ANNUAL REPORT
2023

Front cover: Kaiwera Downs Wind Farm.

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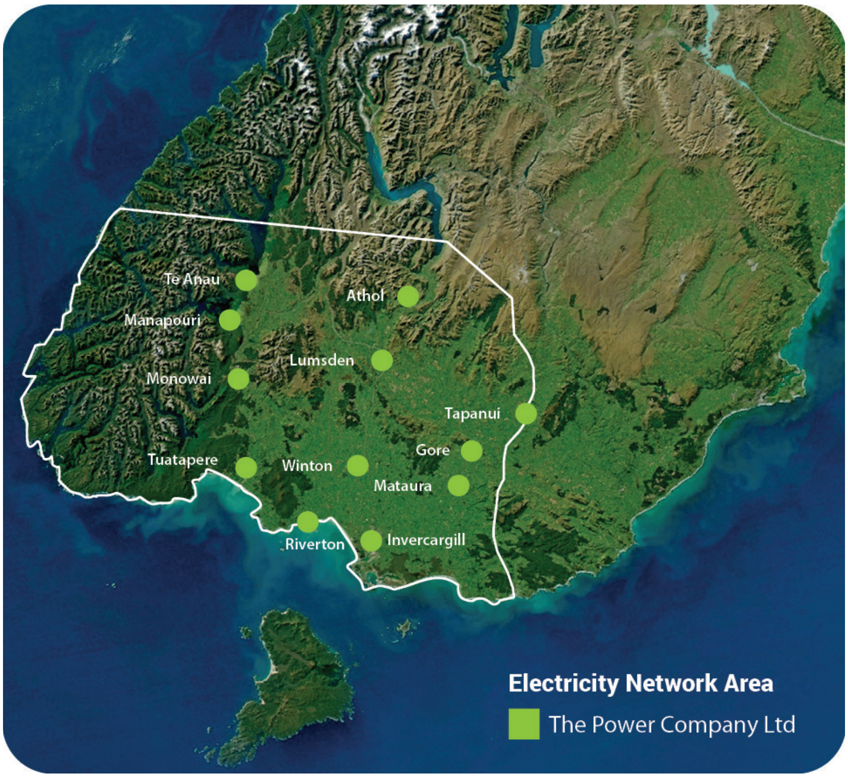
Christchurch

Legal Advisors
AWS Legal
Invercargill

Harmos Horton Lusk
Auckland

Treasury Advisor
Bancorp Treasury Services



About The Power Company Limited

The Power Company Limited (TPCL) delivers power to over 37,590 homes and businesses across rural Southland and West Otago and prides itself on being one of New Zealand's best-performing, predominantly rural networks.

Focused on delivering a safe, efficient and reliable power supply, TPCL was established in 1991 and is fully owned by the customers connected to TPCL's network through our Trust owners, the Southland Electric Power Supply Consumer Trust (Southland Power Trust). The Trust ownership structure ensures TPCL's connected customers are central to our strategy and the decisions we make - part of our commitment to ensuring our customers receive a resilient, reliable and future-ready electricity supply.

TPCL owns 50% of PowerNet Limited (PowerNet), the network management company which is also owned 50% by Electricity Invercargill Limited (EIL). We also own 75.1% of the OtagoNet Joint Venture (OJV) network, and 75.1% of Lakeland Network Limited (LNL) in Queenstown-Lakes, Wānaka and Cromwell. In addition, our 25% share in the Southern Generation Limited Partnership (SGLP) adds significant value to TPCL's balance sheet and demonstrates our commitment to growing the southern region's renewable electricity generation assets to help our country reach its net-zero carbon footprint goals.

With a Regulatory Value of $432 million, TPCL contracts PowerNet to develop, manage, construct, and maintain our network and metering assets. Our asset base is made up of 8,882km of power lines and 11,415 distribution transformers, with a capacity of 477.6 MVA. In 2022-23, we spent $43.5 million on capital and maintenance works to enhance and improve TPCL's network.

Our network manager, PowerNet, charges electricity retailers for line and metering services, pays transmission costs, and passes the revenue and expenses through to TPCL. The revenue provides a return on investment for TPCL and recovers our overheads, depreciation and operating costs. PowerNet recovers its costs through a charging regime on capital and maintenance work and through a management fee for management services.

Other revenue is derived from capital contributions made by customers wanting to connect to TPCL's network, together with commercial returns from the company's investments in OJV, LNL and PowerNet, as well as returns from the SGLP assets we own with EIL and Pioneer Energy Limited.

At TPCL, we are committed to the strong partnerships we have forged for the benefit of our wider community, enabling us to deliver results for the regions we serve through the provision and management of high-performing critical infrastructure.

TPCL Statistics as at 31 March 2023	
Total Connected Consumers	**37,590**
Residential	27,985
Industrial	218
Commercial	9,387
Network length	8,882 km
Consumer density	4.2 consumers per km
Number of distribution transformers	11,415
Distribution transformer capacity	477.6 MVA
Maximum demand	160 MW
Total energy conveyed	865 GWh
Regulatory Value	$432 million

Remarkables Park Development in the Lakeland Network.

Our Investments

PowerNet Limited

TPCL has a 50% shareholding in the region's network management company, PowerNet. The remaining equal share is held by TPCL's joint venture partner, EIL.

PowerNet is contracted to manage the TPCL network - primarily its capital and maintenance works programme, and its metering assets.

PowerNet continues to deliver for TPCL, with its performance judged by the value and efficiency of its network asset management, and its commercial growth and business development focus. This saw us renew our ten-year agreements with PowerNet during 2022-23, which will come into effect in the next reporting period (from 1 April 2023).

Our agreement with PowerNet is strengthened by a shared commitment to serving our customers with a safe, reliable and efficient power supply. This is enabled through PowerNet's continued development of TPCL's network, operating a 24/7 network control and faults centre, and supporting the decarbonisation of our region through investment in new energy technologies and solutions.

Lakeland Network Limited (LNL)

The Lakeland Network (LNL) in the Queenstown-Lakes and Central Otago region is owned by shareholders TPCL and EIL. Formed in 1995 as Electricity Southland Limited, it was rebranded in 2021-22 to the 'Lakeland Network Limited'. TPCL holds a 75.1% share, and regulatory reporting is under the OJV network.

We have continued to enable and support the fast-paced growth of the region by providing the extra capacity required, which reached 4,136 connections on 31 March 2023, with a growth rate of 500-600 new customer connections on average per annum (almost 700 customers were connected in 2022-23). This represents a phenomenal increase in connections on the LNL network in Queenstown, Frankton, Wānaka and Cromwell and now have more than 10 times the customers. The modern LNL network 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 towards Queenstown's 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 the Hanley's Farm subdivision and will 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 TPCL (75.1%) and EIL (24.9%). 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.

