Annual Report 2018

THE POWER COMPANY LTD

Front cover photos: Nathan Donnelly (PowerNet) and MVM project manager Brent Robinson.


Flat Hill wind farm near Bluff.

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Registered Office

251 Racecourse Road
P O Box 1748
Invercargill 9840
New Zealand
Telephone: 03 2111899
Email: enquiries@powernet.co.nz
Website: www.tpcl.co.nz

Principal Bankers

ANZ Bank New Zealand Ltd and
Westpac New Zealand Ltd

Auditors

PricewaterhouseCoopers
Christchurch

Solicitors

AWS Legal
Invercargill

Company Profile

The Power Company Ltd (TPCL) continues to be one of New Zealand's best-performing predominantly rural networks.

Established in 1991, TPCL owns the network assets in rural Southland and West Otago. It also has a 75.1% ownership of the OtagoNet (OJV) network, 75.1% ownership of the Electricity Southland Ltd (ESL) network at Frankton in Queenstown and a 25% share in the Southern Generation Ltd Partnership (SGLP).

The Regulatory Value of TPCL's network assets is $341 million. This includes 8,826km of lines and 11,120 distribution transformers with a capacity of 433MVA.

TPCL has 35,799 customers and a long, proud history of providing safe, efficient and reliable electricity to the people of the south. In the past, the company has operated as the Southland Electric Power Board and Southland Electric Power Supply.

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

Investment and diversification in new generation assets has also been an important strategy for TPCL over the recent years. TPCL has a 25% shareholding in SGLP. SGLP's acquisition of hydro power assets is adding significant value to the company's balance sheet.

TPCL contracts PowerNet Ltd (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 through an agency fee for management services.

PowerNet 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 overheads, depreciation and operating costs.

Other revenue is derived from the capital contributions of customers connecting new installations to the network, the commercial returns from the company's investments in OtagoNet Joint Venture (OJV), Electricity Southland Ltd (ESL) and PowerNet, as well as the new generation assets TPCL owns with EIL and Pioneer Energy Ltd.

In 2017-18, TPCL spent $38.7 million on capital and maintenance works to enhance and improve the network. This was slightly higher than what was spent in 2016-17.

TPCL Statistics as at 31 March 2018	
Connected customers – total	35,799
Residential	26,304
Industrial	208
Commercial	9,287
Network length	8,826km
Consumer density	4.1 customers/km
Number of distribution transformers	11,120
Distribution transformer capacity	433MVA
Distribution transformer density	49.1kVA/km
Maximum demand	141MW
Total energy conveyed	759GWh
Regulatory Value	$341 million

Our Investments

PowerNet Ltd

In a joint venture with EIL, TPCL has a 50% shareholding in electricity asset management company, PowerNet.

TPCL and EIL established PowerNet in 1994 to achieve economies of scale through integrated network management. PowerNet is contracted to manage the TPCL network—primarily its capital and maintenance works programme—and its metering assets.

Since its inception, PowerNet has led the way in electricity network management and currently manages assets with a Regulatory Value of $587 million. It is New Zealand's fourth largest electricity asset management company.

PowerNet's performance is judged by the value and efficiency of its network asset management and business development.

PowerNet operates a local 24-hour, 7-day a week, system control facility that closely monitors and controls network operations and provides a faults call centre service.

In April 2017, PowerNet increased its shareholding in Peak Power Services Ltd to over 90%. This increase in shareholding is an important development for PowerNet as it grows its presence in the fast-growing Queenstown Lakes area.

Electricity Southland Ltd (ESL)

Electricity network asset company ESL is based in Central Otago and was established in 1995 by TPCL and EIL. ESL's assets now total $19.3 million.

The network continues to expand rapidly as the Queenstown Lakes region develops at pace. This growth is mainly due to new customer connections at the Shotover Country subdivision, Lakes Edge subdivision, Remarkables Park, Shotover Park development, Bridesdale Farm, Hanley's Farm, and Northlake in Wanaka.

The ESL network is managed and maintained by Peak Power Services Ltd. Since 2007, ESL has been Peak Power's largest customer.

TPCL holds a 75.1% share in ESL.

OtagoNet Joint Venture (OJV)

OJV was formed in 2002 after the purchase of electricity network assets from the shareholders of the consumer co-operative company, Otago Power Services Ltd (OPSL).

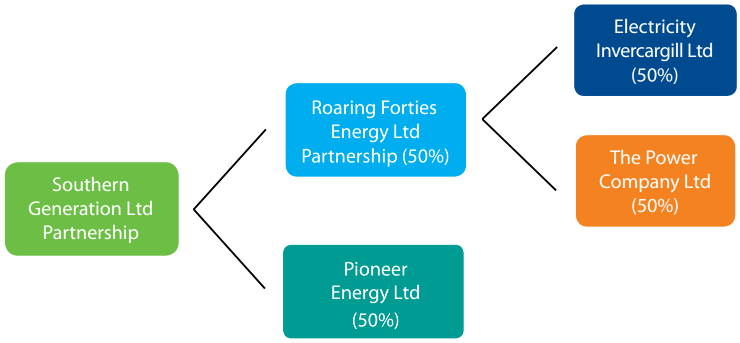
OJV has 14,975 customers spread over a vast area of coastal and inland Otago from Shag Point in the north-east, through to St Bathans and south to the Chaslands. OJV has a Regulatory Value of $169 million.

OJV is jointly owned by TPCL (75.1%) and EIL (24.9%).

Southern Generation Ltd Partnership (SGLP)

Wind and hydro power generation are clean, green renewable energies that fit with TPCL's other strategies, including the transition from fossil fuels to renewables where possible.

In April 2015, TPCL joined with EIL and Pioneer Energy Ltd to create the new SGLP. The partnership owns two wind farms, Mt Stuart near Lawrence and Flat Hill near Bluff. It also owns the Aniwhenua hydro power station on the Rangitaiki River in the Bay of Plenty. The total value of SGLP assets is $138 million.



Southern Generation Ltd Partnership structure

This renewable energy is managed by TPCL's partner, Pioneer Energy Ltd. TPCL and EIL jointly own 50% of SGLP through the joint venture, Roaring Forties Energy Ltd Partnership (RFELP). Pioneer Energy Ltd owns the remaining 50%. The return on investment for RFELP makes this investment by TPCL into distributed renewable energy generation a key strategic asset.

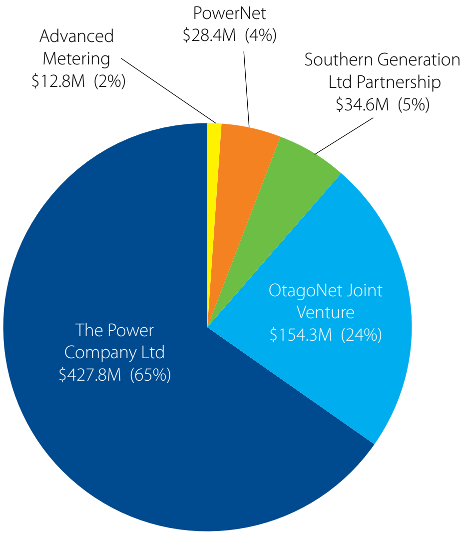
In 2017-18, the generation output of the two wind generation sites and Aniwhenua hydro power station was assessed at 200GWh, an increase of 26GWh compared with 2016-17. Mt Stuart contributed 17GWh, Flat Hill 21GWh and Aniwhenua 162GWh. Low winds over the year contributed to this reduced generation output for the Flat Hill and Mt Stuart wind farms. The generation output for Aniwhenua was higher than the previous year due to increased rainfall in the Bay of Plenty.

