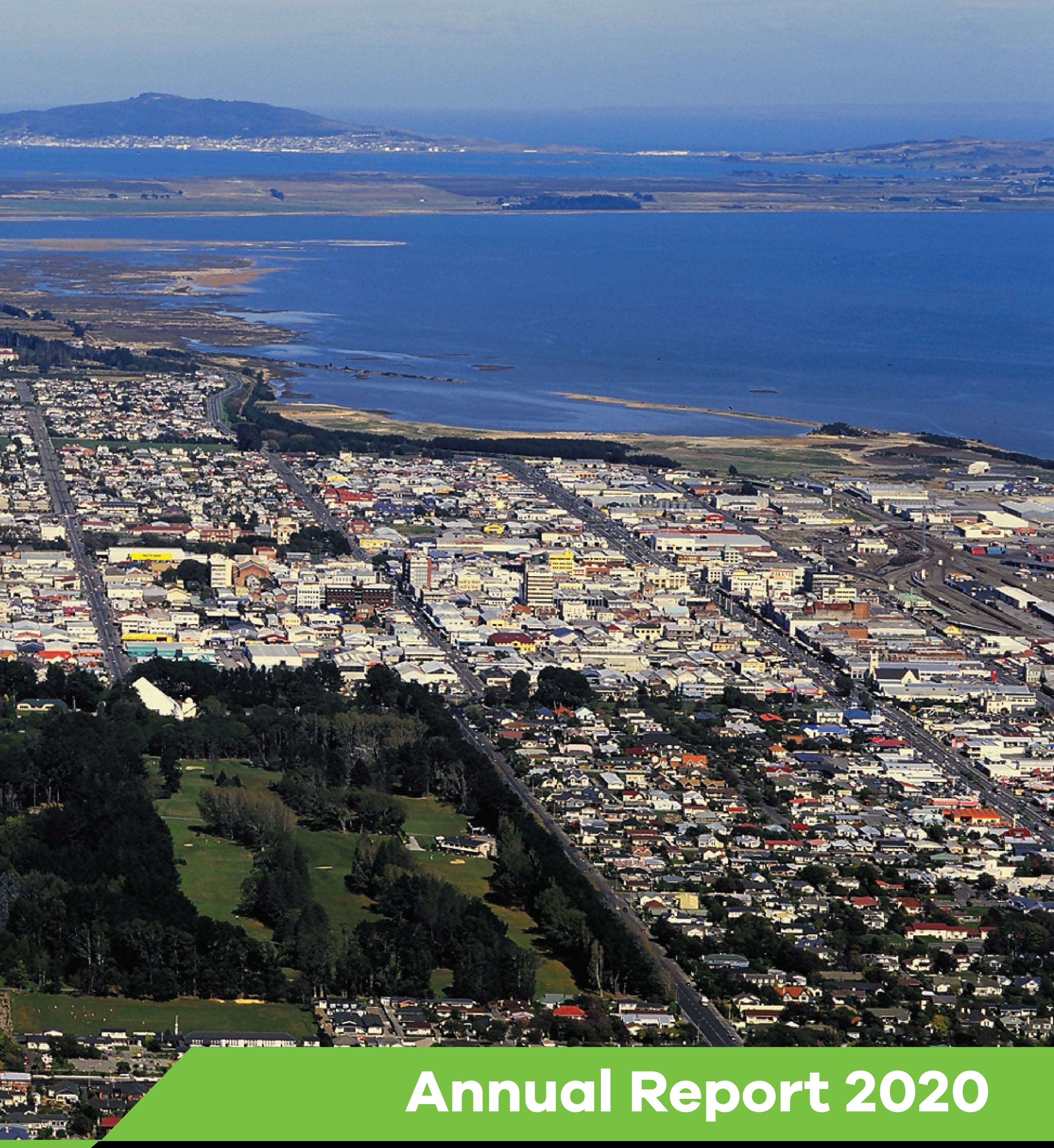

# Annual Report 2020

ICHL
INVERCARGILL CITY HOLDINGS LTD

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# Approval by Directors

The Directors have approved for issue the financial statements of Invercargill City Forests Limited for the year ended 30 June 2020.

**B Wood**
Director

**J Schol**
Director

For and on behalf of the Board of Directors.
30 November 2020

# Directory

## Registered Office
C/- Invercargill City Council
101 Esk Street, Invercargill 9810

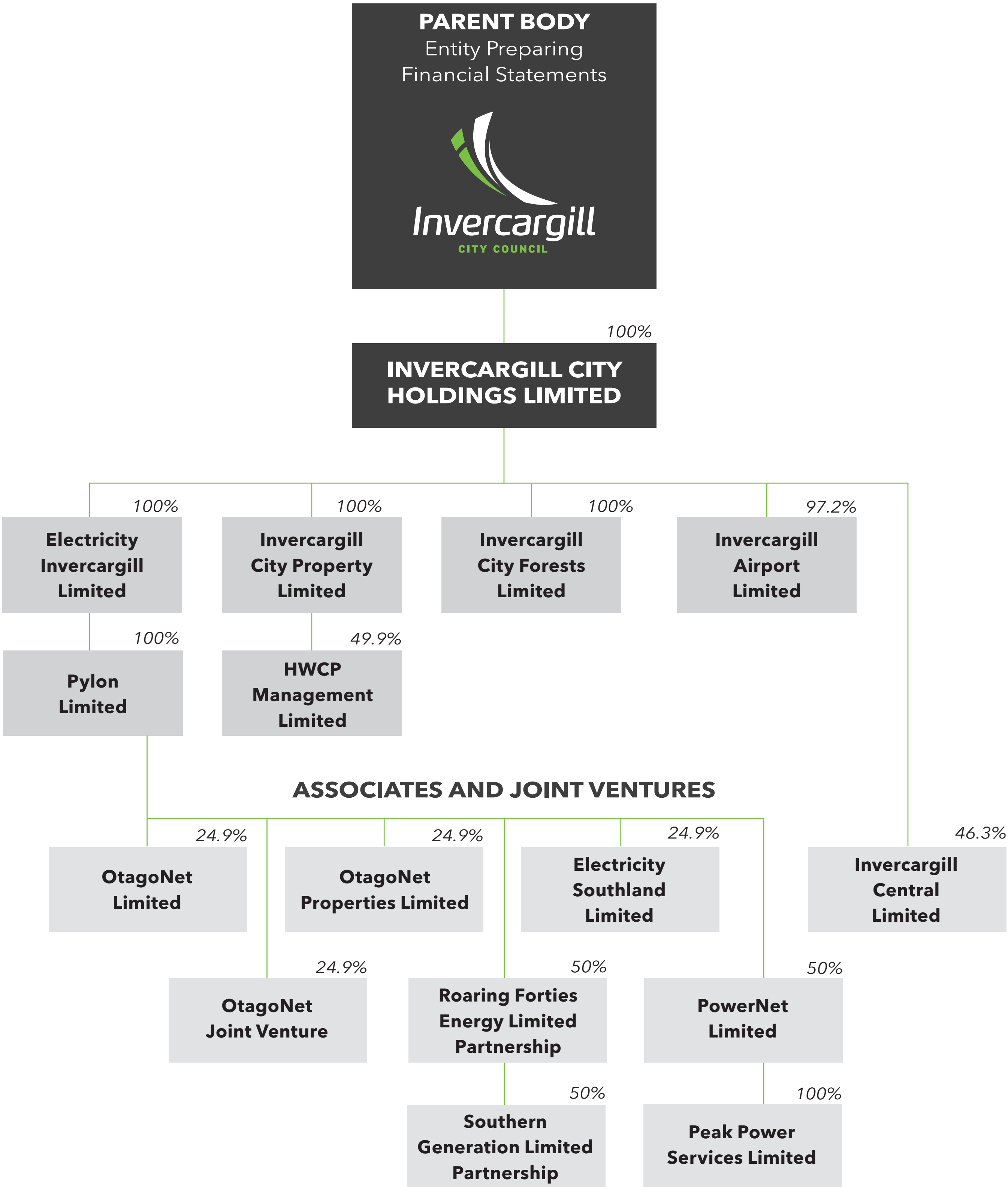
## Auditor
Audit New Zealand on behalf of the Office of the Auditor-General

## Bankers
BNZ

## Solicitors
Preston Russell Law
92 Spey Street, Invercargill 9810

## Treasury Manager
Bancorp Treasury Services

# Group Structure



# An Overview

## INVERCARGILL CITY HOLDINGS LIMITED

**Activities:**

- Treasury advice and systems.
- Overview of Group operations.
- Shareholding in Invercargill Central Limited.

**2020 Financial Year:**

- Overall financial result of after tax profit of $11.492 million for the Group.

## ELECTRICITY INVERCARGILL LIMITED

**Activities:**

- Owners of Electricity Network and Generation Assets.
- Management of Electricity Network.

**2020 Financial Year:**

- The operating surplus before tax, subvention and fair value adjustments for the year ended 31 March of $8.81 million was lower than last year's $9.57 million due to higher network maintenance costs and lower share of profit from associates and joint ventures (excluding fair value movement).
- A favourable fair value movement of $1.72 million from a financial instrument held by a joint venture was recognised compared to an unfavourable movement of $2.6 million for last year.
- Recommended dividend of $4.0 million.
- EIL continues to focus on initiatives that will maintain network safety, efficiency and reliability.

## INVERCARGILL AIRPORT LIMITED

**Activities:**

- Owners and operator of regional airport.

**2020 Financial Year:**

- Financial results severely impacted by COVID-19.
- The after tax profit was $125,000 compared to $805,000 for the prior year.
- Passenger numbers decreased from last year by 9%.
- Health and safety, risk management and operational compliance remain a priority for the company.
- Introduced jet service between Auckland and Invercargill.

## INVERCARGILL CITY FORESTS LIMITED

**Activities:**

- Owners of 16 forestry blocks.
- Completed the sale of its' estate, subject to completion of overseas investment office requirements by the successful purchaser.

**2020 Financial Year:**

- Overall financial result of after tax profit of $5.6 million.

## INVERCARGILL CITY PROPERTY LIMITED

**Activities:**

- Shareholding in HWCP Management Limited who own and manage suitable commercial properties in the city area.

**2020 Financial Year:**

- The Company continued to support HWCP Management Limited.

# Board of Directors

## COMPANY DIRECTORS

### Invercargill City Holdings Limited

B Wood - Chairman
T Loan - Deputy Chairman
J Bestwick - Director
J Schol - Director (from 1 November 2019)
P Carnahan - Director (from 1 November 2019)
D Ludlow - Director (until 31 October 2019)
G Lewis - Director (until 31 October 2019)
L Thomas - Director (until 31 October 2019)

### Electricity Invercargill Limited

T Campbell - Chairman
S J Brown - Director
A J O'Connell - Director
P Kiesanowski - Director

### Invercargill Airport Limited

G Lilly - Chairman (from 1 November 2019)
J D Green - Director
J Franklin - Director
S O'Donnell - Director (until 4 June 2020)
T Foggo - Director (until 31 October 2019)
T Shadbolt - Director (until 31 Otober 2019)

### Invercargill City Forests Limited

B Wood - Chairman (from 20 April 2020)
T Loan - Director (from 20 April 2020)
J Bestwick - Director (from 20 April 2020)
J Schol - Director (from 20 April 2020)
P Carnahan - Director (from 20 April 2020)
M Montgomery - Director (until 20 April 2020)
R Keoghan - Director (until 20 April 2020)
B Nettleton - Director (until 20 April 2020)

### Invercargill City Property Limited

T Loan - Chairman
J Bestwick - Director (from 7 November 2019)
J Schol - Director (from 7 November 2019)
P Carnahan - Director (from 7 November 2019)
B Wood - Director (until 7 November 2019)
D Ludlow - Director (until 31 October 2019)
G Lewis - Director (until 31 October 2019)

# Statement of Governance

## The Directors are pleased to present this Governance Statement.

### Role of the Board of Directors

The Directors are responsible for the proper direction and control of the Group's activities. This responsibility includes such areas of stewardship as the identification and control of the Group's business risks on behalf of the ultimate shareholder, Invercargill City Council.

The Directors are responsible for the continual overseeing of the investment in the subsidiary companies with the Directors of those companies responsible for the day-to-day operation. Reporting by the subsidiary Boards of financial, market and operational information is received by the Group's Directors on a regular and ongoing basis.

The Directors of Invercargill City Holdings Limited are also responsible for the operation of the Treasury function which is operated within the Holding Company. This section provides a service to the subsidiaries by sourcing funds at competitive rates.

The principal purpose of Invercargill City Holdings Limited is to maximise the performance of the Group as a whole.

## DIRECTORS REMUNERATION

### Invercargill City Holdings Limited

| | |
|---|---|
| B Wood | $57,500 |
| T Loan | $35,300 |
| J Bestwick | $30,300 |
| P Carnahan | $20,200 |
| J Schol | $20,200 |
| L Thomas | $10,100 |
| G Lewis | $10,100 |
| D Ludlow | $10,100 |

### Electricity Invercargill Limited

| | |
|---|---|
| T Campbell | $58,000 |
| S Brown | $29,000 |
| A O'Connell | $29,000 |
| P Kiesanowski | $29,000 |

### Invercargill City Forests Limited

| | |
|---|---|
| B Nettleton | $23,333 |
| M Montgomery | $46,667 |
| R Keoghan | $23,333 |
| B Wood | - |
| T Loan | - |
| J Bestwick | - |
| J Schol | - |
| P Carnahan | - |

### Invercargill Airport Limited

| | |
|---|---|
| T Foggo | $16,400 |
| J Green | $20,500 |
| T Shadbolt | $8,200 |
| S O'Donnell | $20,500 |
| J Franklin | $20,500 |
| G Lilly | $28,700 |

### Invercargill City Property Limited

| | |
|---|---|
| T Loan | - |
| B Wood | - |
| D Ludlow | - |
| G Lewis | - |
| P Carnahan | - |
| J Bestwick | - |
| J Schol | - |

There was no remuneration or other benefits paid to Directors during the year for any of the following:

- Compensation for loss of office.
- Guarantees given by the Company for debts incurred by a Director.
- Entering into a contract to do any of the above.

# Statutory Information

## DIRECTORS' INTERESTS

During the year, no Directors had an interest in any transaction or proposed transaction with the parent company.

## USE OF COMPANY INFORMATION BY DIRECTORS

No Director of any group company has disclosed, used or acted on information that would not otherwise be available to a Director.

## SHAREHOLDING BY DIRECTORS

No Director has an interest in any of the Group Company shares held, acquired or disposed of during the year.

