



Annual Report 2002

Directory

• Directors

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

• Head Office

251 Racecourse Road
PO Box 1748
Invercargill
New Zealand
Telephone: 03 211 1870
Facsimile: 03 211 1875

• Principal Bankers

The National Bank of New Zealand Limited

• Auditors

PricewaterhouseCoopers, Dunedin

• Solicitors

Arthur Watson Savage

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● 1.0 Financial

The Group produced a pre-tax Operating Surplus before Discount of \$6.541 million (2001 - \$6.887 million). The decrease of \$0.346 million is due entirely to increased depreciation of \$2.089 million following the revaluation in 2001. This was offset by the increase in revenue due to growth-related consumption and reduced Transpower costs. These factors have enabled the Company to increase the discount to consumers to \$3.196 million inclusive of GST (2001 - \$2.290 million).

The Operating Surplus before Taxation of \$3.700 million (2001 - \$4.851 million) was achieved after crediting the discount of \$2.841 million excluding GST (2001 - \$2.036 million). The discount was credited to consumers with the co-operation of electricity retailers in May 2002. Changes in Transpower charges and other increased costs, such as local authority rates and Government and industry levies, may limit the ability of the Company to maintain the payment of discounts at current levels in the future.

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

The consolidated result and returns for the Group are:

	30 June 2002	30 June 2001
	\$000	\$000
Operating Surplus before Discount	6,541	6,887
Less Discount to Consumers	(2,841)	(2,036)
Operating Surplus before Taxation	3,700	4,851
Less Taxation Expense	(1,957)	(1,499)
Plus Equity Accounted Earnings of Associates	312	(12)
Net Surplus	2,055	3,340

	Projected	Actual	Actual
	(Before Discount)	(After Discount)	(Before Discount)
Earnings Before Interest & Tax	3.11%	2.20%	3.69%
Return on Equity	1.55%	1.04%	2.70%
Equity to Total Assets	92.04%	87.79%	

2.0 Industry Environment

The Commerce Commission has played a major role in our industry during the past 12 months. Initially it carried out a recalibration of the optimised deprival valuations of all distribution networks throughout New Zealand. This was done in the interests of assessing the effectiveness of the ODV Handbook and to ensure the interpretation of the Handbook was the same for all networks.

The second involvement of the Commerce Commission was the consideration of the proposed Electricity Governance Board structure which was submitted to them early in 2002. At the end of the year, submissions had been made on the proposal and a final report was awaited from the Commerce Commission.

The third issue involving the Commerce Commission was the progressing of the targeted regulation of line companies. At the end of the year the Commerce Commission was preparing to hear presentations in support of submissions on the Issues Paper it had published earlier in the year.

Other impacts on the industry were the Government Policy Statements relating to the 10% fixed charge domestic customer tariffs and latterly the introduction of Financial Transmission Rights. During the year the local body rating of electricity assets is impacting on several line companies in addition to the levies imposed by the Government to cover the costs of the Commerce Commission and other regulatory functions.

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 1999 showed a continuing improvement in the performance of the network during the 2001/2002 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	0.26	0.12
Unplanned	3.70	2.87

SAIDI - System Average Interruption Duration Index

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

	Target	Actual
Planned	30 minutes	16.99 minutes
Unplanned	180 minutes	132.01 minutes

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. Three storms were declared during the year.

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

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 the respective networks 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 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 2001/2002 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 \$780,000 (2001 - \$830,000) 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 following major projects were completed during the year.

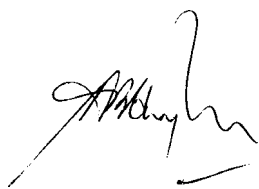
Project	Approximate Expenditure
Edendale Substation Upgrade	\$2,260,000
New Customer Connections	\$1,800,000
Invercargill-Bluff 33kV Line Rebuild (Stage 1)	\$655,000
Riverton Substation - Install Spare 66/11kV Transformer	\$372,000
SCADA RTU Replacements - Waikiwi, Seaward Bush, Kennington and Awarua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

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 2002. The remaining issue is to achieve agreement between the Department of Conservation and TrustPower on easement conditions relating to the liability of TrustPower or its agents on Department of Conservation land.

7.0 Otago Power Limited

During the year the Company entered into a joint venture with Electricity Invercargill Limited and Marlborough Lines Limited to purchase the assets of Otago Power Limited effective from 1 July 2002. The Company saw the acquisition of these assets as being important for its future strategy to ensure growth and long-term increase in valuation of the Company.



