2020 Annual Report

Working for Our Community

SCANPOWER

Providing our region with a safe, reliable, and cost effective electricity distribution network infrastructure.

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Chairman & Chief Executive's Report

For the financial year to 31 March 2020

Introduction

Welcome to the Annual Report and Audited Financial Statements of Scanpower Limited as of 31 March 2020. This commentary, in conjunction with the detailed financial information contained herein, provides an overview of the company's performance over the year relative to the targets established in the annual Statement of Corporate Intent.

In overview, it has been a pleasing year for Scanpower during which we have:

- Exceeded our financial performance objectives.
- Achieved our network reliability performance goals.
- Changed 195 hardwood poles and completed a major asset upgrade in the Dannevirke CBD area.
- Performed strongly in terms of organisational health and safety.
- Signed a major lease agreement in respect of a new property development at Oringi Business Park.

Key areas of the company's activities and performance are discussed in more detail below.

Financial Performance

Scanpower's financial performance for the year ending 31 March 2020 was strong and the Earnings Before Discounts and Tax result of $4,124,000 exceeded our target by $771,556 or 23%.   Correspondingly, our other earnings and profitability performance targets were also achieved as per the table below.

Performance Measure	2020 Result	2020 Target	Result
Earnings Before Discounts and Tax (EBDT)	$4,124,000	$3,352,444	✓
Earnings Before Interest, Discounts and Tax (EBIDT)	$4,485,000	$3,664,444	✓
Earnings Before Interest and Tax (EBIT)	$2,967,000	$2,064,000	✓
Net Profit After Interest, Discount and Tax	$2,025,000	$1,261,760	✓

The two key drivers of this performance were:

- A strong trading performance typified by a $2.35m or 12% year on year increase in Operating Revenue.
- A $474,000 gain in the value of our investment property portfolio arising from the signing of a major new lease agreement during the year.

In terms of revenue, the table below highlights the results by operating division of the company.

Operating Division	2020 Revenue	2019 Revenue	Change	% Change
Network Line Charge Revenue*	$9,846,000	$9,666,000	+$180,000	+2%
Power Line Contracting Revenue	$10,199,000	$8,226,000	+$1,973,000	+24%
Investment Property Rental Income	$828,000	$742,000	+$86,000	+12%
Treesmart Revenue	$573,000	$490,000	+$83,000	+17%
Total Operating Revenue	$21,553,000	$19,202,000	+$2,351,000	+12%

* Network line charge revenue gross of the customer discounts of $1,518,00

Key points of note include:

- Network line charge revenue showed a relatively modest increase of $180,000 or 2% following a 1% year on year reduction in electricity volumes.
- Contracting revenue of $10.2m was the company's single largest source of income and was up by $1.97m or 24% on 2019.
- Having secured a major new tenant at Oringi Business Park, investment property rental income increased by 12% to $828,000 and we expect this to increase further in the coming year.
- Treesmart continues to demonstrate ongoing growth in business generated from customers outside of Scanpower's network and annual revenue of $573,000 was up by 17% on last year.

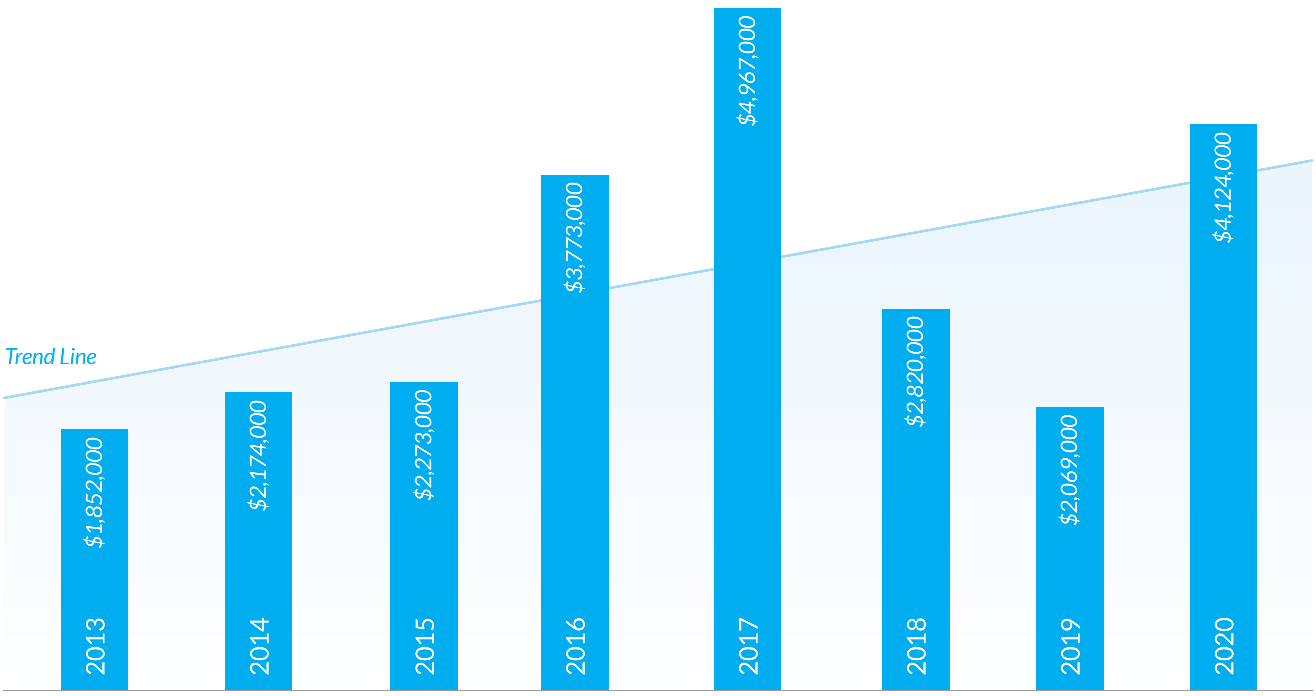
Taken as a whole, we were satisfied with the trading performance of our divisional businesses and how each has contributed to the overall company result. In particular, it was pleasing to see a strong resurgence in our Contracting Division following relatively subdued years in 2018 and 2019.

Regarding our investment property portfolio, accounting standards make it compulsory for us to revalue these to market value on an annual basis and as of 31 March 2020 this was independently assessed to be $8.99m. This resulted in a favourable gain on valuation of investment property of $474,000 which in turn contributed positively to our earnings result. The underlying driver of the gain was a major new lease agreement that was secured during the year with The True Honey Co who are now in the process of establishing a significant processing facility at Oringi Business Park.

