Annual Report 2023

Counties Energy

Contents

Chair and Chief Executive Report

KEY HIGHLIGHTS

- Positive improvement in TRIFR
- Increased focus on sustainability
- Revenue increased to $171 million
- EBITDA result $56.0 million
- Record level of investment in network assets
- Consumer discount of $12.7 million paid (including GST)
- NPAT $16.9 million

On behalf of the Board of Directors and the Executive Leadership Team we are pleased to present the 2023 Annual Report.

The tail end of the current reporting period has been another challenging time for many New Zealanders with the severe weather events that occurred in February 2023. Fortunately, the impact on our network from the severe weather and extreme flooding events affected a minority of our customers in comparison to harder hit areas across the North Island.

One positive to come from the impact of the severe weather events was the support from other lines companies to aid those whose networks were badly affected. This level of cooperation made those involved feel very proud to be part of an industry that cares and supports one another.

SEVERE WEATHER EVENTS HIGHLIGHT THE NEED FOR ONGOING INVESTMENT IN RESILIENT NETWORKS

As always, our vision at Counties Energy remains to grow the economic wealth and enable future development in our network. Our commitment to the safety and wellbeing of our employees, contractors and the community we serve is paramount. So too is our ability to listen and respond to our customer needs, and our teams' capability to continually innovate and adapt new technologies to solve traditional problems.

OUR COMMITMENT TO OUR CUSTOMERS AND COMMUNITY IS PARAMOUNT

As part of our continued evolution as an electricity distribution business, we have looked outwardly at how we will identify ourselves in tomorrow's energy future. The Company has begun focusing on how it moves from being a traditional distribution network operator (DNO) to a distribution system operator (DSO).

The Company recognises that as part of tomorrow's energy future it will need to play a different role than it does today in order to provide the tools to aid customers in making more conscious and informed energy choices.

More information on the Company's shift in focus to becoming a DSO by reimagining energy can be found on page 21 of this report.

OUR FOCUS REMAINS ON CONTINUALLY IMPROVING OUR SYSTEMS AND WORK PRACTICES TO ACHIEVE ZERO HARM

The continued safety and wellbeing of our employees, contractors and the community we serve is a high priority for the Board and Management. The number of recordable injuries reported during the year decreased as did TRIFR[1], which decreased from 12.9 to 2.4 per million hours, which is pleasing.

We are now operating in a post-Covid world, however, vigilance still needs to be paid to ensure our employees personal health and safety whilst at the same time continuing to provide critical infrastructure services to our customers and our community.

[1] Total Recordable Incident Frequency Rate

THE COMPANY COMPLETED A MILESTONE BY COMMISSIONING THE BOMBAY SUBSTATION DURING THE YEAR

2023 was another significant year for the Company in many aspects with numerous accomplishments. Most notably during the year the Company commissioned the

Vern Dark
Chair

Judy Nicholl
Chief Executive

Barber Road substation at Bombay after several years of construction. This project forms part of the Company's continued effort towards ensuring that our capital investment programme matches the growth that is occurring on the network both now and for the foreseeable future.

Other key network projects included an upgrade of the Tuakau substation to install a dedicated transformer for Watercare.

ECL Group recorded some notable successes during the year and they continued to deliver several contracts in the emerging EV charging infrastructure market, which complements the Group's broader energy strategy of providing customer choice and energy diversification.

The Company purchased the remaining minority interest in ECL Group during the year to achieve 100% ownership.

OPENLOOP AND OTHER NEW TECHNOLOGIES REMAIN A KEY FOCUS

The Company continued work on several technology initiatives during 2023 with the aim of providing customers with better energy outcomes and more energy choices. The Company aims to develop more customer-focused energy solutions.

The current initiatives include ongoing work on the OpenLoop digital charging platform and the berm battery pilot study which upcycles discarded batteries from Nissan Leaf EV's to provide street level off-peak energy storage and charging.

The Company remains committed to continuing to make developments in new technology areas that focus on solving customer needs.

The Company continued to be active in the community in 2023 through its range of community partnership programmes. The Company is particularly proud of its new partnership entered during the year with Surf Life Saving Kariaotahi.

THE COMPANY HAS MADE A STRONG COMMITMENT TO A SUSTAINABLE FUTURE

The Company has followed through on its previously stated commitment to focus on initiatives that aim to lower the Company's carbon footprint. During the year the Company achieved Toitū certification to reinforce its commitment to sustainable objectives.

Last year Counties Energy announced its plans to investigate renewable power generation from a wind farm located on the network. This initiative, which aligns with the Company's growth strategy and also complements the Company's environmental commitment, is ongoing and continues to display encouraging signs.

REVENUE HAS GROWN TO $171 MILLION; EBITDA WAS $56.0 MILLION

2023 recorded the Group's highest revenue result of $171 million, which surpassed last year's previous record of $159 million. Pleasingly, the increase in revenue, combined with costs that were in line with expectations, flowed through to another strong net profit result of $16.9 million. EBITDA was $56.0 million compared to $63.3 million in 2022.

The underlying performance of the core lines business remained strong over the last twelve months with new customer connections continuing to grow, however, at levels below last year's record growth in new connections. ECL Group's revenue grew 17% compared to last year, which was pleasing on the back of several notable project wins.

CONSUMERS RECEIVED ANNUAL DISCOUNTS OF $12.7 MILLION INCLUDING GST DURING THE YEAR

The benefits of this performance flows back to the community through the $12.7 million (including GST) distributed to customers through the Company's annual discount mechanism.

NETWORK RELIABILITY AND INVESTMENT REMAIN A KEY FOCUS

Fundamental to the Company's network growth and its commitment to maintaining a safe and reliable network is the investment in capital expenditure. As a direct consequence of fulfilling its objectives, the Company's capital expenditure in 2023 was $72.1 million. Similar levels of investment are set to continue in subsequent years to match growth and renew network assets.

Sustainable security of supply and network reliability remain an ongoing focus. During 2023 unplanned SAIDI and SAIFI positively improved on last year's results, but disappointingly, still managed to exceed plan. As a result, the focus on unplanned outages remains an ongoing issue to address, in particular unplanned outages caused by out of zone trees and vegetation.

We would both like to thank the employees of Counties Energy and ECL Group for their ongoing dedication and commitment, and their relentless focus on safety and reliability and delivering positive outcomes for our customers.

On behalf of the Board as Chair, I would personally like to acknowledge that we are also grateful to the Trustees of the Counties Energy Trust for their support and the Management Team, with whom it has been a pleasure to work again this year.

It is my intention to step down from the Board after the next Company AGM after 12 proud years of being a Director at Counties Energy.

Vern Dark
Chair

Judy Nicholl
Chief Executive

Our Board

The Counties Energy Board of Directors (from left): Vern Dark, David Tompkins, Ben Iosefa, Keith Watson, Hamish Stevens and Jonathan Kay.

The Board's primary responsibility is to govern the Company and ensure its long-term success. The Board is committed to upholding regulatory compliance, providing a sound and robust direction for new investments and ultimately ensuring the seamless delivery of a reliable and efficient electricity network.

The Board provides strategic direction for all new investments, carefully evaluating opportunities to expand and enhance the Company's infrastructure and new offerings, keeping in mind the long-term benefits and risks associated with each investment and ensuring they align with the Company vision of a sustainable and resilient electricity network.

The Board's focus on responsible investment decisions ensures the prudent allocation of resources and maximises value for customers and the community. The Board actively engages with the Leadership Team to monitor network performance, identify areas for improvement and implement strategic initiatives that enhance the overall customer experience.

Vern Dark – Chair

Vern is currently chair of Invivo & Co Limited and his extensive corporate career has included senior executive roles in the petro-chemicals industry followed by six years as the Chief Executive of the Northland Cooperative Dairy Company and four years as Chief Executive of the Northland Port Corporation.

Hamish Stevens

Hamish is a chartered fellow of the Institute of Directors and a member of Chartered Accountants Australia New Zealand. He has extensive experience in corporates and as a company director and chair across many industries. Hamish is a director of Governance and Advisory Limited, Radius Residential Care Limited, Marsden Maritime Holdings Limited, and ECL Group Limited. He is also chair of East Health Services Limited, The Kennedy's Limited, Pharmaco (NZ) Limited, and Embark Education Limited.

Ben Iosefa

Ben is a member of the Australian Institute of Company Directors, chair of Home in Place (NZ) Limited and Fuso NZ. He is also a director of Polaris & Company Limited, Active Electrical Suppliers, Wineworks Group, Home in Place (Australia) and ECL Group Limited. Ben's extensive corporate career included senior executive and board level responsibilities in the petro-chemicals and energy industry, 14 years of which was spent working in North America and Europe.

David Tompkins

David is a member of the Institute of Directors and Institution of Professional Engineers New Zealand. He is a director of Tutukaka Asset Management Limited. David previously held senior executive positions with Vector Ltd and senior management positions with West Coast Power Ltd (Canada). He was previously a director of the Electricity Networks Association, Electricity Supply Industry Training Organisation and Treescape Ltd. He holds a Bachelor of Applied Science (Civil) degree, a Master of Engineering (Civil) degree and Diplomas in Business Management and International Financial Management.

Keith Watson

Keith brings experience gained as a chair, company director and managing director with governance experience in globally listed businesses. He has worked across all major geographic markets – USA, Canada and Latin America, as well as Asia Pacific and Central Europe. He is chair of NZIER and ECL Group Limited, and director of Acumen New Zealand Limited, Working Assets Limited (Consulting and Properties), Dovedale Forests Limited, Cranleigh Forests Limited and Rakon Limited.

Jonathan Kay

Jonathan is a senior executive and leader with significant experience within the electricity, infrastructure and technology sectors. He is currently chair at Waipā Networks Limited. He is also the director of multiple organisations, including Network Waitaki Limited, Horizon Energy Limited and Whitestone Contracting Limited.

Our Trust

The Trustees (from left): Mike Marr, Christine Rupp (Chair), Don Thomson, Phillip Beston and Alan Eyes.

The Counties Energy Trust hold the shares of Counties Energy Limited on behalf of all electricity consumers on the network.

CountiesEnergyTrust

The Company is 100-percent consumer-owned, with Counties Energy consumers receiving an annual discount on their power account. The discount comes from Counties Energy and appears on consumers electricity bill.

The Trust consists of five elected Trustees, with two retiring every second year. Christine Rupp is Chair of the Counties Energy Trust and is joined by Trustees Phillip Beston, Alan Eyes, Don Thomson and Mike Marr, as well as Trust Secretary Sheena O'Flagherty. The Company wishes to acknowledge the service of the Trustees and thank them for their support.

For more information on the Counties Energy Trust – www.countiesenergytrust.org.nz

Our Leadership Team

The Leadership Team (from left): Dale Carline, Moonis Vegdani, Conrad Harvey, Judy Nicholl, Andrew Toop, Tracey Kay and Paul Blue.

The Leadership Team is unwavering in their dedication to providing a robust, safe and reliable electricity network. They manage the implementation of rigorous safety protocols, regular maintenance and upgrades, and the development of innovative technologies that support customers now and into the future. By prioritising the reliability and resilience of infrastructure investment, they aim to support economic growth, empower communities, and enhance the overall quality of life for network customers.

The Counties Energy Leadership Team recognises the importance of sound leadership in achieving organisational success. Operational excellence remains a key priority for the Leadership Team, with a focus on optimising operational functions, prioritising the wellbeing of employees and managing the business for the benefit of customers. Their strategy revolves around fostering a collaborative and inclusive work culture, believing that effective leadership is the cornerstone of employee engagement, innovation and productivity, leading to enhanced outcomes for both the Company and its community. They acknowledge the significance of employee wellbeing and place it at the heart of their organisational philosophy, understanding that a healthy and engaged workforce is pivotal to achieving sustainable growth and delivering exceptional customer experiences.

