

Electricity Invercargill Limited

Consolidated Financial Statements

For the year ended 31 March 2021

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Electricity Invercargill Limited
Directors' Approval
For the year ended 31 March 2021

Directors' Approval

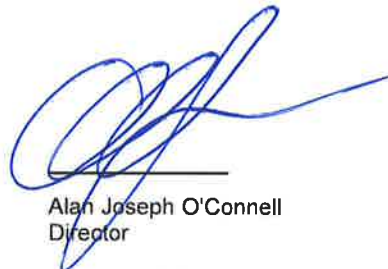
The Directors have approved for issue the Consolidated Financial Statements of Electricity Invercargill Ltd for the year ended 31 March 2021 on pages 3 to 28.

For and on behalf of the Board.



Thomas Campbell
Chairperson

24 June 2021



Alan Joseph O'Connell
Director

24 June 2021

Electricity Invercargill Limited
Statement of Service Performance
For the year ended 31 March 2021

The objectives of Electricity Invercargill Ltd for this financial year are clearly specified in the Statement of Intent, which was set in consultation with 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 2021	Year Ended 2021	Year Ended 2020 Restated*
	\$'000	\$'000	\$'000
Financial			
Operating Surplus Before Taxation, Subvention and Fair Value Amortisation	8,858	8,549	8,811
Operating Surplus After Tax	5,934	6,138	5,757
Earnings Before Taxation, Interest, Subvention and Fair Value Amortisation to Total Assets (EBIT%)	5.75 %	5.19 %	5.90 %
Return on Equity %	6.14 %	5.90 %	5.94 %
Equity to Total Assets %	47.07 %	46.95 %	47.61 %

*The prior period comparative numbers have been restated as set out in Note 18.

The Group Operating Surplus Before Taxation, Subvention and Fair Value Amortisation amounted to \$8.55 million, marginally below the 2020 result and the 2021 target. The reduction from last year is due to the fall of line charge prices in accordance with the Allowable Notional Revenue levels set by the Commerce Commission, partially off-set by lower operating expenses and finance costs. The Net Surplus after Taxation is impacted by prior period adjustments on current and deferred taxes resulting in a favourable comparison to target and last year result.

A change in accounting treatment of Southern Generation Limited Partnership Power Purchase Agreement resulted in the restatement and decrease of 2020 Share of Profit of Associates and Joint Ventures by \$2.45 million.

Supply Quality

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

System Average Interruption Duration Index (SAIDI)

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

SAIDI	33.95	22.98	49.23
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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	0.70	0.38	0.98
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SAIDI and SAIFI for planned and unplanned interruptions are calculated using the methodology defined in the Electricity Distribution Businesses DPP3 Determination 2020. SAIFI is calculated per interruption against the total network ICPs. Planned SAIDI is calculated in categories dependent on minutes occurring within or outside interruption windows, number of ICPs affected and total network ICPs – buckets are then summed to an assessed SAIDI value per interruption. Assessed SAIDI and SAIFI for unplanned interruptions include normalisation of major events for periods that exceed the DPP3 defined boundary values.

Electricity Invercargill Limited
Statement of Service Performance
For the year ended 31 March 2021
(continued)

Electricity Invercargill Ltd has met the SAIDI and SAIFI target for the year and were well below the supply quality limits set by the Commerce Commission.

Electricity Invercargill Ltd continues to respond to operating challenges through network upgrades to uphold the reliability of electricity supply. Investment is ongoing for the automation of network equipment to allow faster location, isolation and supply restoration following a fault.

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

Health and Safety

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

	Target	Achievement	
	Year Ended 31 March 2021	Year Ended 31 March 2021	Year Ended 31 March 2020
Total Recordable Injury Frequency Rate Contractors Target (TRIFR)	4.2	2.7	7.2

PowerNet Ltd safety performance (TRIFR) decreased from 7.2 to 2.7 and Electricity Invercargill Ltd network have recorded zero injuries during the 2021 reporting year.

