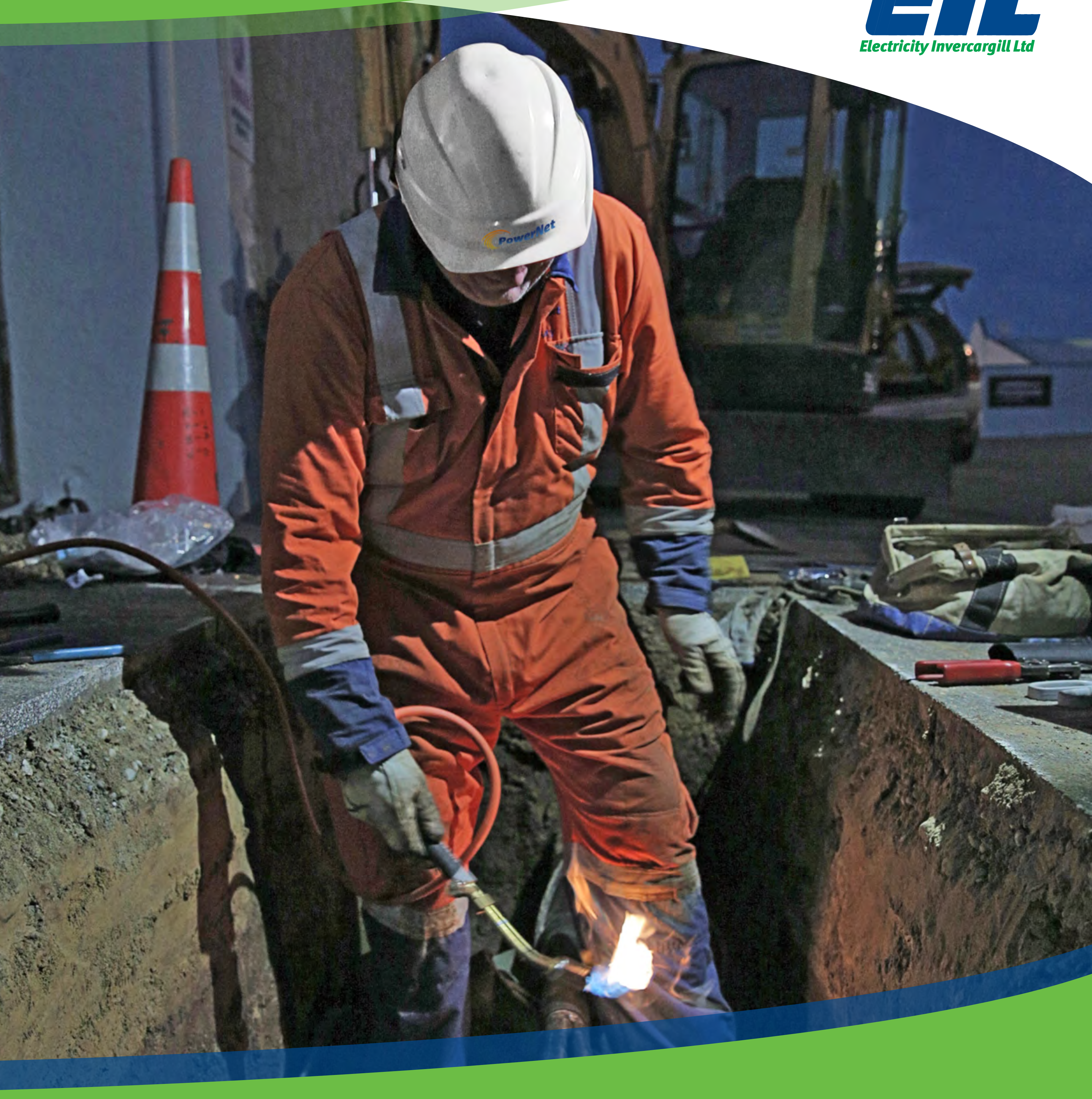
Electricity Invercargill Ltd



ANNUAL REPORT 2020

Front cover: Murray Cunningham, PowerNet.

Contents

Directory

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on behalf of the Office of the Auditor-General

Solicitors
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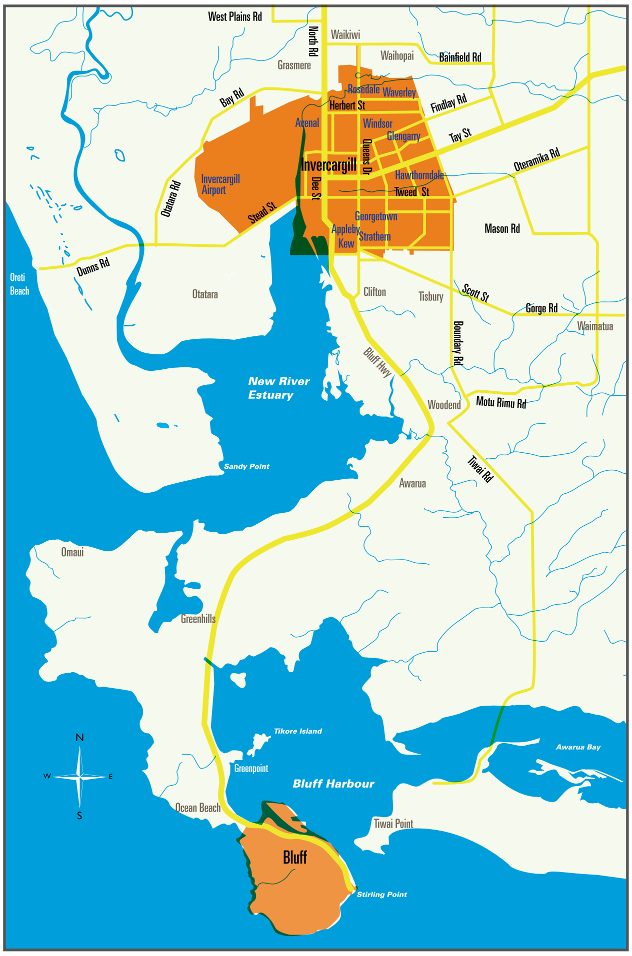
AWS Legal, Invercargill

Publishers
A D Design
ISSN: 2463-3372 (Online)

EIL Area



About Electricity Invercargill Limited

Electricity Invercargill Limited (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 17,406 customers, approximately 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.

Investment and diversification in new generation assets has also been an important strategy for EIL over recent years. EIL has a 25% share in the Southern Generation Limited Partnership (SGLP). SGLP's acquisition of renewable electricity generation assets is adding significant value to the company balance sheet.

The Regulatory Value of the EIL network assets is $83 million. This includes 658km of predominantly underground cables, some overhead lines and 441 distribution transformers with a capacity of 150MVA.

EIL contracts PowerNet Limited (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 charges line and metering charges to electricity retailers, pays transmission costs and passes the gross 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 OtagoNet Joint Venture (OJV), Electricity Southland Limited (ESL) and PowerNet, as well as the new SGLP assets EIL owns in conjunction with The Power Company Limited (TPCL) and Pioneer Generation Ltd.

EIL Statistics as at 31 March 2020	
Total Connected Consumers	**17,406**
Residential	15,319
Industrial	123
Commercial	1,964
Network length	658km
Consumer density	26.4 consumers/km
Number of distribution transformers	441
Distribution transformer density	228.1 kVA/km
Maximum demand	63MW
Total energy conveyed	267 GWh
Regulatory Value	$83 million

Matiri hydro station under construction.

Our Investments

PowerNet

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 $629 million. It is New Zealand's fourth 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.

