The Power Company Limited

Consolidated Financial Statements

For the year ended 31 March 2020

Contents

Approval by Directors

The Directors have approved the Consolidated Financial Statements of The Power Company Ltd for the year ended 31 March 2020 on pages 3 to 31.

For and on behalf of the Board.

Douglas William Fraser
Chairperson

24 June 2020

Duncan Varnham Fea
Director

24 June 2020

The Power Company Limited
Consolidated Statement of Service Performance
For the year ended 31 March 2020

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

	Target	GROUP Achievement			
	2020	2020		2019	
Financial Measures	Inclusive of Discount	Inclusive of Discount	Exclusive of Discount	Inclusive of Discount	Exclusive of Discount
EBIT % - Percentage Earnings Before Tax and Interest on Assets Employed	3.03 %	3.20 %	4.27 %	2.84 %	3.95 %
NPAT % - Percentage Tax Paid Profit on Equity	1.95 %	2.96 %	5.05 %	2.44 %	4.56 %
Gearing Ratio	40.64%	39.69%		39.5%	
Interest Cover Ratio	4.38	5.19		5.35	

Health & Safety

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

	Target 2020	2020	2019
Total Recordable Injury Frequency Rate Contractors Target (TRIFR)	4.20	7.20	4.60
Serious Harm	0.0	0.0	0.0

Workplace health and safety continues to be a business priority and a critical success factor for the Group. PowerNet Ltd safety performance (TRIFR) in 2020 did not meet target or the 2019 safety performance level. No lost time injuries occurred on the The Power Company Ltd network during the 2020 reporting year.
Our health and safety environment risk management system is well embedded in our business activities. The system displays all information about incidents, hazards, risks, actions and audits on one platform, presenting incident workflows with ready access to investigation details and resolution actions. All leaders now use the system, which allows for easier management of public and workplace incidents. This system also identifies actions to ensure they are resolved to prevent future harm.

The Board has a strong commitment to ensuring employees, contractors and the public remain safe and well. The Board monitors the health, safety and environment aspects of the Group's activities, principally through the Heath, Safety and Environment Committee.

System Average Interruption Duration Index (SAIDI)

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

	Target 2020	2020	2019
SAIDI	181.48	255.77	199.39

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

	Target 2020	2020	2019
SAIFI	2.83	3.50	2.73

Both the SAIDI and SAIFI measure for The Power Company Ltd were impacted by unplanned outages due to flooding in Eastern Southland in February 2020 and a higher level of planned maintenance.

The Power Company Ltd exceed the Statement of Intent quality targets.

Supplementary Information

	Achievement 2020	Achievement 2019
Network Statistics		
Length of overhead line*	8,456 Km	8,461 Km
Length of underground cable	382 Km	392 Km
Total number of interruptions	1,241	1,174
Faults per 100km of line	6.27	6.43
Transformer capacity MVA	456	446
Maximum demand MVA	147	145
Energy into network GWh	787	785
Total Consumers	36,436	36,089

* Excluding conductor lines under constuction.

The Power Company Limited
Consolidated Statement of Financial Performance
For the year ended 31 March 2020

	Notes	GROUP 2020 $'000	GROUP 2019 $'000
Gross Revenue from Contracts with Customers	2	70,630	67,701
Discount to Consumers	2	(7,790)	(7,532)
Net Revenue from Contracts with Customers		**62,840**	**60,169**
Operating Expenses	4	(59,058)	(57,798)
Other Income	3	5,260	5,050
Operating Surplus Before Fair Value Gains/(Losses)		**9,042**	**7,421**
Fair Value Adjustments			
Unrealised (Loss)/Gain on Derivatives (NZ)	4	(3,723)	(4,321)
(Loss)/Gain on Onerous Contract	4	903	(2,439)
Derivative financial instrument (gain)/loss (US)	15	(393)	-
Fair Value Gains/(Losses)		**(3,213)**	**(6,760)**
Operating Surplus		**5,829**	**661**
Finance Costs		(9,353)	(9,125)
Share of Profits of Associates and Joint Ventures		14,346	11,783
Net Surplus Before Taxation		**10,822**	**3,319**
Taxation Expense	5	(2,138)	(624)
Net Surplus After Taxation		**8,684**	**2,695**

The accompanying notes on pages 9 to 31 form part of and should be read in conjunction with these financial statements.