Health and safety performance has improved due to increased focus on work place training and assessment, and the utilisation of PowerNet's Critical Risk Framework project. The project aims to ensure that the management of critical risks is integral to all the Group's operations. It equips designated personnel with the tools that allow them to focus on the effective critical controls needed to keep themselves and members of the public safe.

This work has been the basis for the development of a digital app used by team leaders and personnel to ensure that the correct critical controls are in place for each stage of the work they do. The app leads the user through the elements of typical workflows, identifying and recording the required critical controls used to manage risks at each stage. It also provides seamless access to other PowerNet system and reference material. Several teams are already using the app with full roll-out planned for completion by end of 2021.

Supplementary Information (Unaudited)

Network Statistics

Length of overhead line	54 km	54 km
Length of underground cable	609 km	604 km
Total number of interruptions	53	52
Faults per 100km of line	7.99	7.90
Transformer capacity MVA	151	150
Maximum demand MW	63	63
Energy into network GWh	263	267
Total consumers	17,441	17,406

Electricity Invercargill Limited
Statement of Financial Performance
For the year ended 31 March 2021

	Notes	GROUP	
		2021 \$'000	2020 Restated* \$'000
Revenue from Contracts with Customers	2	19,541	20,883
Other Income	3	1,705	1,902
Operating Expenses	4	<u>(17,556)</u>	<u>(18,425)</u>
Operating Surplus		3,690	4,360
Finance Costs	4	(2,943)	(3,215)
Share of Profit of Associates and Joint Ventures	9,10	<u>4,999</u>	<u>5,333</u>
Net Surplus Before Taxation		5,746	6,478
Taxation Expense	5	<u>392</u>	<u>(721)</u>
Net Surplus After Taxation		<u>6,138</u>	<u>5,757</u>

*The prior period comparative numbers have been restated as set out in Note 18.

The accompanying notes on pages 10 to 28 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 2021

	GROUP	
	2021	2020
	\$'000	Restated* \$'000
Net Surplus After Taxation	6,138	5,757
Other Comprehensive Income		
Items that will not be reclassified to profit or loss:		
- Revaluation	6 <u>4,830</u>	<u>2,321</u>
Other Comprehensive Income	<u>4,830</u>	<u>2,321</u>
Total Comprehensive Income	<u><u>10,968</u></u>	<u><u>8,078</u></u>

*The prior period comparative numbers have been restated as set out in Note 18.

The accompanying notes on pages 10 to 28 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 2021

	Notes	GROUP	
		2021 \$'000	2020 Restated* \$'000
Total Comprehensive Income			
Net Surplus for the Year		6,138	5,757
Other Comprehensive Income		<u>4,830</u>	<u>2,321</u>
		10,968	8,078
 Distributions to Shareholders			
Dividend Paid/Declared		<u>(4,000)</u>	<u>(4,000)</u>
		(4,000)	(4,000)
 Changes in Equity for the Year		<u>6,968</u>	<u>4,078</u>
 Equity at the Beginning of the Year		<u>96,978</u>	<u>92,900</u>
 Equity at End of the Year	6	<u>103,946</u>	<u>96,978</u>

*The prior period comparative numbers have been restated as set out in Note 18.

The accompanying notes on pages 10 to 28 form part of and should be read in conjunction with these financial statements.

Electricity Invercargill Limited
Statement of Financial Position
As at 31 March 2021

