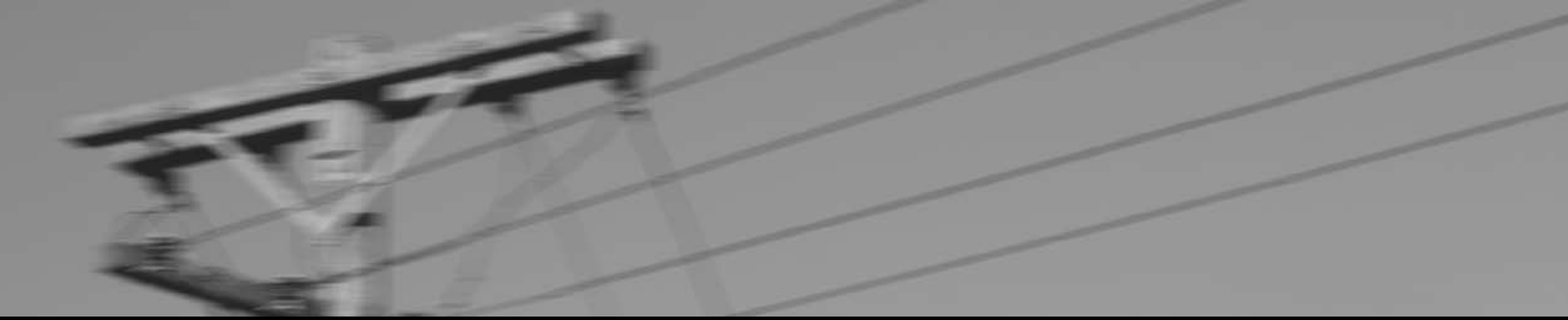
ANNUAL REPORT 2007

THE POWER COMPANY LTD



CONTENTS

DIRECTORY

Directors

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

Head Office

251 Racecourse Road
PO Box 1748
Invercargill 9840
New Zealand

Telephone: 03 211 1870
Facsimile: 03 211 1875
Website: www.tpcl.co.nz

Principal Bankers

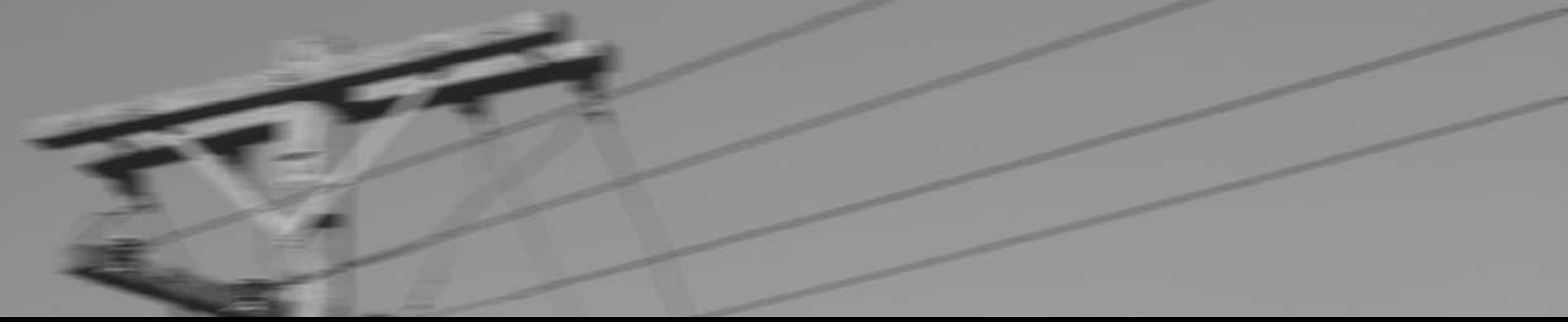
ANZ National Bank Limited

Auditors

PricewaterhouseCoopers, Christchurch

Solicitors

AWS Legal



THE YEAR IN REVIEW

1. Financial

The Group produced a net surplus after tax for the year ended 31 March 2007 of $4.301 million (2006: $2.769 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 and additional capital contributions. These were offset by significant increases in Transpower and operational 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 continued to be the view of Directors that the return requires a further increase given the value of the business, the net surplus being $4.301 million on an asset base of $300 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.

In 2005, 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. As a result the operating surplus before the discount has increased from $3.446 million in 2005 to $10.766 million in 2007. 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 line charges would result in the Company breaching the Commerce Commission Price Path Threshold for the years ended 31 March 2006 and 2007.

The investments in OtagoNet Joint Venture and Otago Power Services Limited and the increased investment in Power Services Limited (previously Continuity Contracting Limited) have all met expectations both financially and operationally. OtagoNet Joint Venture (OJV) and Otago Power Services Limited continue to contribute positively to both the cash flow and net profit of the Group.

The Company and its owner the Southland Electric Power Supply Consumer Trust supported a regional campaign offering energy efficient light bulbs at a discounted price to their residential consumers. The cost of this campaign was $81,000.

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:

	2007	**2006**
	$000	**$000**
Operating Surplus before Discount	10,766	7,965
Less Discount to Consumers	(3,973)	(2,934)
Operating Surplus before Taxation	**6,793**	**5,031**
Less Taxation Expense	(2,492)	(2,262)
Net Surplus After Taxation	**4,301**	**2,769**

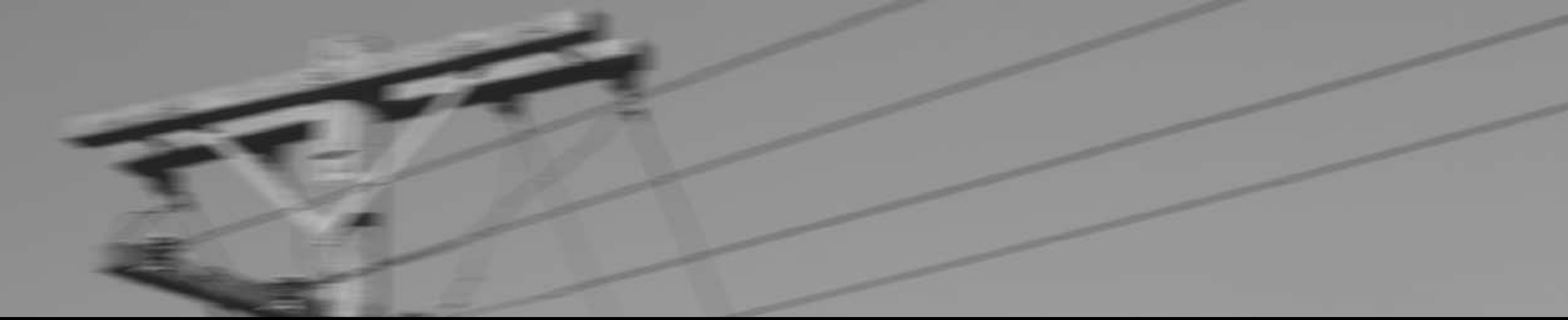
Asset Revaluation

The total equity of the Group increased to $269.366 million from $226.570 million in 2007. The increase resulted from the increase in the fair value of the network assets of The Power Company Limited (TPCL) and OJV which were both revalued during the year as required by accounting standards.

The valuation saw an uplift in the value of TPCL's network assets in excess of $37 million to $246.903 million. OJV's revaluation saw their assets increase by $17 million; the TPCL Group share of the increase being in excess of $4 million.

The TPCL network asset increase was 18% up on the 2004 values and reflects the continued rise in the construction index and equipment prices due to raw material cost increases for items such as copper and aluminium. We are somewhat fortunate the rise in the New Zealand dollar since 2004 has helped offset some of these increases.

The 18% valuation increase demonstrates the disjoint between the regulatory Optimised Deprival Valuation (ODV) last updated by the Commerce Commission in 2004 and the 2007 fair value used for financial reporting purposes. In an industry where returns are monitored based on the regulatory ODV values that start behind fair value costs, there is little incentive to invest further in the assets.



International Financial Reporting Standards (NZ IFRS)
TPCL will adopt NZ IFRS during the 2008 year.

The effect of these changes is outlined in Note 24 to the financial statements. The main effects on the Group have been the recording of a deferred tax liability of $44.535 million which will correspondingly reduce the equity of the Group. The other impact that is welcomed by Directors is that the goodwill arising from the OJV acquisition is no longer amortised as the amortisation has been replaced by an impairment test.

2. Industry Environment

The major concern of the Directors continues to be the impact on sound business management by a regulatory regime. The Company is keen to see a reduction in regulatory control for line companies owned by their consumers.

The Company did breach the Commerce Commission's March 2007 Price Path Threshold but not the Quality Thresholds. Although slightly worse than last year, the reliability of the network is a tribute to the continuing network investment and asset stewardship.

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.

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 meet the SAIDI interruption targets in the Statement of Intent. The main reason for this result was the increased level of tree trimming activity and a relaxation in live line policy limits to allow more work to be carried out on the lines at a lower cost.

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
3.27	3.03

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

Target	Actual
146 minutes	178 minutes

The actual SAIFI and SAIDI figures were both well within the Commerce Commission thresholds of 4.3 times and 240 minutes respectively.

4. PowerNet Limited

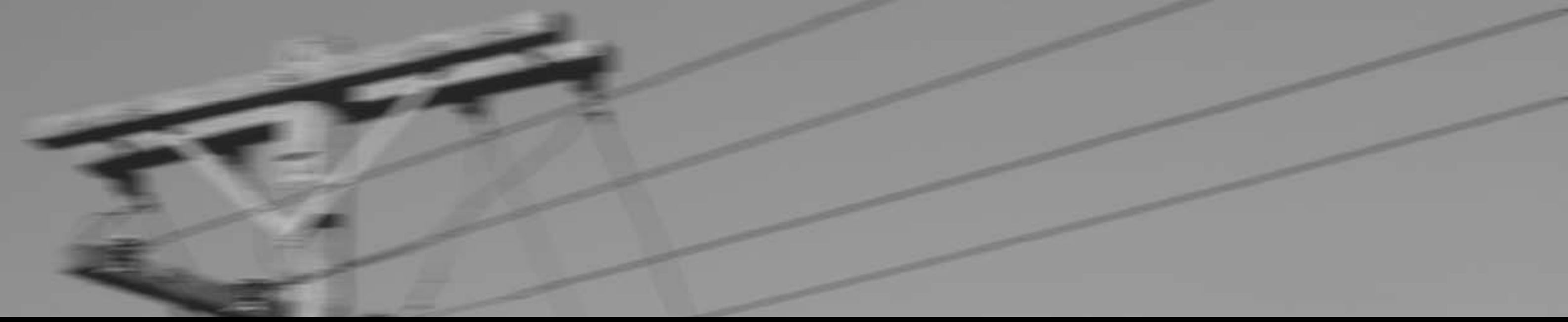
The Power Company Limited has a 50% shareholding in PowerNet Limited, a joint venture with Electricity Invercargill Limited (50%). PowerNet is responsible for managing the Company's network, meter assets and business interests.

This management is executed through a capital and maintenance works programme 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 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

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 YEAR IN REVIEW continued

The 50% investment in Electricity Southland Limited with Electricity Invercargill Limited (50%) did not meet its projection this year as new load on the embedded networks in Frankton did not progress as fast as anticipated.

