

ELECTRICITY INVERCARGILL LIMITED
INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

APPROVAL BY DIRECTORS

The Directors have approved the Interim Financial Statements of Electricity Invercargill Limited for the six months ended 30 September 2017 on pages 2 to 10.



Thomas Campbell
Chair



Ross Smith
Director

For and on behalf of the
Board of Directors

30 November 2017

ELECTRICITY INVERCARGILL LIMITED
STATEMENT OF SERVICE PERFORMANCE
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

The objectives of Electricity Invercargill Limited for this financial year are clearly specified in the Statement of Intent, which was approved by the Shareholders. The performance targets and measures identified in the Statement of Intent, along with the performance achieved during the financial period, are detailed below.

Performance Targets

	Target Year Ended 31 Mar 2018 \$000	Achievement		
		Six Months Ended 30 Sept 2017 \$000	Six Months Ended 30 Sept 2016 \$000	Year Ended 31 Mar 2017 \$000
Operating Surplus Before Tax	9,086	6,884	5,945	8,875
Operating Surplus After Tax	7,387	5,270	4,512	7,030
Earnings Before Interest and Tax (EBIT%)	6.65%	4.52%	4.04%	6.45%
Return on Equity %	7.43%	5.40%	4.73%	7.62%
Equity to Total Assets %	52.85%	51.27%	50.17%	49.08%

Network Reliability Performance

System Average Interruption Duration Index (SAIDI)

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

SAIDI	21.40	16.89	13.36	13.47
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System Average Interruption Frequency Index (SAIFI)

The average number of times each customer connected to the network is without supply.

SAIFI	0.59	0.25	0.25	0.29
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The Directors have reasonable assurance that the performance data of the company is free from material misstatement and is a reliable measure of the network's performance. However, there is an inherent risk as there is no independent evidence to verify the accuracy of the information recorded.

Supplementary Information

Network Statistics

Length of overhead line	54km	54km	54 km
Length of underground cable	610km	616km	610 km
Total number of interruptions	13	22	31
Faults per 100km of line	2.84	3.95	4.44
Transformer capacity MVA	150	150	149
Maximum demand kW	60,060	63,052	63,052
Energy into network GWh	157	154	268
Total consumers	17,413	17,345	17,377

ELECTRICITY INVERCARGILL LIMITED
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

	Six Months Ended 30 Sept 2017 \$000	GROUP Six Months Ended 30 Sept 2016 \$000	Year Ended 31 Mar 2017 \$000
Operating Revenue	11,614	11,172	20,143
Other Income	962	990	1,872
Operating Expenses	(8,103)	(7,926)	(16,379)
Finance Costs	(1,721)	(1,739)	(3,258)
Share of Profit of Associates and Joint Ventures	4,132	3,448	6,497
Operating Surplus Before Taxation	6,884	5,945	8,875
Less Taxation Expense			
- Current	(1,502)	(1,224)	(1,571)
- Deferred	(112)	(209)	(274)
Net Surplus After Taxation	5,270	4,512	7,030

ELECTRICITY INVERCARGILL LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

Net Surplus After Taxation	5,270	4,512	7,030
Other Comprehensive Income			
- Revaluation	-	1,863	1,863
Other Comprehensive Income	-	1,863	1,863
Total Comprehensive Income	5,270	6,375	8,893

The accompanying notes on pages 7 to 10 form part of and should be read in conjunction with these interim financial statements.

ELECTRICITY INVERCARGILL LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017


	Note	GROUP		
		Six Months Ended 30 Sept 2017 \$000	Six Months Ended 30 Sept 2016 \$000	Year Ended 31 Mar 2017 \$000
Total Comprehensive Income				
Net Surplus for the Period		5,270	4,512	7,030
Other Comprehensive Income		-	1,863	1,863
		5,270	6,375	8,893
Distributions to Shareholders				
Dividend Paid/Declared	(2)	-	-	(5,700)
		-	-	(5,700)
Changes in Equity for the Period		5,270	6,375	3,193
Equity at Beginning of Period		92,312	89,119	89,119
Equity at End of Period		97,582	95,494	92,312

The accompanying notes on pages 7 to 10 form part of and should be read in conjunction with these interim financial statements.

