

# **The Power Company Limited**

## **Consolidated Financial Statements**

For the year ended 31 March 2022

# Contents

	Page
Approval by Directors	2
Consolidated Statement of Service Performance	3
Financial Statements	
Consolidated Statement of Financial Performance	5
Consolidated Statement of Comprehensive Income	6
Consolidated Statement of Changes in Equity	7
Consolidated Statement of Financial Position	8
Consolidated Statement of Cash Flows	9
Notes to the Financial Statements	10



**The Power Company Limited**  
**Approval by Directors**  
For the year ended 31 March 2022

---

**Approval by Directors**

The Directors have approved the Consolidated Statement of Service Performance and Financial Statements of The Power Company Ltd for the year ended 31 March 2022 on pages 3 to 30.

For and on behalf of the Board.



**Douglas William Fraser**  
Chairman

15 July 2022



**Donald Owen Nicolson**  
Director

15 July 2022

**The Power Company Limited**  
**Consolidated Statement of Service Performance (Unaudited)**  
For the year ended 31 March 2022

The objectives of The Power Company Ltd for this financial year are 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 2022	GROUP Achievement			
		2022		2021	
	Inclusive of Discount	Inclusive of Discount	Exclusive of Discount	Inclusive of Discount	Exclusive of Discount
<b><u>Financial Measures</u></b>					
EBIT % - Percentage Earnings Before Tax and Interest on Assets Employed	2.76 %	3.90 %	4.91 %	3.34 %	4.39 %
NPAT % - Percentage Tax Paid Profit on Equity	2.20 %	1.98 %	3.86 %	2.88 %	4.84 %
Gearing Ratio	38.64	35.43		36.09	
Interest Cover Ratio	5.46	4.95		5.30	

**Health and Safety**

The Power Company Ltd contracts PowerNet Ltd to manage its operations. The Power Company Ltd employs no staff, therefore PowerNet Ltd's Health and Safety Performance targets are relevant.

Total Recordable Injury Frequency Rate Contractors Target (TRIFR)	3.10	1.00	2.70
---	------	------	------

Workplace health and safety continues to be a business priority and a critical success factor for the Group. PowerNet Ltd safety performance (TRIFR) in 2022 met the target and is lower than the 2021 safety performance level. Achieved through the implementation of the Critical Risk Framework, training and safety observations to mitigate risk and achieve safety targets. No lost time injuries occurred on the The Power Company Ltd network during the 2022 reporting year.

Our health and safety environment risk management system is well embedded in our business activities. The system displays all information about incidents, hazards, risks, actions and audits on one platform, presenting incident workflows with ready access to investigation details and resolution actions. All leaders now use the system, which allows for easier management of public and workplace incidents. This system also identifies actions to ensure they are resolved to prevent future harm.

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

**System Average Interruption Duration Index (SAIDI)**

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

SAIDI Planned	131.50	109.43	135.56
SAIDI Unplanned	153.40	159.83	141.71

**System Average Interruption Frequency Index (SAIFI)**

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

SAIFI Planned	0.61	0.84	0.65
SAIFI Unplanned	3.42	2.62	2.73

Planned work was higher resulting in Planned SAIFI exceeding the annual target. Planned SAIDI remained under the limit due to the SAIDI reduction available for early notification of planned work to customers. The frequency of unplanned outages was below the annual target however duration of unplanned outages was slightly above the target.

SAIDI and SAIFI are calculated using the methodology defined in Electricity Distribution Business DPP3 Determination 2020.

**The Power Company Limited**  
**Consolidated Statement of Service Performance (Unaudited)**  
**For the year ended 31 March 2022**  
(continued)

**Achievement**

**2022                      2021**

**Supplementary Information**

**Network Statistics**

Length of overhead line*	8,462 Km	8,461 Km
Length of underground cable	397 Km	388 Km
Total number of interruptions	1,870	1,491
Faults per 100km of line	21.11	16.85
Transformer capacity MVA	470	462
Maximum demand MVA	160	161
Energy into network GWh	836	835
Total Consumers	37,102	36,723

\* Excluding conductor lines under construction.



**The Power Company Limited**  
**Consolidated Statement of Financial Performance**  
For the year ended 31 March 2022

	Notes	GROUP	
		2022 \$'000	2021 \$'000
Gross Revenue from Contracts with Customers		73,480	70,613
Discount to Consumers		<u>(7,955)</u>	<u>(8,197)</u>
<b>Net Revenue from Contracts with Customers</b>	2	<b>65,525</b>	<b>62,416</b>
Other Income	3	5,081	5,031
Operating Expenses	4	<u>(59,426)</u>	<u>(56,544)</u>
<b>Operating Surplus Before Fair Value Gains/(Losses)</b>		<b>11,181</b>	<b>10,903</b>
<b>Fair Value Adjustments</b>			
Unrealised (Loss)/Gain on Derivatives (NZ)	4	10,972	5,864
(Loss)/Gain on Onerous Contract	4	(521)	(2,553)
Derivative financial instrument gain/(loss) (US)	15	<u>(565)</u>	<u>2,237</u>
<b>Fair Value Gains/(Losses)</b>		<b>9,886</b>	<b>5,548</b>
<b>Operating Surplus</b>		<b>21,067</b>	<b>16,451</b>
Finance Costs	4	(11,084)	(10,028)
Share of Profits of Associates and Joint Ventures	10	<u>11,206</u>	<u>10,786</u>
<b>Net Surplus Before Taxation</b>		<b><u>21,188</u></b>	<b><u>17,209</u></b>
Taxation Expense	5	<u>(5,621)</u>	<u>(4,164)</u>
<b>Net Surplus After Taxation</b>		<b><u>15,567</u></b>	<b><u>13,045</u></b>

The accompanying notes on pages 10 to 30 form part of and should be read in conjunction with these financial statements.

