Network Tasman Limited & Group

2020 ANNUAL REPORT

networktasman
Your consumer-owned electricity distributor

Contents

Our vision at Network Tasman is to be a successful network services company for the benefit of our consumers.

We support our vision by our values of safe & wellbeing, one team, innovative, collaborative and trusted.

2020 Highlights

Financial

$48.3m	OPERATING REVENUE	↓ $3.3m
$11.0m	SURPLUS AFTER TAX	↑ $1.3m
$21.4m	EBITDA	↓ $1.7m
$14.6m	CAPEX SPEND	↑ $1.2m
$12.1m	DISCOUNTS (incl. GST)	↓ $0.4m
$2m	DIVIDENDS	Unchanged

Reliability

185	SAIDI (MINUTES)	↓ 55
1.24	SAIFI (OUTAGES)	↓ 0.10

Network

41,031	NETWORK CONNECTIONS	↑ 641
654Gwh	ENERGY VOLUMES DELIVERED	↓ 12
36,071	ADVANCED METERS INSTALLED	↑ 2,532

Safety

0	PUBLIC SAFETY OR PROPERTY DAMAGE	↓ 1
2	LOST TIME INJURY	↓ 1

Directors' and CEO Report

On behalf of the Directors and CEO of Network Tasman, we have pleasure in presenting the annual report and audited financial statements for the financial year ended 31 March 2020.

The company is pleased to report an operating surplus of $11.0 million against our SCI target of $8.3 million ($9.7 million in 2018/19). Regional growth has continued to support strong contributions across all of the businesses and allowed us to continue to invest in the safety and reliability of our networks.

The company invested a total of $14.6 million for the year ($13.4 million in 2019). One of the major projects completed was the installation of a 33kV cable to provide an alternative supply to the Mapua substation.

Reliability of 185 SAIDI minutes planned outages were higher during the year as the company continued with our programme to replace our aging light copper conductors. There were no extreme weather events during the year, but unplanned outages occurred from a mix of common causes, these being car versus pole, trees felled over lines, bird strikes, broken insulators and a small number of cable faults.

In the non-regulated business units, additions to the company's investment properties and investments in advanced meters by Network Tasman and On Metering, are realising increasing returns backed by long-term contracts with retailers.

The company remains in a sound financial position with a balanced portfolio of regulated and non-regulated businesses, low term debt and strong cash flow that funds our re-investment in the network.

COVID-19

The COVID-19 pandemic has had a significant impact on the communities we serve. Demand, particularly in the commercial and industrial sector, was curtailed as many non-essential businesses ceased operations. As shutdown restrictions eased, demand returned to normal levels for most sectors of the economy. Network Tasman staff and contractors responded well to the restrictions. The quick transition from a normal work environment to working remotely is a credit to them all.

While many maintenance and capital projects were delayed during the Level 4 shutdown period, management are working with our contractors to ensure that workloads for the remainder of the year are reprioritised as necessary.

Five Year Trend	2020	2019	2018	2017	2016
Revenue ($m)	**48.3**	51.6	50.7	46.2	43.9
Earnings before interest, tax, depreciation & customer contributions ($m)	**19.0**	20.0	21.1	17.9	16.4
Net operating cash flow ($m)	**14.9**	21.2	17.7	13.8	14.1
Total cash dividends paid ($m)	**2.0**	2.0	2.0	2.0	2.0
Total electricity into network (GWh)	**746**	761	747	737	733
Electricity maximum demand (MW)	**142**	132	139	137	146

Our goal is to maintain a 'zero harm' workspace so our staff and contractors arrive home safely.

The company worked with tenants in our investment properties and provided rent relief where appropriate. As part of our annual review process we reviewed the impact Covid-19 may have had on our asset carrying values and determined that there is no impairment required.

Risk Management

This year we have maintained our continuous review of our risk matrix across all of the company's activities. This matrix identifies the key risks facing the company and is reviewed by the Board on a regular basis.

We have a robust risk management and insurance programme in place and are confident in our restoration capability to deal with a natural disaster affecting our network. Covid-19 has tested our ability to manage the network remotely and we are reviewing where we can further strengthen our resilience for future events. We have also focused on the security of our core information technology networks and undertake regular extensive testing of our cyber security systems.

Health and Safety

Workplace health and safety remains a key priority across all activities of the company. Our goal is to maintain a "zero harm" workplace so our staff and contractors arrive home safely.

Regular review and improvement of our health and safety systems is an integral part of our approach to reflect the dynamic and ever changing nature of health and safety. Effective communication, creating opportunities for engagement, and providing resources and support are priorities to ensure our people work safely at all times.

Contractors are an essential part of our business and as such present a unique combination of risks across each contractor exchange. With the inclusion of an in-house health and safety resource, greater focus has been possible and new ways of working aimed at benefitting both Network Tasman and our contractor pool are progressing positively.

The year has been a time of continuing refinement of Network Tasman's health and safety systems. The commitment to review and improve, alongside building a 'just' safety culture focused on learning from incidents rather than finding blame, is resulting in improved engagement and more effective risk management practices. While we are happy with our management of the Covid-19 pandemic, we will look to review whether there are any improvements to our systems that can be made for future events.

Electricity Retail Pricing Review

The government-appointed Electricity Price Review Panel conducted a full review of the electricity sector during 2018/19. The review looked at all aspects of the electricity sector, with a key consideration being whether consumers are paying fair prices.

The final report of the Government's Electricity Price Review was published on 3 October 2019. The report focused on promoting a more consumer-focused market with fairer and more affordable prices and its recommendations primarily concentrated on these areas.

While most of the review focused on the generation and retailing sectors, the review has recommended changes to allow the Commerce Commission to consider exempting distributors from price-quality regulations under certain circumstances. The review also recommended a phased removal of the low-fixed charge regulations over a five-year period.

Network Tasman is proud of our record for delivering a safe and reliable network service to our customers. We believe that local ownership of the company continues to meet the needs of our customers and the communities in which we operate.

Asset Management

Management and the Board devote considerable time to developing our Asset Management Plan (AMP) including the capital development, renewals, maintenance and risk sections. This includes a keen focus on network condition and implementation of a pro-active programme of maintenance and asset renewals.

Network Tasman provides an open access network to all customers and technologies. We must balance a condition-based maintanence programme and planned outages for consumers.

As part of the AMP, the company maintains a rolling

DIRECTORS' AND CEO REPORT

> The Appleby Highway alternate 33kV supply to Mapua sub-station now provides a resilient supply to Mapua.

10-year capital expenditure plan as regulations require. The company is facing a significant increase in capital spend in the next ten years, as is the general case with infrastructure in New Zealand but also reflecting ongoing regional growth.

During the next five years, we have identified significant increased demand in the industrial sector, driven by cold storage, shellfish processing/extraction, rest homes, hop processing and dairy irrigation.

Land subdivision for residential growth is strong. In the later part of the 10-year planning period, electric vehicle charging is expected to have an impact, with work underway to identify the low voltage (LV) networks in our system that will require investment to accommodate this.

The growth in the region has brought forward a number of projects to ensure security of supply.

Significant projects in progress include a new 33/11kV substation at Wakapuaka and feeder cable installation and work with the Tasman District Council to underground the network in Ellis Street Brightwater. Significant projects completed during the year were the new 11kV feeder circuit from the Annesbrook substation and the Appleby Highway alternate 33kV supply to the Mapua sub-station.

Financial Position

The company remains in a sound financial position with strong operating cash flows and a low level of term debt. Going forward, we have the financial capacity to meet our Asset Management Plan's 10-year capital expenditure programme as well look at complementary investments should they arise.

Network Tasman again paid a fully imputed dividend of $2 million to our shareholder, the Network Tasman Trust. Local consumer ownership of the network has returned in excess of $230 million by way of discounts and dividends since the company was established in 1993.

Network Tasman Fibre

Network Tasman Fibre continues to expand the range of fibre services we provide to the local market. Connections on the network continue to grow, as previously contracted residential and commercial sub-divisions are completed, our valued added services such as our managed CCTV service increases.

This year we welcomed 2 Degrees as a retailer on our network. Network Tasman fibre now has a range of local and national retailers offering services to residential and commercial customers across our network.

Advanced Meters

Network Tasman has now completed deployment of advanced meters to 72% of our ICPs with the remaining customers likely to be serviced by another provider. Returns from the investment are underpinned by long term contracts with major retailers.

With the mass deployment of electronic meters by Network Tasman now complete, focus has shifted to how we can utilise the data provided by the meters to improve how we manage our network assets.

On Metering Limited (OML) our joint venture with Alpine Energy Limited, has completed mass deployment of meters on the MainPower network in North Canterbury. OML currently has 28,098 meters installed on the MainPower network (72% of the total ICP's).

Nelson Electricity Limited (50% owned)

Nelson Electricity Limited supplies electricity to approximately 9,200 consumers in the Nelson city area. The network is primarily underground and provides consumers with one of the most reliable networks in the country. Nelson Electricity paid a fully imputed dividend of $2.10 million (Network Tasman's share $1.05 million) for the year.

Nelson Electricity faces a number of challenges going forward. As a regulated electricity distributor, the Commerce Commission's Default Price Pathway (DPP3) will reduce returns for the next 5 year regulatory period. In the current year, returns are also expected to be impacted as Covid-19 has depressed demand predominately in the Nelson CBD.

Pricing and Discounts

Network Tasman continues to have one of the lowest residential line charges in the country. Consumers again received $12.1 million including GST ($12.5 million in 2019) credited to their power accounts. In April 2020, the company implemented a 4% price rise, the first in 3 years. This increase was made to ensure the company continues to balance low prices with the need to fund the on-going investment needs of the business. We cannot continue to hold line charge increases as we have for the past three years.

However in response to the difficult economic conditions currently prevailing within the region, the company decided to bring forward and increase the winter discount paid to consumers to return the current year's price increase. As retailers have already passed on this increase, the only option to nullify the line charge increase, was to use the discount payment to return this increase to all customers.

As a regulated business, Network Tasman remains subject to the Commerce Commission's Default Price Path regime (DPP) that has been re-set for a further five-year period from 1 April 2020. The 2020 re-set saw a reduction in the weighted average cost of capital (WACC) permitted for regulated distributors from 7.19% to 4.57%.

The reduced WACC significantly lowered the maximum revenue the company is allowed to recover each year from prices. Network Tasman has aimed for a smooth transition in prices across regulatory periods and despite the price rise we remain well below the allowable limit set by the Commission for the next 5 years ($2.4 million below the cap).

Investment Properties

After a period of significant re-investment, returns from our investment property portfolio continue to be solid. The portfolio of well-located commercial and industrial properties has a weighted average lease term of 7.0 years across a number of blue chip tenants.

The company is underway with re-scheduling land adjoining the company's head office at Hope. Once re-scheduled, the additional land will enhance development options for our existing land holdings and allow for a staged development of both properties when suitable tenants can be secured.

Environmental Sustainability

Network Tasman's aim is to work towards environmental sustainability in our operations. Network Tasman believes that environmental sustainability is integral to operating as a successful well managed business. This is the company's second year of measuring our carbon footprint and it is pleasing to report a 4.8% reduction from last year.

We are committed to reducing our environmental impact and continually improving our environmental performance which is a fundamental part of our business strategy and operating methods. The Board has considered the impact of climate change, adding this to our risk register and taking the necessary steps to protect network assets.

Emerging Technologies

New technologies are becoming increasingly mainstream and their economic viability continues to improve.

The Tasman region has one of the highest penetration rates for solar rooftop generation in New Zealand and, more generally, our region appears to have a relatively high number of early adopters of new technologies, including Electric Vehicles (EVs).

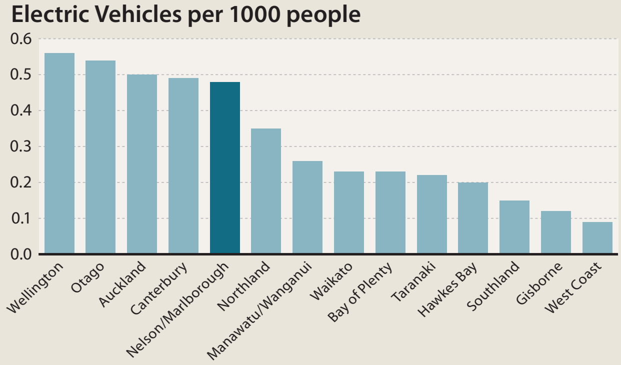
The company is spending a considerable amount of time identifying, researching and preparing for the impact and opportunities of these new technologies. Our approach was noted with an Electricity Authority assessment released during the year of EDB's (electricity distribution businesses) capacity to respond to new technologies, classifying EDB's as either growers, developers or caretakers of their networks. Network Tasman was assessed as a network developer, which aligns with our strategic approach to new technologies.

We firmly believe the key to the effective implementation of new technologies will be collaboration between lines companies to share knowledge and experience and fostering relationships with organisations at the forefront of the various technologies. Co-operation and knowledge sharing will contribute to an environment that allows for more efficient investment in and use of new technologies.

The company works closely with solar installers to ensure all installations comply with our technical and safety standards and balance benefits for consumers and the load management needs of the network. As part of this process, a trial is underway at our Hope office premises on grid tied battery/inverter options, firstly with a system that will be set up in "energy arbitrage" mode and secondly an "on demand discharge" mode. Once this trial has been completed, Network Tasman may look to pay consumers to access the storage capacity of these batteries to defer capital investment in parts of our network.

The Board maintains an open mind to funding research and development and engaging new technologies where necessary.

Electric Vehicles per 1000 people



Outlook

The on-going Covid-19 pandemic is likely to pose significant risks to the national and international economies over the next few years. Network Tasman's position as a low cost well-financed business allows us to face these challenges with confidence.

As a long-term infrastructure provider, we need to continue to invest in our assets across the economic cycle and our plans are to do so. Given the challenges going forward, the company will need to ensure that we retain a balance between returns to our owners, the need to fund the capital investment plans of our businesses and balance the needs of our current to future customers.

With a dedicated team, Network Tasman is focused on delivering a safe and reliable service to our customers and the communities in which we operate.

Acknowledgments

We acknowledge the resignation of Mr. Roger Sutton, following five years of service as a director of the company. We would like to thank Mr. Sutton for his contribution over those years and wish him well for the future.

