SCANPOWER

2019 Annual Report

Working for Our Community

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Chairman & Chief Executive's Report

Introduction

Welcome to the Annual Report and Audited Financial Statements of Scanpower Limited for the year ended 31 March 2019. This commentary, in conjunction with the detailed financial information contained herein, provides an overview of the company's performance and key achievements over that period.

From a high-level perspective, following on from a relatively challenging year in 2018, areas of key focus over the past twelve months have included:

- Remaining committed to a structured programme of electricity network asset renewals.
- Organisational restructuring in our Electricity Network and Power Line Contracting divisions.
- Implementing improved and more robust systems, including new financial management software.
- Pursuing new growth opportunities and relationships.
- Maintaining strong customer discounts and supporting local community activities.
- Improving our workplace health and safety performance.
- Reviewing our overall portfolio of business activities.

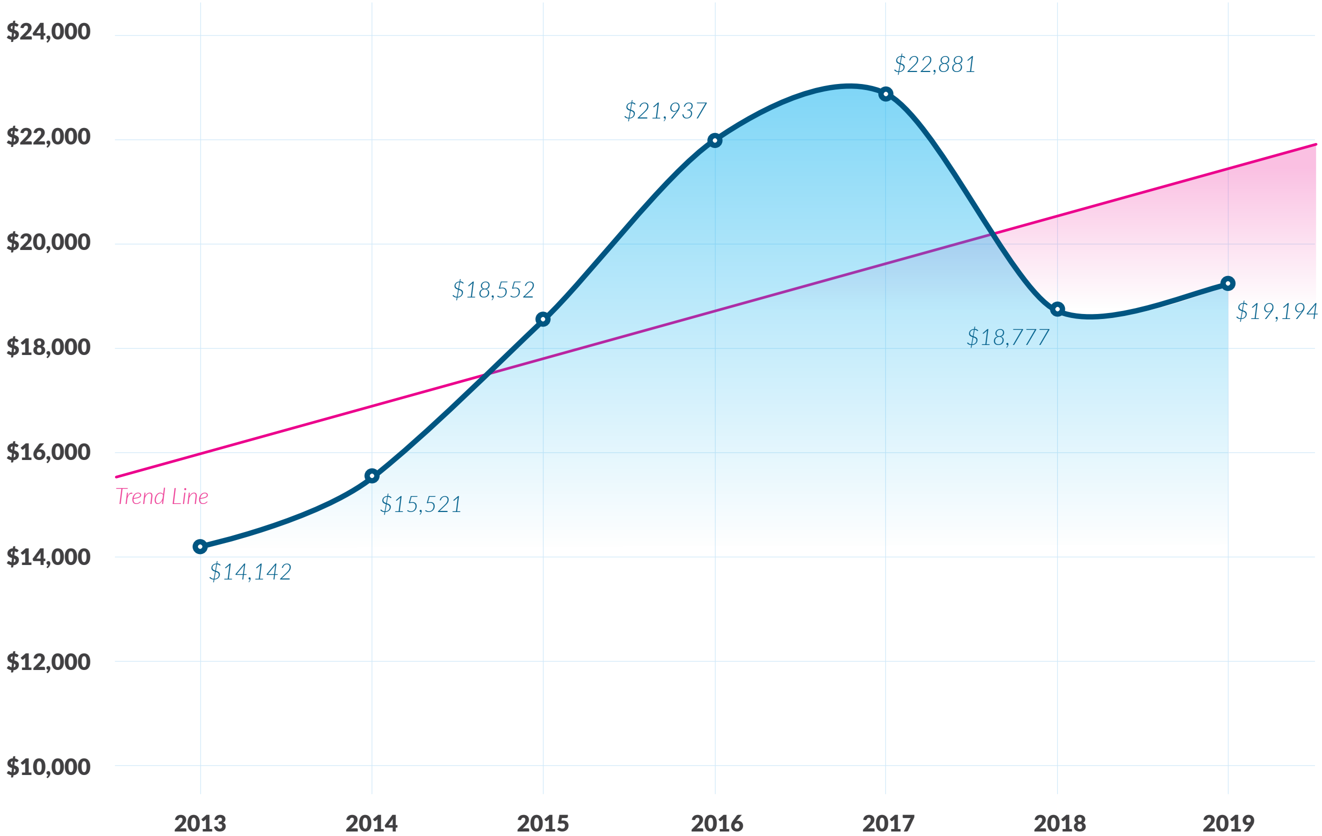
With these goals in mind, it has been a busy and productive year for the company.

Financial Performance

Revenue

Operating Revenue for the year of $19.19m was up $417,000 on the previous year, representing growth of 2.2% and continuing the generally upward trend illustrated in the graph below. Over the seven-year period since 2013 Scanpower has achieved revenue growth of 35.7%, with the peaks in 2016 and 2017 attributable to a single major contract that was worth $5.2m.

Total Operating Revenue Trend ($'000)

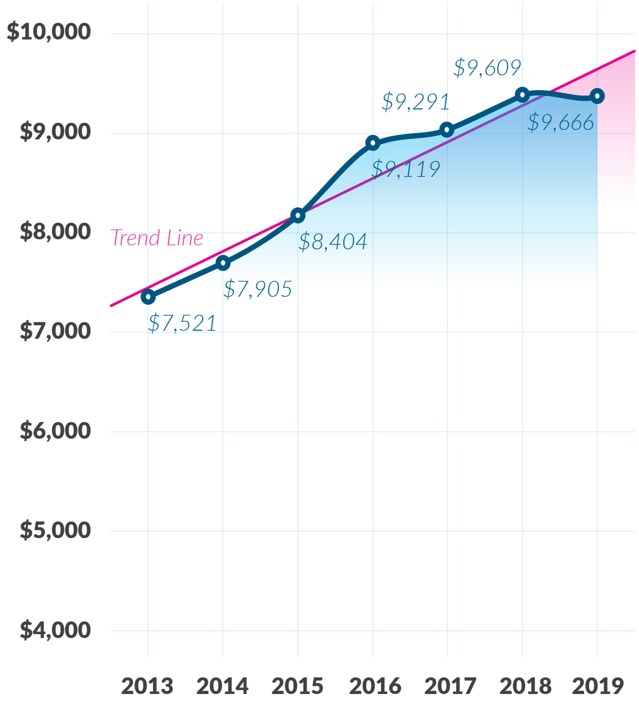


In terms of the underlying revenue performance of Scanpower's main operating divisions, the composition and trends were as per the table and graphs below.

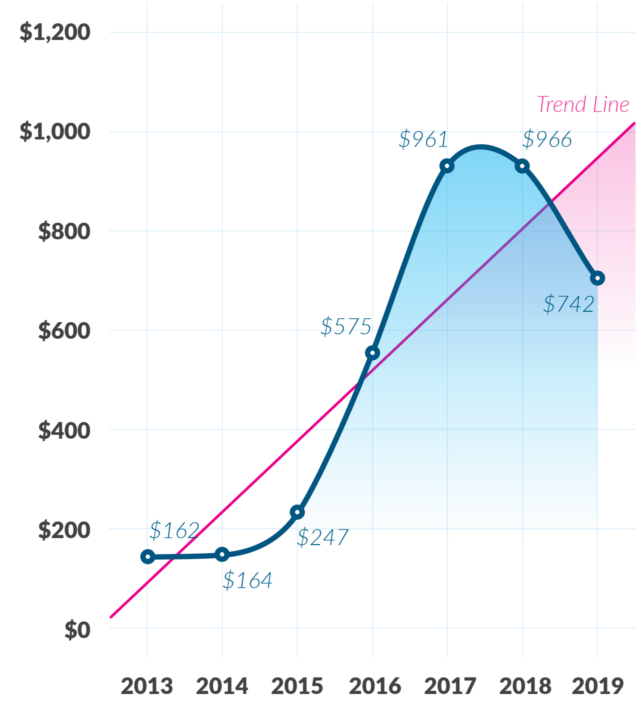
Divisional Revenue – 2013 to 2019: $'000

Division	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*	*2019*
Network	$7,521	$7,905	$8,404	$9,119	$9,291	$9,609	$9,666
Contracting	$2,471	$3,897	$6,407	$9,337	$11,248	$7,655	$8,226
Rental Income	$162	$164	$247	$575	$961	$966	$742
Treesmart	$161	$183	$210	$180	$325	$283	$490

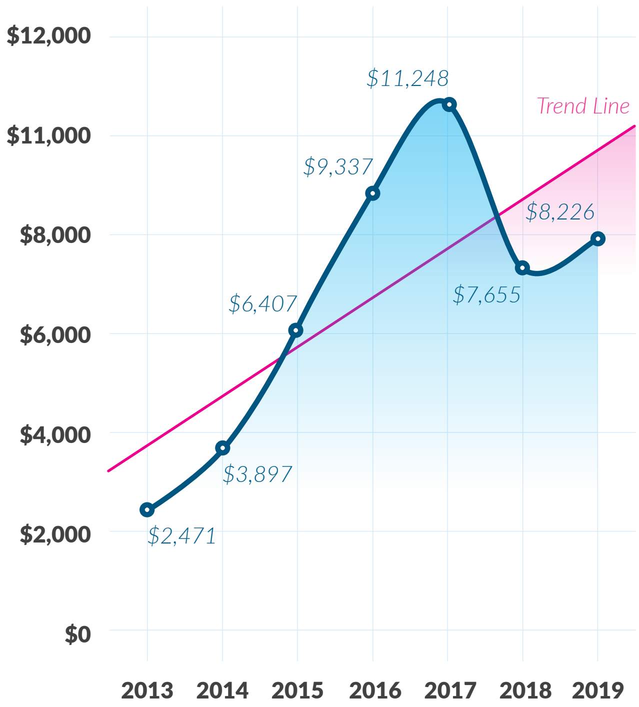
Network Division - Revenue Trend ($'000)



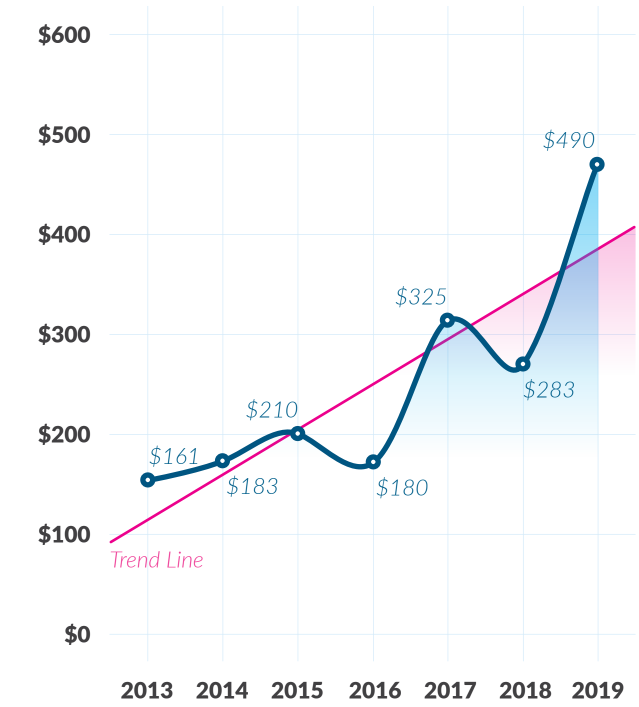
Property Division - Revenue Trend ($'000)



Contracting Division - Revenue Trend ($'000)



Treesmart Division - Revenue Trend ($'000)



Network revenue has remained relatively flat over the past three years, with this a result of static levels of electricity consumption over the period and freezing our lines charge prices between 2018 and 2019.