PowerNet's presence in the Queenstown Lakes area is represented by PowerNet's Queenstown team, which was fully integrated with PowerNet on 1 April 2020.

PowerNet's Queenstown team has worked closely with the wider Southland and Otago teams over recent years. The team provides network design services, capital construction works, and a maintenance and faults service for the Electricity Southland Limited (ESL) network in Queenstown and Wanaka.

Electricity Southland Ltd (ESL)

Electricity network asset company, ESL, is based in Central Otago and was established in 1995 by EIL and TPCL. ESL's assets now total $29.6 million.

The network continues to expand rapidly as the Queenstown Lakes region develops. This growth is mainly due to new customer connections at the Shotover Country subdivision, Queenstown Country Club retirement village, Remarkables Park, Shotover Park development, Bridesdale Farm, Hanley's Farm, Lakes Edge subdivision and at Northlake and Hikuwai subdivisions in Wanaka.

The ESL network is managed and maintained by PowerNet Central. EIL holds a 24.9% share in ESL.

OtagoNet Joint Venture (OJV)

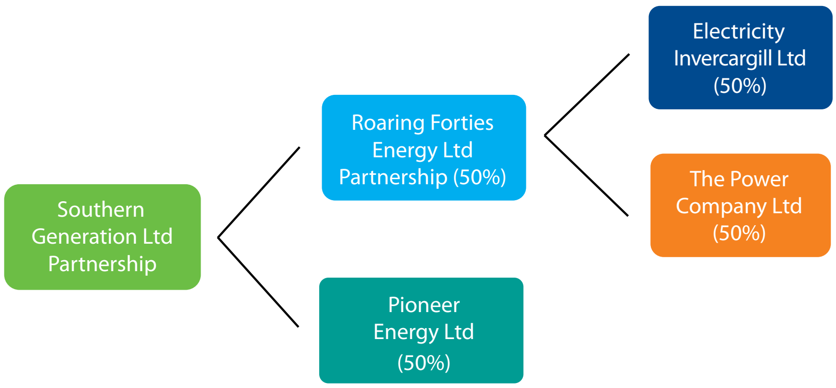
OJV was formed in 2002 after the purchase of electricity network assets from the shareholders of the consumer co-operative company, Otago Power Ltd.

OJV has 15,193 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 $180 million.

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

Our Investments *continued*

Southern Generation Limited Partnership



Southern Generation Limited Partnership structure

Wind and hydro power generation are clean, green renewable electricity generation assets that fit with EIL's wider strategies, including the transition from fossil fuels to renewables where possible.

In 2015, EIL joined with TPCL and Pioneer Energy Ltd to create the Southern Generation Limited Partnership (SGLP). The partnership owns two wind farms—Mt Stuart near Lawrence and Flat Hill near Bluff, and two hydro stations – Aniwhenua on the Rangitaiki River in the Bay of Plenty and the Upper Fraser hydro power station in Central Otago, commissioned in September 2019. The total value of SGLP assets is $151 million.

This renewable energy is managed by EIL's partner, Pioneer Energy Ltd. EIL and TPCL jointly own 50 percent of SGLP through the joint venture, Roaring Forties Energy Limited 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.

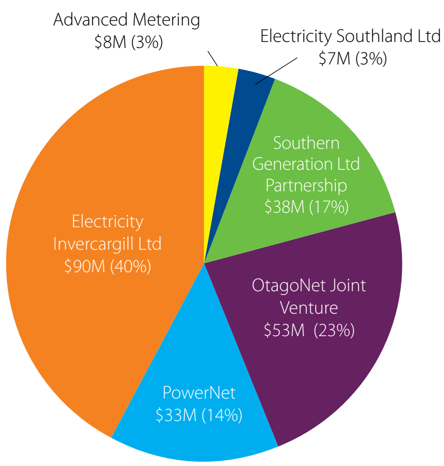
In 2019-20, the generation output of the two wind generation sites and two hydro power stations was assessed as 201GWh. Mt Stuart contributed 23GWh, Flat Hill 27GWh, Aniwhenua 128GWh and Upper Fraser 23GWh.

Favourable wind generation conditions resulted in a 9% increase in wind farm output for the 2018-19 year, however lower rainfall and hydro inflows in the Bay of Plenty resulted in the generation output for Aniwhenua being 17% lower than 2018-19, mostly offset by the new hydro generation from Upper Fraser. Pioneer Energy Ltd is constructing the last of the hydro power stations in the current investment commitment for SGLP. The Matiri hydro power station is 15km north of Murchison, with a capacity of 4.7MW. It is due to be commissioned late winter 2020.

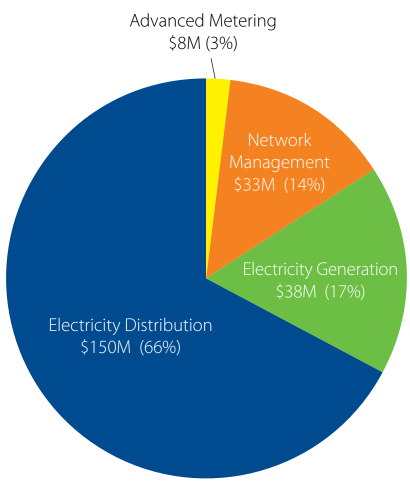
Electricity Invercargill Group – Asset Breakdown

The investment make-up by asset investment and investment type clearly illustrates EIL's strategy of diversification being achieved within the electricity sector. Historically, EIL's predominant investment has been in the Invercargill and Bluff network. That investment now makes up 40 percent of EIL's investment portfolio. Furthermore, while electricity distribution as an investment type comprises the majority (66 percent) of EIL's investment, there is now significant diversification into electricity generation. This diversification is important to secure a long-term, sustainable investment return.

Asset Investment $229 million



Investment Type $229 million



Paul Barclay and Jason Nicolson, PowerNet.

The Year in Review

Operational Performance

Operational performance activity on the EIL network continues to focus on network reliability and safety. The total capital investment in 2019-20 was $4.7 million and a further $2.2 million was spent on maintenance.

Southern Substation Upgrade

Ensuring EIL customers' electricity supply is as safe and reliable as possible if an earthquake occurs is a key reason behind a significant upgrade of Invercargill's Southern Zone substation.

Located near Elizabeth Park, the 23MVA single transformer substation is being seismically strengthened and upgraded to a dual transformer substation to cater for forecasted electricity load increases and to provide a more resilient supply.

The upgrade includes already completed work to the switch room building, including installing additional steel supports. Construction work got underway in mid-2019. The existing outdoor 33kV bus work and structures are being replaced with indoor 33kV switchgear. Old 11kV switchgear will also be replaced and a second 11.5/23MVA transformer from the former Doon St substation installed. The project is planned for completion in 2021.

Underground Substations and Link Boxes

Improving network safety is at the heart of two major EIL projects completed in mid-2019 — relocating Invercargill's aged, underground link boxes and substations aboveground. The 13 underground substations housed 11kV switchgear, distribution transformers and low voltage distribution boards. It has been a major project to relocate these substations.

These upgrades are creating a much safer working environment for staff and represent a major step forward in establishing the modern infrastructure needed for any new inner-city developments.

Relocating 130, 400V underground link boxes in Invercargill's CBD has been a significant undertaking carried out over three years, working around the safety and electricity needs of local businesses and the community.

Customer Connections and Asset Replacements

New customer connections to the EIL network totalled $510,000. This was significantly above the long-term average. The elevated level of customer connection activity will be sustained by development in the Invercargill CBD.

Work continues to replace distribution transformers and ring main units that are reaching the end of their life. This regular replacement work is vital to maintain reliability of supply and safety.

