THEPOWERCOMPANYLTD

Annual Report 2016

PowerNet Field teams replacing a two pole structure on the North Makarewa to Winton 66kV line

Cover photo: Nathan Donnelly, PowerNet

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Registered Office

251 Racecourse Road
PO Box 1748
Invercargill 9840
New Zealand
Telephone: 03 211 1899
Email: enquiries@powernet.co.nz
Website: www.tpcl.co.nz

Principal Bankers

ANZ Bank and Westpac Banking Corporation

Auditors

PricewaterhouseCoopers, Christchurch

Solicitors

AWS Legal

Company Profile

The Power Company Limited (TPCL) has continued to be one of the best-performing predominantly rural networks in New Zealand.

TPCL was formed in 1991 and owns the network assets in the rural Southland/West Otago area, as well as having a 75.1 percent ownership of the OtagoNet (OJV) network and 75.1 percent ownership of the Electricity Southland Limited (ESL) network at Frankton in Queenstown.

TPCL is owned by the customers connected to the network and the Southland Electric Power Supply Consumer Trust exercises the ownership rights on behalf of those customers.

In the past the Company has operated under the names Southland Electric Power Board and Southland Electric Power Supply.

The Regulatory Value of the TPCL network assets is $315 million. This includes 8,845 km of lines and 11,051 distribution transformers with a capacity of 422.1MVA.

TPCL has 35,454 customers and a long, proud history of being Safe, Efficient and Reliable in providing electricity to the people of the south.

In 2015 TPCL, together with sister company Electricity Invercargill Limited (EIL), purchased a 50 percent interest in the Southern Generation Limited Partnership (SGLP), a partnership which owns Mt Stuart Wind Farm near Lawrence and Flat Hill Wind Farm in Bluff. In November 2015, SGLP committed to the purchase of the Aniwhenua hydro-electric power station in the North Island.

TPCL contracts PowerNet Limited (PowerNet) to develop, manage, construct and maintain its network and metering assets. PowerNet's costs are recovered through a charging regime on capital and maintenance work and an agency fee for management services.

PowerNet acts as agent for TPCL and charges line and metering charges to electricity retailers, pays transmission costs and passes the revenue and expenses through to TPCL.

The revenue provides a return on investment to TPCL and recovers TPCL's overheads, depreciation and operating costs.

Other revenue is derived from the capital contributions of customers connecting new installations to the network and the commercial returns from the Company's investments in the OJV, ESL, PowerNet and the new generation assets TPCL owns in conjunction with sister company EIL and Pioneer Energy Limited.

TPCL statistics at 31 March 2016	
Connected Customers - Total	35,454
Residential	26,110
Industrial	190
Commercial	9,154
Network Length	8,845 km
Consumer Density	4.0 customers/km
Number of Distribution Transformers	11,051
Distribution Transformer Capacity	422.1MVA
Distribution Transformer Density	47.7kVA/km
Maximum Demand	135MV
Total Energy Conveyed	761GWh
Regulatory Value	$315 million

Our Stakeholders

PowerNet Limited

TPCL has a 50 percent shareholding in PowerNet, a joint venture with Electricity Invercargill Limited (EIL) which has successfully operated for over 20 years.

PowerNet was established in 1994 by TPCL and EIL to achieve economies of scale through integrated network management and is contracted to manage the network and metering assets of TPCL.

Since its inception, PowerNet has led the way in electricity network management and currently manages assets with a Regulatory Value of $546 million.

PowerNet also manages and undertakes TPCL's multi-million dollar annual capital and maintenance works programme which constitutes the major part of the Business Plan approved by the Company's Directors.

It also operates a 24-hour, 7-day a week System Control centre to provide a high level of monitoring and control of the network operations.

PowerNet publishes its own Annual Report. Its performance is judged by the value and efficiency of its network asset management and business development for the PowerNet networks and their stakeholders.

Electricity Southland Limited

Electricity Southland Limited (ESL) which owns a network at Frankton in Queenstown is an electricity network asset company that was formed in 1995 by TPCL and EIL. TPCL is the majority shareholder of ESL, owning 75.1 percent of the company.

The ESL network continues to grow rapidly, mainly due to customer connections at the new Shotover Country Subdvision, Lakes Edge, Remarkables Park and Shotover Park Developments.

OtagoNet Joint Venture

In 2014, TPCL and EIL took 100 per cent ownership of the OtagoNet Joint Venture (OJV) network.

TPCL is the majority party, holding 75.1 percent of the company. OJV owns the electricity network assets throughout coastal and inland Otago from Shag Point in the north east, inland through to St Bathans and south down to the Chaslands. The joint venture has a Regulatory Value of $159 million.

OJV has 14,866 customers and was formed following the purchase of the electricity network assets from the shareholders of the consumer co-operative company Otago Power Limited in 2002.

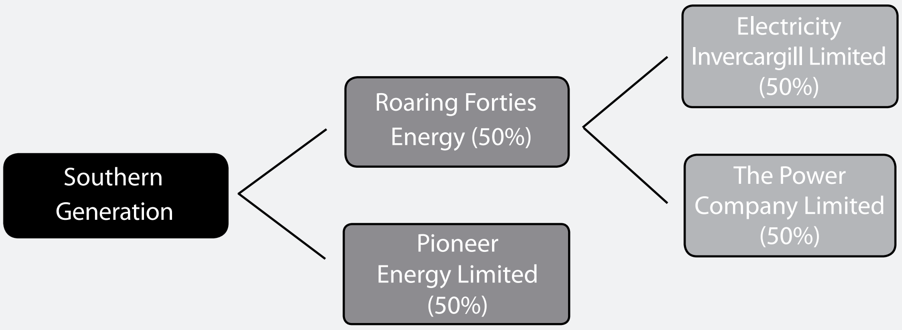
Southern Generation Limited Partnership

Wind energy generation continues to grown in the South. In April 2015 TPCL, EIL and Pioneer Energy Limited joined forces to create the new Southern Generation Limited Partnership (SGLP). The partnership owns two wind generation sites – Mt Stuart near Lawrence and Flat Hill near Bluff. In addition there are five wind testing sites within the Otago and Southland region.

In April 2016 SGLP acquired the Aniwhenua hydro-electric power station on the Rangitaiki River in the Bay of Plenty. This asset, coupled with a long term supply agreement to a power retailer, adds further asset value to the TPCL balance sheet.

This investment and diversification has been a significant strategic development for TPCL.

Our Stakeholders



Southern Generation Limited Partnership structure

The generation output of the wind generation sites and Aniwhenua hydro-electric power station is assessed at 174GWh per annum, with Mt Stuart contributing 22GWh, Flat Hill 25GWh and Aniwhenua 127GWh. Wind and hydro-generation are clean, renewable energies that fit with TPCL's other strategies, including the transition from fossil fuels to renewables where possible.

The output is equivalent to that required by 20,000 residential homes.

This renewable generation in Southland, Otago and Bay of Plenty is managed by our partner Pioneer Energy Limited. EIL and TPCL jointly own 50 percent of SGLP through our joint venture Roaring Forties Energy Limited Partnership (RFELP) and Pioneer Energy Limited owns the remaining 50 percent.

The total value of SGLP is $150 million, made up of $30 million of wind and $120 million of hydro-electricity.

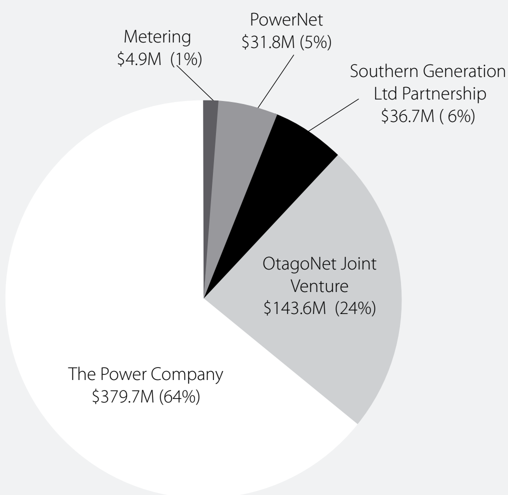
The Return on Investment for RFELP makes this investment by TPCL into distributed renewable energy generation a key strategic asset.

