Electricity Invercargill Ltd

ANNUAL REPORT 2017

Front cover: Murray Cunningham, PowerNet.

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Directory

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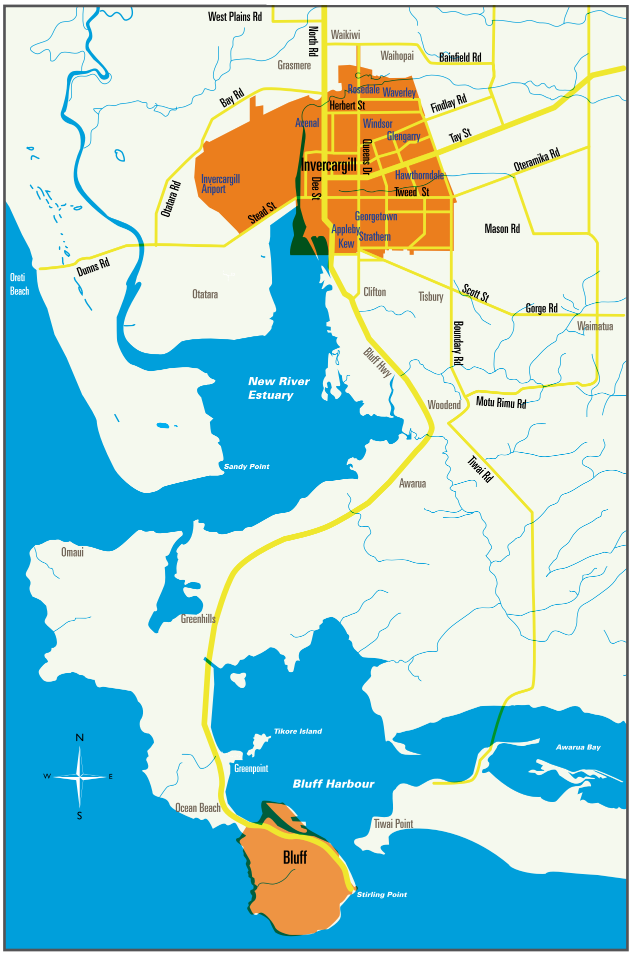
Map of EIL Area



About Electricity Invercargill Ltd

Electricity Invercargill Ltd (EIL) is one of the best-performing networks in New Zealand on the key measures of reliability and efficiency (Commerce Commission).

Formed in 1991, EIL is owned by the Invercargill City Council through its subsidiary company, Invercargill City Holdings Ltd (ICHL). The network has provided power to Invercargill since 1905 under different names, most notably as the Invercargill Municipal Electricity Department. ICHL has a 100 percent ownership of EIL and receives an annual dividend.

EIL supplies 17,377 customers - 90 percent of them residential - through its electricity network in Invercargill City and the Bluff area.

The foresight of EIL's management and directors to underground most of the network over a 45-year period from the late 1960s makes it one of New Zealand's most reliable networks. This farsighted vision continues today with EIL's commitment to reduce the overall age of its network and continuously improve its assets to ensure safety, efficiency and reliability.

The Regulatory Value of the EIL network assets is $75 million. This includes 665km of predominantly underground cables, some overhead lines and 444 distribution transformers with a capacity of 149MVA.

In 2015, EIL and The Power Company Ltd (TPCL) purchased a 50 percent interest in the Southern Generation Ltd Partnership (SGLP), which owns the Mt Stuart wind farm near Lawrence and the Flat Hill wind farm at Bluff. In 2016, SLGP also purchased the Aniwhenua hydro-electric power station in the Bay of Plenty.

EIL contracts PowerNet Ltd (PowerNet) to manage, operate, upgrade, construct and maintain its network and metering assets. PowerNet's costs are recovered through a charging regime on capital and maintenance work and an agency fee for management services.

PowerNet acts as agent for EIL and charges line and metering charges to electricity retailers, pays transmission costs and passes the revenue and expenses through to EIL. The revenue provides a return on investment to EIL and recovers EIL's overheads, depreciation and operating costs.

Other revenue is derived from the capital contributions of customers connecting new installations to the network, the commercial returns from the company's investments in the OtagoNet Joint Venture (OJV), Electricity Southland Ltd (ESL) and PowerNet, as well as the new generation assets EIL owns with TPCL and Pioneer Generation Ltd.

EIL Statistics as at 31 March 2017	
Connected consumers	17,377
Residential	15,244
Industrial	127
Commercial	2,006
Network length	665km
Consumer density	26.1 consumers/km
Number of distribution transformers	444
Distribution transformer density	224.2kVA/km
Maximum demand	63MW
Total energy conveyed	268GWh
Regulatory value	$75 million

L/R: Jordan Coutts, Andrew King and Paul Barclay (PowerNet) lifting the new switchgear into place at ASB House, Invercargill.

Our Investments

PowerNet Ltd

In a joint venture with TPCL, EIL has a 50% shareholding in electricity asset management company, PowerNet.

EIL and TPCL established PowerNet in 1994 to achieve economies of scale through integrated network management. PowerNet is contracted to manage the EIL network—primarily its capital and maintenance works programme—and its metering assets.

Since its inception, PowerNet has led the way in electricity network management and currently manages assets with a Regulatory Value of $564 million. It is New Zealand's fifth largest electricity asset management company.

PowerNet's performance is judged by the value and efficiency of its network asset management and business development.

PowerNet operates a local 24-hour, 7-day a week, System Control facility that closely monitors and controls network operations and provides a faults call centre service.

Electricity Southland Ltd (ESL)

Electricity network asset company, Electricity Southland Ltd (ESL), is based in Central Otago and was established in 1995 by EIL and TPCL. ESL's assets total nearly $16 million. The network continues to expand rapidly as the Queenstown Lakes region develops at pace. This growth is mainly due to new customer connections at the Shotover Country Subdivision, Lakes Edge Subdivision, Remarkables Park, Shotover Park Development, Bridesdale Farm, Hanley's Farm and the Northlake Development in Wanaka.

OtagoNet Joint Venture (OJV)

OJV was formed in 2002 after the purchase of electricity network assets from the shareholders of the consumer co-operative company, Otago Power Services Ltd (OPSL).

OJV has 14,912 customers spread over a vast area of coastal and inland Otago from Shag Point in the north east, through to St Bathans and south to the Chaslands. OJV has a Regulatory Value of $161 million.

OJV is jointly owned by EIL (24.9%) and TPCL (75.1%).

Our Investments *continued*

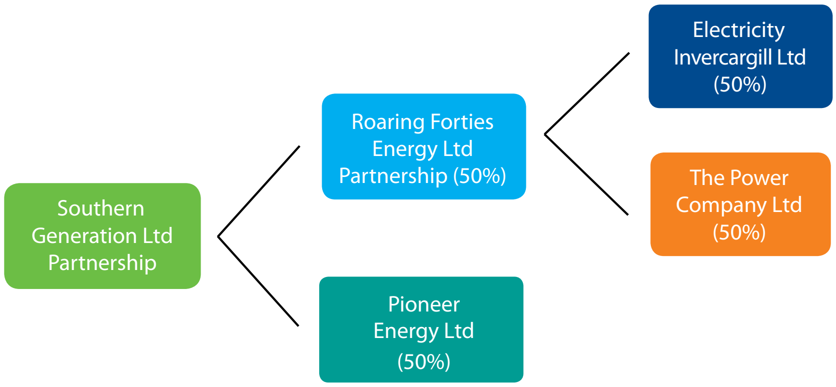
Southern Generation Ltd Partnership

In April 2015, EIL joined with TPCL and Pioneer Energy Ltd to create the new Southern Generation Ltd Partnership (SGLP). The partnership owns two wind farms – Mt Stuart near Lawrence and Flat Hill near Bluff.

