Electricity Invercargill Limited

Interim Financial Statements

For the Six Months ended 30 September 2018

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Directors' Approval

The Directors have approved for issue the Financial Statements of Electricity Invercargill Limited for the six months ended 30 September 2018 on pages 3 to 13.

Thomas Campbell
Chair

30 November 2018

Sarah Brown
Director

30 November 2018

Electricity Invercargill Limited
Statement of Service Performance
For the Six Months ended 30 September 2018

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 year, are detailed below.

Performance Measures

	Target	Achievement		
	Year Ended 31 Mar 2019 $'000	Six Months Ended 30 Sept 2018 $'000	Six Months Ended 30 Sept 2017 $'000	Year Ended 31 Mar 2018 $'000
Financial				
Operating Surplus Before Tax	8,525	6,327	6,884	9,469
Operating Surplus After Tax	6,432	4,787	5,270	7,333
Earnings Before Interest and Tax to Total Assets (EBIT%)	6.30 %	4.20 %	4.52 %	6.68 %
Return on Equity %	6.88 %	4.87 %	5.40 %	7.85 %
Equity to Total Assets %	48.65 %	51.22 %	51.27 %	49.51 %

Supply Quality

System Average Interruption Duration Index (SAIDI)
The average total time in minutes each customer connected to the network is without supply.

SAIDI	22.50	7.78	16.89	27.49

System Average Interruption Frequency Index (SAIFI)
The average number of times each customer connected to the network is without supply.

SAIFI	0.57	0.09	0.25	0.47

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.

Health and Safety

Total Recordable Injury Frequency Rate (TRIFR)
Based on 12 Month rolling average for PowerNet employees and contractors

TRIFR	3.60	6.20	3.60	4.40

Serious Harm Incident
Target - for both Public and Workforce (PowerNet employees and contractors)

Serious Harm	0	0	0	0

Supplementary Information

Network Statistics			
Length of overhead line	54km	54km	54km
Length of underground cable	603km	602km	602km
Total number of interruptions	10	13	27
Faults per 100km of line	1.96	2.84	7.38
Transformer capacity MVA	149	150	149
Maximum demand MW	63	60	63
Energy into network GWh	159	157	265
Total consumers	17,424	17,413	17,422

Electricity Invercargill Limited
Statement of Financial Performance
For the Six Months ended 30 September 2018

		GROUP		
	Notes	**Six Months Ended 30 September 2018 $'000**	**Six Months Ended 30 September 2017 $'000**	**Year Ended 31 March 2018 $'000**
Operating Revenue		12,481	12,343	21,891
Other Income		298	233	540
Operating Expenses		(8,188)	(8,103)	(16,480)
Finance Costs		(1,596)	(1,721)	(3,140)
Share of Profit of Associates and Joint Ventures	3	3,332	4,132	6,658
Operating Surplus Before Taxation		**6,327**	**6,884**	**9,469**
Taxation Expense		(1,540)	(1,614)	(2,136)
Net Surplus After Taxation		**4,787**	**5,270**	**7,333**

The accompanying notes on pages 9 to 13 form part of and should be read in conjunction with these financial statements.

Electricity Invercargill Limited
Statement of Comprehensive Income
For the Six Months ended 30 September 2018

	GROUP		
	Six Months Ended 30 September 2018 $'000	**Six Months Ended 30 September 2017 $'000**	**Year Ended 31 March 2018 $'000**
Net Surplus After Taxation	**4,787**	**5,270**	**7,333**
Other Comprehensive Income			
- Revaluation	-	-	-
Other Comprehensive Income	-	-	-
Total Comprehensive Income	4,787	5,270	7,333

The accompanying notes on pages 9 to 13 form part of and should be read in conjunction with these financial statements.

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Electricity Invercargill Limited
Statement of Changes in Equity
For the Six Months ended 30 September 2018

		GROUP		
	Notes	Six Months Ended 30 September 2018 $'000	Six Months Ended 30 September 2017 $'000	Year Ended 31 March 2018 $'000
Total Comprehensive Income				
Net Surplus for the Period		4,787	5,270	7,333
Other Comprehensive Income		-	-	-
		4,787	5,270	7,333
Distributions to Shareholders				
Dividend Paid/Declared	2	-	-	(6,200)
		-	-	(6,200)
Changes in Equity for the Period		**4,787**	**5,270**	**1,133**
Equity at the Beginning of the Period		**93,445**	**92,312**	**92,312**
Equity at End of the Period		**98,232**	**97,582**	**93,445**

The accompanying notes on pages 9 to 13 form part of and should be read in conjunction with these financial statements.