**The Power Company Limited**  
**Consolidated Statement of Comprehensive Income**  
For the year ended 31 March 2022

	Notes	GROUP	
		2022 \$'000	2021 \$'000
<b>Net Surplus After Taxation</b>		<b>15,567</b>	<b>13,045</b>
Asset Revaluation	7	<u>-</u>	<u>37,440</u>
<b>Other Comprehensive Income</b>		<u>-</u>	<u>37,440</u>
 <b>Items that may be Subsequently Reclassified to Profit or Loss:</b>			
<i>Cash Flow Hedges</i>			
Movement in the Cash Flow Hedge Reserve		1,345	(3,031)
Movement in Cost of Hedging Reserve		<u>29</u>	<u>(28)</u>
		<b>1,374</b>	<b>(3,059)</b>
<b>Total Comprehensive Income</b>		<b>16,941</b>	<b>47,426</b>
Total Comprehensive Income Attributable to Minority Interests	12	<u>139</u>	<u>88</u>
<b>Total Comprehensive Income Attributable To Parent</b>		<u><b>16,802</b></u>	<u><b>47,338</b></u>

*The accompanying notes on pages 10 to 30 form part of and should be read in conjunction with these financial statements.*

**The Power Company Limited**  
**Consolidated Statement of Changes in Equity**  
For the year ended 31 March 2022

	Notes	GROUP	
		2022 \$'000	2021 \$'000
<b>Total Comprehensive Income</b>			
Net Surplus for the Year comprising:			
Parent Interest		16,802	47,338
Minority Interest	12	<u>139</u>	<u>88</u>
		<b>16,941</b>	<b>47,426</b>
<b>Changes in Equity for the Year</b>		<b>16,941</b>	<b>47,426</b>
<b>Equity at Beginning of Year comprising:</b>			
Parent Interest		392,785	345,447
Minority Interest	12	<u>5,054</u>	<u>4,966</u>
		<b>397,839</b>	<b>350,413</b>
<b>Equity at End of Year comprising:</b>			
Parent Interest		409,587	392,785
Minority Interest	12	<u>5,193</u>	<u>5,054</u>
	7	<u><b>414,780</b></u>	<u><b>397,839</b></u>

The accompanying notes on pages 10 to 30 form part of and should be read in conjunction with these financial statements.



**The Power Company Limited**  
**Consolidated Statement of Financial Position**  
As at 31 March 2022

		GROUP	
	Notes	2022 \$'000	2021 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents	8	268	594
Receivables and Prepayments	9	9,220	8,763
Inventories		<u>136</u>	<u>136</u>
<b>Total Current Assets</b>		<b><u>9,624</u></b>	<b><u>9,493</u></b>
<b>Non Current Assets</b>			
Advances to Joint Ventures	10	26,443	28,843
Investments in Joint Ventures	10	219,681	214,474
Investment in Other Entities		239	239
Property, Plant and Equipment	11	521,629	511,268
Capital Work in Progress		11,718	12,932
Right-of-Use Assets	6	256	307
Interest Rate Derivatives	15	<u>1,034</u>	<u>-</u>
<b>Total Non Current Assets</b>		<b><u>781,000</u></b>	<b><u>768,063</u></b>
<b>Total Assets</b>		<b><u>790,624</u></b>	<b><u>777,556</u></b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Creditors and Accruals	13	19,802	23,122
Onerous Contract	17	739	718
Interest Rate Derivatives		202	478
Current Loans	15	8,915	104,190
Provision for Tax		5,778	1,413
Contract Liabilities	14	1,537	977
Lease Liabilities	6	<u>34</u>	<u>33</u>
<b>Total Current Liabilities</b>		<b><u>37,007</u></b>	<b><u>130,931</u></b>
<b>Non Current Liabilities</b>			
Term Loans	15	225,812	130,775
Deferred Tax Liabilities	16	82,465	81,955
Onerous Contract	17	13,959	13,459
Interest Rate Derivatives	15	14,562	20,186
Contract Liabilities	14	1,797	2,122
Lease Liabilities	6	<u>242</u>	<u>289</u>
<b>Total Non Current Liabilities</b>		<b><u>338,837</u></b>	<b><u>248,786</u></b>
<b>Total Liabilities</b>		<b><u>375,844</u></b>	<b><u>379,717</u></b>
<b>NET ASSETS</b>		<b><u>414,780</u></b>	<b><u>397,839</u></b>
<b>EQUITY</b>			
Contributed Equity	7	70,160	70,160
Other Reserves	7	139,758	138,437
Retained Earnings	7	<u>199,669</u>	<u>184,188</u>
<b>Group Equity</b>		<b><u>409,587</u></b>	<b><u>392,785</u></b>
Minority Interest	12	<u>5,193</u>	<u>5,054</u>
<b>Total Equity</b>		<b><u>414,780</u></b>	<b><u>397,839</u></b>

The accompanying notes on pages 10 to 30 form part of and should be read in conjunction with these financial statements.

**The Power Company Limited**  
**Consolidated Statement of Cash Flows**  
For the year ended 31 March 2022

	Notes	2022 \$'000	2021 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash was Provided From:</b>			
Receipts from Customers		69,043	67,456
Interest Received		1,069	898
Income tax refunded		<u>-</u>	<u>1,038</u>
		<b>70,112</b>	<b>69,392</b>
<b>Cash was Disbursed To:</b>			
Payments to Suppliers and Employees		37,420	31,675
GST Paid/(Received)		49	(512)
Income Tax Paid		773	-
Interest Paid		<u>10,351</u>	<u>9,680</u>
		<b>48,593</b>	<b>40,843</b>
<b>Net Cash Flows From Operating Activities</b>	19	<u><b>21,519</b></u>	<u><b>28,549</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash was Provided From:</b>			
Property, Plant and Equipment Sales		440	35
Distributions Received from Joint Ventures		9,874	9,963
Repayment of Advances by Joint Ventures		<u>17,388</u>	<u>11,775</u>
		27,702	21,773
<b>Cash was Applied To:</b>			
Property, Plant and Equipment Purchases		35,329	33,173
Investment in Joint Ventures		3,875	10,096
Advance to Joint Venture		<u>14,988</u>	<u>9,450</u>
		<u>54,192</u>	<u>52,719</u>
<b>Net Cash Flows From Investing Activities</b>		<u><b>(26,490)</b></u>	<u><b>(30,946)</b></u>
<b>CASH FLOWS APPLIED TO FINANCING ACTIVITIES</b>			
<b>Cash was Provided From:</b>			
Advance from Term Borrowing	15	<u>51,634</u>	<u>2,838</u>
		51,634	2,838
<b>Cash was Applied To:</b>			
Repayment of Term Borrowing	15	46,955	-
Principal elements of lease payments	6	<u>34</u>	<u>32</u>
		<u>46,989</u>	<u>32</u>
<b>Net Cash Flows From Financing Activities</b>		<u><b>4,645</b></u>	<u><b>2,806</b></u>
Net Increase/(Decrease) in Cash and Cash Equivalents Held		(326)	409
Add Opening Cash Brought Forward		<u>594</u>	<u>185</u>
<b>Closing Cash and Cash Equivalents To Carry Forward</b>	8	<u><b>268</b></u>	<u><b>594</b></u>