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 2002.

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.

Result and Distribution

The Directors report that the Group's profit after tax and interest for the year under review was \$2,055,000. A dividend of \$143,000 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.

<i>Director</i>	<i>Company</i>	<i>Position</i>
Owen Buckingham	Alliance Group Ltd	Director
	PowerNet Ltd	Chairman
	Ballance Agri-Nutrients Ltd	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
	Bluesparks Ltd	Director
	Lightswitch Ltd	Director
	Power Surge Ltd	Director
	Shockwave Ltd	Director
	Last Tango 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 The Power Company Limited and PowerNet Limited have engaged this firm for legal services on a commercial basis.

Directors' Report *Continued*

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
Owen Buckingham	- Director
Murray Frost	- Director
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	Owen Buckingham	\$17,250
Murray Frost	\$13,500	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	\$20,000	Alan Harper	\$10,000
Cam McCulloch	\$10,000		

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.

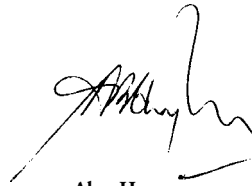
Accounting Policies

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

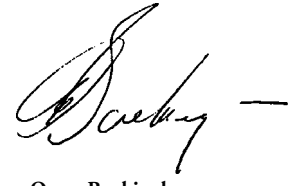
Auditor Remuneration

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

For and on behalf of the Directors.



Alan Harper
Chairman



Owen Buckingham
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 Chairman of PowerNet Limited and a Director of Alliance Group Limited and Ballance Agri-Nutrients Limited.

- **Murray Frost**
BE (Hons) ME MIPENZ

Murray is a Principal of Sinclair Knight Merz and was recently appointed the South Island Manager based in Christchurch. 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 a Director of PowerNet Limited, Invest South Limited and Southern Fresh Milk Company Limited.

Cam is also Deputy Chairman of Invercargill City Holdings Limited.



Left to right: Ron McDonald, Geoff Thompson, Don Nicolson, Owen O'Connor, Vaughan Templeton

The Statement of Corporate Intent and Business Plan for the year ended 30 June 2002 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.

Otago Power Limited Purchase

Trustees were supportive of the Company throughout the Otago Power Limited purchase process. It is pleasing to see the successful purchase of Otago Power Limited through the joint venture between Marlborough Lines Limited and the Southland Consortium of Electricity Invercargill Limited and The Power Company Limited.

Lines Operation

The continuing overall 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 again bettered the targets set in the Statement of Corporate Intent.

Consumer Discount

A discount of \$3.2 million (2001 - \$2.3 million) was credited to consumers in May 2002. Although the increased discount is mainly due to higher one-off rebates from Transpower following the energy crisis last year, we nevertheless congratulate the Directors of The Power Company Limited on the Company's excellent financial performance, which has also made the discount possible.

Keeping line charges competitive while still operating a successful business is the goal of both the Trust and the Company.

Financial

The Company exceeded two of the three financial targets set in the Statement of Corporate Intent, after excluding the discount credited to consumers. The equity to total tangible assets target was not achieved due to the purchase of Otago Power Limited shares.

Total net assets of the Group at 30 June 2002 at valuation were \$166.997 million.

Line Charges

There has been no increase in line charges during the year.

Industry Regulation

Lines businesses such as The Power Company Limited face increased regulatory activity and costs as already demonstrated in the present year. Consumer ownership of lines companies is a strong hedge against natural monopoly abuse. The use of discounts and a strong Statement of Corporate Intent between the Company and Trust provides a useful form of self-regulation. It is difficult to imagine the benefits of regulation outweighing the external and internal costs of complying with regulation under the Company's existing Consumer Trust ownership.

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.

Personnel

The Trustees acknowledge the contribution of Penny Hutchins who retired from the Trust in December 2001 after serving the Trust since inception.

Owen O'Connor and Vaughan Templeton were re-elected as Trustees and Ron McDonald was welcomed to the Trust following last year's election. Geoff Thompson and Don Nicolson also continue as Trustees.