Our People

The Company continues to live its values – Safety First, Customer Obsessed, Energy Innovators, Always On, and Human Kind. These values are ingrained in its ethos, and are cemented in its day-to-day operations and are considered in all aspects of setting the Company's strategy going forward.

Fundamental to this is the Company's priority to deliver a safe and reliable network for its people, its customers and its community, while ensuring customer-centric and innovative initiatives are developed now and into the future. The Company has maintained a hybrid remote working environment (with anchor office days) for office-based teams to support business continuity and to offer a working environment that also aids with recruitment and retention.

Recruitment

The Company continues to be an employer of choice, with recruitment strong and applications for vacancies high. There continues to be a shortage of skilled applicants in New Zealand for key positions such as Line Mechanic, HV Electrician and Utility Arborist. The Company seeks to find new and creative ways to attract skilled candidates. This year the Company developed a new pathway through its growing Warehouse Team for entry level trainee opportunities for candidates seeking a career as a Line Mechanic or Utility Arborist.

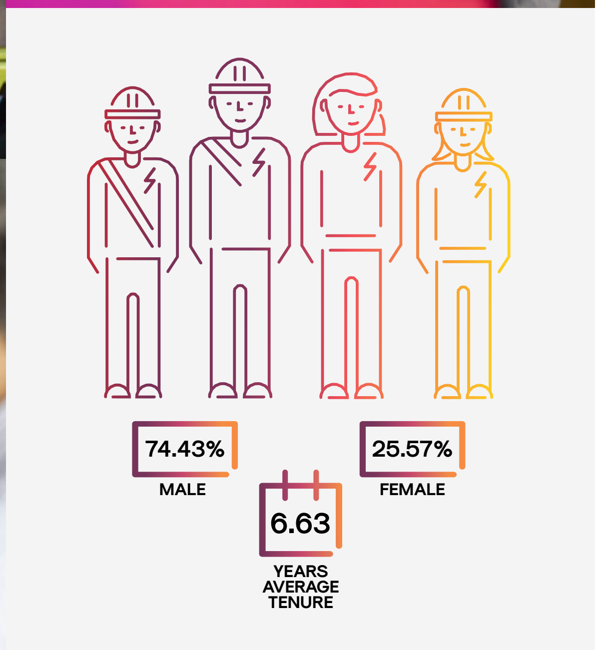
Health and Safety

Safety statistics continue on a positive path (refer page 22). The Safety Weeks, held six-monthly, continue to drive a positive safety message, combined with ongoing refresher training programmes. There has been a decreased number of muscular skeletal injuries in the past 12 months, with the Occupational Health Specialist and the Occupational Nurse continuing to provide effective treatment pathways for preventative, short-term and longer-term injuries.

Wellbeing

Good health and the overall wellbeing of our people continues to be a priority for the Company with a growing number of programmes on offer. Subsidised medical insurance and wellbeing offerings through partner agencies such as Clearhead (employee assistance programme) continue, along with health and fitness employee benefits through local businesses.


CLARK
CLARK


74.43%
MALE
25.57%
FEMALE
6.63
YEARS
AVERAGE
TENURE


DONGHAE

Our Community

As a cornerstone of our community, Counties Energy is committed to a comprehensive community partnership programme. With a focus on supporting initiatives relating to emergency services and safety, education, community events and local sports, as well as fund programmes that will create a better future for our youth. Our current community partnerships include:

- Auckland Rescue Helicopter Trust (Westpac air ambulance)
- Waiuku Coastguard
- Sunset Beach Lifeguard Service
- Surf Life Saving Kariaotahi
- Counties Energy Home Energy Saver programme for energy hardship education
- Warmer Kiwi Homes energy hardship initiative to insulate low-income local homes
- Franklin Family Support Services
- School Kit Power Programme – a primary school STEM programme teaching our youth about electricity and how to stay safe around it
- EPRO8 – school STEM Challenge
- Robogals – inspiring students into STEM
- School Major Event support – supporting every primary school's major fundraising event (either a Calf Club/Ag Day or Gala Day)
- Northern Stars Netball
- Counties Manukau Rugby Football Union – community rugby
- Counties Energy Heat (women's representative rugby side)
- Counties Energy Christmas Lights, Trains at Night
- Counties Energy Pukekohe Show and more.

Helping to keep our community safe

Counties Energy is proud to have taken on board another essential community partnership this year – this time with Surf Life Saving Kariaotahi.

The Company was excited to add this partnership to its emergency services portfolio, which includes Sunset Beach Lifeguard Service, Waiuku Coastguard and Auckland Rescue Helicopter Trust.

Surf Life Saving Kariaotahi is a volunteer-run affiliate of Surf Life Saving Northern Region and part of the overall family of Surf Life Saving New Zealand, providing volunteer surf rescue services on weekends and public holidays from Labour Weekend through to the end of the Easter school holidays as well as a 24/7 call out service throughout the year.

"We're honoured to be supporters of essential emergency services and safety within our community. The work the Surf Life Saving Kariaotahi team does in keeping our community safe in and around the water is incredible and aligns with our value of always putting safety first."

Judy Nicholl
Chief Executive

Christmas Lights – Trains at Night

Counties Energy continues to light up the community with festive cheer through an award-winning Christmas experience at Glenbrook Vintage Railway.

The Counties Energy Christmas Lights, Trains at Night event sees the charitable organisation's trains, station, and buildings dressed in Christmas lights. It includes a special Christmas Express train service, visits from Santa, a Christmas market, food stalls, a free Kids Zone and much more. Running for two weeks in the lead up until Christmas, the popular event has become a 'must do' on people's Christmas calendar's – for old and young alike.

Money raised from ticket sales goes towards the ongoing maintenance and upkeep of the Glenbrook Vintage Railway.

"We're excited to continue our support of Counties Energy Christmas Lights, Trains at Night, bringing joy and excitement to families. We are extremely proud to continue our community partnership with iconic Glenbrook Vintage railway and the wonderful staff and volunteers who contribute so much to this organisation."

Jodine Laing
Group Head of Communications

Tackling energy hardship

As a 100-percent consumer-owned company, Counties Energy takes its responsibility as a good corporate citizen seriously. Reducing energy hardship within our community is at the heart of our corporate social responsibility focus. The Company has three major initiatives aimed to help those in our community reduce their energy bills and stay warmer and healthier.

The Counties Energy Home Energy Saver programme is a partnership between Counties Energy Trust, Counties Energy and energy-efficient lightbulb producers Ecobulb. The project also received funding from the Government's Support for Energy Education in Communities (SEEC) programme. Around 600 lower income homes will save hundreds of dollars a year on their power bills thanks to the programme, which included personalised in-home energy education and assessments. Nearly 9,000 Ecobulb LED bulbs and 550 energy-efficient showerheads were given to participating homes in the Counties Energy network area this year. It is estimated the programme will deliver $421,000 in annual energy savings for the 600 households who received energy assessments.

The Company also launched a new initiative this year, offering Winter Warmer packs to families in need through Franklin Family Support Services (FFSS). The packs consisted of ecobulbs, hot water bottles, draught stoppers, blankets and many more items to help keep families warm and reduce power bills. The Company works with recognised partner agency FFSS who work within the community, ensuring the packs go to those who need them most.

Counties Energy has also extended their partnership with Energy Efficiency and Conservation Authority's Warmer Kiwi Homes programme. This has seen free insulation installed at 100 low-income owner-occupied homes around the network this year, greatly helping to reduce heating costs for those eligible for the programme.

The Company believes that funding and partnering with credible, experienced agencies on initiatives will see the most beneficial impact on reducing energy hardship in the local community.

> "The Counties Energy Home Energy Saver initiative will make a positive difference to local whānau, resulting in warmer, drier, healthier and more energy-efficient homes, simply through education targeted to people's personal living arrangements, swapping to free ecobulbs and following the other tips offered."
>
> *Judy Nicholl*
> *Chief Executive*

Our Sustainability

Sustainability Strategy

Counties Energy recognises that the environment and sustainability are key components in enabling the Company to meet its goals of its business strategy. The Company believes it is important to anchor our sustainability strategy in our local community, championing topics that are important to stakeholders.

Environmental Care

The Company has increased focus on its environmental care to ensure that all employees feel equipped with the knowledge they need to protect the environment should an incident ever occur. This has included training, reward and recognition, and holding onsite coaching which has resulted in a large decrease in environmental incidents during the year. In the past 12 months, four environmental incidents occurred compared to 15 in the previous year.

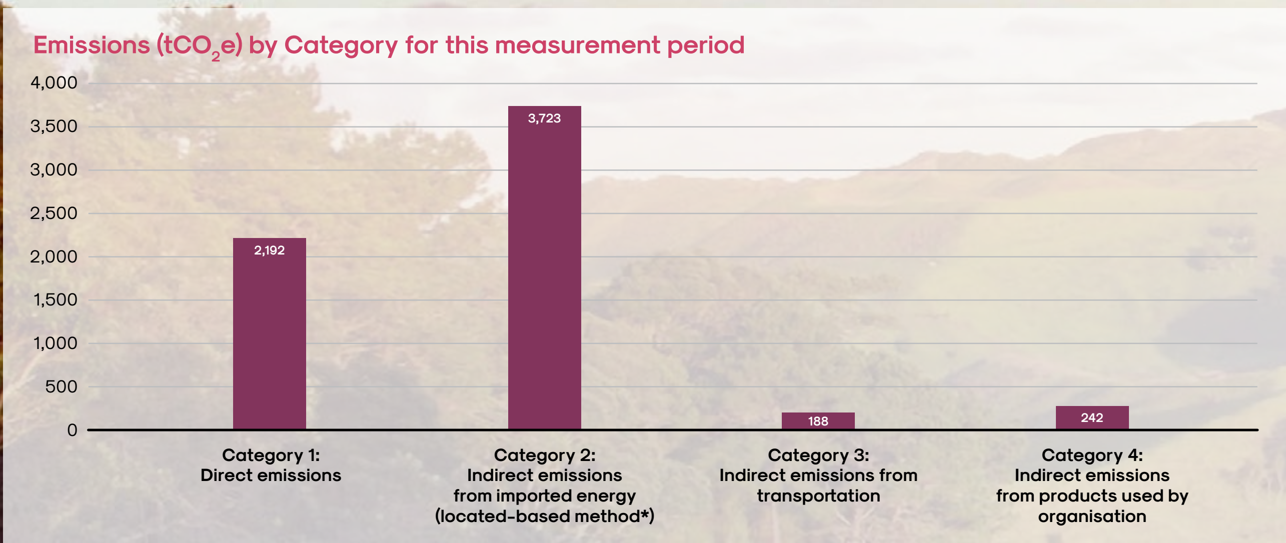
Counties Energy's stakeholders communicated that waste management is important to them and the Company is conscious of the volume of waste that it creates, in particular plastic waste. To combat this, the Company partnered with local company FuturePost who collect the Company's plastic waste to use in the creation of plastic fence posts and other products. This ensures that the Company diverts as much plastic waste as possible from landfill.

Emissions Management

During the year, the Company successfully achieved Toitū carbonreduce certification for our carbon footprint. As this was the first time gathering emissions data, this has become the Company's emissions base year. The Company is committed to continuing to calculate its annual emissions data along with setting emissions reduction targets and reducing emissions to meet them.

Counties Energy's total net emissions for the period were 6,341 tCO_2e (see graph below). The main area of influenceable emissions is from fuel use across the group.

The Company has set emissions reduction targets in line with the science required to limit global warming to 1.5 degrees. The targets are to reduce the Company's category 1 and category 2 emissions by 21% by 2025 and 42% by 2030.



Environmental Grants

This year the Company was proud to fund the second round of the Counties Energy Environmental and Sustainability Grant.

The Counties Energy Environmental and Sustainability Grant aims to support not-for-profit community organisations or educational providers with projects that protect or enhance the environment in the network area.

The 2022 recipients were YMCA Camp Adair, Franklin Active Trails Whakaupoko Landcare and Trees for Survival Mauku School. The three initiatives each received $5,000 worth of funding for their environmental projects within the local community.

