THE POWER COMPANY LTD

ANNUAL REPORT 2019

Front cover: Line maintenance at Lochiel.

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Westpac New Zealand Ltd

Auditors
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Christchurch

Solicitors
AWS Legal
Invercargill

About The Power Company Ltd

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

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

The Regulatory Value of TPCL's network assets is $354 million. This includes 8,853km of lines and 11,164 distribution transformers with a capacity of 447MVA.

TPCL has 36,091 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 including TPCL's 25% shareholding in SGLP, is an important company strategy. 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 and the commercial returns from the company's investments in OJV, ESL and PowerNet, as well as returns from the new generation assets TPCL owns with EIL and Pioneer Energy Ltd.

In 2018-19, TPCL spent $34.4 million on capital and maintenance works to enhance and improve the network.

TPCL Statistics as at 31 March 2019	
Connected consumers	36,091
Residential	26,601
Industrial	203
Commercial	9,287
Network length	8,853km
Consumer density	4.1 customers/km
Number of distribution transformers	11,164
Distribution transformer capacity	447MWA
Distribution transformer density	50.4kVA/km
Maximum demand	145MW
Total energy conveyed	785GWh
Regulatory Value	$354 million

Northlake Subdivision, Wanaka.

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 $609 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.

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 total $25.1 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, Queenstown Country Club retirement village, Queenstown Resort and Spa, Hanley's Farm subdivision, Onslow Road subdivision and Northlake and Hikuwai subdivisions in Wanaka.

PowerNet's presence in the Queenstown Lakes area is now represented by PowerNet Central Ltd (formerly Peak Power Services Ltd). PowerNet Central's Queenstown team works alongside PowerNet's wider Southland and Otago teams to provide network design services, capital construction works and a maintenance and faults service for the ESL network in Queenstown and Wanaka.

TPCL holds a 75.1% share in ESL.

OtagoNet Joint Venture (OJV)

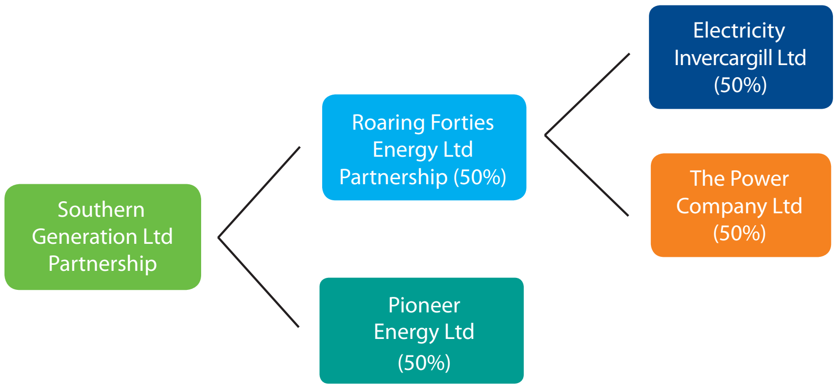
OJV was formed in 2002 after the purchase of electricity network assets from shareholders of the consumer co-operative company, Otago Power Ltd.

OJV has 15,064 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 $174 million.

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

Our Investments *continued*

Southern Generation Ltd Partnership (SGLP)



Southern Generation Ltd Partnership structure

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 2015, TPCL joined with EIL and Pioneer Energy Ltd to create the Southern Generation Ltd Partnership (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 $126 million.

This renewable energy is managed by 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 EIL into distributed renewable energy generation a key strategic asset.

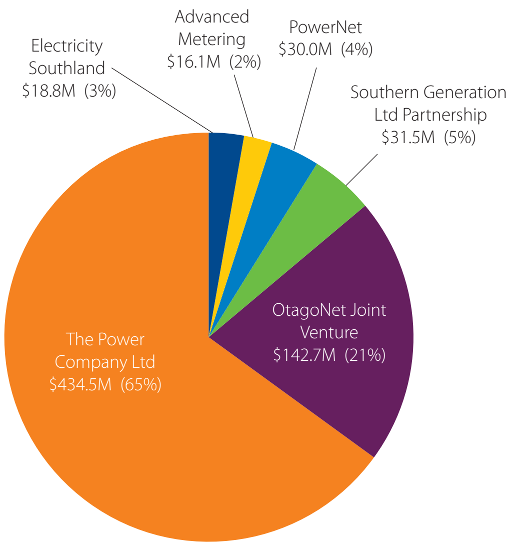
In 2018-19, the generation output of the two wind generation sites and Aniwhenua hydro power station was assessed as 200GWh. Mt Stuart contributed 20GWh, Flat Hill 26GWh and Aniwhenua 154GWh. Similar to the 2017-18 year, low winds contributed to this reduced generation output for the Flat Hill and Mt Stuart wind farms. The generation output for Aniwhenua was higher than the budget due to an increased rainfall in the Bay of Plenty.

Pioneer Energy Ltd is constructing two new hydro power stations, Upper Fraser hydro power station in Central Otago with a capacity of 5MW which is due to be commissioned in mid-2019 and the Matiri hydro power station 15km north of Murchison, with a capacity of 7MW which is due to be commissioned early in 2020.

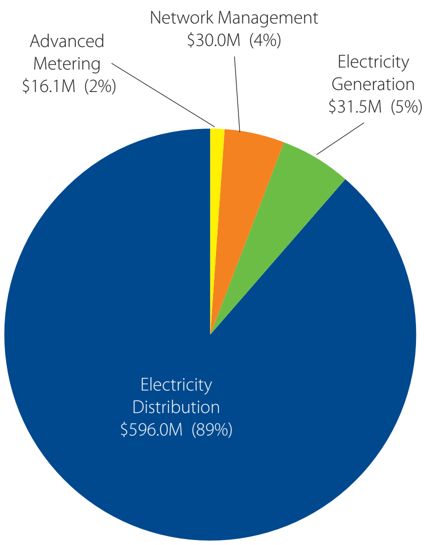
TPCL Group – Asset Breakdown

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 has been in the electricity network and this now makes up 65% of TPCL's investment portfolio. While electricity distribution is by far the predominant investment type accounting for 88% of all investment, there is now significant diversification into electricity generation. This diversification is important to secure long-term sustainable investment returns.

Asset Investment $673.6 million



Investment Type $673.6 million



Oreti Valley Project.

