



scanPOWER
2007
ANNUAL REPORT



I am pleased to report
it has been another
successful year for the
company, producing
pleasing financial and
operational results.



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BOARD OF DIRECTORS

MICHAEL DODSON Chairman

ALLAN BENBOW Deputy Chairman

PETER CLAYTON

BRUCE COTTRILL

CHRISTINE DONALD

EXECUTIVE

LEE BETTLES Chief Executive

BEN VAN DER SPUY Company Finance Manager

BOB COLLINS Network Division Manager

GRANT FECK Retail Division Manager

JOHN SCHMIDT Servicing Division Manager

BANKERS

Bank of New Zealand - Dannevirke

SOLICITORS

Lloyd, Dodson & Pringle - Barristers and Solicitors

Ward Street - Dannevirke

AUDITORS

Audit New Zealand, Palmerston North

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KEYFACTS



- Scanpower owns and operates an electricity network supplying **6,692** customer installations in the Tararua region, including Dannevirke, Woodville, Norsewood and the outlying rural areas.
- The network covers a geographic area of **2,000km²** and has a current value of **\$22.7m**.
- The shares in the company are owned by the Scanpower Customer Trust which represents all connected electricity customers in our area.
- Revenue for the past year was **\$10.4m** and Shareholders' Equity as at 31 March 2007 was **\$26m**.
- Scanpower currently employs **52 staff (46 full time, 6 part time)**.
- In addition to the electricity network, the company operates the following business divisions:
 - Plumbing, Gas Fitting & Electrical Contracting
 - Appliance Retailing & Servicing
 - Power Line Contracting
 - Meter Reading & Energy Retailer Field Services
 - Tree Felling & Vegetation Management ("Treesmart")
- Over the past year the company distributed **97.1 GWh** of electricity with a system peak demand of **17.6 MW**.
- Scanpower publishes information disclosures on its website www.scanpower.co.nz which include:
 - Schedule of Network Prices
 - Asset Management Plans
 - Threshold Compliance Statements
 - Annual Reports
 - Statement of Corporate Intent

ANNUALHIGHLIGHTS2006/07

- Operating profit (before tax and customer discounts) of **\$2.43m**.
- **\$1.8m** distributed to customers as network discounts, equating to **\$300** for typical residential customers.
- Scanpower line charges remain the lowest in the country, after deduction of customer discounts.
- **\$2.1m** of capital work completed on the electricity network including:
 - **17.4km** of 11kV line rebuilt, including splitting another dual feeder line section.
 - Continued undergrounding of urban supplies in Dannevirke and Woodville.
 - Commissioning of a new radio / communications network.
 - Installation of **4,500** ripple relay receivers in Dannevirke.
 - Ongoing automation of the network.
 - The second year of our tree clearance programme completed.
- Excellent network reliability performance with a SAIDI result of **46.67** (minutes supply lost per customer) and an availability of supply of **99.99%**.
- Continued strong revenue growth in the Network Contracting and Plumbing & Electrical Divisions.
- Continued commitment to staff development and training, including the following apprenticeships:
 - Plumber
 - Electrician
 - Service Technician
 - Arborist
 - Line Mechanic
- A number of successful community sponsorships including the Scanpower Ruahine Mountain Bike Challenge.



The Directors have pleasure in presenting the Scanpower Annual Report and audited financial statements for the year ended 31 March 2007.

I am pleased to report it has been another successful year for the company, producing pleasing financial and operational results.

Financial Results

Operating profit (before discounts and tax) for the year was **\$2.43m** which exceeded our Statement of Corporate Intent target of **\$2.25m** by **8%**. A healthy **5.3%** increase in total revenue contributed to this result, with a significant proportion of the growth coming from our Power Line Contracting business unit which has been particularly successful this year.

Whilst the operating profit (before discounts and tax) result is lower than in 2006, this was in line with expectations and reflects the Directors' decision to freeze network prices for a third successive year.

On the basis of this financial performance, Scanpower was able to make a substantial discount payment to customers of **\$1.8m**, which equated to **\$300** each for typical residential consumers. We are very proud to have been able to deliver this level of value to our customers, and we recognise the positive flow-on effect this has in our community.

As has been the case in previous years, analysis published by the Ministry of Economic Development in February 2007 indicated that **Scanpower continues to deliver the lowest line charges in the country**, when discounts are taken into account. This is an achievement of which we are extremely proud.

Major Network Asset Replacement Work Continues

2007 was another significant year in terms of network asset replacement and capital expenditure, with projects valued at **\$2.1m** completed during the period. The Directors remain committed to ensuring our infrastructure is in sound condition and capable of meeting the electricity supply requirements of our customers, both now and in the future.

We expect that this period of intensive capital expenditure will continue for a further year before returning to more conventional levels in the 2008 / 2009 financial year. A large proportion of network assets were constructed in the 1960s, and now some forty years later, many are in need of replacement. This is consistent with many infrastructural industries, and Scanpower is no exception.

Equality of Delivered Prices

For the last several years Boards of Directors have implemented a policy of equality of delivered prices for urban and rural consumers. The urban townships in Scanpower's network area are vitally dependent upon farming, just as farming requires a strong urban infrastructure, and the benefits of the network should therefore be equally shared by those who use it. The Directors will continue to maintain this policy.