The accompanying notes on pages 10 to 30 form part of and should be read in conjunction with these financial statements.

## 1 Statement of Accounting Policies

### Reporting Entity

The Power Company Ltd, is a profit oriented limited liability company that was incorporated in New Zealand on 30 October 1990 and the address of its registered office is 251 Racecourse Road, Invercargill. The Company is wholly owned by a Consumer Trust (Southland Electric Power Supply Consumer Trust) and is registered under the Companies Act 1993. The Group consists of The Power Company Ltd, its subsidiaries, and its interest in jointly controlled entities referred to in Notes 10 and Note 21.

The principal activity of The Power Company Ltd is the provision of electricity distribution services.

The financial statements were approved by the Board of Directors on 15 July 2022.

### Basis of Preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable Financial Reporting Standards, as applicable for profit oriented entities and is stated in New Zealand dollars.

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) on the basis that it has no public accountability and is not a large for profit public sector entity.

In adopting NZ IFRS RDR, the Group has taken advantage of a number of disclosure concessions.

### Upcoming Accounting Standards

The Group does not believe that the Interest Rate Benchmark Reform has any current impact on the Group.

### Impact of COVID-19 on Financial Statements

The financial performance of The Power Company Ltd group have not been affected by the pandemic restriction measures.

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. Joint Venture PowerNet Ltd, is deemed to be an essential service provider and has not been impacted by the pandemic restrictions to date.

The Power Company Ltd 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.

The Group has does not believe that there is any current impact.

### Specific Accounting Policies

The following specific accounting policies which materially affect the measurement of financial performance and financial position have been applied:

#### (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.

(continued)

(ii) **Joint Ventures**

Joint Ventures are those entities over which the Group has joint control established by contractual agreement. The 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 that joint control commences to the date that joint control ceases.

(iii) **Transactions Eliminated on Consolidation**

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised gains arising from transactions with 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 with Contracts with Customers**

(i) **Electricity Delivery Services**

Electricity delivery service revenue relates to the provision of electricity distribution services to both electricity retailers and directly contracted customers in the Southland Region. 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.

Since 2001, the Company has provided a discount to consumers. The discount is typically credited to consumers in or around August each year, when consumers tend to have higher power bills. This discount is based on consumption for the previous 12 months and has been considered variable consideration when determining the transaction price.

Revenue is recognised over time using an output method based on the actual delivery services provided on a daily basis less a portion of the discount allocated overtime.

For directly billed customers, the Group has determined that the new investment and electricity delivery services promises within the contractual arrangement relate to a single performance obligation, to provide the required delivery service to the customer. The performance obligation has been assessed as being satisfied over time based on the duration of the contractual arrangement. The transaction price is fixed per year, billed monthly and includes all charges outlined in the arrangement. Revenue is recognised over time based on an output method, as the performance is satisfied on a straight line basis over the term of the contract commencing when the assets are commissioned.

(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) **Metering Rental Income**

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

(ii) **Interest Revenue**

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

(d) **Finance Costs**

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

(e) **Inventories**

Inventories are stated at the lower of cost using weighted average cost price, and net realisable value. Obsolete items of inventory (if any) are written off as identified.

(continued)

**(f) 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 Statement of Financial Performance 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 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.

**(ii) Easements**

Easements obtained in relation to access, construction and maintenance of network assets are capitalised. Such easements represent a right in perpetuity and are not depreciated and are carried at cost.

**(iii) Depreciation**

Depreciation is charged to the Statement of Financial Performance on a combination of straight line and diminishing value bases on all property, plant and equipment with the exception of land and easements, at rates calculated to allocate the assets' fair value, less any residual value, over their useful lives. The primary annual rates used are:

Buildings	2.0-13.5%	Straight line/Diminishing value
Network Assets (excluding land)	1.43-13.50%	Straight line/Diminishing value
Metering Assets	6.7-22%	Straight line/Diminishing value
Plant and Office Equipment	5.0-50.0%	Straight line/Diminishing value

**(iv) 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 amounts are 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 Statement of Financial Performance, 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.

(continued)

**(g) Use of Estimates and Judgements**

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

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

- Property, Plant and Equipment (Includes assumptions around useful life of assets Note 11)
- Derivative Valuation (Refer Note 15)
- Onerous Contract (Revalued to Fair Value, refer Note 17)
- Revenue (Timing of revenue as assessed under IFRS 15 guidance, refer Note 2)
- Network Asset Valuation (Revalued to fair value using discounted cash flow methodology, refer Note 11)

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.

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.

At a maximum of every five years, the company obtains a valuation of their electricity distribution network, determined by independent valuers, in accordance with their accounting policy. The valuation of the Company's electricity distribution network was performed as at 31 March 2021. The best evidence of fair value is discounted cash flow methodology. The major assumptions used include discount rate, growth rate and future cash flows. Changes in future cash flows arising from changes in regulatory review may result in the fair value of the electricity distribution network being different from previous estimates. The fair value measurement of the distribution network is categorised under Level 3 of the fair value hierarchy.

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.

