

Electricity Invercargill Limited

Consolidated Financial Statements

For the year ended 31 March 2019

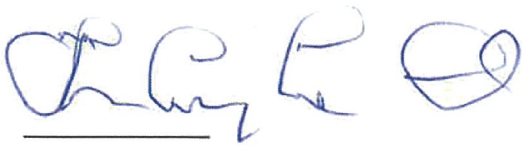
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Electricity Invercargill Limited
Directors' Approval
31 March 2019

Directors' Approval

The Directors have approved for issue the Financial Statements of Electricity Invercargill Limited for the year ended 31 March 2019 on pages 3 to 26.



Thomas Campbell
Chairperson

27 June 2019



Sarah Jane Brown
Director

27 June 2019

Electricity Invercargill Limited
Statement of Service Performance
For the year ended 31 March 2019

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

Performance Targets

	Target	Achievement	
	Year Ended 31 March 2019	Year Ended 31 March 2019	Year Ended 31 March 2018
Financial Measures	\$'000	\$'000	\$'000
Net Surplus Before Taxation	8,525	6,047	9,469
Net Surplus After Taxation	6,432	4,655	7,333
Earnings Before Interest and Tax to Total Assets (EBIT%)	6.30%	4.84%	6.68%
Return on Equity %	6.88%	5.07%	7.85%
Equity to Total Assets %	48.65%	48.18%	49.51%

The Group Net Surplus Before Taxation amounted to \$6.05 million, a decrease from 2018 and below the 2019 target. This result is impacted by a 2019 subvention payment of \$0.9 million (2018: \$0) included in Operating Expenses, and an unfavourable Fair Value movement of \$2.6 million (2018: \$0.5 million) from a financial instrument held by a Joint Venture (note 10), included in Share of Profit of Associate and Joint Ventures. Excluding these non-operating items, the Operating Surplus before Taxation in 2019 would be \$9.58 million (2018: \$9.97 million).

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	22.50	17.98	27.49
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System Average Interruption Frequency Index (SAIFI)

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

SAIFI	0.57	0.31	0.47
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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 Governance

EIL contracts PowerNet Limited to manage its operations. EIL employ no staff. Therefore the PowerNet Limited Health and Safety Performance targets are relevant to the Group.

	Target	Achievement	
	Year Ended 31 March 2019	Year Ended 31 March 2019	Year Ended 31 March 2018
Total Recordable Injury Frequency Rate Contractors Target (TRIFR)	3.6	4.6	4.4
Serious Harm Incident Targets (Public and Workers)	0	0	0

Concerted efforts in health and safety have reaped results this year, as we have realised many improvements in this critical aspect of our business. Only one lost time injury was recorded in the last six months of the 2018-19 year, a reflection of the great work across the Group to achieve the objective that 'every team member goes home unharmed every day'. This is now a real and valued goal amongst our teams and leaders who understand and believe in the importance of best practice health and safety.

During the year we have made further progress moving 13 underground substations above ground (only one remaining) and completing the relocation of 400V link boxes above the ground. These were previously identified to be of heightened level of safety risk due to confined spaces. These projects represent significant improvements in workplace safety and infrastructural investment on the EIL network.

Health and safety practice and thinking is embedded in our work, attitudes and behaviours. On many health and safety fronts in our business, encouraged by strong leadership in this area, we are making great progress. The implementation of a critical risk framework and many excellent risk assessments from leaders and team members, are important factors in achieving positive outcomes. External health and safety verification audits are also returning positive feedback.

Supplementary Information (Unaudited)

Network Statistics

Length of overhead line	54 km	54 km
Length of underground cable	604 km	602 km
Total number of interruptions	27	27
Faults per 100km of line	6.85	7.38
Transformer capacity MVA	149	149
Maximum demand MW	63	63
Energy into network GWh	267	265
Total consumers	17,417	17,422

Electricity Invercargill Limited
Statement of Financial Performance
For the year ended 31 March 2019

	Notes	GROUP	
		2019 \$'000	2018 \$'000
Revenue from Contracts with Customers	2	20,727	20,498
Other Income	3	1,957	1,933
Operating Expenses	4	<u>(17,685)</u>	<u>(16,480)</u>
Operating Surplus		4,999	5,951
Finance Cost	4	(3,169)	(3,140)
Share of Profit of Associates and Joint Ventures	9,10	<u>4,217</u>	<u>6,658</u>
Net Surplus Before Taxation		6,047	9,469
Taxation Expense	5	<u>(1,392)</u>	<u>(2,136)</u>
Net Surplus After Taxation		<u>4,655</u>	<u>7,333</u>

The accompanying notes on pages 10 to 26 form part of and should be read in conjunction with these financial statements.

