Electricity Invercargill Ltd

ANNUAL REPORT
2023

Front cover: Leven Street Zone substation.
L-R: Shahn Bragg (Bragg Building and Design Limited), Ray King and Lisa Terepai (PowerNet).

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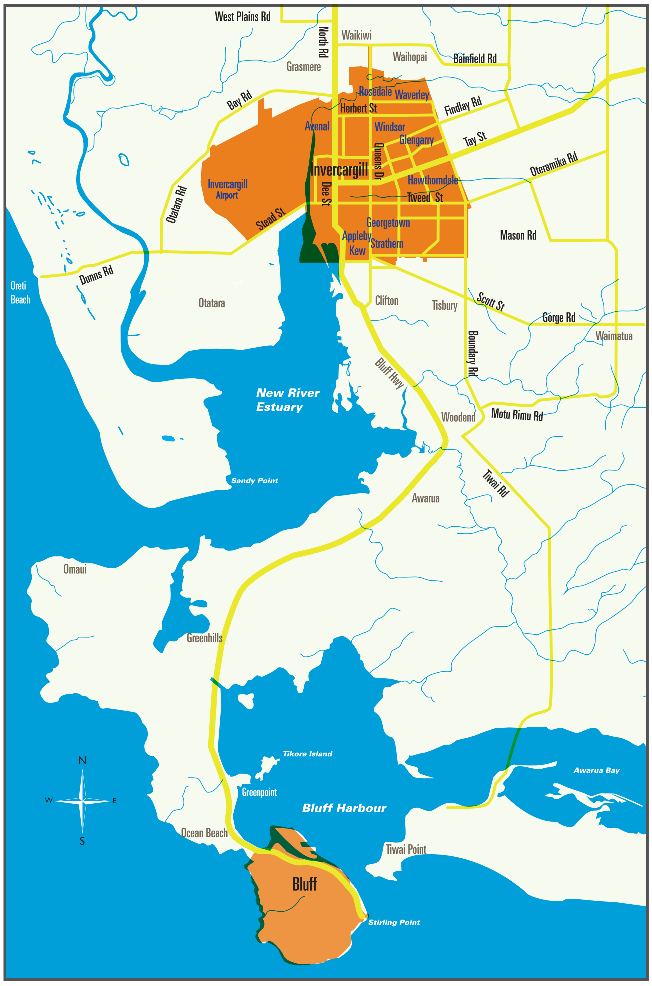
ISSN: 2463-3372 (Online)

Electricity Invercargill Limited Network Area



About Electricity Invercargill Limited

Electricity Invercargill Limited (EIL) provides power to over 17,500 homes and businesses across Invercargill City and Bluff and prides itself on delivering safe, efficient and reliable energy solutions for its customers across the region.

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.

Here at EIL, we are committed to the strong partnerships we have established, and we continue to focus on innovative ways to provide critical infrastructure to the regions we serve. Recognised as one of the best-performing networks in New Zealand according to the Commerce Commission's key indicators of reliability and efficiency, we remain steadfast in our commitment to maintaining the highest levels of service for our customers.

Undergrounding the majority of our network over a 50-year period from the 1960s has meant EIL is now one of the country's most reliable networks. With 90 percent of our connected customers being residential, we are dedicated to this future-focused ethos, continuing our commitment to reducing the overall age of our network through ongoing renewals and maintenance, to continuously improving the condition of our 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.

We are actively supporting Aotearoa's efforts to decarbonise, and this has remained a critical strategic lever for EIL, driving our 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 contributes to the country's net-zero carbon footprint goals and adds significant value to our company's balance sheet.

With a Regulatory Value of $95 million in network assets, EIL contracts PowerNet Ltd (PowerNet) to manage, operate, upgrade, construct and maintain its network and metering assets. This includes 665km of predominantly underground cables, some overhead lines, and 450 distribution transformers with a capacity of 156MVA.

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. PowerNet's costs are recovered through a charging regime on capital and maintenance work and a management fee for management services.

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 SGLP assets EIL owns in conjunction with The Power Company Ltd (TPCL) and Pioneer Generation Ltd.

EIL Statistics as at 31 March 2023	
Total Connected Customers	**17,595**
Residential	15,511
Industrial	132
Commercial	1,952
Network Length	665km
Customer Density	26.5 customers/km
Number of Distribution Transformers	450
Distribution Transformer Density	235 kVA/km
Maximum Demand	72MW
Total Energy Delivered	262GWh
Regulatory Value	$95 million

Maintenance on the EIL network.

The Year in Review

Operational Performance

During the reporting year, we continued our focus on delivering a strong operational performance and carrying out work on our network to enhance safety and reliability for the customers we service.

This commitment to high-performing service levels was central to work carried out on the EIL network during 2022-23, which saw a total capital investment of $5.3 million, and a further $2.2 million spent on maintenance.

Customer Connections

New customer connections expenditure to the EIL network reached $700,000 in 2022-23, significantly above the long-term average. This elevated level of customer connection activity will be sustained by the Invercargill CBD redevelopment.

Invercargill CBD Redevelopment Project

EIL continues to support the redevelopment of Invercargill's CBD and is playing a critical role in helping Invercargill strengthen its position as a regional powerhouse. Upgrading the supply as part of the redevelopment project showcases the importance of establishing the modern infrastructure needed for planned inner-city developments. It has been a major project in EIL's activity for the last number of years.

During 2022-23 our team continued its planned programme of work and installed cabling and upgraded existing cabling where needed to increase the reliability of supply for the growing needs of the city central development.

Leven Street Zone Substation Roof Replacement

EIL's Leven Street Zone substation has historically faced several water issues due to its roof material, pitch, and design.

Coles Consulting Limited was contracted to design a more robust solution, which resulted in a pitched roof design, including a small internal gutter between the two roofs. This has ensured independency and allows for the transformer bay roof to be removed if needed.

This project has been completed, following the recommendation to carry it out in one phase rather than patch and repair.

Cable Fault Indicators Installed

Cable Fault Indicators have been installed on EIL's 11kV network to monitor the performance of the indicators, which are connected to sensors and used to detect short circuits and earth faults.

