

The Power Company Limited

Consolidated Financial Statements

For the year ended 31 March 2023

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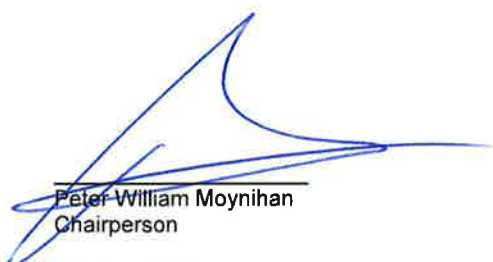
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The Power Company Limited
Approval by Directors
For the year ended 31 March 2023

Approval by Directors

The Directors have approved the Consolidated Statement of Service Performance and Financial Statements of The Power Company Ltd for the year ended 31 March 2023 on pages 3 to 29.

For and on behalf of the Board.



Peter William Moynihan
Chairperson

29 June 2023



Murray John Wallace
Director

29 June 2023

The Power Company Limited
Consolidated Statement of Service Performance (Unaudited)
For the year ended 31 March 2023

The objectives of The Power Company Ltd for this financial year are specified in the Statement of Intent, which was set in consultation with the Shareholders. The performance targets and measures identified in the Statement of Intent, along with the performance achieved during the financial year, are detailed below.

Performance Targets

	Target	GROUP Achievement			
	2023	2023		2022	
	Inclusive of Discount	Inclusive of Discount	Exclusive of Discount	Inclusive of Discount	Exclusive of Discount
Financial Measures					
EBIT % - Percentage Earnings Before Tax and Interest on Assets Employed	3.00 %	3.03 %	4.05 %	3.90 %	4.91 %
NPAT % - Percentage Tax Paid Profit on Equity	2.60 %	1.95 %	3.73 %	1.98 %	3.86 %
Gearing Ratio	37.80	35.73		35.43	
Interest Cover Ratio	5.10	4.13		4.95	

Health and Safety

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

Total Recordable Injury Frequency Rate Contractors Target (TRIFR)	3.10	1.00	1.00
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Workplace health and safety continues to be a business priority and a critical success factor for the Group. PowerNet Ltd safety performance (TRIFR) in 2023 met the target. This was achieved through the implementation of the Critical Risk Framework, training and safety observations to mitigate risk and achieve safety targets. No lost time injuries occurred on the The Power Company Ltd network during the 2023 reporting year.

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

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

System Average Interruption Duration Index (SAIDI)

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

SAIDI Planned	131.54	90.78	109.43
SAIDI Unplanned	151.83	199.33	159.83

System Average Interruption Frequency Index (SAIFI)

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

SAIFI Planned	0.61	0.64	0.84
SAIFI Unplanned	3.39	2.88	2.62

Planned SAIDI remained under the target due to the SAIDI reduction available for early notification of planned work to customers. Unplanned SAIDI was above target due to an increase in the number of outages due to adverse weather events. Planned work resulted in a small increase of SAIFI planned measure above target.

SAIDI and SAIFI are calculated using the methodology defined in Electricity Distribution Services Default Price-Quality Path Determination 2020.

The Power Company Limited
Consolidated Statement of Service Performance (Unaudited)
For the year ended 31 March 2023
 (continued)

	Achievement	
	2023	2022
<u>Supplementary Information</u>		
Network Statistics		
Length of overhead line*	8,474 Km	8,462 Km
Length of underground cable	408 Km	397 Km
Total number of interruptions	1,867	1,870
Faults per 100km of line	22.03	21.11
Transformer capacity MVA	477	470
Maximum demand MVA	160	160
Energy into network GWh	865	836
Total Consumers	37,590	37,102

* Excluding conductor lines under construction.

The Power Company Limited
Consolidated Statement of Financial Performance
For the year ended 31 March 2023

	Notes	GROUP	
		2023 \$'000	2022 \$'000
Gross Revenue from Contracts with Customers		76,878	73,480
Discount to Consumers		<u>(8,063)</u>	<u>(7,955)</u>
Net Revenue from Contracts with Customers	2	68,815	65,525
Other Income	3	6,389	5,081
Operating Expenses	4	<u>(59,238)</u>	<u>(59,426)</u>
Operating Surplus Before Fair Value Gains/(Losses)		15,966	11,180
Fair Value Adjustments			
Unrealised Gain/(Loss) on Derivatives (NZ)	4	3,736	10,972
(Loss)/Gain on Onerous Contract	4	<u>(1,366)</u>	<u>(521)</u>
Derivative financial instrument (Loss)/Gain (US)	15	<u>(726)</u>	<u>(565)</u>
Fair Value Gains/(Losses)		1,644	9,886
Operating Surplus		17,610	21,066
Finance Costs	4	(13,416)	(11,084)
Share of Profits of Joint Ventures	10	<u>8,473</u>	<u>11,206</u>
Net Surplus Before Taxation		12,667	21,188
Taxation Expense	5	<u>(1,537)</u>	<u>(5,621)</u>
Net Surplus After Taxation		11,130	15,567

The accompanying notes on pages 10 to 29 form part of and should be read in conjunction with these financial statements.

