

**Pylon Limited**

**Consolidated Financial Statements**

For the year ended 31 March 2020

# Contents

	Page
Directors' Approval	2
Financial Statements	
Statement of Financial Performance	3
Statement of Comprehensive Income	4
Statement of Changes in Equity	5
Statement of Financial Position	6
Statement of Cash Flows	7
Notes to the Financial Statements	8



**Pylon Limited**  
**Directors' Approval**  
For the year ended 31 March 2020

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**Directors' Approval**

The Directors have approved for issue the Financial Statements of Pylon Ltd for the year ended 31 March 2020 presented on pages 3 to 19.

For and on behalf of the Directors.



Thomas Campbell  
Chairperson

25 June 2020



Sarah Jane Brown  
Director

25 June 2020

**Pylon Limited**  
**Statement of Financial Performance**  
For the year ended 31 March 2020

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	Notes	GROUP	
		2020 \$'000	2019 \$'000
Other Income		-	-
Other Expenses		(680)	(370)
Operating Expenses		-	(2)
Share of Profit of Associates and Joint Ventures	5,6	<u>7,783</u>	<u>4,217</u>
<b>Net Operating Surplus Before Taxation</b>		<b>7,103</b>	<b>3,845</b>
Taxation Expense	2	<u>(928)</u>	<u>(1,154)</u>
<b>Net Surplus After Taxation</b>		<b><u>6,175</u></b>	<b><u>2,691</u></b>

*The accompanying notes on pages 8 to 19 form part of and should be read in conjunction with these financial statements.*



**Pylon Limited**  
**Statement of Comprehensive Income**  
For the year ended 31 March 2020

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	GROUP	
	2020 \$'000	2019 \$'000
<b>Net Surplus After Taxation</b>	6,175	2,691
<b>Other Comprehensive Income</b>		
<b>Items that will not be reclassified to profit or loss:</b>		
- Revaluation	<u>2,321</u>	<u>-</u>
<b>Total Other Comprehensive Income</b>	<u>2,321</u>	<u>-</u>
<b>Total Comprehensive Income</b>	<u><u>8,496</u></u>	<u><u>2,691</u></u>

*The accompanying notes on pages 8 to 19 form part of and should be read in conjunction with these financial statements.*



**Pylon Limited**  
**Statement of Changes in Equity**  
For the year ended 31 March 2020

	Notes	GROUP	
		2020 \$'000	2019 \$'000
<b>Total Comprehensive Income</b>			
Net Surplus for the Year		6,175	2,691
Other Comprehensive Income		<u>2,321</u>	<u>-</u>
		8,496	2,691
<b>Distributions to Shareholders</b>			
Dividend Declared/Paid		<u>(2,649)</u>	<u>(5,460)</u>
		(2,649)	(5,460)
<b>Changes in Equity for the Year</b>		<u><b>5,847</b></u>	<u><b>(2,769)</b></u>
<b>Equity at Beginning of the Year</b>		<u><b>35,014</b></u>	<u><b>37,783</b></u>
<b>Equity at End of the Year</b>	4	<u><u><b>40,861</b></u></u>	<u><u><b>35,014</b></u></u>

*The accompanying notes on pages 8 to 19 form part of and should be read in conjunction with these financial statements.*



**Pylon Limited**  
**Statement of Financial Position**  
As at 31 March 2020

		<b>GROUP</b>	
	Notes	2020 \$'000	2019 \$'000
<b>ASSETS</b>			
<b>Non Current Assets</b>			
Investment in Associates	5	4,966	1,563
Investments in Joint Ventures	6	<u>89,318</u>	<u>77,871</u>
<b>Total Non Current Assets</b>		<u><b>94,284</b></u>	<u><b>79,434</b></u>
<b>Total Assets</b>		<u><b>94,284</b></u>	<u><b>79,434</b></u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Income Tax Payable/(Receivable)		403	(77)
Trade Payables		<u>-</u>	<u>370</u>
<b>Total Current Liabilities</b>		<u><b>403</b></u>	<u><b>293</b></u>
<b>Non Current Liabilities</b>			
Deferred Tax Liabilities	8	7,817	6,593
Shareholder Advance	7	<u>45,203</u>	<u>37,534</u>
<b>Total Non Current Liabilities</b>		<u><b>53,020</b></u>	<u><b>44,127</b></u>
<b>Total Liabilities</b>		<u><b>53,423</b></u>	<u><b>44,420</b></u>
<b>Net Assets</b>		<u><b>40,861</b></u>	<u><b>35,014</b></u>
<b>EQUITY</b>			
Share Capital	4	26,901	26,901
Reserves	4	12,067	9,746
Retained Earnings	4	<u>1,893</u>	<u>(1,633)</u>
<b>Total Equity</b>		<u><b>40,861</b></u>	<u><b>35,014</b></u>

The accompanying notes on pages 8 to 19 form part of and should be read in conjunction with these financial statements.