Pioneer Energy Ltd is constructing two hydro power stations for SGLP which are due to be commissioned in 2019. These are the Upper Fraser hydro power station in Central Otago with a capacity of 5MW and the Matiri hydro power station 15km north of Murchison with a capacity of 7MW.

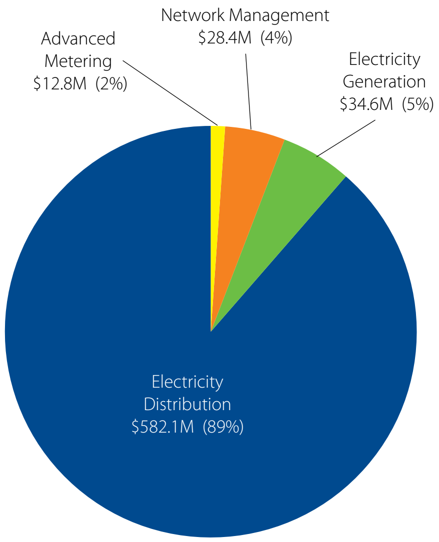
The Power Company Group – Asset Breakdown

The investment make-up by asset investment and investment type clearly illustrates TPCL's strategy of diversification being achieved within the electricity sector. Historically, TPCL's predominant investment was the electricity network. That investment now makes up 65% of the investment portfolio. Furthermore, while electricity distribution as an investment type makes up a majority (89%), there has also been significant diversification into electricity generation. This diversification is important to secure long-term sustainable investment returns.

Asset Investment $657.9 million



Investment Type $657.9 million



The Year in Review

Operational Performance

In 2017-18, significant investment continued in new and existing assets on TPCL's network. Capital expenditure totalled $28.4 million with a further $10.3 million spent on maintenance.

Mataura Valley Milk (MVM)

This significant project is focused on extending the TPCL network to supply the MVM dairy nutrition plant at McNab. Stage one of the project totalling $4.5 million involves installing two new 33kV cables underground from the South Gore zone substation to the plant site. Although these cables will initially operate at 11kV, 33kV cables are being installed to accommodate any requirements for future growth. An 11kV cable will be installed around the MVM plant. A new substation at McNab will also be installed to cater for increased supply needs. The plant will have an initial electrical capacity of 4MVA supplied from the South Gore zone substation.

Oreti Valley Project

This project focuses on extending the 66kV network from Winton to Centre Bush, Dipton, Lumsden and Mossburn zone substations by 2020. Stage four of the project progressed in 2017-18, with the commissioning of the Dipton zone substation in December 2017. This followed the upgrade of the Centre Bush zone substation in 2016-17.

The first section of the Centre Bush to Mossburn 66kV line upgrade is completed (at a cost of $4.7 million) and work is underway to upgrade the line from Dipton to Lumsden. Major civil works for the new Lumsden zone substation are finished with the remainder of the work scheduled for completion in October 2018.

New Customer Connections and Asset Replacements

New customer connections on TPCL's network totalled $2.6 million in 2017-18. This was a slight increase from the 2016-17 year.

In total, $4.8 million was invested in line and pole replacements as part of TPCL's enduring commitment to maintaining a safe and reliable network.

Mobile Substation

TPCL's mobile substation is proving a valuable asset. In 2017-18, it was deployed on the Oreti Valley Project to relieve overloaded network equipment and provide continuity of supply to customers.

Expenditure on TPCL's network

Project	Expenditure
Line and pole replacements	$4,831,000
Centre Bush to Mossburn 66kV line	$4,676,000
Mataura Valley Milk connection - stage 1	$4,532,000
New customer connections	$2,580,000
Lumsden zone substation upgrade to 66kV - stage 1	$2,521,000
Dipton zone substation upgrade to 66kV completion	$1,649,000

SAIDI and SAIFI

As a customer-owned business, TPCL is exempt from complying 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.

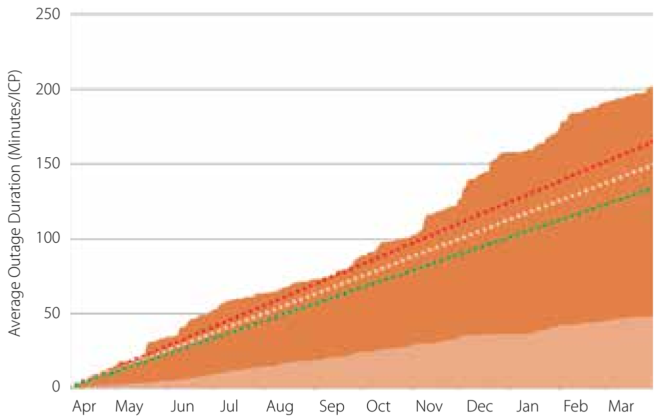
Two standard industry performance measures are applied to the TPCL network.

The normalised SAIDI for TPCL of 202.55 minutes was higher than the supply quality limit of 165.67 due predominantly to a combination of less live-line work, and storm events. All significant events and outages are investigated to identify failure modes. Once identified, improvement plans are implemented.

The normalised SAIFI for TPCL at 2.69 was comfortably below the supply quality limit of 3.16.

System Average Interruption Duration Index (SAIDI)

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



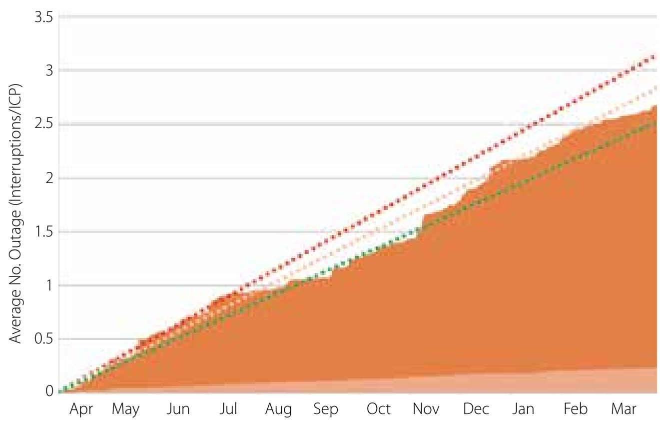
Planned Outages
Unplanned Outages (Normalised)
Cap/Limit

SAIDI

Planned	48.13
Unplanned	154.42
Quality Limit	165.67
Actual	202.55

System Average Interruption Frequency Index (SAIFI)

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



Planned Outages
Unplanned Outages (Normalised)
Cap/Limit

SAIFI

Planned	0.23
Unplanned	2.45
Quality Limit	3.16
Actual	2.69

The Year in Review *continued*

Regulatory Environment

TPCL continues to support PowerNet's work in the regulatory environment, through their direct involvement and also through industry associations such as the Electricity Networks Association. Involvement in various industry working groups provides proactive industry direction in areas that include the sector's two regulators, the Commerce Commission and the Electricity Authority.