The Year in Review

Operational Performance

In 2018-19, significant investment continued in new and existing assets on TPCL's network. Capital expenditure totalled $23.4 million with a further $11 million spent on maintenance.

Mataura Valley Milk

This significant $6.5 million project to supply electricity to Mataura Valley Milk (MWM) dairy nutrition plant at McNab is largely completed. Power has been supplied to the site since August 2018.

As part of the project, two new 33kV cables were installed underground from South Gore zone substation to the site, allowing for the potential to accommodate future growth requirements. The plant has an initial electrical capacity of 4MVA supplied from the South Gore Zone substation. A new substation at McNab to cater for increased supply requirements, is scheduled for commissioning in 2019.

The Oreti Valley Project

The Oreti Valley Project is a major five-year project to upgrade and extend the 66kV network to include Centre Bush, Dipton, Lumsden and Mossburn substations by 2020 to increase network capability, reliability and supply, and to future proof the area for potential growth.

Significant progress continued in 2018-19. The new upgraded Lumsden substation was commissioned in December 2018. The transformer to provide an alternative feed to Riversdale will be commissioned in 2019.

Work continues on completing the 66kV line upgrade from Centre Bush to Mossburn, with only one further 24km section to finish. The upgrade has included installing two 38m steel poles either side of the flood prone Oreti River to allow conductors to span the 543m width of the river.

Throughout the project, astute planning on this project has avoided multiple outages impacting on customers. This was achieved by using back feeds and the mobile substation to significantly reduce outages.

Neutral Earthing Resistors Installations

This year seven neutral earth resistor (NER) installations have been commissioned at substations on the TPCL network. These limit earth fault currents on the 11kV network, improving network safety for the public by reducing the risk when a fault occurs.

New Customer Connections and Asset Replacements

New customer connections on TPCL's network totalled $2.1 million in 2018-19.

In total, $600,000 was invested in line and pole replacements as part of TPCL's enduring commitment to maintaining a safe and reliable network which will continue to strengthen distribution substations on the network.

The Year in Review *continued*

Expenditure on TPCL's network

Project	Expenditure
Centre Bush to Mossburn line	$3,593,000
New customer connections	$2,110,000
Mataura Valley Milk	$1,843,000
Lumsden substation upgrade	$1,693,000
NER installations	$1,180,000
Line and pole replacements	$604,000

SAIDI and SAIFI

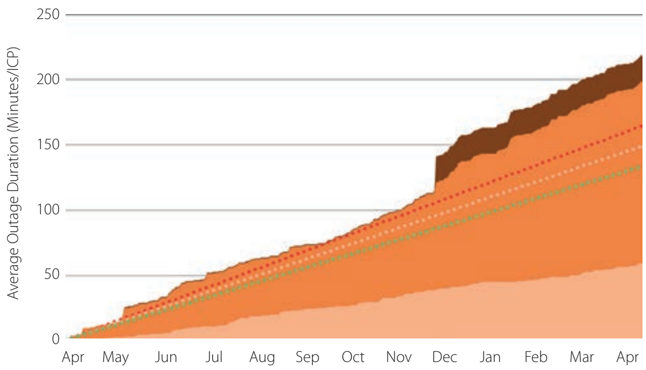
As a customer-owned business, TPCL is exempt from complying with a supply quality limit; but to measure its quality performance, TPCL calculates what its supply quality limit would have been had it not been exempt.

Two standard industry performance measures are applied to the TPCL network. The normalised SAIDI for TPCL of 199.39 minutes was higher than the supply quality limit of 165.67 due predominantly to 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 2.73 was comfortably below the supply quality limit of 3.16.

System Average Interruption Duration Index (SAIDI)

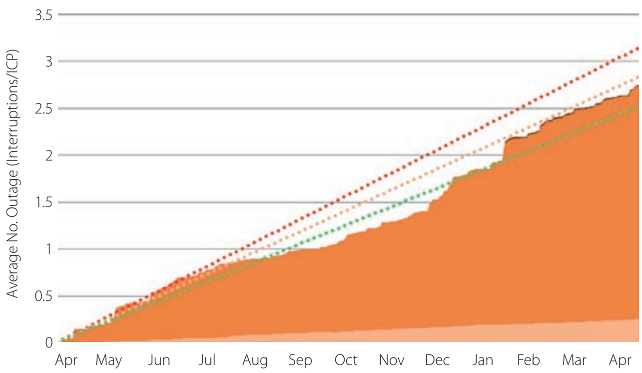
The average total in minutes each customer connected to the network is without supply each year.



SAIDI	
Planned	59.62
Unplanned	139.76
Quality Limit	165.67
Actual	199.39

System Average Interruption Frequency Index (SAIFI)

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



SAIFI	
Planned	0.26
Unplanned	2.47
Quality Limit	3.16
Actual	2.73

The Year in Review *continued*

Regulatory Environment

TPCL continues to support PowerNet's work in the regulatory environment, both through direct involvement and through industry associations such as the Electricity Networks Association. The company's involvement in industry working groups provides an opportunity for it to contribute proactively to the direction of the industry, including areas that involve the sector's two regulators, the Commerce Commission and the Electricity Authority.

There are significant complexities involved in managing the regulators' priorities. Examples of some of these work programmes include proposed changes to distribution pricing, improved regulations relating to vegetation management and to customer-owned lines.

Balancing the quality of supply regulations mandated by the Commerce Commission with changes in work practices to significantly reduce live line working, as overseen by WorkSafe, continues to be a priority and demonstrates where alignment and consistency is needed between regulators. Further progress is anticipated in transmission pricing and in 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, the Electricity Authority and WorkSafe to ensure regulations are targeted, efficient and effective, and designed to create safe outcomes.

Financial Performance

The Group operating surplus before discount, fair value adjustments, IFRS changes and tax increased to $21.3 million for the year ended 31 March 2019, up from $21.03 million last year.

The unfavorable movement on derivatives is due to lower interest rates which results in a favorable decrease in interest expense cost on the Group's term debt. The unfavorable movement on onerous contract and power price agreement is due to higher electricity prices which in the long term provides increased generation revenue.

The investment in OJV and SGLP continues to meet expectations, both financially and operationally.