Performance Measure	2020 Result	2020 Target	Result
Value of Shareholders' Equity	$43,433,000	$41,975,000	✓
Total Assets	$60,146,000	$58,860,000	✓
Return on Assets (EBIDT / Net Assets)	10.33%	8.73%	✓

On the basis of these factors, we saw positive results in our other key financial performance measures as per the table above and it is pleasing to exceed our stakeholders' expectations in this way. The graph below illustrates our Earnings Before Network Discounts and Tax for the period 2013 to 2020 and as is evident, this year showed significant improvement on the prior two years whilst the trend line remains healthily positive over the period.

Earnings Before Network Discounts & Tax (2013 to 2020)



Network Reliability and Assets

Performance Measure	2020 Result	2020 Target	Outcome
Minutes Loss of Supply per Customer (SAIDI)	115	115	✓
Annual Outages per Customer (SAIFI)	0.90	1.00	✓

For the year ending 31 March 2020, Scanpower achieved both of the network reliability targets set out in the annual Statement of Corporate Intent with both the SAIDI and SAIFI performance measures showing improvement on 2019. Over the period, on average individual customers experienced 0.90 power outages and 115 minutes loss of supply, which in turn equates to an annual availability of supply of 99.98%.

We are confident that this level of reliability performance is superior to the average of the industry as a whole, and this reflects well on the staff who manage and work on our electricity network assets.

In terms of our asset replacement and renewal programme, $2.025m of work was completed during the year.

$1.69m of this was planned work and included the ongoing replacement of aged hardwood poles with concrete poles, in addition to a major upgrade of cables and transformers in the Dannevirke CBD that will significantly enhance security of supply in the town. The remaining $332,635 was unplanned capital work that was predominantly driven by customer initiated growth / upgrade requests.

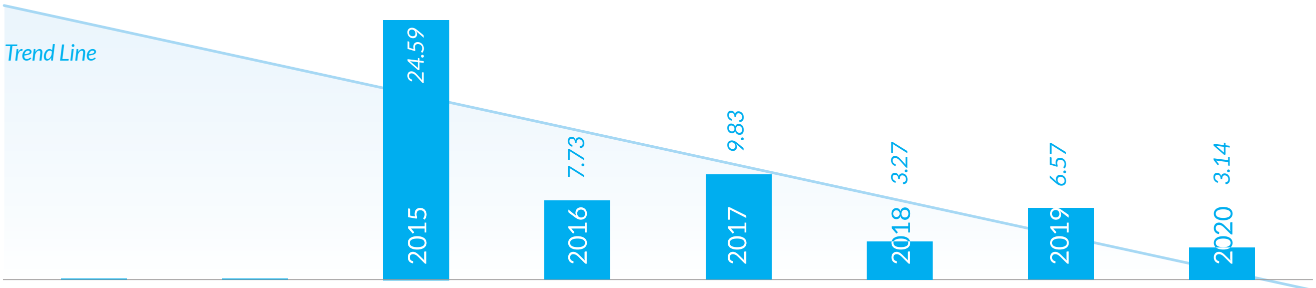
Health and Safety Performance

Performance Measure	2020 Result	2020 Target	Outcome
Injury Frequency Rate per 200,000 Hours Worked	3.1	8.1	✓

Scanpower uses Total Injury Frequency Rate per 200,000 Hours Worked as its primary workplace safety performance measure and at year end this was 3.1 relative to a target of 8.1. This is a pleasing result that reflects well on the efforts made at all levels of the organisation to improve our safety performance and reduce the number of injuries occurring in the workplace.

As per the graph below, our safety performance since 2015 (when the measure was adopted) has shown significant improvement

Total Injury Frequency Rate Per 200,000 Hours Worked (2013 - 2020)



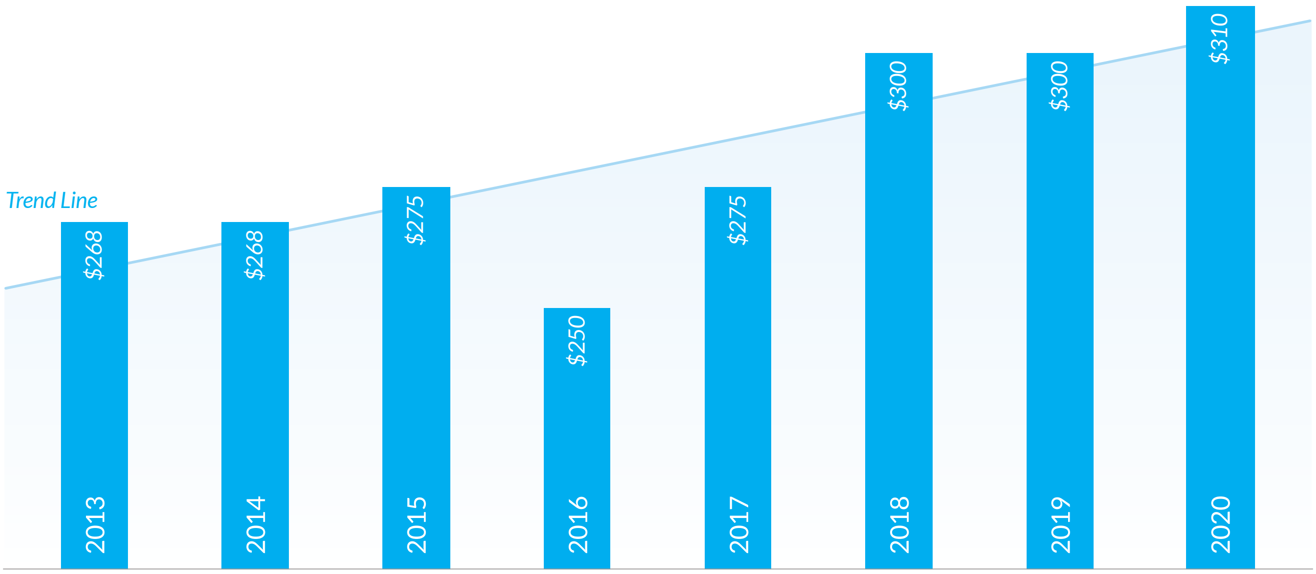
For the coming year, our injury frequency target will fall to 7.6 in line with our policy of 0.5 annual reductions intended to drive ongoing and sustained improvement in our workplace safety performance.