The Power Company Limited
Consolidated Statement of Comprehensive Income
For the year ended 31 March 2023

		GROUP	
	Notes	2023 \$'000	2022 \$'000
Net Surplus After Taxation		11,130	15,567
Asset Revaluation	7	<u>46,187</u>	<u>-</u>
Other Comprehensive Income		<u>46,187</u>	<u>-</u>
Items that may be Subsequently Reclassified to Profit or Loss:			
<i>Cash Flow Hedges</i>			
Movement in the Cash Flow Hedge Reserve		695	1,345
Movement in Cost of Hedging Reserve		<u>161</u>	<u>29</u>
		856	1,374
Total Comprehensive Income		58,173	16,941
Total Comprehensive Income Attributable to Minority Interests	12	<u>1,022</u>	<u>139</u>
Total Comprehensive Income Attributable To Parent		<u>57,151</u>	<u>16,802</u>

The accompanying notes on pages 10 to 29 form part of and should be read in conjunction with these financial statements.

The Power Company Limited
Consolidated Statement of Changes in Equity
For the year ended 31 March 2023

	Notes	GROUP	
		2023 \$'000	2022 \$'000
Total Comprehensive Income			
Net Surplus for the Year comprising:			
Parent Interest		57,151	16,802
Minority Interest	12	<u>1,022</u>	<u>139</u>
		58,173	16,941
Changes in Equity for the Year		58,173	16,941
Equity at Beginning of Year comprising:			
Parent Interest		409,587	392,785
Minority Interest	12	<u>5,193</u>	<u>5,054</u>
		414,780	397,839
Equity at End of Year comprising:			
Parent Interest		466,738	409,587
Minority Interest	12	<u>6,215</u>	<u>5,193</u>
	7	472,953	414,780

The accompanying notes on pages 10 to 29 form part of and should be read in conjunction with these financial statements.

The Power Company Limited
Consolidated Statement of Financial Position
As at 31 March 2023

		GROUP	
	Notes	2023 \$'000	2022 \$'000
ASSETS			
Current Assets			
Cash and Cash Equivalents	8	304	268
Receivables and Prepayments	9	10,318	9,220
Inventories		87	136
Derivative financial instruments	20	94	-
Total Current Assets		10,803	9,624
Non Current Assets			
Advances to Joint Ventures	10	25,806	26,443
Investments in Joint Ventures	10	232,788	219,681
Investment in Other Entities		239	239
Property, Plant and Equipment	11	579,107	521,629
Capital Work in Progress		21,478	11,718
Right-of-Use Assets	6	254	256
Derivative Financial Instruments	15	2,692	1,034
Total Non Current Assets		862,364	781,000
Total Assets		873,167	790,624
LIABILITIES			
Current Liabilities			
Creditors and Accruals	13	21,378	19,802
Onerous Contract	17	814	739
Derivative Financial Instruments		-	202
Current Loans	15	-	8,915
Current Tax Liabilities		810	5,778
Contract Liabilities	14	3,056	1,537
Lease Liabilities	6	36	34
Total Current Liabilities		26,094	37,007
Non Current Liabilities			
Term Loans	15	241,691	225,812
Deferred Tax Liabilities	16	99,218	82,465
Onerous Contract	17	15,250	13,959
Derivative Financial Instruments	15	9,906	14,562
Contract Liabilities	14	7,812	1,797
Lease Liabilities	6	243	242
Total Non Current Liabilities		374,120	338,837
Total Liabilities		400,214	375,844
NET ASSETS		472,953	414,780
EQUITY			
Contributed Equity	7	70,160	70,160
Other Reserves	7	185,618	139,758
Retained Earnings	7	210,960	199,669
Group Equity		466,738	409,587
Minority Interest	12	6,215	5,193
Total Equity		472,953	414,780

The accompanying notes on pages 10 to 29 form part of and should be read in conjunction with these financial statements.

