ANNUAL REPORT 2006

THE POWER COMPANY LTD

CONTENTS

DIRECTORY

Directors

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

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251 Racecourse Road
PO Box 1748
Invercargill
New Zealand

Telephone: 03 211 1870
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Principal Bankers

ANZ National Bank Limited

Auditors

PricewaterhouseCoopers, Dunedin

Solicitors

AWS Legal

THE YEAR IN REVIEW

1. FINANCIAL

The Group produced a net surplus after tax for the year ended 31 March 2006 of $2.769 million (2005: $1.672 million). The increased surplus reflects a number of factors which impacted on the Group during the year. These included an increase in the OtagoNet Joint Venture surplus, additional capital contributions and reduced overheads and Transpower costs. These were offset by significant increases in contractor costs.

The Company through its Consumer Trust ownership has historically provided an implicit discount to consumers through lower line pricing; this is demonstrated by the Company recently having one of the lowest rates of return of any New Zealand lines business as measured by the Commerce Commission. It is the view of Directors that the return requires a further increase given the value of the business, the net surplus being $2.769 million on an asset base of $249 million. Without an improved return, the ability to fund investment in the network, maintain the quality of supply to consumers and preserve the value of the assets will be jeopardised.

Last year, after consultation with the Trustees and industry experts regarding these issues, the Board resolved to move away from implicit discounts and towards achieving a return which begins to approach the Company's Weighted Average Cost of Capital. This has enabled Directors to consider a balance between increased investment in the network, retirement of debt or the crediting of explicit discounts. Directors were aware that the increase in rates introduced at the beginning of the year would result in the Company breaching the Commerce Commission Price Path Threshold for the year ended 31 March 2006.

The investments in the OtagoNet Joint Venture and Otago Power Services Limited have met expectations both financially and operationally, with a positive cash flow again contributing to the satisfactory performance of those investments.

Overall the strong financial position, future operating results and cash flow and continued growth prospects in the Southland and Otago areas have the Group well positioned for the future.

The consolidated result for the Group is:

	2006 $000	**2005 $000**
Operating Surplus before Discount	7,965	3,446
Less Discount to Consumers	(2,934)	-
Operating Surplus before Taxation	**5,031**	**3,446**
Less Taxation Expense	(2,262)	(1,774)
Net Surplus after Taxation	**2,769**	**1,672**

2. ENVIRONMENT

The major concern of the Directors continues to be the impact on sound business management by a regulatory regime which has the potential to suppress investment in a vital national infrastructure asset and divert the focus of management and governance from improving the business to increasing bureaucratic compliance.

The Company did breach the Commerce Commission's March 2006 Price Path Threshold but not the Quality Thresholds. Although slightly worse than last year, the reliability of the network for the year once again exceeded expectations and is a tribute to the continuing network investment and asset stewardship.

Directors reiterate their previous comments that although they welcome the initiatives from Transpower with respect to upgrading the main grid, they still believe that more cognisance should be given to a reliable generation source within this part of the country utilising the abundant Southland energy resources. The wealth and prosperity of New Zealand is dependent on a secure and adequate electricity supply to encourage investment in enterprises to add value to our commodity exports.

3. BUSINESS

The Power Company Limited has continued regular investment in its network to meet its customer requirements with respect to price and reliability. Customers have been given the opportunity during the year to comment on the Asset Management Plan to ensure the Company will continue to meet their requirements in the future.

The net contribution to the Company is attributable to the Use Charge received from PowerNet Limited for the lease of the network assets and the profits from the Company's investment in the OtagoNet Joint Venture.

The Use Charge calculation reflects the return on the book value of the assets, depreciation and the corporate costs of the Company.

The Use Charge for the 2005/06 year was discounted by $400,000 due to the increased maintenance costs associated with tree trimming and significant wage increases for contractors' field staff.

Despite a continuing lack of available resources, exacerbated to some extent by the previous restructuring of the PowerNet field services sub-contracts, most of the Company's capital works programme was completed.

The reliability statistics met the SAIFI but did not quite meet the SAIDI interruption targets in the Statement of Intent.

The target and actual SAIFI and SAIDI reliability indices are shown below:

SAIFI - System Average Interruption Frequency Index
(the average number of times each customer connected to the network is without supply)

Target	Actual
3.07	2.99

SAIDI - System Average Interruption Duration Index
(the average total times in minutes each customer connected to the network is without supply)

Target	Actual
142 minutes	158 minutes

The actual SAIFI and SAIDI figures were both well within the Commerce Commission thresholds of 4.2 and 237 minutes respectively.

4. POWERNET LIMITED

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

This management is executed through a capital and maintenance works programme that 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 a break-even company, its performance is reflected in the reliability statistics and line charges for each of the respective networks that it manages.

5. INVESTMENT AND DEVELOPMENT

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

The 50% investment in Electricity Southland Limited with Electricity Invercargill Limited (50%) is meeting its projections on the first embedded network in Frankton.

The Power Company Limited completed the third year of its 24.5% investment in the electricity network owner OtagoNet Joint Venture and similar investment in the electrical contracting company Otago Power Services Limited with its neighbour Electricity Invercargill Limited (24.5%) and Marlborough Lines Limited (51%).