**(h) 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 period.

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

All amounts in the financial statements are shown exclusive of GST, with the exception of receivables and payables which are shown inclusive of GST.

**(j) Taxation**

Income tax on the profit or loss for the period presented comprises current tax and additional or reversed deferred tax. Income tax is recognised in the Statement of Financial Performance 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 Balance Sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised 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 taxation profit or loss.

Deferred 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 tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(continued)

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.

**(k) Seasonality**

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

**(l) Financial Assets**

The Group classifies its financial assets in the following measurement categories:

- a) those to be measured subsequently at fair value and
- b) those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. The Group reclassifies financial assets when and only when its business model for managing those assets changes.

**Measurement**

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs for such financial assets are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are two measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- Fair Value Recognised in the the Profit and Loss (FVPL): Assets that do not meet the criteria for amortised cost or Fair Value Recognised in Other Comprehensive Income (FVOCI) are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises

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.

(continued)

**(m) Financial Instruments**

**(i) Derivative Financial Instruments**

The Group uses a variety of financial instruments (hedges) to manage its risks associated with interest rates and foreign currency. Derivative financial instruments are recognised at fair value. A small number of derivatives are designated in hedge accounting relationships (refer to note 15 for further details). The Group does not engage in speculative transactions.

**(ii) 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

**(iii) Trade and Other Payables**

Trade and other payables are stated at amortised cost.

**(iv) 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 provision for impairment

**(v) Borrowings**

Borrowings are recognised initially at fair value, net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; using the effective interest method, except borrowings subject to fair value hedges which are adjusted for effective changes in the fair value of the hedging instrument.

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



(continued)

## 2 Revenue from Contracts with Customers

### GROUP

	2022 \$'000	2021 \$'000
Electricity Delivery Services (including discount)	63,429	61,151
Capital Contributions	2,096	1,265
<b>Total Revenue</b>	<b>65,525</b>	<b>62,416</b>

### Timing of Revenue Recognition

Over time	63,429	61,151
At a Point in Time	2,096	1,265
<b>Total Revenue</b>	<b>65,525</b>	<b>62,416</b>

## 3 Other Income

### GROUP

	2022 \$'000	2021 \$'000
Interest	1,069	898
Subvention Income	159	233
Rental Income	527	511
Metering Rental Income	3,165	3,141
Sundry Income	161	248
<b>Total Other Income</b>	<b>5,081</b>	<b>5,031</b>

## 4 Expenses

### GROUP

	2022 \$'000	2021 \$'000
<i>Expenses Include:</i>		
<b>Auditors' Fees</b>		
Audit of Financial Report - PwC	58	69
Information Disclosure - PwC	44	53
Regulatory & Advisory - PwC	5	15
<b>Depreciation</b>		
Buildings (refer Note 11)	143	135
Plant and Office Equipment (refer Note 11)	6	6
Metering Assets (refer Note 11)	1,754	1,580
Network Assets (refer Note 11)	23,290	21,490
Depreciation Right of Use Assets (refer Note 6)	38	38
<b>Total Depreciation</b>	<b>25,231</b>	<b>23,249</b>
Bad Debts Written Off	22	8
Directors' Fees	283	240
<b>Finance Expenses</b>		
Interest Expense	11,084	9,071
Unrealised Loss/(Gain) on Derivatives	(10,972)	(5,864)
<b>Total Finance Expenses</b>	<b>112</b>	<b>3,207</b>
Loss/(Gain) on Onerous Contract	521	2,553
Loss on Disposal of Property, Plant and Equipment	551	752
Network Costs	18,300	18,827
Transmission Costs	13,590	12,571

(continued)

## 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	2021
	\$'000	\$'000
<b>Operating Surplus/(Deficit) Before Income Taxation</b>	<u>21,188</u>	<u>17,209</u>
Prima Facie Taxation at 28%	5,933	4,819
Permanent Differences	(602)	(577)
Prior Period Adjustment	<u>290</u>	<u>(78)</u>
<b>Tax Expense</b>	<u><b>5,621</b></u>	<u><b>4,164</b></u>
<b>Made up of:</b>		
Current Tax	5,111	1,364
Deferred Tax	<u>510</u>	<u>2,800</u>
<b>Tax Expense</b>	<u><b>5,621</b></u>	<u><b>4,164</b></u>

## 6 Leases

	GROUP	
	2022	2021
	\$'000	\$'000
<b>Right-of-Use Assets Net Book Value</b>		
Equipment	<u>256</u>	<u>307</u>
	<u><b>256</b></u>	<u><b>307</b></u>
<b>Lease Liabilities</b>		
Current	34	33
Non-current	<u>242</u>	<u>289</u>
	<u><b>276</b></u>	<u><b>322</b></u>

### Amounts Recognised in the Statement of Financial Performance

The Consolidated Statement of Financial Performance shows the following amounts relating to leases:

	GROUP	
	2022	2021
	\$'000	\$'000
<b>Depreciation Charge of Right-of-Use Assets</b>		
Equipment	<u>38</u>	<u>38</u>
	<u><b>38</b></u>	<u><b>38</b></u>
Interest Expense (included in Finance Cost)	<u>12</u>	<u>14</u>
	<u><b>12</b></u>	<u><b>14</b></u>

The total cash outflow for leases in 2022 was \$45,570 (2021:\$46,341).

(continued)

## 6 Leases (continued)

Leases are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. The Group has leases with Transpower New Zealand Ltd, which are New Investment Contracts for the provision and upgrade of assets.

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

The lease payments are discounted using the interest rate implicit in the lease.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

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
- any 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.

The Group has elected not to recognise a lease liability for leases of low value assets. Payments made under such leases are expensed as incurred. Low-value assets comprise of tenancy of network structure and repeater sites.

The expenses relating to payments not included in the measurement of the lease liability is \$18,207 (2021:\$14,397).