	Notes	GROUP	
		2021 \$'000	2020 Restated* \$'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	7	4,102	808
Receivables and Prepayments	8	2,657	2,315
Total Current Assets		<u>6,759</u>	<u>3,123</u>
Non Current Assets			
Investments in Associates	9	5,054	4,966
Advances to Associates		2,475	1,504
Investments in Joint Ventures	10	94,222	87,868
Advances to Joint Ventures		7,826	8,601
Investments in Other Entities		118	118
Property, Plant and Equipment	12	102,155	94,823
Capital Work in Progress		2,777	2,675
Total Non Current Assets		<u>214,627</u>	<u>200,555</u>
Total Assets		<u>221,386</u>	<u>203,678</u>
LIABILITIES			
Current Liabilities			
Creditors and Accruals	13	3,761	2,889
Dividend Payable		4,000	4,000
Income Tax Payable		940	768
Total Current Liabilities		<u>8,701</u>	<u>7,657</u>
Non Current Liabilities			
Interest Bearing Liabilities	14	85,825	78,325
Deferred Tax Liabilities	15	22,914	20,718
Total Non Current Liabilities		<u>108,739</u>	<u>99,043</u>
Total Liabilities		<u>117,440</u>	<u>106,700</u>
Net Assets		<u>103,946</u>	<u>96,978</u>
EQUITY			
Share Capital	6	13,000	13,000
Reserves	6	38,423	33,664
Retained Earnings	6	52,523	50,314
Total Equity		<u>103,946</u>	<u>96,978</u>

*The prior period comparative numbers have been restated as set out in Note 18.

The accompanying notes on pages 10 to 28 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 2021

		GROUP	
	Notes	2021 \$'000	2020 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers		21,182	22,055
Interest Received		351	576
Taxation Refunds		880	990
		<u>22,413</u>	<u>23,621</u>
Cash Was Disbursed To:			
Payments to Suppliers and Employees		(10,924)	(13,695)
Income Tax Paid		(2,067)	(1,726)
Interest Paid		(2,906)	(3,214)
GST (Paid)/Received		13	(80)
		<u>(15,884)</u>	<u>(18,715)</u>
Net Cash Flows From Operating Activities	16	<u>6,529</u>	<u>4,906</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Sale of Property, Plant and Equipment		3	24
Dividend Received		5,731	6,223
Advances Repaid by Associates and Joint Ventures		-	3,064
		<u>5,734</u>	<u>9,311</u>
Cash Was Applied To:			
Purchase of Property, Plant and Equipment and Work in Progress Payments		(5,099)	(6,341)
Investment in Associates and Joint Ventures		(7,174)	(10,066)
Advances to Associates and Joint Ventures		(196)	-
		<u>(12,469)</u>	<u>(16,407)</u>
Net Cash Outflows from Investing Activities		<u>(6,735)</u>	<u>(7,096)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Shareholder Advances Received		7,500	9,000
		<u>7,500</u>	<u>9,000</u>
Cash Was Applied To:			
Dividend Payment		(4,000)	(6,200)
		<u>(4,000)</u>	<u>(6,200)</u>
Net Cash Flows/ (Outflows) From Financing Activities		<u>3,500</u>	<u>2,800</u>
Net Increase/(Decrease) in Cash and Cash Equivalents Held		3,294	610
Add Opening Cash Brought Forward		808	198
Closing Cash and Cash Equivalents Carried Forward	7	<u>4,102</u>	<u>808</u>

The accompanying notes on pages 10 to 28 form part of and should be read in conjunction with these financial statements.

Electricity Invercargill Limited
Notes to the Financial Statements
For the year ended 31 March 2021

1 Statement of Accounting Policies

Reporting Entity

Electricity Invercargill Ltd is a profit oriented limited liability company, that was incorporated in New Zealand on 30 June 1991, is registered under the Companies Act 1993 and whose registered office is at 251 Racecourse Road, Invercargill. The Company is a wholly owned subsidiary of Invercargill City Holdings Ltd. The Group consists of Electricity Invercargill Ltd, its subsidiaries and its interest in associates and jointly controlled entities (refer to Notes 9 and 10).

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

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

The financial statements were approved by the Board of Directors on 24 June 2021.

Basis of Preparation

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

The Group is eligible and has elected to report in accordance with Tier 2 for-profit accounting standards, NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR) by virtue of the fact that it has no public accountability and it is not a large for-profit public sector entity.

In adopting the Reduced Disclosure Regime framework, the Group has taken advantage of a number of disclosure concessions.

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

Impact of COVID-19 on Financial Statements

The COVID-19 pandemic continues to cause widespread economic and social disruption around the world.

