Pylon Limited

Consolidated Financial Statements

For the year ended 31 March 2019

Contents

Directors' Approval

The Directors have approved for issue the Financial Statements of Pylon Limited for the year ended 31 March 2019 presented on pages 3 to 18.

For and on behalf of the Directors.

Thomas Campbell Chairperson	Sarah Jane Brown Director
27 June 2019	27 June 2019

Pylon Limited
Statement of Financial Performance
For the year ended 31 March 2019

	Notes	GROUP 2019 $'000	GROUP 2018 $'000
Other Income	2	-	-
Other Expenses		(370)	(1)
Operating Expenses		(2)	-
Share of Profit of Associates and Joint Ventures	5,6	4,217	6,658
Operating Surplus Before Taxation		**3,845**	**6,657**
Taxation Expense	3	(1,154)	(1,628)
Net Surplus After Taxation		**2,691**	**5,029**

The accompanying notes on pages 8 to 18 form part of and should be read in conjunction with these financial statements.

Pylon Limited
Statement of Comprehensive Income
For the year ended 31 March 2019

	GROUP	
	2019 $'000	2018 $'000
Net Surplus After Taxation	**2,691**	**5,029**
Other Comprehensive Income		
- Revaluation	-	-
Total Other Comprehensive Income	-	-
Total Comprehensive Income	**2,691**	**5,029**

The accompanying notes on pages 8 to 18 form part of and should be read in conjunction with these financial statements.

Pylon Limited
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		2,691	5,029
Other Comprehensive Income		-	-
		2,691	5,029
Distributions to Shareholders			
Dividend Declared/Paid		(5,460)	(6,366)
		(5,460)	(6,366)
Changes in Equity for the Year		(2,769)	(1,337)
Equity at Beginning of the Year		37,783	39,120
Equity at End of the Year	4	35,014	37,783

The accompanying notes on pages 8 to 18 form part of and should be read in conjunction with these financial statements.

Pylon Limited
Statement of Financial Position
As at 31 March 2019

	Notes	GROUP 2019 $'000	2018 $'000
ASSETS			
Non Current Assets			
Investment in Associates	5	1,563	1,582
Investments in Joint Ventures	6	77,871	80,326
Total Non Current Assets		**79,434**	**81,908**
Total Assets		**79,434**	**81,908**
LIABILITIES			
Current Liabilities			
Income Tax Payable/(Receivable)		(77)	174
Trade Payables		370	-
		293	174
Total current liabilities		**293**	**174**
Non Current Liabilities			
Deferred Tax Liabilities	8	6,593	6,267
Shareholder Advance	7	37,534	37,684
Total Non Current Liabilities		**44,127**	**43,951**
Total Liabilities		**44,420**	**44,125**
Net Assets		**35,014**	**37,783**
EQUITY			
Share Capital	4	26,901	26,901
Reserves	4	9,746	9,746
Retained Earnings	4	(1,633)	1,136
		35,014	**37,783**
Total Equity		**35,014**	**37,783**

The accompanying notes on pages 8 to 18 form part of and should be read in conjunction with these financial statements.

Pylon Limited
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:			
Sundry Income		-	-
Taxation Refunds		-	-
Cash Was Disbursed To:			
Interest paid		(2)	-
Income Tax Paid		(1,079)	(1,632)
		1,081	(1,632)
Net Cash Outflows From Operating Activities	9	**(1,081)**	**(1,632)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Associate and Joint Venture Investments		6,691	7,163
		6,691	7,163
Cash Was Applied To:			
Purchase of additional Interest in Joint Ventures		-	1
		-	1
Net Cash Flows/ (Outflows) From Investing Activities		**6,691**	**7,162**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Advance Repayment from Joint Ventures		-	-
Shareholder Advance		(150)	836
		(150)	836
Cash Was Applied To:			
Dividend Payment		(5,460)	(6,366)
		(5,460)	(6,366)
Net Cash Flows/ (Outflows) From Financing Activities		**(5,610)**	**(5,530)**
Net Increase/(Decrease) in Cash and Cash Equivalents Held		-	-
Add Opening Cash Brought Forward		-	-
Closing Cash and Cash Equivalents Carried Forward		-	-

The accompanying notes on pages 8 to 18 form part of and should be read in conjunction with these financial statements.