The Otago based investments performed as anticipated, contributing a positive cash flow in addition to the benefits of a strategic partnership and acquisition of a strategic asset. Directors are pleased with the third year's performance and the shareholders are projected to benefit further from increased dividends and growth in value in the years to come. The agreement to defer line charge increases for three years following the purchase of Otago Power Limited terminated on 30 June 2005 and the OtagoNet Joint Venture Directors resolved to increase line charges from 1 July 2005. The increased revenue has enabled higher expenditure on renewing and upgrading network assets, increasing the value of the network and improving supply quality to the customers.

The Power Company Limited is also a 25% shareholder in the electrical contracting company Continuity Contracting Limited. The other shareholders in this company are Electricity Invercargill Limited (25%) and Netcon Limited (50%), itself a joint venture company owned by Alpine Energy Limited and Network Waitaki Limited. Continuity Contracting Limited has the lines and technical field service contracts for the western part of The Power Company Limited network.

The Power Company Limited is keen to develop its relationships with its joint venture partners in the interest of its stakeholders.

The following major projects on The Power Company Limited network were completed during the year:

Project	Approximate Expenditure
New Customer Connections	$2,066,000
Refurbishment of 11kV Lines, New 22kV Lines, Circuit Breakers and SCADA Units	$1,033,000
Reticulation of New Subdivisions	$883,000
Vegetation Management	$730,000
Distribution Transformer Replacements	$400,000
Earth Upgrades	$285,000
33kV Cable Replacement and Injection Plant Upgrade	$274,000

6. ACKNOWLEDGEMENTS

Directors again wish to acknowledge the ongoing support of the Trustees throughout the year. In particular, the open and cooperative relationship with the Trustees is appreciated by the Directors and has been to the benefit of the Company.

The Directors also acknowledge the ongoing partnership with Electricity Invercargill Limited which is continuing to reap benefits for both Companies.

Directors are pleased with the relationship with Marlborough Lines Limited following the joint venture investment in OtagoNet and the developing relationship with Alpine Energy Limited and Network Waitaki Limited through Continuity Contracting Limited.

Directors also wish to record their appreciation to the staff of PowerNet Limited who have managed the business for another year.

Alan Harper
Chairman

Cam McCulloch
Deputy Chairman

DIRECTORS' REPORT

The Directors have pleasure in presenting their Annual Report and Financial Statements for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The principal activity of the parent entity The Power Company Limited is the provision of electricity distribution services. The Company is a wholly owned subsidiary of the Southland Electric Power Supply Consumer Trust. The Group consists of The Power Company Limited, its subsidiaries, associates and joint ventures.

RESULT AND DISTRIBUTION

The Directors report that the Group's profit after tax and interest for the year under review was $2,769,000. A dividend of $143,000 has been declared. 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
Douglas Fraser		
	PowerNet Ltd	Director
	Last Tango Ltd	Director
	Electricity Southland Ltd	Director
	NZ Wool Board Disestablishment Company	Director
	Telford Farm Management Board	Director
Alan Harper		
	AWS Legal	Partner
	Bond Contracts Ltd	Chairman
	Southland Finance Ltd	Director
	PowerNet Ltd	Director
	Last Tango Ltd	Director
	OtagoNet Ltd	Director
	OtagoNet Joint Venture	Chairman, Management Committee
	United Pacific Energy Ltd	Director
	Electricity Southland Ltd	Director
Cam McCulloch		
	Invercargill City Holdings Ltd	Deputy Chairman
	McCulloch & Partners	Consultant
	Southfish Ltd	Chairman
	Invest South Ltd	Director
	PowerNet Ltd	Deputy Chairman
	Last Tango Ltd	Director
	Electricity Southland Ltd	Director
	Invercargill Te Ara a Kewa Primary Health Organisation	Chairman
Maryann Macpherson		
	Last Tango Ltd	Director
	PowerNet Ltd	Director
	Electricity Southland Ltd	Director
	Continuity Contracting Ltd	Director

Alan Harper is a partner of AWS Legal, Solicitors and 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
Cam McCulloch	-	Deputy Chairman
Douglas Fraser	-	Director
Maryann Macpherson	-	Director

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 was:

Alan Harper	$31,000
Cam McCulloch	$20,000
Douglas Fraser	$15,500
Maryann Macpherson	$15,500

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

Douglas Fraser	$15,000
Alan Harper	$15,000
Cam McCulloch	$18,000
Maryann Macpherson	$15,000

EMPLOYEE REMUNERATION

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

DONATIONS

The Company did not make any donations during the period.

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 have been no changes in accounting policies during the year. These have been applied on a basis consistent with those used in the previous year.

AUDITOR REMUNERATION

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

For and on behalf of the Directors.

Alan Harper
Chairman

Cam McCulloch
Deputy Chairman

DIRECTORS' PROFILES

Alan Harper (Chairman)
LLB BCom

Alan is a partner in the law firm of AWS Legal. He has practised with the firm since 1979, specialising particularly in commercial and company affairs. He is the Chairman of Bond Contracts Limited and is a Director of Southland Finance Limited and PowerNet Limited.

Cam McCulloch (Deputy Chairman)
FCA

Cam is a consultant with McCulloch and Partners, Chartered Accountants. He is Chairman of Southfish Limited, Deputy Chairman of PowerNet Limited and Deputy Chairman of Invest South Limited.