The Power Company Limited
Consolidated Statement of Cash Flows
For the year ended 31 March 2023

	Notes	2023 \$'000	2022 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was Provided From:			
Receipts from Customers		79,961	69,043
Interest Received		<u>1,922</u>	<u>1,069</u>
		81,883	70,112
Cash was Disbursed To:			
Payments to Suppliers and Employees		35,773	37,420
GST Paid/(Received)		54	49
Income Tax Paid		7,715	773
Interest Paid		<u>11,084</u>	<u>10,351</u>
		54,626	48,593
Net Cash Flows From Operating Activities	19	<u>27,257</u>	<u>21,519</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was Provided From:			
Property, Plant and Equipment Sales		39	440
Distributions Received from Joint Ventures		9,127	9,874
Repayment of Advances by Joint Ventures		<u>31,850</u>	<u>17,388</u>
		41,016	27,702
Cash was Applied To:			
Property, Plant and Equipment Purchases		40,883	35,329
Investment in Joint Ventures		-	3,875
Advance to Joint Venture		<u>31,213</u>	<u>14,988</u>
		72,096	54,192
Net Cash Flows From Investing Activities		<u>(31,080)</u>	<u>(26,490)</u>
CASH FLOWS APPLIED TO FINANCING ACTIVITIES			
Cash was Provided From:			
Advance from Term Borrowing	15	<u>3,893</u>	51,634
		3,893	51,634
Cash was Applied To:			
Repayment of Term Borrowing	15	-	46,955
Principal elements of lease payments	6	<u>34</u>	<u>34</u>
		34	46,989
Net Cash Flows From Financing Activities		<u>3,859</u>	<u>4,645</u>
Net Increase/(Decrease) in Cash and Cash Equivalents Held		36	(326)
Add Opening Cash Brought Forward		<u>268</u>	<u>594</u>
Closing Cash and Cash Equivalents To Carry Forward	8	<u>304</u>	<u>268</u>

The accompanying notes on pages 10 to 29 form part of and should be read in conjunction with these financial statements.

1 Statement of Accounting Policies

Reporting Entity

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

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

The financial statements were approved by the Board of Directors on 29 June 2023.

Basis of Preparation

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

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

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

Upcoming Accounting Standards

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

Impact of COVID-19 on Financial Statements

The impact of the COVID-19 pandemic on The Power Company Ltd group 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 Power Company Ltd 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.

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

Specific Accounting Policies

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

(a) Principles of Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired, exceeds the cost of acquisition, the difference is credited to the Statement of Financial Performance in the period of acquisition. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

(ii) Joint Ventures

Joint Ventures are those entities over which the Group has joint control established by contractual agreement. The financial statements include the Group's share of the joint venture entities' total recognised gains and losses on an equity accounted basis, from the date that joint control commences to the date that joint control ceases.

(continued)

(iii) **Transactions Eliminated on Consolidation**

All significant inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised gains arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

(b) **Revenue with Contracts with Customers**

(i) **Electricity Delivery Services**

Electricity delivery service revenue relates to the provision of electricity distribution services to both electricity retailers and directly contracted customers in the Southland Region. Electricity retailer delivery services are performed on a daily basis and considered a series of distinct goods and services provided over time. Prices are regulated and retailers are charged based on the published schedule and quantities delivered.

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

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

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

(ii) **Capital Contributions**

Capital contributions revenue relates to contributions received from customers, excluding delivery service customers who are directly billed, for construction activities relating to the establishment of new connections or upgrades of an existing connection. The subsequent electricity distribution is contracted separately, interposed through a retailer, and is therefore not considered to impact the assessment of the customer or performance of the obligations of the capital contribution contracts. Pricing is fixed and contributions are paid prior to an assets being connected to the network. Capital contributions are recognised as revenue at the point in time when construction activities are completed and the asset is connected to the network.

(c) **Other income**

(i) **Metering Rental Income**

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

(ii) **Interest Revenue**

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

(d) **Finance Costs**

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

(e) **Inventories**

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

(f) Property, Plant and Equipment

(i) Owned Assets

All property, plant and equipment is recognised at cost less accumulated depreciation and impairment losses. The cost of purchased property, plant and equipment is the fair value of the consideration given to acquire the assets and the value of other attributable costs including borrowing costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item if, when that cost is incurred, it is probable that the future economic benefits embodied within the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Financial Performance as an expense as incurred.

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

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

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

(ii) Easements

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

(iii) Depreciation

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

Buildings	2.00-13.50%	Straight line/Diminishing value
Network Assets (excluding land)	1.43-25.00%	Straight line/Diminishing value
Metering Assets	6.70-22.00%	Straight line/Diminishing value
Plant and Office Equipment	5.00-50.00%	Straight line/Diminishing value

During 2023 the estimated useful life of the network assets were reviewed and updated in accordance with current assets life expectations (Note 11).

(iv) Impairment

At each reporting date the Group reviews the carrying amounts of its assets and assesses them for indications of impairment. If indications of impairment exist, then the assets' recoverable amounts are estimated in order to determine the extent of the impairment. The recoverable amounts are the higher of fair value (less costs to sell) and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects the market assessments of the time value of money and the risks specific to the assets involved. If the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down to its recoverable amount and an impairment loss is recognised in the Statement of Financial Performance, except to the extent that the impairment loss reverses a previous revaluation increase for that asset to the extent of that revaluation increase. When the asset does not generate cash flows independent of other assets, the cash generating unit (CGU) to which the asset belongs is tested for impairment.

