

Pylon Limited

Consolidated Financial Statements
for the year ended 31 March 2022

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 31 March 2022

Directors' Approval


The Directors have approved for issue the Consolidated Financial Statements of Pylon Ltd for the year ended 31 March 2022 presented on pages 3 to 18.

For and on behalf of the Board.



Rob Jamieson
Chairperson

30 June 2022



Paul Kiesanowski
Director

30 June 2022

Pylon Limited
Statement of Financial Performance
For the year ended 31 March 2022

		GROUP	
	Notes	2022 \$'000	2021 \$'000
Other Income		-	33
Other Expenses		(251)	(1,292)
Share of Profit of Associates and Joint Ventures	5,6	<u>5,670</u>	<u>4,999</u>
Net Surplus Before Taxation		5,419	3,740
Taxation (Expense)/Benefit	2	<u>(1,247)</u>	<u>384</u>
Net Surplus After Taxation		<u>4,172</u>	<u>4,124</u>

The accompanying notes on pages 8 to 18 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 2022

	GROUP	
	2022 \$'000	2021 \$'000
Net Surplus After Taxation	4,172	4,124
Other Comprehensive Income		
Items that will not be reclassified to profit or loss:		
- Revaluation	-	-
Total Other Comprehensive Income	-	-
Total Comprehensive Income	<u>4,172</u>	<u>4,124</u>



The accompanying notes on pages 8 to 18 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 2022

	Notes	GROUP	
		2022 \$'000	2021 \$'000
Total Comprehensive Income			
Net Surplus for the Year		4,172	4,124
Other Comprehensive Income		<u>-</u>	<u>-</u>
		4,172	4,124
Distributions to Shareholders			
Dividend Declared/Paid		<u>-</u>	<u>-</u>
Changes in Equity for the Year		<u>4,172</u>	<u>4,124</u>
Equity at Beginning of the Year		<u>43,535</u>	<u>39,411</u>
Equity at End of the Year	4	<u>47,707</u>	<u>43,535</u>

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The accompanying notes on pages 8 to 18 form part of and should be read in conjunction with these financial statements.

Pylon Limited
Statement of Financial Position
As at 31 March 2022

		GROUP	
	Notes	2022 \$'000	2021 \$'000
ASSETS			
Non Current Assets			
Investment in Associates	5	5,193	5,054
Investments in Joint Ventures	6	<u>97,302</u>	<u>94,222</u>
Total Non Current Assets		<u>102,495</u>	<u>99,276</u>
Total Assets		<u>102,495</u>	<u>99,276</u>
LIABILITIES			
Current Liabilities			
Income Tax Payable		<u>1,366</u>	<u>559</u>
Total Current Liabilities		<u>1,366</u>	<u>559</u>
Non Current Liabilities			
Deferred Tax Liabilities	8	8,597	8,157
Shareholder Advance	7	<u>44,825</u>	<u>47,025</u>
Total Non Current Liabilities		<u>53,422</u>	<u>55,182</u>
Total Liabilities		<u>54,788</u>	<u>55,741</u>
Net Assets		<u>47,707</u>	<u>43,535</u>
EQUITY			
Share Capital	4	26,901	26,901
Reserves	4	12,056	12,067
Retained Earnings	4	<u>8,750</u>	<u>4,567</u>
Total Equity		<u>47,707</u>	<u>43,535</u>



The accompanying notes on pages 8 to 18 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 2022