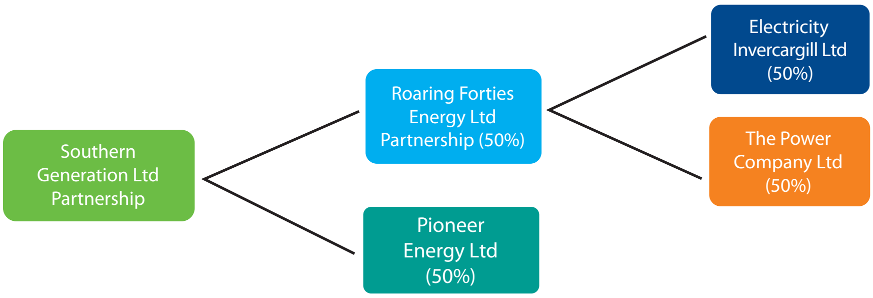
Our Investments *continued*

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 Southern Generation Limited Partnership (SGLP), where we have been partners with EIL and Pioneer Energy Ltd since 2015 to support growth in renewable electricity assets, continues to be successful.

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 station 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.

Wind generation of 40 GWh was marginally down (4%) from the previous year.



Southern Generation Limited Partnership structure

While the 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 10 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 the following:

- 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*

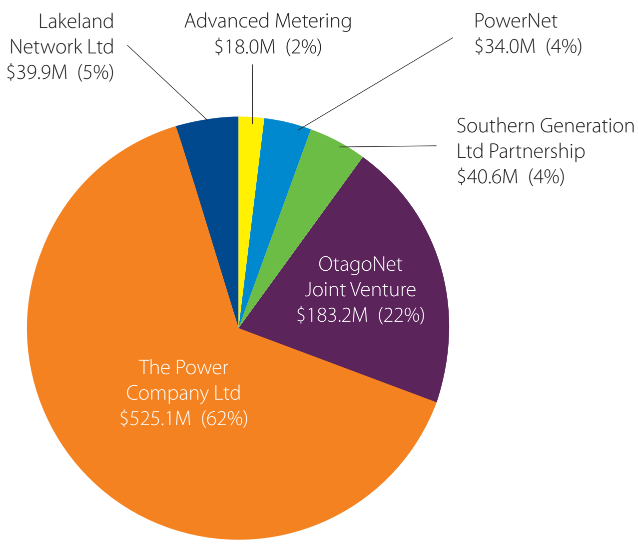
TPCL Group – Asset Breakdown

The investment make-up by asset investment and investment type clearly illustrates TPCL's strategy of diversification being achieved within the electricity sector.

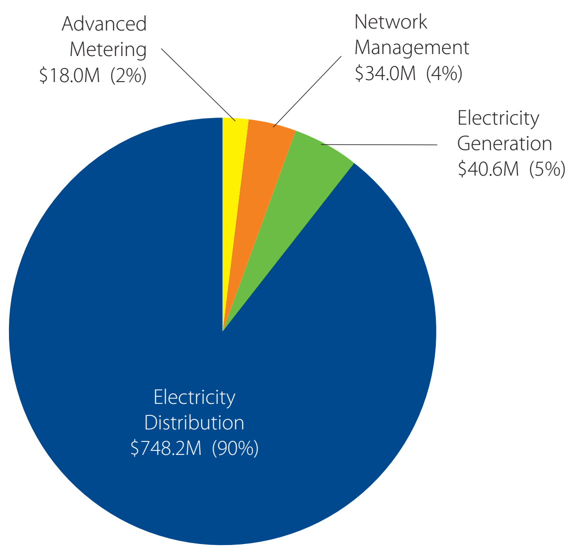
TPCL's predominant investment has been in TPCL's electricity network, and this now makes up 64% of TPCL's investment portfolio.

While renewable electricity distribution is by far the predominant investment type (at 89% of all investments), advanced metering and network management make up 6% of TPCL's investments, and there is now significant diversification into electricity generation. This diversification is important to secure long-term sustainable investment return.

Asset Investment $840.8 million



Investment Type $840.8 million



McNab substation.

The Year in Review

During the 2022-23 year, we remained focused on investing in new and existing assets on TPCL's network as part of delivering a safe, reliable and efficient supply for the customers we serve. Key projects delivered throughout the year will help maintain and improve service levels and will create additional network capacity. Total capital expenditure was $32.2 million, with a further $11.3 million spent on maintenance.

Operational Performance

Kingston Feeder Upgrade

We continued work on our multi-year project to upgrade the Kingston Feeder, which began in January 2021. Following phase one, which saw 5km of the Athol 5 line upgraded towards Kingston, we completed the second phase in 2022 by establishing two voltage regulators (at Garston and Allendale) to boost voltage to Kingston.

We also designed and started the next phase, which will see an express line to Allendale and a rebuild of the line from Allendale to Kingston. These lines are being built for 22kV (with a future 66kV capability) to supply the new Kingston Zone substation.

Orawia Zone Substation Upgrade

To prevent any risks caused from earthquakes to our Orawia Zone substation, we are upgrading it with new indoor switchgear. This two-year project commenced in early 2023, with the design and equipment ordered for completion by 2024.

Connecting Kaiwera Downs Wind Farm

As part of helping New Zealand become 100% renewable, we have been working on the construction of Mercury Energy's 43MW wind farm at Kaiwera Downs, south of Gore. We are building a new 33kV line that will link directly to Transpower's Gore Grid Exit Point (GXP) via a 33kV network connection. This project started in 2022 and involves overhead lines, underground cables and a new feeder circuit breaker. The site will be commissioned during the 2023-24 year.

McNab Substation Upgrade

We are working to upgrade the existing McNab switching station into a 33/11kV substation to supply the increased electrical load (for a high-pressure electrode boiler) at the Mataura Valley Milk dairy factory. The multi-year project started in 2022, construction began in early 2023, and the two transformers have been built overseas and will be installed and commissioned during the 2023-24 year.

Earth Upgrades

A $2.4 million works programme on TPCL's network was carried out to improve installations and reduce network risks during faults. This is part of ensuring satisfactory and safe ground resistance for an earth system, which requires regular monitoring. Upgrade works included the installation of additional earthing rods and banks, replacing surface material (asphalt or gravel) and regular testing and inspection of all network earth locations and conductive fences.

Customer Connections and Asset Replacements

TPCL invested $3.3 million in new customer connections in 2022-23, including $1.5 million on new subdivisions.

In addition, a total of $8.3 million was invested in line and pole replacements as part of TPCL's ongoing commitment to maintaining a reliable and safe network.

The Power Company Limited Projects

Project	Approximate Expenditure
Kaiwera Downs Wind Farm connection	$6,700.000
11 kV line replacement	$6,500.000
New customer connections and subdivisions	$4,100,000
McNab substation upgrade	$3,000,000
Earth upgrades	$2,400,000
Transformer replacements	$1,100,000

The Year in Review *continued*

SAIDI and SAIFI

As a consumer owned business, TPCL is exempt from the requirement to comply with the Commerce Commission's price quality regime. Nonetheless, TPCL calculates and measures itself against the quality limit that would have been in effect had it not been exempt.

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 over the course of a year. The SAIDI and SAIFI metrics guide a distributor's consideration of investment in quality that reflects consumer expectations of price and quality.

SAIFI measures the average number of interruptions that a customer would experience over a year, measured in units of interruptions per customer. Unplanned interruptions are also subject to normalisation.

