Electricity Invercargill Ltd

ANNUAL REPORT
2022

Front cover: Southern Substation.

Contents

Directory

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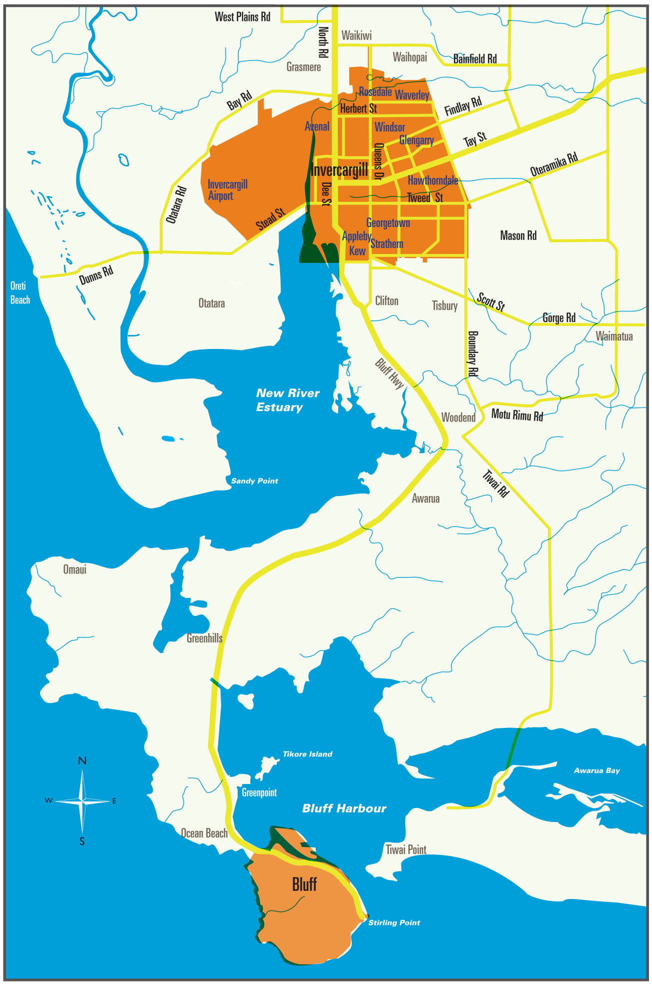
Electricity Invercargill Ltd Network Area



About Electricity Invercargill Limited

Electricity Invercargill Limited (EIL) delivers safe, efficient and reliable energy solutions to Invercargill City and Bluff, providing a secure and future-proofed power supply to over 17,500 homes and businesses across the region.

Recognised as one of the best performing networks in New Zealand according to the Commerce Commission's key indicators of reliability and efficiency, EIL is committed to the strong partnerships it has forged, continuing its efforts to drive innovative ways of providing critical infrastructure to the regions we serve.

Formed in 1991, EIL is fully owned by the Invercargill City Council through its subsidiary company, Invercargill City Holdings Ltd (ICHL). The network has provided power to Invercargill since 1905, most notably in the past as the Invercargill Municipal Electricity Department.

With 90 percent of our connected customers being residential, the foresight of EIL's management and board to underground the majority of the network over a 50-year period from the late 1960s has meant EIL is now one of New Zealand's most reliable networks. This future-focused vision continues today with EIL's commitment to reducing the overall age of its network through ongoing renewals and maintenance, to continuously improving the condition of its assets, and to supporting innovative approaches to network management - all part of ensuring a safe, reliable and efficient power supply for the communities we serve.

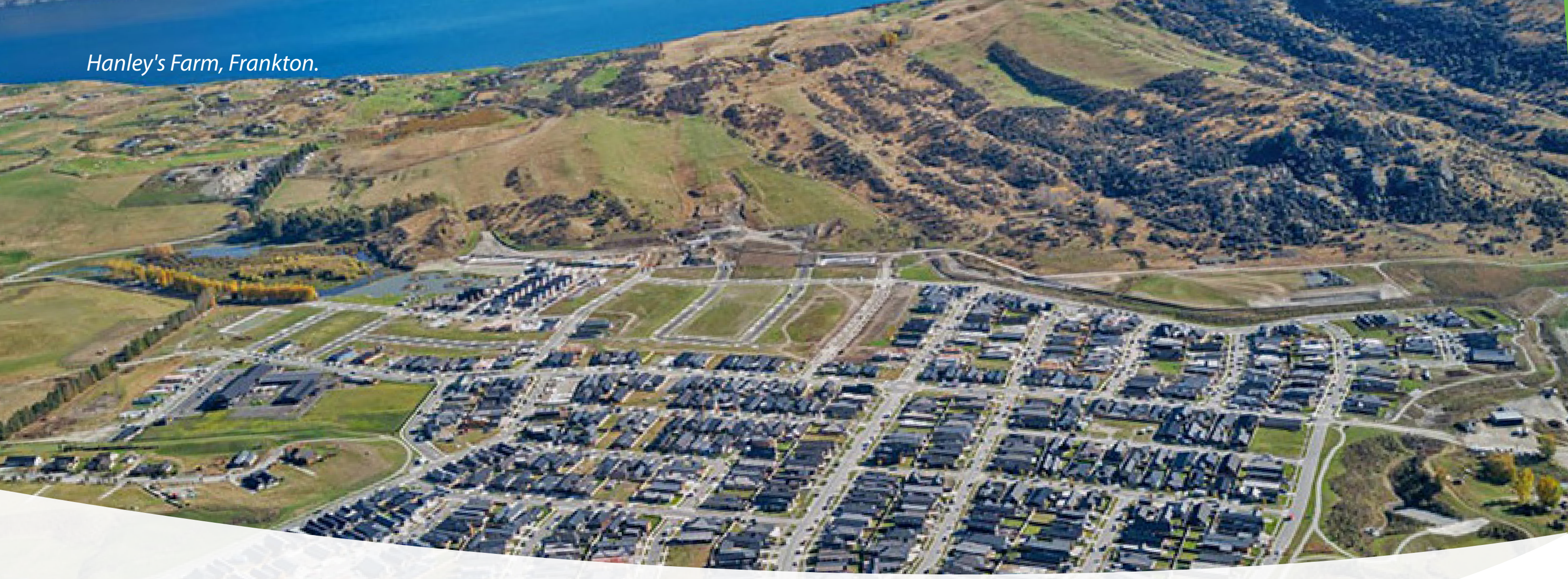
Supporting our country's decarbonisation efforts has also been an important strategic lever for EIL, driving its investment and diversification into renewable generation assets over recent years. EIL has a 25% share in the Southern Generation Limited Partnership (SGLP). SGLP's acquisition of renewable electricity generation assets is contributing to the country's net-zero carbon footprint goals, and adding significant value to the company's balance sheet.

With a Regulatory Value of $86 million in network assets, EIL contracts PowerNet Limited (PowerNet) to manage, operate, upgrade, construct and maintain its network and metering assets. This includes 663km of predominantly underground cables, some overhead lines, and 450 distribution transformers with a capacity of 156MVA.

PowerNet's costs are recovered through a charging regime on capital and maintenance work, and an agency fee for management services. PowerNet charges electricity retailers for line and metering services, pays transmission costs and passes the gross revenue and expenses through to EIL. The revenue provides a return on investment to EIL and recovers EIL's overheads, depreciation and operating costs.

Other revenue is derived from capital contributions made by customers to connect to the network, and the commercial returns from the company's investments in OtagoNet Joint Venture (OJV), Lakeland Network Ltd (LNL) and PowerNet, together with the new SGLP assets EIL owns in conjunction with The Power Company Limited (TPCL) and Pioneer Generation Limited.

EIL Statistics as at 31 March 2022	
Total Connected	**17,524**
Residential	15,428
Industrial	131
Commercial	1,965
Network Length	663km
Customer Density	26.4 customers/km
Number of Distribution Transformers	450
Distribution Transformer Density	236 kVA/km
Maximum Demand	64MW
Total Energy Delivered	261 GWh
Regulatory Value	$86 million



Hanley's Farm, Frankton.

Our Investments

PowerNet Limited (PowerNet)

Electricity Invercargill Limited (EIL) has a 50% shareholding in the region's electricity asset management company, PowerNet. The remaining equal share is held by EIL's partner, The Power Company Limited (TPCL).

EIL and TPCL established PowerNet in 1994 to achieve economies of scale through integrated network management. PowerNet is contracted to manage the EIL network - primarily its capital and maintenance works programme, and its metering assets.

Since its inception, PowerNet has led the way in electricity network management and currently manages assets with a Regulatory Value of $691 million. It is New Zealand's fourth largest electricity asset management company.

PowerNet continues to deliver for EIL, with its performance judged by the value and efficiency of its network asset management, and its commercial growth and business development focus. This is supported through its active commitment to serving our customers with a safe, reliable and efficient power supply by continued development of the network, operating a 24/7 network control and faults centre, and supporting the decarbonisation of our region through investment in new energy technologies and solutions.