**Pylon Limited**  
**Statement of Cash Flows**  
For the year ended 31 March 2020

		<b>GROUP</b>	
	Notes	<b>2020</b> <b>\$'000</b>	<b>2019</b> <b>\$'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash Was Provided From:</b>			
Sundry Income		-	-
Taxation Refunds		-	-
<b>Cash Was Disbursed To:</b>			
Payments to Suppliers		(370)	-
Interest Paid		-	(2)
Income Tax Paid		(806)	(1,079)
		<u>806</u>	<u>(1,081)</u>
<b>Net Cash Outflows From Operating Activities</b>	<b>9</b>	<b><u>(1,176)</u></b>	<b><u>(1,081)</u></b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash Was Provided From:</b>			
Associate and Joint Venture Investments		<u>6,223</u>	<u>6,691</u>
		6,223	6,691
<b>Cash Was Applied To:</b>			
Investment in Joint Ventures		(6,705)	-
Investment in Associates		(3,362)	-
		<u>10,067</u>	<u>-</u>
<b>Net Cash Flows/ (Outflows) From Investing Activities</b>		<b><u>(3,844)</u></b>	<b><u>6,691</u></b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash Was Provided From:</b>			
Advance Repayment from Joint Ventures		-	-
Shareholder Advance Received		<u>7,669</u>	<u>-</u>
		7,669	-
<b>Cash Was Applied To:</b>			
Dividend Payment		(2,649)	(5,460)
Repayment of Shareholder Advance		-	(150)
		<u>(2,649)</u>	<u>(5,610)</u>
<b>Net Cash Flows/ (Outflows) From Financing Activities</b>		<b><u>5,020</u></b>	<b><u>(5,610)</u></b>
Net Increase/(Decrease) in Cash and Cash Equivalents Held		-	-
Add Opening Cash Brought Forward		-	-
<b>Closing Cash and Cash Equivalents Carried Forward</b>		<b><u>-</u></b>	<b><u>-</u></b>

The accompanying notes on pages 8 to 19 form part of and should be read in conjunction with these financial statements.



## **1 STATEMENT OF ACCOUNTING POLICIES**

### **Reporting Entity**

Pylon Ltd is a profit oriented limited liability company that was incorporated in New Zealand on 10 June 2002, is registered under the Companies Act 1993, and whose registered office is at 251 Racecourse Road, Invercargill. Pylon Ltd is a wholly owned subsidiary of Electricity Invercargill Ltd. The parent consists of Pylon Ltd and its joint venture parties. The Group consists of the parent (as outlined above) and its associates and jointly controlled entities (refer to Notes 5 and 6).

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 Pylon Ltd is that of participating in investments in the electricity sector.

The financial statements were approved by the Board of Directors on 25 June 2020.

### **Basis of Preparation**

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

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

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

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

### **Impact of COVID-19 on Financial Statements**

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

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

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

### **New Standards Adopted**

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

- NZ IFRS 16 Leases

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

### **Use of Estimates and Judgements**

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

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

- Property, plant and equipment
- Revenue estimation
- Joint arrangement classification

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

#### ***Property, plant and equipment***

The Group operates extensive integrated electricity distribution networks comprising large numbers of relatively minor individual network asset components. These components are replaced over time as part of an ongoing maintenance/refurbishment programme, consistent with the Group's approved network asset management plans. The costs associated with recording and tracking all individual components replaced and removed from the networks substantially outweigh the benefits of doing so. Management has estimated the quantities and the carrying values of components removed from the networks in each reporting period. Any errors in the estimates of such removals are corrected at the next asset revaluation, and are not considered to be material on either an annual or a cumulative basis with respect to either reported net surpluses or carrying values of the networks. The fair value measurement of the distribution network is categorised under Level 3 of the fair value hierarchy.