Normalisation limits the impact of unpredictable major events, such as severe weather events, being mistaken for signs of deterioration. To ensure we track TPCL's reliability performance according to SAIDI and SAIFI metrics, PowerNet investigates all significant events and outages on the network, on our behalf. This helps to identify failure modes so we can implement improvement plans to mitigate future occurrences.

PowerNet also has a web interface which displays the location of planned interruptions on a map with key information. This means TPCL's customers can easily understand the impact of planned disruptions.

SAIDI results for both planned and unplanned outages are assessed against an overall limit and a revenue incentive target. For non-exempt businesses, like EIL and OJV, the incentive target allows for additional revenue to be available to the EDB, based on improved service to customers.

Planned outage results have annual limits and targets but are ultimately assessed against a limit set for the full regulatory period – in this case, 2020-2025.

TPCL exceeded the SAIDI Unplanned Limits but has stayed within the cumulative limits. The SAIFI Planned and SAIFI Unplanned interruptions were within the annual limits but exceeded cumulative limits. As an exempt business, there are no revenue penalties.

	Actual	Limit	Cumulative Actual	Cumulative Limit
TPCL SAIDI Planned	90.78	141.81	323.92	425.44
TPCL SAIFI Planned	0.644	0.664	2.13	1.99
TPCL SAIDI Unplanned	199.33	156.53		
TPCL SAIFI Unplanned	2.882	3.564		

The Year in Review *continued*

Regulatory Environment

Through our management agreement with PowerNet, TPCL continues to ensure all business operations are delivered within the scope of relevant regulations and standards.

We work to ensure our business complies with rules set by our industry regulators, the Commerce Commission and the Electricity Authority, as well as ensuring we conduct our business according to the relevant guidelines of WorkSafe New Zealand.

PowerNet, on behalf of TPCL, also works with the wider industry's representative organisations, such as Electricity Networks Aotearoa (ENA), to engage and contribute to the direction of electricity distribution in New Zealand. We are committed to a proactive approach to applying regulations in our work – through ensuring awareness and understanding of regulations and, where appropriate, input to regulations to ensure they are targeted, efficient and effective, and result in safe outcomes. Through PowerNet, TPCL also reviews staff awareness and compliance with relevant Acts and Regulations via the ComplyWith legal compliance survey.

Alongside defined regulatory reporting requirements, TPCL's 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. TPCL looks forward to the implementation of 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 discount, fair value adjustments, and tax was $19.1 million for the year ended 31 March 2023 ($19.3 million in 2022).

Fair value adjustments of $1.64 million provided a favourable contribution to the net surplus after tax (last year, a favourable $9.9 million). This was due to the value of interest rate derivatives improving but was offset by an increase in the value of the onerous contract provision from the penny-a-unit contract due to increased consumption under this contract.

The consolidated result for TPCL is:

	31 March 2023 $'000	31 March 2022 $'000
Operating Surplus Before Discount and Fair Value Adjustments	19,086	19,257
Less Discount to Customers	(8,063)	(7,955)
Surplus Before Tax and Fair Value Adjustments	11,023	11,302
Fair Value Adjustments		
Unrealised Gain/(Loss) on Derivatives (NZ)	3,736	10,972
Derivatives Financial Instrument (Loss)/Gain(US)	(726)	(565)
Loss on Onerous Contract	(1,366)	(521)
	1,644	9,886
Net Surplus Before Tax	**12,667**	**21,188**
Taxation Expense	(1,537)	(5,621)
Net Surplus After Tax	**11,130**	**15,567**

Acknowledgements

The partnerships we have developed continue to be intrinsic to the successful results TPCL delivers. In particular, we would like to take this opportunity to acknowledge the continued dedication and commitment of the PowerNet team, who work tirelessly to provide our customers with a reliable and resilient power supply. Their expertise and focus in managing our network has contributed to TPCL being one of the best-performing, predominantly rural networks in New Zealand. In addition, the relationship we have with EIL continues to be successful and is a collaboration we consider invaluable to the long-term benefits for the wider Southland region. Our many working relationships and partnerships are integral to achieving our strategic goals and are critical to ensuring we remain focused on delivering an efficient and reliable power supply for our connected customers.

Asset Management Plan

TPCL'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 our connected customers in the future. Through its governance and management framework, it outlines projects and operating expenditure planned for TPCL's network over the next 10 years.

TPCL continues to give customers the opportunity to provide input to enhance our business activities. Feedback from customers is used to develop our AMP and assists in our planning efforts to meet customer needs. As part of this, we work closely with customers and developers wanting to connect to TPCL's network so we can understand their requirements and use that information to assist us in our asset management planning.

Our AMP identifies key short to medium-term projects and the service levels that need to be provided and maintained. The projects outlined in our AMP acknowledge the different customers that TPCL services, from small residential properties to major industries. It identifies future needs, outlining the best options to meet customer requirements and how best to provide capacity for projected network growth.

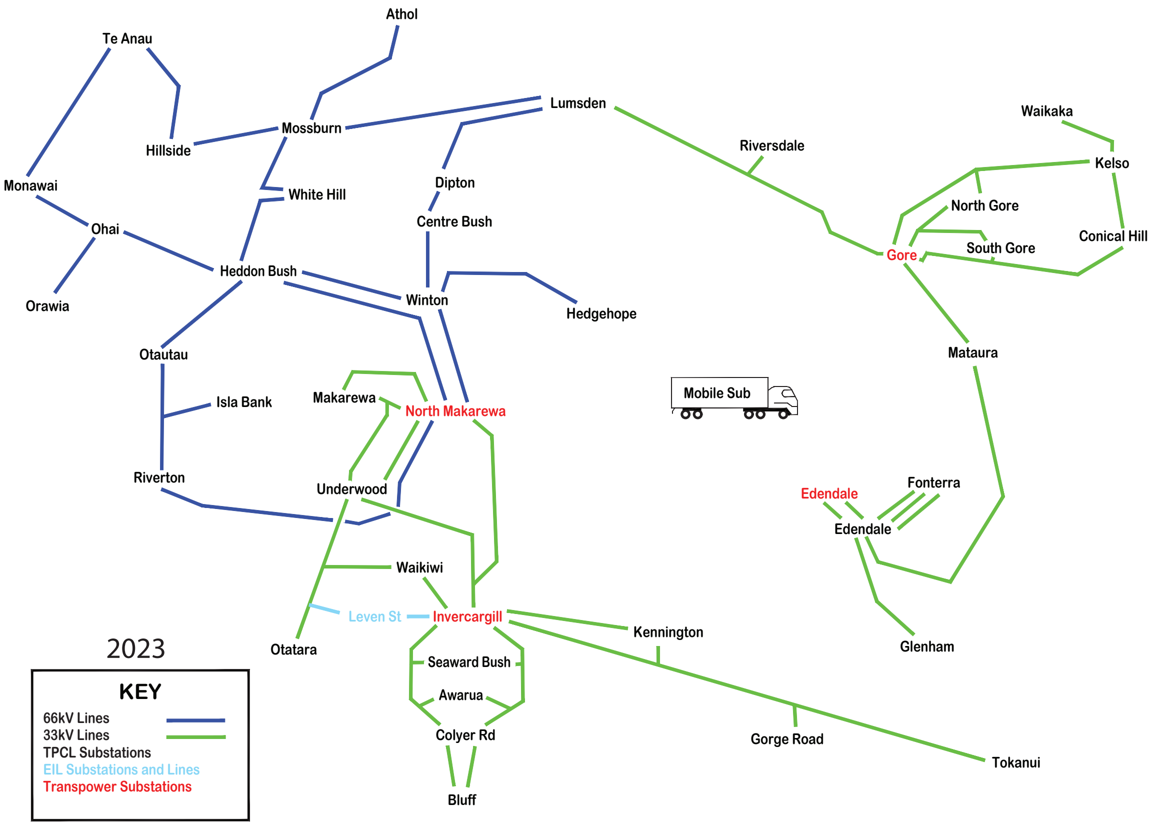
Network capital expenditure outlined in our 10-year AMP is forecast at $39 million in 2023-24, $38 million in 2024-25, and then $28-$29 million in each of the following years. It reflects a significant programme of work to mature our asset management capability, support customer growth, and improve our service provision for customers.

