

Electricity Invercargill Limited

Interim Financial Statements

For the Six Months ended 30 September 2019

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Electricity Invercargill Limited
Directors' Approval
30 September 2019

Directors' Approval

The Directors have approved for issue the Financial Statements of Electricity Invercargill Limited for the six months ended 30 September 2019 on pages 3 to 13.

For and on behalf of the Board.



Thomas Campbell
Chair

29 November 2019



Sarah Brown
Director

29 November 2019

Electricity Invercargill Limited
Statement of Service Performance
For the Six Months ended 30 September 2019

The objectives of Electricity Invercargill Limited (EIL) 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 Year Ended 31 March 2020 \$'000	Six Months Ended 30 September 2019 \$'000	Achievement Six Months Ended 30 September 2018 \$'000	Year Ended 31 March 2019 \$'000
<i>Financial</i>				
Operating Surplus Before Taxation, Subvention and Fair Value Adjustments	8,671	5,441	6,822	9,575
Operating Surplus After Tax	5,930	3,869	4,787	4,655
Earnings Before Taxation, Interest, Subvention and Fair Value Adjustments to Total Assets (EBIT%)	6.05 %	3.45 %	4.39 %	6.69 %
Return on Equity %	6.28 %	4.04 %	4.87 %	5.07 %
Equity to Total Assets %	45.34 %	47.69 %	51.22 %	48.18 %

Supply Quality

System Average Interruption Duration Index (SAIDI)

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

SAIDI	22.00	32.33	7.78	17.98
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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	0.57	0.64	0.09	0.31
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Health and Safety

Total Recordable Injury Frequency Rate (TRIFR)

Based on 12 months rolling average for PowerNet employees and contractors.

TRIFR	4.20	5.40	6.20	4.60
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Supplementary information

Network Statistics

Length of overhead line	54 km	54 km	54 km
Length of underground cable	604 km	603 km	604 km
Total number of interruptions	29	10	27
Faults per 100km of line	4.41	1.96	6.85
Transformer capacity MVA	151	149	149
Maximum demand MW	62	63	63
Energy into network GWh	153	159	267
Total consumers	17,416	17,424	17,417

Electricity Invercargill Limited
Statement of Financial Performance
For the Six Months ended 30 September 2019

	Notes	GROUP		
		Six Months Ended 30 September 2019 \$'000	Six Months Ended 30 September 2018 \$'000	Year Ended 31 March 2019 \$'000
Revenue from Contracts with Customers		11,541	11,797	20,727
Other Income		974	982	1,957
Operating Expenses		<u>(8,706)</u>	<u>(8,188)</u>	<u>(17,685)</u>
Operating Surplus		3,809	4,591	4,999
Finance Cost		(1,497)	(1,596)	(3,169)
Share of Profit of Associates and Joint Ventures	3	<u>2,904</u>	<u>3,332</u>	<u>4,217</u>
Net Surplus Before Taxation		5,216	6,327	6,047
Taxation Expense		<u>(1,347)</u>	<u>(1,540)</u>	<u>(1,392)</u>
Net Surplus After Taxation		<u>3,869</u>	<u>4,787</u>	<u>4,655</u>

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 2019

	GROUP		
	Six Months Ended 30 September 2019 \$'000	Six Months Ended 30 September 2018 \$'000	Year Ended 31 March 2019 \$'000
Net Surplus After Taxation	3,869	4,787	4,655
Other Comprehensive Income			
- Revaluation	-	-	-
Other Comprehensive Income	-	-	-
Total Comprehensive Income	<u>3,869</u>	<u>4,787</u>	<u>4,655</u>

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Electricity Invercargill Limited
Statement of Changes in Equity
For the Six Months ended 30 September 2019

	Notes	GROUP		
		Six Months Ended 30 September 2019 \$'000	Six Months Ended 30 September 2018 \$'000	Year Ended 31 March 2019 \$'000
Total Comprehensive Income				
Net Surplus for the Period		3,869	4,787	4,655
Other Comprehensive Income		-	-	-
		<u>3,869</u>	<u>4,787</u>	<u>4,655</u>
Distributions to Shareholders				
Dividend Paid/Declared	2	-	-	(6,200)
		<u>-</u>	<u>-</u>	<u>(6,200)</u>
Changes in Equity for the Period		<u>3,869</u>	<u>4,787</u>	<u>(1,545)</u>
Equity at the Beginning of the Period		<u>91,900</u>	<u>93,445</u>	<u>93,445</u>
Equity at End of the Period		<u>95,769</u>	<u>98,232</u>	<u>91,900</u>

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Electricity Invercargill Limited
Statement of Financial Position
For the Six Months ended 30 September 2019