In contrast, the company's Power Line Contracting division has shown strong revenue growth with an increase of 333% between 2013 and 2019. We anticipate that this upward trend will continue through the coming financial year to 31 March 2020, with several significant upcoming projects including streetlighting on the new Peka Peka to Otaki Expressway and a growing level of work for one of our key customers, Powerco.

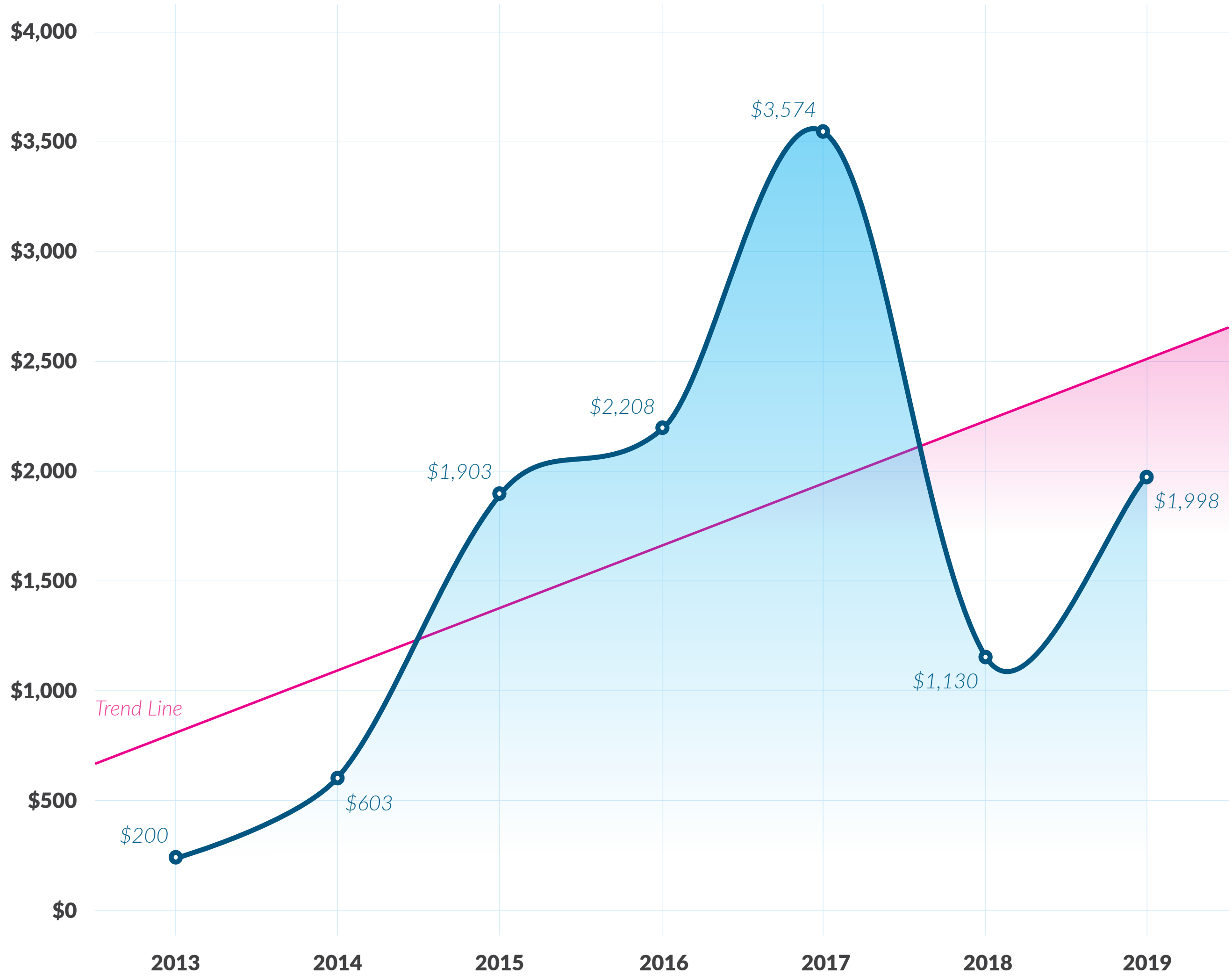
Rental income through our Property division fell in 2019 with the departure of a major tenant from Oringi Business Park. This also had an adverse impact on the market valuation of our investment property portfolio, resulting in an accounting write-down for the year. However, based on current discussions with potential, incoming new tenants, we believe the situation will improve in the near future.

Treesmart, Scanpower's specialist vegetation management and utility arborist division, has continued to show positive revenue growth over time, reaching $490,000 for the year which is a new high for the business. This revenue is over and above work undertaken on the local electricity network and was derived from a growing customer base that includes Powerco, Palmerston North City Council, Tararua Alliance, and private landowners.

Profitability

The company 'Earnings before Tax' result for the year was $1,998,000 and this fell short of our Statement of Corporate Intent target of $2,348,000 representing an adverse variance of 15% and contributing to the trend depicted in the graph below.

Earnings Before Tax ($'000)



The 2019 result is an improvement on 2018 (by 77%), and in line with the results seen in 2015 and 2016. As previously noted, 2017 was a particularly strong year for the company due to a single, large contract (Mackays to Peka Peka streetlighting and electrical).

Several exceptional factors had a detrimental impact on the final company profit results this year, including:

- A $289,000 write-down in the book value of our investment property holdings (following the exit of a major tenant).
- A $554,000 impairment expense relating to the company's shareholding in Kiwi Sock Company Limited (which was sold in early April 2019).
- A $120,000 loss on disposal of assets, that predominantly related to network assets that were damaged beyond repair and/or retired prior to the end of their accounting/useful economic lives.

In combination, these items totalled almost $1m and contributed to the company falling short of its key performance targets relating to profitability.

Division	*Actual ($'000)*	*Target ($'000)**	*Variance ($'000)*	*% Variance*
Earnings Before Interest & Tax	$2,307	$2,678	-$371	-13.6%
Earnings Before Tax	$1,998	$2,348	-$350	-14.9%

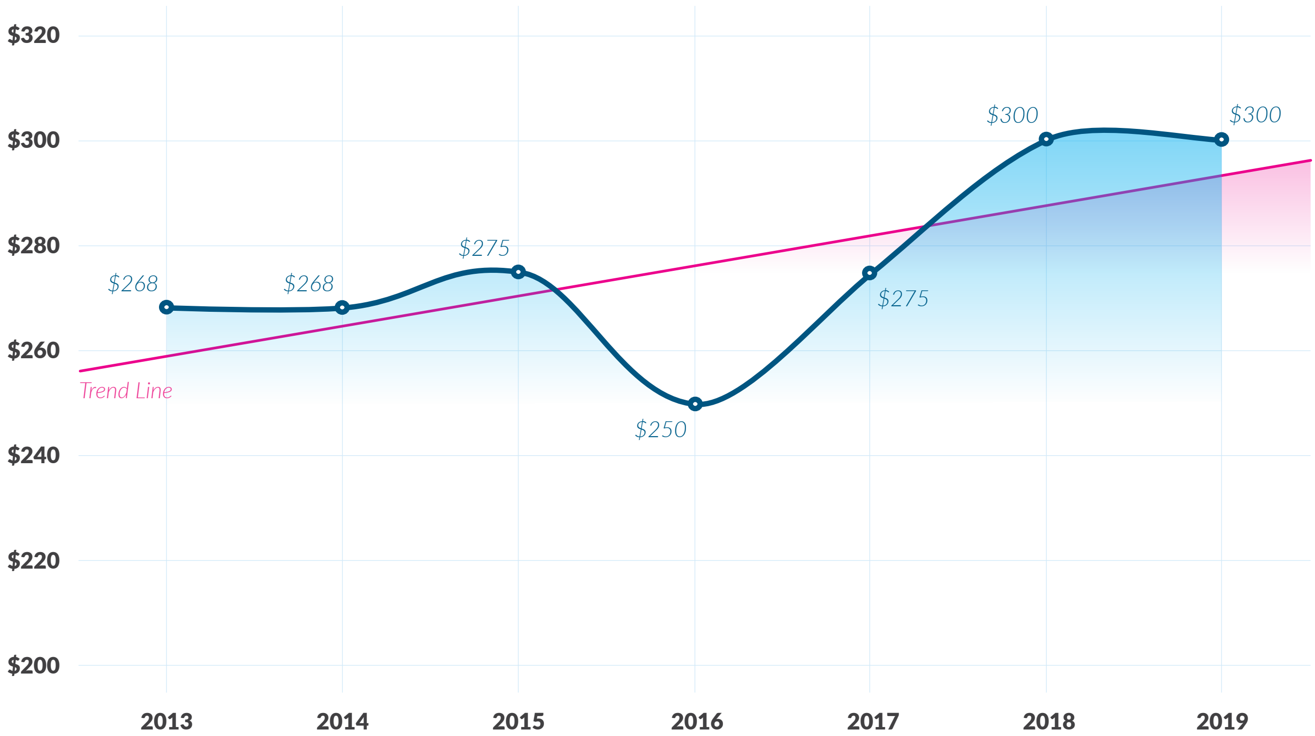
Targets are as per the Statement of Corporate Intent – 31 March 2019

Whilst this is disappointing, it is now a reality that the scale of the company's property investment portfolio (valued at $8.52m) is such that year on year movements in market valuation can produce accounting adjustments that are material to overall profitability. In contrast, the impairment expense relating to Kiwi Sock Company Limited is a genuine 'one off' cost associated with exiting that investment.

Annual Customer Discount

During the year Scanpower was pleased to make a discount payment to customers totalling $1,553,000. This resulted in each household receiving a credit of $300 on their power accounts.

Annual Discount Per Residential Connection



Lowering our customers' annual electricity costs by offering the best discounts we can remains an essential component of Scanpower's operating philosophy and strategy. With this in mind, the Board of Directors has already approved a discount of $310 per household for the coming financial year.

Our Electricity Network

Overview

Providing our customers and region with a safe, reliable and cost-effective electricity distribution network infrastructure remains at the core of Scanpower's organisational objectives and strategies. We recognise the importance it plays now in underpinning the social and economic wellbeing of the community we serve, and the growing importance it will play in the future as new technologies such as electric vehicles, battery storage and distributed generation are increasingly adopted by customers.

Correspondingly, in managing our electricity network assets, our key areas of focus include:

- Ensuring core assets such as poles, transformers and conductors are in good order and replaced on a proactive basis.
- Improving the quality of our data and better understanding the relative criticality of different assets within the network.
- Initiating a range of development projects aimed at ensuring the network is ready for the challenges and requirements that new technologies will bring.
- Developing new organisational capabilities within our Network team.
- Maintaining an ongoing programme of tree/ vegetation clearance via Treesmart.

Over the past year, the company implemented $1.71m of capital work on the network. 58% of this ($995,052) related to an ongoing programme of replacing legacy hardwood poles with new concrete structures. Against an annual plan of 200 individual pole replacements, 218 were completed putting us ahead of target in our plan to replace 100% of hardwood poles on the network within 5 years.

Another key project completed during the year involved the construction of a new line into the rural township of Kumeroa. This will enhance the security of supply to that area, which historically has been vulnerable to outages having been supplied in the past by a single spur line.

From a staffing perspective, two new positions in the Network management team were created this year in the areas of engineering and project management, as we build additional capabilities to help improve our asset management performance and ensure we have the right resources in place to respond to the disruptive challenges new technologies are likely to bring to the distribution sector. It is likely that our organisational structure will continue to develop and change over the coming years as new skills are required.