Lakeland Network Limited (formerly Electricity Southland Limited)

Lakeland Network Limited (LNL) is based in the Queenstown Lakes area and provides the network to powers the region, delivering the electrical capacity required to meet the needs of the growing local community.

Established in 1995 by EIL and TPCL, formerly as Electricity Southland Limited (ESL), it was rebranded in 2021-22 to the 'Lakeland Network'. The rebrand has been integral to promoting the network to the public and developers.

LNL's assets now total $41.7 million, and EIL holds a 24.9% share. Regulatory reporting is under the OJV network.

With continuous growth, we believe our network is the network of choice in the region, with over 3,400 installation connection points. LNL is built completely underground and has invested over $35 million in electricity infrastructure.

The network is reticulated on the Frankton Flats area. It extends to the eastern corridor across the Shotover River to supply the Shotover Country subdivision, the Queenstown Country Club retirement village, Bridesdale and Kawarau Heights subdivisions, with future growth planned for the Ladies Mile area.

It also brings electricity to the southern corridor, across the Kawarau bridge to the Kawarau Falls area (including the Hilton Queenstown Resort) and extends south to supply Hanley's Farm subdivision.

The Remarkables Park development continues, with construction for a new Hyatt Centric Hotel, a Research and Innovation Centre, and the Hawthorne North commercial subdivision planned for 2022-23. LNL also supported the electricity supply needs of the growing health and medical services in the region, helping enable the opening of a new Southern Cross Hospital and Club House by Queenstown Country Club (which includes a new aged care facility).

Embedded networks in Wānaka, comprising Northlake (900), Clearview (112) and Hikuwai (250) subdivisions, as well as the Wooing Tree (250) subdivision in Cromwell are also managed by LNL.

OtagoNet Joint Venture (OJV)

OtagoNet Joint Venture (OJV) was formed in 2002 following the purchase of electricity network assets from the shareholders of the consumer co-operative company, Otago Power Ltd.

OJV's network supplies 15,446 customers over a vast area of coastal and inland Otago - from Shag Point in the north-east, through to St Bathans, and then extending south to the Chaslands. It has a Regulatory Value of $207million and is jointly owned by EIL (24.9%) and TPCL (75.1%).

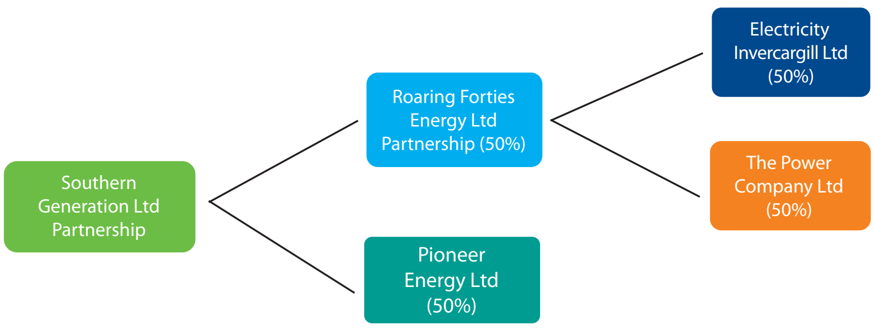
OJV's presence in South Otago has been consolidated with the official opening of the new purpose-built $8.5 million PowerNet Balclutha facility in May 2021.

Our Investments *continued*

Southern Generation Limited Partnership (SGLP)

We remain steadfast to our commitment to decarbonisation, and to helping New Zealand transition from fossil fuels to renewable energy. As part of our core strategic focus, we continue to build our wind and hydro power generation portfolio as part of the Southern Generation Limited Partnership (SGLP), where we have been partners with The Power Company Limited (TPCL) and Pioneer Energy Ltd since 2015 to ensure clean, green renewable electricity assets continue to grow.

Our renewable energy portfolio is managed by EIL's partner, Pioneer Energy Ltd. EIL and TPCL jointly own 50 percent of SGLP through the joint venture, Roaring Forties Energy Limited Partnership (RFELP). Pioneer Energy Ltd owns the remaining 50 percent. The total value of SGLP assets is $170 million.



Southern Generation Limited Partnership structure

In July 2021, the partnership invested $15.5 million in purchasing three small hydroelectric assets located across the Central North Island - two in the King Country (at Speedys Road and Mangapehi), and one near Matawai (between Gisborne and Opotiki). The hydroelectric stations combined can generate up to 24 GWh of electricity each year.

In 2021-22 the total generation output of SGLP's two wind generation sites, together with the six hydro power stations, was 218.2 GWh.

This was made up of:

- Mt Stuart - 17.6 GWh
- Flat Hill - 23.5 GWh
- Aniwhenua - 110.3 GWh
- Upper Fraser - 34.6 GWh
- Matiri - 20.5 GWh

The three new hydro stations (Speedys Road, Mangapehi, and Matawai) provided generation of 11.7 GWh, from July 2021.

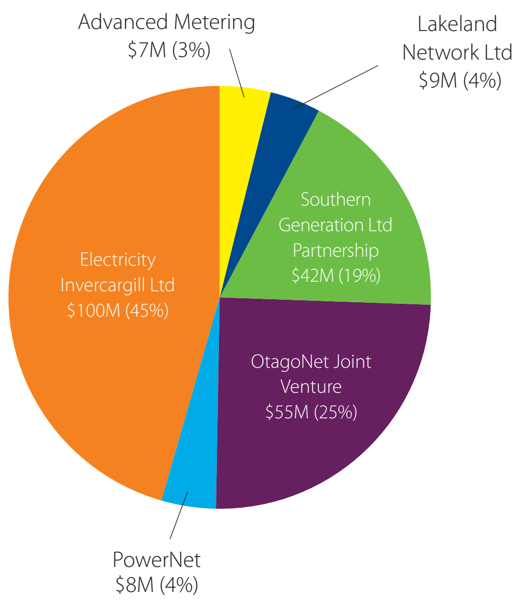
Southern Generation Limited Partnership assets.

Our Investments *continued*

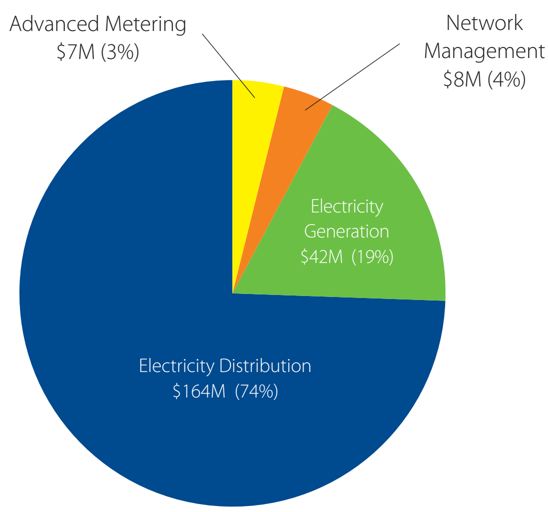
Electricity Invercargill Limited Group – Asset Breakdown

The investment make-up by asset investment and investment type clearly illustrates EIL's strategy of diversification being achieved within the electricity sector. Historically, EIL's predominant investment has been in the Invercargill and Bluff network. That investment now makes up 45 percent of EIL's investment portfolio. Furthermore, while renewable electricity distribution as an investment type comprises the majority (74 percent) of EIL's investment, there is now significant diversification into renewable electricity generation. This diversification is important to secure a long-term, sustainable investment return.

Asset Investment $221 million



Investment Type $221 million



Langlands substation.

The Year in Review

Operational Performance

We remain focused on embedding a strong operational performance to ensure the provision of a resilient, reliable and safe network for our region. Optimising the network to meet the needs of our community saw $6.7 million invested in capital projects, together with $1.9 million spent on maintenance during the 2021-22 reporting year.

Enabling extra capacity and resilience ensuring EIL customers' electricity supply is as safe and reliable as possible if an earthquake occurs, was a key reason behind a significant upgrade of Invercargill's Southern Zone substation. Located near Elizabeth Park, the 23MVA single transformer substation was seismically strengthened and upgraded to a dual transformer substation to cater for forecasted electricity load increases and to provide a more resilient supply.

The upgrade included additional steel supports installed to the switch room building, and the existing outdoor 33kV busbar and structures have been replaced with indoor 33kV switchgear. Old 11kV switchgear has been replaced and a second 11.5/23MVA transformer from the former Doon Street Zone substation has been installed. Construction work began in mid-2019 and the project was completed in the 2021-22 year.

Invercargill Central Business District (CBD)

EIL is supporting the redevelopment of Invercargill's CBD. Preparations have been underway since 2020-21 to build a new substation that will supply the area, and to connect the new Langlands Hotel to the electricity network. To increase reliability of supply, we have also been installing cabling, including taking the opportunity to upgrade existing cabling where needed.