ELECTRICITY INVERCARGILL LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2017

		GROUP		
	Note	30 Sept 2017 \$000	30 Sept 2016 \$000	31 Mar 2017 \$000
Equity				
Share Capital	(2)	13,000	13,000	13,000
Reserves		31,567	31,667	31,567
Retained Earnings		53,015	50,827	47,745
Total Equity		97,582	95,494	92,312
Represented By:				
Current Assets				
Cash and Cash Equivalents		3,688	2,471	3,142
Receivables and Prepayments		2,266	2,142	2,044
Total Current Assets		5,954	4,613	5,186
Non Current Assets				
Investments in Associates		1,620	1,579	1,569
Advances to Associates		2,832	2,115	2,603
Investments in Joint Ventures	(3)	81,528	81,253	80,842
Advances to Joint Ventures		7,173	10,494	7,760
Investments in Other Entities		118	118	118
Property, Plant and Equipment	(4)	87,070	86,680	88,169
Capital Work in Progress		4,044	3,501	1,849
Total Non Current Assets		184,385	185,740	182,910
Total Assets		190,339	190,353	188,096
Current Liabilities				
Creditors and Accruals		3,142	2,997	2,697
Dividend Payable		3,800	4,200	5,700
Income Tax Payable		908	933	592
Total Current Liabilities		7,850	8,130	8,989
Non Current Liabilities				
Shareholder Advance		65,825	67,825	67,825
Deferred Tax Liabilities		19,082	18,904	18,970
Total Non Current Liabilities		84,907	86,729	86,795
Total Liabilities		92,757	94,859	95,784
Net Assets		97,582	95,494	92,312

The accompanying notes on pages 7 to 10 form part of and should be read in conjunction with these interim financial statements.


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ELECTRICITY INVERCARGILL LIMITED
STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

	Note	Six Months Ended 30 Sept 2017 \$000	GROUP Six Months Ended 30 Sept 2016 \$000	Year Ended 31 Mar 2017 \$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Was Provided From:				
Receipts from Customers		12,198	12,208	22,027
Interest Received		180	173	312
Taxation Refunds		-	19	19
		12,378	12,400	22,358
Cash Was Disbursed To:				
Payments to Suppliers and Employees		5,646	7,956	14,435
Income Tax Paid		1,186	1,372	2,080
Interest Paid		1,854	1,766	3,168
GST Paid/(Received)		(84)	137	233
		8,602	11,231	19,916
Net Cash Flows From Operating Activities	(5)	3,776	1,169	2,442
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash Was Provided From:				
Sale of Property, Plant and Equipment		(8)	1	9
Distribution Received		3,395	2,765	6,235
Joint Ventures Advances Repaid		587	2,936	5,670
		3,974	5,702	11,914
Cash Was Applied To:				
Purchase of Property, Plant and Equipment		3,075	3,212	5,338
Purchase of additional Interest in Joint Ventures		-	26,325	26,325
Advances to Associates & Joint Ventures		229	395	883
		3,304	29,932	32,546
Net Cash Flows From (Used in) Investing Activities		670	(24,230)	(20,632)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash Was Provided From:				
Shareholder Advances Received		-	27,325	27,325
		-	27,325	27,325
Cash Was Applied To:				
Shareholder Advances Repaid		2,000	-	-
Dividend Payment		1,900	2,000	6,200
		3,900	2,000	6,200
Net Cash Flows From (Used in) Financing Activities		(3,900)	25,325	21,125
Net Increase in Cash and Cash Equivalents Held		546	2,264	2,935
Add Opening Cash Brought Forward		3,142	207	207
Closing Cash and Cash Equivalents Carried Forward		3,688	2,471	3,142