Investments outlined in the AMP include:

- New commercial and domestic connections plus subdivisions ($4.15 million annually);
- New industrial and generation connections ($7.6 million in 2023-24);
- Continued upgrade of the supply from Athol to Kingston ($3.1 million);
- Upgrading distribution lines in the Waimea Plains area to 22kV ($0.5 million);
- Asset replacements and renewals ($14.1 million - $17.6 million annually);
- Quality of supply projects ($0.5 million - $1.0 million annually); and
- Safety, environmental, and other projects ($2.0 million - $3.7 million annually).

TPCL's AMP reflects provisions for the changes to our electricity system, primarily to enable process heat decarbonisation. At TPCL, we predict the emergence of new solutions as people embrace new technologies, take control of their energy use, and demand climate change action. Supporting this evolving environment has been an important strategic lever for TPCL, which is therefore reflected in our 10-year investment plans.

TPCL's AMP can be viewed at: TPCLAssetManagement - PowerNet



TPCL's sub-transmission network map.

Supporting Our Community

At TPCL, our support of the communities we serve is intrinsic to our organisational principles because it is important to us that we participate and contribute to what makes our region become stronger.

Therefore, together with the Southland Power Trust, we continue to support the community by providing:

- A significant discount to consumers connected to our network;
- Supporting the Southland Warm Homes Trust's insulation and heating installations in the Southland and West Otago region;
- Providing first aid and mental health first aid training to community groups and supporting the delivery of the Whatuia te Wairoa | Weaving Wellbeing programme for Years 7-8 through the PowerNet partnership with Hato Hone St John.

Consumer Price Discount

TPCL was again delighted to deliver a price discount in September 2022, as it has done each year since 2001.

Through the price discount, a total of $9.2 million (including GST) was paid to electricity retailers and onto consumers' accounts across Southland and West Otago. This is a significant amount of money returning to southern communities and the largest amount given back to a community by any consumer/community-based entity in the south.

All residential consumers (connected at midnight on 31 August 2022) received a price discount of $0.2 cents per kilowatt hour (including GST) based on the power consumption recorded for their property. Eligible general consumers (connected at midnight on 31 August 2022) received a price discount based on a combination of a percentage of fixed charges and $1.13 cents per kilowatt hour (including GST). Individual consumers (connected at midnight on 31 August 2022) received a price discount on an individually assessed basis (including GST).

Since 2001 our annual price discount has put $135.2 million back into our southern communities, through consumers' electricity retailers.

Southland Warm Homes Trust (SWHT)

TPCL's annual contribution to support the Southland Warm Homes Trust (SWHT) is $62,500. In addition, some of the Trustees of the Southland Power Trust are involved and contribute as Trustees of SWHT. TPCL supports PowerNet's administration services to the SWHT.

The SWHT, in conjunction with the Energy Efficiency and Conservation Authority (EECA), 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 recent years has resulted in the Government committing further funding of $400 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.

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 Power Company Ltd (TPCL) Board is currently comprised of six non-executive Directors (the "Board") who are appointed by the Southland Electric Power Supply Consumer Trust (Southland Power Trust).

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 meets regularly during the financial year, with additional full meetings as 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 Comply Watch and Comply With tools which are reviewed regularly and reported on quarterly.

Risk Management

TPCL 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.

PowerNet (for TPCL) 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.

TPCL (via PowerNet) has recently achieved ISO 55001 Asset Management Systems – ISO 55001 accreditation. ISO 55001 provides TPCL 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 considers recommendations and advice of external and internal auditors and other external advisors on the operational and financial risks that face the Company.

The Group insures for liability loss exposures, including Directors & Officers Insurance.

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 the Company's Constitution, the board submits a draft Statement of Intent (SOI) to the Company's shareholders in March each year. After considering comments from those shareholders, the board approves the final SOI and a copy is placed on the Company's website by the end of April each year.

11kV line at Dipton.

Corporate Governance Statement *continued*

Health, Safety and Environment Management

Through the PowerNet Health, Safety and Environment Committee, Directors also consider health, safety and environment risks.

The Board has a strong commitment to ensuring contractors, joint venture entities, PowerNet's 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 criticial 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 TPCL.

The role of the MA Working Group is to provide support and advice to PowerNet and the EDBs, being Electricity Invercargill Ltd (EIL), TPCL, Lakeland Network Ltd (LNL) 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 PricewatershouseCoopers (PwC). Adri Smit has been the Audit Partner since 2019.

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 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.

Directors' Profiles

Peter Moynihan *(Chair) BAgSc (Appointed 15 February 2023)*

After completing his Lincoln degree, Peter embarked on a 33-year banking career where he ran Westpac's South Island Agribusiness team managing over $5 billion of lending. Peter left banking in June 2021. Peter has interests in three Central Southland dairy farming businesses, milking around 1,900 cows.

Peter was appointed chair of the boards of The Power Company Ltd in February 2023 (previously a director from 2017). He is also Chair of Lakeland Network Ltd and chair of the OtagoNet Joint Venture governing committee (from 15 February 2023). He is chair of the PowerNet Health, Safety and Environment committee and a member of the PowerNet Remuneration committee. He is a director of PowerNet Ltd (from 2019) and was previously the deputy chair of PowerNet Ltd (appointed January 2022, retiring February 2023).

He is also a member of the Institute of Directors.

Peter's comprehensive understanding of balance sheets, trading performance, risk and how strategy and strategy implementation is vital for this industry.

James Carmichael *BE (Engineering), FEngNZ, CMInstD*

James is a director on the board of The Power Company Limited (appointed on 1 August 2022) and is the deputy chair of PowerNet. He has over 45 years of experience in the development of large infrastructural projects. Initially, his involvement was as a professional engineering consultant, then he joined PowerGen PLC in the role of business development director South East Asia.

James has held several governance roles including directorships on the boards of listed entities, including Ranhill Power (Malaysia) and Vector Ltd (New Zealand). He also provides independent strategic advisory and consulting services to companies seeking to expand their business internationally.