YMCA Camp Adair are using their grant to improve pest control and restore biodiversity, as well as planting native trees. The project will involve local schools to help with the planting and establish an eco-sourced nursery. Trees for Survival Mauku School are installing greenhouses to raise native seedlings that will then be established at Mauku Stream. Franklin Active Trails Whakaupoko Landcare will be focusing on weed control, planting native trees as well as completing trails to create pathways for walking and cycling.

All three projects are expected to be completed by March 2024.

Grant recipients Tamaoho School.

Counties Energy employees participating in the Camp Adair planting project.

> **"As we continue to increase our focus on sustainability as a company, it's heartening to see so many local not-for-profit community organisations and educational providers working passionately to make a difference in our community. We received outstanding applications and are extremely proud to have these three projects being implemented."**
>
> ***Tracey Kay***
> ***General Manager Safety, Culture and Sustainability***

Our Future

Barber Road Substation

Major Projects

This year the Company has invested more than $70m into projects to build and update the network including investment in technology and new systems to improve customer service and work towards the companies decarbonisation goals.

One such project is the $40m investment that encompasses the eastern side of the network. The area is undergoing large greenfield development from Auckland's expansion south alongside State Highway One. This essential project will improve power reliability, safety and capacity for the wider eastern area by upgrading existing equipment and assets and installing new electricity network infrastructure. A new substation at the end of Barber Road, Bombay, has been completed this year, replacing the end-of-life Mangatawhiri and Ramarama substations.

Counties Energy is also playing a critical role in ensuring the integrity of Auckland's water supply with the construction of a dedicated network to supply Watercare's Waikato River Water Treatment Plant.

Watercare engaged Counties Energy to supply and install a dedicated transformer at the Tuakau Substation, install an extension on the Hitchen Road feeder for a direct 22kV link between the Tuakau and Pokeno zone substations and install two new underground 22kV feeders from the Tuakau Substation to the plant.

All 22kV feeder work has been completed and livened and all 110kV enabling works at the Tuakau Substation have been completed.

Energy Reimagined

New Zealand's energy system is undergoing a rapid period of change as it embraces a fundamental mind shift to accelerate towards a low carbon future. A key part of this future is dependent on the decarbonisation of electricity and transport added by the adoption of new energy technologies.

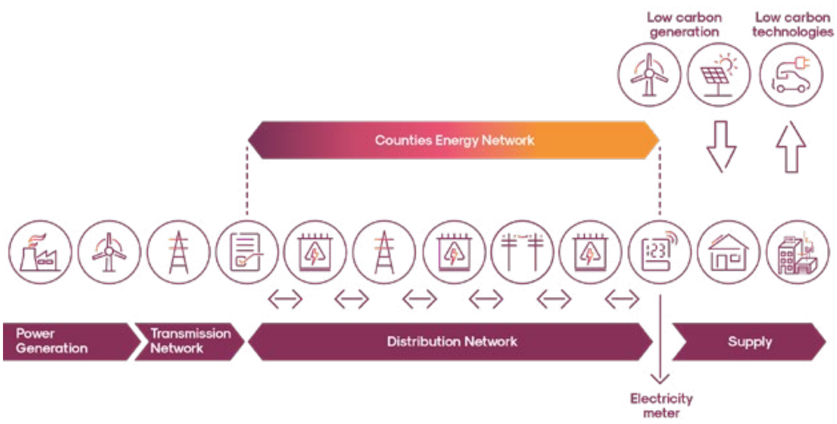
The way energy is sourced and consumed is changing rapidly. A growing number of decentralised renewable generation and storage solutions are being connected directly to the electricity distribution network rather than the transmission grid. These along with electric vehicle charging and other distributed energy resources at mass market scale are creating a need for smarter energy orchestration at the distribution level.

Counties Energy recognises that the change from a Distribution Network Operator (DNO) to a Distribution System Operator (DSO) is an essential one for the Company to drive performance and resilience on the network and to create new shared value that unlocks the full energy potential for our customers.

This year the Company launched its DSO strategy as it recognised that electricity distribution networks sit at the heart of the energy transition, facilitating the integration of decentralised low carbon technologies such as electric vehicles, energy storage, distributed generation and digital technologies that transform our customers into 'prosumers'. This required the Company to fundamentally reimagine the role that we play and how we serve our customers, communities, and New Zealand.

To guide our customers and communities to transition to a low carbon energy system, Counties Energy will broaden its role to meet their energy needs. Customers are actively looking to decarbonise their energy behaviour and the Company will need to support those goals via its distribution network. Creating a more efficient and flexible system will benefit all customers and empower them to be at the centre of the energy revolution. The Company's enhanced DSO capabilities will provide customers with the freedom to access a wider range of energy choices as active participants of the low carbon transition.

By transitioning to a DSO, Counties Energy aims to create the 'flex and stretch' in the network through energy orchestration to allow for customers' changing needs, and to better serve those who choose 'clean and green' technologies. This approach would decrease the under-utilisation of infrastructure and use modern approaches to meet the peak capacity requirements. Traditional investments in peak capacity would be focused on targeted upgrades with a long-term view.



> *"Underpinning our customer objective is providing a safe and reliable service in a dynamic energy system while optimising the supply and demand in real time. In addition, getting more out of the existing network by using DSO solutions, such as active orchestration and dynamic pricing, will be a powerful tool that's available to us in the new energy future."*
>
> ***Moonis Vegdani***
> ***Group Chief Strategy and Transformation Officer***

Key Performance Indicators

Safety

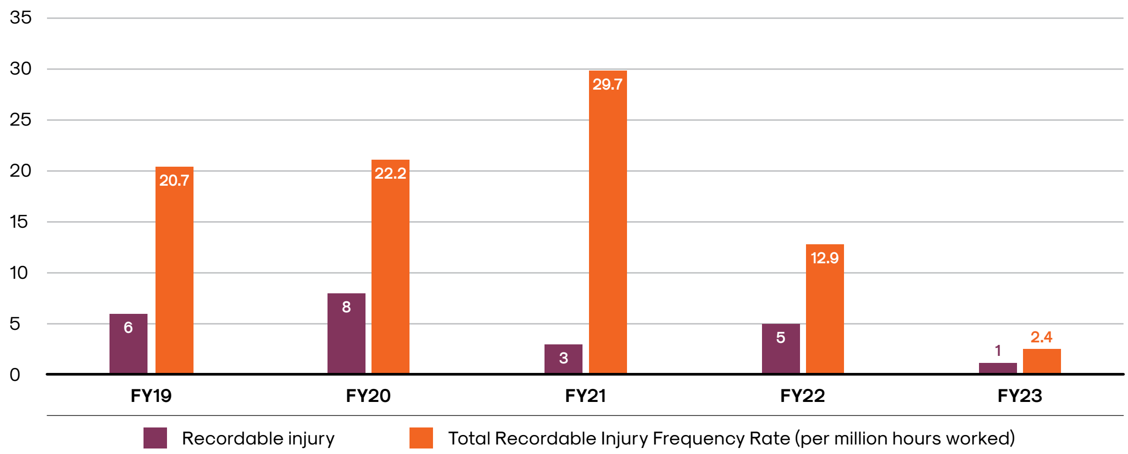
Our goal is to achieve zero harm in the workplace and make continual improvements in our safety systems and processes to create a measurably safer workplace.

Recordable injury includes: lost time injuries, medical treatment and restricted work injuries.

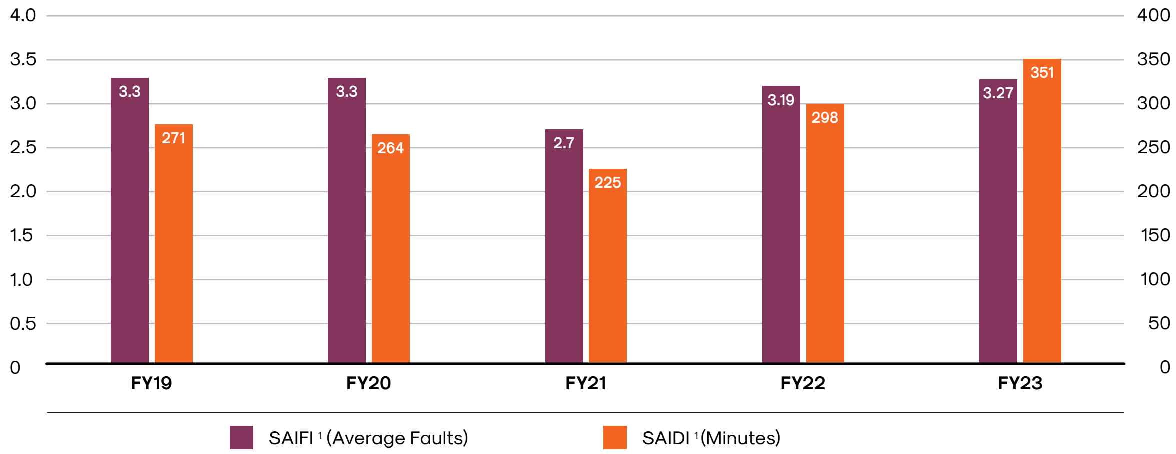
Over the past twelve months, we continued to see a positive trend down in the Total Recordable Injury Frequency Rate (per million hours).

Counties Energy's emphasis on safety excellence continues to gain momentum with the strengthening of their health, safety, quality, training and environmental resource. Improved engagement throughout the business has resulted in more focused opportunities and improved safety performance across all disciplines.

Focused, targeted conversations and improvements are discussed and facilitated at all meetings. The Health, Safety and Environmental Committee has been strengthened by additional time, training and a strong representative voice from the business, with nineteen regular attendees.



Reliability



[1] The SAIDI and SAIFI results for FY18 to FY21 were calculated in accordance with the 2015-20 DPP normalisation method using information from the Company's non-financial system. In FY22 and FY23, the calculations were in accordance with the 2021-25 DPP normalisation method and the planned SAIDI and SAIFI results calculated in accordance with the Information Disclosure (ID) method.

The Statement of Service Performance (page 68) provides further detail around causes of network interruptions.

Financial Report

NET PROFIT
$16.9m

REVENUE
$171.0m

EBITDA
$56.0m

Group revenue grew 8.0% compared to last year, net profit in FY23 was $16.9 million.

The Group continued its revenue growth with strong revenues occurring in ECL during the year. New customer connections and construction income remained strong, however, new connections were down on record levels achieved last year.

On 1 April 2022 the Company increased the distribution component of its line tariffs charged to consumers for the second time in 8 years to offset expenses for the Company's growing investment in the network and operations.

Overall, operating costs across the Group increased to support the growth in revenue for the reporting period.

EBITDA in FY23 was the Group's second highest result at $56.0 million compared to last year's record result of $63.3 million. Net profit for the year was $16.9 million. Total comprehensive income for the year was $22.8 million compared to $24.0 million achieved last year.

One of the key benefits of consumer ownership through the Counties Energy Trust (CET) is the Company's practice of returning a significant lines discount to its consumers each year in the form of a discount based on individual consumers' electricity usage. This year the Company paid a consumer discount of $12.7 million including GST.

Ongoing growth in the network meant that the Company's capital expenditure programme continued to grow during the year. Current indications are that this growth is set to continue in the foreseeable future.

TOTAL ASSETS OF THE GROUP HAVE GROWN TO $576 MILLION FROM $305 MILLION FIVE YEARS AGO.