Directors

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

The Power Company Limited Consolidated Financial Statements

For the Year Ended 30 June 2002

Approval by Directors

The Directors have approved the Consolidated Financial Statements of The Power Company Limited for the year ended 30 June 2002 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

25 September 2002

Consolidated Statement of Financial Performance

For the Year Ended 30 June 2002

	Note	GROUP		PARENT	
		30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Total Income		27,472	26,093	27,472	26,093
Total Expenses		(20,931)	(19,206)	(21,006)	(19,318)
Operating Surplus before Discount		6,541	6,887	6,466	6,775
Less Discount to Consumers		(2,841)	(2,036)	(2,841)	(2,036)
Operating Surplus before Taxation		3,700	4,851	3,625	4,739
Derived from Net Contributions from:					
The Power Company Limited		5,295	5,022	5,295	5,021
Less Discount to Consumers		(2,841)	(2,036)	(2,841)	(2,036)
PowerNet Limited		1,171	1,754	1,171	1,754
Electricity Southland (Transoil) Limited		75	111	-	-
Operating Surplus before Taxation	(2)	3,700	4,851	3,625	4,739
Less Taxation Expense	(3)	(1,957)	(1,499)	(1,957)	(1,499)
Net Surplus After Taxation		1,743	3,352	1,668	3,240
Equity Accounted Earnings of Associates	(4)	312	(12)	-	-
Net Surplus Attributable to the Shareholders of the Parent Company		2,055	3,340	1,668	3,240

Consolidated Statement of Movements in Equity

For the Year Ended 30 June 2002

	Note	GROUP		PARENT	
		30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Total Equity at Beginning of Year		176,954	51,232	177,029	51,407
Movement in Asset Revaluation Reserve		(11,869)	122,485	(11,869)	122,485
Net Surplus for the Year		2,055	3,340	1,668	3,240
Total Recognised Revenues and Expenses for the Year		(9,814)	125,825	(10,201)	125,725
Distribution to Shareholders		(143)	(103)	(143)	(103)
Total Equity at End of Year	(5)	166,997	176,954	166,685	177,029

Consolidated Statement of Financial Position

As at 30 June 2002

	Note	GROUP		PARENT	
		30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Equity					
Paid in Capital	(5)	29,622	29,622	29,622	29,622
Asset Revaluation Reserve	(5)	110,616	122,485	110,616	122,485
Retained Earnings	(5)	26,759	24,847	26,447	24,922
Total Equity		166,997	176,954	166,685	177,029
Represented By:					
Current Assets					
Cash and Bank Deposits	(6)	233	2,270	233	2,270
Receivables & Prepayments	(7)	8,883	5,269	8,883	5,269
Inventories	(8)	551	508	551	508
Provision for Taxation		262	(207)	262	(207)
		9,929	7,840	9,929	7,840
Current Liabilities					
Creditors, Accruals & Provisions	(9)&(10)	3,556	4,105	3,556	4,105
		3,556	4,105	3,556	4,105
Net Working Capital		6,373	3,735	6,373	3,735
Non Current Assets					
Investments:					
Investments in Subsidiaries	(11)	-	-	1,225	75
Investments in Associates	(4)	9,222	-	8,910	-
Deposit on OPL Assets	(21)	1,225	-	-	-
		10,447	-	10,135	75
Property, Plant and Equipment	(12)	167,399	191,708	167,399	191,708
Capital Work in Progress		2,453	923	2,453	923
		169,852	192,631	169,852	192,631
Non Current Liabilities					
Provision for Deferred Taxation	(3)	-	11,912	-	11,912
Term Liabilities	(13)	19,675	7,500	19,675	7,500
		19,675	19,412	19,675	19,412
Net Assets		166,997	176,954	166,685	177,029