The Power Company Group - Asset Breakdown

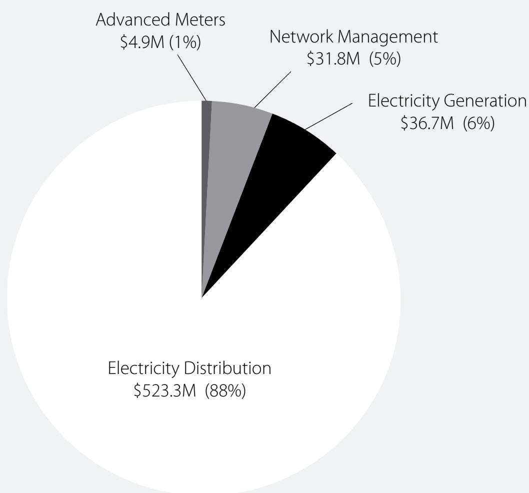
The investment make-up by Asset Investment and Investment Type clearly illustrates the TPCL strategy of diversification being achieved within the electricity sector. Historically the predominant investment was the TPCL electricity network. That investment now makes up 64 percent of the investment portfolio. Furthermore, while electricity distribution as an investment type makes up a majority 88 percent, the significant diversification into electricity generation in particular is significant.

This diversification is important in order to secure long-term sustainable investment returns.

Asset Investment $596.7 million



TPCL Investment Type $596.7 million



The Year in Review

Operational Performance

TPCL continued to reinforce PowerNet's core values of Safe | Efficient | Reliable Power to Communities in the 2015/16 year.

TPCL has continued the growth of previous years, with significant investment in new and existing assets, as well as the joint venture into wind farm power generation and the Aniwhenua hydro scheme in the North Island.

This diversification adds strength and expansion to the TPCL balance sheet.

The Company committed $24.1 million in capital investment during the year, including the Colyer Road Zone Substation completion at Awarua and the Edendale Zone Substation upgrade for the third Fonterra power transformer.

Advanced meter installation capital expenditure on the TPCL network was $3.1 million during the year.

The Isla Bank Zone Substation and 66kV line projects were also completed and livened at the end of March.

Stage two of the Riversdale to Lumsden 33kV line was completed, and we continued our 11kV line replacements across the TPCL network.

System automation on the network will make it easier to restore supply in the case of outages and will give the network more reliability.

Routine and corrective maintenance along with service interruptions dominated our maintenance programme for the year, with TPCL spending $10.8 million on maintenance across the network during 2015/16.

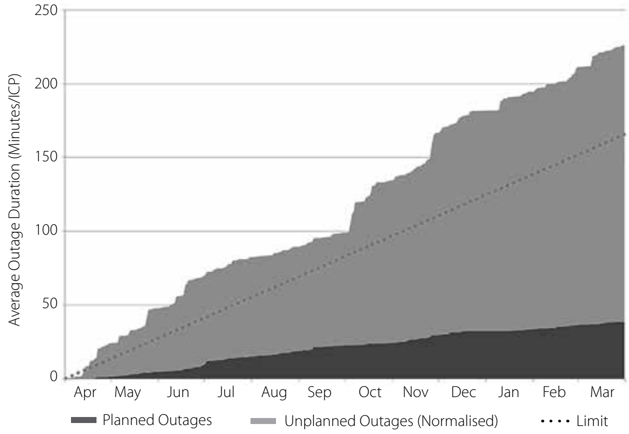
TPCL as a customer-owned electricity lines business is exempt from having to comply with a supply quality limit; but to measure its quality performance, TPCL calculates what its supply quality limit would have been had it not been exempt.

Two standard industry performance measures are applied to the TPCL network.

The normalised System Average Interruption Duration Index (SAIDI) for TPCL of 225.92 minutes exceeded the notional supply quality limit of 165.67.

System Average Interruption Duration Index (SAIDI)

The average total in minutes each customer connected to the network is without supply each year.

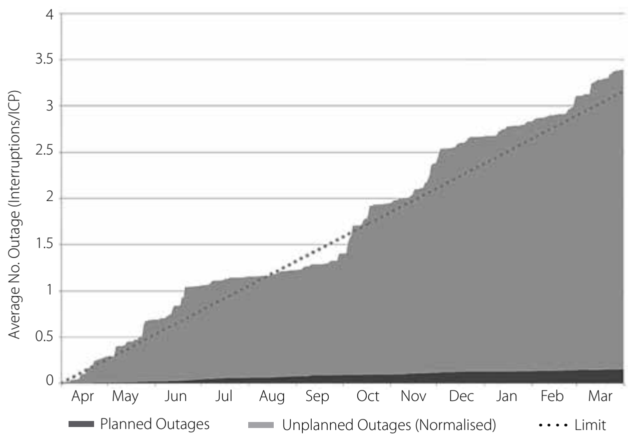


SAIDI			
Planned	Unplanned	Quality Limit	Actual
38.73	187.18	165.67	225.92

The normalised System Average Interruption Frequency Index (SAIFI) for TPCL at 3.39 exceeded the notional supply quality limit of 3.16.

System Average Interruption Frequency Index (SAIFI)

The average number of times each customer connected to the network is without supply each year.



SAIFI			
Planned	Unplanned	Quality Limit	Actual
0.15	3.24	3.16	3.39

These exceedances were largely due to overhead network damage from storm events experienced in 2015/16. One wind storm in October 2015 was the most severe in the region in the last 20 years.

It should be noted the Commerce Commission has imposed a new SAIDI and SAIFI calculation methodology for 2015/16 and future financial years; therefore these SAIDI and SAIFI values cannot be directly compared with figures from 2014/15 and prior.

The Year in Review

Major Projects for the 2015/16 Year	
11kV Lines Replacements	$2,880,000
New Customer Connections	$2,380,000
New Colyer Road Zone Substation Completion	$2,360,000
Riversdale to Lumsden 33kV Line Replacement - Stage 2	$1,900,000
Waikiwi Zone Substation Upgrade - Stage 1	$1,800,000
Edendale Zone Substation Upgrade - Third Fonterra Power Transformer	$1,620,000
New Isla Bank Zone Substation and 66kV Line Completion	$1,140,000

Regulatory Environment

TPCL continues, through PowerNet, to have input to and make representations on issues facing the energy sector such as tree regulations, tariff consolidation, Input Methodologies (IMs), transmission pricing issues, distributed generation pricing principles and low fixed charge regulations.

TPCL and the energy sector in general continue to have serious concerns with the low fixed charge regulations. The politically driven legislated tariff option is providing significant cross subsidies across our consumer groups and promotes inefficient investment in expensive alternative generation compared with lower cost generation options. The regulated tariff is subsidising inefficient investment which will not be in the long term interest of consumers or New Zealand.

The industry is currently encountering proposed regulatory changes in a number of areas including the Commerce Commission's review of the IMs which are the rules that govern the regulation of the distribution sector and the Electricity Authority's (EA) Transmission Pricing Methodology (TPM) and Distributed Generation Pricing Principles (DGPP). With one major exception TPCL is of the view the proposed changes will see improvements in the sector with sensible proposed changes to the IMs and TPM.

The EA's TPM change attempts to deal with a difficult cost allocation area where there will always be winners and losers. TPCL's customers will be materially unaffected by the changes but believe the decision to allocate significant North Island grid upgrades to that region is a fair and efficient outcome. Having consumers pay for upgrades they do not benefit from is not an efficient outcome.

TPCL's major regulatory concern is the EA's late-in-the-piece, proposed change to remove the DGPP during the TPM consultation. The unintended consequences from the proposal that the EA has not considered will be borne out in submissions. The consultation process is inadequate and the EA needs more time to consider the implications including the potential destruction of significant wealth to embedded generation and the damage to "New Zealand Inc.'s" sovereign risk in the minds of potential investors.

The Year in Review

Financial Performance

The Group operating surplus after discount (and before tax and fair value adjustments) increased to $12.153 million for the year ended 31 March 2016, up by $3.083 million from last year's $9.070 million.