Electricity Invercargill Limited
Statement of Comprehensive Income
For the year ended 31 March 2019

	GROUP	
	2019 \$'000	2018 \$'000
Net Surplus After Taxation	4,655	7,333
Other Comprehensive Income		
- Revaluation	-	-
Other Comprehensive Income	-	-
Total Comprehensive Income	<u>4,655</u>	<u>7,333</u>

The accompanying notes on pages 10 to 26 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 2019

	Notes	GROUP	
		2019 \$'000	2018 \$'000
Total Comprehensive Income			
Net Surplus for the Year		4,655	7,333
Other Comprehensive Income		<u>-</u>	<u>-</u>
		4,655	7,333
Distributions to Shareholders			
Dividend Paid/Declared		<u>(6,200)</u>	<u>(6,200)</u>
		(6,200)	(6,200)
Changes in Equity for the Year		<u>(1,545)</u>	<u>1,133</u>
Equity at the Beginning of the Year		<u>93,445</u>	<u>92,312</u>
Equity at End of the Year	6	<u><u>91,900</u></u>	<u><u>93,445</u></u>

The accompanying notes on pages 10 to 26 form part of and should be read in conjunction with these financial statements.

Electricity Invercargill Limited
Statement of Financial Position
As at 31 March 2019

		GROUP	
	Notes	2019 \$'000	2018 \$'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	7	198	507
Receivables and Prepayments	8	<u>2,266</u>	<u>2,318</u>
Total Current Assets		2,464	2,825
Non Current Assets			
Investments in Associates	9	1,563	1,582
Advances to Associates		4,235	3,437
Investments in Joint Ventures	10	77,871	80,326
Advances to Joint Ventures		8,935	7,488
Investments in Other Entities		118	118
Property, Plant and Equipment	11	93,759	91,555
Capital Work in Progress		<u>1,791</u>	<u>1,609</u>
Total Non Current Assets		188,272	186,115
Total Assets		190,736	188,940
LIABILITIES			
Current Liabilities			
Creditors and Accruals	12	4,313	3,796
Dividend Payable		6,200	6,200
Income Tax Payable/(Receivable)		<u>(558)</u>	<u>395</u>
Total Current Liabilities		9,955	10,391
Non Current Liabilities			
Interest Bearing Liabilities	13	69,325	65,825
Deferred Tax Liabilities	14	<u>19,556</u>	<u>19,279</u>
Total Non Current Liabilities		88,881	85,104
Total Liabilities		98,836	95,495
Net Assets		91,900	93,445
EQUITY			
Share Capital	6	13,000	13,000
Reserves	6	31,393	31,504
Retained Earnings	6	<u>47,507</u>	<u>48,941</u>
		91,900	93,445

The accompanying notes on pages 10 to 26 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 2019

		GROUP	
	Notes	2019 \$'000	2018 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers		22,226	21,940
Interest Received		530	410
Taxation Refunds		-	241
		<u>22,756</u>	<u>22,591</u>
Cash Was Disbursed To:			
Payments to Suppliers and Employees		(12,951)	(11,196)
Income Tax Paid		(2,070)	(2,265)
Interest Paid		(3,160)	(3,269)
GST (Paid)/Received		103	(87)
		<u>(18,078)</u>	<u>(16,817)</u>
Net Cash Flows From Operating Activities	15	<u>4,678</u>	<u>5,774</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Sale of Property, Plant and Equipment		23	5
Dividend Received		6,691	7,163
		<u>6,714</u>	<u>7,168</u>
Cash Was Applied To:			
Purchase of Property, Plant and Equipment		(6,757)	(7,314)
Purchase of additional Interest in Joint Ventures		-	(1)
Advances to Associates and Joint Ventures		(2,244)	(562)
		<u>(9,001)</u>	<u>(7,877)</u>
Net Cash Outflows from Investing Activities		<u>(2,287)</u>	<u>(709)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Shareholder Advances Received		3,500	-
		<u>3,500</u>	<u>-</u>
Cash Was Applied To:			
Repayment of Shareholder Advance		-	(2,000)
Dividend Payment		(6,200)	(5,700)
		<u>(6,200)</u>	<u>(7,700)</u>
Net Cash Flows/ (Outflows) From Financing Activities		<u>(2,700)</u>	<u>(7,700)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents Held		(309)	(2,635)
Add Opening Cash Brought Forward		507	3,142
Closing Cash and Cash Equivalents Carried Forward	7	<u>198</u>	<u>507</u>

The accompanying notes on pages 10 to 26 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 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 Limited is the provision of electricity distribution services.