As an electricity distribution and generation business, the Group is deemed to be an essential service provider and was not largely impacted by the COVID-19 restrictions during the year. New industry operating and health and safety procedures were adopted to enable the Group to continue maintaining the network assets and deliver electricity services.

The Group continues to monitor the risks and ongoing impacts from COVID-19 on the business. We believe that no significant changes to the presentation of the financial statements are required.

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:

- Revenue (timing of revenue is assessed under IFRS 15 guidance, Note 2)
- Joint arrangement classification (accounted for using the equity method, Note 10)
- Network Assets Valuation (revalued to fair value using discounted cash flow methodology, Note 12)
- Property, Plant and Equipment (includes assumptions around useful life of assets, Note 12)

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

Property, plant and equipment

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

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

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

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

Revenue estimation

The Group invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of an estimation of usage, adjusted for the latest wash-up data available from the electricity wholesale market and certain metering data from electricity retailers. Management has made an allowance in revenue and in current assets/liabilities for any amounts which are estimated to be under/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) Subsidiaries

Subsidiaries are all entities over which the Group has the power directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired, exceeds the cost of acquisition, the difference is credited to the Statement of Financial Performance in the period of acquisition. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

(ii) 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.

(iii) 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.

(iv) Transactions Eliminated on Consolidation

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

(b) Revenue from Contracts with Customers

(i) Electricity Delivery Services

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

(ii) Capital Contributions

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

(c) Other Income

(i) Meter Rental Income

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

(ii) Interest Income

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

(d) Finance Costs

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

(e) Property, Plant and Equipment

(i) Owned Assets

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

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

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

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

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

(ii) Depreciation

Distribution Assets	1.0 – 15%	Straight Line
Metering Assets	2.5 – 6.7%	Straight Line
Fibre Assets	2.0 – 13.0%	Straight Line

(iii) Impairment

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

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. Any impairment of goodwill 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. The group has classified its debt instruments into the following category:

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

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

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

(j) Receivables

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

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

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

(k) Cash and Cash Equivalents

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

(l) Trade and Other Payables

Trade and other payables are stated at amortised cost.

(m) Borrowings

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

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

(n) Dividend

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

(o) Seasonality

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

2 Revenue from Contracts with Customers

	GROUP	
	2021 \$'000	2020 \$'000
Electricity Delivery Services	19,492	20,805
Capital Contributions	49	78
Total Revenue	<u>19,541</u>	<u>20,883</u>

Timing of Revenue Recognition

Over time	19,492	20,805
At a point in time	49	78
Total Revenue	<u>19,541</u>	<u>20,883</u>

3 Other Income

	GROUP	
	2021 \$'000	2020 \$'000
Metering Rental Income	1,367	1,365
Interest Income	334	530
Other Income	4	7
Total Other Income	<u>1,705</u>	<u>1,902</u>

4 Expenses

	GROUP	
	2021 \$'000	2020 \$'000
Expenses Include		
Auditors' Remuneration - Pricewaterhouse Coopers		
- Audit of Financial Report	59	49
- Audit of Default Price Path	34	30
- Audit of Regulatory Disclosures	47	46
Regulatory and Consulting Fees - Pricewaterhouse Coopers	25	32
Depreciation		
- Fibre Assets	30	34
- Metering Assets	657	601
- Network Assets	3,606	3,608
Total Depreciation	<u>4,293</u>	<u>4,243</u>
Directors' Fees	153	145
Interest Expense	2,943	3,215
Loss on Disposal of Property, Plant & Equipment	78	127
Network Costs	8,993	9,250
Transmission Costs	5,651	6,604
Subvention Payment	2,067	1,600

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	
	2021	2020
	\$'000	Restated* \$'000
Operating Surplus Before Income Tax	5,746	6,478
Prima Facie taxation at 28%	1,609	1,814
Income Not Taxable		
- Equity Accounting Earnings of Associates and Joint Ventures	(167)	489
Under/(over) Provision in Prior Years	(330)	-
Subvention Payment and Loss Offset made in respect of Prior Period Expenses not Deductible	(2,067)	(1,600)
	<u>563</u>	<u>18</u>
Taxation Expense for Year	(392)	721
Made up of:		
Current Tax	1,645	2,057
Prior Year under/(over) Provision of Current Tax	(2,354)	(1,596)
Deferred Tax	360	264
Prior Year under/(over) Provision of Deferred Tax	(43)	(4)
Taxation Expense for Year	(392)	721
Effective Tax Rate	(6.8)%	11.1%

* The prior period comparative numbers have been restated as set out in Note 18.