In April 2016, the partnership also acquired the Aniwhenua hydro-electric power station on the Rangitaiki River in the Bay of Plenty. This asset, coupled with a long-term supply agreement to a power retailer, adds asset value to the EIL balance sheet. SGLP is also exploring further opportunities in hydro-electricity.

This investment and diversification has been a significant strategic development for EIL.

The total value of SGLP assets is $150 million.



Southern Generation Ltd Partnership structure

The generation output of the two wind generation sites and Aniwhenua hydro-electric power station is assessed at 174GWh per annum, with Mt Stuart contributing 22GWh, Flat Hill 25GWh, and Aniwhenua 127GWh. Wind and hydro generation are clean, green renewable energies that fit with EIL's other strategies, including the transition from fossil fuels to renewables where possible.

The total output from SGLP generation sites is equivalent to the amount needed to power 20,000 homes.

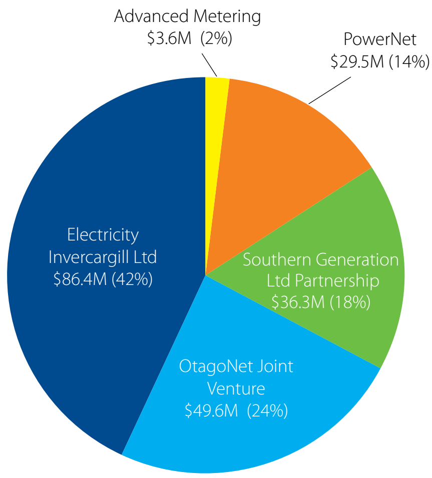
This renewable generation in Southland, Otago and Bay of Plenty is managed by our partner Pioneer Energy Ltd. EIL and TPCL jointly own 50 percent of SGLP through our joint venture, Roaring Forties Energy Ltd Partnership (RFELP). Pioneer Energy Ltd owns the remaining 50 percent.

The return on investment for RFELP makes this investment by EIL into distributed renewable energy generation a key strategic asset.

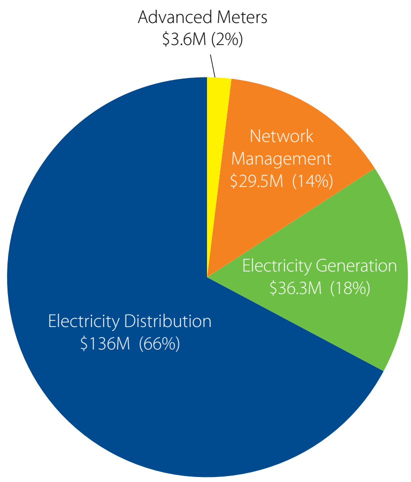
Electricity Invercargill Group – Asset Breakdown

The investment make-up by asset investment and investment type clearly illustrates the EIL strategy of diversification being achieved within the electricity sector. Historically EIL's predominant investment was the the Invercargill and Bluff network. That investment now makes up 42 percent of EIL's investment portfolio. Furthermore, while electricity distribution as an investment type comprises the majority (65 percent), there is significant diversification into electricity generation. This diversification is important in order to secure a long-term, sustainable investment return.

Asset Investment $205.4 million



Investment Type $205.4 million



The 750kVA transformer being lifted out of underground substation 519 (corner of Spey and Deveron streets, Invercargill).

The Year in Review

Operational Performance

Activity on the EIL network focuses on two key projects that ensure network reliability and safety.

Work continued this year to gradually replace Invercargill City's 13 underground substations (housing switchgear, distribution transformers and low voltage distribution boards). This is a three-year project that began in 2015. In 2016-17, two sites were moved above ground at Deveron and Herbert streets. A further four substations will be replaced next financial year.

The relocation above ground of 400 volt underground link boxes in Invercargill's CBD continues. Thirteen underground link boxes were replaced in 2016-17, with a further 40 scheduled for replacement over the next two years.

The total capital spend on the network in 2016-17 was $3.8 million and a further $1.6 million was spent on maintenance. Other ongoing work includes the replacement of distribution transformers and ring main units that are nearing the end of their life. In the Bluff area, 11kV lines have been replaced and poles renewed to maintain supply to the Bluff community and South Port.

New customer connections on the EIL network remained at a moderate level during the 2016-17 year.

Expenditure on the EIL network

Project	Expenditure
Underground substation replacements	$1,262,000
400V link box replacements	$623,000
Distribution transformer replacements	$352,000
Ring main unit replacements	$318,000
Bluff line and pole replacements	$298,000
New customer connections	$162,000

The Year in Review *continued*

EIL's normalised SAIDI of 13.47 minutes was well under the supply quality limit of 31.13 minutes while normalised SAIFI at 0.29 was also well under the supply quality limit of 0.77. This is because most of the network is underground and it is also due to recent network automation initiatives.

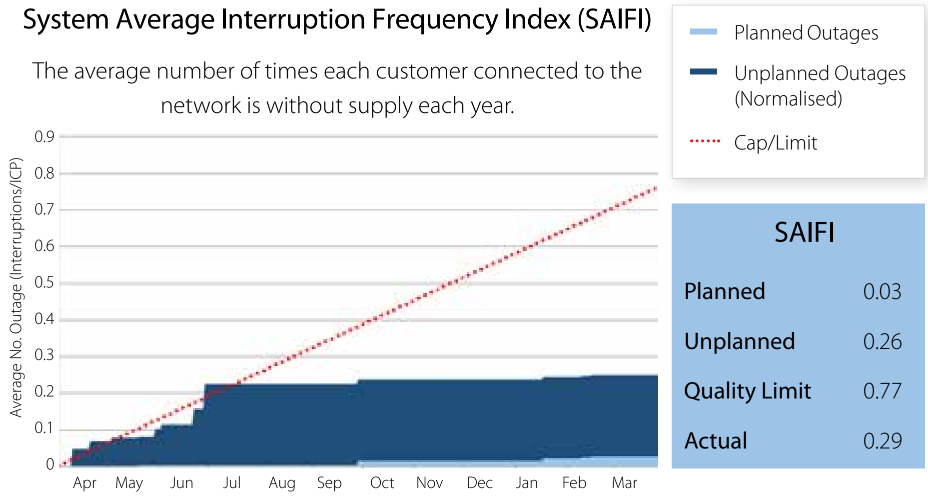
System Average Interruption Duration Index (SAIDI)

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

SAIDI	
Planned	4.42
Unplanned	9.05
Quality Limit	31.13
Actual	13.47

System Average Interruption Frequency Index (SAIFI)

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



SAIFI	
Planned	0.03
Unplanned	0.26
Quality Limit	0.77
Actual	0.29

The Year in Review *continued*

Regulatory Environment

EIL continues to support PowerNet's work in the regulatory environment via the Electricity Networks Association's working groups. These groups proactively provide industry direction in areas that include the sectors two regulators, the Commerce Commission and the Electricity Authority. Issues include tree regulations, distribution pricing changes, input methodologies, transmission pricing issues and low fixed charge regulations. It is with the low fixed charge regulations that EIL and the energy sector have serious concerns. The legislated tariff option is providing significant cross subsidies across our consumer groups and promotes inefficient investment in expensive alternative generation compared with lower cost generation options. The regulated tariff is subsidising inefficient investment which is not in the long-term interest of consumers or New Zealand.

As in previous years, the industry continues to work proactively with the Commission and the Electricity Authority to ensure regulations are targeted, efficient and effective.