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The Power Company Limited
Consolidated Statement of Comprehensive Income
For the year ended 31 March 2020

	Notes	GROUP 2020 $'000	GROUP 2019 $'000
Net Surplus After Taxation		**8,684**	**2,695**
Asset Revaluation	7	6,999	-
Other Comprehensive Income		**6,999**	**-**
Items that may be Subsequently Reclassified to Profit or Loss:			
Cash Flow Hedges			
Movement in Cost of Hedging Reserve		(100)	-
Tax Effect of Movement in Cost Hedging Reserve		28	-
		(72)	-
Total Comprehensive Income		**15,611**	**2,695**
Total Comprehensive Income Attributable to Minority Interests	12	42	(19)
Total Comprehensive Income Attributable To Parent		15,569	**2,714**

The accompanying notes on pages 9 to 31 form part of and should be read in conjunction with these financial statements.

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The Power Company Limited
Consolidated Statement of Changes in Equity
For the year ended 31 March 2020

	Notes	GROUP 2020 $'000	2019 $'000
Total Comprehensive Income			
Net Surplus for the Year comprising:			
Parent Interest		15,569	2,714
Minority Interest	12	42	(19)
		15,611	**2,695**
Transactions with Non-Controlling Interests		3,361	-
Changes in Accounting Policy - Discount		-	(5,063)
Changes in Accounting Policy - Contributions		-	(609)
Changes in Equity for the Year		**18,972**	**(2,977)**
Equity at Beginning of Year comprising:			
Parent Interest		331,328	334,286
Minority Interest	12	1,563	1,582
		332,891	335,868
Equity at End of Year comprising:			
Parent Interest		346,897	331,328
Minority Interest	12	4,966	1,563
	7	351,863	332,891

The accompanying notes on pages 9 to 31 form part of and should be read in conjunction with these financial statements.

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The Power Company Limited
Consolidated Statement of Financial Position
As at 31 March 2020

	Notes	GROUP 2020 $'000	GROUP 2019 $'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	8	185	369
Receivables and Prepayments	9	9,783	8,445
Inventories		161	161
Provision for Tax		990	231
Total Current Assets		**11,119**	**9,206**
Non Current Assets			
Advances to Joint Ventures	10	31,168	32,169
Investments in Joint Ventures	10	205,006	184,092
Investment in Other Entities		239	239
Property, Plant and Equipment	11	451,394	433,287
Capital Work in Progress		11,625	17,368
Deferred Tax Asset	16	209	6,421
Right-of-Use Assets	6	389	-
Derivative Financial Instrument	15	19,059	-
Total Non Current Assets		**719,089**	**673,576**
Total Assets		**730,208**	**682,782**
LIABILITIES			
Current Liabilities			
Creditors and Accruals	13	21,869	21,238
Onerous Contract	17	612	705
Interest Rate Derivatives		472	255
Contract Liabilities	14	1,318	1,120
Lease Liabilities	6	33	-
Total Current Liabilities		**24,304**	**23,318**
Non Current Liabilities			
Term Loans	15	259,247	232,889
Deferred Tax Liabilities	16	64,804	66,556
Onerous Contract	17	11,012	11,822
Interest Rate Derivatives		17,314	13,808
Contract Liabilities	14	1,298	1,498
Lease Liabilities	6	366	-
Total Non Current Liabilities		**354,041**	**326,573**
Total Liabilities		**378,345**	**349,891**
Net Assets		**351,863**	**332,891**
EQUITY			
Contributed Equity	7	70,160	70,160
Other Reserves	7	104,203	97,394
Retained Earnings	7	172,534	163,774
Group Equity		**346,897**	**331,328**
Minority Interest	12	4,966	1,563
Total Equity		**351,863**	**332,891**

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The Power Company Limited
Consolidated Statement of Cash Flows
For the year ended 31 March 2020

	Notes	2020 $'000	2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was Provided From:			
Receipts from Customers		66,560	63,500
Interest Received		1,310	1,301
		67,870	**64,801**
Cash was Disbursed To:			
Payments to Suppliers and Employees		36,354	34,694
GST Paid/(Received)		562	(192)
Income Tax Paid		1,130	1,205
Interest Paid		9,202	9,021
		47,248	**44,728**
Net Cash Flows From Operating Activities	19	**20,622**	**20,073**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was Provided From:			
Property, Plant and Equipment Sales		66	69
Distributions Received from Joint Ventures		11,255	11,743
Repayment of Advances by Joint Ventures		11,786	9,264
		23,107	21,076
Cash was Applied To:			
Property, Plant and Equipment Purchases		35,249	31,922
Investment in Joint Ventures		8,100	-
Advance to Joint Venture		10,785	12,929
		54,134	44,851
Net Cash Flows (Used in) Investing Activities		**(31,027)**	**(23,775)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was Provided From:			
Transactions with Minority Interest		3,361	-
Advance from Term Borrowing		102,041	3,773
		105,402	3,773
Cash was Applied To:			
Repayment of Term Borrowing		95,150	-
Principal elements of lease payments		31	-
		95,181	-
Net Cash Flows (Used in) Financing Activities		**10,221**	**3,773**
Net Increase/(Decrease) in Cash and Cash Equivalents Held		(184)	71
Add Opening Cash Brought Forward		369	298
Closing Cash and Cash Equivalents To Carry Forward	8	**185**	**369**