Robyn Wilson completed her term as the inaugural Associate Director with Board observer status in March 2020. The Associate Director Programme, a joint initiative of Network Tasman and shareholder Network Tasman Trust, is designed to offer emerging directors the opportunity to accelerate their boardroom experience for a period of twelve months on the board of Network Tasman.

We are fortunate to have the support of a strong and stable shareholding Trust and trustees that continue to support the on-going direction of the company.

Finally, the Board acknowledges the staff of Network Tasman for another successful year.

John McCliskie
Chairman

Oliver Kearney
Chief Executive Officer

Board of Directors

Michael J McCliskie (John) *Dip. Horticulture, CFInstD*

Chairman
(since February 2008)

John has a background in international fruit marketing and is a director of a number of local and national companies involved in primary production. John is an experienced company director with past involvement in a range of SMEs, corporates, co-operatives and government entities. He is a director of Nelson Electricity and a number of private companies.

Tony Reilly *B.Agr.Com, CFInstD*

Director
(since July 2008)

Tony has been involved in agricultural governance since 1995 at a local and national level, particularly in the dairy sector. Tony is also a director of Landcorp Farming and a number of private companies.

Sarah-Jane Weir *LLB, Master of Intellectual Property Law CMInstD*

Director
(since September 2013)

Sarah-Jane has a background in commercial law, advising in infrastructure, local and central government and with a strong digital, communications and regulated industry emphasis. She is a director of Nelmac Limited, Nelson Regional Development Agency Limited, Rata Foundation, on the National Council for Institute of Directors and is active in the not for profit sector.

Sarah Smith *BCom, CFInstD*

Director
(since August 2017)

Sarah has extensive business and governance experience in both the private and public sectors. As an independent director, Sarah has more than 20 years of experience and is currently chair of World of Wearable Arts. Sarah is also a trustee of The Lion Foundation and for several charitable organisations. She is a Chartered Fellow of the Institute of Directors.

Lindsay R McKenzie *BSc, IOD*

Director
(since 2019)

Lindsay has enjoyed a successful public sector career as General Manager of Southland Regional Council and latterly, Chief Executive of Gisborne District Council. From 2012 to 2018 he served as Chief Executive of Tasman District Council. More recently he has been contracted to a Crown Entity and is currently a director of Taylors Contracting Limited. Lindsay is the President of the Nelson YMCA Inc, a Justice of the Peace and active in the voluntary sector.

Financial Performance

Highlights

$48.3m
OPERATING REVENUE ↓ **$3.3m**

$11.0m
SURPLUS AFTER TAX ↑ **$1.3m**

$21.4m
EBITDA ↓ **$1.7m**

$14.6m
CAPEX SPEND ↑ **$1.2m**

$12.1m
DISCOUNTS (incl. GST) ↓ **$0.4m**

$2m
DIVIDENDS **Unchanged**

Prudent financial management has seen operating costs per connection continue to lie below the national average for electricity distribution businesses (EDB's).

Continued regional growth supported strong contributions across the business with key highlights from the core electricity, fibre and investment property business units.

We have exceeded our SCI financial targets for 2019/20, delivering an operating surplus of $11.0 million, $2.7 million above the target of $8.3 million and $1.3 million above last year.

The major variance from last year was a deferred tax credit of $1.5 million due to the change in the tax rules for depreciation on building, (2019 $1.0 million deferred tax charge).

Customer contributions of $2.4 million reflect the continued buoyant nature of the residential property market with a number of large subdivisions being developed across the region.

Consumers received two line discounts totalling $12.1 million including GST ($12.5 million in 2019) which were credited to consumers' power accounts during the year.

Cash flow from operations was $14.9 million for the year, $6.3 million below last year as the summer discounts payment of $6.5 million was moved to April 2019 due the change to posted discounts.

The cash flow enables Network Tasman to fund both maintenance and growth capital expenditure on the electricity network and fund additional investments in the fibre optic communications network as required.

At the end of the financial year, the group had total cash of $0.5 million and term loans of $0.3 million.

Network Tasman spent $14.6 million on capital expenditure during the year.

Our capital investment in the electricity network has been concentrated on improving network safety and reliability, replacement and renewal, and to accommodate the growth that is occurring on our network.

The reliability of the electricity distribution network is a key company objective. To meet this objective directors continue to review capital expenditure plans, network design and management options to improve feeder reliability across the network.

In the non-regulated business units, the company's investment properties and investments in advanced meters by Network Tasman and On Metering are realising increasing returns, backed by long-term contracts with retailers.

Capital expenditure on the fibre network has been focused on organic growth around the existing network including reticulating the steady growth in rural sub-divisions in the Tasman area and an upgrade of the core network technology.

The financial targets as set down in Network Tasman's Statement of Corporate Intent, are compared below with the actual results for the year ended 31 March 2020.

The company again paid a fully imputed dividend of $2 million to the Network Tasman Trust.

Under the dividend policy, dividends are paid from the non-regulated businesses after tax surplus excluding property valuations.

Financial performance targets

		Actual Result 2020	SCI Target 2020	Actual Result 2019
Total company:				
Surplus before interest, tax, line discount and customer contributions	$mil	**20.3**	18.7	21.4
Operating surplus after tax and customer contributions	$mil	**11.0**	8.3	9.7
Operating surplus to shareholders' funds	%	**5.2%**	4.0%	4.8%
Line business only:				
Total network costs per consumer	$	**468**	465	452
Cash operating costs per consumer	$	**304**	301	293
Line Charge Discounts (Excluding GST)	$mil	**10.5**	10.8	10.9

FINANCIAL PERFORMANCE

Network Tasman Fibre

The company has implemented a strategy to retain market share in the face of increasingly ubiquitous fibre coverage and lower wholesale pricing.

Capital expenditure on the fibre network is being targeted at growing customer connections around our existing fibre network and providing value added services. Niche services such as the CCTV network continue to grow in terms of utilisation and returns from our investment.

On Metering Limited

On Metering Limited (OML), our 50% joint venture with Alpine Energy completed deployment of advanced meters in the North Canterbury region as part of the SmartCo consortium.

As at 31 March 2020, On Metering had deployed a total of 28,098 meters. Returns from this investment are supported by long-term fixed price contracts with major electricity retailers.

Nelson Electricity Limited

The company has held a long-term 50% investment. Nelson Electricity Limited provides electricity distribution services for Nelson City.

The company has continued to repay debt incurred in the redevelopment of the Haven Road substation. Network Tasman received a fully imputed dividend of $1.05 million from Nelson Electricity during the year.

Investment Properties

After a period of re-investment, the company's investment properties have delivered another sound return. The company's investment property at 281 Queen Street, Richmond is 100% leased with long term leases to Nelson Marlborough DHB, Primary Health and Stantec.

The balance of the portfolio comprises industrial properties and vacant land at Hope that can be developed as quality tenants can be secured on favourable commercial terms.

Operational Performance

Network Tasman is committed to ensuring the health and safety of all people affected by the work we do, including employees, contractors, visitors and members of the public.

Health and Safety

Over the year under review, Network Tasman continued to strengthen health and safety practices. The annual Health and Safety Strategic Plan emphasised the breadth and intent of Network Tasman's health and safety responsibilities across business areas.

An internal health and safety role within Network Tasman supports the management and directors to further integrate health and safety into Network Tasman's operations, and demonstrates commitment toward developing greater health and safety maturity.

Regular review and improvement of our health and safety systems is an integral part of our approach to reflect the dynamic and ever changing nature of health and safety. Effective communication, creating opportunities for engagement, and providing resources and support are priorities to ensure our people work safely at all times.

Contractors are an essential part of our business and present a unique combination of risks across each contractor exchange. Contractor forums held during the year have been positively received providing greater

Highlights

Completed

Completed the Appleby bypass to the Mapua substation.

Reduced

Network Tasman's carbon footprint by 4.8% during the year.

Replaced

Completed replacement of a further 18km of the ten year light copper conductor replacement programme.

Analysis of reported events has provided a greater understanding of Network Tasman's principal risk areas.

Safety of electricity supply		Actual Result 2020	SCI Target 2020	Actual Result 2019
Lost time injuries not to exceed -	number	**2**	0	3
Public Safety and Damage Events				
Public Injury Events	number	**0**	0	0
Public Property Damage Events	number	**0**	0	1
Public Safety Management System (PSMS) certified & audited by Telarc		**Yes**	Yes	Yes

There was no public safety injury or property damage recorded during the year. Network Tasman's safety incidents reported over the year capture both internal incidents and those reported by our major contractor organisations.

focus and new ways of working benefitting both Network Tasman and our contractor pool.

Alongside new initiatives, our health and safety protocols are continuing to build on the framework of Network Tasman's Health and Safety Management System, including routine drug and alcohol testing procedures, an active Health and Safety Committee, safety equipment and site inspections, safe work observations by management and directors, and ongoing toolbox talks. These activities offer methods of building worker participation and consultation within the business.

Review of core safety policies continued through the year, particularly our Working Alone, Fatigue and Emergency Response policies. This supported the deployment of personnel and vehicle tracking systems, and a bulk text messaging facility to assist staff communication in emergency and disaster situations.

Training completed over the year included first aid, traffic controller, internal and contractor health and safety inductions, and hosting training for contractors.

An increase in event reporting was noted during the year, a sign of a strengthening reporting culture. Additional analysis of reported events has provided a greater understanding of Network Tasman's principal risks areas. This has reinforced our risk management priorities and provided direction for greater development in the areas of contractor management, competency management and building internal capacity.

In review, the 2019/2020 year has been a time of continuing growth for Network Tasman's health and safety provision. The commitment to review and improve, alongside a 'just' safety culture focused on learning from incidents rather than finding blame, is resulting in improved engagement and more effective risk management practices.

In March 2020, Network Tasman Limited had to manage the effects of the Covid-19 pandemic. While the learning from this will be ongoing, the resourcefulness of the Network Tasman team was clearly evident, and our response to this illustrates that we are in a strong position to continue growing our safety maturity over the coming year.

Network Maintenance

Network Tasman spent $6.4 million on network maintenance, including $1.5 million on vegetation management, during the 2019/20 financial year.

Network Tasman operates a comprehensive network maintenance programme based on condition-based assessment and planned replacement of system components.

Our maintenance contractors Delta Utility Services, ElectroNet and vegetation services provider Treescape, continue to deliver a high level of service.

Capital Expenditure

The company spent $11.5 million on the distribution network with $3.5 million in system growth, $3.0 million on replacement and renewal and $3.5 million on reliability and safety.

During the year, 641 consumer connections were added to the network, a growth rate of 1.6%. Network Tasman is budgeting to spend $127 million in the next ten years.

Network Tasman produces an annual Asset Management Plan (AMP) that documents the company's asset management practices and management strategy for its network distribution assets.

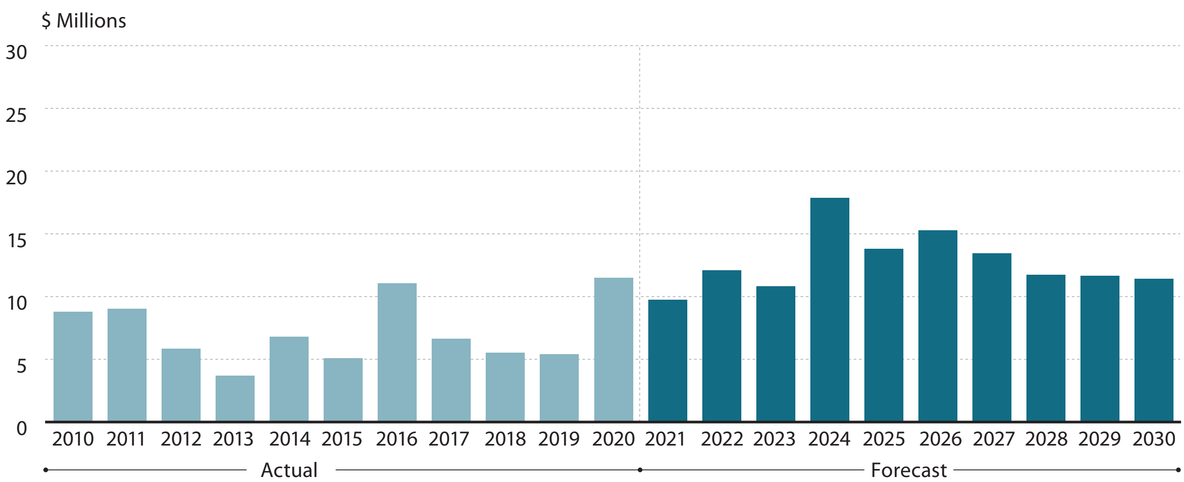
The key drivers for the network development plan are maintaining security of supply, reliability of the network and load growth. Key major upgrade projects are planned for the next few years to upgrade the Motupipi and Motueka zone substations, with both projects in the order of $6 million.

Major projects completed during the year included Appleby bypass to the Mapua substation and new Annesbrook 11kV feeder.

Key planned projects for 2020/21 include the completion of the new Wakapuaka substation, 33kV Wakapuaka cable extension, continuation of the light copper conductor replacement programme, the undergrounding of power lines running along Ellis Street, Brightwater and initial design for the upgrade of the Motupipi substation.

Key drivers for the network development plan are maintaining security of supply and reliability of the network.

Projected network capital expenditure



OPERATIONAL PERFORMANCE

Reliability performance targets

(excludes Transpower planned and unplanned outages)

		Actual Result 2020	SCI Target 2020	Actual Result 2019
Average duration of supply interruptions per connected consumer (SAIDI) not to exceed -	minutes	**185**	175	240
Average number of supply interruptions per connected consumer (SAIFI) not to exceed -	number	**1.24**	1.61	1.34
Average duration of supply interruptions (CAIDI) not to exceed -	minutes	**148**	109	179
Faults per 100 km of line not to exceed -	number	**5.04**	6.00	4.20
% faults not restored within three hours not to exceed -	%	**26%**	20%	33%

Reliability of the Network

All our customers require and need a reliable electricity supply. One of the key ways we measure our network reliability is the average duration of supply interruptions per connected consumer, measured by the SAIDI index (System Average Interruption Duration Index).

The SAIDI index was 185 minutes for the year (240 minutes for 2018/19). During the last three years our network achieved a 99.96% reliability measure.

The reliability performance targets as set down in Network Tasman's Statement of Corporate Intent, are compared in the table below with the actual results for the year.