(continued)

## 7 Equity

The authorised and issued share capital comprises 70,160,000 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
<b>Share Capital</b>		
Opening Balance	70,160	70,160
Shares Issued	-	-
<b>Closing Balance</b>	<b>70,160</b>	<b>70,160</b>
<b>Minority Interest</b>	<b>5,193</b>	<b>5,054</b>
<b>Asset Revaluation Reserve</b>		
Opening Balance	141,568	104,275
Asset Revaluation	-	37,440
Revaluation Reversal due to Asset Disposal	(53)	(147)
<b>Closing Balance</b>	<b>141,515</b>	<b>141,568</b>
<b>Cash Flow Hedge Reserve</b>		
Opening Balance	(3,031)	-
Movement in Cash Flow Hedge Reserve	1,345	(3,031)
	<b>(1,686)</b>	<b>(3,031)</b>
<b>Cost of Hedging Reserve</b>		
Opening Balance	(100)	(72)
Movement in Cost of Hedging Reserve	29	(28)
<b>Closing Balance</b>	<b>(71)</b>	<b>(100)</b>
<b>Total Reserves</b>	<b>139,758</b>	<b>138,437</b>
<b>Retained Earnings</b>		
Opening Balance	184,188	171,084
Net Surplus/(Deficit) for the Year	15,428	12,957
Revaluation Reversal due to Asset Disposal	53	147
<b>Closing Balance</b>	<b>199,669</b>	<b>184,188</b>
<b>Total Equity</b>	<b>414,780</b>	<b>397,839</b>

Asset revaluations relate to the revaluations of the network assets of The Power Company Limited in 2021.

## 8 Cash and Cash Equivalents

	GROUP	
	2022 \$'000	2021 \$'000
Current Account	268	594
<b>Total Cash and Cash Equivalents</b>	<b>268</b>	<b>594</b>

(continued)

## 9 Receivables and Prepayments

	GROUP	
	2022 \$'000	2021 \$'000
GST Receivable	209	702
Trade Debtors	8,333	7,495
Prepayments	678	566
<b>Total Receivables and Prepayments</b>	<b>9,220</b>	<b>8,763</b>

## 10 Investments in Joint Ventures

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

Joint Ventures	Country of Residence	Percentage Held By Group		Balance Date
		2022	2021	
PowerNet Ltd Group*	New Zealand	50%	50%	31 March
OtagoNet Joint Venture**	New Zealand	75.1%	75.1%	31 March
Roaring Forties Energy Ltd Partnership ***	New Zealand	50%	50%	31 March

\*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 73.58% (2021: 75.19%).

\*\*The Group holds a 75.1% voting right over OtagoNet Joint Venture.

(i) Roaring Forties Energy Ltd Partnership has a 50% interest in Southern Generation Ltd Partnership.

	GROUP	
	2022 \$'000	2021 \$'000
<b>Interests in Joint Venture Entities are as follows:</b>		
Carrying Amount at Beginning of Year	214,474	203,556
Investment in Joint Ventures	3,875	10,096
Share of Equity Accounted Earnings of Joint Ventures	11,206	10,786
Less Drawings	(9,874)	(9,964)
<b>Carrying Amount at End of Year</b>	<b>219,681</b>	<b>214,474</b>

The Group's advances to joint ventures of \$26,443,000 (31 March 2021: \$28,843,000) are repayable on demand but with a 13 month notice period. The advances incur interest 3% above the 90 day bank bill rate.

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

In March 2021, the partners entered into a conditional agreement to purchase three Hydro Stations from The Lines Company in the Eastland and King Country area. The partnership completed the acquisition of these assets in July 2021.

(continued)

## 11 Property, Plant and Equipment

	Network Assets \$'000	Metering Assets \$'000	Land \$'000	Buildings \$'000	Plant and Office Equipment \$'000	Total \$'000
<b>Cost or Valuation</b>						
Balance at 1 April 2020	557,174	24,528	483	5,432	107	587,724
Additions	29,020	2,678	-	168	-	31,866
Revaluation	8,707	-	-	-	-	8,707
Disposals	(1,063)	(57)	-	-	-	(1,120)
<b>Balance at 31 March 2021</b>	<b>593,838</b>	<b>27,149</b>	<b>483</b>	<b>5,600</b>	<b>107</b>	<b>627,177</b>
Balance at 1 April 2021	593,838	27,149	483	5,600	107	627,177
Additions	34,140	2,364	-	41	-	36,545
Revaluation	-	-	-	-	-	-
Disposals	(1,210)	(43)	-	-	-	(1,253)
<b>Balance at 31 March 2022</b>	<b>626,768</b>	<b>29,470</b>	<b>483</b>	<b>5,641</b>	<b>107</b>	<b>662,469</b>
<b>Depreciation and Impairment Losses</b>						
Balance at 1 April 2020	-	-	-	-	-	-
Balance at 1 April 2021	(129,533)	(6,363)	-	(396)	(38)	(136,330)
Depreciation for Year	(21,490)	(1,580)	-	(135)	(6)	(23,211)
Revaluation	43,293	-	-	-	-	43,293
Disposals	319	20	-	-	-	339
<b>Balance at 31 March 2021</b>	<b>(107,411)</b>	<b>(7,923)</b>	<b>-</b>	<b>(531)</b>	<b>(44)</b>	<b>(115,909)</b>
Balance at 1 April 2021	(107,411)	(7,923)	-	(531)	(44)	(115,909)
Depreciation for Year	(23,290)	(1,754)	-	(143)	(6)	(25,193)
Revaluation	-	-	-	-	-	-
Disposals	244	18	-	-	-	262
<b>Balance at 31 March 2022</b>	<b>(130,457)</b>	<b>(9,659)</b>	<b>-</b>	<b>(674)</b>	<b>(50)</b>	<b>(140,840)</b>
<b>Carrying Amount/Book Value</b>						
<b>Book Value at 31 March 2021</b>	<b>486,427</b>	<b>19,226</b>	<b>483</b>	<b>5,069</b>	<b>63</b>	<b>511,268</b>
<b>Book Value at 31 March 2022</b>	<b>496,311</b>	<b>19,811</b>	<b>483</b>	<b>4,967</b>	<b>57</b>	<b>521,629</b>

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

<b>31 March 2021</b>	<b>415,176</b>	<b>19,226</b>	<b>482</b>	<b>5,069</b>	<b>61</b>	<b>440,014</b>
<b>31 March 2022</b>	<b>425,059</b>	<b>19,810</b>	<b>482</b>	<b>4,967</b>	<b>55</b>	<b>450,373</b>

### Valuation

The network assets of The Power Company Ltd were revalued to fair value using discounted cash flow methodology on 31 March 2021 by Ernst & Young who are an independent valuer. This resulted in a revaluation movement of \$52 million. The valuation is based on a nine years forecast free cashflows and a calculated terminal value beyond the discrete cash flow period.