Tax Losses Transferred Within the Group

The current tax expense is calculated on the assumption that:

- The Group tax liability in relation to income tax year 2020 was reduced by tax losses of \$7,381,506 (Prior Year: \$5,712,629) transferred from Invercargill City Council wholly owned group of entities by subvention payment of \$2,066,821 (Prior Year: \$1,599,536) and loss offset of \$5,314,685 (Prior Year: \$4,113,093).

6 Equity

The authorised and issued share capital comprises 13 million ordinary shares (2020: 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	
	2021 \$'000	2020 Restated* \$'000
Contributed Capital		
Share Capital	13,000	13,000
Reserves		
General Reserve	2,800	2,800
Revaluation Reserve Opening Balance	30,864	28,593
Asset Revaluation	4,830	2,321
Revaluation Reversal due to Asset Disposal	(71)	(50)
Closing Balance	<u>35,623</u>	<u>30,864</u>
Total Reserves	<u>38,423</u>	<u>33,664</u>
Retained Earnings		
Opening Balance	50,314	48,507
Net Surplus	6,138	5,757
Revaluation Reversal due to Asset Disposal	71	50
Dividend Declared	<u>(4,000)</u>	<u>(4,000)</u>
Total Retained Earnings	<u>52,523</u>	<u>50,314</u>
Total Equity	<u>103,946</u>	<u>96,978</u>

*The prior period comparative numbers have been restated as set out in Note 18.

	Cents per Share	Cents per Share
Dividend per Share	30.8	30.8

Asset revaluations relates to the revaluation of the network assets of Electricity Invercargill Ltd recognised during the period and the OtagoNet Joint Venture in 2020 net of the effect of deferred tax.

7 Cash and Cash Equivalents

	GROUP	
	2021 \$'000	2020 \$'000
Current Account	302	278
Bank Deposits (Short Term)	<u>3,800</u>	<u>530</u>
Total Cash and Cash Equivalents	<u>4,102</u>	<u>808</u>

8 Receivables and Prepayments

	GROUP	
	2021 \$'000	2020 \$'000
Trade Debtors	2,629	2,178
Prepayments	54	109
GST Receivable	(26)	28
Total Receivables and Prepayments	<u>2,657</u>	<u>2,315</u>

9 Investments in Associates

Associate Companies	Country of Incorporation	Balance Date	Percentage Held By Group	
			2021	2020
Electricity Southland Ltd	New Zealand	31 March	24.9 %	24.9 %

In 2020, the Group acquired an additional 3,361,500 shares in Electricity Southland Ltd, of the issue of 13,500,000 new shares.

	GROUP	
	2021 \$'000	2020 \$'000
The Group's interests in associate entities are as follows:		
Carrying Amount at Beginning of Year	4,966	1,563
Total Recognised Revenues and Expenses	88	42
Investment in Associate	-	3,361
Carrying Amount at End of Year	<u>5,054</u>	<u>4,966</u>

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

Share of Surplus before Taxation	172	114
Less Taxation Expense	(84)	(72)
Total Recognised Revenues and Expenses of Associates After Tax	<u>88</u>	<u>42</u>

10 Investments in Joint Ventures

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

Joint Ventures	Country of Residence	Balance Date	Percentage Held By Group	
			2021	2020
PowerNet Ltd*	New Zealand	31 March	50.0 %	50.0 %
OtagoNet Joint Venture**	New Zealand	31 March	24.9 %	24.9 %
Roaring Forties Energy Ltd Partnership***	New Zealand	31 March	50.0 %	50.0 %

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

Effective from 1 April 2016 the Group equity accounted its share of profits from the 50% owned joint venture entity, PowerNet Ltd to be consistent with the economic benefits the Group receives based on the PowerNet Ltd dividend policy. The equity accounted share of profit in PowerNet Ltd in 2021 is 24.81% (2020: 24.61%).

