Electricity Invercargill Limited

Consolidated Financial Statements

For the year ended 31 March 2018

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Directors' Approval

The Directors have approved for issue the Financial Statements of Electricity Invercargill Limited for the year ended 31 March 2018 on pages 3 to 25.

Thomas Campbell
Chair

28 June 2018

Ross Smith
Director

28 June 2018

Electricity Invercargill Limited
Statement of Service Performance
For the year ended 31 March 2018

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

Performance Targets

	Target	**Achievement**	
	Year Ended 31 March 2018	**Year Ended 31 March 2018**	**Year Ended 31 March 2017**
Financial Measures	**$'000**	**$'000**	**$'000**
Operating Surplus Before Tax	9,086	9,469	8,875
Operating Surplus After Tax	7,387	7,333	7,030
Earnings Before Interest and Tax to Total Assets (EBIT%)	6.65%	6.68%	6.45%
Return on Equity %	7.43%	7.85%	7.62%
Equity to Total Assets %	52.85%	49.51%	49.08%

The Group Operating Surplus Before Tax amounted to $9.469 million, an increase of 6.7% compared with 2017 and 4.2% higher than target. This result reflects a combination of an increase in gross revenue due to an increase in line charges, a marginal reduction in operating costs, and favourable performance from investments in Southern Generation Limited Partnership, OtagoNet Joint Venture and PowerNet Limited. The Operating Surplus After Tax is impacted by a greater deferred tax expense than budgeted, resulting in a less favourable comparison to target.

Network Reliability Performance

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

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

SAIDI	21.40	27.49	13.47

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

SAIFI	0.59	0.47	0.29

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.

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Health and Safety Governance

The Board continued to give priority to health and safety during the 2018 financial year and remains strongly committed to providing the governance leadership required to ensure safe work practices amongst staff and contractors working on the Company's network. Activity on the network focuses on key projects that ensure network reliability and safety. The Company has become aware of the heightened level of safety risk on underground substations/confined spaces and has now reprioritised capital expenditure into safety-driven work devoted for the relocation of these substations to above the ground.

	Achievement	
	2018	**2017**
Supplementary Information (Unaudited)		
Network Statistics		
Length of overhead line	54 km	54 km
Length of underground cable *	602 km	602 km
Total number of interruptions	27	31
Faults per 100km of line	7.38	4.44
Transformer capacity MVA	149	149
Maximum demand MW	63	63
Energy into network GWh	265	268
Total consumers	17,422	17,377

** Excludes conductor lines under construction*

Electricity Invercargill Limited
Statement of Financial Performance
For the year ended 31 March 2018

	Notes	GROUP 2018 $'000	GROUP 2017 $'000
Operating Revenue	2	21,891	21,617
Other Income	2	540	398
Operating Expenses	3	(16,480)	(16,379)
Finance Costs	3	(3,140)	(3,258)
Share of Profit of Associates and Joint Ventures	8,9	6,658	6,497
Operating Surplus Before Taxation		**9,469**	**8,875**
Taxation Expense	4	(2,136)	(1,845)
Net Surplus After Taxation		**7,333**	**7,030**

The accompanying notes on pages 10 to 25 form part of and should be read in conjunction with these financial statements.

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Electricity Invercargill Limited
Statement of Comprehensive Income
For the year ended 31 March 2018

	GROUP	
	2018 $'000	**2017 $'000**
Net Surplus After Taxation	**7,333**	**7,030**
Other Comprehensive Income		
- Revaluation	-	1,863
Other Comprehensive Income	**-**	**1,863**
Total Comprehensive Income	**7,333**	**8,893**

The accompanying notes on pages 10 to 25 form part of and should be read in conjunction with these financial statements.

Electricity Invercargill Limited
Statement of Changes in Equity
For the year ended 31 March 2018

	Notes	GROUP 2018 $'000	GROUP 2017 $'000
Total Comprehensive Income			
Net Surplus for the Year		7,333	7,030
Other Comprehensive Income		-	1,863
		7,333	8,893
Distributions to Shareholders			
Dividend Paid/Declared		(6,200)	(5,700)
		(6,200)	(5,700)
Changes in Equity for the Year		1,133	3,193
Equity at the Beginning of the Year		92,312	89,119
Equity at End of the Year	5	93,445	92,312

The accompanying notes on pages 10 to 25 form part of and should be read in conjunction with these financial statements.

