

Annual Report

2012





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# Directory

## Registered Office

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PO Box 1748  
Invercargill 9840  
New Zealand  
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Email: [enquiries@powernet.co.nz](mailto:enquiries@powernet.co.nz)  
Website: [www.tpcl.co.nz](http://www.tpcl.co.nz)

## Principal Bankers

Westpac Banking Corporation

## Auditors

PricewaterhouseCoopers, Christchurch

## Solicitors

AWS Legal

## Company Profile

The Power Company Limited (TPCL) was formed in 1991 and owns the electricity network assets in the Southland/West Otago area, excluding parts of Invercargill City and the Bluff township area. TPCL has approximately 34,500 consumers.

TPCL has a long proud history of being innovative and proactive in providing electricity to the people of the south. It has operated under a variety of names over the years including the Southland Electric Power Board and Southland Electric Power Supply.

TPCL is owned by the consumers connected to the network. The Southland Electric Power Supply Consumer Trust (Southland Power Trust) exercises the ownership rights on behalf of those consumers.

TPCL contracts PowerNet Limited (PowerNet) to manage its network and metering assets. The main source of revenue for TPCL is attributable to the Use Charge received from PowerNet for the lease of the network assets. This Use Charge calculation takes into account a specified rate of return on the book value of the assets, depreciation and the corporate costs of the Company.

Other revenue is derived from the capital contributions of customers connecting new installations to the network and the profits from investments in OtagoNet Joint Venture, Otago Power Services Limited, Power Services Limited and Electricity Southland Limited.

TPCL statistics	
Connected Consumers Total	<b>34,559</b>
Residential	24,863
Industrial	163
Commercial	9,533
Network Length	8,661 km
Consumer Density	3.9 consumers/ km
Number of Distribution Transformers	10,580
Distribution Transformer Capacity	385MVA
Distribution Transformer Density	43kVA/km
Maximum Demand	131MW
Total Energy Conveyed	748GWh
Regulatory Value	\$295 million

## Our Stakeholders

### PowerNet Limited

TPCL has a 50% shareholding in PowerNet, with Electricity Invercargill Limited (EIL).

PowerNet is contracted to manage the network and metering assets and pays to TPCL a fee for the use of the assets. PowerNet adds maintenance costs and overheads and this is on-charged to the electricity retailers through the line and meter charges.

PowerNet also

- manages TPCL's capital and maintenance works programme which constitutes the major part of the Business Plan approved by Directors;
- operates a 24-hour, 7-day a week, manned control room that provides a high level of monitoring and control of the network operations and a faults call centre service;
- publishes its own annual report and, as it is a break-even company, its performance is judged by the value and efficiency of its network asset management and business development.

### OtagoNet Joint Venture

OtagoNet Joint Venture was formed in 2002 between partners TPCL (24.5%), its neighbour EIL (24.5%) and Marlborough Lines Limited (51%). The OtagoNet network has approximately 14,800 consumers spread over a vast area of coastal and inland Otago from Shag Point in the north east, inland through to St Bathans, then south down to the Chaslands.

The Otago based investment performed as anticipated, contributing a positive cashflow and increased profitability in addition to the benefits of a strategic partnership and acquisition. Significant additional expenditure has been committed to renewing and upgrading the network assets, increasing the value of the network and improving supply quality to the customers. Directors are pleased with the year's performance and our shareholding is projected to benefit further from increased returns and growth in value of the network in the years to come.

### Electricity Southland Limited

Electricity Southland Limited is an electricity network asset company formed in 1995 by TPCL and EIL. It owns an electricity network at Frankton in the Queenstown area.

Load growth on this network progressed well this year due to new businesses opening in the Remarkables Park Town Centre in Frankton and the opening of the Hilton Hotel in the Kawarau Falls Station area.

Directors remain confident the continuing development in the area will meet the Company's medium and long term projections.

### Investment in network contractors

The Company is a 51% shareholder in the electrical contracting company Power Services Limited (PSL). PSL holds the faults and maintenance contract for TPCL in the Western Southland area. During the year PSL purchased a facility at Onslow Street, Invercargill and is developing the site for its Head Office, line depot and electrical and transformer workshops. PSL also invested in a contracting company, Peak Power Services Limited in February. This Company is based in Frankton and provides electrical contracting services in the Central Otago area.

TPCL also holds a 24.5% investment in the electrical contracting company Otago Power Services Limited (OPSL) in conjunction with EIL (24.5%) and Marlborough Lines Limited (51%). OPSL holds the faults and maintenance contract for TPCL in the Eastern Southland area.



# The Year in Review

## Operational performance

TPCL has continued its significant investment in its distribution network to meet growing customer requirements in demand, supply quality and reliability.

The remaining two stages of the Winton-Hedgehope 66kV subtransmission line project were completed in preparation for the construction of a new zone substation at Hedgehope. This new line will help meet on-going load growth due to the increased number of dairy farms in the area.

Five new zone substation transformers were purchased for projects and strategic spares to meet the security of supply requirements across the network, with staff attending factory acceptance testing of these transformers.



Winton-Hedgehope 66kV subtransmission line



Factory acceptance testing in Jakarta

The following major projects on the TPCL network were completed during the year:

Project	Approximate Expenditure
Ohai Zone Substation Transformer Replacement	\$525,000
Distribution Transformer Replacements	\$1,185,000
Mossburn-Athol New 66/22kV Line – Stage one	\$1,257,000
Kennington Zone Substation Upgrade	\$1,259,000
Vegetation Management	\$1,271,000
New Customer Connections and Reticulation of New Subdivisions	\$3,012,000
11kV Line Replacement	\$3,331,000

TPCL's System Average Interruption Duration Index (SAIDI) of 238.09 minutes did not meet the Business Plan target of 162.57 minutes this year. Severe storm conditions in May, October, November and January impacted performance. The continued effort to maintain control and management of vegetation growth and increased maintenance of the network has required extended outages also impacting on the overall SAIDI reliability statistic. The System Average Interruption Frequency Index (SAIFI) figure of 3.04 was better than the Business Plan target of 3.23.

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

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

Target	Actual
3.23	3.04

**SAIDI – System Average Interruption Duration Index** (the average total time in minutes each year that each customer connected to the network is without supply)

Target	Actual
162.57 minutes	238.09 minutes

## The regulatory environment

The Commerce Commission (the Commission) has throughout the year consulted with the industry on a number of regulatory matters including the development of regulatory reporting under the Information Disclosure (ID) regime. TPCL has appreciated the opportunities for staff to participate in workshops and technical reference groups as we find this a more effective form of consultation than the formal written methods commonly adopted.

TPCL is however concerned with the continuing costly and time consuming requirements of the draft ID Determination released by the Commission. In particular, the increase in compliance and audit costs incurred in relation to low level inputs such as all unplanned fault data being provided in ID. A high level outputs based approach to ID, supplemented with data requests, should satisfy the data requirements of the Commission to meet their responsibility of monitoring and analysing the performance of electricity lines businesses.

TPCL is very concerned about the Commission's work on related parties. We anticipate any changes will result in cost increases and eliminate efficiency gains from the various joint venture structures that have been implemented for commercial and geographical reasons in Southland.

TPCL continues to have concerns around duplication of investigations surrounding pricing principles by both the Commission and the Electricity Authority (EA). Communication between the two regulatory bodies appears very opaque to an outside observer. The commencement of consultation on pricing principles by the EA will assist in providing the EA with the knowledge and information to make informed decisions.

## Financial Performance

The Group net surplus after tax for the year ended 31 March 2012 was \$9.162 million (2011 - \$7.612 million).

The increase in the net surplus after tax of \$1.550 million is mainly due to one off International Financial Reporting Standards adjustments impacting on the net surplus in 2011. This was offset by an increase of \$1.0 million in the consumer discount to \$5.850 million (2011 - \$4.857 million).

The investments in OtagoNet Joint Venture, OPSL and PSL have all generally met expectations both financially and operationally. OtagoNet Joint Venture and OPSL continue to contribute positively to both the cashflow and net profit of TPCL.

Overall the strong financial position, future operating results and cash flow combined with continued growth prospects in the Southland and Otago areas has TPCL well positioned for the future.

### The consolidated result for TPCL is:

	31 March 2012 \$000	31 March 2011 Normalised \$000	31 March 2011 IFRS \$000
Operating Surplus before Discount	19,217	16,865	12,972
Less Discount to Consumers	(5,850)	(4,867)	(4,867)
<b>Operating Surplus before Taxation</b>	<b>13,367</b>	<b>11,998</b>	<b>8,105</b>
Taxation (Expense)/Benefit	(4,205)	(3,174)	(493)
<b>Net Surplus after Taxation</b>	<b>9,162</b>	<b>8,824</b>	<b>7,612</b>

## Acknowledgements

The Directors wish to acknowledge the contribution of Cam McCulloch in his role as a Director of the Company from 1991 to his retirement from the Board in September 2011.

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

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 through the joint venture investment in OtagoNet Joint Venture.

Martin Walton retired after 12½ years as PowerNet's chief executive in January 2012. The Directors wish to acknowledge Martin's significant contribution to TPCL and PowerNet as well as his 39 year contribution to the industry.

Finally the Directors wish to record their appreciation to the staff of PowerNet, who have successfully managed the business for another year.



Alan Harper  
Chair



Maryann Macpherson  
Director

### Asset management plan

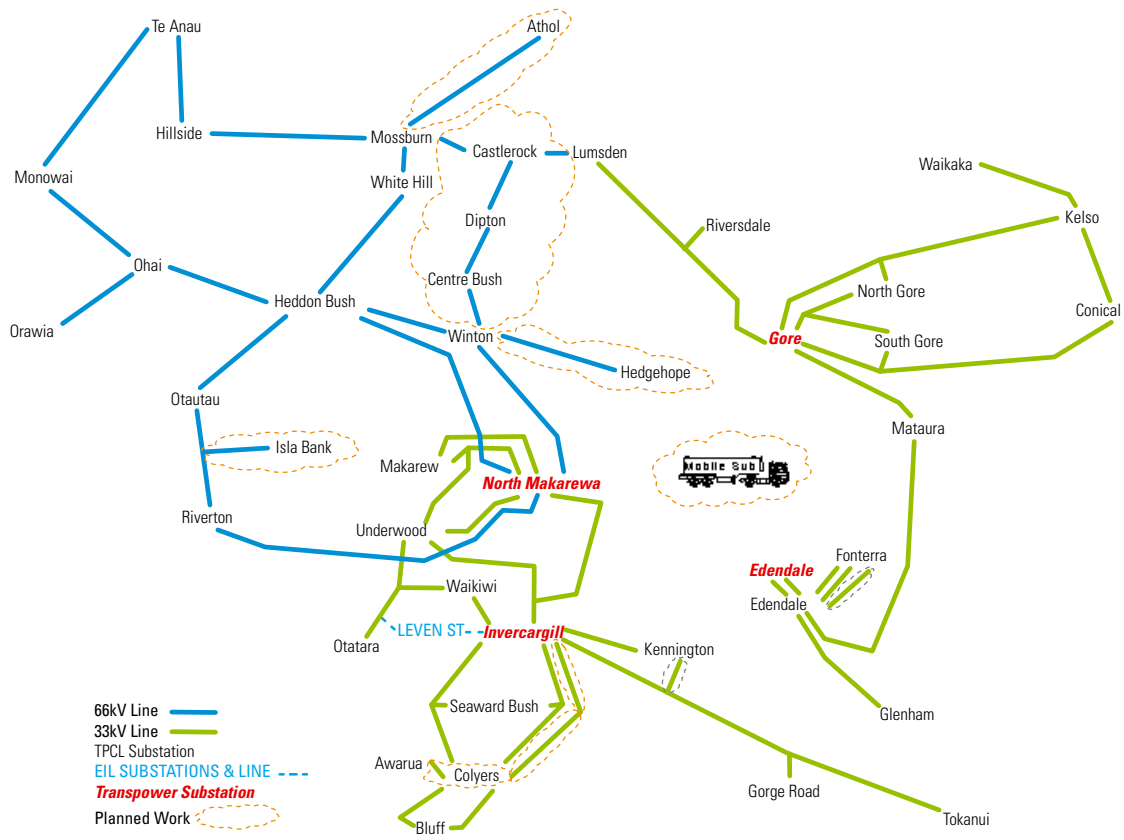
PowerNet again prepared the TPCL Asset Management Plan which provides detail on the TPCL network assets and how they will be managed to provide a reliable electricity supply and service to customers and stakeholders over the next ten years.