## DIRECTORS' AND OFFICERS INDEMNITY INSURANCE

The Group has insured all its Directors and Executive Officers against liabilities to other parties that may arise from their positions.

## EMPLOYEES' REMUNERATION

One employee of the Group received remuneration and other benefits of $100,000 or greater during the year.

| $'000 | No. of employees |
|---|---|
| 160 - 170 | 1 |

## AUDITOR'S REMUNERATION

Audit fees for the Group totalled $232,066. Details of fees payable are contained in Note 3.

## LOANS TO DIRECTORS

There are no loans to Directors.

## RECOMMENDED DIVIDEND

It is recommended that a dividend of $4,800,000 be paid.

# Chairman's Report

I am pleased to present the 2020 Annual Report of Invercargill City Holdings Limited.

2020 has continued the evolution for Invercargill City Holdings Limited commenced in 2019. Major events for the year include:

- Completing the sale of Invercargill City Forests Limited forest estate subject to Overseas Investment Office approval;
- COVID-19 with the group having sufficient resilience to manage its impacts;
- Invercargill City Holdings Limited agreeing to invest $40.5M in Invercargill Central Limited. To date $25M of which has been funded by an increase in the equity holding of Invercargill City Council.

The Group produced a profit after tax of $11.492M compared to a loss of $2.313M last year. This reflects gains on the revaluation of the Invercargill City Forest Limited forest estate, land and carbon credits and fair value adjustments by Electricity Invercargill Limited to one of its generation Investments. In addition Invercargill City Holdings Limited has had to adjust the fair value of its interest rate hedging to reflect the current low interest rate environment. The Directors of Invercargill City Holdings Limited are satisfied that the underlying positive cash flow of $3.2m and the changes that they are implementing will enable Invercargill City Holdings Limited to continue to make sustainable dividend payments to Invercargill City Council (ICC).

Invercargill City Holdings Limited resolved a dividend of $4.8M for the financial year. In working with Invercargill City Council on a group tax strategy a further subvention payment of $2.227M was identified and utilised in this financial year. This led to a total distribution of $7.027M to ICC.

In April 2019 the directors resolved to divest of its forestry assets. For the 2020 year, Invercargill City Forests Limited recorded a profit of $3.4m compared to a loss of $2.6m last year. A contract for sale was signed in July 2020 and it is anticipated that the sale will be completed by June 2021.

Invercargill City Property Limited produced an after tax loss of $285,000 this year compared to a loss of $5.3M last year which included the impairment of the advance to HWCP Management Limited. This year's result reflects the successful sale of land held by HWCP Management Limited to Invercargill Central Limited. HWCP Management Limited still retains some land. While sales of those parcels have not been finalised at this time, the Directors of Invercargill City Property Limited's objective is to recover its investment in HWCP Management Limited when those transactions are completed.

The Electricity Invercargill Limited group produced an after tax profit of $8.207m compared to $4.665m last year. The profit reflects the impact of the subvention payment paid to Invercargill City Council and a fair value adjustment in the Southern Generation Limited Partnership. Operating surplus before taxation, subvention and fair value adjustments, was $8.811m compared to $9.575m last year. Both SAIDI (System Average Interruption Duration Index) and SAFI (System Average Interruption Frequency Index) were impacted by several outages in the network due to faults associated with Ring Main Units and cables (Bluff and City) which meant the Company exceeded the supply quality limit for both measures during the year. Mitigation work has been implemented and a thorough assessment is underway to ensure a continued reliable network performance in future. The Company continues to diversify its investments and Invercargill City Holdings Limited will continue to work with the Company in accordance with direction received from Invercargill City Council.

Invercargill Airport Limited was severely impacted by COVID-19 and produced an after tax profit of $125,000 compared to $805,000 last year. Pre COVID-19 the Company was heading towards another record year with passenger growth reaching 9% on a rolling year average but ended the year with a 9% decrease from last year. Despite this Invercargill Airport Limited was able to continue to function without needing to draw further funds from Invercargill City Holdings and is moving towards break even operations under the new normal. The Company introduced a jet service direct to Auckland during the year which has been very popular and continues to be one of Air New Zealand's best performing routes. The focus now is on continuing to grow flights and passenger volumes and stabilising the financial performance of the Company.

I would like to thank the members of the Board for their support and to the staff of ICC for their administrative support to the Group over the year.

**B J Wood**
Chairperson

# Statement of Financial Position

AS AT JUNE 30, 2020

| | NOTE | GROUP 2020 $000 | GROUP 2019 $000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | 3,201 | 4,147 |
| Trade and other receivables | 8 | 2,576 | 2,678 |
| Inventories | | 8 | 8 |
| Non-current assets held for sale | | 11,396 | - |
| Forestry assets held for sale | 11 | 31,041 | - |
| Intangible assets | 10 | 3,195 | - |
| **Total current assets** | | **51,417** | **6,833** |
| **Non-current assets** | | | |
| Property, plant and equipment | 9 | 114,303 | 124,248 |
| Intangible assets | 10 | - | 320 |
| Forestry assets | 11 | - | 24,249 |
| Investment property | 12 | 4,200 | 4,250 |
| Capital work in progress | | 2,727 | 2,368 |
| Investments in associates and joint ventures | 13, 14 | 119,246 | 79,434 |
| Advances to associates and joint ventures | | 10,105 | 13,170 |
| Other financial assets | 15 | 118 | 118 |
| Deferred tax asset | 19 | 2,099 | 1,618 |
| **Total non-current assets** | | **252,798** | **249,775** |
| **Total assets** | | **304,215** | **256,608** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Derivative financial instruments | 27 | 175 | 88 |
| Trade and other payables | 16 | 3,862 | 5,567 |
| Employee benefit liabilities | 17 | 100 | 56 |
| Provisions | 24 | 1,000 | - |
| Borrowings | 18 | 16,777 | 16,777 |
| Tax payable | | 1,107 | (18) |
| **Total current liabilities** | | **23,021** | **22,470** |
| **Non-current liabilities** | | | |
| Derivative financial instruments | 27 | 7,321 | 5,689 |
| Borrowings | 18 | 115,450 | 107,800 |
| Deferred tax liability | 19 | 27,041 | 24,256 |
| **Total non-current liabilities** | | **149,812** | **137,745** |
| **Total liabilities** | | **172,833** | **160,215** |

| | NOTE | GROUP 2020 $000 | GROUP 2019 $000 |
|---|---|---|---|
| **EQUITY** | | | |
| Share capital | 20 | 50,293 | 25,292 |
| Retained earnings | 20 | 50,293 | 43,551 |
| Other reserves | 20 | 30,796 | 27,549 |
| **Total equity attributable to the equity holders of the company** | | **131,382** | **96,392** |
| | | | |
| **Equity is attributable to:** | | | |
| Parent entity | 20 | 129,634 | 94,648 |
| Minority interest | 20 | 1,748 | 1,744 |
| | | **131,382** | **96,392** |

*The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.*

# Statement of Comprehensive Income

FOR THE YEAR ENDED JUNE 30, 2020

| | NOTE | GROUP 2020 $000 | GROUP 2019 $000 |
|---|---|---|---|
| **INCOME** | | | |
| Revenue from contracts with customers | 1 | 25, 831 | 40,997 |
| Rental income | | 2,049 | 2,147 |
| Other gains | 2 | 7,985 | (2,332) |
| **Total income** | | **35,865** | **40,812** |
| | | | |
| **EXPENDITURE** | | | |
| Employee expenses | 4 | 982 | 723 |
| Depreciation and amortisation | 9, 10 | 6,123 | 5,889 |
| Biological asset Cost of Goods Sold | | 228 | 3,412 |
| Other expenses | 3 | 19,283 | 33,232 |
| **Total operating expenditure** | | **26,616** | **43,255** |
| | | | |
| Finance income | 5 | 590 | 626 |
| Finance expenses | 5 | 3,898 | 4,023 |
| **Net finance expense** | | **(3,308)** | **(3,397)** |
| | | | |
| **Operating profit/(loss) before tax** | | **5,941** | **(5,840)** |
| Share of associate and joint ventures surplus/(deficit) | 13, 14 | 7,745 | 4,217 |
| **Profit/(loss) before tax** | | **13,686** | **(1,623)** |
| Income tax expense | 6 | 2,194 | 690 |
| **Profit/(loss) after tax** | | **11,492** | **(2,313)** |
| | | | |
| **OTHER COMPREHENSIVE INCOME** | | | |
| **To be classified to surplus or deficit in subsequent periods:** | | | |
| Property, Plant and Equipment revaluation gains/(losses) - pre tax | 20 | 3,244 | - |
| Carbon credit revaluation gains/losses | 20 | 1,291 | (24) |
| Cash flow hedges | 20 | (1,238) | (1,850) |
| **Total other comprehensive income** | | **3,297** | **(1,874)** |
| | | | |
| **TOTAL COMPREHENSIVE INCOME** | | **14,789** | **(4,187)** |
| | | | |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Company | | 14,766 | (4,210) |
| Minority interest | | 23 | 23 |
| | | **14,789** | **(4,187)** |

*The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.*

# Statement of Changes in Equity

FOR THE YEAR ENDED JUNE 30, 2020

| | NOTE | GROUP 2020 $000 | GROUP 2019 $000 |
|---|---|---|---|
| **BALANCE AT 1 JULY** | | 96,393 | 104,429 |
| Total Comprehensive Income for the year | 20 | 14,789 | (4,186) |
| **Distributions to shareholders** | | | |
| Dividends paid/declared | 20 | (4,800) | (3,850) |
| Contributions from Shareholders | | | |
| Shares issued and paid up | 20 | 25,000 | - |
| **Balance at 30 June** | | 131,382 | 96,393 |
| **Attributable to:** | | | |
| Equity holders of the company | | 129,634 | 94,649 |
| Minority Interest | | 1,748 | 1,744 |
| **Balance at 30 June** | | 131,382 | 96,393 |

*The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.*

# Statement of Cash Flows

FOR THE YEAR ENDED JUNE 30, 2020

| | NOTE | GROUP 2020 $000 | GROUP 2019 $000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Interest received | | 517 | 952 |
| Receipts from other revenue | | 27,837 | 42,681 |
| Payments to suppliers and employees | | (18,693) | (23,371) |
| Interest paid | | (3,813) | (4,542) |
| Income tax (paid) / refund | | 861 | (2,060) |
| Goods and services tax [net] | | (66) | 39 |
| Subvention payment | | (2,189) | - |
| **Net cash from operating activities** | | **4,454** | **13,699** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Proceeds from sale of property, plant and equipment | | 34 | 23 |
| Proceeds from sale of biological assets | | 1,004 | - |
| Dividends received from associates/joint ventures | | 6,223 | 6,691 |
| Purchase of biological assets | | - | (6,130) |
| Purchase of intangible assets | | (1,082) | (337) |
| Purchase of property, plant and equipment | | (7,427) | (7,191) |
| Purchase of construction work in progress | | - | (312) |
| Advances made to associates/joint ventures | | 3,064 | (2,494) |
| Advances made to non-subsidiaries/associates | | - | 650 |
| Investments in associates/joint ventures | | (35,066) | - |
| **Net cash from investing activities** | | **(33,250)** | **(9,100)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from borrowings | | 18,500 | 7,250 |
| Repayment of borrowings | | (10,850) | (9,025) |
| Proceeds from equity (share issue) | | 25,000 | - |
| Dividends paid | | (4,800) | (3,850) |
| **Net cash from financing activities** | | **27,850** | **(5,625)** |
| **NET (DECREASE)/INCREASE IN CASH, CASH EQUIVALENTS AND BANK OVERDRAFTS** | | **(946)** | **(1,026)** |
| Cash, cash equivalents and bank overdrafts at the beginning of the year | | 4,147 | 5,173 |
| **Cash, cash equivalents and bank overdrafts at the end of the year** | 7 | **3,201** | **4,147** |

*The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with, the financial statements.*

## RECONCILIATION OF NET PROFIT / (LOSS) TO NET CASH INFLOWS (OUTFLOWS) FROM OPERATING ACTIVITIES

| | GROUP 2020 $000 | GROUP 2019 $000 |
|---|---|---|
| **RECONCILIATION WITH REPORTED OPERATING SURPLUS** | | |
| Net profit after tax | 11,492 | (2,312) |
| **Add/(deduct) non-cash items:** | | |
| Depreciation | 6,123 | 5,887 |
| Impairment of advance to associate | - | 4,821 |
| Net (profit)/loss on sale of fixed assets | 136 | 342 |
| Impairment of trade receivables | - | 460 |
| Change in fair value of loan | - | (24) |
| Change in fair value of investment property | 50 | (190) |
| Change in fair value of biological assets | (8,035) | 2,521 |
| Biological assets - Cost of Goods Sold | 228 | 3,412 |
| Increase/(decrease) in deferred taxation | 1,380 | (965) |
| Increase/(decrease) in current years tax | - | 540 |
| Net (profit)/loss on disposed of investment | - | 294 |
| Associate /joint venture post-acquisition profits | (7,745) | (4,217) |
| **Add/(less) movements in working capital:** | | |
| (Increase)/decrease in receivables | (17) | (180) |
| (Increase)/decrease in inventories | - | 4,056 |
| (Increase)/decrease in prepayments | (31) | (2) |
| Increase/(decrease) in accounts payable and accruals | (1,266) | 262 |
| Increase/(decrease) in provisions | 1,000 | - |
| Increase/(decrease) in GST/taxation | 1,139 | (1,006) |
| **Net cash inflow (outflow) from operating activities** | **4,454** | **13,699** |

## CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The changes in the liabilities arising from financing activities can be classified as follows:

| | Short-term borrowings $000 | Long-term borrowings $000 | Total $000 |
|---|---|---|---|
| 1 July 2019 | 16,777 | 107,800 | 124,577 |
| **CASHFLOWS** | | | |
| Proceeds | - | 18,500 | 18,500 |
| Repayments | - | (10,850) | (10,850) |
| 30 June 2020 | **16,777** | **115,450** | **132,227** |

# Notes to the Financial Statements

FOR THE YEAR ENDED JUNE 30, 2020

## REPORTING ENTITY

Invercargill City Holdings Limited ("the Company") is a Council Controlled Organisation as defined in the Local Government Act 2002 and registered under the Companies Act 1993. The Company is wholly owned by the Invercargill City Council ("the Council").