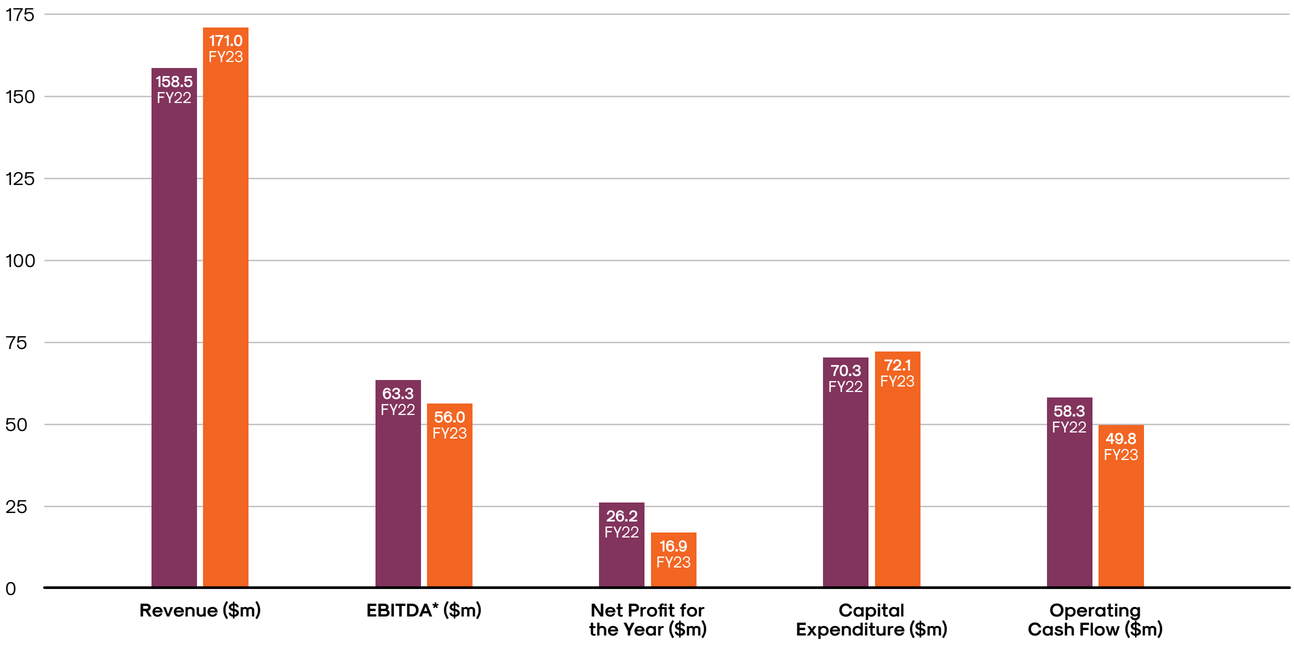
The Company's fixed asset base has continued to grow due to increased capital expenditure in recent years. In 2023 the Company spent $72.1 million on renewing, maintaining and developing the network and associated assets.

Debt levels have increased in line with projections and have grown primarily as a result of the Company's increased investment in network assets.

The following pages contain summary financial information. Detailed information is provided in the audited Financial Statements found on pages 32 to 66 of this report.

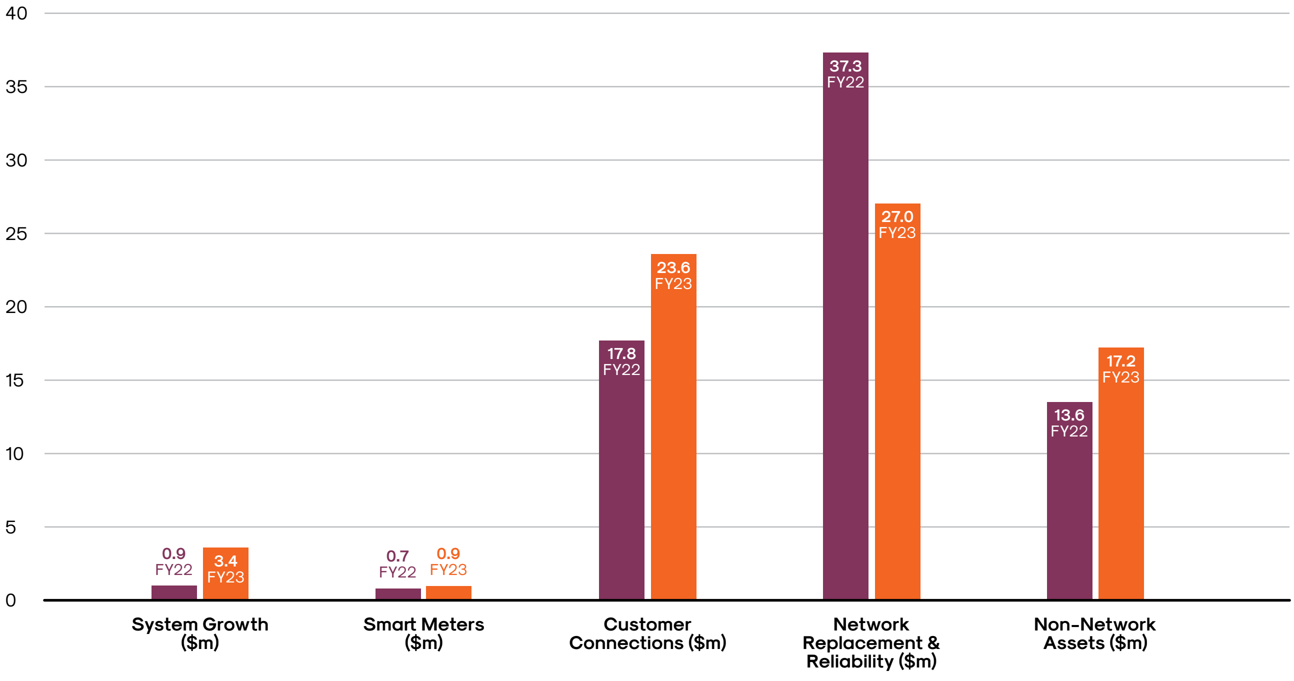
Financial Report

Financial Performance

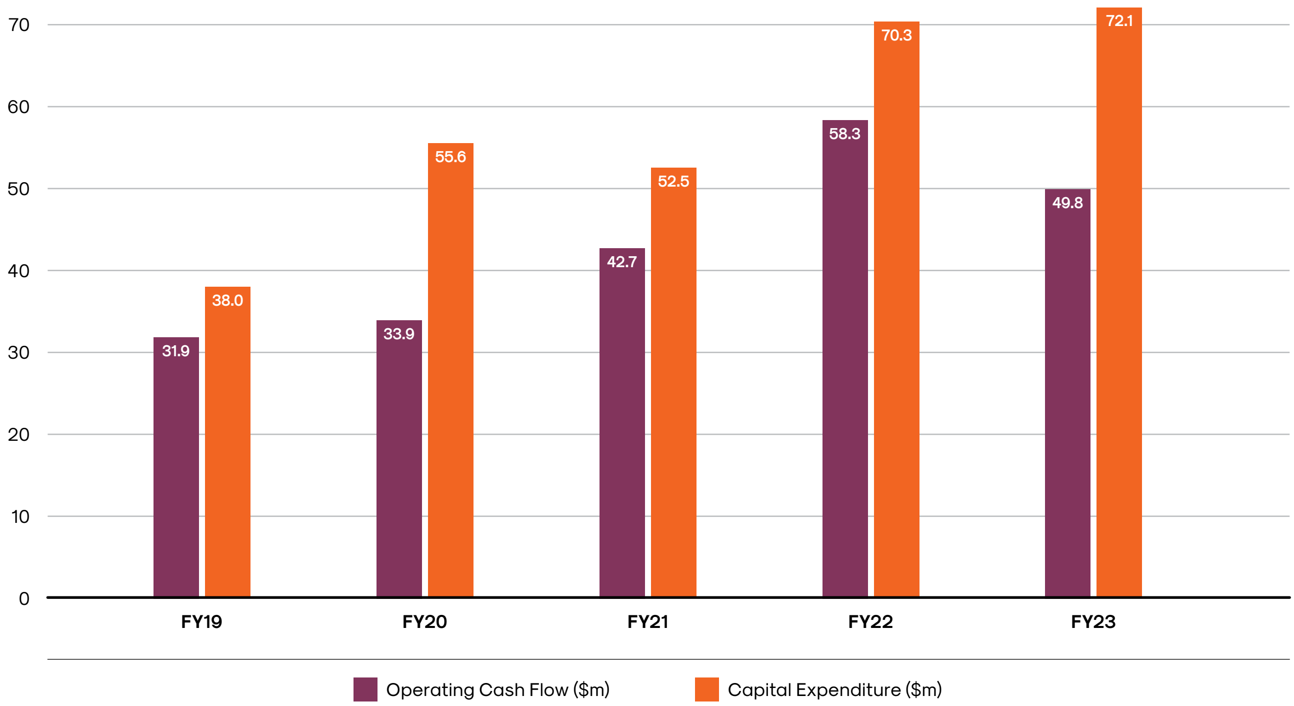


*EBITDA (Earnings before Interest, Tax, Depreciation and Amortisation) is calculated using net profit before income tax and adding back Depreciation, Amortisation and Finance Costs as disclosed in note 7 of the Consolidated Financial Statements.

Capital Expenditure



Operating Cash Flow & Total Capital Expenditure



Financial Summary ($'000)

Financial performance	FY19	FY20	FY21	FY22	FY23
Operating Revenue	82,516	132,065	135,883	158,504	171,043
Discounts	10,353	10,560	10,860	10,869	11,064
EBITDA	33,517	40,118	47,349	63,293	56,003

Financial position	FY19	FY20	FY21	FY22	FY23
Total equity	246,457	251,943	265,388	288,743	310,105
Total assets	382,282	429,536	459,577	515,749	576,761
Net debt (including lease liabilities)	53,335	93,804	106,554	130,631	164,867

Report of the Directors to the Shareholder

The Board of Directors has pleasure in presenting the consolidated financial statements of the Group and the independent auditor's report, for the year ended 31 March 2023.

The Board of Directors of the Group authorised these consolidated financial statements and the statement of service performance presented on pages 32 to 69 for issue on 28 June 2023.

Activities

Counties Energy Limited operates primarily as an electricity lines company within the Franklin, Papakura, Hauraki and Waikato districts. The construction arm of Counties Energy Limited undertakes lines and new services work. ECL Group Limited, a subsidiary, is a leading technical services company specialising in energy and technology solutions in New Zealand.

Results

The profit after taxation of the Group for the year was $16.9 million (2022: $26.2 million). Customer discounts of $11.1 million exclusive of GST (2022: $10.9 million) were paid to customers.

Changes in Accounting Policies

There were no changes in accounting policies for the year ended 31 March 2023.

Impairment

Annually, the directors assess the carrying value of major assets. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down. The impairment, if any, is recognised in the Consolidated Statement of Comprehensive Income. There was no impairment for the year ended 31 March 2023 (2022: nil).

Revaluation

Land and Buildings were revalued as at 31 March 2023. The revaluation resulted in an increase of $5.1 million to the revaluation reserve and a loss to the Consolidated Statement of Profit or Loss of $3.7 million.

The distribution system assets were subject to a valuation by Deloitte at 31 March 2023 and no revaluation adjustment was recorded (2022: $9.5 million downwards revaluation).

Changes in Capital

There have been no changes in the Group's capital structure during the year.

Dividends

An interim dividend of $400,000 was declared, and paid on 15 August 2022 and a final dividend of $1,132,600 was declared and paid on 27 March 2023. In the preceding year a dividend of $400,000 was paid.

Health and Safety

A fundamental priority of the Company is to operate its business with no harm coming to its staff, contractors, consumers, and the community in which it operates. The Board reviews on a monthly basis the Company's performance against a range of lead and lag health and safety metrics, including engagement with staff on safety culture and leadership, effectiveness of safety processes and controls, and governance and improvement opportunities. Members of the Board also attend Company safety-related training and education events, as well as participate in safety observations.

Corporate Governance

Directors

The Board is the governing body of Counties Energy Limited. The Board as at 31 March 2023 had five members.

The Board is appointed by the Shareholders to oversee the management of the Group and is responsible for all corporate governance matters. The Board endeavours to ensure that the activities undertaken are carried out in the best interests of the Shareholders, while respecting the rights of other Stakeholders. This includes maintaining clear policies in relation to employees, customers and the environment.