All EIL zone substation sites have now been seismically strengthened to ensure continuing supply after a major earthquake. Work continues to strengthen distribution substations on the network.

Electricity Invercargill Projects

Project	Approximate Expenditure
Southern Zone substation upgrades	$2,274,000
New customer connections and subdivisions	$510,000
Underground substation replacements	$402,000
Distribution transformer replacements	$382,000
Ring main unit replacements	$296,000
11kV cable replacements	$204,000

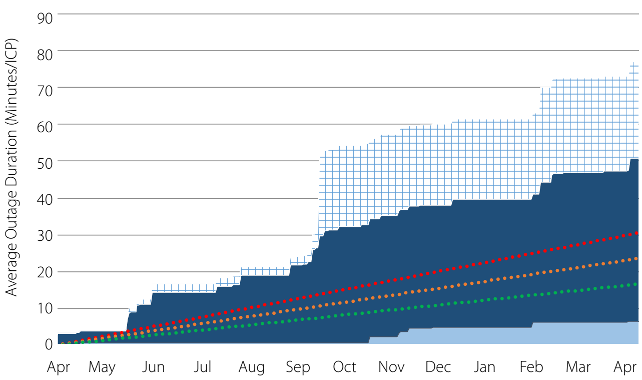
SAIDI and SAIFI

EIL's normalised SAIDI of 49.23 minutes exceeded the supply quality limit of 31.13 minutes. The company's normalised SAIFI at 0.98 was also over the supply quality limit of 0.77. The number of cable faults was much higher than would be expected in any given year. The location and difficulty of finding these faults meant that the number of customers and areas affected were greater than normal. Faults included a single zone substation trip and a series of cable faults in Invercargill.

Continued asset renewal and maintenance will ensure delivery of supply quality.

System Average Interruption Duration Index (SAIDI)

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



Planned Outages

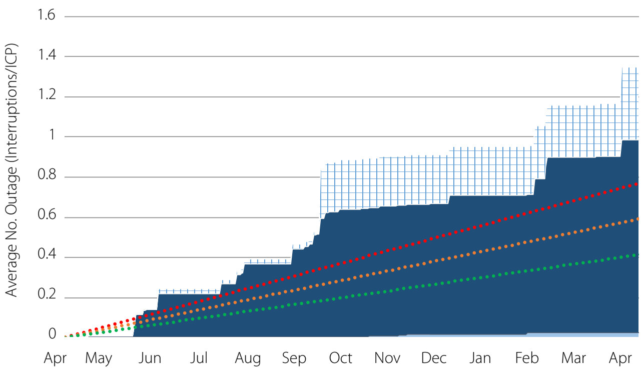
Unplanned Outages (Normalised)

Cap/Limit

SAIDI	
Planned	6.58
Unplanned	42.65
Quality Limit	31.13
Actual	49.23

System Average Interruption Frequency Index (SAIFI)

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



Planned Outages

Unplanned Outages (Normalised)

Cap/Limit

SAIFI	
Planned	0.02
Unplanned	0.96
Quality Limit	0.77
Actual	0.98

The Year in Review *continued*

Regulatory Environment

EIL continues to support PowerNet's work in the regulatory environment, through its direct involvement and also through industry associations such as the Electricity Networks Association.

Involvement in industry working groups provides proactive industry direction in areas that include the sector's two regulators, the Commerce Commission and the Electricity Authority.

There are significant complexities managing the regulatory priorities of the industry and other regulators. Examples of some of these work programmes include proposed changes to distribution pricing and; improved regulations regarding vegetation management and customer owned lines.

EIL looks forward to the implementation in 2023 of the new Transmission Pricing Methodology decision by the Electricity Authority, and the removal of the low fixed charge regulations by Government, presently being progressed by the Ministry of Business, Innovation and Employment.

As in previous years, EIL through PowerNet and the wider industry, continues to work proactively with the Commerce Commission, Electricity Authority and WorkSafe to ensure regulations are targeted, efficient and effective and result in safe outcomes.

Financial Performance

The Group Operating Surplus Before Taxation, Subvention and Fair Value Adjustments amounted to $8.81 million, marginally above the 2020 target and an 8% decrease from 2019. The reduction from last year is attributable to higher network maintenance costs and lower Share of Profit from Associates and Joint Ventures (excluding Fair Value movement), partly off-set by lower financing costs. During the year, a favourable Fair Value movement of $1.72 million (2019: unfavourable $2.6 million) from a financial instrument held by a Joint Venture was recognised. This contributed to a favourable Operating Surplus After Tax compared to 2020 target and 2019 results.

Financial Measures	Year Ended 31 March 2020 $'000	Year Ended 31 March 2019 $'000
Operating surplus before taxation, subvention and fair value adjustments	8,811	9,575
Subvention payment	(1,600)	(915)
Fair value adjustment in associates and joint ventures	1,717	(2,613)
Net surplus before taxation	8,928	6,047
Taxation expense	(721)	(1,392)
Net surplus after taxation	8,207	4,655

COVID-19

The COVID-19 pandemic had minor impacts on our results in 2019-20. EIL's response to COVID-19 was well-managed by PowerNet.

Acknowledgements

EIL's directors thank all those who contributed to the company's continued success in 2019-20.

The directors particularly acknowledge the continued support of ICHL directors (as shareholder) and appreciate their support for our investments in OJV, 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 in maintaining, managing and growing our safe, reliable and efficient network and energy assets.

Our Community

Asset Management Plan

EIL's Asset Management Plan (AMP) outlines how network assets will be managed and developed to provide a safe, efficient, and reliable electricity supply and service to Invercargill and Bluff communities over the next 10 years.

EIL continues to give customers the opportunity to have their say and provide input into business activities. Feedback from an annual customer telephone survey is used to develop EIL's AMP, and to assist in network planning. As well as residential customers, some larger commercial customers are interviewed. EIL also invites public comment on its AMP.

The company also works closely with customers and developers on the installation of new connections to the EIL network, to better understand their plans and feed these back into asset management planning.

The focus of EIL's AMP programme, over the short to medium term, is on initiatives that will maintain network safety, efficiency, and reliability.

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 high risk and unreliable performing assets.
- Meeting customer requests for new connections and changing energy needs.
- Improving the network's efficiency by replacing assets that have high losses, and exchanging overloaded distribution transformers with units that are have sufficient capacity.
- Extending remote monitoring and control to distribution devices.

Renewals of transformers, ring main units and pillar boxes are expected to be a significant ongoing cost. In 2020-21, capital expenditure is planned to be $4.6 million and is forecasted to be between $4.2 million and $6.3 million per year, over the remaining 10-year planning horizon.

The EIL AMP can be viewed at: www.eil.co.nz

Supporting our Community

First Aid Equipment

During the year EIL provided an automated external defibrillator (AED) to the McCallums Group. The AED is installed at a location inside their premises where it is accessible to the public.

Southland Warm Homes Trust

EIL's annual contribution 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 completed more than 7,000 insulation and heating retrofits in Southland and West Otago homes since 2008.

From 1 July 2018, a four-year government programme called Warmer Kiwi Homes was introduced. The subsidised insulation and heating programme targets homeowners on low incomes or who live in a low socioeconomic area. The $142 million government funding commitment is administered by the EECA, through service providers who meet set installation, and health and safety standards. SWHT was awarded a service provider agreement for the Southland and West Otago region in 2018.