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Electricity Invercargill Limited
Statement of Financial Position
As at 31 March 2018

	Notes	GROUP 2018 $'000	2017 $'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	6	507	3,142
Receivables and Prepayments	7	2,128	2,044
Total Current Assets		**2,635**	**5,186**
Non Current Assets			
Investments in Associates	8	1,582	1,569
Advances to Associates		3,437	2,603
Investments in Joint Ventures	9	80,326	80,842
Advances to Joint Ventures		7,488	7,760
Investments in Other Entities		118	118
Property, Plant and Equipment	10	91,555	88,169
Capital Work in Progress		1,609	1,849
Total Non Current Assets		**186,115**	**182,910**
Total Assets		**188,750**	**188,096**
LIABILITIES			
Current Liabilities			
Creditors and Accruals	11	3,606	2,697
Dividend Payable		6,200	5,700
Income Tax Payable		395	592
Total Current Liabilities		**10,201**	**8,989**
Non Current Liabilities			
Interest Bearing Liabilities	12	65,825	67,825
Deferred Tax Liabilities	13	19,279	18,970
Total Non Current Liabilities		**85,104**	**86,795**
Total Liabilities		**95,305**	**95,784**
Net Assets		**93,445**	**92,312**
EQUITY			
Share Capital	5	13,000	13,000
Reserves	5	31,504	31,567
Retained Earnings	5	48,941	47,745
		93,445	**92,312**

The accompanying notes on pages 10 to 25 form part of and should be read in conjunction with these financial statements.

Electricity Invercargill Limited
Statement of Cash Flows
For the year ended 31 March 2018

	Notes	GROUP 2018 $'000	2017 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers		21,940	22,027
Interest Received		410	312
Taxation Refunds		241	19
		22,591	22,358
Cash Was Disbursed To:			
Payments to Suppliers and Employees		(11,196)	(14,435)
Income Tax Paid		(2,265)	(2,080)
Interest Paid		(3,269)	(3,168)
GST Paid/(Received)		(87)	(233)
		(16,817)	(19,916)
Net Cash Flows From Operating Activities	14	**5,774**	**2,442**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Sale of Property, Plant and Equipment		5	9
Dividend Received		7,163	6,235
Advances Repaid by Associates and Joint Ventures		-	5,670
		7,168	11,914
Cash Was Applied To:			
Purchase of Property, Plant and Equipment		(7,553)	(5,768)
Transfers from Capital Work in Progress		239	430
Purchase of additional Interest in Joint Ventures		(1)	(26,325)
Advances to Associates and Joint Ventures		(562)	(883)
		7,877	(32,546)
Net Cash Outflows from Investing Activities		**(709)**	**(20,632)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Shareholder Advances Received		-	27,325
		-	27,325
Cash Was Applied To:			
Repayment of Shareholder Advance		(2,000)	-
Dividend Payment		(5,700)	(6,200)
		(7,700)	(6,200)
Net Cash Flows/ (Outflows) From Financing Activities		**(7,700)**	**21,125**
Net Increase/(Decrease) in Cash and Cash Equivalents Held		(2,635)	2,935
Add Opening Cash Brought Forward		3,142	207
Closing Cash and Cash Equivalents Carried Forward	6	**507**	**3,142**

The accompanying notes on pages 10 to 25 form part of and should be read in conjunction with these financial statements.

1 Statement of Accounting Policies

Reporting Entity
Electricity Invercargill Limited is a profit oriented limited liability company, that was incorporated in New Zealand on 30 June 1991, is registered under the Companies Act 1993 and whose registered office is at 251 Racecourse Road, Invercargill. The Company is a wholly owned subsidiary of Invercargill City Holdings Limited. The Group consists of Electricity Invercargill Limited, its subsidiaries and its interest in associates and jointly controlled entities (refer to notes 8 and 9).

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

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

The financial statements were approved by the Board of Directors on 28 June 2018.

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

The Group is eligible and has elected to report in accordance with Tier 2 for-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.

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
- Revenue estimation - Network charges
- Joint arrangement classification

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

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.

Every five years, the Company obtains a valuation of their electricity distribution network, determined by independent valuers, in accordance with their accounting policy. The valuation of the Company's electricity distribution network was performed as at 1 April 2016. The best evidence of fair value is discounted cash flow methodology. The major assumptions used include discount rate, growth rate and future cash flows. Changes in future cash flows arising from changes in regulatory review may result in the fair value of the electricity distribution network being different from previous estimates. The fair value measurement of the distribution network is categorised under Level 3 of the fair value hierarchy.

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

Other areas where judgement has been exercised in preparing these financial statements are in determining the classification of joint arrangements.