The following valuation assumptions were adopted;

- The free cash flows were based on the Company's three year business plan and asset management plan adjusted for non-recurring or non-arms length transactions and for transactions that arose from expansionary growth in the network after the date of the valuation.
- The corporate tax rate used was 28%.
- The weighted average cost of capital (WACC) used was 4.80%.
- Estimated forward inflation range of 1.5% to 2.0% on capital expenditure.
- RAB multiple range of 1.0 times for the terminal value.

(continued)

### Impairment and Fair Value Assessment

No events or circumstances identified that indicate the electricity distribution network, and metering 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.

### 12 Minority Interest

	GROUP	
	2022	2021
	\$'000	\$'000
Opening Balance	5,054	4,966
Minority Interest Share of Net Surplus	139	88
<b>Closing Balance</b>	<b>5,193</b>	<b>5,054</b>

The Minority Interest relates to Lakeland Network Ltd. In 2020 additional share capital was issued with existing ownership percentages being retained.

### 13 Creditors and Accruals

	GROUP	
	2022	2021
	\$'000	\$'000
Trade Creditors	9,051	12,013
Accruals	10,751	11,109
<b>Total Creditors and Accruals</b>	<b>19,802</b>	<b>23,122</b>

### 14 Contract Liabilities

	GROUP	
	2022	2021
	\$'000	\$'000
Contract Liabilities are as follows:		
Carrying Amounts at the Beginning of Year	3,099	2,616
Received in Current Year	2,648	2,094
Recognised as Revenue in Current Year	(2,413)	(1,611)
<b>Carrying Amount at End of Year</b>	<b>3,334</b>	<b>3,099</b>
<b>Made up of:</b>		
Current Contract Liabilities	1,537	977
Non-Current Contract Liabilities	1,797	2,122

Contract Liabilities are capital contributions received but not yet recognised as the asset has not yet been commissioned or the contractual obligation spans multiple years.

(continued)

## 15 Term Borrowings

	GROUP	
	2022 \$'000	2021 \$'000
ANZ Committed Cash Advance	40,000	59,870
Westpac Revolving Cash Advance	48,915	76,000
US Private Placement US\$	89,729	94,473
US Private Placement NZ\$	50,000	-
Advance – Southland Electric Power Supply Consumer Trust	1,974	2,147
Advance – Electricity Invercargill Ltd	4,109	2,475
	<u>234,727</u>	<u>234,965</u>

### Bank Facilities

The Group has a Cash Advance Facility of \$80 million (31 March 2021: \$90 million) with Westpac. The facility has a revolving three year term and is extendable annually by agreement between the Group and Westpac.

The Group has a Cash Advance Facility of \$40 million (31 March 2021: \$60 million) with ANZ. The facility has a revolving three year term and is extendable annually by agreement between the Group and ANZ.

The facilities provide for drawdowns to be made ranging from overnight to six months and are subject to interest rates at Bank Bill Buy Rates plus a margin. The facilities are unsecured and subject to a Deed of Negative Pledge. Of the facilities \$40 million matures on 20 October 2022 and \$8,915 million is shown as a current liability.

At balance date the Group had active interest rate swaps on the above facilities which total \$122 million (31 March 2021: \$137 million) at interest rates between 1.43% and 4.78%, excluding bank margins.

### US Private Placement Notes

The Group completed a USPP Note issuance in February 2020, securing US\$65 million of long term debt. The USPP comprised two tranches, US\$40 million 10 year Notes with a coupon of 3.23% and US\$25 million 11 year Notes with a coupon of 3.28%. In conjunction with the USPP issuance, the Group entered into cross currency interest rate swaps (CCIRS) to formally hedge the exposure of interest rate and foreign currency risk over the term of the notes and is described in more detail below.

At 31 March 2022, the US\$ USPP Notes had a fair value of \$89.7 million (31 March 2021 \$94.5 million). This debt is carried in the consolidated statement of financial position at amortised cost plus a fair value adjustment under hedge accounting requirements and the translation to New Zealand dollars using foreign exchange rates at balance date. The fair value adjustment amounted to (\$4.8 million) (31 March 2021 (\$27.1 million)).

The Group completed a further USPP Note issuance on 20 May 2021, securing NZ\$50 million of long term debt. The NZ\$ USPP comprised of one tranche for 12 year Notes at a fixed interest rate of 3.80%.

### Advance - Southland Electric Power Supply Consumer Trust

The Group has an unsecured, interest bearing Advance with the Southland Electric Power Supply Consumer Trust which is repayable on demand with a 13 month notice period. Interest is payable at 7% and if demanded is added to the loan.

### Advance - Electricity Invercargill Ltd

The Minority Interest share of the Advance that Lakeland Network Ltd has with Electricity Invercargill Ltd is repayable on demand but with a 13 month notice period. Interest on the Advance is paid quarterly at 3.00% above the 90 day bank bill rate.



(continued)

### Hedging Activity and Derivatives

The Group makes limited use of hedge accounting, doing so only for USD borrowings and the CCIRS financial instruments that are used to economically hedge these exposures.

The CCIRS's transform a series of known fixed interest rate cash flows in a foreign currency to floating rate NZD cash flows, mitigating exposure to the interest rate and foreign currency risks that arise from the Group's USPP notes.

The USD borrowings are fixed rate liabilities and thus present interest rate risk, should benchmark interest rates change. The fair value hedge component of the CCIRS hedges US fixed interest rates to US floating interest rates.