No Counties Energy Limited directors hold executive positions within the Group. The Board met for eight regular meetings during the year and several informal "working" meetings. The Audit Committee met four times and the Remuneration Committee met three times during the year.

Operation of The Board

Responsibilities

The Board is responsible for the management, supervision and direction of the Group. This includes the long-term strategic financial plan, strategic initiatives, budgets and the policy framework. The Board delegates the day-to-day management of the Group to the Chief Executive. The Board has developed and maintains clear policies which define the individual and collective responsibilities of the Board and management.

Conduct

The Board ensures that all matters can be discussed openly, frankly and confidentially. The Board is obliged to identify any potential conflict of interest directors may have with the Group's affairs. Where there is a conflict, the director affected is not permitted to vote on any matters related to the conflict.

Audit Committee

The Audit Committee is responsible for overseeing, on behalf of the Board, the financial accounting and audit activities of the Group, including reviewing the adequacy and effectiveness of internal controls, meeting with and reviewing the performance of the external auditors, reviewing the financial statements and making recommendations to the Board on financial and accounting policies. Committee members currently comprise Mr Stevens (Audit Committee Chair), Mr Dark and Mr Tompkins.

Remuneration Committee

The Remuneration Committee is scheduled to meet no less than twice a year. It is charged with setting and reviewing the remuneration policies and practices of the Group on behalf of the Board. It also sets and reviews the remuneration of the Chief Executive, and if directed by the Board, other senior executives. Committee members currently comprise Mr Iosefa (Remuneration Committee Chair), Mr Dark and Mr Watson.

Report of the Directors to the Shareholder

Remuneration of Directors

Directors' remuneration received, or due and receivable during the year were as follows:

	2023 $'000	2022 $'000
VJ Dark	127	118
HW Stevens	61	57
DN Tompkins	63	59
B Iosefa	58	59
K Watson	55	52
	364	**345**

Remuneration of Employees

The number of employees (not including directors) who received remuneration and/or other benefits within the following bands is as follows:

$'000	2023	2022
100 – 110	46	38
110 – 120	40	25
120 – 130	24	22
130 – 140	26	17
140 – 150	17	13
150 – 160	13	12
160 – 170	11	3
170 – 180	6	4
180 – 190	7	–
190 – 200	–	6
200 – 210	6	2
210 – 220	3	–
220 – 230	2	1
240 – 250	–	2
260 – 270	–	1
270 – 280	2	–
280 – 290	1	–
290 – 300	–	1
300 – 310	2	1
310 – 320	–	1
320 – 330	–	1
330 – 340	2	–
340 – 350	1	–
610 – 620	–	1
630 – 640	1	–

Auditor

The Auditor-General is the Auditor of the Group under section 196(1) of the Companies Act 1993, because Counties Energy Limited is a Public Entity within the Energy Companies category listed on Schedule 1 of the Public Audit Act 2001. The Auditor-General has appointed Matthew White, a Partner of PricewaterhouseCoopers, to conduct the audit on his behalf.

Interests Register

The following are transactions recorded in the Interests Register for the year.

General Disclosure of Interest

Several directors are either domestic customers and/or have interests in commercial businesses which utilise line services provided by the Group. Their contractual relationship is with their energy retailer, who in turn has a contractual relationship with Counties Energy Limited to provide lines services. All such arrangements are on a normal arms-length basis.

Additional general disclosures of interest, made in writing to the Board, of positions held in other named companies or parties are as follows at 31 March 2023:

VJ Dark	**Chair**	Invivo & Co Limited
HW Stevens	**Director**	Governance & Advisory Limited Radius Residential Care Limited Marsden Maritime Holdings Limited and related companies ECL Group Limited
	Chair	East Health Services Limited and subsidiaries The Kennedy's Limited Pharmaco (NZ) Limited and subsidiaries Embark Education Limited
DN Tompkins	**Director**	Tutukaka Asset Management Limited
	Consumer	Counties Energy electricity consumer
BF Iosefa	**Director**	Polaris & Company Limited Home in Place, Australia Active Electrical Suppliers Wineworks Group and related companies ECL Group Limited
	Chair	Home in Place (New Zealand) Limited Fuso NZ and Related Entities
RKH Watson	**Director**	Acumen New Zealand Limited Acumen Trust Working Assets Properties Limited and subsidiaries Working Assets Consulting Limited Dovedale Forests Limited Cranleigh Forests Limited Rakon Limited
	Chair	NZIER ECL Group Limited
JA Kay (from 17 April 2023)	**Director**	Network Waitaki Limited Whitestone Contracting Limited Lone Wolf Enterprises Limited Horizon Energy Limited
	Chair	Waipa Networks Limited

Report of the Directors to the Shareholder

Share Purchases

On 31 May 2022, Counties Energy Limited acquired the remaining 25% shareholding in ECL Group Limited from Optima Investment Group Limited for $6,775,000.

A further 5,000,000 shares were issued by ECL Group Limited on 27 January 2023 and purchased by Counties Energy Limited.

Directors' Loans

There were no loans by the Group to the directors.

Directors' Insurance

The Group indemnifies all directors named in this report against liabilities, which arise out of the performance of their normal duties as director, unless the liability relates to conduct involving lack of good faith. To manage this risk, the Group has indemnity insurance.

Related Party Transactions

The Group has disclosed all related party transactions during the year in note 25.

Directors' Responsibility Statement

The directors are responsible for ensuring in all material respects that the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 March 2023 and its financial performance for the year ended on that date.

The directors consider that the consolidated financial statements of the Group have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgements and estimates, and that all relevant financial reporting and accounting standards have been followed.

The directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Reporting Act 2013.

The directors have taken adequate steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

For and on behalf of the Board.

VJ Dark
Chair

28 June 2023

HW Stevens
Deputy Chair

28 June 2023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Consolidated Financial Statements


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Consolidated Financial Statements

Consolidated Statement of Profit or Loss

For the year ended 31 March 2023	Note	2023 $'000	2022 $'000
Operating revenue	5	171,043	158,504
Customer discount	5	(11,064)	(10,869)
Net revenue		**159,979**	**147,635**
Other income and gains	6	270	392
Expenses, excluding finance costs	7	(129,989)	(107,523)
Finance costs	7	(6,393)	(4,047)
Net profit before income tax		**23,867**	**36,457**
Income tax expense	8	(6,928)	(10,266)
Net profit for the year		**16,939**	**26,191**
Net profit for the year is attributable to:			
Owners of Counties Energy Limited		16,939	26,212
Non-controlling interest		–	(21)
Net profit for the year		**16,939**	**26,191**

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2023	Note	2023 $'000	2022 $'000
Net profit for the year		**16,939**	**26,191**
ITEMS THAT MAY BE SUBSEQUENTLY RECLASSIFIED TO PROFIT:			
Cash flow hedges – net of tax		**806**	**1,421**
ITEMS THAT WILL NOT BE RECLASSIFIED TO PROFIT:			
Loss on the revaluation of the distribution system	13	–	(9,500)
Deferred tax on revaluation of the distribution system	9	–	2,660
Gain on the revaluation of land and buildings	13	4,464	3,258
Deferred tax on the revaluation of land and buildings	9	586	–
Items that will not be reclassified to profit		**5,050**	**(3,582)**
Total comprehensive income for the year		**22,795**	**24,030**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR IS ATTRIBUTABLE TO:			
Owners of Counties Energy Limited		22,795	24,051
Non-controlling interest		–	(21)
Total comprehensive income for the year		**22,795**	**24,030**

Consolidated Financial Statements

Consolidated Statement of Financial Position

As at 31 March 2023	Note	2023 $'000	2022 $'000
ASSETS CURRENT ASSETS			
Cash and cash equivalents	10	4,489	935
Trade and other receivables	11	19,923	18,445
Inventories	12	7,744	4,891
Tax receivable		1,130	18
Total current assets		**33,286**	**24,289**
NON-CURRENT ASSETS			
Property, plant and equipment	13	493,206	439,525
Intangible assets	14	30,345	31,528
Right of use assets	22	17,025	17,495
Derivative financial instruments	15	2,899	1,779
Related party loan	25	–	1,133
Total non-current assets		**543,475**	**491,460**
Total assets		**576,761**	**515,749**
LIABILITIES CURRENT LIABILITIES			
Trade and other payables	16	29,087	24,546
Employee benefits	17	5,158	4,399
Borrowings	18	15,600	–
Deferred income		648	3,076
Lease liabilities	22	2,458	2,285
Total current liabilities		**52,951**	**34,306**
NON-CURRENT LIABILITIES			
Trade and other payables	16	–	433
Borrowings	18	135,567	113,200
Lease liabilities	22	15,731	16,081
Financial liabilities	2 (x)	–	6,775
Deferred tax liabilities	9	62,407	56,211
Total non-current liabilities		**213,705**	**192,700**
Total liabilities		**266,656**	**227,006**
Net assets		**310,105**	**288,743**
EQUITY			
Share capital	20	30,797	30,797
Retained earnings		246,013	232,284
Revaluation reserve		31,208	26,158
Cash flow hedge reserve		2,087	1,281
Other reserves		–	(6,775)
Total equity attributable to the owners of Counties Energy Limited		**310,105**	**283,745**
Minority interest		–	4,998
Total equity		**310,105**	**288,743**

Consolidated Statement of Changes in Equity

For the year ended 31 March 2022	Note	Share capital $'000	Revaluation reserve $'000	Cash flow hedge reserve $'000	Other reserves $'000	Retained earnings $'000	Total $'000	Non controlling interest $'000	Total equity $'000
Opening balance as at 1 April 2021		**30,797**	**29,740**	**(140)**	**(6,500)**	**206,472**	**260,369**	**5,019**	**265,388**
Net profit for the year		–	–	–	–	26,212	26,212	(21)	26,191
Revaluation of the distribution system (net of tax)		–	(6,840)	–	–	–	(6,840)	–	(6,840)
Revaluation of land		–	3,258	–	–	–	3,258	–	3,258
Other comprehensive income		–	–	1,421	–	–	1,421	–	1,421
Total comprehensive income		**–**	**(3,582)**	**1,421**	**–**	**26,212**	**24,051**	**(21)**	**24,030**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS									
Dividends paid	25	–	–	–	–	(400)	(400)	–	(400)
Put option arrangement		–	–	–	(275)	–	(275)	–	(275)
Closing balance as at 31 March 2022		**30,797**	**26,158**	**1,281**	**(6,775)**	**232,284**	**283,745**	**4,998**	**288,743**
Opening balance as at 1 April 2022		**30,797**	**26,158**	**1,281**	**(6,775)**	**232,284**	**283,745**	**4,998**	**288,743**
Net profit for the year		–	–	–	–	16,939	16,939	–	16,939
Revaluation of the land and buildings (net of tax)		–	5,050	–	–	–	5,050	–	5,050
Purchase of non-controlling interest		–	–	–	–	(1,777)	(1,777)	(4,998)	(6,775)
Other comprehensive income		–	–	806	–	–	806	–	806
Total comprehensive income		**–**	**5,050**	**806**	**–**	**15,162**	**21,018**	**(4,998)**	**16,020**
TRANSACTIONS WITH OWNERS IN THEIR CAPACITY AS OWNERS									
Dividends paid	25	–	–	–	–	(1,433)	(1,433)	–	(1,433)
Put option arrangement		–	–	–	6,775	–	6,775	–	6,775
Closing balance as at 31 March 2023		**30,797**	**31,208**	**2,087**	**–**	**246,013**	**310,105**	**–**	**310,105**

