# Pylon Limited

## Consolidated Financial Statements

for the year ended 31 March 2024

# Contents

## Directors' Approval

The Directors have approved for issue the Consolidated Financial Statements of Pylon Ltd for the year ended 31 March 2024 presented on pages 3 to 18.

For and on behalf of the Board.

Simon Venn Young
Interim Chair

27 June 2024

Peter James Heenan
Director

27 June 2024

# Pylon Limited
## Statement of Cash Flows
For the year ended 31 March 2024

| | Notes | GROUP 2024 $'000 | GROUP 2023 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Cash Was Disbursed To:** | | | |
| Interest Paid | | - | (18) |
| Income Tax Paid | | (1,009) | (1,689) |
| | | (1,009) | (1,707) |
| **Net Cash Outflows From Operating Activities** | 8 | **(1,009)** | **(1,707)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| **Cash Was Provided From:** | | | |
| Associate and Joint Venture Investments | | 5,538 | 6,564 |
| | | 5,538 | 6,564 |
| **Net Cash Flows From Investing Activities** | | **5,538** | **6,564** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| **Cash Was Applied To:** | | | |
| Repayment of Shareholder Advance | | (4,529) | (4,857) |
| | | (4,529) | (4,857) |
| **Net Cash Outflows From Financing Activities** | | **(4,529)** | **(4,857)** |
| **Net Increase/(Decrease) in Cash and Cash Equivalents Held** | | - | - |
| Add Opening Cash Brought Forward | | - | - |
| **Closing Cash and Cash Equivalents Carried Forward** | | - | - |

*The accompanying notes on pages 8 to 18 form part of and should be read in conjunction with these financial statements.*

# Pylon Limited
## Statement of Financial Performance
For the year ended 31 March 2024

| | Notes | GROUP 2024 $'000 | GROUP 2023 $'000 |
|---|---|---|---|
| Other Income | | - | - |
| Operating Expenses | | - | (18) |
| Share of Profit of Associates and Joint Ventures | 4,5 | 6,030 | 5,113 |
| **Net Surplus Before Taxation** | | **6,030** | **5,095** |
| Taxation Expense | 2 | (1,807) | (1,296) |
| **Net Surplus After Taxation** | | **4,223** | **3,799** |

*The accompanying notes on pages 8 to 18 form part of and should be read in conjunction with these financial statements.*

# Pylon Limited
## Statement of Comprehensive Income
For the year ended 31 March 2024

| | GROUP | |
|---|---|---|
| | **2024** **$'000** | **2023** **$'000** |
| **Net Surplus After Taxation** | **4,223** | **3,799** |
| **Other Comprehensive Income** | | |
| **Items that will not be reclassified to profit or loss:** | | |
| - Revaluation | - | 4,213 |
| **Total Other Comprehensive Income** | - | 4,213 |
| **Total Comprehensive Income** | **4,223** | **8,012** |

*The accompanying notes on pages 8 to 18 form part of and should be read in conjunction with these financial statements.*

## Pylon Limited
## Statement of Changes in Equity
For the year ended 31 March 2024

| | Notes | GROUP 2024 $'000 | GROUP 2023 $'000 |
|---|---|---|---|
| **Total Comprehensive Income** | | | |
| Net Surplus for the Year | | 4,223 | 3,799 |
| Other Comprehensive Income | | - | 4,213 |
| | | 4,223 | 8,012 |
| **Distributions to Shareholders** | | | |
| Dividend Declared/Paid | | - | - |
| **Changes in Equity for the Year** | | **4,223** | **8,012** |
| **Equity at Beginning of the Year** | | **55,719** | **47,707** |
| **Equity at End of the Year** | 4 | **59,942** | **55,719** |

*The accompanying notes on pages 8 to 18 form part of and should be read in conjunction with these financial statements.*