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Electricity Invercargill Limited
Statement of Financial Position
For the Six Months ended 30 September 2018

		GROUP		
	Notes	30 September 2018 $'000	30 September 2017 $'000	31 March 2018 $'000
ASSETS				
Current Assets				
Cash and Cash Equivalents		2,210	3,688	507
Receivables and Prepayments		2,310	2,266	2,128
Total Current Assets		**4,520**	**5,954**	**2,635**
Non Current Assets				
Investments in Associates		1,621	1,620	1,582
Advances to Associates		3,735	2,832	3,437
Investments in Joint Ventures	3	80,231	81,528	80,326
Advances to Joint Ventures		7,597	7,173	7,488
Investments in Other Entities		118	118	118
Property, Plant and Equipment	4	91,517	87,070	91,555
Capital Work in Progress		2,387	4,044	1,609
Total Non Current Assets		**187,206**	**184,385**	**186,115**
Total Assets		**191,726**	**190,339**	**188,750**
LIABILITIES				
Current Liabilities				
Creditors and Accruals		2,680	3,142	3,606
Dividend Payable		4,200	3,800	6,200
Income Tax Payable		397	908	395
Total Current Liabilities		**7,277**	**7,850**	**10,201**
Non Current Liabilities				
Shareholder Advance		66,825	65,825	65,825
Deferred Tax Liabilities		19,392	19,082	19,279
Total Non Current Liabilities		**86,217**	**84,907**	**85,104**
Total Liabilities		**93,494**	**92,757**	**95,305**
Net Assets		**98,232**	**97,582**	**93,445**
EQUITY				
Share Capital	2	13,000	13,000	13,000
Reserves		31,504	31,567	31,504
Retained Earnings		53,728	53,015	48,941
Total Equity		**98,232**	**97,582**	**93,445**

The accompanying notes on pages 9 to 13 form part of and should be read in conjunction with these financial statements.

Electricity Invercargill Limited
Statement of Cash Flows
For the half-year ended 30 September 2018

	Notes	GROUP Six Months Ended 30 September 2018 $'000	Six Months Ended 30 September 2017 $'000	Year Ended 31 March 2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Was Provided From:				
Receipts from Customers		12,316	12,198	21,940
Interest Received		249	180	410
Taxation Refunds		-	-	241
		12,565	12,378	22,591
Cash Was Disbursed To:				
Payments to Suppliers and Employees		(6,918)	(5,646)	(11,196)
Income Tax Paid		(1,425)	(1,186)	(2,265)
Interest Paid		(1,720)	(1,854)	(3,269)
GST Paid/(Received)		71	84	(87)
		(9,992)	(8,602)	(16,817)
Net Cash Flows From Operating Activities	5	**2,573**	**3,776**	**5,774**
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash Was Provided From:				
Sale of Property, Plant and Equipment		4	(8)	5
Dividend Received		3,386	3,395	7,163
Advances Repaid by Associates and Joint Ventures		-	587	272
		3,390	3,974	7,440
Cash Was Applied To:				-
Purchase of Property, Plant and Equipment		(2,075)	(880)	(7,553)
Transfers from/ (Payments for) Capital Work in Progress		(779)	(2,195)	239
Purchase of additional Interest in Joint Ventures		-	-	(1)
Advances to Associates and Joint Ventures		(406)	(229)	(834)
		(3,260)	(3,304)	(8,149)
Net Cash Flows/ (Outflows) from Investing Activities		**130**	**670**	**(709)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash Was Provided From:				
Shareholder Advances Received		1,000	-	-
		1,000	-	-
Cash Was Applied To:				
Repayment of Shareholder Advance		-	(2,000)	(2,000)
Dividend Payment		(2,000)	(1,900)	(5,700)
		(2,000)	(3,900)	(7,700)
Net Cash Outflows From Financing Activities		**(1,000)**	**(3,900)**	**(7,700)**
Net Increase/(Decrease) in Cash and Cash Equivalents Held		1,703	546	(2,635)
Add Opening Cash Brought Forward		507	3,142	3,142
Closing Cash and Cash Equivalents Carried Forward		**2,210**	**3,688**	**507**

The accompanying notes on pages 9 to 13 form part of and should be read in conjunction with these financial statements.

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 inaccordance 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 2018.

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 a historical cost basis are followed by the Group, with the exception that certain property, plant and equipment has been revalued to fair value.

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

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

The accounting policies adopted are consistent with those followed in the preparation if the Group's Financial Statements for the year ended 31 March 2018.

New Standards Adopted
There have been no new standards adopted or applied in the current period.

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.