Stead Street Upgrade

Partnering with our local community continued when PowerNet supported the Environment Southland and Invercargill City Council project to raise the existing stop bank between Invercargill and Otatara by removing 1.1km of overhead line assets (which supplied the Meteorological Office and the existing pump station). To give sufficient clearance and ensure safety, an 11kV underground cable was installed.

Customer Connections and Asset Replacements

New customer connections and subdivisions to the EIL network reached $1.7 million in 2021-22, significantly above the long-term average. This elevated level of customer connection activity will be sustained by the Invercargill CBD redevelopment.

Ongoing Maintenance

Work continues across the network to replace distribution transformers and Ring Main Units reaching the end of their life. This regular replacement work is vital to maintain a reliable electricity supply across the region, and to ensure the safety and integrity of the network.

All EIL zone substation sites have now been seismically strengthened to ensure security of supply in the event of a major earthquake. Work continues to strengthen distribution substations on the network.

Electricity Invercargill Projects

Project	Approximate Expenditure
New customer connections and subdivisions	1,793,000
Stead Street upgrade - underground project	1,069,000
11kV cable replacements	892,000
Ring main unit replacements	701,000

The Year in Review *continued*

SAIDI and SAIFI

There are two reliability metrics that are commonly used by electricity distribution businesses. They are SAIDI (system average interruption duration index) and SAIFI (system average interruption frequency index).

SAIDI measures the average outage duration for each customer served and is measured in minutes or hours over the course of a year. SAIFI measures the average number of interruptions that a customer would experience over a year, measured in units of interruptions per customer.

SAIDI is measured against limits that must be achieved, and also targets that offer financial incentives. Revenue-linked reliability targets and limits allow for additional revenue, based on improved service to customers.

Planned outage results have annual limits and targets, but are ultimately assessed against a cumulative limit set for the full regulatory period – in this case 2020-2025. The cumulative result is a combination of the assessed results for the first (2020-21) and second (2021-22) years of the regulatory period.

EIL exceeded the SAIDI Planned Incentive Target, resulting in a revenue penalty. However, it is within both the annual and cumulative limits for the regulatory period.

EIL SAIFI Planned exceeded the annual limit, but remains within the cumulative limit. The high SAIFI Planned result for 2021-22 is due to a short-term focused programme of increased planned maintenance of Ring Main Units to mitigate future unplanned interruptions.

PowerNet has a web interface which displays the location of planned interruptions on a map with key information. This allows customers to understand the impact of planned disruptions.

Unplanned interruptions are subject to normalisation. Normalisation limits the impact of unpredictable major events, such as severe weather events, being mistaken for signs of deterioration. Normalised SAIDI Unplanned result was within the incentive Target, resulting a small revenue incentive. Normalised SAIDI and SAIFI for EIL Unplanned interruptions were also within the annual limits.

	Actual	Limit	Incentive Target	Cumulative Actual	Cumulative Limit
EIL SAIDI Planned	15.11	22.90	7.63	28.42	114.49
EIL SAIFI Planned	0.1070	0.1037		0.1845	0.5183
EIL SAIDI Unplanned	15.38	25.86	15.39		
EIL SAIFI Unplanned	0.3231	0.6956			

Regulatory Environment

As a non-exempt electricity distribution business EIL is regulated under the electricity industry regulatory framework. EIL individually, through PowerNet, and/or through the wider industry using mechanisms such as the Electricity Networks Association industry association, continues to work with the Commerce Commission, Electricity Authority and WorkSafe to ensure activity is delivered within the scope of relevant regulations. EIL also engages proactively to ensure awareness and understanding of regulations and, where appropriate, input to regulations to ensure they are targeted, efficient and effective, and result in safe outcomes. Through PowerNet, EIL review staff awareness and compliance with relevant Acts and Regulations via the ComplyWith legal compliance survey.

Alongside defined regulatory reporting requirements, the regulatory work programme includes consideration of proposed changes to areas such as Information Disclosure reporting; distribution pricing; and the impact and implications of changes to the Resource Management Act.

EIL looks forward to implementation of the newly announced Transmission Pricing Methodology; scheduled to commence in 2023, and the continued phasing out of the low fixed charge regulations.

The Year in Review *continued*

Financial Performance

The Group achieved a Consolidated Net Surplus After Tax result of $5.73 million for the year ending 31 March 2022, a 7% reduction on the 2021 result, and marginally below the 2022 target. Excluding the impact of non-operating items - amortisation expense and taxation components, the group achieved a surplus of $8.59 million, marginally above the equivalent 2021 result and 5% above target. This result included lower revenue from electricity delivery services due to a required regulatory price reduction, however this was fully offset by the combination of greater capital contributions received, mainly due to the Stead Street line undergrounding contribution and new network connections resulting from the ongoing Invercargill CBD Development, growth in the share of Associates and Joint Venture investment income, and lower finance costs reflecting a reduction in interest rates during the year.

The share of income from Associates and Joint Venture investments increased by 13% from the previous year, influenced by growing income from the Southern Generation Limited Partnership (SGLP), reflecting further investment in hydro generation assets following the acquisition of three North Island hydro stations in July 2021 (Mangapehi, Matawhai & Speedys Road), partially offset by lower revenue from OtagoNet Joint Venture also impacted by a regulatory price reduction relating to its electricity delivery services income.

One of the two 1.5MVA transformers being positioned into Invercargill's CBD development site.

Financial Measures	Year Ended 31 March 2022 $'000	Year Ended 31 March 2021 $'000
Operating surplus before taxation, subvention and amortisation	8,585	8,550
Subvention payment	(250)	(2,067)
Amortisation expense in joint ventures	(753)	(737)
Net surplus before taxation	7,582	5,746
Taxation expense	(1,851)	392
Net surplus after taxation	5,731	6,138

COVID-19

COVID-19 continued to provide an uncertain backdrop to our business operations during 2021-22. The COVID-19 pandemic had minor impacts on our results in 2021-22. With the global pandemic now in its second year, EIL's COVID-19 response was well-managed by PowerNet – showing their ability to adapt and respond with agility to the challenges it posed. The lessons learned last year were applied to 2021-22, with improvements made as the PowerNet team traversed the fluctuating pandemic environment and the traffic light changes throughout the year. As an essential services provider, PowerNet's dedication, hard work and collaboration throughout the COVID-19 challenges ensured customers on the EIL network continued to receive safe, efficient and reliable power.

The Year in Review *continued*

Acknowledgements

EIL's directors would like to take this opportunity to thank all those who contributed to the company's continued success in 2021-22.

An ongoing focus on supporting and enabling growth in our region, and a commitment to building a strong, safe and reliable network remain at the forefront. This, coupled with our strategic vision to continue investments in renewable generation has meant EIL is in a strong position as it looks towards the future.

As a board, we would like to particularly acknowledge the continued support of our shareholder, Invercargill City Holdings Limited (ICHL). We value their contribution to our strategic direction, and their sustained support for our investments in OJV, SGLP and other assets.

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) with the possible sale of interest held by subsidiary Pylon Ltd, to ICHL. As at the date of finalising these Consolidated Financial Statements, the review was still ongoing.

We would like to acknowledge two directors who left the board during the year, Tom Campbell and Joe O'Connell. Tom Campbell joined the board in 2010 and has made a significant contribution, having been instrumental in the establishment of the Southern Generation Limited Partnership between Electricity Invercargill, The Power Company and Pioneer Energy. He also retires from his role as director of PowerNet and SGLP. Joe O'Connell joined the board in 2016 and brought with him a financial background along with invaluable governance experience which spans many industries such as transportation, concrete, timber processing, exploration piling and drilling, commercial property and fuel distribution. He was one of the EIL directors appointed to the PowerNet Health, Safety & Environment Committee, which he chaired.

We welcome new chair, Rob Jamieson, to our board. Rob is eminently experienced in the sector and brings with him a wealth of knowledge of the electricity distribution industry. Rob is being joined by two new directors, Emma Ihaia and Simon Young. Emma has strong expertise in the energy and telecommunications sectors, and Simon has over 25 years' experience in the electricity industry.

We continue to value our partnership with The Power Company Limited (TPCL), and our shared investment portfolio. Their enduring support is a cornerstone to our continued growth and success, and we thank them for their commitment. We would also like to thank the team at PowerNet for their steadfast dedication to maintaining, managing and growing a safe, reliable and efficient network and to growing our energy assets for the benefit of our region.

Our Community

Asset Management Plan

EIL's Asset Management Plan (AMP) outlines how network assets will be managed and developed to provide a safe, efficient, and reliable electricity supply and service to Invercargill and Bluff communities over the next 10 years. It sets out planned capital and maintenance expenditure on the network from 2022-2032.

The company also works closely with customers and developers on the installation of new connections to the EIL network, to better understand their plans and to ensure these are included in the AMP.