The accompanying notes on pages 9 to 31 form part of and should be read in conjunction with these financial statements.

1 Statement of Accounting Policies

Reporting Entity
The Power Company Ltd, is a profit oriented limited liability company that was incorporated on 30 October 1990 and the address of its registered office is 251 Racecourse Road, Invercargill. The Company is wholly owned by a Consumer Trust (Southland Electric Power Supply Consumer Trust) and is registered under the Companies Act 1993. The Group consists of The Power Company Ltd, its subsidiaries, and its interest in jointly controlled entities referred to in Note 10 and Note 21.

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 24 June 2020.

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.

Impact of COVID-19 on Financial Statements

The outbreak of the novel coronavirus COVID-19 which was designated a pandemic by the World Health Organization on 11 March 2020, is a rapidly evolving situation adversely affecting global commercial activities. On 25 March 2020 New Zealand went into a Level 4 lockdown requiring all non-essential businesses whose employees cannot work from home to close for a four week period (extended by a further five days to 27 April 2020). From 9 June 2020, New Zealand moved to Level 1 with restrictions now limited to border control.

As an electricity distribution business, The Power Company Ltd is deemed to be an essential service provider. Its operations have not been significantly impacted by the pandemic restriction measures, with line charge revenues in March, April and May 2020 largely unaffected. The extent of the COVID-19 impact on business performance is a change to the consumption profile within customer groups reflecting the disruption in businesses and gain in household consumptions. The mothballing of some businesses will have an impact on future revenue, however this is not expected to present uncertainty and risk with respect to the company, its performance or its financial result.

The risk of customers (predominantly electricity retailers) defaulting or becoming insolvent as a result of the business restrictions in the future, is not expected to be of a material level.

The financial performance of The Power Company Ltd group investments have not been materially affected by the pandemic restriction measures. Associate entity, PowerNet Ltd, has seen a significant reduction in its revenues and profit from the field activities due to alert level restrictions. However the financial performance of the business and the continued employment of its work force has been supported by the receipt of the Government wage subsidy.

New Standards Adopted
The Group has applied the following standards for the first time for their annual reporting period commencing 1 April 2019:
- NZ IFRS 16 - Leases

In accordance with the transition provisions in NZ IFRS 16 the standard has been adopted retrospectively with the cumulative effect of initially applying the new standard recognised on 1 April 2019. Comparatives for the 2019 financial year have not been restated.

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

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(a) Principles of Consolidation

(i) **Subsidiaries**

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

(ii) **Joint Ventures**

Joint Ventures are those entities over which the Group has joint control established by contractual agreement. The financial statements include the Group's share of the joint venture entities' total recognised gains and losses on an equity accounted basis, from the date that joint control commences to the date that joint control ceases.

(iii) **Transactions Eliminated on Consolidation**

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

(b) Revenue 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.

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(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 11)
- Recoverable Amount from Cash Generating Units
- Onerous Contract (note 17)
- Joint Arrangement Classification (Note 10)
- Revenue (Note 2)
- Derivative (Note 15)

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.

(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)	1.43-10.0%	Straight line/Diminishing value
Metering Assets	6.7-22%	Straight line/Diminishing value
Plant and Office Equipment	5.0-50.0%	Straight line/Diminishing value

(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.

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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
The Group has changed its accounting policy for leases, and has adopted NZ IFRS 16.

Until the 2019 financial year, leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments and income under these leases are recognised in the income statement in the periods in which they are incurred.

Refer to Note 6 for the current accounting policy in respect of leases.

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

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(p) 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.

- Fair Value Recognised in the the Profit and Loss (FVPL): Assets that do not meet the criteria for amortised cost or Fair Value Recognised in Other Comprehensive Income (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.