The consolidated result for TPCL is:

	31 March 2019 $'000	31 March 2018 $'000
Operating surplus before discount, fair value adjustments and IFRS changes	21,313	21,033
Less discount to customers	(7,532)	(6,740)
IFRS changes - capital contributions	(1,089)	-
Surplus before tax and fair value adjustments	12,692	14,293
Fair Value Adjustments		
Loss on derivatives	(4,321)	(2,013)
Loss on onerous contract	(2,439)	49
SGLP power purchase agreement	(2,613)	(500)
	(9,373)	(2,464)
Net surplus before tax	**3,319**	**11,829**
Taxation expense	(624)	(2,735)
Net surplus after tax	**2,695**	**9,094**

Acknowledgements

The ongoing relationship with the Southland Power Trust is important for TPCL to deliver its strategic goals.

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

TPCL's success is also due to the excellent work of PowerNet's management. Their expertise and commitment in managing the network continues to help 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 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 larger commercial customers. It also invites public comment on the AMP. Feedback from customer interviews is used to develop AMPs and assist in planning 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 to 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.

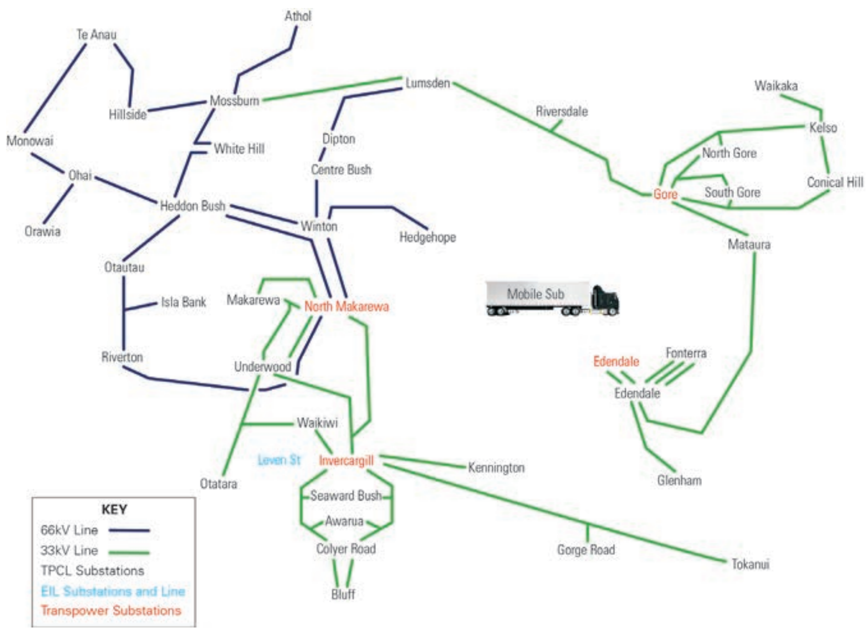
The projects outlined in the AMP recognise the different customers that TPCL services, from small residential properties to major industries. The plan identifies future needs, outlining the best options that meet customers' requirements and provide capacity for projected network growth.

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 $25.1 million in 2019-20 and $17 to $21 million in the following years.

Investments outlined in the AMP include:

- New customer connections to the network ($2 million annually)
- Completion of connection to the MVM nutritional plant near Gore ($600,000)
- Completion of work on the Oreti Valley Project, including upgrading 33kV lines to 66kV between Centre Bush and Mossburn, and the upgrade of Lumsden zone substations ($2.5 million)
- Upgrading power transformers at Glenham and Gorge Road ($1.8 million)
- Adding a second 33kV supply into Kennington ($1.5 million)
- Upgrading distribution lines in the Waimea Plains area to 22kV ($3.9 million)
- Upgrading supply to 22kV from Athol to Kingston ($3.6 million)
- Asset replacements ($9.9 million - $13.7 million annually)
- Quality of supply projects ($0.2 million - $0.9 million annually)
- Safety, environmental and other projects ($0.2 million - $2.8 million annually)



Our Community *continued*

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 to community groups and defibrillators to our communities. In 2018-19 a defibrillator was given to the Mimihau Community Centre.

Customer Discount

TPCL was delighted to again deliver a discount to its customers in 2018, as it has done each year since 2001. Through the discount, a total of $8.7 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 given back to the community by any consumer/community-based entity in the south.

All residential customers connected at midnight on 31 August 2018 received a discount of 2.01 cents per kilowatt hour (including GST) based on the power consumption recorded for their property.

Since 2001 this annual discount has put $100 million back into southern communities.

Southland Warm Homes Trust

TPCL's 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 6,500 insulation and heating retrofits in Southland and West Otago homes since 2008.

From 1 July 2018, a new four-year Government programme called Warmer Kiwi Homes was introduced. The new subsidised insulation programme targets homeowners on low incomes or those who live in a low socio-economic area. The $142 million government funding commitment is administered by the EECA, through service providers who meet set installation, and health and safety standards. SWHT was successfully awarded a service provider agreement for the Southland and West Otago region during the year.

Under the Warmer Kiwi Homes Programme, eligible homeowners can have two-thirds of the cost of ceiling and underfloor insulation funded by EECA, with those in Southland and parts of West Otago subsidised up to 92%, including an additional 25% contributed by SWHT from community funding. To be eligible homes must be built prior to 2008, the homeowner (owner-occupier) must have a community services card or SuperGold combo card, or own and be living in an area identified as low income. Subsidised heating will also be offered to eligible homes from year two of the programme.

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

The SWHT presents an annual award to property managers who actively promote energy efficiency ideas that improve the living conditions of tenants and support SWHT's vision. In 2018, the Southland Real Estate property management team won the award.

Directors' Profiles

Douglas Fraser BSc (Chemistry) CFInstD (Chair)

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

He is chair of The Power Company Ltd, a director of PowerNet Ltd and Electricity Southland 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. Doug has held previous governance roles on the NZ Wool Board, Wools of NZ, Woolpro and AgITO.

Doug is a chartered fellow of the Institute of Directors.

Duncan Fea BCom FCA CFInstD

Duncan is a managing partner in Findex Queenstown, Chartered Accountants and Business Advisors.

He has a number of directorships which include PowerNet Ltd, Electricity Southland 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 chair 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.

Wayne Mackey BE (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 BAgSc

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 2019.