Customer and Community

In September 2019, Scanpower distributed its annual discount payment with every standard residential and commercial account holder receiving $310 each.

As in previous years, this was well received, and we recognise how important the discount is to our customers in terms of helping them manage their electricity costs. As perhaps the defining feature of our customer ownership model, it is our intention that network discounts will continue long into the future.

Annual Network Discount Paid Per Residential Connection (2013 - 2020)



The company has continued to maintain an active programme of supporting local organisations and events, with $48,309 being spent on corporate sponsorships over the year. Recipients included:

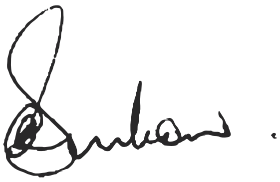
- Palmerston North Rescue Helicopter
- Dannevirke Ross Shield Rugby Team
- Dannevirke Garden and Craft Expo
- Dannevirke Christmas Lights Competition
- CACTUS Youth Development Programme
- Woodville Motocross Grand Prix
- Dannevirke High School Golf Day and Prize Giving
- Radio Woodville
- Kumeroa Sheep Dog Trials
- Local School Homework Diaries
- Dannevirke A&P Show – Home Industries Section
- Tararua Sports Awards
- Tararua Summer Reading Programme and Adult Learners Week

Perhaps a highlight this year was Scanpower's sponsorship of an 'artist in residence' programme at the Lindauer Gallery in Woodville. This saw photographer Martina Havlova travel from the Czech Republic and take up residence for three months. Over the period she undertook a photographic study of the Manawatu River and this is intended to form the basis for an upcoming book on the subject. The sponsorship culminated in the annual Gottfried Lindauer art exhibition, which was attended by the Czech Consular, with Martina's work on display.

Conclusion and Outlook

Scanpower has performed well over the past year and all key targets have been achieved. 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.

The outlook for the coming year has obviously been impacted by the Covid-19 pandemic event, with New Zealand having gone into full lockdown on 25 March 2020. At the time of writing, the country is at 'lockdown level one' and it is pleasing to report that the company has come through the period satisfactorily, with key operations maintained seamlessly. Furthermore, all staff were retained and paid fully throughout. Whilst the longer term economic effects are not yet known, as a provider of essential services Scanpower is likely to be well insulated from any potentially negative trends, particularly given emerging growth in housing in our district and a nationwide emphasis on infrastructure projects.



Allan Benbow
Chairman

Lee Bettles
CEO

Trust Chairman's Report

For the financial year to 31 March 2020

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 2020 can be seen in the Scanpower Limited Annual Report. The reported profit exceeded targets and showed a pleasing increase on last year.

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.

The reliability of the network achieved targets, which is excellent considering the widespread network, and sometimes challenging conditions that it operates under. The ongoing pole replacement program, and network upgrade works, should compliment this.

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

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 $4,485,000. The annual net profit was $2,025,000.

This compares with an operating profit before discount, interest and tax in 2019 of $2,378,000, a net profit of $1,213,000 and a network discount of $1,553,000.

Dividend

The Directors recommended payment of a dividend of $125,000 to the Scanpower Customer Trust for the year ended 31 March 2019.

Directors

Remuneration of Directors

Allan Benbow	$48,333	Reappointed	31/07/2019
Peter Clayton	$31,000	Reappointed	31/07/2018
Bob Henry	$31,000	Reappointed	25/03/2020
Rodney Wong	$31,000	Reappointed	31/07/2018
Mark Kilmister	$31,000	Reappointed	31/07/2019

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*
$350,000 - $360,000	1
$160,000 - $170,000	3
$150,000 - $160,000	2
$130,000 - $140,000	1
$120,000 - $130,000	1
$100,000 - $110,000	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 $108,196 (plus disbursements). Fees paid in respect of other auditing services were $26,324 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.

Allan Benbow
Chairman

Statement of Performance

For the Year Ended 31 March 2020

		2020 Actual	2020 Target	2019 Actual
Financial Measures				
Earnings Before Discount and Tax (EBDT)	$'000	4,124	3,352	2,069
Earnings Before Interest, Discount & Tax (EBIDT)	$'000	4,485	3,664	2,378
Earnings Before Interest & Tax (EBIT)	$'000	2,967	2,064	2,307
Earnings Before Tax	$'000	2,606	1,752	1,998
Net Profit After Interest, Discount & Tax	$'000	2,025	1,262	1,213
Shareholders Equity	$'000	43,433	41,975	41,383
Total Assets	$'000	60,146	58,860	57,163
Return on Assets (Using EBIDT/Net Assets)	%	10.33%	8.73%	5.75%
Equity Ratio (Shareholders' Funds/Total Assets)	%	72.21%	71.31%	72.39%
Customer Measures				
Scanpower Customer Price/Unit	Cents /kWh	9.17	9.30	8.79
Customer Discounts Paid	$'000	1,518	1,600	1,553
Network Reliability Measures				
Outage Minutes per Customer per Year (SAIDI B/C)*	#Minutes	115	115	171
Interruptions per Customer per Year (SAIFI B/C)*	#Interruptions	0.90	1.00	0.98
Employee Safety Measures				
Total Injury Frequency Rate per 200,000 Hours Worked	Injuries	3.1	8.6	16.41

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.

The information on SAIDI and SAIFI in the Statement of Performance has been prepared on a basis consistent with the previous year's disclosure.

Scanpower believes that its interpretation of an interruption and method of calculating SAIFI may only partially recognise the impact of 'successive interruptions' where a cluster of interruptions occur as a subset of a single outage event.

Where multiple interruptions (momentary or otherwise) occur under a single outage event, the calculation tool used by Scanpower (since 2014) for calculating SAIFI results in the 'number of customers affected' being generated as a 'balancing figure' against the fixed variables of total outage duration and customer SAIDI minutes.

Whilst Scanpower is confident that this approach produces an accurate SAIDI calculation, it now acknowledges that the SAIFI output may be understated (subject to clarification of the correct interpretation / treatment of successive interruptions and 'restoration').

Scanpower understands that the electricity distribution industry (via the Electricity Networks Association, and in liaison with the Commerce Commission) now intends to implement a project to establish standardised / universal rule and policies around SAIFI calculation that all lines companies may adopt and adhere to. Scanpower is fully supportive of this initiative.