(i) **Financial Assets at Fair Value through Profit or Loss**
Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorized as held for trading unless they are designated as hedges.

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

(q) Financial Instruments

(i) **Derivative Financial Instruments**
The Group uses a variety of financial instruments (hedges) to manage it's risks associated with interest rates and foreign currency. Derivative financial instruments are recognised at fair value. A small number of hedges are designated in hedge accounting relationships (refer to note 15 for further details). The Group does not engage in speculative transactions.

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

(iii) **Trade and Other Payables**
Trade and other payables are stated at 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

(v) **Borrowings**

Borrowings are recognised initially at fair value, net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; using the effective interest method, except borrowings subject to fair value hedges which are adjusted for effective changes in the fair value of the hedging instrument.

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

2 Revenue from Contracts with Customers

	GROUP 2020 $'000	GROUP 2019 $'000
Electricity Delivery Services (including discount)	59,839	58,699
Capital Contributions	3,001	1,470
Total Revenue	**62,840**	60,169

Timing of Revenue Recognition

	GROUP 2020 $'000	GROUP 2019 $'000
Over time	59,839	58,699
At a Point in Time	3,001	1,470
Total Revenue	**62,840**	**60,169**

3 Other Income

	GROUP 2020 $'000	GROUP 2019 $'000
Interest	1,310	1,301
Subvention Income	255	169
Rental Income	470	429
Metering Rental Income	3,079	3,025
Sundry Income	146	126
Total Other Income	**5,260**	**5,050**

4 Expenses

	GROUP 2020 $'000	GROUP 2019 $'000
Expenses Include:		
Auditors' Fees		
Audit of Financial Report - PwC	51	63
Information Disclosure - PwC	74	54
Regulatory & Advisory - PwC	12	8
Depreciation		
Buildings (refer Note 11)	73	70
Plant and Office Equipment (refer Note 11)	6	6
Metering Assets (refer Note 11)	1,401	1,188
Network Assets (refer Note 11)	20,854	20,066
Depreciation Right of Use Assets (refer Note 6)	35	-
Total Depreciation	**22,369**	**21,330**
Bad Debts Written Off	3	29
Directors' Fees	282	276
Finance Expense		
Interest Expense	9,353	9,125
Unrealised Loss/(Gain) on Derivatives	3,723	4,321
Total Finance Expense	**13,076**	**13,446**
Loss/(Gain) on Onerous Contract	(903)	2,439
Loss on Disposal of Property, Plant and Equipment	491	529
Network Costs	18,890	16,338
Transmission Costs	12,960	15,040

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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	
	2020 $'000	2019 $'000
Operating Surplus/(Deficit) Before Income Taxation	10,822	3,319
Prima Facie Taxation at 28%	3,030	929
Permanent Differences	(1,156)	(474)
Prior Period Adjustment	264	169
Tax Expense	**2,138**	**624**
Made up of:		
Current Tax	373	747
Deferred Tax	1,765	(123)
Tax Expense	**2,138**	**624**

6 Leases

	GROUP	
	2020 $'000	2019 $'000
Right-of-Use Assets Net Book Value		
Equipment	389	-
	389	-
Lease Liabilities		
Current	33	-
Non-current	366	-
	399	-

Amounts Recognised in the Statement of Financial Performance

The Consolidated Statement of Financial Performance shows the following amounts relating to leases:

	GROUP	
	2020 $'000	2019 $'000
Depreciation Charge of Right-of-Use Assets		
Equipment	41	-
	41	-
Interest Expense (included in Finance Cost)	21	-
	21	-

The total cash outflow for leases in 2020 was $52,268

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6 Leases (continued)

Until the 2020 financial year, leases of property, plant and equipement were classified as either finance leases or operating leases. From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. The Group has leases with Transpower New Zealand Ltd, which are New Investment Contracts for the provision and upgrade of assets.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

The lease payments are discounted using the interest rate implicit in the lease.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- any restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

The Group has elected not to recognise a lease liability for leases of low value assets. Payments made under such leases are expensed as incurred. Low-value assets comprise of tenancy of network structure and repeater sites.

The expenses relating to payments not included in the measurement of the lease liability is $8,706.