The Invercargill City Holdings Limited Group consists of:

- Electricity Invercargill Limited (100% owned) and its wholly owned subsidiary Pylon Limited. The Electricity Invercargill Limited Group has a balance date of 31 March
- Invercargill City Forests Limited (100% owned)
- Invercargill Airport Limited (97% owned)
- Invercargill City Property Limited (100% owned)
- All the Group's subsidiaries and associates are incorporated in New Zealand

The primary objective of the Company is to manage the commercial investments of the Council. Accordingly, the Company has designated itself and the group as profit orientated entities for the purposes of New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS").

The financial statements of the Company and Group are for the year ended 30 June 2020. The financial statements were authorised for issue by the Board on 30 November 2020. The entities directors do not have the right to amend the financial statements after issue.

## BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with the requirements of the Local Government Act 2002, the Companies Act 1993 and the Energy Companies Act 1992.

The financial statements of the Group comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS).

The Group is a Tier 1 for profit entity, as the Group has expenses over $30 million. The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP).

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, investment property, biological assets and financial instruments (including derivative instruments).

The accounting policies that have been applied to these financial statements are based on the External Reporting Board A1, Accounting Standards Framework (For-profit Entities Update).

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand ($'000). The functional currency of the Group is New Zealand dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of Comprehensive Income.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange at the reporting date.

## SUBSIDIARIES

The Company consolidates as subsidiaries in the group financial statements all entities where the Company has the capacity to control their financing and operating policies so as to obtain benefits from the activities of the entity.

This power exists where the Company controls the majority voting power on the governing body or where such policies have been irreversibly predetermined by the Company or where the determination of such policies is unable to materially impact the level of potential ownership benefits that arise from the activities of the subsidiary.

The Company measures the cost of a business combination as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, in exchange for control of the subsidiary plus any costs directly attributable to the business combination.

Any excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

## BASIS OF CONSOLIDATION

The purchase method is used to prepare the consolidated financial statements, which involves adding together like items of assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intragroup balances, transactions, income and expenses are eliminated on consolidation.

## ASSOCIATES AND JOINT VENTURES

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Joint ventures are those entities over which the Group has joint control, established by contractual agreement. The Group's investments in its associates and joint ventures are accounted for using the equity method. The investment is initially recognised at cost and the carrying amount is increased or decreased to recognise the Group's share of the surplus or deficit after the date of acquisition. The Group's share of the surplus or deficit is recognised in the Group's Statement of Comprehensive Income. Distributions received reduce the carrying amount of the investment.

The Group's share in the associate's surplus or deficits resulting from unrealised gains on transactions between the Group and its associates is eliminated.

## GOVERNMENT GRANTS

Government grants related to assets are recognised by deducting the grant in arriving at the carrying amount of the asset when they become receivable, unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation the grant is initially recorded as grants received in advance and then recognised as a deduction to the asset when the conditions of the grant are satisfied.

Government grants related to income are recognised as revenue or a deduction in expenses when they become receivable, unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as grants received in advance and recognised as revenue or a deduction in expenses when conditions of the grant are satisfied.

## BORROWING COSTS

Borrowing costs are recognised as an expense in the period in which they are incurred using the effective interest method.

## INVENTORIES

Inventories (such as spare parts and other items) held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at the lower of cost and net relisable value.

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the FIFO method.

The write down from cost to net realisable value is recognised in the Statement of Comprehensive Income.

## FINANCIAL ASSETS

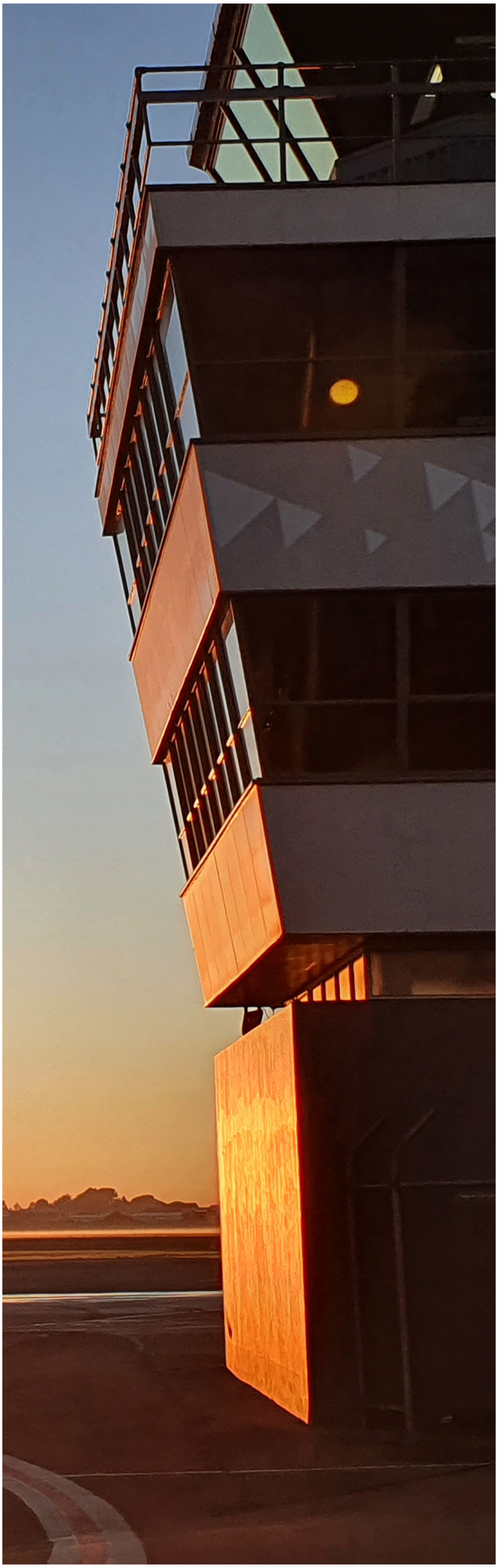
Where applicable the Group classifies its investments in the following categories:

Amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification is determined by the Groups business model for managing the financial asset and the contractual cashflow characteristics of the financial assets.

### Financial Assets at Amortised Cost

Financial assets are measured at amortised cost if the assets are held within a business model where the objective is to hold the financial asset and collects its contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.



After initial recognition, these are measured at amortised cost using the effective interest method.

**Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)**

A debt instrument is measured at FVOCI if the asset is held under a business model where the objective is to hold to collect the contractual cash flows and sell, and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**Financial Assets at Fair Value through Profit or Loss (FVTPL)**

Financial assets that are held within a different business model than “hold to collect” or “hold to collect and sell”, and financial assets whose contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments.

**Impairment of Financial Assets**

At each Statement of Financial Position date, the Group assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised in the Statement of Comprehensive Income.

## FINANCIAL INSTRUMENTS

**Receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for expected credit losses.

**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.

**Trade and Other Payables**

Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost using the effective interest method.

**Borrowings**

Borrowings are recognised initially at fair value, net of any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Comprehensive Income 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.

### Accounting for Derivative Financial Instruments and Hedging Activities

The Company uses derivative financial instruments to hedge exposure to interest rate risks arising from financing activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each balance date. However, where derivatives qualify for hedge accounting, recognition for any resultant gain or loss depends on the nature of the hedging relationship.

### Cash Flow Hedge

Changes in the fair value of the derivatives hedging instruments designated as a cashflow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, change in fair value are recognised in Statement of Comprehensive Income.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. The amount recognised in equity is transferred to revenue or expenditure in the same period that the hedged item affects the Statement of Comprehensive Income.

## LEASES

Prior to the 2020 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From the 2020 financial year, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

All leases are classified as leases of right-of-use assets unless they meet the definition of short term or low value leases, or are sub-let. Lease payments that are short-term or low value are recognised as an expense on a straight-line basis over the lease term.

Lease liability payments are allocated between principal and finance cost over the term of the lease.

Right-of-use assets are depreciated over the shorter of the assets estimated useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the assets useful life.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

## CAPITAL WORK IN PROGRESS

Work in progress includes the cost of direct materials and direct labour used in putting replacement and new systems and plant in their present location and condition. It includes accruals for the proportion of work completed at the end of the period. Capital work in progress is stated at cost and is not depreciated.

## IMPAIRMENT OF ASSETS

Goodwill and indefinite life intangible assets are not subject to amortisation but are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The value in use for cash-generating assets is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets, the impairment loss is recognised against the revaluation reserve for that asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the Statement of Comprehensive Income.

For assets not carried at a revalued amount, the total impairment loss is recognised in the Statement of Comprehensive Income.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that asset was previously recognised in Statement of Comprehensive Income, a reversal of the impairment loss is also recognised in the Statement of Comprehensive Income.

For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

## GOODS AND SERVICES TAX (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department ("IRD") is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

## CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing these financial statements, the Company has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances. The estimates, assumptions and critical judgements in applying accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Fair value of Investment Property. This is discussed in Note 12.
- Invercargill Airport Limited - determination of the recoverable amount of assets.

  Due to the impact of COVID-19, and its impact on the economy and air travel, an impairment assessment was carried out by Peter Seed of Airbiz, an independent expert effective 30 June 2020. The following major inputs and assumptions were adopted:

  - The forecast free cashflows reflect the charges determined following the 2019 aeronautical pricing consultation with airline customers.
  - Expected revenues also reflect expected passenger numbers. There is uncertainty around forecast future passenger movements. The forecasts assume a significant reduction in passengers during the 2021 and 2022 financial years with a recovery back to pre-COVID-19 levels occurring in the 2023 financial year.
  - The weighted average cost of capital (WACC) used ranges from 4.51% to 5.91% (average WACC rate of 5.33%) depending on the asset class.

  The assessment indicated that the value of property, plant and equipment was not impaired. The assessment is sensitive to the WACC applied. An impairment arises if the WACC for all asset classes is increased by any amount more than 1.85% (resulting average WACC of 7.17%).

  The Company's estimates of passengers, recovery and growth rates remain uncertain and dependent on a number of factors with respect to COVID-19 including restrictions on domestic travel, border controls for international travel, public demand and behaviour with respect to travel and airline scheduling. Material changes in any of these factors might have a material impact on the Company's estimates of income and cashflows used in the valuations and fair value assessments at 30 June 2020.
- Electricity Invercargill Limited Group Estimates and Assumptions. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances and have been used in the following areas:
  - Property, plant and equipment
  - Revenue estimation - Network Charges
  - Joint arrangement classification

In the process of applying accounting policies, Electricity Invercargill Limited 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 on carrying values of the networks.

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 1 April 2016. 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 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 12 months, it is possible for the final amounts payable or receivable to vary from that calculated.

## NEW STANDARDS ADOPTED

The Company has applied the following standards for the first time for the annual reporting period commencing 1 July 2019:

NZ IFRS 16 - Leases

The Company has changed its accounting policies to reflect the new standards but the adoption has had no material effects on the financial statements. Accordingly, there has been no change to opening equity.

The Company has not elected to early adopt any new standards or interpretations that are issued but not yet effective.

## CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the period except for those arising from the adoption of the new standards. All accounting policies have been consistently applied throughout the period covered by these financial statements.

## IMPACT OF COVID-19

On 11 March 2020, the World Health Organisation declared a global pandemic as a result of the outbreak and spread of COVID-19. Following this, the New Zealand Government imposed significant international and domestic travel restrictions. New Zealand went into Level 4 lockdown from 25 March until 27 April and remained in Level 3 lockdown until 13 May.

**Invercargill Airport Limited (IAL):**
During this period all non-essential travel was suspended which has had a significant impact on the aviation industry and on IAL's business. IAL's passengers numbers for April 2020 were 99% below the same month last year. The move to Level 2 on 13 May led to some scheduled domestic flights resuming with nonessential travel starting again. The longer-term effects of COVID-19 on IAL's business remain uncertain and the potential impacts of the pandemic on travel continue to evolve rapidly. In response to the impacts of COVID-19, IAL has taken a number of actions including reducing non-essential or discretionary costs, reviewing capital and operational expenditure with a focus on maintaining critical services and deferring other capital work where possible.

**Invercargill City Forests Limited (ICFL):**
During this period all non-essential travel was suspended and potential purchasers were unable to travel to inspect the forests. This delayed the finalisation of the tender process as potential purchasers where given an additional seven weeks to finalise their tender from the move to level 2, with the tender process finalised prior to 30 June. COVID-19 had no other significant impacts as the Company has been largely dormant for the year pending the sale process.

**Electricity Invercargill Limited Group (EIL):**
With electricity distribution and generation businesses deemed an essential services, operations have continued without significant impact during the pandemic restriction measures. The extent of the COVID-19 impact on business performance is a change to the consumption profile within customer groups reflecting the disruption to businesses, and gain in household consumption. The mothballing of some businesses could have an impact on future revenue, however this is not expected to present a significant risk with respect to EIL, its performance or its financial result.

Joint Venture entity, PowerNet Limited, has seen a reduction in its revenues and profit from on-field activities due to alert level restrictions. However the financial performance of the business and the continued employment of its workforces has been supported by the receipt of the Government wage subsidy.

**Invercargill City Property Limited (ICPL):**
COVID-19 had no significant impact on the Company.

## 1. OPERATING REVENUE

Revenue is recognised as the amount of consideration expected to be received in exchange for transferring promised goods or services to a customer.

### ELECTRICITY DISTRIBUTION SERVICES:
### Revenue from Contracts with Customers:

**Electricity Delivery Services**

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

**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.

### Other Income:

**Meter Rental Income**

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

**Finance Income**

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

**Airport Services:**

Services are provided on demand and the transaction price is recognised as revenue based on their stand-alone selling price. The stand-alone selling price is based on published prices, and calculated on a price per unit of the service, net or rebates.

Revenue is recognised over time as the customer simultaneously obtains the benefits from the service as it is being performed.

**Forestry Services:**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

Revenue is recognised at a point in time when the customer obtains control of the asset.

**Government grants:**

NZU's allocated by the Crown represent non-monetary government grants and are initially recognised at nil value. Gains or losses on disposals are determined by comparing proceeds with the carrying amounts. These are included in the Statement of Comprehensive Income.