The Power Company Limited completed the fourth 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 and increased profitability in addition to the benefits of a strategic partnership and acquisition of a strategic asset. Directors are pleased with the fourth year's performance and the shareholders are projected to benefit further from increased dividends and growth in value in the years to come. The higher revenue from the recent line charge increases has enabled significant additional 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 51% shareholder in the electrical contracting company Power Services Limited, originally called Continuity Contracting Limited. The other shareholder in this company is Electricity Invercargill Limited. The shareholding of both current shareholders increased after Netcon Limited sold its shares in the Company to them in late 2006. Power Services 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 continue developing 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
White Hill Wind Farm Network Re-inforcement	$3,752,000
New Customer Connections	$2,164,000
Reticulation of New Subdivisions	$1,691,000
North Makarewa – Winton 66kV Line and Bainfield Road, Invercargill 33kV Cables	$1,414,000
Vegetation Management	$1,220,000
Winton, Waikiwi and Monowai Substation Upgrades	$1,154,000
Refurbishment of 11kV Lines and Distribution Transformer Replacements	$1,117,000

6. Acknowledgements

Directors again wish to acknowledge the ongoing support of the Trustees throughout the year. The open and co-operative 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.

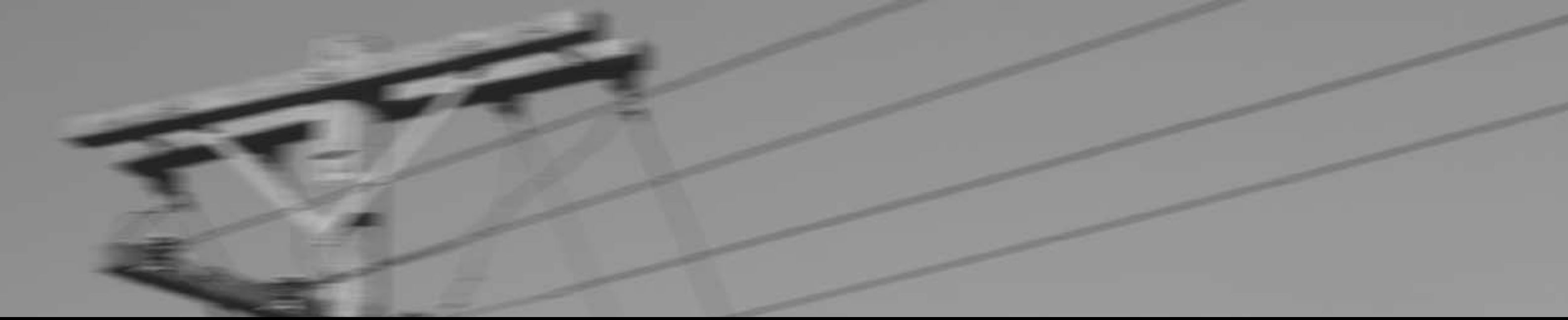
Directors are pleased with the successful relationship with Marlborough Lines Limited through the joint venture investment in OtagoNet.

Although the relationship with Netcon was brief, the Directors wish to acknowledge the efforts of the Directors and Management in establishing Continuity Contracting Limited.

Directors also wish to record their appreciation to the staff of PowerNet Limited who successfully 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 2007.

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 $4,301,000. Dividends of $4,432,000 were paid out during the year by the Group. No other dividends have been declared.

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:

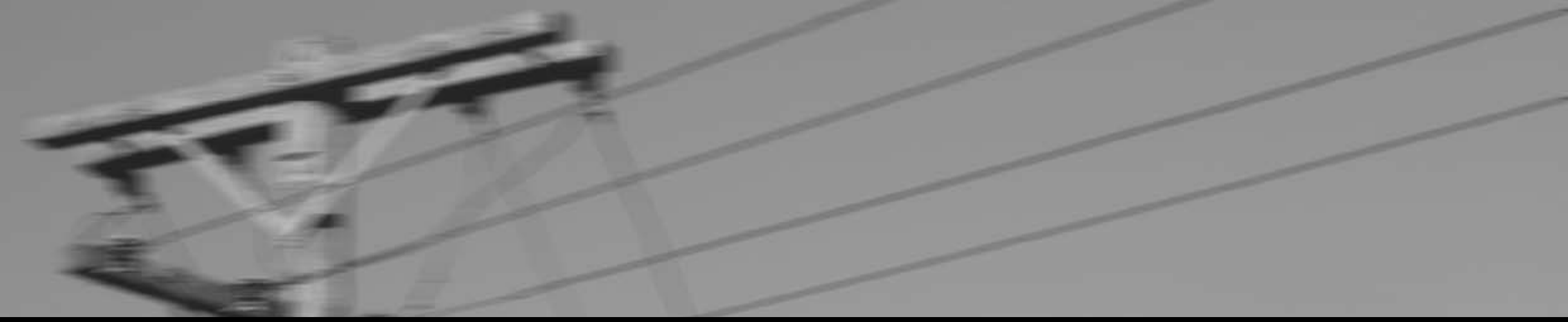
General:
All Directors are interested in transactions with the Company involving the supply of standard network services, on standard terms and conditions, to premises in which they may have one or more of the following interests:

(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, Governing 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	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
	Power Services 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.



DIRECTORS' REPORT continued

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	$27,000
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.

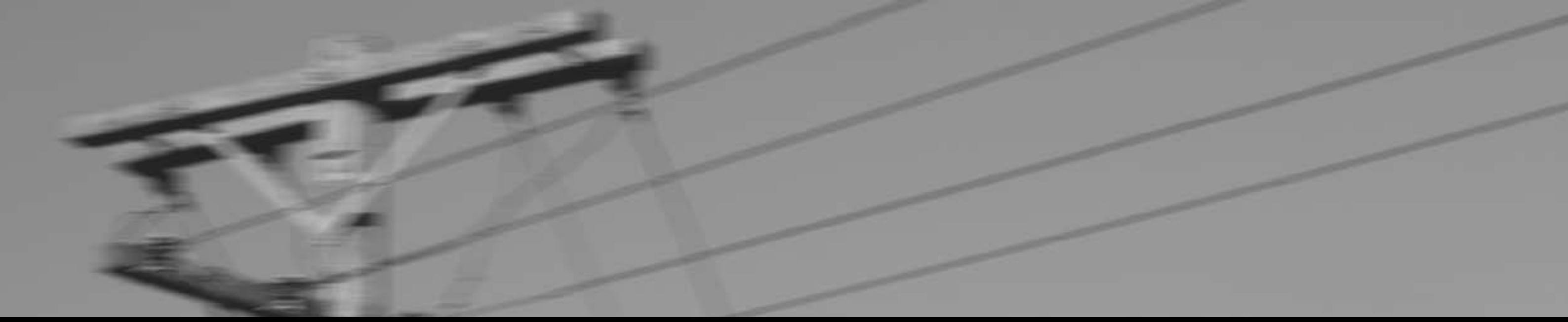
Auditor Remuneration

Refer to Note 3 of the 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 Chairman of OtagoNet 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 PowerNet Limited and Southfish 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.

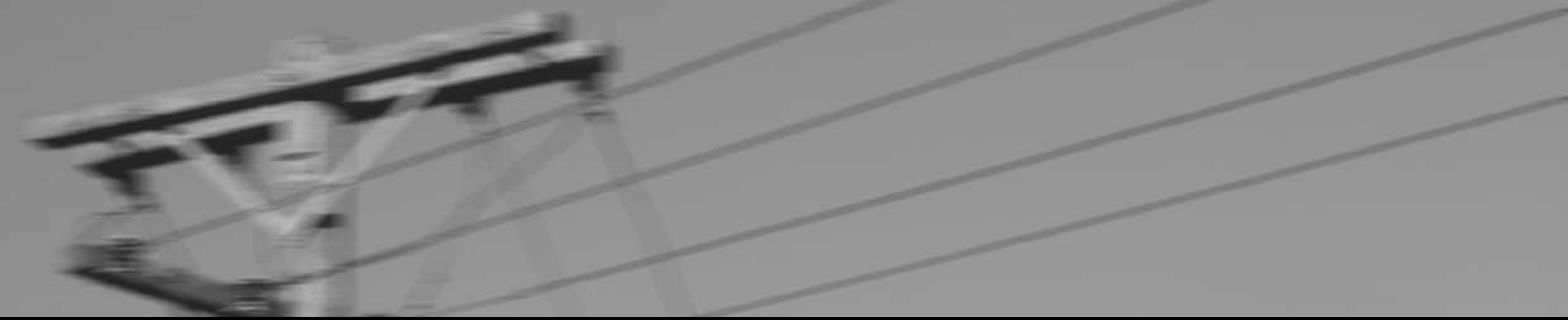
Maryann Macpherson

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

Her career background is farming and taxation management.

Maryanne is a Director of PowerNet Limited and Chairman of Power Services Limited.

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 (Chairman)
Geoff Thompson, Don Nicolson & Jim Hargest.

Governance and Consultation

In its ninth 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.

There were no changes in Trustees during the year.

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. The Trust's Strategic Plan is reviewed annually 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 tax and the discount, of $10.77M which exceeded its target of $10.26M 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 2007.

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 policy of replacing implicit discounts effected through lower line charges, by the application of explicit discounts has been continued.

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 $4.50M (including GST) was credited to consumers in August 2006, an increase of $1.13M over the previous year.

The changes being implemented to the Company's line charge regime contuinue the rebalancing of implicit and explicit discounts over a period of time.

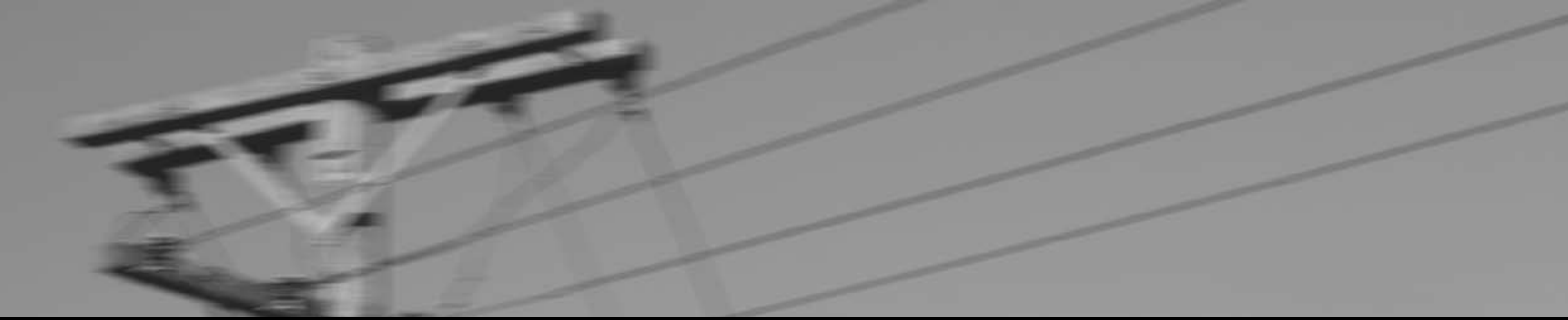
Lines Operation

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 (178 minutes), while not meeting the Company's target (146 minutes), was significantly better than the Commerce Commission target of 237 minutes.

The SAIFI (System Average Interruption Frequency Index) result (3.03) was marginally better than the Company's target of 3.27.

Trustees acknowledge that prevailing weather conditions and an increased capital works programme have had a significant influence on the results each year.



TRUSTEES' REPORT continued

Industry Regulation

Trustees remain concerned by 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.

It is pleasing to note the Ministry of Economic Development in their review of Part 4A of the Commerce Act have recognised an alternative regulatory pathway for lines business monopolies owned by consumers. Trustees support the lessening of the regulatory compliance burden where the consumer footprint of companies is contained within the ownership footprint.