The financial statements were approved by the Board of Directors on 27 June 2019.

Basis of Preparation

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

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

New Standards Adopted

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

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

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

Standards or Interpretations not yet Effective

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

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

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 11)
- Revenue estimation
- 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.

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

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.

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.

(b) Revenue from Contracts with Customers (continued)

(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**

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.

(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 Good 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. There are three measurement categories into which the group classifies its debt instruments:

- 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.

Transition

On 1 April 2018 (the date of initial application of NZ IFRS 9), management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate NZ IFRS 9 categories. There have been no changes to the initial or subsequent measurement of financial assets or liabilities as a result of adopting NZ IFRS 9.

The Group has applied NZ IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy. Financial assets were previously classified as follows under NZ IAS 37:

(i) 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.

(ii) Held-to-Maturity Investments

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

(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

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively, to determine whether there was objective evidence that an impairment had been incurred but not yet been identified.

(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) Seasonality

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

2 Revenue from Contracts with Customers

	2019 \$'000	2018 \$'000
Electricity Delivery Services	20,598	20,436
Capital Contributions	129	62
Total Revenue	<u>20,727</u>	<u>20,498</u>

Timing of Revenue Recognition

Over time	20,598	20,436
At a point in time	129	62
Total Revenue	<u>20,727</u>	<u>20,498</u>

3 Other Income

	2019 \$'000	2018 \$'000
Metering Rental Income	1,389	1,455
Interest Income	558	464
Other Income	10	14
	<u>1,957</u>	<u>1,933</u>

4 Expenses

	GROUP	
	2019 \$'000	2018 \$'000
Expenses Include		
Auditors' Remuneration - Pricewaterhouse Coopers		
- Audit of Financial Report	53	38
- Audit of Default Price Path	32	28
- Audit of Regulatory Disclosures	51	31
Regulatory and Consulting Fees - Pricewaterhouse Coopers	20	5
Depreciation		
- Fibre Assets	41	41
- Metering Assets	497	411
- Network Assets	3,540	3,442
Total Depreciation	<u>4,078</u>	<u>3,894</u>
Directors' Fees	162	174
Interest Expense	3,169	3,140
Loss on Disposal of Property, Plant & Equipment	269	268
Network Costs	8,729	8,211
Transmission Costs	6,294	6,973
Subvention Payment	915	-

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	
	2019 \$'000	2018 \$'000
Operating Surplus Before Income Tax	6,047	9,469
Prima Facie taxation at 28%	1,693	2,651
Income Not Taxable		
- Equity Accounting Earnings of Associates and Joint Ventures	(171)	(221)
Loss Offset (Utilised)	-	(280)
Under/(over) Provision in Prior Years	431	(14)
Subvention Payment made in respect of Prior Period	(915)	-
Expenses not Deductible	354	-
Taxation Expense for Year	1,392	2,136
Made up of:		
Current Tax	1,594	1,837
Prior Year under/(over) Provision of Current Tax	(479)	(9)
Deferred Tax	281	313
Prior Year under/(over) Provision of Deferred Tax	(4)	(5)
Taxation Expense for Year	1,392	2,136
Effective Tax Rate	22.7%	22.6%

Tax Losses Transferred Within the Group

The current tax expense is calculated on the assumption that:

- During the 2019 income year, no tax losses received (2018: \$1,000,000) and no tax benefit recognised (2018: \$280,000) from Invercargill City Holdings Limited Group by way of group loss offset.

- A tax loss offset and subvention payment were arranged during the 2019 income year resulting in a tax compensation payment of \$915,295 (2018: \$0) to Invercargill City Council.

6 Equity

The authorised and issued share capital comprises 13 million ordinary shares (2018: 13 million ordinary shares) which are fully paid up and are not subject to a par value. All shares have the same rights and privileges.