		GROUP		
	Notes	30 September 2019 \$'000	30 September 2018 \$'000	31 March 2019 \$'000
ASSETS				
Current Assets				
Cash and Cash Equivalents		2,839	2,210	198
Receivables and Prepayments		<u>2,443</u>	<u>2,310</u>	<u>2,266</u>
Total Current Assets		<u>5,282</u>	<u>4,520</u>	<u>2,464</u>
Non Current Assets				
Investments in Associates		1,599	1,621	1,563
Advances to Associates		4,592	3,735	4,235
Investments in Joint Ventures	3	84,250	80,231	77,871
Advances to Joint Ventures		8,070	7,597	8,935
Investments in Other Entities		118	118	118
Property, Plant and Equipment	4	93,685	91,517	93,759
Capital Work in Progress		<u>3,217</u>	<u>2,387</u>	<u>1,791</u>
Total Non Current Assets		<u>195,531</u>	<u>187,206</u>	<u>188,272</u>
Total Assets		<u>200,813</u>	<u>191,726</u>	<u>190,736</u>
LIABILITIES				
Current Liabilities				
Creditors and Accruals		3,297	2,680	4,313
Dividend Payable		4,200	4,200	6,200
Income Tax Payable/(Receivable)		<u>1,568</u>	<u>397</u>	<u>(558)</u>
Total Current Liabilities		<u>9,065</u>	<u>7,277</u>	<u>9,955</u>
Non Current Liabilities				
Shareholder Advance		76,325	66,825	69,325
Deferred Tax Liabilities		<u>19,654</u>	<u>19,392</u>	<u>19,556</u>
Total Non Current Liabilities		<u>95,979</u>	<u>86,217</u>	<u>88,881</u>
Total Liabilities		<u>105,044</u>	<u>93,494</u>	<u>98,836</u>
Net Assets		<u>95,769</u>	<u>98,232</u>	<u>91,900</u>
EQUITY				
Share Capital	2	13,000	13,000	13,000
Reserves		31,393	31,504	31,393
Retained Earnings		<u>51,376</u>	<u>53,728</u>	<u>47,507</u>
Total Equity		<u>95,769</u>	<u>98,232</u>	<u>91,900</u>

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 Six Months ended 30 September 2019

	GROUP		
	Six Months Ended 30 September 2019 \$'000	Six Months Ended 30 September 2018 \$'000	Year Ended 31 March 2019 \$'000
Notes			
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers	11,783	12,316	22,226
Interest Received	293	249	530
Taxation Refunds	878	-	-
	<u>12,954</u>	<u>12,565</u>	<u>22,756</u>
Cash Was Disbursed To:			
Payments to Suppliers and Employees	(7,328)	(6,918)	(12,951)
Income Tax Paid	-	(1,425)	(2,070)
Interest Paid	(1,511)	(1,720)	(3,160)
GST Received	35	71	103
	<u>(8,804)</u>	<u>(9,992)</u>	<u>(18,078)</u>
Net Cash Flows From Operating Activities	5 <u>4,150</u>	2,573 <u>2,573</u>	4,678 <u>4,678</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Sale of Property, Plant and Equipment	2	4	23
Dividend Received	2,649	3,386	6,691
Advances Repaid by Associates and Joint Ventures	865	-	-
	<u>3,516</u>	<u>3,390</u>	<u>6,714</u>
Cash Was Applied To:			
Purchase of Property, Plant and Equipment	(3,505)	(2,854)	(6,757)
Purchase of additional Interest in Joint Ventures	(6,162)	-	-
Advances to Associates and Joint Ventures	(358)	(406)	(2,244)
	<u>(10,025)</u>	<u>(3,260)</u>	<u>(9,001)</u>
Net Cash Flows/ (Outflows) from Investing Activities	(6,509) <u>(6,509)</u>	130 <u>130</u>	(2,287) <u>(2,287)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Shareholder Advances Received	7,000	1,000	3,500
	<u>7,000</u>	<u>1,000</u>	<u>3,500</u>
Cash Was Applied To:			
Dividend Payment	(2,000)	(2,000)	(6,200)
	<u>(2,000)</u>	<u>(2,000)</u>	<u>(6,200)</u>
Net Cash Flows/ (Outflows) From Financing Activities	5,000 <u>5,000</u>	(1,000) <u>(1,000)</u>	(2,700) <u>(2,700)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents Held	2,641	1,703	(309)
Add Opening Cash Brought Forward	198	507	507
Closing Cash and Cash Equivalents Carried Forward	2,839 <u>2,839</u>	2,210 <u>2,210</u>	198 <u>198</u>

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 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 29 November 2019.

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 of the Group's Financial Statements for the year ended 31 March 2019.

New Standards Adopted

The Group has applied the following standards for the first time for their annual reporting period commencing 1 April 2018:

- NZ IFRS 9 Financial Instruments
- NZ IFRS 15 Revenue from Contracts with Customers

The Group had to change its accounting policies but the adoption have no material effects on the financial statements. The financial statements have a reclassification of prior year balances to align with the current year classification under the new accounting standards for comparability. These reclassifications have not resulted in a change to opening retained earnings.