Consolidated Financial Statements

Consolidated Statement of Cash Flows

For the year ended 31 March 2023	Note	2023 $'000	2022 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		158,677	147,922
Payments to suppliers and employees		(95,674)	(76,831)
Net GST paid		(5,277)	(6,159)
Interest paid		(6,393)	(4,047)
Income taxes paid		(1,573)	(2,588)
Net cash inflows from operating activities		**49,760**	**58,297**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	13	(72,051)	(70,341)
Purchase of intangible assets – computer software	14	(2,845)	(3,208)
Purchase of right of use assets (net disposals)		11	(5)
Proceeds from sale of property, plant and equipment		348	1,190
Acquisition of minority interest	23	(6,775)	–
Net cash outflows from investing activities		**(81,312)**	**(72,364)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdown of borrowings		59,000	117,000
Repayment of borrowings		(21,033)	(99,000)
Lease repayments		(2,561)	(2,189)
Related party loan	25	1,133	(1,133)
Dividends paid to the shareholders	25	(1,433)	(400)
Net cash inflows from financing activities		**35,106**	**14,278**
Net decrease in cash and cash equivalents		3,554	211
Cash and cash equivalents at the beginning of the year		935	724
Cash and cash equivalents at end of the year	10	**4,489**	**935**

Reconciliation of profit after income tax to net cash inflows from operating activities

Net profit after tax	**16,939**	**26,191**
Depreciation and amortisation	25,743	22,789
Changes in deferred tax	6,468	7,834
Net gain on sale of assets	(94)	(186)
Loss on revaluation of buildings	3,708	–
	35,825	**30,437**
Increase in trade and other receivables	(1,714)	(105)
Decrease/(Increase) in inventories	(2,853)	(930)
Increase in trade and other payables	4,344	1,324
Decrease in income tax payable	(1,112)	(156)
Increase/(Decrease) in deferred income	(2,428)	975
Increase in employee benefits	759	561
	(3,004)	**1,669**
Net cash inflows from operating activities	**49,760**	**58,297**

Notes to the Consolidated Financial Statements >>

1. General information

Counties Energy Limited ('the Group') owns and operates an electricity distribution network for the conveyance of electricity, supplies electrical equipment, and provides electrical contracting services in the Counties region of New Zealand. ECL Group Limited, a subsidiary, is a leading technical services company specialising in fuel systems and technology solutions in New Zealand.

The Group consists of limited liability companies incorporated and domiciled in New Zealand. The address of its registered office is 14 Glasgow Road, Pukekohe. These consolidated financial statements were approved by the Board of Directors for issue on 28 June 2023.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The Consolidated Financial Statements of the Group have been prepared in accordance with New Zealand generally accepted accounting practice ('NZ GAAP'). They comply with New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS'), and other applicable New Zealand Financial Reporting Standards as appropriate for profit-oriented entities. The consolidated financial statements also comply with International Financial Reporting Standards ('IFRS').

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

Entities reporting

The consolidated financial statements for the 'Group' are for the economic entity comprising Counties Energy Limited, its subsidiaries and joint arrangements. The Company and Group are designated as profit-oriented entities for financial reporting purposes.

Statutory base

Counties Energy Limited is a company registered under the New Zealand Companies Act 1993 and an Energy Company under the Energy Companies Act 1992. The consolidated financial statements of the Group have been prepared in accordance with the requirements of the Financial Reporting Act 2013, the Energy Companies Act 1992, and the Companies Act 1993. In accordance with the Energy Companies Act 1992 because consolidated financial statements are prepared and presented for Counties Energy Limited and its subsidiaries, separate financial statements for Counties Energy Limited are no longer required to be prepared and presented.

Historical cost convention

The consolidated financial statements are prepared under the historical cost convention, and where appropriate, modified by the revaluation of financial assets and liabilities and certain classes of property, plant and equipment.

Comparative information

There have been no changes in comparative information.

(b) Basis for consolidation

The Group consolidates its subsidiaries as these are the entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions and balances between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. Information on the Group's subsidiaries can be found in note 23.

(c) Foreign currency translation

Functional and presentation currency

Items included in the consolidated financial statements of the Group's operations are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The consolidated financial statements are presented in New Zealand dollars, rounded to the nearest thousand dollars, which is the Group's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated Statement of Comprehensive Income.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services (including lines charges) provided in the normal course of business, net of customer discounts and Goods and Services Tax. Customer discounts are annual power account discounts returned to consumers and recognised when paid.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

i) Lines revenue

The Group provides lines services to customers allowing connection to the wider distribution network. Such services are recognised as a series of distinct goods or services and are one performance obligation satisfied over time as the customer simultaneously receives and consumes the benefits of the service. Revenue is recognised as the service is being provided using an output method based on the actual delivery services provided on a daily basis. Customer discounts represents the annual power discounts returned to the consumers and recognised when paid.

Pricing includes a transmission and distribution charge relating to the operation of the network. Payment is due in respect of the network line service in the month following the service being provided. A receivable is recognised by the Group reflecting the amount owing for services provided.

As the delivery services are a promise to transfer a series of distinct services that are substantially the same, revenue is recognised based on a measure of progress for the single performance obligation that best depicts the transfer of services to the customer. It is therefore appropriate for revenue to be recognised in line with billing, as this best reflects the transfer of value to the customer. Revenue will be recognised over time.

ii) Metering revenue

Revenue received from the rental of meters is recognised in accordance with the relevant agreements.

iii) Capital contributions revenue

The Group provides electrical connection services to customers to support and provide a connection to the wider distribution network. Such contracts are considered to have an enforceable right to payment for the performance obligation for key milestones achieved as specified in the agreement. This single performance obligation is satisfied over time.

Pricing is determined with reference to the time and material associated with a specific contract for electrical work and is based on the level of cost required to enable a connection.

iv) Interest income

Interest income is recognised using the effective interest method.

v) Rental income

Rental income is recognised on a straight-line basis in accordance with the substance of the relevant agreements.

vi) Sales of goods

Revenue from sales of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on shipment of goods to the customer.

vii) Sales of services

Contracted maintenance services include preventative maintenance (e.g. periodic inspections), corrective maintenance (e.g. repair / replacement of components on an as needed basis) and customer service support (e.g. help line access).

The contract duration is typically 1–5 years and revenue is recognised over time as service is rendered. The customer pays a fixed amount over the contract term in accordance with the payment frequency specified in the contract.

viii) Financing components

The Group does not expect to have any significant contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money as this is considered to not have a material impact.

ix) Contract revenue

The Group provides contracting services to customers ancillary to its electricity distribution business. Such contracts have an enforceable right to payment for the performance obligation for key milestones specified in the agreement. There is one single performance obligation and it is satisfied over a period of time.

Pricing is determined with reference to the labour and material associated with a specific job. Payment is due in respect of contracting services in the month following the service being provided. A receivable is recognised by the Group reflecting the amount owing for services provided.

Contract revenue is recognised over the period of the contract by reference to stage of completion. The construction contract accounting policy requires estimates to be made of the outcome under each contract, which requires assessments and judgements to be made on a range of factors, such as: recovery of pre-contract costs, changes in the scope of work, contract programmes, maintenance and defect liabilities, and changes in costs.

The Group uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

Contract costs are recognised as an expense by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that the contract costs will exceed the total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is only recognised to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

On the balance sheet, the Group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where the costs incurred plus recognised profit (less recognised costs) exceeds progress billings; a contract represents a liability where the opposite is the case.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer, conditioned on something other than the passage of time, if the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due.

A contract asset is recognised for the earned consideration that is conditional. The contract assets of the Group include retentions relating to services already performed, but where the right to consideration is dependent on acceptance by the customer. These balances were classified as part of trade receivables on the Consolidated Statement of Financial Position.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services, a contract liability is recognised. Contract liabilities are recognised as revenue when the Group performs under the contract. These balances were presented as deferred income on the Consolidated Statement of Financial Position.

(e) Income tax

The income tax expense for the year is the tax payable on the current year's taxable income based on the notional income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(f) Goods and Services Tax (GST)

The Consolidated Statement of Comprehensive Income is prepared so that all components are stated exclusive of GST. All items in the Consolidated Statement of Financial Position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(g) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(h) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the Consolidated Statement of Financial Position.

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment.

The Group recognises lifetime expected credit loss for trade receivables (see details on note 3 [b]).

(j) Inventories

Merchandise, raw materials, consumables and work in progress are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on a first-in-first-out basis.

(k) Property, plant and equipment

Land, buildings and distribution assets are shown at fair value, based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation (excluding land). Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. At the end of each reporting period between the triennial period, the valuation is reviewed to ensure that the carrying value of the distribution network is recorded at fair value.

All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Consolidated Statement of Comprehensive Income during the financial period in which they are incurred.

Increases in the carrying amounts arising on revaluation of land, buildings and distribution assets are credited to revaluation reserves in equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same assets are first charged against revaluation reserves directly in equity to the extent of the remaining reserve attributable to the asset; all other decreases are charged against profit or loss.

When revalued assets are sold, the amounts included in the revaluation reserve account are transferred to retained earnings.

Land is not depreciated. Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives, using either straight-line (SL) or the diminishing value (DV) method. The following estimated useful lives are used in the calculation of depreciation.

Distribution system	5–60 years SL/DV
Buildings	40–100 years SL/DV
Leasehold improvements	1–40 years SL/DV
Meters and relays	10–15 years SL/DV
Plant and vehicles	1–15 years SL/DV
Fibre network	10–11 years SL/DV

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period and adjusted if appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

(l) Intangible assets

i) Computer software

Computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a diminishing-value basis (one to seven years). Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

ii) Brands

Brands acquired in a business combination are recognised at fair value at the acquisition date. They have an infinite useful life and are tested for impairment annually.

iii) Customer contracts

The customer contracts were acquired as part of a business combination. They are recognised at their fair value at the date of acquisition and are subsequently amortised on a straight-line based on the timing of projected cash flows of the contracts over their estimated useful lives (10 years).

iv) **Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisition of a business is included in intangible assets.

Goodwill acquired on business combination is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose 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. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes.

(m) Leases

Leases are accounted for in accordance with NZ IFRS 16 Leases. The Group recognises the right of use assets and lease liabilities, except for the leases with a lease term of less than 12 months on adoption and low value leases. Right of use assets are depreciated on a straight-line basis over the remaining term of the leases. Interest on the leases is calculated using the Group's incremental borrowing rates. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(n) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. The Group has defined the threshold for capitalising interest as any assets taking longer than three months to construct or greater than $500,000.

All other borrowing costs are recognised in the Consolidated Statement of Comprehensive Income in the period in which they are incurred.

(p) Borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group accounting policy for borrowing costs.

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

(q) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at balance date, and are discounted to present value where the effect is material.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(r) Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the effective interest method. Consideration is given to expected future wage and salary levels, experience of employee departures and years of service.

Retirement benefit obligations

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Bonuses

The Group recognises a liability and an expense for bonuses. The Group recognises a provision where contractually obliged or where this is a past practice that has created a constructive obligation.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates:

(a) when the Group can no longer withdraw the offer of those benefits; and

(b) when the entity recognises costs for a restructuring that is within the scope of NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets and involves the payment of termination benefits.

(s) Share capital

Ordinary shares are classified as equity.

(t) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at reporting date.

(u) Financial assets

The Group classifies its investment in the following categories in accordance with NZ IFRS 9 Financial Instruments: assets at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The classification of financial assets under NZ IFRS 9 is generally based on the business model in which the financial assets are managed and its contractual cash flows characteristics.

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI and FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

- if it is held with the objective to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely for the payments of principal and interest on the principal amount being outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. The election is made on an investment by investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL.

(v) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at each balance date. The resulting gain or loss is recognised as a financing cost in profit or loss immediately unless the derivative is designated and effective as a hedge instrument, in which event timing of the recognition in profit or loss depends on the nature of the hedge relationship. Derivatives are classified as current or non-current based on the effective date.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the Consolidated Statement of Comprehensive Income within 'other income and gains'.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Consolidated Statement of Comprehensive Income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Consolidated Statement of Comprehensive Income within 'other income and gains'.