Every five years, the OtagoNet Joint Venture (OtagoNet) obtains a valuation of their electricity distribution network, determined by independent valuers, in accordance with their accounting policy. The valuation of the OtagoNet's electricity distribution network was performed as at 1 April 2020. 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.

#### ***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 proportionate share of the joint venture entities' assets, liabilities, revenue and expenses with items of a similar nature on a line by line 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. 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**

**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 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) 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 profit 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.

**(f) Goods and Services Tax (GST)**

All amounts in the financial statements have been shown exclusive of goods and services tax, with the exception of receivables and payables which are shown inclusive of goods and services tax.

**(g) Operating Leases**

The Group has changed its accounting policy for leases, and has adopted IFRS 16.

Until the 2019 financial year, leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments and income under these leases are recognised in the income statement in the periods in which they are incurred.

**(h) 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 measurement 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.

**(i) 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

**(j) Cash and Cash Equivalents**

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

**(k) Trade and Other Payables**

Trade and other payables are stated at amortised cost.



**(l) Borrowings**

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

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

**(m) Seasonality**

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

## 2 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.

	<b>GROUP</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Operating Surplus Before Income Tax</b>	<b>7,103</b>	<b>3,845</b>
Prima Facie Taxation at 28%	1,989	1,077
Income not Taxable		
- Equity Accounted Earnings of Associates and Joint Ventures	(197)	(171)
Under/(over) Provision in Prior Years	(23)	148
Subvention Payment made in respect of Prior Period	(680)	-
Expenses not Deductible/ (Revenue non-assessable)	(161)	100
<b>Taxation Expense for Year</b>	<b>928</b>	<b>1,154</b>
Made up of:		
Current Tax	1,282	676
Under/(Over) Provision in Prior Years	(676)	153
Deferred Tax	349	330
Prior Year Under/(over) Provision of Deferred Tax	(27)	(5)
<b>Taxation Expense for the Year</b>	<b>928</b>	<b>1,154</b>
Effective Tax Rate	13%	30%

### Tax Losses Transferred Within the Group

The current tax expense is calculated on the assumption that:

- A tax loss offset and subvention payment were arranged during the 2020 income year resulting in a tax compensation payment of \$679,610 (2019: \$0) to Invercargill City Council.

## 3 Leases

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

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

- fixed payments (including 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.

### 3 Leases (continued)

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. While the group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

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

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

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

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

### 4 Equity

The authorised and issued share capital comprises 26,901,000 ordinary shares (2019: 26,901,000 ordinary shares) which are fully paid up. All shares have the same rights and privileges.

	<b>GROUP</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Contributed Capital</b>		
Share Capital	<b>26,901</b>	<b>26,901</b>
<b>Reserves</b>		
Revaluation Reserve Opening Balance	9,746	9,746
Asset Revaluation*	<u>2,321</u>	<u>-</u>
<b>Total Reserves</b>	<b><u>12,067</u></b>	<b><u>9,746</u></b>
<b>Retained Earnings</b>		
Opening Balance	(1,633)	1,136
Net Surplus	6,152	2,691
Dividend Declared/Paid	<u>(2,649)</u>	<u>(5,460)</u>
<b>Total Retained Earnings</b>	<b><u>1,870</u></b>	<b><u>(1,633)</u></b>
<b>Total Equity</b>	<b><u>40,838</u></b>	<b><u>35,014</u></b>
	<b>Cents per</b>	<b>Cents per</b>
	<b>Share</b>	<b>Share</b>
Dividend per Share	9.85	20.30

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

## 5 Investments in Associates

Associate Companies	Country of Incorporation	Balance Date	Percentage Held By Group	
			2020	2019
Electricity Southland Ltd	New Zealand	31 March	24.9 %	24.9 %
			GROUP	
			2020	2019
			\$'000	\$'000

Interests in associate entities are as follows:

Carrying Amount at Beginning of Year	1,563	1,582
Investment in Associates	3,361	-
Total Recognised Revenues and Expenses	<u>42</u>	<u>(19)</u>
<b>Carrying Amount at End of Year</b>	<b><u>4,966</u></b>	<b><u>1,563</u></b>

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

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

	GROUP	
	2020	2019
	\$'000	\$'000
Share of Surplus Before Taxation	114	17
Less Taxation Expense	<u>(72)</u>	<u>(36)</u>
<b>Total Recognised Revenues and Expenses</b>	<b><u>42</u></b>	<b><u>(19)</u></b>



## 6 Investments in Joint Ventures

The Group has a participating interest in the following Joint Ventures:

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

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

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

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

The Group holds a 25% interest in the Southern Generation Ltd Partnership. This partnership was formed to invest in electricity generation opportunities. The partnership owns two wind farms, Mt. Stuart near Lawrence and Flat Hill near Bluff and the Aniwhenua Hydro Station on the Rangitaiki River in the Bay of Plenty.