Under the Warmer Kiwi Homes Programme, eligible homeowners can have two-thirds of the cost of ceiling and underfloor insulation or a new efficient heating unit (heat pump or wood/ pellet burner) funded by EECA, with those in Southland and parts of West Otago subsidised up to 92%, including an additional 25% contributed by SWHT from community funding. To be eligible, homes must be built prior to 2008, the homeowner (owner-occupier) must have a community services card or SuperGold combo card, or own and be living in an area identified as low income.

Subsequent to the 2019-20 year, the Government has announced a change to increase the EECA funding contribution to 90%, from 28 April 2020.

In accordance with this change, the Trust will adjust its funding contribution to 5%, so the majority of eligible home owners can receive a 95% subsidy on insulation or on a heating unit, depending on their requirements.

In addition to the EECA/SWHT programme, SWHT and Awarua Synergy will offer other subsidies of up to $2,500 for households to install insulation.

Directors' Profiles

Thomas Campbell

Thomas Campbell *(Chair) BSc (Metallurgy) CFInst D*

Tom is chair of Electricity Invercargill Ltd and chair of Southern Generation GP Ltd, a former managing director of Comalco and former general manager of the Tiwai Smelter.

He now works as an independent company director.

Tom's directorships include PowerNet Ltd, Todd Corporation Ltd and Port Otago Ltd. He was chair of both the Energy Efficiency and Conservation Authority (EECA) and the Southland Regional Development Strategy governance group.

Tom is a chartered fellow of the Institute of Directors.

Sarah Brown *LLB BA CFInstD*

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

Sarah is a director for PowerNet Ltd, Electricity Southland Ltd and also a member of OtagoNet Joint Venture governing committee.

Sarah is on the Provincial Growth Fund advisory panel and is a past project manager for the Southland Regional Development Agency.

Sarah practiced as a commercial lawyer and now works as an independent company director. She is currently a director of PGG Wrightson Ltd.

Sarah is a chartered fellow of the Institute of Directors.

Sarah Brown

Paul Kiesanowski

Paul Kiesanowski *BCom ACA CMInstD*

Paul joined the board of Electricity Invercargill Ltd on 28 March 2019.

He is a former partner of KPMG. Paul brings strong financial management, risk management and assurance skills over a career working with a large number of clients.

Paul's directorships include PowerNet Ltd, Craigpine Timber Ltd, Red Bus Ltd and Amalgamated Holdings Ltd.

Paul was until recently a commissioner for the Earthquake Commission.

Paul is a member of the Chartered Accountants Australia and New Zealand, and a chartered member of the Institute of Directors.

Alan (Joe) O'Connell *BCom FCA*

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

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

Joe is a fellow chartered accountant of the Chartered Accountants Australia and New Zealand, and a chartered fellow of the Institute of Directors New Zealand.

Joe O'Connell

Governance Report

The Directors have pleasure in presenting their Annual Report and Financial Statements for the year ended 31 March 2020.

Principal Activities

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

Risk Management

Electricity Invercargill Ltd acknowledges the critical importance of Risk Management within the business, and aligns this with its management company PowerNet's vision of Safe, Efficient and Reliable Power to Communities. PowerNet, has a risk management policy and framework incorporating the ISO 31000:2009 risk management processes. Risk management programmes are in place to ensure that risks are identified and mitigated, where possible, and that risk is considered when internal policies and procedures are drafted.

The Board has overall responsibility for the Company's systems of operational and financial control.

The Board monitors the operational and financial aspects of the Company's activities, and the Board considers the recommendations and advice of external and internal auditors and other external advisors on the operational and financial risks that face the Company.

The Board ensures that recommendations made by the external and internal auditors and other external advisers are investigated and appropriate action is taken to ensure that the Company has an adequate control environment in place to manage the key risks identified.

The Health, Safety and Environment Committee also consider health and safety risks.

Health, Safety and Environment Management

The Board has a strong commitment to ensuring contractors, their employees and the public remain safe and well. The Board monitors the health, safety and environment aspects of the Group's activities, principally through various Health, Safety and Environment Committees of associated entities.

Regular reports to the Board provide information on accidents, near misses and incidents, together with monthly data on health, safety and environment performance.

Risks are further identified through regular monitoring and a variety of methods, including on-site management/checklists, Director Field observation visits, visual hazard inspection, reporting of accidents and near misses, and formal risk reviews.

Result and Distribution

The Group Net Surplus After Tax for the year under review is $8.21 million, an increase of $3.55 million on the 2019 year. The result is partly attributable to favourable Fair Value movements in Associates and Joint Ventures and lower tax expenditure.

The Group Operating Surplus excluding Taxation, Subvention and Fair Value Adjustments amounted to $8.81 million, marginally above the 2020 target and an 8% decrease from 2019. The reduction from last year is attributable to higher network maintenance costs and lower Share of Profit from Associates and Joint Ventures (excluding Fair Value movement), partly off-set by lower financing costs. During the year, a favourable Fair Value movement of $1.72 million (2019: unfavourable $2.6 million) from a financial instrument held by a Joint Venture was recognised.

A dividend of $4,000,000 has been declared payable in July and November 2020 and March 2021. The dividend will be imputed at 28%.

The Directors consider the state of the Company's affairs to be satisfactory. The COVID-19 pandemic had minor impacts on our results in 2019-20. EIL's response to COVID-19 was well-managed by PowerNet.

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
Sarah Brown	Electricity Southland Ltd	Director
	OtagoNet Joint Venture	Member, Governing Committee
	OtagoNet Ltd	Director
	OtagoNet Properties Ltd	Director
	PGG Wrightson Ltd	Director
	PowerNet Ltd	Director
	Provincial Growth Fund Advisory Panel	Panellist
	Pylon Ltd	Director

Governance Report *continued*

Director	Company	Position
Thomas Campbell	Energy Efficiency & Conservation Authority	Chair
	PowerNet Ltd	Director
	Port Otago Ltd	Director
	Pylon Ltd	Director
	Roaring Forties Energy GP Ltd	Director
	Southern Generation GP Ltd	Director
	Todd Corporation Ltd	Director
	Todd Offshore Ltd	Director
Alan (Joe) O'Connell	Abbott NZ Holdings Ltd	Director
	Abbott Management Ltd	Director
	AJO Management Ltd	Director
	Fraser Properties Ltd	Director
	H & J Smith Holdings Ltd *(and associated companies)*	Director
	K G Richardson and Sons Ltd	Association
	KGR Properties Ltd	Association
	Log Logistics Ltd	Director
	Log Marketing New Zealand Ltd	Director
	McNeill Distribution Ltd	Association
	Niagara Forestry Ltd	Director
	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
	SBS Bank	Director
	SBS Charitable Trust	Trustee
	Southfuels Ltd	Director
	Southsure Assurance Ltd	Director
	TNZ Growing Products Ltd	Director
Paul Kiesanowski	Amalgamated Holdings Ltd	Director
	Apex Environmental Ltd	Director
	City Care Ltd	Company Secretary
	Craigpine Timber Ltd	Director
	Earthquake Commission	Commissioner
	Paul Kiesanowski Advisory Ltd	Director/Shareholder
	PowerNet Ltd	Director
	Pylon Ltd	Director
	Red Bus Ltd	Director

Governance Report *continued*

Remuneration of Directors

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

Thomas Campbell	-	Chair
Sarah Brown	-	Director
Joe O'Connell	-	Director
Paul Kiesanowski	-	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:

Thomas Campbell	$58,000	Joe O'Connell	$29,000
Sarah Brown	$29,000	Paul Kiesanowski	$29,000

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

The Group has applied during the year for the first time NZ IFRS 16 Leases. EIL (parent) does not have any agreements or contracts that meet the definition of a lease under NZ IFRS 16. The Group impact of change in accounting policy relating to NZ IFRS 16 are due to contracts held within joint ventures and associates. These joint ventures and associate financial statements are consolidated in the Group financial statements through the equity accounting method, not requiring further lease accounting disclosure.