(w) Business combination

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

For the non-controlling interests, the Group elected to recognise its proportionate share of the acquired net identifiable assets. Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(x) Put option arrangements

The Group had written put options over the equity of its subsidiary ECL Group Limited which permitted the holder to put their shares in the subsidiary back to the Group at their fair value on specified dates over a six-year period if ECL Group Limited's EBITDA for the previous financial year was at least $7,200,000.

This put option was exercised on 31 May 2022 (note 23).

3. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

i) Foreign exchange risk

The Group manages exposure in forecasted foreign currency exposure arising out of the capital expenditure programme in accordance with treasury policy. The Group treasury risk management policy is to hedge up to 100% of anticipated cash flows, in each major foreign currency for the subsequent 12 months. In this respect, the Group has hedged the forecasted foreign currency exposure arising out of the capital expenditure programme through forward exchange contracts. There is no exposure to foreign currency risk at year end.

ii) Cash flow and fair value interest rate risk

As the Group has no significant variable rate interest-bearing assets, the Group's income and operating cash inflows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Group policy currently, for non-core debt, is to maintain a funding facility that provides the appropriate flexibility for the fluctuating requirements at the lowest cost.

Hedging arrangements using swaps, collars or options for up to 100% of the exposure are permitted.

Where operational activities lead to the creation of a core level of borrowings, between 50% and 100% of this debt will be hedged by an interest rate swap with the remainder placed with maturity periods aligned to optimise risk and value.

iii) Sensitivity analysis

Interest rate swap contracts hedging the forecasted variability in cash flows arising out of variable interest rates on borrowings are treated as cash flow hedges. Any changes in variable interest rates would have no material impact on profit or loss in relation to the portion of borrowings hedged, as changes in the fair value of these interest rate swap contracts are taken through other comprehensive income where the hedge is an effective hedge.

A 100 basis points increase or decrease in interest rates is used for the interest rate sensitivity analysis. The impact of this movement on profit or loss and equity for 2023 and 2022 is immaterial.

(b) Credit risk

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. Otherwise, management assesses the credit quality of customers, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash.

The maximum exposure to credit risk is best represented by the carrying value of cash and cash equivalents, and trade and other receivables as indicated in note 19.

The Group incurs credit risk from transactions with trade debtors and financial institutions in the normal course of business. At reporting date, the Group had a significant concentration of credit risk relating to the amount receivable from Electricity Retailers. The Group has a programme to manage this risk concentration, including monitoring the credit status of the major debtors, adhering to specific credit policy requirements and having the contractual ability to require security to be provided by these customers under certain circumstances.

The Group does not generally require collateral or security to support financial instruments other than as outlined above, due to the quality of the financial institutions dealt with.

No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

The Group applies the NZ IFRS 9 simplified approach to measuring expected credit loss, which uses a lifetime expected credit loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on days past due. The expected credit loss rates are based on the payment profiles over a 12-month period before 31 March 2023 and the corresponding historical credit losses during the period, adjusted for any significant amounts that are not receivable (note 11[b]).

(c) Liquidity risk

Liquidity risk management has the objective of maintaining sufficient cash and the availability of funding through an adequate amount of credit facilities to meet the short- and long-term commitments of the Group as they arise in an orderly manner. Management monitors rolling forecasts of the Group's liquidity requirements on the basis of expected cash flow. The Board of Directors approves all new borrowing facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000
AT 31 MARCH 2023				
Trade and other payables	29,087	–	–	–
Lease liabilities	2,458	2,023	4,681	9,027
Bank loans (refer note 18)	15,600	134,400	1,167	–
Total	**47,145**	**136,423**	**5,848**	**9,027**
AT 31 MARCH 2022				
Trade and other payables	24,546	433	–	–
Lease liabilities	2,285	1,887	4,473	9,721
Bank loans (refer note 18)	–	–	113,200	–
Total	**26,831**	**2,320**	**117,673**	**9,721**

(d) Fair value estimation

The Group has discounted long-term receivables and payables at the implicit rate for finance leases receivable, and at the incremental borrowing rate. This balance is presented net in Trade and other payables in the Consolidated Statement of Financial Position.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Financial assets and financial liabilities are recognised on the Group's Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

NZ IFRS 13, Fair Value Measurement: Disclosures requires disclosure of the fair value measurements by level from the following fair value hierarchy:

- **Level 1 –** Quoted price (unadjusted) in active markets for identical assets and liabilities;
- **Level 2 –** Inputs, other than quoted price included within level 1, that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- **Level 3 –** Inputs for assets and liabilities that are not based on observable market data (that is, unobservable inputs).

The only financial instruments held by the Group that are measured at fair value are over the counter derivatives. These derivatives have all been determined to be within level 2 of the fair value hierarchy as all significant inputs required to ascertain the fair value of these derivatives are observable (refer note 3(a) (ii)). Credit risk is incorporated into the valuation of derivatives.

Distribution system assets and land and buildings are classified within level 3 of the fair value hierarchy. The valuation techniques and assumptions for distribution system assets and land and buildings measured at fair value are disclosed in note 13.

(e) Capital risk management

The Group manages its capital structure and makes adjustments to it in light of economic conditions. To maintain or adjust the existing structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made to the objectives, policies or processes during the years ended 31 March 2023 and 2022.

The Group monitors its compliance with banking covenants as required by its banker, ASB Bank Limited (note 18). On 31 March 2023, ECL Group (subsidiary) breached its covenants on its loan facility totalling $15.2 million. Subsequent to year end the bank issued a waiver and the facility and covenants were renegotiated.

The Group monitors equity using a gearing ratio (a non-GAAP measure), which is net debt divided by total equity plus debt. The Group includes within net debt borrowings less cash and cash equivalents.

The gearing ratios are as follows:	Note	2023 $'000	2022 $'000
Borrowings	18	151,167	113,200
Lease liabilities	22	18,189	18,366
Less: cash and cash equivalents	10	(4,489)	(935)
Net debt		**164,867**	**130,631**
Equity		310,105	288,743
Equity plus net debt		**474,972**	**419,374**
Gearing ratio		35%	31%

4. Critical judgements in applying the entity's accounting policies

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, which are described in note 2, management has made the following judgements that have the most significant effect on the amounts recognised in the consolidated financial statements (apart from those involving estimates, which are dealt with below).

i) Electricity line revenue recognition

Part of the line revenues are based on normalisation, where consumption is estimated to the end of the billing period based on historical actual electricity usage. Occasionally historical electricity usage data is not consistent and subsequent adjustments are made. These adjustments are immaterial compared with total network revenue (refer to note 5).

ii) Construction contracting and capital contributions

The Group recognises revenue for construction contracting and capital contributions as performance obligations are met. This method requires the Group to review key milestones specified in the agreement to determine the level of completion.

Contract liability – capital contributions	Notes	2023 $'000	2022 $'000
Opening Balance		**12,194**	**7,921**
Amount of transaction price received for unsatisfied performance obligations		19,920	30,113
Revenue recognised from performance obligations satisfied	5	(23,098)	(25,840)
Closing Balance	16	**9,016**	**12,194**

The above table pertains to contract liability in relation to capital contributions and is presented as a deferred capital contribution liability in note 16.

Contract liability – deferred income	Notes	2023 $'000	2022 $'000
Opening Balance		**3,076**	**2,101**
Amount of transaction price received for unsatisfied performance obligations		24,117	20,274
Revenue recognised from performance obligations satisfied		(26,545)	(19,299)
Closing Balance		**648**	**3,076**

iii) Valuation of network distribution system

The Group estimates the fair value of the distribution network using independent valuers in accordance with the property, plant and equipment accounting policy. Because of the specialised nature of the network and the infrequency of network sale transactions, there is a lack of market-based evidence available to determine fair value. The valuation has therefore been determined using the discounted cash flow method. The major inputs that are used in the valuation model that require management judgement include load growth and pricing, projected capital expenditure profiles and discount and inflation rates.

iv) Valuation of buildings and land

In accordance with its accounting policy, the Group revalues its properties at least once every three years. The valuations, which are performed by independent valuers, involve estimates and judgements as detailed in note 13.

v) Depreciation

Judgements have been made in relation to the Group's depreciation rates as per note 2.

vi) Goodwill

The Group assesses at the end of each reporting period whether there is any indication that goodwill may be impaired. The Group estimates the recoverable amount for each Cash Generating Unit, and should an impairment exist, adjusts the carrying value to that amount. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement (note 14).

vii) Lease Liability

Lease liability calculations have used incremental borrowing rates determined by the Group taking into account bank margins and interest rate swaps. The incremental borrowing rates for the Group range from 3.2% to 5.9% depending on the nature and term of the lease. These rates have been applied to leases over a range of terms determined by the Group to represent the reasonable length of the lease.

5. Revenue

	2023 $'000	2022 $'000
Electricity line revenue – gross	72,937	67,444
Customer discount	(11,064)	(10,869)
Net electricity line revenue	**61,873**	**56,575**
Metering revenue	4,457	4,240
Construction contract revenue	4,063	3,597
Capital contributions	23,098	25,840
Fixed price service revenue (ECL Group Limited)	11,210	10,536
Cost plus (maintenance) revenue (ECL Group Limited)	19,281	16,794
Projects revenue (ECL Group Limited)	21,928	16,578
Other revenue (ECL Group Limited)	14,069	13,475
Total	**159,979**	**147,635**

6. Other income and gains

	2023 $'000	2022 $'000
Gain on disposal of fixed assets	94	188
Rent income	176	204
Total	**270**	**392**

7. Expenses

	2023 $'000	2022 $'000
EXPENSES, EXCLUDING FINANCE COSTS, INCLUDED IN THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME		
Employee benefits expense	51,641	44,800
Depreciation and amortisation expense	25,743	22,789
Transmission costs	11,801	11,585
Raw materials and consumables used	29,778	24,314
Other expenses	9,511	5,207
Rental rebates	(2,193)	(1,172)
Loss on building revaluation	3,708	–
Total expenses, excluding finance cost	**129,989**	**107,523**
DEPRECIATION (NOTES 13 AND 22)		
Plant and vehicles	4,370	3,733
Buildings	435	249
Leasehold improvements	49	47
Distribution system	11,690	10,543
Meters and relays	2,280	2,120
Managed network	48	48
Right of use assets	2,843	2,686
Total depreciation	**21,715**	**19,426**
AMORTISATION (NOTE 14)		
Customer goodwill	1,050	1,050
Computer software	2,978	2,313
Total amortisation	**4,028**	**3,363**
Total depreciation and amortisation	**25,743**	**22,789**
FINANCE COSTS		
Borrowings	5,472	3,228
Lease interest	921	819
Total finance costs	**6,393**	**4,047**

Remuneration of auditors and other advisors
During the year the following fees were paid or payable for services provided by the auditor of the entity, its related practices and non-related audit firms.

	2023 $'000	2022 $'000
AUDIT SERVICES		
Auditing the Financial Statements	347	289
Audit of Regulatory Statements	52	49
OTHER SERVICES		
Advisory – non-related firms	515	284
Total	**914**	**622**

8. Income tax expense

(a) Income tax expense

	2023 $'000	2022 $'000
Current tax	460	2,432
Deferred tax	6,468	7,834
Total	**6,928**	**10,266**

(b) Numerical reconciliation of income tax expense to prima facie tax payable

	2023 $'000	2022 $'000
Profit from continuing operations before income tax expense	**23,867**	**36,457**
Income tax expense attributable to taxable profits @ 28%	6,683	10,208
Non-deductible expenses	24	38
Prior year adjustments	221	20
Income tax expense	**6,928**	**10,266**

(c) Imputation credit account

The value of imputation credits available for subsequent reporting periods as at 31 March 2023 is $37.2 million (2022: $36.2m).