	GROUP	
	2019 \$'000	2018 \$'000
Contributed Capital		
Share Capital	13,000	13,000
Reserves		
General Reserve	2,800	2,800
Revaluation Reserve Opening Balance	28,704	28,767
Revaluation	-	-
Revaluation Reversal due to Asset Disposal	(111)	(63)
Closing Balance	<u>28,593</u>	<u>28,704</u>
Total Reserves	<u>31,393</u>	<u>31,504</u>
Retained Earnings		
Opening Balance	48,941	47,745
Net Surplus	4,655	7,333
Revaluation Reversal due to Asset Disposal	111	63
Dividend Declared	(6,200)	(6,200)
Total Retained Earnings	<u>47,507</u>	<u>48,941</u>
Total Equity	<u>91,900</u>	<u>93,445</u>
	Cents per Share	Cents per Share
Dividend per Share	47.7	47.7

7 Cash and Cash Equivalents

	GROUP	
	2019 \$'000	2018 \$'000
Current Account	58	22
Bank Deposits (Short Term)	140	485
Total Cash and Cash Equivalents	<u>198</u>	<u>507</u>

8 Receivables and Prepayments

	GROUP	
	2019	2018
	\$'000	\$'000
Trade Debtors	2,032	2,063
Prepayments	79	65
GST Receivable	155	190
Total Receivables and Prepayments	<u>2,266</u>	<u>2,318</u>

9 Investments in Associates

Associate Companies	Country of Incorporation	Balance Date	Percentage Held By Group	
			2019	2018
			Electricity Southland Limited	New Zealand

	GROUP	
	2019	2018
	\$'000	\$'000
The Group's interests in associate entities are as follows:		
Carrying Amount at Beginning of Year	1,582	1,569
Total Recognised Revenues and Expenses	(19)	13
Carrying Amount at End of Year	<u>1,563</u>	<u>1,582</u>

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

Share of Surplus before Taxation	17	60
Less Taxation Expense	(36)	(47)
Total Recognised Revenues and Expenses of Associates After Tax	<u>(19)</u>	<u>13</u>

10 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	
			2019	2018
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 PowerNet Central 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.

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 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 2019 is 25.23% (2018: 23.48%).

GROUP

	2019	2018
	\$'000	\$'000

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

Carrying Amount at Beginning of Year	80,326	80,842
Investment in Joint Ventures	-	1
Total Recognised Revenues and Expenses	4,236	6,645
Distributions/Dividends Received	<u>(6,691)</u>	<u>(7,162)</u>
Carrying Amount at End of Year	<u>77,871</u>	<u>80,326</u>

In 2019, a fair value assessment was performed by Southern Generation Limited Partnership associated with the fixed price electricity contracts associated with the generation of Flat Hill and Mt Stuart windfarms, and the Aniwhenua Hydro Station power purchase agreement with Nova Energy. The fair value assessment at 31 March 2019 is based on forecasted market assumptions and may fluctuate over time with any changes in market conditions during the term of the electricity price contracts and agreements. The Group share of impact from these fair value adjustments is a decrease of \$2,613,000 in the Total Recognised Revenue and Expenses, and therefore the Group Net Surplus for the year.

11 Property, Plant and Equipment

	Distribution Assets \$'000	Metering Assets \$'000	Fibre Assets \$'000	Total \$'000
At 1 April 2017				
Cost or fair value	99,361	6,086	1,053	106,500
Accumulated depreciation	<u>(16,381)</u>	<u>(1,769)</u>	<u>(181)</u>	<u>(18,331)</u>
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 4)	<u>(3,442)</u>	<u>(411)</u>	<u>(41)</u>	<u>(3,894)</u>
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	<u>(19,709)</u>	<u>(1,892)</u>	<u>(222)</u>	<u>(21,823)</u>
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)	<u>(3,540)</u>	<u>(497)</u>	<u>(41)</u>	<u>(4,078)</u>
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	<u>(23,091)</u>	<u>(2,098)</u>	<u>(263)</u>	<u>(25,452)</u>
Net book amount	86,325	6,642	792	93,759

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

31 March 2018	60,493	5,535	833	66,861
31 March 2019	61,476	6,797	792	69,065

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%.

12 Creditors and Accruals

	GROUP	
	2019 \$'000	2018 \$'000
Trade Payables	2,926	3,164
Accruals	1,332	626
Revenue in Advance	55	6
Total Creditors and Accruals	<u>4,313</u>	<u>3,796</u>

13 Shareholder Advance

	GROUP	
	2019 \$'000	2018 \$'000
Invercargill City Holdings Limited - Non Current Portion	<u>69,325</u>	<u>65,825</u>
Total Shareholder Advance	<u>69,325</u>	<u>65,825</u>

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 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.