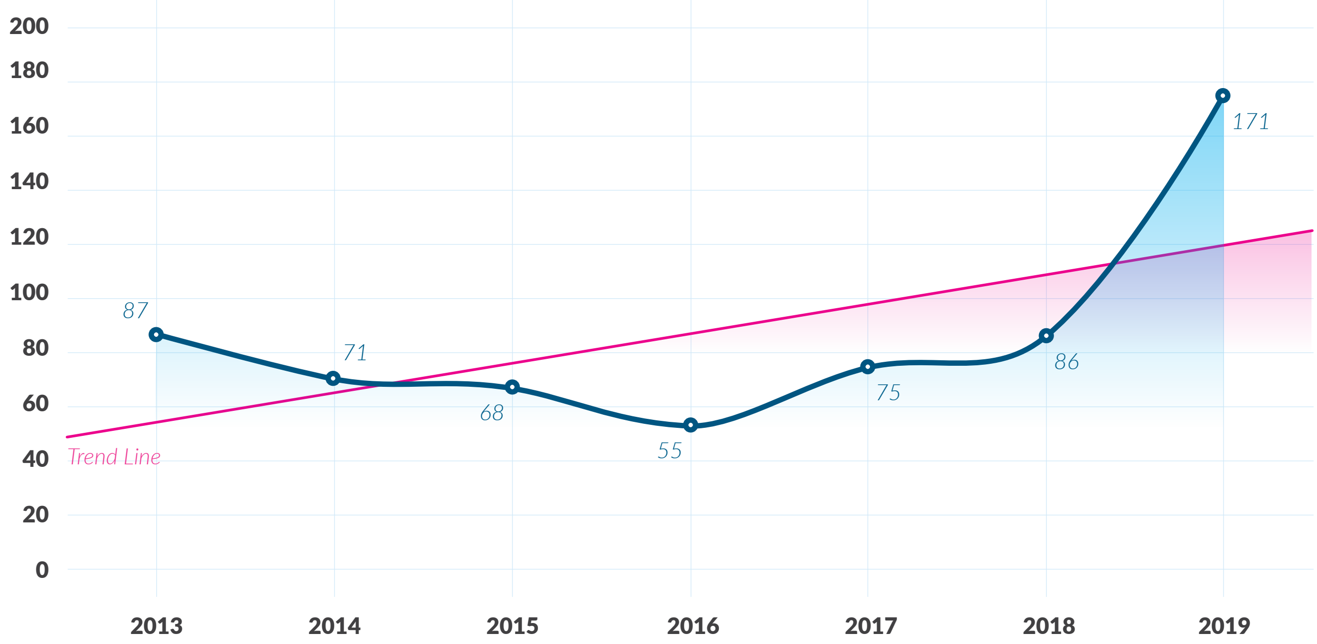
Network Reliability

In terms of network reliability, we measure our performance using SAIDI (system average interruption duration index) and this reflects the average number of minutes of lost supply in the year per customer. Our SAIDI result for 2019 was 171 minutes. This means that, on average, the power was kept on 99.97% of the time.

Whilst this level of performance is strong relative to industry norms (the industry average in 2018 was 286.6 minutes[1]) it did not meet our internally set target of 115 and was high in comparison to previous years.

[1] Source: 'Electricity Line Business 2018 Information Disclosure Compendium 2018'; PWC, November 2018.

Outage Minutes per Customer (SAIDI Class B & C)



Key factors influencing the 2019 result include:

- The decision, on the grounds of workplace safety, to discontinue almost all 'live line' work on the network. Whilst we have tried to mitigate the impact of this using back-up generators where possible, it has necessarily resulted in an increase in planned outage SAIDI minutes.
- Adopting more prudent and public safety focused switching practices in our network control room, particularly during fault restoration conditions.
- Focusing our asset replacement activities towards more critical assets which typically tend to impact on higher numbers of customers when briefly taken out of service.
- An unusually high number of faults caused by external interference events (multiple car vs pole incidents, and the roof of a dairy shed blowing into lines in Top Grass Road).

Whilst we remain committed to managing SAIDI in a proactive manner, the safety of workers and the public, in addition to completing our planned asset replacement programme to schedule, will always take priority.

Network Outlook

Looking forward to the coming financial year, key planned activities for our Network team include:

- Continuing with another 200 hardwood pole replacements, which have been prioritised based on age, condition and criticality.
- A major project to replace and enhance supply to the CBD area in Dannevirke.
- Commencing the first stage of a project to install real time, advanced monitoring systems on transformers in urban areas of the network with the objective of gaining a better understanding of our low voltage (LV) system. This in turn will enable us to model the potential impact of increasing numbers of electric vehicles (for example) on the LV network.
- Reviewing our network management software and information systems with a view to identifying an appropriate, modern, fit for purpose alternative for deployment in the 2020/2021 financial year.
- Refreshing our disaster recovery and business continuity plans, including a review of strategic spares, to help enhance the resilience of our network and our ability to respond to significant, adverse events when they occur.
- Continuing to investigate and analyse alternative network pricing structures that are more cost reflective and appropriate for the future.

These initiatives form part of our longer-term asset management strategy aimed at ensuring that our core network assets remain in good health and that we are increasingly ready for the changes that new technologies will inevitably bring to our business.

Our Other Business Activities

In addition to the core network, Scanpower continues to operate three other business units:

- Power Line Contracting
- Treesmart
- Property Investment and Development

In combination, for the 2019 financial year these businesses generated $9,458,000 in income representing 49% of Total Operating Revenue. In a financial sense therefore these activities are significant to the overall company and strategically important in that they:

- Make a substantial contribution to overhead costs, thereby lowering indirect costs to the Network business which in turn reduces the extent to which these are passed on to customers via lines charges; and
- Provide additional critical mass and access to economies of scale that might not otherwise be available to the company as a relatively small network utility operator.

Additional strategic benefits include:

- Treesmart provides specialist vegetation and tree management services to the Network on an 'in house' and 'on demand' basis and can respond quickly under fault conditions. This is highly valuable given that there are limited options available to Scanpower for these services in the local contracting market.
- Whilst the Contracting division focuses solely on work for customers outside of the Network area (with the local network being serviced by three dedicated teams within the Network division), if a catastrophic event were to arise, it provides a pool of 27 additional staff that could be deployed onto the network to assist with emergency/fault response. Correspondingly, the existence of Contracting substantially enhances the resilience of the Network division.
- The Property division provides Scanpower with a vehicle to attract new industry and electrical load (which has been in steady decline for a decade) to the network. This not only assists in terms of network utilisation and revenue, but also supports the company's broader strategic aspirations around promoting economic growth and job creation in our area.

Taking these factors into account, Scanpower will retain and continue to grow these businesses over the coming years.

Community Support

In addition to providing customers with annual network discounts, Scanpower has maintained an active programme of community sponsorships and donations. Over the past year these have included:

- Palmerston North Rescue Helicopter
- Dannevirke Ross Shield Rugby Team
- Lindauer Art Exhibition
- Dannevirke Garden and Craft Expo
- Dannevirke Christmas Lights Competition
- CACTUS Youth Development Programme
- Woodville Motocross Grand Prix
- Dannevirke High School Golf Day and Prize Giving
- Radio Woodville
- Dannevirke Theatre Company Productions
- Kumeroa Sheep Dog Trials
- Local School Homework Diaries
- Dannevirke A&P Show – Home Industries Section
- Tararua Sports Awards – Junior Sportsperson of the Year Category
- Tararua Summer Reading Programme and Adult Learners Week
- BAMS Boxing & Fitness

Another community initiative Scanpower was pleased to be involved with this year was providing a new electric vehicle to the Dannevirke Community Vehicle Trust (DCVT).

DCVT is a community operated, charitable trust supported by a team of volunteer drivers, providing a reliable and affordable service, particularly to elderly residents in the area. Given a shortage of local taxi services, this allows many people to get out and about, and interact with others, when they might not have otherwise been able to.

In addition to supporting a worthwhile cause, Scanpower saw this as an opportunity to showcase an electric vehicle within the local community in addition to gaining an improved understanding of associated technical issues such as charging, driving range and so on.

Scanpower Customer Trust Chairman, Keith Cammock and DCVT Chairman, Bob Dresser.

Conclusion and Thanks

The financial year to 31 March 2019 has been a rewarding one for Scanpower, and whilst we did not achieve some of the financial targets established at the outset, the reasons for this are well understood. Over the period, a lot of good work has been done improving our operating structures, processes and systems within all divisions, and this will provide a strong platform for improved performance in the coming year and beyond.

The CEO and Chairman extend a vote of thanks to all those involved in making Scanpower a continued success, including the Trustees of the Scanpower Customer Trust, the Board of Directors, the staff, our contractors and customers.

Allan Benbow
Chairman

Lee Bettles
CEO

Trust Chairman's Report 2019

Scanpower Customer Trust Chairman's Report

All of the shares in Scanpower Limited are held by the Scanpower Customer Trust on behalf of consumers connected to the Scanpower network. Trustees are elected by the consumers every three years. The trust exercises its ownership responsibilities through a Statement of Corporate Intent negotiated annually with the Scanpower Directors, and also by appointing the Directors. Communication between the Trust and Board and Management of Scanpower continues to be regular and comprehensive.

Scanpower's performance against specific targets set in the Statement of Corporate Intent for the year ending 31 March 2019 can be seen in the Scanpower Limited Annual Report. The reported profit was less than targeted in the SCI, but was an increase over the previous year, and has resumed its long-term upwards trajectory.

The Statement of Corporate Intent states the Company Mission as:

"Delivering more to our community by providing a high quality electricity distribution network and promoting economic growth."

Trustees are of the opinion the company has achieved this in the period under review.

While the reliability of supply did not achieve the targets indicated in the SCI, it is still well ahead of averages around the country. This is especially commendable considering the widespread and sometimes difficult network that Scanpower covers.

Ongoing investment in pole replacements and other capital works should ensure that this reliability is ongoing.

The Statement of Corporate Intent also details matters relating to the Company's objectives, scope of activities, dividend and accounting policies, and information to be reported to the Trust as sole shareholders. We are satisfied that in all these matters the Company has complied with the Statement of Corporate Intent.