1 STATEMENT OF ACCOUNTING POLICIES

Reporting Entity
Pylon Limited is a profit oriented limited liability company that was incorporated in New Zealand on 10 June 2002, is registered under the Companies Act 1993, and whose registered office is at 251 Racecourse Road, Invercargill. Pylon Limited is a wholly owned subsidiary of Electricity Invercargill Limited. The parent consists of Pylon Limited and its joint venture parties. The Group consists of the parent (as outlined above) and its associates and jointly controlled entities (refer to Notes 5 and 6).

The financial statements have been prepared in accordance with the requirements of the Energy Companies Act 1992, the Companies Act 1993 and the Financial Reporting Act 2013. The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), and comply with the New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR), and other reporting standards as appropriate for profit oriented entities.

The principal activity of Pylon Limited is that of participating in investments in the electricity sector.

The financial statements were approved by the Board of Directors on 27 June 2019.

Basis of Preparation
These financial statements are presented in New Zealand dollars, rounded to the nearest thousand. The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis are followed by the Group, with the exception that certain property, plant and equipment has been revalued to fair value.

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) by virtue of the fact that it has no public accountability and it is not a large for-profit public sector entity.

In adopting the Reduced Disclosure Regime framework, the Group has taken advantage of a number of disclosure concessions.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

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 but the adoption have no material effects on the financial statements. The financial satements 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.

Standards or Interpretations not yet Effective
NZ IFRS 16, 'Leases' replaces the current guidance in NZ IAS 17. It requires a lessee recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short term leases and leases of low-value assets; however, this exemption can only be applied by lessees. Early adoption is permitted but only in conjunction with NZ IFRS 15. The group intends to adopt NZ IFRS 16 on its effective date and is currently assessing its full impact.

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
- Revenue estimation
- Joint arrangement classification

In the process of applying the Group's accounting policies, management has made the following judgements, estimates and assumptions that have the most significant impact on the amounts recognised in these financial statements.

Property, plant and equipment
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. The fair value measurement of the distribution network is categorised under Level 3 of the fair value hierarchy.

Every five years, the OtagoNet Joint Venture (OtagoNet) obtains a valuation of their electricity distribution network, determined by independent valuers, in accordance with their accounting policy. The valuation of the OtagoNet's electricity distribution network was performed as at 1 April 2014. 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.

Revenue estimation
The Group invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of an estimation of usage, adjusted for the latest wash-up data available from the electricity wholesale market and certain metering data from electricity retailers. Management has made an allowance in revenue and in current assets/liabilities for any amounts which are estimated to be under/over charged during the reporting period. However, as final wash-up metering data is not available for in excess of twelve months, it is possible the final amounts payable or receivable may vary from that calculated.

Other areas where judgement has been exercised in preparing these financial statements are in determining the classification of joint arrangements.

Specific Accounting Policies

(a) Principles of Consolidation

(i) **Associates**
Associates are those entities for which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

(ii) **Joint Ventures**
Joint Ventures are those entities over which the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the joint venture entities' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date joint control commences until the date 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 from Contracts with Customers

(i) *Electricity Delivery Services*

Electricity delivery service revenue relates to the provision of electricity distribution services to electricity retailers through its electricity network. 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. Revenue is recognised over time using an output method based on the actual delivery services provided on a daily basis.

(ii) *Customer 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

Interest Income

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 profit and loss and impairment losses recognised on financial assets (except for trade receivables). All borrowing costs are recognised in the profit and loss using the effective interest method, unless they are directly related to the construction of a qualifying asset, when they are capitalised.

(e) Taxation

Income tax on the surplus or deficit for the period presented comprises current and deferred tax. Income tax is recognised in the profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided 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 taxable profit and loss. Deferred income 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 income 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.

(f) Goods and Services Tax (GST)

All amounts in the financial statements have been shown exclusive of goods and services tax, with the exception of receivables and payables which are shown inclusive of goods and services tax.

(g) Financial Assets

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.