Over the short-to-medium term, the focus of EIL's AMP programme is on initiatives that will maintain network safety, efficiency, and reliability. Work over the 10-year planning period to maintain service levels will include:

Work over the 10-year planning period to maintain service levels will include:

- Improving safety at zone substations and on the distribution network.
- Upgrading the network across the region where needed to maintain voltage quality.
- Renewing those assets at the end of their life.
- Meeting customer requests for new connections and changing energy needs.
- Improving the efficiency of our network by replacing assets with high losses and exchanging overloaded distribution transformers with units that have sufficient capacity.
- Extending remote monitoring and control to distribution devices.

Renewals of transformers, ring main units and pillar boxes are expected to be a significant ongoing cost. In 2022-23, capital expenditure is planned to be $5.4 million and is forecasted to be between $6.2 million and $9 million per year, over the remaining 10-year planning horizon.

The EIL AMP can be viewed at: www.eil.co.nz

Supporting our Community

Empowering our region through the active sponsorship of critical community organisations continues to be an important part of EIL's focus. We are immensely proud to support St John, through the PowerNet partnership, providing our providing our community with important health education through first aid and mental health first aid training to community groups, and in our support of the St John Whātuia te Wairoa | Weaving Wellbeing programme to Year 7 and 8 students in schools across the region.

Southland Warm Homes Trust

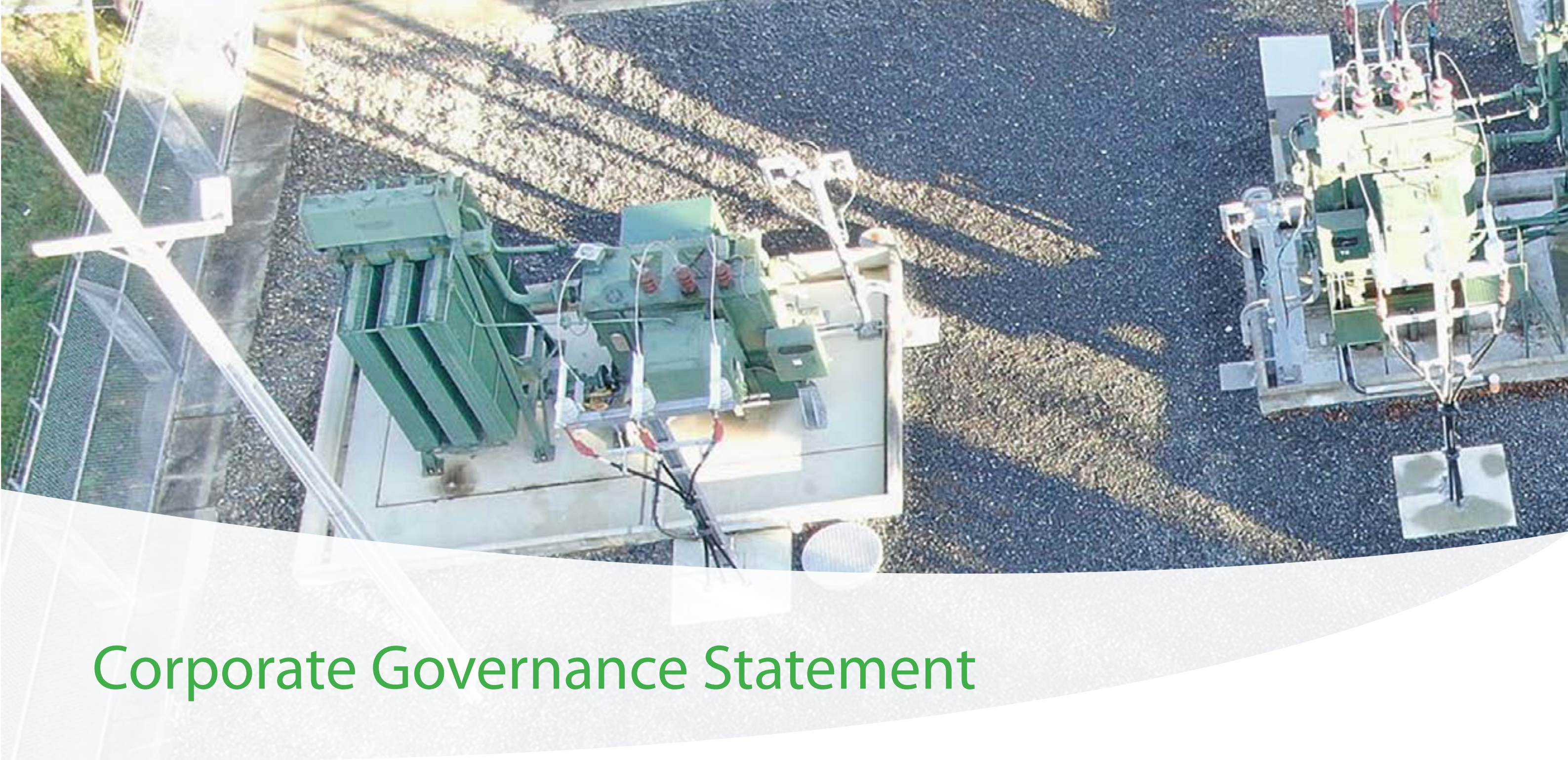
EIL's annual contribution to support the Southland Warm Homes Trust (SWHT) is $62,500. EIL supports PowerNet's administration services to the SWHT.

PowerNet continues to provide administration services to the SWHT, in conjunction with the Energy Efficiency and Conservation Authority (EECA), has completed over 8,000 insulation and heating retrofits in Southland and West Otago since 2008.

The Trust is a contracted insulation service provider in the Southland and West Otago area under the current government programme called Warmer Kiwi Homes. The subsidised insulation programme targets homeowners on low incomes, or homeowners who live in low socio-economic areas. The success of this programme in the first four years has resulted in the Government committing further funding of $73 million in May 2022 to extend the programme out to June 2024. This funding is administered by EECA through service providers who meet installation and health and safety standards.

Under the Warmer Kiwi Homes programme, eligible homeowners can have up to 95% of their ceiling and underfloor insulation cost, or a new efficient heating unit (heat pump or wood/pellet burner) funded by EECA. This includes the Trust contributing 15% of the subsidy from community funding. To be eligible homes must be built prior to 2008, the homeowner (owner-occupier) must have a community services card or own and be living in an area identified as low income.

In addition to the EECA/SWHT programme, SWHT and service provider Awarua Synergy offer other subsidies of up to $2,000 for households with high health needs to install insulation or an efficient heating unit.



Corporate Governance Statement

This statement provides an overview of the company's main corporate governance policies, practices and processes adopted or followed by the Board.

Role of the Board of Directors

The Electricity Invercargill Ltd Board is comprised of five non-executive Directors (the "Board") who are appointed by Invercargill City Holdings Ltd, a subsidiary of Invercargill City Council.

The Board is responsible for direction and governance, establishing and monitoring the strategic direction of the Company, with day-to-day management delegated to the Group Chief Executive.

The Board's responsibilities include the approval of the groups overall objectives, overseeing financial and operational performance and ensuring adequate systems for the identification and management of risk. The Board acts within the company's constitution, and is committed to best practice governance, including partaking in ongoing professional development. New Directors undergo an induction process to assist with onboarding, through the management company, PowerNet Ltd.

The Board has several scheduled meetings during the financial year, with additional meetings convened as required.

Risk Management

Electricity Invercargill Ltd (EIL) acknowledges the critical importance of Risk Management within the business, and aligns this with its joint venture management company PowerNet's vision of safe, efficient and reliable Power to Communities.

EIL has a risk management policy and framework incorporating the ISO 31000:2009 risk management processes. Risk management programmes are in place to ensure that risks are identified and mitigated, where possible, and that risk is considered when internal policies and procedures are drafted.

The Board has overall responsibility for the Company's systems of operational and financial control.

The Board monitors the operational and financial aspects of the Company's activities, and the Board considers the recommendations and advice of external and internal auditors and other external advisors on the operational and financial risks that face the Company.

The Board ensures that recommendations made by the external and internal auditors and other external advisers are investigated and appropriate action is taken to ensure that the Company has an adequate control environment in place to manage the key risks identified.

Health, Safety, and Environment Management

The Board has a strong commitment to ensuring contractors, joint venture entities, PowerNet employees and the public remain safe and well. The Board monitors the health, safety and environment aspects of the Group's activities, including through various Health, Safety and Environment Committees of joint venture entities.

Regular reports to the Board provide information on accidents, near misses and incidents, together with monthly data on health, safety and environment performance.

Risks are further identified through regular monitoring using internal and external audits, reporting of accidents and near misses and formal risk reviews. Directors also focus on the management of critical safety risks by undertaking field observation visits using the Risk Mentor tool to ensure the controls identified in the crucial control framework are being consistently applied on-site.