**Rental Income:**

Rent and lease income is recognised on a straight-line basis over the term of the lease where the group is the lessor.

| | GROUP 2020 $000 | GROUP 2019 $00 |
|---|---|---|
| Electricity Distribution Services | 20,883 | 20,727 |
| Airport Services | 4,158 | 4,440 |
| Forestry Services | 744 | 15,442 |
| Interest on advances to subsidiaries and associates | - | 313 |
| Other income | 46 | 75 |
| | **25,831** | **40,997** |

## 2. OTHER GAINS AND LOSSES

| | | |
|---|---|---|
| Change in fair value of biological assets | 8,035 | (2,522) |
| Change in fair value of investment property | (50) | 190 |
| | **7,985** | **(2,332)** |

## 3. OTHER EXPENSES (INCLUDES)

| | | |
|---|---|---|
| Loss on disposal of investment | - | 294 |
| Cost of sales | - | 4,308 |
| Forestry costs | 2,245 | 6,972 |
| Network costs | 9,250 | 8,729 |
| Transmission costs | 6,604 | 6,294 |
| Impairment of advance to associate | - | 4,821 |

| | GROUP 2020 $000 | GROUP 2019 $00 |
|---|---|---|
| Auditor's renumeration to Audit New Zealand comprises: | | |
| • audit of financial statements | 107 | 83 |
| • other audit-related services | - | 6 |
| Auditor's remuneration to other auditors comprises: | | |
| • audit of financial statements | 49 | 53 |
| • other audit-related services | 76 | 83 |

## 4. EMPLOYEE EXPENSES

| | | |
|---|---|---|
| Wages and salaries | 953 | 703 |
| Defined contribution expenses | 29 | 20 |
| Total employee expenses | 982 | 723 |

To support jet operations the Invercargill Airport Fire Service team was increased from 5 to 12 fire fighters.

Invercargill Airport received the Government's 12 week wage subsidy. This has been netted against staff costs. The Company also received the Government's 8 week wage subsidy extension. The wage subsidy extension has been recognised as grants in advance at balance date. There is an obligation to repay the wage subsidy extension if the Company no longer meets the criteria for the subsidy during the 8 week period.

| | GROUP 2020 $000 | GROUP 2019 $00 |
|---|---|---|
| **5. FINANCE INCOME AND EXPENSE** | | |
| **Finance income** | | |
| Interest income on bank deposits | 590 | 626 |
| **Total finance income** | 590 | 626 |
| **Financial expense** | | |
| Interest expense on financial liabilities measured at amortised cost | 3,898 | 4,023 |
| **Total financial expenses** | 3,898 | 4,023 |
| **Net finance costs** | (3,308) | (3,397) |

## 6. INCOME TAX EXPENSE IN THE INCOME STATEMENT

### Income Tax

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

Current tax and deferred tax is charged or credited to the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

In March 2020, the Government re-introduced the deductibilty of depreciation on buildings for tax purposes for buildings not primarily used for residential accommodation. This amendment applies from 1 April 2020. The impact of this change increases the tax base for these assets, giving rise to a reduced difference between the carrying cost and tax base and results in a reduction in deferrred tax liability and reduction in tax expense. In general, the reduction in deferred tax on buildings only applies to pre-May 2010 buildings, and has therefore not had a significant impact on the accounts.

| | GROUP 2020 $000 | GROUP 2019 $00 |
|---|---|---|
| **Current tax expense** | | |
| Current period | 2,410 | 2,145 |
| Adjustment for prior periods | (1,596) | (490) |
| **Total current tax expense** | **814** | **1,655** |
| | | |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | 1,394 | (1,064) |
| Adjustment for prior periods | (11) | 99 |
| Other | (3) | - |
| **Total deferred tax expense** | **1,380** | **(965)** |
| | | |
| **Total income tax expense** | **2,194** | **690** |
| | | |
| **Reconciliation of effective tax rate** | | |
| Profit for the year | 13,686 | (1,622) |
| Profit excluding income tax | 13,686 | (1,622) |
| | | |
| Tax at 28% | 3,832 | (455) |
| Group loss offset | (12) | (107) |
| | | |
| Permanent Differences | (37) | 1,407 |
| Change in recognised temporary differences | - | (14) |
| Under/(over) provided in prior periods | (7) | 420 |
| • Subvention payment made in respect of prior period | (1,600) | (915) |
| • Expenses not deductible | 18 | 354 |
| Total income tax expense | 2,194 | 690 |
| | | |
| Effective Tax Rate | 16% | -43% |
| | | |
| **Imputation credits available for use in subsequent periods** | **5,456** | **7,535** |

## 7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

| | GROUP 2020 $000 | GROUP 2019 $00 |
|---|---|---|
| Call deposits | 530 | 189 |
| Cash and cash equivalents | 2,671 | 3,958 |
| Cash and cash equivalents in the statement of financial position and statement of cashflows | 3,201 | 4,147 |

## 8. TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for expected credit losses.

| | GROUP 2020 $000 | GROUP 2019 $00 |
|---|---|---|
| Trade receivables | 2,154 | 2,429 |
| Less allowance for expected credit losses | - | (460) |
| GST receivable | 21 | 163 |
| Prepayments | 186 | 125 |
| Related party receivables | 95 | 141 |
| Accrued revenue | 120 | 280 |
| | **2,576** | **2,678** |

Trade receivables are non-interest bearing and are generally on terms of 30 days.

For terms and conditions relating to related party receivables, refer to note 21.

The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance. The measurement of expected credit losses is a function of the probability of default, loss given default and the exposure at default. To measure expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows disounted at the effective interest rate computed at initial recognition.

The status of trade receivables at the reporting date is as follows:

| | GROUP 2020 $000 | GROUP 2019 $00 |
|---|---|---|
| Not past due | 2,138 | 1,950 |
| Past due 30-60 days | 6 | 15 |
| Past due 61-90 days | - | 1 |
| Past due more than 90 days | 10 | 3 |
| **Total** | **2,154** | **1,969** |

## 9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.

Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2005, the date of transition to NZ IFRS are measured on the basis of deemed cost, being the revalued amount at the date of transition.

### Additions

The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

### Disposals

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Comprehensive Income.

When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

### Subsequent Costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

### Depreciation

Depreciation is provided on all property, plant and equipment other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. Depreciation rates of major classes of assets have been estimated as follows:

| | |
|---|---|
| **(a) Buildings** | |
| - Electricity Invercargill Ltd | 1%–15% Straight Line |
| - Invercargill Airport Limited | 3%–19.2% Straight Line |
| **(b) Furniture and Fittings** | |
| - Invercargill Airport Limited | 9.6%–30% Diminishing Value and 6% to 21% Straight Line |
| **(c) Plant** | |
| - Invercargill Airport Limited | 8%–67% Diminishing Value and 6% - 67% Straight Line |
| - Invercargill City Forests Limited | 13%–67% Diminishing Value |
| **(d) Motor Vehicles** | |
| - Invercargill Airport Limited | 10%–15.6% Diminishing Value |
| **(e) Network Assets** | |
| - Electricity Invercargill Limited | 1.4%–15% Straight Line |
| **(f) Other Airport Assets** | |
| - Carpark and fencing | 1%–21% Straight Line |
| - Runway, Apron and Taxiway (Base-course and sub-base) | 3% Straight Line |
| - Top Surface (Runway) | 8.3% Straight Line |
| - Top Surface (Apron and Taxiway) | 6.7% Straight Line |
| - Roads, carparks and stop banks | 3% Straight Line |
| **(g) Forestry Road improvements** | 6% Diminishing Value |
| **(h) Metering Assets** | |
| - Electricity Invercargill Limited | 2.5%–6.7% Straight line |

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

### Revaluation

Those asset classes that are revalued are valued on a valuation cycle on the basis described below. All other asset classes are carried at depreciated historical cost. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value.

## Valuation

All assets are valued at historic cost, except the following:

- 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.
- Invercargill City Forests' land is revalued to fair value and carried at valuation and is not depreciated. The fair value is determined by independent registered valuers based on the highest and best use of the land. In determining the highest and best use consideration is given as to whether the land has been registered under the New Zealand Emissions Trading Scheme and hence whether there are restrictions on the land use.

  Land is revalued with sufficient regularity to ensure carrying value does not differ materially from that which would be determined as fair value. It is anticipated that the Land revaluation will occur every three years, unless circumstances require otherwise.

## Accounting For Revaluations

The Company accounts for revaluations of property, plant and equipment by class of asset.

The results of revaluing are credited or debited to an asset revaluation reserve for each asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the Statement of Comprehensive Income.

Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the Statement of Comprehensive Income will be recognised first in the Statement of Comprehensive Income up to the amount previously expensed, and then credited to the revaluation reserve for that asset.

| GROUP ($000) | COST/ REVALUATION | ACCUMULATED DEPRECIATION AND IMPAIRMENT CHARGES | CARRYING AMOUNT | CURRENT YEAR ADDITIONS - COST | CURRENT YEAR DISPOSALS - COST | CURRENT YEAR DISPOSALS - DEPRECIATION | TRANSFERS TO NON-CURRENT ASSETS HELD FOR SALE - COST | TRANSFER TO NON-CURRENT ASSETS HELD FOR SALE - DEPRECIATION | CURRENT YEAR DEPRECIATION | REVALUATION - SURPLUS | COST/ REVALUATION | ACCUMULATED DEPRECIATION AND IMPAIRMENT CHARGES | CARRYING AMOUNT |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2020** | **1 July 2019** | | | | | | | | | | **30 June 2020** | | |
| Land | 509 | - | 509 | - | - | - | - | - | - | - | 509 | - | 509 |
| Forestry Land | 9,038 | - | 9,038 | - | - | - | 9,961 | - | - | 923 | - | - | - |
| Gravel and Fencing | 4,050 | 1,162 | 2,888 | 262 | 7 | 3 | - | - | 175 | - | 4,305 | 1,334 | 2,971 |
| Buildings, Yards and Terminals | 7,043 | 887 | 6,156 | 242 | - | - | - | - | 217 | - | 7,285 | 1,104 | 6,181 |
| Network Assets | 119,211 | 25,452 | 93,759 | 5,458 | 650 | 499 | - | - | 4,243 | - | 124,019 | 29,196 | 94,823 |
| Plant and Equipment | 2,694 | 2,048 | 646 | 47 | 27 | 21 | - | - | 139 | - | 2,714 | 2,166 | 548 |
| Motor Vehicles | 2,610 | 2,517 | 93 | - | - | - | - | - | 11 | - | 2,610 | 2,528 | 82 |
| Furniture and Fittings | 4,953 | 1,757 | 3,196 | 585 | - | - | - | - | 418 | - | 5,538 | 2,175 | 3,363 |
| Runway, Taxiways and Apron | 14,756 | 8,320 | 6,436 | 218 | - | - | - | - | 828 | - | 14,974 | 9,148 | 5,826 |
| Roading | 2,151 | 623 | 1,528 | - | - | - | 2,151 | 715 | 92 | - | - | - | - |
| **Total assets** | **167,015** | **42,766** | **124,249** | **6,812** | **684** | **523** | **12,112** | **715** | **6,123** | **923** | **161,954** | **47,651** | **114,303** |

| **GROUP ($000)** | COST/REVALUATION | ACCUMULATED DEPRECIATION AND IMPAIRMENT CHARGES | CARRYING AMOUNT | CURRENT YEAR ADDITIONS - COST | CURRENT YEAR DISPOSALS - COST | CURRENT YEAR DISPOSALS - DEPRECIATION | CURRENT YEAR DEPRECIATION | REVALUATION SURPLUS | COST/ REVALUATION | ACCUMULATED DEPRECIATION AND IMPAIRED CHARGES | CARRYING AMOUNT |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2019** | **1 July 2018** | | | | | | | | **30 June 2019** | | |
| Land | 509 | - | 509 | - | - | - | - | - | 509 | - | 509 |
| Forestry Land | 8,415 | - | 8,415 | 623 | - | - | - | - | 9,038 | - | 9,038 |
| Gravel and Fencing | 4,050 | 998 | 3,052 | - | - | - | 164 | - | 4,050 | 1,162 | 2,888 |
| Buildings, Yards and Terminals | 7,043 | 677 | 6,366 | - | - | - | 210 | - | 7,043 | 887 | 6,156 |
| Network Assets | 113,378 | 21,823 | 91,555 | 6,576 | 743 | 449 | 4,078 | - | 119,211 | 25,452 | 93,759 |
| Plant and Equipment | 2,684 | 1,909 | 775 | 10 | - | - | 139 | - | 2,694 | 2,048 | 646 |
| Motor Vehicles | 2,610 | 2,505 | 105 | - | - | - | 12 | - | 2,610 | 2,517 | 93 |
| Furniture and Fittings | 5,044 | 1,400 | 3,644 | - | 91 | 18 | 375 | - | 4,953 | 1,757 | 3,196 |
| Runway, Taxiways and Apron | 14,756 | 7,505 | 7,251 | - | - | - | 815 | - | 14,756 | 8,320 | 6,436 |
| Roading | 2,100 | 528 | 1,572 | 51 | - | - | 95 | - | 2,151 | 623 | 1,528 |
| **Total assets** | **160,589** | **37,345** | **123,244** | **7,260** | **834** | **467** | **5,888** | **-** | **167,015** | **42,766** | **124,249** |

**Revaluation:**
The following classes of assets are carred at fair value and are categorised as Level 3 in the fair value heirachy:

**Forestry land:**
No depreciation is charged on land and there have been no impairments throughout the period.

The value of the forestry land owned by Invercargill City Forests Limited, had it been carried at the cost model, would be $5,868,438 at 30 June 2020 ($5,868,438 at 30 June 2019).

Forestry land is revalued with sufficient regularity to ensure carrying value does not differ materially from that which would be determined as fair value.

In 2019 the Group resolved to place its forest estate on the market. While the parties had agreed the terms of sale of the estate prior to 30 June the sale will not be completed until late 2020. The assets held for sale have been reclassified as non-current assets held for sale. The recorded value reflects the terms of the negotiated sale less the costs to sell.

**Network assets:**
The value of the network assets owned by Electricity Invercargill Limited, had it been carried at the cost model, would be $70,129,000 at 31 March 2020 ($69,065,000 at 31 March 2019).

The network assets of Electricity Invercargill Limited were revalued to fair value using discounted cash flow methodology on 1 April 2016 by Ernst & Young, who is an independent valuer. This resulted in a revaluation increase movement of $2,588,000.

The following valuation assumptions were adopted:
- The free cash flows is 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 arise from expansionary growth in the network after the date of the valuation.
- The corporate tax rate used is 28%
- The weighted average cost of capital (WACC) used is 5.5%
- The sustainable growth adjustment used is 0%

## 10. INTANGIBLE ASSETS

### Goodwill

Goodwill is initially measured at its cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill on acquisition of subsidiaries is included in intangible assets by applying the purchase method. Goodwill on acquisition of associates is included in investments in associates by applying the equity method.

Goodwill arising in business combinations is not amortised. Instead, goodwill is tested for impairment annually. After initial recognition, the Group measures goodwill at cost less any accumulated impairment losses. An impairment loss recognised for goodwill will not be reversed in any subsequent period.