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

Doug Fraser
BSc (Chemistry)

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

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

Maryann Macpherson

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

Her career background is farming and taxation management.

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

TRUSTEES' REPORT

From left to right: Ron McDonald, Vaughan Templeton, Geoff Thompson, Don Nicolson & Jim Hargest.

Governance and Consultation

In its eighth year of operation since its establishment on 18 December 1997 the Trust, through its Trustees, has continued to exercise the ownership rights of The Power Company Limited on behalf of its consumer owners.

Trustees Vaughan Templeton and Ron McDonald retired in September 2005 and were re-elected as Trustees along with new Trustee Jim Hargest.

The Chairman, Vaughan Templeton, was awarded a Nuffield Scholarship and subsequently granted leave of absence between February and July 2006.

Trustees have the opportunity annually to comment on the Company's Statement of Intent and Business Plan projections prior to their finalisation by the Company's Board of Directors. Of particular focus are the Asset Management Plan, capital investments, return on investment and the price and quality of service to consumers.

The Company's performance is monitored throughout the year in relation to the Statement of Intent and Business Plan. In the past year the Trust has developed a Strategic Plan as an aid to ensure compliance with all aspects of its Trust Deed.

Core Business

The Company's core business continues to be the ownership and management of assets involved in the distribution of electricity or similar products and associated services.

Management of these assets is principally through the joint venture company PowerNet Limited and ownership through the Company's wholly-owned subsidiary, Last Tango Limited.

Financial

The Company achieved an operating surplus, before the application of the discount, of $7.96M which exceeded its target of $7.79M for the year.

Line Charges

The initial step of the Company's plan to progressively increase line charges over a five year period has breached the Commerce Commission's price path threshold at 31 March 2006.

It is a positive attempt, however, to address both the Commission's and the Company Auditor's concerns at the Company's current low rate of return on its network assets and consequent ability to re-invest and maintain the value of its network. The implicit discount effected through lower line charges is being replaced by the introduction of explicit discounts.

The Trust supports the Company's plan as being in the best long-term interests of its consumer owners in regard to the maintenance of the network performance and the protection of its asset value.

Consumer Discount

An explicit discount of $3.37M (including GST) was credited to consumers in August 2005.

The changes being implemented to the Company's line charge regime can be expected to result in a rebalancing of implicit and explicit discounts over a period of time.

Lines Operation

Trustees support the Company's programme of re-investment in its network. The benefits of that programme however are not fully reflected in the reliability statistics achieved for the year.

The SAIDI (System Average Interruption Duration Index) result (158 minutes), while not meeting the Company's target (142 minutes), was significantly better than the Commerce Commission target of 237 minutes.

The SAIFI (System Average Interruption Frequency Index) result (2.99) was marginally better than the Company's target of 3.07.

Trustees acknowledge that prevailing weather conditions are a significant influence on the results each year.

Industry Regulation

Trustees note with concern the continued negative impact on the Company's results imposed by the regulatory environment. The increasing cost of compliance is a drain on the management and governance resources of all Lines Companies.

Insufficient recognition by Government of the role of Consumer Trusts in moderating any potential for abuse of a natural monopoly position remains as a major frustration to Trustees.

OtagoNet Joint Venture

The results for the Joint Venture are encouraging and are reflected in the Trustees continuing support for the Company's participation in the Joint Venture. The investment continues to provide positive cashflows and, with Otago Power Services Limited, is performing satisfactorily.

Energy Trusts Association

Trustees have maintained support for Energy Trusts of New Zealand as an increasingly effective voice for the interests of Energy Trusts in New Zealand.

Trustee Geoff Thompson was re-elected to the Executive in May 2005.

Directors

Composition of the Board was unchanged during the year under review. Trustees and Directors have maintained a good working relationship and liaison to ensure that the distinctly different roles of Directors and Trustees contribute to the sustainable long term provision of security of supply at the lowest practical price.

Administration

Trust Secretary Gwyn Rule has maintained a high standard of secretarial services to the Trust which is appreciated by Trustees.

Trustees also acknowledge the invaluable financial analysis and advice provided by Blair Morris, a principal of Cook Adam and Co. Blair's expertise provides the Trustees with an effective and independent review of the Company's Business Plans, projections and performance.

Geoff Thompson
Acting Chairman

SEPS Consumer Trust

THE POWER COMPANY LIMITED CONSOLIDATED FINANCIAL STATEMENTS **For the Year Ended 31 March 2006**

APPROVAL BY DIRECTORS
The Directors have approved the Consolidated Financial Statements of The Power Company Limited for the year ended 31 March 2006 on pages 9 to 24.

For and on behalf of the Board of Directors
29 June 2006

Alan Harper
Chair of Directors

Cam McCulloch
Deputy Chair of Directors

CONSOLIDATED STATEMENT OF SERVICE PERFORMANCE

For the Year Ended 31 March 2006

The objectives of The Power Company Limited for this financial year are specified in the Statement of Intent, which was approved by the Shareholders. The performance targets and measures identified in the Statement of Intent, along with the performance achieved during the financial year, are detailed below.