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 $2,695,000. 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
	Findex Ltd	Partner
	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	Chair
	OtagoNet Joint Venture	Member, 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	Managing Director
	McGregor Group Ltd	Director
	Mainland Shotcrete Ltd	Director
	PowerNet Ltd	Director
	Southland Serpentine Ltd	Director
	WBM Holdings Ltd	Director

Directors' Report *continued*

Director	Company	Position
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
Donald Nicolson	Electricity Southland Ltd	Director
	Environomics (NZ) Trust	Trustee
	Last Tango Ltd	Director
	OtagoNet Joint Venture	Member, Governing Committee
	OtagoNet Ltd	Director
	OtagoNet Properties Ltd	Director
	PowerNet Ltd	Chair

Remuneration of Directors

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

Duncan Fea	-	Director	Douglas Fraser	-	Chair
Wayne Mackey	-	Director	Lachlan McGregor	-	Director
Peter Moynihan	-	Director	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:

Duncan Fea	$36,000	Wayne Mackey	$36,000
Douglas Fraser	$66,000	Lachlan McGregor	$36,000
Peter Moynihan	$66,000	Donald Nicolson	$36,000

(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 two changes to the accounting policies in the year to 31 March 2019. NZ IFRS 9, Financial Instruments and NZ IFRS 15, Revenue Recognition. Please refer to Note 1 of the Financial Statements for the impact.

Auditor Remuneration

Refer to Note 4 of the Financial Statements for Auditor remuneration.

For and on behalf of the Directors.

Douglas William Fraser
Chair

Duncan Varnham Fea
Director

Southland Power Trust

The Southland Power Trust was established in December 1997 to hold 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:

Carl Findlater (Chair)

Jim Hargest

Stuart Baird

Stephen Canny

David Rose

Trustees' Report

Governance and Consultation

We are again delighted to present the trustees' report for this year, our 21st in operation.

TPCL is owned by the customers connected to its network. The Southland Electric Power Supply Consumer Trust (the trustees) exercise 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 ongoing capital investment in the network including electricity meters, that is in excess of the annual depreciation.

Upgrading metering technology allows consumers real time analysis of their power usage and provides the lines company with information to plan and upgrade the network. Trustees also note the investments and investment commitments by TPCL, and the 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 $21,300 million before discount, tax, fair value adjustments and IFRS change (slightly up from $21,033 million in 2018).

Line Charges

The current levels of pricing provide TPCL with a sustainable return on investment, enabling the company to carry out the reinvestment in the network required to meet the current and projected load growth and to improve quality of supply, and provide a high level of service to customers.

The Trust is advised by TPCL that the current line pricing is under review to ensure it is in the best long-term interests of its consumer owners and network performance.

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 $8.7 million (including GST) was credited to customers in September 2018. Trustees are keen to ensure that the consumer discount remains relative to the company's growth in asset base and revenue. Discounts totaling $100 million have been returned to consumers since 2001.

Lines Operation

The Trust supports the programme of major investment in its network to meet increases in demand, maintain the required quality of supply and to ensure that the overall value of investment in network assets is maintained. The normalised System Average Interruption Duration Index (SAIDI) for TPCL of 199.39 minutes was higher than the supply quality target of 165.67 due to less live-line work. The normalised System Average Interruption Frequency Index (SAIFI) for TPCL at 2.73 was 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 as a regulated network. Returns have reduced as the weighted average cost of capital has dropped however, at this stage, returns are positive.

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 power 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 in 2019 -2020.

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

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. To date more than 6,500 homes have been insulated.

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 neighborhoods. EECA administers the new programme of $142 million in funding committed by the government, through agreements with service providers in each region, such as the SWHT, as with previous programmes.

Research has shown that every dollar spent on a warmer, dryer home equates to a $6 reduction in hospital admissions and health associated problems.

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.

Since 2018 the Trust has been represented through the Executive of ETNZ, giving it a voice nationally. ETNZ has been instrumental in preparing submissions on the Electricity Pricing Review undertaken by government. It was proactive in demonstrating the value of the Trust ownership model. The development of *The Yarrow Report,* was a world-class assessment of problems identified by a review panel. This work is of a high standard and completely supported by The Trust.

Transparency of Line Charges

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

The Trust believes retailers should be open in providing an itemized account to consumers. This would provide consumers with the ability to use power efficiently and to obtain the greatest benefit to themselves.

Directors

Trustees and directors maintain a good working relationship.

The Trust is in an advantageous situation, in working with a board, who have a "no surprises policy". Of course the board's objective is to maximize value through reinvestment, maintenance and acquisitions. The Trust is involved in return to consumers, power quality, and availability. Together, through healthy discussion and debate, the best solution is established for the benefit of Southland consumers.

The constructive relationship with the board is paramount to the successful operation of the business. Trustees recognize that this professional relationship with the board is the cornerstone to creating year on year benefits to consumers.

Administration

Trustees wish to acknowledge the work of their secretary, Carole McColl, and to thank Blair Morris for the financial services he provided during the year.

Carl Findlater
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 2019 on pages 15 to 43.

For and on behalf of the Board.

Douglas William Fraser
Chairperson

26 June 2019

Duncan Varnham Fea
Director

26 June 2019

Financial Information

Statement of Service Performance

For the year ended 31 March 2019

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			
	2019	2019		2018	
Financial Measures		Inclusive of Discount	Exclusive of Discount	Inclusive of Discount	Exclusive of Discount
EBIT % before Tax and Fair Value Adjustments to Assets before Fair Value Adjustments	3.47%	2.84%	3.95%	3.36%	4.33%
NPAT % before Fair Value Adjustments on Equity	2.83%	2.44%	4.56%	3.11%	5.04%
Gearing Ratio	40.0%	39.5%		39.3%	
Interest Cover Ratio	5.18	5.35		5.91	

Health & Safety

The Power Company Ltd contracts PowerNet Ltd to manage its operations. The Power Company Ltd employs no staff, therefore PowerNet Ltd's Health and Safety Performance targets are relevant.