There are significant complexities managing the various regulatory priorities of the various industry and other regulators. Examples of some of these work programmes include proposed changes to distribution pricing, improved regulations regarding vegetation management and customer owned lines.

Balancing the quality of supply regulations mandated by the Commerce Commission with the changes in work practices to significantly reduce live line working, overseen by WorkSafe, continues to be a priority and demonstrates where different regulators have different approaches and at times lack alignment and consistency. Further progress is anticipated on transmission pricing and the removal of the low fixed-charge regulations.

As in previous years, TPCL through PowerNet and the wider industry, continues to work proactively with the Commerce Commission, Electricity Authority and WorkSafe to ensure regulations are targeted, efficient and effective and result in safe outcomes.

Financial Performance

The Group operating surplus after discount (and before tax and fair value adjustments) increased to $13.793 million for the year ended 31 March 2018, up from $13.765 million last year.

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

At the same time as reporting an increased operating surplus after discount, TPCL is faced with the International Financial Reporting Standards (IFRS) requirement to review the investment of Last Tango Ltd and goodwill associated with it, for signs of impairment.

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. Unusually, TPCL is required to make a fair value assessment of the cash outflows for the Gore District Council's penny-a-unit onerous contract provision, using a cost of debt discount rate rather than a cost of capital discount rate. This results in a higher value for the onerous contract liability than using a cost of capital discount rate.

The investment in OJV continues to meet expectations both financially and operationally before and after the September 2014 increase in investment.

The consolidated result for TPCL is:

	31 March 2018 $000	31 March 2017 $000
Operating surplus before discount	20,533	20,603
Less discount to customers	(6,740)	(6,838)
Operating surplus after discount	13,793	13,765
Add (Less) fair value adjustments	(1,964)	4,150
Taxation expense	(2,735)	(4,773)
Net surplus after tax	9,094	13,142

Acknowledgements

The ongoing excellent relationship with the Southland Power Trust trustees is valued by directors and helps TPCL deliver its strategic goals.

Directors also recognise TPCL's ongoing collaboration and affiliation with EIL.

TPCL would not be the company it is without the excellent work of PowerNet's management and staff who have successfully managed the network. This helps TPCL realise its goal of being one of the best-performing predominantly rural networks in New Zealand.

Our Community

Asset Management Plan

TPCL's Asset Management Plan (AMP) provides a governance and management framework for the company's customer, community and regulatory requirements. The plan details the projects and operating expenditure for the next 10 years.

TPCL continues to give customers the opportunity to have their say and provide input that enhances its business activities. It does this through an annual telephone customer survey and interviews with some larger commercial customers. It also invites public comment on the AMP. The customer interviews are used to develop AMP's and assist in planning the network to meet customer needs.

The company works closely with customers and developers in the installation of new connections to the TPCL network, to understand their plans and then feed these back into asset management planning. These customer interactions mean TPCL better understands the needs of stakeholders and their feedback benefits network planning.

The TPCL Asset Management Plan can be viewed at: www.tpcl.co.nz

In keeping with TPCL's goal of providing a safe, efficient and reliable electricity supply to customers, the AMP identifies key short to medium-term projects and the service levels that need to be provided and maintained.

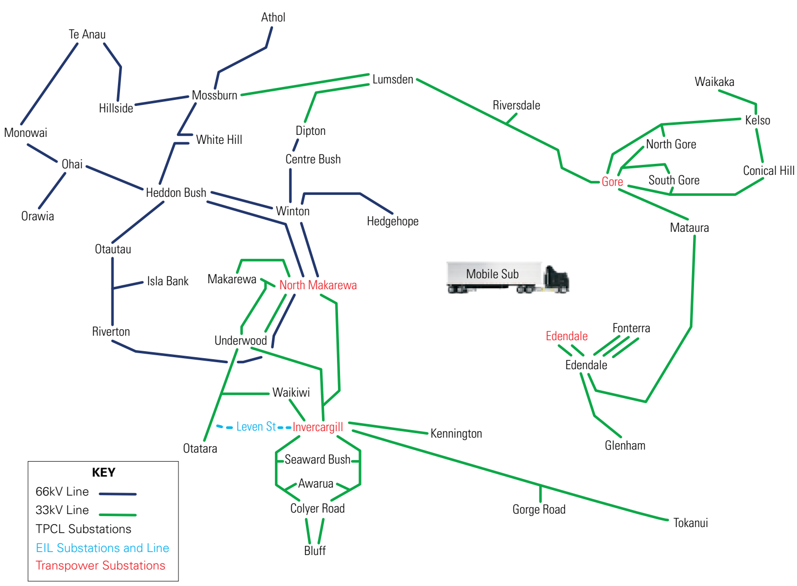
The projects outlined in the AMP recognise the different customers that TPCL services, from small residential properties to major industries. The plan identifies future needs, outlining the best options that meet customers' requirements and provide capacity for projected network growth.

The AMP details significant expenditure over the coming decade to ensure service levels are maintained and improved.

Network capital expenditure during the next 10 years is forecasted at $24.9 million in 2018-19 and $15 to $25 million in the following years.

Investments outlined in the AMP include:

- New customer connections to the network ($2 million annually)
- Completing the supply to the MVM nutritional plant near Gore ($2.2 million)
- Completing work on the Oreti Valley Project, including upgrading 33kV lines to 66kV between Centre Bush and Mossburn and the upgrade of Lumsden zone substations ($6.0 million)
- Upgrading power transformers at Glenham and Gorge Road ($2.1 million)
- Adding a second 33kV supply into Kennington ($1.5 million)
- Upgrading distribution lines in the Waimea plains area to 22kV ($3.5 million)
- Upgrading supply to 22kV from Athol to Kingston ($4.2 million)
- Asset replacements ($8.5 million - $13.5 million annually)
- Quality of supply projects ($0.2 million - $0.8 million annually)
- Safety, environmental and other projects ($0.1 million - $3.1 million annually)



Community Support

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

- A significant discount to customers connected to the network
- Supporting the Southland Warm Homes Trust (SWHT) insulation and heating installations in the Southland and West Otago region
- Providing emergency first aid training equipment to community groups and defibrillators to our communities. In 2017-18 a defibrillator was given to the Five Rivers Café

Customer Discount

TPCL was delighted to again deliver a discount to its customers in 2017, as it has done each year since 2001. Through the discount, a total of $8 million (including GST) was credited to customers' accounts across Southland and West Otago. This is a significant amount of money returning to southern communities and the largest amount of any consumer/community-based entity in the south.

All residential customers connected at midnight on 31 August 2017 received a discount of 1.78 cents per kilowatt hour (including GST) based on the power consumption recorded for their property.

Since 2001 this annual discount has put $92 million back into southern communities.