On 15 August 2017 the partners also entered in a conditional agreement to purchase the assets relating to Matiri and Upper Fraser Hydro Stations. The expected generation output of these two hydro stations is approximately 61 GWh, with Upper Fraser contributing 33 GWh and Matiri 28 GWh. On 30 September 2019, the partnership completed the acquisition of the assets relating to the Upper Fraser hydro station. Matiri construction is in progress with an expected completion date in August 2020.

	GROUP	
	2020 \$'000	2019 \$'000
Interests in Joint Venture entities are as follows:		
Carrying Amount at Beginning of Year	77,871	80,326
Investments in Joint Ventures	6,705	-
Total Recognised Revenues and Expenses	7,741	4,236
Distributions/Dividend Received	(6,223)	(6,691)
Revaluation Gain on Network Assets	3,224	-
<b>Carrying Amount at End of Year</b>	<b>89,318</b>	<b>77,871</b>

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

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

## 7 Shareholder Advance

	GROUP	
	2020 \$'000	2019 \$'000
Advance - Electricity Invercargill Ltd	45,203	37,534
<b>Total Advances</b>	<u><b>45,203</b></u>	<u><b>37,534</b></u>

The advance is repayable on demand but with a 13 month period of notice.

## 8 Deferred Tax Liabilities

	GROUP	
	2020 \$'000	2019 \$'000
Balance at the Beginning of the Year	6,593	6,267
Charged to the Income Statement		
- Temporary Difference Reversals - depreciation	351	360
- Temporary Difference Reversals - depreciation (COVID)	(23)	-
- Temporary Difference Reversals - other	(6)	(34)
Charged to Equity		
Revaluation Adjustment	902	-
<b>Balance at the end of the Year</b>	<u><b>7,817</b></u>	<u><b>6,593</b></u>

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

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

## 9 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 Statements of Financial Performance and the Net Cash Flows From Operating Activities.

	GROUP	
	2020 \$'000	2019 \$'000
<b>Net Surplus After Taxation</b>	6,175	2,691
<b>Plus/(Less) Non Cash Items:</b>		
Deferred Taxation	322	326
Share of Profits of Associates and Joint Ventures	<u>(7,783)</u>	<u>(4,217)</u>
	(7,461)	(3,891)
<b>Plus/(Less) Movements in Working Capital:</b>		
Increase/ (Decrease) in Payables	(370)	370
(Increase)/Decrease in Provision for Taxation	<u>480</u>	<u>(251)</u>
	110	119
<b>Net Cash Outflows From Operating Activities</b>	<u><b>(1,176)</b></u>	<u><b>(1,081)</b></u>

## 10 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 following liquidity tables show the Group's maximum credit exposure at balance date.

### **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 some interest bearing debt which is subject to interest rate variations in the market.

The Group is not subject to foreign exchange risk.

### **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.

## 11 Commitments

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

**12 Transactions with Related Parties**

Pylon Ltd is 100% owned by Electricity Invercargill Ltd.

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.

Pylon Ltd has an interest in PowerNet Ltd, OtagoNet Joint Venture, Electricity Southland Ltd, and Roaring Forties Ltd Partnership.

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

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

Material transactions between Pylon Ltd and the above-mentioned parties during the period are as follows:

	<b>GROUP</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Dividends Paid to:</b>		
Electricity Invercargill Ltd (Parent)	2,649	5,460
<b>Advances Provided from (Repaid to):</b>		
Electricity Invercargill Ltd (Parent)	7,669	(150)
<b>Subvention Payment Provided to:</b>		
Invercargill City Council (Other Related Party)	680	-

**Other Related Parties**

There have been no material transactions with Directors.

**13 Subsequent Events**

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