Standards or Interpretations not yet Effective

NZ IFRS 16, 'Leases (effective for annual periods beginning on or after 1 January 2019)'

NZ IFRS 16, 'Leases' replaces the current guidance in NZ IAS 17. It requires a lessee recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short term leases and leases of low-value assets; however, this exemption can only be applied by lessees. Early adoption is permitted but only in conjunction with NZ IFRS 15. The group intends to adopt NZ IFRS 16 on its effective date and is currently assessing its full impact.

2 Share Capital and Dividends

The authorised and issued share capital comprises 13 million ordinary shares (30 September 2018 and 31 March 2019: 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	30 September	31 March
	2019 \$'000	2018 \$'000	2019 \$'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 Matiri 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. On 30 September 2019, the partnership completed the acquisition of the assets relating to the Upper Fraser hydro station.

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 2019 is 25.23% (2018: 23.48%).

In October 2019 PowerNet Limited agreed to purchase the final remaining shares (9.68%) of PowerNet Central Limited from Ian Boud. The date of acquisition is expected to take place at the start of the next financial year.

4 Property, Plant and Equipment - Additions and Disposals

	GROUP		
	30 September	30 September	31 March
	2019 \$'000	2018 \$'000	2019 \$'000
Additions	2,079	2,075	6,576
Disposals	(48)	(97)	(743)

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 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 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	30 September	31 March
	2019	2018	2019
	\$'000	\$'000	\$'000
Net Surplus After Taxation	3,869	4,787	4,655
Plus/(Less) Non Cash Items:			
Depreciation and Amortisation	2,107	2,016	4,078
Deferred Taxation	98	113	277
Loss on Sale of Property, Plant and Equipment	47	94	269
Share of Profit of Associates and Joint Ventures	<u>(2,904)</u>	<u>(3,332)</u>	<u>(4,217)</u>
	<u>(652)</u>	<u>(1,109)</u>	<u>407</u>
Plus/(Less) Movements in Working Capital:			
Increase/(Decrease) in Payables and Accruals	(1,016)	(863)	517
(Increase)/Decrease in Receivables	(177)	(243)	52
Increase/(Decrease) in Provision for Taxation	<u>2,126</u>	<u>1</u>	<u>(953)</u>
	<u>933</u>	<u>(1,105)</u>	<u>(384)</u>
Net Cash Flows From Operating Activities	<u>4,150</u>	<u>2,573</u>	<u>4,678</u>

6 Commitments

a) Capital Commitments

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

	30 September	30 September	31 March
	2019	2018	2019
	\$'000	\$'000	\$'000
Capital Commitments	3,916	2,103	1,065

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 a hydro generation development upon completion of construction. The Matiri hydro power station located at 15km north of Murchinson, with a capacity of 7MW is due to be commissioned on May 2020.

c) Other Commitments

The Group has a conditional commitment as at 30 September 2019 of \$415,000 (30 September 2018 and 31 March 2019: \$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 Powernet Central 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 2019 \$'000	Six Months Ended 30 September 2018 \$'000	Year Ended 31 March 2019 \$'000
Goods and Services Supplied to:			
PowerNet Limited (Joint Venture)	184	160	359
Electricity Southland Limited (Associate)	100	89	188
Receivables Outstanding at Balance Date			
PowerNet Limited (Joint Venture)	88	82	92
Electricity Southland Limited (Associate)	49	45	49
Goods and Services Supplied by:			
PowerNet Limited (Joint Venture)	5,761	4,804	10,604
Invercargill City Holdings Limited (Other Related Party)	1,952	1,794	3,578
Creditors Outstanding at Balance Date			
PowerNet Limited (Joint Venture)	1,892	956	2,879
Invercargill City Holdings Limited (Other Related Party)	79	144	150
Dividends Paid to:			
Invercargill City Holdings Limited (Other Related Party)	2,000	2,000	6,200
Advances Provided to (Repaid by):			
PowerNet Limited (Joint Venture)	(865)	109	1,447
Electricity Southland Limited (Associate)	358	297	798
Pylon Limited (Subsidiary)	6,162	131	-
Advances Repaid to (Provided from):			
Invercargill City Holdings Limited (Other Related Party)	(7,000)	(1,000)	(3,500)

Other Related Parties

There have been no material transactions with Directors.

8 Subsequent Events

In October 2019 PowerNet Limited agreed to purchase the final remaining shares (9.68%) of PowerNet Central Limited from Ian Boud. The date of acquisition is expected to take place at the start of the next financial year.

A \$13.5 million increase in share capital of Electricity Southland Limited was approved in October 2019. The Group's contribution of the share capital increase is \$3.4 million to be settled in November 2019.

There are no other material subsequent events that have arisen since the end of the half financial year to the date of this report.

9 Seasonality

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