Financial Performance

Operating surplus after tax was $7.030 million, 11.9% lower than the $7.976 million target due to a combination of factors. The electricity consumption across all networks was impacted by the unseasonally warm weather during the first half of the year. This reduced the underlying line charge revenue, making it lower than both last year and the targeted result. Also contributing to the result, from 1 April 2016, the Group equity-accounted its share of profits from the PowerNet Ltd Group at 25%. The change to 25% is consistent with the economic benefits the Group receives based on PowerNet's dividend policy. This change has contributed to the operating surplus EBIT% financial performance measure being below target.

Offsetting the above, the Group via its 25% interest in the Southern Generation Ltd Partnership has completed the acquisition of assets relating to the Aniwhenua hydro-electric power station. This investment provided above target income in 2017, partially offsetting the reduced line charge income. This is a positive contribution to the cash flow and reflects the importance of diversification in the uplift of the Group's net surplus.

	31 March 2017 $000	31 March 2016 $000
Operating surplus before tax	8,875	9,924
Less taxation expenses	(1,845)	(2,157)
Net surplus after taxation	7,030	7,767

Acknowledgements

EIL's directors thank all those who contributed to the company's continued success in 2016-17.

The directors particularly acknowledge the continued support of ICHL directors (as shareholder) and appreciate their support for our investments in OJV, the SGLP and other assets.

In our partnership with TPCL we share key investments. Our relationship with TPCL is of great importance to us and we thank TPCL's directors for their enduring support.

The directors also offer their appreciative thanks for the hard work and commitment of the high-quality staff and management at PowerNet. Their work is critical and instrumental to maintaining, managing, and growing our safe, reliable and efficient network and generation assets.

Our Community

Asset Management Plan Update

The EIL asset management plan update (AMP) outlines how network assets are managed to provide a safe, efficient and reliable electricity supply and service to Invercargill and Bluff communities over the next 10 years. The plan provides the governance and management framework that EIL works to.

The maximum demand on the network has increased about 0.4 percent per annum over the last 20 years, with energy increasing by about 0.2 percent per annum. The network will be upgraded to meet expected growth.

The focus over the short to medium term is to complete the following initiatives:

- Relocation of underground distribution substations and underground link boxes to above ground.
- Continued seismic strengthening work at zone and distribution substations.

These projects will contribute to maintaining network safety, efficiency and reliability.

Additional work over the 10-year planning period to maintain service levels will include:

- Improving safety at zone substations and on the distribution network.
- Upgrading areas to maintain acceptable voltages.
- Renewing unsafe and poorly performing assets.
- Meeting customer and distributed generator requests for new connections.
- Improving efficiency of the network by upsizing assets that have high losses and exchanging overloaded distribution transformers with currently installed under-utilised units.
- Extending remote monitoring and control to distribution devices.

Renewals of transformers, ring main units and pillar boxes are expected to create a significant ongoing cost. Capital expenditure each year varies with $6.2 million in 2016-17, then between $3.1 million and $6.0 million over the remaining 10-year planning horizon.

EIL continues to give customers the opportunity to have their say and provide input into the company's plans. It does this through an annual telephone customer survey and interviews with some of its larger commercial customers. It also invites public comment on the asset management plan.

The company works closely with customers and developers in planning new connections to the EIL network, to understand their plans and then feed these back into asset management planning.

These customer interactions mean EIL better understands the needs of stakeholders and their feedback benefits network planning.

The EIL Asset Management Plan can be viewed at: www.eil.co.nz

Supporting our Community

First Aid Equipment

During the year the EIL directors donated an automated external defibrillator (AED) to Bill Richardson Transport World. The AED is installed at a location inside the building that is accessible to the public.

Southland Warm Homes Trust

The annual contribution by EIL to support the Southland Warm Homes Trust (SWHT) is $125,000. EIL supports PowerNet's administration services to the SWHT.

The SWHT, in conjunction with the Energy Efficiency and Conservation Authority (EECA), has carried out more than 6,000 insulation and heating retrofits in Southland and West Otago homes since 2008.

Funding under EECA's Healthy Homes Programme is targeted at those who are likely to benefit most from having their homes insulated; low income households with high health needs, including families with children and the elderly.

On 1 July 2016, central government made changes to EECA's funding and narrowed the eligibility criteria for the Healthy Homes Programme to apply to landlords with eligible tenants only (the Healthy Homes Rental Programme). The criteria ties in with the new Residential Tenancies Act minimum insulation requirements for rental properties.

To be eligible, rental homes must have been built prior to 1 January 2000, the tenants require a community services card and those with high health needs must be referred through an approved service. Landlords with eligible tenants are required to make a 50% contribution towards the insulation cost, with EECA providing 25 percent and the SWHT providing the remaining 25 percent from community funding.

In addition to the EECA/SWHT programme, SWHT and service provider Awarua Synergy offer a subsidy of up to $2,000 for households to install insulation.

Directors' Profiles

Thomas Campbell *BSc (Metallurgy) ChFInst D*

Tom is chair of Electricity Invercargill Ltd and a director of Southern Generation Ltd Partnership, a former managing director of Comalco and general manager of the Tiwai Smelter. He now works as an independent company director.

His directorships include Todd Corporation and PowerNet, as well as being chair of both the Southland Regional Development Strategy and the Energy Efficiency and Conservation Authority (EECA).

Tom is a chartered fellow of the Institute of Directors.

Karen Arnold

Karen joined the boards of Electricity Invercargill Ltd and PowerNet in November 2016.

She is a former multi award-winning investigative journalist and is a second-term Invercargill City Councillor.

Karen is chair of the council's Urban Rejuvenation Committee, deputy chair of the Hearings Committee and a trustee of both the Southland Warm Homes Trust and the Invercargill Recreation and Sports Trust.

Karen completed the Institute of Directors' Certificate in Company Direction in May 2015.

Sarah Brown *LLB BA*

Sarah joined the board of Electricity Invercargill Ltd in November 2013.

She is the project manager for the Southland Regional Development Strategy, and was council chair of the Southern Institute of Technology from 2011 to May 2017. Sarah has been a director of PowerNet since April 2015.

Sarah is a member of the Institute of Directors.

Alan (Joe) O'Connell *BCom CA*

Joe joined the boards of Electricity Invercargill Ltd and PowerNet in December 2016. He serves as a director on a number of companies and was chairman of Invercargill Airport Ltd from 2011-2016.

He has worked in many industries including transport, timber, concrete, petroleum distribution, drilling exploration, property and growing media.

Joe is a chartered accountant and a member of the Institute of Directors.

Ross Smith *BCom*

Ross joined the board of Electricity Invercargill Ltd in November 2003 and is currently deputy chair. He was group managing director/CEO of SBS Bank from 1992-2014 and served as a director on three SBS Group subsidiary companies from 2001-2014.

Ross is also chair of PowerNet and is a past chair of Peak Power Services Ltd.

Ross is a member of the Institute of Directors.

Directors' Report

The Directors have pleasure in presenting their Annual Report and Financial Statements for the year ended 31 March 2017.

Principal Activities

The principal activity of the parent entity, Electricity Invercargill Limited is the provision of electricity distribution services. The Company is a wholly owned subsidiary of Invercargill City Holdings Limited. The Group consists of Electricity Invercargill Limited, its subsidiary, joint ventures and associate companies.

Result and Distribution

The Directors report that the Group's profit after tax and interest for the year under review was $7,030,000. A dividend of $5,700,000 has been declared payable in July and November 2017 and March 2018. The dividend will be imputed at 28%.

State of Company's Affairs

The Directors consider the state of the Company's affairs to be satisfactory.

Directors

The Directors are appointed by the Shareholder.

Directors' Interests

The following entries were made in the Interests Register of the Company with regard to the Directors:

General:

All Directors are interested in transactions with the Company involving the supply of standard network services, on standard terms and conditions, to premises in which they may have one or more of the following interests:

(a) Owner, either alone or jointly with others.