In planning to support future regional growth, every year Network Tasman undertakes a review of its AMP. We must continually balance tension between our AMP objectives, including provision for asset renewals and growth, with our planned outage (from scheduled maintenance and capital work) and unplanned outage (from incidents outside our control – traffic accidents, storm damage) limits which are enforced by regulation.

There were no extreme weather events during the year, but unplanned outages occurred from a mix of common causes, these being car versus pole, trees felled over lines, bird strikes, broken insulators and a small number cable faults.

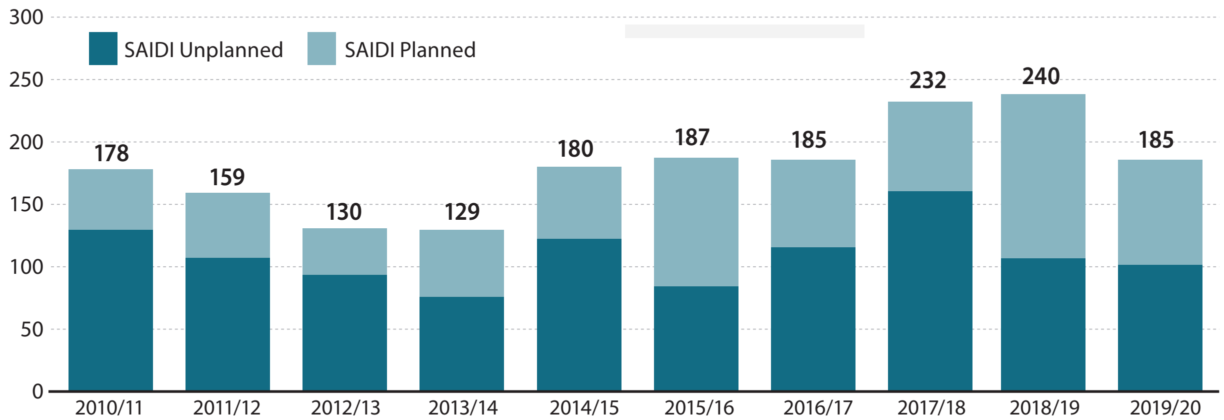
A major capital expenditure project to provide an alternative supply to the Mapua sub-station was completed in the 2019/20 financial year. This project significantly improves the reliability and security of supply to the Mapua area.

Planned SAIDI was above target for the year as a result of our ongoing light copper reconductoring renewal project on our high voltage network. This work will continue for the next eight years and we expect planned SAIDI to be around 100 minutes per annum during this period.

Our AMP takes maintenance of a reliable electricity supply into account through our planned maintenance activities including our vegetation management.

A further consideration is the way we monitor and manage our network assets as they approach the end of their life.

Measuring our SAIDI performance



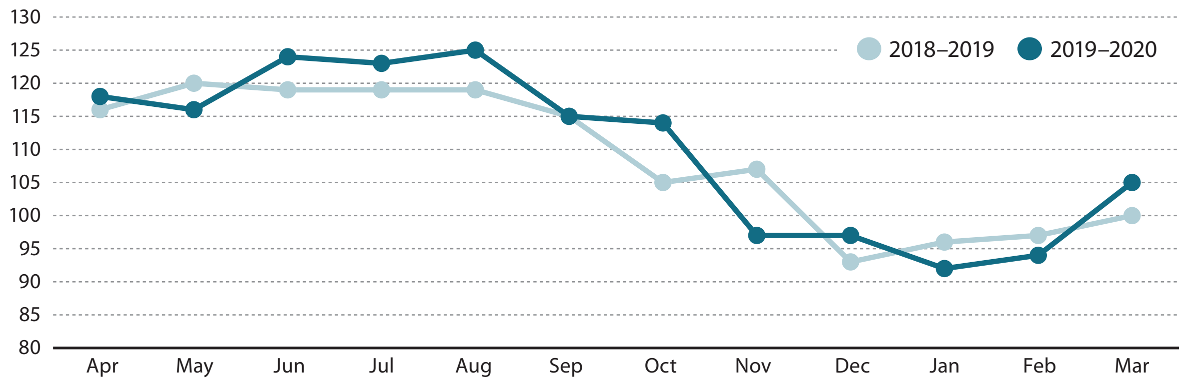
In 2014/15 Network Tasman ceased light copper live line work and purchased the Golden Bay 66KV line assets.

Network supply and demand profile

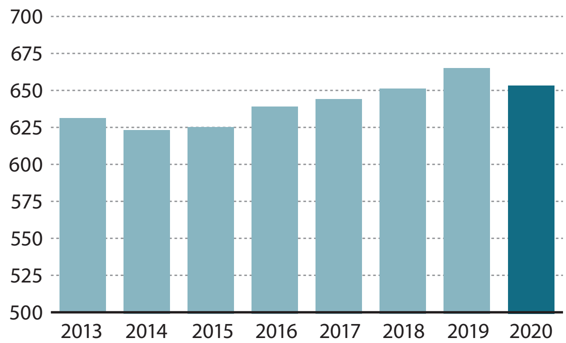
The fundamental requirement for long term network planning is a sound demand forecast.

The risks to the company's asset management programme associated with a poor demand forecast includes amongst other things; the potential for over or under investment, inability to meet demand, severely underutilised assets and the potential for significant optimisation of assets in future valuations with corresponding impacts in price movements and financial performance.

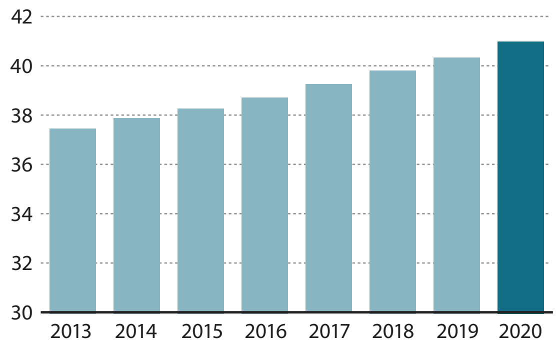
Total Monthly Max System Demand



Energy delivered to NTL's network (GWh)



Consumer connections (000's)



CAPITAL EXPENDITURE
Four major projects progressed

1 Ten year programme to replace 210kms of aging light copper conductors. These older light copper conductors are reaching the end of their useful life. The company replaced 18kms during the year and now has a total of 170kms of light copper conductor to be replaced. This project significantly increased the level of planned SAIDI during the year and will continue to impact upon our reported planned SAIDI over the period of the project.

2 Development of a new zone sub-station at Wakapuaka continued during the year. This project is to accommodate load growth in the area and with the Covid-19 shutdown impact will now be completed in mid-2020.

3 An on-going programme to replace pole-mounted transformers with pad (ground) mounted units. The company had a total of 480 pole mounted transformers and has a risk based programme to replace 24 older heavy 300kva transformers, 12 urban platform substations erected since 2001 and the 13 remaining highest access risk substations with pad mounts at an estimated cost of $4.5 million over seven years.

4 Initial design for the upgrade of the Motupipi substation. This is a multi-faceted project in that it replaces existing aged equipment that has reached end of life, it improves the security of the supply for Golden Bay through the provision of upgraded and expanded assets (n-1 security) and it provides voltage support for the 66kV network that supplies the Motueka and Golden Bay areas.

> Network Tasman has considered the impact of climate change and is taking the necessary steps to identify threats and to protect our network assets.

Regulation

As a non-exempt electricity distribution company, Network Tasman continues to be subject to price and quality regulation by the Commerce Commission.

The company's audited annual compliance statement shows that it was fully compliant with both the price and quality controls for 2019/20.

In 2019/20, Network Tasman's total line revenue was $12 million below the regulated maximum allowable revenue set by the Commission.

The allowable revenue that each regulated lines company can earn is reset every five years by the Commerce Commission with the DPP3 reset applying from 1 April 2020.

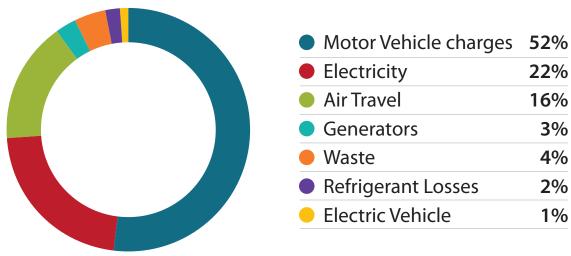
Network Tasman is also subject to regulation from the Electricity Authority. The Electricity Authority's areas of focus that are relevant for the distribution sector include:

- developing more cost-reflective distribution and transmission pricing;
- introducing a default use of system agreement across all distributors; and
- removing inefficient barriers to the development and use of evolving technologies and business models across the electricity supply chain.

The Government published the final report of its Electricity Price Review in October 2019. The review's primary focus was on consumer interests and concerns - particularly affordability, energy hardship and giving consumers more influence on the direction of the industry. Although the distribution sector undoubtedly has an influence on these matters, the report's recommendations on these issues largely related to other parts of the electricity sector. Of most relevance to Network Tasman were the recommendations to repeal the low fixed charge tariff regulations and give the Commerce Commission more power to exempt distributors from price and quality regulation.

The Government has an ongoing work programme to implement many of the report's recommendations, including the two recommendations most relevant to Network Tasman.

Our carbon footprint emissions profile



Environmental Sustainability

Network Tasman's aim is to work towards environmental sustainability in our operations.

This objective fits within our principal objective, which is to operate as a successful commercially focused business, prudently managed and financially stable.

We also have a long-term focus on the management of our assets and investments for the long-term benefit of our customers and shareholders.

The company has considered the impact of climate change, adding this to our risk register and taking the necessary steps to identify threats and to protect our network assets.

Network Tasman believes that businesses are responsible for achieving good environmental practice and operating in a sustainable manner. As such we are committed to reducing our environmental impact and continuing to improve our environmental performance as an integral and fundamental part of our business strategy and operating methods. This has been borne out over the past year as we have reduced our carbon footprint by 4.8%.

At this point in time we have not had our assessment verified by an independent auditor.

We have excluded the calculation of the electricity transmission and distribution losses (TDL) which is by far our largest emission and currently exclude our contractors' carbon footprint. Excluding the TDL emissions make the graphics above meaningful as we have virtually no control over the TDL emissions.

Our carbon footprint primarily arises from network operations (59%) and our corporate activities (41%).

Financial Statements

The directors of Network Tasman Limited (Network Tasman) are responsible for preparing the company and Group's financial statements and ensuring that they give a true and fair view of the Group's financial position as at 31 March 2020 and the results of their operations and cash flows for the year ended 31 March 2020.

The directors consider that the financial statements of Network Tasman Limited and Group have been prepared using appropriate accounting policies, which have been consistently applied and supported by reasonable judgments and estimates and that all relevant financial reporting and accounting standards have been followed.

The directors also believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of Network Tasman Limited and Group and facilitate compliance of the financial statements with New Zealand equivalents to International Financial Reporting Standards.

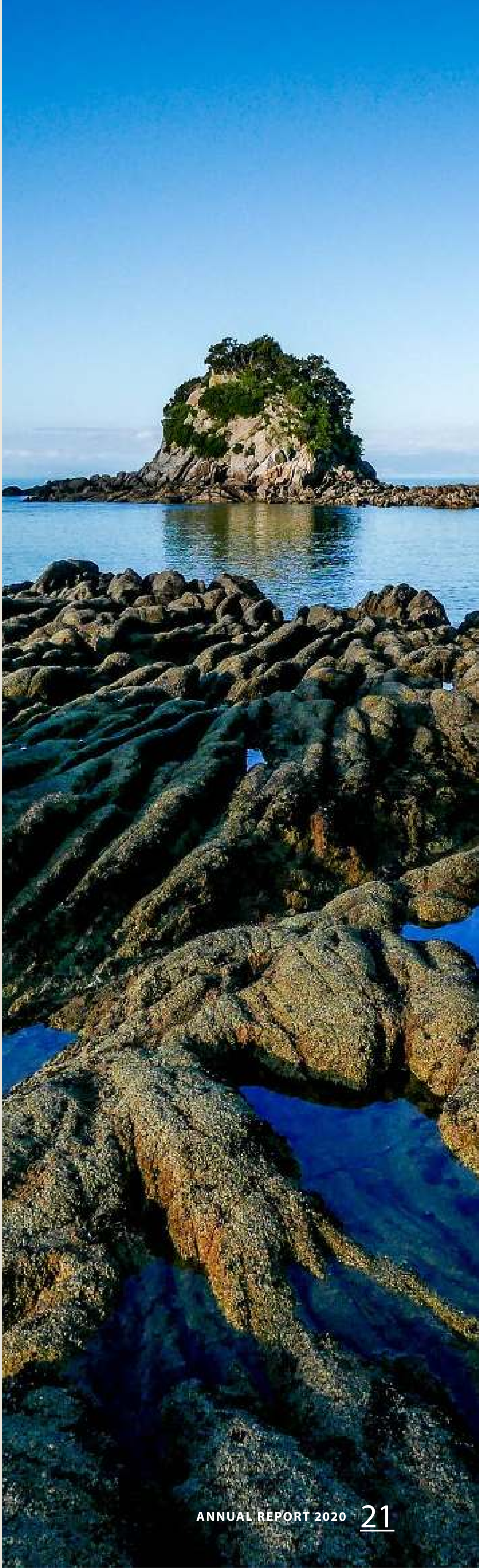
The directors are pleased to present the financial statements of Network Tasman Limited & Group for the year ended 31 March 2020.

The directors have the power to amend and reissue the financial statements.

For and on behalf of the board of directors:

MJ McCliskie
Chairman
31 July 2020

AP Reilly
Director
31 July 2020



Network Tasman Limited & Group

Statement of Comprehensive Income

For the year ended 31 March 2020

	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
Total operating revenue	2	**48,314**	51,586
Total operating expenses	3	**(37,141)**	(38,635)
Operating surplus		**11,173**	12,951
Share of surplus of associate and joint ventures	15	**954**	537
Operating surplus before income tax		**12,127**	13,488
Income tax (expense) / income	4	**(1,097)**	(3,789)
Operating surplus for the period		**11,030**	9,699
Other comprehensive income		**-**	-
Total comprehensive income		**11,030**	9,699
TOTAL COMPREHENSIVE INCOME			
Comprehensive income from continuing activities		**11,030**	9,699
Comprehensive income from discontinued activities		**-**	-
		11,030	9,699

Statement of Changes in Equity

For the year ended 31 March 2020

TOTAL EQUITY AT BEGINNING OF PERIOD	7	**202,921**	195,222
Total comprehensive income		**11,030**	9,699
OTHER MOVEMENTS			
Distributions to owners during the period	6	**(2,000)**	(2,000)
Total equity at end of period	7	**211,951**	202,921

The accompanying notes and accounting policies form part of and are to be read in conjunction with this statement.