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

Statement of Comprehensive Income

For the Year Ended 31 March 2020

	Notes	2020 $'000	2019 $'000
Operating revenue	2	20,035	19,202
Other revenue	2	613	127
Total revenue		**20,648**	**19,329**
Personnel costs	3	4,827	4,454
Depreciation and amortisation expense	3	2,472	1,969
Finance expense	3	361	309
Impairment expense	3	-	554
Other expense	3	10,382	10,081
Total expenditure		**18,042**	**17,367**
Share of surplus/(deficit) of a discontinued operation		-	36
Surplus/(deficit) before tax		**2,606**	**1,998**
Income tax expense/(refund)	4	581	785
Surplus/(deficit) for the year		**2,025**	**1,213**
Other comprehensive income:			
Gains/(losses) on property revaluations		-	138
Gains/(losses) on revaluations of Network Distribution Assets		209	-
Deferred tax on revalued assets		(59)	(38)
Total other comprehensive income		**150**	**100**
Total comprehensive income		**2,175**	**1,313**

Statement of Changes in Equity

For the Year Ended 31 March 2020

	Notes	2020 $'000	2019 $'000
Balance at 1 April			
Contributed Capital		7,500	7,500
Retained Earnings	20	15,256	14,150
Asset Revaluation Reserves		18,627	18,543
Total Opening Equity		**41,383**	**40,194**
Surplus/(Deficit) for the Year		2,025	1,213
Other Comprehensive Income		150	100
Total Comprehensive Income		2,175	1,313
Distribution to Shareholders		(125)	(125)
Balance at 31 March			
Contributed Capital		7,500	7,500
Retained Earnings		17,169	15,256
Asset Revaluation Reserves		18,764	18,627
Total Closing Equity		**43,433**	**41,383**

Statement of Financial Position

As at 31 March 2020

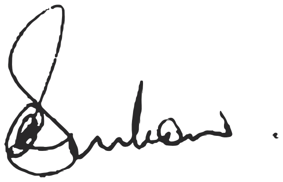
	Notes	2020 $'000	2019 $'000
Assets			
Current Assets			
Cash and cash equivalents	6	121	16
Debtors and other receivables	7	2,298	2,378
Contract Assets	20	319	369
Inventories	8	411	485
Non-current Assets Held for Sale	12	-	150
Total current assets		**3,149**	**3,398**
Non-current Assets			
Capital work in progress	9	127	-
Property, plant and equipment	9	46,107	44,431
Intangible assets	10	780	816
Right of Use Assets	21	991	-
Investment property	11	8,992	8,518
Total non-current assets		56,997	53,765
Total Assets		**60,146**	**57,163**
Liabilities			
Current Liabilities			
Borrowings	13	-	5,020
Creditors and other payables	14	1,383	1,490
Contract Liabilities	20	344	516
Leases liabilities	21	364	-
Employee benefits	15	805	723
Tax payable		163	468
Total current liabilities		3,059	8,217
Non-current Liabilities			
Borrowings	13	5,320	-
Leases liabilities	21	665	-
Employee benefits	15	13	33
Deferred taxation	4	7,656	7,530
Total non-current liabilities		13,654	7,563
Total Liabilities		**16,713**	**15,780**
Net Assets		**43,433**	**41,383**

Statement of Financial Position Continued

As at 31 March 2020

	Notes	2020 $'000	2019 $'000
Equity			
Contributed capital		7,500	7,500
Retained earnings		17,169	15,256
Asset Revaluation Reserves		18,764	18,627
Total equity attributable to parent	5	**43,433**	**41,383**

For and on behalf of the Board



Allan Benbow
Chairman,
17 July 2020

Bob Henry
Director,
17 July 2020

Statement of Cash Flows

For the Year Ended 31 March 2020

	Notes	2020 $'000	2019 $'000
Cash Flows from Operating Activities			
Cash was provided from:			
Receipts from customers		19,488	18,631
Rent received		828	742
Interest received		-	-
Dividends received		-	-
		20,316	19,373
Cash was applied to:			
Payments to suppliers		10,461	10,902
Payments to employees		4,827	4,404
Interest paid		362	309
Income tax paid		819	164
Net GST movement*		35	(103)
		16,504	15,676
Net cash inflows/(outflows) from operating activities		**3,812**	**3,697**
Cash flows from Investment Activities			
Cash was provided from:			
Proceeds from disposal of property, plant and equipment		27	73
Proceeds from disposal of the Kiwi Sock Company		150	-
		177	73
Cash was applied to:			
Purchase and construction of property, plant and equipment		3,676	2,749
		3,676	2,749
Net cash inflows/(outflows) from investment activities		**(3,499)**	**(2,676)**
Cash flows from Financing activities			
Cash was provided from:			
Proceeds from borrowings		9,405	6,620
		9,405	6,620

Statement of Cash Flows Continued

For the Year Ended 31 March 2020

	Notes	2020 $'000	2019 $'000
Cash was applied to:			
Repayment of loan		9,105	7,625
Repayment of finance leases		383	-
Dividends paid		125	125
		9,613	7,750
Net cash inflows/(outflows) from financing activities		**(208)**	**(1,130)**
Net increase/(decrease) in cash and cash equivalents		105	(109)
Cash and cash equivalents at the beginning of the year		16	125
Bank cash/(overdraft) balance at year end	6	**121**	**16**

* 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.

Notes to the Financial Statements

For the Year Ended 31 March 2020

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 2020 were authorised for issue in accordance with a resolution by the Board of Directors on 17 July 2020.

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.

Covid-19 Pandemic

On 11 March 2020, the World Health Organisation declared the outbreak of the COVID-19 pandemic and two weeks later the New Zealand Government declared a State of National Emergency. From this, the country was in lockdown at Alert Level 4 for the period 26 March to 27 April and remained in lockdown at Alert Level 3 until 13 May inclusive.

During Alert Levels 4 and 3, office-based staff worked remotely and our activities were limited to maintaining essential services, including electricity distribution and emergency response. We suspended most of our routine maintenance and capital work. After 13 May 2020, we resumed all normal operations.

There was no adverse impact on supply under Levels 3 and 4. In respect of SAIFI, the number of interruptions was actually lower than normal and in previous years, due to the cancellation of the majority of planned maintenance outages. This in turn had a favourable impact on our SAIDI results.

The maintenance and capital works programmes are now approximately three weeks behind the planned schedule of works. However, we expect to catch this up over the remainder of the year and this is not expected to impact negatively on reliability of supply.