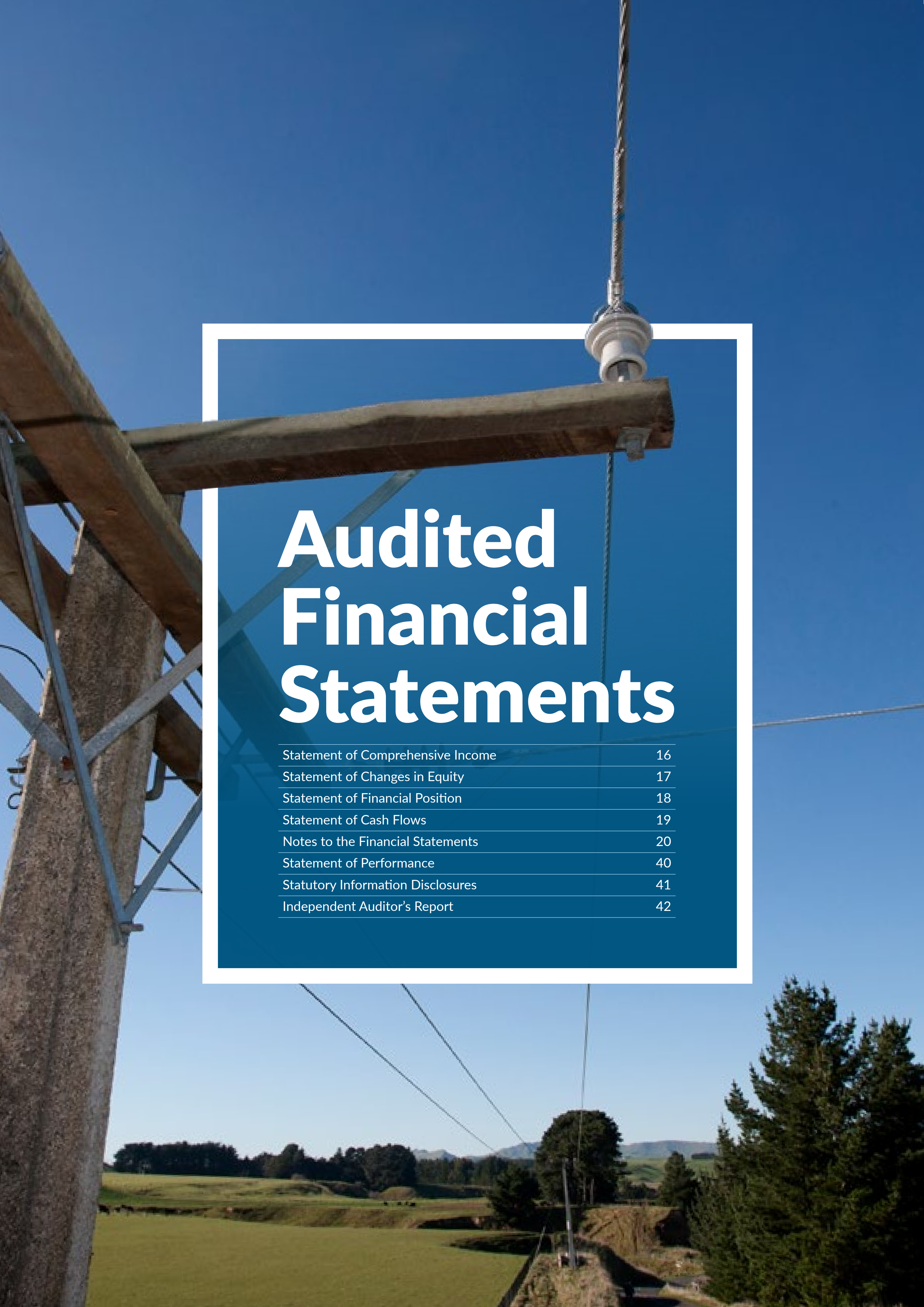
Summary

The Trustees of the Scanpower Customer Trust are satisfied that the operating results for the year closely align with the goals set out in the Statement of Corporate Intent.

We commend the Directors, Management and all Company Personnel for sustaining the growth this year, and thank them for their contribution.

Keith Cammock
Chairman

On behalf of the Trustees of the Scanpower Customer Trust.



Audited Financial Statements

Statement of Comprehensive Income

For the Year Ended 31 March 2019

	Notes	*2019*	*2018*
		$'000	*$'000*
Operating revenue	2	19,194	18,777
Other revenue	2	135	126
Total revenue		**19,329**	**18,903**
Personnel costs	3	4,454	4,310
Depreciation and amortisation expense	3	1,969	1,868
Finance expense	3	309	295
Impairment expense	3	554	-
Other expense	3	10,081	11,344
Total expenditure		**17,367**	**17,817**
Share of surplus/(deficit) of an associate and a joint venture	12	36	44
Surplus/(deficit) before tax		**1,998**	**1,130**
Income tax expense/(refund)	4	785	370
Surplus/(deficit) for the year		**1,213**	**760**
Other comprehensive income:			
Gains/(losses) on property revaluations		138	-
Gains/(losses) on revaluations of Network Distribution Assets		-	-
Deferred tax on revalued assets		(38)	-
Total other comprehensive income		**100**	**-**
Total comprehensive income		**1,313**	**760**

The Accompanying Notes and Policies Form an Integral Part of These Financial Statements

Statement of Changes in Equity

For the Year Ended 31 March 2019

	Notes	2019	2018
		$'000	$'000
Balance at 1 April			
Contributed Capital		7,500	7,500
Retained Earnings	20	14,150	13,581
Asset Revaluation Reserves		18,543	18,553
Total Opening Equity		**40,194**	**39,634**
Surplus/(deficit) for the year		1,213	760
Other comprehensive income		100	-
Total comprehensive income		1,313	760
Distribution to shareholders		(125)	(125)
Balance at 31 March			
Contributed Capital		7,500	7,500
Retained Earnings		15,256	14,226
Asset Revaluation Reserves		18,627	18,543
Total Closing Equity		***41,383***	***40,269***

The Accompanying Notes and Policies Form an Integral Part of These Financial Statements

Statement of Financial Position

As at 31 March 2019

	Notes	2019 $'000	2018 $'000
Assets			
Current Assets			
Cash and cash equivalents	6	16	125
Debtors and other receivables	7	2,378	2,495
Contract assets	20	369	-
Inventories	8	485	468
Non-current assets held for sale	12 (b)	150	-
Tax receivable		-	108
Total current assets		**3,398**	**3,196**
Non-current Assets			
Capital work in progress	9	-	-
Property, plant and equipment	9	44,431	43,668
Intangible assets	10	816	853
Investment property	11	8,518	8,807
Investment in Joint Venture	12 (a)	-	668
Total non-current assets		53,765	53,996
Total Assets		**57,163**	**57,192**
Liabilities			
Current Liabilities			
Borrowings	13	5,020	-
Creditors and other payables	14	1,490	2,745
Contract liabilities	20	516	-
Employee benefits	15	723	485
Tax payable		468	-
Total current liabilities		**8,217**	**3,230**
Non-current Liabilities			
Borrowings	13	-	6,025
Employee benefits	15	33	221
Deferred taxation	4	7,530	7,447
Total non-current liabilities		7,563	13,693
Total Liabilities		**15,780**	**16,923**
Net assets		**41,383**	**40,269**
Equity			
Contributed capital		7,500	7,500
Retained earnings		15,256	14,226
Asset revaluation reserves		18,627	18,543
Total equity attributable to parent	5	**41,383**	**40,269**

For and on behalf of the Board

Peter Clayton
Director, 1 July 2019

Bob Henry
Director, 1 July 2019

The Accompanying Notes and Policies Form an Integral Part of These Financial Statements

Statement of Cash Flows

For the Year Ended 31 March 2019

	Notes	2019	2018
		$'000	$'000
Cash Flows from Operating Activities			
Cash was provided from:			
Receipts from customers		18,631	18,502
Rent received		742	966
Interest received		-	-
Dividends received		-	-
		19,373	19,468
Cash was applied to:			
Payments to suppliers		10,902	11,082
Payments to employees		4,404	4,428
Interest paid		309	295
Income tax paid		164	606
Net GST movement*		(103)	276
		15,676	16,687
Net cash inflows/(outflows) from operating activities		**3,697**	**2,781**
Cash flows from Investment Activities			
Cash was provided from:			
Proceeds from disposal of property, plant and equipment		73	55
		73	55
Cash was applied to:			
Purchase and construction of property, plant and equipment		2,749	3,750
		2,749	3,750
Net cash inflows/(outflows) from investment activities		**(2,676)**	**(3,695)**
Cash flows from Financing activities			
Cash was provided from:			
Proceeds from borrowings		6,620	6,200
		6,620	6,200
Cash was applied to:			
Repayment of loan		7,625	5,175
Dividends paid		125	-
		7,750	5,175
Net cash inflows/(outflows) from financing activities		**(1,130)**	**1,025**
Net increase/(decrease) in cash and cash equivalents		(109)	111
Cash and cash equivalents at the beginning of the year		125	14
Bank cash/(overdraft) balance at year end	6	**16**	**125**

*** The GST (net) component of operating activities reflects the net GST paid and received with Inland Revenue Department. The GST has been presented on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.**

The Accompanying Notes and Policies Form an Integral Part of These Financial Statements

Notes to the Financial Statements

For the Year Ended 31 March 2019

Note 1: Accounting Policies

Reporting Entity

Scanpower Limited is 100% owned by the Scanpower Customer Trust. The financial statements presented are for Scanpower Limited. The Company is registered under the Companies Act 1993 and is an energy company in terms of the Energy Companies Act 1992.

The Company is designated as a for-profit entity for financial reporting purposes.

The financial statements of Scanpower Limited for the year ended 31 March 2019 were authorised for issue in accordance with a resolution by the Board of Directors on 1 July 2019.

Basis of Preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice (GAAP). The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other New Zealand accounting standards and authorities notices that are applicable to entities that apply NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR).

The company is eligible and has elected to report in accordance with Tier 2 for-profit accounting standards, NZ IFRS RDR on the basis that the company has no public accountability and is not a large, for-profit, public sector entity. The company has elected to report in accordance with NZ IFRS RDR and has applied disclosure concessions.

The accounts have been prepared on a going concern basis.

The financial statements have been prepared on a historical cost basis modified by the revaluation of network assets, land and buildings and investment properties.

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000).

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

Basis of Consolidation

Associates and Joint Ventures

Scanpower Limited accounts for an investment in an associate in the financial statements using the equity method. An associate is an entity over which the company has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Scanpower Limited has applied NZ IFRS 11 to its joint arrangements. Under NZ IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. Scanpower Limited has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

The investment in an associate and joint venture is initially recognised at cost and the carrying amount is increased or decreased to recognise the company's share of the surplus or deficit of the associate and joint venture after the date of acquisition. The company's share of the surplus or deficit of the associate and joint venture is recognised in Scanpower Limited's Statement of Comprehensive Income.

Distributions received from an associate and joint venture reduce the carrying amount of the investment.

If the company's share of deficits of an associate and joint venture equal or exceed its interest in the associate and joint venture, the company discontinues recognising its share of further deficits. After the company's interest is reduced to zero, additional deficits are provided for, and a liability is recognised, only to the extent that the company has incurred legal or constructive obligations or made payments on behalf of the associate and joint venture.

If the associate and joint venture subsequently report surpluses, the company will resume recognising its share of those surpluses only after its share of the surpluses equals the share of deficits not recognised.

Scanpower Limited's share in the associate and joint venture's surplus or deficits resulting from unrealised gains on transactions between the company and its associate and joint venture are eliminated.

Business combinations

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The excess of the cost of acquisition over fair value of the identifiable net assets acquired is recorded as goodwill.

If the cost of acquisition is less than the fair value of the net assets of the business acquired, the difference is recognised directly in the income statement.

Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. The allocation is made to those cash generating units that are expected to benefit from the business combination in which the goodwill arose.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2019

Revenue

Revenue from contracts with customers

Network Lines Revenue
Line revenue relates to the provision of electricity distribution services and includes pass-through revenue and recoverable cost revenue. Prices are regulated, and customers are charged through a mix of fixed charges which are recognised on a straight-line basis and variable charges which are recognised based on the volume of distribution services provided.

Consistent with NZ IFRS 15 this revenue is recognised over time at the fair value of services provided based on an output method as the service is delivered to match the pattern of consumption. Pass through and recoverable costs include transmission costs, statutory levies and utility rates.

From the year ended 31 March 2020, the Company pays a discount to eligible consumers registered on its network as at 31 August of each year. The discount is paid to consumers via their retailer in the financial year.