When a cable fault occurs, the indicator will trigger, and the input to the sensor will change. This is then sent back to a server at PowerNet, enabling the team to find and isolate the faulted area quickly. This helps restore power to un-faulted areas, which reduces the outage time our customers experience.

We are planning to install more Cable Fault Indicators in the next ten years.

Network Automation Initiatives

Implementing network automation initiatives on the EIL network continues through the addition of remote controllable switching points and automation technologies.

Through these initiatives, the automation technologies are intended to improve reliability whilst offsetting any reduction in reliability (that is to be expected as the cable network is allowed to age back to the optimal average asset life remaining of 50%).

Ring Main Unit Replacements and Substation Strengthening

Work continues to replace Ring Main Units and distribution transformers that have reached the end of their life. In addition, all EIL Zone substation sites have now been seismically strengthened to ensure continued supply in the event of a major earthquake, and work continues to strengthen distribution substations on the network.

Electricity Invercargill Limited Projects

Project	Approximate Expenditure
Ring main unit replacements	$1,800,000
Customer connections and subdivisions	$700,000
Transformer replacements	$600,000
Leven Street Zone substation roof replacement	$400,000

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.

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) and third (2022-2023) years of the regulatory period.

Normalised SAIDI and SAIFI for EIL Unplanned interruptions were within the annual limits.

EIL exceeded the SAIDI Incentive Target, resulting in a revenue penalty. However, SAIDI Planned remains well within the cumulative limit for the regulatory period. The normalised SAIDI Unplanned result was outside the Incentive Target, resulting in a small revenue penalty. The SAIFI planned may exceed the overall cumulative limit in future years.

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.

	Actual	Limit	Incentive Target	Cumulative Actual	Cumulative Limit
EIL SAIDI Planned	15.76	22.90	7.63	44.18	68.69
EIL SAIFI Planned	0.0812	0.1037		0.27	0.31
EIL SAIDI Unplanned	17.80	25.86	15.39		
EIL SAIFI Unplanned	0.2444	0.6956			

The Year in Review *continued*

Regulatory Environment

As a non-exempt electricity distribution business, EIL is regulated under the electricity industry regulatory framework.

EIL, through PowerNet (and through the wider industry, such as the Electricity Networks Aotearoa), continues to work with the Commerce Commission, the Electricity Authority and WorkSafe to ensure activity is delivered within the scope of relevant regulations.

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. This sees EIL engaging proactively to ensure awareness and understanding of regulations and, where appropriate, providing input to regulations to ensure they are targeted, efficient and effective and that they result in safe outcomes.

Through PowerNet, EIL reviews staff awareness and compliance with relevant Acts and regulations via the ComplyWith legal compliance survey.

EIL supports the new Transmission Pricing Methodology, which commenced on 1 April 2023, and the continued phasing out of the low fixed charge regulations.

Financial Performance

The Group Operating Surplus Before Taxation, Subvention and Fair Value Amortisation amounted to $7.20 million, down 16% from 2022 result and is 9% above the 2023 target. The Group results were largely driven by lower realised Capital Contributions, a decrease in Share of Profit of Associates and Joint Ventures, and higher Finance Costs, partially off-set by higher revenue from Electricity Invercargill Ltd.

Share of Profit of Associates and Joint Ventures decreased by 10% from the previous year largely driven by PowerNet's lower contracting revenue and lower revenue from OtagoNet Joint Venture due to the impact of the Default Price-Quality Path (DPP3) line price reset, partially off-set by higher generation levels and favourable electricity spot prices from the Southern Generation Limited Partnership.

One of the two 1.5MVA transformers at the Invercargill CBD development.

Financial Measures	Year Ended 31 March 2023 $'000	Year Ended 31 March 2022 $'000
Operating surplus before taxation, subvention and amortisation	7,197	8,585
Net surplus before taxation	6,466	7,582
Taxation expense	(1,679)	(1,851)
Net surplus after taxation	4,787	5,731

The Year in Review *continued*

Acknowledgements

EIL's directors are extremely grateful to all those who have contributed to the company's continued success in the 2022-23 reporting period.

Building a reliable, efficient and safe network continues to be a focus for our organisation, supported by EIL's ongoing commitment to enabling growth and the decarbonisation of our region.

As a board, we would like to take this opportunity to acknowledge the continued support of our shareholder, Invercargill City Holdings Limited (ICHL). We appreciate their ongoing contribution to our strategic direction.

We are proud of our partnership with TPCL and of our shared investment portfolio. Their support is fundamental 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 enduring dedication to delivering a safe, reliable and efficient network. Their commitment to the highest levels of asset management proficiency and service and to growing our energy assets for the benefit of our region is greatly appreciated.

Cable replacement Esk Street, Invercargill.

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 2023-2033. It outlines how we will work closely with customers and developers on new connections to the EIL network, to better understand their plans and to ensure these are included in our AMP.

Over the next 10-year planning period, we have identified a programme of work to mature our asset management capability, support customer growth, and improve our service provision for customers.

It includes:

- Enabling growth in our region through supporting major developments – including the Te Puāwai residential housing development (set to be the biggest housing development for Invercargill in decades, creating more than 600 sections and including a commercial hub and retirement village) and the construction of new $31.5m Hawthorne Care Facility, destined to be a world-class and leading dementia care village in Invercargill.
- Meeting customer requests for new connections.
- Improving safety at zone substations and distribution network – such as the Racecourse Road switchboard.
- Upgrading the network across the region where needed to maintain voltage quality.
- Renewing those assets at the end of their life and extending the life of assets with replacements (such as the oil-filled cable programme).
- 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.
- Routine inspections, testing and maintenance across all assets.
- Safety, environmental, and other projects.

Renewals of transformers, ring main units, network automation, cable fault indicators and pillar boxes are expected to be a significant ongoing cost. In 2023-24, capital expenditure is planned to be $6.2 million and is forecasted to be between $5.4 million and $8.8 million per year over the remaining 10-year planning horizon.

The EIL AMP can be viewed at: EIL Asset management plan – PowerNet

Our Community

Sponsorships

For EIL, we know that the success of our organisation is founded on the overall success of our regions. Through this understanding, we have forged long-lasting partnerships across the region to strengthen our communities.