The increased operating surplus was due in part to the additional return generated from the increase in the OJV, Otago Power Services Limited (OPSL) and SGLP investments compared with the after tax cost of financing the investments. Other contributors to the increased operating surplus were additional line charge revenue due to growth on TPCL's network and a Consumer Price Index price increase. This was offset by increased depreciation and network maintenance costs.

At the same time as reporting an increased operating surplus after discount for the Group from increases in investments, TPCL is faced with a number of International Financial Reporting Standards (IFRS) requirements to annually revalue onerous contracts and interest rate derivatives and review goodwill associated with investments for signs of impairment. TPCL believes these fluctuating fair value adjustments reduce the focus on the improving operating surplus of the Group.

IFRS requires the cash-flows for an investment to be discounted using an assessment of TPCL's cost of capital which is significantly above the after tax cost of the debt for the investment. Despite OJV providing an increased return to the Group the investment was required to be written down, which occurred in the 2015 financial year. A review of the OJV investment in 2016 resulted in a fair value increase of $5.047 million.

The investments in OJV and OPSL have continued to meet expectations both financially and operationally before and after the September 2014 increase in investment.

The consolidated result for TPCL is:

	31 March 2016 $000	Restated 31 March 2015 $000
Operating Surplus before Discount	19,097	15,970
Less Discount to Customers	(6,944)	(6,900)
Operating Surplus after Discount	12,153	9,070
Less Fair Value Adjustments	(2,661)	(38,963)
Taxation Expense	(2,289)	(1,327)
Net Surplus After Tax	7,203	(31,220)

Acknowledgements

Once again, the TPCL Directors would like to thank the Trustees for their commitment and recognition of what the Company seeks to achieve for our customers.

The ongoing excellent relationship with our Trustees is valued by the Directors and helps TPCL deliver our strategic goals for the network.

Our partnership with EIL in key investments is of great importance to us and we thank the Directors of our sister company for their enduring relationship and more recently acknowledge the positively growing relationship with Pioneer Energy Limited, our partner in the SGLP investments in renewable energy.

TPCL would not be the Company it is without the excellent work of the management and staff of PowerNet, who have successfully managed the network for another year and helped us realise our goal of being one of the best performing predominantly rural networks in New Zealand.

Our Community

Asset Management Plan

The Power Company Limited's Asset Management Plan (AMP) has the purpose of providing a governance and management framework that ensures we meet customer, community and regulatory requirements.

The AMP assists with understanding the supply needs now and in the future so that we manage our assets in a robust and transparent way.

The AMP gives the detailed outline of what projects and operating expenditure the Company will focus on over the next 10 years.

In keeping with the goal of providing Safe, Efficient and Reliable electricity supply to customers, TPCL's AMP identifies the key projects on the network, both in the short and medium term. At the same time, the AMP identifies service levels we will provide for TPCL's stakeholders.

Projects in the AMP recognise the different customers we service, from small residential properties to major industry such as Fonterra's plant at Edendale. The AMP identifies and implements the appropriate option for our customers to their requirements. It also identifies future needs and what TPCL needs to do to match our capacity with growth on our network.

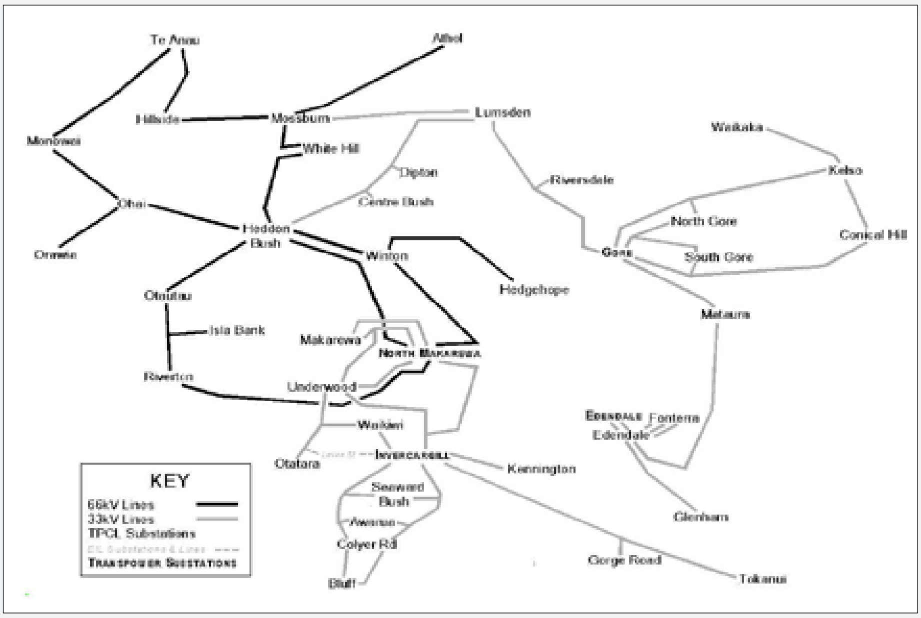
The AMP identifies significant expenditure over the coming decade to ensure TPCL assets are kept up-to-date so that our customers can continue to expect the high level of service that meets their requirements. The AMP can be viewed at: www.tpcl.co.nz

Capital expenditure during the next year is forecasted to be $25.0 million and $20.6 million in following year.

In 2015/16 TPCL customers were given the chance to provide input on their plans through:

- public comment on the AMP,
- the network customer annual telephone survey,
- interviews with some of our larger commercial customers,
- working with customers and developers on new connections to the network,
- through our presence at the 2016 Southern Field Days,

This contact assists TPCL to better understand the needs of its stakeholders, including the community.



Our Community

Community Support

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

- a discount to customers connected to the network
- support to the Southland Warm Homes Trust (SWHT) for insulations and heating installations in the Southland and West Otago region
- donating emergency first aid training equipment to community groups and defibrillators to our communities.

Customer Discount

In September 2015, TPCL with the support of the Southland Power Trust credited a discount of $8 million (including GST) to our customers.

The discount takes the total amount of discounts over the last 15 years to $76 million (including GST). Domestic customers received a discount of 1.78 cents per kWh (including GST) on their annual power consumption, with an average domestic consumer using 9,000 kWh/pa receiving a discount of $160.20 (including GST).

Southland Warm Homes Trust

The annual contribution by TPCL to the SWHT is $125,000. TPCL supports PowerNet's administration services to the SWHT. The SWHT, in conjunction with the Energy Efficiency and Conservation Authority (EECA), has carried out more than 6,000 insulation and heating retrofits in Southland and West Otago homes since 2008.

Funding under EECA's Healthy Homes programme is targeted at those who stand to benefit most from having their homes insulated; those being low income households with high health needs, including families with children and the elderly. Landlords with eligible tenants are included but are required to make a contribution.

To be eligible, homes must have been built prior to 1 January 2000, occupants require a Community Services Card and those with high health needs to be referred through an approved referral service.

From 1 July 2016 Central Government has announced changes to EECA's funding and narrowed the eligibility criteria for the Healthy Homes programme to apply to landlords with eligible tenants only. The criteria is expected to tie in with the requirements of landlords under the Residential Tenancies Amendment Act 2016 minimum insulation requirements for rental properties.

In addition to the continued EECA/SWHT programme, SWHT and service provider Awarua Synergy have offered a health subsidy of up to $2,000 for households that install insulation.

Southland Power Trust

The Southland Power Trust was established in December 1997 to hold the shares in TPCL on behalf of all customers 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 customers 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)

Stuart Baird

Stephen Canny

Carl Findlater

David Rose

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 a Director of PowerNet Limited, Chair of the OtagoNet Joint Venture Governing Committee and a Member of the Institute of Directors Otago/Southland Branch Committee.

Alan is also a Chartered Fellow of the Institute of Directors.

Duncan Fea BCom CA

Duncan is a Regional Managing Principal in Crowe Horwath, Chartered Accountants and Business Advisors.

He has a number of directorships which include PowerNet Limited, Peak Power Services Limited and Southern Generation GP Limited. He is a member of the OtagoNet Joint Venture Governing Committee and is a past Director of Pioneer Generation Limited and Queenstown Airport Corporation Limited.