Corporate Governance Statement *continued*

Network Management Agreement Working Group (Special Purpose)

The Network Management Agreement (NMA) Working Group (PowerNet) was formed for a finite period to oversee the development of new Network Management Agreements between PowerNet and its managed Networks. The NMA Working Group is comprised of four non-executive Directors each representing PowerNet and the three Electricity Distribution Businesses (EDBs) that PowerNet acts as agent for, including a representative of EIL.

The role of the NMA Working Group is to provide support and advice to PowerNet and the EDBs, being EIL, The Power Company Limited (TPCL), Lakeland Network Ltd (LNL) (previously Electricity Southland Ltd (ESL)). Boards, and the OtagoNet Joint Venture (OJV) Governing Committee, for the revision and update of new NMAs between PowerNet and each of the EDBs.

It is the Working Group's role to ensure the NMAs are developed in the best interests of the EDBs and PowerNet.

The NMA Working Group met ten times during the past year.

The following Directors were NMA Working Group Members during the year under review:

Donald (Don) Nicolson (Chair/OJV)	Robert (Bob) Taylor (PowerNet)
Paul Kiesanowski (EIL)	Wayne Mackey (TPCL)

External Auditor

The effectiveness, performance and independence of the external auditor is reviewed annually by the Board.

The Company's external auditor is the Office of the Auditor-General. The Auditor-General has appointed Elizabeth Adriana (Adri) Smit, using the staff and resources of PricewaterhouseCoopers (PwC). This was the first year of appointment for Adri Smit.

The Board has determined that there are no matters that have affected the auditor's independence. PwC provide the Board with the required independence declaration for the financial year ended 31 March 2022.

Refer to Note 4 of the Financial Statements for Auditor remuneration.

Internal Auditor

The management company internal audit function provides independent and objective assurance on the effectiveness of governance, risk management and internal controls across all business operations.

For external expertise, the company works closely with Deloitte on outcomes of the internal audit programme to the extent that they are relevant to the financial statements.

Regular internal monitoring and review of controls and processes is also undertaken.

Directors' Profiles

Robert (Rob) Jamieson *(Chair) MEng (Electrical), MBA Appointed 1 November 2021*

Rob has worked in the New Zealand electricity industry for over 35 years, including as chief executive of Orion NZ Limited and as chair of Connetics Ltd. He has also been a long-term board member of the Electricity Networks Association (ENA).

Rob is chair of Electricity Invercargill Ltd and a director on the board of Lakeland Network Ltd. He is also a member of the OtagoNet Joint Venture governing committee.

Rob joins the board with a masters degree in both electrical engineering and business administration. He is also a chartered member of the Institute of Directors.

Rob's experience in electricity distribution and contracting, as well as energy retailing and electricity generation provides a valuable contribution to the board.

Emma Ihaia *MA First Class Hons (Economics) Appointed 1 November 2021*

Emma is a company director with more than 20 years' experience in economic regulation. As an economics' consultant she has advised utilities in New Zealand, Australia, Europe, the Caribbean and the Pacific Islands.

Emma is a director on the board of Electricity Invercargill Ltd . She is a self-employed director of Link Economics, a senior advisor of Castalia Ltd (part-time), and has spent four years on the executive team of Network Tasman as the regulatory and commercial manager. She has also chaired working groups for the Electricity Networks Association (ENA).

She has a Bachelor of Arts and Master of Arts (from the University of Auckland) in economics, and is a member of the Institute of Directors.

Emma has strong expertise in the energy and telecommunication sectors and has held numerous community governance roles.

Paul Kiesanowski *BCom ACA CMInstD Appointed 28 March 2019*

Paul is a former partner of KPMG.

Paul is a director on the boards of Electricity Invercargill Ltd and PowerNet Ltd (since March 2019). His other directorships include Black Holdings Ltd and Amalgamated Holdings Ltd.

Paul is a fellow chartered accountant of the Chartered Accountants Australia and New Zealand, and a chartered member of the Institute of Directors.

He brings strong financial management skills, risk management and assurance through his career working with a large number of clients.

Directors' Profiles

Stephen Lewis *CMInstD, CEng, FIET, MIAM Appointed 1 November 2020*

Stephen is a company director and business consultant with over 45 years' experience in the electricity supply industry.

Stephen is director on the board of Electricity Invercargill Ltd (appointed November 2020). He is also on the boards of Aurora Energy Ltd, MainPower NZ Ltd, Mt Cass Wind Farm Ltd and Greenpower NZ Ltd.

Stephen is a chartered member of the Institute of Directors and a fellow of the Institution of Engineering and Technology.

Stephen has held governance positions in New Zealand ESI for 15 years, and also for a wide range of not-for-profit organisations, including the arts sector. His previous executive experience has included executive directorships, senior executive and senior operation and strategic planning roles in the electricity supply industry in the UK, US, Australia, and South America.

Simon Young *BBS, Dip Hort Sci., M Sci (International Agriculture), M. Phil (Econ) Appointed 1 November 2021*

Simon is a company director and executive with over 25 years' experience in the electricity industry and has worked throughout the value chain.

Simon is a director on the board of Electricity Invercargill Ltd, Southern Generation director, a non-executive director of Top Energy, and its subsidiary Ngawha Generation. Previously, he was a non-executive director of a number of electricity-related public and private companies, including listed entity TrustPower.

Simon is currently, or was previously, involved as an executive director of Utilise Ltd, Opunake Hydro, and Alliant Energy New Zealand Ltd where he managed significant electricity investments in Australasia, and was founding executive director of Empower.

With deep commercial experience throughout the electricity value chain, from start-up to sale, and from electricity distribution to generation and retail, Simon brings a well-developed judgement to commercial decisions.

Thomas (Tom) Campbell *(Chair) Retired 31 October 2021*

Tom was chair of Electricity Invercargill and Southern Generation GP Ltd, and director of PowerNet Ltd until his retirement. He was former managing director of Comalco and former general manager of the Tiwai Smelter. Tom's directorships include Todd Corporation Ltd and Port Otago Ltd. He was chair of the Energy Efficiency and Conservation Authority (EECA) and chair of the Southland Regional Development Strategy governance group.

Tom is a chartered fellow of the Institute of Directors.

Alan (Joe) O'Connell *BCom FCA CFInstD Retired 30 June 2021*

Joe joined the boards of Electricity Invercargill Ltd and PowerNet Ltd in December 2016. He serves as a director on a number of companies and was chair of Invercargill Airport Ltd from 2011-2016.

He has worked in many industries including banking, insurance, transport, timber, concrete, petroleum distribution, drilling exploration, property and growing media.

Joe is a fellow chartered accountant of the Chartered Accountants Australia and New Zealand, and a chartered fellow of the Institute of Directors New Zealand.

Statutory Report

The Directors have pleasure in presenting their Annual Report and Financial Statements for the year ended 31 March 2022.

Results and Distribution

The Directors report that the Group's Net Profit After Tax for the year under review was $5,731,000, below the Statement of Intent target of $5,813,000.

Dividends of $4,000,000 were paid during the year.

Principal Activity

The principal activity of the parent entity EIL is the provision of electricity distribution services. The Company's shareholder is Invercargill City Holdings Ltd. The Group consists of EIL, its subsidiary, associate and joint ventures.

State of Company's Affairs

The Directors consider the state of the Company's affairs to be satisfactory.

Directors/Directors' Remuneration

The Directors are appointed by the Shareholder. The following Directors held office during the year under review. Remuneration paid or due and payable to Directors for services as a Director and in any other capacity for EIL, during the year was $158,583 and was distributed as follows:

Director	Appointment Date	Retirement Date	2021/2022
Rob Jamieson *(Chair)*	01 November 2021	-	$31,333
Emma Ihaia	01 November 2021	-	$13,083
Paul Kiesanowski	28 March 2019	-	$30,000
Stephen Lewis	01 November 2020	-	$30,000
Simon Young	01 November 2021	-	$13,083
Tom Campbell *(Chair)*	01 November 2010	31 October 2021	$33,833
Joe O'Connell	01 December 2016	30 June 2021	$7,250

Directors' Interests

General

All Directors are interested in transactions with the Company involving the supply of standard network services, on standard terms and conditions, to premises in which they may have one or more of the following interests [Companies Act 1993, Section 189 (1) (c)]:

(a) Owner, either alone or jointly with others.

(b) Parent, child or spouse of another person who may have a material interest in a property.

(c) Director, officer or shareholder of a body corporate which may have a material interest in a property.

(d) Trustee or beneficiary of a trust which may have a material interest in a property.

Because the interest which Directors may have in such transactions is no different in kind, quality, benefit or obligation from transactions which the Company has with other network services customers, it is not intended to list such premises or properties in the Interests Register.