Our continued support of Hato Hone St John is a respected and valued partnership and is now entering its tenth year. Through PowerNet's sponsorship, we provide our community with important health education through first aid and mental health first aid training to community groups and support the Hato Hone St John Whātuia te Wairoa | Weaving Wellbeing programme for Years 7-8 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.

The SWHT in conjunction with the Energy Efficiency and Conservation Authority (EECA) and has completed over 8,500 insulation retrofits and contributed to over 1,000 heat pump or wood burner installations in Southland and West Otago since 2008.

The Trust provides funding in the Southland and West Otago area in conjunction with the current government programme called Warmer Kiwi Homes. The subsidised insulation and heating programme targets homeowners on low incomes, or homeowners who live in low socio-economic areas. The success of this programme in the recent years has resulted in the Government committing further funding of $402 million in May 2023, over four years to extend and expand the programme beyond June 2024. This funding is administered by EECA through local 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 costs, 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 Awarua Synergy offer other subsidies of up to $2,000 for households with high health needs, or situations of financial hardship, to install insulation or an efficient heating unit.

Leven Street Zone substation roof replacement.

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 (EIL) 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 joint venture management Company, PowerNet Ltd.

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

Performance Management

A review of the Group and board performance is undertaken at regular intervals. The reviews aim to identify and set plans for performance improvement and development.

Legislative Compliance

Legislative compliance is monitored through the ComplyWatch and ComplyWith tools, which are reviewed regularly and reported on quarterly.

Risk Management

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.

The board oversees and reviews the Group's overall risk context and risk management. This includes providing our community with an understanding of how climate risks and opportunities might impact our business through our climate change management and Risk reporting. The Group insures for potential liability and non-liability loss exposures, in line with good industry practice, however it is not practicable or cost-effective to insure for all potential loss exposures. The Group's liability insurance policies also cover directors and officers, within the limits and requirements of the Companies Act 1993 and the Company's constitution.

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.

EIL (via PowerNet) has recently achieved ISO 55001 Asset Management Systems – ISO 55001 accreditation. ISO 550001 provides EIL with a system approach to asset management that meets specific requirements to establish, implement, manage, and continually improve its asset management system.

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.

Statement of Intent

In accordance with Section 36 of the Energy Companies Act 1992, the board submits a draft Statement of Intent (SOI) to the Company's shareholders in November each year. After considering comments from the shareholders, the board approves the final SOI and a copy is placed on the Company's website by the end of April each year.

Corporate Governance Statement *continued*

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 RiskMentor tool to ensure the controls identified in the crucial control framework are being consistently applied on-site.

Management Agreement Working Group (Special Purpose)

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

The role of the MA Working Group is to provide support and advice to PowerNet and the EDBs, being EIL, The Power Company Ltd (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 MAs between PowerNet and each of the EDBs.

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

The MA Working Group met six times during the past year.

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

Don Nicolson	Chair	Representing OJV
Bob Taylor	Chair/Member	Representing PowerNet
Paul Kiesanowski	Member	Representing EIL
Wayne Mackey	Member	Representing 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). Adri Smit has been the audit partner since 2021.

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 2023.

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

Internal Audit

The joint venture management Company internal audit functions provide 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.

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Southern Generation Limited Partnership's Mt Stuart Wind Farm.

Our Investments

PowerNet Ltd

EIL has a 50% shareholding in the region's electricity asset management company, PowerNet. EIL's partner, TPCL holds the remaining equal share.

EIL and TPCL established PowerNet to achieve economies of scale through integrated network management, and since its inception in 1994, PowerNet has led the way in asset management excellence. As New Zealand's fourth largest network management company, PowerNet currently manages assets with a Regulatory Value of $746 million.

EIL contracts PowerNet to manage its network, primarily its capital and maintenance programmes. It remains a successful partnership, with PowerNet's performance judged by the value and efficiency of its network asset management and its commercial growth and business development focus.

Through its management contract, PowerNet has continued to focus on developing our network so it is future-ready. It is committed to delivering a reliable, efficient and safe supply for our customers through the provision of a 24/7 network control and faults centre and its ongoing support of the decarbonisation of our region through new energy technologies and innovative solutions.

Lakeland Network Ltd (LNL)

The Lakeland Network (LNL) in the Queenstown-Lakes and Central Otago region is owned by shareholders EIL and TPCL. Formed in 1995 as Electricity Southland Ltd, it was rebranded in 2021-22 to the 'Lakeland Network Ltd'.

LNL's assets now total $53.0 million, and EIL holds a 24.9% share. Regulatory reporting is under the OJV network. Installation Control Points (ICPs) reached 4,136 on 31 March 2023, with a growth rate of 500-600 new connections per annum. The modern LNL is built completely underground and has invested over $46 million in electricity infrastructure.

Network reticulation utilises the 22kV underground cable backbone, which extends from Frankton Flats to the Eastern and Southern corridors. The year ahead will see an extension of the network toward Queenstown Central Business District (CBD), down Frankton Road. It will pick up the new Silver Creek development (which has an anticipated 760 lots) and provide for future development in the area.

The Southern corridor strengthening project is now underway to provide an alternative feed to the 700 connections in Hanley's Farm subdivision and to provide future reliability and strengthening for the area.

Development continues at Remarkables Park, with the construction of a Research and Innovation Centre and the Hawthorne North commercial subdivision. In addition, LNL continues its management of embedded networks in Wānaka, comprising Northlake (900), Clearview (112) and Hikuwai (250) subdivisions, as well as the Wooing Tree (250) subdivision in Cromwell.

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 has a Regulatory Value of $219 million and is jointly owned by EIL (24.9%) and TPCL (75.1%). The network supplies 15,561 customers over a vast area of coastal and inland Otago - from Shag Point in the northeast through to St Bathans and then extending south to the Chaslands.