	Notes	GROUP	
		2022 \$'000	2021 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Interest Income		-	33
Taxation Refunds		-	880
		<u>-</u>	<u>913</u>
Cash Was Disbursed To:			
Payments to Suppliers		-	-
Income Tax Paid		(251)	(1,292)
		<u>(251)</u>	<u>(1,292)</u>
Net Cash Outflows From Operating Activities	9	<u>(251)</u>	<u>(379)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Associate and Joint Venture Investments		6,326	5,731
		<u>6,326</u>	<u>5,731</u>
Cash Was Applied To:			
Investment in Joint Ventures		(3,875)	(7,174)
Investment in Associates		-	-
		<u>(3,875)</u>	<u>(7,174)</u>
Net Cash Flows/ (Outflows) From Investing Activities		<u>2,451</u>	<u>(1,443)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Shareholder Advance Received		-	1,822
		<u>-</u>	<u>1,822</u>
Cash Was Applied To:			
Repayment of Shareholder Advance		(2,200)	-
		<u>(2,200)</u>	<u>-</u>
Net Cash Flows/ (Outflows) From Financing Activities		<u>(2,200)</u>	<u>1,822</u>
Net Increase/(Decrease) in Cash and Cash Equivalents Held		-	-
Add Opening Cash Brought Forward		-	-
Closing Cash and Cash Equivalents Carried Forward		<u>-</u>	<u>-</u>

The accompanying notes on pages 8 to 18 form part of and should be read in conjunction with these financial statements.

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Pylon Limited
Notes to the Financial Statements
For the year ended 31 March 2022

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 30 June 2022.

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 New Zealand COVID -19 protection framework has transitioned from the Alert Level System to the more permissive Traffic Light System. The continued response to the COVID-19 pandemic and the emergence of new variants such as Delta and Omicron were a major influence in conducting business operations in the past year. The Group electricity distribution and generation activities are considered an essential service and has not been impacted by the pandemic restrictions to date.

The Group continues to monitor the risks and ongoing impacts from COVID-19 on the business. 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 assessed under IFRS 15 guidance)
- Joint arrangement classification (accounted for using the equity method, Note 6)
- Network assets valuation (revalued to fair value using discounted cash flow methodology)
- Property, plant and equipment includes assumptions around useful life of assets)

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.

The carrying amounts of the property, plant and equipment are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine

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) Leases

Refer to Note 3 for the current accounting policy in respect of leases.

(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.

	GROUP	
	2022	2021
	\$'000	\$'000
Operating Surplus Before Income Tax	5,419	3,740
Prima Facie Taxation at 28%	1,517	1,047
Income not Taxable		
- Equity Accounted Earnings of Associates and Joint Ventures	(208)	(167)
Under/(Over) Provision in Prior Years	126	(330)
Subvention Payment made in respect of Prior Period	(251)	(1,292)
Expenses not Deductible	<u>63</u>	<u>358</u>
Taxation Expense for Year	1,247	(384)
Made up of:		
Current Tax	928	855
Over Provision in Prior Years	(121)	(1,578)
Deferred Tax	444	382
Prior Year Over Provision of Deferred Tax	<u>(4)</u>	<u>(43)</u>
Taxation Expense for the Year	1,247	(384)
Effective Tax Rate	23%	(10)%

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 2021 income year resulting in a tax compensation payment of \$250,858 (2021: \$1,292,258) to Invercargill City Council.



3 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.

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

4 Equity

The authorised and issued share capital comprises 26,901,000 ordinary shares (2021: 26,901,000 ordinary shares) which are fully paid up. All shares have the same rights and privileges.

	GROUP	
	2022	2021
	\$'000	\$'000
Contributed Capital		
Share Capital	26,901	26,901
Reserves		
Revaluation Reserve Opening Balance	12,067	12,067
Revaluation Reversal due to Asset Disposal	<u>(11)</u>	<u>-</u>
Total Reserves	<u>12,056</u>	<u>12,067</u>
Retained Earnings		
Opening Balance	4,567	443
Net Surplus	4,469	4,124
Revaluation Reversal due to Asset Disposal	<u>11</u>	<u>-</u>
Total Retained Earnings	<u>9,047</u>	<u>4,567</u>
Total Equity	<u>48,004</u>	<u>43,535</u>



5 Investments in Associates

Associate Companies	Country of Incorporation	Balance Date	Percentage Held By Group	
			2022	2021
Lakeland Network Ltd*	New Zealand	31 March	24.9 %	24.9 %

*In December 2021 Electricity Southland Ltd name was changed to Lakeland Network Ltd.

