our unqualified opinion is expressed as at that date.

B F Kearney
Audit New Zealand
On behalf of the Controller and Auditor-General
Dunedin, New Zealand