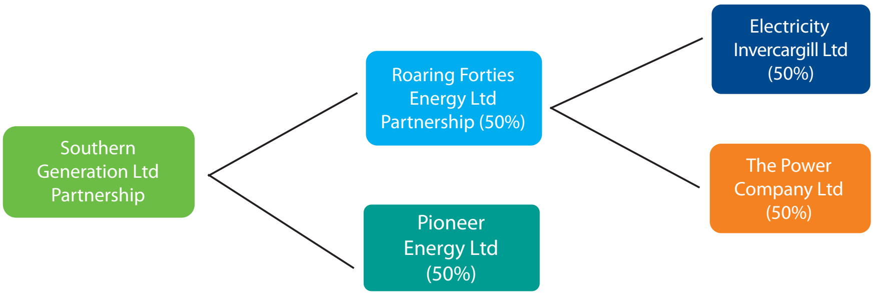
Our Investments *continued*

Southern Generation Limited Partnership (SGLP)

Our commitment to decarbonisation and helping New Zealand transition from fossil fuels to renewable energy remains a core strategic focus. As a result, our investment in the Southern Generation Limited Partnership (SGLP), where we have been partners with TPCL and Pioneer Energy Ltd since 2015 to support growth in renewable electricity assets.

In August 2022, the directors of Pylon Ltd (EIL's 100% owned subsidiary, and 50% partner in RFELP) approved in principle the board resolution to sell its interest in Roaring Forties Energy Ltd Partnership to ICHL. The negotiation on the terms and conditions of the sale agreement are still ongoing

During the 2022-23 year, we saw favourable hydro generation conditions throughout the winter, spring and early summer periods, which provided SGLP's investment partners with 21% greater income compared to the previous financial year. Boasting a total record generation, a combined 260.7 GWh was generated in 2022-23 (which exceeded the previous year's performance by 42.5 GWh). This resulted from the Aniwhenua hydro site having its best performance in the last three years (up 37.9 GWh (34%) from its 2022 performance) and reflected a recovery from drier 2022 operating conditions.



Southern Generation Limited Partnership structure.

Wind generation of 40 GWh was marginally down (3%) from the previous year.

While SGLP did not invest in any new renewable energy assets, generation performance did include a full year of the smaller Mangapehi, Matawai and Speedys Road hydro stations which were purchased in July 2021 (seeing a combined output of 20 GWh achieved in 2022-23, compared to 11.7 GWh in 2021-22). This result is despite flood damage from Cyclone Gabrielle shutting down Matawai hydro station in February 2023.

In 2022-23, the total generation output of SGLP's two wind generation sites and the six hydro power stations was 260.7 GWh.

This was made up of:

- Aniwhenua - 148.2 GWh
- Upper Fraser - 32.9 GWh
- Flat Hill - 21.3 GWh
- Matiri - 20.4 GWh
- Mt Stuart - 18.4 GWh
- Speedys Road - 8.6 GWh
- Matawai - 7.0 GWh
- Mangapehi - 3.9 GWh

Southern Generation Limited Partnership assets.

Our Investments *continued*

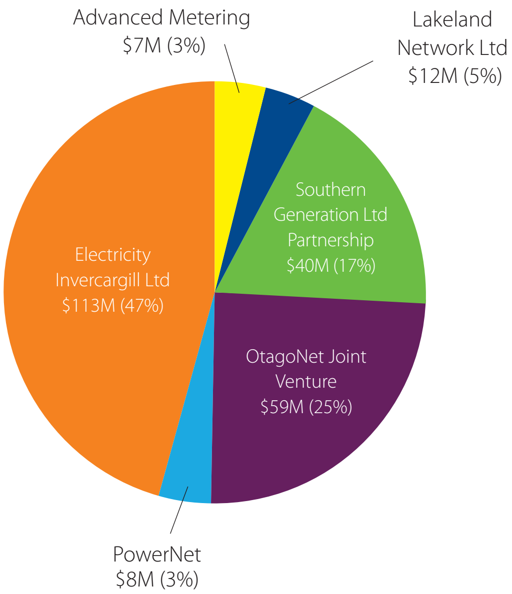
Electricity Invercargill Ltd Group – Asset Breakdown

The investment make-up by asset investment and investment type showcases EIL's strategy of diversification in the energy sector being achieved.

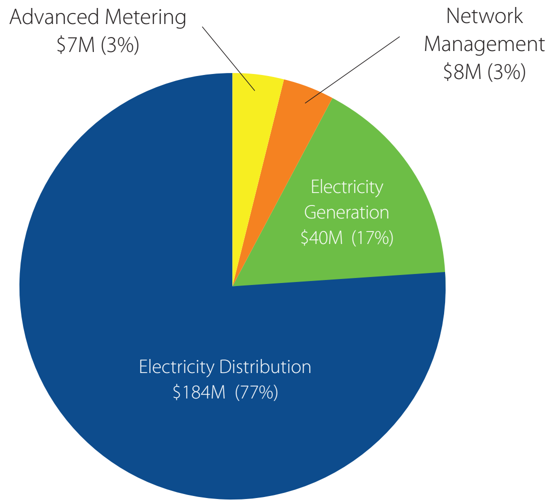
EIL's predominant investment has historically been in the Invercargill and Bluff electricity network. That investment now makes up 47% of EIL's investment portfolio.

Furthermore, while electricity distribution as an investment type compromises the majority (77%) of EIL's investment, there is now significant diversification into electricity generation. This diversification is important to secure a longterm, sustainable investment return.

Asset Investment $239 million



Investment Type $239 million



Directors' Profiles

Robert (Rob) Jamieson *(Chair) MEng (Electrical), MBA*

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

Rob is the 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 Masters degrees 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)*

Emma is a company director with 25 years of experience in economic regulation. As an economics consultant, she has advised utilities in New Zealand, Australia, Europe, the Caribbean and the Pacific Islands on network regulations and pricing.

Emma is a director on the board of Electricity Invercargill Ltd. She is also on the board of Nelson Airport Ltd, a self-employed director of Link Economics, and a charitable trust Trustee. She previously spent four years on the executive team of Network Tasman as the regulatory and commercial manager. She has also chaired working groups for Electricity Networks Aoteraroa (ENA).

Emma 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.

In addition to her detailed knowledge of electricity network regulation, she brings commercial analysis and stakeholder engagement skills.

Paul Kiesanowski *BCom, FCA, CMInstD*

Paul is a former partner of KPMG.

Paul is a director on Electricity Invercargill Ltd and PowerNet Ltd boards. 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*

Stephen is a company director and business consultant with extensive experience in the electricity supply industry.