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2002

	Note	GROUP		PARENT	
		30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Was Provided From:					
Receipts from Customers		21,032	23,136	21,032	23,128
Interest Received		267	320	267	320
		<u>21,299</u>	<u>23,456</u>	<u>21,299</u>	<u>23,448</u>
Cash Was Disbursed To:					
Payments to Suppliers and Employees		13,209	11,908	13,284	11,900
Taxes Paid		2,273	1,964	2,273	1,964
Interest Paid		425	303	425	303
		<u>15,907</u>	<u>14,175</u>	<u>15,982</u>	<u>14,167</u>
Net Cash Flows From Operating Activities	(16)	<u>5,392</u>	<u>9,281</u>	<u>5,317</u>	<u>9,281</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash Was Provided From:					
Proceeds from Property, Plant and Equipment Sales		24	110	24	110
		<u>24</u>	<u>110</u>	<u>24</u>	<u>110</u>
Cash Was Applied To:					
Purchase of Property, Plant & Equipment		9,390	11,672	9,390	11,672
Investment in Subsidiaries		-	-	1,150	-
Investment in Associates		-	-	8,910	-
Purchase of Investments		10,135	-	-	-
		<u>19,525</u>	<u>11,672</u>	<u>19,450</u>	<u>11,672</u>
Net Cash Flows Used in Investing Activities		<u>(19,501)</u>	<u>(11,562)</u>	<u>(19,426)</u>	<u>(11,562)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash Was Provided From:					
Term Loans		12,175	3,360	12,175	3,360
		<u>12,175</u>	<u>3,360</u>	<u>12,175</u>	<u>3,360</u>
Cash Was Applied To:					
Dividend Payment		103	144	103	144
		<u>103</u>	<u>144</u>	<u>103</u>	<u>144</u>
Net Cash Flows From Financing Activities		<u>12,072</u>	<u>3,216</u>	<u>12,072</u>	<u>3,216</u>
Net Increase/(Decrease) in Cash Held		(2,037)	935	(2,037)	935
Add Opening Cash Brought Forward		2,270	1,335	2,270	1,335
Closing Cash To Be Carried Forward	(6)	<u>233</u>	<u>2,270</u>	<u>233</u>	<u>2,270</u>

Notes to and Forming Part of the Consolidated Financial Statements

For the Year Ended 30 June 2002

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 (Transoil) Limited and Last Tango Limited and has a 50% interest in PowerNet Limited, Electricity Southland Limited, Bluesparks Limited, Lightswitch Limited, Power Surge Limited and Shockwave Limited.

The Power Company Limited, through its wholly owned subsidiary Last Tango Limited, has a 24.5% interest in the assets of OtagoNet, a joint venture between The Power Company Limited, Electricity Invercargill Limited and Marlborough Lines Limited. The four companies Bluesparks Limited, Lightswitch Limited, Power Surge Limited and Shockwave Limited were established to purchase the shares in Otago Power 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 associates outlined above.

The principal activity of the Parent Entity is the provision of electricity distribution services. Electricity Southland (Transoil) Limited reflected the Group's investment in Platinum Partnership whose primary purpose was to refurbish transformer oil. Platinum Partnership sold its assets in June 2000 and Electricity Southland (Transoil) Limited is now in the process of being wound up.

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 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 (Transoil) Limited and Last Tango Limited using the proportionate method.

The financial results of Electricity Southland Limited, Bluesparks Limited, Lightswitch Limited, Power Surge Limited and Shockwave Limited have been reflected in the Group financial statements using the equity method.

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

b) Property, Plant and Equipment -

All assets are initially recorded at cost less accumulated depreciation. The cost of purchased 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. During the year under review the Commerce Commission undertook a recalibration audit of the valuation. As a result, the value of these assets has reduced by \$23,933,000. Subsequent additions are recorded at cost.

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.

c) Depreciation -

Depreciation is provided on a combination of straight line/diminishing value bases on all tangible 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 - 10.0%	Straight Line/Diminishing Value
Network Assets (excluding land)	1.43 - 16.67%	Straight Line/Diminishing Value
Metering Assets	7.5 - 22.0%	Diminishing Value
Plant, Equipment & Shared Assets	7.0 - 48.0%	Straight Line/Diminishing Value
Motor Vehicles	26.0 - 31.2%	Diminishing Value
Office Furniture & EDP Equipment	9.0 - 60.0%	Straight Line/Diminishing Value

Notes to and Forming Part of the Consolidated Financial Statements *Continued*

For the Year Ended 30 June 2002

- d) Revenue -
Goods and Services
Revenue comprised the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.
- Investment Income*
Interest and rental income are accounted for as earned.
- Customer Contributions*
Contributions from customers in relation to the construction of new lines for the network are accounted for as income in the year in which they are received.
- e) 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.
- 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 profit for the year is the estimated liability in respect of that profit 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 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 13 and 17. The Group values all financial instruments at fair value in the Statement of Financial Position.
- j) Foreign Currency -
Transactions covered by short-term forward exchange contracts are translated at the exchange rates specified in those contracts. Other foreign currency transactions are translated to New Zealand currency at the exchange rates ruling at the dates of the transactions. There are no assets or liabilities in foreign currencies at balance date.
- k) 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.
- l) Capital Work in Progress -
Capital Work In Progress is stated at cost and is not depreciated.
- m) 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.
- n) 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

The Company has changed the method of accounting for deferred taxation from the comprehensive method to the partial method as it is considered unlikely that the majority of timing differences will reverse in future, and accordingly an income tax liability is not expected to crystallise. The effect of this change is a write back to the taxation expense of \$152,000 for the deferred taxation liability provided in previous years, and reversal of a deferred taxation liability of \$12,064,000 relating to the revaluation of network assets at 31 March 2001.