TPCL is focussing on the following areas:

- New substations at Hedgehope, Athol and Isla Bank
- Upgrade of the electricity lines along the Oreti Valley, with Dipton and Centre Bush lines connected onto the 66kV line
- Upgrade of Kennington and Riversdale substations to provide additional capacity
- Upgrade of Waikiwi substation to provide additional capacity and to reduce noise level
- Seismic strengthening of buildings and equipment
- Installation of a new 66/11kV transformer at Monowai
- Development of a mobile substation to assist with planned work and emergencies
- Planning for a new substation at the new Awarua industrial zone
- Upgrading of the Transpower supply substations and Load Control Injection Plants
- Continuing replacement of equipment and lines to ensure reliability of supply and to manage growth in the region

The capital spend of \$16 million is planned to grow to \$21 million and operational expenditure from \$6 million to \$7 million per year to meet these future plans.

During the year customers were again given the opportunity to comment on the Asset Management Plan (AMP) to ensure TPCL understands the needs of its community and continues to meet its requirements in the future. The AMP can be viewed at [www.powernet.co.nz/tpcl-amp](http://www.powernet.co.nz/tpcl-amp).



## The community

TPCL and the Southland Power Trust continue to provide support to the community by providing:

- the credit of a discount payment to all consumers connected to its network, and
- support to the Southland Warm Homes Trust (SWHT) for insulation and heating installations in the Southland region.

### Consumer discount

After another successful year of operation TPCL again was able to credit a discount of \$5.8 million plus GST to consumers connected to its network. Discounts to consumers over the past 11 years now exceed \$44 million.

### Southland Warm Homes Trust

The SWHT was formed in 2008 by the Southland Power Trust and Electricity Invercargill Limited. The SWHT, in association with the Energy Efficiency and Conservation Authority (EECA) and other funders, offers support for warmer, healthier homes by providing insulation, heating assessments and retrofits for Southland homes.

The SWHT offers support and a range of subsidies to Southland home owners and landlords to foster warmer, healthier homes. Subsidies are provided for heating assessments as well as insulation and heating retrofits. The project not only benefits the residents of these houses but also contributes to reducing generation demand and network investment.

In its third year to June 2011 the SWHT completed 1,828 assessments (2010: 2,040 assessments), 1,046 insulation fit-outs (2010: 975) and 155 heating upgrades (2010: 95) through its service provider Awarua Synergy. Over twenty jobs have been established in Southland and revenue of \$4.9 million (2010: \$3.6 million) was generated through the Trust this year.

The Trust's model has been commended by EECA as the most successful in New Zealand. EECA has backed up its confidence in the Trust with increased funding for the years ended June 2011 and 2012. The Trust is forecasting revenue of \$4 million in the year to 30 June 2012.

## Southland Power Trust

The Southland Power Trust was established in December 1997 to hold the shares in TPCL on behalf of all consumers connected to the Company's electricity network.

The Trust Deed sets out the rules governing the proceedings of the Trust and specifically precludes Trustees from taking part in the governance of TPCL. The Trustees' duty is to act on behalf of the shareholders, that is, the consumers connected to the network who are the only beneficiaries of both income and capital investment.

Trustees serve for a term of four years, with elections to fill vacancies every two years.

The current Trustees are:



**Jim Hargest** (*Chair*)



**Wade Devine**



**Ron McDonald**



**Graham Sycamore**



**Vaughan Templeton**



## Directors' Profiles



### **Alan Harper (Chair) 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 Chair of OtagoNet Joint Venture and a Director of PowerNet Limited.

Alan is also an Accredited Fellow of the Institute of Directors.



### **Duncan Fea BCom CA**

Duncan is a regional Managing Principal in WHK, Chartered Accountants and Business Advisors. He has a number of directorships which include PowerNet Limited and Peak Power Services Limited and is a past Director of Pioneer Generation Limited and Queenstown Airport Corporation Limited.

Duncan is a Member of the Institute of Directors.



### **Doug Fraser BSc (Chemistry)**

Doug farms sheep and dairy cows on 595 hectares in Western Southland.

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

Doug is a Member of the Institute of Directors.



### **Maryann Macpherson**

Maryann currently operates a home and garden retail business in Invercargill.

Her career background is farming and taxation management.

Maryann is Deputy Chair of PowerNet Limited and a Director of Power Services Limited and Venture Southland.

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

Maryann is a Member of the Institute of Directors.

# Directors' Report

The Directors have pleasure in presenting their Annual Report and Financial Statements for the year ended 31 March 2012.

## 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 \$9,162,000.

No dividends have been paid out or declared during the year by the Company.

## 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:

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

Because the interest which Directors may have in such transactions is no different in kind, quality, benefit or obligation from transactions which the Company has with other network services customers, it is not intended to list such premises or properties in the Interests Register.

Director	Company	Position
Duncan Fea	Electricity Southland Ltd	Director
	Last Tango Ltd	Director
	PowerNet Ltd	Director
	WHK	Principal
	WHK Cook Adam Ltd	Director
Douglas Fraser	Electricity Southland Ltd	Director
	Last Tango Ltd	Director
	NZ Wool Board	
	Disestablishment Company	Director
	PowerNet Ltd	Director
	Telford Farm Management Board	Director
Telford Rural Polytechnic	Councillor	
Alan Harper	AWS Legal	Partner
	Electricity Southland Ltd	Director
	Last Tango Ltd	Director
	OtagoNet Joint Venture	Chair, Governing Committee
	OtagoNet Ltd	Director
	OtagoNet Properties Ltd	Director
PowerNet Ltd	Director	
Cam McCulloch	Electricity Southland Ltd	Director
	Invercargill City Holdings Ltd	Deputy Chair
	Invercargill Te Ara a Kewa Primary	
	Health Organisation	Chair
	Last Tango Ltd	Director
	McCulloch & Partners	Consultant
PowerNet Ltd	Director	
Southfish Ltd	Chair	
Maryann Macpherson	Electricity Southland Ltd	Deputy Chair
	Last Tango Ltd	Director
	Peak Power Services Ltd	Director
	PowerNet Ltd	Deputy Chair
	Power Services Ltd	Director
	Venture Southland	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	-	Chair
Cam McCulloch	-	Deputy Chair (until 7 September 2011)
Duncan Fea	-	Director (from 8 September 2011)
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	\$45,420
Cam McCulloch	\$12,769
Duncan Fea	\$14,041
Douglas Fraser	\$23,945
Maryann Macpherson	\$23,945

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:

Alan Harper	\$22,000
Cam McCulloch	\$ 9,594
Duncan Fea	\$12,406
Douglas Fraser	\$22,000
Maryann Macpherson	\$27,500

## 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  
Chair



Maryann Macpherson  
Director

## Governance and Consultation

In its fourteenth year of operation the Trustees of the Southland Power Trust have continued to exercise the ownership rights of The Power Company Limited (the Company) on behalf of its consumer owners.

At the Annual General Meeting Don Nicolson stood down as a Trustee after twelve years of excellent service. Wade Devine was elected unopposed along with returning Trustee Graham Sycamore.

Trustees had the opportunity to comment on the Company Statement of Intent and Business Plan projections prior to finalisation by the Directors. Of particular focus were the Asset Management Plan, capital investments, return on investment and the price and quality of service to consumers.

Trustees note the continued high level of capital investment in the network required to meet the projected network load growth due to the continuing expansion in dairy farm conversions, associated industry and residential developments.

The Company 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.

## Financial

The Company achieved a satisfactory operating surplus of \$19.216 million before tax and the line discount, which was above the target of \$15.774 million for the year reflecting in part lower than budgeted levels of depreciation due to a delay in The Power Company Limited's network asset valuation until the end of the year.

## Line Charges

Line charges were increased by CPI and increases in Transpower costs were passed through to consumers at the beginning of the year. The current levels of pricing provide the Company with a sustainable return on investment, enabling the Company to carry out reinvestment in the network that is required to meet the current and projected load growth and improve the quality of supply to consumers.

The Trust supports the current line pricing as being in the best long-term interests of its consumer owners and the performance of the network. Trustees believe that the interests of consumers are fully protected by the nature of the Consumer Trust ownership and the regular election of Trustees by consumers. They are supportive of the price and quality control exemptions for the Company due to its consumer ownership under the Commerce Act.

## Consumer Discount

An explicit discount of \$6.7 million (including GST) was credited to consumers in August/September 2011.

## Lines Operation

The Trust supports the programme of major investment in its network to meet the increases in demand, maintain the required quality of supply and ensure that the overall value of investment in the network assets is maintained. Trustees note that the budgeted capital work programme for the year was delayed and not fully completed.

The Company did not meet the Statement of Intent SAIDI (System Average Interruption Duration Index) Business Plan target of 162.57 minutes with an actual duration of 238.09 minutes. Severe storm conditions in May, October, November and January impacted performance. The continuing effort to maintain control and management of vegetation growth and increased maintenance of the network has required extended outages also impacting on the overall SAIDI figure. However, the SAIFI (System Average Interruption Frequency Index) of 3.04 times was better than the planned Business target of 3.23 times.

### OtagoNet Joint Venture

The OtagoNet Joint Venture continues to provide positive cashflows for the Company and, along with Otago Power Services Limited, is performing satisfactorily and is currently meeting the profitability projections made at the time of acquisition. Trustees are happy with this long term investment.

### Southland Warm Homes Trust

The Trustees continue to support the Southland Warm Homes Trust (SWHT) initiative that provides a range of subsidies to householders in our network to foster warmer, healthier homes. Householders on our network have the ability to receive a subsidised heating assessment as well as insulation and heating retrofits. The SWHT receives funding from local funders and central government via the Energy Efficiency and Conservation Authority (EECA).

### Energy Trusts Association

Trustees continue to support the Energy Trusts of New Zealand (ETNZ) as an effective voice representing the interests of Energy Trusts and their consumers. The Trust hosted a very successful ETNZ annual conference in Invercargill in May 2011.

### Directors

The Trust acknowledges the valuable contribution of Cam McCulloch to the Board of Directors. Cam was a founding Director from 1991 and retired by rotation on 7 September 2011. The Trustees appointed Duncan Fea as a Director to replace Cam from that date.

Trustees and Directors have maintained a good working relationship during the year under review. Trustees appreciate the efforts of the Board and PowerNet management and staff in ensuring the security of electricity supply to their consumers.

### Administration

Trustees wish to acknowledge the work of their Secretary Amy Coats and thank Blair Morris for his financial services provided during the year.



Jim Hargest  
Chair

Southland Electric Power Supply Consumer Trust

### Approval by Directors

The Directors have approved the Financial Statements of The Power Company Limited for the year ended 31 March 2012 on pages 12 to 45.



Alan Harper  
Chair of Directors



Maryann Macpherson  
Director

For and on behalf of the Board of Directors

28 June 2012



# Statement of Service Performance

For the year ended 31 March 2012

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.