Duncan is a Chartered Fellow of the Institue of Directors.

Douglas Fraser BSc (Chemistry)

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

He is Deputy Chair of PowerNet Limited, Chair of Otago Power Services Limited until its amalgamation with PowerNet Limited on 31 March 2016 and a member of the OtagoNet Joint Venture Governing Committee. Previous governance roles include NZ Wool Board, Wools of NZ, Woolpro and AgITO.

Doug is a Chartered Fellow 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 a Director of PowerNet Limited.

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

Maryann is a Chartered Fellow of the Institute of Directors.

Donald Nicolson

Don joined the Board of The Power Company Limited in 2015. He is also a Director of PowerNet Limited.

He farms near Invercargill, is a former Trustee of the Southland Electric Power Supply Consumer Trust and a former local and national President of Federated Farmers of New Zealand.

Don 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 2016.

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 $7,203,000. No dividends have been paid out or declared during the year by the Group.

State of Company's Affairs

The Directors consider the state of the Company's affairs to be satisfactory.

Directors

The Directors are appointed by the Shareholder.

Directors' Interests

The following entries were made in the Interests Register of the Company with regard to the Directors:

General:

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

(a) Owner, either alone or jointly with others.

(b) Parent, child or spouse of another person who may have a material interest in a property.

(c) Director, officer or shareholder of a body corporate which may have a material interest in a property.

(d) Trustee or beneficiary of a trust which may have a material interest in a property.

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

Director	Company	Position
Duncan Fea	Crowe Horwath	Principal
	Electricity Southland Limited	Director
	E Type Engineering Limited	Director
	JK's & WBE Limited	Director
	Last Tango Limited	Director
	OtagoNet Joint Venture	Member, Governing Committee
	OtagoNet Properties Limited	Director
	OtagoNet Limited	Director
	Peak Power Services Limited	Director
	PowerNet Limited	Director
	Roaring Forties Energy GP Limited	Director
	Southern Genereation GP Limited	Director
Douglas Fraser	Electricity Southland Limited	Director
	Last Tango Limited	Director
	OtagoNet Joint Venture	Member, Governing Committee
	OtagoNet Properties Limited	Director
	OtagoNet Limited	Director
	Otago Power Services Limited	Chair
	PowerNet Limited	Deputy Chair
	Roaring Forties Energy GP Limited	Director
Alan Harper	AWS Legal	Partner
	Barnes Oysters Limited	Director
	Campbelltown Seafoods Limited	Director
	Electricity Southland Limited	Chair
	GWD Russells Limited	Director
	Last Tango Limited	Director
	OtagoNet Joint Venture	Chair, Governing Committee
	OtagoNet Limited	Director
	OtagoNet Properties Limited	Director
	PowerNet Limited	Director
Maryann Macpherson	Electricity Southland Limited	Director
	Last Tango Limited	Director
	PowerNet Limited	Director
	Venture Southland	Director
Donald Nicolson	Gallop South Incorporated	Chair
	Last Tango Limited	Director
	PowerNet Limited	Director

Alan Harper is a partner of AWS Legal, Solicitors and The Power Company Limited and PowerNet Limited have engaged this firm for legal services on a commercial basis.

Directors' Report

Remuneration of Directors

The following Directors held office during the year under review and were paid fees accordingly:

Alan Harper	-	Chair	Duncan Fea	-	Director
Douglas Fraser	-	Director	Maryann Macpherson	-	Director
Donald Nicolson	-	Director (from August 2015)			

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	$66,000	Maryann Macpherson	$36,000
Duncan Fea	$36,000	Donald Nicolson	$21,786
Douglas Fraser	$36,000		

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	$27,700	Maryann Macpherson	$34,350
Duncan Fea	$24,700	Donald Nicolson	$16,440
Douglas Fraser	$34,975		

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 has been a change in accounting policies applicable from 1 April 2014. This change is outlined in Note 1(r) of the Annual Accounts Other accounting policies 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

Trustees' Report

Governance and Consultation

In our eighteenth year of operation, the Trustees have continued to exercise the ownership rights of The Power Company Limited (the Company) on behalf of its customer owners.

Trustees are very aware of likely risks that are emerging with changes in power pricing, increasing consumer choice and interest in alternative technologies along with the development of more household control over the use of electricity and the effect it may have on the TPCL network and its investments.

As in other years, Trustees had the opportunity to comment on the Company Statement of Intent and Business Plan projections prior to finalisation by the TPCL Directors.

Of particular focus were the Company's Asset Management Plan, capital investments, return on investment and the price and quality of service to customers.

Trustees note the current high level of capital investment in the network and electricity meters that is in excess of the annual depreciation. This is required to meet the new technology requirements for meter providers and the projected network load growth. Trustees also noted the investments and investment commitments by the Company and associated return on investment in renewable generation during the year.

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 is the ownership and management of assets involved in the electrical energy sector or similar products and associated services.

Management of these assets is principally through the joint venture company PowerNet Limited.

Financial

The Group achieved a satisfactory operating surplus of $12.153 million before tax and fair value adjustments (2015: $9.070 million) which was above the target of $9.737 million for the year. The increase reflects the weather related higher line charges from the Company and OtagoNet networks, and lower than budgeted depreciation from both networks.

Trustees noted the effect of the positive fair value adjustment of the OtagoNet investment and change in a deferred tax accounting policy that resulted in a $16.5 million reduction in the 2015 impairment of the OtagoNet investment.

Line Charges

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 customers.

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 customers are fully protected by the nature of the Consumer Trust ownership and the regular election of Trustees by customers.

They are supportive of the price and quality control exemptions for the Company due to its customer ownership under the Commerce Act.

Customers Discount

An explicit discount of $8million (including GST) was credited to customers in September 2015.

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 the overall value of investment in the network assets is maintained.

The Company did not meet the Statement of Intent SAIDI (System Average Interruption Duration Index) target of 155.99 minutes with an actual duration of 225.92 minutes.

Storm events once again contributed to the year-end values recorded. The SAIFI (System Average Interruption Frequency Index) figure of 3.39 times was also above the planned Statement of Intent target of 2.68 times.

OtagoNet Joint Venture

The OtagoNet Joint Venture continues to provide positive cash flows for the Company and, along with OPSL, is performing satisfactorily.

These entities are continuing to meet the profitability projections made at the time of initial 24.5% acquisition in 2002 and the subsequent increase in ownership in September 2014 for OtagoNet to 75.1 percent and OPSL to 50 percent.

Southern Generation Limited Partnership

Investments in renewable generation in the form of a 25 percent interest in a limited partnership investment in two wind farms and the conditional purchase of a hydro generation scheme occurred during the year.

Trustees note with interest the higher return levels of generation investments compared to the relatively low returns of the regulated distribution sector.

Trustees have concerns around the uncertainty created by the Electricity Authority's (EA) continuously changing views on treatment of distributed generation investments, in particular the lack of appropriate consultation and knowledge of the unintended consequences around the proposed carte blanche removal of the distributed generation pricing principles.

Trustees' Report

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 energy assessment and insulation installation.

The SWHT receives funding from local funders and central government via the Energy Efficiency and Conservation Authority (EECA). The Government has continued the funding of the scheme for another two years albeit in a somewhat disappointing watered down version narrowed to landlords with low income tenants.

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 customers.

The Trust is supportive of ETNZ's view about the overly burdensome regulatory regime, particularly the Information Disclosure regime which also affects customer owned businesses. The Trust is of the view the information required is too detailed, costly to provide and unnecessary as it goes beyond the Commerce Commission's requirement to monitor and analyse the performance of lines businesses.

Transparency of Line Charges

Trustees support the transparency of line charges on consumer invoices and through ETNZ continue to lobby with the EA for more transparency. Trustees continue to be disappointed with the lack of progress in this area.

Low Fixed (High Variable) Charge Regulations (LFC)

Trustees share the Company's concerns regarding the continuation of the LFC regulations and the inefficient incentives the politically driven tariff has in promoting investment in expensive solar generation when compared to cheaper solutions offered by generators. The continuation of the tariff is not in the long term interest of customers or New Zealand. The LFC subsidises expensive solar investment by those who can afford it to the detriment of the remaining customers who cannot.