The change in the fair value of the hedged risk is attributed to the carrying value of the USPP debt. This debt revaluation is recognised in the statement of financial performance to offset the mark-to-market revaluation of the hedging derivative. Any residual difference is referred to as hedge ineffectiveness.

The combination of USD borrowings and CCIRS economically results in the Group having floating NZD borrowings. This represents a risk of variability in future cash flows. As such, the Group designates the risks into cash flow hedge relationships. The fair value of the hedged risks are recognised in the Statement of Financial Performance with the effective portions of the hedges moved from the Statement of Financial Performance to the cash flow hedge reserve within equity. As noted earlier, there may be small differences between the above entries which result in hedge ineffectiveness in the Statement of Financial Performance.

Changes in the fair value of the cost to convert foreign currency to NZD of CCIRS are excluded from the designation and are separately recognised in other comprehensive income in a cost of hedging reserve.

At inception, each hedge relationship is formalised in hedge documentation. Hedge accounting is discontinued when the hedge instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. The Power Company Ltd determines the existence of an economic relationship between the hedging instrument and the hedged item based on the currency, amount and timing of respective cash flows, reference interest rates, tenors, repricing dates, maturities and notional amounts. The Power Company Ltd assesses whether the derivative designated in each hedging relationship is expected to be, and has been, effective offsetting the changes in cash flows of the hedged item using the hypothetical derivative method.

Derivatives in hedge relationships are designated based on a hedge ratio of 1:1. In these hedged relationships the main source of ineffectiveness is the effect of the counterparty and The Power Company Ltd's own credit risk on the fair value of the derivatives, which is not reflected in the change in the fair value of the hedged item attributable to changes in foreign exchange and interest rates.

All hedging instruments can be found in the derivative financial instruments's assets and liabilities in the statement of financial position. Items taken to the Statement of Financial Performance have been recognised in the derivative financial instrument (gain)/loss (US).

The cash flow hedge reserve records the effective portion of the fair value of interest rate swaps that are designated as cash flow hedges. Amounts transferred to the income statement are included in interest expense and other finance costs.

(continued)

**16 Deferred Taxation**

	\$'000	\$'000	\$'000	\$'000
	Balance as at 1 April 2020	Charged to the Income Statement	Charged to Equity	Balance as at March 2021
Depreciation	24,888	1,131	-	26,019
Capital Contributions	3,870	(158)	-	3,712
Other	(4,715)	943	-	(3,772)
Effect of revaluation	40,552	-	14,560	55,112
Hedging movement	-	-	885	885
	<u>64,595</u>	<u>1,915</u>	<u>15,445</u>	<u>81,955</u>
	\$'000	\$'000	\$'000	\$'000
	Balance as at 1 April 2021	Charged to the Income Statement	Charged to Equity	Balance as at March 2022
Depreciation	26,019	777	-	26,796
Capital Contributions	3,711	259	-	3,970
Other	(3,772)	(133)	-	(3,905)
Effect of revaluation	55,112	-	-	55,112
Hedging movement	885	-	(393)	492
	<u>81,955</u>	<u>903</u>	<u>(393)</u>	<u>82,465</u>

The primary component of the deferred tax balance is related to property, plant and equipment assets and software assets. There is not expected to be any significant reversal of deferred taxation in the next 12 months.

(continued)

## 17 Provision for Onerous Contract

	GROUP	
	2022 \$'000	2021 \$'000
Current Portion	739	718
Non-current Portion	<u>13,959</u>	<u>13,459</u>
<b>Provision for Onerous Contract</b>	<b><u>14,698</u></b>	<b><u>14,177</u></b>

A liability had been recognised in relation to the Group's obligations under an onerous contract agreement. A provision of \$14,698,000 (2021: \$14,177,000) has been established for this onerous contract. A Deferred Tax Asset of \$4,115,000 (2021: \$3,970,000) has also been recognised in relation to this onerous contract.

The following valuation assumptions were adopted;

- The discount rate used was 6.21% being derived from the long term nominal risk free rate provided by Treasury for accounting valuation purposes used as an input into a weighted average cost of capital calculation.
- The CPI increases used were 2.06%
- The corporate tax rate used was 28%
- The sustainable growth adjustment used was 0.5%

## 18 Commitments

### (a) Capital Commitments

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

	GROUP	
	2022 \$'000	2021 \$'000
Capital Commitments	<u>10,733</u>	<u>11,310</u>
<b>Total Capital Commitments</b>	<b><u>10,733</u></b>	<b><u>11,310</u></b>

### (b) Other Commitments

The Group has a conditional commitment as at 31 March 2022 of \$825,000 (2021: \$825,000). This relates to an agreement with SmartCo Ltd, for the Group to provide a subordinated loan to Smart Co once a number of terms have been met.

(continued)

## 19 Reconciliation of Net Surplus After Taxation with Net Operating Cash Flows

The following is 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
<b>Net Surplus After Taxation</b>	<b>15,567</b>	<b>13,045</b>
<b>Plus/(Less) Non Cash Items:</b>		
Depreciation	25,231	23,247
Deferred Taxation	510	1,925
Interest Rate Derivatives (US\$)	565	(2,378)
Interest Rate Derivatives (NZ\$)	(10,972)	(5,864)
Net SEPSCT Transactions	(173)	(32)
Onerous Contract	521	2,553
Share of Profit of Associates and Joint Ventures	(11,206)	(10,786)
	<u>4,476</u>	<u>8,665</u>
<b>Items not Classified as Operating Activities</b>		
Loss on Disposal of Property, Plant and Equipment	551	747
	<u>551</u>	<u>747</u>
<b>Plus/(Less) Net Movements in Working Capital:</b>		
Creditors and Accruals	(3,218)	1,277
Receivables and Prepayments	(457)	1,020
Contract Liabilities	235	483
Inventories	-	25
Income Tax Payable	4,365	3,287
	<u>925</u>	<u>6,092</u>
<b>Net Cash Flows From Operating Activities</b>	<b><u>21,519</u></b>	<b><u>28,549</u></b>

## 20 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, hedging instruments and trade receivables. Cash, short-term investments, hedging instruments 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 regard to the amounts owing by energy retailers at balance date for Line Charges as disclosed in Note 9 Receivables and Prepayments (amongst Trade Debtors). However, these entities are considered to be high credit quality entities.