There have been no other changes in accounting policies during the year ended 30 June 2002.

Notes to and Forming Part of the Consolidated Financial Statements *Continued*

For the Year Ended 30 June 2002

2. Operating Surplus Before Taxation

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Operating Surplus Before Taxation	3,700	4,851	3,625	4,739
After Charging:				
Audit of Financial Report - Audit NZ	13	37	13	37
Audit of Financial Report - PricewaterhouseCoopers	18	-	18	-
Other Services - Audit NZ	3	-	3	-
Other Services - PricewaterhouseCoopers	-	-	-	-
Bad Debts Written Off	1	8	1	8
Increase/(Decrease) in Provision for Doubtful Debts	-	-	-	-
Bursaries, Scholarships and Awards	17	17	17	17
Depreciation	8,041	5,952	8,041	5,952
Directors' Fees	109	100	109	100
Donations	5	4	5	4
Interest Expense	476	303	476	303
Leasing and Renting Costs	103	75	103	75
Loss on Disposal of Property, Plant & Equipment	177	6	177	6
Prepayment Meter Equipment Write Down	-	9	-	9
Subvention Payment	-	-	84	72
Provision for Writedown/(Writeback) of Loan	-	(39)	(8)	-
After Crediting:				
Discount to Consumers	(2,841)	(2,036)	(2,841)	(2,036)
Interest Received	265	320	265	320
Profit on Disposal of Property, Plant & Equipment	7	53	7	53

Notes to and Forming Part of the Consolidated Financial Statements *Continued*

For the Year Ended 30 June 2002

3. Taxation

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Operating Surplus Before Taxation	3,700	4,851	3,625	4,739
Prima Facie Taxation at 33%	1,221	1,601	1,196	1,564
Plus/(less) Taxation Effect of:				
Items Not Deductible for Taxation (Permanent Differences)	674	(51)	674	(27)
Timing Differences between Taxable Income and Accounting Income Not Recognised	(38)	(18)	(38)	(5)
Taxation Effect of Losses Not Previously Recognised	(25)	(24)	-	-
Prior Year Under/(Over) Provision	(27)	(9)	(27)	(9)
Prior Year Group Loss Transfer	-	-	-	(24)
Reversal of Prior Years Deferred Tax Liability	152	-	152	-
Taxation Expense for Year	1,957	1,499	1,957	1,499
Comprising of:				
Current Taxation	1,957	1,852	1,957	1,852
Deferred Taxation	-	(353)	-	(353)
	1,957	1,499	1,957	1,499
Deferred Taxation Account:				
Deferred Taxation at Beginning of Year	(11,912)	(201)	(11,912)	(201)
Plus Current Year Movement	(152)	353	(152)	353
Reversal/(Impact) of Deferred Tax Effect of Revaluation	12,064	(12,064)	12,064	(12,064)
Deferred Taxation at End of Year	-	(11,912)	-	(11,912)

The deferred taxation adjustment arises from the change in accounting policy referred to in Note 1.

A deferred taxation liability of \$16,314,000 has not been recognised. In 2001, a deferred taxation liability of \$11,912,000 was recognised.

Imputation Credit Account:

Balance at Beginning of Year		5,018	3,450
Credits:			
Income Tax Payments During Year		1,885	1,260
Imputation Credits on Dividend Received		409	379
Resident Withholding Tax on Interest Received		1	-
Debits:			
Imputation Credits on Dividend Paid		(51)	(71)
Balance at End of Year		7,262	5,018

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

Notes to and Forming Part of the Consolidated Financial Statements *Continued*

For the Year Ended 30 June 2002

4. Investments in Associates

	Principle Activity	Percentage Held By Group		Balance Date
		30 June 2002	30 June 2001	
Platinum Partnership	(dormant)	40%	40%	30 June
Electricity Southland Limited	(utility infrastructure)	50%	50%	30 June
Lightswitch Limited	(see below)	50%	-	31 March
Bluesparks Limited	(see below)	50%	-	31 March
Power Surge Limited	(see below)	50%	-	31 March
Shockwave Limited	(see below)	50%	-	31 March

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Carrying Amount at Beginning of Year	-	45	-	-
Investments in Associates	8,910	-	8,910	-
Share of Equity Accounted Earnings of Associates	312	(12)	-	-
Disposal of Associate	-	(33)	-	-
Carrying Amount at End of Year	9,222	-	8,910	-

Lightswitch Limited, Bluesparks Limited, Power Surge Limited and Shockwave Limited were formed to effect The Power Company Limited and Electricity Invercargill Limited's takeover offer of shares in Otago Power Limited. The acquisition of assets was ultimately completed and given that the takeover offer for shares was unsuccessful, it is the intention that these companies be liquidated.