	Target	Achievement		
	2006 $000	2006 $000		2005 $000
		Inclusive of Discount	Exclusive of Discount	
Performance Targets				
Financial Measures				
Operating Surplus Before Tax	7,796	5,031	7,965	3,446
Earnings Before Interest and Tax %	3.56%	2.52%	3.70%	1.99%
Return on Equity %	2.06%	1.22%	2.49%	0.75%
Equity to Total Assets %	89.54%	91.00%	92.18%	90.77%

	Target	Achievement	
	2006 $000	2006 $000	2005 $000
Network Reliability Performance Measures			
System Average Interruption Duration Index (SAIDI)			
The average total time in minutes each customer connected to the network is without supply.			
Total Interruptions	142.00	158.34	125.00
System Average Interruption Frequency Index (SAIFI)			
The average number of times each customer connected to the network is without supply.			
Total Interruptions	3.07	2.99	3.00
Other Network Reliability Performance Measures			
Total number of interruptions		570	417
Faults per 100km of line		5.89	5.36
Supplementary Information			
Network Statistics			
Length of overhead line		8,283km	8,278km
Length of underground cable		257km	249km
Transformer capacity MVA		335	333
Maximum demand kW		114,010	112,173
Energy into network GWh		674	671
Total consumers		32,243	31,967

CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the Year Ended 31 March 2006

	Note	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Operating Revenue	(2)	38,207	33,875	20,058	16,273
Operating Expenses	(3)	(30,242)	(30,429)	(12,422)	(12,553)
Operating Surplus before Discount		**7,965**	**3,446**	**7,636**	**3,720**
Discount to Consumers		(2,934)	-	(2,934)	-
Operating Surplus before Taxation		**5,031**	**3,446**	**4,702**	**3,720**
Taxation Expense	(4)	(2,262)	(1,774)	(2,167)	(1,793)
Net Surplus after Taxation		**2,769**	**1,672**	**2,535**	**1,927**

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

For the Year Ended 31 March 2006

	Note	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Total Recognised Revenues & Expenses for the Year					
Net Surplus for the Year		2,769	1,672	2,535	1,927
Revaluation of Assets		-	160	-	160
		2,769	1,832	2,535	2,087
Distribution to Shareholders					
Dividend		(143)	(130)	(143)	(130)
		(143)	(130)	(143)	(130)
Movements in Equity for the Year		**2,626**	**1,702**	**2,392**	**1,957**
Equity at Start of Year		**223,944**	**222,242**	**225,882**	**223,925**
Equity at End of Year	(5)	**226,570**	**223,944**	**228,274**	**225,882**

The accompanying notes on pages 13 to 24 form part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2006

	Note	Group		Parent	
		2006 $000	2005 $000	2006 $000	2005 $000
Equity					
Paid in Capital	(5)	29,622	29,622	29,622	29,622
Asset Revaluation Reserve	(5)	161,094	161,094	161,094	161,094
Retained Earnings	(5)	35,854	33,228	37,558	35,166
Total Equity		**226,570**	**223,944**	**228,274**	**225,882**
Represented By: **Current Assets**					
Cash & Bank Deposits	(6)	-	-	11	60
Receivables & Prepayments	(7)	4,058	3,534	2,055	1,099
Inventories	(8)	72	62	-	-
Work in Progress		17	81	-	-
Taxation Receivable		268	452	204	326
Total Current Assets		4,415	4,129	2,270	1,485
Non Current Assets					
Investments in Associates	(9)	1,746	1,108	1,171	743
Investments in Subsidiaries	(10)	-	-	28,075	28,075
Investments in Joint Ventures		-	-	3,300	2,500
Property, Plant & Equipment	(12)	232,692	235,358	209,122	211,945
Capital Work in Progress		7,118	2,920	6,843	2,697
Intangibles	(13)	3,014	3,199	-	-
Total Non Current Assets		244,570	242,585	248,511	245,960
Total Assets		**248,985**	**246,714**	**250,781**	**247,445**
Current Liabilities					
Bank Overdrafts	(6)	889	1,247	-	-
Creditors & Accruals	(14)	3,750	3,438	4,974	3,723
Provision for Employee Entitlements	(15)	243	245	-	-
Provision for Dividend		143	130	143	130
Total Current Liabilities		5,025	5,060	5,117	3,853
Non Current Liabilities					
Term Liabilities	(16)	17,390	17,710	17,390	17,710
Total Non Current Liabilities		17,390	17,710	17,390	17,710
Total Liabilities		**22,415**	**22,770**	**22,507**	**21,563**
Net Assets		**226,570**	**223,944**	**228,274**	**225,882**

The accompanying notes on pages 13 to 24 form part of and should be read in conjunction with these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended 31 March 2006