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

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

- **NZ IFRS 9, 'Financial Instruments (effective for annual periods beginning on or after 1 January 2018)'**
  NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group intends to adopt NZ IFRS 9 on its effective date and has yet to assess its full impact.
- **NZ IFRS 15, 'Revenue from contract with customers, (effective for annual periods beginning on or after 1 January 2018)'**
  NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The group intends to adopt NZ IFRS 15 on its effective date and is currently assessing its full impact. This standard is not expected to significantly impact the Group.

(a) Principles of Consolidation

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

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

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

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

(i) **Network and Meter Charges**
Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

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

(iii) **Investment Income**
Interest income is recognised on a time-proportion basis using the effective interest method.

(iv) **Dividend Income**
Dividend income is recognised when the right to receive payment is established.

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

(d) Property, Plant and Equipment

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

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

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

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

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

(ii) **Depreciation**

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

(iii) **Impairment**
At each reporting date the Group reviews the carrying amounts of its assets and assesses them for indications of impairment. If indications of impairment exist, then the assets' recoverable amount is estimated in order to determine the extent of the impairment. The recoverable amounts are the higher of fair value (less costs to sell) and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects the market assessments of the time value of money and the risks specific to the assets involved. If the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down to its recoverable amount and an impairment loss is recognised in the profit and loss, except to the extent that the impairment loss reverses a previous revaluation increase for that asset to the extent of that revaluation increase. When the asset does not generate cash flows independent of other assets, the cash generating unit (CGU) to which the asset belongs is tested for impairment.

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

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

(f) 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.

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

(h) Financial Assets
Where applicable the Group classifies its investments in the following categories:

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

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

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

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

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

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

(j) 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.

(k) Trade and Other Payables
Trade and other payables are stated at fair value.

(l) 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.

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

2 Income

	GROUP	
	2018 **$'000**	**2017** **$'000**
Operating Revenue		
- Network Charges	20,436	20,127
- Meter Charges	1,455	1,490
	21,891	21,617
Other Income		
- Interest Revenue	464	276
- Other Income	76	122
	540	398
Total Income	**22,431**	**22,015**

3 Expenses

	GROUP	
	2018 **$'000**	**2017** **$'000**
Expenses Include		
Auditors' Remuneration - Pricewaterhouse Coopers		
- Audit of Financial Report	38	48
- Audit of Default Price Path	28	27
- Audit of Regulatory Disclosures	31	29
Depreciation		
- Fibre Assets	41	41
- Metering Assets	411	352
- Network Assets	3,442	3,402
Total Depreciation	3,894	3,795
Directors' Fees	174	172
Interest Expense	3,140	3,258
Loss on Disposal of Property, Plant & Equipment	268	403
Network Costs	8,211	8,129
Transmission Costs	6,973	6,592

4 Taxation

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

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

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

	GROUP	
	2018 $'000	**2017 $'000**
Operating Surplus Before Income Tax	**9,469**	**8,875**
Prima Facie taxation at 28%	2,651	2,485
Income Not Taxable		
- Equity Accounting Earnings of Associates and Joint Ventures	(221)	(173)
Loss Offset (Utilised)	(280)	(280)
Under/(over) Provision in Prior Years	(14)	(207)
Expenses not Deductible	-	20
Taxation Expense for Year	**2,136**	**1,845**
Made up of:		
Current Tax	1,837	1,759
Prior Year under/(over) Provision of Current Tax	(9)	(188)
Deferred Tax	313	293
Prior Year under/(over) Provision of Deferred Tax	(5)	(19)
Taxation Expense for Year	**2,136**	**1,845**
Effective Tax Rate	22.6%	20.8%

Tax Losses Transferred Within the Group

The current tax expense is calculated on the assumption that:

- Tax losses of $1,000,000 (2017: $1,000,000) with a tax benefit of $280,000 (2017: $280,000) have been transferred from Invercargill City Holdings Limited Group by way of group loss offset.

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5 Equity

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

	GROUP	
	2018 $'000	**2017 $'000**
Contributed Capital		
Share Capital	**13,000**	**13,000**
Reserves		
General Reserve	2,800	2,800
Revaluation Reserve Opening Balance	28,767	27,004
Revaluation	-	1,863
Revaluation Reversal due to Asset Disposal	(63)	(100)
Closing Balance	28,704	28,767
Total Reserves	**31,504**	**31,567**
Retained Earnings		
Opening Balance	47,745	46,315
Net Surplus	7,333	7,030
Revaluation Reversal due to Asset Disposal	63	100
Dividend Declared/Paid	(6,200)	(5,700)
Total Retained Earnings	**48,941**	**47,745**
Total Equity	**93,445**	**92,312**
	Cents per Share	**Cents per Share**
Dividend per Share	47.7	43.8