James has a Bachelor of Engineering Degree from Canterbury University, is a fellow of Engineering NZ (FEngNZ), and is a chartered member of the Institute of Directors New Zealand (CMInstD). He is an alumnus of the Columbia University School of Business.

Wayne Mackey *BE (Electrical), MIEEE*

Wayne was the CEO of Network Tasman Ltd for 18 years. He has also held directorships with Nelson Electricity Ltd and SmartCo Ltd. From 1991-1998, he was CitiPower's general manager and, prior to that, a city energy engineer with the Nelson City Council.

Wayne is a director on the boards of The Power Company Ltd, PowerNet Ltd, OtagoNet Joint Venture governing committee and Lakeland Network Ltd (from July 2022). He is a member of the Institute of Electrical and Electronic Engineers.

Wayne has extensive industry knowledge through his experience leading an electricity network and related directorships.

Directors' Profiles *continued*

Wayne McCallum

Wayne is a director of The Power Company Ltd and has been an observer of the PowerNet board since September 2021. He has a background as an industrial electrician, industrial automation, asset management, lean manufacturing, as well as 12 years of practical experience in the successful decarbonisation of business operations.

With a keen interest in anything to do with energy, he has also been a member of the Wood Energy South Advisory Group.

For over 25 years, Wayne has been the managing director of McCallums Group - a group of family-owned companies based in Invercargill, which are award-winning industry leaders in innovation, service and sustainable business practices. He is also a member of the Institute of Directors New Zealand.

Karen Sherry *QSM, BA, MA (Hons), LLB (Hons), C.FInstD*

Karen is a director and shareholder of the legal firm Donnell Sherry Ltd where she specialises in commercial and trust law.

Karen has had 28 years experience in governance in the electricity industry as a director of Mercury Energy Ltd (1994-1999). Karen was first elected to Entrust (formerly Auckland Energy Consumer Trust) in 1994 and was the longest-serving trustee and a former chair of the trust when she stepped down in 2021. She was one of two trustees appointed to the Vector board to represent Entrust's interests from 2006-2019. During her time with Entrust and Vector, Karen was a strong advocate for Entrust's consumer beneficiaries. Karen was also the chair of Energy Trusts of New Zealand Inc from 2009-2022. Karen was appointed to The Power Company Ltd board in July 2022, and she is also a current director of the Energy Efficiency and Conservation Authority and Electra Limited.

Karen is a director on the board of The Power Company Ltd (appointed 1 August 2022) and PowerNet Ltd (appointed February 2023).

Karen is a former director of the Auckland SPCA, a chartered fellow of the Institute of Directors in New Zealand, and in 2014 she was awarded the Queens Service Medal for her services to the Electricity Industry.

Murray Wallace *(BCM CPA)*

Murray joined the board as a director of The Power Company Ltd in November 2022. He is also a director of PowerNet Ltd.

Murray brings over 15 years of experience from operating in senior management roles in the export-orientated wood manufacturing industries in Southland. He has extensive commercial experience in international markets.

With a BCM (Lincoln) and CPA (Australia), Murray has a strong background in accounting, risk management and financial control. He has a wealth of experience in business management and management of industrial manufacturing assets.

Murray undertakes advisory services for several businesses in New Zealand and is a member of the Institute of Directors.

Retired Directors'

Duncan Fea *BCom, FCA, CFInstD (Retired 19 July 2022)*

Duncan is a business advisor with 40 years of experience. He is a managing partner for Findex Central Otago Offices and has lived in Queenstown since 1989. Duncan's work involves working closely with clients on strategic planning, business purchases and sales, business development, corporate governance, restructuring and insolvency.

Duncan was a director on PowerNet Ltd and The Power Company Ltd boards. He chaired the OtagoNet Joint Venture governing committee, Lakeland Network Ltd (from 2011) and the PowerNet Audit and Risk committee. He is a director on the Southern Generation GP Ltd board (from 2015).

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

Douglas (Doug) Fraser *(Chair), BSc (Chemistry), CFInstD (Retired 7 September 2022)*

Self-employed in the primary sector, Doug owns and manages 595 hectares of dairy and sheep farm in Western Southland.

Doug was a director on the boards of PowerNet Ltd and Lakeland Network Ltd and was chair of The Power Company Ltd. He was also a member of the OtagoNet Joint Venture governing committee. His previous governance roles include Otago Power Services Ltd, NZ Wool Board, Wools of NZ and AgITo.

He has a Bachelor of Science Degree in Chemistry and is a chartered fellow of the Institute of Directors.

Don Nicolson *(Retired 19 July 2022)*

Self-employed in the primary sector, Don contributed to many advocacy and governance roles. This included as a Trustee for the Southland Electric Power Supply Consumer Trust (SEPSCT) and numerous roles within Federated Farmers locally and nationally, culminating in 2008 by becoming the 27th National President of Federated Farmers of New Zealand and presiding over New Zealand's largest primary sector Association.

Don was a director on the boards of PowerNet Ltd (from 2015), The Power Company Ltd (from 2015) and Lakeland Network Ltd (from 2017). He was also a member of the OtagoNet Joint Venture governing committee (from 2017). He retired from the role of chair on the PowerNet board in December 2021.

Statutory Report

The Directors have pleasure in presenting their Annual Report and Financial Statements for the year ended 31 March 2023.

Result and Distribution

The Directors report that the Group's Net Profit after tax for the year under review was $11,130,000.

No dividends have been paid out or declared during the year by the Company.

Principal Activity

The principal activity of the parent entity TPCL is the provision of electricity distribution services. The Company's shareholder is the Southland Electric Power Supply Consumer Trust. The Group consists of TPCL, 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 Remuneration 2022/23

Remuneration paid or due and payable to Directors for services as a Director and in any other capacity for TPCL including Committees, Joint Ventures and Subsidiaries during the year was $384,169.48 and was distributed as follows, noting Directors Carmichael, Sherry and Wallace were pool remunerated by the shareholder:

Director	Appointment Date	Retirement Date	2022/2023
Doug Fraser (Chair until 7 September 2022)	08 September 2004	7 September 2022	$34,867.60
Peter Moynihan (Chair from 7 September 2022)	06 September 2017	-	$62,474.87
James Carmichael	1 August 2022	-	$66,666.64
Duncan Fea	08 September 2011	19 July 2022	$13,333.32
Wayne Mackey	06 September 2017	-	$39,999.96
Wayne McCallum *	29 September 2021	-	$55,577.11
Don Nicolson	24 August 2015	19 July 2022	$13,333.32
Karen Sherry	1 August 2022	-	$66,666.67
Murray Wallace	1 November 2022	-	$31,250.00

** Includes PowerNet Observer Fee*

Directors' Interests

The following entries were made in the Interests Register of the Company with regard to the Directors [Companies Act 1993, Section 189 (1) (c)]:

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:

(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.