	Note	Group		Parent	
		2006 $000	2005 $000	2006 $000	2005 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Was Provided From:					
Receipts from Customers		34,671	33,444	14,739	15,080
Interest Received		67	43	269	213
Dividends Received		-	376	1,222	1,495
		34,738	33,863	16,230	16,788
Cash Was Disbursed To:					
Payments to Suppliers & Employees		17,018	16,497	932	1,577
Taxes Paid		2,078	1,733	2,045	1,635
Interest Paid		1,351	1,513	1,313	1,491
		20,447	19,743	4,290	4,703
Net Cash Flows From Operating Activities	(19)	**14,291**	**14,120**	**11,940**	**12,085**
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash Was Provided From:					
Proceeds from Property, Plant & Equipment Sales		22	-	18	-
		22	-	18	-
Cash Was Applied To:					
Purchase of Property, Plant & Equipment		12,867	8,290	10,329	5,123
Investments in Associates		210	54	-	-
Advances to Associates & Joint Ventures		428	301	1,228	301
Investments		-	58	-	58
		13,505	8,703	11,557	5,482
Net Cash Flows Used in Investing Activities		**(13,483)**	**(8,703)**	**(11,539)**	**(5,482)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash Was Provided From:					
Term Loans		-	-	-	-
		-	-	-	-
Cash Was Applied To:					
Dividend Payment		130	85	130	85
Repayment on Loans		320	6,515	320	6,515
		450	6,600	450	6,600
Net Cash Flows Used in Financing Activities		**(450)**	**(6,600)**	**(450)**	**(6,600)**
Net Increase/(Decrease) in Cash Held		358	(1,183)	(49)	3
Add Opening Cash Brought Forward		(1,247)	(64)	60	57
Closing Cash To Be Carried Forward	(6)	**(889)**	**(1,247)**	**11**	**60**

The accompanying notes on pages 13 to 24 form part of and should be read in conjunction with these financial statements.

1. Statement of Accounting Policies

Reporting Entity
The Parent Entity, The Power Company Limited, is wholly owned by a Consumer Trust and is registered under the Companies Act 1993. The Group consists of The Power Company Limited and its subsidiaries, associates and joint ventures referred to in Notes 9, 10 and 11.

The principal activity of The Power Company Limited is the provision of electricity distribution services.

The financial statements have been prepared in accordance with the requirements of the Companies Act 1993 and the Financial Reporting Act 1993.

Measurement Base
The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis are followed by the Group, with the exception that certain property, plant and equipment 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.

The Group financial statements consolidate the financial statements of the Parent Entity (outlined above) and its subsidiaries, joint ventures and associates, using both the line-by-line and equity methods where appropriate.

All significant inter-company transactions have been eliminated on consolidation.

b) **Revenue -**
Network Charges
Revenue comprised the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

Investment Income
Interest and dividend 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.

c) **Receivables -**
Receivables are stated at their estimated realisable value. All known losses are written off in the period in which it becomes apparent that the debts are not collectable.

d) **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.

e) **Investments -**
Investments in subsidiaries and associates are stated at cost in the Statement of Financial Position of the Parent.

f) **Joint Ventures -**
When a member of the Group participates in a joint venture agreement, that member recognises its proportionate interest in the individual assets, liabilities, and expenses of the joint venture. The liabilities recognised include its share of those for which it is jointly liable.

g) **Property, Plant and Equipment -**
All property, plant and equipment is initially recorded at cost less accumulated depreciation. The cost of purchased property, plant and equipment is the fair 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
Network assets are revalued on a cyclical basis to fair value using a Depreciated Replacement Cost methodology with no asset being recognised at a valuation undertaken more than five years previously.

Revaluation increments are transferred to the Asset Revaluation Reserve.

h) 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 asset costs or valuation, less any estimated residual value, over their estimated useful lives.

The primary annual rates used are:

Buildings	2.5	-	15.0%	Straight Line/Diminishing Value
Network Assets (excluding land)	1.82	-	16.67%	Straight Line/Diminishing Value
Metering Assets	10.0	-	14.4%	Diminishing Value
Plant, Equipment & Shared Assets	7.0	-	48.0%	Straight Line/Diminishing Value
Motor Vehicles			26.0%	Diminishing Value
Office Equipment & EDP Equipment	9.0	-	60.0%	Straight Line/Diminishing Value

i) Asset Impairment -

Where the estimated recoverable amount of an asset is less than its carrying value, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the Statement of Financial Performance.

j) Capital Work in Progress -

Capital Work In Progress is stated at cost and is not depreciated.

k) Intangibles -

Goodwill arising on the acquisition of a business represents the excess of the purchase consideration over the fair value of the identifiable net assets acquired. The carrying value will be reviewed annually by the Directors and adjusted for impairment where it is considered necessary.

Goodwill is amortised to the Statement of Financial Performance over 20 years.

l) Goods and Services Tax -

All amounts in the financial statements have been shown exclusive of Goods and Services Tax, with the exception of receivables and payables which are shown inclusive of Goods and Services Tax.

m) 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 Group 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.

n) 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 Notes 16 and 20. The Group values all financial instruments at fair value in the Statement of Financial Position.

o) 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.

p) Employee Entitlements -

Provision is made in respect of the Group's liability for annual and long service leave. Annual leave has been calculated on an actual entitlement basis at current rates of pay.

Changes in Accounting Policies

There have been no changes in accounting policies during the year ended 31 March 2006.