Southland Warm Homes Trust

The annual contribution to support the Southland Warm Homes Trust (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 completed more than 6,200 insulation and heating retrofits in Southland and West Otago homes since 2008.

Funding under the Healthy Homes Programme is targeted at those who would benefit most from having their homes insulated–low income households with high health needs, including families with children and the elderly.

Under the EECA Rental Programme that ended on 30 June 2018, home owners and landlords with eligible occupants had the cost of insulating their properties subsidised by 50%. To be eligible, homes must have been built prior to 1 January 2000, occupants required a community services card and those with high health needs had to be referred through an approved service. Home owners and landlords with eligible occupants were required to make a 50% contribution towards the insulation cost, with EECA providing 25% and the SWHT providing the remaining 25% from community funding.

The Government has recently announced the Warmer Kiwi Homes programme. This is a new four-year programme targeting home owners and neighbourhoods with low incomes. EECA will administer the $142 million funding committed by the Government through agreements with service providers in each region, such as the SWHT.

In addition to the EECA/SWHT programme, SWHT and Awarua Synergy offer a subsidy of up to $2,000 for households to 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.

Trustees' duties are to act on behalf of shareholders, that is, the customers connected to the network who are the only beneficiaries of both income and capital investment.

Trustees serve a four-year term and elections to fill vacancies are held every two years.

The current trustees are:

Jim Hargest (Chair)

Stuart Baird

Stephen Canny

Carl Findlater

David Rose

Directors' Profiles

Douglas Fraser BSc (Chemistry) (Chair)
Doug farms sheep and dairy cows on 595 hectares in Western Southland.

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

Doug is a chartered fellow of the Institute of Directors.

Duncan Fea BCom CA
Duncan is a managing partner in Crowe Horwath Central Otago, Chartered Accountants and Business Advisors.

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

Duncan is a chartered fellow of the Institute of Directors.

Lachlan McGregor
Locky joined the board of The Power Company Ltd in September 2016. He is also a director of PowerNet Ltd.

Locky is a member of the management team in McGregor Concrete Ltd and is also a director of Mainland Shotcrete Ltd.

He has been an owner of a mountain bike tourist business in Queenstown and part-owner of a concrete pumping company which operated in five locations throughout New Zealand.

Donald Nicolson
Don joined the board of The Power Company Ltd in 2015. He is also a director of PowerNet Ltd and a member of the OtagoNet Joint Venture Governing Committee.

He 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.

Wayne Mackey B.E. (Electrical)
Wayne was CEO of Network Tasman Ltd for 18 years. He has also held directorships with Nelson Electricity Ltd and SmartCo Ltd.

From 1991-1998, he was CitiPower's general manager and prior to that city energy engineer with the Nelson City Council.

Peter Moynihan B.AgSc.
Peter Moynihan brings experience as a director in the agribusiness sector.

He is currently on the board of agricultural cooperative, Ravensdown Ltd, and a director of dairy farming businesses Rathmore Farm Ltd, Aerodrome Farm Ltd and Hacienda Lochiel Ltd.

Since 1993, Peter has held several roles with Westpac NZ Ltd. He is currently the bank's South Island regional agribusiness manager.

Directors' Report

The Directors have pleasure in presenting their Annual Report and Financial Statements for the year ended 31 March 2018.

Principal Activity

The principal activity of the parent entity The Power Company Ltd 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 Ltd, its subsidiaries, associates and joint ventures.

Result and Distribution

The Directors report that the Group's profit after tax and interest for the year under review was $9,094,000. 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	Partner
	Electricity Southland Ltd	Chair
	E-Type Engineering Ltd	Director
	JK's & WBE Ltd	Director
	Last Tango Ltd	Director
	OtagoNet Joint Venture	Chair, Governing Committee
	OtagoNet Ltd	Director
	OtagoNet Properties Ltd	Director
	PowerNet Ltd	Director
	Roaring Forties Energy GP Ltd	Director
	Southern Generation GP Ltd	Director
Douglas Fraser	Electricity Southland Ltd	Director
	Last Tango Ltd	Director
	OtagoNet Joint Venture	Member, Governing Committee
	OtagoNet Ltd	Director
	OtagoNet Properties Ltd	Director
	PowerNet Ltd	Deputy Chair
Alan Harper	AWS Legal	Partner
	Barnes Oysters Ltd	Director
	Campbelltown Seafoods Ltd	Director
	Electricity Southland Ltd	Chair
	GWD Russells Ltd	Director
	Last Tango Ltd	Director
	OtagoNet Joint Venture	Chair, Governing Committee
	OtagoNet Ltd	Director
	OtagoNet Properties Ltd	Director
	PowerNet Ltd	Director
Wayne Mackey	Last Tango Ltd	Director
	PowerNet Ltd	Director
Lachlan McGregor	Last Tango Ltd	Director
	McGregor Concrete Ltd	Manager
	McGregor Group Ltd	Director
	Mainland Shotcrete Ltd	Director
	PowerNet Ltd	Director
	Proact Ltd	Director
	Southland Serpentine Ltd	Director
	WBM Holdings Ltd	Director

Director	Company	Position
Donald Nicolson	Electricity Southland Ltd	Director
	Last Tango Ltd	Director
	OtagoNet Joint Venture	Member, Governing Committee
	OtagoNet Ltd	Director
	OtagoNet Properties Ltd	Director
	PowerNet Ltd	Deputy Chair
Peter Moynihan	Aerodrome Farm Ltd	Director and Beneficial Shareholder
	Hacienda Lochiel Ltd	Director and Beneficial Shareholder
	Last Tango Ltd	Director
	Rathmore Farm Ltd	Director
	Ravensdown Ltd	Director
	Westpac (NZ) Ltd	Employee

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

Remuneration of Directors

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

Alan Harper	-	Director/Chair (until 31 August 2017)
Duncan Fea	-	Director
Douglas Fraser	-	Director/Chair (from 1 September 2017)
Wayne Mackey	-	Director (from 6 September 2017)
Lachlan McGregor	-	Director
Peter Moynihan	-	Director (from 6 September 2017)
Donald Nicolson	-	Director

Remuneration paid or due and payable to Directors for services as a Director and in any other capacity for The Power Company Ltd, during the year was:

Alan Harper	$27,500	Wayne Mackey	$20,500
Duncan Fea	$36,000	Lachlan McGregor	$36,000
Douglas Fraser	$53,500	Donald Nicolson	$36,000
Peter Moynihan	$37,401	(including fees as PowerNet Observer)	

Employee Remuneration

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

Donations

The Company did not make any donations during the period.

Use of Company Information

During the year the Board received no notices from the Directors of the Company requesting to use Company information received in their capacity as Directors which would not otherwise have been made available to them.

Directors' and Employees' Indemnity and Insurance

Liability insurance was effected for Directors of the Company and its subsidiary companies.

Accounting Policies

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

Auditor Remuneration

Refer to Note 3 of the Financial Statements for auditor remuneration.

For and on behalf of the Directors.