Auditor Remuneration

Refer to Note 4 of the Financial Statements for Auditor remuneration.

For and on behalf of the Directors.

Thomas Campbell
Chair

Sarah Jane Brown
Director

Directors' Approval

The Directors have approved for issue the Financial Statements of Electricity Invercargill Ltd for the year ended 31 March 2020 on pages 12 to 38.

Thomas Campbell
Chairperson

25 June 2020

Sarah Jane Brown
Director

25 June 2020

Financial Information

Statement of Service Performance

For the year ended 31 March 2020

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 2020 $'000	Year Ended 31 March 2020 $'000	Year Ended 31 March 2019 $'000
Financial			
Operating Surplus Before Taxation, Subvention and Fair Value Adjustments	8,671	8,811	9,575
Operating Surplus After Tax	5,930	8,207	4,655
Earnings Before Taxation, Interest, Subvention and Fair Value Adjustments to Total Assets (EBIT%)	6.05%	5.86%	6.69%
Return on Equity %	6.28%	8.34%	5.07%
Equity to Total Assets %	45.34%	47.99%	48.18%

The Group Operating Surplus Before Taxation, Subvention and Fair Value Adjustments amounted to $8.81 million, marginally above the 2020 target and an 8% decrease from 2019. The reduction from last year is attributable to higher network maintenance costs and lower Share of Profit from Associates and Joint Ventures (excluding Fair Value movement), partly offset by lower financing costs. During the year, a favourable Fair Value movement of $1.72 million (2019: unfavourable $2.6 million) from a financial instrument held by a Joint Venture was recognised. This contributed to a favourable Operating Surplus After Tax compared to 2020 target and 2019 results.

Supply Quality

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	22.00	49.23	17.98

System Average Interruption Frequency Index (SAIFI)

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

SAIFI	0.57	0.98	0.31

Both SAIDI and SAIFI measures are impacted by several outages in the network due to faults associated with Ring Main Units and cables (Bluff and City). Mitigation work has been implemented and a thorough assessment is underway to ensure a continued reliable network performance in the future.

Statement of Service Performance *continued*

For the year ended 31 March 2020

Electricity Invercargill Ltd has exceeded the Commerce Commission supply quality limits for the current year, however Electricity Invercargill Ltd is still compliant with the price-quality path as neither SAIDI or SAIFI has not been exceeded by Electricity Invercargill Ltd for the past two years.

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

Health and Safety

Electricity Invercargill Ltd contracts PowerNet Ltd to manage its Network assets and operations. Electricity Invercargill Ltd employ no staff, therefore the PowerNet Ltd Health and Safety Performance targets are relevant to the Group.

	Target	Achievement	
	Year Ended 31 March 2020	Year Ended 31 March 2020	Year Ended 31 March 2019
Total Recordable Injury Frequency Rate Contractors Target (TRIFR)	4.2	7.2	4.6
Serious Harm Incident Targets (Public and Workers)	0	0	0

Workplace health and safety continues to be a business priority and a critical success factor for the Group. PowerNet Ltd safety performance (TRIFR) in 2020 did not meet target or the 2019 safety performance level. No lost time injuries occurred on the Electricity Invercargill Ltd network during the 2020 reporting year.

Our health and safety environment risk management system is well embedded in our business activities. The system displays all information about incidents, hazards, risks, actions and audits on one platform, presenting incident workflows with ready access to investigation details and resolution actions. All leaders now use the system, which allows for easier management of public and workplace incidents. This system also identifies actions to ensure they are resolved to prevent future harm.

The Board has a strong commitment to ensuring employees, contractors and the public remain safe and well. The Board monitors the health, safety and environment aspects of the Group's activities, principally through the Heath, Safety and Environment Committee.

Supplementary Information (Unaudited)

Network Statistics		
Length of overhead line	54km	54km
Length of underground cable	604 km	604km
Total number of interruptions	52	27
Faults per 100km of line	3.97	7.38
Transformer capacity MVA	150	149
Maximum demand MW	63	63
Energy into network GWh	267	265
Total consumers	17,406	17,422

Statement of Financial Performance

For the Year Ended 31 March 2020

	Notes	GROUP 2020 $'000	2019 $'000
Revenue from Contracts with Customers	2	20,883	20,727
Other Income	3	1,902	1,957
Operating Expenses	4	(18,425)	(17,429)
Operating Surplus		**4,360**	**5,255**
Finance Cost	4	(3,215)	(3,425)
Share of Profit of Associates and Joint Ventures	9,10	7,783	4,217
Net Surplus Before Taxation		**8,928**	**6,047**
Taxation Expense	5	(721)	(1,392)
Net Surplus After Taxation		**8,207**	**4,655**

Statement of Comprehensive Income

For the year ended 31 March 2020

		GROUP 2020 $'000	2019 $'000
Net Surplus After Taxation		**8,207**	**4,655**
Other Comprehensive Income			
Items that will not be reclassified to profit or loss:			
- Revaluation	6	2,321	-
Other Comprehensive Income		**2,321**	**-**
Total Comprehensive Income		**10,528**	**4,655**

The accompanying notes on pages 18 to 38 form part of and should be read in conjunction with these financial statements.

Statement of Changes in Equity

For the year ended 31 March 2020

	Notes	GROUP 2020 $'000	GROUP 2019 $'000
Total Comprehensive Income			
Net Surplus for the Year		8,207	4,655
Other Comprehensive Income		2,321	-
		10,528	4,655
Distributions to Shareholders			
Dividend Paid/Declared		(4,000)	(6,200)
		(4,000)	(6,200)
Changes in Equity for the Year		**6,528**	**(1,545)**
Equity at the Beginning of the Year		**91,900**	**93,445**
Equity at End of the Year	6	**98,428**	**91,900**

The accompanying notes on pages 18 to 38 form part of and should be read in conjunction with these financial statements.

Statement of Financial Position

As at 31 March 2020

		GROUP	
	Notes	2020 $'000	2019 $'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	7	808	198
Receivables and Prepayments	8	2,315	2,266
Total Current Assets		**3,123**	**2,464**
Non-Current Assets			
Investments in Associates	9	4,966	1,563
Advances to Associates		1,504	4,235
Investments in Joint Ventures	10	89,318	77,871
Advances to Joint Ventures		8,601	8,935
Investments in Other Entities		118	118
Property, Plant and Equipment	12	94,823	93,759
Capital Work in Progress		2,675	1,791
Total Non-Current Assets		**202,005**	**188,272**
Total Assets		**205,128**	**190,736**
LIABILITIES			
Current Liabilities			
Creditors and Accruals	13	2,889	4,313
Dividend Payable		4,000	6,200
Income Tax Payable/(Receivable)		768	(558)
Total Current Liabilities		**7,657**	**9,955**
Non-Current Liabilities			
Interest Bearing Liabilities	14	78,325	69,325
Deferred Tax Liabilities	15	20,718	19,556
Total Non-Current Liabilities		**99,043**	**88,881**
Total Liabilities		**106,700**	**98,836**
Net Assets		**98,428**	**91,900**
EQUITY			
Share Capital	6	13,000	13,000
Reserves	6	33,664	31,393
Retained Earnings	6	51,764	47,507
		98,428	**91,900**

The accompanying notes on pages 18 to 38 form part of and should be read in conjunction with these financial statements.