	Group		Parent	
	2006 $000	2005 $000	2006 $000	2005 $000
2. Operating Revenue				
Network Charges	35,305	31,473	16,901	13,398
Interest Revenue	69	50	294	229
Dividends Received	-	376	1,222	1,495
Profit on Disposal of Property, Plant & Equipment	1	-	-	-
Share of Equity Accounted Earnings of Associates	284	118	-	-
Other Revenue	2,548	1,858	1,641	1,151
Total Operating Revenue before Discount	**38,207**	**33,875**	**20,058**	**16,273**
Less Discount to Consumers	(2,934)	-	(2,934)	-
Total Operating Revenue after Discount	**35,273**	**33,875**	**17,124**	**16,273**
3. Operating Expenses				
Operating Expenses Include:				
Amortisation of Goodwill	186	244	-	58
Auditor Remuneration:				
• Audit of Financial Report				
– PricewaterhouseCoopers	29	30	17	20
– Deloitte	8	7	-	-
• Other Services				
– PricewaterhouseCoopers	40	21	29	17
– Deloitte	1	2	-	-
Bad Debts Written Off	4	3	-	-
Scholarships and Awards	16	14	-	-
Depreciation				
• Buildings	25	36	5	6
• Office Equipment & EDP Equipment	215	255	1	9
• Plant, Equipment & Shared Assets	89	112	1	-
• Metering Assets	374	395	374	395
• Network Assets	10,340	10,218	9,484	9,379
Total Depreciation	11,043	11,016	9,865	9,789
Directors' Fees	163	136	82	70
Donations	1	8	-	-
Interest Expense	1,254	1,463	1,216	1,441
Operating Lease Expenses				
• Tenancy & Repeater Site Leases	38	33	-	-
• Motor Vehicle Leases	72	75	-	-
• Office Equipment Leases	4	7	-	-
Total Operating Lease Expenses	114	115	-	-
Loss on Disposal of Property, Plant & Equipment	270	242	238	238
Subvention Payment	19	19	-	-

4. Taxation

	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Operating Surplus before Taxation	**5,031**	**3,446**	**4,702**	**3,720**
Timing Differences Not Recognised	3,477	3,229	4,443	4,349
Permanent Differences	(1,844)	(1,330)	(2,785)	(2,666)
Taxable Income	**6,664**	**5,345**	**6,360**	**5,403**
Prima Facie Taxation at 33%	2,199	1,764	2,099	1,783
Under/(Over) Provision in Prior Years	63	10	68	10
Taxation Expense	**2,262**	**1,774**	**2,167**	**1,793**
Comprising of:				
Current Taxation	2,262	1,774	2,167	1,793
Deferred Taxation	-	-	-	-
	2,262	**1,774**	**2,167**	**1,793**

The tax expense is calculated on the assumption that tax losses of Nil (31 March 2005: $258,000) with a tax benefit of Nil (31 March 2005: $85,000) have been transferred from Last Tango Limited by way of group loss offset.

The Company has an unrecognised deferred taxation liability of $14,284,000 (31 March 2005: $15,750,000) which would crystallise in the event of a sale of its assets. It is not intended to sell such assets in the foreseeable future and accordingly this potential liability has not been recognised in the financial statements.

	2006 $000	2005 $000
Imputation Credit Account:		
Balance at Beginning of Year	12,244	10,616
Credits:		
Income Tax Payments During Year	2,220	1,832
Imputation Credits on Dividend Received	-	34
Withholding Tax on Dividends Received	-	101
Debits:		
Income Tax Refund	(175)	(298)
Imputation Credits on Dividend Paid	(64)	(41)
Balance at End of Year	**14,225**	**12,244**

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

	Group		Parent	
	2006 $000	2005 $000	2006 $000	2005 $000
5. Equity				
Paid In Capital				
29,621,736 ordinary shares fully paid	**29,622**	**29,622**	**29,622**	**29,622**
Asset Revaluation Reserve				
Opening Balance	161,094	160,934	161,094	160,934
Network Revaluation	-	160	-	160
Closing Balance	**161,094**	**161,094**	**161,094**	**161,094**
Retained Earnings				
Opening Balance	33,228	31,686	35,166	33,369
Net Surplus for the Year	2,769	1,672	2,535	1,927
Dividend	(143)	(130)	(143)	(130)
Closing Balance	**35,854**	**33,228**	**37,558**	**35,166**
Total Equity	**226,570**	**223,944**	**228,274**	**225,882**
6. Cash & Bank Deposits/(Overdraft)				
Current Account/(Overdraft)	(889)	(1,247)	11	60
Total Cash & Bank Deposits/(Overdraft)	**(889)**	**(1,247)**	**11**	**60**
7. Receivables & Prepayments				
Trade Debtors	3,844	3,180	1,821	818
GST Receivable	2	177	160	238
Prepayments	212	177	74	43
Total Receivables & Prepayments	**4,058**	**3,534**	**2,055**	**1,099**
8. Inventories				
Network Spares & Sundry Network Consumables	**72**	**62**	**-**	**-**

No inventories are pledged as security for liabilities nor are inventories subject to retention of title clauses.

9. Investments in Associates

	Principal Activity	Percentage Held By Group 2006	Percentage Held By Group 2005	Balance Date
Electricity Southland Ltd	Electricity Lines Business	50%	50%	31 March
Otago Power Services Ltd	Electricity Contracting Business	24.5%	24.5%	31 March
Continuity Contracting Ltd	Electricity Contracting Business	25%	25%	31 March

	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Interests in associate entities are as follows:				
Carrying Amount at Beginning of Year	1,108	753	743	442
Investments in Associates	-	10	-	-
Dividends from Associates	(74)	(74)	-	-
Share of Equity Accounted Earnings of Associates	284	118	-	-
Increase in Advances to Associates	428	301	428	301
Carrying Amount at End of Year	**1,746**	**1,108**	**1,171**	**743**

	Group 2006 $000	Group 2005 $000
The Group share of the results of its associate entities are as follows:		
Share of Surplus before Taxation	438	178
Less Taxation Expense	(154)	(60)
Total Recognised Revenues & Expenses of Associates	**284**	**118**

The Directors do not consider that they are in a position to exercise control over Electricity Southland Limited for the purposes of financial reporting.