(b) Parent, child or spouse of another person who may have a material interest in a property.

(c) Director, officer or shareholder of a body corporate which may have a material interest in a property.

(d) Trustee or beneficiary of a trust which may have a material interest in a property.

Because the interest which Directors may have in such transactions is no different in kind, quality, benefit or obligation from transactions which the Company has with other network services customers, it is not intended to list such premises or properties in the Interests Register.

Director	Company	Position
Karen Arnold		
	Invercargill City Council	Councillor
	Invercargill Community Recreation and Sports Trust	Trustee
	PowerNet Ltd	Director
	Pylon Ltd	Director
	Southland Warm Homes Trust	Trustee
Neil Boniface		
	Cancer Society of New Zealand	Director
	Electricity Southland Ltd	Director
	Invercargill City Council	Councillor
	Invercargill Venue & Events Management Ltd	Director
	OtagoNet Joint Venture	Member, Governing Committee
	OtagoNet Ltd	Director
	OtagoNet Properties Ltd	Director
	Otago Southland Division of the Cancer Society	Chair
	PowerNet Ltd	Director
	Pylon Ltd	Director
	Pylon 2 Ltd	Director
	Southland Driving School	Director
	Southland Warm Homes Trust	Trustee
Sarah Brown		
	PowerNet Ltd	Director
	Pylon Ltd	Director
	Pylon 2 Ltd	Director
	Roaring Forties Energy GP Ltd	Director
	Southern Institute of Technology	Chair
	Southern Lakes Education College Ltd	Director
	Southland Regional Development Strategy	Project Manager
Thomas Campbell		
	Energy Efficiency & Conservation Authority	Chair
	PowerNet Ltd	Director
	Pylon Ltd	Director
	Pylon 2 Ltd	Director
	Roaring Forties Energy GP Ltd	Director
	Southern Generation GP Ltd	Director
	Southland Regional Development Strategy Governance Group	Chair
	Todd Corporation Ltd	Director
	Todd Offshore Ltd	Director
	Venture Southland	Director

Directors' Report

Director	Company	Position
Alan (Joe) O'Connell		
	AJO Management Ltd	Director
	K G Richardson and Sons Ltd	Association
	KGR Properties Ltd	Association
	Log Logistics Ltd	Director
	Log Marketing New Zealand Ltd	Director
	McNeill Drilling Company Ltd	Association
	Niagara Sawmilling Company Ltd	Association
	O'Connell Holdings Ltd	Director
	OKC Holdings Ltd	Director
	PowerNet Ltd	Director
	Property South Ltd	Director
	Pylon Ltd	Director
	R Richardson Ltd	Director
	R W Transport Ltd	Director
	Southfuels Ltd	Director
	TNZ Growing Products Ltd	Director
Darren Ludlow		
	Invercargill City Council	Deputy Mayor
	Invercargill City Charitable Trust	Trustee
	Invercargill Community Recreation and Sports Trust	Trustee
	PowerNet Ltd	Director
	Pylon Ltd	Director
	Pylon 2 Ltd	Director
	Radio Southland	Manager
	Southland Art Foundation	Trustee
	Southland Museum and Art Gallery	Trustee
Ross Smith		
	Electricity Southland Ltd	Director
	OtagoNet Joint Venture	Member, Governing Committee
	OtagoNet Ltd	Director
	OtagoNet Properties Ltd	Director
	Peak Power Services Ltd	Chair
	PowerNet Ltd	Director
	Pylon Ltd	Director
	Pylon 2 Ltd	Director

Directors' Report

Remuneration of Directors

The following Directors held office during the year under review and were paid fees accordingly:

Neil Boniface	-	Chair (until 30 November 2016)
Karen Arnold	-	Director (from 8 November 2016)
Sarah Brown	-	Director
Thomas Campbell	-	Director, Chair (from 1 December 2016)
Darren Ludlow	-	Director (until 7 November 2016)
Alan (Joe) O'Connell	-	Director (from 1 December 2016)
Ross Smith	-	Director

Remuneration paid or due and payable to Directors for services as a Director and in any other capacity for Electricity Invercargill Limited, during the year was:

Neil Boniface	$37,417	Darren Ludlow	$17,367
Karen Arnold	$11,519	Alan (Joe) O'Connell	$9,667
Sarah Brown	$28,725	Ross Smith	$28,725
Thomas Campbell	$38,392		

Employee Remuneration

No employees or former employees received remuneration to the value of $100,000 or greater during the year.

Donations

There were no donations made during the year.

Use of Company Information

During the year the Board received no notices from the Directors of the Company requesting to use Company information received in their capacity as Directors which would not otherwise have been made available to them.

Directors' and Employees' Indemnity and Insurance

Liability insurance was effected for Directors of the Company.

Accounting Policies

There has been no changes in the accounting policies during the year. These accounting policies have been applied on a basis consistent with those used in the previous year.

Auditor Remuneration

Refer to Note 3 of the Financial Statements for Auditor remuneration.

For and on behalf of the Directors.

Thomas Campbell
Chair

Ross Smith
Director

Approval by Directors

The Directors have approved for issue the Financial Statements of Electricity Invercargill Ltd for the year ended 31 March 2017 on pages 12 to 34.

Thomas Campbell
Chair

Ross Smith
Director

For and on behalf of the Board of Directors

29 June 2017

Statement of Service Performance

For the Year Ended 31 March 2017

The objectives of Electricity Invercargill Ltd 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 Targets	Target	Achievement	
	Year Ended 31 March 2017 $000	Year Ended 31 March 2017 $000	Year Ended 31 March 2016 $000
Financial Measures			
Operating Surplus Before Tax	9,768	8,875	9,924
Operating Surplus After Tax	7,976	7,030	7,767
Earnings Before Interest and Tax to Total Assets (EBIT%)	7.36%	6.45%	7.42%
Return on Equity %	8.93%	7.62%	8.71%
Equity to Total Assets %	49.61%	49.08%	55.70%

Operating surplus after tax was $7.030 million, 11.9% lower than the $7.976 million target due to a combination of factors. The electricity consumption across all networks was impacted by the unseasonal warm weather during the first half of the year. This reduced the underlying line charge revenue to be lower than both last year and the targeted result. Also contributing to the result is effective from 1 April 2016 the Group has equity accounted its share of profits from the 50% owned joint venture entity, PowerNet Ltd Group at 25%. The change to 25% is consistent with the economic benefits the Group receives based on the PowerNet dividend policy. This change has contributed to the operating surplus EBIT% financial performance measure being below target.

Offsetting the above, the Group via its 25% interest in the Southern Generation Ltd Partnership has completed the asset acquisition of the assets relating to the Aniwhenua Hydro Station. This investment provided above target income in 2017, partially offsetting the reduced line charge income. This is a positive contribution to the cash flow and reflects the importance of diversification in the uplift of the Group's net surplus.

Network Reliability Performance

The following results were calculated using information from the Company's non-financial systems, which due to the manual recording processes have inherent limitations relating to the completeness of interruption data and the accuracy of installation control point (ICP) numbers included in the SAIDI and SAIFI.

System Average Interruption Duration Index (SAIDI)

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

SAIDI	21.10	13.47	37.80

System Average Interruption Frequency Index (SAIFI)

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

SAIFI	0.57	0.29	0.67

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.

Statement of Service Performance *continued*

For the Year Ended 31 March 2017

Health and Safety Governance

The Board continued to give priority to health and safety during the 2017 financial year and remains strongly committed to providing the governance leadership required to ensure safe work practices amongst staff and contractors working on the company's network. Activity on the network focuses on key projects that ensure network reliability and safety. The company has become aware of the heightened level of safety risk on underground substations/confined spaces and has now reprioritised capital expenditure into safety-driven work devoted for the relocation of these substations to above the ground.