## Performance Targets

Financial Measures	GROUP				
	Target	Achievement			
	2012 \$000	2012 \$000	2011 \$000	2012 \$000	2011 \$000
		Inclusive of Discount	Exclusive of Discount	Inclusive of Discount	Exclusive of Discount
Operating Surplus Before Tax	15,774	13,367	19,217	8,105	12,972
Earnings Before Interest and Tax to Total Assets %	4.25%	3.55%	4.99%	2.93%	4.4%
Return on Equity %	3.45%	2.97%	4.78%	3.04%	4.89%
Equity to Total Assets %	77.06%	75.97%	77.41%	75.74%	77.22%

## Network Reliability Performance Measures

	Target	Achievement	
	2012 \$000	2012 \$000	2011 \$000
<b>System Average Interruption Duration Index (SAIDI)</b>			
The average total time in minutes each customer connected to the network is without supply.			
SAIDI	162.57	238.09	209.30
<b>System Average Interruption Frequency Index (SAIFI)</b>			
The average number of times each customer connected to the network is without supply.			
SAIFI	3.23	3.04	3.21

## Other Network Reliability Performance Measures

Total number of interruptions	1,346	1,485
Faults per 100km of line	7.07	7.20

## Supplementary Information

### Network Statistics

Length of overhead line	8,325 km	8,417 km
Length of underground cable	336 km	328 km
Transformer capacity MVA	385	378
Maximum demand kW	131,000	132,668
Energy into network GWh	748	721
Total consumers	34,559	34,477

# Statements of Financial Performance

For the year ended 31 March 2012

	Note	GROUP		PARENT	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
Operating Revenue	(2)	58,113	54,786	28,908	26,450
Other Income	(2)	6,354	5,894	4,552	4,629
Operating Expenses	(3)	(44,564)	(46,123)	(16,045)	(15,514)
Finance Costs	(3)	(1,057)	(1,862)	(1,013)	(1,826)
Share of Profit of Associates	(9)	371	277	-	-
<b>Operating Surplus Before Discount</b>		<b>19,217</b>	<b>12,972</b>	<b>16,402</b>	<b>13,739</b>
Discount to Consumers	(3)	(5,850)	(4,867)	(5,850)	(4,867)
<b>Operating Surplus Before Taxation</b>		<b>13,367</b>	<b>8,105</b>	<b>10,552</b>	<b>8,872</b>
<b>Taxation Expense</b>					
Current	(4)	(4,477)	(3,066)	(3,305)	(2,096)
Deferred	(4/18)	272	2,573	338	2,668
<b>Net Surplus After Taxation</b>		<b>9,162</b>	<b>7,612</b>	<b>7,585</b>	<b>9,444</b>

# Statements of Comprehensive Income

For the year ended 31 March 2012

<b>Net Surplus After Taxation</b>		<b>9,162</b>	<b>7,612</b>	<b>7,585</b>	<b>9,444</b>
Other Comprehensive Income					
- Impact of change of Tax Rate on Equity		-	750	-	641
- Asset Revaluation		48,562	3,805	48,562	-
<b>Other Comprehensive Income</b>		<b>48,562</b>	<b>4,555</b>	<b>48,562</b>	<b>641</b>
<b>Total Comprehensive Income</b>		<b>57,724</b>	<b>12,167</b>	<b>56,147</b>	<b>10,085</b>
Net Surplus Attributable to Minority Interests	(12)	(345)	(358)	-	-
<b>Net Surplus Attributable To Parent</b>		<b>57,379</b>	<b>11,809</b>	<b>56,147</b>	<b>10,085</b>

The accompanying notes on pages 17 to 45 form part of and should be read in conjunction with these financial statements.

# Statements of Changes in Equity

For the year ended 31 March 2012

	Note	GROUP		PARENT	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
<b>Total Comprehensive Income</b>					
Net Surplus for the Year comprising:					
Parent Interest		8,817	7,254	7,585	9,444
Minority Interest	(12)	345	358	-	-
Other Comprehensive Income		48,562	4,555	48,562	641
		<b>57,724</b>	<b>12,167</b>	<b>56,147</b>	<b>10,085</b>
<b>Contributions from Shareholders</b>					
Minority Interest Investment in Shares	(12)	314	-	-	-
<b>Distributions to Shareholders</b>					
Parent Interest		-	-	-	-
Minority Interest	(12)	(206)	(245)	-	-
		<b>57,832</b>	<b>11,922</b>	<b>56,147</b>	<b>10,085</b>
<b>Equity at Beginning of Year comprising:</b>					
Parent Interest		248,934	237,125	243,537	233,452
Minority Interest		1,391	1,278	-	-
		<b>250,325</b>	<b>238,403</b>	<b>243,537</b>	<b>233,452</b>
<b>Equity at End of Year comprising:</b>					
Parent Interest		306,313	248,934	299,684	243,537
Minority Interest	(12)	1,844	1,391	-	-
	(5)	<b>308,157</b>	<b>250,325</b>	<b>299,684</b>	<b>243,537</b>

The accompanying notes on pages 17 to 45 form part of and should be read in conjunction with these financial statements.

# Statements of Financial Position

As at 31 March 2012

	Note	GROUP		PARENT	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
<b>Equity</b>					
Share Capital	(5)	67,522	67,522	67,522	67,522
Asset Revaluation Reserve	(5)	79,988	31,555	76,074	27,641
Retained Earnings	(5)	158,803	149,857	156,088	148,374
Parent Equity		306,313	248,934	299,684	243,537
Minority Interest Equity	(12)	1,844	1,391	-	-
<b>Total Equity</b>	(5)	<b>308,157</b>	<b>250,325</b>	<b>299,684</b>	<b>243,537</b>
Represented By:					
<b>Current Assets</b>					
Cash and Cash Equivalents	(6)	2,695	2,391	65	1,070
Receivables and Prepayments	(7)	6,379	5,966	3,840	1,828
Inventories	(8)	608	515	-	-
Work in Progress		290	253	-	-
<b>Total Current Assets</b>		<b>9,972</b>	<b>9,125</b>	<b>3,905</b>	<b>2,898</b>
<b>Non Current Assets</b>					
Investments in Associates	(9)	5,332	5,181	864	3,114
Investments in Subsidiaries	(10)	-	-	34,875	29,907
Investments in Joint Ventures	(11)	-	-	5,320	5,800
Property, Plant and Equipment	(13)	375,373	308,438	337,432	270,929
Capital Work in Progress		13,825	6,633	9,984	5,929
Intangibles	(14)	1,118	1,105	-	1
<b>Total Non Current Assets</b>		<b>395,648</b>	<b>321,357</b>	<b>388,475</b>	<b>315,680</b>
<b>Total Assets</b>		<b>405,620</b>	<b>330,482</b>	<b>392,380</b>	<b>318,578</b>
<b>Current Liabilities</b>					
Creditors and Accruals	(15)	5,636	4,169	7,301	4,753
Employee Entitlements	(16)	1,156	1,109	-	-
Onerous Contract	(19)	499	493	499	493
Provision for Dividend		500	-	-	-
Interest Rate Swaps	(23)	162	78	162	78
Income Tax Payable		1,463	112	1,189	(49)
<b>Total Current Liabilities</b>		<b>9,416</b>	<b>5,961</b>	<b>9,151</b>	<b>5,275</b>
<b>Non Current Liabilities</b>					
Term Loans	(17)	13,116	18,040	12,406	17,329
Deferred Tax Liabilities	(18)	67,374	48,754	63,582	45,035
Onerous Contract	(19)	6,828	6,329	6,828	6,329
Interest Rate Swaps	(23)	729	1,073	729	1,073
<b>Total Non Current Liabilities</b>		<b>88,047</b>	<b>74,196</b>	<b>83,545</b>	<b>69,766</b>
<b>Total Liabilities</b>		<b>97,463</b>	<b>80,157</b>	<b>92,696</b>	<b>75,041</b>
<b>Net Assets</b>		<b>308,157</b>	<b>250,325</b>	<b>299,684</b>	<b>243,537</b>

The accompanying notes on pages 17 to 45 form part of and should be read in conjunction with these financial statements.

# Statements of Cash Flows

For the year ended 31 March 2012

	Note	GROUP		PARENT	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<b>Cash Was Provided From:</b>					
Receipts from Customers		58,442	55,778	24,239	23,705
Interest Received		363	177	532	391
Dividends Received		220	172	1,507	2,031
		59,025	56,127	26,278	26,127
<b>Cash Was Disbursed To:</b>					
Payments to Suppliers and Employees		26,676	29,375	293	4,916
GST Paid/(Received)		37	360	(204)	570
Income Tax Paid		3,119	3,243	2,067	2,210
Interest Paid		1,317	1,235	1,270	1,226
		31,149	34,213	3,426	8,922
<b>Net Cash Flows From Operating Activities</b>	(22)	<b>27,876</b>	<b>21,914</b>	<b>22,852</b>	<b>17,205</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
<b>Cash Was Provided From:</b>					
Property, Plant and Equipment Sales		133	143	87	53
		133	143	87	53
<b>Cash Was Applied To:</b>					
Property, Plant and Equipment Purchases		22,889	15,599	16,783	12,261
Investments in Associates, Subsidiaries		-	-	-	-
Advances to Associates, Joint Ventures and Subsidiaries		-	-	2,238	(490)
Goodwill		206	-	-	-
		23,095	15,599	19,021	11,771
<b>Net Cash Flows (Used in) Investing Activities</b>		<b>(22,962)</b>	<b>(15,456)</b>	<b>(18,934)</b>	<b>(11,718)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
<b>Cash Was Provided From:</b>					
Issue of Shares		314	-	-	-
		314	-	-	-
<b>Cash Was Applied To:</b>					
Dividend Paid		-	245	-	-
Term Loans		4,924	4,449	4,923	4,448
		4,924	4,694	4,923	4,448
<b>Net Cash Flows (Used in) Financing Activities</b>		<b>(4,610)</b>	<b>(4,694)</b>	<b>(4,923)</b>	<b>(4,448)</b>
Net Increase/(Decrease) in Cash and Cash Equivalents Held		304	1,764	(1,005)	1,039
Add Opening Cash Brought Forward		2,391	627	1,070	31
<b>Closing Cash and Cash Equivalents To Carry Forward</b>	(6)	<b>2,695</b>	<b>2,391</b>	<b>65</b>	<b>1,070</b>

The accompanying notes on pages 17 to 45 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 2012

## I. Statement of Accounting Policies

### Reporting Entity

The Parent Entity, The Power Company Limited, is a profit oriented limited liability company that was incorporated on 30 October 1990 and the address of its registered office is 251 Racecourse Road, Invercargill. The Company is wholly owned by a Consumer Trust (Southland Electric Power Supply Consumer Trust) and is registered under the Companies Act 1993. The Group consists of The Power Company Limited, its subsidiaries, and its interest in associates and jointly controlled entities 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 were approved by the Board of Directors on 28 June 2012.

### Basis of Preparation

These financial statements are presented in New Zealand dollars, rounded to the nearest thousand.

These financial statements have been prepared in accordance with the requirements of the Energy Companies Act 1992, the Companies Act 1993, and the Financial Reporting Act 1993. They follow New Zealand Generally Accepted Accounting Practice (NZ GAAP) and comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). These financial statements also comply with International Financial Reporting Standards.

These financial statements have been prepared on the basis of historical cost except for the revaluation of certain financial instruments as outlined in Note 23 and property, plant and equipment as outlined in Note 13.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### New Standards Adopted

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2011;

#### NZ IAS 24 – Related Party Disclosures and IFRS 7 – Financial Instruments: Disclosures

The above standards came into effect from January 2011. The Group is adhering to the new standards.

#### Standards or Interpretations not yet Effective

Various standards, amendments and interpretations have been issued by the External Reporting Board (XRB) but not yet adopted by The Power Company Limited as they are not yet effective.

#### NZ IFRS 9: Financial Instruments – Phase I: Classification and Measurement

NZ IFRS 9 Phase I was issued in November 2009 and is effective for the financial statements issued for the fiscal years beginning on or after 1 January 2015.

The new standard simplifies the classification criteria for financial assets, compared to the current requirements of NZ IAS 39, which results in a reduced number of categories of financial assets and some consequential amendments to disclosures required by NZ IAS 1 "Presentation of Financial Statements" and NZ IFRS 7 "Financial Instruments: Disclosures". The Company and Group's financial assets and liabilities currently fall into the category of "Loans" and "Receivables" within the NZ IAS 39 classification. If NZ IFRS 9 was adopted, these assets would fall into the definition of the category of "Financial assets and liabilities measured at amortised cost". However, their measurement and disclosure would not be affected. The Company and Group would not have any transactions to disclose under the NZ IAS 1 and NZ IFRS 7 disclosure requirements relating to gains or losses arising on derecognition of financial assets measured at amortised cost. This standard will be adopted when it is effective. There is no intention to adopt earlier.

#### Financial statement presentation – presentation of other comprehensive income (amendment to IAS 1)

This amendment is effective for the financial statements issued for the fiscal years beginning on or after 1 January 2014.