Directors

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 customers.

The Trustees increased the number of Directors on the Board from four to five with the appointment of Don Nicolson from 24 August 2015.

Administration

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

JB Hargest

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 2016 on pages 16 to 43.

Alan Harper
Chair

Maryann Macpherson
Director

For and on behalf of the Board of Directors

14 July 2016

Statement of Service Performance

For the Year Ended 31 March 2016

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

	GROUP				
	Target	Achievement			
				Restated	
	2016	2016		2015	
	$000	$000		$000	
Financial Measures		Inclusive of Discount	Exclusive of Discount	Inclusive of Discount	Exclusive of Discount
Operating Surplus Before Tax and Fair Value Adjustments	9,737	12,153	19,097	9,070	15,970
EBIT before Fair Value Adjustments to Assets before Fair Value Adjustments %	3.58%	3.54%	4.73%	2.23%	3.33%
Surplus (Deficit) Before Tax		9,492	16,438	(29,893)	(22,993)
EBIT to Total Assets %		3.05%	4.23%	(4.27)%	(3.10)%
Return on Equity before Fair Value Adjustments %	3.52%	2.72%	4.93%	6.67%	8.51%
Return on Equity %		2.42%	4.64%	(10.83)%	(8.24)%
Equity to Total Assets %	48.85%	50.71%	51.89%	49.04%	50.21%

Network Reliability Performance

The following results were calculated using information from the Group's non-financial systems, which due to the manual recording processes have inherent limitations relating to the completeness of interruption data and the accuracy of interconnection point (ICP) numbers included in the SAIDI and SAIFI.

	Target	Achievement	
	2016	2016	2015
System Average Interruption Duration Index (SAIDI) The average total time in minutes each customer connected to the network is without supply.			
SAIDI	155.99	225.92	259.08
System Average Interruption Frequency Index (SAIFI) The average number of times each customer connected to the network is without supply.			
SAIFI	2.68	3.39	3.04

Supplementary Information

	2016	2015
Network Statistics		
Length of overhead line	8,474 km	8,448 km
Length of underground cable	371 km	360 km
Total number of interruptions	1,370	1,357
Faults per 100km of line	8.81	7.41
Transformer capacity MVA	422	414
Maximum demand kW	135,117	132,815
Energy into network GWh	755	754
Total consumers	35,454	35,396

Statement of Financial Performance

For the Year Ended 31 March 2016

	Note	GROUP 2016 $000	GROUP Restated 2015 $000
Operating Revenue	(2)	64,117	60,974
Other Income	(2)	4,068	2,895
Operating Expenses	(3)	(52,676)	(51,400)
Finance Costs – Interest	(3)	(8,637)	(4,791)
Share of Profit of Associates and Joint Ventures	(9/10)	12,225	8,292
Operating Surplus Before Discount		**19,097**	**15,970**
Discount to Consumers	(3)	(6,944)	(6,900)
Operating Surplus After Discount		**12,153**	**9,070**
Fair Value Adjustments			
- Increase in OtagoNet Investment value		5,047	-
- Impairment of Goodwill		-	(34,776)
- Unrealised (Loss)/Gain on Derivatives	(3)	(6,195)	(5,090)
- Gain/(Loss) on Onerous Contract	(16)	(1,513)	903
Total Fair Value Adjustments		**(2,661)**	**(38,963)**
Surplus/(Deficit) before Taxation		**9,492**	**(29,893)**
Taxation Expense			
Current	(4)	233	(1,384)
Deferred	(4/15)	(2,522)	57
Net Surplus/(Deficit) After Taxation		**7,203**	**(31,220)**

Statement of Comprehensive Income

For the Year Ended 31 March 2016

	Note	2016 $000	Restated 2015 $000
Net Surplus/(Deficit) After Taxation		**7,203**	**(31,220)**
Other Comprehensive Income			
- Asset Revaluation	(5)	-	2,788
Other Comprehensive Income		**-**	**2,788**
Total Comprehensive Income		**7,203**	**(28,432)**
Net (Deficit)/Surplus Attributable to Minority Interests	(11)	(27)	-
Net Surplus/(Deficit) Attributable To Parent		**7,230**	**(28,432)**

The accompanying notes on pages 21 to 43 form part of and should be read in conjunction with these financial statements.

Statement of Changes in Equity

For the Year Ended 31 March 2016

	Note	GROUP 2016 $000	GROUP Restated 2015 $000
Total Comprehensive Income			
Net Surplus/(Deficit) for the Year comprising:			
Parent Interest		7,230	(31,220)
Minority Interest	(11)	(27)	-
Other Comprehensive Income		-	2,788
		7,203	(28,432)
Contributions from Shareholders			
Minority Interest	(11)	-	1,581
Share Capital	(5)	2,638	-
Distributions to Shareholders			
Parent Interest		-	-
Minority Interest	(11)	-	-
Changes in Equity for the Year		9,841	(26,851)
Equity at Beginning of Year comprising:			
Parent Interest		286,725	315,157
Minority Interest		1,581	-
		288,306	315,157
Equity at End of Year comprising:			
Parent Interest		296,593	286,725
Minority Interest	(11)	1,554	1,581
	(5)	298,147	288,306

The accompanying notes on pages 21 to 43 form part of and should be read in conjunction with these financial statements.

Statement of Financial Position

As At 31 March 2016

	Note	GROUP 2016 $000	GROUP Restated 2015 $000
Equity			
Share Capital	(5)	70,160	67,522
Asset Revaluation Reserve	(5)	82,248	82,309
Retained Earnings	(5)	144,185	136,894
Parent Equity		296,593	286,725
Minority Interest	(11)	1,554	1,581
Total Equity	(5)	298,147	288,306
Represented By:			
Current Assets			
Cash and Cash Equivalents	(6)	183	156
Receivables and Prepayments	(7)	7,490	7,113
Inventories	(8)	91	48
Provision for Tax		2,175	598
Total Current Assets		9,939	7,915
Non Current Assets			
Advances to Associates		-	3,336
Investments in Associates	(9)	-	1,965
Advances to Joint Ventures		31,566	21,325
Investments in Joint Ventures	(10)	155,302	137,443
Investments in Other Entities		239	146
Property, Plant and Equipment	(12)	374,884	358,812
Capital Work in Progress		15,983	20,958
Total Non Current Assets		577,974	543,985
Total Assets		587,913	551,900
Current Liabilities			
Creditors and Accruals	(13)	17,766	19,677
Onerous Contract	(16)	645	558
Interest Rate Swaps	(20)	192	32
Income Tax Payable		-	-
Total Current Liabilities		18,603	20,267
Non Current Liabilities			
Term Loans	(14)	199,141	181,289
Deferred Tax Liabilities	(15)	50,842	48,320
Onerous Contract	(16)	9,876	8,450
Interest Rate Swaps	(20)	11,304	5,268
Total Non Current Liabilities		271,163	243,327
Total Liabilities		289,766	263,594
Net Assets		298,147	288,306

The accompanying notes on pages 21 to 43 form part of and should be read in conjunction with these financial statements.

Statement of Cash Flows

For the Year Ended 31 March 2016

	Note	GROUP 2016 $000	Restated 2015 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers		59,910	56,695
Interest Received		1,148	1,210
Dividends Received		-	-
		61,058	57,905
Cash Was Disbursed To:			
Payments to Suppliers and Employees		35,937	34,615
GST Paid/(Received)		446	(210)
Income Tax Paid		1,345	2,100
Interest Paid		8,367	4,458
		46,095	40,963
Net Cash Flows From Operating Activities	(19)	**14,963**	**16,942**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Property, Plant and Equipment Sales		73	56
Sale of shares in Associates		-	1,660
Proceeds from Disposal of Subsidiary		-	-
		73	1,716
Cash Was Applied To:			
Property, Plant and Equipment Purchases		29,819	29,946
Investment in Joint Venture		5,621	144,125
Purchase of shares in Associate		-	3,565
Purchase of shares in Subsidiary		-	1,700
		35,440	179,336
Net Cash Flows (Used in) Investing Activities		**(35,367)**	**(177,620)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Issue of Shares		2,638	-
Term Loans		17,791	160,799
		20,429	160,799
Cash Was Applied To:			
Dividend Paid		-	-
Term Loans		-	-
		-	-
Net Cash Flows (Used in) Financing Activities		**20,429**	**160,799**
Net Increase/(Decrease) in Cash and Cash Equivalents Held		27	121
Add Opening Cash Brought Forward		156	35
Closing Cash and Cash Equivalents To Carry Forward	(6)	**183**	**156**

The accompanying notes on pages 21 to 43 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 2016

1. Statement of Accounting Policies

Reporting 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 and 10.