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

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

The Group holds a 25% interest in the Southern Generation Ltd Partnership. This partnership was formed to invest in electricity generation opportunities. The partnership owns two wind farms, Mt. Stuart near Lawrence and Flat Hill near Bluff and three hydro stations, Aniwhenua Hydro Station on the Rangitaiki River in the Bay of Plenty, Upper Fraser Hydro Station in Alexandra and Matiri Hydro Station located at 15km north of Murchison.

In March 2021, the partners entered into a conditional agreement to purchase three Hydro Stations from The Lines Company in the Eastland and King Country area with an expected settlement date in July 2021.

GROUP

2021	2020
\$'000	Restated* \$'000

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

Carrying Amount at Beginning of Year	87,868	78,871
Investment in Joint Ventures	7,174	6,705
Total Recognised Revenues and Expenses	4,911	5,291
Revaluation Gain on Network Assets	-	3,224
Distributions/Dividends Received	(5,731)	(6,223)
Carrying Amount at End of Year	94,222	87,868

*The prior period comparative numbers have been restated as set out in Note 18.

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

11 Leases

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

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

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

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

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

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

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

EIL does not have any agreements or contracts that meet the definition of a lease under NZ IFRS 16.

12 Property, Plant and Equipment

	Distribution Assets \$'000	Metering Assets \$'000	Fibre Assets \$'000	Total \$'000
At 1 April 2019				
Cost or fair value	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
Year ended 31 March 2020				
Opening net book amount	86,325	6,642	792	93,759
Additions	3,802	1,656	-	5,458
Disposals	(172)	(478)	-	(650)
Reversal of depreciation on asset disposed	68	431	-	499
Depreciation charge (note 4)	<u>(3,608)</u>	<u>(601)</u>	<u>(34)</u>	<u>(4,243)</u>
Closing net book amount	86,415	7,650	758	94,823
At 31 March 2020				
Cost	113,046	9,918	1,055	124,019
Accumulated depreciation	<u>(26,631)</u>	<u>(2,268)</u>	<u>(297)</u>	<u>(29,196)</u>
Net book amount	86,415	7,650	758	94,823
Year ended 31 March 2021				
Opening net book amount	86,415	7,650	758	94,823
Additions	4,222	775	-	4,997
Disposals	(174)	(169)	-	(343)
Reversal of depreciation on asset disposed	118	143	-	261
Depreciation charge (note 4)	<u>(3,606)</u>	<u>(657)</u>	<u>(30)</u>	<u>(4,293)</u>
Revaluation	<u>6,653</u>	<u>-</u>	<u>56</u>	<u>6,709</u>
Closing net book amount	93,628	7,742	784	102,154
At 31 March 2021				
Cost	117,684	10,524	1,056	129,264
Accumulated depreciation	<u>(24,057)</u>	<u>(2,782)</u>	<u>(270)</u>	<u>(27,109)</u>
Net book amount	93,627	7,742	786	102,155

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

31 March 2020	61,566	7,805	758	70,129
31 March 2021	62,127	7,898	728	70,753

Valuation

The network assets of Electricity Invercargill Ltd were revalued to fair value using discounted cash flow methodology on 31 March 2021 by Ernst & Young, who is an independent valuer. This resulted in a favourable revaluation movement of \$6,709,000.