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination, in which the goodwill arose.

| | Group Carbon Credits $000 |
|---|---|
| **Costs** | |
| Balance at 01 July 2018 | 8 |
| Additions | 336 |
| Change in fair value | (24) |
| Balance at 30 June 2019 | **320** |
| | |
| Balance at 01 July 2019 | 320 |
| Additions | 1,082 |
| Change in fair value | 1,793 |
| Balance at 30 June 2020 | **3,195** |
| **Amortisation and Impairment charges** | |
| Balance at 01 July 2018 | - |
| Balance at 30 June 2019 | **-** |
| | |
| Balance at 01 July 2019 | - |
| Balance at 30 June 2020 | **-** |
| **Carrying amounts** | |
| Balance at 01 July 2018 | 8 |
| **Balance at 30 June 2019** | **320** |
| | |
| Balance at 01 July 2019 | 320 |
| **Balance at 30 June 2020** | **3,195** |

Amortisation and impairment of intangible assets are recognised in the Statement of Comprehensive Income.

### Carbon Credits

Carbon units have been assessed as having an indefinite useful life because they have no expiry date and will continue to have economic benefit for as long as the Emissions Trading Scheme is in place.
As NZUs are an indefinite life intangible asset, they are tested for impairment on an annual basis or when indications of impairment exist.

The unsold units have been valued based on the current market price and recognised in the financial statements.

Carbon units can be sold or surrendered towards the carbon liability generated from harvesting forests.

As at June 2020 there are 99,540 carbon credits units on hand (30 June 2019: 13,823).

## 11. BIOLOGICAL ASSETS AND FORESTRY ASSETS HELD FOR SALE

### Forestry Assets

Forestry assets are independently revalued annually at fair value less estimated point of sale costs. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate.

Gains or losses arising on initial recognition of biological assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the Statement of Comprehensive Income.

Forests are revalued annually by an independent registered valuer.

The costs to maintain the forestry assets are included in the Statement of Comprehensive Income.

| | Group $000 |
|---|---|
| Balance at 1 July 2018 | 23,965 |
| Additions | 6,119 |
| Forest Assets logged at cost | (3,314) |
| Change in fair value less estimated point-of-sale costs | (2,521) |
| **Balance at 30 June 2019** | **24,249** |
| | |
| Balance at 1 July 2019 | 24,249 |
| Additions | - |
| Disposals | (1,015) |
| Forest Assets logged at cost | (228) |
| Change in fair value less estimated point-of-sale costs | 8,035 |
| **Balance at 30 June 2020** | **31,041** |

Biological assets held by the Group are forestry assets, which comprise of standing timber. At 30 June 2020, standing timber comprised approximately 3,301 hectares of plantations at 16 different locations (2019: 3,174 hectares of plantations at 16 different locations).

The forests are valued annually effective 30 June. In 2019 the Group resolved to place its forest estate on the market. While the parties had agreed the terms of sale of the estate prior to 30 June the sale will not be completed until late 2020. The assets held for sale have been reclassified as forestry assets held for sale. The recorded value reflects the terms of the negotiated sale less the costs to sell. The 2019 valuation was performed by Brian Johnson, an independent valuer from Margules Groome. The valuation excludes funding and taxation. The discount rate is based on the implied pre-tax discount rates from actual transactions. The pre-tax discount rate chosen for the 2019 valuations is 6.50%.

Biological assets are categorised as Level 3 in the fair value hierarchy.

**Pre-1990 Forests:**

Pre-1990 forests are forests that were established before 1 January 1990. NZUs cannot be earned for an increase in the carbon stock (through forest growth) in a pre-1990 forest, but NZU's are allocated based on the size of the forested area in three tranches. Provided that pre-1990 forests are re-established after harvesting (by replanting or regeneration), there are no liabilities or obligations under the ETS. Landowners of pre-1990 forests must surrender NZUs equivalent to the carbon emissions from any deforestation.

**Post-1989 Forests:**
Post-1989 forests are exotic or indigenous forests established after 31 December 1989 on land that was not forest land on 31 December 1989. These forests earn credits under the Kyoto Protocol rules. Therefore, they are also known as "Kyoto Protocol-compliant" forests. Participating in the ETS is voluntary for post-1989 forest owners. If they are part of the ETS, then they earn NZUs for the carbon sequestered in the forest from 1 January 2008, but will need to surrender NZUs to the Crown when the carbon held in their trees decreases, whether through harvest or natural causes (such as by fire or storm). Any liability for post-1989 participants is capped at the amount of NZUs previously claimed for that area of forest land.

Invercargill City Forests has harvested a total of 47 hectares of pre-1990 forest that has to be replanted.

The Group is exposed to a number of risks related to its forestry assets.

**Supply and Demand Risk**
The Group is exposed to risks arising from fluctuations in the price and sales volume of pine. Where possible the Group manages this risk by aligning its harvest volume to market supply and demand.

The Group is exposed to movements in the price of NZU's to the extent that, the Group has insufficient NZU's to offset a deforestation liability and has to purchase NZU's on the market.

Management performs regular industry trend analysis to ensure that the Group's pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

**Climate and Other Risks**
The Group's pine plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces.

The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys.

The Group also insures itself against natural disasters such as fire and lightning.

## 12. INVESTMENT PROPERTY

All investment properties are related to Invercargill Airport Limited.

Land is held by the Group for long term strategic purposes and is not held for resale.

Investment properties are land and buildings that are not occupied by the Group and is held for long term rental yield, where the Group intends to maximise the return on the land and buildings.

Investment property is measured initially at its cost, including transaction costs. After initial recognition, the Group measures all investment property at fair value as determined annually by an independent valuer.

Gains or losses arising from a change in the fair value of investment property are recognised in the Statement of Comprehensive Income.

| | Group 2020 $000 | Group 2019 $000 |
|---|---|---|
| Balance at 1 July | 4,250 | 4,060 |
| Acquisitions | - | - |
| Change in fair value | (50) | 190 |
| **Balance at 30 June** | **4,200** | **4,250** |

Investment property comprises a number of commercial properties that are leased to third parties.

The Group's investment properties are valued annually at fair value effective 30 June. For 2020 and 2019, all investment properties were valued based on the income approach and comparable sales approach except for two properties being less than 20% of the portfolio value. These two properties are planned to be replaced within the next two years (2019: next two years), hence the open market evidence valuation has been adjusted by management to be valued on a discounted cashflow basis of their remaining expected earnings. The 2020 and 2019 valuations were performed by Robert Todd, an independent valuer from Thayer Todd Valuations Limited. The valuer is an experienced valuer who holds a recognised and relevant professional qualification and has extensive market knowledge in the types of investment properties owned by the Group.

Due to the impact of COVID-19 and the severe market disruption and lack of transactional data, the valuation of investment properties has been reported on the basis of material uncertainty, meaning less certainty and a higher degree of caution should be applied. The following major inputs and assumptions were adopted:

- An explicit allowance for rent rebates has been calculated. This does not include an allowance for operating expenses
- The capitalisation rate adopted on rental car tenancies pre COVID-19 has been softened by 50 points to price in the additional risks.
- With exception of Hangers 1 and 2, yields have been softened by 25 points.
- Hangers 1 and 2 have a remaining useful life of two years.

A material change in tenancy or a tenants' ability to meet lease payments from those use in the valuation model, may be a material impact on the investment property values.

Investment property is categorised as Level 3 in the fair value hierarchy.

## 13. EQUITY ACCOUNTED ASSOCIATES

| | | | Percentage Held by Group | | |
|---|---|---|---|---|---|
| **Associate Companies** | **Principal activity** | **Country of Incorporation** | **2020** | **2019** | **Balance date** |
| Electricity Southland Limited | Electricity network owners | NZ | 24.9% | 24.9% | 31-March |
| HWCP Management Limited | Property investment | NZ | 49.9% | 49.9% | 30-June |

During the year, the Group acquired an additional 3,361,500 shares in Electricity Southland Limited, of the issue of 13,500,00 new shares.

| | Group 2020 $000 | Group 2019 $000 |
|---|---|---|
| Balance at beginning of year | 1,562 | 1,582 |
| Share of profit/(loss) from associates recognised in surplus or deficit the statement of comprehensive income | 42 | (19) |
| Investments in associates | 3,361 | - |
| **Balance at end of year** | **4,965** | **1,562** |

The following information reflects the amounts presented in the financial statements of each entity and not the Group's share. 31 March figures are used for the Electricity Invercargill Limited associates as this is the balance date for the Group. It would be impracticable and the Group would incur undue costs to prepare additional financial statements at 30 June.

## Summarised Statement of Financial Position

| | Electricity Southland Ltd 100% 2020 $000 | Electricity Southland Ltd 100% 2019 $000 |
|---|---|---|
| Cash and cash equivalents | 80 | 195 |
| Other current assets | 678 | 495 |
| Total current assets | 758 | 690 |
| Non-current assets | 28,864 | 24,437 |
| **Total assets** | **29,622** | **25,127** |
| Current liabilities | 1,891 | 990 |
| Non-current liabilities | 7,787 | 17,862 |
| **Total Liabilities** | **9,678** | **18,852** |
| **Net assets** | **19,944** | **6,275** |

## Summarised Statement of Comprehensive Income

| | Electricity Southland Ltd 100% 2020 $000 | Electricity Southland Ltd 100% 2019 $000 |
|---|---|---|
| Operating revenue | 2,831 | 2,448 |
| Interest expense | (603) | (734) |
| Depreciation | (643) | (534) |
| Profit before tax from continuing activities | 456 | 68 |
| Income tax expense | (287) | (145) |
| **Total comprehensive income** | **169** | **(77)** |

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the associate:

| | Electricity Southland Ltd 100% 2020 $000 | Electricity Southland Ltd 100% 2019 $000 |
|---|---|---|
| Closing net assets | 19,944 | 6,276 |
| Interest in associate | 4,966 | 1,563 |

## Summarised Statement of Financial Position

| | HWCP Management Ltd 100% 2020 $000 | HWCP Management Ltd 100% 2019 $000 |
|---|---|---|
| Cash and cash equivalents | 530 | 78 |
| Other current assets | 18,392 | 18,827 |
| Total current assets | 18,922 | 18,905 |
| Non-current assets | 500 | - |
| **Total assets** | **19,422** | **18,905** |
| Current liabilities | 19,620 | 23,971 |
| Non-current liabilities | - | - |
| **Total Liabilities** | **19,620** | **23,971** |
| **Net assets** | **(198)** | **(5,066)** |

**Summarised Statement of Comprehensive Income**

| | HWCP Management Ltd | |
|---|---|---|
| | 100% | 100% |
| | 2020 | 2019 |
| | $000 | $000 |
| Operating revenue | 314 | 1,077 |
| Interest revenue | - | 413 |
| Interest expense | (446) | (978) |
| Depreciation | (3) | (97) |
| Profit before tax from continuing activities | 4,868 | (4,752) |
| Income tax expense | - | - |
| **Total comprehensive income** | **4,868** | **(4,752)** |

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the associate:

| | HWCP Management Ltd | |
|---|---|---|
| | 100% | 100% |
| | 2020 | 2019 |
| | $000 | $000 |
| Closing net assets | - | - |
| Interest in associate | - | - |

| **Advances to Associates** | 2020 | 2019 |
|---|---|---|
| The Group's advances to associates are as follows: | $000 | $000 |
| Advances to associates | 1,504 | 9,056 |
| Less allowance for expected credit loss | - | (4,821) |
| **Total advances to associates** | **1,504** | **4,235** |

## 14. EQUITY ACCOUNTED JOINT VENTURES

| Joint Ventures | Principal activity | Country of Incorporation | Percentage Held by Group 2020 | Percentage Held by Group 2019 | Balance date |
|---|---|---|---|---|---|
| PowerNet Limited Group* | Electricity network management | NZ | 50.0% | 50.0% | 31 March |
| OtagoNet Joint Venture** | Electricity network owners | NZ | 24.9% | 24.9% | 31 March |
| Roaring Forties Energy Limited Partnership*** | Electricity generation | NZ | 50.0% | 50.0% | 31 March |
| Invercargill Central Limited | Property Development | NZ | 46.4% | - | 30 June |

* *In February 2020, the remaining 9.68% shareholding in PowerNet Central Ltd was purchased by PowerNet Ltd. Following the completion of the acquisition, PowerNet Central Ltd was amalgamated in PowerNet Ltd on 31 March 2020.*

** *The Group holds a 25% voting right over OtagoNet Joint Venture.*

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

On 15 August 2017 the partners of Southern Generation Limited Partnership also entered in a conditional agreement to purchase the assets relating to Matiri and Upper Fraser Hydro Stations. The expected generation output of these two hydro stations is approximately 61 GWh, with Upper Fraser contributing 33 GWh and Matiri 28GWh. On 30 September 2019, the partnership completed the acquisition of the assets relating to the Upper Fraser hydro station. Matiri construction is in progress with an expected completion date in August 2020.

| | Group 2020 $000 | Group 2019 $000 |
|---|---|---|
| Balance at beginning of year | 77,871 | 80,326 |
| Investments in joint ventures | 31,705 | - |
| Share of profit from joint ventures recognised in surplus or deficit the statement of comprehensive income | 7,703 | 4,236 |
| Revaluation gain on network assets | 3,224 | - |
| Distributions from joint ventures | (6,223) | (6,691) |
| **Balance at end of year** | **114,280** | **77,871** |

The following information reflects the amounts presented in the financial statements of each entity and not the Group's share. 31 March figures are used for the Electricity Invercargill Limited joint ventures as this is the balance date for the Group. It would be impracticable and the Group would incur undue costs to prepare additional financial statements at 30 June.