The amendment requires profit or loss and other comprehensive income (OCI) to be presented, either in a single continuous statement or in two separate but consecutive statements. There is little noticeable change from the current requirements. However, the format of the OCI section is required to be changed to separate items that might be recycled from items that will not be recycled. The changes do not effect the measurement of net profit or earnings per share; however, they change the way items of OCI are presented.

This amendment has minimal effect on the Company and Group as they currently have only one immaterial other comprehensive income transaction. This standard will be adopted when it is effective. There is no intention to adopt earlier.

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

## **NZ IFRS 10: Consolidated Financial Statements (amendment from May 2011)**

The amendment to NZ IFRS 10 from May 2011 is effective for the financial statements issued for the accounting periods beginning on or after 1 January 2013.

The amendment builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess.

Application of this standard is not expected to have a material effect on the entities consolidated in The Power Company Limited Group. This standard will be adopted when it is effective. There is no intention to adopt earlier.

## **NZ IFRS 13: Fair Value Measurement (amendment from May 2011)**

The amendment to NZ IFRS 13 from May 2011 is effective for the financial statements issued for the accounting periods beginning on or after 1 January 2013.

The standard provides guidance on how fair value should be applied where its use is already required or permitted by other standards within IFRS, including a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

Application of this standard is not expected to have a material effect on the Company or Group. This standard will be adopted when it is effective. There is no intention to adopt earlier.

## **Financial Reporting Standard No. 44 New Zealand Additional Disclosures (FRS-44) (approved April 2011)**

This standard was approved in April 2011 and is effective for the financial statements issued for the accounting periods beginning on or after 1 July 2011.

This standard sets out New Zealand-specific disclosures for entities that have adopted New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs). The Standard supports the objective of harmonising financial reporting standards in Australia and New Zealand.

Application of this standard is not expected to have a material impact on the Company and Group since the required disclosures are already included in these financial statements.

## **Amendments to New Zealand Equivalents to International Financial Reporting Standards to Harmonise with International Financial Reporting Standards and Australian Accounting Standards (Harmonisation Amendments) (approved April 2011)**

The Financial Reporting Standards Board (FRSB) issued the Harmonisation Amendments for the purpose of harmonising Australian and New Zealand Standards with source IFRSs to eliminate many of the differences between the Standards for profit-oriented entities applying IFRSs as adopted in Australia and New Zealand. The standard is effective for annual periods beginning on or after 1 July 2011.

It is likely that changes arising from the Harmonisation Amendments will effect the disclosure requirements of the Group financial statements.

## **IAS 28: Investments in associates and joint ventures**

This amendment to IAS 28 is effective for the financial statements issued for the accounting periods beginning on or after 1 January 2013.

Amendments to IAS 28 provide clarification that an entity continues to apply the equity method and does not re-measure its retained interest as part of ownership changes where a joint venture becomes an associate and vice versa. The amendment also introduces a "partial disposal" concept. This amendment is expected to have a minimal effect on the Company and Group as they currently do not expect to have any changes in ownership.

## **IFRS 11 Joint Ventures**

The new standard is effective for the financial statements issued for the accounting periods beginning on or after 1 January 2013.

A distinction has been made between joint ventures and joint operations. The proposals require the accounting to reflect the contractual rights and obligations agreed by the parties. Therefore, a venture recognises the individual assets to which it has rights and the liabilities for which it is responsible regardless of the legal form of the joint arrangement. If a venture only has a right to a share of the outcome of the activities of the joint arrangement (that is, a joint venture), this interest is recognised using the equity method. The option to apply the proportional consolidation method when accounting for jointly controlled entities has been removed.

Accounting for joint arrangements is not driven by the legal form in which the activities take place. The accounting that applies to a joint arrangement in certain circumstances is similar to the accounting that might have applied using proportionate consolidation under the current IAS 31.

The new standard is expected to have a large impact on the Company and Group as they have joint venture arrangements that are accounted for using the proportional consolidation method. As at the issue date of these financial statements the extent of these changes are unknown.

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

## **Use of Estimates and Judgements**

The preparation of financial statements to conform to NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances.

In particular estimates and assumptions have been used in the following areas:

- Property, Plant and Equipment
- Value of Donated Assets
- Employee Benefits
- Recoverable Amount from Cash Generating Units

In the process of applying the Group's accounting policies, management has made the following judgements, estimates and assumptions that have the most significant impact on the amounts recognised in these financial statements.

The Group operates extensive integrated electricity distribution networks comprising large numbers of relatively minor individual network asset components. These components are replaced over time as part of an ongoing maintenance/refurbishment programme, consistent with the Group's approved network asset management plans. The costs associated with recording and tracking all individual components replaced and removed from the networks substantially outweigh the benefits of doing so. Management has estimated the quantities and the carrying values of components removed from the networks in each reporting period. Any errors in the estimates of such removals are corrected at the next asset revaluation, and are not considered to be material on either an annual or a cumulative basis with respect to either reported net surpluses or carrying values of the networks.

Every five years, the company obtains a valuation of their electricity distribution network, determined by independent valuers, in accordance with their accounting policy. The valuation of the Company's electricity distribution network was performed as at 31 March 2012. The best evidence of fair value is discounted cash flow methodology. The major presumptions used include discount rate, growth rate and future cash flows. Changes in future cash flows arising from changes in regulatory review may result in the fair value of the electricity distribution network being different from previous estimates.

The Group enters into arrangements with customers to purchase new network assets at below current replacement costs. Management has estimated the difference between the cash costs and the replacement costs of these assets and the differences are reported within revenue. Any errors in estimating the carrying values of these assets are corrected at the next asset revaluation and are not considered to be material on either an annual or a cumulative basis with respect to either reported net profits or carrying values of the network.

The Group invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of an estimation of usage, adjusted for the latest wash-up data available from the electricity wholesale market and certain metering data from electricity retailers. Management has made an allowance in revenue and in current assets/liabilities for any amounts which are estimated to be under/over charged during the reporting period. However, as final wash-up metering data is not available for in excess of twelve months, it is possible the final amounts payable or receivable may vary from that calculated.

Other areas where judgement has been exercised in preparing these financial statements are in relation to calculating the recoverable amounts from Cash Generating Units and the amounts of employee entitlements.

## Specific Accounting Policies

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

### (a) Principles of Consolidation

#### (i) Subsidiaries

Subsidiaries are all entities over which the Group has the power directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the difference is credited to the Profit and Loss in the period of acquisition. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

Minority interests in the results and equity of subsidiaries are shown separately in the Profit and Loss and Balance Sheet.

#### (ii) Associates

Associates are those entities over which the Group has significant influence, but not control, over the financial and operating policies. The financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

#### (iii) Joint Ventures

Joint Ventures are those entities over which the Group has joint control established by contractual agreement. The financial statements include the Group's proportionate share of the joint venture entities' assets, liabilities, revenues and expenses with items of a similar nature on a line by line basis, from the date that joint control commences to the date that joint control ceases.

#### (iv) Transactions eliminated on consolidation

All significant inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

#### (v) Parent Investments

Investments in subsidiaries, associates and joint ventures are accounted for at cost in the Parent financial statements.

### (b) Revenue

Revenue is measured at the fair value of the consideration given for the sale of goods and services, net of Goods and Services Tax. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer; recovery of the consideration is probable, the associated costs and possible return of the goods can be estimated reliably and there is no continuing management involvement with the goods.

#### (i) Network Charges

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

#### (ii) Customer Contributions

Contributions from customers in relation to the construction of new lines for the network and donated assets are accounted for as revenue in the year in which they are received.

#### (iii) Government Grants

Government grants that compensate the Group for the cost of an asset are recognised initially in the Balance Sheet as deferred income and then recognised in the Profit and Loss as other operating income on a systematic basis over the useful life of the asset.

#### (iv) Financial Income

Financial income comprises interest income on funds invested, dividend income and changes in the fair value of financial assets through the Profit and Loss. Interest income is recognised as it accrues, using the effective income method. Dividend income is recognised on the date the Group's right to receive payment is established.

### (c) Finance Costs

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets through the Profit and Loss and impairment losses recognised on financial assets (except for trade receivables). All borrowing costs are recognised in the Profit and Loss using the effective interest method, unless they are directly related to the construction of a qualifying asset, when they are capitalised.

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

## (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) Property, Plant and Equipment

All property, plant and equipment is recognised at cost less accumulated depreciation and impairment losses. 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 attributable costs including borrowing costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The deemed value of property, plant and equipment at 1 April 2006, the date of transition to NZ IFRS, was determined by reference to its fair value at that date.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item if, when that cost is incurred, it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the Profit and Loss as an expense as incurred.

The electricity distribution network is valued at fair value. Fair value is determined on the basis of a periodic valuation at a maximum of every five years, based on discounted cash flow methodology. The fair values are recognised in the financial statements of the Group and are reviewed at the end of each reporting period to ensure that the carrying amount of the distribution network is not materially different from its fair value.

Any revaluation increase arising on the revaluation of assets is credited to the Asset Revaluation Reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in the Profit and Loss, in which case the increase is credited to the Profit and Loss to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation is charged as an expense in the Profit and Loss to the extent that it exceeds the balance, if any, held in the Asset Revaluation Reserve relating to a previous revaluation of that asset.

When a revalued asset is sold or retired the attributable revaluation surplus remaining in the Asset Revaluation Reserve, net of any related deferred taxes, is transferred directly to Retained Earnings.

## Easements

Easements obtained in relation to access, construction and maintenance of network assets are capitalised. Such easements represent a right in perpetuity and are not depreciated.

## (f) Depreciation

Depreciation is charged to the Profit and Loss on a combination of straight line and diminishing value bases on all property, plant and equipment with the exception of land, at rates calculated to allocate the assets' fair value, less any residual value, over their 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 and Office Equipment	7.0-80.4%	Straight line/Diminishing value
Motor Vehicles	9.6-36.0%	Straight line

## (g) Impairment

At each reporting date the Group reviews the carrying amounts of its assets and assesses them for indications of impairment. If indications of impairment exist, then the assets' recoverable amounts are estimated in order to determine the extent of the impairment. The recoverable amounts are the higher of fair value (less costs to sell) and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects the market assessments of the time value of money and the risks specific to the assets involved. If the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down to its recoverable amount and an impairment loss is recognised in the Profit and Loss, except to the extent that the impairment loss reverses a previous revaluation increase for that asset to the extent of that revaluation increase. When the asset does not generate cash flows independent of other assets, the cash generating unit (CGU) to which the asset belongs is tested for impairment.

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. Any impairment of goodwill can not subsequently be reversed.



# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

## (h) Capital Work in Progress

Capital Work in Progress is stated at cost and is not depreciated. It includes an accrual for the proportion of work completed at the end of the period.

## (i) Intangible Assets

### (i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill (if it exists) has been recognised in the acquisitions of subsidiaries, associates and joint ventures. In respect of business acquisitions since 1 April 2006, Goodwill represents the difference between the cost of the acquisition and the fair value of the net assets acquired.

In respect of acquisitions prior to this date, Goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous NZ GAAP at the transition date. The classification and accounting treatment of business combinations that occurred prior to transition have not been reconsidered in preparing the Group's opening NZ IFRS Balance Sheet as at 1 April 2006.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to CGUs and is no longer amortised but tested annually for impairment. In respect of Associates, the carrying amount of Goodwill is included in the carrying amount of the investment in the associate.

Negative Goodwill arising on an acquisition is recognised directly in the Profit and Loss. Impairment relating to Goodwill is not able to be reversed.

### (ii) Computer Software

Under NZ IFRS computer software is classified as an intangible asset and amortised on a straight line/diminishing value basis over its estimated useful life.

### (iii) Research and Development

Research costs are expensed in the year in which they are incurred. Development costs are capitalised to the extent that future benefits (exceeding the costs) are expected to accrue.

### (iv) Amortisation

Amortisation is charged to the Profit and Loss on a straight line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated amortisation rates for current and comparative periods are as follows:

Software	12.5-48%	Straight line/Diminishing value
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## (j) Goods and Services Tax (GST)

All amounts in the financial statements are shown exclusive of GST, with the exception of receivables and payables which are shown inclusive of GST.

## (k) Taxation

Income tax on the profit or loss for the period presented comprises current tax and additional or reversed deferred tax. Income tax is recognised in the Profit and Loss except to the extent that it relates to items recognised directly in Equity, in which case it is recognised in Equity.