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7 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	
	2020 $'000	2019 $'000
Share Capital		
Opening Balance	70,160	70,160
Shares Issued	-	-
Closing Balance	**70,160**	**70,160**
Minority Interest	**4,966**	**1,563**
Asset Revaluation Reserve		
Opening Balance	97,394	97,465
Asset Revaluation	6,999	-
Revaluation Reversal due to Asset Disposal	(118)	(71)
Closing Balance	**104,275**	**97,394**
Cost of Hedging Reserve		
Movement in Cost of Hedging Reserve	(100)	-
Tax Effect of Movements in the Cost of Hedging Reserve	28	-
Closing Balance	**(72)**	**-**
Total Reserves	**104,203**	**97,394**
Retained Earnings		
Opening Balance	163,774	166,661
Net Surplus/(Deficit) for the Year	8,642	2,714
Change in Accounting Policy - Contributions	-	(609)
Changes in Accounting Policy - Discount	-	(5,063)
Revaluation Reversal due to Asset Disposal	118	71
Closing Balance	**172,534**	**163,774**
Total Equity	**351,863**	**332,891**

8 Cash and Cash Equivalents

	GROUP	
	2020 $'000	2019 $'000
Current Account	185	369
Total Cash and Cash Equivalents	**185**	**369**

9 Receivables and Prepayments

	GROUP	
	2020 $'000	2019 $'000
GST Receivable	987	522
Trade Debtors	7,989	7,725
Prepayments	807	198
Total Receivables and Prepayments	**9,783**	**8,445**

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10 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		Balance Date
		2020	2019	
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 February 2020 the remaining 9.68% shareholding in PowerNet Central Ltd was purchased by PowerNet Ltd. Following the completion of the acquisition, PowerNet Central Ltd was amalgamated in PowerNet Ltd on 31 March 2020.

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

	GROUP	
	2020 $'000	2019 $'000
Interests in Joint Venture Entities are as follows:		
Carrying Amount at Beginning of Year	184,092	184,051
Investment in Joint Ventures	8,100	-
Revaluation Gain on Network Assets	9,721	-
Share of Equity Accounted Earnings of Joint Ventures	14,346	11,783
Less Drawings	(11,253)	(11,742)
Carrying Amount at End of Year	**205,006**	**184,092**

The Group's advances to joint ventures of $31,168,000 (31 March 2019: $32,169,000) are repayable on demand but with a 13 month notice period. The advances incur interest 3% above the 90 day bank bill rate.

The Group holds a 25% interest in the Southern Generation Ltd Partnership. This partnership was formed in 2015 to invest in electricity generation opportunities. The partnership owns Mount Stuart and Flat Hill wind farms in Otago and Southland and the Aniwhenua Hydro Station in the Bay of Plenty. 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 61 GWh, with Upper Fraser contributing 33 GWh and Matiri 28 GWh. The purchase of the Upper Fraser Hydro Station was completed in September 2019. Matiri construction is in progress with an expected completion date of August 2020.

In 2020, 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 windfarms, and the Aniwhenua Hydro Station power purchase agreement with Nova Energy Ltd. The fair value assessment 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. The Groups share of the impact of these fair value adjustments is an increase of $1,718,000 (2019: decrease of $2,613,000) in the Share of Equity Accounted Earnings of Joint Ventures, and therefore the Group Net Surplus for the year.

The network assets of OtagoNet Joint Venture were revalued using discounted cash flow methodology on 31 March 2020 by an independent valuer. This resulted in a favourable gain, with the Group share of $9,721,000 recognised in the Statement of Comprehensive Income.

(continued)

11 Property, Plant and Equipment

	Network Assets $'000	Metering Assets $'000	Land $'000	Buildings $'000	Plant and Office Equipment $'000	Total $'000
Cost or Valuation						
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**
Balance at 1 April 2019	520,515	21,548	483	4,844	107	547,497
Additions	37,227	3,100	-	665	-	40,992
Revaluation	-	-	-	-	-	-
Disposals	(568)	(120)	-	(77)	-	(765)
Balance at 31 March 2020	**557,174**	**24,528**	**483**	**5,432**	**107**	**587,724**
Depreciation and Impairment Losses	-		-		-	
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)**
Balance at 1 April 2019	(108,849)	(5,006)	-	(323)	(32)	(114,210)
Depreciation for Year	(20,854)	(1,401)	-	(73)	(6)	(22,334)
Revaluation	-	-	-	-	-	-
Disposals	170	44	-	-	-	214
Balance at 31 March 2020	**(129,533)**	**(6,363)**	-	**(396)**	**(38)**	**(136,330)**
Carrying Amount/Book Value						
Book Value at 31 March 2019	**411,666**	**16,542**	**483**	**4,521**	**75**	**433,287**
Book Value at 31 March 2020	**427,641**	**18,165**	**483**	**5,036**	**69**	**451,394**

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 2020	**408,388**	**18,165**	**482**	**5,036**	**67**	**432,138**

Valuation

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

- The free cash flows were based on the Company's three year business plan and asset management plan adjusted for non-recurring or non-arms length transactions and for transactions that arose from expansionary growth in the network after the date of the valuation.