Investment in Other Business Activities

Growth in business activity outside of the core network business remains a central component of Scanpower's strategy. The company continues to expand these divisions which include appliance retailing and servicing, plumbing and electrical contracting, power line contracting, meter reading, and tree felling / trimming.

This year a particular focus on expanding our Power Line Contracting business has been very successful, and has seen Scanpower teams working throughout the Lower North Island in other network areas. As a result, revenues in this area increased by **69%** which is pleasing. Included in the development of this business has been the establishment of a specialised "glove barrier" live line team which has contributed to this growth. Looking forward, we anticipate that the capabilities built in our Treesmart Division will enhance the Power Line Contracting business further.

Another investment project undertaken during the year was the purchase and renovation of the Ruahine Club buildings in Dannevirke. As a result, this historic local building now provides modern office space to our incoming tenants, a large regional accounting firm. In addition to generating new returns for Scanpower, this project has been well received by the local community given that a significant local landmark has been retained.

Over all, in the past year **\$4.45m** has been generated by our business activities outside of the network operation, representing **43%** of total revenue. We will continue to seek out new investment opportunities which will expand Scanpower profitably and be a catalyst for development within our communities, such that employment opportunities are created and the whole district may benefit. Of particular interest to the Company, at present, is the investigation of electricity microgeneration technologies and their commercial application in the rural sector.



Future Outlook

The Directors believe that Scanpower's performance reveals a continuing ability to deliver cost-effective, high quality network services as a stand-alone company, for the benefit of all customers in the area. As a company, we remain committed to delivering growing value to our customers and community.

The Trustees of the Customer Trust

The Directors continue to enjoy a special relationship with the Trustees of the Scanpower Customer Trust. This relationship encourages the sharing of our plans and of the directions we want to take the company in. The Trustees are fully briefed on issues that may concern consumers. Working together in this way is one of the things small, rural communities do well.

Thanks to the Staff

The Directors would like to record their thanks to the Chief Executive Lee Bettles, his senior management team, and all members of staff for a most successful year. Their commitment and enthusiasm have contributed enormously to the ongoing success of the company. The Directors are most grateful to them all.

MICHAEL DODSON
Chairman





MICHAEL DODSON Chairman

Michael Dodson is the Chairman of Scanpower Ltd.

As a Barrister and Solicitor, he was formerly a senior partner in a leading regional law firm. Now retired from legal practice, Michael is currently also Chairman of the Waikanae Golf Club.



ALLAN BENBOW Deputy Chairman

Allan Benbow is the Deputy Chairman of Scanpower Limited.

He is a specialist in operational and manufacturing processes, and is General Manager of Metalform Limited. Allan lives in the Dannevirke area and is committed to the region, serving on a number of local Boards.



PETER CLAYTON Board Member

Peter Clayton is a prominent Dannevirke farmer and businessman, and is the proprietor of a regional real estate company. In addition to this he has a number of beef, deer and dairy farming interests. Peter lives with his family in Norsewood.



BRUCE COTTRILL Board Member

Bruce Cottrill farmed in the Tararua District for 20 years. He now resides in Wellington where he is an adviser and practitioner in dispute resolution and industrial relations. Bruce currently teaches dispute resolution at Massey University and is a Standards New Zealand Board member.



CHRISTINE DONALD Board Member

Having previously served as a Trustee of the Scanpower Customer Trust, Christine Donald is now a Director of Scanpower Limited. As a Chartered Accountant, she is also Director of Donald & Associates Ltd specialising in farm accounting.



Overview

As a trust owned company and provider of key electricity infrastructure assets to our region, Scanpower remains focused on the following strategic objectives:

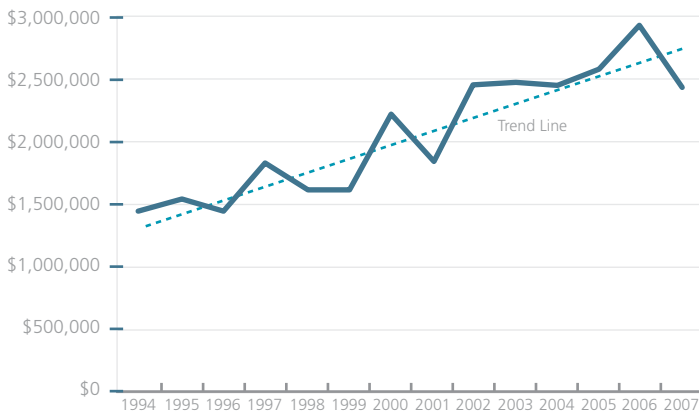
- Providing safe, reliable and cost effective electricity distribution services.
- Maintaining and replacing network assets on a sustainable basis.
- Growing shareholder value and returns through the development of new business initiatives.
- Creating value for our customers, shareholders, employees and local communities.

It is pleasing to report that it has been a successful year for the company in each of these areas

Financial Performance

Scanpower generated an operating surplus, before taxation and customer discounts, of **\$2.43m** for the year.