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 continued to serve on the Association's Executive during the year.

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 WHK Cook Adam Ward Wilson. Blair's expertise provides the Trustees with an effective and independent review of the Company's Statement of Intent, Business Plan, projections and performance.

Vaughan Templeton
Chairman
SEPS Consumer Trust

THE POWER COMPANY LIMITED FINANCIAL STATEMENTS For the Year ended 31 March 2007

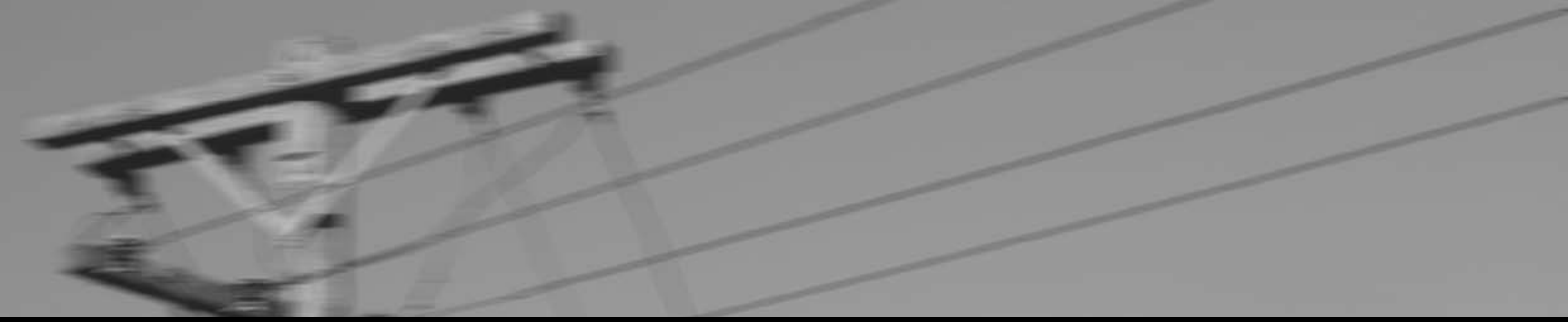
Approval By Directors

The Directors have approved the Financial Statements of The Power Company Limited for the year ended 31 March 2007 on pages 9 to 29.

For and on behalf of the Board of Directors
28 June 2007

Alan Harper
Chair of Directors

Cam McCulloch
Deputy Chair of Directors



STATEMENT OF SERVICE PERFORMANCE

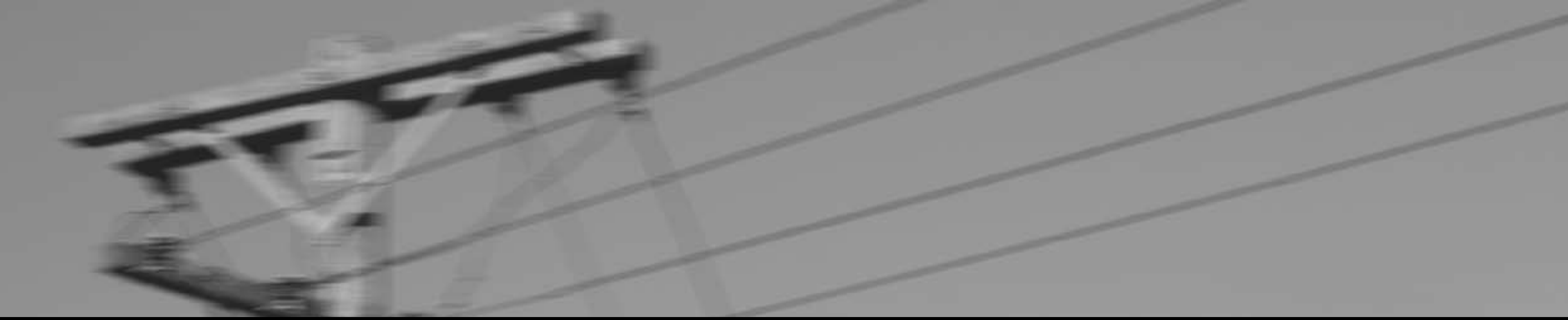
For the year ended 31 March 2007

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.

GROUP

	TARGET 2007 $000	ACHIEVEMENT 2007 $000		ACHIEVEMENT 2006 $000	
		Inclusive of Discount	Exclusive of Discount	Inclusive of Discount	Exclusive of Discount
Performance Targets					
Financial Measures					
Operating Surplus Before Tax	10,258	6,793	10,766	5,031	7,965
Earnings Before Interest and Tax %	4.39%	2.78%	4.10%	2.52%	3.70%
Return on Equity %	2.77%	1.60%	3.03%	1.22%	2.49%
Equity to Total Assets %	85.72%	89.81%	91.14%	91.00%	92.18%

	TARGET 2007 $000	ACHIEVEMENT 2007 $000	ACHIEVEMENT 2006 $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	146.30	177.56	158.34
System Average Interruption Frequency Index (SAIFI)			
The average number of times each customer connected to the network is without supply.			
Total Interruptions	3.27	3.03	2.99
Other Network Reliability Performance Measures			
Total number of interruptions		833	570
Faults per 100km of line		6.89	5.89
Supplementary Information			
Network Statistics			
Length of overhead line		8,297 km	8,283 km
Length of underground cable		247 km	234 km
Transformer capacity MVA		340	335
Maximum demand kW		113,916	114,010
Energy into network GWh		698	674
Total consumers		32,568	32,243

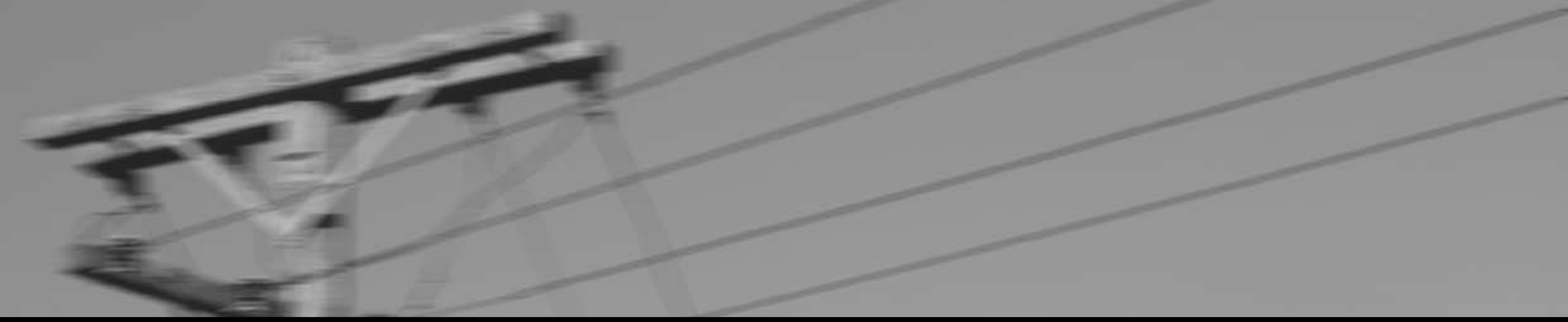


STATEMENTS OF FINANCIAL PERFORMANCE

For the year ended 31 March 2007

		GROUP		PARENT	
	Note	2007 $000	2006 $000	2007 $000	2006 $000
Operating Revenue	(2)	46,534	38,207	22,844	20,058
Operating Expenses	(3)	(35,768)	(30,242)	(13,075)	(12,422)
Operating Surplus before Discount		10,766	7,965	9,769	7,636
Discount to Consumers		(3,973)	(2,934)	(3,973)	(2,934)
Operating Surplus before Taxation		6,793	5,031	5,796	4,702
Taxation Expense	(4)	(2,492)	(2,262)	(2,228)	(2,167)
Net Surplus after Taxation		4,301	2,769	3,568	2,535
Net Surplus Attributable to Minority Interest		(54)	-	-	-
Net Surplus Attributable to Parent		4,247	2,769	3,568	2,535

The accompanying notes on pages 14 to 29 form part of and should be read in conjunction with these financial statements.

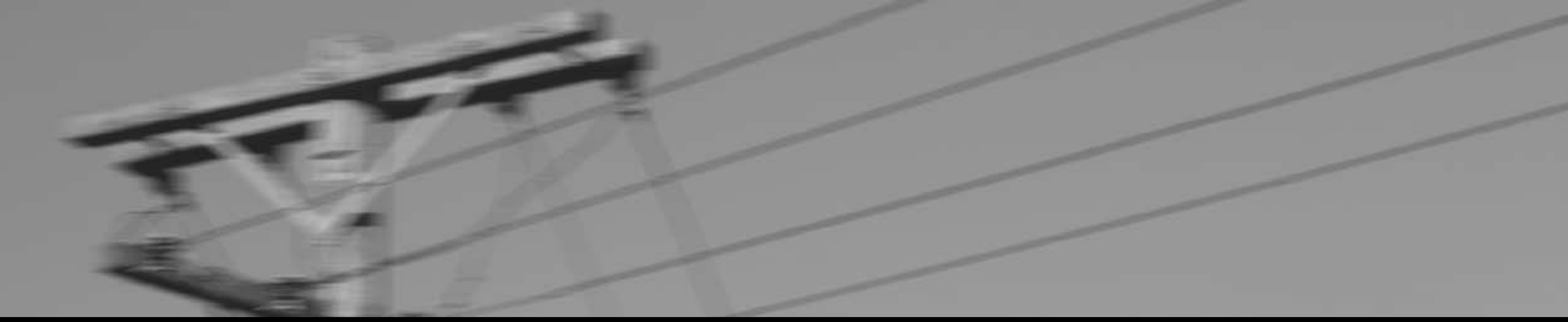


STATEMENTS OF MOVEMENTS IN EQUITY

For the year ended 31 March 2007

		GROUP		PARENT	
	Note	2007 $000	2006 $000	2007 $000	2006 $000
Total Recognised Revenues and Expenses for the Year					
Net Surplus for the Year comprising:					
Parent Interest		4,247	2,769	3,568	2,535
Minority Interest		54	-	-	-
		4,301	2,769	3,568	2,535
Revaluation of Assets		41,785	-	37,620	-
		46,086	2,769	41,188	2,535
Contributions from Shareholders:					
Minority Interest Investment in Shares		735	-	-	-
Minority Interest Deficit Introduced		(25)	-	-	-
		710	-	-	-
Distributions to Shareholders:					
Parent Interest Dividend		(4,000)	(143)	(4,000)	(143)
		(4,000)	(143)	(4,000)	(143)
Movements in Equity for the Year		**42,796**	**2,626**	**37,188**	**2,392**
Equity at Beginning of Year comprising:					
Parent Interest		226,570	223,944	228,274	225,882
Minority Interest		-	-	-	-
		226,570	**223,944**	**228,274**	**225,882**
Equity at End of Year comprising:					
Parent Interest		268,602	226,570	265,462	228,274
Minority Interest	(12)	764	-	-	-
	(5)	**269,366**	**226,570**	**265,462**	**228,274**

The accompanying notes on pages 14 to 29 form part of and should be read in conjunction with these financial statements.