## Summarised Statement of Financial Position

| | PowerNet Limited Group 100% 2020 $000 | 100% 2019 $000 |
|---|---|---|
| Cash and cash equivalents | 3,503 | 1,648 |
| Other current assets | 25,679 | 27,819 |
| Total current assets | 29,182 | 29,467 |
| Non-current assets | 36,095 | 30,152 |
| **Total assets** | **65,277** | **59,619** |
| Current liabilities | 13,088 | 12,588 |
| Non-current liabilities | 46,614 | 41,831 |
| **Total Liabilities** | **59,702** | **54,419** |
| **Net assets** | **5,575** | **5,200** |

## Summarised Statement of Comprehensive Income

| | PowerNet Limited Group 100% 2020 $000 | 100% 2019 $000 |
|---|---|---|
| Operating revenue | 90,340 | 83,477 |
| Interest revenue | 2 | 27 |
| Interest expense | (2,092) | (1,643) |
| Depreciation | (3,592) | (2,843) |
| | | |
| Profit before tax from continuing activities | 3,409 | 2,987 |
| Income tax expense | (718) | (471) |
| **Total comprehensive income** | **2,691** | **2,516** |

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the joint venture:

| | PowerNet Limited Group 100% 2020 $000 | 100% 2019 $000 |
|---|---|---|
| Closing net assets | 5,575 | 5,200 |
| Interest in joint venture | 2,788 | 2,600 |

### Summarised Statement of Financial Position

| | OtagoNet Joint Venture | |
|---|---|---|
| | 100% | 100% |
| | 2020 | 2019 |
| | $000 | $000 |
| Cash and cash equivalents | 809 | 116 |
| Other current assets | 4,247 | 3,664 |
| Total current assets | 5,056 | 3,780 |
| Non-current assets | 206,327 | 185,926 |
| **Total assets** | **211,383** | **189,706** |
| Current liabilities | 7,850 | 5,993 |
| Non-current liabilities | 687 | - |
| **Total Liabilities** | **8,537** | **5,993** |
| **Net assets** | **202,846** | **183,713** |

### Summarised Statement of Comprehensive Income

| | OtagoNet Joint Venture | |
|---|---|---|
| | 100% | 100% |
| | 2020 | 2019 |
| | $000 | $000 |
| Operating revenue | 34,584 | 36,065 |
| Interest revenue | 10 | 15 |
| Interest expense | (8) | (11) |
| Depreciation | (7,369) | (7,341) |
| Profit before tax from continuing activities | 10,618 | 12,648 |
| Income tax expense | - | - |
| Other comprehensive income | 12,945 | - |
| **Total comprehensive income** | **23,563** | **12,648** |

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the joint venture:

| | OtagoNet Joint Venture | |
|---|---|---|
| | 100% | 100% |
| | 2020 | 2019 |
| | $000 | $000 |
| Closing net assets | 202,846 | 183,713 |
| Interest in joint venture | 50,509 | 45,745 |

### Summarised Statement of Financial Position

| | Roaring Forties Energy Limited Partnership | |
|---|---|---|
| | 100% | 100% |
| | 2020 | 2019 |
| | $000 | $000 |
| Cash and cash equivalents | 15 | 28 |
| Other current assets | 7 | - |
| Total current assets | 22 | 28 |
| Non-current assets | 75,037 | 61,482 |
| **Total assets** | **75,059** | **61,510** |
| Current liabilities | 23 | 22 |
| Non-current liabilities | - | - |
| **Total Liabilities** | **23** | **22** |
| **Net assets** | **75,036** | **61,488** |

## Summarised Statement of Comprehensive Income

| | Roaring Forties Energy Limited Partnership 100% 2020 $000 | 100% 2019 $000 |
|---|---|---|
| Operating revenue | 9,280 | 1,212 |
| | | |
| Profit before tax from continuing activities | 8,962 | 953 |
| Income tax expense | - | - |
| **Total comprehensive income** | **8,962** | **953** |

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the joint venture:

| | Roaring Forties Energy Limited Partnership 100% 2020 $000 | 100% 2019 $000 |
|---|---|---|
| Closing net assets | 75,036 | 61,488 |
| Interest in joint venture | 37,518 | 30,744 |

## Summarised Statement of Financial Position

| | Invercargill Central Limited 100% 2020 $000 | 100% 2019 $000 |
|---|---|---|
| Cash and cash equivalents | 4,502 | - |
| Other current assets | 29,508 | - |
| Total current assets | 34,010 | - |
| Non-current assets | 37,863 | - |
| **Total assets** | **71,873** | **-** |
| Current liabilities | 18,039 | - |
| Non-current liabilities | - | - |
| **Total Liabilities** | **18,039** | **-** |
| **Net assets** | **53,834** | **-** |

## Summarised Statement of Comprehensive Income

| | Invercargill Central Limited 100% 2020 $000 | 100% 2019 $000 |
|---|---|---|
| Operating revenue | - | - |
| | | |
| Profit before tax from continuing activities | (83) | - |
| Income tax expense | - | - |
| **Total comprehensive income** | **(83)** | **-** |

Reconciliation of the summarised financial information presented to the carrying amount of the interest in the joint venture:

| | Invercargill Central Limited 100% 2020 $000 | 100% 2019 $000 |
|---|---|---|
| Closing net assets | 53,834 | - |
| Interest in joint venture | 24,962 | - |

## 15. OTHER FINANCIAL ASSETS & LIABILITIES

| | Group 2020 $000 | Group 2019 $000 |
|---|---|---|
| **Non-current investments - Assets** | | |
| Investment in other entities | 118 | 118 |
| **Total non-current investments** | **118** | **118** |

## 16. TRADE AND OTHER PAYABLES

| | Group 2020 $000 | Group 2019 $000 |
|---|---|---|
| Trade payables | 514 | 438 |
| Directors fees payable | 6 | - |
| Accrued expenses | 1,446 | 2,144 |
| Retentions | 49 | 49 |
| Amounts due to other related parties | 1,761 | 2,881 |
| Income in advance | 86 | 55 |
| **Total trade and other payables** | **3,862** | **5,567** |

Trade and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of trade and other payables approximate their fair value.

## 17. EMPLOYEE BENEFIT LIABILITIES

### Short-Term Benefits

Employee benefits that the Group expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the Statement of Comprehensive Income as incurred.

| | Group 2020 $000 | Group 2019 $000 |
|---|---|---|
| Annual leave | 100 | 56 |
| | **100** | **56** |
| **Comprising** | | |
| Current | 100 | 56 |
| Non-current | - | - |
| **Total employee benefit liabilities** | **100** | **56** |

## 18. BORROWINGS

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

| | Group 2020 $000 | Group 2019 $000 |
|---|---|---|
| **Current** | | |
| Redeemable preference shares | 16,777 | 16,777 |
| **Total current borrowings** | **16,777** | **16,777** |
| | | |
| **Non-current** | | |
| Secured loans | 115,450 | 107,800 |
| **Total non-current borrowings** | **115,450** | **107,800** |

Secured loans of the Company are secured against assets, undertakings and uncalled capital of the Group. The effective interest rate for the multi-option note facility was 3.41% (2019: 4.05%) with hedging refer note 27.

The total BNZ borrowing facility is $100m (2019: $100m) made up of $35m maturing in August 2021 and $65m maturing in August 2020. The $65m facility has been subsequently renewed for a year. Debt may be raised by a committed cash advance facility or by the issuance of promissory notes upon the multi-option note facility for a term of 90 days before being re-tendered.

ICHL borrows from ICC based on the borrowing rate of ICC plus a margin. The total ICC borrowing facility of $30m is made up of two loans, being:

- $15m maturing in April 2021 with a fixed interest rate of 3.66%
- $15m maturing in December 2020 with a current effective interest rate payable of 2.09%

Per the agreements the loans automatically extend until either party gives written notice that the termination date is not to extend.

The redeemable preference shares bear no interest or dividend payable unless the Directors of the Company are notified by the holders of the shares prior to 31 August of each year that payment is required. The rate determined shall not exceed 5% above the ninety (90) day Bank Bill Settlement Rate as quoted on the Reuters Monitor screen page BKBM on the date fixed for redemption.

On a return of assets on liquidation or otherwise the assets of the Company available for distribution amongst its members shall be applied first in repaying the holders of the Redeemable Preference Shares the amounts paid up on the Redeemable Preference Shares, and the balance of such assets subject to any special rights which may be attached to any other class of shares shall be distributed in accordance with the Company's Constitution.

## 19. DEFERRED TAX LIABILITIES/(ASSETS)

| GROUP: | BALANCE | RECOGNISED IN PROFIT OR LOSS | RECOGNISED IN EQUITY | BALANCE | RECOGNISED IN PROFIT OR LOSS | RECOGNISED IN EQUITY | BALANCE |
|---|---|---|---|---|---|---|---|
| | 30-JUN-18 | | | 30-JUN-19 | | | 30-JUN-20 |
| | $000 | $000 | $000 | $000 | $000 | $000 | $000 |
| Property, plant and equipment | 20,251 | 88 | - | 20,339 | 77 | 903 | 21,319 |
| Biological assets | 4,748 | (912) | - | 3,836 | 2,819 | - | 6,655 |
| Carbon Credits | - | - | - | - | - | 495 | 495 |
| Investment property | 339 | (3) | - | 336 | (14) | - | 322 |
| Inventory | (74) | 74 | - | - | - | - | - |
| Derivatives | (898) | - | (719) | (1,617) | - | (481) | (2,098) |
| Provisions | | | | | (280) | - | (280) |
| Other items | 55 | (7) | - | 49 | (15) | - | 34 |
| Tax losses | (98) | (204) | - | (303) | (1,201) | - | (1,504) |
| **Total movements** | **24,323** | **(964)** | **(719)** | **22,640** | **1,386** | **917** | **24,943** |

## 20. EQUITY

### GROUP

| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | | | | | |
|---|---|---|---|---|---|---|---|
| | **SHARE CAPITAL $000** | **CASHFLOW HEDGING RESERVE $000** | **REVALUATION RESERVE $000** | **RETAINED EARNINGS $000** | **TOTAL $000** | **MINORITY INTEREST $000** | **TOTAL $000** |
| Balance at 1 July 2018 | 25,293 | (2,311) | 31,844 | 49,603 | 104,429 | 1,721 | 102,708 |
| Surplus/(deficit) after tax | - | - | - | (2,312) | (2,312) | 23 | (2,335) |
| **Other comprehensive income** | | | | | | | |
| Property, Plant and Equipment Revaluation gains/(losses) - pre tax | - | - | - | - | - | - | - |
| Carbon credit revaluation gains/(losses) | - | - | (24) | - | (24) | - | (24) |
| Transfer of revaluation reserve to retained earnings due to asset disposal | - | - | (111) | 111 | - | - | - |
| Effective portion of changes in fair value of cash flow hedges, net of tax | - | (1,850) | | - | (1,850) | - | (1,850) |
| **Distributions to Shareholders** | | | | | | | |
| Dividends paid/declared | - | - | - | (3,850) | (3,850) | - | (3,850) |
| **Contributions from Shareholders** | | | | | | | |
| Shares issued and paid up | - | - | - | - | - | - | - |
| **Balance at 30 June 2019** | **25,293** | **(4,161)** | **31,708** | **43,552** | **96,392** | **1,744** | **94,648** |
| Balance at 1 July 2019 | 25,293 | (4,161) | 31,708 | 43,552 | 96,392 | 1,744 | 94,648 |
| Surplus/(deficit) after tax | - | - | - | 11,492 | 11,492 | 4 | 11,488 |
| **Other comprehensive income** | | | | | | | |
| Property, Plant and Equipment Revaluation gains/(losses) - pre tax | - | - | 3,244 | - | 3,244 | - | 3,244 |
| Carbon credit revaluation gains/(losses) | - | - | 1,793 | - | 1,793 | - | 1,793 |
| Deferred tax on revaluation | - | - | (502) | - | (502) | - | (502) |
| Transfer of revaluation reserve to retained earnings due to asset disposal | - | - | (50) | 50 | - | - | - |
| Effective portion of changes in fair value of cash flow hedges, net of tax | - | (1,238) | - | - | (1,238) | - | (1,238) |
| **Distributions to Shareholders** | | | | | | | |
| Dividends paid/declared | - | - | - | (4,800) | (4,800) | - | (4,800) |
| **Contributions from Shareholders** | | | | | | | |
| Shares issued and paid up | 25,000 | - | - | - | 25,000 | - | 25,000 |
| **Balance at 30 June 2020** | **50,293** | **(5,399)** | **36,193** | **50,294** | **131,381** | **1,748** | **129,633** |

*The Company has 42,398,202 ordinary shares that have been called and a further $100,000,000 (2019: $100,000,000) of ordinary shares that have been issued to the Invercargill City Council (67,427,000 for $1 each and 5,211,680 for $6.25 each but remain uncalled at balance date).*

*All shares, whether called or uncalled, have equal voting rights and have no par value.*

*The $100,000,000 of uncalled shares are held as security on the BNZ facility, refer note 18.*

## 21. RELATED PARTY TRANSACTIONS

The Company is the sole shareholder of Electricity Invercargill Limited, Invercargill City Forests Limited, Invercargill City Property Limited and holds a 97% stake in Invercargill Airport Limited. During the year, the following transactions took place with the group companies. All transactions with the subsidiaries have been eliminated upon consolidation.

| Ultimate parent: | Group 2020 $000 | Group 2019 $000 |
|---|---|---|
| **(A) INVERCARGILL CITY COUNCIL** | | |
| **Revenue** | | |
| Provision of services | 30 | 30 |
| **Expenditure** | | |
| Provision of services | 335 | 408 |
| Interest payments | 984 | 1,365 |
| Purchase of management services | 106 | 35 |
| Dividends from Subsidiary to Parent | 4,800 | 3,850 |
| Subvention payment | 2,189 | 915 |
| Loss offset | 1,513 | - |
| Outstanding at balance date by Parent and Group | 30,000 | 30,000 |
| Outstanding at balance date to Parent and Group | - | - |
| **B) POWERNET LIMITED** | | |
| **Revenue** | | |
| Provision of services | 374 | 359 |
| **Expenditure** | | |
| Provision of goods and services | 10,554 | 10,604 |
| Outstanding at balance date by Parent and Group | 1,745 | 2,879 |
| Outstanding at balance date to Parent and Group | 80 | 92 |
| Advances provided to (repaid by) | (334) | 1,447 |
| **(C) ELECTRICITY SOUTHLAND LIMITED** | | |
| **Revenue** | | |
| Provision of services | 151 | 188 |
| **Expenditure** | | |
| Provision of goods and services | - | - |
| Outstanding at balance date by Parent and Group | - | - |
| Outstanding at balance date to Parent and Group | 15 | 49 |
| Advances provided to (repaid by) | (2,730) | 798 |
| **(D) HWCP MANAGEMENT LIMITED** | | |
| **Revenue** | | |
| Provision of services | 315 | 312 |
| **Expenditure** | | |
| Provision of goods and services | - | - |
| Outstanding at balance date by Parent and Group | - | - |
| Outstanding at balance date to Parent and Group | 776 | 460 |

| (E) R M WALTON | Group 2020 $000 | Group 2019 $000 |
|---|---|---|
| **Revenue** | | |
| Provision of services | - | - |
| **Expenditure** | | |
| Provision of goods and services | - | 26 |
| Outstanding at balance date by Parent and Group | - | - |
| Outstanding at balance date to Parent and Group | - | - |
| **(F) INVERCARGILL VENUE AND EVENTS MANAGEMENT** | | |
| **Revenue** | | |
| Provision of services | - | - |
| **Expenditure** | | |
| Provision of goods and services | - | 3 |
| Outstanding at balance date by Parent and Group | - | - |
| Outstanding at balance date to Parent and Group | - | - |
| **(G) SOUTHROADS LIMITED** | | |
| **Revenue** | | |
| Provision of services | - | - |
| **Expenditure** | | |
| Provision of goods and services | 15 | 41 |
| Outstanding at balance date by Parent and Group | - | - |
| Outstanding at balance date to Parent and Group | - | - |

No related party transactions have been written off or were forgiven during the 2020 year (2019: nil).