# Pylon Limited
## Statement of Financial Position
As at 31 March 2024

| | Notes | GROUP 2024 $'000 | GROUP 2023 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Assets Classified as Held for Sale | 5 | 39,570 | 40,110 |
| **Total Current Assets** | | **39,570** | 40,110 |
| **Non Current Assets** | | | |
| Investment in Associates | 4 | 6,283 | 6,215 |
| Investments in Joint Ventures | 5 | 61,172 | 60,208 |
| **Total Non Current Assets** | | **67,455** | **66,423** |
| **Total Assets** | | **107,025** | **106,533** |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Income Tax Payable | | 1,025 | 685 |
| **Total Current Liabilities** | | **1,025** | **685** |
| **Non Current Liabilities** | | | |
| Deferred Tax Liabilities | 7 | 10,619 | 10,161 |
| Shareholder Advance | 6 | 35,439 | 39,968 |
| **Total Non Current Liabilities** | | **46,058** | **50,129** |
| **Total Liabilities** | | **47,083** | **50,814** |
| **Net Assets** | | **59,942** | **55,719** |
| **EQUITY** | | | |
| Share Capital | 3 | 26,901 | 26,901 |
| Reserves | 3 | 16,261 | 16,265 |
| Retained Earnings | 3 | 16,780 | 12,553 |
| **Total Equity** | | **59,942** | **55,719** |

*The accompanying notes on pages 8 to 18 form part of and should be read in conjunction with these financial statements.*

# Pylon Limited
## Statement of Cash Flows
For the year ended 31 March 2024

| | Notes | GROUP 2024 $'000 | GROUP 2023 $'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Cash Was Disbursed To:** | | | |
| Interest Paid | | - | (18) |
| Income Tax Paid | | (1,009) | (1,689) |
| | | (1,009) | (1,707) |
| **Net Cash Outflows From Operating Activities** | 8 | **(1,009)** | **(1,707)** |
| **Cash Was Provided From:** | | | |
| Associate and Joint Venture Investments | | 5,538 | 6,564 |
| | | 5,538 | 6,564 |
| **Cash Was Applied To:** | | | |
| Investment in Joint Ventures | | - | - |
| Investment in Associates | | - | - |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| **Cash Was Provided From:** | | | |
| Shareholder Advance Received | | - | - |
| **Cash Was Applied To:** | | | |
| Repayment of Shareholder Advance | | (4,529) | (4,857) |
| | | (4,529) | (4,857) |
| **Net Cash Flows/ (Outflows) From Financing Activities** | | **(4,529)** | **(4,857)** |
| **Net Increase/(Decrease) in Cash and Cash Equivalents Held** | | - | - |
| Add Opening Cash Brought Forward | | - | - |
| **Closing Cash and Cash Equivalents Carried Forward** | | - | - |

*The accompanying notes on pages 8 to 18 form part of and should be read in conjunction with these financial statements.*

# Pylon Limited
# Notes to the Financial Statements
For the year ended 31 March 2024

## 1 STATEMENT OF ACCOUNTING POLICIES

**Reporting Entity**
Pylon Ltd is a profit oriented limited liability company that was incorporated in New Zealand on 10 June 2002, is registered under the Companies Act 1993, and whose registered office is at 251 Racecourse Road, Invercargill. Pylon Ltd is a wholly owned subsidiary of Electricity Invercargill Ltd. The parent consists of Pylon Ltd and its joint venture parties. The Group consists of the parent (as outlined above) and its associates and jointly controlled entities (refer to Notes 5 and 6).

The financial statements have been prepared in accordance with the requirements of the Energy Companies Act 1992, the Companies Act 1993 and the Financial Reporting Act 2013. The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), and comply with the New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR), and other reporting standards as appropriate for profit oriented entities.

The principal activity of Pylon Ltd is that of participating in investments in the electricity sector.

The financial statements were approved by the Board of Directors on 27 June 2024.

**Basis of Preparation**
These financial statements are presented in New Zealand dollars, rounded to the nearest thousand. The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis are followed by the Group, with the exception that certain property, plant and equipment has been revalued to fair value and assets held for sale recognised at lower of carrying amount and fair value less cost to sell.

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

In adopting the Reduced Disclosure Regime framework, the Group has taken advantage of a number of disclosure concessions.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

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

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

- Revenue (timing of revenue assessed under IFRS 15 guidance)
- Assets Held for Sale (measured at the lower of its carrying amount and fair value less cost to sell, Note 6)
- Network assets valuation (revalued to fair value using discounted cash flow methodology)
- Property, plant and equipment (includes assumptions around useful life of assets)

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

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

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

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

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

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

***Revenue estimation***
The Group invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of an estimation of usage, adjusted for the latest wash-up data available from the electricity wholesale market and certain metering data from electricity retailers. Management has made an allowance in revenue and in current assets/liabilities for any amounts which are estimated to be under/over charged during the reporting period. However, as final wash-up metering data is not available for in excess of twelve months, it is possible the final amounts payable or receivable may vary from that calculated.