Directors' Register

The Directors register for EIL and its subsidiary, associate and joint ventures is as follows:

	PowerNet Limited	The Power Company Limited	Electricity Invercargill Limited	OtagoNet Limited	OtagoNet Joint Venture	OtagoNet Properties Limited	Roaring Forties Energy GP Limited	Southern Generation GP Limited	Lakeland Network Limited	Last Tango Limited	Pylon Limited
Rob Jamieson			●	●	●	●	●	●	●		●
Emma Ihaia			●								●
Paul Kiesanowski	●		●								●
Stephen Lewis			●	●	●	●			●		●
Simon Young			●				●	●			●
Tom Campbell (Retired)	●		●	●	●	●	●	●	●		●
Joe O'Connell (Retired)	●		●								●

Statatory Report *continued*

Directors' Disclosure of Interest

Interests Register

Register of Directors' external Interests - as at 31 March 2022
[Companies Act 1993, Section 189 (1) (c)].

Tom Campbell

Energia Potier Limited	*Independent Director*
Port Otago Limited	*Director*
Todd Corporation Limited	*Director*
Todd Offshore Limited	*Director*

Joe O'Connell

Abbot NZ Holdings Limited	*Director*
Abbot Management Limited	*Director*
AJO Management Limited	*Director*
Fraser Properties Limited	*Director*
H & J Smith Holdings Limited (and associated companies)	*Director*
K G Richardson and Sons Limited	*Association*
KGR Properties Limited	*Association*
Log Logistics Limited	*Director*
Log Marketing New Zealand Limited	*Director*
McNeill Distribution Limited	*Association*
Niagara Forestry Limited	*Director*
Niagara Sawmilling Company Limited	*Association*
O'Connell Holdings Limited	*Director*
OKC Holdings Limited	*Director*
Property South Limited	*Director*
R Richardson Limited	*Director*
R W Transport Limited	*Director*
SBS Bank	*Chair*
SBS Charitable Trust	*Trustee*
Southfuels Limited	*Director*
Southsure Assurance Limited	*Director*
TNZ Growing Products Limited	*Director*

Emma Ihaia

Fifeshire Foundation Charitable Trust	*Trustee*
Link Economics Limited	*Director*

Paul Kiesanowski

Amalgamated Holdings Limited	*Director*
Black Forest Investments NZ Limited	*Director*
Black Holdings (NZ) Limited	*Director*
Paul Kiesanowski Advisory Limited	*Director / Shareholder*

Stephen Lewis

Aurora Energy Limited	*Director*
Greenpower New Zealand Limited	*Director*
MainPower New Zealand Limited	*Director*
Mount Cass Windfarm Limited	*Director*

Simon Young

Carbon One Limited	*Director*
Jimmi Holdings Limited	*Director / Shareholder*
Jimmi Interests Limited	*Director*
Jimmi Limited	*Director*
Ngawha Generation Limited	*Director*
On Farm Energy Limited	*Director*
Top Energy Limited	*Director*
Smith & Young Nominees Limited	*Director / Shareholder*
The Karo Group Limited	*Director / Shareholder*
Top Energy Ngawha Spa Limited	*Director*
Utilise Limited	*Director*

Employee Remuneration

No employees or former employees received remuneration to the value of $100,000 or greater during the year.

Donations

There were no donations made during the year.

Use of Company Information

During the year the Board received no notices from the Directors of the Company requesting to use Company information received in their capacity as Directors which would not otherwise have been made available to them.

Directors' and Employees' Indemnity and Insurance

Liability insurance was effected for Directors of the Company.

Accounting Policies

There have been no changes in accounting policies during the year. These have been applied on a basis consistent with those used in the previous year.

For and on behalf of the Directors.

Robert Datema Jamieson	Paul Michael Kiesanowski
Chair	**Director**

Directors' Approval

The Directors have approved for issue the Statement of Service Performance and Financial Statements of Electricity Invercargill Ltd for the year ended 31 March 2022 on pages 17 to 43.

For and on behalf of the Board.

Robert Jamieson
Chairperson

30 June 2022

Paul Kiesanowski
Director

30 June 2022

Statement of Service Performance

For the year ended 31 March 2022

Performance Information

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	
Financial	Year Ended 31 March 2022 $'000	Year Ended 31 March 2022 $'000	Year Ended 31 March 2021 $'000
Operating Surplus Before Taxation, Subvention and Fair Value Amortisation	8,156	8,585	8,550
Net Surplus After Taxation	5,813	5,731	6,138
Earnings Before Taxation, Interest, Subvention and Fair Value Amortisation to Total Assets (EBIT%)	4.91%	5.08%	5.19%
Return on Equity %	5.45%	5.23%	5.90%
Equity to Total Assets %	48.16%	49.14%	46.95%

The ongoing impact of COVID 19 has brought similar challenges to the previous year, requiring the Group to adapt and respond with agility to the ever changing pandemic environment. Electricity distribution and generation which activities make up the majority of the Group's revenue were deemed as essential and have not been adversely impacted by the fluctuating pandemic environment and the traffic light changes throughout the year.

The Group Operating Surplus Before Taxation, Subvention and Fair Value Amortisation amounted to $8.59 million, a marginal increase from the 2021 result and is 5% above the 2022 target. This positive result reflects the combination of higher capital contributions generated from the Stead Street upgrade and new connections resulting from the ongoing Invercargill CBD Development, an increase in share of profit of Associates and Joint Ventures, and lower finance costs benefitting from favourable interest rates during the year, partially offset by lower revenue from electricity delivery services. The revenue reduction from electricity delivery services was in line with expectation impacted by a price reduction driven by the Commerce Commission regulated Default Price Quality Path (DPP3) which sets the Allowable Notional Revenue for the five-year period from 1 April 2020.

Share of Profit of Associates and Joint Ventures increased by 13% from the previous year largely driven by Southern Generation Limited Partnership revenue growth resulting from the completed acquisition of three Hydro Stations, partially offset by lower revenue from OtagoNet Joint Venture due to DPP3 line price reset.

The Net Surplus After Taxation is impacted by prior year adjustment on current tax resulting in an unfavourable comparison to target and last year result.

Statement of Service Performance *continued*

For the year ended 31 March 2022

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.

	Target	Achievement	
	Year Ended 31 March 2022	Year Ended 31 March 2022	Year Ended 31 March 2021
System Average Interruption Duration Index (SAIDI) The average total time in minutes each customer connected to the network is without supply.			
SAIDI (planned)	16.10	15.11	13.31
SAIDI (unplanned)	24.50	15.38	9.67
System Average Interruption Frequency Index (SAIFI) The average number of times each customer connected to the network is without supply.			
SAIFI (planned)	0.09	0.11	0.08
SAIFI (unplanned)	0.63	0.32	0.30

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. The annual planned SAIFI and SAIDI figures are shown for comparison with targets, but planned SAIFI and SAIDI are assessed at the end of the five-year DPP3 period.

Electricity Invercargill Ltd has met the SAIDI and SAIFI target for the year except on the planned SAIFI mainly due to an increase in planned servicing of Ring Main Units. Overall results on SAIDI and SAIFI were well below the supply quality limits set by the Commerce Commission.

Electricity Invercargill Ltd have progressed major capital and maintenance projects in Invercargill and Bluff region to enhance the resilience and capacity of the network. Ongoing asset replacements and renewals have continued across the network for those critical to the delivery of safe and reliable supply to customers. During the year, the upgrade and seismic strengthening of the Southern Zone substation was completed together with enabling future power demands as part of Invercargill's CBD redevelopment.

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.

Statement of Service Performance *continued*

For the year ended 31 March 2022

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 2022	Year Ended 31 March 2022	Year Ended 31 March 2021
Total Recordable Injury Frequency Rate Contractors Target (TRIFR)	3.1	1.0	2.7

PowerNet Ltd safety performance (TRIFR) improved to 1.0 from 2.7 and Electricity Invercargill Ltd network have recorded zero injuries during the 2022 reporting year.

After significant development and employee engagement, our Critical Control Framework (CCF) has been embedded across the Group's operations. This has been enabled through the deployment of Risk Mentor, a tablet based tool that actively confirms the controls required to manage our critical risks. The integrated nature of Risk Mentor validates controls are in place, and that they are operating effectively. Acceptance of the CCF by the operational team is testament to the comprehensive team engagement efforts undertaken during the design, planning, implementation and embedding of the system.

We are now seeing ongoing and sustained improvements in workplace safety performance, with the industry accepted indicators of total recordable injury frequency rate and lost time injury frequency rate now at levels where achieving zero workplace incidents involving personal harm is within reach.