OPERATING PROFIT BEFORE DISCOUNTS AND TAXATION (1994-2007)



As the graph indicates, the result this year is lower than in previous years. This is primarily attributed to a voluntary network price freeze and generally increasing business costs associated with our current network asset replacement plan. The operating profit trend line however, continues to show a healthy upward slope and it is anticipated that an upturn will occur within two years.

Network Performance and Reliability

The past year has seen another period of intensive capital expenditure in the Network Division with **\$2.1m** invested in network assets over the period and several major projects completed.

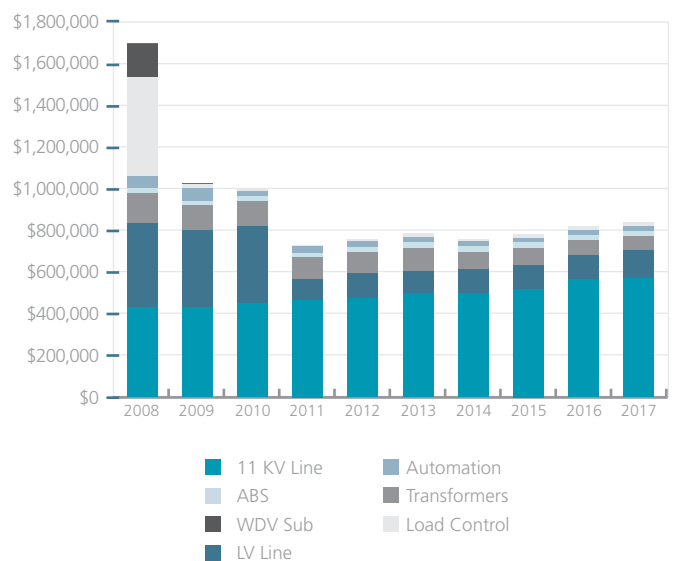
As indicated in previous reports, a large proportion of Scanpower's distribution assets were constructed during the 1960s when growth in industry and population in the region was significant. After forty-five years of service, many of these assets are now at the end of their lives and require replacement.

Major capital projects completed during the year included:

- Installation of new ripple receiver relays at all customer premises in the Dannevirke area.
- Splitting of the Adelaide Road and Dannevirke Central feeders from dual circuit structures to new single line structures.
- Undergrounding of overhead low voltage power lines in Cadman Street, Carlyle Street, Gladstone Street, Salisbury Street, Hovding Court, Ruahine Street, Thyra Street and Hospital Street.
- Continuation of the network automation plan.

The majority of this work was again completed by Scanpower's in-house team of engineers and line staff which is an outstanding achievement in a 12 month period. It is anticipated that capital expenditure will remain relatively high for the coming year, and then reduce to a level more in line with annual depreciation. This is highlighted in the graph below.

TEN YEAR NETWORK CAPITAL EXPENDITURE FORECAST (2008 TO 2017)





Network reliability performance this year was exceptionally good, with an average of **46.67** minutes supply minutes lost per customer (SAIDI). This is the lowest result in recent years as the graph below illustrates. The reduction is attributable to ongoing automation of the network, reconstruction of critical main feeder lines, a structured two year programme of vegetation clearance, and relatively favourable weather conditions.

SAIDI CLASS B AND C PERFORMANCE TREND (REPRESENTING AVERAGE MINUTES LOST SUPPLY PER CUSTOMER)



We believe that this level of reliability performance will place Scanpower's network amongst the best in the industry.

Business Development

Scanpower continues to pursue a strategy of developing new business activities outside of our core, regulated electricity network operation. These development initiatives generate new revenue streams and earnings for the company whilst offsetting the ever growing regulatory risk associated with the lines industry.

Having reviewed our organisational competencies, we have continued to seek out diversification projects which offer a strategic fit with our existing portfolio of activities. These now include:

- Meter reading and retailer field services
- Plumbing, gas fitting and electrical contracting
- Home appliance sales and servicing
- Power line contracting
- Tree felling / trimming and vegetation management
- Property investment / management

Our business development approach continues to be pursuing organic growth in existing business units, and investigating new opportunities that will deliver step growth. In terms of existing activities, the past year has seen continued growth in both the Power Line Contracting and Plumbing & Electrical Divisions, with ongoing staff training a central component of our development strategy.

Community Involvement

Whilst the annual network discount is Scanpower's primary channel for returning financial benefits to our customers, the company continues to maintain an active programme of local sponsorship.

Scanpower was the principal sponsor of the inaugural Ruahine Mountain Bike Challenge held in April. This attracted a good number of visiting riders, and has the potential to grow into a significant local event. Other smaller community sponsorships have included Greypower, Radio Woodville, Dannevirke Rugby Football, A&P Society, and local school exercise books.

Final Comments

It has been another pleasing year for Scanpower with strong performance results in all areas, and we remain committed to delivering value to our customers, owners and staff. Although Scanpower remains a relatively small utility company, I remain confident that our business model and strategies can continue to deliver this value.

I would like to express my sincere gratitude to our staff for their hard work, commitment and contribution to the ongoing success of Scanpower. My thanks also go to the Board of Directors who remain an invaluable source of advice, guidance and support.

LEE BETTLES
Chief Executive



Scanpower continues to pursue a strategy of developing new business activities outside of our core, regulated electricity network operation.