Current tax is the expected tax payable on the taxable income for the year; using tax rates enacted or substantially enacted at Balance Sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised using the Balance Sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxation profit or loss.

Deferred tax is recorded using tax rates enacted or substantially enacted at the Balance Sheet date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

**(l) 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 in the periods when they are incurred.

**(m) Employee Entitlements**

Provision is made for benefits accruing to employees in respect of salaries and wages, annual leave and long service leave when it is probable that they will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected at the time of settlement.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to balance date.

**(n) Seasonality**

The Group's revenues and profits are generally evenly distributed throughout the year hence the results are not subject to seasonality.

**(o) Financial Assets**

Where applicable the Group classifies its investments in the following categories:

Financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

**(i) Financial Assets at Fair Value through Profit or Loss**

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designated as hedges.

**(ii) Loans and Receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the Balance Sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the Balance Sheet.

**(iii) Held-to-Maturity Investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity.

**(iv) Available-for-Sale Financial Assets**

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the Balance Sheet date.

Available-for-sale financial assets and financial assets at fair value through profit and Loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the Profit and Loss within Other Income or Other Expenses in the period in which they arise.

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

## (p) Financial Instruments

### (i) Derivative Financial Instruments

The Group enters into interest rate swaps. These transactions are undertaken within board approved policies and limits for the primary purpose of managing exposure to fluctuations in interest rates arising from financing activities. While these financial instruments are subject to the risk that market rates may change subsequent to the acquisition of the financial instrument, such changes would generally be offset by opposite effects on the items being hedged. The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

The Group has not designated any derivatives as hedges. Derivatives are initially recognised at fair value on the date the derivative is entered into. Subsequent to any initial recognition derivatives are revalued to their fair value at each reporting date. The resulting gain or loss is recognised in the Profit and Loss.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the Balance Sheet date, taking into account current interest rates and the credit worthiness of the swap counterparties.

### (ii) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant amount of risk of changes in value.

### (iii) Trade and Other Payables

Trade and other payables are stated at fair value.

### (iv) Receivables

Trade and other receivables are recognised initially at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

### (v) Borrowings

Borrowings are recognised initially at fair value, net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Profit and Loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability at least 12 months after balance date.

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
<b>2. Income</b>				
Operating Revenue				
- Network Charges	58,113	54,786	28,908	26,450
Other Income				
- Interest Revenue	363	199	564	394
- Dividends Received	-	-	1,507	2,031
- Capital Contributions	2,672	2,373	2,390	2,116
- Other Revenue	3,319	3,322	91	88
<b>Total Income</b>	<b>64,467</b>	<b>60,680</b>	<b>33,460</b>	<b>31,079</b>

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
<b>3. Expenses</b>				
<i>Expenses Include:</i>				
Amortisation of Intangibles	218	217	1	9
Auditor Remuneration				
- Audit of Financial Report				
- PricewaterhouseCoopers	62	61	28	28
- Deloitte	7	8	-	-
- Other Services				
- PricewaterhouseCoopers	30	8	15	(1)
- Deloitte	7	2	-	-
Bad Debts Written Off	10	11	-	-
Depreciation				
- Buildings	52	48	11	11
- Plant and Office Equipment	429	447	2	2
- Motor Vehicles	346	383	-	-
- Metering Assets	306	330	306	330
- Network Assets	13,833	13,659	12,190	12,047
Total Depreciation	14,966	14,867	12,509	12,390
Directors' Fees	294	248	120	100
Discount to Consumers	5,850	4,867	5,850	4,867
Donations	2	15	-	-
Employee Benefit Expenses	8,157	8,103	-	-
Goodwill Write Off	-	3,014	-	-
Interest Expense	1,018	1,570	974	1,533
Loss/(Gain) on Hedging	39	292	39	292
Loss/(Gain) on Onerous Contract	505	587	505	587
Loss on Disposal of Property, Plant and Equipment	1,097	655	1,068	614
Network Costs	2,746	2,130	250	192
Operating Lease Expenses				
- Tenancy and Repeater Site Leases	146	127	-	-
- Motor Vehicle Leases	147	145	-	-
- Office Equipment Leases	38	41	-	-
- Transpower Leases	328	335	-	-
Total Operating Lease Expenses	659	648	-	-
Scholarships and Awards	7	4	-	-
Subvention Payment	294	222	-	-
Transmission Costs	11,936	11,706	-	-

The level of discount, if any, is determined by the Directors after considering the forecast operating surplus, capital expenditure, level of debt and other future commitments of the Company.

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

## 4. Taxation

### Current Tax

Current tax expense is the expected tax payable on the taxable income for the year:

Current tax for the current and prior periods is classified as a current liability to the extent that it is unpaid. Amounts paid in excess of amounts owed are classified as a current asset.

### Deferred Tax

Deferred tax expense arises from the origination and reversal of temporary differences.

	Note	GROUP		PARENT	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
<b>Operating Surplus Before Income Taxation</b>		13,367	8,105	10,552	8,872
Income Not Taxable					
- Exempt Dividends Received		-	-	(1,507)	(2,031)
- Goodwill Writeoff		-	3,014	-	-
- Capital Contributions		-	(294)	-	(288)
- Equity Accounted Earnings of Associates		(371)	(277)	-	-
- Other		(38)	(2)	(8)	(10)
Loss Offsets		-	-	-	-
Expenses Not Deductible		-	-	-	-
<b>Taxable Income</b>		<b>12,958</b>	<b>10,546</b>	<b>9,037</b>	<b>6,543</b>
Prima Facie Taxation at 28% (prior years 30%)		3,628	3,164	2,530	1,963
Made up of:					
Current Tax		3,983	3,030	2,948	2,052
Deferred Tax	(18)	(355)	134	(418)	(89)
		3,628	3,164	2,530	1,963
Under/(Over) Provisions in Prior Years		577	10	437	44
Effect of Change in Tax Rate	(18)	-	(2,681)	-	(2,579)
<b>Taxation Expense/(Benefit) for Year</b>		<b>4,205</b>	<b>493</b>	<b>2,967</b>	<b>(572)</b>
<b>Effective Tax Rate</b>		<b>31%</b>	<b>6.1%</b>	<b>28%</b>	<b>(6.4%)</b>

A change in the company tax rate from 30% to 28%, effective 1 April 2011 has been accounted for as a decrease of \$2,681,000 (Parent: \$2,579,000) in the taxation expense for the 2011 year.

	PARENT	
	2012 \$000	2011 \$000
<b>Imputation Credit Account</b>		
Credit Balance at Beginning of Year	8,017	4,937
<b>Credits:</b>		
Income Tax Payments	2,320	2,210
Imputation Credits on Dividends Received	586	870
Withholding Tax on Dividends Received	-	-
<b>Debits:</b>		
Income Tax Refunds	(253)	-
Imputation Credits on Dividends Paid	-	-
<b>Credit Balance at End of Year</b>	<b>10,670</b>	<b>8,017</b>

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

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

## 5. Equity

The authorised and issued share capital comprises 67,522,000 (Group) and 67,522,000 (Parent) ordinary shares which are fully paid up and are not subject to a par value. All shares have the same rights and privileges.

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
<b>Share Capital</b>	<b>67,522</b>	<b>67,522</b>	<b>67,522</b>	<b>67,522</b>
<b>Minority Interest Share Capital</b>	<b>1,049</b>	<b>735</b>	<b>-</b>	<b>-</b>
<b>Asset Revaluation Reserve</b>				
Opening Balance	31,555	26,925	27,641	26,925
Revaluation	48,562	3,805	48,562	-
Effect of Change in Tax Rate	-	884	-	775
Revaluation Write Downs due to Asset Disposal	(129)	(59)	(129)	(59)
<b>Closing Balance</b>	<b>79,988</b>	<b>31,555</b>	<b>76,074</b>	<b>27,641</b>
<b>Retained Earnings</b>				
Opening Balance	150,513	143,221	148,374	139,005
Net Surplus for the Year	9,162	7,612	7,585	9,444
Dividend Declared	(206)	(245)	-	-
Revaluation Write Downs due to Asset Disposal	129	59	129	59
Effect of Change in Tax Rate	-	(134)	-	(134)
<b>Closing Balance</b>	<b>159,598</b>	<b>150,513</b>	<b>156,088</b>	<b>148,374</b>
<b>Total Equity</b>	<b>308,157</b>	<b>250,325</b>	<b>299,684</b>	<b>243,537</b>

## 6. Cash and Cash Equivalents

Current Account	286	56	65	57
Short Term Bank Deposits	2,409	2,335	-	1,013
<b>Total Cash and Cash Equivalents</b>	<b>2,695</b>	<b>2,391</b>	<b>65</b>	<b>1,070</b>

## 7. Receivables and Prepayments

Trade Debtors	6,053	5,694	3,783	1,629
GST Receivable	9	-	19	168
Prepayments	317	272	38	31
<b>Total Receivables and Prepayments</b>	<b>6,379</b>	<b>5,966</b>	<b>3,840</b>	<b>1,828</b>

Trade and other receivables are stated at their cost less any impairment losses. The carrying amounts of the Group's receivables are reviewed at each Balance Sheet date to determine whether there is any indication of impairment. If any indication exists, the receivable's recoverable amount is estimated.

At balance date 4% of the Group's trade receivables (Parent: 0%) were 30-90 days passed due, 4% of the Group's trade receivables (Parent: 0%) were > 90 days passed due. As most of these amounts are expected to be recovered, no provision for impairment has been created.

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
8. Inventories				
Network Spares and Sundry Network Consumables	608	515	-	-

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

## 9. Investments in Associates

Associate Companies	Country of Incorporation	Percentage Held By Group		Balance Date
		2012	2011	
Electricity Southland Ltd	New Zealand	50%	50%	31 March
Otago Power Services Ltd	New Zealand	24.5%	24.5%	31 March

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Interests in associate entities are as follows:				
Carrying Amount at Beginning of Year	5,181	5,075	3,114	3,114
Dividends from Associates	(220)	(171)	-	-
Share of Equity Accounted Earnings of Associates	371	277	-	-
Increase/(Decrease) in Advances to Associates	(2,250)	-	(2,250)	-
Investment in Shares in Associates	2,250	-	-	-
<b>Carrying Amount at End of Year</b>	<b>5,332</b>	<b>5,181</b>	<b>864</b>	<b>3,114</b>

The Parent's advances to associates of \$864,000 (31 March 2011: \$3,114,000) are repayable on demand but with a 13 month notice period. The advances incur interest at 2% above the 90 day bank bill rate.

	GROUP	
	2012 \$000	2011 \$000
The Group's share of the results of its associate entities is as follows:		
Share of Surplus before Taxation	536	530
Less Taxation Expense	(165)	(253)
<b>Total Recognised Revenues and Expenses of Associates After Tax</b>	<b>371</b>	<b>277</b>

Summary financial information for equity accounted associates, not adjusted to percentage ownership held by the Group is as follows:

	GROUP	
	2012 \$000	2011 \$000
Revenue	12,717	11,998
Less Expenses	(11,393)	(10,838)
<b>Net Profit/(Loss)</b>	<b>1,324</b>	<b>1,160</b>
Current Assets	3,147	2,996
Non Current Assets	12,395	11,849
Current Liabilities	(1,907)	(1,964)
Non Current Liabilities	(2,500)	(6,671)



# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

## 10. Investments in Subsidiaries

Subsidiary Companies	Country of Incorporation	Percentage Held By Group 2012	Percentage Held By Group 2011	Balance Date
Last Tango Limited	New Zealand	100%	100%	31 March
Power Services Limited	New Zealand	51%	51%	31 March
Peak Power Services Limited	New Zealand	26%	0%	31 March

On 21 February 2012 Power Services Limited, a subsidiary of the Group, purchased a 51% shareholding in Peak Power Services Limited. As the Group has a 51% shareholding in Power Services Limited, the Group is deemed to have control over Peak Power Services Limited, therefore accounts for it as a subsidiary.