Statutory Report *continued*

Directors' Register

The Directors Register for The Power Company Ltd and its subsidiaries is as follows:

	PowerNet Limited	The Power Company Limited	OtagoNet Limited	OtagoNet Joint Venture	OtagoNet Properties Limited	Roaring Forties Energy GP Limited	Southern Generation GP Limited	Lakeland Network Limited	Last Tango Limited
Donald (Don) Nicolson	●	●	●	●	●			●	●
Doug Fraser	●	●	●	●	●			●	●
Duncan Fea	●	●	●	●	●	●	●	●	●
James Carmichael	●	●	●	●	●			●	●
Karen Sherry	●	●							●
Murray Wallace	●	●							●
Peter Moynihan	●	●	●	●	●	●	●	●	●
Wayne Mackey	●	●	●	●	●			●	●
Wayne McCallum	●	●							●

Statutory Report *continued*

Directors' Disclosure of Interest Interests Register

Interest Register

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

Duncan Fea	
Findex Ltd	*Partner*
James Carmichael	
Aku Investments Limited	*Director*
JC2V Limited	*Director*
Parkwood Body Corporate	*Chairman*
Project Max Limited	*Non-Executive Director*
Karen Sherry	
Donnell Sherry Limited	*Director / Shareholder*
Energy Efficiency and Conservation Authority (EECA)	*Member*
Murray Wallace	
Biobiowood Limited	*Director*
Gorton Lumber Macro Limited	*Director / Shareholder*
Jethro Associates Limited	*Director / Shareholder*
Peter Moynihan	
Aerodrome Farm Ltd	*Director and Beneficial Shareholder*
Agristrategy Limited	*Director / Shareholder*
Rathmore Farm Ltd	*Director / Shareholder*
Ravensdown Ltd	*Director / Shareholder*
Shamrock Dairy Farms Limited	*Director / Shareholder*
Wayne McCallum	
J A McCallum & Son Ltd	*Director / Shareholder*
Selector Uniforms Ltd	*Director*

Employee Remuneration

TPCL has no direct employees, therefore no remuneration declaration is required.

Donations

The Company did not make any donations during the period.

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 Officers' Insurance

Liability insurance was effected for Directors of the Company and its subsidiary companies.

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.

Peter William Moynihan
Chair

S.W. Mackey

Stanley Wayne Mackey
Director

Southland Power Trust

The Southland Power Trust was established in December 1997 to hold shares in TPCL on behalf of all customers connected to the company's electricity network. The Trust Deed sets out the rules governing the powers of the Trust. Trustees select board members and are responsible for the company's constitution.

Trustees' duties are to act on behalf of shareholders, that is, the customers connected to the network who are Trust beneficiaries. Trustees serve a four-year term and elections to fill vacancies are held every two years.

The current trustees (L-R) Wade Devine, David Rose, Carl Findlater (Chair), Stuart Baird and Stephen Canny.

Trustees' Report

Governance and Consultation

After 25 years of operation of the Southland Electric Power Supply Consumer Trust (SEPSCT) Trustees are privileged to offer, on behalf of the consumers they represent, comments on the performance outlined in the 2022-23 The Power Company Limited (TPCL) Annual Report.

TPCL is a 100% Trust owned business, managing investments on behalf of the SEPSCT (The Trust). The role of the Trust is to represent consumers as the owner of TPCL. The Trust ensures the customer is the priority, combined with the efficient use of power. The Company has afforded the Trust the opportunity to comment on the Company's Statement of Intent and Business Plan projections, prior to these being finalised by TPCL's Directors. This is achieved through the Letter of Expectation, which the Board is reviewed against annually.

Focus, as always, is placed on the expectation that expenditure through the asset management plan, in regard to the network, will exceed depreciation. Return on capital investments and acquisitions is acceptable to the Trust and meets Board predictions. Debt levels are kept at ratios allowing for contingencies in uncertain times. Most importantly for our network are the price of distribution, and quality of service our consumers receive, and the commitment to continuous improvement, in the health and safety experience of our consumers and TPCL's joint venture company employees.

Changes to the Trust Act and the Company Constitution have triggered a review of the relationship between the Trust SEPSCT and the Company TPCL.

The purpose is manyfold, in that as the owner, the Trust has a legislative responsibility to ensure the beneficiaries assets are managed wisely. This, of course, requires a deeper level of disclosure on behalf of the Company. Relationships between the owner and Board must be managed, and rules must be developed based on the Trust Deed and Company Constitution. This ensures that the entities don't step on each other's toes and understand the limits of responsibility in a respectful and constructive manner. This was looked at as the time to review and develop the appropriate and necessary policies and procedures. Much of this work had not been undertaken during the inception of the Trust. The review has led to open and honest discussion. The purpose of which is to develop the necessary basis for quality working relationships and communication, allowing the individual entities to fulfil their respective responsibilities.

Last year, the Trust talked with pride about the Company's investment in smart metering. It is the Trust's obligation to ensure that consumers' quality of supply is acceptable and meets the supply quality limits set for networks. Generally, what is reported to the Trust are the average figures across the entire network. The Trust was hopeful, by now, that the metrics achieved through smart meters could be reported on a monthly basis. The vision for smart meter technology was two-fold for the Trust; firstly, it would supply metrics so that the Trust could assess the efficacy of the asset management plan. Secondly, it may provide consumers with real-time information on their power use. This would afford the consumer the opportunity to participate in their energy use and make decisions to gain the best efficiency from their power. Sadly, neither of these goals has seen fruition. The Company assures the Trust that smart meters are used to better control, manage, and maintain the network. However, obtaining information from Smart meters, which the Company owns, is in the hands of the retailers, who are not always willing to share information.

Technology offering information is vital to good management of the network and utilisation of energy in the home or business. It is an investment we can't ignore; information is key and must be shared between retailer, distributor, and consumer to ensure efficient use.

Core Business

The core business of TPCL is the ownership and management of assets in the electrical energy sector. Management of the assets is principally through the joint venture company PowerNet Limited. PowerNet is the operative company providing asset management and administrative services to TPCL. These services are supplied to TPCL's partner in PowerNet, Electricity Invercargill Ltd (EIL).

Change is always inevitable; however, the relationship between our jointly managed networks has been beneficial. Combining the two entity's network management gives the scale that provides increasing efficiency. We have benefited from these efficiencies for many years and the synergy the partnership brings. PowerNet offers administrative and functional services to other joint venture investments, such as the OtagoNet Joint Venture, Lakeland Network Limited and the Roaring Forties Limited Partnership share in Southern Generation Limited Partnership.

Risk

We live in uncertain times, and as the year has progressed, shortages, freight difficulty, cost of materials and interest rates are all increasing. If you add to these difficulties the Government's requirement to decarbonise the industry and put COVID-19 in the mix, a perfect storm has occurred.

Investment in the sector is based on a life cycle of 40-plus years. Investment is not made lightly, and dramatic change can be disruptive and destructive to investments. Our latent financial ability must be such that it can react to change.

Reserves are critical in these times, and the Board's ability to keep across the information available is paramount. The Trust is confident, in the assurance from the Board, that future challenges are being anticipated and planned for.

TPCL assures the Trust it is posturing for the change ahead, and unprecedented increases in demand will have to be anticipated for a successful future for our consumers.

Trustees' Report *continued*

Financial

The Group achieved a satisfactory operating surplus of $19.1 million before discount, tax, and fair value adjustment ($19.3 million in 2022).