- The corporate tax rate used was 28%.
- The weighted average cost of capital (WACC) used was 5.5%.
- The sustainable growth adjustment used was 0.6%.
- The CPI increases used were 1%.

The next valuation is due to be performed during the year ended 31 March 2021.

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12 Minority Interest

	GROUP	
	2020	**2019**
	$'000	**$'000**
Opening Balance	1,563	1,582
Transactions with Non-Controlling Interests	3,361	-
Minority Interest Share of Net Surplus	42	(19)
Closing Balance	**4,966**	**1,563**

The Minority Interest relates to Electricity Southland Ltd. In 2020 additonal share capital was issued with exsisting ownership percentages being retained.

13 Creditors and Accruals

	GROUP	
	2020	**2019**
	$'000	**$'000**
Trade Creditors	13,200	9,826
Accruals	8,669	11,412
Revenue in Advance	-	-
Total Creditors and Accruals	**21,869**	**21,238**

14 Contract Liabilities

	2020	**2019**
	$'000	**$'000**
Contract Liabilities are as follows:		
Carrying Amounts at the Beginning of Year	2,618	1,770
Accounting Policy Change	-	610
Received in Current Year	3,191	1,861
Recognised as Revenue in Current Year	(3,193)	(1,623)
Carrying Amount at End of Year	**2,616**	**2,618**
Made up of:		
Current Contract Liabilities	1,318	1,120
Non-Current Contract Liabilities	1,298	1,498

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

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15 Term Borrowings

	GROUP	
	2020 **$'000**	**2019** **$'000**
ANZ Committed Cash Advance	59,870	96,390
Westpac Revolving Cash Advance	74,100	130,000
US Private Placement	121,593	-
Advance – Southland Electric Power Supply Consumer Trust	2,179	2,264
Advance – Electricity Invercargill Ltd	1,505	4,235
	259,247	232,889

Bank Facilities
The Group has a Committed Cash Advance Facility of $60 million (31 March 2019: $110 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 $90 million (31 March 2019: $130 million) with Westpac. The facility has a revolving three year term and is extendable annually by agreement between the Group and Westpac.

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

At balance date the Group had active interest rate swaps on the above facilities which total $147 million (31 March 2019: $147 million) at interest rates between 2.57% and 4.75%, excluding bank margins.

US Private Placement Notes
On 4 February 2020 the Group completed a United States Private Placement (USPP) note issuance, securing US$65 million of long term debt. The USPP comprised two tranches, a US$40 million 10 year Note with a coupon of 3.23% and a US$25 million 11 year Note with a coupon of 3.28%. In conjunction with the USPP issuance, the Group entered into cross currency interest rate swaps to formally hedge the exposure of interest rate and foreign currency risk over the term of the notes and is described in more detail below.

At 31 March 2020, the USPP Notes had a fair value of $121.6 million. This debt is carried in the consolidated statement of financial position at amortised cost plus a fair value adjustment under hedge accounting requirements and the translation to New Zealand dollars using foreign exchange rates at balance date. The fair value adjustment amounted to $19.56M.

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.

Hedging Activity and Derivatives

The Group makes limited use of hedge accounting, doing so only for USD borrowings and the CCIRS financial instruments that are used to economically hedge these exposures.

The cross-currency interest rate swaps transform a series of known fixed interest rate cash flows in a foreign currency to floating rate NZD cash flows, mitigating exposure to the interest rate and foreign currency risks that arise from the Group's USPP notes.

The USD borrowings are fixed rate liabilities and thus present interest rate risk, should benchmark interest rates change. The fair value hedge component of the CCIRS hedges US fixed interest rates to US floating interest rates.

The change in the fair value of the hedged risk is attributed to the carrying value of the USPP debt. This debt revaluation is recognised in the income statement to offset the mark-to-market revaluation of the hedging derivative. Any residual difference is referred to as hedge ineffectiveness.