Supplementary Information (Unaudited)

	Achievement	
Network Statistics	Year Ended 31 March 2022	Year Ended 31 March 2021
Length of overhead line	53km	54km
Length of underground cable	610km	609km
Total number of interruptions	70	53
Faults per 100km of line	10.56	7.99
Transformer capacity MVA	156	151
Maximum demand MW	64	63
Energy into network GWh	261	263
Total consumers	17,524	17,441

Statement of Financial Performance

For the year ended 31 March 2022

	Notes	GROUP 2022 $'000	2021 $'000
Revenue from Contracts with Customers	2	19,187	19,541
Other Income	3	1,762	1,705
Operating Expenses	4	(16,285)	(17,556)
Operating Surplus		**4,664**	**3,690**
Finance Costs	4	(2,752)	(2,943)
Share of Profit of Associates and Joint Ventures	9, 10	5,670	4,999
Net Surplus Before Taxation		**7,582**	**5,746**
Taxation (Expense)/Benefit	5	(1,851)	392
Net Surplus After Taxation		**5,731**	**6,138**

Statement of Comprehensive Income

For the year ended 31 March 2022

		GROUP 2022 $'000	2021 $'000
Net Surplus After Taxation		**5,731**	**6,138**
Other Comprehensive Income			
Items that will not be reclassified to profit or loss:			
- Revaluation	6	-	4,830
Other Comprehensive Income		**-**	**4,830**
Total Comprehensive Income		**5,731**	**10,968**

The accompanying notes on pages 24 to 43 form part of and should be read in conjunction with these financial statements.

Statement of Changes in Equity

For the year ended 31 March 2022

	Notes	GROUP 2022 $'000	GROUP 2021 $'000
Total Comprehensive Income			
Net Surplus for the Year		5,731	6,138
Other Comprehensive Income		-	4,830
		5,731	10,968
Distributions to Shareholders			
Dividend Paid/Declared		-	(4,000)
		-	(4,000)
Changes in Equity for the Year		**5,731**	**6,968**
Equity at the Beginning of the Year		**103,946**	**96,978**
Equity at the End of the Year	6	**109,677**	**103,946**

The accompanying notes on pages 24 to 43 form part of and should be read in conjunction with these financial statements.

Statement of Financial Position

As at 31 March 2022

	Notes	GROUP 2022 $'000	2021 $'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	7	28	4,102
Receivables and Prepayments	8	1,976	2,657
Total Current Assets		**2,004**	**6,759**
Non Current Assets			
Investments in Associates	9	5,193	5,054
Advances to Associates		4,109	2,475
Investments in Joint Ventures	10	97,302	94,222
Advances to Joint Ventures		7,026	7,826
Investments in Other Entities		118	118
Property, Plant and Equipment	12	105,602	102,155
Capital Work in Progress		1,856	2,777
Total Non Current Assets		**221,206**	**214,627**
Total Assets		**223,210**	**221,386**
LIABILITIES			
Current Liabilities			
Creditors and Accruals	13	2,990	3,761
Dividend Payable		-	4,000
Income Tax Payable		1,610	940
Total Current Liabilities		**4,600**	**8,701**
Non Current Liabilities			
Interest Bearing Liabilities	14	85,225	85,825
Deferred Tax Liabilities	15	23,708	22,914
Total Non Current Liabilities		**108,933**	**108,739**
Total Liabilities		**113,533**	**117,440**
Net Assets		**109,677**	**103,946**
EQUITY			
Share Capital	6	13,000	13,000
Reserves	6	38,398	38,423
Retained Earnings	6	58,279	52,523
Total Equity		**109,677**	**103,946**

The accompanying notes on pages 24 to 43 form part of and should be read in conjunction with these financial statements.

Statement of Cash Flows

For the year ended 31 March 2022

	Notes	GROUP 2022 $'000	GROUP 2021 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers		20,688	21,182
Interest Received		385	351
Taxation Refunds		-	880
		21,073	22,413
Cash Was Disbursed To:			
Payments to Suppliers and Employees		(11,601)	(10,924)
Income Tax Paid		(638)	(2,067)
Interest Paid		(2,804)	(2,906)
GST Received		45	13
		(14,998)	(15,884)
Net Cash Flows From Operating Activities	16	**6,075**	**6,529**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Sale of Property, Plant and Equipment		1	3
Dividend Received		6,326	5,731
Advances Repaid by Joint Ventures		800	775
		7,127	6,509
Cash Was Applied To:			
Purchase of Property, Plant and Equipment and Work in Progress Payments		(7,168)	(5,099)
Investment in Associates and Joint Ventures		(3,875)	(7,174)
Advances to Associates		(1,633)	(971)
		(12,676)	(13,244)
Net Cash Outflows Applied to Investing Activities		**(5,549)**	**(6,735)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Shareholder Advances Received		-	7,500
		-	7,500
Cash Was Applied To:			
Repayment of Shareholder Advance			
Dividend Payment		(600)	-
		(4,000)	(4,000)
		(4,600)	(4,000)
Net Cash Flows/ (Outflows) From Financing Activities		**(4,600)**	**3,500**
Net Increase/(Decrease) in Cash and Cash Equivalents Held		(4,074)	3,294
Add Opening Cash Brought Forward		4,102	808
Closing Cash and Cash Equivalents Carried Forward	7	**28**	**4,102**

The accompanying notes on pages 24 to 43 form part of and should be read in conjunction with these financial statements.

Notes to the Financial Statements

For the year ended 31 March 2022

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 subsidiary 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 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 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 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 is assessed under IFRS 15 guidance, Note 2)
- 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.

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 the extent of the impairment loss.

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 cannot 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.

Notes to the Financial Statements *continued*

For the year ended 31 March 2022

2 Revenue from Contracts with Customers

	GROUP	
	2022 $'000	2021 $'000
Electricity Delivery Services	17,736	19,492
Capital Contributions	1,451	49
Total Revenue	**19,187**	**19,541**
Timing of Revenue Recognition		
Over time	17,736	19,492
At a point in time	1,451	49
Total Revenue	**19,187**	**19,541**

3 Other Income

	GROUP	
	2022 $'000	2021 $'000
Metering Rental Income	1,334	1,367
Interest Income	424	334
Other Income	4	4
Total Other Income	**1,762**	**1,705**

Notes to the Financial Statements *continued*

For the year ended 31 March 2022

4 Expenses

	GROUP	
	2022 $'000	2021 $'000
Expenses Include		
Auditors' Remuneration - PricewaterhouseCoopers		
- Audit of Financial Report	49	59
- Audit of Default Price Path	32	34
- Audit of Regulatory Disclosures	39	47
Regulatory and Consulting Fees - PricewaterhouseCoopers	-	25
Depreciation		
- Fibre Assets	31	30
- Metering Assets	696	657
- Network Assets	3,824	3,606
Total Depreciation	4,551	4,293
Directors' Fees	159	153
Interest Expense	2,752	2,943
Loss on Disposal of Property, Plant and Equipment	89	78
Network Costs	9,670	8,993
Transmission Costs	5,486	5,651
Subvention Payment	250	2,067

Notes to the Financial Statements *continued*

For the year ended 31 March 2022

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	
	2022 $'000	2021 $'000
Operating Surplus Before Income Tax	**7,582**	**5,746**
Prima Facie taxation at 28%	2,123	1,609
Income Not Taxable		
- Equity Accounting Earnings of Associates and Joint Ventures	(208)	(167)
Under/(Over) Provision in Prior Years	126	(330)
Subvention Payment and Loss Offset made in respect of Prior Period	(251)	(2,067)
Expenses not Deductible	61	563
Taxation Expense for Year	**1,851**	**(392)**
Made up of:		
Current Tax	1,178	1,645
Prior Year Over Provision of Current Tax	(121)	(2,354)
Deferred Tax	798	360
Prior Year Over Provision of Deferred Tax	(4)	(43)
Taxation Expense for Year	**1,851**	**(392)**
Effective Tax Rate	24.4%	(6.8%)

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 2021 was reduced by tax losses of $895,924 (Prior Year: $7,381,506) transferred from Invercargill City Council wholly owned group of entities by subvention payment of $250,858 (Prior Year: $2,066,821) and loss offset of $645,066 (Prior Year: $5,314,685).

6 Equity

The authorised and issued share capital comprises 13 million ordinary shares (2021: 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	
	2022 $'000	2021 $'000
Contributed Capital		
Share Capital	**13,000**	**13,000**
Reserves		
General Reserve	2,800	2,800
Revaluation Reserve Opening Balance	35,623	30,864
Asset Revaluation	-	4,830
Revaluation Reversal due to Asset Disposal	(25)	(71)
Closing Balance	35,598	35,623
Total Reserves	**38,398**	**38,423**
Retained Earnings		
Opening Balance	52,523	50,314
Net Surplus	5,731	6,138
Revaluation Reversal due to Asset Disposal	25	71
Dividend Declared	-	(4,000)
Total Retained Earnings	**58,279**	**52,523**
Total Equity	**109,677**	**103,946**

	Cents per Share	Cents per Share
Dividend per Share	0.00	30.8

Dividend for financial year 2022 has not been declared at balance sheet date.