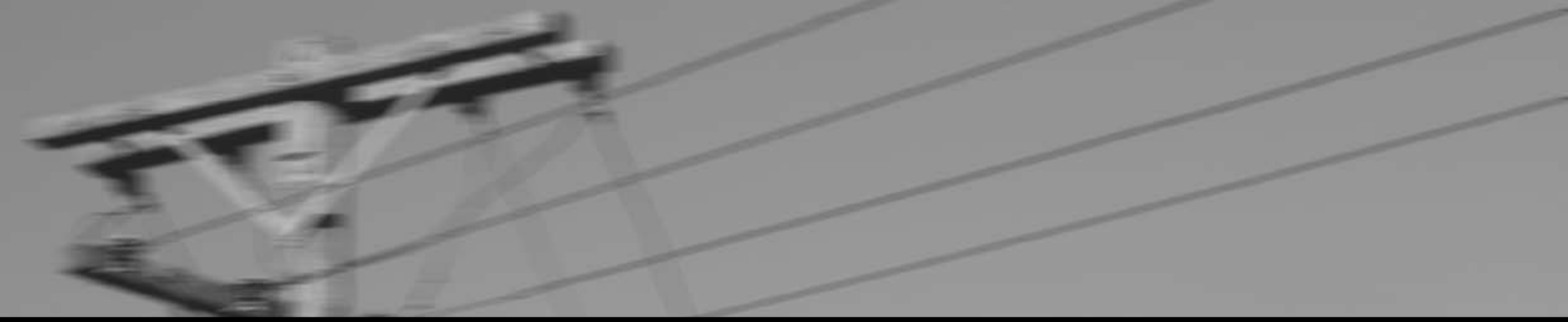


STATEMENTS OF FINANCIAL POSITION

As at 31 March 2007

		GROUP		PARENT	
	Note	2007 $000	2006 $000	2007 $000	2006 $000
Equity					
Paid in Capital	(5)	29,622	29,622	29,622	29,622
Asset Revaluation Reserve	(5)	202,879	161,094	198,714	161,094
Retained Earnings	(5)	36,101	35,854	37,126	37,558
Parent Equity		268,602	226,570	265,462	228,274
Minority Interest Equity	(12)	764	-	-	-
Total Equity	(5)	**269,366**	**226,570**	**265,462**	**228,274**
Represented By:					
Current Assets					
Cash and Bank Deposits	(6)	-	-	119	11
Receivables and Prepayments	(7)	3,516	4,058	2,475	2,055
Inventories	(8)	196	72	-	-
Work in Progress		427	17	-	-
Taxation Receivable		271	268	114	204
Total Current Assets		**4,410**	**4,415**	**2,708**	**2,270**
Non Current Assets					
Investments in Associates	(9)	2,561	1,746	1,914	1,171
Investments in Subsidiaries	(10)	-	-	29,793	28,075
Investments in Joint Ventures	(11)	-	-	3,300	3,300
Property, Plant and Equipment	(13)	279,633	232,692	249,929	209,122
Capital Work in Progress		10,173	7,118	9,447	6,843
Intangibles	(14)	3,109	3,014	-	-
Deferred Taxation		34	-	-	-
Total Non Current Assets		**295,510**	**244,570**	**294,383**	**248,511**
Total Assets		**299,920**	**248,985**	**297,091**	**250,781**
Current Liabilities					
Bank Overdrafts	(6)	1,177	889	-	-
Creditors and Accruals	(15)	4,087	3,750	7,494	4,974
Provision for Employee Entitlements	(16)	445	243	-	-
Provision for Dividend		-	143	-	143
Total Current Liabilities		**5,709**	**5,025**	**7,494**	**5,117**
Non Current Liabilities					
Term Liabilities	(17)	24,845	17,390	24,135	17,390
Total Non Current Liabilities		**24,845**	**17,390**	**24,135**	**17,390**
Total Liabilities		**30,554**	**22,415**	**31,629**	**22,507**
Net Assets		**269,366**	**226,570**	**265,462**	**228,274**

The accompanying notes on pages 14 to 29 form part of and should be read in conjunction with these financial statements.

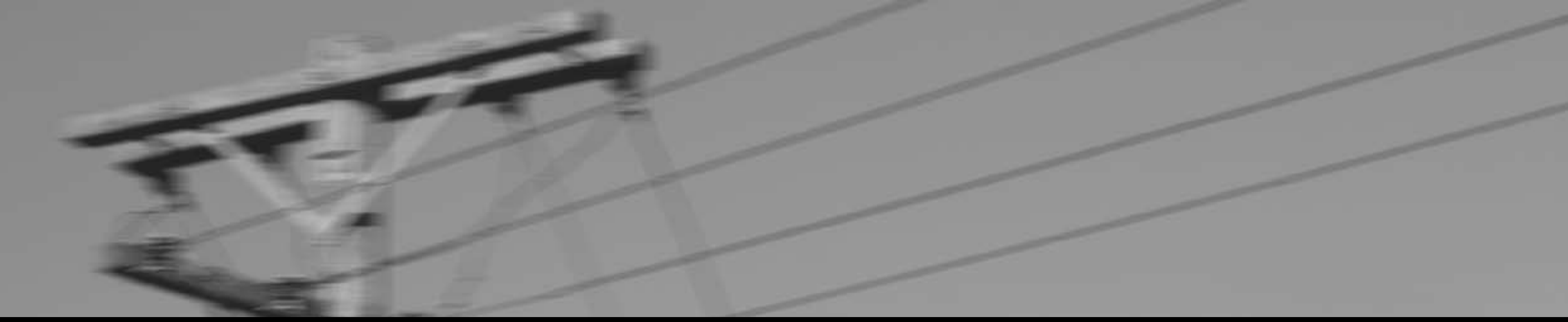


STATEMENTS OF CASH FLOWS

For the year ended 31 March 2007

	Note	GROUP		PARENT	
		2007 $000	2006 $000	2007 $000	2006 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Was Provided From:					
Receipts from Customers		42,953	34,671	17,315	14,739
Interest Received		(22)	67	395	269
Dividends Received		-	-	1,048	1,222
		42,931	34,738	18,758	16,230
Cash Was Disbursed To:					
Payments to Suppliers and Employees		21,904	17,018	1,945	932
Taxes Paid		2,647	2,078	2,139	2,045
Interest Paid		1,385	1,351	1,299	1,313
		25,936	20,447	5,383	4,290
Net Cash Flows From Operating Activities	(20)	**16,995**	**14,291**	**13,375**	**11,940**
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash Was Provided From:					
Proceeds from Property, Plant and Equipment Sales		90	22	43	18
		90	22	43	18
Cash Was Applied To:					
Purchase of Property, Plant and Equipment		20,173	12,867	13,451	10,329
Investments in Associates		69	210	-	-
Advances to Associates, Joint Ventures and Subsidiaries		1,272	428	2,990	1,228
Transfer on Change of Status of Associate to Subsidiary		(526)	-	(529)	-
		20,988	13,505	15,912	11,557
Net Cash Flows Used in Investing Activities		**(20,898)**	**(13,483)**	**(15,869)**	**(11,539)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash Was Provided From:					
Term Loans		7,455	-	6,745	-
Minority Interest Investment in Shares		735	-	-	-
		8,190	-	6,745	-
Cash Was Applied To:					
Dividend Payment		4,575	130	4,143	130
Repayment on Loans		-	320	-	320
		4,575	450	4,143	450
Net Cash Flows From/(Used in) Financing Activities		**3,615**	**(450)**	**2,602**	**(450)**
Net Increase/(Decrease) in Cash Held		(288)	358	108	(49)
Add Opening Cash Brought Forward		(889)	(1,247)	11	60
Closing (Bank Overdraft)/Cash To Be Carried Forward	(6)	**(1,177)**	**(889)**	**119**	**11**

The accompanying notes on pages 14 to 29 form part of and should be read in conjunction with these financial statements.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS For the year ended 31 March 2007

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.

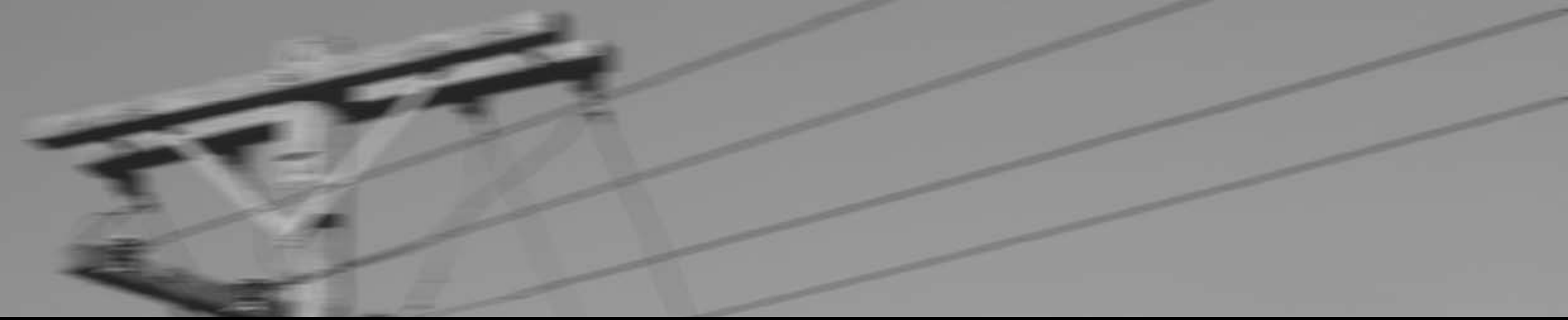
e) Investments -
Investments in subsidiaries and associates are stated at cost in the Statement of Financial Position of the Parent.

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 and System Control Assets	7.0-48.0%	Straight Line/Diminishing Value
Motor Vehicles	9.6%-36.0%	Straight Line
Office Equipment and EDP Equipment	9.0%-80.4%	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 -

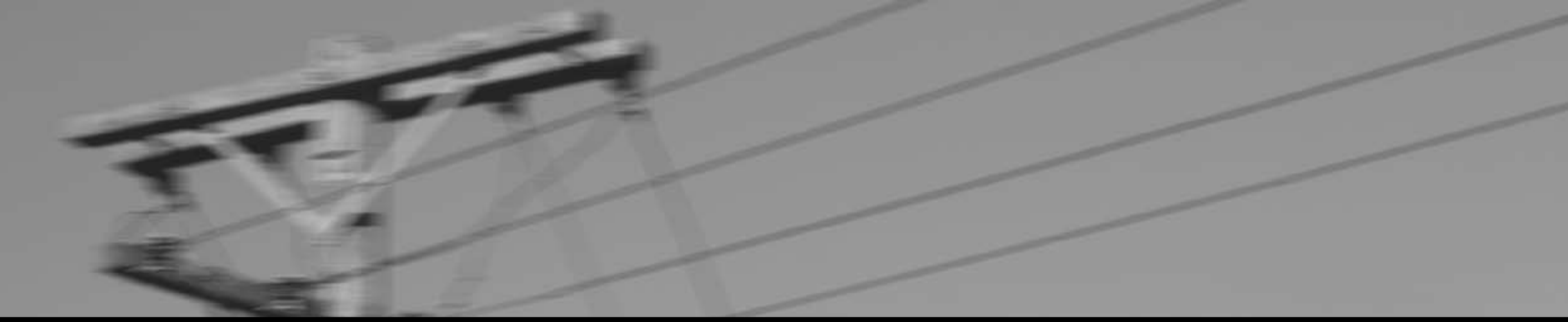
Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments under these leases are recognised as expenses in the periods in which they are incurred.

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.