Supplementary Information (Unaudited)

	Achievement	
	2017	2016
Network Statistics		
Length of overhead line	54 km	54 km
Length of underground cable	611 km	616 km
Total number of interruptions	31	42
Faults per 100km of line	4.44	7.90
Transformer capacity MVA	149	152
Maximum demand kW	63,052	66,006
Energy into network GWh	268	280
Total consumers	17,377	17,362

Statement of Financial Performance

For the Year Ended 31 March 2017

		GROUP	
	Note	2017 $000	2016 $000
Operating Revenue	(2)	20,143	20,126
Other Income	(2)	1,872	2,035
Operating Expenses	(3)	(16,379)	(15,146)
Finance Costs	(3)	(3,258)	(1,956)
Share of Profit of Associates and Joint Ventures	(8/9)	6,497	4,865
Operating Surplus Before Taxation	(4)	**8,875**	**9,924**
Less Taxation Expense			
- Current	(4)	(1,571)	(2,083)
- Deferred	(4/13)	(274)	(74)
Net Surplus After Taxation		**7,030**	**7,767**

The accompanying notes on pages 17 to 34 form part of and should be read in conjunction with these financial statements.

Statement of Comprehensive Income

For the Year Ended 31 March 2017

	GROUP	
	2017	2016
	$000	$000
Net Surplus After Taxation	**7,030**	**7,767**
Other Comprehensive Income		
- Revaluation	1,863	-
Other Comprehensive Income	**-**	**-**
Total Comprehensive Income	**8,893**	**7,767**

Statement of Changes In Equity

For the Year Ended 31 March 2017

		GROUP	
	Note	2017	2016
		$000	$000
Total Comprehensive Income			
Net Surplus for the Year		7,030	7,767
Other Comprehensive Income		1,863	-
		8,893	7,767
Distributions to Shareholders			
Dividend Paid/Declared		(5,700)	(6,200)
		(5,700)	(6,200)
Changes in Equity for the Year		**3,193**	**1,567**
Equity at Beginning of Year		**89,119**	**87,552**
Equity at End of Year	(5)	**92,312**	**89,119**

The accompanying notes on pages 17 to 34 form part of and should be read in conjunction with these financial statements.

Statement of Financial Position

As at 31 March 2017

		GROUP	
	Note	2017 $000	2016 $000
Equity			
Share Capital	(5)	13,000	13,000
Reserves	(5)	31,567	29,804
Retained Earnings	(5)	47,745	46,315
Total Equity		**92,312**	**89,119**
Represented By:			
Current Assets			
Cash and Cash Equivalents	(6)	3,142	207
Receivables and Prepayments	(7)	2,044	2,411
Total Current Assets		**5,186**	**2,618**
Non Current Assets			
Investments in Associates	(8)	1,569	1,554
Advances to Associates		2,603	1,720
Investments in Joint Ventures	(9)	80,842	54,270
Advances to Joint Ventures		7,760	13,430
Investments in Other Entities		118	118
Property, Plant and Equipment	(10)	88,169	84,019
Capital Work in Progress		1,849	2,279
Total Non Current Assets		**182,910**	**157,390**
Total Assets		**188,096**	**160,008**
Current Liabilities			
Creditors and Accruals	(11)	2,697	5,137
Dividend Payable		5,700	6,200
Income Tax Payable		592	1,081
Total Current Liabilities		**8,989**	**12,418**
Non Current Liabilities			
Shareholder Advance	(12)	67,825	40,500
Deferred Tax Liabilities	(13)	18,970	17,971
Total Non Current Liabilities		**86,795**	**58,471**
Total Liabilities		**95,784**	**70,889**
Net Assets		**92,312**	**89,119**

The accompanying notes on pages 17 to 34 form part of and should be read in conjunction with these financial statements.

Statement of Cash Flows

For the Year Ended 31 March 2017

	Note	GROUP 2017 $000	GROUP 2016 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers		22,027	21,453
Interest Received		312	440
Taxation Refunds		19	57
		22,358	21,950
Cash Was Disbursed To:			
Payments to Suppliers and Employees		14,435	12,549
Income Tax Paid		2,080	2,355
Interest Paid		3,168	1,983
GST Paid/(Received)		233	(296)
		19,916	16,591
Net Cash Flows From Operating Activities	(14)	**2,442**	**5,359**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Sale of Property, Plant and Equipment		9	8
Sale of Shares in Associate		-	4,200
Dividend Received		6,235	3,121
Advances Repaid by Associates and Joint Ventures		5,670	4,235
		11,914	11,564
Cash Was Applied To:			
Purchase of Property, Plant and Equipment		5,338	7,986
Purchase of additional Interest in Joint Ventures		26,325	10,588
Advances to Associates and Joint Ventures		883	9,626
		32,546	28,200
Net Cash Flows Used in Investing Activities		**(20,632)**	**(16,636)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Shareholder Advances Received		27,325	9,000
		27,325	9,000
Cash Was Applied To:			
Dividend Payment		6,200	5,600
		6,200	5,600
Net Cash Flows From Financing Activities		**21,125**	**3,400**
Net Increase/(Decrease) in Cash and Cash Equivalents Held		2,935	(7,877)
Add Opening Cash Brought Forward		207	8,084
Closing Cash and Cash Equivalents Carried Forward	(6)	**3,142**	**207**

The accompanying notes on pages 17 to 34 form part of and should be read in conjunction with these financial statements.

Notes to and Forming Part of the Financial Statements
For the Year Ended 31 March 2017

1. Statement of Accounting Policies

Reporting Entity

Electricity Invercargill Ltd 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 Ltd. The Group consists of Electricity Invercargill Ltd, its subsidiaries and its interest in associates and jointly controlled entities (refer to notes 8 and 9).

The financial statements have been prepared in accordance with the requirements of the Energy Companies Act 1992, the Companies Act 1993 and the Financial Reporting Act 2013. The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), and comply with the New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR), and other reporting standards as appropriate for profit oriented entities.

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

The financial statements were approved by the Board of Directors on 29 June 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 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 accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Use of Estimates and Judgements

The preparation of financial statements to conform to NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances.

In particular, estimates and assumptions have been used in the following areas:

- Intangibles
- Property, plant and equipment
- Recoverable amount from Cash Generating Units (CGU)
- Joint arrangement classification

In the process of applying the Group's accounting policies, management has made the following judgements, estimates and assumptions that have the most significant impact on the amounts recognised in these financial statements.

The Group operates extensive integrated electricity distribution networks comprising large numbers of relatively minor individual network asset components. These components are replaced over time as part of an ongoing maintenance/refurbishment programme, consistent with the Group's approved network asset management plans. The costs associated with recording and tracking all individual components replaced and removed from the networks substantially outweigh the benefits of doing so. Management has estimated the quantities and the carrying values of components removed from the networks in each reporting period. Any errors in the estimates of such removals are corrected at the next asset revaluation, and are not considered to be material on either an annual or a cumulative basis with respect to either reported net surpluses or carrying values of the networks.

Every five years, the company obtains a valuation of their electricity distribution network, determined by independent valuers, in accordance with their accounting policy. The valuation of the Company's electricity distribution network was performed as at 1 April 2016. The best evidence of fair value is discounted cash flow methodology. 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.

The Group invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of an estimation of usage, adjusted for the latest wash-up data available from the electricity wholesale market and certain metering data from electricity retailers. Management has made an allowance in revenue and in current assets/liabilities for any amounts which are estimated to be under/over charged during the reporting period. However, as final wash-up metering data is not available for in excess of twelve months, it is possible the final amounts payable or receivable may vary from that calculated.