5. Equity

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Paid In Capital				
29,621,736 ordinary shares fully paid	29,622	29,622	29,622	29,622
Asset Revaluation Reserve				
Opening Balance	122,485	-	122,485	-
Revaluation in the Year	(23,933)	134,549	(23,933)	134,549
Reversal/(Impact) of Deferred Tax				
Effect of Revaluation	12,064	(12,064)	12,064	(12,064)
Closing Balance	110,616	122,485	110,616	122,485
Retained Earnings				
Opening Balance	24,847	21,610	24,922	21,785
Net Surplus for the Year	2,055	3,340	1,668	3,240
Dividend Proposed/Declared	(143)	(103)	(143)	(103)
Closing Balance	26,759	24,847	26,447	24,922
Total Equity	166,997	176,954	166,685	177,029

Notes to and Forming Part of the Consolidated Financial Statements *Continued*

For the Year Ended 30 June 2002

6. Cash and Bank Deposits

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Current Account	72	95	72	95
Bank Deposits (Short term)	155	2,065	155	2,065
Share of PowerNet Limited's Bank	6	110	6	110
Total Cash and Bank Deposits	233	2,270	233	2,270

7. Receivables & Prepayments

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Trade Debtors	4,447	917	4,447	917
Prepayments	72	198	72	198
Proceeds and Interest Earned from Sale of Monowai Power Station Not Yet Received (see Note 15)	4,364	4,154	4,364	4,154
Total Receivables & Prepayments	8,883	5,269	8,883	5,269

8. Inventories

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Inventories	551	508	551	508
Total Inventories	551	508	551	508

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 sundry network consumables and prepayment meters held by The Power Company Limited.

9. Creditors, Accruals & Provisions

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Trade Creditors & Accruals	3,217	4,048	3,217	4,048
GST Payable/(Refundable)	(21)	(255)	(21)	(255)
Provision for Employee Entitlements	217	209	217	209
Provision for Dividend	143	103	143	103
Total Creditors, Accruals & Provisions	3,556	4,105	3,556	4,105

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

10. Provisions

Provision for Employee Entitlements

	GROUP	PARENT
	30 June 2002 \$000	30 June 2002 \$000
Balance at Beginning of Year	209	209
Additional Provision Made	172	172
Amount Utilised	(164)	(164)
Balance at End of Year	217	217

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.

Notes to and Forming Part of the Consolidated Financial Statements *Continued*

For the Year Ended 30 June 2002

11. Investments in Subsidiaries

Subsidiaries:	Percentage Held By Group		
	30 June 2002	30 June 2001	Balance Date
Electricity Southland (Transoil) Limited	100%	100%	30 June
Last Tango Limited	100%	-	30 June

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Shares in Subsidiaries	-	-	-	-
Advances to Subsidiaries	-	-	1,225	75
Total Investments in Subsidiaries	-	-	1,225	75

The Power Company Limited owns the authorised capital of Electricity Southland (Transoil) Limited and Last Tango Limited.

12. Property, Plant and Equipment

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Land	149	149	149	149
Buildings (At Cost)	789	790	789	790
Accumulated Depreciation	(255)	(222)	(255)	(222)
	534	568	534	568
Office Furniture & EDP (At Cost)	4,770	4,519	4,770	4,519
Accumulated Depreciation	(4,219)	(3,684)	(4,219)	(3,684)
	551	835	551	835
Motor Vehicles (At Cost)	45	88	45	88
Accumulated Depreciation	(33)	(53)	(33)	(53)
	12	35	12	35
Plant, Equipment and Shared Assets (At Cost)	827	600	827	600
Accumulated Depreciation	(439)	(312)	(439)	(312)
	388	288	388	288
Metering Assets (At Cost)	9,427	8,881	9,427	8,881
Accumulated Depreciation	(5,857)	(5,419)	(5,857)	(5,419)
	3,570	3,462	3,570	3,462
Network Assets (At Valuation)	169,087	188,065	169,087	188,065
Accumulated Depreciation	(6,892)	(1,694)	(6,892)	(1,694)
	162,195	186,371	162,195	186,371
Total Property, Plant & Equipment	167,399	191,708	167,399	191,708

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.