(continued)

(g) Use of Estimates and Judgements

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

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

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

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

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

At a maximum of every five years, the company obtains a valuation of their electricity distribution network, determined by independent valuers, in accordance with their accounting policy. The valuation of the Company's electricity distribution network was performed as at 31 March 2023. The best evidence of fair value is discounted cash flow methodology. The major assumptions used include discount rate, growth rate and future cash flows. Changes in future cash flows arising from changes in regulatory review may result in the fair value of the electricity distribution network being different from previous estimates. The fair value measurement of the distribution network is categorised under Level 3 of the fair value hierarchy.

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

(h) Capital Work in Progress

Capital Work in Progress is stated at cost and is not depreciated. It includes an accrual for the proportion of work completed at the end of the period.

(i) Goods and Services Tax (GST)

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

(j) Taxation

Income tax on the profit or loss for the period presented comprises current tax and additional or reversed deferred tax. Income tax is recognised in the Statement of Financial Performance except to the extent that it relates to items recognised directly in Equity, in which case it is recognised in Equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at Balance Sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised using the Balance Sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxation profit or loss.

Deferred tax is recorded using tax rates enacted or substantially enacted at the Balance Sheet date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(k) Seasonality

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

(l) Financial Assets

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

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

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

Measurement

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

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

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

Financial liabilities at amortised cost consist of trade and other payables and borrowings. Financial liabilities at amortised cost are measured using the effective interest rate method. Due to their short term nature, trade and other payables are not discounted.

(m) Financial Instruments

(i) Derivative Financial Instruments

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

(ii) Cash and Cash Equivalents

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

(iii) Trade and Other Payables

Trade and other payables are stated at amortised cost.

(iv) Receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. The Group applies the simplified approach to providing for expected credit losses prescribed by NZ IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

During the year, the following gains/(losses) were recognised in profit or loss in other expenses in relation to impaired receivables:

- Impairment losses
- Individual receivables written off directly
- Movement in provision for impairment

(v) Borrowings

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

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

The Power Company Limited
Notes to the Financial Statements
For the year ended 31 March 2023

(continued)

2 Revenue from Contracts with Customers

	GROUP	
	2023 \$'000	2022 \$'000
Electricity Delivery Services (including discount)	66,430	63,429
Capital Contributions	2,385	2,096
Total Revenue	<u>68,815</u>	<u>65,525</u>

Timing of Revenue Recognition

Over time	66,430	63,429
At a Point in Time	2,385	2,096
Total Revenue	<u>68,815</u>	<u>65,525</u>

3 Other Income

	GROUP	
	2023 \$'000	2022 \$'000
Interest	1,922	1,069
Subvention Income	132	159
Rental Income	539	527
Metering Rental Income	3,267	3,165
Sundry Income	529	161
Total Other Income	<u>6,389</u>	<u>5,081</u>

4 Expenses

	GROUP	
	2023 \$'000	2022 \$'000
<i>Expenses Include:</i>		
Auditors' Fees		
Audit of Financial Report - PwC	98	58
Information Disclosure - PwC	86	44
Regulatory & Advisory - PwC*	14	5
*Consulting fees include fees for the Regulatory Forecasting and Price Setting Compliance Statement		
Depreciation		
Buildings (refer Note 11)	113	143
Plant and Office Equipment (refer Note 11)	7	6
Metering Assets (refer Note 11)	1,870	1,754
Network Assets (refer Note 11)	21,200	23,290
Depreciation Right of Use Assets (refer Note 6)	39	38
Total Depreciation	<u>23,229</u>	<u>25,231</u>
Bad Debts Written Off	5	22
Directors' Fees	384	283
Finance Expenses		
Interest Expense	13,416	11,084
Unrealised (Gain)/Loss on Derivatives	(3,736)	(10,972)
Total Finance Expenses	<u>9,680</u>	<u>112</u>
Loss/(Gain) on Onerous Contract	1,366	521

The Power Company Limited
Notes to the Financial Statements
For the year ended 31 March 2023

(continued)

Loss on Disposal of Property, Plant and Equipment	805	551
Network Costs	18,971	18,300
Transmission Costs	13,824	13,590

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/(Deficit) Before Income Taxation	<u>12,667</u>	<u>21,188</u>
Prima Facie Taxation at 28%	3,547	5,933
Permanent Differences	(340)	(602)
Prior Period Adjustment	(1,670)	290
Tax Expense	<u>1,537</u>	<u>5,621</u>
Made up of:		
Current Tax	2,746	5,111
Deferred Tax	(1,209)	510
Tax Expense	<u>1,537</u>	<u>5,621</u>