(continued)

### Liquidity Risk

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

The Group evaluates its liquidity requirements on an ongoing basis. To reduce concentration risk on any lender or funding type the Group uses a range of different funding sources and currencies. 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.

The Group is in a net current liability position due to a portion of the Westpac Loan facility maturing in October 2022. Negotiations for the renewal of the facility will commence in the following months. The Directors believe there is sufficient operating cashflow to support the ongoing operations.

### 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 uses interest rate swap agreements to manage its exposure to interest rate movements on its borrowings. The treasury policy set by the Board requires that interest rate swap agreements are in place to ensure adequate hedging is maintained within a series of time periods.

Where the Group borrows in foreign currency it uses CCIRS to swap all foreign currency denominated interest and principal repayments to reporting currency. This results in floating rate borrowings in the entity's reporting currency.

The interest rate agreements are held with independent and high credit quality financial institutions. The credit risk is limited because the counterparties are banks with high quality credit ratings assigned by international credit rating agencies.

### Foreign Exchange Risk

The Group is subject to foreign exchange risk due to exposure to the US Dollar from USPP borrowings.

This exposure has been fully hedged by way of cross-currency interest rate swap, hedging US Dollar exposure on both principle and interest.

The cross-currency interest rate swaps correspond in amount and maturity to the relevant US Dollar borrowings with no residual foreign currency risk exposure.

### Fair Value

The estimated fair value of the Group's financial instruments are represented by the carrying values.

### Capital Management

The Group's capital includes share capital and retained earnings. The Company'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.

(continued)

## 21 Transactions With Related Parties

The Power Company Ltd has an interest in the PowerNet Ltd Joint Venture, the OtagoNet Joint Venture, Lakeland Network Ltd, and the Southern Generation Ltd Partnership through their wholly owned subsidiary company Last Tango Ltd.

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

Material transactions the Group have had with the abovementioned parties during the year are as follows:

	<b>GROUP</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Goods and Services Supplied to:</b>		
PowerNet Ltd (Joint Venture)	1,738	1,694
OtagoNet Joint Venture	60	60
<b>Receivables Outstanding at Balance Date (GST incl):</b>		
PowerNet Ltd (Joint Venture)	334	267
OtagoNet Joint Venture	6	6
<b>Goods and Services Supplied by:</b>		
PowerNet Ltd (Joint Venture)	51,700	50,024
<b>Creditors Outstanding at Balance Date (GST incl):</b>		
PowerNet Ltd (Joint Venture)	10,597	14,744
<b>Advances Provided to:</b>		
Southland Electric Power Supply Consumer Trust	324	185
PowerNet Ltd (Joint Venture)	14,988	9,450
<b>Advances Provided from:</b>		
Southland Electric Power Supply Consumer Trust	150	153
PowerNet Ltd (Joint Venture)	17,388	11,775

### Other Related Parties

There have been no material transactions between The Power Company Ltd Group and Directors with the exception of the following:

PowerNet Limited, Lakeland Network Ltd and The Power Company Ltd use Findex as their tax advisors of which Duncan Fea is a Principal. The Power Company Ltd Group share of fees for taxation advice paid to Findex during the year amounted to \$1,950 excl GST (31 March 2021: \$9,750) of which \$2,200 incl GST (31 March 2021: \$3,000) is owing at balance date.

All transactions between The Power Company Ltd and Findex relate to normal activities.

The Southland Electric Power Supply Consumer Trust owns 100% of the shares in The Power Company Ltd. The Power Company Ltd has a \$1,974,000 (2021: \$2,147,000) unsecured interest bearing loan with the Southland Electric Power Supply Consumer Trust.

During the year expenses were paid out on behalf of the Trust totalling \$324,000 (31 March 2021: \$185,000). The expenses paid by The Power Company Ltd on behalf of the Southland Electric Power Supply Consumer Trust have been deducted from the loan and interest of \$150,000 (31 March 2021: \$153,000) has been added to the loan.

All capital commitments disclosed are with PowerNet Ltd.

(continued)

**Key Management Personnel**

Compensation of the Directors, being the key management personnel of the entities, is set out below:

	GROUP	
	2022 \$'000	2021 \$'000
Directors Fees	<u>285</u>	<u>240</u>

There have been no other transactions with the Directors.

**22 Subsequent Events**

On 26th May 2022 The Power Company Ltd signed the updated Network Management Agreement with PowerNet Ltd. The terms of this agreement span 10 years.

Subsequent to year-end, on 10 June 2022 the Company changed its constitution. The bank facility agreements with ANZ and Westpac require written consent for a change in constitution. Consent was obtained from ANZ and Westpac on 30 June 2022.



## Independent auditor's report

To the Shareholder of The Power Company Limited

---

### Our opinion

In our opinion, the accompanying consolidated financial statements of The Power Company Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2022, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

### What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 March 2022;
- the consolidated statement of financial performance for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

---

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

### Independence

We are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of regulatory advisory services, compliance with the Electricity Distribution (Information Disclosure) Determination 2012, other regulatory requirements of the Commerce Act 1986 and tax pooling services. The provision of these other services and relationships has not impaired our independence as auditor of the Group.

---

### Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report (but does not include the consolidated financial statements and our auditor's report thereon). The other information we obtained prior to the date of this auditor's report comprised the consolidated statement of service performance. The remaining other information is expected to be made available to us after that date.

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





In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

---

### **Responsibilities of the Directors for the consolidated financial statements**

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS RDR, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

---

### **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, 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 is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-7/>

This description forms part of our auditor's report.

---

### **Who we report to**

This report is made solely to the Company's Shareholder, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's Shareholder, as a body, for our audit work, for this report or for the opinions we have formed.

---

The engagement partner on the audit resulting in this independent auditor's report is Elizabeth Adriana (Adri) Smit.

For and on behalf of:

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

Chartered Accountants  
15 July 2022

Christchurch