Douglas Fraser
Chair

Donald Nicolson
Director

Trustees' Report

Governance and Consultation

We are again delighted to present the trustees' report for this year, our 20th in operation.

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

As in other years, the trustees have had the opportunity to comment on the company statement of intent and business plan projections prior to these being finalised by the TPCL directors.

Of particular focus were TPCL'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 TPCL and associated return on investment in renewable generation during the year.

TPCL's performance is monitored throughout the year in relation to the Statement of Intent and Business Plan. The Trust's Strategic Plan is reviewed annually as an aid to ensure compliance with all aspects of its Trust Deed.

Core Business

TPCL'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 Ltd.

Financial

The Group achieved a satisfactory operating surplus of $13.793 million before tax and fair value adjustments (slightly up from $13.765 million in 2017).

Line Charges

The current levels of pricing provide TPCL 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 to 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 TPCL due to its customer ownership under the Commerce Act.

Customers Discount

An explicit discount of $8 million (including GST) was credited to customers in September 2017. Trustees are keen to ensure that the consumer discount remains relative to the company's growth in asset base and revenue.

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 to ensure the overall value of investment in the network assets is maintained. The normalised System Average Interruption Duration Index (SAIDI) for TPCL of 202.55 minutes was higher than the supply quality target of 165.67 due to a combination of less live-line work and storm events. The normalised System Average Interruption Frequency Index (SAIFI) for TPCL at 2.69 was also comfortably below the supply quality target of 3.16.

OtagoNet Joint Venture

OtagoNet Joint Venture continues to provide positive cash flows for TPCL and is performing satisfactorily.

This entity continues to meet the profitability projections made at the time of the initial 24.5% acquisition in 2002 and the subsequent increase in ownership in September 2014 to 75.1%.

Southern Generation Ltd Partnership

The Southern Generation Ltd Partnership invested in renewable generation in the form of two wind farms in 2015-16. The partnership, in which TPCL's interest is 25%, also completed the acquisition of the Aniwhenua hydro-electric station in 2016-17. Two new hydro power stations—one being built in Central Otago and the other near Murchison— will be added to SGLP's asset base later in 2019.

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 *continued*

Southland Warm Homes Trust

The trustees continue to support the Southland Warm Homes Trust (SWHT) initiative that provides 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).

On 1 July 2018, the Government implemented the Warmer Kiwi Homes programme, a new four-year programme targeting home owners and low-income neighbourhoods. EECA will administer the $142 million funding, committed by the Government, through agreements with service providers in each region, such as the SWH,T as with previous programmes.

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 that 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 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 TPCL'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 for those who can afford it to the detriment of customers who cannot.

Directors

Trustees and directors have maintained a good working relationship. To create greater clarity in our director appointment process, the trustees made a change to the company constitution this year.

Long-serving chairman Alan Harper stood down in September. We thank him for his highly valuable service to TPCL over 28 years, including 19 years as chairman—an extraordinary commitment and achievement.

Director Doug Fraser succeeded Alan as chair and we wish him well in his new role. We welcome new directors, Peter Moynihan and Wayne Mackey. Teamstyles NZ assisted us in the appointment process. We were pleased to re-appoint director Donald Nicholson for a further term.

Administration

Trustees wish to acknowledge the work of their secretary, 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 Ltd for the year ended 31 March 2018 on pages 16 to 43.

For and on behalf of the Board.

Douglas Fraser	Duncan Fea
Chair	**Director**

27 June 2018

Statement of Service Performance

For the Year Ended 31 March 2018

The objectives of The Power Company Ltd for this financial year are specified in the Statement of Intent, which was set in consultation with 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			
	2018	2018		2017	
Financial Measures		Inclusive of Discount	Exclusive of Discount	Inclusive of Discount	Exclusive of Discount
Operating Surplus Before Tax and Fair Value Adjustments ($'000)	$10,532	$13,793	$20,533	$13,765	$20,602
EBIT before Fair Value Adjustments to Assets before Fair Value Adjustments %	3.25%	3.36%	4.33%	3.59%	4.65%
Surplus Before Tax ($'000)		$11,829	$18,569	$17,915	$24,753
EBIT to Total Assets %		3.07%	4.03%	4.07%	5.12%
Return on Equity before Fair Value Adjustments %	2.51%	3.11%	5.04%	3.10%	5.11%
Return on Equity %		2.71%	4.65%	4.02%	5.99%
Equity to Total Assets %	49.03%	50.75%	51.79%	50.32%	51.37%

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

	Target 2018	2018	2017
SAIDI	156.25	202.55	139.38

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

	Target 2018	2018	2017
SAIFI	2.77	2.69	2.16

	Achievement	
	2018	**2017**
Supplementary Information		
Network Statistics		
Length of overhead line*	8,457 km	8,401 km
Length of underground cable*	369 km	359 km
Total number of interruptions	1,216	1,117
Faults per 100km of line	6.51	5.75
Transformer capacity MVA	433	428
Maximum demand MVA	141	135
Energy into network GWh	759	762
Total Consumers	35,799	35,608

* *Excluding conductor lines under construction*

Statement of Financial Performance

For the Year Ended 31 March 2018

	Notes	GROUP 2018 $'000	2017 $'000
Operating Revenue	2	69,807	69,255
Operating Expenses	3	(56,175)	(54,332)
Finance Costs – Interest	3	(8,474)	(8,509)
Share of Profit of Associates and Joint Ventures	9	15,375	14,189
Operating Surplus Before Discount		**20,533**	**20,603**
Discount to Consumers	3	(6,740)	(6,838)
Operating Surplus After Discount		**13,793**	**13,765**
Fair Value Adjustments			
- Unrealised (Loss)/Gain on Derivatives	3	(2,013)	3,766
- Gain on Onerous Contract	3	49	384
Total Fair Value Adjustments		**(1,964)**	**4,150**
Surplus before Taxation		**11,829**	**17,915**
Taxation Expense	4	(2,735)	(4,773)
Net Surplus After Taxation		**9,094**	**13,142**

Statement of Comprehensive Income

For the Year Ended 31 March 2018

	Notes	GROUP 2018 $'000	2017 $'000
Net Surplus After Taxation		**9,094**	**13,142**
Other Comprehensive Income:			
- Asset Revaluation	5	-	15,485
Other Comprehensive Income		**-**	**15,485**
Total Comprehensive Income		**9,094**	**28,627**
Total Comprehensive Income Attributable to Minority Interests	11	13	15
Total Comprehensive Income Attributable To Parent		**9,081**	**28,612**

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 2018

		GROUP	
	Notes	2018 $'000	2017 $'000
Total Comprehensive Income			
Net Surplus for the Year comprising:			
Parent Interest		9,081	13,127
Minority Interest	11	13	15
Other Comprehensive Income		-	15,485
		9,094	28,627
Contributions from Shareholders			
Minority Interest	11	-	-
Share Capital	5	-	-
Distributions to Shareholders			
Parent Interest		-	-
Minority Interest		-	-
Changes in Equity for the Year		9,094	28,627
Equity at Beginning of Year comprising:			
Parent Interest		325,205	296,593
Minority Interest	11	1,569	1,554
		326,774	298,147
Equity at End of Year comprising:			
Parent Interest		334,286	325,205
Minority Interest	11	1,582	1,569
	5	335,868	326,774