Stephen is a director on the board of Electricity Invercargill Ltd. He is also on the Aurora Energy Ltd and MainPower NZ Ltd boards.

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

Stephen has held governance positions in New Zealand's Electricity Supply Industry for over 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 United Kingdom, the United States of America, Australia, and South America.

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

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

Simon is a director on the board of Electricity Invercargill Ltd. He is a non-executive director of Top Energy and its subsidiary Ngawha Generation. Previously, he was a non-executive director of several electricity-related public and private companies, including the 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 the founding executive director of Empower.

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

Statutory Report

Result and Distribution

The Directors report that the Group's Net Profit After Tax for the year under review was $4,787,000, above the Statement of Intent target of $4,499,000.

Dividends of $1,000,000 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 subsidiaries, associates 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. Renumeration paid or due and payable to Directors for services as a Director and in any other capacity for EIL, during the year was $193,000 and was distributed as follows:

Director	Appointment Date	2021/2022
Rob Jamieson (Chair)	01 November 2021	$65,000
Emma Ihaia	01 November 2021	$32,000
Paul Kiesanowski	28 March 2019	$32,000
Stephen Lewis	01 November 2020	$32,000
Simon Young	01 November 2021	$32,000

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 subsidiaries is as follows:

	PowerNet Limited	Electricity Invercargill Limited	OtagoNet Limited	OtagoNet Joint Venture	OtagoNet Properties Limited	Roaring Forties Energy GP Limited	Southern Generation GP Limited	Lakeland Network Limited	Pylon Limited
Emma Ihaia		●							●
Paul Kiesanowski	●	●							●
Rob Jamieson		●	●	●	●	●	●	●	●
Simon Young		●				●	●		●
Stephen Lewis		●							●

Statutory Report *continued*

Directors' Disclosure of Interest

Interests Register

Register of Directors external interests – for the year ended 31 March 2023 [Companies Act 1993, Section 189 (1) (c)].

Robert (Rob) Jamieson

Marlborough Lines Limited	*Director*

Emma Ihaia

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

EIL has no direct employees therefore no remuneration declaration is required.

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
Chair

Paul Michael Kiesanowski
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 2023 on pages 17 to 43.

For and on behalf of the Board.

Robert Datema Jamieson	Paul Michael Kiesanowski
Chair	**Director**
29 June 2023	29 June 2023

Statement of Service Performance

For the year ended 31 March 2023

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	
	Year Ended 31 March 2023 $'000	Year Ended 31 March 2023 $'000	Year Ended 31 March 2022 $'000
Financial			
Operating Surplus Before Taxation, Subvention and Fair Value Amortisation	6,625	7,197	8,585
Net Surplus After Taxation	4,499	4,787	5,731
Earnings Before Taxation, Interest, Subvention and Fair Value Amortisation to Total Assets (EBIT%)	4.36%	4.28%	5.08%
Return on Equity %	4.00%	3.79%	5.23%
Equity to Total Assets %	50.45%	52.04%	49.14%

The underlying Net Surplus After Taxation as well as the delivery of other performance measures reflect the achievement of those financial performance targets set for the year ending 31 March 2023.

The Group Operating Surplus Before Taxation, Subvention and Fair Value Amortisation amounted to $7.20 million, down 16% from 2022 result and is 9% above the 2023 target. The Group results were largely driven by lower realised Capital Contributions, a decrease in Share of Profit of Associates and Joint Ventures, and higher Finance Costs, partially off set by higher revenue from Electricity Invercargill Ltd.

Share of Profit of Associates and Joint Ventures decreased by 10% from the previous year largely driven by PowerNet lower contracting revenue and lower revenue from OtagoNet Joint Venture due to the impact of the Default Price Quality Path (DPP3) line price reset, partially off set by higher generation levels and favourable electricity spot prices from the Southern Generation Limited Partnership.

Statement of Service Performance *continued*

For the year ended 31 March 2023

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 2023	Year Ended 31 March 2023	Year Ended 31 March 2022
System Average Interruption Duration Index (SAIDI) The average total time in minutes each customer connected to the network is without supply.			
SAIDI (planned)	18.40	15.76	15.11
SAIDI (unplanned)	23.10	17.80	15.38
System Average Interruption Frequency Index (SAIFI) The average number of times each customer connected to the network is without supply.			
SAIFI (planned)	0.09	0.08	0.11
SAIFI (unplanned)	0.62	0.24	0.32

SAIDI and SAIFI for planned and unplanned interruptions are calculated using the methodology defined in the Electricity Distribution Services 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 and were well below the supply quality limits set by the Commerce Commission.

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 2023

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 2023	Year Ended 31 March 2023	Year Ended 31 March 2022
Total Recordable Injury Frequency Rate Contractors Target (TRIFR)	3.1	1.0	1.0

PowerNet Ltd safety performance (TRIFR) remained at 1.0 and Electricity Invercargill Ltd network continued to record zero injuries in the 2023 reporting year. These results were maintained despite the constantly increasing volume of critical works undertaken through the year.

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

Monthly reports to the Board provide information on accidents, near misses and incidents, together with monthly data on PowerNet's 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 critical control framework are being consistently applied on site.

	Achievement	
Supplementary Information (Unaudited)	Year Ended 31 March 2023	Year Ended 31 March 2022
Length of overhead line	53km	53km
Length of underground cable	612km	610km
Total number of interruptions	51	70
Faults per 100km of line	7.67	10.56
Transformer capacity MVA	156	156
Maximum demand MW	72	64
Energy into network GWh	262	261
Total consumers	17,595	17,524

Statement of Financial Performance

For the year ended 31 March 2023

	Notes	GROUP 2023 $'000	GROUP 2022 $'000
Revenue from Contracts with Customers	2	18,916	19,187
Other Income	3	2,193	1,762
Operating Expenses	4	(16,574)	(16,285)
Operating Surplus		**4,535**	**4,664**
Finance Costs	4	(3,182)	(2,752)
Share of Profit of Associates and Joint Ventures	9, 10	5,113	5,670
Net Surplus Before Taxation		**6,466**	**7,582**
Taxation Expense	5	(1,679)	(1,851)
Net Surplus After Taxation		**4,787**	**5,731**