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 14 July 2016.

Basis of Preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards, as applicable for profit oriented entities.

The Group is eligible and has elected to report in accordance with Tier 2 for profit accounting standards, NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR) on the basis that it has no public accountability and is not a large for profit public sector entity.

In adopting NZ IFRS RDR, the Group has taken advantage of a number of disclosure concessions.

The transition date was 1 June 2014, therefore the financial statements for the year ended 31 March 2016 are the first prepared under NZ IFRS RDR. In transitioning from NZ IFRS Differential Reporting to NZ IFRS RDR, the Group has complied with NZ IFRS 1 where applicable, and there have been no changes to equity reported under Tier 2 RDR.

New Standards Adopted

There have been no new standards adopted in the current period that will have a material effect on the financial statements.

Specific Accounting Polices

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

(a) Principles of Consolidation

(i) 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.

(ii) 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 share of the joint venture entities' total recognised gains and losses on an equity accounted basis, from the date that joint control commences to the date that joint control ceases.

(iii) 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.

(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 income when the asset is connected to the network.

(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.

(d) Inventories

Inventories are stated at the lower of cost using weighted average cost price, and net realisable value. Obsolete items of inventory (if any) are written off as identified.

(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 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) 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
- Onerous Contract
- Joint Arrangement Classification

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 fair value measurement of the distribution network is categorised under Level 3 of the fair value hierarchy.

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.

(g) 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	2.0-13.5%	Straight line/Diminishing value
Network Assets (excluding land)	1.8-10.0%	Straight line/Diminishing value
Metering Assets	6.7-14.4%	Straight line/Diminishing value
Plant and Office Equipment	5.0-50.0%	Straight line/Diminishing value

(h) 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 cannot subsequently be reversed.

(i) 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.

(j) 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.

(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

(k) 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.

(l) 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.

(m) Operating Leases

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

(n) 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.

(o) Seasonality

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

(p) 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 categorized 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 Group 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 Statement of Financial Position date which are classified as non-current assets. Loans and receivables are included in receivables in the Statement of Financial Position.

(iii) Held-to-Maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group'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 Statement of Financial Position 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.

(q) 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 Statement of Financial Position 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.

(r) Change in Accounting Policy

These financial statements have been restated to reflect a change in accounting policy as follows:

The Company previously applied an accounting policy of not recognising deferred tax on the acquisition of tax transparent accounts and joint ventures. The initial recognition exemption within NZ IAS 12: Taxation was applied. The Directors have decided to change this policy and to recognise deferred tax on the acquisition of tax transparent accounts and joint ventures.

The Directors consider that it is in the interest of the shareholders to have recorded in the financial statements the significant deferred tax asset that arose on the acquisition of 50.6% of OtagoNet Joint Venture. As the acquisition took place on 30 September 2014 the earliest reporting date impacted by this change of policy is from the year ended 31 March 2015. There is no adjustment required to the opening balance sheet, on this basis no third balance sheet has been presented. The financial impacts on the 31 March 2015 financial year are the impairment charge in the income statement reduces by $16.5 million with a consequential decrease in loss before tax. A deferred tax asset of $16.5 million has been recognised against the overall deferred tax liability position with a consequential increase in retained earnings and equity. This new policy has been applied from 1 April 2014 and has been applied consistently in the current period.

2. Income

	GROUP	
		Restated
	2016	2015
	$000	$000
Operating Revenue		
- Network Charges	64,117	60,974
Other Income		
- Interest Revenue	1,148	1,209
- Dividends Received	-	-
- Capital Contributions	2,542	1,494
- Other Revenue	378	192
Total Income	**68,185**	**63,869**

3. Expenses

	GROUP 2016 $000	Restated 2015 $000
Expenses Include:		
Amortisation of Intangibles	-	-
Auditor Remuneration		
- Audit of Financial Report		
- PricewaterhouseCoopers	41	34
- Other Services		
- PricewaterhouseCoopers		
Information Disclosure	22	28
Consultation Fees	10	15
Bad Debts Written Off	-	-
Depreciation		
- Buildings	70	36
- Plant and Office Equipment	1	1
- Motor Vehicles	-	-
- Metering Assets	378	394
- Network Assets	17,810	17,587
Total Depreciation	18,259	18,018
Directors' Fees	196	139
Discount to Consumers	6,944	6,900
Donations	-	-
Employee Benefit Expenses	-	-
Impairment of Goodwill	-	34,776
Increase in OtagoNet Joint Venture Investment Value	(5,047)	-
Finance Expense		
- Interest Expense	8,637	4,791
- Unrealised Loss/(Gain) on Derivatives	6,195	5,090
Total Finance Expense	14,832	9,881
Loss/(Gain) on Onerous Contract	1,513	(903)
Loss on Disposal of Property, Plant and Equipment	390	592
Network Costs	15,081	14,137
Operating Lease Expenses	-	-
Transmission Costs	15,629	16,069

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 Group.

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.

		GROUP	
	Note	2016 $000	Restated 2015 $000
Operating Surplus/(Deficit) Before Income Taxation		**9,492**	**(29,893)**
Income Not Taxable			
- Equity Accounted Earnings of Associates		(1,117)	(586)
- Other		(229)	(49)
- Impairment of Goodwill		-	34,776
Expenses Not Deductible		85	481
Taxable Income		**8,231**	**4,729**
Prima Facie Taxation at 28%		2,304	1,324
Made up of:			
Current Tax		(218)	1,381
Deferred Tax	(15)	2,522	(57)
		2,304	1,324
Under/(Over) Provisions in Prior Years			
Current Tax		(15)	3
Deferred Tax		-	-
Taxation Expense for Year		**2,289**	**1,327**
Effective Tax Rate		**27.8%**	**-**

5. Equity

The authorised and issued share capital comprises 70,160,000 ordinary shares which are fully paid up and are not subject to a parvalue. All shares have the same rights and privileges.

	GROUP	
		Restated
	2016	2015
	$000	$000
Share Capital		
Opening Balance	67,522	67,522
Shares Issued	2,638	-
Closing Balance	**70,160**	**67,522**
Minority Interest	**1,554**	**1,581**
Asset Revaluation Reserve		
Opening Balance	82,309	79,698
Revaluation	-	2,788
Revaluation Write Downs due to Asset Disposal	(61)	(177)
Closing Balance	**82,248**	**82,309**
Retained Earnings		
Opening Balance	136,894	167,937
Net Surplus/(Deficit) for the Year	7,230	(31,220)
Revaluation Write Downs due to Asset Disposal	61	177
Closing Balance	**144,185**	**136,894**
Total Equity	**298,147**	**288,306**

The $2,788,000 asset revaluation relates to a revaluation of the OtagoNet network assets, less the deferred tax impact of that revaluation.

6. Cash and Cash Equivalents

	GROUP	
		Restated
	2016	2015
	$000	$000
Current Account	183	156
Short Term Bank Deposits	-	-
Total Cash and Cash Equivalents	**183**	**156**

7. Receivables and Prepayments

Trade Debtors	6,778	6,578
GST Receivable	664	493
Prepayments	48	42
Total Receivables and Prepayments	**7,490**	**7,113**

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 Statement of Financial Position date to determine whether there is any indication of impairment. If any indication exists, the receivable's recoverable amount is estimated.

At balance date 1% of the Group's trade receivables were 30-90 days passed due, 0% of the Group's trade receivables were > 90 days passed due. As most of these amounts are expected to be recovered, no provision for impairment has been created.