Network Tasman Limited & Group

Balance Sheet

As at 31 March 2020

	Note	As at 31 March 2020 $000	As at 31 March 2019 $000
CURRENT ASSETS			
Cash and cash equivalents	9	**517**	2,069
Trade receivables	10	**5,063**	5,414
Other current assets	11	**867**	1,229
Loans to joint ventures	16	**3,989**	-
Total current assets		**10,436**	8,712
NON-CURRENT ASSETS			
Property, plant and equipment	12	**197,955**	190,316
Investment properties	13	**30,323**	29,459
Intangible assets	14	**404**	350
Investment in associate and joint ventures	15	**13,231**	13,327
Loans to joint ventures	16	**-**	4,239
Total non-current assets		**241,913**	237,691
Total assets		**252,349**	246,403
CURRENT LIABILITIES			
Trade and other payables	17	**10,512**	11,716
Tax payable	18	**742**	1,042
Provisions	19	**265**	255
Loans and borrowings	20	**250**	121
Total current liabilities		**11,769**	13,134
NON-CURRENT LIABILITIES			
Provisions	19	**238**	221
Loans and borrowings	20	**-**	250
Deferred taxation	21	**28,391**	29,877
Total non-current liabilities		**28,629**	30,348
EQUITY			
Attributable to shareholders of the company	7	**211,951**	202,921
Total equity		**211,951**	202,921
Total liabilities and equity		**252,349**	246,403

The accompanying notes and accounting policies form part of and are to be read in conjunction with this statement.

Network Tasman Limited & Group

Statement of Cash Flows

For the year ended 31 March 2020

	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from customers		**44,559**	52,340
Dividend income received		**1,050**	950
Interest income received		**11**	62
		45,620	53,352
Cash was applied to:			
Payments to suppliers and employees		**27,783**	29,418
Income tax paid		**2,883**	2,502
Interest expense paid		**35**	193
		30,701	32,113
Net cash flows from operating activities	23	**14,919**	21,239
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
Proceeds from sale of property, plant and equipment		**67**	61
		67	61
Cash was applied to:			
Purchase of property, plant and equipment and investment properties		**14,667**	13,472
Investment in joint ventures		**(250)**	(500)
		14,417	12,972
Net cash flows from investing activities		**(14,350)**	(12,911)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was applied to:			
Term loans	20	**-**	5,750
Dividends paid		**2,000**	2,000
Lease repayments	20	**121**	120
		2,121	7,870
Net cash flows from financing activities	24	**(2,121)**	(7,870)
NET INCREASE (DECREASE) IN CASH HELD		**(1,552)**	458
Cash balances at beginning of period		**2,069**	1,611
Cash balances at end of period		**517**	2,069
COMPOSITION OF CASH BALANCES AT END OF YEAR			
Cash on hand and at bank		**90**	106
Cash equivalents - term deposits		**427**	1,963
Total	9	**517**	2,069

The accompanying notes and accounting policies form part of and are to be read in conjunction with this statement.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

1. STATEMENT OF ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The reporting entity is Network Tasman Limited and Group. Network Tasman Limited is a profit-oriented company registered under the Companies Act 1993 and its financial statements comply with section 44 of the Energy Companies Act 1992. The financial statements are for Network Tasman Limited and its interest in associate and joint venture entities (Nelson Electricity Limited and On Metering Limited) and wholly-owned non-trading subsidiary company Tasman Energy Limited, are referred to as "The Group".

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable financial reporting standards as appropriate for for-profit entities. Network Tasman Limited and Group is a tier 1 entity.

BASIS OF PREPARATION

These financial statements are presented in New Zealand dollars, which is the Group's functional and presentation currency, rounded to the nearest thousand dollars ($'000) unless otherwise stated. The financial statements have been prepared on the basis of historical cost with the exception of some distribution system assets and investment properties, which have been measured at fair value. Cost is based on the fair value of the consideration given in exchange for assets.

Transactions in foreign currencies are translated at the foreign exchange rate ruling on the day of the transaction. Foreign currency monetary items at balance date are translated at the exchange rate ruling at that date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates ruling at the date when the fair value was determined. Exchange differences are recognised in the operating surplus in the period in which they arise.

The Statement of Comprehensive Income and Statement of Cash Flows have been prepared so that all components are stated exclusive of GST. All components in the Balance Sheet are stated net of GST except for receivables and payables which are stated inclusive of GST.

The financial statements comprise a Statement of Comprehensive Income, Balance Sheet, Statement of Cash Flows, Statement of Changes in Equity and notes to these statements.

STATUTORY BASE

The financial statements have been prepared in accordance with the requirements of the Energy Companies Act 1992 and New Zealand equivalents to International Financial Reporting Standards.

HISTORICAL COST CONVENTION

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, financial assets and liabilities, certain classes of property, plant and equipment, which have been included at fair value through the Statement of Comprehensive Income.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the notes to the financial statements.

NEW AND AMENDED STANDARDS ADOPTED BY THE COMPANY

The company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 April 2019

i) NZ IFRS 16 Leases

This standard replaces NZ IAS 17 Leases, and removes the distinction between operating and finance leases. Except for low value and short-term leases, right-of-use assets and the corresponding lease liabilities are shown on the balance sheet.

Impact of adoption

Previously identified finance leases have been fully repaid during the year ending 31 March 2020, and therefore as at the 31 March 2020, these showed at zero value. Their treatment has been in accordance with NZ IFRS 16.

The company has reviewed the requirements of NZ IFRS 16. There are no low value leases, and for short-term leases, Network Tasman has elected to use the practical expedient outlined in C10(c) of NZ IFRS 16 in accounting for short-term leases. Network Tasman has also applied the practical expedient outlined in C3 of NZ IFRS 16 in accounting for previously identified leases applying NZ IAS 17.

NEW STANDARDS ISSUED BUT NOT YET EFFECTIVE

A number of new standards and interpretations have been issued but are not yet effective for the current year-end. The reported results and financial position of the Group is not expected to change on adoption of these pronouncements as they do not result in any changes to the Group's existing accounting policies. Adoption may result in changes to information currently disclosed in the financial statements.

SUMMARY OF KEY ACCOUNTING POLICIES

Key accounting policies have been adopted in preparation and presentation of the financial statements and can be found in the specific note to which the policy applies.

Estimates and underlying assumptions are regularly reviewed. Any change to estimates is recognised in the period if the change affects only that period, or into future periods if it also affects future periods.

These accounting policies have been applied consistently to all years presented unless otherwise stated.

Other than the above, there have been no changes in accounting policies and disclosures.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

2. OPERATING REVENUE	Note	**12 months 31 March 2020 $000**	12 months 31 March 2019 $000
CONTINUING ACTIVITIES			
Revenue from contracts with customers		**42,147**	44,985
Revenue from property rental		**1,951**	1,894
Vested assets		**2,594**	2,883
Interest income		**11**	62
Increase in fair value of investment properties	13	**665**	1,243
Change in fair value of loan to joint venture		**-**	144
Gain on sale of assets		**2**	2
Depreciation Recovered		**-**	11
Other revenue		**944**	363
Total operating revenue from continuing activities		**48,314**	51,586
REVENUE FROM CONTRACTS WITH CUSTOMERS			
Distribution network revenue		**35,260**	37,571
Technology networks revenue		**5,738**	5,923
Connection fees and levies		**375**	511
Customer contributions		**271**	519
Management fees		**195**	192
Sundry income		**308**	269
		42,147	44,985

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

2. OPERATING REVENUE (cont')

ACCOUNTING POLICY

REVENUE

Due to time between performing the service and payment being less than one year, Network Tasman has not made any adjustment for financing costs.

Distribution network revenue

Network Tasman provides electricity distribution services to electricity retailers and a small number of directly contracted customers based on both a variable (units consumed) and fixed (daily or capacity charge) component. Therefore, there is a single performance obligation. Electricity distribution services are performed on a daily basis and considered as a series of distinct services provided over time. Revenue is recognised as electricity is provided, reduced for an estimated discount based on usage. This method meets the requirements of NZ IFRS 15 in that the performance obligation is satisfied over time, as the services are delivered on a daily basis. Revenue is recognised over time using an output method. Network Tasman applies the practical expedient in NZ IFRS 15 para. B16 which enables the company to recognise revenue in the amount to which the entity has a right to invoice. This is because Network Tasman has a right to consideration from the customer in an amount that corresponds directly with the value to the customer of the company's performance. Customers are invoiced monthly and payment is due in the month following invoice. Discounts are considered variable consideration, which is constrained because Network Tasman has a practice of providing discounts on a biannual basis. Therefore, the amount of revenue recognised is reduced for an accrual for the expected discount to be applied based on usage.

Technology networks revenue

The technology networks revenue relates to the provision of access to Network Tasman's telecommunication and metering networks. Telecommunication customers are provided with fibre optic services and the metering customers are provided with their customers' remote meter reading data. Therefore, each contract contains a single performance obligation. These services are performed on a daily basis and considered as a series of distinct services provided over time. Retail telecommunications and electricity providers gain access as the benefit, and then consume that benefit by earning revenue from the end user for data or electricity. They are invoiced at fixed rates on a monthly basis. Network Tasman recognises revenue over time based on the output method. Network Tasman applies the practical expedient in NZ IFRS 15 para. B16 which enables the company to recognise revenue in the amount to which the entity has a right to invoice. This is because Network Tasman has a right to consideration from the customer in an amount that corresponds directly with the value to the customer of the company's performance. The transaction price includes a variable component relating to service credits and liquidated damages that may be payable by Network Tasman if the company fails to meet contractual levels of service. As it is not probable that Network Tasman will be required to pay these amounts, no adjustment to revenue is required.

Connection fees and levies

Customer connection fees and levies are set out in Network Tasman's Connection of New Loads to the Distribution Network policy. Performance obligations are satisfied at a point in time. Network Tasman recognises this revenue when the connections are livened.

Capital contributions

Capital contributions are cash payments from customers towards the cost of new connections and network extensions. The performance obligation is satisfied at a point in time when the asset is connected to the electricity, telecommunication or metering network. At this point, the revenue is recognised in an amount equal to the payment received from the customer. Amounts received in advance are treated as a liability until the connection or network extension is live and operational.

Management fees

Management fees are charged for financial and engineering services. The performance obligation is recognised over time mirroring the revenue received.

Sundry income

Sundry income includes amounts for direct on-charges of costs and charges for services. These typically are small charges. Performance obligations are satisfied at a point in time. Revenue is recognised at that point in time.

Revenue from property rental

The income from leases is recognised as it accrues.

Vested Assets

The Group acquires certain distribution assets for less than their replacement cost. Such assets are recognised at fair value and the fair value is recognised as revenue in the year of acquisition.

Investment income

Interest income is recognised as it accrues. Dividend income is recognised on the date that the dividend is declared.

Change in fair value of investment properties

The increase or decrease arising from the investment property valuation is recognised in the surplus / deficit

KEY JUDGEMENT

Network Tasman invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of metered usage figures provided by those retailers. Network Tasman is entirely reliant upon the accuracy of the monthly metered data supplied by the retailers. With the majority of customers on advanced meters, the reliance on estimates has reduced. Estimates are inherent in this data, however any inaccuracies in the estimates are corrected in subsequent months when read data becomes available. All meters are read at least once a year.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

	Note	**12 months 31 March 2020 $000**	12 months 31 March 2019 $000
3. OPERATING EXPENSES			
Operating expenses include:			
Gross transmission costs		**12,531**	14,912
Operation & Maintenance		**6,737**	6,479
DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT AND AMORTISATION OF INTANGIBLE ASSETS			
Distribution network		**5,703**	5,721
Technology networks		**2,412**	2,408
Land & buildings		**182**	277
Plant & equipment		**168**	66
Computer equipment		**296**	244
Assets leased from Transpower		**95**	97
Intangible assets		**229**	152
Total depreciation of property, plant and equipment and amortisation of intangible assets		**9,085**	8,965
AUDITORS' FEES			
Audit fee - Network Tasman Ltd		**69**	57
Other assurance services - Audit New Zealand		**60**	35
Other assurance services comprise an independent assurance report on the company's regulatory disclosure in accordance with the Electricity (Information Disclosure) Requirements 2008 and the default price - quality path compliance statement.			
COSTS OF OFFERING CREDIT			
Bad debts written off		**89**	26
INTEREST EXPENSE			
Interest on leases	20	**-**	7
Other interest paid		**35**	184
OTHER EXPENSES			
Directors' fees		**242**	245
Donations		**7**	18
Employment costs		**3,973**	3,653
Loss on disposal of assets		**156**	498
Short term leases	20	**6**	-
Other expenses		**4,151**	3,556
Total expenses from continuing activities		**37,141**	38,635

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
4. INCOME TAX			
Operating surplus before income tax		**12,127**	13,488
Prima facie taxation at 28%		**3,396**	3,777
PLUS / (LESS) TAXATION EFFECT OF:			
Non-taxable customer contributions		**(675)**	(890)
Depreciation		**352**	482
Equity accounted earnings from associate and joint ventures		**(267)**	(149)
Change in fair value of investment properties		**(186)**	(367)
Change in fair value of loans to joint venture		**-**	11
Movement in deferred tax		**(1,486)**	982
Other adjustments		**(37)**	(57)
		(2,299)	12
Under/(Over) provision from prior years			-
Income tax expense recognised in statement of financial performance		**1,097**	3,789
Comprising:			
Current tax liability		**2,583**	2,807
Deferred tax on temporary differences	21	**(1,486)**	982
		1,097	3,789

ACCOUNTING POLICY

TAXATION

Income tax expense comprises both current tax and deferred tax, and is calculated using tax rates that have been enacted or substantively enacted by balance date.

Current tax is the amount of income tax payable based on the taxable profit for the current year and any adjustments to income tax payable in respect of prior years.