The electricity line revenue recognised is net of the discount to be paid to consumers. A contract liability (included in trade and other payables) is recognised for the any discount payable to consumers in relation to electricity distribution made and unpaid at the end of the reporting period.

Capital contributions
Customer contribution revenue relates to contributions received from customers towards the costs of reticulating electricity to new subdivisions, constructing uneconomic lines and relocating existing lines. The revenue recognised is the fair value of the asset being constructed. Revenue is recognised over time as a result of there being no alternative use to the asset without significant economic losses and the Company having a right to payment for performance completed to date.

Electrical Contracting revenue
Contracting revenue relates to revenue from electrical contracting services provided to third parties and is recognised as the fair value of the service provided or asset being constructed. Where an asset is being constructed for a third party, revenue is recognised over time as a result of control of the asset transferring to the customer over the time. For electrical services revenue is recognised at a point in time when the performance obligation is satisfied.

Treesmart revenue
Tree trimming services is recognised at a point in time when the service is consumed by the customer. Once the service has been performed the customer has obtained control of that service.

Variable consideration
If the consideration in a contract includes a variable amount, Scanpower estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. Some contracts for assets being constructed include variable considerations such as penalties.

Contract balances

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If Scanpower performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities
A contract liability is the obligation to transfer goods or services to a customer for which Scanpower has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before Scanpower transfers goods or services to the customer, a contract liability is recognised when the payment is made, or the payment is due (whichever is earlier).

Other revenue

Rental income
Rental income from investment property is recognised in the Statement of Comprehensive Income as it falls due.

Interest income
Interest income is recognised using the effective interest method.

Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Goods and Services Tax

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cashflow in the Statement of Cash Flows.

Income Tax

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantially enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary difference or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantially enacted by balance date.

Current tax and deferred tax is charged or credited to the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

Debtors and Other Receivables

Trade and other receivables are initially measured at fair value and subsequently measured as amortised cost using the effective interest method, less any provision for impairment. A provision for impairment of receivables is established when there is no objective evidence that the Company will not be able to collect all amounts due according to the original term of the receivables. The amount of the provision is the difference between the assets carrying amount and the present value of the estimated future cash flows, discounted using the effective interest method.

The carrying amount of an impaired receivable is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Comprehensive Income. When the receivable is uncollectible, it is written off against the allowance account. Overdue receivables that have been renegotiated are classified as current (i.e. not past due).

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off during the year that they are identified.

Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of activities less the estimated costs necessary to make the sale.

Property, Plant and Equipment

Property, plant and equipment consists of network distribution, land, buildings and fixtures, the Oringi site land and buildings, plant and equipment, motor vehicles and computer hardware.

Property, Plant and Equipment is shown at cost or valuation, less accumulated depreciation and impairment losses. Initial cost includes the purchase consideration and those costs directly attributable to bringing the asset to the location and condition necessary for its intended use. These costs include, where appropriate, site preparation costs, installation costs, borrowing costs and the cost of obtaining initial resource consents. Costs cease to be capitalised when substantially all the activities necessary to bring an asset to the location and condition for its intended use are complete.

Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the company and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at cost. Where an asset is acquired at no cost, or nominal cost, it is recognised at fair value as at the date of acquisition.

Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset and are included in the Statement of Comprehensive Income. When revalued assets are disposed, the amounts included in the asset revaluation reserve in respect of those assets are transferred to retained earnings.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefit or service potential associated with the item will flow to the company and the cost of the item can be measured reliably.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2019

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment other than land, at rates that will write off the cost (or valuation) of the asset to their estimated residual values over their useful lives. The useful lives of major classes of assets have been estimated as follows (in years):

Lines – wood	45
Lines – concrete	60
Lines – underground	45
Transformers	45 to 55
Substations	45
Switchgear	45
Air break switches	35
Customer connections	45
Circuit breakers	45
Sectionalisers	40
Ring main units	40
Voltage regulators	55
Fuses	35
Reclosers	40
Non standard assets	15 to 60
Buildings and fixtures	10 to 50
Motor vehicles	3 to 15
Plant and equipment	3 to 25
Computer equipment	3 to 5
Oringi site buildings	50

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year-end.

Revaluation

Operational land and buildings are valued on a three yearly valuation cycle. Network Distribution assets are revalued to Discounted Cash Flow (DCF) on a five yearly cycle. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value.

Operational land and buildings
Fair value is determined from market-based evidence by an independent valuer. The most recent valuation was performed by Mr. C Southgate B.AG.COM.MNZIPIM ANZIV, of the firm Southgate Wilson, Dannevirke, and the valuation is effective as at 31 March 2019.

Network Distribution assets
The electricity distribution network is measured at fair value. Fair value has been determined on the basis of a valuation prepared by Scanpower using a discounted cash flow methodology (DCF).

Accounting for revaluations
Scanpower Limited accounts for revaluation of property, plant and equipment on an individual asset basis.

The results of revaluing are credited or debited to an asset revaluation reserve for the individual asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the Statement of Comprehensive Income. Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the Statement of Comprehensive Income will be recognised first in the Statement of Comprehensive Income up to the amount previously expensed, and then credited to the revaluation reserve for the individual asset.

Intangible Assets

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of identifiable assets, liabilities and contingent liabilities acquired, and is recognised as an asset.

Goodwill is not amortised but instead separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. An impairment loss recognised for goodwill is not reversed in any subsequent period.

Software acquisition

Acquired computer software licenses are capitalised on a basis of the cost incurred to acquire and bring to use the specific software. Costs associated with maintaining computer software are recognised as an expense when incurred.

The carrying value of an intangible asset with a finite life is amortised on a straight-line basis over its useful life. The useful lives of major classes of intangible assets have been estimated as follows:

Computer software	3 to 10 years

Impairment of Property, Plant and Equipment, Intangibles

The carrying amounts of the assets, other than inventory and investment property, are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists for an asset, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss (if any).

Where the asset does not generate cash flows that are independent of other assets, Scanpower Limited estimates the recoverable amount of the cash-generating unit to which the asset belongs. A cash-generating unit is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amounts are the higher of fair value (less costs to sell) or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

Goodwill is tested for impairment annually, and whenever there is an indication that it may be impaired. An impairment of goodwill is not subsequently reversed.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2019

If a revalued asset is determined to be impaired, then the impairment is firstly applied against the revaluation reserve related to that asset, with any remaining impairment loss expensed in profit or loss. If the impairment loss is subsequently reversed, the reversal is firstly applied to profit or loss to the extent of previously expensed impairment losses relating to that asset, with any further increase taken to the revaluation reserve.

For assets which are not revalued, an impairment loss is expensed immediately in profit or loss. If an impairment loss is subsequently reversed, the carrying value of the asset is stated at not more than what its carrying value would have been had the earlier impairment not occurred.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets the impairment loss is recognised against the revaluation reserve for that class of asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the Statement of Comprehensive Income. For assets not carried at a revalued amount, the total impairment loss is recognised in the Statement of Comprehensive Income.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised in the Statement of Comprehensive Income, a reversal of the impairment loss is also recognised in the Statement of Comprehensive Income.

For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

Investment Property

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation.

Investment property is measured initially at its cost, including transaction costs. After initial recognition, the Company measures all investment property at fair value as determined annually by an independent valuer. Gains or losses arising from a change in the fair value of investment property are recognised in the Statement of Comprehensive Income.

Leases

Operating leases

An operating lease is a lease that does not transfer substantially all the risk and reward incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

Employee Benefits

Short-term benefits

Employee benefits are measured at nominal values based on accrued entitlements at current rate of pay. Benefits include salaries and wages accrued to balance date, annual leave earned, but not yet taken at balance date, retiring and long service entitlements expected to be settled within 12 months. The Company recognises a liability and an expense for bonuses where contractually obliged.

Long-term benefits

Entitlements that are payable beyond 12 months, such as long service leave and retirement leave, have been calculated on an actuarial basis. The calculations are based on:

- likely future entitlements based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information and
- the present value of the estimated future cash flows. A weighted average discount of 1.86% and a salary inflation factor of 2.0% were used. The discount rate is based on the weighted average of government bonds with terms to maturity similar to those of the relevant liabilities. The inflation factor is based on the expected long-term increase in remuneration for employees.

Superannuation Schemes

Defined benefit schemes

A number of employees of Scanpower Limited belongs to the Defined Benefit Scheme (the scheme), which is managed by the Board of Trustees of the National Provident Fund. The scheme is a multi-employer defined benefit scheme.

Insufficient information is available to use defined benefit accounting, as it is not possible to determine from the terms of the scheme, the extent to which the surplus/deficit will affect future contributions by individual employers, as there is no prescribed basis for allocation. The scheme is therefore accounted for as a defined contribution scheme.

Creditors and Other Payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Provisions

Scanpower Limited recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are not recognised for future operating losses.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2019

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Borrowings

Borrowings are initially recognised at fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

Critical Accounting Estimates and Assumptions

In preparing these financial statements Scanpower Limited has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual result. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Network Distribution Assets

Electricity distribution network valuation - Scanpower Limited owns and operates an extensive integrated electricity distribution network in the Tararua area, comprising large numbers of individual network asset components. Scanpower Limited values its electricity distribution network on a discounted cash flow basis. Scanpower Limited has adopted assumptions and estimates in its discounted cash flow valuation, including the amounts and timing of future cash flows and the relevant discount rate. For more information refer to the property, plant and equipment note.

Goodwill

Determining whether there has been impairment in relation to goodwill requires an assessment of the value in use of the cash generating assets with which the goodwill is associated. This is undertaken by estimating the future cashflows expected to arise and using a suitable discount rate to estimate the present value of the future cash flows.

Changes in Accounting Policies

NZ IFRS 15 – Revenue from Contracts with Customers and NZ IFRS 9 – Financial Instruments became effective for Scanpower for the year ending 31 March 2019 and are subsequently being applied for the first time. The nature and effect of the changes as a result of the adoption of these new accounting standards are summarised in Note 20 for revenue from contracts with customers and under (ii) NZIFRS 9 financial Instruments.

A number of other new standards are also effective from 1 April 2018, but they do not have a material effect on the Company's financial statements. Scanpower has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

(i) NZ IFRS 15 Revenue from contracts with customers

NZ IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised.

It replaced NZ IAS 18 Revenue, NZ IAS 11 Construction Contracts and related interpretations. Under NZ IFRS 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

Scanpower has applied IFRS 15 retrospectively in accordance with paragraph C3(b). The current year's opening retained earnings balance has been adjusted by the cumulative effect of initially applying the standard at initial application. Prior year comparative figures have not been restated.

(ii) NZ IFRS 9 Financial Instruments

NZ IFRS 9 Financial Instruments replaces NZ IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; and impairment.

Scanpower has applied NZ IFRS 9 prospectively, with an initial application date of 1 January 2018. Scanpower has not restated the comparative information, which continues to be reported under NZ IAS 39.