8. Inventories

Network Spares and Sundry Network Consumables	91	48

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 2016	Percentage Held By Group 2015	Balance Date
Otago Power Services Limited	New Zealand	-	50.0%	31 March

	GROUP 2016 $000	GROUP Restated 2015 $000
Interests in associate entities are as follows:		
Carrying Amount at Beginning of Year	1,965	4,536
Dividends from Associates	(500)	(1,839)
Share of Equity Accounted Earnings of Associates	507	538
Disposal of Associate	(1,972)	-
Transfer Associate to Subsidiary	-	(3,173)
Goodwill on Acquisition	-	1,410
Investment in Associates	-	493
Carrying Amount at End of Year	**-**	**1,965**

The 50% shareholding in Otago Power Services Limited was purchased by PowerNet on 16 February 2016. Following the completion of the acquisition, Otago Power Services Limited was amalgamated with PowerNet Limited on 31 March 2016.

The Group's advances to Associates of $0 (31 March 2015: $3,336,000) are repayable on demand but with a 13 month notice period. The advances incur interest at 2% above the 90 day bank bill rate.

On 30 September 2014 the Group purchased an additional 47.8% shareholding in Otago Power Services Limited (a contracting company). On 31 March 2015, 22.3% of this shareholding was sold to leave a shareholding of 50%. Goodwill recognised in the acquisition was $1,410,000.

On 31 March 2015 the Group purchased an additional 25.1% of Electricity Southland Limited shareholding and this entity was then treated as a subsidiary. The tables below include Electricity Southland Limited revenue and expense figures in 2015.

The Group's share of the results of its associate entities is as follows:

	2016	2015
Share of Surplus before Taxation	507	861
Less Taxation Expense	-	(323)
Total Recognised Revenues and Expenses of Associates After Tax	**507**	**538**

10. 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 2016	2015	Balance Date
PowerNet Limited Group*	New Zealand	50%	50%	31 March
OtagoNet Joint Venture	New Zealand	75.1%	75.1%	31 March
Roaring Forties Energy Limited Partnership**	New Zealand	50%	-	31 March

*The PowerNet Limited Group has a 51.7% shareholding in Peak Power Services Limited.
** Roaring Forties Energy Limited Partnership has a 50% interest in the Southern Generation Limited Partnership.

	GROUP 2016 $000	Restated 2015 $000
Interests in joint venture entities are as follows:		
Carrying Amount at Beginning of Year	137,443	38,254
Goodwill on Acquisition	-	43,895
Impairment of Goodwill	-	(34,776)
Net Goodwill on Acquisition of OtagoNet Joint Venture	-	9,119
Investment in Joint Ventures	10,588	82,708
Revaluation of OtagoNet Joint Venture	-	3,872
Increase in OtagoNet Joint Venture Investment value	5,047	-
Share of Equity Accounted Earnings of Joint Ventures	11,717	7,754
Less Drawings	(7,265)	(4,264)
Reversal of Gain on Intragroup Restructure	(2,228)	-
Carrying Amount at End of Year	**155,302**	**137,443**

The Group's advances to joint ventures of $31,566,000 (31 March 2015: $21,325,000) are repayable on demand but with a 13 month notice period. The advances incur interest between 2.00% and 2.50% above the 90 day bank bill rate.

The recoverable amount of the OtagoNet Joint Venture investment is based on fair value less costs to sell. The fair value used is the equity valuation of OtagoNet Joint Venture together with Electricity Southland Limited as prepared by Ernst & Young using free cash flows methodology.

The key assumptions management has based the fair value on are:
- The discount rate used was 5.8%, being the long term nominal risk free rate provided by Treasury for accounting valuation purposes.
- The CPI increases used were 2.0%
- The corporate tax rate used was 28%
- The sustainable growth adjustment used was 0.8%

On April 2015 the Group took a 25% interest in the Southern Generation Limited Partnership. This partnership was formed to invest in electricity generation opportunities. During the year, the partnership completed the acquisition of the Mount Stuart and Flat Hill wind farms. The partners also entered in a conditional agreement to purchase the assets relating to Aniwhenua Hydro Station where a deposit payment was made during the period.

11. Minority Interest

	GROUP 2016 $000	GROUP Restated 2015 $000
Opening Balance	1,581	-
Minority Interest Investment in Shares	-	1,619
Minority Interest Share of Net Loss	(27)	-
Minority Interest Acquisition of Subsidiary	-	(38)
Closing Balance	**1,554**	**1,581**

The Minority Interest relates to Electricity Southland Limited.

12. Property, Plant and Equipment

	GROUP					
	Land $000	Buildings $000	Plant and Office Equipment $000	Network Assets $000	Meters $000	Total $000
Cost or Valuation						
Balance at 1 April 2014	202	436	22	370,417	6,411	377,488
Acquisition of Subsidiary	-	-	-	10,551	-	10,551
Additions	34	4,180	-	23,674	190	28,078
Disposals	-	-	-	(785)	-	(785)
Balance at 31 March 2015	**236**	**4,616**	**22**	**403,857**	**6,601**	**415,332**
Balance at 1 April 2015	236	4,616	22	403,857	6,601	415,332
Additions	-	231	-	31,470	3,094	34,795
Disposals	-	(88)	-	(384)	(1,046)	(1,518)
Balance at 31 March 2016	**236**	**4,759**	**22**	**434,943**	**8,649**	**448,609**
Depreciation and Impairment Losses						
Balance at 1 April 2014	-	57	16	34,021	3,415	37,509
Change to Subsidiary	-	-	-	1,128	-	1,128
Depreciation for year	-	36	1	17,588	394	18,019
Disposals	-	-	-	(136)	-	(136)
Balance at 31 March 2015	**-**	**93**	**17**	**52,601**	**3,809**	**56,520**
Balance at 1 April 2015	-	93	17	52,601	3,809	56,520
Depreciation for year	-	70	1	17,810	378	18,259
Disposals	-	(54)	-	(83)	(917)	(1,054)
Balance at 31 March 2016	**-**	**109**	**18**	**70,328**	**3,270**	**73,725**
Carrying Amount/Book Value						
Book Value 31 March 2015	**236**	**4,523**	**5**	**351,256**	**2,792**	**358,812**
Book Value 31 March 2016	**236**	**4,650**	**4**	**364,615**	**5,379**	**374,884**

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

31 March 2015	236	4,523	5	244,884	2,792	252,440
31 March 2016	236	4,650	4	258,243	5,379	268,512

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 were 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 arose from expansionary growth in the network after the date of the valuation.
- The corporate tax rate used was 28%.
- The weighted average cost of capital (WACC) used was 7.5%.
- The sustainable growth adjustment used was 0.5%.

13. Creditors and Accruals

	GROUP 2016 $000	Restated 2015 $000
Trade Creditors	6,818	6,669
Accruals	8,535	10,587
Bonds	200	200
Revenue in advance	2,213	2,221
Total Creditors and Accruals	**17,766**	**19,677**

14. Term Loans

ANZ Committed Cash Advance	95,880	175,230
Westpac Revolving Cash Advance	99,180	-
Advance – Southland Electric Power Supply Consumer Trust	2,361	4,939
Advance – Electricity Invercargill Limited	1,720	1,120
	199,141	181,289

The Group has a Committed Cash Advance Facility of $100 million (31 March 2015: $190 million) with ANZ. The facility has a revolving three year term and is extendable annually by agreement between the Group and ANZ.

The Group has a Revolving Cash Advance Facility of $110 million (31 March 2015:$0) with Westpac. The facility has a revolving two year term and is extendable annually by agreement between the Group and Westpac.

The facilities provide for drawdowns to be made ranging from overnight to six months and are subject to interest rates at Bank Bill Buy Rates plus a margin. The facilities are unsecured and subject to a Deed of Negative Pledge.

At balance date the Group had active interest rate swaps on the above facilities which total $100 million (31 March 2015: $102 million) at interest rates between 4.12% and 5.09%, excluding bank margins.

Advance - Southland Electric Power Supply Consumer Trust
The Group 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 Electricity Southland 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.