Current and deferred tax are recognised as an expense or income in the Statement of Comprehensive Income, except where they relate to items that are recognised outside Statement of Comprehensive Income (whether in other comprehensive income or directly in equity) in which case the tax is also recognised outside Statement of Comprehensive Income.

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 statements and the corresponding tax bases used in the calculation 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 differences or tax losses can be utilised.

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 recognised, using tax rates that have been enacted or substantially enacted by balance date.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
5. IMPUTATION CREDIT ACCOUNT			
Imputation credits available for use in subsequent reporting periods		**24,606**	22,392
6. DIVIDENDS			
Dividends during the period:			
Dividends paid (3.497 cents per share)		**2,000**	2,000
Total dividends paid		**2,000**	2,000
7. EQUITY			
Issued and paid up capital		**57,185**	57,185
Share premium reserve		**1,938**	1,938
Retained earnings	8	**152,828**	143,798
Total equity		**211,951**	202,921
ISSUED AND PAID UP CAPITAL			
Balance at beginning of period		**57,185**	57,185
Balance at end of period		**57,185**	57,185

All shares are $1 shares and are fully paid. There is no uncalled capital. All shares carry equal voting rights. None of the shares carry fixed dividend rights.

SHARE PREMIUM RESERVE			
Balance at beginning of period		**1,938**	1,938
Premium paid during year		**-**	-
Balance at end of period		**1,938**	1,938

The share premium reserve was created on 1 May 1993, recognising the difference between the share capital issues and the closing value of corporate ownership of the Tasman Electric Power Board at 30 April 1993.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
8. RETAINED EARNINGS			
Balance at beginning of period		**143,798**	136,099
Operating surplus for the period		**11,030**	9,699
Total available for appropriation		**154,828**	145,798
Dividends paid	6	**(2,000)**	(2,000)
Balance at end of period		**152,828**	143,798

9. CASH AND EQUIVALENTS			
Cash on hand and at bank		**90**	106
On call deposits		**427**	1,963
Total cash and equivalents		**517**	2,069

The carrying value of on call deposits approximates their fair value. The on call deposits are with the Bank of New Zealand and their Standard & Poor's ratings is AA-. The interest rate on this investment is 0.1% (31 March 2019: 1.55%).

ACCOUNTING POLICY

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with banks and investments in money market instruments with maturities of three months or less at their inception.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
10. TRADE RECEIVABLES			
Current			
Trade receivables		**5,078**	5,429
Less loss allowance		**(15)**	(15)
Total current receivables		**5,063**	5,414

The carrying value of receivables approximates their fair value. As at 31 March 2020 and 31 March 2019 the trade receivables have been assessed for expected credit losses. See the calculation in note 26.

ACCOUNTING POLICY

RECEIVABLES

Receivables are initially measured at fair value and subsequently measured at amortised cost using effective interest method, less any loss allowance.

Impairment

Where an indicator of impairment exists either at an individual asset or at the cash generating unit level, the fair value of the asset will be determined by assessing the recoverable amount of the individual asset or the cash generating unit.

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. An impairment loss for a non-revalued asset is recognised in the operating surplus for the year.

The carrying amounts of the Group's assets, other than inventory, investment property and deferred tax assets 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 from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amounts are the higher of fair value (less costs to sell) and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects 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.

Equity instruments are deemed to be impaired whenever there is a significant or prolonged decline in fair value below the original purchase price. Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through the operating surplus.

KEY JUDGEMENT

Judgement is exercised in choosing the levels of loss allowance and assessing the factors impacting recoverability.

	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
11. OTHER CURRENT ASSETS			
Sundry receivables		**369**	729
Prepayments		**498**	500
		867	1,229

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

12. PROPERTY, PLANT AND EQUIPMENT

	Electricity distribution network	Technology networks	Land & buildings	Plant and equipment	Computer equipment	Right-of-use assets	Assets under construction	Total assets
	$000	$000	$000	$000	$000	$000	$000	$000
COST OR VALUATION								
Balance at 31 March 2018	213,551	33,000	11,174	1,492	1,530	2,823	4,313	267,883
Additions / adjustments	8,621	2,197	334	223	304	-	2,933	14,612
Disposals	(183)	(18)	(3)	(44)	(47)	-	-	(295)
Balance at 31 March 2019	**221,989**	**35,179**	**11,505**	**1,671**	**1,787**	**2,823**	**7,246**	**282,200**
Balance at 1 April 2019	221,989	35,179	11,505	1,671	1,787	2,823	7,246	282,200
Additions / adjustments	12,531	2,728	1,346	75	279	-	(238)	16,721
Disposals	(220)	(60)	(22)	(23)	(15)	-	-	(340)
Balance at 31 March 2020	**234,300**	**37,847**	**12,829**	**1,723**	**2,051**	**2,823**	**7,008**	**298,581**
ACCUMULATED DEPRECIATION								
Balance at 31 March 2018	66,154	10,910	1,859	814	867	2,631	-	83,235
Depreciation expense	5,721	2,408	275	66	244	97	-	8,811
Elimination on disposal	(71)	(5)	(2)	(39)	(45)	-	-	(162)
Balance at 31 March 2019	**71,804**	**13,313**	**2,132**	**841**	**1,066**	**2,728**	**-**	**91,884**
Balance at 1 April 2019	71,804	13,313	2,132	841	1,066	2,728	-	91,884
Depreciation expense	5,703	2,412	179	168	296	95	-	8,853
Elimination on disposal	(79)	(1)	-	(16)	(15)	-	-	(111)
Balance at 31 March 2020	**77,428**	**15,724**	**2,311**	**993**	**1,347**	**2,823**	**-**	**100,626**
CARRYING AMOUNTS								
As at 31 March 2019	**150,185**	**21,866**	**9,373**	**830**	**721**	**95**	**7,246**	**190,316**
As at 31 March 2020	**156,872**	**22,123**	**10,518**	**730**	**704**	**-**	**7,008**	**197,955**

VALUATION INFORMATION

The company elected to use the deemed cost approach on adoption of NZ IFRS, in accordance with NZ IFRS1. This approach has used the fair value determined for each asset category at its most recent valuation and then adjusted for subsequent additions at cost. Distribution assets are valued at deemed cost based upon an independent valuation completed by PricewaterhouseCoopers as at 31 March 2004

There are no restrictions over the title of the property, plant and equipment, except for the assets leased from Transpower, nor are any items of property, plant and equipment pledged as security for liabilities.

IMPAIRMENT

The company has reviewed the value of property, plant and equipment and consider the carrying value is appropriate and no impairment is required. In assessing the need for an impairment the following was considered.

i. The carrying value of electricity distribution network is 97% of its regulatory value. The regulatory value determines the allowable returns and is therefore an appropriate measure of value. Discounted cashflow calculation was also performed on the electricity distribution network using a post tax WACC of 5% resulting in a value immaterially different to the carrying value at 31 March 2020. A sensitivity analysis on the discounted cashflow calculation indicates that a 0.5% change in WACC would result in a $7.0 million increase or a $7.3 million decrease in the fair value. This sensitivity analysis covers any potential impact of COVID-19. The revenue forecast is based on pricing to the regulatory revenue cap.

ii. Two discounted cashflow calculations were prepared to estimate the value of the technology networks, which comprise the fibre and metering cash generating units. The weighted average post tax WACC rate for the two valuations is 6.63%, and with a sensitivity from this rate of 0.5%, the estimated valuation is $27 - $28 million. The revenue forecast is based on the contracted income and market driven sales.

Network Tasman Limited & Group

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For the year ended 31 March 2020

12. PROPERTY, PLANT AND EQUIPMENT (cont')

ACCOUNTING POLICY

PROPERTY, PLANT AND EQUIPMENT

Initial recording

All owned items of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price plus any other costs directly attributable to bringing the item to working condition for its intended use. Donated assets are recorded at fair value.

Distribution system assets are stated at deemed cost based upon an independent valuation completed by PricewaterhouseCoopers as at 31 March 2004, except for vested assets that are recognised at fair value. Other property, plant and equipment, computer equipment and motor vehicles are recorded at cost.

Asset components

When the components of an item of property, plant and equipment have different useful lives, the cost of the item is allocated to its components and each component is accounted for separately in accordance with the company's Asset Management Plan (AMP).

Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale will be capitalised to the cost of that asset. Once an asset is put into productive use capitalisation of borrowing costs will cease.

All other borrowing costs will be recognised as an expense in the period in which they are incurred.

Subsequent expenditure

Subsequent expenditure relating to an item of property, plant and equipment is capitalised when it is probable that the expenditure increases the economic benefits over the total life of the item beyond those most recently assessed in determining the basis of the item's carrying amount.

Disposal of property, plant and equipment

Where an item of property, plant and equipment is disposed of any gains or losses are reported in the operating surplus. An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the operating surplus in the year the item is de-recognised.

Depreciation

Depreciation of property, plant and equipment is calculated so as to expense the cost of the assets, less any residual value, over the assets' useful lives. The depreciation methods and depreciation rates used are as follows:

Asset class	Depreciation method	Depreciation rates
Distribution networks	Straight line	1.33% - 33.33%
Buildings	Straight line / Diminishing value	2% - 20%
Meters	Diminishing value	13% - 25%
Plant and equipment	Diminishing value	20%
Motor vehicles	Diminishing value	20%
Computer equipment	Diminishing value	48%

These rates may vary from those allowed for taxation purposes.

The depreciation rates on distribution system assets in existence at the time of the previous revaluation (31 March 2004) are based on the assessed residual lives as determined in the calculation of the Optimised Depreciated Replacement Cost (ODRC).

New distribution assets (as from 1 April 2004) were assessed based on the standard useful lives as contained in the Handbook for Optimised Deprival Valuation of System Fixed Assets of Electricity Line Businesses as issued by the Commerce Commission and dated 30 August 2004. Pole structures, which have a physical life well in excess of the standard useful lives, were assessed by the company's qualified engineers.

Assets under construction

Assets under construction are not depreciated. The total cost of a project is transferred to the relevant asset class on its completion and then depreciated.

Fair value measurement

The Group measures financial instruments, such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers

Network Tasman Limited & Group

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For the year ended 31 March 2020

12. PROPERTY, PLANT AND EQUIPMENT (cont')

ACCOUNTING POLICY

have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Right-of-use assets

Right-of-use assets are included in property, plant and equipment on the balance sheet. Right-of-use assets relate to assets constructed at Transpower NZ Limited's grid exit points. The corresponding lease liabiltiy is outlined in note 20(c).

KEY JUDGEMENT

Significant judgement is exercised in assessing potential indicators of impairment and carrying out any required impairment tests. This includes that choice of WACC rate and forecasts. No impairments have been recognised in the current year.

	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
13. INVESTMENT PROPERTIES			
Movement in investment properties			
Opening balance		**29,459**	27,157
Plus additions		**150**	1,388
Depreciation expense		**(3)**	(2)
Plus / (less) fair value gain / (loss) on valuation		**665**	1,243
Plus increase / (decrease) in assets under construction		**52**	58
Less disposals		**-**	(385)
Closing balance		**30,323**	29,459
Investment properties are represented by:			
Land		**12,326**	11,902
Buildings		**17,887**	17,499
Assets under construction Investment		**110**	58
Total investment properties		**30,323**	29,459

VALUATION INFORMATION

The Group's investment properties primarily consist of two commercial properties in the Richmond area. 281 Queen Street is a mixed commercial and office development that has been substantially strengthened and refurbished. The other property is an industrial sub-division at 24 Main Road Hope. The Hope property's main tenants are Farmlands Limited, Delta Utilities Limited (the company's main network contractor) and vacant land scheduled for development. The Group has no restrictions on the realisability of its investment properties.

Investment properties were valued by M W Lauchlan FNZIV, FPINZ, AREINZ, an independent registered valuer of Duke & Cooke Limited as at 31 March 2020. The valuation was based on fair value. Assets under construction have been valued at cost. In determining fair value, using the capitalisation of net income method, Mr Lauchlan used significant unobservable inputs (level 3 as defined by NZ IFRS 13). This method is based upon assumptions including future rental income and appropriate discount rates.

Network Tasman Limited & Group

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For the year ended 31 March 2020

13. INVESTMENT PROPERTIES (cont')

Reconciliation of Fair Value	Office / commercial $000	Industrial $000	Other $000	12 months 31 March 2020 $000	12 months 31 March 2019 $000
Opening balance	14,606	13,867	986	29,459	27,157
Additions	23	106	21	150	1,388
Disposals	-	-	-	-	(385)
Depreciation expense	(2)	(1)	-	(3)	(2)
Change in use	(2)	(5)	7	-	-
Plus increase / (decrease) in assets under construction	-	48	4	52	58
Change in fair value	612	(14)	67	665	1,243
Closing Balance	**15,237**	**14,001**	**1,085**	**30,323**	**29,459**

The valuation of commercial or industrial property is generally from two main approaches. First, the cost approach being a summation of the land value and depreciated value of all buildings and site improvements, and the second, the income capitalisation approach which involves establishing the net maintainable income which the property can produce and then capitalising this at an appropriate rate of return.

In many cases, there can be a significant difference between the two methods for the same property. With properties traded for investment reasons the ultimate market value adopted is generally arrived at by the income capitalisation approach. The cost approach provides a guide to value and is most appropriately used when dealing with properties which are so specialised in their design that there is little or no comparable open market sales evidence.

Adequate market evidence exists for the assessment of the fair value of these properties by the income capitalisation approach.

Residential property is valued using a statistical analysis of recent sales and comparison with Rating Valuation data.

Bare land is valued using a direct sales comparison approach, reflecting the future development potential of the land.

Three investment properties are valued using an income capitalisation valuation method. Capitalisation rates range from 6.75% - 7.5% with weighted average lease terms of 1.3 years – 3.5 years. A 0.25% reduction in the capitalisation rate increases the fair value of the properties by $900,000, and an 0.25% increase in the capitalisation rate decreases the fair value of the properties by $837,000.

The Valuer reported that the real estate market that the investment properties are transacted in is being impacted by the uncertainty that the COVID-19 outbreak has caused. The landscape and market conditions are changing daily at present. As at the date of valuation the Valuer considered that there is a significant market uncertainty. The discount rates applied to the properties valued, based on an income capitalisation approach, have been increased to factor the impact of COVID-19. The valuations are 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 at the date of valuation).

ACCOUNTING POLICY

INVESTMENT PROPERTIES

Investment properties are measured at cost including transaction costs. Subsequent to initial recognition investment properties are stated at fair value.