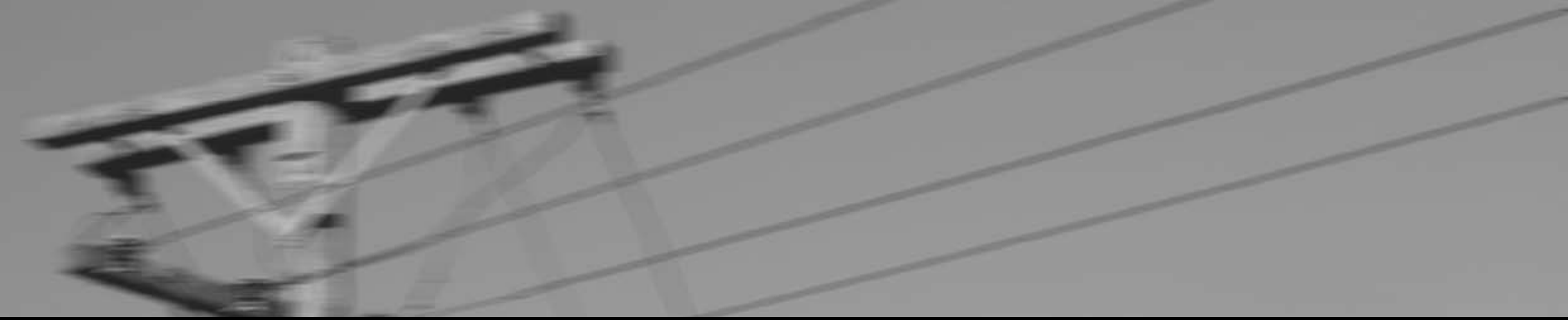
Changes in Accounting Policies

There have been no changes in accounting policies during the year ended 31 March 2007.



NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS *CONTINUED* For the year ended 31 March 2007

	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
2. Operating Revenue				
Network Charges	39,765	35,305	19,144	16,901
Interest Revenue	41	69	438	294
Dividends Received	-	-	1,048	1,222
Profit on Disposal of Property, Plant and Equipment	11	1	-	-
Share of Equity Accounted Earnings of Associates	311	284	-	-
Other Revenue	6,406	2,548	2,214	1,641
Total Operating Revenue before Discount	**46,534**	**38,207**	**22,844**	**20,058**
Less Discount to Consumers	(3,973)	(2,934)	(3,973)	(2,934)
Total Operating Revenue after Discount	**42,561**	**35,273**	**18,871**	**17,124**
3. Operating Expenses				
Operating Expenses Include:				
Amortisation of Goodwill	186	186	-	-
Auditor Remuneration:				
• Audit of Financial Report				
– PricewaterhouseCoopers	38	29	18	17
– Deloitte	7	8	-	-
• Other Services				
– PricewaterhouseCoopers	21	40	16	29
– Deloitte	1	1	-	-
Bad Debts Written Off	1	4	-	-
Scholarships and Awards	6	16	-	-
Depreciation				
• Buildings	29	25	5	5
• Office Equipment and EDP Equipment	172	215	1	1
• Plant, Equipment and System Control Assets	126	89	-	1
• Motor Vehicles	131	-	-	-
• Metering Assets	375	374	375	374
• Network Assets	10,744	10,340	9,645	9,484
Total Depreciation	11,577	11,043	10,026	9,865
Directors' Fees	186	163	82	82
Donations	1	1	-	-
Interest Expense	1,544	1,254	1,389	1,216
Operating Lease Expenses				
• Tenancy and Repeater Site Leases	84	38	-	-
• Motor Vehicle Leases	82	72	-	-
• Office Equipment Leases	15	4	-	-
Total Operating Lease Expenses	181	114	-	-
Loss on Disposal of Property, Plant and Equipment	364	270	351	238
Subvention Payment	-	19	-	-

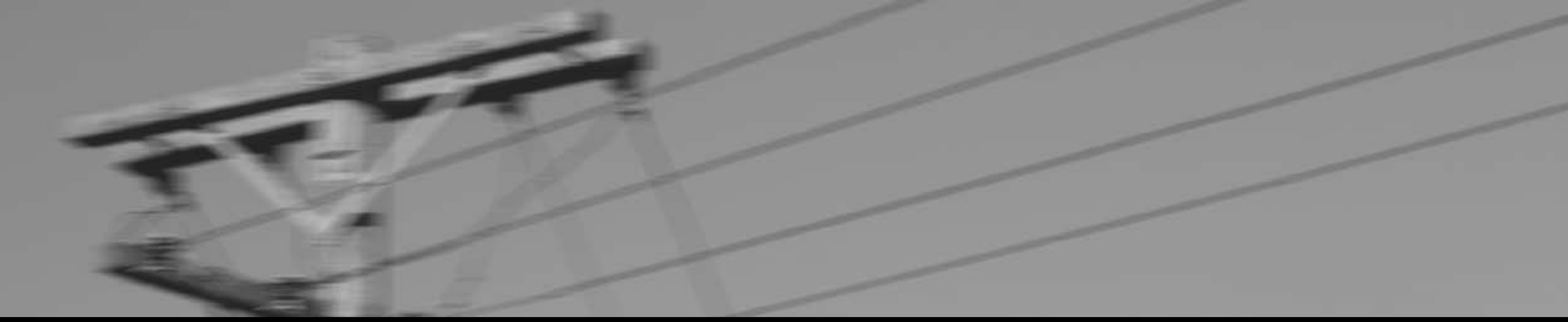


	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
4. Taxation				
Operating Surplus before Taxation	**6,793**	**5,031**	**5,796**	**4,702**
Timing Differences Not Recognised	3,477	3,477	4,139	4,443
Permanent Differences	(2,579)	(1,844)	(3,190)	(2,785)
Taxable Income	**7,691**	**6,664**	**6,745**	**6,360**
Prima Facie Taxation at 33%	2,538	2,199	2,226	2,099
Under/(Over) Provision in Prior Years	(46)	63	2	68
Taxation Expense	**2,492**	**2,262**	**2,228**	**2,167**
Comprising of:				
Current Taxation	2,514	2,262	2,228	2,167
Deferred Taxation	(22)	-	-	-
	2,492	**2,262**	**2,228**	**2,167**

The Company has an unrecognised deferred taxation liability of $12,918,000 (31 March 2006: $14,284,000) 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.

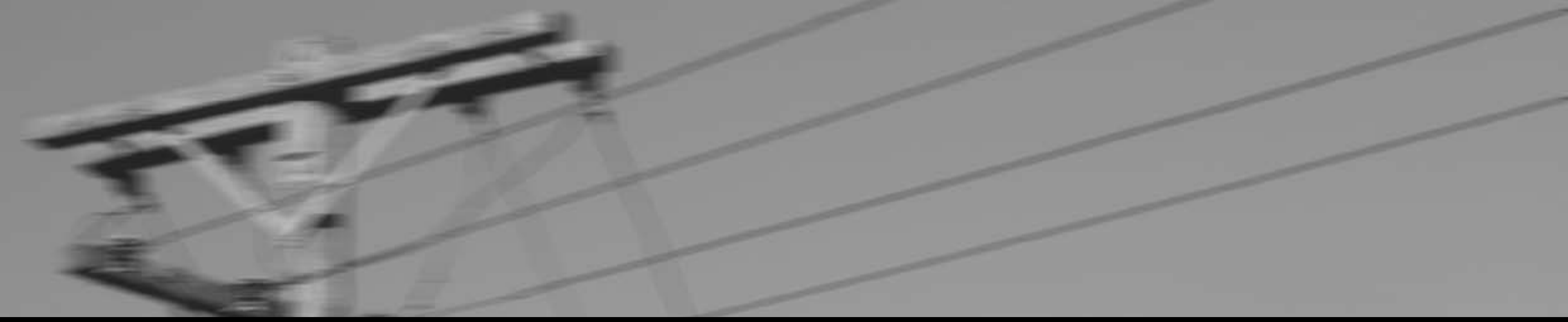
Imputation Credit Account:		
Balance at Beginning of Year	14,225	12,244
Credits:		
Income Tax Payments During Year	2,340	2,220
Imputation Credits on Dividends Received	516	-
Debits:		
Income Tax Refunds	(201)	(175)
Imputation Credits on Dividends Paid	(2,041)	(64)
Balance at End of Year	**14,839**	**14,225**

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



	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
5. Equity				
Paid In Capital				
29,621,736 ordinary shares fully paid	**30,357**	**29,622**	**29,622**	**29,622**
Asset Revaluation Reserve				
Opening Balance	161,094	161,094	161,094	161,094
Network Revaluation	41,785	-	37,620	-
Closing Balance	**202,879**	**161,094**	**198,714**	**161,094**
Retained Earnings				
Opening Balance	35,854	33,228	37,558	35,166
Net Surplus for the Year	4,301	2,769	3,568	2,535
Parent Interest Dividend	(4,000)	(143)	(4,000)	(143)
Minority Interest Deficit Introduced	(25)	-	-	-
Closing Balance	**36,130**	**35,854**	**37,126**	**37,558**
Total Equity	**269,366**	**226,570**	**265,462**	**228,274**
6. Cash and Bank Deposits/(Overdraft)				
Current Account/(Overdraft)	(1,177)	(889)	119	11
Total Cash and Bank Deposits/(Overdraft)	**(1,177)**	**(889)**	**119**	**11**
7. Receivables and Prepayments				
Trade Debtors	2,997	3,844	1,943	1,821
GST Receivable	277	2	470	160
Prepayments	242	212	62	74
Total Receivables and Prepayments	**3,516**	**4,058**	**2,475**	**2,055**
8. Inventories				
Network Spares and Sundry Network Consumables	**196**	**72**	**-**	**-**

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 2007	Percentage Held By Group 2006	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

	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Interests in associate entities are as follows:				
Carrying Amount at Beginning of Year	1,746	1,108	1,171	743
Dividends from Associates	(242)	(74)	-	-
Share of Equity Accounted Earnings of Associates	311	284	-	-
Increase in Advances to Associates	1,272	428	1,272	428
Transfer on Change of Status to Subsidiary	(526)	-	(529)	-
Carrying Amount at End of Year	**2,561**	**1,746**	**1,914**	**1,171**

	GROUP	
	2007 $000	2006 $000
The Group share of the results of its associate entities are as follows:		
Share of Surplus before Taxation	426	438
Less Taxation Expense	(115)	(154)
Total Recognised Revenues and Expenses of Associates	**311**	**284**

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

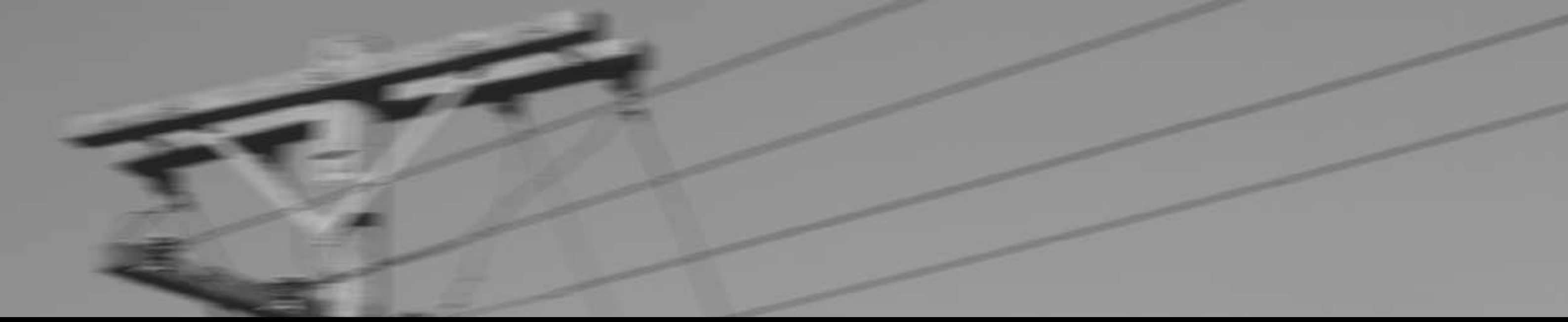
During the year the shareholding in Power Services Limited changed from 25% to 51%. Earnings from Power Services Limited prior to the ownership change have been equity accounted. Since the ownership change, Power Services Limited has been accounted for as a subsidiary bringing in the Company's revenues, expenses, assets and liabilities on a line by line basis.