15. Deferred Tax Liabilities

		GROUP	
		2016 $000	Restated 2015 $000
Opening Balance		48,320	63,370
Charged to Profit and Loss	(4)		
- Temporary Difference Reversals Depreciation		1,022	(726)
- Temporary Difference Reversals Other		-	669
- Temporary Difference Reversals OtagoNet Investment Restatement		1,500	(16,500)
Charged to Equity			
- Revaluation Adjustment		-	1,085
- Purchase of Subsidiary		-	422
Total Deferred Tax Liabilities		**50,842**	**48,320**

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

16. Provision for Onerous Contract

Provision for Onerous Contract		
- Current Portion	645	558
- Non-current Portion	9,876	8,450
Provision for Onerous Contract	**10,521**	**9,008**

A liability had been recognised in relation to the Group's obligations under an onerous contract agreement. A provision of $10,521,000 (2015: $9,008,000) has been established for this onerous contract. A Deferred Tax Asset of $2,946,000 (2015: $2,522,000) has also been recognised in relation to this onerous contract.

The following valuation assumptions were adopted;

- The discount rate used was 6.87% being derived from the long term nominal risk free rate provided by Treasury for accounting valuation purposes used as an input into a weighted average cost of capital calculation.
- The CPI increases used were 1.62%
- The corporate tax rate used was 28%
- The sustainable growth adjustment used was 0.5%

17. Commitments

	GROUP 2016 $000	GROUP Restated 2015 $000
Operating Lease Commitments		
Operating Lease Commitments are payable as follows:		
Not later than one year	38	40
Later than one year and not later than two years	38	40
Later than two years and not later than five years	113	120
Later than five years	1,353	1,479
Total Operating Lease Commitments	**1,542**	**1,679**

Operating leases consist of Transpower leases.

Capital Commitments

The Group has capital expenditure contracted for but not provided for in the financial statements.

	2016 $000	Restated 2015 $000
Capital Commitments	15,604	23,523
Total Capital Commitments	**15,604**	**23,523**

18. Contingent Liabilities

The Group has a contingent liability as at 31 March 2016 of $825,000 (2015: $825,000). This liability relates to an agreement with Smart Co, for the Group to provide a subordinated loan to Smart Co once a number of terms have been met.

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

The following is reconciliation between the Net Surplus After Taxation shown in the Statement of Financial Performance and the Net Cash Flows From Operating Activities.

	GROUP	
	2016 $000	Restated 2015 $000
Net Surplus (Deficit) After Taxation	7,203	(31,220)
Plus/(Less) Non Cash Items:		
Depreciation	18,258	18,019
Deferred Taxation	2,522	57
Loss on Disposal of Property, Plant and Equipment	390	592
Increase in OtagoNet Joint Venture Investment value	(5,047)	-
Impairment of Goodwill	-	34,776
Interest Rate Swaps	6,195	5,092
Net SEPSCT transactions	63	200
Onerous Contract	1,513	(903)
Share of Profit of Associates and Joint Ventures	(12,225)	(8,292)
	11,669	49,541
Plus/(Less) Net Movements in Working Capital:		
Creditors and Accruals	(1,903)	(1,788)
Receivables, Prepayments and Work in Progress	(386)	1,177
Inventories	(43)	(48)
Income Tax Payable	(1,577)	(720)
	(3,909)	(1,379)
Net Cash Flows From Operating Activities	**14,963**	**16,942**

20. 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.

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.

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 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.

Foreign Exchange Risk

The Group is not subject to foreign exchange risk.

Fair Value

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

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.

21. Transactions With Related Parties

The Power Company Limited has an interest in the PowerNet Limited Joint Venture, the OtagoNet Joint Venture, Electricity Southland Limited, and the Southern Generation Limited Partnership through their wholly owned subsidiary company Last Tango Limited. PowerNet Limited has an interest in Peak Power Services Limited.

All transactions between the Group and related parties relate to the normal trading activities.

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

Material transactions the Group have had with the abovementioned parties during the year are as follows:

	GROUP	
		Restated
	2016	2015
	$000	$000
Goods and Services Supplied to:		
PowerNet Limited (Joint Venture)	1,354	1,083
Receivables Outstanding at Balance Date (GST incl):		
PowerNet Limited (Joint Venture)	335	298
Goods and Services Supplied by:		
PowerNet Limited (Joint Venture)	41,060	39,514
Creditors Outstanding at Balance Date (GST incl):		
PowerNet Limited (Joint Venture)	6,628	7,812
Advances Provided to/(Due from):		
Southland Electric Power Supply Consumer Trust (Other Related Party)	209	131
OtagoNet Joint Venture (Joint Venture)	-	2,175
PowerNet Limited (Joint Venture)	12,763	10,500
Advances Provided from:		
Southland Electric Power Supply Consumer Trust (Other Related Party)	270	331
PowerNet Limited (Joint Venture)	5,460	9,480
Peak Power Limited (Joint Venture)	200	50

21. Transactions With Related Parties *continued*

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 and PowerNet 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 $145,000 excl GST (31 March 2015: $344,000) of which $6,000 incl GST (31 March 2015: $11,000) is owing at balance date.

PowerNet Limited and The Power Company Limited use Crowe Horwath as their tax advisors of which Duncan Fea is a Principal. The Power Company Limited's share of fees for taxation advice paid to Crowe Horwath during the year amounted to $10,000 excl GST (31 March 2015: $8,000) of which $2,000 incl GST (31 March 2015: $0) is owing at balance date.

All transactions between The Power Company Limited, PowerNet Limited, OtagoNet Joint Venture, AWS Legal and Crowe Horwath relate to normal activities.

The Southland Electric Power Supply Consumer Trust owns 100% of the shares in The Power Company Limited. The Power Company Limited has a $2,361,000 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 $209,000 (31 March 2015: $131,000). 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 $270,000 (31 March 2015: $332,000) has been added to the loan.

Key Management Personnel

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

	GROUP	
	2016 $000	Restated 2015 $000
Salaries and Short-term Employee Benefits	196	139

Executive staff remuneration comprises salary and other short-term benefits.

22. Subsequent Events

On 29 April 2016 the Group via its 25% interest in the Southern Generation Limited Partnership completed the acquisition of the assets relating to the Aniwhenua Hydro Station in the Bay of Plenty region. The final payment amount represented an increase in the Group assets at balance date of less than 5%. The acquisition was financed through an increase in the ANZ Committed Cash Advance Facility and the Westpac Revolving Cash Advance Facility.

There are no further material subsequent events that have arisen since the end of the financial year to the date of this report.

Auditors' Report

PricewaterhouseCoopers
5 Sir Gil Simpson Drive
PO Box 13244
Christchurch 8053
New Zealand
Telephone +64 3 374 3000
Facsimile +64 3 374 3001
www.pwc.com.nz

Independent Auditors' Report

to the shareholders of The Power Company Limited

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of The Power Company Limited ("the Company) on pages 17 to 43, which comprise the consolidated statement of financial position as at 31 March 2016, the consolidated statement of financial performance, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements that include significant accounting policies and other explanatory information for the Group. The Group comprises the Company and the entities it controlled at 31 March 2016 or from time to time during the financial year.

Directors' Responsibility for the Consolidated Financial Statements

The Directors are responsible on behalf of the Company for the preparation and fair presentation of these consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime and for such internal controls as the Directors determine are necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company's preparation and fair presentation of the consolidated financial statements 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'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 consolidated financial statements.

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

In addition to the audit, and our role as auditors of its associates and joint ventures, we have carried out assignments in the areas of compliance with the Electricity Distribution (Information Disclosure) Determination 2012 and other regulatory requirements of the Commerce Act 1986, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with, or interests in, the Company or any of its associates or joint ventures.

Auditor’s Report continued

Opinion

In our opinion, the consolidated financial statements on pages 17 to 43 present fairly, in all material respects, the financial position of the Group as at 31 March 2016, and its financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime.

Restriction on Use of our Report

This report is made solely to the Company’s shareholders, as a body, in accordance with the Companies Act 1993. Our audit work has been undertaken so that we might state 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.

PricewaterhouseCoopers

Chartered Accountants
14 July 2016 Christchurch

THEPOWERCOMPANYLTD