6 Leases

	GROUP	
	2023 \$'000	2022 \$'000
Right-of-Use Assets Net Book Value		
Equipment	<u>254</u>	<u>256</u>
	<u>254</u>	<u>256</u>
Lease Liabilities		
Current	36	34
Non-current	243	242
	<u>279</u>	<u>276</u>

Amounts Recognised in the Consolidated Statement of Financial Performance

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

	GROUP	
	2023 \$'000	2022 \$'000
Depreciation Charge of Right-of-Use Assets		
Equipment	<u>39</u>	<u>38</u>
	<u>39</u>	<u>38</u>
Interest Expense (included in Finance Cost)		
	<u>13</u>	<u>12</u>
	<u>13</u>	<u>12</u>

(continued)

6 Leases (continued)

The total cash outflow for leases in 2023 was \$47,822 (2022:\$45,570).

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

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable

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

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

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- any restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

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

The expenses relating to payments not included in the measurement of the lease liability is \$20,286 (2022:\$18,207).

(continued)

7 Equity

The authorised and issued share capital comprises 70,160,000 ordinary shares which are fully paid up and are not subject to a par value. All shares have the same rights and privileges.

	GROUP	
	2023 \$'000	2022 \$'000
Share Capital		
Opening Balance	70,160	70,160
Shares Issued	-	-
Closing Balance	<u>70,160</u>	<u>70,160</u>
Minority Interest	6,215	5,193
Asset Revaluation Reserve		
Opening Balance	141,515	141,568
Asset Revaluation	45,259	-
Revaluation Reversal due to Asset Disposal	(255)	(53)
Closing Balance	<u>186,519</u>	<u>141,515</u>
Cash Flow Hedge Reserve		
Opening Balance	(1,686)	(3,031)
Movement in Cash Flow Hedge Reserve	695	1,345
	<u>(991)</u>	<u>(1,686)</u>
Cost of Hedging Reserve		
Opening Balance	(71)	(100)
Movement in Cost of Hedging Reserve	161	29
Closing Balance	<u>90</u>	<u>(71)</u>
Total Reserves	<u>185,618</u>	<u>139,758</u>
Retained Earnings		
Opening Balance	199,669	184,188
Net Surplus/(Deficit) for the Year	11,036	15,428
Revaluation Reversal due to Asset Disposal	255	53
Closing Balance	<u>210,960</u>	<u>199,669</u>
Total Equity	<u>472,953</u>	<u>414,780</u>

Asset revaluations relate to the network assets of OtagoNet Joint Venture, Lakeland Network Ltd and The Power Company Ltd Group in 2023.

8 Cash and Cash Equivalents

	GROUP	
	2023 \$'000	2022 \$'000
Current Account	304	268
Total Cash and Cash Equivalents	<u>304</u>	<u>268</u>

(continued)

9 Receivables and Prepayments

	GROUP	
	2023 \$'000	2022 \$'000
GST Receivable	341	209
Trade Debtors	9,324	8,333
Prepayments	<u>653</u>	<u>678</u>
Total Receivables and Prepayments	<u>10,318</u>	<u>9,220</u>

10 Investments in Joint Ventures

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

Joint Ventures	Country of Residence	Percentage Held By Group		Balance Date
		2023	2022	
PowerNet Ltd Group*	New Zealand	50%	50%	31 March
OtagoNet Joint Venture**	New Zealand	75.1%	75.1%	31 March
Roaring Forties Energy Ltd Partnership ***	New Zealand	50%	50%	31 March

*Effective from 1 April 2016 the Group equity accounted its share of profits from the 50% owned joint venture entity, PowerNet Ltd to be consistent with the economic benefits the Group receives based on the PowerNet Ltd dividend policy. The equity accounted share of profit in PowerNet Ltd in 2023 is 72.39% (2022: 73.58%).

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

*** Roaring Forties Energy Ltd Partnership has a 50% interest in 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 near Murchison and three Hydro Stations in the Eastland and King Country area.

	GROUP	
	2023 \$'000	2022 \$'000
Interests in Joint Venture Entities are as follows:		
Carrying Amount at Beginning of Year	219,681	214,474
Investment in Joint Ventures	-	3,875
Revaluation Gain on Network Assets	13,761	-
Share of Equity Accounted Earnings of Joint Ventures	8,473	11,206
Less Drawings	<u>(9,127)</u>	<u>(9,874)</u>
Carrying Amount at End of Year	<u>232,788</u>	<u>219,681</u>

The Group's advances to joint ventures of \$25,806,000 (31 March 2022: \$26,443,000) are repayable on demand but with a 13 month notice period. The advances incur interest 3% above the 90 day bank bill rate.