6 Cash and Cash Equivalents

	GROUP	
	2018 $'000	**2017 $'000**
Current Account	22	30
Bank Deposits (Short Term)	485	3,112
Total Cash and Cash Equivalents	**507**	**3,142**

7 Receivables and Prepayments

	GROUP	
	2018 **$'000**	**2017** **$'000**
Trade Debtors	2,063	1,993
Prepayments	65	51
Total Receivables and Prepayments	**2,128**	**2,044**

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

8 Investments in Associates

Associate Companies	**Country of Incorporation**	**Balance Date**	**Percentage Held By Group**	
			2018	**2017**
Electricity Southland Limited	New Zealand	31 March	24.9 %	24.9 %

	GROUP	
	2018 **$'000**	**2017** **$'000**
The Group's interests in associate entities are as follows:		
Carrying Amount at Beginning of Year	1,569	1,554
Total Recognised Revenues and Expenses	13	15
Carrying Amount at End of Year	**1,582**	**1,569**
The Group's share of the results of its equity accounted associate entities is as follows:		
Share of Surplus before Taxation	60	108
Less Taxation Expense	(47)	(93)
Total Recognised Revenues and Expenses of Associates After Tax	**13**	**15**

9 Investments in Joint Ventures

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

Joint Ventures	Country of Residence	Balance Date	Percentage Held By Group	
			2018	**2017**
PowerNet Limited Group*	New Zealand	31 March	50.0 %	50.0 %
OtagoNet Joint Venture**	New Zealand	31 March	24.9 %	24.9 %
Roaring Forties Energy Limited Partnership***	New Zealand	31 March	50.0 %	50.0 %

*In April 2017, PowerNet Limited Group acquired an additional 38.62% shareholding in Peak Power Services Limited, increasing the PowerNet shareholding to 90.32%.

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

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

In April 2015 the Group took a 25% interest in the Southern Generation Limited Partnership. This partnership was formed to invest in electricity generation opportunities. The partnership owns two wind farms, Mt. Stuart near Lawrence and Flat Hill near Bluff. On 29 April 2016, the partnership completed the acquisition of the assets relating to the Aniwhenua Hydro Station on the Rangitaiki River in the Bay of Plenty.
During the year 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 about 58 GWh, with Upper Fraser contributing 30 GWh and Matiri 28 GWh.

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

	GROUP	
	2018 $'000	**2017 $'000**
The Group's interests in Joint Venture entities are as follows:		
Carrying Amount at Beginning of Year	80,842	54,270
Investment in Joint Ventures	1	26,325
Total Recognised Revenues and Expenses	6,645	6,482
Distributions/Dividends Received	(7,162)	(6,235)
Carrying Amount at End of Year	**80,326**	**80,842**

10 Property, Plant and Equipment

	Distribution Assets $'000	Metering Assets $'000	Fibre Assets $'000	Total $'000
At 1 April 2016				
Cost or fair value	95,315	5,078	975	101,368
Accumulated depreciation	(15,399)	(1,810)	(140)	(17,349)
Net book amount	79,916	3,268	835	84,019
Year ended 31 March 2017				
Opening net book amount	79,916	3,268	835	84,019
Revaluation	2,588	-	-	2,588
Additions	4,134	1,556	78	5,768
Disposals	(339)	(548)	-	(887)
Reversal of depreciation on asset disposed	83	393	-	476
Depreciation charge (note 3)	(3,402)	(352)	(41)	(3,795)
Closing net book amount	82,980	4,317	872	88,169
At 31 March 2017				
Cost	99,361	6,086	1,053	106,500
Accumulated depreciation	(16,381)	(1,769)	(181)	(18,331)
Net book amount	82,980	4,317	872	88,169
Year ended 31 March 2018				
Opening net book amount	82,980	4,317	872	88,169
Additions	5,968	1,583	2	7,553
Disposals	(278)	(397)	-	(675)
Reversal of depreciation on asset disposed	114	288	-	402
Depreciation charge (note 3)	(3,442)	(411)	(41)	(3,894)
Closing net book amount	85,342	5,380	833	91,555
At 31 March 2018				
Cost	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

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

31 March 2017	*58,131*	*4,472*	*872*	*63,475*
31 March 2018	*60,493*	*5,535*	*833*	*66,861*

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

The 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%.