Refer note 6 for details on tax loss offsets within the group.

Key management personnel compensation comprises:

| | Group 2020 $000 | Group 2019 $000 |
|---|---|---|
| Short term employment benefits | 276 | 224 |
| Directors Fees | 547 | 659 |

Short term employee benefits relate to:

- Invercargill City Holdings Limited, and consist of salaries.
- Invercargill City Forests Limited, and consist of salaries.
- Invercargill City Property Limited, and consist of salaries.

Invercargill Airport Limited, and consist of salaries and does not include any costs for the following: post employment benefits, other long term benefits and termination benefits as they are not provided for by Invercargill Airport Limited.

Electricity Invercargill Limited group, and consists of salaries and other short term benefits.

## 22. COMMITMENTS AND OPERATING LEASES

| | Group 2020 $000 | Group 2019 $000 |
|---|---|---|
| **Capital commitments** | | |
| Capital expenditure contracted for at balance date but not yet incurred for property, plant and equipment | 3,215 | 1,717 |

### Investment commitments

In August 2017, the Electricity Invercargill Limited Group entered into a conditional agreement with the partners of Southern Generation Limited Partnership to purchase the assets of a hydro generation development upon completion of construction. The Matiri hydro station, located 15km north of Murchison with a capacity of 7MW, is due to be commissioned in August 2020.

### Other commitments

The Group has a conditional commitment as at 31 March 2020 of $415,000 (2019: $415,000). This relates to an agreement with Smart Co, for the Group to provide a subordinated loan to Smart Co once a number of terms have been met.

### Operating leases as leasee

The Group does not have any operating leases where it is the leasee (2019: Nil).

### Operating leases as lessor

The Group leases its investment property under operating leases. The majority of these leases have a non-cancellable term of 36 months. The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

| | Group 2020 $000 | Group 2019 $000 |
|---|---|---|
| **Non-cancellable operating leases as lessor** | | |
| Not later than one year | 397 | 406 |
| Later than one year and not later than five years | 838 | 1,077 |
| Later than five years | 141 | 337 |
| **Total non-cancellable operating leases** | **1,376** | **1,820** |

There are no restrictions placed on the Group by any of the leasing arrangements.

## 23. CONTINGENCIES

### Contingent assets:

2020 Year: Nil

2019 Year: Nil

### Contingent liabilities:

Invercargill City Forests has harvested a total of 47 hectares of pre-1990 forest (2019: 47 hectares). At balance date the land carried a potential deforestation liability of $801,713 (2019: $578,182). Refer note 11.

During the year the Group received a $500,00 grant from the Provincial Growth Fund. The grant was in recognition that Air New Zealand was to commence a 12 month pilot of scheduled jet services from Auckland to Invercargill on 25 August 2019 and the Company needed to rapidly deliver urgent airside and non-airside upgrades to handle the scheduled jet services.

A contingency for repayment exists for a 10 year term from 31 October 2019 if the Company either:

- sells, disposes or transfers the asset, without the Ministry's prior written consent; or
- the asset will no longer be used for the purpose intended

## 24. PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required and the amount can be estimated reliably. The timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date.

| | GROUP $000 |
|---|---|
| Balance at 1 July 2019 | - |
| Other charges | 1,000 |
| Balance at 30 June 2020 | **1,000** |

The Group has entered into an agreement related to the termination of contracts associtated with the forest estate which becomes payable on the completion of the sale of forests estate.

## 25. KEY MANAGEMENT PERSONNEL

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

## 26. EVENTS AFTER THE BALANCE SHEET DATE

Invercargill City Forests Limited had entered into a contract for the sale of the forestry assets. The sale is subject to approval from the Overseas Investment Office and it anticipated to occur within the next 12 months. The Company has listed a small parcel of remaining bare land for sale.

There have been no other significant events between the year end and the signing date of the financial statements.

## 27. FINANCIAL INSTRUMENTS

Invercargill City Holdings Limited provides services to the businesses in the group and the shareholder, co-ordinates access to domestic financial markets and monitors and manages financial risks relating to the group.

### Capital management

The group's capital includes share capital, reserves and retained earnings.

The group manages its capital to ensure that entities in the group will be able to continue as a going concern while maximising return to stakeholders through the optimisation of the debt and equity balance.

The objective of the group from the parent company's Statement of Intent is to provide reasonable returns to the shareholder, while acting generally as a responsible corporate citizen and in accordance with sound business practice, by having regard to the interests of the community.

The board monitors the performance of the subsidiary companies in the group, to meet the objectives while maintaining a strong capital base to sustain future development of the group's businesses.

The intentions of the parent company in respect of distributions for each three year period are disclosed in the annual Statement of Intent submitted to council in public.

## Hedge Accounting

At the inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps.

## Financial Instruments - Risk

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.

The Group has a series of policies to manage the risks associated with financial instruments. The Group is risk averse and seeks to minimise exposure from its treasury activities. The Group has established Company approved Liability Management and Investment policies. These policies do not allow any transactions that are speculative in nature to be entered into.

### Credit risk

Credit risk is the risk that a counterparty will default on its obligation causing the Group to incur a financial loss.

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash, short-term investments, trade receivables, foreign exchange transactions and other financial instruments. 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 has no significant concentrations of credit risk. The Group invests funds only in deposits with registered banks and local authority stock and its Investment policy limits the amount of credit exposure to any one institution or organisation.

The maximum exposure to credit risk at reporting date relates to bank balances of $3.2 million (2019: $4.1 million) and trade receivables of $2.1 million (2019: $2.4 million).

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 Electricity Invercargill Limited group is exposed to a concentration of credit risk with regards to the amounts owing by energy retailers for line charges. However, these entities are considered to be high credit quality entities.

Credit quality of financial assets: For counterparties with credit ratings the cash at bank and deposits are held in banks with credit ratings from BBB to AA-. Derivative financial instruments assets are held with banks with credit ratings of AA-. For counterparties without credit ratings the community and related party loans are with parties that have had no defaults in the past.

### 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 and meet capital expenditure requirements. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

In meeting its liquidity requirements, the Group maintains a target level of investments that must mature within the next 12 months.

The Group manages its borrowings in accordance with its funding and financial policies, which includes a Liability Management policy.

The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low.

The table below analyses the Group's financial assets and liabilities (excluding derivatives) into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

The following table details the exposure to liquidity risk as at 30 June 2020:

| | | | MATURITY DATES | | | |
|---|---|---|---|---|---|---|
| | CARRYING AMOUNT | CONTRACTUAL CASH FLOWS | < 1 YEAR | 1-3 YEARS | > 3 YEARS | TOTAL |
| **Group 2020** | $000 | $000 | $000 | $000 | $000 | $000 |
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | 3,201 | 3,201 | 3,201 | - | - | 3,201 |
| Trade and other receivables | 2,275 | 2,275 | 2,275 | - | - | 2,275 |
| | **5,476** | **5,476** | **5,476** | **-** | **-** | **5,476** |
| **Financial Liabilities** | | | | | | |
| Trade and other payables | 3,809 | 3,809 | 3,809 | - | - | 3,809 |
| Borrowings - secured loans | 115,450 | 117,778 | 31,514 | 86,264 | - | 117,778 |
| Borrowings - redeemable preference shares | 16,777 | 16,777 | 16,777 | - | - | 16,777 |
| | **136,036** | **138,364** | **52,100** | **86,264** | **-** | **138,364** |

The following table details the exposure to liquidity risk as at 30 June 2019:

| | | | MATURITY DATES | | | |
|---|---|---|---|---|---|---|
| | CARRYING AMOUNT | CONTRACTUAL CASH FLOWS | < 1 YEAR | 1-3 YEARS | > 3 YEARS | TOTAL |
| **Group 2019** | $000 | $000 | $000 | $000 | $000 | $000 |
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | 4,147 | 4,147 | 4,147 | - | - | 4,147 |
| Trade and other receivables | 2,110 | 2,110 | 2,110 | - | - | 2,110 |
| | **6,257** | **6,257** | **6,257** | **-** | **-** | **6,257** |
| **Financial Liabilities** | | | | | | |
| Trade and other payables | 5,459 | 5,459 | 5,459 | - | - | 5,459 |
| Borrowings - secured loans | 107,800 | 113,231 | 86,153 | 16,239 | 10,839 | 113,231 |
| Borrowings - redeemable preference shares | 16,777 | 16,777 | 16,777 | - | - | 16,777 |
| | **130,036** | **135,467** | **106,388** | **16,239** | **10,839** | **133,467** |

The interest rates on the Group's borrowings are disclosed in note 18.

The ultimate parent (ICC) being the holder of the redeemable preference shares has indicated that the shares will not be called for redemption in the next financial year. As the shares are callable the debt is classified as current in the statement of financial position.

The table below analyses the Group's derivative financial assets and liabilities that are settled on a net basis into their relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

The following table details the exposure to liquidity risk as at 30 June 2020:

| | | | MATURITY DATES | | | |
|---|---|---|---|---|---|---|
| **Group 2020** | CARRYING AMOUNT $000 | CONTRACTUAL CASH FLOWS $000 | < 1 YEAR $000 | 1-3 YEARS $000 | > 3 YEARS $000 | TOTAL $000 |
| **Financial Assets** | | | | | | |
| Derivative financial instruments | - | - | - | - | - | - |
| | **-** | **-** | **-** | **-** | **-** | **-** |
| **Financial Liabilities** | | | | | | |
| Derivative financial instruments | 7,496 | 8,269 | 1,776 | 3,535 | 2,958 | 8,269 |
| | **7,496** | **8,269** | **1,776** | **3,535** | **2,958** | **8,269** |
| **Net derivative financial liabilities** | **7,496** | **8,269** | **1,776** | **3,353** | **2,958** | **8,269** |

The following table details the exposure to liquidity risk as at 30 June 2019:

| | | | MATURITY DATES | | | |
|---|---|---|---|---|---|---|
| **Group 2019** | CARRYING AMOUNT $000 | CONTRACTUAL CASH FLOWS $000 | < 1 YEAR $000 | 1-3 YEARS $000 | > 3 YEARS $000 | TOTAL $000 |
| **Financial Assets** | | | | | | |
| Derivative financial instruments | - | - | - | - | - | - |
| | **-** | **-** | **-** | **-** | **-** | **-** |
| **Financial Liabilities** | | | | | | |
| Derivative financial instruments | 5,777 | 6,772 | 1,206 | 2,484 | 3,082 | 6,772 |
| | **5,777** | **6,772** | **1,206** | **2,484** | **3,082** | **6,772** |
| **Net derivative financial liabilities** | **5,777** | **6,772** | **1,206** | **2,484** | **3,082** | **6,772** |

**Market risk**

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits and derivative financial instruments.

### Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is exposed to currency risk through Invercargill City Forests Limited as it sells logs to overseas markets, which require it to enter into transactions denominated in a foreign currency. The Group has mitiaged this risk by selling the majority of its logs at wharf gate in New Zealand dollars.

### Interest Rate Risk

***Interest Rate Risk: Fair Value Interest Rate Risk***

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. Borrowing issued at fixed rates expose the Group to fair value interest rate risk. The Group's Liability Management policy outlines the level of borrowing that is to be secured using fixed rate instruments. Fixed to floating interest rate swaps are entered into to hedge the fair value interest rate risk arising where the Group has borrowed at fixed rates.

The Group has interest bearing debt which is subject to interest rate variations in the market. The debt is raised from the Group's parent company, Invercargill City Holdings Limited's bank borrowing facility and then advanced onto the group companies.

The Group through the Parent uses interest rate swaps to manage its exposure to interest rate movements on its multi option facility borrowings.

The interest rates on the Company's borrowings are disclosed in note 18.

The financial assets and liabilities are exposed to interest rate risk as follows:

| **Financial Assets** | |
|---|---|
| Cash and cash equivalents | Variable interest rates |
| Trade and other receivables | Non interest bearing |
| Dividends receivable | Non interest bearing |
| Capital work in progress | Non interest bearing |
| Derivative financial instruments (interest rate swaps) | Variable interest rates |
| Advances | Variable interest rates |
| Short term investments | Variable interest rates |

| **Financial Liabilities** | |
|---|---|
| Trade and other payables | Non interest bearing |
| Dividends payable | Non interest bearing |
| Advances | Variable interest rates |
| Derivative financial instruments (interest rate swaps) | Variable interest rates |
| Borrowings - secured loans | Variable and fixed interest rates |
| Borrowings - redeemable preference shares | Non interest bearing |

*Interest Rate Risk: Cash Flow Interest Rate Risk*

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings and investments issued at variable interest rates expose the Company to cash flow interest rate risk.

The Group manages its cash flow interest rate risk on borrowings by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings at floating rates and swaps them into fixed rates that are generally lower than those available if the Group borrowed at fixed rates directly. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

The notional principal outstanding in regard to the interest rate swaps is as follows:

| | Group 2020 $000 | Group 2019 $000 |
|---|---|---|
| | **Liability** | **Liability** |
| Maturity < 1 year | 10,000 | 7,500 |
| Maturity 1-2 years | 8,000 | 10,000 |
| Maturity 2-3 years | 17,000 | 8,000 |
| Maturity 3-4 years | 17,500 | 17,000 |
| Maturity 4-5 years | 10,000 | 17,500 |
| Maturity 5-6 years | 14,000 | 10,000 |
| Maturity 6-7 years | 8,000 | 14,000 |
| Maturity 7-10 years | - | 8,000 |
| | 84,500 | 92,000 |

*Effectiveness of Cash Flow Hedges*

The matched terms method is used in applying hedges. In all cases the terms of both the hedge instrument and the underlying transaction are matched. All hedges are interest rate swaps.

| | Company/Group | |
|---|---|---|
| | 2020 | 2019 |
| | % | % |
| Effectiveness | 100 | 100 |

*Sensitivity analysis on Financial Instruments*

Borrowings: If interest rates on borrowings at 30 June 2020 had fluctuated by plus or minus 0.5%, the effect would have been to decrease/increase the surplus after tax by 141,888 (2019: $117,852) as a result of higher/lower interest expense on floating rate borrowings.