During the year under review the Commerce Commission undertook a recalibration audit of the valuation. As a result, the value of these assets has reduced by \$23,933,000.

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, their book values are equivalent to fair value.

Notes to and Forming Part of the Consolidated Financial Statements *Continued*

For the Year Ended 30 June 2002

13. Term Liabilities

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Short Term Advances Facility	19,675	7,500	19,675	7,500
Revolving Credit Facility	-	-	-	-
Total National Bank Facility	19,675	7,500	19,675	7,500

Short Term Advances Facility

The Company established a Short Term Advances Facility of up to \$24 million with The National Bank of New Zealand Limited on 27 June 2002. The Facility continues until 30 September 2003 and is renewable by agreement between the Company and The National Bank of New Zealand Limited.

Revolving Credit Facility

The Company established a Revolving Credit Facility of \$25 million with The National Bank of New Zealand Limited on 27 June 2002. The facility continues until 30 September 2005 and is extendable by one year at 30 September each year at the discretion of the Company.

These facilities provide for drawdowns to be made ranging from overnight to six months and are subject to interest rates at Bank Bill Buy Rates plus a margin.

The Facilities are unsecured, and are subject to a Negative Pledge given by the Company to The National Bank of New Zealand Limited.

At balance date the Company has hedged its borrowings under the above facilities using interest rate swaps which total \$14 million (2001 - \$2 million) at interest rates between 5.98% and 6.65%, excluding bank margins.

14. Commitments

The Power Company Limited has an obligation to purchase land relating to the Monowai Redevelopment amounting to \$290,000 (2001: \$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 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Not later than one year	60	62	60	62
Later than one year and not later than two years	28	29	28	29
Later than two years and not later than five years	12	30	12	30
Total Operating Lease Commitments	100	121	100	121

Capital Commitments

The Power Company Limited through its joint venture management company PowerNet Limited has capital commitments at 30 June 2002 of \$Nil (2001: \$53,000).

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 2002 is \$3,000 (2001: \$7,000).

For the Year Ended 30 June 2002

15. 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.

16. Reconciliation of Net Surplus After Taxation with Net Operating Cash Flows

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

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Net Surplus After Taxation	1,743	3,352	1,668	3,240
Plus/(Less) Non Cash Items:				
Depreciation	8,041	5,952	8,041	5,952
Movement in Deferred Tax	153	(354)	153	(354)
Investment Writedown/(Writeback)	-	33	-	105
	<u>8,194</u>	<u>5,631</u>	<u>8,194</u>	<u>5,703</u>
Plus/(Less) Items Classified as Investing:				
Loss on Disposal of Property, Plant & Equipment	177	15	177	15
Profit on Disposal of Property, Plant & Equipment	(7)	(53)	(7)	(53)
	<u>170</u>	<u>(38)</u>	<u>170</u>	<u>(38)</u>
Plus/(Less) Net Movements in Working Capital:				
Creditors, Accruals & Provisions	(589)	1,233	(589)	1,281
Receivables	(3,740)	(548)	(3,740)	(556)
Inventories	(43)	(58)	(43)	(58)
Prepayments	126	(180)	126	(180)
Provision for Taxation	(469)	(111)	(469)	(111)
	<u>(4,715)</u>	<u>336</u>	<u>(4,715)</u>	<u>376</u>
Net Cash Flows From Operating Activities	<u>5,392</u>	<u>9,281</u>	<u>5,317</u>	<u>9,281</u>

Notes to and Forming Part of the Consolidated Financial Statements *Continued*

For the Year Ended 30 June 2002

17. 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 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Bank Balances	78	205	78	205
Short Term Deposits	155	2,065	155	2,065
Receivables	8,811	5,071	8,811	5,071
	<u>9,044</u>	<u>7,341</u>	<u>9,044</u>	<u>7,341</u>

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 has a concentration of credit risk with regard to the amounts owing by energy retailers at balance date for Line Charges. However these entities are considered to be high quality entities.

Foreign Exchange Risk -

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 \$14 million (2001: \$2 million) 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 2002 is \$19,000 (2001: Nil).