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 4.71% (2018: 4.75%)

14 Deferred Tax Liabilities

	GROUP	
	2019 \$'000	2018 \$'000
Balance at the Beginning of the Year	19,279	18,970
- Temporary Difference		
Reversals - Depreciation	277	309
Charged to Equity		
- Effect of Revaluation	<u>-</u>	<u>-</u>
Balance at the End of the Year	<u>19,556</u>	<u>19,279</u>

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.

15 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	
	2019	2018
	\$'000	\$'000
Net Surplus After Taxation	4,655	7,333
Plus/(Less) Non Cash Items:		
Depreciation	4,078	3,894
Deferred Taxation	277	309
Loss on Sale of Property, Plant and Equipment	269	268
Share of Profit of Associates and Joint Ventures	(4,217)	(6,658)
	407	(2,187)
Plus/(Less) Movements in Working Capital:		
Increase/(Decrease) in Payables and Accruals	517	910
(Increase)/Decrease in Receivables and Prepayments	52	(86)
Increase/(Decrease) in Provision for Taxation	(953)	(196)
	(384)	628
Net Cash Flows From Operating Activities	4,678	5,774

16 Commitments

a) Capital Commitments

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

	2019	2018
	\$'000	\$'000
Capital Commitments	1,065	697
Total Capital Commitments	1,065	697

b) Investment Commitments

On 15 August 2017, the Group entered into a conditional agreement with the partners of Southern Generation Limited Partnership to purchase the assets of two hydro generation developments upon completion of construction. The Upper Fraser hydro station is expected to generate approximately 30 GWh from July 2019, and the Matiri hydro station is expected to generate approximately 28 GWh annually from February 2020.

c) Other Commitments

The Group has a conditional commitment as at 31 March 2019 of \$415,000 (2018: \$415,000). This relates to an agreement with Smart Co, for the Group to provide a subordinated loan to Smart Co once a number of terms have been met.

17 Financial Instruments

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

- Credit risk
- Liquidity risk
- Market risk

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

Credit Risk

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

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

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

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

Liquidity Risk

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

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

Market Risk

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

The Group has interest bearing debt which is subject to interest rate variations in the market. This debt (being an advance from the Group's parent company, Invercargill City Holdings 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 \$116,000 (2018: \$103,000).

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.

18 Transactions with Related Parties

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

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

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

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

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

	GROUP	
	2019	2018
	\$'000	\$'000
Goods and Services Supplied to:		
PowerNet Limited (Joint Venture)	359	294
Electricity Southland Limited (Associate)	188	118
 Receivables Outstanding at Balance Date		
PowerNet Limited (Joint Venture)	92	78
Electricity Southland Limited (Associate)	49	34
 Goods and Services Supplied by:		
PowerNet Limited (Joint Venture)	10,604	10,879
Invercargill City Holdings Limited (Other Related Party)	3,578	3,544
 Creditors Outstanding at Balance Date		
PowerNet Limited (Joint Venture)	2,879	2,423
Invercargill City Holdings Limited (Other Related Party)	150	145
 Dividends Paid to:		
Invercargill City Holdings Limited (Other Related Party)	6,200	5,700
 Advances Provided to (Repaid by):		
PowerNet Limited (Joint Venture)	1,447	(272)
Electricity Southland Limited (Associate)	798	834
 Advances Repaid to (Provided from):		
Invercargill City Holdings Limited (Other Related Party)	(3,500)	2,000
 Subvention Payment Provided to:		
Invercargill City Council (Other Related Party)	915	-

Key Management Personnel

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

	GROUP	
	2019 \$'000	2018 \$'000
Directors Fees, Salaries and Short-term Employee Benefits	173	192

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. There have been no other transactions with the Directors.

19 Subsequent Events

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



INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF ELECTRICITY INVERCARGILL LIMITED'S GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 31 MARCH 2019

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 5 to 26, that comprise the statement of financial position as at 31 March 2019, 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 3 to 4.

In our opinion:

- the financial statements of the Group:
 - present fairly, in all material respects:
 - its financial position as at 31 March 2019; 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 2019.

Our audit was completed on 27 June 2019. 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.

*PricewaterhouseCoopers
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T: +64 3 374 3000, F: +64 3 374 3001, pwc.co.nz*



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 corporate intent.



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

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

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance;
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- 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 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.

A handwritten signature in blue ink, appearing to read 'Nathan Wylie', is written over a faint circular stamp.

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