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 2018

	Notes	GROUP 2018 $'000	2017 $'000
Current Assets			
Cash and Cash Equivalents	6	298	533
Receivables and Prepayments	7	7,865	7,773
Inventories	8	161	221
Provision for Tax		-	(1)
Total Current Assets		**8,324**	**8,526**
Non Current Assets			
Advances to Joint Ventures		28,505	31,040
Investments in Joint Ventures	9	184,051	182,319
Investments in Other Entities		239	239
Property, Plant and Equipment	10	423,930	409,239
Capital Work in Progress		16,732	14,695
Deferred Tax Asset	14	3,730	3,008
Total Non Current Assets		**657,187**	**640,540**
Total Assets		**665,511**	**649,066**
LIABILITIES			
Current Liabilities			
Creditors and Accruals	12	16,469	19,577
Onerous Contract	15	600	615
Interest Rate Swaps	19	148	43
Current Loans	13	-	27,840
Current Tax Liabilities		227	(359)
Total Current Liabilities		**17,444**	**47,716**
Non Current Liabilities			
Term Loans	13	229,128	194,719
Deferred Tax Liabilities	14	63,989	62,648
Onerous Contract	15	9,488	9,522
Interest Rate Swaps	19	9,594	7,687
Total Non Current Liabilities		**312,199**	**274,576**
Total Liabilities		**329,643**	**322,292**
Net Assets		**335,868**	**326,774**
EQUITY			
Contributed Equity	5	70,160	70,160
Other Reserves	5	97,465	97,622
Retained Earnings	5	166,661	157,423
Group Equity		**334,286**	**325,205**
Minority Interest	11	1,582	1,569
Total Equity		**335,868**	**326,774**

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 2018

	Notes	GROUP 2018 $'000	2017 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was Provided From:			
Receipts from Customers		58,993	57,372
Interest Received		1,171	939
Sundry Income		2,535	3,832
		62,699	**62,143**
Cash was Disbursed To:			
Payments to Suppliers and Employees		37,754	32,834
GST Paid/(Received)		243	(105)
Income Tax Paid		1,532	179
Interest Paid		8,389	8,310
		47,918	**41,218**
Net Cash Flows From Operating Activities	18	**14,781**	**20,925**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was Provided From:			
Property, Plant and Equipment Sales		82	32
Distributions Received from Joint Ventures		13,784	13,497
Repayment of Advances by Joint Ventures		2,392	526
		16,258	14,055
Cash was Applied To:			
Property, Plant and Equipment Purchases		37,912	31,742
Investment in Joint Venture		-	26,325
		37,912	58,067
Net Cash Flows (Used in) Investing Activities		**(21,654)**	**(44,012)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was Provided From:			
Issue of Shares		-	-
Term Loans		6,638	23,437
		6,638	23,437
Net Cash Flows (Used in) Financing Activities		**6,638**	**23,437**
Net Increase/(Decrease) in Cash and Cash Equivalents Held		(235)	350
Add Opening Cash Brought Forward		533	183
Closing Cash and Cash Equivalents To Carry Forward	6	**298**	**533**

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

1 Statement of Accounting Policies

Reporting Entity

The Power Company Ltd, 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 Ltd, its subsidiaries, and its interest in jointly controlled entities referred to in Note 9.

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

The financial statements were approved by the Board of Directors on 27 June 2018.

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.

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) 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.

(ii) 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 Statement of Financial Performance 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 Statement of Financial Performance. 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 Statement of Financial Performance and impairment losses recognised on financial assets (except for trade receivables). All borrowing costs are recognised in the Statement of Financial Performance 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 Statement of Financial Performance 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 Statement of Financial Performance, in which case the increase is credited to the Statement of Financial Performance to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation is charged as an expense in the Statement of Financial Performance 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 and are carried at cost.

(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 (Note 10)
- Employee Benefits
- Recoverable Amount from Cash Generating Units
- Onerous Contract (Note 15)
- 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 1 April 2016. The best evidence of fair value is discounted cash flow methodology. The major assumptions 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.

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 Statement of Financial Performance on a combination of straight line and diminishing value bases on all property, plant and equipment with the exception of land and easements, 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 Statement of Financial Performance, 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 to NZ IFRS. The classification and accounting treatment of business combinations that occurred prior to transition were not 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 Statement of Financial Performance.

(ii) 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 Statement of Financial Performance on a straight line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated amortisation rates for current and comparative periods are as follows:

Software	12.5-48%	Straight line/Diminishing value

(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 Statement of Financial Performance 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 categorised as held for trading unless they are designated as hedges.

(ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the 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 Statement of Financial Performance 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 Statement of Financial Performance 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 Statement of Financial Performance.

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 Statement of Financial Performance 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.

2 Income

	GROUP	
	2018 $'000	2017 $'000
Operating Revenue		
Network Charges	66,102	64,484
Other Income		
Interest Revenue	1,171	939
Subvention income	183	359
Capital Contributions	1,754	3,083
Other Revenue	597	390
Total Income	**69,807**	**69,255**

3 Expenses

	GROUP	
	2018 $'000	2017 $'000
Expenses Include:		
Amortisation of Intangibles	-	-
Auditors' Fees		
Audit of Financial Report PWC	45	51
Information Disclosure PWC	43	35
Total Audit	**88**	**86**
Depreciation		
Buildings	72	72
Plant and Office Equipment	6	2
Metering Assets	881	595
Network Assets	19,446	18,915
Total Depreciation	**20,405**	**19,584**
Bad Debts Written Off	-	-
Directors' Fees	246	210
Discount to Consumers	6,740	6,838
Finance Expense		
Interest Expense	8,474	8,509
Unrealised Loss/(Gain) on Derivatives	2,013	(3,766)
Total Finance Expense	**10,487**	**4,743**
Loss/(Gain) on Onerous Contract	(49)	(384)
Loss on Disposal of Property, Plant and Equipment	696	567
Network Costs	14,763	14,727
Operating Lease Expenses	41	38
Transmission Costs	16,031	15,904

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	
	2018 $'000	2017 $'000
Operating Surplus/(Deficit) Before Income Taxation	11,829	17,915
Prima Facie Taxation at 28%	3,312	5,016
Permanent Differences	(753)	(545)
Prior period adjustment	176	302
Tax Expense	**2,735**	**4,773**
Made up of:		
Current Tax	2,116	1,995
Deferred Tax	619	2,778
Tax Expense	**2,735**	**4,773**

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 par value. All shares have the same rights and privileges.