Covid-19 had no material impact on FY2020 revenue and expenses as only five days of the year were spent in lockdown conditions. Company revenue fell (year on year) by 39.7% in April 2020 with the most significant reduction occurring in our Contracting Division (2020: $33,741, 2019: $647,754). However, in May 2020, revenue has returned to normal levels. It is anticipated that the adverse impact experienced in April will potentially be recovered over the remainder of the year and at this stage the Directors believe our pre-Covid annual targets are achievable.

Scanpower also considered the possible impact on trade receivables, with the view no impairment be recognised.

Note 9 explains the impact on the carrying value of network assets at 31 March 2020 and the uncertainties in these values caused by COVID-19.

Notes 9 and 11 explain the impact on the carrying value of land and buildings/investment property at 31 March 2020 and the uncertainties in these values caused by COVID-19.

Note 9 explains no impairment was found to be necessary for PPE and intangible assets.

The Directors are continuing to closely monitor the COVID-19 situation and ensuring our operating practices are appropriate and beneficial to the safety of staff, contractors and customers.

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.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

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.

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.

The Company pays a discount to eligible consumers registered on its network 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.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

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 substantively 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 substantively enacted by balance date.

Current and deferred tax is recognised against the profit or loss for the period, except to the extent that it relates to items recognised in other comprehensive income or directly 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 assets (land, buildings and fixtures), the Oringi site land and buildings, plant and equipment, motor vehicles, computer hardware and other fixtures.

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.

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

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

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 & Equipment and 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.

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.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

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

The company leases vehicles. Rental contracts are typically made for fixed periods of 4 to 10 years but may have extension options as described below. Until the start of the 2020 financial year, leases of vehicles were classified as either finance leases or operating leases, see note 21 for details. From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the company:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, and
- makes adjustments specific to the lease, eg term, country, currency and security.

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

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

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

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

Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of printers.

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 1.06% 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 belong 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.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

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.

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

Other than the adoption of NZ IFRS 16 Leases below, there have been no other changes in accounting policies.

NZ IFRS 16 Leases

This note explains the impact of the adoption of NZ IFRS 16 Leases on the financial statements.

The company has adopted NZ IFRS 16 retrospectively from 1 April 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 1.

On adoption of NZ IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 8%.

(i) Practical expedients applied

In applying NZ IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying NZ IAS 17 and NZ IFRIC 4 Determining whether an Arrangement contains a Lease.

(ii) Measurement of lease liabilities 2020

Operating lease commitments disclosed as at 31 March 2019	1,854,000
Discounted using the lessee's incremental borrowing rate at the date of initial application	(278,719)
Other immaterial differences in measurement	(69,577)
Leases treated as low value	(37,574)
Leases treated as short term - finishing within one year	(27,960)
Lease liability recognised as at 1 April 2019	**1,440,170**
Of which are:	
Current lease liabilities	383,615
Non-current lease liabilities	1,056,555
	1,440,170

(iii) Measurement of right of use assets

Right of use assets were measured at the amount equal to the lease liability.

(iv) Adjustments recognised in the balance sheet on 1 April 2019

The change in accounting policy affected the following items in the balance sheet on 1 April 2019:
Right of use assets – increase by $1,440,170
Lease liabilities – increase by $1,440,170
There was no impact on retained earnings on 1 April 2019.

(v) Lessor accounting

Scanpower did not need to make any adjustments to the accounting for assets held as lessor under operating leases (see note 16) as a result of the adoption of NZ IFRS 16.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

Note 2:

	Notes	2020 $'000	2019 $'000
(i) Operating revenue			
Revenue from Contracts with Customers			
Network line rentals		9,846	9,666
Network discount		(1,518)	-
Net network line rentals		8,328	9,666
Electricity market revenues*		105	75
Power line contracting		10,199	8,226
Treesmart		573	490
Total revenue from contracts with customers		19,205	18,457
Other Operating Revenue			
Interest income		2	3
Rental income		828	742
Total Other Operating Revenue		830	745
Total Operating Revenue		**20,035**	**19,202**
(ii) Other income			
Gain on valuation of investment property		474	-
Other property related income		131	119
Administrative Revenues		8	8
		613	127
Total revenue		**20,648**	**19,329**

* Loss rental income and load shedding income are now included in Electricity market revenue.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

Note 3:

		Notes	2020 $'000	2019 $'000
(i)	**Operating expenses**			
	Transmission expenses		2,318	2,332
	Network discounts		-	71
	Impairment expense	12	-	554
	Employee benefit expense			
	- Employee benefit plans		191	165
	- Other employee benefits		4,636	4,289
	Cost of sales and other operating expenses		7,667	6,297
			14,812	13,708
(ii)	**Other expenses**			
	Audit fees for financial statements audit		113	92
	Audit fees for Disclosure Regulations		26	25
	Directors remuneration and expenses		171	125
	Operating lease expenses	21	40	690
	Loss on disposal of property, plant and equipment		41	120
	Loss on valuation of investment property		-	289
	Bad debt expense		6	40
			397	1,381
(iii)	**Depreciation and impairment**			
	Depreciation on network assets		1,314	1,293
	Depreciation on other assets		684	623
	Depreciation on leased assets	21	422	-
	Amortisation of intangible assets		52	53
			2,472	1,969
(iv)	**Finance expense**			
	Interest on loan		259	309
	Leases interest	21	102	-
			361	309
	Total expenses		**18,042**	**17,367**

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

Note 4:

	2020 $'000	2019 $'000
Taxation		
Components of tax expense		
Current tax	514	728
Prior period adjustment to current tax	-	13
Deferred tax	67	44
Tax expense	**581**	**785**
Relationship between tax expense and accounting profit		
Surplus/(deficit) before tax	2,607	1,998
Tax at 28%	730	560
Plus (less) tax effect of:		
Expenses not deductible for tax purposes	1	240
Income not subject to tax	(133)	(10)
IFRS adjustment to reserves	-	(21)
Deferred tax adjustment	(17)	3
Under/(over) provided in prior period	-	13
Tax (refund)/expense for the year	**581**	**785**

	Property, plant and equipment	Employee entitlements	Other provisions	Lease Assets	Total
Deferred tax assets/(liabilities)					
Balance at 31 March 2018	(7,610)	107	56	-	(7,447)
Charged/(credit) to the Income Statement	(57)	13	-	-	(44)
Charge/(credit) to Other Comprehensive Income	(39)	-	-	-	(39)
Balance at 31 March 2019	**(7,706)**	**120**	**56**	**-**	**(7,530)**
Charge/(credit) to the Income Statement	(96)	16	2	11	(67)
Charged directly to equity	(59)	-	-	-	(59)
Balance at 31 March 2020	**(7,861)**	**136**	**58**	**11**	**(7,656)**