Other areas where judgement has been exercised in preparing these financial statements are in determining the classification of joint arrangements.

**Specific Accounting Policies**

**(a) Revenue from Contracts with Customers**

*(i)* **Electricity Delivery Services**
Electricity delivery service revenue relates to the provision of electricity distribution services to electricity retailers through its electricity network. Electricity retailer delivery services are performed on a daily basis and considered a series of distinct goods and services provided over time. Prices are regulated and retailers are charged based on the published schedule and quantities delivered. Revenue is recognised over time using an output method based on the actual delivery services provided on a daily basis.

*(ii)* **Capital Contributions**
Capital contributions revenue relates to contributions received from customers, excluding delivery service customers who are directly billed, for construction activities relating to the establishment of new connections or upgrades of an existing connection. The subsequent electricity distribution is contracted separately, interposed through a retailer, and is therefore not considered to impact the assessment of the customer or performance of the obligations of the capital contribution contracts. Pricing is fixed and contributions are paid prior to an asset 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.

**(b) Other Income**

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

**(c) Finance Costs**

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

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

All amounts in the financial statements have been shown exclusive of goods and services tax, with the exception of receivables and payables which are shown inclusive of goods and services tax.

**(e) Financial Assets**

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

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The group has classified its debt instruments into the following measurement category:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

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

**(f) 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.

**(g) 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.

**(h) Trade and Other Payables**

Trade and other payables are stated at amortised cost.

**(i) Seasonality**

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

## 2 Taxation

Income tax on the surplus or deficit for the period presented comprises current and deferred tax. Income tax is recognised in the profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

**Current Tax**

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

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 | |
|---|---|---|
| | **2024 $'000** | **2023 $'000** |
| **Operating Surplus Before Income Tax** | **6,030** | **5,095** |
| Prima Facie Taxation at 28% | 1,688 | 1,427 |
| Income not Taxable | | |
| - Equity Accounted Earnings of Associates and Joint Ventures | (136) | (128) |
| Under/(Over) Provision in Prior Years | (4) | 1 |
| Tax law change in building depreciation | 262 | - |
| Expenses not Deductible | (3) | (4) |
| **Taxation Expense for Year** | **1,807** | **1,296** |
| | | |
| Made up of: | | |
| Current Tax | 1,342 | 1,011 |
| Over Provision in Prior Years | 7 | (1) |
| Deferred Tax | 207 | 284 |
| Prior Year Over Provision of Deferred Tax | (11) | (2) |
| Building depreciation tax law change in respect of Deferred tax | 262 | - |
| **Taxation Expense for the Year** | **1,807** | **1,296** |
| | | |
| Effective Tax Rate | 30% | 25% |

In March 2024, the New Zealand Government enacted the Taxation (Annual Rates for 2023-24, Multinational Tax and Remedial Matters) Bill. As a result, from the 2024-25 income tax year onwards, the Company can no longer claim any tax depreciation on their buildings with estimated useful lives of 50 years or more in New Zealand. The Company assessed the accounting impact of this change, which resulted in an increased deferred tax liability recognised on property, plant, and equipment.

## 3 Equity

The authorised and issued share capital comprises 26,901,000 ordinary shares (2023: 26,901,000 ordinary shares) which are fully paid up. All shares have the same rights and privileges.

| | GROUP | |
|---|---|---|
| | **2024 $'000** | **2023 $'000** |
| **Contributed Capital** | | |
| **Share Capital** | **26,901** | **26,901** |
| **Reserves** | | |
| Revaluation Reserve Opening Balance | 16,265 | 12,056 |
| Asset Revaluation | - | 4,213 |
| Revaluation Reversal due to Asset Disposal | (4) | (4) |
| **Total Reserves** | **16,261** | **16,265** |
| **Retained Earnings** | | |
| Opening Balance | 12,553 | 8,750 |
| Net Surplus | 4,223 | 3,799 |
| Revaluation Reversal due to Asset Disposal | 4 | 4 |
| **Total Retained Earnings** | **16,780** | **12,553** |
| **Total Equity** | **59,942** | **55,719** |

Asset revaluations in 2023 relate to the network assets of OtagoNet Joint Venture and Lakeland Network Ltd net of the effect of deferred tax.