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 Group's previous accounting policy. Financial assets were previously classified as follows under NZ IAS 37:

(i) ***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 company 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 balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(ii) ***Held-to-Maturity Investments***
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity.

(h) 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 expected loss provision

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.

(i) 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.

(j) Trade and Other Payables

Trade and other payables are stated at amortised cost.

(k) Borrowings

Borrowings are recognised initially at fair value, net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss over the period of the borrowings using the effective interest method.

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

(l) Seasonality

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

2 Income

	GROUP	
	2019 **$'000**	**2018** **$'000**
Other Income		
Interest Revenue	-	-
Total Income	-	-

3 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 Before Income Tax	**3,845**	**6,657**
Prima Facie Taxation at 28%	1,077	1,864
Income not Taxable		
- Equity Accounted Earnings of Associates and Joint Ventures	(171)	(221)
Under/(over) Provision in Prior Years	148	(15)
Expenses not Deductible	100	-
Taxation Expense for Year	**1,154**	**1,628**
Made up of:		
Current Tax	676	1,204
Under/(Over) Provision in Prior Years	153	14
Deferred Tax	330	439
Prior Year Under/(over) Provision of Deferred Tax	(5)	(1)
Taxation Expense for the Year	**1,154**	**1,628**
Effective Tax Rate	30%	25%

4 Equity

The authorised and issued share capital comprises 26,901,000 ordinary shares (2018: 26,901,000 ordinary shares) which are fully paid up. All shares have the same rights and privileges.

	GROUP	
	2019 $'000	**2018 $'000**
Contributed Capital		
Share Capital	**26,901**	**26,901**
Reserves		
Revaluation Reserve Opening Balance	9,746	9,746
Revaluation During the Year	-	-
Total Reserves	**9,746**	**9,746**
Retained Earnings		
Opening Balance	1,136	2,473
Net Surplus	2,691	5,029
Dividend Declared/Paid	(5,460)	(6,366)
Total Retained Earnings	**(1,633)**	**1,136**
Total Equity	**35,014**	**37,783**
	Cents per Share	**Cents per Share**
Dividend per Share	20.30	23.7

5 Investments in Associates

Associate Companies	**Country of Incorporation**	**Balance Date**	**Percentage Held By Group**	
			2019	**2018**
Electricity Southland Limited	New Zealand	31 March	24.9 %	24.9 %

	GROUP	
	2019 $'000	**2018 $'000**
Interests in associate entities are as follows:		
Carrying Amount at Beginning of Year	1,582	1,569
Total Recognised Revenues and Expenses	(19)	13
Carrying Amount at End of Year	**1,563**	**1,582**

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

	GROUP	
	2019 $'000	**2018 $'000**
Share of Surplus Before Taxation	17	60
Less Taxation Expense	(36)	(47)
Total Recognised Revenues and Expenses	**(19)**	**13**

6 Investments in Joint Ventures

The Group has a participating interest in the following Joint Ventures:

Joint Ventures	**Country of Residence**	**Balance Date**	**Percentage Held By Group**	
			2019	**2018**
PowerNet Limited Group*	New Zealand	31 March	50.0 %	50.0 %
OtagoNet Joint Venture	New Zealand	31 March	24.9 %	24.9 %
Roaring Forties Energy Limited Partnership***	New Zealand	31 March	50.0 %	50.0 %

*In April 2017, PowerNet Limited Group acquired an additional 38.62% shareholding in PowerNet Central Limited, increasing the PowerNet shareholding to 90.32%.

** Roaring Forties Energy Limited Partnership has a 50% interest in Southern Generation Limited Partnership.

In April 2015 the Group took a 25% interest in the Southern Generation Limited Partnership. This partnership was formed to invest in electricity generation opportunities. The partnership owns two wind farms, Mt. Stuart near Lawrence and Flat Hill near Bluff. On 29 April 2016, the partnership completed the acquisition of the assets relating to the Aniwhenua Hydro Station on the Rangitaiki River in the Bay of Plenty.

On 15 August 2017, the partners also entered in a conditional agreement to purchase assets relating to two hydro stations, Upper Fraser near Alexandra and Mariti near Murchison. The expected generation output of these two hydro stations is about 58 GWh, with Upper Fraser contributing 30 GWh and Matiri 28 GWh.