Statement of Comprehensive Income

For the year ended 31 March 2023

		GROUP 2023 $'000	GROUP 2022 $'000
Net Surplus After Taxation		**4,787**	**5,731**
Other Comprehensive Income			
Items that will not be reclassified to profit or loss:			
- Revaluation	6	12,719	-
Other Comprehensive Income		**12,719**	**-**
Total Comprehensive Income		**17,506**	**5,731**

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 2023

	Notes	GROUP 2023 $'000	GROUP 2022 $'000
Total Comprehensive Income			
Net Surplus for the Year		4,787	5,731
Other Comprehensive Income		12,719	-
		17,506	5,731
Distributions to Shareholders			
Dividend Paid/Declared		(1,000)	-
		(1,000)	-
Changes in Equity for the Year		**16,506**	**5,731**
Equity at the Beginning of the Year		**109,677**	**103,946**
Equity at the End of the Year	6	**126,183**	**109,677**

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 2023

		GROUP	
	Notes	2023 $'000	2022 $'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	7	1,036	28
Receivables and Prepayments	8	2,262	1,976
		3,298	**2,004**
Assets Classified as Held for Sale	10	40,110	-
Total Current Assets		**43,408**	**2,004**
Non Current Assets			
Investments in Associates	9	6,215	5,193
Advances to Associates	19	5,538	4,109
Investments in Joint Ventures	10	60,208	97,302
Advances to Joint Ventures	19	6,814	7,026
Investments in Other Entities		118	118
Property, Plant and Equipment	12	118,011	105,602
Capital Work in Progress		2,237	1,856
Total Non Current Assets		**199,141**	**221,206**
Total Assets		**242,549**	**223,210**
LIABILITIES			
Current Liabilities			
Creditors and Accruals	13	3,287	2,990
Income Tax Payable		328	1,610
Total Current Liabilities		**3,615**	**4,600**
Non Current Liabilities			
Interest Bearing Liabilities	14	84,025	85,225
Deferred Tax Liabilities	15	28,726	23,708
Total Non Current Liabilities		**112,751**	**108,933**
Total Liabilities		**116,366**	**113,533**
Net Assets		**126,183**	**109,677**
EQUITY			
Share Capital	6	13,000	13,000
Reserves	6	51,108	38,398
Retained Earnings	6	62,075	58,279
Total Equity		**126,183**	**109,677**

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 2023

	Notes	GROUP 2023 $'000	2022 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers		20,254	20,688
Interest Received		727	385
		20,981	21,073
Cash Was Disbursed To:			
Payments to Suppliers and Employees		(11,955)	(11,601)
Income Tax Paid		(2,528)	(638)
Interest Paid		(3,112)	(2,804)
GST Received/(Paid)		(42)	45
		(17,637)	(14,998)
Net Cash Flows From Operating Activities	16	**3,344**	**6,075**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Sale of Property, Plant and Equipment		47	1
Dividend Received		6,564	6,326
Advances Repaid by Joint Ventures		212	800
		6,823	7,127
Cash Was Applied To:			
Purchase of Property, Plant and Equipment and Work in Progress Payments		(5,530)	(7,168)
Investment in Associates and Joint Ventures		-	(3,875)
Advances to Associates		(1,429)	(1,633)
		(6,959)	(12,676)
Net Cash Outflows Applied to Investing Activities		**(136)**	**(5,549)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Applied To:			
Repayment of Shareholder Advance		(1,200)	(600)
Dividend Payment		(1,000)	(4,000)
		(2,200)	(4,600)
Net Cash Outflows From Financing Activities		**(2,200)**	**(4,600)**
Net Increase/(Decrease) in Cash and Cash Equivalents Held		1,008	(4,074)
Add Opening Cash Brought Forward		28	4,102
Closing Cash and Cash Equivalents Carried Forward	7	**1,036**	**28**

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 2023

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 29 June 2023.

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 and assets held for sale recognised at lower of carrying amount and fair value less cost to sell.

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 impact of the COVID 19 pandemic on Group's operations has significantly reduced and the operating environment is more certain with weakness in strains, vaccination approaches and an ongoing framework to manage the impact of the pandemic.

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)
- Assets Held for Sale (measured at the lower of its carrying amount and fair value less cost to sell, Note 10)
- Network Assets Valuation (revalued to fair value using discounted cash flow methodology, Note 12)
- Property, Plant and Equipment (includes assumptions around useful life of assets, Note 12)

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

Property, Plant and Equipment

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

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

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

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

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	1.4 – 50%	Straight Line
Metering Assets	6.7%	Straight Line
Fibre Assets	2.2 – 6.7%	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.

(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 2023

2 Revenue from Contracts with Customers

	GROUP	
	2023 $'000	2022 $'000
Electricity Delivery Services	18,498	17,736
Capital Contributions	418	1,451
Total Revenue	**18,916**	**19,187**
Timing of Revenue Recognition		
- Over time	18,498	17,736
- At a point in time	418	1,451
Total Revenue	**18,916**	**19,187**

3 Other Income

	GROUP	
	2023 $'000	2022 $'000
Metering Rental Income	1,337	1,334
Interest Income	852	424
Other Income	4	4
Total Other Income	**2,193**	**1,762**

4 Expenses

	GROUP	
	2023 $'000	2022 $'000
Expenses Include		
Auditors' Remuneration - PricewaterhouseCoopers		
- Audit of Financial Report	66	49
- Audit of Default Price Path	36	32
- Audit of Regulatory Disclosures	49	39
Consulting Fees - PricewaterhouseCoopers	24	-
** Consulting fees include fees for Regulatory Forecasting and Price Setting Compliance Statement*		
Depreciation		
- Fibre Assets	39	31
- Metering Assets	714	696
- Network Assets	3,732	3,824
Total Depreciation	4,485	4,551
Directors' Fees	193	159
Interest Expense	3,164	2,752
Loss on Disposal of Property, Plant and Equipment	23	89
Network Costs	9,917	9,670
Transmission Costs	5,762	5,486
Subvention Payment	-	250