STATEMENT OF FINANCIAL PERFORMANCE
for the Year Ended 31 March 2007

	Notes	2007 \$'000	2006 \$'000
Operating revenue	1	10,360	9,839
Operating expenses	1	9,691	8,788
Operating surplus before income tax		669	1,051
Income tax	2	343	596
Net surplus for the year		326	455

STATEMENT OF MOVEMENT IN EQUITY
for the Year Ended 31 March 2007

	Notes	2007 \$'000	2006 \$'000
Equity at the beginning of the year		25,334	24,954
Surplus and revaluations			
Net surplus for the year		326	455
Revaluation of property, plant and equipment	3	343	-
Total recognised revenues and expenses for the year		669	455
Other movements			
Distribution to owners	3	30	75
Equity at the end of the year		25,973	25,334

The Accompanying Notes and Policies Form an Integral Part of These Financial Statements

STATEMENT OF FINANCIAL POSITION
as at 31 March 2007



	Notes	2007 \$'000	2006 \$'000
Equity			
7,500,000 Ordinary shares of \$1 fully paid		7,500	7,500
Retained Earnings	3	3,797	3,382
Reserves	3	14,676	14,452
Shareholders' Equity		25,973	25,334
Current Assets			
Cash and bank balances		306	298
Short term deposits	6	1,300	2,500
Receivables and prepayments	4	1,148	1,142
Inventories	5	743	583
Tax provision	2	163	-
Total Current Assets		3,660	4,523
Non-Current Assets			
Investments	6	2	2
Capital works in progress		657	938
Property, plant and equipment	7	25,220	23,491
Total Non-Current Assets		25,879	24,431
Total Assets		29,539	28,954
Current Liabilities			
Accounts payable	8	963	1,023
Employee entitlements	16	285	297
Tax provision		-	204
Total Current Liabilities		1,248	1,524
Non-Current Liabilities			
Employee entitlements	16	266	243
Deferred taxation	2	2,052	1,853
Total Non-Current Liabilities		2,318	2,096
Total Liabilities		3,566	3,620
Net Assets		25,973	25,334

For and on behalf
of the Board

MICHAEL DODSON
Chairman
29 June 2007

ALAN BENBOW
Director
29 June 2007

The Accompanying Notes and Policies Form an Integral Part of These Financial Statements



STATEMENT OF CASH FLOWS
For the Year Ended 31 March 2007

	Notes	2007 \$'000	2006 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
<i>Cash was provided from:</i>			
Receipts from customers		10,051	9,402
Interest received		177	259
		10,228	9,661
<i>Cash was applied to:</i>			
Payments to employees and suppliers		8,810	7,858
Taxes paid		511	429
Interest paid		7	-
		9,328	8,287
Net cash inflows from operating activities	9	900	1,374
CASH FLOWS FROM INVESTING ACTIVITIES			
<i>Cash was provided from:</i>			
Proceeds from disposal of property, plant and equipment		38	1
		38	1
<i>Cash was applied to:</i>			
Purchase and construction of property, plant and equipment		2,100	3,126
		2,100	3,126
Net cash inflows from investment activities		(2,062)	(3,125)
CASH FLOWS FROM FINANCING ACTIVITIES			
<i>Cash was applied to:</i>			
Dividends paid		30	75
		30	75
Net cash outflows from financing activities		(30)	(75)
NET INCREASE / (DECREASE) IN CASH HELD		(1,192)	(1,826)
Opening Cash Brought Forward		2,798	4,624
CASH AT END OF THE YEAR		1,606	2,798
REPRESENTED BY:			
Cash and bank balances		306	298
Short term deposits		1,300	2,500
		1,606	2,798

The Accompanying Notes and Policies Form an Integral Part of These Financial Statements



Basis of Preparation

Scanpower Limited is a company registered under the Companies Act 1993. The financial statements have been prepared in accordance with the requirements of the Companies Act 1993, the Financial Reporting Act 1993 and the Energy Companies Act 1992.

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain assets as identified in specific accounting policies below.

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below.

Operating Revenue

Revenue comprises amounts earned for the sale of the company's products and services net of returns, trade allowances and taxes paid. Interest income is accounted for as earned and dividend income is recognised in the period the dividend is received.

Taxation

The income tax expense is recognised on the operating surplus before taxation, adjusted for permanent differences between taxable and accounting income. Deferred tax is calculated using the comprehensive basis under the liability method. This method involves recognising the tax effect of all timing differences between accounting and taxable income as a deferred tax asset or liability in the Statement of Financial Position. The future tax benefit or provision for deferred tax is stated at the income tax rates prevailing at the balance date.

Future tax benefits are not recognised unless realisation of the asset is virtually certain.

Goods and Services Tax

The Statement of Financial Performance and Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All items in the Statement of Financial Position are stated net of GST, with the exception of receivables and payables which include GST invoiced.

Receivables

Receivables are carried at anticipated realisable value after providing for doubtful receivables based on a review of all outstanding amounts at year end. Bad debts are written off in the year in which they are identified.

Inventories

Inventories are valued at the lower of weighted average cost and net realisable value.

Investments

All investments are stated at cost.