11 Creditors and Accruals

	GROUP	
	2018 **$'000**	**2017** **$'000**
Trade Payables	3,164	1,510
Accruals	626	1,093
Revenue in advance	6	32
GST (Receivable) Payable	(190)	62
Total Creditors and Accruals	3,606	2,697

12 Shareholder Advance

	GROUP	
	2018 **$'000**	**2017** **$'000**
Invercargill City Holdings Limited		
- Non Current Portion	65,825	67,825
Total Shareholder Advance	65,825	67,825

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

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

The weighted average interest rate for the loan excluding facility fee is 4.75% (2017: 4.78%)

13 Deferred Tax Liabilities

	GROUP	
	2018 **$'000**	**2017** **$'000**
Balance at the Beginning of the Year	18,970	17,971
Charged to the Profit and loss		
- Temporary Difference Reversals - Depreciation	309	288
- Temporary Difference Reversals - Other	-	(14)
Charged to Equity		
- Effect of Revaluation	-	725
Balance at the End of the Year	19,279	18,970

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.

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

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

	GROUP	
	2018 $'000	**2017 $'000**
Net Surplus After Taxation	7,333	7,030
Plus/(Less) Non Cash Items:		
Depreciation	3,894	3,795
Deferred Taxation	309	274
Loss on Sale of Property, Plant and Equipment	268	403
Share of Profit of Associates and Joint Ventures	(6,658)	(6,497)
	(2,187)	(2,025)
Plus/(Less) Movements in Working Capital:		
Increase/(Decrease) in Payables and Accruals	910	(2,440)
(Increase)/Decrease in Receivables	(86)	366
Increase/(Decrease) in Provision for Taxation	(196)	(489)
	628	(2,563)
Net Cash Flows From Operating Activities	**5,774**	**2,442**

15 Commitments

a) Capital Commitments

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

	2018 $'000	**2017 $'000**
Capital Commitments	1,014	1,659
Total Capital Commitments	**1,014**	**1,659**

b) Investment Commitments

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

c) Other Commitments

The Group has a conditional commitment as at 31 March 2018 of $415,000 (2017: $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.

16 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 17 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 Limited) 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 $103,000 (2017: $65,000).

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.

17 Transactions with Related Parties

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

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

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

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

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

	GROUP	
	2018 $'000	**2017 $'000**
Goods and Services Supplied to:		
PowerNet Limited (Joint Venture)	294	160
Electricity Southland Limited (Associate)	118	87
Receivables Outstanding at Balance Date		
PowerNet Limited (Joint Venture)	78	34
Electricity Southland Limited (Associate)	34	24
Goods and Services Supplied by:		
PowerNet Limited (Joint Venture)	10,879	8,931
Invercargill City Holdings Limited (Other Related Party)	3,544	3,638
Creditors Outstanding at Balance Date		
PowerNet Limited (Joint Venture)	2,423	1,029
Invercargill City Holdings Limited (Other Related Party)	145	298
Dividends Paid to:		
Invercargill City Holdings Limited (Other Related Party)	5,700	6,200
Advances Provided to (Repaid by):		
PowerNet Limited (Joint Venture)	(272)	(356)
Electricity Southland Limited (Associate)	834	883
Advances Repaid to (Provided from):		
Invercargill City Holdings Limited (Other Related Party)	2,000	(27,325)

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

Electricity Invercargill Limited, through its joint venture interest in PowerNet Limited and OtagoNet Joint Venture uses AWS Legal as its solicitors, of which Alan Harper (resigned from the OtagoNet Governing Committee on 30 September 2017) is a Partner. Electricity Invercargill Limited's share of fees paid to AWS Legal during the year amounted to $25,000 (2017: $8,000) of which $0 (incl GST) (2017: $0 (incl GST) is owing at balance date.

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

Key Management Personnel

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

	GROUP	
	2018 **$'000**	**2017** **$'000**
Salaries and Short-term Employee Benefits	192	202

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

18 Subsequent Events

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

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INDEPENDENT AUDITOR'S REPORT

To the readers of Electricity Invercargill Limited's Group financial statements and performance information for the year ended 31 March 2018

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 3 to 25, that comprise the statement of financial position as at 31 March 2018, the 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

- the statement of service performance of the Group on pages 3 and 4.

In our opinion:

- the financial statements of the Group:
    - present fairly, in all material respects:
        - its financial position as at 31 March 2018; 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, 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 2018.

Our audit was completed on 28 June 2018. 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, and we explain our independence.

Basis for our opinion

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

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

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

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.

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

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

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance;

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- 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.

Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1 (Revised): *Code of Ethics for Assurance Practitioners* issued by the New Zealand Auditing and Assurance Standards Board.

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

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