(continued)

11 Property, Plant and Equipment

	Network Assets \$'000	Metering Assets \$'000	Land \$'000	Buildings \$'000	Plant and Office Equipment \$'000	Total \$'000
Cost or Valuation						
Balance at 1 April 2021	593,838	27,149	483	5,600	107	627,177
Additions	34,140	2,364	-	41	-	36,545
Revaluation	-	-	-	-	-	-
Disposals	(1,210)	(43)	-	-	-	(1,253)
Balance at 31 March 2022	626,768	29,470	483	5,641	107	662,469
Balance at 1 April 2022	626,768	29,470	483	5,641	107	662,469
Additions	29,828	1,248	-	48	-	31,124
Revaluation	15,065	-	-	-	-	15,065
Disposals	(1,120)	(11)	-	-	-	(1,131)
Balance at 31 March 2023	670,541	30,707	483	5,689	107	707,527
Depreciation and Impairment Losses						
Balance at 1 April 2021	(107,411)	(7,923)	-	(531)	(44)	(115,909)
Depreciation for Year	(23,290)	(1,754)	-	(143)	(6)	(25,193)
Revaluation	-	-	-	-	-	-
Disposals	244	18	-	-	-	262
Balance at 31 March 2022	(130,457)	(9,659)	-	(674)	(50)	(140,840)
Balance at 1 April 2022	(130,457)	(9,659)	-	(674)	(50)	(140,840)
Depreciation for Year	(21,200)	(1,870)	-	(113)	(7)	(23,190)
Revaluation	35,324	-	-	-	-	35,324
Disposals	281	5	-	-	-	286
Balance at 31 March 2023	(116,052)	(11,524)	-	(787)	(57)	(128,420)
Carrying Amount/Book Value						
Book Value at 31 March 2022	496,311	19,811	483	4,967	57	521,629
Book Value at 31 March 2023	554,489	19,183	483	4,902	50	579,107

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

31 March 2022	425,059	19,810	482	4,967	55	450,373
31 March 2023	432,848	19,184	482	4,901	48	457,463

Valuation

The network assets of The Power Company Ltd and Lakeland Network Ltd were revalued to fair value using discounted cash flow methodology on 31 March 2023 by Ernst & Young who are an independent valuer. This resulted in a revaluation movement of \$50.39 million. The valuation is based on a seven years forecast free cashflows and a calculated terminal value beyond the discrete cash flow period.

The following valuation assumptions were adopted;

- The free cash flows were based on the Company's three year business plan and asset management plan adjusted for non-recurring or non-arms length transactions and for transactions that arose from expansionary growth in the network after the date of the valuation.
- The corporate tax rate used was 28%.
- The weighted average cost of capital (WACC) used was 6.10%.
- Annual inflation based on forecast from the New Zealand Treasury.
- RAB multiple range of 1.05 times for the terminal value.

(continued)

Review of Asset Estimated Useful Life

During 2023, PowerNet Engineers reviewed and updated the estimated useful life of The Power Company 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 1.43%-25% (2022: 1.43%-13.50%)

The 11 kV lines with concrete pole category was most impacted by the change, with the estimated useful life increased from 45 years to 60 years.

The new rates applied from 1 April 2022 across the network assets resulted in a decrease in the 2023 depreciation expense of \$2,480,000, with the average annual depreciation rate decreasing to 4.69% (2022: 5.27%).

12 Minority Interest

	GROUP	
	2023	2022
	\$'000	\$'000
Opening Balance	5,193	5,054
Minority interest Share of Revaluation	928	-
Minority Interest Share of Net Surplus	94	139
Closing Balance	6,215	5,193

The Minority Interest relates to Lakeland Network Ltd.

13 Creditors and Accruals

	GROUP	
	2023	2022
	\$'000	\$'000
Trade Creditors	11,424	9,051
Accruals	9,954	10,751
Total Creditors and Accruals	21,378	19,802

(continued)

14 Contract Liabilities

	GROUP	
	2023 \$'000	2022 \$'000
Contract Liabilities are as follows:		
Carrying Amounts at the Beginning of Year	3,334	3,099
Received in Current Year	10,244	2,648
Recognised as Revenue in Current Year	<u>(2,710)</u>	<u>(2,413)</u>
Carrying Amount at End of Year	<u>10,868</u>	<u>3,334</u>
Made up of:		
Current Contract Liabilities	3,056	1,537
Non-Current Contract Liabilities	7,812	1,797

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

15 Term Borrowings

	GROUP	
	2023 \$'000	2022 \$'000
ANZ Committed Cash Advance	40,000	40,000
Westpac Revolving Cash Advance	51,381	48,915
US Private Placement US\$	92,976	89,729
US Private Placement NZ\$	50,000	50,000
Advance – Southland Electric Power Supply Consumer Trust	1,797	1,974
Advance – Electricity Invercargill Ltd	<u>5,537</u>	<u>4,109</u>
	<u>241,691</u>	<u>234,727</u>

Bank Facilities

The Group has a Cash Advance Facility of \$70 million (31 March 2022: \$80 million) with Westpac. The facility has revolving two and three year terms and is extendable annually by agreement between the Group and Westpac and includes a \$40 million Green loan tranche which has a green asset requirement covenant. \$40 million of this facility matures in July 2024 with the remainder maturing in November 2024.