Statement of Cash Flows

For the year ended 31 March 2020

	Notes	GROUP 2020 $'000	GROUP 2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers		22,055	22,226
Interest Received		576	530
Taxation Refunds		990	-
		23,621	22,756
Cash Was Disbursed To:			
Payments to Suppliers and Employees		(13,695)	(12,951)
Income Tax Paid		(1,726)	(2,070)
Interest Paid		(3,214)	(3,160)
GST (Paid)/Received		(80)	103
		(18,715)	(18,078)
Net Cash Flows From Operating Activities	16	**4,906**	**4,678**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Sale of Property, Plant and Equipment		24	23
Dividend Received		6,223	6,691
Advances Repaid by Associates and Joint Ventures		3,064	-
		9,311	6,714
Cash Was Applied To:			
Purchase of Property, Plant and Equipment		(6,341)	(6,757)
Investment in Associates and Joint Ventures		(10,066)	-
Advances to Associates and Joint Ventures		-	(2,244)
		(16,407)	(9,001)
Net Cash Outflows from Investing Activities		**(7,096)**	**(2,287)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Shareholder Advances Received		9,000	3,500
		9,000	3,500
Cash Was Applied To:			
Dividend Payment		(6,200)	(6,200)
		(6,200)	(6,200)
Net Cash Flows/ (Outflows) From Financing Activities		**2,800**	**(2,700)**
Net Increase/(Decrease) in Cash and Cash Equivalents Held		610	(309)
Add Opening Cash Brought Forward		198	507
Closing Cash and Cash Equivalents Carried Forward	7	**808**	**198**

The accompanying notes on pages 18 to 38 form part of and should be read in conjunction with these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2020

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 9 and 10).

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 25 June 2020.

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-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 set out below have been applied consistently to all periods presented in these financial statements.

Impact of COVID-19 on Financial Statements

The outbreak of the novel coronavirus (COVID-19) which was designated a pandemic by the World Health Organisation on 11 March 2020, is a rapidly evolving situation adversely affecting global commercial activities. On 25 March 2020 New Zealand went into a Level 4 lockdown requiring all non-essential businesses whose employees could not work from home to close for a four week period (extended by a further five days to 27 April 2020). From 9 June 2020, New Zealand moved to Level 1 with restrictions now limited to border control.

As an electricity distribution business, Electricity Invercargill Ltd is deemed to be an essential service provider. Its operations have continued without significant impact during March, April and May due to the pandemic restriction measures. Line Charge revenues in future months are not expected to be materially impacted as COVID-19 restrictions begin to ease in New Zealand. The extent of the COVID-19 impact on business performance is a change to the consumption profile within customer groups reflecting the disruption to businesses, and gain in household consumption. The mothballing of some businesses could have an impact on future revenue, however this is not expected to present a significant risk with respect to Electricity Invercargill Ltd, its performance or its financial result.

With electricity distribution and generation businesses deemed an essential service, the financial performance of Electricity Invercargill Ltd group investments have not been materially affected by the pandemic restriction measures to date. Joint Venture entity, PowerNet Ltd, has seen a reduction in its revenues and profit from on-field activities due to alert level restrictions. However, the financial performance of the business and the continued employment of its workforce has been supported by the receipt of the Government wage subsidy. With restrictions easing to Level 1 during June, the PowerNet Ltd operations and financial performance are returning to business as usual.

Having considered the potential impact of COVID-19 on the business, we believe no significant changes to the presentation of the financial statements are required.

New Standards Adopted

The Group has applied the following standard for the first time for their annual reporting period commencing 1 April 2019:

- NZ IFRS 16 Leases

The Group has elected to apply NZ IFRS 16 Leases in accordance with the transition provisions in NZ IFRS 16. The new standard has been adopted retrospectively with the cumulative effect of initially applying the new standard recognised on 1 April 2019. Comparatives for the 2019 financial year have not been restated.

Notes to the Financial Statements *continued*

For the year ended 31 March 2020

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:

- Property, plant and equipment (note 12)
- Revenue estimation (note 2)
- Joint arrangement classification (note 10)

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.

Property, Plant and Equipment

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.

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 Statement of Financial Performance, in which case the increase is credited to the Statement of Financial Performance to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation is charged as an expense in the Statement of Financial Performance to the extent that it exceeds the balance, if any, held in the Asset Revaluation Reserve relating to a previous revaluation of that asset.

When a revalued asset is sold or retired the attributable revaluation surplus remaining in the Asset Revaluation Reserve, net of any related deferred taxes, is transferred directly to Retained Earnings.

Revenue Estimation

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/overcharged 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 determining the classification of joint arrangements.

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 from Contracts with Customers

(i) Electricity Delivery Services

Electricity delivery service revenue relates to the provision of electricity distribution services to electricity retailers through its electricity network in Invercargill City and the Bluff area. Electricity retailer delivery services are performed on a daily basis and considered a series of distinct goods and services provided over time. Prices are regulated and retailers are charged based on the published schedule and quantities delivered. Revenue is recognised over time using an output method based on the actual delivery services provided on a daily basis.

(ii) Capital Contributions

Capital contributions revenue relates to contributions received from customers, excluding delivery service customers who are directly billed, for construction activities relating to the establishment of new connections or upgrades of an existing connection. The subsequent electricity distribution is contracted separately, interposed through a retailer, and is therefore not considered to impact the assessment of the customer or performance of the obligations of the capital contribution contracts. Pricing is fixed and contributions are paid prior to an assets being connected to the network. Capital contributions are recognised as revenue at the point in time when construction activities are completed and the asset is connected to the network.

(c) Other Income

(i) Meter Rental Income

Meter rental income represents amounts invoiced to customers based on their usage of the metering assets owned by the Group.

(ii) Interest Income

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

(d) 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.

(e) 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

Distribution Assets	1.0 – 15%	Straight Line
Metering Assets	2.5 – 6.7%	Straight Line
Fibre Assets	2.0 – 13.0%	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 cannot subsequently be reversed.

(f) 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.

(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 (GST)

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

(i) Financial Assets

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs for such financial assets are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group has classified its debt instruments into the following category:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Financial liabilities at amortised cost consist of trade and other payables and borrowings. Financial liabilities at amortised cost are measured using the effective interest rate method. Due to their short-term nature, trade and other payables are not discounted.

The Group has not designated any derivatives as hedges for financial reporting purposes. Derivatives are subsequently measured at fair value, with movements recognised in profit or loss.

(j) Receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. The Group applies the simplified approach to providing for expected credit losses prescribed by NZ IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

During the year, the following gains/(losses) were recognised in profit or loss in other expenses in relation to impaired receivables:

- Impairment losses
- Individual receivables written off directly
- Movement in expected loss provision

(k) 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.

(l) Trade and Other Payables

Trade and other payables are stated at amortised cost.

(m) 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.

(n) Dividend

A dividend payable is recognised when a dividend is declared and approved by the Board.

(o) Seasonality

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

Notes to the Financial Statements *continued*

For the year ended 31 March 2020

2 Revenue from Contracts with Customers

	GROUP	
	2020 $'000	2019 $'000
Electricity Delivery Services	20,805	20,598
Capital Contributions	78	129
Total Revenue	**20,883**	**20,727**
Timing of Revenue Recognition		
Over time	20,805	20,598
At a point in time	78	129
Total Revenue	**20,883**	**20,727**

3 Other Income

	GROUP	
	2020 $'000	2019 $'000
Metering Rental Income	1,365	1,389
Interest Income	530	558
Other Income	7	10
Total Other Income	**1,902**	**1,957**

4 Expenses

	GROUP	
	2020 $'000	2019 $'000
Expenses Include		
Auditors' Remuneration - Pricewaterhouse Coopers		
- Audit of Financial Report	49	53
- Audit of Default Price Path	30	32
- Audit of Regulatory Disclosures	46	51
Regulatory and Consulting Fees - Pricewaterhouse Coopers	32	20
Depreciation		
- Fibre Assets	34	41
- Metering Assets	601	497
- Network Assets	3,608	3,540
Total Depreciation	4,243	4,078
Directors' Fees	145	162
Interest Expense	3,215	3,425
Loss on Disposal of Property, Plant and Equipment	127	269
Network Costs	9,250	8,729
Transmission Costs	6,604	6,294
Subvention Payment	1,600	915

Notes to the Financial Statements *continued*

For the year ended 31 March 2020

5 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.