Gains or losses arising from changes in the fair values of investment properties are recognised in the operating surplus in the year in which they arise. Valuations are determined on an annual basis by independent registered valuers, Duke & Cooke Limited.

KEY JUDGEMENT

The valuation of investment properties is undertaken by an independent registered valuer. This valuation involves the use of judgement, estimations and assumptions.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
14. INTANGIBLE ASSETS			
Movement in intangible assets			
Opening balance		**350**	254
Plus additions		**283**	248
Less amortisation		**(229)**	(152)
Closing balance		**404**	350

Intangible assets are represented by:

	At cost $000	Accum. amortisation $000	Carrying amount $000
Intangible assets - 31 March 2020			
Computer software	2,494	2,090	404
Total Intangible assets	**2,494**	**2,090**	**404**
Intangible assets - 31 March 2019			
Computer software	2,210	1,860	350
Total Intangible assets	2,210	1,860	350

There are no restrictions over the title of the intangible assets, nor are any intangible assets pledged as security for liabilities.

ACCOUNTING POLICY

INTANGIBLE ASSETS

Computer Software

Computer software is separately acquired and capitalised at its cost as at the date of acquisition. After initial recognition, separately acquired intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Where the computer software has a defined life, it is amortised on a straight line basis over its life. Where the computer software does not have a defined life the associated amortisation rate has been estimated as 48% diminishing value.

Amortisation begins when the asset is available for use and ceases at the date that the asset is de-recognised. The amortisation charge for each year is recognised in the operating surplus.

KEY JUDGEMENT

Significant judgement is exercised in assessing potential indicators of impairment and carrying out any required impairment tests. No impairments have been recognised in the current year.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

		Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
15. INVESTMENT IN ASSOCIATE AND JOINT VENTURES				
Name of entity	**Activity**			
Nelson Electricity Limited	Distribution network owner & operator		**11,785**	11,676
Ownership interest			**50%**	50%
Nelson Electricity Limited is incorporated in New Zealand, and has a balance date of 31 March.				
Results of associate				
Share of surplus before income tax			**1,611**	1,421
Movement in NEL deferred tax			**(29)**	(31)
Income tax			**(423)**	(365)
Share of comprehensive income			**1,159**	1,025
Total recognised revenues and expenses			**1,159**	1,025
Carrying value of associate				
Opening balance at beginning of period			**11,676**	11,601
Share of comprehensive income			**1,159**	1,025
Dividends received			**(1,050)**	(950)
Closing balance at end of period			**11,785**	11,676

Summarised financial information of associate

Nelson Electricity Limited applied NZ IFRS's reduced disclosure regime from 1 April 2015. It has a different accounting policy for property, plant and equipment, continuing to revalue rather than adopting deemed cost.

The following is a summary of Network Tasman Limited's share of Nelson Electricity Limited's financial information adjusted to be prepared on the same basis as Network Tasman Limited financial statements.

	2020	2019
Assets	**18,393**	18,250
Liabilities	**6,607**	6,575
Revenues	**4,945**	5,099
Surplus / (deficit)	**1,159**	1,025

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

		Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
15. INVESTMENT IN ASSOCIATE AND JOINT VENTURES (cont')				
Name of entity	**Activity**			
On Metering Limited	Meter deployment company		**1,187**	1,392
Ownership interest			**50%**	50%
On Metering Limited is incorporated in New Zealand, and has a balance date of 31 March. On Metering Limited applied NZ IFRS's reduced disclosure regime.				
Results of joint venture				
Share of surplus before income tax			**(70)**	(236)
Recognition of previous years losses			**-**	(277)
Correction of prior period error			**(135)**	-
Movement in deferred tax			**(2)**	(1)
Income tax			**2**	26
Share of comprehensive income / (loss)			**(205)**	(488)
Total recognised revenues and expenses			**(205)**	(488)
Carrying value of joint venture				
Opening balance at beginning of period			**1,392**	1,880
Share of comprehensive income			**(205)**	(488)
Closing balance at end of period			**1,187**	1,392
On Metering loss is equity accounted.				
Summarised financial information of joint venture The following is a summary of Network Tasman Limited's share of On Metering Limited's financial information.				
Assets			**5,321**	5,638
Liabilities			**4,134**	4,246
Revenues			**1,095**	980
Surplus / (deficit)			**(205)**	(488)

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

15. INVESTMENT IN ASSOCIATE AND JOINT VENTURES (cont')

	Activity	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
Name of entity	**Activity**			
SmartCo Limited	Meter deployment company			
Ownership interest			**14%**	14%
SmartCo Limited is incorporated in New Zealand, and has a balance date of 31 March. SmartCo Limited applied NZ IFRS's reduced disclosure regime.				
Results of associate				
Share of surplus before income tax			**2**	1
Movement in deferred tax			**-**	-
Income tax			**(2)**	(1)
Share of comprehensive income			**-**	-
Total recognised revenues and expenses			**-**	-
Carrying value of associate				
Opening balance at beginning of period			**259**	259
Share of comprehensive income			**-**	-
Dividends received			**-**	-
Closing balance at end of period			**259**	259
Summarised financial information of associate The following is a summary of Network Tasman Limited's share of SmartCo Limited's financial information.				
Assets			**606**	520
Liabilities			**425**	340
Revenues			**2,414**	2,260
Surplus / (deficit)			**-**	-
Total carrying value of associates and joint ventures				
Nelson Electricity Limited			**11,785**	11,676
On Metering Limited			**1,187**	1,392
SmartCo Limited			**259**	259
Total			**13,231**	13,327

Impairment

An impairment assessment for Nelson Electricity Limited and On Metering Limited has been completed with no impairment identified.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

15. INVESTMENT IN ASSOCIATE AND JOINT VENTURES (cont')

ACCOUNTING POLICY

INVESTMENT IN ASSOCIATES AND JOINT VENTURES

Associate and joint venture companies are accounted for using the equity method.

On initial recognition the investment in associates and joint ventures is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

If an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further losses.

16. LOANS TO JOINT VENTURES

	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
Loan to On Metering Limited		**3,989**	4,239
Total loans to joint ventures		**3,989**	4,239
On Metering Limited			
Opening balance		**4,239**	4,595
Less repayments		**(250)**	(500)
Change in fair value		**-**	144
Closing balance at end of period		**3,989**	4,239
Total loans to joint ventures		**3,989**	4,239

On the 27 March 2020 the loan changed to repayable on demand. The principal amount of the loan of $5.975 million reduced to its accounting carrying value of $4.239 million.

ACCOUNTING POLICY

With the loan repayable on demand, it is measured at amortised cost. Prior to 27 March 2020, the loan was measured at fair value through the profit or loss.

17. TRADE AND OTHER PAYABLES

Current			
Trade payables and accruals		**10,512**	11,716
Total current payables and accruals		**10,512**	11,716

Trade payables are non-interest bearing and are normally settled on 30 day terms, therefore the carrying value of trade payables approximate their fair value.

ACCOUNTING POLICY

TRADE AND OTHER PAYABLES

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

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
18. TAX PAYABLE			
Current			
Tax Payable		**742**	1,042
Total tax payable		**742**	1,042
19. PROVISIONS			
Current			
Employee entitlements		**265**	255
Total current provisions		**265**	255
Non-current			
Employee entitlements		**238**	221
Total non-current provisions		**238**	221
Total Provisions		**503**	476
Provision for employee entitlements			
Balance at beginning of period		**476**	484
Additional provisions made		**356**	308
Amount utilised		**(329)**	(316)
Balance at end of period		**503**	476

The provision for employee entitlements relates to employee benefits such as accrued annual leave, long service leave and sick leave.

ACCOUNTING POLICY

EMPLOYEE ENTITLEMENTS

Employee entitlements include annual leave, a provision for sick leave entitlement and long service leave. Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months, such as long service leave, are measured at the full value of the estimated future cash outflows to be made by the Group taking into account the years of service, years of entitlement and the likelihood staff will reach the point of entitlement.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

20. LOANS AND BORROWINGS

	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
Current			
Secured bank loans		**250**	-
Lease liabilities		**-**	121
Total current loans and borrowings		**250**	121
Non-current			
Secured bank loans		**-**	250
Lease liabilities		**-**	-
Total non- current loans and borrowings		**-**	250
Total loans and borrowings		**250**	371

All financial liabilities are classified as financial liabilities measured at amortised cost.

(a) TERMS AND DEBT REPAYMENT SCHEDULE

The terms and conditions of outstanding loans were as follows:

	Facility Expiry	Interest Rate	Year of Maturity	March 2020 $000	March 2019 $000
Bank of New Zealand Limited - Secured	29 Sep 2020	2.31%	2020	250	250
				250	**250**

(b) SECURITY

Bank of New Zealand Limited

The bank loans are secured over a Negative Pledge Agreement where Network Tasman Limited undertakes not to dispose of, encumber or grant a security interest in any asset of the company without written permission from the Bank.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

20. LOANS AND BORROWINGS (cont')

(c) LEASE LIABILITY

	Total Liability		Principal	
	March 2020 $000	March 2019 $000	**March 2020 $000**	March 2019 $000
No later than one year	-	125	-	121
Later than one year and not later than five years	-	-	-	-
Later than five years	-	-	-	-
Minimum lease payments	-	125	-	121
Less future finance charges	-	4		
Present Value of Minimum Lease Payments	-	121	-	121
Included in the financial statements as:				
Current borrowings			-	121
Non-current borrowings			-	-
			-	121

The lease liability relates to agreements with Transpower for Transpower to construct assets at Transpower grid exit points. The agreements are for a term of 5 or 15 years. The company does not own the assets at the end of the lease term and there is no residual value. There is no security provided for these arrangements. The monthly payment amount may be reviewed annually by Transpower and the risk free portion of the interest rate may be adjusted.
The corresponding right-to-use assets are included in property, plant and equipment (note 12).

ACCOUNTING POLICY

Loans and borrowing include term loans and lease liabilities.

LEASE LIABILITIES

Except for certain short-term and low-value leases, NZ IFRS 16 requires all leases to be recognised as leases and shown in loans and borrowings on the balance sheet.

Network Tasman applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases are recognised as an expense on a straight-line basis over the lease term, (note 3).

At the commencement of the lease term, the Group recognises leases as assets and liabilities in the balance sheet at the lower of the fair value of the leased item or the present value of the minimum lease payments. The amount recognised as an asset is depreciated over its useful life or the shorter of the lease term and useful life.

	Note	**12 months 31 March 2020 $000**	12 months 31 March 2019 $000
(d) LOAN FACILITIES			
The Company has the following undrawn borrowing facilities			
Bank of New Zealand Limited		**5,750**	9,750
Total		**5,750**	9,750

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
21. DEFERRED TAXATION			
Balance at beginning of period		**29,877**	28,895
Deferred tax on temporary differences		**(1,486)**	982
Balance at end of period		**28,391**	29,877

Analysis of temporary deferred tax differences

For the year ended 31 March 2020	Fixed assets $000	Provisions $000	Leases $000	Total $000
Opening balance	30,043	(133)	(33)	29,877
Charge to income	(1,515)	(5)	34	(1,486)
Charge to equity	-	-	-	-
Closing balance	28,528	(138)	1	28,391

For the year ended 31 March 2019	Fixed assets $000	Provisions $000	Leases $000	Total $000
Opening balance	29,092	(130)	(67)	28,895
Charge to income	951	(3)	34	982
Charge to equity	-	-	-	-
Closing balance	30,043	(133)	(33)	29,877

Under current accounting standards, Network Tasman is required to recognise a deferred tax liability equal to the tax effect of the difference between the Company's accounting value of fixed assets and the equivalent tax carrying values for the same assets.

Adjustments for provisions and leases result in reducing the deferred tax liability.

The 1 April 2020 income tax change to permit commercial buildings to again be depreciable has had a marked impact on the 31 March 2020 deferred tax calculation. The impact of this change is $1.8 million.

22. OPERATING LEASE ARRANGEMENTS

Network Tasman has 17 non-cancellable operating leases as lessor of land and buildings that comprise the investment property portfolio.

	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
No later than one year		**1,586**	1,271
Later than one year and not later than five years		**3,071**	3,640
Later than five years		**5**	174
		4,663	5,085

The lease arrangements are renewed on a periodic basis as disclosed in the lessors' individual contracts.
In 2020 rental income received from leases with non-cancellable operating lease arrangements amounted to $1,951,000 (2019: $1,894,000)

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

23. RECONCILIATION OF OPERATING SURPLUS TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
Operating surplus after tax		**11,030**	9,699
Items not involving cash flows:			
Depreciation & amortisation		**9,085**	8,965
Movement in deferred taxation		**(1,486)**	982
Non cash customer contributions		**(2,594)**	(2,883)
Change in fair value		**(665)**	(1,272)
Equity accounted earnings from associate and joint ventures		**96**	253
Bad debts written off		**89**	26
(Gain) / loss on sale assets		**154**	486
		4,679	6,557
Movement in working capital:			
Increase (decrease) in non capital payables		**(1,430)**	5,879
Increase (decrease) in provisions		**26**	(7)
(Increase) decrease in non capital receivables		**614**	(889)
		(790)	4,983
Net cash flows from operating activities		**14,919**	21,239

24. CASH FLOWS FROM FINANCING ACTIVITIES

There are no significant non-cash movements arising in relation to the carrying amount of Network Tasman's liabilities arising from financing activities. The movement in these liabilities is therefore reflected by cash flows as presented above in the financing section of the statement of cash flows.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

25. RELATED PARTY INFORMATION

Parent entity

The holding entity of the company is the Network Tasman Trust which holds 100% of the company's shares (100% 31 March 2019). Refer to Note 6 for dividends paid to the holding entity.

Associate & joint venture companies		**Percentage owned by Network Tasman Limited**	
		31 March 2020	31 March 2019
Nelson Electricity Limited	Associate company	**50%**	50%
On Metering Limited	Joint venture	**50%**	50%
SmartCo Limited	Associate company	**14%**	14%

Network Tasman Limited provided the following services to Nelson Electricity Limited:

- Management and operational services
- Oncharge at cost of charges from Transpower NZ Limited for connection by Nelson Electricity Limited to the national grid.
- Fibre services

Network Tasman Limited leases a room from Nelson Electricity Limited for fibre equipment.