The Group has a Cash Advance Facility of \$40 million (31 March 2022: \$40 million) with ANZ. The facility matures in July 2024.

The facilities provide for drawdowns to be made ranging from overnight to six months and are subject to interest rates at Bank Bill Buy Rates plus a margin. The facilities are unsecured and subject to a Deed of Negative Pledge.

At balance date the Group had active interest rate swaps on the above facilities which total \$102 million (31 March 2022: \$122 million) at interest rates between 1.43% and 4.75%, excluding bank margins.

US Private Placement Notes

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

(continued)

At 31 March 2023, the US\$ USPP Notes had a fair value of \$92.9 million (31 March 2022 \$89.7 million). This debt is carried in the consolidated statement of financial position at amortised cost plus a fair value adjustment under hedge accounting requirements and the translation to New Zealand dollars using foreign exchange rates at balance date. The fair value adjustment amounted to \$9.06 million (31 March 2022 (\$4.8 million)).

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

This facility is unsecured and subject to a Deed of Negative Pledge.

Advance - Southland Electric Power Supply Consumer Trust

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

Advance - Electricity Invercargill Ltd

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

Hedging Activity and Derivatives

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

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

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

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

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

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

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

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

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

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

(continued)

16 Deferred Taxation

	\$'000	\$'000	\$'000	\$'000
	Balance as at 1 April 2021	Charged to the Income Statement	Charged to Equity	Balance as at 31 March 2022
Depreciation	26,019	777	-	26,796
Capital Contributions	3,711	259	-	3,970
Other	(3,772)	(133)	-	(3,905)
Effect of revaluation	55,112	-	-	55,112
Hedging movement	885	-	(393)	492
	<u>81,955</u>	<u>903</u>	<u>(393)</u>	<u>82,465</u>
	\$'000	\$'000	\$'000	\$'000
	Balance as at 1 April 2022	Charged to the Income Statement	Charged to Equity	Balance as at 31 March 2023
Depreciation	26,796	(2,167)	-	24,629
Capital Contributions	3,970	234	-	4,204
Other	(3,905)	963	-	(2,942)
Effect of revaluation	55,112	-	17,962	73,074
Hedging movement	492	(239)	-	253
	<u>82,465</u>	<u>(1,209)</u>	<u>17,962</u>	<u>99,218</u>

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

17 Provision for Onerous Contract

	GROUP	
	2023	2022
	\$'000	\$'000
Current Portion	814	739
Non-current Portion	<u>15,250</u>	<u>13,959</u>
Provision for Onerous Contract	<u>16,064</u>	<u>14,698</u>

A liability had been recognised in relation to the Group's obligations under an onerous contract agreement. A provision of \$16,064,000 (2022: \$14,698,000) has been established for this onerous contract. A Deferred Tax Asset of \$4,497,000 (2022: \$4,115,000) has also been recognised in relation to this onerous contract.

The following valuation assumptions were adopted;

- The discount rate used was 6.20% being derived from the long term nominal risk free rate provided by Treasury for accounting valuation purposes used as an input into a weighted average cost of capital calculation.
- The CPI increases used were 1.99%
- The corporate tax rate used was 28%
- The sustainable growth adjustment used was 0.5%

(continued)

18 Commitments

(a) Capital Commitments

The Group has capital expenditure contracted for but not provided for in the Consolidated Financial Statements.

	GROUP	
	2023 \$'000	2022 \$'000
Capital Commitments	21,549	10,733
Total Capital Commitments	21,549	10,733

(b) Other Commitments

The Group has a conditional commitment as at 31 March 2023 of \$825,000 (2022: \$825,000). This relates to an agreement with SmartCo Ltd, for the Group to provide a subordinated loan to Smart Co once a number of terms have been met.

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

The following is reconciliation between the Net Surplus After Taxation shown in the Consolidated Statement of Financial Performance and the Net Cash Flows From Operating Activities.