Property, Plant and Equipment

Owned Assets

Property, Plant and Equipment is initially stated at cost and depreciated as outlined below. Initial cost includes the purchase consideration and those costs directly attributable to bringing the asset to the location and condition necessary for its intended use. These costs include, where appropriate, site preparation costs, installation costs, borrowing costs and the cost of obtaining initial resource consents. Costs cease to be capitalised when substantially all the activities necessary to bring an asset to the location and condition for its intended use are complete.

Leased Assets

Leases in which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease are stated initially at an amount equal to the present value of future minimum lease payments, and are depreciated as described below.

Revaluations

The Network Distribution assets were revalued as at 31 March 2004 to Depreciated Replacement Cost (DRC). The valuation was prepared by Mr J R Collins B Eng. (Elec.) MBA of Scanpower Limited and was reviewed by PricewaterhouseCoopers and Eddie Graham B.E.(Elec.) FIPENZ. Previously these assets were valued at cost less accumulated depreciation. The valuation will be performed on a cyclical basis every five years.

Land and Buildings are revalued to fair value with regard to highest and best use. Fixed assets within these classes are revalued on a cyclical basis with no asset being recognised at a valuation undertaken more than five years previously. The most recent Land and Building valuation was conducted by an independent registered valuer, Mr. I.R. Mollison ANZIV, of the firm Ian Mollison & Associates, Dannevirke, on 31 March 2007.



Depreciation

Depreciation of Property, Plant and Equipment, other than Freehold Land, is calculated on a straight line basis so as to expense the cost of the assets, or the revalued amounts, to their residual values over their useful lives as follows:

Estimated useful lives (in years):	
Lines – wood	45
Lines – concrete	60
Lines – underground	45
Transformers	55
Substations	55
Switchgear	45
Air break switches	35
Customer connections	45
Circuit breakers	40
Sectionalisers	40
Ring main units	40
Voltage regulators	40 to 55
Non standard assets	15 to 60
Buildings and fixtures	10 to 50
Motor vehicles	3 to 10
Plant and equipment	3 to 12
Computer equipment	3 to 5

Employee Entitlements

Employee Entitlements to salaries and wages, annual leave, long service leave and other benefits are accrued on an actual entitlement basis.

Financial Instruments

Financial Instruments carried on the Statement of Financial Position include cash and bank balances, investments, receivables, and trade creditors. These financial assets and liabilities are, generally, carried at their estimated fair values except for loans and investments, which are recorded at cost. Where appropriate, particular recognition methods adopted are disclosed in the individual policy statements associated with them.

Statement of Cash Flows

The following are the definitions of the terms used in the Statement of Cash Flows:

- (a) Operating activities include all transactions and other events that are not investing or financing activities.
- (b) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, and of investments.
- (c) Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- (d) Cash is considered to be cash on hand and current accounts in banks, and short term deposits, net of bank overdrafts.

Changes in Accounting Policies

There have been no changes in accounting policies and all policies have been applied on a basis consistent with those used in the previous year.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2007



	2007	2006
	\$'000	\$'000
Note 1: (i) OPERATING REVENUE		
Network line rentals	5,911	5,856
Loss rental income *	112	-
Appliance retailing **	1,184	1,297
Plumbing and Electrical contracting	1,273	1,068
Power line contracting	970	574
Meter reading	269	295
Treesmart	373	236
Newly identified assets	73	250
Gain on sale of asset	18	4
Interest income	177	259
Total revenue	10,360	9,839
Note 1: (ii) OPERATING EXPENSES		
Audit fees	46	44
Auditors fees for other services	8	7
Fees paid to other auditors	13	14
Bad debts written off	7	10
Depreciation:		
Distribution assets:		
Distribution lines	460	452
Distribution transformers	83	83
Distribution substations	19	19
Distribution switchgear	48	41
Air break switches	10	7
Customer connections	55	55
Circuit breakers	15	14
Sectionalisers	15	6
Ring Main Unit	2	1
Voltage regulators	3	2
Non standard assets	25	34
Freehold buildings & fixtures	26	26
Motor vehicles	195	178
Plant and equipment	61	57
Computer equipment	31	28
Total Depreciation	1,048	1,003
Directors remuneration & expenses	80	80
Change in provision for doubtful debts	-	-
Interest paid	7	-
Lease payments	10	9
Loss on sale of assets	92	83
Network discounts	1,755	1,878
Cost of sales & operating expenses	6,625	5,660
	9,691	8,788

* Loss rental incomes previously offset against Cost of sales & operating expenses in 2006.

** Revenue shown as Appliance sales, servicing and wiring in 2006 has now been separated into revenue per division namely Appliance retailing, Plumbing and Electrical contracting, Meter reading and Treesmart.