Line Charges

The current levels of pricing provide TPCL with a sustainable return on investment. This has enabled the Company to carry out the reinvestment on the network required, to meet the current and projected growth in load, to improve quality of supply, and to provide a high level of service to customers.

Pricing is set to ensure it is in the best long-term interests of its consumer owners and network performance.

Trustees believe that the interests of customers are fully protected, by the nature of the Consumer Trust Ownership model, with the regular election of Trustees by consumers. Power distribution is a monopoly business. Trustees feel the Trust Ownership model is a necessity for this type of asset and support the Trust's continuation. Trustees are supportive of the price and quality control exemptions for TPCL due to its consumer ownership under the Commerce Act.

Consumers Discount

An explicit price discount of $9.2 million (including GST) was paid to retailers on the condition that it was passed through to consumers in September 2022. Trustees believe the consumer price discount should remain relative to the company's growth in asset base and revenue. Price discounts totaling more than $135.2 million have been returned to consumers since 2001.

Lines Operation

Decarbonisation will demand huge investment over time in the network. Once thought to be a progressively redundant asset due to embedded generation, i.e., solar panels and wind turbines, the network is now seen as the means to guarantee supply. This is especially so when the sun doesn't shine, and the wind doesn't blow. It is also the means by which energy can be sold into the market or permit peer-to-peer trading to occur.

All consumers realise the importance of the network. As consumers only have one set of lines passing their home or business, we also know it is a monopoly business. Connection to the network has an inherent cost, which is a balancing act between the consumer paying for everything, or the costs being socialised amongst many consumers over time. These challenges are amongst the many faced by the Company, in attempting to provide equity to consumers. The Trust supports the programme of major investment in the network it represents to meet increased demand, maintain the required quality of supply, and ensure that the overall investment in network assets is maintained. This will always be made up of capital contributions from consumers and lines revenue obtained from distribution charges.

It is forecast that demand will rise 68% over the next ten years to cope with Government plans to decarbonise the economy. This will provide a challenge to the network going forward, and resources will need to be accumulated for long-term investment.

The normalised System Average Interruption Duration Index (SAIDI) for unplanned interruptions on TPCL was 199.33 minutes, which was above the target supply quality limit of 151.83. Planned interruptions had a SAIDI quality limit of 131.54, which TPCL achieved with a result of 90.78 minutes for the year.

The normalised System Average Interruption Frequency Index (SAIFI) for unplanned TPCL interruptions was 2.88 events in comparison to the target supply quality limit of 3.39 events. SAIFI for planned interruptions was above the target limit of 0.61 events with a result of 0.64 events for the year.

Weather is always a factor in these metrics, along with vegetation encroaching on lines and assets.

Assets outside the Lines Business

These joint venture businesses are partly owned by TPCL and are distinctly separate from the Southland and West Otago lines network. The Trust, although owning TPCL, has no input as a shareholder into these businesses. These businesses are PowerNet Limited, Roaring Forties Energy Limited Partnership (Roaring Forties), Southern Generation Limited Partnership with OtagoNet Joint Venture and Lakeland Network Limited. There are sundry businesses within the group, OtagoNet Properties Limited and SmartCo Limited (metering).

Comments on these Businesses

OtagoNet, being a regulated network, has come under even greater regulatory pressure, reducing cash flows. The acquisition can be viewed as a strategic asset and does help synergies not available to a single operative company. Integrating servicing and network control with the assets PowerNet presently controls has achieved economies of scale. In a regulatory sense, Lakeland Network can be taken as part of OtagoNet.

The Group holds investment through Southern Generation Limited Partnership (Southern Generation) in renewable power generation. Roaring Forties is an equal partner with Pioneer Energy in Southern Generation. The functional work of operating and maintaining the generation assets is contracted to Pioneer Energy. Southern Generation is a successful business, as demand and cost of electricity grows, the investment's value and return does as well.

Trustees' Report *continued*

Directors

The Board has had no change since the 2022 AGM, where Murray Wallace joined the Board, and we welcome him to his new appointment. Trustees and Directors maintain a sound working relationship.

The Trust appreciates working with a Board, who have a "No surprises policy". Board objectives, through the development of the new Constitution, are aligned with those of the Trust.

The focus is on return to consumers, power quality, and availability. Through the Letter of Expectation, the Trust's high-level aspirations are communicated to the Board. A constructive relationship with the Board is critical to the successful operation of the business. Over the last year, a conscious effort has been made by the Company to assist the Trust in meeting its obligation to beneficiaries (consumers). This has been greatly appreciated, and we thank the Board for their efforts.

Southland Warm Homes Trust

Trustees continue to support the Southland Warm Homes Trust (SWHT) since 2008, which provides subsidies to householders in our network to foster warmer, healthier homes. Homeowners on our network have the ability to receive a subsidised energy assessment, and insulation and heating installation if they meet the required criteria. The SWHT receives funding from local funders and Central Government via the Energy Efficiency and Conservation Authority (EECA) through their many programmes over the years, Warm Up New Zealand Heat Smart Programme 2008-13, Healthy Homes Programme 2013-16, Health Homes Rental Programme 2016-18, Warmer Kiwi Homes Programme 2018-24. Warmer Kiwi Homes subsidies are delivered through agreements with service providers in each region. Presently the SWHT subsidises the EECA Grant, homeowners receive by a further 15%, by so doing increasing the uptake of insulation and heating appliances in our region. Research has shown that every dollar spent on a warmer, drier home equates to $4.50 through savings in energy costs and hospital admissions. Our previous Chair, Jim Hargest, retired at the last AGM, and Lesley Soper graciously accepted the position of Chair. Thanks must go to Lesley for her energy and passion as Chair. Thanks, must go to Allan Beck from PowerNet for administration services and contributing to the management of the SWHT.

Energy Trusts Association

Trustees continue to support the Energy Trusts of New Zealand (ETNZ) as an effective voice representing the interests of Energy Trusts and their consumers. Since 2018, the Trust has been represented on the Executive of ETNZ, giving it a voice nationally. ETNZ has been instrumental in preparing submissions on changes to legislation, and reviews of the industry, undertaken by Government. It has been proactive in demonstrating the value of the Trust ownership model. ETNZ has been a valuable contributor in representing Trust-owned electricity distributors. SEPSCT respects and appreciates the support received. ETNZ has also provided in-service training and guidance for Trustees of Energy Trusts. This has kept Trustees across changes in Trust laws and provided an opportunity for contact with other Trusts.

Transparency of Line Charges

Trustees support the transparency of line charges on consumer invoices and through ETNZ, continue to lobby the Electricity Authority for greater transparency. Trustees continue to be disappointed with the lack of progress in this area. The Trust believes retailers should be open in providing an itemised account to consumers. This would provide consumers with the ability to use power efficiently and to obtain the greatest benefit to themselves.

Administration

Trustees wish to acknowledge the work of their Secretary, Financial Advisor, and Legal Representation whose assistance is critical to the smooth running of the Trust.

Last but not least, our consumers who we are here to serve. Thank you.

Carl Findlater
Chair
Southland Electric Power Supply Consumers Trust

Approval by Directors

The Directors have approved the Consolidated Financial Statements of The Power Company Limited for the year ended 31 March 2023 on pages 23 to 53.