Other areas where judgement has been exercised in preparing these financial statements are in relation to calculating the recoverable amounts from CGUs and the amounts of employee entitlements.

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 Ltd 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 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.

Specific Accounting Policies

a) Principles of Consolidation

(i) Associates

Associates are those entities for which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

(ii) Joint Ventures

Joint Ventures are those entities over which the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the joint venture entities' total recognised gains and losses on an equity accounted basis, from the date joint control commences until the date joint control ceases.

(iii) Transactions eliminated on consolidation

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

b) Revenue

Revenue is measured at the fair value of the consideration given for the sale of goods and services, net of goods and services tax. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods.

(i) Network Charges

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

(ii) Investment Income

Interest income is recognised on a time-proportion basis using the effective interest method.

(iii) Dividend Income

Dividend income is recognised when the right to receive payment is established.

(iv) Customer Contributions

Contributions from customers in relation to the construction of new lines for the network and donated assets are accounted for as revenue when the asset is connected to the network.

c) Finance Costs

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets through the profit and loss and impairment losses recognised on financial assets (except for trade receivables). All borrowing costs are recognised in the profit and loss using the effective interest method, unless they are directly related to the construction of a qualifying asset, when they are capitalised.

d) Property, Plant and Equipment

(i) Owned Assets

All property, plant and equipment is recognised at cost less accumulated depreciation and impairment losses. The cost of purchased property, plant and equipment is the fair value of the consideration given to acquire the assets and the value of other attributable costs including borrowing costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item, if when that cost is incurred it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the profit and loss as an expense as incurred.

The electricity distribution network is valued at fair value. Fair value is determined on the basis of a periodic valuation, at a maximum of every five years, based on discounted cash flow methodology. The fair values are recognised in the financial statements of the Group and are reviewed at the end of each reporting period to ensure that the carrying amount of the distribution network is not materially different from its fair value.

Any revaluation increase arising on the revaluation of assets is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in the profit and loss, in which case the increase is credited to the profit and loss to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation is charged as an expense in the profit and loss to the extent that it exceeds the balance, if any, held in the asset reserve relating to a previous revaluation of that asset.

When a revalued asset is sold or retired the attributable revaluation surplus remaining in the revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

(ii) Depreciation

Depreciation is charged to the profit and loss on a combination of straight line and diminishing value bases over the estimated useful lives of all property, plant and equipment. Land is not depreciated. The primary annual rates used are:

Buildings	1.0 – 15%	Straight Line/Diminishing Value
Network Assets	1.4 – 15%	Straight Line
Metering Assets	2.5 – 6.7%	Straight Line

(iii) Impairment

At each reporting date the Group reviews the carrying amounts of its assets and assesses them for indications of impairment. If indications of impairment exist, then the assets' recoverable amount is estimated in order to determine the extent of the impairment. 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 the market assessments of the time value of money and the risks specific to the assets involved. If the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down to its recoverable amount and an impairment loss is recognised in the profit and loss, except to the extent that the impairment loss reverses a previous revaluation increase for that asset to the extent of that revaluation increase. When the asset does not generate cash flows independent of other assets, the cash generating unit (CGU) to which the asset belongs is tested for impairment.

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. Any impairment of goodwill can not subsequently be reversed.

e) Capital Work in Progress

Capital Work in Progress is stated at cost and is not depreciated. It includes an accrual for the proportion of work completed at the end of the year.

f) Intangible Assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill (if it exists) has been recognised in acquisitions of subsidiaries, associates and joint ventures. In respect of business acquisitions since 1 April 2005, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous NZ GAAP at the transition date.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to CGUs and is no longer amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in the profit and loss.

(ii) Computer Software

Under NZ IFRS computer software is classified as an intangible asset and amortised on a straight line/diminishing value basis over its estimated useful life.

(iii) Research and Development

Research costs are expenses in the year in which they are incurred. Development costs are capitalised to the extent that future benefits (exceeding the costs) are expected to accrue.

(iv) Amortisation

Amortisation is charged to the profit and loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated amortisation rates for the current period are as follows:

Software	12.5 – 48%	Straight Line

g) Taxation

Income tax on the surplus or deficit for the period presented comprises current and deferred tax. Income tax is recognised in the profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is recorded using tax rates enacted or substantially enacted at the balance sheet date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

h) Goods and Services Tax

All amounts in the financial statements have been shown exclusive of Good and Services Tax, with the exception of receivables and payables which are shown inclusive of Goods and Services Tax.

i) Operating Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments under these leases are recognised in the periods when they are incurred.

j) Financial Assets

Where applicable the Group classifies its investments in the following categories:

Financial assets at fair value through the profit and loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial Assets at Fair Value through the Profit and loss

Financial assets at fair value through the profit and loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designated as hedges.

(ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(iii) Held-to-Maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity.

(iv) Available-for-Sale Financial Assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets and financial assets at fair value through the profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through the profit and loss' category, including interest and dividend income, are presented in the profit and loss within other income or other expenses in the period in which they arise.

k) Financial Instruments

(i) Receivables

Trade and other receivables are recognised initially at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

(ii) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant amount of risk of changes in value.

(iii) Trade and Other Payables

Trade and other payables are stated at fair value.

(iv) Borrowings

Borrowings are recognised initially at fair value, net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability at least 12 months after the balance date.

l) Seasonality

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

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2017

2. Income

	GROUP	
	2017 $000	2016 $000
Operating Revenue		
- Network Charges	20,127	20,105
- Fibre Charges	16	21
Other Income		
- Interest Revenue	276	429
- Other Income	1,596	1,606
Total Income	**22,015**	**22,161**

3. Expenses

Expenses Include:

	2017 $000	2016 $000
Auditors' Remuneration – PricewaterhouseCoopers		
- Audit of Financial Report	48	38
- Audit of Default Price Path	27	23
- Audit of Regulatory Disclosures	29	30
Depreciation		
- Fibre Assets	41	35
- Metering Assets	352	309
- Network Assets	3,402	3,223
Total Depreciation	3,795	3,567
Directors' Fees	172	165
Interest Expense	3,258	1,956
Loss on Disposal of Property, Plant and Equipment	403	556
Network Costs	8,129	7,555
Transmission Costs	6,592	5,975

4. Taxation

Current tax

Current tax expense is the expected tax payable on the taxable income for the year.

Current tax for the current and prior periods is classified as a current liability to the extent that it is unpaid. Amounts paid in excess of amounts owed are classified as a current asset.

Deferred tax

Deferred tax expense arises from the origination and reversal of temporary differences.

	Note	GROUP 2017 $000	GROUP 2016 $000
Operating Surplus Before Income Tax		8,875	9,924
Prima Facie Taxation at 28%		2,485	2,779
Income Not Taxable			
- Equity Accounting Earnings of Associates and Joint Ventures		(173)	(305)
Loss Offset (Utilised)		(280)	(210)
Under/(over) provision in Prior Years		(207)	(89)
Expenses not Deductible (Allowed Deduction)		20	(18)
Taxation Expense for Year		**1,845**	**2,157**
Made up of:			
Current Tax		1,759	2,295
Prior year under/(over) provision of current tax		(188)	(212)
Deferred Tax	(13)	293	(49)
Prior year under/(over) provisions of deferred tax		(19)	123
Taxation Expense for Year		**1,845**	**2,157**
Effective Tax Rate		20.8%	21.7%

Tax Losses Transferred Within the Group

The current tax expense is calculated on the assumption that:

- Tax losses of $1,000,000 (2016: $1,613,549) with a tax benefit of $280,000 (2016: $451,794) have been transferred from Invercargill City Holdings Ltd Group by way of group loss offset.