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 March 2007

	2007	2006
	\$'000	\$'000
Note 2: Taxation		
Taxation Reconciliation		
Accounting net operating surplus before taxation	669	1,051
Taxation at 33%	221	347
Plus tax effect of:		
Permanent differences	(50)	4
Prior year adjustment	-	-
Deferred tax adjustment	172	245
Tax expense / (Benefit)	343	596
Income tax charge for the year comprises:		
Current taxation (liability)	144	436
Deferred taxation	199	160
	343	596
Deferred Tax Asset / (Liability):		
Opening balance	(1,853)	(1,693)
Prior period adjustment	-	-
Current year movement	(199)	(160)
Deferred tax adjustment	-	-
Closing balance	(2,052)	(1,853)
Imputation Credit Account:		
Opening balance	1,241	854
Prior period adjustment	-	-
Credits attached to dividends received	2	3
Tax paid during the year	511	421
Tax refunds during the year	-	-
Resident withholding tax paid	-	-
Credits attached to dividends paid	(15)	(37)
Closing balance at end of the year	1,739	1,241

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 March 2007



	2007	2006
	\$'000	\$'000
Note 3: Retained Earnings and Reserves		
Balance at beginning of the year	3,382	2,912
Net surplus for the year	326	455
Dividends paid and proposed	(30)	(75)
Movement in revaluation reserve	119	90
Balance at end of the year	3,797	3,382
Reserves		
Asset revaluation reserves:		
Freehold land	187	87
Freehold buildings & fixtures	701	458
Distribution assets	13,788	13,907
Balance at end of the year	14,676	14,452
Note 4: Receivables and Prepayments		
Trading debtors	985	944
Estimated doubtful receivables	(3)	(3)
Miscellaneous prepayments	61	96
GST receivable	105	105
	1,148	1,142
Note 5: Inventories		
Network and contracting stock	181	143
Appliance and servicing stock	562	440
	743	583
Note 6: Investment		
(i) Current		
Short term deposits held with registered banks	1,300	2,500
	1,300	2,500
Market fluctuations in interest rates affect the earnings on these investments.		
(ii) Non Current		
Unlisted securities	2	2
Listed Securities	-	-
	2	2
(iii) Interest Rates		
The range of interest rates obtained on investments was as follows:		
Short term bank investments	6.7 – 7.64%	6.7 – 7.4%



NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Year Ended 31 March 2007

	2007	2006
	\$'000	\$'000
Note 7: Property, Plant and Equipment		
Distribution assets		
At Valuation – 31 March 2004	19,733	19,733
At cost	4,960	3,221
Accumulated depreciation	(1,975)	(1,488)
Total carrying amount of distribution assets	<u>22,718</u>	<u>21,466</u>
Freehold land		
At valuation - 31 March 2007	263	77
Total carrying amount of freehold land	<u>263</u>	<u>77</u>
Freehold buildings & fixtures		
At valuation - 31 March 2007	1,008	897
At cost	95	47
Accumulated depreciation	(43)	(101)
Total carrying amount of freehold buildings	<u>1,060</u>	<u>843</u>
Motor vehicles		
At cost	1,468	1,242
Accumulated depreciation	(616)	(511)
Total carrying amount of motor vehicles	<u>852</u>	<u>731</u>
Plant and equipment		
At cost	850	814
Accumulated depreciation	(595)	(535)
Total carrying amount of computer equipment	<u>255</u>	<u>279</u>
Computer equipment		
At cost	240	458
Accumulated depreciation	(168)	(363)
Total carrying amount of computer equipment	<u>72</u>	<u>95</u>
Total property, plant and equipment		
At valuation	21,004	20,707
At cost	7,613	5,782
Accumulated depreciation	(3,397)	(2,998)
Total carrying amount of property, plant and equipment	<u>25,220</u>	<u>23,491</u>
Note 8: Accounts Payable		
Trade creditors	469	487
Other creditors & accruals	494	536
	<u>963</u>	<u>1,023</u>



	2007	2006
	\$'000	\$'000
Note 9: Reconciliation of cash flows with operating surplus		
Reported surplus after taxation	326	455
Add non cash items		
Depreciation	1,048	1,003
Increase/(decrease) in doubtful debts	-	-
Newly identified assets	(73)	(250)
Change in deferred tax provision	199	160
Changes in working capital		
Increase/(decrease) in accounts payable and accruals	(60)	(91)
(Increase)/decrease in accounts receivable	(6)	62
(Increase)/decrease in inventory	(160)	(68)
Increase/(decrease) in employee entitlements	11	47
Increase/(decrease) in provision for taxation	(367)	(27)
Items classified as investment activities		
Net (surplus)/loss on disposal of investment	-	-
Net (surplus)/loss on disposal of property, plant & equipment	(18)	83
Net cash from operating activities	<u>900</u>	<u>1,374</u>
Note 10: Analysis of Non-Cancellable Operating Lease Commitments		
Payable not later than one year	8	9
Payable later than one year, not later than two years	5	5
Payable later than two years, not later than five years	7	-
	<u>20</u>	<u>14</u>

Note 11: Environmental Policy

Scanpower endeavours to adhere to a sustainable usage policy with a minimum of environmental disturbance. To date, Scanpower is unaware of any of its projects or operations that would not meet the above policy.

Note 12: Capital Commitments and Contingent Liabilities

As at 31 March 2007 the company did not have any capital commitments or contingent liabilities (2006: capital commitment of \$295,000).

Note 13: Segment Information

Scanpower operates primarily in the electricity distribution industry – the ownership, management and operation of the electricity network in Dannevirke region. The Company also operates gas fitting, plumbing, electrical, tree clearance and power line contracting services, in addition to appliance retailing.