	GROUP	
	2022 \$'000	2021 \$'000
Interests in associate entities are as follows:		
Carrying Amount at Beginning of Year	5,054	4,966
Total Recognised Revenues and Expenses	<u>139</u>	<u>88</u>
Carrying Amount at End of Year	<u>5,193</u>	<u>5,054</u>

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

	GROUP	
	2022 \$'000	2021 \$'000
Share of Surplus Before Taxation	231	172
Less Taxation Expense	<u>(92)</u>	<u>(84)</u>
Total Recognised Revenues and Expenses	<u>139</u>	<u>88</u>

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	
			2022	2021
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 %

*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 26.42% (2021: 24.81%).

** 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 six hydro stations, Aniwhenua Hydro Station on the Rangitaiki River in the Bay of Plenty, Upper Fraser Hydro Station in Alexandra, Matiri Hydro Station located at 15km north of Murchison, Matawai Hydro Station in Eastland area and, Mangapehi and Speedy's Road Hydro Stations located both in King Country area.

	GROUP	
	2022 \$'000	2021 \$'000
Interests in Joint Venture entities are as follows:		
Carrying Amount at Beginning of Year	94,222	87,868
Investments in Joint Ventures	3,875	7,174
Total Recognised Revenues and Expenses	5,530	4,911
Distributions/Dividend Received	<u>(6,326)</u>	<u>(5,731)</u>
Carrying Amount at End of Year	<u>97,301</u>	<u>94,222</u>

7 Shareholder Advance

	GROUP	
	2022 \$'000	2021 \$'000
Advance - Electricity Invercargill Ltd	<u>44,825</u>	<u>47,025</u>
Total Advances	<u>44,825</u>	<u>47,025</u>

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

8 Deferred Tax Liabilities

	Revaluation \$'000	Depreciation \$'000	Contribution \$'000	Other \$'000	Total \$'000
Balance at 1 April 2020	4,693	2,830	289	5	7,817
Charged to Income Statement	<u>-</u>	<u>335</u>	<u>15</u>	<u>(10)</u>	<u>340</u>
Balance at 31 March 2021	<u>4,693</u>	<u>3,165</u>	<u>304</u>	<u>(5)</u>	<u>8,157</u>
Balance at 1 April 2021	4,693	3,165	304	(5)	8,157
Charged to Income Statement	<u>-</u>	<u>381</u>	<u>58</u>	<u>1</u>	<u>440</u>
Balance at 31 March 2022	<u>4,693</u>	<u>3,546</u>	<u>362</u>	<u>(4)</u>	<u>8,597</u>

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	
	2022 \$'000	2021 \$'000
Net Surplus After Taxation	4,172	4,124
Plus/(Less) Non Cash Items:		
Deferred Taxation	440	340
Share of Profits of Associates and Joint Ventures	<u>(5,670)</u>	<u>(4,999)</u>
	(5,230)	(4,659)
Plus/(Less) Movements in Working Capital:		
(Increase)/Decrease in Provision for Taxation	<u>807</u>	<u>156</u>
	807	156
Net Cash Outflows From Operating Activities	<u>(251)</u>	<u>(379)</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 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, Lakeland Network 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:

	GROUP	
	2022	2021
	\$'000	\$'000
Advances Provided from (Repaid to):		
Electricity Invercargill Ltd (Parent)	(2,200)	1,822
Subvention Payment Provided to:		
Invercargill City Council (Other Related Party)	251	1,292

Other Related Parties

There have been no material transactions with Directors.

12 Subsequent Events

Invercargill City Holdings Ltd (ICHL) has notified Electricity Invercargill Ltd (EIL) it will undergo a strategic review of EIL's investment in Roaring Forties Energy Ltd Partnership (RFELP). On 11 May 2022, Invercargill City Council (ICC) released a consultation on a proposed purchase of the investment in RFELP that outlined a number of potential options for public submission. The preferred option being to transfer the 50% interest held by subsidiary Pylon Ltd, to ICHL on behalf of ICC. As at the date of finalising these Consolidated Financial Statements, the review was still ongoing.

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