The accompanying notes on pages 7 to 10 form part of and should be read in conjunction with these interim financial statements

ELECTRICITY INVERCARGILL LIMITED
NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

1. Statement of Accounting Policies

Reporting Entity

The parent entity, Electricity Invercargill Limited is a profit oriented limited liability company, that was incorporated in New Zealand on 30 June 1991, is registered under the Companies Act 1993 and whose registered office is at 251 Racecourse Road, Invercargill. The Company is a wholly owned subsidiary of Invercargill City Holdings Limited. The Group consists of Electricity Invercargill Limited, its subsidiaries and its interest in associates and jointly controlled entities.

The condensed financial statements have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting and the New Zealand equivalents to International Accounting Standard (NZ IAS) 34.

The principal activity of Electricity Invercargill Limited is the provision of electricity distribution services.

The financial statements were approved by the Board of Directors on 30 November 2017.

Basis of Preparation

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

The accounting policies adopted are consistent with those followed in the preparation of the Group's Financial Statements for the year ended 31 March 2017.

New Standards Adopted

There have been no new standards adopted in the current period that have a material effect on the financial statements.

The Group is eligible and has elected to report in accordance with Tier 2 for-profit accounting standards, NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR) by virtue of the fact that it has no public accountability and it is not a large for-profit public sector entity.

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

Standards or Interpretations not yet Effective

Various standards, amendments and interpretations have been issued by the External Reporting Board (XRB) but not yet adopted by Electricity Invercargill Limited as they are not yet effective.

NZ IFRS 9: Financial Instruments (effective for annual periods beginning on or after 1 January 2018)

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements

for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group intends to adopt NZ IFRS 9 on its effective date and has yet to assess its full impact.

IFRS 15, Revenue from contract with customers, (effective for annual periods beginning on or after 1 January 2017)

NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The group intends to adopt NZ IFRS 15 on its effective date and is currently assessing its full impact. This standard is not expected to significantly impact the Group.

2. Share Capital and Dividends

The authorised share capital comprises 13 million ordinary shares (30 September 2017 and 31 March 2017: 13 million ordinary shares) which are fully paid up and are not subject to a par value. All shares have the same rights and privileges.

	GROUP		
	30 Sept 2017	30 Sept 2016	31 Mar 2017
	\$000	\$000	\$000
Share Capital	13,000	13,000	13,000
Dividend Declared/Paid	-	-	(5,700)
Dividend per Share	-	-	43.8

3. Investments in Joint Ventures

In 2015, Roaring Forties Energy Limited Partnership was formed in which the Group owns a 50% interest.

On April 2015, Roaring Forties Energy Limited Partnership took a 50% interest in Southern Generation Limited Partnership. This partnership was formed to invest in electricity generation opportunities. As the Group has 50% interest in Roaring Forties Energy Limited Partnership it is therefore deemed to have a 25% interest in Southern Generation Limited Partnership for applying equity accounting. The partnership owns two wind farms, Mt. Stuart near Lawrence and Flat Hill near Bluff.

In April 2016, Southern Generation Limited Partnership completed the acquisition of the Aniwhenua Hydro Station on the Rangitaiki River in the Bay of Plenty. This asset, coupled with a long term supply agreement to an electricity retailer, adds further asset value to the Group.

Effective from 1 April 2016 the Group has equity accounted its share of profits from the 50% owned joint venture entity, PowerNet Limited Group at 25%. The change to 25% is consistent with the economic benefits the Group receives based on the PowerNet dividend policy.

4. Property, Plant and Equipment – Additions and Disposals

	30 Sept 2017 \$000	GROUP 30 Sept 2016 \$000	31 Mar 2017 \$000
Additions	3,075	3,212	5,338
Disposals	(56)	(17)	(412)

The network assets of Electricity Invercargill Limited were revalued to fair value using discounted cash flow methodology on 1 April 2016 by Ernst & Young, who is an independent valuer. This resulted in a revaluation movement of \$2,588,000.