Note 14: Related Party Information

Scanpower Limited Customer Trust owns, through its nominees, all of the issued capital of Scanpower Limited.

Directors' transactions with the company were made under normal terms and conditions of supply and sale available to members of staff.

	2007	2006
	\$	\$
H M Dodson	212	310
A L Benbow	2,614	2,855
P B Clayton	2,415	1,194
B A Cottrill	64	2,283
C Donald	795	-
D Wilkinson	-	2,060

As at 31 March 2007, the total amount payable by Directors was \$194 (2006 credits of \$42).

Scanpower provided services to the "For Homes" group of companies in which one of its Directors, P Clayton is a principal. Total sales to this group amounted to \$16,506 for the year end to 31 March 2007. The amount outstanding at balance date was \$4,696 (2006: \$3,098).

During the year, Metalform Limited, a company in which a Director, Allan Benbow is employed, provided services to the value of \$70 to Scanpower. Total sales to Metalform amounted to \$7,868 and at 31 March 2007 the outstanding amount was \$4,508 (2006: \$0).

Scanpower provided services to Donald & Associates Limited in which one of its Directors, Christine Donald, is the principal. Total sales to the company amounted to \$256 and the amount owing at year end was \$0 (2006: \$211).

All transactions with related parties are made under normal terms and conditions of supply and sale. No related party debts were forgiven or written off during the year.

Note 15: Financial Instruments

Scanpower has no off balance sheet financing, other than those disclosed in these notes, nor any foreign exchange exposure. The fair value of financial instruments is approximated by the carrying amount disclosed in the Statement of Financial Position.

Concentrations of credit risk with respect to receivables in the Company's core activity are managed by adequate safeguards in the Use of System agreements entered into with energy retailers. The large customer base of the other activities ensures little concentration of risk. No other form of security or collateral is required to support financial instruments with credit risk.

The interest rates on the company's deposits are presented in Note 6.

Note 16: Provisions		
Annual leave	170	158
Long service leave	66	67
Payroll accruals	315	315
	<u>551</u>	<u>540</u>
This is represented by:		
Current liability	285	297
Non-current liability	266	243
Balance at end of year	<u>551</u>	<u>540</u>

**Note 17: Events Subsequent to Balance Date**

A reduction in the corporate tax rate from 33% to 30% was announced on 17 May 2007, effective 1 April 2008. The change can not be applied retrospectively and therefore the reduced tax rate would have no effect on the 31 March 2007 financial statements.

Note 18: International Financial Reporting Standards

In December 2002 the New Zealand Accounting Standards Review Board announced that New Zealand Standards which comply with International Financial Reporting Standards (IFRS) will apply to New Zealand entities for periods commencing 1 January 2007. Entities have the option to adopt IFRS for periods beginning on or after 1 January 2005.

Scanpower Limited intends to implement IFRS in the annual financial statements for the year ending 31 March 2008.

Transition to IFRS

The Company has taken the following steps towards the implementation of IFRS:

- Each accounting balance within the trial balance has been considered and the impact of IFRS adoption has been determined.
- The accounting policy options available have been examined and the most appropriate policies have been prepared and adopted by the Board on 1 May 2007.
- The effects of the adoption of IFRS on the opening balance sheet have been determined and quantified.

Significant changes in opening Balance Sheet with transition to IFRS

The significant changes of the opening balances in the Balance Sheet with the implementation of IFRS are outlined below. Although the effects of the adoption of IFRS on the opening balance sheet have been determined and quantified, the proposed adjustments are only an approximation because the figures have not been subject to audit.

Intangible assets

Easements are currently not included in the financial statements. Under IFRS easements will be recognised at cost, being the cost directly attributable in bringing the asset to its intended use. Scanpower will recognise the easements in the opening balance sheet, which will increase assets and opening equity by \$5,800.

Employee benefits

Employee entitlements that are payable beyond 12 months, such as long service leave and retirement gratuities, are currently measured at their present value on an "as earned to date" basis. IFRS requires these entitlements to be calculated on an actuarial basis. Calculated on this basis a total adjustment of \$25,123 against opening equity will be required under IFRS.

Deferred tax

Under IFRS, deferred tax will be calculated using the balance sheet liability approach rather than the comprehensive basis under the liability method currently used. This new approach recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base. Using this method an increase in deferred tax liability of approximately \$2.94m will be required in the opening balances sheet with the adoption of IFRS, resulting in an increase in liabilities and a reduction of equity.

Other adjustments

Other adjustments might be identified when the first audit under IFRS requirements are performed, and it is possible that the actual impact of adopting IFRS may vary from the information presented above, and the variation may be material.