The valuation is based on 9 years forecast free cash flows and a calculated terminal value beyond the discrete cash flow period. The following valuation assumptions were adopted:

- The free cash flows was based on the Company's three year business plan, an inflationary increase of 2% in year four, and last five years have been prepared based on Default Price-Quality Path regime for 2025-2030, 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.
- Estimated forward inflation rate range of 1.5% to 2.0% on capital expenditure
- The corporate tax rate used was 28%.
- The weighted average cost of capital (WACC) used was 4.8%.
- RAB multiple range of 1.0 times for the terminal value

13 Creditors and Accruals

	GROUP	
	2021 \$'000	2020 \$'000
Trade Payables	2,351	2,239
Accruals	714	630
Revenue in Advance	696	20
Total Creditors and Accruals	<u>3,761</u>	<u>2,889</u>

14 Shareholder Advance

	GROUP	
	2021 \$'000	2020 \$'000
Invercargill City Holdings Ltd		
- Non Current Portion	85,825	78,325
Total Shareholder Advance	<u>85,825</u>	<u>78,325</u>

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

A general facility agreement for \$42 million was entered into with ICHL in 2017, for a five year term and is available for extension from time to time in accordance with the agreement. From 30 March 2021, the facility level was raised to \$57 million.

Another loan facility agreement for \$29 million was entered into with ICHL on 28 April 2016, for a five year term and is available for extension from time to time in accordance with the agreement. EIL extended the loan facility for two years maturing on April 2023.

The weighted average interest rate for the loan excluding facility fee is 3.80% (2020: 4.36%).

15 Deferred Tax Liabilities

	GROUP	
	2021 \$'000	2020 \$'000
Balance at the Beginning of the Year	20,718	19,556
Charged to the Income Statement		
- Fixed Assets (including buildings)	352	267
- Capital Contributions	7	(11)
- Prior Period	(43)	(4)
- Others	1	7
Charged to Equity		
- Effect of Revaluation	1,879	903
Balance at the End of the Year	<u>22,914</u>	<u>20,718</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.

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

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

	GROUP	
	2021	2020
	\$'000	Restated* \$'000
Net Surplus After Taxation	6,138	5,757
Plus/(Less) Non Cash Items:		
Depreciation	4,293	4,243
Deferred Taxation	317	260
Loss on Sale of Property, Plant and Equipment	78	126
Share of Profit of Associates and Joint Ventures	<u>(4,999)</u>	<u>(5,333)</u>
	(311)	(704)
Plus/(Less) Movements in Working Capital:		
Increase/(Decrease) in Payables and Accruals	872	(1,424)
(Increase)/Decrease in Receivables and Prepayments	(342)	(49)
Increase/(Decrease) in Provision for Taxation	<u>172</u>	<u>1,326</u>
	702	(147)
Net Cash Flows From Operating Activities	<u>6,529</u>	<u>4,906</u>

*The prior period comparative numbers have been restated as set out in Note 18.

17 Commitments

a) Capital Commitments

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

	GROUP	
	2021	2020
	\$'000	\$'000
Capital Commitments	<u>2,006</u>	<u>3,215</u>
Total Capital Commitments	<u>2,006</u>	<u>3,215</u>

b) Investment Commitments

In March 2021, the Group entered into a conditional agreement to purchase three small Hydro Stations from The Lines Company Ltd in the Eastland and King Country area. Settlement is expected to occur in July 2021.

c) Other Commitments

The Group has a conditional commitment as at 31 March 2021 of \$415,000 (2020: \$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.

18 Restatement of Investment in Southern Generation Limited Partnership

The investment in joint ventures for the 2020 and 2019 opening balance sheet and the share of result of associated for 2020 have been restated. The adjustment reflects the impact on the historic share of the result of joint ventures from a restatement associated with the incorrect accounting treatment of power purchase and off-take agreements within the financial statements of the joint venture Southern Generation Ltd Partnership.

Within the joint venture, the nature of the power purchase and off-take agreements entered into was reconsidered during the year. These agreements were historically treated as derivatives carried at fair value. However, on reassessment it was determined that the joint venture is not a market participant and has no ability to sell electricity directly to the market, therefore the agreements do not meet the definition of derivatives. On reassessment, one of the power purchase agreements previously treated as a derivative was deemed to be favourable customer contract acquired with the original fixed assets and is now recognised as an asset at cost and amortised over the life of the contract within the joint venture.