Effective from 1 April 2016 the Group equity accounted its share of profits from the 50% owned joint venture entity, PowerNet Limited Group to be consistent with the economic benefits the Group receives based on the PowerNet dividend policy. The equity accounted share of profit in PowerNet in 2019 is 25.23% (2018: 23.48%).

	GROUP	
	2019 $'000	**2018 $'000**
Interests in Joint Venture entities are as follows:		
Carrying Amount at Beginning of Year	80,326	80,842
Investments in Joint Ventures	-	1
Total Recognised Revenues and Expenses	4,236	6,645
Distributions/Dividend Received	(6,691)	(7,162)
Carrying Amount at End of Year	**77,871**	**80,326**

In 2019, a fair value assessment was performed by Southern Generation Limited 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. 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. The Group share of impact from these fair value adjustments is a decrease of $2,613,000 in the Total Recognised Revenue and Expenses, and therefore the Group Net surplus for the year.

7 Shareholder Advance

	GROUP	
	2019 $'000	**2018 $'000**
Advance - Electricity Invercargill Limited	37,534	37,684
Total Advances	**37,534**	**37,684**

The advance is repayable on demand but with a 13 month period of notice.

8 Deferred Tax Liabilities

	GROUP	
	2019 $'000	**2018 $'000**
Balance at the Beginning of the Year	6,267	5,829
Charged to the Profit and Loss		
- Temporary Difference Reversals - depreciation	360	436
- Temporary Difference Reversals - other	(34)	2
Balance at the end of the Year	**6,593**	**6,267**

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

There is not expected to be any significant reversal of deferred tax in the next 12 months.

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

The following is a reconciliation between the net surplus after taxation shown in the Statements of Financial Performance and the Net Cash Flows From Operating Activities.

	GROUP	
	2019 $'000	**2018 $'000**
Net Surplus After Taxation	2,691	5,029
Plus/(Less) Non Cash Items:		
Deferred Taxation	326	438
Share of Profits of Associates and Joint Ventures	(4,217)	(6,658)
	(3,891)	(6,220)
Plus/(Less) Movements in Working Capital:		
Increase/ (Decrease) in Payables	370	-
(Increase)/Decrease in Provision for Taxation	(251)	(441)
	119	(441)
Net Cash Outflows From Operating Activities	**(1,081)**	**(1,632)**

10 Financial Instruments

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

- Credit risk
- Liquidity risk
- Market risk

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

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

The Group manages its exposure to credit risk from trade receivables by performing credit evaluations on all customers requiring credit whenever possible, and continuously monitoring the outstanding credit exposure to individual customers.

The Group does not generally require or hold collateral against credit risk.

The following liquidity tables show the Group's maximum credit exposure at balance date.

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 has some interest bearing debt which is subject to interest rate variations in the market.

The Group is not subject to foreign exchange risk.

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

Capital Management
The Group's capital includes share capital, reserves and retained earnings. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position.

The Group is not subject to any externally imposed capital requirements.

11 Commitments

On 15 August 2017, the Group entered into a conditional agreement with the partners of Southern Generation Limited Partnership to purchase the assets of two hydro generation developments upon completion of construction. The Upper Fraser hydro station is expected to generate approximately 30 GWh from July 2019, and the Matiri hydro station is expected to generate approximately 28 GWh annually from February 2020.

12 Transactions with Related Parties

Pylon Limited is 100% owned by Electricity Invercargill Limited.

Pylon Limited has an interest in PowerNet Limited joint venture, OtagoNet Joint Venture, Electricity Southland Limited, and PowerNet Cenral Limited.

All transactions between Pylon Limited and related parties relate to the normal trading activities of Pylon Limited.

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

Material transactions between Pylon Limited and the above-mentioned parties during the period are as follows:

	GROUP	
	2019 **$'000**	**2018** **$'000**
Dividends Paid to:		
Electricity Invercargill Limited (Parent)	5,460	6,366
Advances Provided from (Repaid to):		
Electricity Invercargill Limited (Parent)	(150)	837

Other Related Parties
There have been no material transactions with Directors.

13 Subsequent Events

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