	Target 2019	2019	2018
TRIFI	3.6	4.6	4.4
Serious Harm	0.0	0.0	0.0

System Average Interruption Duration Index (SAIDI)

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

	Target 2019	2019	2018
SAIDI	182.81	199.39	202.55

System Average Interruption Frequency Index (SAIFI)

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

	Target 2019	2019	2018
SAIFI	2.84	2.73	2.69

Statement of Service Performance *continued*

For the year ended 31 March 2019

	Achievement	
	2019	2018
Supplementary Information		
Network Statistics		
Length of overhead line*	8,461 Km	8,457 Km
Length of underground cable*	392 Km	369 Km
Total number of interruptions	1,174	1,216
Faults per 100km of line	6.43	6.51
Transformer capacity MVA	446	433
Maximum demand MVA	145	141
Energy into network GWh	785	759
Total Consumers	36,089	35,799

* *Excluding conductor lines under construction*

Statement of Financial Performance

For the year ended 31 March 2019

		GROUP	
	Notes	2019 $'000	2018 $'000
Gross Revenue from Contracts with Customers	2	67,701	64,797
Discount to Consumers	2	(7,532)	(6,740)
Net Revenue from Contracts with Customers		**60,169**	**58,057**
Operating Expenses	4	(57,798)	(56,175)
Other Income		5,050	5,010
Operating Profit Before Fair Value Gains/(Losses)		**7,421**	**6,892**
Fair Value Adjustments			
Unrealised (Loss)/Gain on Derivatives	4	(4,321)	(2,013)
(Loss)/Gain on Onerous Contract	4	(2,439)	49
Fair Value Gains/(Losses)		(6,760)	(1,964)
Operating Surplus		**661**	**4,928**
Finance Costs		(9,125)	(8,474)
Shares of Profits of Associates and Joint Ventures		11,783	15,375
Net Surplus Before Taxation		**3,319**	**11,829**
Taxation Expense	5	(624)	(2,735)
Net Surplus After Taxation		**2,695**	**9,094**

The accompanying notes on pages 20 to 43 form part of and should be read in conjunction with these financial statements.

Statement of Comprehensive Income

For the year ended 31 March 2019

	Notes	GROUP 2019 $'000	GROUP 2018 $'000
Net Surplus After Taxation		2,695	9,094
Total Comprehensive Income		2,695	9,094
Total Comprehensive Income Attributable to Minority Interests	11	(19)	13
Total Comprehensive Income Attributable To Parent		2,714	9,081

Statement of Changes in Equity

For the year ended 31 March 2019

	Notes	GROUP 2019 $'000	GROUP 2018 $'000
Total Comprehensive Income			
Net Surplus for the Year comprising:			
Parent Interest		2,714	9,081
Minority Interest	11	(19)	13
		2,695	**9,094**
Changes in Acounting Policy - Discount		(5,063)	-
Changes in Accounting Policy - Contributions		(609)	-
Changes in Equity for the Year		(2,977)	9,094
Equity at Beginning of Year comprising:			
Parent Interest		334,286	325,205
Minority Interest	11	1,582	1,569
		335,868	**326,774**
Equity at End of Year comprising:			
Parent Interest		331,328	334,286
Minority Interest	11	1,563	1,582
	6	**332,891**	**335,868**

The accompanying notes on pages 20 to 43 form part of and should be read in conjunction with these financial statements.

Statement of Financial Position

As At 31 March 2019

	Notes	GROUP 2019 $'000	2018 $'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	7	369	298
Receivables and Prepayments	8	8,445	7,865
Inventories		161	161
Provision for Tax		231	-
Total Current Assets		**9,206**	**8,324**
Non-Current Assets			
Advances to Joint Ventures		32,169	28,505
Investments in Joint Ventures	9	184,092	184,051
Investment in Other Entities		239	239
Property, Plant and Equipment	10	433,287	423,930
Capital Work in Progress		17,368	16,732
Deferred Tax Asset	15	6,421	3,730
Total Non-Current Assets		**673,576**	**657,187**
Total Assets		**682,782**	**665,511**
LIABILITIES			
Current Liabilities			
Creditors and Accruals	12	21,238	14,699
Onerous Contract	16	705	600
Interest Rate Derivatives		255	148
Current Tax Liabilities		-	227
Contract Liabilities	13	1,120	1,770
Total Current Liabilities		**23,318**	**17,444**
Non-Current Liabilities			
Term Loans	14	232,889	229,128
Deferred Tax Liabilities	15	66,556	63,989
Onerous Contract	16	11,822	9,488
Interest Rate Derivatives		13,808	9,594
Contract Liabilities	13	1,498	-
Total Non-Current Liabilities		**326,573**	**312,199**
Total Liabilities		**349,891**	**329,643**
Net Assets		**332,891**	**335,868**
EQUITY			
Contributed Equity	6	70,160	70,160
Other Reserves	6	97,394	97,465
Retained Earnings	6	163,774	166,661
Group Equity		**331,328**	**334,286**
Minority Interest	11	1,563	1,582
Total Equity		**332,891**	**335,868**

The accompanying notes on pages 20 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 2019

	Notes	GROUP 2019 $'000	2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was Provided From:			
Receipts from Customers		63,500	61,528
Interest Received		1,301	1,171
		64,801	**62,699**
Cash was Disbursed To:			
Payments to Suppliers and Employees		34,694	37,754
GST Paid/(Received)		(192)	243
Income Tax Paid		1,205	1,532
Interest Paid		9,021	8,389
		44,728	**47,918**
Net Cash Flows From Operating Activities	18	**20,073**	**14,781**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was Provided From:			
Property, Plant and Equipment Sales		69	82
Distributions Received from Joint Ventures		11,743	13,784
Repayment of Advances by Joint Ventures		9,264	2,392
		21,076	16,258
Cash was Applied To:			
Property, Plant and Equipment Purchases		31,922	37,912
Advance to Joint Venture		12,929	-
		44,851	37,912
Net Cash Flows (Used in) Investing Activities		**(23,775)**	**(21,654)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was Provided From:			
Term Loans		3,773	6,638
		3,773	6,638
Net Cash Flows (Used in) Financing Activities		**3,773**	**6,638**
Net Increase/(Decrease) in Cash and Cash Equivalents Held		71	(235)
Add Opening Cash Brought Forward		298	533
Closing Cash and Cash Equivalents To Carry Forward	7	**369**	**298**

The accompanying notes on pages 20 to 43 form part of and should be read in conjunction with these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2019

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 20.

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 26 June 2019.