- **NZ IFRS 15, 'Revenue from contract with customers, (effective for annual periods beginning on or after 1 January 2018)'**
  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 2018 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 Equity

The authorised and issued share capital comprises 13 million ordinary shares (30 September 2017 and 31 March 2018: 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 September 2018 $'000	**30 September 2017 $'000**	**31 March 2018 $'000**
Share Capital	**13,000**	**13,000**	**13,000**
Dividend Declared/Paid	-	-	(6,200)

	Cents per Share
Dividend per Share	47.7

3 Investments in Joint Ventures

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

In April 2015 the Group took a 25% interest in the Southern Generation Limited Partnership. This partnership was formed to invest in electricity generation opportunities. The partnership owns two wind farms, Mt. Stuart near Lawrence and Flat Hill near Bluff. On 29 April 2016, the partnership completed the acquisition of the assets relating to the Aniwhenua Hydro Station on the Rangitaiki River in the Bay of Plenty.
On 15 August 2017 the partners also entered in a conditional agreement to purchase assets relating to two hydro stations, Upper Fraser near Alexandra and Mariti near Murchison. The expected generation output of these two hydro stations is about 58 GWh, with Upper Fraser contributing 30 GWh and Matiri 28 GWh.

Effective from 1 April 2016 the Group equity accounted its share of profits from the 50% owned joint venture entity, PowerNet Limited Group to be consistent with the economic benefits the Group receives based on the PowerNet dividend policy. The equity accounted share of profit in PowerNet in 2018 is 23.48% (2017: 24.69%).

4 Property, Plant and Equipment - Additions and Disposals

	GROUP		
	30 September 2018 $'000	**30 September 2017 $'000**	**31 March 2018 $'000**
Additions	2,075	3,075	7,553
Disposals	(97)	(56)	(675)

The network assets of Electricity Invercargill Limited were revalued to fair value using discounted cash flow metodology on 1 April 2016 ny 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 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 hierarcy.

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

The following is a reconciliation between the Net Surplus After Taxation shown in the Statement of Financial Performance and the Net Cash Flows From Operating Activities.

	GROUP		
	30 September 2018 $'000	**30 September 2017 $'000**	**31 March 2018 $'000**
Net Surplus After Taxation	4,787	5,270	7,333
Plus/(Less) Non Cash Items:			
Depreciation and Amortisation	2,016	1,922	3,894
Deferred Taxation	113	112	309
Loss on Sale of Property, Plant and Equipment	94	65	268
Share of Profit of Associates and Joint Ventures	(3,332)	(4,132)	(6,658)
	(1,109)	(2,033)	(2,187)
Plus/(Less) Movements in Working Capital:			
Increase/(Decrease) in Payables and Accruals	(863)	445	910
(Increase)/Decrease in Receivables	(243)	(222)	(86)
Increase/(Decrease) in Provision for Taxation	1	316	(196)
	(1,105)	539	628
Net Cash Flows From Operating Activities	**2,573**	**3,776**	**5,774**

6 Commitments

a) Capital Commitments

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

	30 September 2018 $'000	**30 September 2017 $'000**	**31 March 2018 $'000**
Capital Commitments	2,103	2,911	1,014

b) Investment Commitments

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

c) Other Commitments

The Group has a conditional commitment as at 30 September 2018 of $415,000 (30 September 2017 and 31 March 2018: $415,000). This relates to an agreement with Smart Co, for the Group to provide a subordinated loan to Smart Co once a number of terms have been met.

7 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 Southern Generation Limited Partnership through their wholly owned subsidiary Pylon Limited and Peak Power Services Limited through PowerNet Limited.

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

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:

	GROUP		
	Six Months Ended 30 September 2018 $'000	**Six Months Ended 30 September 2017 $'000**	**Year Ended 31 March 2018 $'000**
Goods and Services Supplied to:			
PowerNet Limited (Joint Venture)	160	145	294
Electricity Southland Limited (Associate)	89	54	118
Receivables Outstanding at Balance Date			
PowerNet Limited (Joint Venture)	82	72	78
Electricity Southland Limited (Associate)	45	28	34
Goods and Services Supplied by:			
PowerNet Limited (Joint Venture)	4,804	4,888	10,879
Invercargill City Holdings Limited (Other Related Party)	1,794	1,803	3,544
Creditors Outstanding at Balance Date			
PowerNet Limited (Joint Venture)	956	1,564	2,423
Invercargill City Holdings Limited (Other Related Party)	144	211	145
Dividends Paid to:			
Invercargill City Holdings Limited (Other Related Party)	2,000	1,900	5,700
Advances Provided to (Repaid by):			
PowerNet Limited (Joint Venture)	109	(587)	(272)
Electricity Southland Limited (Associate)	297	229	834
Pylon Limited (Subsidiary)	131	263	836
Advances Repaid to (Provided from):			
Invercargill City Holdings Limited (Other Related Party)	(1,000)	2,000	2,000

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

8 Subsequent Events

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

9 Seasonality

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