18. 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.

For the Year Ended 30 June 2002

19. Transactions With Related Parties

The Power Company Limited is wholly owned by the Southland Electric Power Supply Consumer Trust.

The Power Company Limited has a 50% shareholding in PowerNet Limited, Electricity Southland Limited, Bluesparks Limited, Lightswitch Limited, Power Surge Limited and Shockwave Limited. The Power Company Limited also wholly owns the following subsidiaries: Last Tango Limited and Electricity Southland (Transoil) Limited. Electricity Southland (Transoil) Limited has a 40% share in Platinum Partnership.

All transactions between The Power Company Limited and related parties relate to the normal trading activities of The Power Company Limited and have been conducted on a commercial basis.

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

Material transactions The Power Company Limited has had with the abovementioned parties during the year are as follows:

	Year Ended 30 June 2002 \$000	Year Ended 30 June 2001 \$000
Supplied to:		
PowerNet Limited	10,840	9,403
Electricity Southland Limited	2	-
Electricity Southland (Transoil) Limited	8	-
<i>Receivables Outstanding at Balance Date (GST incl):</i>		
PowerNet Limited	1,860	1,958
Electricity Southland Limited	2	-
Electricity Southland (Transoil) Limited	-	-
Supplied by:		
PowerNet Limited	8,710	10,131
Electricity Southland Limited	-	-
Electricity Southland (Transoil) Limited	84	72
<i>Creditors Outstanding at Balance Date (GST incl):</i>		
PowerNet Limited	2,971	3,459
Electricity Southland Limited	-	-
Electricity Southland (Transoil) 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 \$37,000 (2001: \$33,000) and consultants fees paid to Sinclair Knight Merz, for whom Murray Frost is a shareholder, amounting to \$7,000 (2001: \$4,000).

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 owns 100% of the shares in The Power Company Limited. During the year expenses were paid out on behalf of the Trust totalling \$143,000 (2001: \$103,000) and a fully imputed dividend of \$103,000 has been paid by The Power Company Limited. The Trust has an outstanding debt to The Power Company Limited at balance date of \$143,000 (2001: \$103,000) for which a dividend has been provided for in the current year by The Power Company Limited.

Notes to and Forming Part of the Consolidated Financial Statements *Continued*

For the Year Ended 30 June 2002

20. Performance Target Comparisons

	Projected 30 June 2002	GROUP Actual 30 June 2002 <small>(Inclusive of Discount)</small>	Actual 30 June 2002 <small>(Exclusive of Discount)</small>
EBIT - Earnings Before Interest & Tax			
EBIT %	3.11%	2.20%	3.69%
Return on Equity			
Return on Equity %	1.55%	1.04%	2.70%
Equity to Total Assets			
% Equity to Total Assets	92.04%	87.79%	89.28%

SAIFI - System Average Interruption Frequency Index

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

	Target 30 June 2002	Achievement	
		30 June 2002	30 June 2001
Planned	0.26	0.12	0.13
Unplanned	3.70	2.87	2.97

SAIDI - System Average Interruption Duration Index

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

	Target 30 June 2002	Achievement	
		30 June 2002	30 June 2001
Planned	30.00	16.99	18.43
Unplanned	180.00	132.01	125.41

21. Events Subsequent to Balance Date

On 1 July 2002, a joint venture comprising The Power Company Limited, Electricity Invercargill Limited and Marlborough Lines Limited purchased the assets of Otago Power Limited (including all Property, Plant and Equipment and the shares in Otago Power Services Limited) for \$109 million. The Power Company Limited's interest in the joint venture is 24.5%.

Auditors' Report

To the shareholders of The Power Company Limited

We have audited the financial statements on pages 9 to 23. The financial statements provide information about the past financial performance of the Company for the year ended 30 June 2002 and its financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 12 and 13.

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 30 June 2002 and its financial performance for the year ended on that date.

Auditors' Responsibilities

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

Basis of Opinion

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

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

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

We have no relationship with or interests in the Company other than in our capacity as auditors

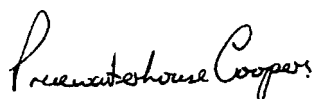
Unqualified Opinion

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

In our opinion:

- (a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
- (b) the financial statements on pages 9 to 23
 - (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 30 June 2002 and its financial performance for the year ended on that date.

Our audit was completed on 25 September 2002 and our unqualified opinion is expressed as at that date.



Chartered Accountants Dunedin