Cash and cash equivalents included deposits at call which are at floating interest rates. Sensitivity to a 0.5% movements in rates is immaterial as these cash deposits are very short term.

*Derivative Asset: Cash Flow hedge*

The derivatives are hedge accounted and managed by the company to be 100% effective and thus there is no sensitivity to the profit and loss to change in the interest rates.

Sensitivity to a 0.5% movements in rates is as follows and affect the equity balance of the Group:

| | Carrying amount | Equity change | |
|---|---|---|---|
| | Year 2020 $000 | +0.5% $000 | -0.5% $000 |
| Net Derivative financial asset/(Liability) - Cashflow Hedge | (7,496) | 1,178 | (1,208) |
| | Year 2019 $000 | +0.5% $000 | -0.5% $000 |
| Net Derivative financial asset/(Liability) - Cashflow Hedge | (5,777) | 1,369 | (1,410) |

## 28. FAIR VALUE MEASUREMENT

*Fair Value measurements recognised in the Statement of Comprehensive Income*

The following classes of assets are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable:

Level 1 - fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 - fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

| | Group 2020 | | | | Group 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total NZ | Level 1 | Level 2 | Level 3 | Total NZ |
| Fair Value Measurement | $000 | $000 | $000 | $000 | $000 | $000 | $000 | $000 |
| **Assets at Fair Value** | | | | | | | | |
| Derivatives | - | - | - | - | - | - | - | - |
| Biological Assets | - | - | 31,041 | 31,041 | - | - | 24,249 | 24,249 |
| Network Assets | - | - | 86,415 | 86,415 | - | - | 86,325 | 86,325 |
| Investment Property | - | - | 4,200 | 4,200 | - | - | 4,250 | 4,250 |
| **Total Assets at Fair Value** | **-** | **-** | **121,656** | **121,656** | **-** | **-** | **114,824** | **114,824** |
| | | | | | | | | |
| **Liabilities at Fair Value** | | | | | | | | |
| Derivatives | - | 7,496 | - | 7,496 | - | 5,777 | - | 5,777 |
| **Total Liabilities at Fair Value** | **-** | **7,496** | **-** | **7,496** | **-** | **5,777** | **-** | **5,777** |

The Group carries interest rate swaps (derivative financial instruments) at fair value. These instruments are included in Level 2 of the fair value measurement hierarchy. Interest rate swaps are held with financial institutions with investment grade credit ratings. Interest rate derivative fair values are valued using swap model valuation techniques using present value calculations. The key inputs include interest rate curves and forward rate curves.

In 2019 the Group resolved to place its forest estate on the market. While the parties had agreed the terms of sale of the estate prior to 30 June 2020 the sale will not be completed until late 2020. The assets held for sale have been relcassified as forestry assets held for sale. The recorded value reflects the terms of the negotiated sale less the costs to sell.

For 2019, the Group's biological assets were valued by external valuation on the basis of fair value in accordance with The New Zealand Institute of Forestry (NZIF) valuation guidelines. The discounted cash flow (DCF) method is used with the exception of development forests where a compound cost basis is used. The valuation excludes funding and taxation. The discount rate is based on the mid-point of the valuers analysis of the implied pre-tax discount rates from actual transactions. The pre-tax discount rate chosen for the 2019 valuation is 6.5%. The cash flow term for the valuation is 32 years.

The Group's network assets are valued by external valuation on the basis of fair value using the discounted cash flow (DCF) method. The network assets are revalued every five years. The key inputs include discount rate, growth rate and future cash flows. The cash flow term for the valuation is 3 years.

The Group's investment properties are valued by external valuation on the basis of fair value using open market evidence with the exception of two properties that are planned to be replaced within the next year (2019: next two years), where a discounted cash flow (DCF) method is used. The investment properties are revalued annually. The key inputs include yield sensitivity being 10.0% for 2020 (2019: 8.0%).

**29. PUBLICATION OF FINANCIAL STATEMENTS**

Invercargill City Holdings Limited is a Council-Controlled Trading Organisation operating under the Local Government Act 2002. The Act requires the Board to deliver to the shareholders and make public the audited annual report within five months of the end of the financial year. This time frame has been met.

# Group Company Statement of Service Performance

FOR THE YEAR ENDED JUNE 30, 2020

The performance targets established in the 2020 Statement of Corporate Intent for Invercargill City Holdings Limited (ICHL) and the results achieved for the year ended 30 June 2020 follow.

**Group Financial Performance Targets**

| | Group 2020 Target $000 | Group 2020 Actual $000 | Group 2019 Actual $000 |
|---|---|---|---|
| Gross Revenue | 24,927 | 44,200 | 45,655 |
| Expenditure | (14,636) | (30,514) | (47,278) |
| Net Profit (Loss) | 10,291 | 13,686 | (1,623) |
| Tax | (2,881) | (2,194) | (690) |
| Group Net Profit/(Loss) after tax | 7,410 | 11,492 | (2,313) |
| Dividend to Invercargill City Council | 4,800 | 4,800 | 3,850 |
| Rate of Return (before tax) on Shareholders Funds | 9.63% | 10.42% | -1.68% |
| Rate of Return (after tax) on Shareholders Funds | 6.93% | 8.75% | -2.40% |
| Shareholder Funds to Total Assets | 34.36% | 43.19% | 37.56% |

**Group profit for the period and return on shareholder funds**

The Group's profitability and return on shareholders funds are higher than the Statement of Intent targets mainly due to:

- Invercargill City Holdings Limited had an unfavourable fair value movement $1.2 million on its cash flow hedges due to the fall in interest rates.
- Electricity Invercargill Limited had a favourable fair value movement in Southern Generation Limited Partnership of $1.7 million resulting from its long term supply contracts from generation.
- Invercargill City Forests Limited had a favourable biological asset revaluation movement of $8.0 million

**Electricity Invercargill Limited**

**Network Reliability Performance:**

The following results were calculated using information from the Company's non-financial systems, which due to the manual recording processes have inherent limitations relating to the completeness of interruption data and the accuracy of installation control point (ICP) numbers included in the SAIDI and SAIFI.

| | Group 2020 Target $000 | Group 2020 Actual $000 | Group 2019 Actual $000 |
|---|---|---|---|
| **System Average Interruption Duration Index (SAIDI)** The average total time in minutes each customer connected to the network is without supply. | | | |
| SAIDI | 22 | 49.23 | 17.98 |
| **System Average Interruption Frequency Index (SAIFI)** The average number of times each customer connected to the network is without supply. | | | |
| SAIFI | 0.57 | 0.98 | 0.31 |

Both SAIDI and SAIFI measures are impacted by several outages in the network due to faults associated with Ring Main Units and cables (Bluff and City). Mitigation work has been implemented and a thorough assessment is underway to ensure a continued reliable network performance in future.

Electricity Invercargill Limited (EIL) has exceeded the Commerce Commission supply quality limits for the current year, however EIL is still compliant with the price-quality path as neither SAIDI or SAIFI has not been exceeded by EIL for the past two years.

The Directors have reasonable assurance that the performance data of the Company is free from material misstatement and is a reliable measure of the network's performance. However, there is an inherent risk as there is no independent evidence to verify the accuracy of the information recorded.

### Invercargill Airport Limited

**Financial**

Financial results were severly impacted by COVID-19 with an after tax profit $125,000 compared to $805,000 for the prior year and passenger numbers decreased by 9% from the prior year.

**Operations**

- Retain aerodrome certification via assessment from the Civil Aviation Authority

**ACHIEVED**

IAL has retained its Aerodrome Operators Certificate. The Airport successfully completed the Aerodrome Operators Certificate review in July 2019. The certificate is valid until 31 October 2023.

**Infrastructure**

- No significant disruption to airport operations due to infrastructure failure

There have been no significant disruptions to airport operations due to IAL owned or managed infrastructure failures.

### Invercargill City Forests Limited

The Company completed the sale of its estate subject to completion of overseas investment office requirements by the successful purchaser.

### Parent Non-Financial Performance Targets

1. Half yearly reports are provided to the Shareholder within two months of the end of the period and that the annual statements and report are provided within 3 months of the end of the financial year.
   **ACHIEVED**
2. All statutory requirements for reporting under the Companies Act 1993 and the Local Government Act 2002 are achieved.
   **ACHIEVED**
3. Draft Statement of Intent will be submitted for approval to Invercargill City Council by 1 March each year.
   **ACHIEVED**
4. Invercargill City Holdings Limited will keep Invercargill City Council informed of all significant matters relating to Invercargill City Holdings Limited and its subsidiaries. Invercargill City Holdings Limited will run at least one workshop with Councillors per financial year.
   **ACHIEVED**

   Invercargill City Holdings Limited (ICHL) has continued its communication programme with Council. As part of this, ICHL has ran five workshops with Councillors during the year to keep them informed on the progress of ICHL's work programme for the year. ICHL also held its Annual General Meeting (AGM) on 7 November 2019 during which a presentation was made.
5. ICHL will work with all subsidiary and associate companies to develop and implement a strategic plan for the company, in consultation with ICHL, which reflects the policies and objectives of the shareholder for the business.

   As part of strategic planning, ICHL will encourage all subsidiary and associate companies to seek out opportunities for innovation and growth that are relevant for their businesses, to enhance future profitability and increase shareholder value. ICHL will encourage its subsidiaries to share investment or growth opportunities and ideas with it at an early stage for feedback.
   **ACHIEVED**

   ICHL presented to ICC on numerous occasions in 2020. On those occasions ICHL discussed the strategic objectives of ICHL and its subsidiaries and the alignment of those objectives with Council. In quartely meetings with the directors of its subsidiaries ICHL passed on, and developed strategies to align with those agreed with its shareholder.
6. ICHL expects a long term sustainable dividend flow to the shareholder, while maintaining an appropriate balance between dividends and reinvestment. ICHL will require all its subsidiaries to provide projections of at least 10 years of capital requirements for a least asset replacement to enable it to monitor the balance between these competing demands.

   ICHL will work with its subsidiaries to achieve the most efficient use of staff resources, capital assets and working capital through innovative management and sound business practices.
   **ACHIEVED**

   ICHL has agreed a sustainable level of dividend that matches the current projected balance between dividends and reinvestment provided by its subsidiaries. ICHL has conducted a review of all of its investments and is working through the implementation of that review including any improvements to management and business practices identified. ICHL is working with the subsidiaries on projections of 10 year capital requirements.
7. ICHL will work with its subsidiaries to ensure that they are mindful of the public scrutiny that comes with being a Council Controlled Organisation.
   **ACHIEVED**

   ICHL has discussed at its quarterly meetings with its subsidiaries the scrutiny that comes with being a Council Controlled Organisation. ICHL has worked with the subsidiaries to ensure that they have policies and procedures in place to meet those requirements, including sensitive expenditure. As noted above ICHL has worked with Council to ensure an alignment, where practical with the objectives of the ICHL group and the current Council long term plan.

8. ICHL will work with its subsidiaries to keep it informed on a "no surprises" basis. ICHL expects Boards to be sensitive to the demand for accountability placed on ICHL and ICC from Invercargill City ratepayers, and that company actions have an impact on the ICHL Group and ICC as a whole.

**ACHIEVED**

ICHL presented to ICC on numerous occasions in 2020. On those occasions ICHL discussed matters of interested to Council on a no surprises basis.

# Audit Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

**Independent Auditor's Report**

**To the readers of Invercargill City Holdings Limited's Group financial statements and statement of service performance for the year ended 30 June 2020**

The Auditor-General is the auditor of Invercargill City Holdings Limited Group (the Group). The Auditor-General has appointed me, Andy Burns, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the statement of service performance of the Group, on his behalf.

## Opinion

We have audited:

- the financial statements of the Group on pages 10 to 53, that comprise the statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the Group on pages 54 to 56.

In our opinion:

- the financial statements of the Group on pages 10 to 53:
  - present fairly, in all material respects:
    - its financial position as at 30 June 2020; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards; and
- the statement of service performance of the Group on pages 54 to 56 presents fairly, in all material respects, the Group's actual performance compared against the performance targets and other measures by which performance was judged in relation to the Group's objectives for the year ended 30 June 2020.

Our audit was completed on 30 November 2020. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the impact of Covid-19 on the Group. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the statement of service performance, we comment on other information, and we explain our independence.

## Emphasis of matter – impact of Covid-19

Without modifying our opinion, we draw attention to the disclosures about the impact of Covid-19 on the Group as set out in the notes on pages 20-22, and 33-34 to the financial statements. We draw specific attention to the following matters due to the significant level of uncertainty caused by Covid-19:

- ***Sensitivity of the valuation model used in the impairment assessment***

  Page 20 describes the sensitivity of the Group's impairment model for airport related property, plant and equipment to changes in major inputs and assumptions. The Group's estimates of passengers, recovery, and growth rates remain uncertain due to Covid-19.

- ***Investment property***

  Note 12 on pages 33 and 34 describes the significant uncertainties communicated by the valuer, related to estimating the fair values of the Group's investment property.

## Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

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

## Responsibilities of the Board of Directors for the financial statements and the statement of service performance

The Board of Directors is responsible on behalf of the Group for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand. The Board of Directors is also responsible for preparing the statement of service performance for the Group.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and statement of service performance that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the statement of service performance, the Board of Directors is responsible on behalf of the Group for assessing the Group's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002.

## Responsibilities of the auditor for the audit of the financial statements and the statement of service performance

Our objectives are to obtain reasonable assurance about whether the financial statements and the statement of service performance, 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 carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the statement of service performance.

We did not evaluate the security and controls over the electronic publication of the financial statements and the statement of service performance.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the statement of service performance, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported statement of service performance within the Group's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the statement of service performance or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the statement of service performance, including the disclosures, and whether the financial statements and the statement of service performance represent the underlying transactions and events in a manner that achieves fair presentation.

- We obtain sufficient appropriate audit evidence regarding the financial statements and the statement of service performance of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated statement of service performance. We are responsible solely for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify in our audit.

Our responsibilities arise from the Public Audit Act 2001.

## Other information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 4 to 9, but does not include the financial statements and the statement of service performance, and our auditor's report thereon.

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

In connection with our audit of the financial statements and the statement of service performance, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the statement of service performance or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report the fact. We have nothing to report in this regard.

## Independence

We are independent of the Group in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners, issued by New Zealand Auditing and Assurance Standards Board.

Other than the audit, we have no relationship with, or interests in, the Group.

Andy Burns
Audit New Zealand
On behalf of the Auditor-General
Dunedin, New Zealand

**Private Bag 90104 • Invercargill 9840 • New Zealand • P: 03 211 1777**