	GROUP	
	2020 $'000	2019 $'000
Operating Surplus Before Income Tax	**8,928**	**6,047**
Prima Facie taxation at 28%	2,500	1,693
Income Not Taxable		
- Equity Accounting Earnings of Associates and Joint Ventures	(197)	(171)
Under/(over) Provision in Prior Years	-	431
Subvention Payment made in respect of Prior Period	(1,600)	(915)
Expenses not Deductible	18	354
Taxation Expense for Year	**721**	**1,392**
Made up of:		
Current Tax	2,057	1,594
Prior Year under/(over) Provision of Current Tax	(1,596)	(479)
Deferred Tax	264	281
Prior Year under/(over) Provision of Deferred Tax	(4)	(4)
Taxation Expense for Year	**721**	**1,392**
Effective Tax Rate	8.1%	22.7%

Tax Losses Transferred Within the Group

The current tax expense is calculated on the assumption that:

- The Group tax liability in relation to income tax year 2019 was reduced by tax losses of $5,712,629 (Prior Year: $3,268,910) transferred from Invercargill City Council by subvention payment of $1,599,536 (Prior Year: 915,295) and loss offset of $4,113,093 (Prior Year: $2,353,615).

Notes to the Financial Statements *continued*

For the year ended 31 March 2020

6 Equity

The authorised and issued share capital comprises 13 million ordinary shares (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	
	2020 $'000	2019 $'000
Contributed Capital		
Share Capital	**13,000**	**13,000**
Reserves		
General Reserve	2,800	2,800
Revaluation Reserve Opening Balance	28,593	28,704
Asset Revaluation	2,321	-
Revaluation Reversal due to Asset Disposal	(50)	(111)
Closing Balance	30,864	28,593
Total Reserves	**33,664**	**31,393**
Retained Earnings		
Opening Balance	47,507	48,941
Net Surplus	8,207	4,655
Revaluation Reversal due to Asset Disposal	50	111
Dividend Declared	(4,000)	(6,200)
Total Retained Earnings	**51,764**	**47,507**
Total Equity	**98,428**	**91,900**
	Cents per Share	Cents per Share
Dividend per Share	30.8	47.7

Assets revaluation relates to the revaluation of the network assets of OtagoNet Joint Venture recognised during the period net of the effect of deferred tax.

Notes to the Financial Statements *continued*

For the year ended 31 March 2020

7 Cash and Cash Equivalents

	GROUP	
	2020 $'000	2019 $'000
Current Account	278	58
Bank Deposits (Short-Term)	530	140
Total Cash and Cash Equivalents	808	198

8 Receivables and Prepayments

	GROUP	
	2020 $'000	2019 $'000
Trade Debtors	2,178	2,032
Prepayments	109	79
GST Receivable	28	155
Total Receivables and Prepayments	2,315	2,266

Notes to the Financial Statements *continued*

For the year ended 31 March 2020

9 Investments in Associates

Associate Companies	Country of Incorporation	Balance Date	Percentage Held By Group	
			2020	2019
Electricity Southland Ltd	New Zealand	31 March	24.9%	24.9%

During the year, the Group acquired an additional 3,361,500 shares in Electricity Southland Ltd, of the issue of 13,500,000 new shares.

	GROUP	
	2020 $'000	2019 $'000
The Group's interests in associate entities are as follows:		
Carrying Amount at Beginning of Year	1,563	1,582
Total Recognised Revenues and Expenses	42	(19)
Investment in Associate	3,361	-
Carrying Amount at End of Year	**4,966**	**1,563**
The Group's share of the results of its equity accounted associate entities is as follows:		
Share of Surplus before Taxation	114	17
Less Taxation Expense	(72)	(36)
Total Recognised Revenues and Expenses of Associates After Tax	**42**	**(19)**

10 Investments in Joint Ventures

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

Joint Ventures	Country of Residence	Balance Date	Percentage Held By Group	
			2020	2019
PowerNet Ltd*	New Zealand	31 March	50.0%	50.0%
OtagoNet Joint Venture**	New Zealand	31 March	24.9%	24.9%
Roaring Forties Energy Ltd Partnership***	New Zealand	31 March	50.0%	50.0%

* In February 2020, the remaining 9.68% shareholding in PowerNet Central Ltd was purchased by PowerNet Ltd. Following the completion of the acquisition, PowerNet Central Ltd was amalgamated in PowerNet Ltd on 31 March 2020.

Effective from 1 April 2016 the Group equity accounted its share of profits from the 50% owned joint venture entity, PowerNet Ltd to be consistent with the economic benefits the Group receives based on the PowerNet Ltd dividend policy. The equity accounted share of profit in PowerNet Ltd in 2020 is 24.61% (2019: 25.23%).

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

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

The Group holds 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 and 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 the assets relating to Matiri and Upper Fraser Hydro Stations. The expected generation output of these two hydro stations is approximately 61 GWh, with Upper Fraser contributing 33GWh and Matiri 28GWh. On 30 September 2019, the partnership completed the acquisition of the assets relating to the Upper Fraser hydro station. Matiri construction is in progress with an expected completion date in August 2020.

	GROUP	
	2020 $'000	2019 $'000
The Group's interests in Joint Venture entities are as follows:		
Carrying Amount at Beginning of Year	77,871	80,326
Investment in Joint Ventures	6,705	-
Total Recognised Revenues and Expenses	7,741	4,236
Revaluation Gain on Network Assets	3,224	-
Distributions/Dividends Received	(6,223)	(6,691)
Carrying Amount at End of Year	**89,318**	**77,871**

Each year, a fair value assessment is performed by Southern Generation Ltd Partnership of the fixed price electricity contracts associated with the generation from Flat Hill and Mt Stuart wind farms, and the Aniwhenua Hydro Station power purchase agreement with Nova Energy. The fair value assessment is based on forecasted market assumptions and may fluctuate with changes in market conditions during the term of the electricity price contracts and agreements. In 2020, the Group recognised a gain from the fair value assessment of $1,718,000 (2019: decrease of $2,613,000) in the Statement of Financial Performance, being the Group's share of the increased valuation.

The network assets of OtagoNet Joint Venture were revalued using discounted cash flow methodology on 31 March 2020 by an independent valuer. This resulted in a favourable gain, with the Group share of $3,224,000 recognised in the Statement of Comprehensive Income.

11 Leases

Until the 2020 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including insubstance fixed payments), less any lease incentives receivable

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs
- restoration costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straightline basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

Payments associated with short-term leases of property, equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

On adoption of NZ IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as of 1 April 2019.

The Group has elected to apply the practical expedient not to apply to requirements of NZ IFRS 16 to leases for which the lease term ends within 12 months of the date of initial application.

EIL does not have any agreements or contracts that meet the definition of a lease under NZ IFRS 16. The impact on the Group from the change in accounting policy relating to NZ IFRS 16 Leases are due to contracts held within the Joint Ventures and Associate. These joint ventures and associate financial statements are consolidated in the Group financial statements through the equity accounting method, not requiring further lease accounting disclosure.