Network Tasman Limited provided operational and management services to On Metering Limited.

Network Tasman Limited provided management services and charges meter rental to SmartCo Limited.

Transactions during the year	**12 months 31 March 2020 $000**	12 months 31 March 2019 $000
Charges from Network Tasman Limited to Nelson Electricity Limited	**1,638**	2,115
Charges from Nelson Electricity Limited to Network Tasman Limited	**8**	8
Charges from Network Tasman Limited to On Metering Limited	**140**	178
Charges from On Metering Limited to Network Tasman Limited	**-**	0
Charges from Network Tasman Limited to SmartCo Limited	**2,631**	2,528
Charges from SmartCo Limited to Network Tasman Limited	**968**	1,025
Outstanding balances at year end		
Balance due from Nelson Electricity Limited as at period end	**161**	203
Balance due to Nelson Electricity Limited as at period end	**1**	1
Balance due from On Metering Limited as at period end	**130**	132
Balance due to On Metering Limited as at period end	**-**	-
Balance due from SmartCo Limited as at period end	**498**	468
Balance due to SmartCo Limited as at period end	**111**	112

Network Tasman received a dividend from Nelson Electricity (note 15), and a loan repayment from On Metering (note 16).

No related party debts have been written off or forgiven during the period (31 March 2019 : nil)

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
25. RELATED PARTY INFORMATION (cont')			
Key Management personnel compensation			
Salaries and other short-term benefits		1,570	1,505
Post employment benefits		-	-
Other long term benefits		23	21
Termination benefits		-	-
Total key management personnel compensation		1,593	1,526

Other related party transactions

Directors were only paid directors' fees and reimbursement of company related expenses.
All other related party transactions were of a minor nature and at an arm's length value.

26. FINANCIAL RISK MANAGEMENT

(a) CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the group. Financial instruments that potentially subject the company to concentration of credit risk consist of cash, short term investments and trade receivables.

Risk management

The company places short-term investments with registered banks only. The company has a treasury management policy which is used to manage this exposure to credit risk. As part of this policy, limits on the amount of surplus funds placed with any one banking institution have been set and approved by the Board of Directors.
With new connection charges, the payment needs to be received prior to connection.

Impairment of financial assets

The group has the following types of financial assets that are subject to the expected credit loss model:

- Cash and cash equivalents
- Trade receivables
- Sundry receivables
- Loans to joint ventures

The group applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.
To measure the expected credit losses, trade receivables have been grouped into groups of similar payment profiles.
The expected loss rates are based on the payment profiles of sales over a period of 6 years and the corresponding historical credit losses.
On that basis, the loss allowance determined for trade receivables is:

31 March 2020	Current	More than 30 days overdue	More than 60 days overdue	More than 90 days overdue	More than 120 days overdue	Total
Expected loss rate	0.14%	2.65%	2.00%	2.28%	2.91%	
Carrying amount trade receivables	4,722	293	15	9	39	5,078
Loss allowance	6	8	-	-	1	15

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

26. FINANCIAL RISK MANAGEMENT (cont')

31 March 2019	Current	More than 30 days overdue	More than 60 days overdue	More than 90 days overdue	More than 120 days overdue	Total
Expected loss rate	0.06%	0.15%	2.91%	0.20%	11.60%	
Carrying amount trade receivables	4,988	131	252	19	39	5,429
Loss allowance	3	-	7	-	5	15

Movement in loss allowance	12 months 31 March 2020 $000	12 months 31 March 2019 $000
Opening balance	15	15
Receivables written off during period	(96)	(12)
Unused amount reversed / additional amount provided	81	(3)
Additional loss allowance recognised in income statement during the year	15	15
Closing balance	**15**	**15**

Trade receivables are written off when all avenues for recovery have been exhausted.

Concentrations of credit risk

The company's significant customers are electricity retailers of which Contact Energy Ltd was 22% (2019 : 23%) at balance date.
The credit risk is not considered to be high. Apart from the advances of $4 million to On Metering Limited, the company does not have any other significant concentrations of credit risk.
The maximum credit exposure for each class of financial instrument is the same as the carrying values stated in note 27.
The loan to joint ventures is repayable on demand, therefore no interest is charged. An assessment of the value of On Metering Ltd has been performed showing the business value is in excess of the value of Network Tasman's investment and there is no impairment required.
Short-term investments mature within the range of on-call to 90 days. The current interest rate on these investments are in the range from 0.1% (31 March 2019: 1.55%)

Interest rate sensitivity analysis

As at 31 March 2020 the weighted average term deposit interest rate was 0.1% (31 March 2019: 1.6%) If this rate changed by 1%, with all other things held constant, the surplus / deficit for the year would have been $4,000 (2019: $20,000) higher or lower.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

26. FINANCIAL RISK MANAGEMENT (cont')

(b) LIQUIDITY RISK

Liquidity risk is the risk that the company will encounter difficulty raising liquid funds to meet commitments as they fall due. Network Tasman Ltd currently holds $0.5 million (31 March 2019: $2.1 million) of cash and short term deposits and holds $11.8 million (31 March 2019: $13.1 million) of current liabilities. The current ratio is 0.9:1 (31 March 2019 1.1:1). The movement in the current ratio is due to the movement of loans from joint ventures from non-current to current assets. All creditors and other payables are settled within a 30 day term.

Contractual maturities of financial liabilities

31 March 2020	Less than 12 months	12 months to 2 years	2 to 3 years	Total
Trade payables	10,512	-	-	10,512
Secured bank loans	250	-	-	250
Lease liabilities	-	-	-	-
	10,762	**-**	**-**	**10,762**

31 March 2019	Less than 12 months	12 months to 2 years	2 to 3 years	Total
Trade payables	11,716	-	-	11,716
Secured bank loans	-	250	-	250
Lease liabilities	121	-	-	121
	11,837	**250**	**-**	**12,087**

(c) FOREIGN CURRENCY RISK

The company occasionally imports products denominated in foreign currencies. For specific one-off transactions undertaken in foreign currency, it is the company's policy to enter into foreign exchange forward contracts to manage the exposure to fluctuations in currency rates.

Foreign exchange rate sensitivity analysis

There are no foreign currency accounts at balance date.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

	Note	12 months 31 March 2020 $000	12 months 31 March 2019 $000
27. CATEGORIES OF FINANCIAL ASSETS AND LIABILITIES			
The carrying amounts of financial assets and liabilities in each of the NZ IFRS 9 categories are as follows:			
Financial assets measured at amortised cost			
Cash and cash equivalent	9	**517**	2,069
Trade receivables	10	**5,063**	5,414
Sundry receivables	11	**369**	729
Loans to joint ventures	16	**3,989**	-
Total financial assets measured at amortised cost		**9,938**	8,212
Financial liabilities measured at amortised cost			
Trade and other payables	17	**10,512**	11,716
Lease liabilities	20	**0**	121
Loans	20	**250**	250
Total financial liabilities measured at amortised cost		**10,762**	12,087

The 2019 comparative for 'Loans to joint ventures' was classified as a 'Financial asset at fair value through profit or loss'.

28. COMMITMENTS

The following amounts have been committed to by the company, but not recognised in the financial statements:

Capital commitments

Capital commitments as at 31 March 2020 $8.2 million (31 March 2019 : $2.7 million).
All capital commitments fall due within the next five years.

29. CONTINGENCIES

As at 31 March 2020 there were no material contingent assets or liabilities (31 March 2019: nil).

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

30. PERFORMANCE TARGETS

The following financial and reliability performance targets for the 12 months ending 31 March 2020 are specified in the company's Statement of Corporate Intent (SCI). Forecast results are compared to the performance targets below:

		Actual Result 2020	SCI Target 2020	Actual Result 2019
Financial performance targets				
Total company:				
Surplus before interest, tax, line discount and customer contributions	$mil	**20.3**	18.7	21.4
Operating surplus after tax and customer contributions	$mil	**11.0**	8.3	9.7
Operating surplus to shareholders' funds	%	**5.2%**	4.0%	4.78%
Line business only:				
Total network costs per consumer	$	**468**	465	452
Cash operating costs per consumer	$	**304**	301	293
Line Charge Discounts (Excluding GST)	$mil	**10.5**	10.8	10.9
Reliability performance targets **(excludes Transpower planned and unplanned outages)**				
Average duration of supply interruptions per connected consumer (SAIDI) not to exceed -	minutes	**185**	175	240
Average number of supply interruptions per connected consumer (SAIFI) not to exceed -	number	**1.24**	1.61	1.34
Average duration of supply interruptions (CAIDI) not to exceed -	minutes	**148**	109	179
Faults per 100 km of line not to exceed -	number	**5.04**	6	4.2
% faults not restored within three hours not to exceed -	%	**26%**	20%	33%

The SAIDI, SAIFI and CAIDI measures are industry standards, which enable assessment and comparison of network performance. Industry statistics include rural and urban networks. The Network Tasman network includes a significant rural component.

$$\text{SAIDI} = \frac{\text{Total Annual Consumer Minutes of Non Supply}}{\text{Total Number of Consumers}}$$

$$\text{SAIFI} = \frac{\text{Total Annual Consumer Supply Interruptions}}{\text{Total Number of Consumers}}$$

$$\text{CAIDI} = \frac{\text{Total Annual Consumer Minutes of Non Supply}}{\text{Total Annual Consumer Supply Interruptions}}$$

Unplanned SAIDI was over target for the 2019/20 year (83/75). There was a normal mix of outage causes for the year. There were no major storm events.

Planned SAIDI was also marginally over target for the 2019/20 year (102/100). A high number of long shutdowns were needed to complete the light copper conductor replacement programme for the year. This is the second year of a ten year programme of conductor replacements. NTL internal reliability targets have been increased to accommodate this programme.

SAIFI targets (the average number of interruptions experienced by consumers) were not exceeded during the year. Faults per 100km of line were also below previous years. These results reflect the good condition of the network and the good state of vegetation clearance.

Network Tasman Limited & Group

Notes to and forming part of the Financial Statements

For the year ended 31 March 2020

30. PERFORMANCE TARGETS (cont')

In some circumstances, an unplanned loss of supply event can be followed by restoration of supply and then by a successive interruption as a result of isolating the initial cause, making repairs and completing the permanent restoration of supply to all consumers. Where this occurs, NTL's reported SAIFI records the initial outage and not any subsequent short duration outages required to effect the restoration of supply. NTL's reported SAIDI includes the customer minutes from subsequent short duration outages required to effect the restoration of supply. This treatment is consistent with that of previous years.

Safety of electricity supply		**Actual Result 2020**	**SCI Target 2020**	**Actual Result 2019**
Lost time injuries not to exceed -	number	2	0	3
Public Safety and Damage Events				
Public Injury Events	number	0	0	0
Public Property Damage Events	number	0	0	1
Public Safety Management System (PSMS) certified & audited by Telarc		Yes	Yes	Yes

31. COVID-19

On 11 March 2020, the World Health Organisation declared the outbreak of COVID-19 a 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 the Government response to the COVID-19 pandemic Alert Levels 3 and 4, Network Tasman's staff worked remotely. Under Alert Level 4 network operations were reduced to emergency response only. With field work limited to emergency response work, this has delayed maintenance and capital work by about one month. Field operations resumed under Alert Level 3. It is expected that this will be caught up over the coming months, and is not anticipated to impact negatively on reliability of supply.

With staff working from home, there was a small reduction in some overhead costs, for example electricity and vehicle expenses. With working remotely being more common, travel expenses are expected to continue to be less than in the past. Network Tasman had no need to apply for the Government's wage subsidy.

There was no impact on supply under Alert Levels 3 and 4. In respect of SAIFI, the number of interruptions was consistent with the rest of the financial year, and similar to previous years. Although our staff were working remotely, this did not affect our response times to emergency repairs. This meant that there was also no significant impact on our SAIDI results.

A review of the possible future impact on Network Tasman's assets has been undertaken. Network Tasman has assessed its property, plant and equipment (note 12), investment in associates and joint venture (note 13) for impairment in accordance with the impairment accounting standard, NZ IAS 36. Property, plant and equipment (note 12) and intangible asset (note 14) values are not expected to be subject to any significant impact. The investment properties (note 13) valuation process has considered the impact of COVID-19.

While electricity usage by different groups of customers was affected by the COVID-19 Government response requirements, overall electricity line revenue was not materially impacted. Due to the challenges faced by consumers from COVID-19, payment of the Winter discount is being brought forward from September to July 2020. This discount payment will be increased to offset the 4% price increase applying from 1 April 2020. Revenue from metering and fibre services was not affected. Network Tasman worked with its tenants to help with the impact of COVID-19.

As Network Tasman's borrowings are at a low level there is no significant additional funding required as a result of COVID-19.

Network Tasman has considered the impact of COVID-19 on the wider Tasman community and its possible flow-on effect to Network Tasman. COVID-19 is expected to have a significant impact for some individuals and businesses involved in certain industries. Network Tasman is subject to a regulatory pricing regime that provides the option to increase prices to remaining customers if there is a fall in customers and/or demand.

Principally due to the flow-on effects of COVID-19 on the audit process, the statutory deadline for the financial statements of 30 June (per section 44(3) of the Energy Companies Act) was not met.

32. EVENTS OCCURRING AFTER BALANCE DATE

The directors of Network Tasman Limited are not aware of any significant event occurring subsequent to balance date which, if known at balance date, would have resulted in a different assessment within the financial statements. Refer to Note 31 for comment on the impacts of COVID-19.

33. CAPITAL MANAGEMENT

Network Tasman's capital is its issued and paid up capital, share premium reserve and retained earnings. Equity is represented by net assets as disclosed in the balance sheet. The company manages its revenue, expenses, assets and liabilities and day to day financial transactions prudently. The purpose of managing Network Tasman's equity is to ensure the company achieves its goals and objectives, whilst remaining a going concern.

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of Network Tasman Limited Group financial statements and performance information for the year ended 31 March 2020

The Auditor-General is the auditor of Network Tasman Limited Group (the company). The Auditor-General has appointed me, John Mackey, 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.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the company on pages 22 to 51 and 53, that comprise the balance sheet 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 52 and 53.

In our opinion:

- 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 New Zealand equivalents to International Financial Reporting Standards; 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 31 July 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw your attention to the impact of Covid-19. 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.