For and on behalf of the Board.

Peter William Moynihan
Chairperson

29 June 2023

Murray John Wallace
Director

29 June 2023

Maintenance work on the TPCL network.

Consolidated Financial Statements

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 & 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

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.

Consolidated Statement of Service Performance (unaudited) *continued*

For the year ended 31 March 2023

	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	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.

	Achievement	
	2023	2022
Supplementary Information		
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.

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		(8,063)	(7,955)
Net Revenue from Contracts with Customers	2	**68,815**	**65,525**
Other Income	3	6,389	5,081
Operating Expenses	4	(59,238)	(59,426)
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	(1,366)	(521)
Derivative Financial Instrument Gain/(Loss) (US)	15	(726)	(565)
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	8,473	11,206
Net Surplus Before Taxation		**12,667**	**21,188**
Taxation Expense	5	(1,537)	(5,621)
Net Surplus After Taxation		**11,130**	**15,567**

The accompanying notes on pages 29 to 53 form part of and should be read in conjunction with these financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2023

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

Consolidated 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 Comprising:			
Parent Interest		57,151	16,802
Minority Interest	12	1,022	139
		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	5,193	5,054
		414,780	**397,839**
Equity at End of Year Comprising:			
Parent Interest		466,738	409,587
Minority Interest	12	6,215	5,193
	7	**472,953**	**414,780**

The accompanying notes on pages 29 to 53 form part of and should be read in conjunction with these financial statements.

Consolidated Statement of Financial Position

As at 31 March 2023

	Notes	GROUP 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 29 to 53 form part of and should be read in conjunction with these financial statements.

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		1,922	1,069
		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		11,084	10,351
		54,626	**48,593**
Net Cash Flows From Operating Activities	19	**27,257**	**21,519**
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		31,850	17,388
		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		31,213	14,988
		72,096	54,192
Net Cash Flows From Investing Activities		**(31,080)**	**(26,490)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was Provided From:			
Advance from Term Borrowing	15	3,893	51,634
		3,893	51,634
Cash was Applied To:			
Repayment of Term Borrowing	15	-	46,955
Principal Elements of Lease Payments	6	34	34
		34	46,989
Net Cash Flows From Financing Activities		**3,859**	**4,645**
Net Increase/(Decrease) in Cash and Cash Equivalents Held		36	(326)
Add Opening Cash Brought Forward		268	594
Closing Cash and Cash Equivalents To Carry Forward	8	**304**	**268**

The accompanying notes on pages 29 to 53 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

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.

(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.

(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.

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.

Notes to the Financial Statements *continued*

For the year ended 31 March 2023

(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.

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	**68,815**	**65,525**
Timing of Revenue Recognition		
Over time	66,430	63,429
At a Point in Time	2,385	2,096
Total Revenue	**68,815**	**65,525**

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	**6,389**	**5,081**

Notes to the Financial Statements *continued*

For the year ended 31 March 2023

4 Expenses

	GROUP	
	2023 $'000	2022 $'000
Expenses Include:		
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	**23,229**	**25,231**
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	**9,680**	**112**
Loss/(Gain) on Onerous Contract	1,366	521
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	12,667	21,188
Prima Facie Taxation at 28%	3,547	5,933
Permanent Differences	(340)	(602)
Prior Period Adjustment	(1,670)	290
Tax Expense	**1,537**	**5,621**
Made up of:		
Current Tax	2,746	5,111
Deferred Tax	(1,209)	510
Tax Expense	**1,537**	**5,621**

Notes to the Financial Statements *continued*

For the year ended 31 March 2023

6 Leases

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

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	39	38
	39	**38**
Interest Expense (included in Finance Cost)	13	12
	13	**12**

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

6 Leases *continued*

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements *continued*

For the year ended 31 March 2023

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	**70,160**	**70,160**
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	**186,519**	**141,515**
Cash Flow Hedge Reserve		
Opening Balance	(1,686)	(3,031)
Movement in Cash Flow Hedge Reserve	695	1,345
	(991)	**(1,686)**
Cost of Hedging Reserve		
Opening Balance	(71)	(100)
Movement in Cost of Hedging Reserve	161	29
Closing Balance	**90**	**(71)**
Total Reserves	**185,618**	**139,758**
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	**210,960**	**199,669**
Total Equity	**472,953**	**414,780**

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

Notes to the Financial Statements *continued*

For the year ended 31 March 2023

8 Cash and Cash Equivalents

	GROUP	
	2023 $'000	2022 $'000
Current Account	304	268
Total Cash and Cash Equivalents	**304**	**268**

9 Receivables and Prepayments

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

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 2023	2022	Balance Date
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	GROUP 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	(9,127)	(9,874)
Carrying Amount at End of Year	**232,788**	**219,681**

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.

Notes to the Financial Statements *continued*

For the year ended 31 March 2023

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

11 Property, Plant and Equipment *continued*

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.

Review of Asset Estimated Useful Life

During 2023, PowerNet Engineers reviewed and updated the estimated useful life of The Power Compant 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 $'000	2022 $'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 $'000	2022 $'000
Trade Creditors	11,424	9,051
Accruals	9,954	10,751
Total Creditors and Accruals	**21,378**	**19,802**

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	(2,710)	(2,413)
Carrying Amount at End of Year	**10,868**	**3,334**
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.

Notes to the Financial Statements *continued*

For the year ended 31 March 2023

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 Limited	5,537	4,109
	241,691	**234,727**

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.

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.

15 Term Borrowings *continued*

Hedging Activity and Derivatives

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

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

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

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

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

Changes in the fair value of the cost to convert foreign currency to NZD of CCIRS are excluded from the designation and are seperately recognised in other comprehesive 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.

16 Deferred Taxation

	$'000 Balance as at 1 April 2021	$'000 Charged to the Income Statement	$'000 Charged to Equity	$'000 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
	81,955	**903**	**(393)**	**82,465**

	$'000 Balance as at 1 April 2022	$'000 Charged to the Income Statement	$'000 Charged to Equity	$'000 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
	82,465	**(1,209)**	**17,962**	**99,218**

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 $'000	2022 $'000
Current Portion	814	739
Non-Current Portion	15,250	13,959
Provision for Onerous Contract	**16,064**	**14,698**

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%

18 Commitments

(a) **Capital Commitments**
The Group has capital expenditure contracted for but not provided for in the 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.

Notes to the Financial Statements *continued*

For the year ended 31 March 2023

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 demoninated 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 relavent US Dollar borrowings with no residual foreign currency risk exposure.

Fair Value

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

Capital Management

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

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

Notes to the Financial Statements *continued*

For the year ended 31 March 2023

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

21 Transactions With Related Parties *continued*

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.

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 $'000	2022 $'000
Directors Fees	384	285

There have been no other transactions with the Directors.

22 Subsequent Events

There were no material events subsequent to balance date.

Auditor's Report

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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.

Auditor's Report *continued*

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:

PricewaterhouseCoopers.

Chartered Accountants 29 June 2023
PwC
Christchurch

THEPOWERCOMPANYLTD