	PARENT	
	2012 \$000	2011 \$000
Investment in Shares in Subsidiaries	28,075	28,075
Advances to Subsidiaries	6,800	1,832
<b>Total Investments in Subsidiaries</b>	<b>34,875</b>	<b>29,907</b>

The Parent's advance to Last Tango Limited of \$3,161,000 (31 March 2011: \$1,093,000) is repayable on demand but with a 13 month notice period and does not incur any interest.

The Parent's advance to Power Services Limited of \$2,739,000 (31 March 2011: \$739,000) is repayable on demand but with a 13 month notice period and incurs interest at 2.00% above the 90 day bank bill rate.

The Parent's advance to Peak Power Services Limited of \$900,000 is repayable on demand and incurs interest at 2.50% above the 90 day bank bill rate.

## 11. Investments in Joint Ventures

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

Joint Ventures	Country of Residence	Percentage Held By Group 2012	Percentage Held By Group 2011	Balance Date
PowerNet Limited	New Zealand	50%	50%	31 March
OtagoNet Joint Venture	New Zealand	24.5%	24.5%	31 March

	GROUP	
	2012 \$000	2011 \$000
<b>Financial Performance</b>		
The Group's share of operating revenues and expenses for the year, consolidated on a line-by-line basis was:		
Revenue	53,798	51,448
Expenses	(27,830)	(29,955)

### Financial Position

The Group's share of assets and liabilities consolidated on a line-by-line basis was:

Current Assets	6,208	5,925
Non Current Assets	36,767	36,330
Current Liabilities	(5,717)	(4,785)
Non Current Liabilities	(98)	(144)
<b>Net Assets Employed in Joint Venture</b>	<b>37,160</b>	<b>37,326</b>

The Parent's advances to joint ventures of \$5,320,000 (31 March 2011: \$5,800,000) are repayable on demand but with a 13 month notice period. The advances incur interest at 2.00% above the 90 day bank bill rate.

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

	GROUP	
	2012 \$000	2011 \$000
Opening Balance	1,391	1,278
Minority Interest Dividends	(206)	(245)
Minority Interest Share of Net Surplus	345	358
Minority Interest Investment in Shares	314	-
<b>Closing Balance</b>	<b>1,844</b>	<b>1,391</b>

The Minority Interest relates to Power Services Limited and to Peak Power Services Limited. (see also Note 10).

## 13. Property, Plant and Equipment

	GROUP						
	Land \$000	Buildings \$000	Plant and Office Equipment \$000	Motor Vehicles \$000	Network Assets \$000	Meters \$000	Total \$000
<b>Cost or Valuation</b>							
Balance at 1 April 2010	306	1,261	2,870	2,590	335,981	4,025	347,033
Revaluation	-	-	-	-	930	-	930
Additions	8	136	553	474	14,038	371	15,580
Disposals	-	-	(278)	(174)	(838)	-	(1,290)
<b>Balance at 31 March 2011</b>	<b>314</b>	<b>1,397</b>	<b>3,145</b>	<b>2,890</b>	<b>350,111</b>	<b>4,396</b>	<b>362,253</b>
Balance at 1 April 2011	314	1,397	3,145	2,890	350,111	4,396	362,253
Additions	-	7	695	611	14,152	221	15,686
Revaluation	-	-	-	-	8,215	-	8,215
Disposals	-	(8)	(6)	(106)	(1,674)	-	(1,794)
<b>Balance at 31 March 2012</b>	<b>314</b>	<b>1,396</b>	<b>3,834</b>	<b>3,395</b>	<b>370,804</b>	<b>4,617</b>	<b>384,360</b>
<b>Depreciation and Impairment Losses</b>							
Balance at 1 April 2010	-	151	1,238	990	40,107	1,473	43,959
Effect of Revaluation	-	-	-	-	(4,506)	-	(4,506)
Depreciation for Year	-	48	447	383	13,659	330	14,867
Disposals	-	-	(258)	(116)	(131)	-	(505)
<b>Balance at 31 March 2011</b>	<b>-</b>	<b>199</b>	<b>1,427</b>	<b>1,257</b>	<b>49,129</b>	<b>1,803</b>	<b>53,815</b>
Balance at 1 April 2011	-	199	1,427	1,257	49,129	1,803	53,815
Depreciation for Year	-	52	429	346	13,833	306	14,966
Effect of Revaluation	-	-	-	-	(59,233)	-	(59,233)
Disposals	-	-	(4)	(69)	(488)	-	(561)
<b>Balance at 31 March 2012</b>	<b>-</b>	<b>251</b>	<b>1,852</b>	<b>1,534</b>	<b>3,241</b>	<b>2,109</b>	<b>8,987</b>
<b>Carrying Amount/Book Value</b>							
<b>Book Value 31 March 2011</b>	<b>314</b>	<b>1,198</b>	<b>1,718</b>	<b>1,633</b>	<b>300,982</b>	<b>2,593</b>	<b>308,438</b>
<b>Book Value 31 March 2012</b>	<b>314</b>	<b>1,145</b>	<b>1,982</b>	<b>1,861</b>	<b>367,563</b>	<b>2,508</b>	<b>375,373</b>

Carrying amounts of property, plant and equipment had they been recognised under the cost model:

31 March 2011	314	1,198	1,718	1,633	252,457	2,593	259,913
31 March 2012	314	1,145	1,982	1,861	251,590	2,508	259,400

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

	PARENT					
	Land \$000	Buildings \$000	Plant and Office Equipment \$000	Network Assets \$000	Meters \$000	Total \$000
<b>Cost or Valuation</b>						
Balance at 1 April 2010	202	490	18	303,831	4,025	308,566
Additions	-	3	3	12,154	371	12,531
Disposals	-	-	-	(798)	-	(798)
<b>Balance at 31 March 2011</b>	<b>202</b>	<b>493</b>	<b>21</b>	<b>315,187</b>	<b>4,396</b>	<b>320,299</b>
Balance at 1 April 2011	202	493	21	315,187	4,396	320,299
Additions	-	-	-	12,505	221	12,726
Revaluation	-	-	-	8,215	-	8,215
Disposals	-	-	-	(1,636)	-	(1,636)
<b>Balance at 31 March 2012</b>	<b>202</b>	<b>493</b>	<b>21</b>	<b>334,271</b>	<b>4,617</b>	<b>339,604</b>
<b>Depreciation and Impairment Losses</b>						
Balance at 1 April 2010	-	29	8	35,601	1,473	37,111
Depreciation for year	-	11	2	12,047	330	12,390
Disposals	-	-	-	(131)	-	(131)
<b>Balance at 31 March 2011</b>	<b>-</b>	<b>40</b>	<b>10</b>	<b>47,517</b>	<b>1,803</b>	<b>49,370</b>
Balance at 1 April 2011	-	40	10	47,517	1,803	49,370
Depreciation for year	-	11	2	12,190	306	12,509
Effect of Revaluation	-	-	-	(59,233)	-	(59,233)
Disposals	-	-	-	(474)	-	(474)
<b>Balance at 31 March 2012</b>	<b>-</b>	<b>51</b>	<b>12</b>	<b>-</b>	<b>2,109</b>	<b>2,172</b>
<b>Carrying Amount/Book Value</b>						
<b>Book Value 31 March 2011</b>	<b>202</b>	<b>453</b>	<b>11</b>	<b>267,670</b>	<b>2,593</b>	<b>270,929</b>
<b>Book Value 31 March 2012</b>	<b>202</b>	<b>442</b>	<b>9</b>	<b>334,271</b>	<b>2,508</b>	<b>337,432</b>

Carrying amounts of property, plant and equipment had they been recognised under the cost model:

31 March 2011	202	453	11	228,746	2,593	232,005
31 March 2012	202	442	9	227,899	2,508	231,060

## Deemed Cost

The carrying amount of property, plant and equipment at 1 April 2006, the date of transition to NZ IFRS is now taken as the deemed cost of the property, plant and equipment at that date.

## Valuation

The network assets of The Power Company Limited were revalued to fair value using discounted cash flow methodology on 31 March 2012 by Ernst & Young who are an independent valuer. This resulted in a revaluation movement of \$67,447,000.

The following valuation assumptions were adopted;

- The free cash flows is based on the company's five year business plan and asset management plan adjusted for non-recurring or non-arms length transactions and for transactions that arise from expansionary growth in the network after the date of the valuation.
- The corporate tax rate used is 28%.
- The weighted average cost of capital (WACC) used is 7.5%.
- The sustainable growth adjustment used is 0.5%.

The network assets of OtagoNet Joint Venture were revalued on 1 April 2010 by Sinclair Knight Merz (SKM) to depreciated replacement cost and were reviewed for impairment (in conjunction with Goodwill) by Ernst & Young. This resulted in the Group recording a revaluation movement of \$5,436,000, and Goodwill being impaired to Nil.

## Acquisitions and Disposals

The Power Company Limited network assets acquired between 1 April 2004 and 31 March 2006 (pre transition to NZ IFRS) are stated at deemed cost, with all network assets acquired since that date stated at purchase cost. Disposals are written back against the asset cost with any necessary adjustments to Accumulated Depreciation and the Asset Revaluation Reserve.

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

## 14. Intangibles

	GROUP		
	Computer Software \$000	Goodwill \$000	Total \$000
<b>Cost</b>			
Balance at 1 April 2010	1,720	3,295	5,015
Additions	35	-	35
Disposals	(32)	-	(32)
<b>Balance at 31 March 2011</b>	<b>1,723</b>	<b>3,295</b>	<b>5,018</b>
Balance at 1 April 2011	1,723	3,295	5,018
Additions	24	206	230
Disposals	-	-	-
<b>Balance at 31 March 2012</b>	<b>1,747</b>	<b>3,501</b>	<b>5,248</b>
<b>Amortisation and Impairment</b>			
Balance at 1 April 2010	714	-	714
Amortisation for Year	217	-	217
Disposals	(32)	-	(32)
Impairment	-	3,014	3,014
<b>Balance at 31 March 2011</b>	<b>899</b>	<b>3,014</b>	<b>3,913</b>
Balance at 1 April 2011	899	3,014	3,913
Amortisation for Year	217	-	217
Disposals	-	-	-
<b>Balance at 31 March 2012</b>	<b>1,116</b>	<b>3,014</b>	<b>4,130</b>
<b>Carrying Amount/Book Value</b>			
<b>Book Value at 31 March 2011</b>	<b>824</b>	<b>281</b>	<b>1,105</b>
<b>Book Value at 31 March 2012</b>	<b>631</b>	<b>487</b>	<b>1,118</b>

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

	PARENT		
	Computer Software \$000	Goodwill \$000	Total \$000
<b>Cost</b>			
Balance at 1 April 2010	29	-	29
Additions	-	-	-
Disposals	-	-	-
<b>Balance at 31 March 2011</b>	<b>29</b>	<b>-</b>	<b>29</b>
Balance at 1 April 2011	29	-	29
Additions	-	-	-
Disposals	-	-	-
<b>Balance at 1 March 2012</b>	<b>29</b>	<b>-</b>	<b>29</b>
<b>Amortisation and Impairment</b>			
Balance at 1 April 2010	19	-	19
Amortisation for Year	9	-	9
Disposals	-	-	-
<b>Balance at 31 March 2011</b>	<b>28</b>	<b>-</b>	<b>28</b>
Balance at 1 April 2011	28	-	28
Amortisation for Year	1	-	1
Disposals	-	-	-
<b>Balance at 31 March 2012</b>	<b>29</b>	<b>-</b>	<b>29</b>
<b>Carrying Amount/Book Value</b>			
<b>Book Value at 31 March 2011</b>	<b>1</b>	<b>-</b>	<b>1</b>
<b>Book Value at 31 March 2012</b>	<b>-</b>	<b>-</b>	<b>-</b>

Software assets have a finite useful life and are amortised over that useful life of 3-8 years.

Goodwill, in respect of acquisitions made prior to transition date, is stated at deemed cost being the amount recorded under NZ IFRS at transition date. Goodwill additions since transition date have been stated at cost. Goodwill is not amortised but tested for impairment annually. Goodwill associated with the OtagoNet network assets was reviewed for impairment by Ernst & Young (E&Y) in conjunction with the 1 April 2010 network asset revaluation by Sinclair Knight Merz (SKM). SKM, relying on the review by E&Y, conclude that the Goodwill should be impaired to a Nil value.