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

The Group has applied the following standards for the first time for their annual reporting period commencing 1 April 2018:

- NZ IFRS 9 Financial Instruments
- NZ IFRS 15 Revenue from Contracts with Customers

The Group had to change its accounting policies and has adopted the new standards retrospectively. NZ IFRS 9 Financial Instruments has had no material effects on the financial statements but NZ IFRS 15 Revenue from Contracts has resulted in the following changes:

- Capital Contributions - There has been a change in revenue recognition for capital contributions received from directly billed customers. Under NZ IFRS 15 contracts entered into at or around the same time should be combined. All consideration received under the delivery services agreement and capital contribution agreement is therefore linked to a single performance obligation related to the delivery services agreement and is recognised over the term of the delivery services agreement. Previously contributions from directly billed customers were recognised when the assets were commissioned. This has resulted in a transition adjustment to opening retained earnings of $609,000.

- Consumer Discount - The discount is based on consumption for the previous 12 months and has been considered variable consideration when determining the transaction price. The discount relates to the period from 1 August to 31 July. This has resulted in a transition adjustment to opening retained earnings of $5,063,000, which amounts to the portion of the discount that would have been accrued for under NZ IFRS 15.

  The financial statements also have a reclassification of prior year balances to align with the current year classification under the new accounting standards for comparability. These reclassifications have not resulted in a change to opening retained earnings.

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 with Contracts with Customers

(i) Electricity Delivery Services

Electricity delivery service revenue relates to the provision of electricity distribution services to both electricity retailers and directly contracted customers in the Southland Region. Electricity retailer delivery services are performed on a daily basis and considered a series of distinct goods and services provided over time. Prices are regulated and retailers are charged based on the published schedule and quantities delivered.

Since 2001, the Company has provided a discount to consumers. The discount is typically credited to consumers in or around August each year, when consumers tend to have higher power bills. This discount is based on consumption for the previous 12 months and has been considered variable consideration when determining the transaction price.

Revenue is recognised over time using an output method based on the actual delivery services provided on a daily basis less a portion of the discount allocated overtime.

For directly billed customers, the Group has determined that the new investment and electricity delivery services promises within the contractual arrangement relate to a single performance obligation, to provide the required delivery service to the customer. The performance obligation has been assessed as being satisfied over time based on the duration of the contractual arrangement. The transaction price is fixed per year, billed monthly and includes all charges outlined in the arrangement. Revenue is recognised over time based on an output method, as the performance is satisfied on a straight line basis over the term of the contract commencing when the assets are commissioned.

(ii) Capital Contributions

Capital contributions revenue relates to contributions received from customers, excluding delivery service customers who are directly billed, for construction activities relating to the establishment of new connections or upgrades of an existing connection. The subsequent electricity distribution is contracted separately, interposed through a retailer, and is therefore not considered to impact the assessment of the customer or performance of the obligations of the capital contribution contracts. Pricing is fixed and contributions are paid prior to an assets being connected to the network. Capital contributions are recognised as revenue at the point in time when construction activites are completed and the asset is connected to the network.

(c) Other income

(i) Metering Rental Income

Metering rental income represent amounts invoiced to customers based on their usage of the metering assets owned by the Group.

(ii) Interest revenue

Interest income is recognised on a time proportion basis using the effective interest method.

(d) 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.

(e) 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.

(f) 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.

(g) 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)
- Recoverable Amount from Cash Generating Units
- Onerous Contract (Note 15)
- Joint Arrangement Classification
- Revenue

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.

(h) 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

Notes to the Financial Statements *continued*

For the year ended 31 March 2019

(i) 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.

(j) 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.

(k) 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

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) Seasonality

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

(q) Financial Assets

From 1 April 2018, the Partnership classifies its financial assets in the following measurement categories:
a) those to be measured subsequently at fair value and
b) those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. The Group reclassifies financial assets when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs for such financial assets are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Financial liabilities at amortised cost consist of trade and other payables and borrowings. Financial liabilities at amortised cost are measured using the effective interest rate method. Due to their short term nature, trade and other payables are not discounted.

The Group has not designated any derivatives as hedges for financial reporting purposes. Derivatives are subsequently measured at fair value, with movements recognised in profit or loss.

Transition

On 1 April 2018 (the date of initial application of NZ IFRS 9), management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate NZ IFRS 9 categories. There have been no changes to the initial or subsequent measurement of financial assets or liabilities as a result of adopting NZ IFRS 9.

The Group has applied NZ IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Partnership's previous accounting policy. Financial assets were previously classified as follows under NZ IAS 37:

(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 noncurrent assets. Loans and receivables are included in receivables in the Statement of Financial Position.

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.

(r) 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 shortterm 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 amortised cost.

(iv) Receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. The Group applies the simplified approach to providing for expected credit losses prescribed by NZ IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

During the year, the following gains/(losses) were recognised in profit or loss in other expenses in relation to impaired receivables:

- Impairment losses
- Individual receivables written off directly
- Movement in provision for impairment

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively, to determine whether there was objective evidence that an impairment had been incurred but not yet been identified.

(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.

Notes to the Financial Statements *continued*

For the year ended 31 March 2019

2 Revenue from Contracts with Customers

	GROUP	
	2019 $'000	2018 $'000
Electricty Delivery Services (including discount)	58,699	56,303
Capital Contributions	1,470	1,754
Total Income	60,169	58,057
Timing of revenue recognition		
Over time	58,699	56,303
At a point in time	1,470	1,754
Total Revenue	60,169	58,057

3 Other Income

	GROUP	
	2019 $'000	2018 $'000
Interest	1,301	1,171
Subvention Income	169	183
Rental Income	429	409
Metering Rental Income	3,025	3,059
Sundry Income	126	188
Total Other Income	5,050	5,010

4 Expenses

	GROUP	
	2019 $'000	2018 $'000
Expenses Include:		
Auditors' Fees		
Audit of Financial Report - PwC	63	45
Information Disclosure - PwC	54	43
Regulatory & Advisory - PwC	8	-
Depreciation		
Buildings	70	72
Plant and Office Equipment	6	6
Metering Assets	1,188	881
Network Assets	20,066	19,446
Total Depreciation	**21,330**	**20,405**
Bad Debts Written Off	29	-
Directors' Fees	276	246
Finance Expense		
Interest Expense	9,125	8,474
Unrealised Loss/(Gain) on Derivatives	4,321	2,013
Total Finance Expense	**13,446**	**10,487**
Loss/(Gain) on Onerous Contract	2,439	(49)
Loss on Disposal of Property, Plant and Equipment	529	696
Network Costs	16,338	14,763
Operating Lease Expenses	48	41
Transmission Costs	15,040	16,031