Impact of Covid-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the company as set out in Note 31 to the financial statements. We draw specific attention to the following matter due to the significant level of uncertainty caused by Covid-19:

- **Investment property**

  Note 13 on pages 35 and 36 describes the significant uncertainties communicated by the valuer, related to estimating the fair values of the company's investment property.

Basis for our opinion

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 opinion.

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

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

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

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the company or to cease operations, or there is no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

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

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance;

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

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

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 3 to 21, and 58 to 62, 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 assurance engagements pursuant to the pursuant to the Electricity Distribution Information Disclosure Determination 2012 - (consolidated in 2015), the Electricity Distribution Services Default Price-Quality Path Determination 2015, and the Notice to supply information to the Commerce Commission under section 53ZD(1)(e) and 53ZD(1)(f) of the Commerce Act 1989 dated 28 June 2019, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the company.

John Mackey
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

Statutory Information

The Group's principal activity is to own and operate the electricity distribution network in the wider Nelson and Tasman areas, excluding Nelson Electricity's supply area in Nelson city.

Principal activities

In addition to its principal activity, the Group has interests in complementary businesses including Network Tasman Fibre (a fibre optic communications network), commercial and industrial property, 50% shareholdings in Nelson Electricity Limited and On Metering Limited and advanced metering on the Network Tasman network.

Auditors

As required by statute the Auditor-General will appoint the auditors and directors will negotiate their fee and terms of audit. The fees paid to the auditors for audit work and other services are disclosed in the financial statements.

Directors holding office during the year were:

- MJ McCliskie (Chair)
- LR McKenzie (appointed 26 July 2019)
- AP Reilly
- SL Smith
- RA Sutton (resigned 21 February 2020)
- SJ Weir
- JO Williamson (retired 26 July 2019)

Remuneration and benefits of directors

Directors received the following fees and benefits:

Director	2020
MJ McCliskie (Chair)	64,696
LR McKenzie	24,102
AP Reilly	36,610
SL Smith	36,154
RA Sutton	33,141
SJ Weir	36,154
JO Williamson	12,051

Remuneration of employees

The number of employees whose remuneration and benefits exceeded $100,000 in the financial year was:

Remuneration band	2020
$100,000 - $109,999	4
$110,000 - $119,999	5
$120,000 - $129,999	3
$170,000 - $179,999	1
$190,000 - $199,999	1
$200,000 - $209,999	2
$240,000 - $249,999	1
$330,000 - $339,999	1

Directors' insurance

The Group has Directors' and Officers' liability insurance cover to a value of $10 million and Defence Costs liability insurance of $2.5 million, which covers Directors of Network Tasman Limited and Directors representing Network Tasman Limited on associated and joint venture company boards. The insurance does not cover liabilities arising from criminal actions.

Directors' benefits

No director of the Group has received or become entitled to receive benefits other than benefits included in the total remuneration listed above. However, directors may receive benefits as consumers of Network Tasman and beneficiaries of the Network Tasman Trust. Any benefits received will be on the same terms and conditions as all other consumers and beneficiaries.

There were no loans made by the Group to any director nor has the Group guaranteed any debts incurred by a director.

Entries recorded in the interests register

The following represents the particulars of the entries made in the Network Tasman's interests register for the year ended 31 March 2020:

MJ McCliskie	Alandale Orchards Limited	Chair
	Nelson Electricity Limited	Chair
	Tribunal to consider protection for the Ngaruroro & Clive Rivers	Member (ceased 1 November 2019)
	High Health Alliance Limited	Chair
	BT Mining Limited	Chair (appointed 30 April 2019)
LR McKenzie	*Appointed 26 July 2019*	
	Taylors Contracting Limited	Director
	YMCA Nelson Inc	Chair/President
	Nelson Training Centre Limited	Director
AP Reilly	AP & KM Reilly Limited	Chair
	Dos Rios Dairy Limited	Director
	Landcorp Farming Limited	Director
	Queens Farms Limited	Supervisor
	Browns Pastoral Farm Management Limited	Shareholder
SL Smith	Ngai Tahu Tourism Limited	Chair (ceased 31 December 2019)
	EcoCentral Limited	Director (ceased 21 October 2019)
	WhereScape Software Limited	Director (ceased 20 September 2019)
	The Lion Foundation	Trustee
	Ohinetahi Charitable Trust	Trustee
	Warren Architects Education Trust	Trustee
	World of Wearable Art Ltd	Chair
	Sasco Holdings Limited	Director
RA Sutton	*Resigned 21 February 2020*	
	Big Brothers Big Sisters	Board Member
	Roger Sutton Consulting	Principal
	Anglican Church Property Trust	Trustee (ceased 30 September 2019)
	Independent Line Services	Director (ceased 30 January 2020)
	The Lines Company Limited	Consultant/Director (ceased 30 January 2020)
	Electricity Ashburton Limited	Director (ceased 3 February 2020)
	EA Networks Limited	CEO/Director (appointed 3 February 2020)
	EECA Low Emission Vehicles Contestable Fund Panel	Member
	Anglican Care	Anglican Missioner
	FCL Metering Limited	Director (ceased 30 January 2020)
	Goodmeasure Limited	Director (appointed 04 October 2019, ceased 30 January 2020)
SJ Weir	Nelmac Limited	Director
	Marriott Orthodontics Limited	Director
	Anderson Lloyd Lawyers	Consultant to & Former Partner
	Copyright Tribunal	Trustee
	Rata Foundation	Trustee
	Institute of Directors - Nelson/Marlborough Branch	Chair
	Institute of Directors - National Council	Councillor
	Cawthron Institute Trust Board	Trustee
	Care Foundation	Co-Chair
	Nelson Regional Development Agency	Director
	Financial Advisers Disciplinary Committee	Committee Member (appointed 1 February 2020)
	S J Weir Law Limited	Director
	Nelson Orthodontics Limited	Shareholder
	Canterbury Trust House Limited	Director
JO Williamson	*Retired 26 July 2019*	
	Nelson Tasman Region Hospice Trust Board	Trustee

Corporate Governance

The Board of Directors of Network Tasman Limited and Group (the "board") are guided by a Board Charter which recognises the requirement to adopt best practice in relation to its corporate governance policies and procedures.

The Board is committed to a high standard of corporate governance and is guided by the "Code of Proper Practice for Directors" as recommended by the Institute of Directors in New Zealand.

Role of the Board of Directors

The Board is appointed by the shareholders to supervise the management of the company. The Board establishes the company's objectives, strategies for achieving objectives, the overall policy framework within which the Network Tasman's business is conducted and monitors management's performance. The Board has delegated the day-to-day management of the company to the chief executive.

The Board also ensures that appropriate procedures are in place to provide for effective internal control and that the business complies fully with legislative health and safety requirements.

Board operations and membership

Network Tasman's constitution allows for a maximum of eight directors of the company.

The Board currently comprises five directors: a non-executive Chair and four non-executive directors. Board members have an appropriate range of proficiencies, experience and skills to ensure that all governance responsibilities are completed to ensure the best possible management of resources.

Network Tasman's constitution sets out policies and procedures for the operation of the Board, including the appointment and removal of directors.

The full board met 11 times during the financial year ended 31 March 2020.

Associate Director Programme

During the year Network Tasman Limited and shareholder Network Tasman Trust introduced an Associate Director Programme designed to offer emerging directors the opportunity to accelerate their boardroom experience for a period of twelve months with observer status on the Board of Network Tasman.

The aim of the programme is to enhance the capability of senior leaders embarking on a governance career and to increase the availability of talented people for appointment to boards within the Nelson/Tasman region. It will provide support to emerging directors with ongoing mentoring and opportunities for professional development and social networking within the governance environment.

Board Committees

Health and Safety Committee

The Board has a Health and Safety Committee, comprising the full Board, to maintain an effective governance framework in accordance with relevant legislation and achieve the safety vision of "everyone safe, all of the time". The committee is tasked with ensuring that health and safety are key considerations in every operational decision made within the company.

Management and the Board are focused on ensuring a thorough health and safety management system (HSMS) oversight process is operating across all business units of the company. Activities include reviews with contractors and site visits. The committee met four times during the year.

Remuneration Sub-committee

The Board has a Remuneration Sub-committee comprising three non-executive directors. The Remuneration Sub-committee is responsible for assisting the Board in overseeing the appointment, performance and remuneration of the chief executive and members of the executive team (including succession planning) and reviewing the Remuneration Policy with the objective of being a good employer. The committee met two times during the year.

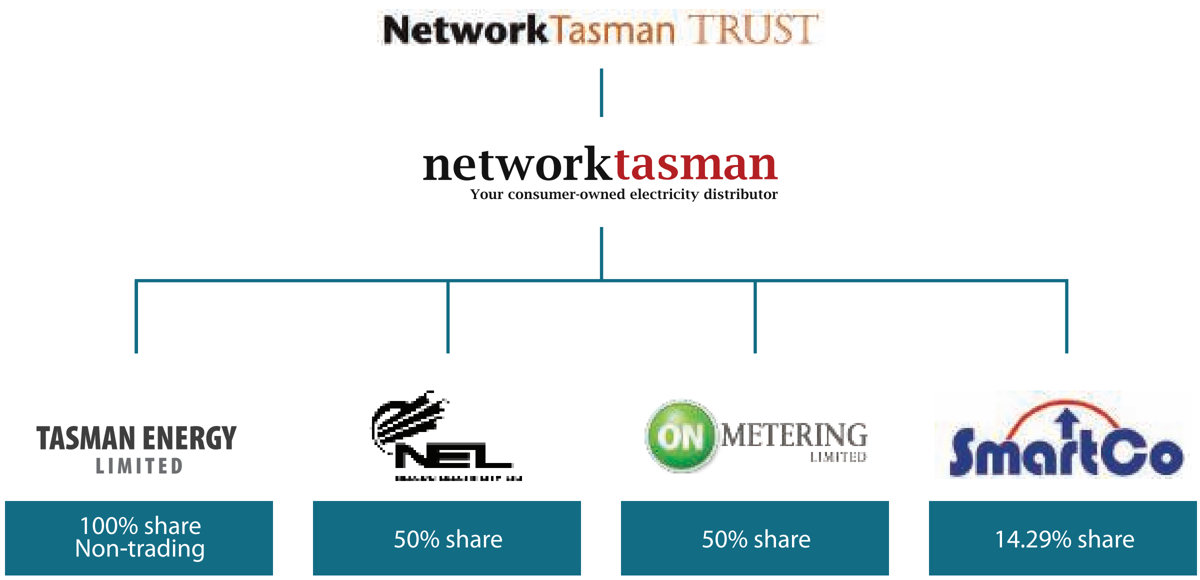
Audit and Risk Sub-committee

The Board has an Audit and Risk Sub-committee comprising two non-executive directors. The Audit and Risk Sub-committee is responsible for overseeing the financial, accounting and internal and external audit activities of the company, including reviewing the adequacy and effectiveness of internal controls and monitoring of corporate risk assessment, meeting with and reviewing the performance of the external auditors, reviewing the financial statements and making recommendations on financial and accounting policies. The committee met four times during the year. Specific areas overseen by the Audit Sub-committee include the following:

- **Risk Management**

  The Board has overall responsibility for the company's risk management and internal control systems. The Board has established policies and procedures that are designed to provide effective internal control. Annual budgets, asset management plans, business plans and longer-term strategic plans are prepared and agreed by the Board, as well as a delegated authority

Network Tasman Ownership Structure as at 31 March 2020



policy. Financial statements and operational reports are prepared on a monthly basis and reviewed by the board throughout the year to monitor performance against budget targets and objectives.

In addition, the Board monitors the risk management framework and reviews ways to enhance existing risk management strategies, including the segregation of duties, the employment of suitably qualified and experienced staff and the implementation, where considered necessary and effective, and considers the recommendations made by the internal and external auditors.

- **Internal Audit**

  The Board maintained an internal audit programme during 2019/20, utilising an experienced independent internal auditor. Four audits were completed during the year.

- **Treasury Policy**

  Exposure to interest rate risk is managed in accordance with the company's treasury policy that sets limits of management authority and levels of exposure to banking institutions.

Pricing Sub-committee

The Board has a Pricing Sub-committee comprising two non-executive directors during the year. The Pricing Sub-committee is responsible for assisting management and the Board to monitor and implement the current pricing strategy and in developing future pricing strategy based on key principles including "no surprises"/ predictability, economic efficiency and equity. Activities include benchmarking with other electricity lines businesses, maintaining common standards, sending consumers signals on future price changes ahead of time and overseeing the five yearly price resets. The committee met four times during the year.

Statement of Corporate Intent

In accordance with section 39 of the Energy Companies Act 1992, the Board submits to the shareholder trust a draft Statement of Corporate Intent (SCI) for the coming financial year. The SCI sets out the company's overall objectives, intentions and financial and performance targets for shareholder review.

A copy of the Statement of Corporate Intent is available on the company's website www.networktasman.co.nz

The Role of the Shareholder Trust

The Network Tasman Trust ("the Trust") holds all the shares in Network Tasman Limited. The board aims to ensure that the trust is informed of all major developments impacting on the company's affairs.

Board members meet frequently with trustees to communicate matters of importance. Information is also provided by way of the Interim Report, Annual Report, Asset Management Plan and Statement of Corporate Intent.

networktasman
Your consumer-owned electricity distributor

Corporate Directory

Directors

John McCliskie – Chair

Lindsay McKenzie

Tony Reilly

Sarah Smith

Sarah-Jane Weir

Executive

Oliver Kearney
Chief Executive Officer

Robert Derks
Operations Manager

Kerry Haycock
Corporate Services Manager

Murray Hendrickson
Network Manager

Andrew Stanton
Advanced Metering & Telecommunications Manager

Daniel Vincent
Regulatory & Commercial Manager

Head Office

52 Main Road Hope, 7020
PO Box 3005, Richmond 7050

Telephone: 64 3 989 3600 or 0800 508 098
E-mail: info@networktasman.co.nz
Website: www.networktasman.co.nz

Auditor

Audit New Zealand on behalf of the Auditor-General

Bankers

Bank of New Zealand

Solicitors

Pitt & Moore

Network Tasman Trust

Gwenny Davis – *Chair*

Patrick Adamson

Ian Barker

Judene Edgar

Ian Kearney

Terry Kreft

Trust Secretary

Marina Buonocore
C/- Craig Anderson Limited

270A Queen Street, Richmond
PO Box 3115, Richmond 7050

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