	GROUP	
	2018 $'000	2017 $'000
Share Capital		
Opening Balance	70,160	70,160
Shares Issued	-	-
Closing Balance	**70,160**	**70,160**
Minority Interest	**1,582**	**1,569**
Asset Revaluation Reserve		
Opening Balance	97,622	82,248
Revaluation	-	15,485
Revaluation Write Downs due to Asset Disposal	(157)	(111)
Closing Balance	**97,465**	**97,622**
Retained Earnings		
Opening Balance	157,423	144,185
Net Surplus/(Deficit) for the Year	9,081	13,127
Revaluation Write Downs due to Asset Disposal	157	111
Closing Balance	**166,661**	**157,423**
Total Equity	**335,868**	**326,774**

The $15,485,000 asset revaluation in 2017 relates to a revaluation of The Power Company network assets, less the deferred tax impact of that revaluation.

6 Cash and Cash Equivalents

	GROUP 2018 $'000	GROUP 2017 $'000
Current Account	298	533
Short Term Bank Deposits	-	-
Total Cash and Cash Equivalents	**298**	**533**

7 Receivables and Prepayments

	GROUP 2018 $'000	GROUP 2017 $'000
GST Receivable	621	821
Trade Debtors	7,068	6,783
Prepayments	176	169
Total Receivables and Prepayments	**7,865**	**7,773**

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

	GROUP 2018 $'000	GROUP 2017 $'000
Network Spares and Sundry Network Consumables	161	221

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

9 Investments in Joint Ventures

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

Joint Ventures	Country of Residence	Percentage Held By Group 2018	Percentage Held By Group 2017	Balance Date
PowerNet Ltd Group (i)	New Zealand	50%	50%	31 March
OtagoNet Joint Venture	New Zealand	75.1%	75.1%	31 March
Roaring Forties Energy Ltd Partnership (ii)	New Zealand	50%	50%	31 March

(i) In April 2017 PowerNet Ltd acquired an additional 38.62% shareholding in Peak Power Services Ltd, increasing the PowerNet shareholding to 90.32%

(ii) Roaring Forties Energy Ltd Partnership has a 50% interest in Southern Generation Ltd Partnership.

	GROUP 2018 $'000	GROUP 2017 $'000
Interests in Joint Venture Entities are as follows:		
Carrying Amount at Beginning of Year	182,319	155,302
Investment in Joint Ventures	-	26,325
Share of Equity Accounted Earnings of Joint Ventures	15,375	14,189
Increase in OtagoNet goodwill	141	-
Less Drawings	(13,784)	(13,497)
Carrying Amount at End of Year	**184,051**	**182,319**

The Group's advances to joint ventures of $28,505,000 (31 March 2017: $31,040,000) 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.

In the prior year, the Group elected to assess the recoverable amount of the OtagoNet Joint Venture investment based on fair value less costs to sell. The fair value used is the equity valuation of OtagoNet Joint Venture together with Electricity Southland Ltd as prepared by Ernest 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 Ltd Partnership. This partnership was formed to invest in electricity generation opportunities. In 2016, the partnership completed the acquisition of the Mount Stuart and Flat Hill wind farms and in 2017 the Aniwhenua Hydro Station. During the year the partners also entered in a conditional agreement to purchase the assets relating to Matiri and Upper Fraser Hydro Stations. The expected generation output of these two hydro stations is approximately 58 GWh, with Upper Fraser contributing 30 GWh and Matiri 28 GWh.

10 Property, Plant and Equipment

	GROUP					
	Network Assets	Meters	Land	Buildings	Plant and Office Equipment	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost or Valuation						
Balance at 1 April 2016	434,943	8,649	236	4,759	22	448,609
Additions	27,958	4,965	-	25	85	33,033
Revaluation	2,111	-	-	-	-	2,111
Disposals	(390)	(919)	-	-	-	(1,309)
Balance at 31 March 2017	**464,622**	**12,695**	**236**	**4,784**	**107**	**482,444**
Balance at 1 April 2017	464,622	12,695	236	4,784	107	482,444
Additions	30,504	5,071	245	56	-	35,876
Revaluation	-	-	-	-	-	-
Disposals	(670)	(495)	-	-	-	(1,165)
Balance at 31 March 2018	**494,456**	**17,271**	**481**	**4,840**	**107**	**517,155**
Depreciation and Impairment Losses						
Balance at 1 April 2016	(70,328)	(3,270)	-	(109)	(18)	(73,725)
Depreciation for Year	(18,915)	(595)	-	(72)	(2)	(19,584)
Revaluation	19,393	-	-	-	-	19,393
Disposals	78	633	-	-	-	711
Balance at 31 March 2017	**(69,772)**	**(3,232)**	**-**	**(181)**	**(20)**	**(73,205)**
Balance at 1 April 2017	(69,772)	(3,232)	-	(181)	(20)	(73,205)
Depreciation for Year	(19,446)	(881)	-	(72)	(6)	(20,405)
Revaluation	-	-	-	-	-	-
Disposals	178	207	-	-	-	385
Balance at 31 March 2018	**(89,040)**	**(3,906)**	**-**	**(253)**	**(26)**	**(93,225)**
Carrying Amount/Book Value						
Book Value at 31 March 2017	**394,850**	**9,463**	**236**	**4,603**	**87**	**409,239**
Book Value at 31 March 2018	**405,416**	**13,365**	**481**	**4,587**	**81**	**423,930**

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

31 March 2017	266,974	9,463	236	4,603	87	281,363
31 March 2018	277,542	13,364	481	4,587	81	296,055

Valuation

The network assets of The Power Company Ltd were revalued to fair value using discounted cash flow methodology on 1 April 2016 by Ernst & Young who are an independent valuer. This resulted in a revaluation movement of $21,504,000.

The following valuation assumptions were adopted;

- The free cash flows were based on the company's three-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 5.5%.
- The sustainable growth adjustment used was 0.6%.
- The CPI increases used were 1%.

11 Minority Interest

	GROUP	
	2018 $'000	2017 $'000
Opening Balance	1,569	1,554
Minority Interest Share of Net Surplus	13	15
Closing Balance	**1,582**	**1,569**

The Minority Interest relates to Electricity Southland Ltd.

12 Creditors and Accruals

	GROUP	
	2018 $'000	2017 $'000
Trade Creditors	9,865	9,633
Accruals	4,834	8,038
Revenue in advance	1,770	1,906
Total Creditors and Accruals	**16,469**	**19,577**

13 Term Loans

	GROUP	
	2018 $'000	2017 $'000
ANZ Committed Cash Advance	143,415	109,770
Westpac Revolving Cash Advance	80,000	80,000
Westpac Revolving Cash Advance Current	-	27,840
Advance – Southland Electric Power Supply Consumer Trust	2,276	2,346
Advance – Electricity Invercargill Ltd	3,437	2,603
	229,128	**222,559**

The Group has a Committed Cash Advance Facility of $160 million (31 March 2017: $110 million) with ANZ. The facility has a revolving three-year term and is extendable annually by agreement between the Group and ANZ, of which $110 million is for renewal on 30 September 2018. The Director's support the agreement reached with ANZ and Westpac to extend the facility for a further period of three years on substantially the same terms and conditions.

The Group has a Revolving Cash Advance Facility of $80 million (31 March 2017: $130 Million) 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 $95 million (31 March 2017: $97 million) at interest rates between 2.57% and 4.78%, 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 Ltd
The Minority Interest share of the Advance that Electricity Southland Ltd has with Electricity Invercargill Ltd 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.