Other than changes in the naming convention for financial assets there is no other impact on classification and measurement arising from the adoption of NZ IFRS 9.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2019

Note 2:

		2019 $'000	2018 $'000
(i)	Operating revenue		
	Revenue from Contracts with Customers		
	Network line rentals	9,666	9,609
	Transmission rental rebates	67	123
	Plumbing and electrical contracting	-	141
	Power line contracting	8,226	7,655
	Treesmart	490	283
	Total revenue from contracts with customers	18,449	17,811
	Other Operating Revenue		
	Interest income	3	-
	Rental income	742	966
	Total other operating revenue	745	966
	Total Operating Revenue	**19,194**	**18,777**
(ii)	Other income		
	Gain on valuation of investment property	-	-
	Gain on valuation of land and buildings	-	-
	Other	135	126
		135	126
	Total revenue	**19,329**	**18,903**

Notes to the Financial Statements Continued

For the Year Ended 31 March 2019

Note 3:

		Notes	2019	2018
			$'000	$'000
(i)	**Operating expenses**			
	Transmission expenses		2,332	2,610
	Network discounts	14	71	1,689
	Impairment expense	12 (b)	554	-
	Employee benefit expense			
	- Employee benefit plans		165	155
	- Other employee benefits		4,289	4,155
	Cost of sales and other operating expenses		6,297	5,960
			13,708	14,569
(ii)	**Other expenses**			
	Audit fees for financial statements audit		92	90
	Audit fees for Information Disclosures		25	25
	Directors remuneration and expenses		125	127
	Operating lease expenses		690	584
	Loss on disposal of property, plant and equipment		120	56
	Loss on valuation of investment property		289	202
	Bad debt expense		40	1
			1,381	1,085
(iii)	**Depreciation and impairment**			
	Depreciation on network assets		1,293	1,243
	Depreciation on other assets		623	584
	Amortisation of intangible assets		53	41
			1,969	1,868
(iv)	**Finance expense**			
	Interest paid		309	295
			309	295
	Total expenses		**17,367**	**17,817**

Notes to the Financial Statements Continued

For the Year Ended 31 March 2019

Note 4:

	2019 $'000	2018 $'000
Taxation		
Components of tax expense		
Current tax	728	293
Prior period adjustment to current tax	13	13
Deferred tax	44	64
Tax expense	**785**	**370**
Relationship between tax expense and accounting profit		
Surplus/(deficit) before tax	1,998	1,130
Tax at 28%	560	316
Plus (less) tax effect of:		
Expenses not deductible for tax purposes	240	62
Income not subject to tax	(10)	(13)
IFRS adjustment to reserves	(21)	-
Deferred tax adjustment	3	(8)
Under/(over) provided in prior period	13	13
Tax (refund)/expense for the year	**785**	**370**

	Property, plant and equipment	Employee entitlements	Other provisions	Tax losses	Total
Deferred tax assets/(liabilities)					
Balance at 31 March 2017	(7,573)	131	59	-	(7,383)
Charged/(credit) to the Income Statement	(37)	(24)	(3)	-	(64)
Prior period adjustments	-	-	-	-	-
Charge/(credit) to Other Comprehensive Income	-	-	-	-	-
Balance at 31 March 2018	**(7,610)**	**107**	**56**	**-**	**(7,447)**
Charge/(credit) to the Income Statement	(57)	13	-	-	(44)
Charged directly to Equity	(39)	-	-	-	(39)
Balance at 31 March 2019	**(7,706)**	**120**	**56**	**-**	**(7,530)**

Notes to the Financial Statements Continued

For the Year Ended 31 March 2019

Note 5:

	2019 $'000	2018 $'000
Equity		
Contributed capital		
Authorised and fully paid up share capital of $7,500,000 ordinary shares	7,500	7,500
Retained earnings		
As at 1 April	14,150	13,581
Transfers from:		
Asset revaluation reserve on disposal of property, plant and equipment	17	10
Net surplus/(deficit) for the year	1,213	760
Transfers to:		
Dividend declared and paid	(125)	(125)
As at 31 March	**15,256**	**14,226**
Asset revaluation reserves		
As at 1 April	18,543	18,553
Land, buildings and fixtures revaluation gains/(losses)	138	-
Valuation gain on transfer of properties to investment properties	-	-
Valuation gain on revaluation of Network Distribution	-	-
Assets	-	-
Deferred tax on Land and Building revaluations	(38)	-
Transfer of revaluation reserve to retained earnings on disposal of property, plant and equipment	(17)	(10)
Balance at end of the year	**18,627**	**18,543**
Asset revaluation reserve consists of:		
Freehold land	309	309
Freehold buildings and fixtures	3,349	3,248
Distribution assets	14,969	14,986
Total reserves	**18,627**	**18,543**
Total equity	**41,383**	**40,269**

Note 6:

Cash and Cash Equivalents		
Current account	16	125
Total cash and cash equivalents	**16**	**125**

Notes to the Financial Statements Continued

For the Year Ended 31 March 2019

Note 7:

	2019 $'000	2018 $'000
Debtors and other receivables		
Trade debtors	2,147	2,002
Related party receivables	-	4
Prepayments	232	209
Contracting work in progress	-	280
	2,378	2,495
Less provision for impairment of receivables	-	-
Total debtors and other receivables	**2,378**	**2,495**

Fair value

Debtors and other receivables are non-interest bearing and receipt is normally on 30-day terms, therefore the carrying value of debtors and other receivables approximates their fair value.

Movement in the provision for receivables are as follows:

At 1 April	-	1
Additional provisions made through the year	-	2
Provisions reversed during the year	-	(2)
Receivables written off during the year	(40)	(1)
At 31 March	**(40)**	**-**

The Company holds no collateral or other credit enhancements for financial instruments that give rise to credit risk, including those instruments that are overdue or impaired.

Note 8:

Inventories		
Network and contracting stock	468	377
Plumbing and electrical stock	-	103
Total inventories	**468**	**480**

The write-down of inventories amounted to $14,030 for Network and Contracting stock (2018: total write down of $3,689).

No inventories are pledged as security for liabilities. However, some inventories are subject to retention of title clauses.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2019

Note 9:

	2019 $'000	2018 $'000
Property, Plant and Equipment		
Work in progress		
Capital work in progress is contained in the following categories:		
Corporate	-	-
Property and Investments	-	-
Total work in progress	**-**	**-**

	Network assets $'000	Buildings $'000	Oringi site $'000	Motor vehicles $'000	Plant & equipment $'000	Computer equipment $'000	Fixtures $'000	Total $'000
Property, plant and equipment								
Gross carrying amount								
Balance at 31 March 2018	**34,883**	**1,185**	**158**	**3,455**	**7,826**	**559**	**453**	**48,519**
Additions	1,618	125	-	477	269	82	101	2,672
Disposals	(604)	(68)	-	(123)	(47)	(271)	(16)	(1,129)
Revaluations	-	138	-	-	-	-	-	138
Transfers	-	(84)	-	-	-	-	84	-
Balance at 31 March 2019	**35,897**	**1,296**	**158**	**3,809**	**8,048**	**370**	**622**	**50,200**
Accumulated depreciation and impairment								
Balance at 31 March 2018	**(967)**	**(51)**	**(14)**	**(1,764)**	**(1,564)**	**(381)**	**(110)**	**(4,851)**
Disposals/Transfers	502	8	-	102	40	271	13	936
Impairment loss charged to profit	-	-	-	-	-	-	-	-
Net revaluation (increments)/ decrements	-	65	-	-	-	-	-	65
Depreciation expense	(1,146)	(23)	(4)	(243)	(414)	(54)	(32)	(1,916)
Balance at 31 March 2019	**(1,611)**	**(1)**	**(18)**	**(1,905)**	**(1,938)**	**(164)**	**(132)**	**(5,769)**
Net book value at 31 March 2018	**33,916**	**1,134**	**144**	**1,691**	**6,262**	**178**	**343**	**43,668**
Net book value at 31 March 2019	**34,286**	**1,295**	**140**	**1,904**	**6,110**	**206**	**490**	**44,431**

Notes to the Financial Statements Continued

For the Year Ended 31 March 2019

Revaluation

Operational land and buildings

Operational land and buildings are valued at fair value using market-based evidence. Land is valued based on its highest and best use with reference to comparable land values. The market value for buildings is determined using market rents and capitalisation rates.

The most recent valuation was performed by Mr. C Southgate B.AG.COM.MNZIPIM ANZIV, of the firm Southgate Wilson, Dannevirke, and the valuation is effective as at 31 March 2019.

Network distribution assets

The electricity distribution network was revalued to fair value of $36.9m as at 31 March 2016, by Mr L Bettles BA (Hons) MBA (Distinction) of Scanpower Limited, in accordance with NZ IAS 16 – Property, Plant and Equipment, NZ IAS 36 – Impairment of Assets, and NZ IRFS 13 – Fair Value Measurement. In the absence of an active market for the network, Scanpower Limited calculated fair value using significant unobservable inputs (Level 3, as defined in NZ IFRS 13). Scanpower Limited used a discounted cash flow (DCF) methodology. This was based on the company's cash flow forecasts and adjusted those cash flow forecasts to remove the impacts of expansionary growth on forecast future revenues, operating expenditure and capital expenditure.

The main key valuation assumptions were that:

- network revenues will increase by 3% each year
- non-expansionary "infill" growth will be 0% per annum
- the appropriate DCF discount rate is 7.19% post-tax

A sensitivity analysis on a number of variables as follows:

- a capital expenditure increase/(decrease) of 5% would decrease/(increase) the network's fair value by $0.78m respectively
- an increase in the discount rate of 0.5% would decrease the network's fair value by $2.7m
- a decrease in the discount rate of 0.5% would increase the network's fair value by $3.1m
- an operating expense increase/(decrease) of 5% would decrease/(increase) the network's fair value by $1.65m respectively
- a distribution revenue increase/(decrease) of 5% would increase/(decrease) the network's fair value by $5.55m

Oringi Site – Restrictions on use of site

A memorandum of encumbrance was registered over the property transferred in order to secure the performance and observation of Scanpower's obligations in the covenant deed. The covenant places a number of restrictions on the use of the property which prevents Scanpower from either using the site personally for processing of Livestock product or selling or leasing the site to another party to perform such activities. If Scanpower break these terms and conditions they will be subject to an annual rent charge, payable to Silver Fern Farms, totaling $500,000 per annum for 50 years.

Impairment

Property, plant and equipment were tested for impairment at year end. The recoverable amounts were still deemed to be equal to the carrying amounts and therefore no impairment gains or losses were recognised.

Note 10:

	Computer software	*Goodwill*	*Total*
	$'000	*$'000*	*$'000*
Intangible Assets			
Gross carrying amount			
Balance at 31 March 2018	**480**	**550**	**1,030**
Additions	16	-	16
Disposals	-	-	-
Balance at 31 March 2019	**496**	**550**	**1,046**
Accumulated amortisation and impairment			
Balance at 31 March 2018	(177)	-	(177)
Disposals	-	-	-
Amortisation expense	(53)	-	(53)
Balance at 31 March 2019	**(230)**	**-**	**(230)**
Net book value at 31 March 2017	**303**	**550**	**853**
Net book value at 31 March 2018	**266**	**550**	**816**

For the Year Ended 31 March 2019

Note 11:

	2019 $'000	2018 $'000
Investment Property		
Balance at 1 April	8,807	9,008
Additions	-	-
Disposals	-	-
Transfers from property, plant and equipment	-	-
Fair value gains/(losses) on valuation	(289)	(201)
Balance at 31 March	**8,518**	**8,807**

Scanpower applies the fair value model to all investment properties.

Restrictions exist over the realisability of investment property or remittance of income and proceeds of disposal, the details of which are included in note 9 above.

At 31 March 2019, there was no contractual obligations to construct or develop the existing investment properties. As at 31 March 2018, contractual obligations to develop or purchase investment property were nil.

Valuation process

The Company's investment properties were independently valued by Mr. C Southgate B.AG.COM.MNZIPIM ANZIV as at 31 March 2019. The valuer is registered as an Associate Member of the NZ Institute of Valuers and holds an Annual Practicing Certificate.