10. Investments in Subsidiaries

	Percentage Held By Group 2006	Percentage Held By Group 2005	Balance Date
Last Tango Limited	100%	100%	31 March

	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
Investment in Shares in Subsidiaries	**-**	**-**	**28,075**	**28,075**

The Power Company Limited owns the authorised capital of Last Tango Limited.

11. Investments in Joint Ventures

The Group has a participating interest in the following Joint Ventures through its wholly owned subsidiary Last Tango Limited.

	Principal Activity	Percentage Held By Group 2006	Percentage Held By Group 2005	Balance Date
PowerNet Limited	Network Management	50%	50%	31 March
OtagoNet Joint Venture	Utility Infrastructure	24.5%	24.5%	31 March

	Group 2006 $000	Group 2005 $000
Financial Performance		
The Group's share of operating revenues and expenses for the year, consolidated on a line-by-line basis was:		
Revenue	33,287	32,198
Expenses	17,870	17,920
Financial Position		
The Group's share of assets and liabilities consolidated on a line-by-line basis was:		
Current Assets	2,988	1,963
Non Current Assets	26,859	26,835
Current Liabilities	3,846	3,512
Non Current Liabilities	-	-

12. Property, Plant & Equipment

	Group		Parent	
	2006 $000	2005 $000	2006 $000	2005 $000
Land	171	171	85	85
Buildings (At Cost)	1,054	1,052	236	236
Accumulated Depreciation	(462)	(438)	(80)	(75)
	592	614	156	161
Office Equipment & EDP (At Cost)	5,200	5,049	2,764	2,773
Accumulated Depreciation	(4,448)	(4,341)	(2,762)	(2,770)
	752	708	2	3
Motor Vehicles (At Cost)	-	5	-	-
Accumulated Depreciation	-	(4)	-	-
	-	1	-	-
Plant, Equipment & Shared Assets (At Cost)	1,093	1,062	8	8
Accumulated Depreciation	(847)	(775)	(4)	(4)
	246	287	4	4
Metering Assets (At Cost)	9,844	9,567	9,844	9,567
Accumulated Depreciation	(7,042)	(6,668)	(7,042)	(6,668)
	2,802	2,899	2,802	2,899
Network Assets (At Valuation & Cost)	271,136	263,544	224,885	218,146
Accumulated Depreciation	(43,007)	(32,866)	(18,812)	(9,353)
	228,129	230,678	206,073	208,793
Total Property, Plant & Equipment	**232,692**	**235,358**	**209,122**	**211,945**

Network Assets

The network assets of The Power Company Limited were revalued as at 31 March 2004 to Depreciated Replacement Cost as assessed by independent valuers MWH New Zealand Limited.

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.

	Group		Parent	
	2006 $000	**2005 $000**	**2006 $000**	**2005 $000**
13. Intangibles				
Goodwill on Acquisition	3,768	3,768	58	58
Goodwill Amortised During the Period	(186)	(244)	-	(58)
Goodwill Previously Amortised	(568)	(325)	(58)	-
Total Amortised Goodwill	(754)	(569)	(58)	(58)
Total Intangibles	**3,014**	**3,199**	**-**	**-**

Goodwill arising on the acquisition of a business represents the balance of the purchase consideration in addition to the fair value for financial reporting purposes of the identifiable net assets acquired.

This valuation approach, while generally being more objective for financial reporting purposes, does have limitations. This is due to certain assets of the infrastructure purchased, such as easements, consents, existing use rights and information system data, not being recognised.

Goodwill arising on the acquisition of the Otago Power Limited electricity distribution network has been amortised over 20 years as prescribed by FRS36 Accounting for Acquisitions Resulting in Combinations of Entities.

It is the view of the Directors that amortisation of goodwill as prescribed by FRS36 is inappropriate. The assets purchased have an average life of 53 years and were valued and purchased on the basis that they would continue in perpetuity. The Directors believe that amortisation of goodwill over a 20-year period results in the understatement of the operating surplus in these accounts by an amount of $186,000 (31 March 2005: $244,000).

There is considerable industry concern that the acquisition of monopoly assets is not appropriately treated under FRS36, particularly in relation to the establishment of goodwill and the minimum amortisation requirements for goodwill. The adoption of international accounting standards (optional from 2005) will require amortisation on the basis of an annual impairment test.

	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
14. Creditors & Accruals				
Trade Creditors & Accruals	3,750	3,438	4,974	3,723
Total Creditors & Accruals	**3,750**	**3,438**	**4,974**	**3,723**
15. Provision for Employee Entitlements				
Balance at Beginning of Year	245	209	-	-
Additional Provision Made	207	199	-	-
Amount Utilised	(209)	(163)	-	-
Total Provision for Employee Entitlements	**243**	**245**	**-**	**-**

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.

	Group		Parent	
	2006 $000	2005 $000	2006 $000	2005 $000
16. Term Liabilities				
Short Term Advances Facility	17,390	17,710	17,390	17,710
Total Term Liabilities	**17,390**	**17,710**	**17,390**	**17,710**

Short Term Advances Facility

The Company has a Short Term Advances Facility of $22 million (31 March 2005: $22 million) with ANZ National Bank Limited. The facility has a revolving two year term and is extendable by one year at 30 September each year by agreement between the Company and ANZ National Bank Limited.