Notes to the Financial Statements *continued*

For the year ended 31 March 2020

12 Property, Plant and Equipment

	Distribution Assets $'000	Metering Assets $'000	Fibre Assets $'000	Total $'000
At 1 April 2018				
Cost or fair value	105,051	7,272	1,055	113,378
Accumulated depreciation	(19,709)	(1,892)	(222)	(21,823)
Net book amount	85,342	5,380	833	91,555
Year ended 31 March 2019				
Opening net book amount	85,342	5,380	833	91,555
Additions	4,698	1,878	-	6,576
Disposals	(333)	(410)	-	(743)
Reversal of depreciation on asset disposed	158	291	-	449
Depreciation charge (note 4)	(3,540)	(497)	(41)	(4,078)
Closing net book amount	86,325	6,642	792	93,759
At 31 March 2019				
Cost	109,416	8,740	1,055	119,211
Accumulated depreciation	(23,091)	(2,098)	(263)	(25,452)
Net book amount	86,325	6,642	792	93,759
Year ended 31 March 2020				
Opening net book amount	86,325	6,642	792	93,759
Additions	3,802	1,656	-	5,458
Disposals	(172)	(478)	-	(650)
Reversal of depreciation on asset disposed	68	431	-	499
Depreciation charge (note 4)	(3,608)	(601)	(34)	(4,243)
Closing net book amount	86,415	7,650	758	94,823
At 31 March 2020				
Cost	113,046	12,400	1,055	126,501
Accumulated depreciation	(26,631)	(4,750)	(297)	(31,678)
Net book amount	86,415	7,650	758	94,823

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

31 March 2019	*61,476*	*6,797*	*792*	*69,065*
31 March 2020	*61,566*	*7,805*	*758*	*70,129*

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%.

13 Creditors and Accruals

	GROUP	
	2020 $'000	2019 $'000
Trade Payables	2,239	2,926
Accruals	630	1,332
Revenue in Advance	20	55
Total Creditors and Accruals	**2,889**	**4,313**

14 Shareholder Advance

	GROUP	
	2020 $'000	2019 $'000
Invercargill City Holdings Ltd		
- Non-Current Portion	78,325	69,325
Total Shareholder Advance	**78,325**	**69,325**

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 general facility agreement for $42 million was entered into with ICHL in 2017, for a five year term and is available for extension from time to time in accordance with the agreement. From 1 July 2019, the facility level was raised to $50 million.

Another loan facility agreement for $29 million was entered into with ICHL on 28 April 2016, for a five year term and is available for extension from time to time in accordance with the agreement.

The weighted average interest rate for the loan excluding facility fee is 4.36% (2019: 4.71%)

15 Deferred Tax Liabilities

	GROUP 2020 $'000	2019 $'000
Balance at the Beginning of the Year	19,556	19,279
Charged to the Income Statement		
- Fixed Assets (including buildings)	267	305
- Capital Contributions	(11)	(15)
- Prior Period	(4)	(5)
- Others	7	(8)
Charged to Equity		
- Effect of Revaluation	903	-
Balance at the End of the Year	**20,718**	**19,556**

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

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

16 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 2020 $'000	2019 $'000
Net Surplus After Taxation	**8,207**	**4,655**
Plus/(Less) Non Cash Items:		
Depreciation	4,243	4,078
Deferred Taxation	260	277
Loss on Sale of Property, Plant and Equipment	126	269
Share of Profit of Associates and Joint Ventures	(7,783)	(4,217)
	(3,154)	407
Plus/(Less) Movements in Working Capital:		
Increase/(Decrease) in Payables and Accruals	(1,424)	517
(Increase)/Decrease in Receivables and Prepayments	(49)	52
Increase/(Decrease) in Provision for Taxation	1,326	(953)
	(147)	(384)
Net Cash Flows From Operating Activities	**4,906**	**4,678**

Notes to the Financial Statements *continued*

For the year ended 31 March 2020

17 Commitments

a) **Capital Commitments**

The Group has capital expenditure contracted for but not provided for in the financial statements. All capital commitments are with PowerNet Ltd.

	GROUP	
	2020 $'000	2019 $'000
Capital Commitments	3,215	1,065
Total Capital Commitments	**3,215**	**1,065**

b) **Investment Commitments**

On 15 August 2017, the Group entered into a conditional agreement with the partners of Southern Generation Ltd Partnership to purchase the assets of a hydro generation development upon completion of construction. The Matiri hydro station is located at 15km north of Murchinson, with a capacity of 7MW is due to be commissioned in August 2020.

c) **Other Commitments**

The Group has a conditional commitment as at 31 March 2020 of $415,000 (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.

Notes to the Financial Statements *continued*

For the year ended 31 March 2020

18 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 19 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 $114,000 (2019: $116,000).

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.

19 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, OtagoNet Joint Venture, Electricity Southland Ltd and Southern Generation Ltd Partnership through their wholly owned subsidiary Pylon Ltd.

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	
	2020 $'000	2019 $'000
Goods and Services Supplied to:		
PowerNet Ltd (Joint Venture)	374	359
Electricity Southland Ltd (Associate)	151	188
Receivables Outstanding at Balance Date		
PowerNet Ltd (Joint Venture)	80	92
Electricity Southland Ltd (Associate)	15	49
Goods and Services Supplied by:		
PowerNet Ltd (Joint Venture)	10,554	10,604
Invercargill City Holdings Ltd (Other Related Party)	3,376	3,578
Creditors Outstanding at Balance Date		
PowerNet Ltd (Joint Venture)	1,745	2,879
Invercargill City Holdings Ltd (Other Related Party)	155	150
Dividends Paid to:		
Invercargill City Holdings Ltd (Other Related Party)	6,200	6,200
Advances Provided to (Repaid by):		
PowerNet Ltd (Joint Venture)	(334)	1,447
Electricity Southland Ltd (Associate)	(2,730)	798
Advances Provided from:		
Invercargill City Holdings Ltd (Other Related Party)	9,000	3,500
Subvention Payment Provided to:		
Invercargill City Council (Other Related Party)	1,600	915

Notes to the Financial Statements *continued*

For the year ended 31 March 2020

19 Transactions with Related Parties *continued*

Key Management Personnel

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

	GROUP	
	2020 $'000	2019 $'000
Directors Fees	157	173

There have been no other transactions with the Directors.

20 Subsequent Events

There are no material subsequent events that have arisen since the end of the financial year to the date of this report. Refer to COVID-19 note.

Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the readers of Electricity Invercargill Limited's Group financial statements and performance information for the year ended 31 March 2020

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 14 to 38, that comprise the statement of financial position as at 31 March 2020, 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 a statement of 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 2020; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR); and
- 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 2020.

Our audit was completed on 26 June 2020. 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.

Emphasis of matter – Covid-19

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which explains the impact of the Covid-19 pandemic on the Group. Electricity Invercargill Limited was considered a provider of essential services and was able to operate during the lockdown period providing essential services and maintenance. The directors have considered the impact of Covid-19 on the Group and consider there to be no material impact on the Financial Statements.

Auditor's Report *continued*

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The Board of Directors is responsible on behalf of the 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 Group's statement of 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.

Auditor's Report *continued*

- 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.
- 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 and 13, 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: *International Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

In addition to the audit we have carried out engagements 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, as well as regulatory advisory services, which are comparable with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Group.

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

Back cover: Vikas Sharma, PowerNet.

EIL
Electricity Invercargill Ltd