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

Note 5:

	2020 $'000	2019 $'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	15,256	14,150
Transfers from:		
Asset revaluation reserve on disposal of property, plant and equipment	13	17
Net surplus/(deficit) for the year	2,025	1,213
Transfers to:		
Dividend declared and paid	(125)	(125)
As at 31 March	**17,169**	**15,256**
Asset revaluation reserves		
As at 1 April	18,627	18,543
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	209	-
Deferred tax on revaluation of Network Distribution Assets	(59)	-
Deferred tax on Land and Building revaluations	-	(38)
Transfer of revaluation reserve to retained earnings on disposal of property, plant and equipment	(13)	(17)
Balance at end of the year	**18,764**	**18,627**
Asset revaluation reserve consists of:		
Freehold land	309	309
Freehold buildings and fixtures	3,349	3,349
Distribution assets	15,106	14,969
Total reserves	**18,764**	**18,627**
Total equity	**43,433**	**41,383**

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

Note 6:

	2020 $'000	*2019 $'000*
Cash and Cash Equivalents		
Current account	121	16
Total cash and cash equivalents	**121**	**16**

Note 7:

Debtors and other receivables		
Trade debtors	2,001	2,147
Related party receivables	4	-
Prepayments	293	232
	2,298	2,378
Less provision for impairment of receivables	-	-
Total debtors and other receivables	**2,298**	**2,378**

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	-	-
Additional provisions made through the year	-	-
Provisions reversed during the year	-	-
Receivables written off during the year	(6)	(40)
At 31 March	**(6)**	**(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	411	485
Total inventories	**411**	**485**

The write-down of inventories amounted to $4,117 for Network and Contracting stock (2019: total write down of $14,030).

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 2020

Note 9:

	2020 $'000	2019 $'000
Property, Plant and Equipment		
Work in progress		
Capital work in progress is contained in the following categories:		
Property and Investments	127	-
Total work in progress	**127**	**-**

	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 2019	**35,897**	**1,296**	**158**	**3,809**	**8,048**	**370**	**622**	**50,200**
Additions	2,026	86	-	1,038	139	53	192	3,534
Disposals	(425)	-	-	(227)	-	-	-	(652)
Revaluations	(2,761)	-	-	-	-	-	-	(2,761)
Transfers	5,363	-	-	-	(5,363)	-	-	-
Balance at 31 March 2020	**40,100**	**1,382**	**158**	**4,620**	**2,824**	**423**	**814**	**50,321**
Accumulated depreciation and impairment								
Balance at 31 March 2019	**(1,611)**	**(1)**	**(18)**	**(1,905)**	**(1,938)**	**(164)**	**(132)**	**(5,769)**
Disposals	357	-	-	227	-	-	-	584
Transfers	(401)	-	-	-	401	-	-	-
Impairment loss charged to profit	-	-	-	-	-	-	-	-
Net revaluation (increments)/ decrements	2,969	-	-	-	-	-	-	2,969
Depreciation expense	(1,314)	(27)	(4)	(300)	(248)	(67)	(38)	(1,998)
Balance at 31 March 2020	**-**	**(28)**	**(22)**	**(1,978)**	**(1,785)**	**(231)**	**(170)**	**(4,214)**
Net book value at 31 March 2019	**34,286**	**1,295**	**140**	**1,904**	**6,110**	**206**	**490**	**44,431**
Net book value at 31 March 2020	**40,100**	**1,354**	**136**	**2,642**	**1,039**	**192**	**644**	**46,107**

At 31 March 2020 the non-standard Network assets to the value of $5.363 million were reclassified from Plant and Equipment to Network assets. These assets were previously included in Plant and Equipment since there were not specific categories for the type of assets in the 2004 Information Disclosures Handbook as published by the Commerce Commission. These assets form an integral part of the Scanpower Distribution Network and have therefore been reclassified as Network assets and transferred out of Plant and Equipment.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

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.

The valuer advised that there has been no material movement in fair value of the operational land and buildings at 31 March 2020.

Network distribution assets

The electricity distribution network was revalued to fair value of $40.1m as at 31 March 2020, by PricewaterhouseCoopers and reviewed 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 cash flow forecasts 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 2% each year
- non-expansionary "infill" growth will be 0% per annum
- the appropriate DCF discount rate is 5.51% 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 $0.76m respectively
- an increase in the discount rate of 0.5% would decrease the network's fair value by $1.66m
- a decrease in the discount rate of 0.5% would increase the network's fair value by $1.72m
- an operating expense increase/(decrease) of 5% would decrease/(increase) the network's fair value by $0.7m respectively
- a distribution revenue increase/(decrease) of 5% would increase/(decrease) the network's fair value by $2.3m

With regards to Covid-19, the following caveat was stated in the valuation report by the valuers of the Network Distribution assets – "it is not possible to assess with any certainty the implications of COVID-19 on Scanpower or the economy as a whole, both generally in terms of how long the current crisis may last and more specifically in terms of its impact on a specific business or the wider economy. We note our advice is subject to significant caveats and caution at this time due to uncertainty that exists for businesses including (amongst other matters) the demand for products or services, access to capital, supply chain disruption, and the extent and duration of the measures implemented by various governments and authorities to contain and / or prevent spread of COVID-19".

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, and goodwill were tested for impairment at year end. The recoverable amount was greater than the carrying amount and therefore no impairment loss was recognised.

Covid-19 Pandemic

On 11 March 2020, the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. On 25 March 2020, the New Zealand Government raised its alert to Level 4 (full lockdown of non-essential services) for an initial 4-week period.

Subsequent to the financial year end 31 March 2020, the alert level was moved back down to Level 3 on 27 April 2020, partially lifting restrictions, down to Level 2 on 13 May 2020, and Level 1 on 8 June 2020, removing all remaining restrictions except border controls.

Throughout all stages of lockdown, as a lifeline utility and provider of services to other lifeline utilities, Scanpower was designated 'essential service' status, as were all commercial tenants leasing property at Oringi Business Park. Correspondingly, the Covid-19 pandemic has only had a limited impact on the company's financial performance through April 2020 and May 2020.

Scanpower's valuer, Mr. C Southgate B.AG.COM.MNZIPIM ANZIV, of the firm Southgate Wilson, Dannevirke, also confirmed that the valuation of Property, Plant and Equipment as at 31 March 2019 will not be materially affected by the Covid-19 Pandemic.