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Hedging Activity and Derivatives (continued)

The combination of USD borrowings and CCIRS economically results in the Group having floating NZD borrowings. This represents a risk of variability in future cash flows. As such, the Group designates the risks into cash flow hedge relationships. The fair value of the hedged risks are recognised in the Statement of Financial Performance with the effective portions of the hedges moved from the Statement of Financial Performance to the cash flow hedge reserve within equity. As noted earlier, there maybe small differences between the above entries which result in hedge ineffectiveness in the Statement of Financial Performance.

Changes in the fair value of the cost to convert foreign currency to NZD of CCIRS are excluded from the designation and are seperately recognised in other comprehesive income in a cost of hedging reserve.

At inception, each hedge relationship is formalised in hedge documentation. Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The Power Company Ltd determines the existence of an economic relationship between the hedging instrument and the hedged item based on the currency, amount and timing of respective cash flows, reference interest rates, tenors, repricing dates, maturities and notional amounts. The Power Company Ltd assesses whether the derivative designated in each hedging relationship is expected to be, and has been, effective offsetting the changes in cash flows of the hedged item using the hypothetical derivative method.

Derivatives in hedge relationships are designated based on a hedge ratio of 1:1. In these hedged relationships the main source of ineffectiveness is the effect of the counterparty and The Power Company Ltds own credit risk on the fair value of the derivatives, which is not reflected in the change in the fair value of the hedged item attributable to changes in foreign exchange and interest rates.

Gains or losses on the USPP notes and derivatives recognised during the period were:

	GROUP	
	2020 $'000	2019 $'000
Gains/(Losses) on the USPP notes	(7,084)	-
Gains/(Losses) on the Derivatives	6,691	-
	(393)	-

All hedging instruments can be found in the derivative financial instruments's assets and liabilities in the statement of financial position. Items taken to the income statement have been recognised in the derivate financial instrument (gain)/loss (US).

The cash flow hedge reserve records the effective portion of the fair value of interest rate swaps that are designated as cash flow hedges. Amounts transferred to the income statement are included in interest expense and other finance costs.

16 Deferred Taxation

	GROUP	
	2020 $'000	2019 $'000
The Balance Comprises Temporary Differences Attributable to:		
Opening Balance	60,135	60,259
Charged to Income Statement:		
Fixed Assets	1,091	1,149
Capital Contributions Received	310	(101)
Line Charge Discount	-	1,418
Prior Period Adjustment	246	-
Provisions	228	(692)
Tax Losses Utilised/(carried forward)	(137)	(1,898)
	1,738	**(124)**
Charged to Equity:		
Effect of Revaluation	2,722	-
Total Deferred Taxation Liability	**64,595**	**60,135**
Represented by:		
Total Deferred Tax Asset	(209)	(6,421)
Total Deferred Tax Liability	64,804	66,556
Balance at the End of the Year	**64,595**	**60,135**

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.

17 Provision for Onerous Contract

	GROUP	
	2020 $'000	2019 $'000
Current Portion	612	705
Non-current Portion	11,012	11,822
Provision for Onerous Contract	**11,624**	**12,527**

A liability had been recognised in relation to the Group's obligations under an onerous contract agreement. A provision of $11,624,000 (2019: $12,527,000,000) has been established for this onerous contract. A Deferred Tax Asset of $3,255,000 (2019: $3,507,000) has also been recognised in relation to this onerous contract.

The following valuation assumptions were adopted;

- The discount rate used was 6.20% 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 1.70%
- The corporate tax rate used was 28%
- The sustainable growth adjustment used was 0.5%

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18 Commitments

(a) Capital Commitments

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

	GROUP	
	2020 $'000	2019 $'000
Capital Commitments	12,860	10,593
Total Capital Commitments	**12,860**	**10,593**

(b) 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 a hydro generation development upon completion of construction. The Matiri hydro station is located 15Km north of Murchison, with a capacity of 7MW is due to be commissioned in August 2020.

(c) Other Commitments

The Group has a conditional commitment as at 31 March 2020 of $825,000 (2019: $825,000). This relates to an agreement with SmartCo Ltd, for the Group to provide a subordinated loan to Smart Co once a number of terms have been met.