Notes to the Financial Statements *continued*

For the year ended 31 March 2019

5 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	
	2019 $'000	2018 $'000
Operating Surplus/(Deficit) Before Income Taxation	3,319	11,829
Prima Facie Taxation at 28%	929	3,312
Permanent Differences	(474)	(753)
Prior period adjustment	169	176
Tax Expense	**624**	**2,735**
Made up of:		
Current Tax	747	2,116
Deferred Tax	(123)	619
Tax Expense	**624**	**2,735**

Notes to the Financial Statements *continued*

For the year ended 31 March 2019

6 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	
	2019 $'000	2018 $'000
Share Capital		
Opening Balance	70,160	70,160
Shares Issued	-	-
Closing Balance	**70,160**	**70,160**
Minority Interest	1,563	1,582
Asset Revaluation Reserve		
Opening Balance	97,465	97,622
Revaluation	-	-
Revaluation Reversal due to Asset Disposal	(71)	(157)
Closing Balance	**97,394**	**97,465**
Retained Earnings		
Opening Balance	166,661	157,423
Net Surplus/(Deficit) for the Year	2,714	9,081
Change in Accounting Policy - Contributions	(609)	-
Changes in Accounting Policy - Discount	(5,063)	-
Revaluation Reversal due to Asset Disposal	71	157
Closing Balance	**163,774**	**166,661**
Total Equity	**332,891**	**335,868**

7 Cash and Cash Equivalents

	GROUP	
	2019	2018
	$'000	$'000
Current Account	369	298
Total Cash and Cash Equivalents	**369**	**298**

8 Receivables and Prepayments

	GROUP	
	2019	2018
	$'000	$'000
GST Receivable	522	621
Trade Debtors	7,725	7,065
Prepayments	198	179
Total Receivables and Prepayments	**8,445**	**7,865**

Notes to the Financial Statements *continued*

For the year ended 31 March 2019

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 2019	Percentage Held By Group 2018	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 PowerNet Central Ltd, increasing the PowerNet shareholding to 90.32%

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

	GROUP 2019 $'000	GROUP 2018 $'000
Interests in Joint Venture Entities are as follows:		
Carrying Amount at Beginning of Year	184,051	182,319
Investment in Joint Ventures	-	-
Share of Equity Accounted Earnings of Joint Ventures	11,783	15,375
Increase in OtagoNet goodwill	-	141
Less Drawings	(11,742)	(13,784)
Carrying Amount at End of Year	**184,092**	**184,051**

The Group's advances to joint ventures of $32,169,000 (31 March 2018: $28,505,000) 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.

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. In August 2017 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 hydrostations is about 58 GWh, with Upper Fraser contributing 30 GWh and Matiri 28 GWh.

In 2019, a fair value assessment was performed by Southern Generation Ltd Partnership associated with the fixed price electricity contracts associated with the generation of Flat Hill and Mt Stuart wind farms, and the Aniwhenua Hydro Station power purchase agreement with Nova Energy. The fair value assessment at 31 March 2019 is based on forecasted market assumptions and may fluctuate over time with any changes in market conditions during the term of the electricity price contracts and agreements. Our share of the impact of these fair value adjustments is a decrease of $2,613,000 in the Share of Equity Accounted Earnings of Joint Ventures, and therefore the Group Net Surplus for the year.

Notes to the Financial Statements *continued*

For the year ended 31 March 2019

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 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**
Balance at 1 April 2018	494,456	17,271	481	4,840	107	517,155
Additions	26,767	4,511	2	4	-	31,284
Revaluation	-	-	-	-	-	-
Disposals	(708)	(234)	-	-	-	(942)
Balance at 31 March 2019	**520,515**	**21,548**	**483**	**4,844**	**107**	**547,497**
Depreciation and Impairment Losses						
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)**
Balance at 1 April 2018	(89,040)	(3,906)	-	(253)	(26)	(93,225)
Depreciation for Year	(20,066)	(1,188)	-	(70)	(6)	(21,330)
Revaluation	-	-	-	-	-	-
Disposals	257	88	-	-	-	345
Balance at 31 March 2019	**(108,849)**	**(5,006)**	**-**	**(323)**	**(32)**	**(114,210)**
Carrying Amount/Book Value						
Book Value at 31 March 2018	**405,416**	**13,365**	**481**	**4,587**	**81**	**423,930**
Book Value at 31 March 2019	**411,666**	**16,542**	**483**	**4,521**	**75**	**433,287**

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

31 March 2019	392,414	16,542	482	4,520	73	414,031
31 March 2018	277,542	13,364	481	4,587	81	296,055

10 Property, Plant and Equipment *continued*

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-recurrinor 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%.

The next valuation is due to be performed during the year ended 31 March 2020.

11 Minority Interest

	GROUP	
	2019 $'000	2018 $'000
Opening Balance	1,582	1,569
Minority Interest Share of Net Surplus	(19)	13
Closing Balance	**1,563**	**1,582**

The Minority Interest relates to Electricity Southland Ltd.

12 Creditors and Accruals

	GROUP	
	2019 $'000	2018 $'000
Trade Creditors	9,826	9,865
Accruals	11,412	4,834
Revenue in Advance	-	-
Total Creditors and Accruals	**21,238**	**14,699**

13 Contract Liabilities

	GROUP	
	2019 $'000	2018 $'000
Contract Liabilities are as follows:		
Carrying Amounts at the Beginning of Year	1,770	1,906
Accounting Policy change	610	-
Received in Current Year	1,861	1,618
Recognised as Revenue in Current Year	(1,623)	(1,754)
Carrying Amount at End of Year	**2,618**	**1,770**
Made up of:		
Current Contract Liabilities	1,120	1,770
Non-Current Contract Liabilities	1,498	-

Contract Liabilities are capital contributions received but not yet recognised as the asset has not yet been commissioned or the contractual obligation spans multiple years.

14 Term Loans

	GROUP	
	2019 $'000	2018 $'000
ANZ Committed Cash Advance	96,390	143,415
Westpac Revolving Cash Advance	130,000	80,000
Advance – Southland Electric Power Supply Consumer Trust	2,264	2,276
Advance – Electricity Invercargill Ltd	4,235	3,437
	232,889	**229,128**

The Group has a Committed Cash Advance Facility of $110 million (31 March 2018: $160 million) with ANZ. The facility has a revolving three-year term and is extendable annually by agreement between the Group and ANZ.