Notes to the Financial Statements *continued*

For the year ended 31 March 2023

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	
	2023 $'000	2022 $'000
Operating Surplus Before Income Tax	**6,466**	**7,582**
Prima Facie taxation at 28%	1,810	2,123
Income Not Taxable		
- Equity Accounting Earnings of Associates and Joint Ventures	(128)	(208)
Under/(Over) Provision in Prior Years	2	126
Subvention Payment and Loss Offset made in respect of Prior Period	-	(251)
Expenses not Deductible	(5)	61
Taxation Expense for Year	**1,679**	**1,851**
Made up of:		
Current Tax	1,247	1,178
Prior Year Over Provision of Current Tax	(1)	(121)
Deferred Tax	430	798
Prior Year Over Provision of Deferred Tax	3	(4)
Taxation Expense for Year	**1,679**	**1,851**
Effective Tax Rate	25.9%	24.4%

Tax Losses Transferred Within the Group

The current tax expense is calculated on the assumption that:

- On 31 March 2022, the Group tax liability in relation to income tax year 2021 was reduced by tax losses of $895,924 transferred from Invercargill City Council wholly owned group of entities by subvention payment of $250,858 and loss offset of $645,066.
- During the 2023 income year, no tax losses were received and no tax benefit recognised from Invercargill City Holdings Limited Group by way of subvention payment or group loss offset.

Notes to the Financial Statements *continued*

For the year ended 31 March 2023

6 Equity

The authorised and issued share capital comprises 13 million ordinary shares (2022: 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	
	2023 $'000	2022 $'000
Contributed Capital		
Share Capital	**13,000**	**13,000**
Reserves		
General Reserve	2,800	2,800
Revaluation Reserve Opening Balance	35,598	35,623
Asset Revaluation	12,719	-
Revaluation Reversal due to Asset Disposal	(9)	(25)
Closing Balance	48,308	35,598
Total Reserves	**51,108**	**38,398**
Retained Earnings		
Opening Balance	58,279	52,523
Net Surplus	4,787	5,731
Revaluation Reversal due to Asset Disposal	9	25
Dividend Declared	(1,000)	-
Total Retained Earnings	**62,075**	**58,279**
Total Equity	**126,183**	**109,677**

Asset revaluations relate to the network assets of Electricity Invercargill Ltd, OtagoNet Joint Venture and Lakeland Network Ltd net of the effect of deferred tax.

	Cents per Share 2023	Cents per Share 2022
Dividend per Share	7.69	0.00

There was no dividend declared at balance sheet date for financial year 2022

7 Cash and Cash Equivalents

	GROUP	
	2023 $'000	2022 $'000
Current Account	76	18
Bank Deposits (Short Term)	960	10
Total Cash and Cash Equivalents	**1,036**	**28**

Notes to the Financial Statements *continued*

For the year ended 31 March 2023

8 Receivables and Prepayments

	GROUP	
	2023 $'000	2022 $'000
Trade Debtors	2,001	1,877
Prepayments	182	92
GST Receivable	79	7
Total Receivables and Prepayments	**2,262**	**1,976**

9 Investments in Associates

Associate Companies	Country of Incorporation	Balance Date	Percentage Held By Group	
			2023	2022
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	
	2023 $'000	2022 $'000
The Group's interests in associate entities are as follows:		
Carrying Amount at the Beginning of the Year	5,193	5,054
Total Recognised Revenues and Expenses	94	139
Revaluation Gain on Network Assets	928	-
Carrying Amount at the End of the Year	**6,215**	**5,193**

The network assets of Lakeland Network Ltd were revalued using discounted cash flow methodology on 31 March 2023 by an independent valuer. This resulted in a favourable gain, with the Group share of $928,000 (net of deferred tax) recognised in the Statement of Comprehensive Income.

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

Share of Surplus before Taxation	163	231
Less Taxation Expense	(69)	(92)
Total Recognised Revenues and Expenses of Associates After Tax	**94**	**139**

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 2023	Percentage Held By Group 2022
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 2023 is 27.61% (2022: 26.42%).

**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 near Alexandra, Matiri Hydro Station located at 15km north of Murchison, Matawai Hydro Station in Eastland area and, Mangapehi and Speedy's Road Hydro Stations located both in King Country area.

	GROUP	
	2023 $'000	2022 $'000
The Group's interests in Joint Venture entities are as follows:		
Carrying Amount at Beginning of Year	97,302	94,222
Investment in Joint Ventures	-	3,875
Total Recognised Revenues and Expenses	5,019	5,531
Revaluation Gain on Network Assets	4,562	-
Distributions/Dividends Received	(6,565)	(6,326)
Assets Classified as Held for Sale	(40,110)	-
Carrying Amount at End of Year	**60,208**	**97,302**

The network assets of OtagoNet Joint Venture were revalued using discounted cash flow methodology on 31 March 2023 by an independent valuer. This resulted in a favourable gain, with the Group share of $4,562,000 recognised in the Statement of Comprehensive Income.

Assets Classified as Held for Sale

Invercargill City Holdings Ltd (ICHL) 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.

In August 2022, the directors of Pylon Limited approved in principle the board resolution to sell its interest in RFELP to ICHL. As at the date of finalising these Consolidated Financial Statements, the negotiation on the terms and conditions of the sale agreement are still ongoing. It is intended the transaction will occur in July 2023.

At 31 March 2023 the EIL's investment in RFELP has been reclassified as an Assets Classified as Held for Sale. The investment held for sale was measured at lower of its carrying amount and fair value less costs to sell at the time of the reclassification. There was no decrease in the carrying value of the investment arising from the reclassification and therefore, no expense was recognised in the Statement of Financial Performance.

Notes to the Financial Statements *continued*

For the year ended 31 March 2023

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 2023

12 Property, Plant and Equipment

	Distribution Assets $'000	Metering Assets $'000	Fibre Assets $'000	Total $'000
At 1 April 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
Year ended 31 March 2023				
Opening net book amount	97,313	7,536	753	105,602
Additions	4,955	194	-	5,149
Disposals	(97)	(8)	-	(105)
Reversal of depreciation on asset disposed	32	4	-	36
Depreciation charge (Note 4)	(3,732)	(714)	(39)	(4,485)
Revaluation surplus	11,673	-	141	11,814
Closing net book amount	110,144	7,012	855	118,011
At 31 March 2023				
Cost or fair value	132,902	11,191	1,055	145,148
Accumulated depreciation	(22,758)	(4,179)	(200)	(27,137)
Net book amount	110,144	7,012	855	118,011

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

31 March 2022	*65,812*	*7,692*	*697*	*74,201*
31 March 2023	*66,970*	*7,167*	*658*	*74,795*

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 2023 by Ernst & Young, who is an independent valuer. This resulted in a favourable revaluation movement of $11,814,000.