The following tables summarise the impact of the incorrect accounting treatment on the financial statements in the prior period. There has been no impact on cash flows:

31 March 2020 Restatement:

Statement of Comprehensive Income	Previously Reported	Year Ending March 2020 Adjustment	Restated
	\$'000	\$'000	\$'000
Share of Profit of Associates and Joint Ventures	7,783	(2,450)	5,333
Net Surplus After Taxation	8,207	(2,450)	5,757
Total Comprehensive Income	10,528	(2,450)	8,078

31 March 2020 Restatement:

Statement of Financial Position	Previously Reported	Year Ending March 2020 Adjustment	Restated
	\$'000	\$'000	\$'000
Investments in Joint Ventures	89,318	(1,450)	87,868
Retained Earnings	51,764	(1,450)	50,314

31 March 2019 Restatement

Statement of Financial Position	Previously Reported	Year Ending March 2019 Adjustment	Restated
	\$'000	\$'000	\$'000
Investment in Joint Ventures	77,871	1,000	78,871
Retained Earnings	47,507	1,000	48,507

19 Financial Instruments

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

- Credit risk
- Liquidity risk
- Market risk

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

Credit Risk

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

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

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

The Company is exposed to a concentration of credit risk with regard to the amounts owing by related parties at balance date as disclosed in Note 19 Transactions with Related Parties. However, these entities are considered to be high credit quality entities.

Liquidity Risk

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

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

Market Risk

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

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

Sensitivity Analysis for Interest Rate Change

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

An increase/(decrease) in the interest rate of 1% is estimated to increase/(decrease) the net profit before tax and equity by \$90,000 (2020: \$114,000).

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.

20 Transactions with Related Parties

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

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

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

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

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

	GROUP	
	2021	2020
	\$'000	\$'000
Goods and Services Supplied to:		
PowerNet Ltd (Joint Venture)	229	374
Electricity Southland Ltd (Associate)	67	151
 Receivables Outstanding at Balance Date		
PowerNet Ltd (Joint Venture)	58	80
Electricity Southland Ltd (Associate)	19	15
 Goods and Services Supplied by:		
PowerNet Ltd (Joint Venture)	8,970	10,554
Invercargill City Holdings Ltd (Other Related Party)	3,107	3,376
 Creditors Outstanding at Balance Date		
PowerNet Ltd (Joint Venture)	2,033	1,745
Invercargill City Holdings Ltd (Other Related Party)	190	155
 Dividends Paid to:		
Invercargill City Holdings Ltd (Other Related Party)	4,000	6,200
 Advances Provided to (Repaid by):		
PowerNet Ltd (Joint Venture)	(775)	(334)
Electricity Southland Ltd (Associate)	971	(2,730)
 Advances Provided from:		
Invercargill City Holdings Ltd (Other Related Party)	7,500	9,000
 Subvention Payment Provided to:		
Invercargill City Council (Other Related Party)	2,067	1,600

Key Management Personnel

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

	GROUP	
	2021 \$'000	2020 \$'000
Directors Fees	170	157

There have been no other transactions with the Directors.

21 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 2021

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 28, that comprise the statement of financial position as at 31 March 2021, 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 2021; 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 2021.

Our audit was completed on 24 June 2021. This is the date at which our opinion is expressed.

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

Basis for our opinion

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

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

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

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

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand.

The Board of Directors is also responsible on behalf of the Group for preparing performance information that is fairly presented.



The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the Group for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

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

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

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

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

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

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

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



- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements of the entities or business activities within the Group to express an opinion on the consolidated financial statements and performance information. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on page 4, but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

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

In addition to the audit we have carried out engagements in the areas of an industry update, regulatory advisory services, compliance with the Electricity Distribution (Information Disclosure) Determination 2012, Electricity Distribution Services Default Price-Quality Path Determination 2020 and other regulatory requirements of the Commerce Act 1986, which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Group.

On behalf of the Auditor-General

A handwritten signature in black ink, appearing to read 'Nathan Wylie', is written over a large, stylized circular flourish.

Nathan Wylie
PricewaterhouseCoopers

Christchurch, New Zealand