10. Investments in Subsidiaries

	Percentage Held By Group 2007	Percentage Held By Group 2006	Balance Date
Last Tango Limited	100%	100%	31 March
Power Services Limited	51%	25%	31 March

	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
Investment in Shares in Subsidiaries	-	-	28,075	28,075
Investment in Advances in Subsidiaries	-	-	1,718	-
Total Investments in Subsidiaries	**-**	**-**	**29,793**	**28,075**

The Power Company Limited owns 100% of the authorised capital of Last Tango Limited and 51% of Power Services Limited.



11. Investments in Joint Ventures

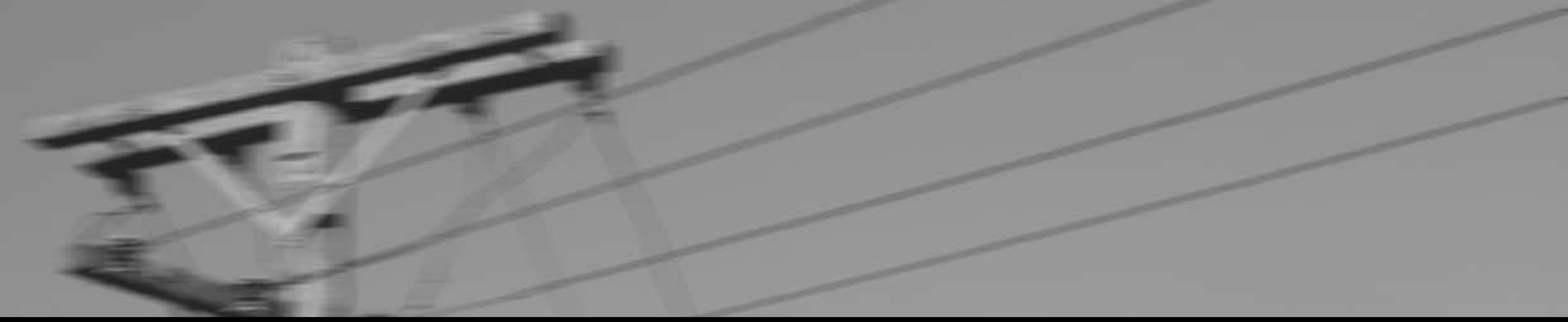
The Group has a participating interest in the following Joint Ventures through its wholly owned subsidiary Last Tango Limited.

	Principal Activity	Percentage Held By Group 2007	2006	Balance Date
PowerNet Limited	Network Management	50%	50%	31 March
OtagoNet Joint Venture	Utility Infrastructure	24.5%	24.5%	31 March

	GROUP 2007 $000	GROUP 2006 $000
Financial Performance		
The Group's share of operating revenues and expenses for the year, consolidated on a line-by-line basis was:		
Revenue	36,950	33,287
Expenses	20,186	17,870
Financial Position		
The Group's share of assets and liabilities consolidated on a line-by-line basis was:		
Current Assets	1,304	2,988
Non Current Assets	31,392	26,859
Current Liabilities	4,303	3,846
Non Current Liabilities	-	-

12. Minority Interests

	GROUP 2007 $000	GROUP 2006 $000
Opening Balance	-	-
Minority Interest Investment in Shares	735	-
Minority Interest Share of Net Surplus of Subsidiary	54	-
Minority Interest Deficit Introduced	(25)	-
Closing Balance	**764**	-



	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
13. Property, Plant and Equipment				
Land	177	171	85	85
Buildings (At Cost)	1,136	1,054	236	236
Accumulated Depreciation	(372)	(462)	(85)	(80)
	764	592	151	156
Office Equipment and EDP (At Cost)	5,478	5,200	2,769	2,764
Accumulated Depreciation	(4,635)	(4,448)	(2,762)	(2,762)
	843	752	7	2
Motor Vehicles (At Cost)	1,375	-	-	-
Accumulated Depreciation	(369)	-	-	-
	1,006	-	-	-
Plant, Equipment and System Control Assets (At Cost)	1,855	1,093	8	8
Accumulated Depreciation	(1,067)	(847)	(4)	(4)
	788	246	4	4
Metering Assets (At Cost)	10,196	9,844	10,196	9,844
Accumulated Depreciation	(7,417)	(7,042)	(7,417)	(7,042)
	2,779	2,802	2,779	2,802
Network Assets (At Valuation & Cost)	274,771	271,136	247,299	224,885
Accumulated Depreciation	(1,495)	(43,007)	(396)	(18,812)
	273,276	228,129	246,903	206,073
Total Property, Plant and Equipment	**279,633**	**232,692**	**249,929**	**209,122**

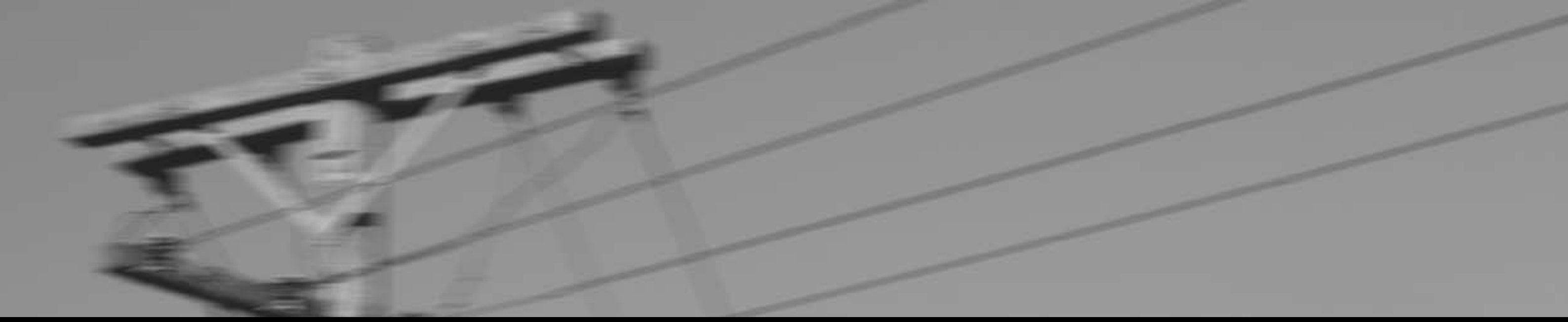
Network Assets

The network assets of The Power Company Limited were revalued by means of a "Directors' Revaluation" on 31 March 2007 to assessed fair value. The assessed fair value was achieved by taking the previously revalued assets at their 1 April 2004 carrying values, and updated those values in terms of today's material and labour costs.

The network assets of OtagoNet Joint Venture were revalued on 1 April 2006 to depreciated replacement cost as assessed by independent valuers PricewaterhouseCoopers.

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	
	2007 $000	2006 $000	2007 $000	2006 $000
14. Intangibles				
Goodwill on Acquisition	4,049	3,768	58	58
Goodwill Amortised During the Period	(186)	(186)	-	-
Goodwill Previously Amortised	(754)	(568)	(58)	(58)
Total Amortised Goodwill	(940)	(754)	(58)	(58)
Total Intangibles	**3,109**	**3,014**	**-**	**-**

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.

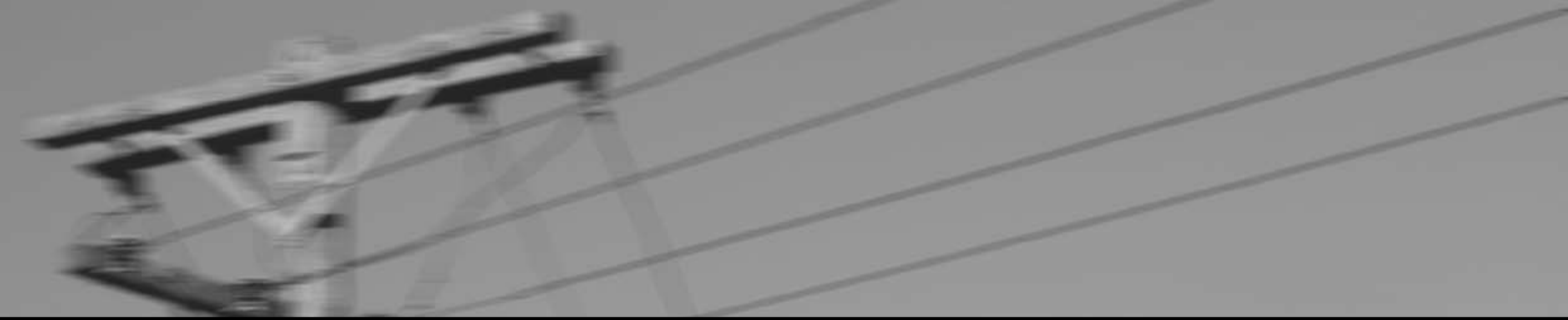
Goodwill arising on the acquisition of the Otago Power Limited electricity distribution network has been amortised over 20 years as prescribed by FRS36 Accounting for Acquisitions Resulting in Combinations of Entities.

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 2006: $186,000).

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 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
15. Creditors and Accruals				
Trade Creditors and Accruals	4,087	3,750	7,494	4,974
Total Creditors and Accruals	**4,087**	**3,750**	**7,494**	**4,974**
16. Provision for Employee Entitlements				
Balance at Beginning of Year	243	245	-	-
Employee Entitlements Introduced	105	-	-	
Additional Provision Made	470	207	-	-
Amount Utilised	(373)	(209)	-	-
Total Provision for Employee Entitlements	**445**	**243**	**-**	**-**

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	
	2007 $000	2006 $000	2007 $000	2006 $000
17. Term Liabilities				
Short Term Advances Facility	20,050	17,390	20,050	17,390
Advance – Southland Electric Power Supply Consumer Trust	4,085	-	4,085	-
Advance – Electricity Invercargill Limited (Minority Interest in Subsidiary)	710	-	-	-
Total Term Liabilities	**24,845**	**17,390**	**24,135**	**17,390**

Short Term Advances Facility

The Company has a Short Term Advances Facility of $25 million (31 March 2006: $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 $15 million (31 March 2006: $14 million) at interest rates between 6.28% and 6.86%, excluding bank margins.

Advance – Southland Electric Power Supply Consumer Trust

The Company has an unsecured, interest bearing Advance with the Southland Electric Power Supply Consumer Trust which is repayable on demand with a 13 month notice period. Interest is payable quarterly at 7% and is added to the loan.

Advance – Electricity Invercargill Limited

The Minority Interest share of the Advance that Power Services Limited has with Electricity Invercargill Limited has no specified repayment terms. Interest on the Advance is paid quarterly at 0.75% above the 90 Day Bank Bill Rate.