The impact of the Covid-19 pandemic on the cashflows used for the Network revaluation have also been considered. While there has been a slight reduction in revenue during Level 4 lockdown, this has largely been offset by reductions in operational expenditure, as non-essential work on the network has been deferred. As the local economy is based on primary industry, with little retail and negligible tourism, management advise that currently it is not expected that network cashflows will be detrimentally affected by the pandemic. Accordingly, we have made no explicit adjustments to the cashflows for the valuation. Based on information available at this time, we expect that any potential cashflow impacts of the pandemic are expected to fall well within our valuation range.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

Note 10:

	Computer software $'000	*Goodwill $'000*	*Total $'000*
Intangible Assets			
Gross carrying amount			
Balance at 31 March 2019	496	550	1,046
Additions	16	-	16
Disposals	-	-	-
Balance at 31 March 2020	**512**	**550**	**1,062**
Accumulated amortisation and impairment			
Balance at 31 March 2019	(230)	-	(230)
Disposals	-	-	-
Amortisation expense	(52)	-	(52)
Balance at 31 March 2020	**(282)**	**-**	**(282)**
Net book value at 31 March 2019	**266**	**550**	**816**
Net book value at 31 March 2020	**230**	**550**	**780**

Note 11:

	2020 $'000	*2019 $'000*
Investment Property		
Balance at 1 April	8,518	8,807
Additions	-	-
Disposals	-	-
Transfers from property, plant and equipment	-	-
Fair value gains/(losses) on valuation	474	(289)
Balance at 31 March	**8,992**	**8,518**

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 2020, there was no contractual obligations to construct or develop the existing investment properties. As at 31 March 2019, 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 2020. The valuer is registered as an Associate Member of the NZ Institute of Valuers and holds an Annual Practicing Certificate.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

Covid-19 Pandemic

On 11 March 2020, the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. On 25 March 2020, the New Zealand Government raised its alert to Level 4 (full lockdown of non-essential services) for an initial 4-week period.

Subsequent to the financial year end 31 March 2020, the alert level was moved back down to Level 3 on 27 April 2020, partially lifting restrictions, down to Level 2 on 13 May 2020, and Level 1 on 8 June 2020, removing all remaining restrictions except border controls.

Throughout all stages of lockdown, as a lifeline utility and provider of services to other lifeline utilities, Scanpower was designated 'essential service' status, as were all commercial tenants leasing property at Oringi Business Park. Correspondingly, the Covid-19 pandemic has only had a limited impact on the company's financial performance through April 2020 and May 2020.

Scanpower's valuer, Mr. C Southgate B.AG.COM.MNZIPIM ANZIV, of the firm Southgate Wilson, Dannevirke, also confirmed that the values of Investment Properties as at 31 March 2020 will not be materially affected by the Covid-19 Pandemic.

However, the Valuer reported that the market the property is transacted in is being impacted by the uncertainty that the COVID-19 outbreak has caused. As at the date of the valuation the Valuer consider that there is a market uncertainty resulting in significant valuations uncertainty, and the valuation is current at the date of valuation only.

The value assessed may change significantly and unexpectedly over a relatively short period of time (including as a result of factors that the Valuer could not reasonably have been aware of as the date of valuation)."

Note 12:

Asset held for sale

Scanpower 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.

As at 31 March 2019 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 to sell. 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. The sale transaction to the value of $150,000 was finalised on 2 April 2019.

	2020 $'000	*2019 $'000*
Non-current Assets held for Sale	-	150

Note 13:

Borrowings		
Current portion		
Term loan	-	5,020
Non-current portion		
Term loan	5,320	-
Total borrowings	**5,320**	**5,020**

The cash and cash equivalents of $121,000 (note 6) is the net cash, cash equivalent and bank overdraft for the purpose of the Statement of Cashflow (2019: $16,000).

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 (2019: $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 30 August 2024 with the full amount of term loan and overdraft facility payable at that date.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

Note 14:

	2020 $'000	*2019 $'000*
Creditors and Other Payables		
Trade payables	658	891
Other payables and accruals	527	362
Related party payables	-	-
Income in advance	117	111
GST payable	81	126
Total creditors and other payables	**1,383**	**1,490**

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.

Note 15:

Employee Benefits		
Employee entitlements		
Wages	151	165
Holiday Pay	279	256
Standby Leave	39	39
Long Service Leave (Current)	47	31
Long Service Leave (Non-Current)	13	33
Retirement Gratuity (Current)	207	201
Christmas Bonus	32	31
Performance Bonuses	50	-
Balance at 31 March	**818**	**756**

Employee entitlements		
Classified as:		
Current	805	723
Non-current	13	33
Total employee entitlements	**818**	**756**

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.

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

Note 16:

Commitments

Capital commitments

Three projects of capital nature were in progress as at balance date. Two of the projects are building development related for the tenants and the third is seismic strengthening for the Scanpower office building. These projects commenced shortly before year end will continue well into the 2020-21 financial year. The value of these capital commitments as at 31 March 2020 were $422,000. (2019: $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:

	2020 $'000	*2019 $'000*
Non-cancellable operating leases as lessee		
< 1 year	27	579
> 1 year but < 5 years	16	1,105
> 5 years	-	170
Total	**43**	**1,854**

Vehicle leases have been reclassified as finance leases with the implementation of NZ IFRS16, refer note 21.

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	808	806
> 1 year but < 5 years	3,848	2,968
> 5 years	418	1,150
Total	**5,074**	**4,924**

Note 17:

Contingent Assets and Liabilities

There were no contingent assets or liabilities as at 31 March 2020 (31 March 2019: $0).

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

Note 18:

Transactions with Related Parties

Scanpower Limited is a subsidiary of the Scanpower Customer Trust. All transactions with related parties have taken place at arm's length.

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

	2020 $'000	*2019 $'000*
Scanpower Customer Trust		
Service fees charged	8	8
Election costs	-	-
Other costs	-	-
Receivable at year end	4	-
Kiwi Sock Company		
Items purchased	-	3
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 (2019: $125,000). The Kiwi Sock Company did not pay any dividends to Scanpower Ltd during the 2018-19 financial year and was subsequently sold on 2 April 2019.

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 $0 for the year end to 31 March 2020 (2019: $1,438.00). The amount outstanding at balance date was $0 (2019: $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 $0 for the year end to 31 March 2020 (2019: $288) with amount receivable by Scanpower at balance date of $0 (2019: $0). Lloyd, Dodson and Pringle provided services to the value of $11,926 to Scanpower (2019: $1,170) with $0 owed at year end (2019: $0).