The major assumptions used include discount rate, growth rate and future cash flows. Changes in future cash flows arising from changes in regulatory review may result in the fair value of the electricity distribution network being different from previous estimates. The fair value measurement of the distribution network is categorised under Level 3 of the fair value hierarchy.

5. Reconciliation of Net Surplus After Taxation with Net Operating Cash Flows

The following is reconciliation between the Net Surplus After Taxation shown in the Statement of Comprehensive Income and the Net Cash Flows from Operating Activities.

Net Surplus After Taxation	5,270	4,512	7,030
Plus/(Less) Non Cash Items:			
Depreciation and Amortisation	1,922	1,901	3,795
Deferred Taxation	112	208	274
Loss on Sale of Property, Plant and Equipment	65	16	403
Share of Profit of Associates/Joint Ventures	(4,132)	(3,448)	(6,497)
	(2,033)	(1,323)	(2,025)
Plus/(Less) Movements in Working Capital:			
Increase/(Decrease) in Payables and Accruals	445	(2,140)	(2,440)
(Increase)/Decrease in Receivables	(222)	268	366
Increase/(Decrease) in Provision for Taxation	316	(148)	(489)
	539	(2,020)	(2,563)
Net Cash Flows From Operating Activities	3,776	1,169	2,442

6. Capital Commitments

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

Capital Commitments	2,911	1,546	1,659
Total Capital Commitments	2,911	1,546	1,659

7. Contingent Liabilities

The Company has a contingent liability as at 30 September 2017 of \$415,000 (30 Sept 2016: \$415,000; March 2017 \$415,000). This liability relates to an agreement with Smart Co for the Company to provide a subordinated loan to Smart Co once a number of terms have been met.

8. Transactions with Related Parties

Electricity Invercargill Limited is 100% owned by Invercargill City Holdings Limited. Invercargill City Holdings Limited is a wholly owned subsidiary of the Invercargill City Council.

Electricity Invercargill Limited has an interest in the PowerNet Limited joint venture, OtagoNet Joint Venture, Electricity Southland Limited and Roaring Forties Energy Limited Partnership through their wholly owned subsidiary Pylon Limited.

All transactions between Electricity Invercargill Limited and related parties relate to the normal trading activities of Electricity Invercargill Limited and have been conducted on a commercial basis.

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

Material transactions Electricity Invercargill Limited has had with the above-mentioned parties during the year are as follows:

	Six Months Ended 30 Sept 2017 \$000	GROUP Six Months Ended 30 Sept 2016 \$000	Year Ended 31 Mar 2017 \$000
Goods and Services Supplied to:			
PowerNet Limited (Joint Venture)	145	92	160
Electricity Southland Limited (Associate)	54	41	87
<i>Receivables Outstanding at Balance Date</i>			
PowerNet Limited (Joint Venture)	72	42	34
Electricity Southland Limited (Associate)	28	22	24
Goods and Services Supplied by:			
PowerNet Limited (Joint Venture)	4,888	5,089	8,931
Invercargill City Holdings Limited (Other Related Party)	1,803	1,812	3,638
<i>Creditors Outstanding at Balance Date</i>			
PowerNet Limited (Joint Venture)	1,564	953	1,029
Invercargill City Holdings Limited (Other Related Party)	211	151	298
Dividends Paid to:			
Invercargill City Holdings Limited (Other Related Party)	1,900	2,000	6,200
Advances Provided to/(Repaid by):			
PowerNet Limited (Joint Venture)	(587)	(2,936)	(356)
Electricity Southland Limited (Associate)	229	395	883
Pylon Limited (Subsidiary)	263	26,383	21,109
Advances Repaid to/(Provided from):			
Invercargill City Holdings Limited (Other Related Party)	2,000	(27,325)	(27,325)

Other Related Parties

There have been no material transactions with Directors.

9. Subsequent Events

No subsequent events have occurred which would materially affect these accounts.

10. Seasonality

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