	GROUP	
	2023 \$'000	2022 \$'000
Net Surplus After Taxation	11,130	15,567
Plus/(Less) Non Cash Items:		
Depreciation	23,228	25,231
Deferred Taxation	(1,209)	510
Interest Rate Derivatives (US\$)	1,229	565
Interest Rate Derivatives (NZ\$)	(3,736)	(10,972)
Net SEPSCT Transactions	(177)	(173)
Onerous Contract	1,366	521
Share of Profit of Associates and Joint Ventures	(8,473)	(11,206)
	12,228	4,476
Items not Classified as Operating Activities		
Loss on Disposal of Property, Plant and Equipment	805	551
	805	551
Plus/(Less) Net Movements in Working Capital:		
Creditors and Accruals	1,571	(3,218)
Receivables and Prepayments	(1,092)	(457)
Contract Liabilities	7,534	235
Inventories	49	-
Income Tax Payable	(4,968)	4,365
	3,094	925
Net Cash Flows From Operating Activities	27,257	21,519

20 Financial Instruments

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

Credit Risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and short-term investments, hedging instruments and trade receivables. Cash, short-term investments, hedging instruments are placed with banks with high credit ratings assigned by international credit-rating agencies, or other high credit quality financial institutions.

The Group manages its exposure to credit risk from trade receivables by performing credit evaluations on all customers requiring credit whenever possible, and continuously monitoring the outstanding credit exposure to individual customers. The Group does not generally require or hold collateral against credit risk.

The Group is exposed to a concentration of credit risk with regard to the amounts owing by energy retailers at balance date for Line Charges as disclosed in Note 9 Receivables and Prepayments (amongst Trade Debtors). However, these entities are considered to be high credit quality entities.

Liquidity Risk

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

The Group evaluates its liquidity requirements on an ongoing basis. To reduce concentration risk on any lender or funding type the Group uses a range of different funding sources and currencies. In general the Group generates sufficient cash flows from its operating activities to meet its contractual obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments.

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

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

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

Foreign Exchange Risk

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

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

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

Fair Value

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

(continued)

Capital Management

The Group's capital includes share capital and retained earnings. The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position.

21 Transactions With Related Parties

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

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

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

	GROUP	
	2023	2022
	\$'000	\$'000
Goods and Services Supplied to:		
PowerNet Ltd (Joint Venture)	2,597	1,738
OtagoNet Joint Venture	60	60
Receivables Outstanding at Balance Date (GST incl):		
PowerNet Ltd (Joint Venture)	558	334
OtagoNet Joint Venture	6	6
Goods and Services Supplied by:		
PowerNet Ltd (Joint Venture) *	58,230	51,700
Creditors Outstanding at Balance Date (GST incl):		
PowerNet Ltd (Joint Venture)	11,267	10,597
Advances Provided to:		
Southland Electric Power Supply Consumer Trust	315	324
PowerNet Ltd (Joint Venture)	31,213	14,988
Advances Provided from:		
Southland Electric Power Supply Consumer Trust	138	150
PowerNet Ltd (Joint Venture)	31,850	17,388

* This relates to asset maintenance and construction of \$53,293 (2022: \$46,910) and management services of \$4,937 (2022: \$4,790).

Other Related Parties

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

PowerNet Limited, Lakeland Network Ltd and The Power Company Ltd use Findex as their tax advisors of which Duncan Fea (resigned July 23) is a Principal. The Power Company Ltd Group share of fees for taxation advice paid to Findex during the year amounted to \$8,900 excl GST (31 March 2022: \$1,950) of which \$5,370 incl GST (31 March 2022: \$2,200) is owing at balance date.

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

The Southland Electric Power Supply Consumer Trust owns 100% of the shares in The Power Company Ltd. The Power Company Ltd has a \$1,797,000 (2022: \$1,974,000) unsecured interest bearing loan with the Southland Electric Power Supply Consumer Trust.

The Power Company Limited
Notes to the Financial Statements
For the year ended 31 March 2023

(continued)

During the year expenses were paid out on behalf of the Trust totalling \$315,000 (31 March 2022: \$324,000). The expenses paid by The Power Company Ltd on behalf of the Southland Electric Power Supply Consumer Trust have been deducted from the loan and interest of \$138,000 (31 March 2022: \$150,000) has been added to the loan.

All capital commitments disclosed are with PowerNet Ltd.

Key Management Personnel

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

	GROUP	
	2023	2022
	\$'000	\$'000
Directors Fees	<u>384</u>	<u>285</u>

There have been no other transactions with the Directors.

22 Subsequent Events

There were no material events subsequent to balance date.



Independent auditor's report

To the shareholder of The Power Company Limited

Our opinion

In our opinion, the accompanying consolidated financial statements of The Power Company Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2023, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 March 2023;
- the consolidated statement of financial performance for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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

Other information

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

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



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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Responsibilities of the Directors for the consolidated financial statements

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

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

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

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

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

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

This description forms part of our auditor's report.

Who we report to

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

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

For and on behalf of:

A handwritten signature in black ink that reads "Elizabeth Adriana Smit".

Chartered Accountants
29 June 2023

Christchurch