14 Deferred Taxation

	GROUP	
	2018 $'000	2017 $'000
The balance comprises temporary differences attributable to:		
Opening Balance	59,640	50,842
Charged to Income Statement:		
Fixed Assets	1,220	1,260
Capital Contributions Received	109	457
Prior Period Adjustment	(554)	404
Provisions	13	102
Tax Losses Utilised/(carried forward)	(169)	555
	619	**2,778**
Charged to Equity:		
Revaluation of Network Assets	-	6,020
Total Deferred Taxation Liability	**60,259**	**59,640**
Represented by:		
- Total Deferred Tax Asset	(3,730)	(3,008)
- Total Deferred Tax Liability	63,989	62,648

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

15 Provision for Onerous Contract

	GROUP	
	2018 $'000	2017 $'000
Provision for Onerous Contract		
- Current Portion	600	615
- Non-current Portion	9,488	9,522
Provision for Onerous Contract	**10,088**	**10,137**

A liability had been recognised in relation to the Group's obligations under an onerous contract agreement. A provision of $10,088,000 (2017: $10,137,000) has been established for this onerous contract. A Deferred Tax Asset of $2,824,000 (2017: $2,838,000) has also been recognised in relation to this onerous contract.

The following valuation assumptions were adopted;

- The discount rate used was 6.39% 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 1.72%.
- The corporate tax rate used was 28%.
- The sustainable growth adjustment used was 0.5%.

16 Commitments

(a) Capital Commitments

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

	GROUP	
	2018 $'000	2017 $'000
Capital Commitments	18,108	21,700
Total Capital Commitments	**18,108**	**21,700**

(b) Operating Lease Commitments

	GROUP	
	2018 $'000	2017 $'000
Operating Lease Commitments are payable as follows:		
Not later than one year	41	41
Later than one year and not later than two years	41	41
Later than two years and not later than five years	124	124
Later than five years	1,398	1,439
Total Operating Lease Commitments	**1,604**	**1,645**

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

The Group has a conditional commitment as at 31 March 2018 of $825,000 (2017: $825,000). This 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.

(c) Investment Commitments

In September 2017, the Group entered into a conditional agreement with the partners of Southern Generation Ltd Partnership to purchase the assets of two hydro generation developments upon completion of construction. The Upper Fraser hydro station is expected to generate 30GWh annually from March 2019, and the Matiri hydro station is expected to generate approximately 28GWh annually from October 2019.

17 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	
	2018 $'000	2017 $'000
Net Surplus After Taxation	**9,094**	**13,142**
Plus/(Less) Non Cash Items:		
Depreciation	20,405	19,585
Deferred Taxation	616	2,775
Loss on Disposal of Property, Plant and Equipment	696	567
Interest Rate Swaps	2,013	(3,766)
Net SEPSCT Transactions	(69)	(19)
Onerous Contract	(49)	(384)
Share of Profit of Associates and Joint Ventures	(15,374)	(14,189)
	8,238	4,569
Plus/(Less) Net Movements in Working Capital:		
Creditors and Accruals	(2,971)	2,119
Receivables, Prepayments and Work in Progress	(227)	(591)
Inventories	60	(130)
Income Tax Payable	587	1,816
	(2,551)	3,214
Net Cash Flows From Operating Activities	**14,781**	**20,925**

18 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 regard to the amounts owing by energy retailers at balance date for Line Charges as disclosed in Note 7 Receivables and Prepayments (amongst Trade Debtors). 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 value of the Group's financial instruments are represented by the carrying values.

Capital Management

The Group's capital includes share capital and retained earnings. The Company'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.

19 Transactions With Related Parties

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

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	
	2018 $'000	2017 $'000
Goods and Services Supplied to:		
PowerNet Ltd (Joint Venture)	1,631	1,174
Receivables Outstanding at Balance Date (GST incl):		
PowerNet Ltd (Joint Venture)	342	271
OtagoNet Joint Venture	5	-
Goods and Services Supplied by:		
PowerNet Ltd (Joint Venture)	47,824	42,001
Creditors Outstanding at Balance Date (GST incl):		
PowerNet Ltd (Joint Venture)	7,513	10,395
Advances Provided to:		
Southland Electric Power Supply Consumer Trust (Other Related Party)	234	181
PowerNet Ltd (Joint Venture)	8,850	14,150
Advances Provided from:		
Southland Electric Power Supply Consumer Trust (Other Related Party)	164	165
PowerNet Ltd (Joint Venture)	11,385	8,612
Peak Power Services Ltd (Joint Venture)	-	750

19 Transactions With Related Parties *continued*

Other Related Parties

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

The Power Company Ltd, OtagoNet Joint Venture and PowerNet Ltd use AWS Legal as their solicitors of which Alan Harper is a Partner. Alan Harper ceased being a Director for The Power Company Ltd on the 31 August 2017. Legal fees paid to AWS Legal during the year amounted to $107,000 excl GST (31 March 2017: $57,000) of which $23,805 incl GST (31 March 2017: $10,000) is owing at balance date.

PowerNet Ltd and The Power Company Ltd use Crowe Horwath as their tax advisors of which Duncan Fea is a Principal. The Power Company Ltd's share of fees for taxation advice paid to Crowe Horwath during the year amounted to $12,000 excl GST (31 March 2017: $31,000) of which $4,000 incl GST (31 March 2017: $5,000) is owing at balance date.

All transactions between The Power Company Ltd, PowerNet Ltd, 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 Ltd. The Power Company Ltd has a $2,276,000 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 $234,000 (31 March 2017: $181,000). The expenses paid by The Power Company Ltd on behalf of the Southland Electric Power Supply Consumer Trust have been deducted from the loan and interest of $164,000 (31 March 2017: $165,000) 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	
	2018 $'000	2017 $'000
Salaries and Short-term Employee Benefits	246	210

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

20 Subsequent Events

There have been no subsequent events impacting on these financials statements.

PricewaterhouseCoopers
PwC Centre
60 Cashel Street
PO Box 13244
Christchurch 8141
New Zealand
T: +64 3 374 3000
F: +64 3 374 3001
www.pwc.co.nz

Independent Auditor's Report

To the shareholder of The Power Company Limited

The consolidated financial statements comprise:

- the statement of financial position as at 31 March 2018;
- the statement of financial performance for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a statement of accounting policies.

Our opinion

In our opinion, the consolidated financial statements of The Power Company Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2018, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of compliance with the Electricity Distribution (Information Disclosure) Determination 2012 and other regulatory requirements of the Commerce Act 1986. The provision of these other services has not impaired our independence as auditor of the Group.

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the consolidated financial statements does not cover the other information included in the annual report and we do not, and will not express any form of assurance conclusion on the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard, except that not all other information was available to us at the date of our signing.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS RDR, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholder. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's 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 shareholder for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Robert Harris.

For and on behalf of:

Chartered Accountants
28 June 2018

Christchurch

Back cover photo: L-R Steven Wallace and Roger Scott at Lumsden zone substation.

THEPOWERCOMPANYLTD