This facility provides 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 facility is unsecured.

At balance date the Company has hedged its borrowings under the above facilities using interest rate swaps which total $14 million (31 March 2005: $15 million) at interest rates between 6.56% and 6.64%, excluding bank margins.

	Group 2006 $000	Group 2005 $000	Parent 2006 $000	Parent 2005 $000
17. Commitments				
Operating Lease Commitments				
Operating Lease Commitments are payable as follows:				
Not later than one year	78	34	17	3
Later than one year and not later than two years	23	2	15	2
Later than two years and not later than five years	78	-	42	-
Total Operating Lease Commitments	**179**	**36**	**74**	**5**

Capital Commitments

The Power Company Limited has capital expenditure contracted for at 31 March 2006 but not provided for in the financial statements totalling $1,948,000.

The Group has other Capital Commitments as at 31 March 2006 totalling $302,000 (31 March 2005: Nil).

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 31 March 2006 totals $15,000 (31 March 2005: Nil).

18. Contingent Liabilities

The Group has no Contingent Liabilities as at 31 March 2006 (31 March 2005: Nil).

19. 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	
	2006 $000	**2005 $000**	**2006 $000**	**2005 $000**
Net Surplus after Taxation	2,769	1,672	2,535	1,927
Plus/(Less) Non Cash Items:				
Depreciation	11,043	11,016	9,865	9,789
Amortisation of Goodwill	186	244	-	58
	11,229	11,260	9,865	9,847
Plus/(Less) Items Classified as Investing:				
Loss on Disposal of Property, Plant & Equipment	270	242	238	238
Profit on Disposal of Property, Plant & Equipment	(1)	-	-	-
	269	242	238	238
Plus/(Less) Net Movements in Working Capital:				
Creditors, Accruals & Provisions	310	1,244	136	(442)
Receivables, Prepayments & Work in Progress	(460)	(347)	(956)	357
Inventories	(10)	8	-	-
Provision for Taxation	184	41	122	158
	24	946	(698)	73
Net Cash Flows From Operating Activities	**14,291**	**14,120**	**11,940**	**12,085**

20. 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:				
Current Account	17	60	11	60
Short Term Bank Deposits	34	40	-	-
Receivables	3,846	3,357	1,981	1,056
	3,897	**3,457**	**1,992**	**1,116**

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 credit 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 (31 March 2005: $15 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 31 March 2006 is an unfavourable $27,000 (31 March 2005: favourable $76,000).

21. 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.

22. Transactions With Related Parties

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

The Power Company Limited has an interest in the PowerNet Limited Joint Venture, the OtagoNet Joint Venture, Electricity Southland Limited, Otago Power Services Limited and Continuity Contracting Limited through their wholly owned subsidiary company Last Tango Limited.

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:

	2006 $000	2005 $000
Supplied to:		
PowerNet Limited	17,145	13,606
Electricity Southland Limited	41	20
Receivables Outstanding at Balance Date (GST incl):		
PowerNet Limited	1,638	631
Electricity Southland Limited	18	5
Supplied by:		
PowerNet Limited	11,653	7,018
Creditors Outstanding at Balance Date (GST incl):		
PowerNet Limited	2,522	2,434

Other Related Parties

There have been no material transactions between The Power Company Limited and Directors with the exception of legal fees paid to AWS Legal, for whom Alan Harper is a partner, amounting to $3,000 excl. GST (31 March 2005: $8,000 excl. GST) of which Nil is owing at balance date.

All transactions between The Power Company Limited and AWS Legal 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 (31 March 2005: $130,000) and a fully imputed dividend of $130,000 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 (31 March 2005: $130,000) for which a dividend has been provided for in the current year by The Power Company Limited.

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

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

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

NZ IFRS 1 - First Time Adoption of New Zealand Equivalents to International Financial Reporting Standards
NZ IFRS 3 - Business Combinations
NZ IAS 12 - Income Taxes
NZ IAS 16 - Property, Plant & Equipment
NZ IAS 17 - Leases
NZ IAS 18 - Revenue
NZ IAS 19 - Employee Benefits
NZ IAS 32 - Financial Instruments: Presentation and Disclosure
NZ IAS 38 - Intangible Assets
NZ IAS 39 - Financial Instruments: Measurement and Recognition
NZ IAS 40 - Investment Property

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

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

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

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

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

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

PRICEWATERHOUSECOOPERS

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Auditors' Report
To the shareholders of The Power Company Limited

We have audited the financial statements on pages 10 to 24. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 March 2006 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 13 and 14.

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 and Group as at 31 March 2006 and its financial performance and cash flows for the year ended on that date.

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

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

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

Other than in our capacity as auditors and issuing certificates pursuant to the Electricity (Information Disclosures) Regulations 1999 and the Commerce Act (Electricity Lines Thresholds) Notice 2003, we have no relationship with or interests in the Company and Group.

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 10 to 24
    (i) comply with generally accepted accounting practice in New Zealand; and
    (ii) give a true and fair view of the financial position of the Company and Group as at 31 March 2006 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 29 June 2006 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants
Dunedin

THE POWER COMPANY LTD