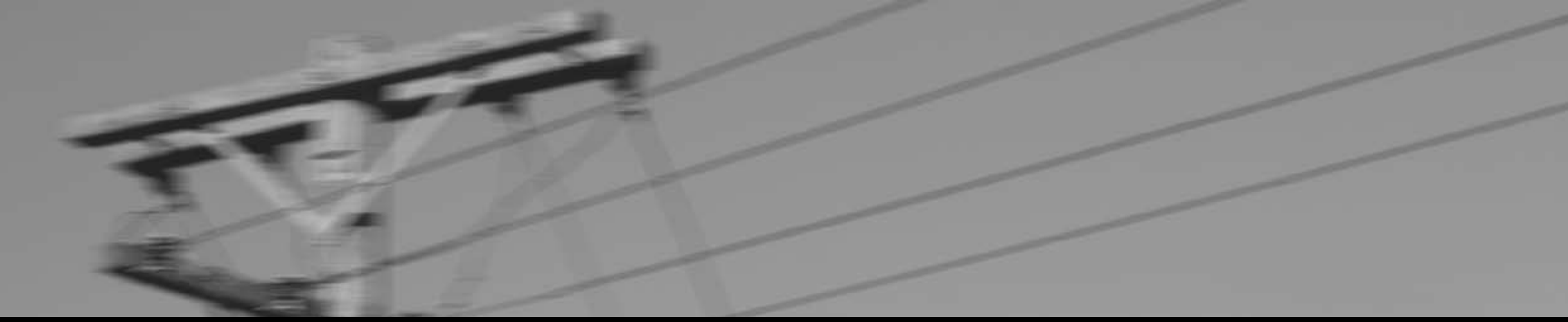
	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
18. Commitments				
Operating Lease Commitments				
Operating Lease Commitments are payable as follows:				
Not later than one year	166	78	18	17
Later than one year and not later than two years	120	23	16	15
Later than two years and not later than five years	75	78	28	42
Total Operating Lease Commitments	**361**	**179**	**62**	**74**

Capital Commitments

The Group, through its Joint Ventures PowerNet Limited and OtagoNet Joint Venture, and its Subsidiary Power Services Limited has capital expenditure contracted for at 31 March 2007 but not provided for in the financial statements totalling $5,359,000 (31 March 2006: $2,250,000).

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 31 March 2007 totals Nil (31 March 2006: $15,000).



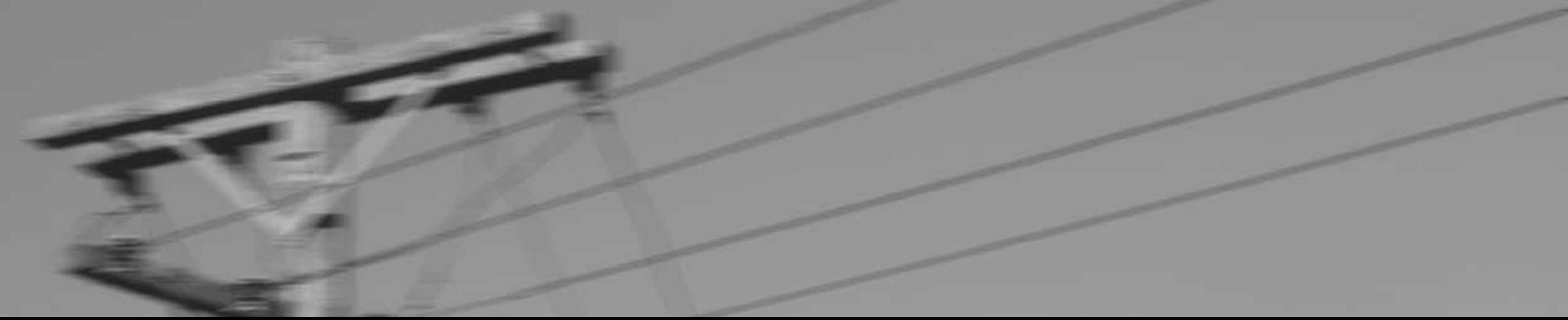
19. Contingent Liabilities

The Group has no Contingent Liabilities as at 31 March 2007 (31 March 2006: Nil).

20. 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	
	2007 $000	2006 $000	2007 $000	2006 $000
Net Surplus after Taxation	4,301	2,769	3,568	2,535
Plus/(Less) Non Cash Items:				
Depreciation	11,577	11,043	10,026	9,865
Amortisation of Goodwill	186	186	-	-
Deferred Taxation	34	-	-	-
	11,797	11,229	10,026	9,865
Plus/(Less) Items Classified as Investing:				
Loss on Disposal of Property, Plant and Equipment	364	270	351	238
Profit on Disposal of Property, Plant and Equipment	(11)	(1)	-	-
	353	269	351	238
Plus/(Less) Net Movements in Working Capital:				
Creditors, Accruals and Provisions	539	310	(240)	136
Receivables, Prepayments and Work in Progress	132	(460)	(420)	(956)
Inventories	(124)	(10)	-	-
Provision for Taxation	(3)	184	90	122
	544	24	(570)	(698)
Net Cash Flows From Operating Activities	**16,995**	**14,291**	**13,375**	**11,940**



21. 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	
	2007 $000	2006 $000	2007 $000	2006 $000
Current Account	192	17	119	11
Short Term Bank Deposits	621	34	-	-
Receivables	3,274	3,846	2,413	1,981
	4,087	3,897	2,532	1,992

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 -

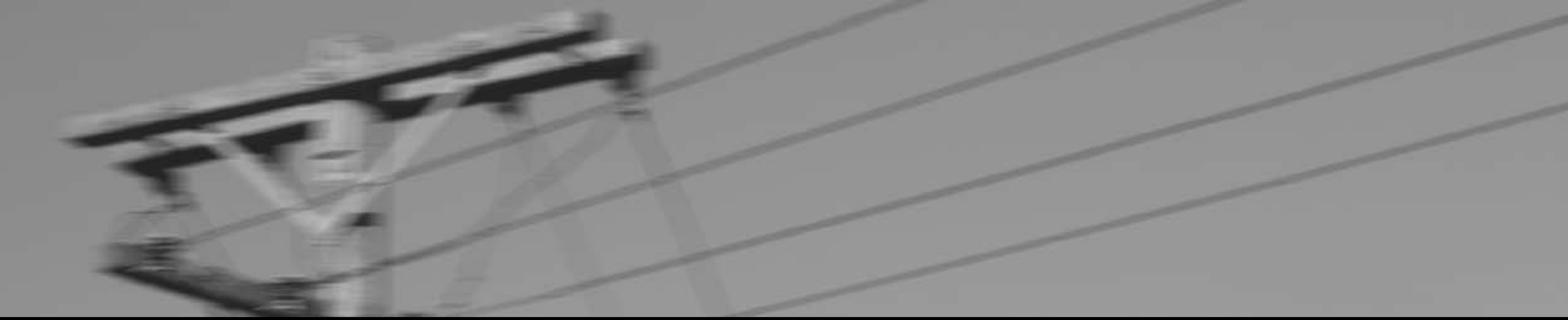
The Group is exposed to normal fluctuations in market interest rates except for $15 million (31 March 2006: $14 million) of borrowings for which interest rates are hedged by way of interest rate swaps.

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 2007 is a favourable $431,000 (31 March 2006: unfavourable $27,000).

22. 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.



23. 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 Power Services 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:

	2007 $000	2006 $000
Supplied to:		
PowerNet Limited	15,443	17,145
Electricity Southland Limited	66	41
Power Services Limited	98	34
Receivables Outstanding at Balance Date (GST incl):		
PowerNet Limited	1,868	1,638
Electricity Southland Limited	25	18
Power Services Limited	31	10
Supplied by:		
PowerNet Limited	16,444	11,653
Creditors Outstanding at Balance Date (GST incl):		
PowerNet Limited	4,076	2,522

Other Related Parties

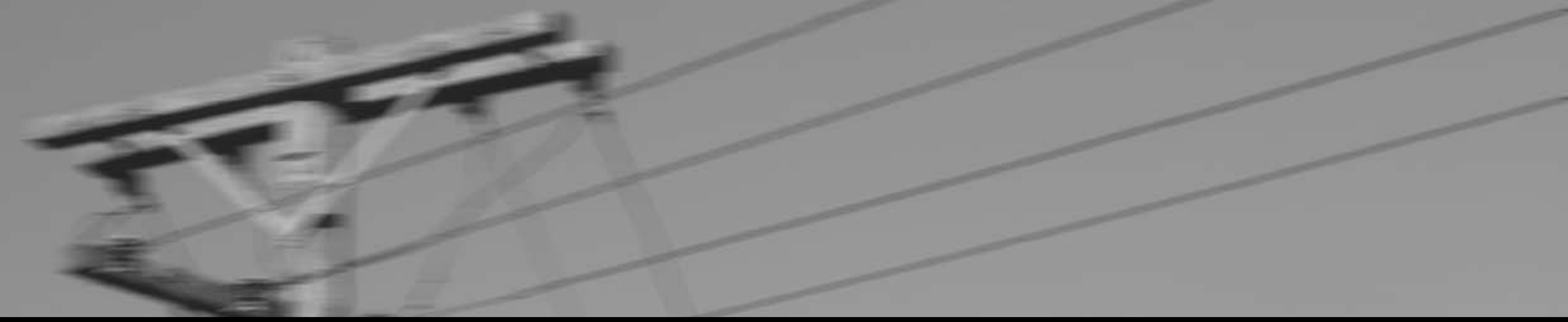
There have been no material transactions between The Power Company Limited and Directors with the exception of legal fees paid to AWS Legal, for whom Alan Harper is a partner, amounting to $3,000 excl. GST (31 March 2006: $3,000 excl. GST) of which $1,000 is owing at balance date.

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 $91,000 (31 March 2006: $143,000) and a fully imputed dividend of $143,000 has been paid by The Power Company Limited.

A further fully imputed dividend of $4,000,000 was paid by The Power Company Limited to the Southland Electric Power Supply Consumer Trust during the year. This has been advanced back to The Power Company Limited by way of an unsecured interest bearing loan.

The expenses paid by The Power Company Limited on behalf of the Southland Electric Power Supply Consumer Trust have been deducted from the loan and interest has been added to the loan.



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

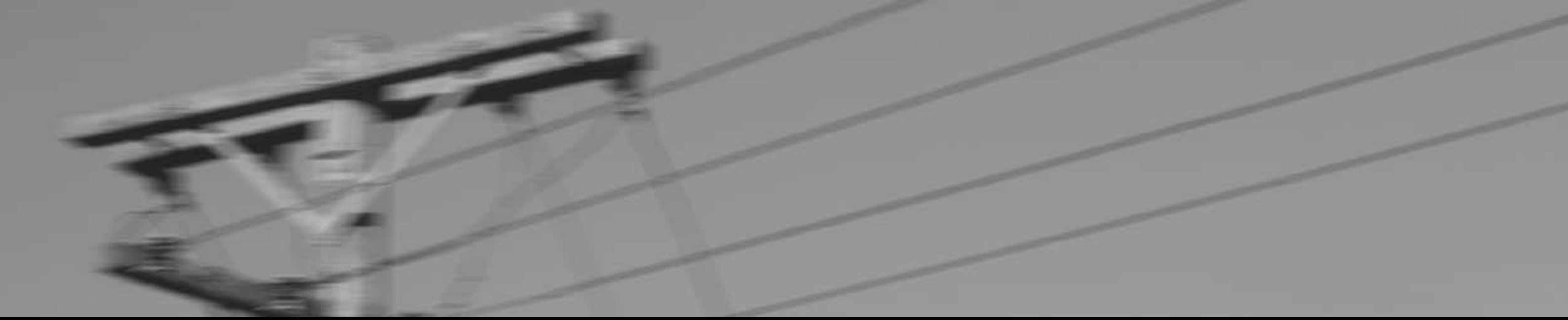
In December 2002 the New Zealand Accounting Standards Review Board (ASRB) announced that New Zealand entities required to comply with NZ GAAP under Financial Reporting Act 1993 would be required to apply International Financial Reporting Standards (IFRS) for financial periods commencing on or after 1 January 2007 with earlier adoption permitted from 1 January 2005. The new standards that have been approved by the ASRB for application in New Zealand are referred to as New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as certain adaptations have been made to reflect New Zealand circumstances.