## 4 Investments in Associates

Associates are those entities for which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases.

| **Associate Companies** | **Country of Incorporation** | **Balance Date** | **Percentage Held By Group** | |
|---|---|---|---|---|
| | | | **2024** | **2023** |
| Lakeland Network Ltd | New Zealand | 31 March | 24.9 % | 24.9 % |

| | **GROUP** | |
|---|---|---|
| | **2024 $'000** | **2023 $'000** |
| Interests in associate entities are as follows: | | |
| Carrying Amount at Beginning of Year | 6,215 | 5,193 |
| Total Recognised Revenues and Expenses | 68 | 94 |
| Revaluation Gain on Network Assets | - | 928 |
| **Carrying Amount at End of Year** | **6,283** | **6,215** |

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

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

| | **GROUP** | |
|---|---|---|
| | **2024 $'000** | **2023 $'000** |
| Share of Surplus Before Taxation | 213 | 163 |
| Less Taxation Expense | (145) | (69) |
| **Total Recognised Revenues and Expenses** | **68** | **94** |

## 5 Investments in Joint Ventures

Joint Ventures are those entities over which the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's proportionate share of the joint venture entities' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date joint control commences until the date joint control ceases.

**Transactions Eliminated on Consolidation**

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

The Group has a participating interest in the following Joint Ventures:

| **Joint Ventures** | **Country of Residence** | **Balance Date** | **Percentage Held By Group** | |
|---|---|---|---|---|
| | | | **2022** | **2021** |
| PowerNet Ltd Group* | New Zealand | 31 March | 50.0 % | 50.0 % |
| OtagoNet Joint Venture | New Zealand | 31 March | 24.9 % | 24.9 % |
| Roaring Forties Energy Ltd Partnership** | New Zealand | 31 March | 50.0 % | 50.0 % |

*Effective from 1 April 2016 the Group equity accounted its share of profits from the 50% owned joint venture entity, PowerNet Ltd to be consistent with the economic benefits the Group receives based on the PowerNet Ltd dividend policy. The equity accounted share of profit in PowerNet Ltd in 2024 is 26.84% (2023: 27.61%).

** Roaring Forties Energy Ltd Partnership has a 50% interest in Southern Generation Ltd Partnership.

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

| | **GROUP** | |
|---|---|---|
| | **2024 $'000** | **2023 $'000** |
| Interests in Joint Venture entities are as follows: | | |
| Carrying Amount at Beginning of Year | 60,208 | 97,302 |
| Total Recognised Revenues and Expenses | 5,962 | 5,019 |
| Distributions/Dividend Received | (5,538) | (6,565) |
| Revaluation Gain on Network Assets | - | 4,562 |
| Movement on Asset Classified as Held for Sale | 540 | (40,110) |
| **Carrying Amount at End of Year** | **61,172** | **60,208** |

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

**Assets Classified as Held for Sale**

Invercargill City Holdings Ltd (ICHL) notified Electricity Invercargill Ltd (EIL) it will undergo a strategic review of EIL's investment in Roaring Forties Energy Ltd Partnership (RFELP). On 11 May 2022, Invercargill City Council (ICC) released a consultation on a proposed purchase of the investment in RFELP that outlined a number of potential options for public submission. The preferred option being to transfer the 50% interest held by subsidiary Pylon Ltd, to ICHL on behalf of ICC.

On 17 May 2024 the directors of Pylon Limited approved the sale of its interest in RFELP to Pioineer Energy Ltd with a settlement date of 27 June 2024.

At 31 March 2024 the EIL's investment in RFELP has been reclassified as an Assets Classified as Held for Sale. The investment held for sale was measured at lower of its carrying amount and fair value less costs to sell at the time of the reclassification. There was no decrease in the carrying value of the investment arising from the reclassification and therefore, no expense was recognised in the Statement of Financial Performance.