The valuation is based on seven 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 and asset management plan adjusted for transactions that arise from expansionary growth in the network after the date of the valuation.
- Annual inflation based on forecast from the New Zealand Treasury.
- The corporate tax rate used was 28%.
- The weighted average cost of capital (WACC) used was 6.1%.
- RAB multiple range of 1.05 times for the terminal value.

Review of Asset Estimated Useful Life

During 2023, PowerNet Engineers reviewed and updated the estimated useful life of the Electricity Invercargill Ltd network assets. The review applied consistency across all of the Group network assets and aligned with Regulatory Asset reporting.

The review of asset estimated useful life led to a change in the network asset depreciation rates applied within each asset category. This resulted in the range of depreciation rates applied across the network asset categories changing to 1.4%-50% (2022: 2.0%-6.7%)

The underground cable installed post 1985 and cables classified as PILC was most impacted by the change, with the estimated useful life increased from 45 years to 55 and 70 years, respectively.

The new rates applied from 1 April 2022 across the network assets resulted to a decrease in the 2023 depreciation cost by $225,000, with the average annual depreciation rate decreasing to 3.68% (2022: 3.91%).

13 Creditors and Accruals

	GROUP	
	2023 $'000	2022 $'000
Trade Payables	2,556	2,206
Accruals	564	612
Revenue in Advance	167	172
Total Creditors and Accruals	**3,287**	**2,990**

14 Shareholder Advance

	GROUP	
	2023 $'000	2022 $'000
Invercargill City Holdings Ltd		
- Non Current Portion	84,025	85,225
Total Shareholder Advance	**84,025**	**85,225**

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 2024.

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 2025.

The weighted average interest rate for the loan is 3.72% (2022: 3.41%).

15 Deferred Tax Liabilities

	Revaluation $'000	Depreciation $'000	Contributions $'000	Other $'000	Total $'000
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**
Balance at 1 April 2022	13,882	9,014	807	5	23,708
Charged to Income Statement	-	385	59	(11)	433
Charged to Equity	4,585	-	-	-	4,585
Balance at 31 March 2023	**18,467**	**9,399**	**866**	**(6)**	**28,726**

Notes to the Financial Statements *continued*

For the year ended 31 March 2023

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	
	2023 $'000	2022 $'000
Net Surplus After Taxation	4,787	5,731
Plus/(Less) Non Cash Items:		
Depreciation	4,485	4,551
Deferred Taxation	433	794
Loss on Sale of Property, Plant and Equipment	23	89
Share of Profit of Associates and Joint Ventures	(5,113)	(5,670)
	(172)	(236)
Plus/(Less) Movements in Working Capital:		
Increase/(Decrease) in Payables and Accruals	297	(771)
(Increase)/Decrease in Receivables and Prepayments	(286)	681
Increase/(Decrease) in Provision for Taxation	(1,282)	670
	(1,271)	580
Net Cash Flows From Operating Activities	**3,344**	**6,075**

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	
	2023 $'000	2022 $'000
Capital Commitments	1,548	1,770
Total Capital Commitments	**1,548**	**1,770**

b) Other Commitments

The Group has a conditional commitment as at 31 March 2023 of $415,000 (2022: $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 $121,000 (2022: $108,000).

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.

Under the terms of the loan facilites, the Group is required to comply with agreed financial covenants. The Group has complied with the covenants throughout the reporting period.

Notes to the Financial Statements *continued*

For the year ended 31 March 2023

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	
	2023 $'000	2022 $'000
Goods and Services Supplied to:		
PowerNet Ltd (Joint Venture)	509	288
Lakeland Network Ltd (Associate)	329	120
Receivables Outstanding at Balance Date		
PowerNet Ltd (Joint Venture)	134	77
Lakeland Network Ltd (Associate)	107	40
Goods and Services Supplied by:		
PowerNet Ltd (Joint Venture)*	10,013	11,379
Invercargill City Holdings Ltd (Other Related Party)	3,329	2,917
Creditors Outstanding at Balance Date		
PowerNet Ltd (Joint Venture)	2,009	1,886
Invercargill City Holdings Ltd (Other Related Party)	210	138
Revenue Recognised from:		
Invercargill City Council (Other Related Party)	-	1,041
Dividends Paid to:		
Invercargill City Holdings Ltd (Other Related Party)	1,000	4,000
Advances Provided to (Repaid by):		
PowerNet Ltd (Joint Venture)	(212)	(800)
Lakeland Network Ltd (Associate)	1,429	1,633
Advances Provided from:		
Invercargill City Holdings Ltd (Other Related Party)	(1,200)	(600)
Subvention Payment Provided to:		
Invercargill City Council (Other Related Party)	-	251

**This relates to asset maintenance and construction of $8,017 (2022: $9,450) and management services of $1,996 (2022: $1,929).*

Notes to the Financial Statements *continued*

For the year ended 31 March 2023

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	
	2023 $'000	2022 $'000
Directors Fees	193	159

20 Subsequent Events

There are no 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 2023.

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 2023, the statement of financial performance, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include 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 2023; 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 2023.

Our audit was completed on 29 June 2023. 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 the Board of Directors intends to liquidate the Group or to cease operations, or has 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 pages 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 I*nternational Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1)* 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, Electricity Distribution Services Default Price-Quality Path Determination 2022, other regulatory requirements of the Commerce Act 1986, and regulatory training and advisory services which are compatible with those independence requirements. Other than the audit and these engagements, we have no relationship with or interests in the Group.

On behalf of the Auditor-General

Elizabeth Adriana (Adri) Smit
PricewaterhouseCoopers
Christchurch, New Zealand
On behalf of the Auditor-General
29 June 2023

Switchroom at Leven Street Zone substation Ray King (PowerNet), Rob Jamieson (EIL Chair), Sumaria Bennett-Young (PowerNet).

Electricity Invercargill Ltd