The Company will transition to NZ IFRS and publish its first set of annual financial statements prepared under NZ IFRS for the year ending 31 March 2008.

The Company has substantially finalised its accounting policies under NZ IFRS and quantified the material adjustments that will be required in the opening Statement of Financial Position as at 1 April 2006 on adoption of NZ IFRS.

The key differences between current NZ GAAP and NZ IFRS identified as affecting the Company's opening Statement of Financial Position and retained earnings at 1 April 2006 are detailed below. These differences are subject to final quantification and any changes in applicable NZ IFRS standards which may occur before the date of issue of the 31 March 2008 NZ IFRS financial statements.

The impact of NZ IFRS on future profits is principally from the amortisation of capital contributions received from government and the recognition of the movement in fair values of derivative financial instruments. These profit impacts have not been quantified.



Effect of the change to NZ IFRS on the TPCL Group Balance Sheet

		As at 31 March 2006			As at 31 March 2007		
	Note	Superseded Policies $000	Effect of Transition to NZ IFRS $000	NZIFRS Bal Sheet at 31 Mar 06 $000	Superseded Policies $000	Effect of Transition to NZ IFRS $000	NZIFRS Bal Sheet at 31 Mar 07 $000
Equity							
Share Capital		29,622		29,622	29,622		29,622
Revaluation Reserve		161,094	(161,094)		202,879	(174,883)	27,996
Retained Earnings	a	35,854	129,166	165,020	36,101	130,533	166,634
Minority Interest					764		764
Total Equity		226,570	(31,928)	194,642	269,366	(44,350)	225,016
Represented By:							
Current Assets							
Cash and Bank Deposits							
Receivables and Prepayments		4,058		4,058	3,516		3,516
Inventories		72		72	196		196
Work in Progress		17		17	427		427
Provision for Tax (if Asset)		268		268	271		271
		4,415		4,415	4,410		4,410
Non Current Assets							
Investments							
Investments		1,746		1,746	2,561		2,561
		1,746		1,746	2,561		2,561
Fixed Assets							
Property, Plant & Equipment	b	232,692	(488)	232,204	279,633	(553)	279,080
Capital Work in Progress		7,118		7,118	10,173		10,173
Intangibles	c	3,014	488	3,502	3,109	738	3,847
Deferred Tax Asset	d	-		-	34		34
		242,824		242,824	292,949	185	293,134
TOTAL ASSETS		248,985		248,985	299,920	185	300,105
Current Liabilities							
Bank Overdrafts		889		889	1,177		1,177
Creditors, Accruals and Provisions		3,993		3,993	4,532		4,532
Provision for Dividend		143		143	-		-
Provision for Taxation (if liability)		-		-	-		-
		5,025		5,025	5,709	0	5,709
Non Current Liabilities							
Deferred Tax Liabilities	d	-	31,928	31,928	-	44,535	44,535
Term Liabilities		17,390		17,390	24,845		24,845
		17,390	31,928	49,318	24,845	44,535	69,380
TOTAL LIABILITIES		22,415	31,928	54,343	30,554	44,535	75,089
Net Assets		226,570	(31,928)	194,642	269,366	(44,350)	225,016

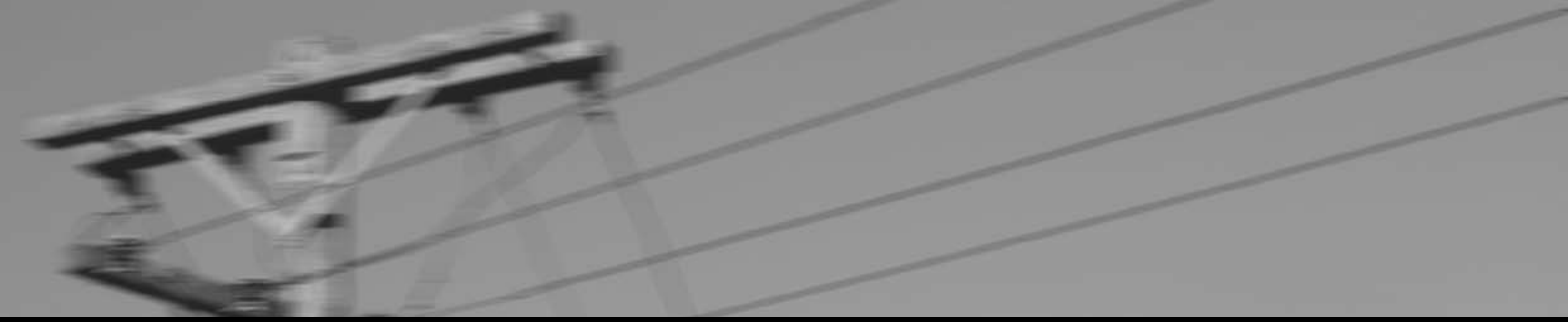
Notes to explain the effect of transition on the Group Balance Sheet

a Retained earnings are affected by the changes in the profit and loss account as well as the deferred tax effect at transition date.

b Property plant and equipment is reduced by the net book value of software assets which are now categorised as intangible assets

c Intangible assets are increased as goodwill amortisation is no longer allowed under NZ IFRS. Also software assets are now included in this category.

d Under superseded policies, the Group adopted accounting principles whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent and timing differences. Under NZ IFRS, deferred tax is determined using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities and their tax base.



Effect of the change to NZ IFRS on the TPCL Parent Balance Sheet

	Note	As at 31 March 2006			As at 31 March 2007		
		Superseded Policies $000	Effect of Transition to NZ IFRS $000	NZIFRS Bal Sheet at 31 Mar 06 $000	Superseded Policies $000	Effect of Transition to NZ IFRS $000	NZIFRS Bal Sheet at 31 Mar 07 $000
Equity							
Share Capital		29,622		29,622	29,622		29,622
Revaluation Reserve		161,094	(161,094)		198,714	(173,509)	25,205
Retained Earnings	a	37,558	129,202	166,760	37,126	130,587	167,713
Total Equity		228,274	(31,892)	196,382	265,462	(42,922)	222,540
Represented By:							
Current Assets							
Cash and Bank Deposits		11		11	119		119
Receivables and Prepayments		2,055		2,055	2,475		2,475
Provision for Tax (if Asset)		204		204	114		114
		2,270		2,270	2,708		2,708
Non Current Assets							
Investments							
Investments		32,546		32,546	35,007		35,007
		32,546		32,546	35,007		35,007
Fixed Assets							
Property, Plant & Equipment	b	209,122		209,122	249,928		249,928
Capital Work in Progress		6,843		6,843	9,448		9,448
Intangibles	c						
Deferred Tax Asset	d	-		-	-		-
		215,965		215,965	259,376		259,376
TOTAL ASSETS		250,781		250,781	297,091		297,091
Current Liabilities							
Bank Overdrafts							
Creditors, Accruals & Provisions		4,974		4,974	7,494		7,494
Provision for Dividend		143		143	-		-
Provision for Taxation (if liability)		-		-	-		-
		5,117		5,117	7,494	0	7,494
Non Current Liabilities							
Deferred Tax Liabilities	d	-	31,892	31,892	-	42,922	42,922
Term Liabilities		17,390		17,390	24,135		24,135
		17,390	31,892	49,282	24,135	42,922	67,057
TOTAL LIABILITIES		22,507	31,892	54,399	31,629	42,922	74,551
Net Assets		228,274	(31,892)	196,382	265,462	(42,922)	222,540

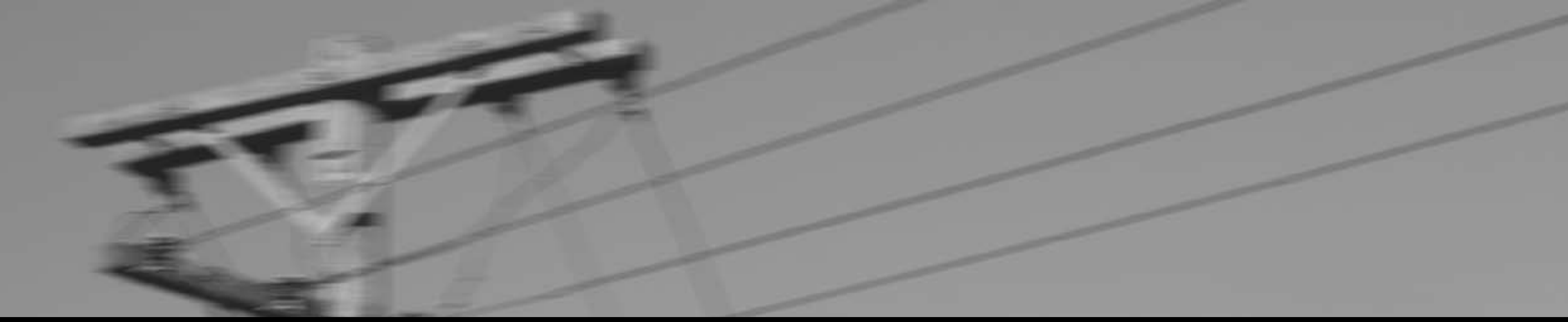
Notes to explain the effect of transition on the Parent Balance Sheet

a Retained earnings are affected by the changes in the profit and loss account as well as the deferred tax effect at transition date.

b Property plant and equipment is reduced by the net book value of software assets which are now categorised as intangible assets.

c Intangible assets are increased as goodwill amortisation is no longer allowed under NZ IFRS. Also software assets are now included in this category.

d Under superseded policies, the Group adopted accounting principles whereby income tax expense was calculated onpre-tax accounting profits after adjustment for permanent and timing differences. Under NZ IFRS, deferred tax is determined using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities and their tax base.



AUDITOR'S REPORT For the year ended 31 March 2007

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
119 Armagh Street
PO Box 13244
Christchurch
New Zealand
Telephone +64 3 374 3000
Facsimile +64 3 374 3001

Auditors' Report
To the shareholders of The Power Company Limited

We have audited the financial statements on pages 10 to 29. The financial statements provide information about the past financial performance and cash flows of the Company and Group for the year ended 31 March 2007 and their financial position as at that date. This information is stated in accordance with the accounting policies set out on pages 14 and 15.

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 2007 and their 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 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.

We have no relationship with or interests in the Company or any of its subsidiaries other than in our capacities as auditors and advisors on industry related matters.

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

In our opinion:

(a) proper accounting records have been kept by the Company as far as appears from our examination of those records; and
(b) the financial statements on pages 10 to 29:
    (i) comply with generally accepted accounting practice in New Zealand;
    (ii) give a true and fair view of the financial position of the Company and Group as at 31 March 2007 and their financial performance and cash flows for the year ended on that date.

Our audit was completed on 28 June 2007 and our unqualified opinion is expressed as at that date.

PricewaterhouseCoopers

Chartered Accountants Christchurch

THE POWER COMPANY LIMITED
ANNUAL REPORT 2007