The Group has a Revolving Cash Advance Facility of $130 million (31 March 2018: $80 Million) with Westpac. The facility has a revolving three-year term and is extendable annually by agreement between the Group and Westpac of which $80 million is for renewal on 20 October 2019.

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 $147 million (31 March 2018: $95 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 3.00% above the 90-day bank bill rate.

Notes to the Financial Statements *continued*

For the year ended 31 March 2019

15 Deferred Taxation

	GROUP	
	2019 $'000	2018 $'000
The balance comprises temporary differences attributable to:		
Opening Balance	60,259	59,640
Charged to Income Statement:		
Fixed Assets	1,149	1,220
Capital Contributions Received	(101)	109
Line Charge Discount	1,418	-
Prior Period Adjustment	-	(554)
Provisions	(692)	13
Tax Losses Utilised/(carried forward)	(1,898)	(169)
	(124)	619
Charged to Equity:		
Total Deferred Taxation Liability	**60,135**	**60,259**
Represented by:		
- Total Deferred Tax Asset	(6,421)	(3,730)
- Total Deferred Tax Liability	66,556	63,989

The primary component of the deferred tax balance is related to property, plant and equipment assets and software assets. There is not expected to be any significant reversal of deferred taxation in the next 12 months.

16 Provision for Onerous Contract

	GROUP	
	2019 $'000	2018 $'000
Provision for Onerous Contract		
- Current Portion	705	600
- Non-current Portion	11,822	9,488
Provision for Onerous Contract	**12,527**	**10,088**

A liability had been recognised in relation to the Group's obligations under an onerous contract agreement. A provision of $12,527,000 (2018: $10,088,000) has been established for this onerous contract. A Deferred Tax Asset of $3,507,000 (2018: $2,824,000) 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 1.52%
- The corporate tax rate used was 28%
- The sustainable growth adjustment used was 0.5%

17 Commitments

(a) Capital Commitments

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

	GROUP	
	2019 $'000	2018 $'000
Capital Commitments	10,593	14,339
Total Capital Commitments	**10,593**	**14,339**

(b) Operating Lease Commitments

	GROUP	
	2019 $'000	2018 $'000
Not later than one year	48	41
Later than one year and not later than two years	48	41
Later than two years and not later than five years	144	124
Later than five years	1,580	1,398
Total Operating Lease Commitments	**1,820**	**1,604**

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

(c) Investment Commitments

In August 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 July 2019, and the Matiri hydro station is expected to generate approximately 28GWh annually from February 2020.

(d) Other Commitments

The Group has a conditional commitment as at 31 March 2019 of $825,000 (2018: $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.

Notes to the Financial Statements *continued*

For the year ended 31 March 2019

18 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	
	2019 $'000	2018 $'000
Net Surplus After Taxation	**2,695**	**9,094**
Plus/(Less) Non-Cash Items:		
Depreciation	21,330	20,405
Deferred Taxation	(123)	616
Loss on Disposal of Property, Plant and Equipment	529	696
Interest Rate Derivatives	4,321	2,013
Net SEPSCT Transactions	(12)	(69)
Onerous Contract	2,439	(49)
Share of Profit of Associates and Joint Ventures	(11,783)	(15,374)
	16,701	8,238
Plus/(Less) Net Movements in Working Capital:		
Creditors and Accruals	1,476	(2,971)
Receivables, Prepayments and Work in Progress	(580)	(227)
Contract Liabilities	239	-
Inventories	-	60
Income Tax Payable	(458)	587
	677	(2,551)
Net Cash Flows From Operating Activities	**20,073**	**14,781**

19 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.

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 creditrating 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 8 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.

Notes to the Financial Statements *continued*

For the year ended 31 March 2019

20 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 PowerNet Central Ltd.

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	
	2019 $'000	2018 $'000
Goods and Services Supplied to:		
PowerNet Ltd (Joint Venture)	1,914	1,631
Receivables Outstanding at Balance Date (GST incl):		
PowerNet Ltd (Joint Venture)	417	342
OtagoNet Joint Venture	5	5
Goods and Services Supplied by:		
PowerNet Ltd (Joint Venture)	47,060	47,824
OtagoNet Joint Venture	4	-
Creditors Outstanding at Balance Date (GST incl):		
PowerNet Ltd (Joint Venture)	13,252	7,513
OtagoNet Joint Venture	3	-
Advances Provided to:		
Southland Electric Power Supply Consumer Trust	171	234
PowerNet Ltd (Joint Venture)	12,499	8,850
OtagoNet Joint Venture	430	-
Advances Provided from:		
Southland Electric Power Supply Consumer Trust	159	164
PowerNet Ltd (Joint Venture)	8,834	11,385
OtagoNet Joint Venture	430	-

Notes to the Financial Statements *continued*

For the year ended 31 March 2019

20 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:

PowerNet Ltd and The Power Company Ltd use Findex as their tax advisors of which Duncan Fea is a Principal. The Power Company Ltd's share of fees for taxation advice paid to Findex during the year amounted to $13,300 excl GST (31 March 2018: $12,000) of which $4,805 incl GST (31 March 2018: $4,000) is owing at balance date.

All transactions between The Power Company Ltd, PowerNet Ltd, OtagoNet Joint Venture, AWS Legal and Findex 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 $2,264,000 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 $171,000 (31 March 2018: $234,000). 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 $159,000 (31 March 2018: $164,000) 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	
	2019 $'000	2018 $'000
Directors fees, Salaries and Short-term Employee Benefits	276	246

Executive staff remuneration comprises salary and other short-term benefits. PowerNet executives appointed to the boards of related companies do not receive directors' fees personally. There have been no other transactions with the Directors.

21 Subsequent Events

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

Auditor's Report

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Independent Auditor's Report

To the shareholder of The Power Company Limited

We have audited the consolidated financial statements which comprise:

- the statement of financial position as at 31 March 2019;
- 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 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 2019, 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 as well as regulatory advisory services and tax pooling. The provision of these other services has not impaired our independence as auditor of the Group.

Auditor's Report *continued*

Information other than the consolidated 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 consolidated 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 Elizabeth Adriana (Adri) Smit.

For and on behalf of:

Pricewaterhousecoopers

Chartered Accountants

27 June 2019

Christchurch

Back cover: Lumsden substation.

THEPOWERCOMPANYLTD