7 Cash and Cash Equivalents

	GROUP	
	2022 $'000	2021 $'000
Current Account	18	302
Bank Deposits (Short Term)	10	3,800
Total Cash and Cash Equivalents	**28**	**4,102**

Notes to the Financial Statements *continued*

For the year ended 31 March 2022

8 Receivables and Prepayments

	GROUP 2022 $'000	2021 $'000
Trade Debtors	1,877	2,629
Prepayments	92	54
GST Receivable/(Payable)	7	(26)
Total Receivables and Prepayments	**1,976**	**2,657**

9 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
The Group's interests in associate entities are as follows:		
Carrying Amount at the Beginning of the Year	5,054	4,966
Total Recognised Revenues and Expenses	139	88
Carrying Amount at the End of the Year	**5,193**	**5,054**
The Group's share of results from its equity accounted associate entities is as follows:		
Share of Surplus before Taxation	231	172
Less Taxation Expense	(92)	(84)
Total Recognised Revenues and Expenses of Associates After Tax	**139**	**88**

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 2022	2021
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%

*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 2022 is 26.42% (2021: 24.81%).

**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 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 Speedys Road Hydro Stations located both in King Country area.

	GROUP 2022 $'000	2021 $'000
The Group's interests in Joint Venture entities are as follows:		
Carrying Amount at the Beginning of the Year	94,222	87,868
Investment in Joint Ventures	3,875	7,174
Total Recognised Revenues and Expenses	5,531	4,911
Distributions/Dividends Received	(6,326)	(5,731)
Carrying Amount at the End of the Year	**97,302**	**94,222**

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.

Notes to the Financial Statements *continued*

For the year ended 31 March 2022

12 Property, Plant and Equipment

	Distribution Assets $'000	Metering Assets $'000	Fibre Assets $'000	Total $'000
At 1 April 2020				
Cost or fair value	113,046	9,918	1,055	124,019
Accumulated Depreciation	(26,631)	(2,268)	(297)	(29,196)
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	(173)	(169)	-	(342)
Reversal of depreciation on asset disposed	118	143	-	261
Depreciation charge (Note 4)	(3,606)	(657)	(30)	(4,293)
Revaluation	6,653	-	56	6,709
Closing net book amount	93,629	7,742	784	102,155
At 31 March 2021				
Cost or fair value	117,685	10,524	1,055	129,264
Accumulated depreciation	(24,056)	(2,782)	(271)	(27,109)
Net book amount	93,629	7,742	784	102,155
Year ended 31 March 2022				
Opening net book amount	93,629	7,742	784	102,155
Additions	7,589	500	-	8,089
Disposals	(102)	(19)	-	(121)
Reversal of depreciation on asset disposed	21	9	-	30
Depreciation charge (Note 4)	(3,824)	(696)	(31)	(4,551)
Closing net book amount	97,313	7,536	753	105,602
At 31 March 2022				
Cost or fair value	125,172	11,005	1,055	137,232
Accumulated depreciation	(27,859)	(3,469)	(302)	(31,630)
Net book amount	97,313	7,536	753	105,602

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

31 March 2021	*62,127*	*7,898*	*728*	*70,753*
31 March 2022	*65,812*	*7,692*	*697*	*74,201*

Notes to the Financial Statements *continued*

For the year ended 31 March 2022

12 Property, Plant and Equipment *continued*

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 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

Impairment and Fair Value Assessment

No events or circumstances identified that indicate the electricity distribution network, metering and fibre assets may be impaired as at 31 March 2022. Presently the listed assets of the electricity distribution network and other property, plant and equipment are generating business cash flow, the value of the assets are not deemed to require an impairment adjustment.

There have been no significant changes or events that result in a material increase in the value of the network assets that requires an update to valuation to be performed at 31 March 2022.

13 Creditors and Accruals

	GROUP	
	2022 $'000	2021 $'000
Trade Payables	2,206	2,351
Accruals	612	714
Revenue in Advance	172	696
Total Creditors and Accruals	**2,990**	**3,761**

14 Shareholder Advance

	GROUP 2022 $'000	GROUP 2021 $'000
Invercargill City Holdings Ltd		
- Non Current Portion	85,225	85,825
Total Shareholder Advance	**85,225**	**85,825**

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. EIL extended the general facility for two years maturing on October 2023.

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 2024.

The weighted average interest rate for the loan is 3.41% (2021: 3.80%).

15 Deferred Tax Liabilities

	Revaluation $'000	Depreciation $'000	Contribution $'000	Other $'000	Total $'000
Balance at 1 April 2020	12,003	8,312	396	7	20,718
Charged to Income Statement	-	309	7	1	317
Charged to Equity	1,879	-	-	-	1,879
Balance at 31 March 2021	**13,882**	**8,621**	**403**	**8**	**22,914**
Balance at 1 April 2021	13,882	8,621	403	8	22,914
Charged to Income Statement	-	393	404	(3)	794
Balance at 31 March 2022	**13,882**	**9,014**	**807**	**5**	**23,708**

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	
	2022 $'000	2021 $'000
Net Surplus After Taxation	5,731	6,138
Plus/(Less) Non Cash Items:		
Depreciation	4,551	4,293
Deferred Taxation	794	317
Loss on Sale of Property, Plant and Equipment	89	78
Share of Profit of Associates and Joint Ventures	(5,670)	(4,999)
	(236)	(311)
Plus/(Less) Movements in Working Capital:		
Increase/(Decrease) in Payables and Accruals	(771)	872
(Increase)/Decrease in Receivables and Prepayments	681	(342)
Increase/(Decrease) in Provision for Taxation	670	172
	580	702
Net Cash Flows From Operating Activities	**6,075**	**6,529**

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	
	2022 $'000	2021 $'000
Capital Commitments	1,770	2,006
Total Capital Commitments	**1,770**	**2,006**

b) **Other Commitments**

The Group has a conditional commitment as at 31 March 2022 of $415,000 (2021: $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 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.

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 $108,000 (2021: $90,000).

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.

Notes to the Financial Statements *continued*

For the year ended 31 March 2022

19 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, Lakeland Network 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	
	2022 $'000	2021 $'000
Goods and Services Supplied to:		
PowerNet Ltd (Joint Venture)	288	229
Lakeland Network Ltd (Associate)	120	67
Receivables Outstanding at Balance Date		
PowerNet Ltd (Joint Venture)	77	58
Lakeland Network Ltd (Associate)	40	19
Goods and Services Supplied by:		
PowerNet Ltd (Joint Venture)	11,379	8,970
Invercargill City Holdings Ltd (Other Related Party)	2,917	3,107
Creditors Outstanding at Balance Date		
PowerNet Ltd (Joint Venture)	1,886	2,033
Invercargill City Holdings Ltd (Other Related Party)	138	190
Revenue Recognised from:		
Invercargill City Council (Other Related Party)	1,041	-
Dividends Paid to:		
Invercargill City Holdings Ltd (Other Related Party)	4,000	4,000
Advances Provided to (Repaid by):		
PowerNet Ltd (Joint Venture)	(800)	(775)
Lakeland Network Ltd (Associate)	1,633	971
Advances Provided from:		
Invercargill City Holdings Ltd (Other Related Party)	(600)	7,500
Subvention Payment Provided to:		
Invercargill City Council (Other Related Party)	251	2,067

Notes to the Financial Statements *continued*

For the year ended 31 March 2022

19 Transactions with Related Parties *continued*

Key Management Personnel

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

	GROUP	
	2022 $'000	2021 $'000
Directors Fees	192	170

There have been no other transactions with the Directors.

20 Subsequent Events

On 26th of May Electricity Invercargill Ltd signed the updated Management Agreement with PowerNet Ltd. The terms of this agreement span 10 years.

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

Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To The Readers Of Electricity Invercargill Limited's Consolidated Financial Statements And Performance Information For The Year Ended 31 March 2022

The Auditor-General is the auditor of Electricity Invercargill Limited and its controlled entities (collectively referred to as 'the Group'). The Auditor-General has appointed me, Elizabeth Adriana (Adri) Smit, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements and the performance information (as set out in the statement of service performance) of the Group on his behalf.

Opinion

We have audited:

- the financial statements of the Group on pages 20 to 43, that comprise the statement of financial position as at 31 March 2022, the statement of financial performance, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information, as set out in the statement of service performance, of the Group on pages 17 to 19.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 31 March 2022; 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 2022.

Our audit was completed on 30 June 2022. 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.

Auditor's Report *continued*

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

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

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

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

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

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

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

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

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

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

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

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

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance;
- 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.

Auditor's Report *continued*

- 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 and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated 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 supplementary information included on page 1-16 and 19, 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 compliance with the Electricity Distribution (Information Disclosure) Determination 2012 and Electricity Distribution Services Default Price-Quality Path Determination 2022 which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Company.

Elizabeth Adriana (Adri) Smit
PricewaterhouseCoopers
On behalf of the Auditor-General
Christchurch, New Zealand

Phil Johnston (Decom) and Dave Tose (PowerNet) at Southern zone substation.

Electricity Invercargill Ltd