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
<b>15. Creditors and Accruals</b>				
Trade Creditors	4,664	3,269	2,692	2,433
Accruals	972	701	4,609	2,320
GST Payable	-	199	-	-
<b>Total Creditors and Accruals</b>	<b>5,636</b>	<b>4,169</b>	<b>7,301</b>	<b>4,753</b>

## 16. Employee Entitlements

Balance at Beginning of Year	1,109	990	-	-
Additional Accrual	774	786	-	-
Amount Utilised	(727)	(667)	-	-
<b>Total Employee Entitlements</b>	<b>1,156</b>	<b>1,109</b>	<b>-</b>	<b>-</b>

Employee entitlements include accrued wages, bonuses, accrued holiday pay, and long service leave. Where settlement is expected to be greater than one year, the item(s) are discounted using the Group's weighted average cost of capital.

The Directors consider that the carrying amount of the employee entitlements approximates their fair value.

## 17. Term Loans

Multi Option Credit Facility	7,690	12,480	7,690	12,480
Advance – Southland Electric Power Supply Consumer Trust	4,716	4,850	4,716	4,849
Advance – Electricity Invercargill Limited	710	710	-	-
	<b>13,116</b>	<b>18,040</b>	<b>12,406</b>	<b>17,329</b>

### Multi Option Credit Facility

The Company has a Multi Option Credit Facility of \$15 million (31 March 2011: \$27 million) with Westpac New Zealand Limited. The facility has a revolving two year term and is extendable by one year by agreement between the Company and Westpac New Zealand Limited.

The 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 and subject to a Deed of Negative Pledge.

At balance date the Company had interest rate swaps on the above facilities which total \$12 million (31 March 2011: \$15 million) at interest rates between 5.77% and 7.60%, 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 at 7% and if demanded 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 is repayable on demand but with a 13 month notice period. Interest on the Advance is paid quarterly at 2.00% above the 90 day bank bill rate.

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

	Note	GROUP		PARENT	
		2012 \$000	2011 \$000	2012 \$000	2011 \$000
<b>18. Deferred Tax Liabilities</b>					
Opening Balance		48,754	50,446	45,035	48,344
Charged to Profit and Loss	(4)				
- Temporary Difference Reversals					
Depreciation		(835)	164	(836)	155
- Temporary Difference Reversals					
Other		563	(56)	498	(244)
- Change in Company Tax Rate		-	(2,681)	-	(2,579)
Charged to Equity					
- Revaluation Adjustment		18,885	1,631	18,885	-
- Change in Company Tax Rate		-	(750)	-	(641)
- Other		7	-	-	-
<b>Total Deferred Tax Liabilities</b>		<b>67,374</b>	<b>48,754</b>	<b>63,582</b>	<b>45,035</b>

The primary component of the deferred tax balance is related to property, plant and equipment assets and software assets.

A change in the company tax rate from 30% to 28% effective from 1 April 2011 has been accounted for in a reduction in the deferred tax liability at 31 March 2011 of \$3,431,000 (Parent: \$3,220,000).

There is not expected to be any significant reversal of deferred taxation in the next 12 months.

## 19. Provision for Onerous Contract

Provision for Onerous Contract					
- Current Portion		499	493	499	493
- Non-current Portion		6,828	6,329	6,828	6,329
<b>Provision for Onerous Contract</b>		<b>7,327</b>	<b>6,822</b>	<b>7,327</b>	<b>6,822</b>

A liability had been recognised in relation to the Company's obligations under an onerous contract agreement. A provision of \$7,327,000 (2011: \$6,822,000) has been established for this onerous contract. Deferred Tax of \$2,052,000 (2011: \$2,046,600) has also been recognised in relation to this onerous contract.

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
<b>20. Commitments</b>				
<b>Operating Lease Commitments</b>				
Operating Lease Commitments are payable as follows:				
Not later than one year	480	604	-	-
Later than one year and not later than two years	398	475	-	-
Later than two years and not later than five years	1,026	638	-	-
Later than five years	4,503	5,029	-	-
<b>Total Operating Lease Commitments</b>	<b>6,407</b>	<b>6,746</b>	<b>-</b>	<b>-</b>

Operating leases consist of vehicle leases, office equipment leases, tenancy leases and Transpower leases.

## 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 but not provided for in the financial statements.

Capital Commitments	7,038	7,851	6,118	7,254
<b>Total Capital Commitments</b>	<b>7,038</b>	<b>7,851</b>	<b>6,118</b>	<b>7,254</b>

## 21. Contingent Liabilities

The Company has a contingent liability as at 31 March 2012 of \$825,849. (2011 - Nil). This liability relates to an agreement with Smart Co, for the Company to provide a subordinated loan to Smart Co once a number of terms have been met.



# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

## 22. 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 Profit and Loss and the Net Cash Flows From Operating Activities.

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
<b>Net Surplus After Taxation</b>	9,162	7,612	7,585	9,444
<b>Plus/(Less) Non Cash Items:</b>				
Depreciation	14,966	14,867	12,509	12,390
Amortisation of Intangibles	218	217	1	9
Deferred Taxation	(272)	(2,573)	(338)	(2,668)
Loss on Disposal of Property, Plant and Equipment	1,085	642	1,075	614
Interest Rate Swaps	(260)	292	(260)	292
Interest paid on SEPSCT loan	-	324	-	324
Onerous Contract	505	587	505	587
Share of Profit of Associates	151	(106)	-	-
Goodwill Impairment	-	3,014	-	-
	16,393	17,264	13,492	11,548
<b>Plus/(Less) Net Movements in Working Capital:</b>				
Creditors and Accruals	1,504	(2,954)	2,697	(3,576)
Receivables, Prepayments and Work in Progress	(441)	221	(2,160)	(97)
Inventories	(94)	(52)	-	-
Income Tax Payable	1,352	(177)	1,238	(114)
Investing Activities	-	-	-	-
	2,321	(2,962)	1,775	(3,787)
<b>Net Cash Flows From Operating Activities</b>	<b>27,876</b>	<b>21,914</b>	<b>22,852</b>	<b>17,205</b>

**23. Financial Instruments**

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

**Credit Risk**

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and short-term investments and trade receivables. Cash and short-term investments are placed with banks with high credit ratings assigned by international credit-rating agencies, or other high credit quality financial institutions.

The Group manages its exposure to credit risk from trade receivables by performing credit evaluations on all customers requiring credit whenever possible, and continuously monitoring the outstanding credit exposure to individual customers. The Group does not generally require or hold collateral against credit risk.

The Group is exposed to a concentration of credit risk with regards to the amounts owing by energy retailers for line charges. However, these entities are considered to be high credit quality entities. An amount of \$5,497,000 (2011: \$4,476,000) is owed by energy retailers at balance date.

The following liquidity tables show the Group and Parents' maximum credit exposure at balance date.

**Liquidity Risk**

Liquidity risk represents the Group's ability to meet its contractual obligations.

The Group evaluates its liquidity requirements on an ongoing basis. In general the Group generates sufficient cash flows from its operating activities to meet its contractual obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

The following table details the Group's exposure to liquidity risk as at 31 March 2012:

	Maturity Dates <1 Month \$000	Maturity Dates <1 Year \$000	Maturity Dates 1-5 Years \$000	Total \$000
<b>Financial Assets</b>				
Cash and Cash Equivalents	2,695	-	-	2,695
Trade and Other Receivables	5,759	294	-	6,053
Construction Work In Progress	-	290	-	290
Interest Rate Swaps	-	-	-	-
	<b>8,454</b>	<b>584</b>	<b>-</b>	<b>9,038</b>
<b>Financial Liabilities</b>				
Trade Creditors	4,664	-	-	4,664
Accruals	-	972	-	972
Advances	-	-	13,116	13,116
Interest Rate Swaps	-	162	729	891
	<b>4,664</b>	<b>1,134</b>	<b>13,845</b>	<b>19,643</b>

Advance repayment arrangements are discussed in Note 17. The above table includes principal repayments only, as interest payable is linked to a variable interest rate.

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

The following table details the Parent's exposure to liquidity risk as at 31 March 2012:

	Maturity Dates <1 Month \$000	Maturity Dates <1 Year \$000	Maturity Dates 1-5 Years \$000	Total \$000
<b>Financial Assets</b>				
Cash and Cash Equivalents	65	-	-	65
Trade and Other Receivables	3,783	-	-	3,783
Construction Work In Progress	-	-	-	-
Advances	-	-	12,984	12,984
Interest Rate Swaps	-	-	-	-
	<b>3,848</b>	<b>-</b>	<b>12,984</b>	<b>16,832</b>
<b>Financial Liabilities</b>				
Trade Creditors	2,692	-	-	2,692
Accruals	-	4,609	-	4,609
Advances	-	-	12,406	12,406
Interest Rate Swaps	-	162	729	891
	<b>2,692</b>	<b>4,771</b>	<b>13,135</b>	<b>20,598</b>

Advances to associates, subsidiaries and joint ventures, are repayable on demand but with a 13 month notice period. Advance repayment arrangements are discussed in Note 17.

The accruals are funded by either short-term advance funds or from future cash generated from operating activities.

The following table details the Group's exposure to liquidity risk as at 31 March 2011:

	Maturity Dates <1 Month \$000	Maturity Dates <1 Year \$000	Maturity Dates 1-5 Years \$000	Total \$000
<b>Financial Assets</b>				
Cash and Cash Equivalents	2,391	-	-	2,391
Trade and Other Receivables	5,694	-	-	5,694
Construction Work In Progress	-	253	-	253
Interest Rate Swaps	-	-	-	-
	<b>8,085</b>	<b>253</b>	<b>-</b>	<b>8,338</b>
<b>Financial Liabilities</b>				
Trade Creditors	3,269	-	-	3,269
Accruals	-	701	-	701
Advances	-	-	18,040	18,040
Interest Rate Swaps	-	78	1,073	1,151
	<b>3,269</b>	<b>779</b>	<b>19,113</b>	<b>23,161</b>

Advance repayment arrangements are discussed in Note 17.

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

The following table details the Parent's exposure to liquidity risk as at 31 March 2011:

	Maturity Dates <1 Month \$000	Maturity Dates <1 Year \$000	Maturity Dates 1-5 Years \$000	Total \$000
<b>Financial Assets</b>				
Cash and Cash Equivalents	1,070	-	-	1,070
Trade and Other Receivables	1,629	-	-	1,629
Construction Work In Progress	-	-	-	-
Advances	-	-	10,746	10,746
Interest Rate Swaps	-	-	-	-
	<b>2,699</b>	<b>-</b>	<b>10,746</b>	<b>13,445</b>
<b>Financial Liabilities</b>				
Trade Creditors	2,433	-	-	2,433
Accruals	-	2,320	-	2,320
Advances	-	-	17,329	17,329
Interest Rate Swaps	-	78	1,073	1,151
	<b>2,433</b>	<b>2,398</b>	<b>18,402</b>	<b>23,233</b>

Advances to associates, subsidiaries and joint ventures, are repayable on demand but with a 13 month notice period. Advance repayment arrangements are discussed in Note 17.

The accruals are funded by either short-term advance funds or from future cash generated from operating activities.

## Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments.