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2017

5. Equity

The authorised and issued share capital comprises 13 million ordinary shares (2016: 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	
	2017 $000	2016 $000
Contributed Capital		
Share Capital	**13,000**	**13,000**
Reserves		
General Reserve	2,800	2,800
Revaluation Reserve Opening Balance	27,004	27,059
Revaluation	1,863	-
Revaluation Reversal due to Asset Disposal	(100)	(55)
Closing Balance	28,767	27,004
Total Reserves	**31,567**	**29,804**
Retained Earnings		
Opening Balance	46,315	44,693
Net Surplus	7,030	7,767
Revaluation Reversal due to Asset Disposal	100	55
Dividend Declared/Paid	(5,700)	(6,200)
Total Retained Earnings	**47,745**	**46,315**
Total Equity	**92,312**	**89,119**
	Cents per Share	Cents per Share
Dividend per Share	43.8	47.7

6. Cash and Cash Equivalents

Current Account	30	167
Bank Deposits (Short Term)	3,112	40
Total Cash and Cash Equivalents	**3,142**	**207**

7. Receivables and Prepayments

	GROUP 2017 $000	GROUP 2016 $000
Trade Debtors	1,993	2,049
Prepayments	51	23
GST Receivable	-	339
Total Receivables and Prepayments	**2,044**	**2,411**

Trade and other receivables are stated at their cost less any impairment losses. The carrying amounts of the Group's receivables are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any indication exists, the receivables' recoverable amount is estimated.

8. Investments in Associates

Associate Companies	Country of Incorporation	Percentage Held By Group 2017	Percentage Held By Group 2016	Balance Date
Electricity Southland Ltd	NZ	24.9%	24.9%	31 March

The Share of Surplus Before Tax for the year ended 31 March 2016 included 50% equity accounted share of profits of Otago Power Services Ltd. The remaining 50% shareholding in Otago Power Services Ltd was purchased by PowerNet Ltd on 16 February 2016. Following the completion of the acquisition, Otago Power Services Ltd was amalgamated with PowerNet Ltd on 31 March 2016.

The Group's share of the results of its equity accounted associate entities is as follows:

	GROUP 2017 $000	GROUP 2016 $000
Share of Surplus Before Taxation	108	669
Less Taxation Expense	(93)	(188)
Total Recognised Revenues and Expenses	**15**	**481**
The Group's interests in associate entities are as follows:		
Carrying Amount at Beginning of Year	1,554	3,742
Total Recognised Revenues and Expenses	15	481
Dividends Received/Declared	-	(500)
Disposal of Associates	-	(2,169)
Carrying Amount at End of Year	**1,569**	**1,554**

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2017

9. Investment in Joint Ventures

The Group has a participating interest in the following joint ventures through its wholly owned subsidiary Pylon Ltd.

Joint Venture	Country of Incorporation	Percentage Held By Group 2017	Percentage Held By Group 2016	Balance Date
PowerNet Ltd Group*	NZ	50%	50%	31 March
OtagoNet Joint Venture**	NZ	24.9%	24.5%	31 March
Roaring Forties Energy Ltd Partnership***	NZ	50%	50%	31 March

*The PowerNet Ltd Group has a 51.7% shareholding in Peak Power Services Ltd.

**The Group holds a 25% voting rights over OtagoNet Joint Venture.

***Roaring Forties Energy Ltd Partnership has 50% interest in Southern Generation Ltd Partnership.

In April 2015 the Group took a 25% interest in the Southern Generation Ltd 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. During the year, the partnership completed the acquisition of the assets relating to the Aniwhenua Hydro Station on the Rangitaiki River in the Bay of Plenty.

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

The Group's interests in Joint Venture entities are as follows:

	GROUP 2017 $000	GROUP 2016 $000
Carrying Amount at Beginning of Year	54,270	43,950
Investments in Joint Ventures	26,325	10,588
Total Recognised Revenues and Expenses	6,482	4,384
Reversal of Gain on Intragroup Restructure	-	(2,031)
Distributions/Dividends Received	(6,235)	(2,621)
Carrying Amount at End of Year	**80,842**	**54,270**

10. Property, Plant and Equipment

	Network Assets $000	Meters $000	Fibre $000	Total $000
Cost or Valuation				
Balance at 1 April 2015	89,650	4,750	906	95,306
Additions	5,799	2,364	69	8,232
Disposals	(134)	(2,036)	-	(2,170)
Balance at 31 March 2016	**95,315**	**5,078**	**975**	**101,368**
Balance at 1 April 2016	95,315	5,078	975	101,368
Additions	4,134	1,556	78	5,768
Revaluation	251	-	-	251
Disposals	(339)	(548)	-	(887)
Balance at 31 March 2017	**99,361**	**6,086**	**1,053**	**106,500**
Depreciation and Impairment Losses				
Balance at 1 April 2015	12,228	3,054	105	15,387
Depreciation for Year	3,223	309	35	3,567
Disposals	(52)	(1,553)	-	(1,605)
Balance at 31 March 2016	**15,399**	**1,810**	**140**	**17,349**
Balance at 1 April 2016	15,399	1,810	140	17,349
Depreciation for Year	3,402	352	41	3,795
Revaluation	(2,337)	-	-	(2,337)
Disposals	(83)	(393)	-	(476)
Balance at 31 March 2017	**16,381**	**1,769**	**181**	**18,331**
Carrying Amount/Book Value				
Book Value 31 March 2016	**79,916**	**3,268**	**835**	**84,019**
Book Value 31 March 2017	**82,980**	**4,317**	**872**	**88,169**

Carrying amounts of property, plant and equipment had they been recognised under the cost model.

31 March 2016	*57,399*	*3,268*	*835*	*61,502*
31 March 2017	*58,131*	*4,472*	*872*	*63,475*

Valuation

The network assets of Electricity Invercargill Ltd 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 following valuation assumptions were adopted;

- The free cash flows was based on the company's three year business plan and asset management plan adjusted for non-recurring or non-arms length transactions and for transactions that arise from expansionary growth in the network after the date of the valuation.
- The corporate tax rate used was 28%.
- The weighted average cost of capital (WACC) used was 5.5%.
- The sustainable growth adjustment used was 0%.

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2017

11. Creditors and Accruals

	Note	GROUP 2017 $000	2016 $000
Trade Payables		1,510	3,867
Accruals		1,093	1,180
Revenue in Advance		32	90
GST Payable		62	-
Total Creditors and Accruals		**2,697**	**5,137**

12. Shareholder Advance

Invercargill City Holdings Ltd		
- Non Current Portion	67,825	40,500
Total Shareholder Advance	**67,825**	**40,500**

The Electricity Invercargill Ltd's (EIL) shareholder Invercargill City Holdings Ltd (ICHL) provides all loan facilities for companies in the ICHL Group including EIL. Costs incurred by ICHL on their borrowings and facilities are passed directly through to EIL.

A new general facility agreement for $42 million was entered into with ICHL on 30 June 2016, for a two year term and is extended by one year unless notice is given. ICHL has confirmed that the amounts owing under the existing general facility are not payable for 13 months.

The weighted average interest rate for the loan excluding facility fee is 4.78% (2016: 6.06%)

13. Deferred Tax Liabilities

Balance at the Beginning of the Year		17,971	17,898
Charged to the Profit and loss	(4)		
- Temporary Difference Reversals - Depreciation		288	(17)
- Temporary Difference Reversals - Other		(14)	90
Charged to Equity			
- Effect of Revaluation		725	-
Balance at the End of the Year		**18,970**	**17,971**

The primary component of the deferred tax balance is related to software, property, plant and equipment.