KEY PERFORMANCE INDICATORS

For the Year Ended 31 March 2007

		2007	2007	2006	2005	2004	2003
		Actual	Target	Actual	Actual	Actual	Actual
Financial Measures							
Earnings Before Interest Discount & Tax (E.B.I.D.T)	\$'000	2,431	2,246	2,929	2,612	2,436	2,453
Earnings Before Interest & Tax (E.B.I.T)	\$'000	676	246	1,051	431	617	643
Net Profit After Interest Discount & Tax	\$'000	326	165	455	131	293	439
Shareholders Equity	\$'000	25,973	25,378	25,335	24,954	24,853	10,509
Total Assets	\$'000	29,539	27,090	28,954	28,485	28,859	13,485
Return on Assets (Using E.B.I.D.T / Business Value)	%	9.36%	8.85%	11.56%	10.47%	9.80%	23.34%
Equity Ratio (Shareholders' funds / total assets)	%	87.93%	93.68%	87.50%	87.60%	86.12%	77.93%
Customer Measures							
Scanpower Customer Price / unit	Cents/kWh	4.59	4.5	4.97	4.60	4.08	4.08
Customer Discounts Paid	\$'000	1,755	2,000	1,878	2,181	1,819	1,810
Network Reliability Measures							
Outage Minutes per Customer per Year (SAIDI B/C)	# Minutes	46.67	83	68.59	71.00	185.20	81.89
Interruptions per Customer per Year (SAIFI B/C)	# Interruptions	0.84	0.93	0.98	0.83	1.67	0.74
Employee Safety Measures							
Disabling Injury Frequency per 100,000 Man Hours	Incidents	1.92	0	2.08	1.09	1.16	4.31



Principal Activities

During the period, Scanpower was primarily engaged in the provision of electricity network distribution services. The Company also operated gas fitting, plumbing, electrical, tree clearance and power line contracting services, in addition to appliance retailing.

Financial Results

The operating profit before discount, interest, and tax for the year was \$2,431,000. The annual net profit was \$326,000 after allowance for tax and after providing a network discount to the value of \$1,755,000.

This compares with an operating profit in 2006 of \$2,929,000, a net profit of \$455,000 and a network discount of \$1,878,000.

Dividend

The Directors recommended payment of a dividend of \$30,000 to the Scanpower Customer Trust for the year ended 31 March 2007.

Directors

Christine Donald was appointed as Director on 1 July 2006.

Remuneration of Directors

Michael Dodson	\$26,000	Reappointed	26/07/05
Allan Benbow	\$17,000	Reappointed	24/07/04
Peter Clayton	\$13,500	Reappointed	01/08/06
Bruce Cottrill	\$13,500	Reappointed	24/07/04
Christine Donald	\$10,125	Appointed	01/07/06

Directors' Interests

Michael Dodson declared an interest in a proposal received from Pulse Utilities Limited, a metering company with whom a family member is employed.

Bruce Cottrill declared a potential interest relating to ongoing work undertaken on behalf of the Electricity and Gas Complaints Commission.

Allan Benbow declared an interest in Metaform Limited, a company developing components for the electricity distribution industry.

There were no further declarations of interest.

Directors Use of Company Information

There were no notices from Directors requesting the use of company information received in their capacity as Directors, which would not have otherwise been available to them.

Executive Employees Remuneration

During the year, the number of non-director employees who received remuneration and other benefits of \$100,000 or more were as follows:

Total remuneration and other benefits	Number of employees
\$200,000 - \$210,000	1
\$110,000 - \$120,000	1
\$100,000 - \$110,000	1

Auditors

In accordance with Section 45 of the Energy Companies Act 1992, Audit New Zealand, on behalf of the Auditor-General, will continue in office with the Directors being authorised to fix their remuneration.

Audit Fees

The fee for the year paid to our Auditors was \$45,995. Fees paid in respect of other auditing services were \$8,057.

Directors' Indemnity and Insurance

The Company has continued to insure its Directors and certain senior managers of the Company against liabilities to other parties (except the Company or a related party of the Company) that may arise from their positions as Directors or senior managers.

MICHAEL DODSON
Chairman



To the readers of Scanpower Limited's Financial Statements and Performance Information for the Year Ended 31 March 2007

The Auditor-General is the auditor of Scanpower Limited (the company). The Auditor-General has appointed me, Laurie Desborough, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and performance information of the company, on his behalf, for the year ended 31 March 2007.

Unqualified opinion

In our opinion:

- The financial statements of the company on pages 9 to 20
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - the company's financial position as at 31 March 2007;
 - the results of its operations and cash flows for the year ended on that date.
- The performance information of the company on page 21 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 31 March 2007.
- Based on our examination the company kept proper accounting records.

The audit was completed in 29 June 2007, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our Independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and performance information did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and performance information. We assessed the results of those procedures in forming our opinion.



Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all required disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statement and performance information.

We evaluated the overall adequacy of the presentation of information in the financial statements and performance information. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the company as at 31 March 2007. They must also give a true and fair view of the results of its operations and cash flows for the year ended on that date. The Board of Directors is also responsible for preparing performance information that gives a true and fair view of service performance achievements for the year ended 31 March 2007. The Board of Directors' responsibilities arise from the Energy Companies Act 1992 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 45(1) of the Energy Companies Act 1992.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

In addition to the audit of the annual financial statements we have carried out another audit assignment for the company. This involved issuing certificates pursuant to the Electricity Information Disclosure Requirements 2004. This assignment is compatible with those independence requirements. Other than this assignment we have no relationship with or interests in the company.

Laurie Desborough
Audit New Zealand
On behalf of the Auditor-General
Palmerston North, New Zealand



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