Scanpower provided services to the Tararua District Council where Allen Benbow was deputy mayor until October 2019. During this period, the value of services provided totaled $220,069 (2019: $260,738). At the date of the Council elections an amount of $13,927 was owed to Scanpower (2019: $11,506). Tararua District Council provided services to Scanpower till October 2019 to the value of $2,071 (2019: $1,960) and the amount owing at time of the elections was $0 (2019: $0).

Scanpower provided services to Horizons Regional Council where Allan Benbow is the member for the Tararua Constituency. The value of services provided totaled $0 (2019: $697.36). Horizons Regional Council provided services to Scanpower to the value of $20,293.87 (2019: $17,750) and the amount owing at year end was $0 (2019: $3,683)

Key management personnel compensation		
Compensation and other benefits	1,420	1,134

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

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

Note 19: Financial Instruments

Note 19(A):

Financial Instrument Categories

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

	2020 $'000	*2019 $'000*
Total Financial Assets at amortised cost (2019 loans and receivables)	2,445	2,532
Total financial liabilities at amortised cost	7,340	6,399

Note 19(B):

Changes in liabilities arising from financing activities

	1 April 2019	*Cash flows*	*Other*	*31 March 2020*
Current interest-bearing loans and borrowings	5,020	(9,105)	-	-
Non-current interest-bearing loans and borrowings	-	9,405	-	5,320
Dividends payable	125	(125)	125	125
Total liabilities from financing activities	**5,145**	**175**	**125**	**5,445**

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

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 include progress payments or upon completion of the service rendered.

Nature of Services Provided

The nature of the services provided 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.

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 as displayed in the following two tables.

	Network line rentals	*Transmission rental rebates*	*Powerline contracting*	*Treesmart*	*Total*
2020					
Revenue recognised at a point in time	-	-	-	*573*	*573*
Revenue recognised over time	8,328	105	10,199	-	18,632
Total revenue from contracts with customers					**19,205**
2019					
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 2020

	Contract Assets	*Trade Receivables*	*Contract Liabilities*
Opening balance as at 31 March 2019	369	1,215	516
Closing balance as at 31 March 2020	319	1,173	344

Notes to the Financial Statements Continued

For the Year Ended 31 March 2020

Note 21:

	2020	2019
	$'000	$'000
Leases		
(i) Amounts recognised in the balance sheet The balance sheet shows the following amounts relating to leases:		
Right of use assets		
Vehicles	991	-
Total Right of use assets	**991**	**-**
Lease liabilities		
Current	364	-
Non-current	665	-
Total lease liabilities	**1,029**	**-**

Additions to the right of use assets during the 2019-20 financial year were nil.

	2020	2019
(ii) Amounts recognised in the Statement of Profit and Loss The statement of profit or loss shows the following amounts relating to leases:		
Depreciation charge of right of use assets		
Vehicles	422	-
Total Depreciation charge for right of use assets	**422**	**-**
Interest expense (included in finance costs)	102	-
Expenses relating to short term leases (included in other expenses)	16	-
Expenses relating to low-value assets that are not shown above as short-term leases (including in other expenses)	24	-

The total cash outflow for leases in 2019-20 financial year was $485,488.

Note 22:

Events Subsequent to Balance Date

There were no post balance date events as at 31 March 2020, other than the Covid-19 Pandemic. Please refer to the paragraph "basis for preparation" in the accounting policies for more information regarding the Pandemic.

Note 23:

Statutory deadline

Due to the impact that Covid-19 and the resulting lockdown during April and May 2020 had on the preparation and audit of the 31 March 2020 financial statements, Scanpower Ltd has breached the statutory deadline of 30 June 2020.

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 2020

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 13 to 39, that comprise the statement of financial position as at 31 March 2020, 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 12.

Qualified opinion

Our work was limited in respect of the comparative financial information of The Kiwi Sock Company Limited

In our opinion, except for the possible effects of 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 2020; 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 the 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 2020.

Our audit was completed on 20 July 2020. This is the date at which our qualified opinion is expressed.

The basis for our qualified opinion is explained below, and we draw your attention to other matters. 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

Our opinion for the year ended 31 March 2019 was qualified. This was because the company included unaudited financial information relating to its former investment in The Kiwi Sock Company Limited (Kiwi Sock). The statement of comprehensive income for the year ended 31 March 2019 includes the equity accounted share of Kiwi Sock's surplus of $36,000 and an impairment expense of $554,000 in respect of the investment in The Kiwi Sock. Further financial information about the former investment in Kiwi Sock is disclosed in note 12 to the financial statements. Our opinion on the current year's financial statements is also modified because of the possible effect of this matter on the comparability of the current year's figures and the corresponding figures.

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 in the prior year to obtain sufficient evidence to confirm the equity accounted surplus and impairment expense relating to the investment in Kiwi Sock. Any misstatement of this financial information could affect the company's financial performance in the statement of comprehensive income for the year ended 31 March 2019 and the financial measures in the statement of performance for the year ended 31 March 2019.

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.

Emphasis of Matters

Without further modifying our opinion, we draw attention to the following disclosures.

Covid-19

Note 1 to the financial statements, which explains the impact of the Covid-19 pandemic on the company. Note 9 on pages 30 and 31 describes the impact of Covid-19 and the uncertainties related to estimating the fair values of its Network assets.

Investment Property

We draw specific attention to the significant valuation uncertainties communicated by the valuer, related to estimating the fair values of the company's Investment property, as described in Note 11 on pages 32 and 33.

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.

For the budget information reported in the financial statements and performance information, our procedures were limited to checking that the information agreed to the company's statement of corporate intent.

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 3 to 11 and 42, 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. We have nothing to report in this regard.

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 this 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
Oringi Business Park
Oringi Road
Dannevirke

Telephone:	06 374 8039
Facsimile:	06 374 9592
Freephone:	0800 80 80 39
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	

Executive

Lee Bettles	Chief Executive
Allen Hutchison	Power Line Contracting Division Manager - Paraparaumu
Peter Cooper	Power Line Contracting Division Manager - Feilding
Ben van der Spuy	Company Finance Manager
Brent Dais	Health & Safety Manager
Peter Rue	Network Division Manager
Warren Hirst	Treesmart Division Manager

Working for
Our Community

Dannevirke | Feilding | Paraparaumu

0800 80 80 39

SCANPOWER

ELECTRICITY NETWORKS – POWER LINE CONTRACTORS