The following table details the Group's exposure to interest risk as at 31 March 2012:

	Variable Interest Rate \$000	Maturity Dates <1 Year \$000	Non Interest Bearing \$000	Total \$000
<b>Financial Assets</b>				
Cash and Cash Equivalents	2,695	-	-	2,695
Trade and Other Receivables	-	-	6,053	6,053
Advances	-	-	-	-
Interest Rate Swaps	-	-	-	-
	<b>2,695</b>	<b>-</b>	<b>6,053</b>	<b>8,748</b>
<b>Financial Liabilities</b>				
Trade and Other Payables	-	-	5,636	5,636
Advances	13,116	-	-	13,116
Interest Rate Swaps	-	-	891	891
	<b>13,116</b>	<b>-</b>	<b>6,527</b>	<b>19,643</b>

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

The following table details the Parent's exposure to interest risk as at 31 March 2012:

	Variable Interest Rate \$000	Maturity Dates <1 Year \$000	Non Interest Bearing \$000	Total \$000
<b>Financial Assets</b>				
Cash and Cash Equivalents	65	-	-	65
Trade and Other Receivables	-	-	3,783	3,783
Advances	9,823	-	3,161	12,984
	<b>9,888</b>	<b>-</b>	<b>6,944</b>	<b>16,832</b>
<b>Financial Liabilities</b>				
Trade and Other Payables	-	-	7,301	7,301
Interest Rate Swaps	-	-	891	891
Advances	12,406	-	-	12,406
	<b>12,406</b>	<b>-</b>	<b>8,192</b>	<b>20,598</b>

The following table details the Group's exposure to interest risk as at 31 March 2011:

	Variable Interest Rate \$000	Maturity Dates <1 Year \$000	Non Interest Bearing \$000	Total \$000
<b>Financial Assets</b>				
Cash and Cash Equivalents	2,391	-	-	2,391
Trade and Other Receivables	-	-	5,694	5,694
Interest Rate Swaps	-	-	-	-
	<b>2,391</b>	<b>-</b>	<b>5,694</b>	<b>8,085</b>
<b>Financial Liabilities</b>				
Trade and Other Payables	-	-	3,970	3,970
Advances	18,040	-	-	18,040
Interest Rate Swaps	-	-	1,151	1,151
	<b>18,040</b>	<b>-</b>	<b>5,121</b>	<b>23,161</b>

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

The following table details the Parent's exposure to interest risk as at 31 March 2011:

	Variable Interest Rate \$000	Maturity Dates <1 Year \$000	Non Interest Bearing \$000	Total \$000
<b>Financial Assets</b>				
Cash and Cash Equivalents	1,070	-	-	1,070
Trade and Other Receivables	-	-	1,629	1,629
Advances	9,653	-	1,093	10,746
Interest Rate Swaps	-	-	-	-
	<b>10,723</b>	<b>-</b>	<b>2,722</b>	<b>13,445</b>
<b>Financial Liabilities</b>				
Trade and Other Payables	-	-	4,753	4,753
Advances	17,329	-	-	17,329
Interest Rate Swaps	-	-	1,151	1,151
	<b>17,329</b>	<b>-</b>	<b>5,904</b>	<b>23,233</b>

The Group uses interest rate swap agreements to manage its exposure to interest rate movements on its borrowings. The treasury policy set by the Board requires that interest rate swap agreements are in place to ensure adequate hedging is maintained within a series of time periods.

The interest rate agreements are held with independent and high credit quality financial institutions. The credit risk is limited because the counterparties are banks with high quality credit ratings assigned by international credit rating agencies.

The following table details the notional principal amounts and remaining terms of interest rate swap agreements effective as at 31 March 2012:

	Notional Principal		Fair Value	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Less than one year	5,000	4,000	162	78
One to five years	7,000	11,000	575	748
	<b>12,000</b>	<b>15,000</b>	<b>737</b>	<b>826</b>

## Foreign Exchange Risk

The Group is not subject to foreign exchange risk.

## Sensitivity Analysis for Interest Rate Change

The Power Company Limited is subject to exposure to interest rate variations through both its cash and short-term investments and loans.

An increase/(decrease) in the interest rate of 1% is estimated to increase/(decrease) the operating profit before tax and equity by \$49,000 (2011: \$26,000).

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

## **Fair Value**

The estimated fair values of the Group's financial instruments are represented by the carrying values.

NZ IFRS 7 Financial Instruments: Disclosures requires the Group to classify for disclosure purposes fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quotes prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety should be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

The determination of what constitutes 'observable' requires significant judgement by the Group. The Group considers observable data to be market data that is readily available, regularly distributable or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market.

All financial assets measured at fair value, totalling \$891,000 consisting of interest rate swaps are classified within level 2.

## **Capital Management**

The Group's capital includes share capital, reserves and retained earnings. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position.

## **24. Segmental Reporting**

The Power Company Limited operates predominantly in one segment, being the management of assets involved in the distribution of electricity in Southland and Otago.

# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

## 25. 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. Power Services Limited has an interest in Peak Power Services 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:

	2012 \$000	2011 \$000
<b>Goods and Services Supplied to:</b>		
PowerNet Limited (Joint Venture)	23,370	21,880
Electricity Southland Limited (Associate)	120	108
Power Services Limited (Subsidiary)	44	28
Otago Power Services Limited (Associate)	28	11
Peak Power Services Limited (Subsidiary)	5	-
<b>Receivables Outstanding at Balance Date (GST incl):</b>		
PowerNet Limited (Joint Venture)	3,700	1,581
Electricity Southland Limited (Associate)	29	25
Power Services Limited (Subsidiary)	18	7
Otago Power Services Limited (Associate)	7	3
Peak Power Services Limited (Subsidiary)	5	-
<b>Goods and Services Supplied by:</b>		
PowerNet Limited (Joint Venture)	17,062	12,527
Power Services Limited (Subsidiary)	-	1
<b>Creditors Outstanding at Balance Date (GST incl):</b>		
PowerNet Limited (Joint Venture)	2,657	2,348
Power Services Limited (Subsidiary)	-	1
<b>Dividends Paid by:</b>		
Last Tango Limited (Subsidiary)	1,507	2,031
<b>Advances Provided to/(Due from):</b>		
Last Tango Limited (Subsidiary)	2,068	-
Otago Power Services Limited (Associate)	-	300
Power Services Limited (Subsidiary)	2,000	-
Southland Electric Power Supply Consumer Trust	134	98
Peak Power Services Limited (Subsidiary)	900	-
<b>Advances Provided from:</b>		
Southland Electric Power Supply Consumer Trust (Other Related Party)	-	226
PowerNet Limited (Joint Venture)	480	320
Electricity Southland Limited (Associate)	2,250	300
Last Tango Limited (Subsidiary)	-	170



# Notes to and Forming Part of the Financial Statements *continued*

For the year ended 31 March 2012

## Other Related Parties

There have been no material transactions between The Power Company Limited Group and Directors with the exception of the following:

The Power Company Limited, OtagoNet Joint Venture, PowerNet Limited and Power Services Limited use AWS Legal as their solicitors of which Alan Harper is a Partner. Legal fees paid to AWS Legal during the year amounted to \$138,000 excl GST (31 March 2011: \$76,000) of which \$15,000 incl GST (31 March 2011: \$24,000) is owing at balance date.

PowerNet Limited uses WHK as its tax advisors of which Philip Mulvey is Chief Executive and Duncan Fea is a Principal. The Power Company Limited's share of fees for taxation advice paid to WHK during the year amounted to \$15,000 excl GST (31 March 2011: \$2,000) of which \$0 incl GST (31 March 2011: \$1,000) is owing at balance date.

All transactions between The Power Company Limited, PowerNet Limited, OtagoNet Joint Venture, Power Services Limited, AWS Legal and WHK 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. The Power Company Limited has a \$4,716,000 unsecured interest bearing loan with the Southland Electric Power Supply Consumer Trust.

During the year expenses were paid out on behalf of the Trust totalling \$134,000 (31 March 2011: \$98,000). 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 of \$0 (31 March 2011: \$324,000) has been added to the loan. No loan interest was demanded during 2012 year.

## Key Management Personnel

Compensation of the Directors and Executives, being the key management personnel of the entities, is set out below:

	GROUP		PARENT	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Salaries and Short-term Employee Benefits	1,553	1,382	120	100

Executive staff remuneration comprises salary and other short-term benefits. PowerNet executives appointed to the boards of related companies do not receive directors' fees personally.

## 26. Subsequent Events

There has been no subsequent events impacting these financial statements.



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## Independent Auditor's Report

to the shareholders of The Power Company Limited

### Report on the Financial Statements

We have audited the financial statements of The Power Company Limited ("the Company") on pages 12 to 45, which comprise the statements of financial position as at 31 March 2012, the statements of financial performance, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 March 2012 or from time to time during the financial year.

### Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors, issuing certificates pursuant to the Electricity Distribution (Information Disclosure) Requirements 2008 and the provision of advice on industry related matters, we have no relationship with, or interests in, The Power Company Limited or any of its subsidiaries.

**Opinion**

In our opinion, the financial statements on pages 12 to 45:

- (i) comply with generally accepted accounting practice in New Zealand; and
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Company and Group as at 31 March 2012, and their financial performance and cash flows for the year then ended.

**Report on Other Legal and Regulatory Requirements**

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2012:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

**Restriction on Distribution or Use**

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.



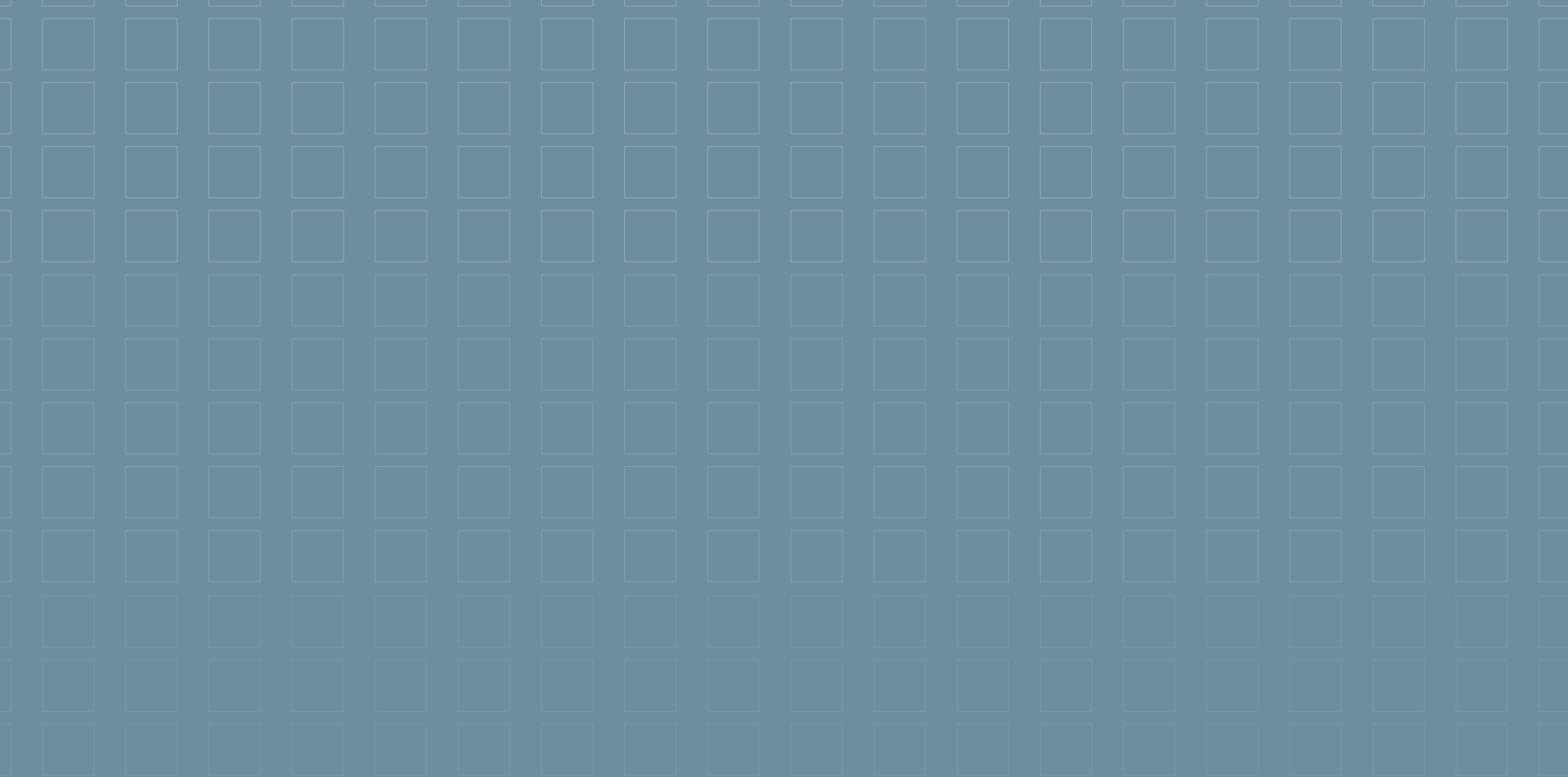
Chartered Accountants  
28 June 2012

Christchurch









 **THEPOWERCOMPANYLTD**

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