Note 12: Investment in the Kiwi Sock Company

(A):

Joint venture note

On 8 November 2007 Scanpower Limited acquired a third share in the Kiwi Sock Company, a sock manufacturing company. During the 2016-17 financial year Scanpower Ltd invested a further $180,000 in the Kiwi Sock Company and now hold 50% of the shares. This has resulted in Kiwi Sock Company becoming a joint venture.

	2019 $'000	2018 $'000
Balance at 1 April	-	624
Amount transferred from associates	-	-
New investments during the year	-	-
Share of surplus/(deficit)	-	44
Dividends declared and received	-	-
Balance at 31 March	**-**	**668**

The joint venture listed below has share capital consisting solely of ordinary shares, which is held directly by Scanpower Limited.

Nature of investment in joint venture 2017.

Name of entity	*Place of business /country of incorporation*	*% ownership interest*	*Measurement method*
Kiwi Sock Company Limited	New Zealand	50	Equity

Kiwi Sock Company is a private company and there is no quoted market price available for its shares.

Commitments and contingent liabilities in respect of joint venture

Scanpower Limited has no commitments relating to its joint venture.
There is no contingent liabilities to Scanpower Limited's interest in the joint venture. The Kiwi Sock Company has no contingent liabilities as at 31 March 2018.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2019

(B):

Asset held for sale

Scanpower has entered into a sale and purchase agreement on the 22nd of March 2019, to which ownership will transfer to the purchaser on the 1st of April 2019 being the agreements settlement date. At 31 March 2019, Scanpower's 50% interest in The Kiwi Sock Company Limited has been classified as a disposal group held for sale and a discontinued operation.

Scanpower's investment in the Kiwi Sock Company had a carrying value of $704,248 and was re-measured to the fair value less cost of disposal. This resulted in an impairment of $554,248 being recognised in the Statement of Comprehensive Income and the recognition of non-current assets held for sale of $150,000.

	2019	*2018*
Non-current assets held for sale	150	-

Note 13:

	2019	*2018*
	$'000	*$'000*
Borrowings		
Current portion	5,020	-
Term loan	-	-
Non-current portion		
Term loan	-	6,025
Total borrowings	**5,020**	**6,025**

The cash and cash equivalents of $16,000 (note 6) is the net cash, cash equivalent and bank overdraft for the purpose of the Statement of Cashflow (2018: $125,000).

The bank has a perfected security interest in all present and after acquired property of Scanpower Limited for payment of the overdraft facility. The maximum amount that can be drawn down against the overdraft facility is $9 million (2018: $9 million). There are no restrictions on the use of the facility. The total borrowings were in accordance with the bank covenants.

The term loan matures on 29 August 2019 with the full amount of term loan and overdraft facility payable at that date.

Note 14:

Creditors and Other Payables		
Trade payables	891	605
Other payables and accruals	362	1,924
Related party payables	-	-
Income in advance	111	216
GST payable	126	-
Total creditors and other payables	**1,490**	**2,745**

Trade and other payables are non-interest bearing and are normally settled on a 30-day term, therefore the carrying value of trade and other payables approximates their fair value.

Due to the IRD requirements for network discounts to qualify as proposed discounts, there has been no accrual made for network discounts as at 31 March 2019. The accrual as at 31 March 2018 was $1,482,000 and the total discount payments in September 2018 were $1,553,000. The discount amount of $71,000 paid in addition to the discount accrued was due to the number of active connections at the time of the payment of the discounts.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2019

Note 15:

	2019 $'000	2018 $'000
Employee Benefits		
Employee entitlements		
Wages	165	154
Holiday pay	256	247
Standby leave	39	27
Long service leave (current)	31	29
Long service leave (non-current)	33	20
Retirement gratuity (current)	201	201
Christmas bonus	31	28
Balance at 31 March	**756**	**706**
Employee entitlements		
Classified as:		
Current	723	485
Non-current	33	221
Total employee entitlements	**756**	**706**

Employee entitlements include accrued wages, bonuses, accrued holiday pay, retirement gratuities and long service leave. Where settlement is expected to be greater than one year, the entitlement is calculated on an actuarial basis. The Retirement Gratuity has been reclassified from non-current to current as all eligible employees are able to take this in the coming financial year.

Note 16:

Commitments

Capital commitments

The Company did not have any capital commitments as at 31 March 2019 (2018: $0).

Operating leases as lessee

Scanpower Limited leases property, plant and equipment in the normal course of its business. The majority of these leases have a non-cancellable term of 60 months. The future aggregate minimum lease payments to be paid under non-cancellable operating leases are as follows:

Non-cancellable operating leases as lessee		
< 1 year	579	597
> 1 year but < 5 years	1,105	1,426
> 5 years	170	329
Total	**1,854**	**2,352**

Operating leases as lessor

Scanpower leases parts of buildings at the Oringi Business Park site under operating leases. The leases relate to a mixture office and manufacturing buildings. Lease terms range 1 to 10 years with tenant options to extend the terms. All leases include a clause to enable upward revision of rental charges according to prevailing economic factors.

Non-cancellable operating lease as lessor		
< 1 year	806	1,009
> 1 year but < 5 years	2,968	3,387
> 5 years	1,150	1,848
Total	**4,924**	**6,244**

Notes to the Financial Statements Continued

For the Year Ended 31 March 2019

Note 17:

Contingent Assets and Liabilities

There were no contingent assets or liabilities as at 31 March 2019 (31 March 2018: $0).

Note 18:

Transactions with Related Parties

Scanpower Limited is a subsidiary of the Scanpower Customer Trust. Scanpower Limited has significant influence over Kiwi Sock Company Limited as a Joint Venture.

All transactions with related parties have taken place at arm's length.

The following transactions were carried out with related parties (disclosed GST inclusive):

	2019	*2018*
	$'000	*$'000*
Scanpower Customer Trust		
Service fees charged	8	8
Election costs	-	-
Other costs	-	-
Receivable at year end	-	4
Kiwi Sock Company		
Items purchased	3	4
Items sold	-	-
Receivable at year end	-	-

Scanpower Limited has committed to paying a dividend to the value of $125,000 to the Scanpower Customer Trust (2018: $125,000). The Kiwi Sock Company did not pay any dividends to Scanpower Ltd during the 2018-19 financial year (2018: dividend paid $0).

Scanpower provided services to the "For Homes" group of companies in which one of its Directors, P Clayton is a principal. Total sales to this group amounted to $1,438 for the year end to 31 March 2019 (2018: $575.73). The amount outstanding at balance date was $0 (2018: $0). Scanpower paid $1,000 to For Homes Ltd as a sponsor to the Christmas lights competition.

Scanpower provided services to Lloyd, Dodson and Pringle in which one of the Scanpower Customer Trustees, Rowena Bowie is a principal. Total sales to Lloyd, Dodson and Pringle amounted to $288 for the year end to 31 March 2019 (2018: $54) with amount receivable by Scanpower at balance date of $0 (2018: $0). Lloyd, Dodson and Pringle provided services to the value of $1,170 to Scanpower (2018: $33,045) with $0 owed at year end (2018: $0).

Scanpower provided services to the Tararua District Council where Allen Benbow is deputy mayor. The value of services provided totaled $260,738 (2018: $212,368). $11,506 was owing at year end (2018: $13,465). Tararua District Council provided services to Scanpower to the value of $1,960 (2018: $2,734) and the amount owing at year end was $0 (2018: $795).

Key management personnel compensation		
Compensation and other benefits	**1,134**	**1,287**

Key management personnel include the Directors and the Executive Team with the greatest authority for the strategic direction and management of the Company.

Note 19: Financial Instruments

(A):

Financial instrument categories

The accounting policies for financial instruments have been applied to the following line items below:

Total Financial Assets at amortised cost (2018 loans and receivables)	2,532	2,411
Total financial liabilities at amortised cost	6,399	8,554

(B):

Changes in liabilities arising from financing activities

	1 April 2018	*Cash flows*	*Other*	*31 March 2019*
Current interest-bearing loans and borrowings	-	5,020	-	5,020
Non-current interest-bearing loans and borrowings	6,025	(6,025)	-	-
Dividends payable	125	(125)	125	125
Total liabilities from financing activities	**6,150**	**(1,130)**	**125**	**5,145**

Note 20:

Revenue from contracts with customers

Satisfaction of performance obligations & significant judgements

Scanpower typically satisfies its performance obligations as services are rendered and upon completion of the service.

The stage of completion for Powerline contracting is determined using input methods in accordance with IFRS 15 by comparing the amount of labour hours expended on the project compared to budgeted hours. Scanpower has assessed this method to be the most appropriate measure of performance obligation satisfaction. Network line rentals and Transmission rental rebates are also satisfied over time based on the number of days passed in each month as the service is provided evenly over each month. Treesmart revenue is recognised at a point in time when the service is consumed by the customer. Once the service has been performed, the customer has simultaneously obtained control of that service.

Significant payment terms

Payments are typically due as either an upfront deposit invoice in combination with completion/progress invoices or upon completion of the service rendered.

Nature of services provided

The nature of the services providing by Scanpower includes the provision of Scanpower's network for transmitting electricity to residents (Network line rentals & Transmission rental rebates), tree trimming services (Treesmart) and the construction of network distribution assets (Powerline contracting) in connection with Scanpower's and third-party distribution networks. The timing of revenue recognition is set out in the tables below.

Variable consideration

Where consideration in relation to any particular contract is variable the "most likely amount" as per paragraph 53(b) of NZ IFRS 15 has been allocated to the contract and recognised alongside other contract revenue. The most likely amount in relation to variable consideration has been used on the basis of there being no material indication that this would not be the most likely outcome. Estimation of variable amounts are not typically constrained.

Returns/Refunds

Powerline contracting refund policies include the full refund of the deposit amount unless Scanpower has incurred expenses for that particular project. In this instance the deposit is withheld to the extent of expense incurred.

Warranties

Powerline contracting offers warranties for work completed on third party networks on behalf of a customer. The warranty extends for a period of 2 years after the date of completing the work. No warranty is offered in regard to contracting work associated with the Scanpower network.

Performance bonds

Scanpower has a few active performance bonds and these could be initiated against Scanpower by the customer under the following circumstances. If Scanpower fails to complete the stated contracted works or if defects arise in the subsequent 24 months that Scanpower refuses to remedy. The maximum amount of performance bond payments Scanpower may be liable for is $626,000. No provision has been made in the current year's financial statements as there is no indication to Scanpower that any of the events explained above are likely to occur, and no penalties have been paid under contract to date.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2019

Initial application of NZ IFRS 15

Scanpower has applied IFRS 15 retrospectively in accordance with paragraph C3(b). The current year's opening retained earnings balance has been adjusted by the cumulative effect of applying the standard at initial application. Prior years comparative figures have not been restated.

The effect of retrospective application of NZ IFRS 15 - Revenue from contracts with Customers relates to the difference in the timing of revenue recognition under NZ IFRS 15 compared to the old standard (NZ IAS 11).

	Retained earnings
As at 1 April 2018	14,226
Effect of retrospective adoption of NZ IFRS 15	(76)
As at 1 April 2018 (restated)	**14,150**

Scanpower derives revenue from the transfer of goods and services customers over time and at a point in time from the following major business operations.