## 6 Shareholder Advance

| | GROUP | |
|---|---|---|
| | **2024** **$'000** | **2023** **$'000** |
| Advance - Electricity Invercargill Ltd | 35,439 | 39,968 |
| **Total Advances** | **35,439** | **39,968** |

Borrowings are recognised initially at fair value, net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss over the period of the borrowings using the effective interest method.

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

The advance is repayable on demand but with a 13 month period of notice.

## 7 Deferred Tax Liabilities

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit and loss. Deferred income tax is recorded using tax rates enacted or substantially enacted at the balance sheet date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable 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, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

| | **Revaluation $'000** | **Depreciation $'000** | **Contributions $'000** | **Other $'000** | **Total $'000** |
|---|---|---|---|---|---|
| Balance at 1 April 2021 | 4,693 | 3,546 | 362 | (4) | 8,597 |
| Charged to Income Statement | - | 276 | 11 | 1 | 288 |
| Charged to Equity | 1,276 | - | - | - | 1,276 |
| **Balance at 31 March 2022** | **5,969** | **3,822** | **373** | **(3)** | **10,161** |
| | | | | | |
| Balance at 1 April 2022 | 5,969 | 3,822 | 373 | (3) | 10,161 |
| Charged to Income Statement | - | 469 | 3 | (14) | 458 |
| **Balance at 31 March 2023** | **5,969** | **4,291** | **376** | **(17)** | **10,619** |

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

The following is a reconciliation between the net surplus after taxation shown in the Statements of Financial Performance and the Net Cash Flows From Operating Activities.

| | **GROUP** | |
|---|---|---|
| | **2024 $'000** | **2023 $'000** |
| **Net Surplus After Taxation** | 4,223 | 3,799 |
| **Plus/(Less) Non Cash Items:** | | |
| Deferred Taxation | 458 | 288 |
| Share of Profits of Associates and Joint Ventures | (6,030) | (5,113) |
| | (5,572) | (4,825) |
| **Plus/(Less) Movements in Working Capital:** | | |
| (Increase)/Decrease in Provision for Taxation | 340 | (681) |
| | 340 | (681) |
| **Net Cash Outflows From Operating Activities** | **(1,009)** | **(1,707)** |

## 9 Financial Instruments

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

- Credit risk
- Liquidity risk
- Market risk

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

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

The Group manages its exposure to credit risk from trade receivables by performing credit evaluations on all customers requiring credit whenever possible, and continuously monitoring the outstanding credit exposure to individual customers.

The Group does not generally require or hold collateral against credit risk.

The following liquidity tables show the Group's maximum credit exposure at balance date.

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

The Group evaluates its liquidity requirements on an ongoing basis. In general the Group generates sufficient cash flows from its operating activities to meet its contractual obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

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

The Group has some interest bearing debt which is subject to interest rate variations in the market.

The Group is not subject to foreign exchange risk.

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

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

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

The Group is not subject to any externally imposed capital requirements.

## 10 Transactions with Related Parties

Pylon Ltd is 100% owned by Electricity Invercargill Ltd.

Electricity Invercargill Ltd is 100% owned by Invercargill City Holdings Ltd. Invercargill City Holdings Ltd is a wholly owned subsidiary of the Invercargill City Council.

Pylon Ltd has an interest in PowerNet Ltd, OtagoNet Joint Venture, Lakeland Network Ltd, and Roaring Forties Ltd Partnership.

All transactions between Pylon Ltd and related parties relate to the normal trading activities of Pylon Ltd.

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

Material transactions between Pylon Ltd and the above-mentioned parties during the period are as follows:

| | GROUP | |
|---|---|---|
| | **2024 $'000** | **2023 $'000** |
| **Advances Repaid to:** | | |
| Electricity Invercargill Ltd (Parent) | 4,529 | 4,857 |

**Other Related Parties**
There have been no material transactions with Directors.

## 11 Subsequent Events

On the 17 May 2024 the parties of Roaring Forties Energy Partnership agreed to sell their 50% share of Southern Generation Limited Partnership to Pioneer Energy Ltd. Settlement has been agreed on 27 June 2024 at a sale price of $106 million. Following the settlement date the intention is to distribute the surplus funds to the respective partners and dissolve the Roaring Forties Energy entities.

There are no further subsequent events that have arisen since the end of the financial year to the date of this report.