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

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

	GROUP	
	2020 **$'000**	**2019** **$'000**
Net Surplus After Taxation	**8,684**	**2,695**
Plus/(Less) Non Cash Items:		
Depreciation	22,369	21,330
Deferred Taxation	1,765	(123)
Interest Rate Derivates (US$)	393	-
Interest Rate Derivatives (NZ$)	3,723	4,321
Net SEPSCT Transactions	(85)	(12)
Onerous Contract	(903)	2,439
Share of Profit of Associates and Joint Ventures	(14,346)	(11,783)
	12,916	16,172
Items not Classified as Operating Activities		
Loss on Disposal of Property, Plant and Equipment	489	529
	489	529
Plus/(Less) Net Movements in Working Capital:		
Creditors and Accruals	631	1,476
Receivables and Prepayments	(1,338)	(580)
Contract Liabilities	(2)	239
Income Tax Payable	(758)	(458)
	(1,467)	677
Net Cash Flows From Operating Activities	20,622	20,073

20 Financial Instruments

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

-Credit risk
-Liquidity risk
-Market risk

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

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

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

The Group is exposed to a concentration of credit risk with regard to the amounts owing by energy retailers at balance date for Line Charges as disclosed in Note 9 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. To reduce concentration risk on any lender or funding type the Group uses a range of different funding sources and currencies. 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.

Where the Group borrows in foreign currency it uses CCIRS to swap all foreign currency demoninated interest and principal repayments to reporting currency. This results in floating rate borrowings in the entity's reporting currency.

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 subject to foreign exchange risk due to exposure to the US Dollar from USPP borrowings.

This exposure has been fully hedged by way of cross-currency interest rate swap, hedging US Dollar exposure on both principle and interest.

The cross-currency interest rate swaps correspond in amount and maturity to the relavent US Dollar borrowings with no residual foreign currency risk exposure.

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.

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21 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	
	2020 **$'000**	**2019** **$'000**
Goods and Services Supplied to:		
PowerNet Ltd (Joint Venture)	2,042	1,745
Receivables Outstanding at Balance Date (GST incl):		
PowerNet Ltd (Joint Venture)	349	417
OtagoNet Joint Venture	-	5
Goods and Services Supplied by:		
PowerNet Ltd (Joint Venture)	52,050	47,238
OtagoNet Joint Venture	5	4
Creditors Outstanding at Balance Date (GST incl):		
PowerNet Ltd (Joint Venture)	13,299	13,252
OtagoNet Joint Venture	-	3
Advances Provided to:		
Southland Electric Power Supply Consumer Trust	244	171
PowerNet Ltd (Joint Venture)	9,955	12,499
OtagoNet Joint Venture	830	430
Advances Provided from:		
Southland Electric Power Supply Consumer Trust	159	159
PowerNet Ltd (Joint Venture)	10,956	8,834
OtagoNet Joint Venture	830	430

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

PowerNet Limited 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 $7,000 excl GST (31 March 2019: $13,000) of which $0 incl GST (31 March 2019: $5,000) is owing at balance date.

All transactions between The Power Company Ltd, PowerNet Ltd, OtagoNet Joint Venture, 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 $2,179,000 (2019: $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 $244,000 (31 March 2019: $171,000). 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 2019: $159,000) has been added to the loan.

All capital commitments disclosed are with PowerNet Ltd.

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Key Management Personnel

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

	GROUP	
	2020 **$'000**	**2019** **$'000**
Directors Fees, Salaries and Short-term Employee Benefits	283	276

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

22 Subsequent Events

There have been no subsequent events impacting on these financials statements. Refer to COVID-19 note.

23 Changes in Accounting Policies

Impact of Change in Accounting Policy on Statement of Financial Position

The Group has adopted NZ IFRS 16 Leases from 1 April 2019, as permitted under the specific transition provisions in the Simplified Modified Retrospective Method. Comparatives for the 2019 financial year have therefore not been restated.

On adoption of NZ IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the group's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the Group's lease liabilities on 1 April was 5.19%.

	GROUP	
	2020 **$'000**	**2019** **$'000**
Operating lease commitments disclosed as at 31 March 2019	1,819	-
Discounted using the Group's incremental borrowing rate of 5.19%	809	-
Add: Contract recognised as lease under NZ IFRS 16	243	-
(Less): Agreements not recognised as Leases under NZ IFRS 16	(617)	-
Add/(less): adjustments relating to changes in the variable payments	(5)	-
Lease Liability Recognised as at 1 April 2019	**430**	-

These agreements relate to Transpower New Zealand Ltd Investment contracts.

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Independent auditor's report

To the Shareholders of The Power Company Limited

We have audited the consolidated financial statements which comprise:

- the consolidated statement of financial position as at 31 March 2020;
- the consolidated statement of financial performance
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant 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 2020, 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. The provision of these other services has not impaired our independence as auditor of the Group.

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 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 Shareholders, as a body. 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 Shareholders, as a body, 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
26 June 2020

Christchurch