2019	*Network line rentals*	*Transmission rental rebates*	*Powerline contracting*	*Plumbing and electrical contracting*	*Treesmart*	*Total*
Revenue recognised at a point in time	-	-	-	-	490	490
Revenue recognised over time	9,666	67	8,226	-	-	17,959
Total revenue from contracts with customers						**18,449**

Scanpower had the following contract balances during the year ended 31 March 2019

	Contract assets	*Trade receivables*	*Contract liabilities*
Closing balance as at 31 March 2019	369	1,215	516

Changes due to the implementation of NZ IFRS 15

Financial statement line item	*Reference*	*NZ IFRS 15*	*Previous standard (NZ IAS 11)*	*Increase/(Decrease) from previous standard*
Statement of Comprehensive Income				
Revenue from Contracts with Customers/ Revenue	(a)	18,449	18,543	(94)
Cost of Sales and Other Operating Expenses	(b)	6,297	7,068	(96)
Surplus/(deficit) for the year	(c)	1,213	1,023	2
Statement of Financial Position				
Contract liabilities	(d)	516	-	516
Income in advance	(d)	111	526	(415)
Contract assets	(e)	369	-	369
Contracting WIP	(e)	-	393	(393)
Closing retained earnings	(c)	15,256	15,254	2

Notes to the Financial Statements Continued

For the Year Ended 31 March 2019

The nature and reasons for the above changes in closing balances for the year ending 31 March 2019 are explained below:

(a) Revenue from contracts with customers only slightly differs in the amount of revenue recognised during the period, this is because the methods involved in determining the stage of completion for each project are similar enough in nature as to produce similar outcomes.

(b) Cost of sales and other operating expenses are only slightly reduced from the recognition of costs on projects that have been purchased in advance for projects that have yet to commence. This amount has been included in the Contract assets account balance.

(c) The difference in the surplus/(deficit) for the year is net movement between the reduction in revenue and the reduction in expenditure. The result is an overall increase in profit as expenses have decreased more than revenue. This difference also has a flow on effect on the closing balance of retained earnings.

(d) Contract liabilities is a new account balance as a result of the implementation of NZ IFRS 15 and as such would not have a balance under the old standard. The equivalent account balance under the old standard is Income in advance. The resulting change in Contract liabilities is from the recognition of revenue that has been invoiced but not yet able to be recognised under NZ IFRS 15. Income in advance under NZ IAS 11 required the inclusion of deposits paid in advance of projects being completed.

(e) Contracting assets is also a new account required under NZ IFRS 15, this account consists of revenue that has been recognised under the standard but has not yet been billed by Scanpower and therefore represents a right to receive future payment from the customer. The contract assets balance also includes materials that have been purchased in advance of a specific projects' commencement date. Under NZ IAS 11 the amount of Contracting WIP represented the net adjustment required to revenue to recognise the appropriate amount.

Note 21:

Events Subsequent to Balance Date

Post balance date, Scanpower completed the sale of The Kiwi Sock Company with the date of share transfer effective on 1st April 2019.

Statement of Performance

For the Year Ended 31 March 2019

		2019 Actual	2019 Target	2018 Actual
Financial Measures				
Earnings Before Discount and Tax (EBDT)	$'000	2,069	3,873	2,819
Earnings Before Interest, Discount & Tax (EBIDT)	$'000	2,378	4,203	3,114
Earnings Before Interest & Tax (EBIT)	$'000	2,307	2,678	1,425
Earnings Before Tax	$'000	1,998	2,348	1,130
Net Profit After Interest, Discount & Tax	$'000	1,213	1,690	760
Shareholders Equity	$'000	41,383	42,715	40,269
Total Assets	$'000	57,163	59,455	57,192
Return on Assets (Using EBIDT/Net Assets)	%	5.75%	9.07%	7.73%
Equity Ratio (Shareholders' Funds/Total Assets)	%	72.39%	71.84%	70.41%
Customer Measures				
Scanpower Customer Price/Unit	Cents /kWh	8.79	8.96	8.64
Customer Discounts Paid	$'000	1,553	1,525	1,689
Network Reliability Measures				
Outage Minutes per Customer per Year (SAIDI B/C)*	#Minutes	171	115	86
Interruptions per Customer per Year (SAIFI B/C)*	#Interruptions	0.98	1.00	0.56
Employee Safety Measures				
Total Injury Frequency Rate per 200,000 Hours Worked	Injuries	16.4	8.6	8.20
Disabling Injury Frequency per 200,000 Man Hours	Incidents	-	-	1.63

The customer discounts paid in the Statement of Performance is shown as $1,553,000 and is the total cash payment made in 2019. Note 3(i) shows the Network discounts wash-up as $71,000 for 2018 discount paid in 2019. The reason for the difference is that there was no provision made for 2019 Network discounts as at 31 March 2019.

Disabling Injury Frequency per 200,000 Man Hours does not include a measurement as it was not included in the Statement of Corporate Intent for the year ending 31 March 2019. The prior year's measure has been included for disclosure purposes.

***SAIDI – System Average Interruptions Duration Index**

This represents the average number of minutes that a consumer was without power during the reporting period.

***SAIFI – System Average Interruption Frequency Index**

This represents the average number of interruptions that a consumer experiences during the reporting period.

For more information on the SAIDI and SAIFI performance measures refer to the Chairman and CEO's report under the heading "Network Performance and Operations".

Statutory Information Disclosures

Principal Activities

During the period, Scanpower was primarily engaged in the provision of electricity network distribution services. The Company also operated tree clearance and power line contracting services. The Cold Storage operations were transferred to Icepak on 1 December 2015 and the gas fitting, plumbing and electrical division was closed in May 2017.

Financial Results

The operating profit before interest, discount and tax for the year was $2,378,000. The annual net profit was $1,213,000.

This compares with an operating profit before discount, interest and tax in 2018 of $3,114,000, a net profit of $760,000 and a network discount of $1,689,000.

Dividend

The Directors recommended payment of a dividend of $125,000 to the Scanpower Customer Trust for the year ended 31 March 2018.

Directors

Remuneration of Directors

Allan Benbow	$35,000	Reappointed	26/07/2016
Peter Clayton	$23,000	Reappointed	31/07/2018
Bob Henry	$23,000	Reappointed	08/06/2017
Rodney Wong	$23,000	Reappointed	31/07/2018
Mark Kilmister	$23,000	Appointed	30/08/2016

Directors' Interests

The Directors' interests are recorded in an interest register. The register is updated if there was a declaration of interest by any of the Board members or the CEO after a Board meeting.

Directors Use of Company Information

There were no notices from Directors requesting the use of company information received in their capacity as Directors, which would not have otherwise been available to them.

Executive Employees Remuneration

During the year, the number of non-director employees who received remuneration and other benefits of $100,000 or more were as follows:

Total remuneration and other benefits	*Number of employees*
$310,000 - $320,000	1
$160,000 - $170,000	1
$150,000 - $160,000	2
$140,000 - $150,000	1
$130,000 - $140,000	1
$120,000 - $130,000	1
$110,000 - $120,000	1

Auditors

In accordance with Section 45 of the Energy Companies Act 1992, Audit New Zealand, on behalf of the Auditor-General, will continue in office with the Directors being authorised to fix their remuneration.

Audit Fees

The fee for the year paid to our Auditors was $91,910 (plus disbursements). Fees paid in respect of other auditing services were $25,145 for the audit of the Information Disclosures.

Directors' Indemnity and Insurance

The Company has continued to insure its Directors and certain senior managers of the Company against liabilities to other parties (except the Company or a related party of the Company) that may arise from their positions as Directors or senior managers.

Peter Clayton
Deputy Chairman

Independent Auditor's Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

To the readers of Scanpower Limited's financial statements and performance information for the year ended 31 March 2019

The Auditor-General is the auditor of Scanpower Limited (the company). The Auditor-General has appointed me, Chantelle Gernetzky, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information of the company on his behalf.

We have audited:

- the financial statements of the company on pages 16 to 39, that comprise the statement of financial position as at 31 March 2019, the Statement of Comprehensive Income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 40.

Qualified opinion - Our work was limited because the financial information of The Kiwi Sock Company Limited is unaudited

In our opinion, except for the matter described in the Basis for our qualified opinion section of our report:

- the financial statements of the company:
  - present fairly, in all material respects:
    - its financial position as at 31 March 2019; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime; and
- the performance information of the company presents fairly, in all material respects, the company's achievements measured against the performance targets adopted for the year ended 31 March 2019.

Our audit was completed on 1 July 2019. This is the date at which our qualified opinion is expressed.

The basis for our qualified opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our qualified opinion

The company has included in the financial statements unaudited financial information relating to its investment in The Kiwi Sock Company Limited (Kiwi Sock). The statement of financial position as at 31 March 2019 classifies this investment in Kiwi Sock as a non-current assets held for sale with a carrying value of $150,000. This investment was classified as an investment in joint venture in the statement of financial position as at 31 March 2018 with an equity accounted carrying value of $668,000. The Statement of Comprehensive Income includes the equity accounted share of Kiwi Sock's surplus of $36,000 (2018: $44,000) and an impairment expense of the investment on reclassification to non-current assets held for sale of $554,000 (2018 $0). Further financial information about this investment in Kiwi Sock is disclosed in note 12 to the financial statements.

Kiwi Sock is not a public entity and, as such, the Auditor-General is not its auditor. There were no satisfactory audit procedures that we could adopt to obtain sufficient evidence to confirm the financial information relating to the investment in Kiwi Sock. Any misstatement of this financial information could affect the company's financial position, financial performance and the financial measures in the statement of performance for the years ended 31 March 2019 and 2018.

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is also responsible on behalf of the company for preparing performance information that is fairly presented.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error. In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the company or to cease operations, or there is no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Energy Companies Act 1992.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, 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 it is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these financial statements and performance information.

- We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.
- As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:
- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude

that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 2 to 15, 41 and 45, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the Basis for our qualified opinion section above, we could not obtain sufficient evidence to confirm the financial information relating to the investment in Kiwi Sock. Accordingly, we are unable to conclude whether or not the other information that includes financial information about the company is materially misstated with respect to this matter.

Independence

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit, we have carried out an assurance engagement pursuant to the Electricity Distribution Information Disclosure Determination 2012 - (consolidated in 2015), which is compatible with those independence requirements. Other than the audit and the assurance engagement, we have no relationship with or interests in the company.

Chantelle Gernetzky
Audit New Zealand

On behalf of the Auditor-General
Christchurch, New Zealand

Directory

Registered Office

Scanpower Limited
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Oringi Road
Dannevirke

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Facsimile:	06 374 9592
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Email:	enquiries@scanpower.co.nz
Website:	www.scanpower.co.nz

Bankers

Bank of New Zealand, Dannevirke

Solicitors

Lloyd, Dodson & Pringle
Barristers and Solicitors
Ward Street
Dannevirke

Auditors

Audit New Zealand, Palmerston North

Board of Directors

Allan Benbow	Chairman
Peter Clayton	Deputy Chairman
Bob Henry	
Rodney Wong	
Mark Kilmister	

Board of Trustees

Keith Cammock	Chairman
Stuart Smith	Deputy Chairman
Rowena Bowie	
Myles McKeefry	
Bill Taylor	

Executive

Lee Bettles
Chief Executive

Ben van der Spuy
Company Finance Manager

Brent Dais
Group Manager – Health, Safety, Quality & Training

Peter Rue
Network Manager

Allen Hutchison
GM Contracting – Kapiti / Horowhenua Region

Peter Cooper
GM Contracting – Manawatu / Wairarapa Region

Warren Hirst
Treesmart Divisional Manager

SCANPOWER

ELECTRICITY NETWORKS – POWER LINE CONTRACTORS

Dannevirke | Feilding | Paraparaumu

0800 80 80 39