There is not expected to be any significant reversal of deferred taxation in the next 12 months.

14. 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	
	2017 $000	2016 $000
Net Surplus After Taxation	**7,030**	**7,767**
Plus/(Less) Non Cash Items:		
Depreciation	3,795	3,567
Deferred Taxation	274	74
Loss on Sale of Property, Plant and Equipment	403	556
Share of (Profit)/Loss of Associates and Joint Ventures	(6,497)	(4,865)
	(2,025)	(668)
Plus/(Less) Movements in Working Capital:		
Increase/(Decrease) in Payables and Accruals	(2,440)	(1,215)
(Increase)/Decrease in Receivables	366	(310)
Increase/(Decrease) in Provision for Taxation	(489)	(215)
	(2,563)	(1,740)
Net Cash Flows From Operating Activities	**2,442**	**5,359**

15. Commitments

Capital Commitments

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

Capital Commitments	1,659	1,686
Total Capital Commitments	**1,659**	**1,686**

16. Contingent Liabilities

The Company has a contingent liability as at 31 March 2017 of $415,000 (31 March 2016: $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.

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2017

17. Financial Instruments

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

Credit Risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and short-term investments and trade receivables. Cash and short-term investments are placed with banks with high credit ratings assigned by international credit-rating agencies, or other high credit quality financial institutions.

The Group manages its exposure to credit risk from trade receivables by performing credit evaluations on all customers requiring credit whenever possible, and continuously monitoring the outstanding credit exposure to individual customers. The Group does not generally require or hold collateral against credit risk.

The Group is exposed to a concentration of credit risk with regards to the amounts owing by energy retailers for line charges. However, these entities are considered to be high credit quality entities.

The Company is exposed to a concentration of credit risk with regard to the amounts owing by related parties at balance date as disclosed in Note 18 Transactions with Related Parties. However, these entities are considered to be high credit quality entities.

Liquidity Risk

Liquidity risk represents the Group's ability to meet its contractual obligations.

The Group evaluates its liquidity requirements on an ongoing basis. In general the Group generates sufficient cash flows from its operating activities to meet its contractual obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments.

The Group has interest bearing debt which is subject to interest rate variations in the market. This debt (being an advance from the Group's parent company, Invercargill City Holdings Ltd) is partially hedged and managed by the Group's parent company, thus reducing the Group's exposure to interest rate variation.

Sensitivity Analysis for Interest Rate Change

The Group is subject to exposure to interest rate variations through both its cash and short-term investments and loans.

An increase/(decrease) in the interest rate of 1% is estimated to increase/(decrease) the net profit before tax and equity by $65,000 (2016: $74,000).

Fair Value

The estimated fair values of the Group's financial instruments are represented by the carrying values.

Capital Management

The Group's capital includes share capital, reserves and retained earnings. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position.

The Group is not subject to any externally imposed capital requirements.

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2017

18. Transactions with Related Parties

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

Electricity Invercargill Ltd has an interest in the PowerNet Ltd joint venture, OtagoNet Joint Venture, Electricity Southland Ltd and Southern Generation Ltd Partnership through their wholly owned subsidiary Pylon Ltd and Peak Power Services Ltd through PowerNet Ltd.

Otago Power Services Ltd was purchased by PowerNet Ltd in February 2016 and amalgamated with PowerNet Ltd on 31 March 2016.

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

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

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

	GROUP	
	2017 $000	2016 $000
Goods and Services Supplied to:		
PowerNet Ltd (Joint Venture)	160	245
Electricity Southland Ltd (Associate)	87	71
Otago Power Services Ltd (Associate)	-	33
OtagoNet Joint Venture Ltd (Joint Venture)	-	14
Receivables Outstanding at Balance Date		
PowerNet Ltd (Joint Venture)	34	76
Electricity Southland Ltd (Associate)	24	19
Otago Power Services Ltd (Associate)	-	-
OtagoNet Joint Venture Ltd (Joint Venture)	-	-
Goods and Services Supplied by:		
PowerNet Ltd (Joint Venture)	8,931	11,042
Invercargill City Holdings Ltd (Other Related Party)	3,638	2,334
Creditors Outstanding at Balance Date		
PowerNet Ltd (Joint Venture)	1,029	3,545
Invercargill City Holdings Ltd (Other Related Party)	298	178
Dividends Paid to:		
Invercargill City Holdings Ltd (Other Related Party)	6,200	5,600
Advances Provided to (Repaid by):		
PowerNet Ltd (Joint Venture)	(356)	3,667
Electricity Southland Ltd (Associate)	883	600
Otago Power Services Ltd (Associate)	-	(2,296)
OtagoNet Joint Venture Ltd (Joint Venture)	-	(825)
Advances Provided from:		
Invercargill City Holdings Ltd (Other Related Party)	(27,325)	(9,000)

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2017

18. Transactions with Related Parties *continued*

Other Related Parties

There have been no material transactions with Directors with the exception of the following:

Electricity Invercargill Ltd, through its joint venture interest in PowerNet Ltd and OtagoNet Joint Venture uses AWS Legal as its solicitors, of which Alan Harper is a Partner. Electricity Invercargill Ltd's share of fees paid to AWS Legal during the year amounted to $8,000 (2016: $41,000) of which $0 (incl GST) (2016: $0 (incl GST)) is owing at balance date.

All transactions between PowerNet Ltd, OtagoNet Joint Venture, Electricity Invercargill Ltd and AWS Legal relate to normal trading activities.

Key Management Personnel

The compensation of the directors and executives, being the key management personnel of the entity is set out below:

	GROUP	
	2017 $000	2016 $000
Salaries and Short-term Employee Benefits	202	189

Executive staff remuneration comprises salary and other short-term benefits. PowerNet executives appointed to the boards of related companies do not receive directors' fees personally.

19. Subsequent Events

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

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Independent Auditors' Report

To the Readers of Electricity Invercargill Limited's Group Financial Statements and Performance Information for the year ended 31 March 2017

The Auditor-General is the auditor of Electricity Invercargill Limited Group (the Group). The Auditor-General has appointed me, Nathan Wylie, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements and the performance information of the Group on his behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 13 to 34, that comprise the statement of financial position as at 31 March 2017, the statement of financial performance, 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 Group on pages 12 to 13.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 31 March 2017; 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 Reduced Disclosure Regime.
- the performance information of the Group presents fairly, in all material respects, the Group's achievements measured against the performance targets adopted for the year ended 31 March 2017.

Our audit was completed on 29 June 2017. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our 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.

Audit Report *continued*

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

The Board of Directors is responsible on behalf of the Group 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 Group 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 Group 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 Group or to cease operations, or there is no realistic alternative but to do so.

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

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

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

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of the reported performance information within the Group'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 Group'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 Group to cease to continue as a going concern.

Audit Report *continued*

- 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 obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements and performance information. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 1 to 11, 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 Group 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, and our role as auditors of its associates and joint ventures, we have carried out assignments in the areas of compliance with the Electricity Distribution (Information Disclosure) Determination 2012, Electricity Distribution Services Default Price-Quality Path Determination 2015 and other regulatory requirements of the Commerce Act 1986, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with, or interests in, the Company or any of its associates or joint ventures.

Nathan Wylie
PricewaterhouseCoopers
On behalf of the Auditor-General
Christchurch, New Zealand

Back cover photos: *Top: PowerNet staff working on the EIL network.*

Bottom: L/R – Sarah Brown, PowerNet (director), Robin Eustace, St John (territory manager), Joc O'Donnell, Bill Richardson Transport World (executive director) and Tim Brown, PowerNet (chief information officer).

EIL
Electricity Invercargill Ltd