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

i) Imputation credits that will arise from the payment of the amount of the provision for income tax;

ii) Imputation debits that will arise from the payment of dividends recognised as a liability at the reporting date; and

iii) Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

9. Deferred tax liabilities

	2023 $'000	2022 $'000
Opening deferred tax liability	56,211	50,485
Charged to income tax expense	6,468	7,834
Cash flow hedges	314	552
Deferred tax recognised on revalued assets	(586)	(2,660)
Closing balance at 31 March	**62,407**	**56,211**

Deferred income tax assets	(1,429)	(1,347)
Deferred income tax liabilities	63,836	57,558
Closing balance	**62,407**	**56,211**

	Property, plant and equipment and intangibles $'000	Leases $'000	Other $'000	Total $'000
DEFERRED TAX LIABILITIES				
At 31 March 2021	**51,676**	**(106)**	**(1,085)**	**50,485**
Charged to income tax expense	8,230	(137)	(259)	7,834
Cash flow hedges	–	–	552	552
Charged directly to equity	(2,660)	–	–	(2,660)
At 31 March 2022	**57,246**	**(243)**	**(792)**	**56,211**
Charged to income tax expense	6,770	(10)	(292)	6,468
Cash flow hedges	–	–	314	314
Charged directly to equity	(586)	–	–	(586)
At 31 March 2023	**63,430**	**(253)**	**(770)**	**62,407**

10. Cash and cash equivalents

	2023 $'000	2022 $'000
Bank balances	**4,489**	**935**

11. Trade and other receivables

	2023 $'000	2022 $'000
Trade receivables	10,486	10,274
Accrued revenue	8,324	6,798
Provision for impairment	(367)	(337)
Net trade receivables	**18,443**	**16,735**
Other receivables and prepayments	1,480	1,710
Total receivables	**19,923**	**18,445**

(a) Bad and doubtful trade receivables

The Group has written off $299,000 in respect of bad and doubtful trade receivables during the year ended 31 March 2023 (2022: $252,000). The movement has been included in "Expenses" in the Consolidated Statement of Profit or Loss.

(b) Credit risk

Information about the impairment of trade receivables and the Group's exposure to credit risk can be found in note 3 (b).

31 March 2023	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	1%	17%	12%	31%	3%
Gross carrying value – trade receivables ($'000)	9,361	275	177	673	10,486
Loss Allowance ($'000s)	**93**	**47**	**21**	**206**	**367**

31 March 2022	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	Total
Expected loss rate	0%	2%	11%	49%	3%
Gross carrying value – trade receivables ($'000)	8,791	707	246	530	10,274
Loss Allowance ($'000s)	**36**	**15**	**26**	**260**	**337**

12. Inventories

	2023 $'000	2022 $'000
Raw materials and consumables	8,698	5,829
Provision for obsolescence	(954)	(938)
Total	**7,744**	**4,891**

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13. Property, plant and equipment

	Freehold land $'000	Freehold buildings $'000	Plant and vehicles $'000	Leasehold improvements $'000	Meters and relays $'000	Distribution system $'000	Managed network $'000	Total $'000
YEAR ENDED 31 MARCH 2022								
Opening net book value	**23,014**	**13,197**	**13,918**	**228**	**10,374**	**331,083**	**889**	**392,703**
Additions	2,458	636	4,652	35	730	56,037	–	64,548
Change in WIP	–	4,807	986	–	–	–	–	5,793
Disposals	–	–	(500)	–	(37)	–	–	(537)
Revaluation gain/(loss)	3,258	–	–	–	–	(9,500)	–	(6,242)
Depreciation charge (note 7)	–	(249)	(3,733)	(47)	(2,120)	(10,543)	(48)	(16,740)
Closing net book value	**28,730**	**18,391**	**15,323**	**216**	**8,947**	**367,077**	**841**	**439,525**
AT 31 MARCH 2022								
Cost	28,730	18,836	30,687	1,294	24,646	367,077	2,186	473,456
Accumulated depreciation	–	(445)	(15,364)	(1,078)	(15,699)	–	(1,345)	(33,931)
Net book value	**28,730**	**18,391**	**15,323**	**216**	**8,947**	**367,077**	**841**	**439,525**
YEAR ENDED 31 MARCH 2023								
Opening net book value	**28,730**	**18,391**	**15,323**	**216**	**8,947**	**367,077**	**841**	**439,525**
Additions	1,089	2,073	6,027	8	896	53,989	–	64,082
Change in WIP	–	7,764	205	–	–	–	–	7,969
Disposals	–	–	(254)	–	–	–	–	(254)
Revaluation gain/(loss)	5,651	(4,895)	–	–	–	–	–	756
Depreciation charge (note 7)	–	(435)	(4,370)	(49)	(2,280)	(11,690)	(48)	(18,872)
Closing net book value	**35,470**	**22,898**	**16,931**	**175**	**7,563**	**409,376**	**793**	**493,206**
AT 31 MARCH 2023								
Cost	35,470	23,032	34,308	1,305	22,918	421,154	2,186	540,373
Accumulated depreciation	–	(134)	(17,377)	(1,130)	(15,355)	(11,778)	(1,393)	(47,167)
Net book value	**35,470**	**22,898**	**16,931**	**175**	**7,563**	**409,376**	**793**	**493,206**

13. Property, plant and equipment (continued)

Distribution system assets

Distribution system assets were subject to an independent valuation as at 31 March 2023. As the fair value of the assets was not able to be reliably determined using market-based evidence, the valuation was prepared using discounted cash flow methodology. The valuation was independently prepared by Deloitte and the key assumptions used are shown in the table below. In all cases an element of judgement is required. The valuation was based on revenue and cost assumptions applied against a combination of WACC and CPI inflation rates that are generally in the mid-point of the range.

Assumptions	Valuation assumptions adopted	Low	High	Valuation impact $'m (Low)/High
Capital expenditure	$287.3m[1]	90%	110%	(1.1) / 1.1
WACC	6.4%	6.9%	5.9%	(19.2) / 20.2
RAB Multiple	1.01x	0.97x	1.05x	(19.2) / 20.2

[1] This amount represents capital expenditure over ten years, as shown in the Company's asset management plan, excluding terminal capital expenditure.

The valuation was updated and reviewed by Deloitte at 31 March 2023. The Board determined that no revaluation adjustment was required.

Land and buildings

The network land and buildings were revalued upwards by $0.8m as at 31 March 2023 ($4.5 million to the Revaluation Reserve, offset by $3.7 million downwards adjustment to the Statement of Profit or Loss). This three yearly full valuation was prepared by JLL, independent valuers and property consultants. These valuations were carried out in accordance with PINZ Practice Standards and New Zealand equivalent to International Accounting Standard IAS 16. The valuations were determined based on discounted cash flow, capitalisation of net income, sales comparison, depreciated replacement cost approaches and on the basis of continued use. The valuations took into account the nature of the property, age and conditions of the buildings.

Land and buildings – historical cost

If distribution network, land and buildings were stated on the historical cost basis, the amounts would be as follows:

	2023 $'000	2022 $'000
Deemed cost – distribution network	532,089	478,100
Accumulated depreciation	(112,072)	(100,382)
Net book value	**420,017**	**377,718**
Deemed cost – land	9,195	8,106
Deemed cost – buildings	23,227	13,390
Accumulated depreciation – buildings	(2,964)	(2,529)
Net book value	**29,458**	**18,967**

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14. Intangible assets

	Brands $'000	Customer goodwill $'000	Goodwill $'000	Computer software $'000	Total $'000
YEAR ENDED 31 MARCH 2022					
Opening net book value	3,400	8,400	15,556	4,794	32,150
Additions	–	–	–	3,211	3,211
Change in WIP	–	–	–	(3)	(3)
Disposals	–	–	–	(467)	(467)
Amortisation charge (note 7)	–	(1,050)	–	(2,313)	(3,363)
Closing net book value	**3,400**	**7,350**	**15,556**	**5,222**	**31,528**
AT 31 MARCH 2022					
Cost	3,400	10,500	23,556	11,149	48,605
Accumulated amortisation	–	(3,150)	(8,000)	(5,927)	(17,077)
Net book value	**3,400**	**7,350**	**15,556**	**5,222**	**31,528**

	Brands $'000	Customer goodwill $'000	Goodwill $'000	Computer software $'000	Total $'000
YEAR ENDED 31 MARCH 2023					
Opening net book value	3,400	7,350	15,556	5,222	31,528
Additions	–	–	–	3,005	3,005
Change in WIP	–	–	–	(160)	(160)
Disposals	–	–	–	–	–
Amortisation charge (note 7)	–	(1,050)	–	(2,978)	(4,028)
Closing net book value	**3,400**	**6,300**	**15,556**	**5,089**	**30,345**
AT 31 MARCH 2023					
Cost	3,400	10,500	23,556	12,138	49,594
Accumulated amortisation / impairment	–	(4,200)	(8,000)	(7,049)	(19,249)
Net book value	**3,400**	**6,300**	**15,556**	**5,089**	**30,345**

Policies

Goodwill represents the excess of the consideration transferred over the fair value of the Group's share of the net identifiable assets of an acquired subsidiary.

Goodwill is carried at cost less accumulated impairment losses.

Allocation of goodwill

For the purpose of assessing impairment, assets are grouped in the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets ('CGU'), which at 31 March 2023 is identified as 1 CGU. The identification of CGU and operating segment at 31 March 2023 has been performed in line with guidance in NZ IAS 36 Impairment of assets and NZ IFRS 8 Operating segments, including how the Group makes decisions about resource allocation and how it reviews operating results and assesses performance.

14. Intangible assets (continued)

Critical estimates and judgements

To assess impairment, management must estimate the future cash flows of the CGU. This entails making judgements including:

- the expected rate of growth of revenues;
- the terminal growth rate;
- the level of future expenditure required to support these outcomes; and
- the appropriate discount rate to apply when discounting future cash flows.

Impairment

Goodwill is tested at least annually for impairment against the recoverable amount of the CGU to which it has been allocated or when there is an indication that the assets may be impaired.

An asset is impaired if the Carrying Amount of the CGU is less than the Recoverable Amount at the Measurement Date. The Recoverable Amount of the CGU is defined as the higher of Fair Value Less Costs of Disposal (FVLCD) and its Value in Use (VIU).

At 31 March 2023, there was no impairment of goodwill (2022: nil).

Assumptions

The recoverable amount attributed to the CGU is calculated based on VIU. The VIU was calculated based on cash flows discounted using the applicable WACC rate.

Future cash flows are forecast based on actual results and strategic business plans. A five-year plan as approved by the Board of Directors has been used.

The table below sets out the key assumptions for the CGU:

Revenue growth (% annual increase – FY24)	13.0%
COGS and direct wages (% annual increase – FY24)	9.4%
Revenue growth (% annual increase – average FY25 to FY28)	6.5%
COGS and direct wages (% annual increase – average FY25 to FY28)	6.6%
WACC rate	11.4%
Terminal growth rate	2.1%

Revenue is driven by a combination of organic growth and large project works. New market segments have been identified which are expected to provide significantly high mid-term and long-term growth prospects. The business has proven capability within these market segments and the capacity to scale as required as new customers are brought on.

COGS and wages can be scaled up or down to the level of business growth with pricing set on a sustainable basis.

WACC rates take into account the cost of debt and equity. The cost of equity is derived from the expected return on investment by the Group using the capital asset pricing model. The cost of debt takes into account incremental borrowing rates for the Group.

The terminal growth assumption is based on the current implied inflation rates, calculated as the difference between inflation adjusted and vanilla government bond yields at the valuation date.

14. Intangible assets (continued)

Sensitivity to changes in key assumptions

The following summarises the effect on goodwill of a reasonably possible change in the key assumptions for the CGU with all other assumptions remaining constant:

	$m
Revenue growth (1% decrease year on year from FY25 to FY28)	(7.6)
COGS and direct wages (1% increase year on year from FY25 to FY28)	(6.4)
WACC (0.5% increase)	(3.5)
Terminal growth (1% decrease)	(4.6)

The recoverable amount of the CGU could equal its carrying amount if the key assumptions were to change as follows:

Revenue growth	2.2% decrease
Gross margin	2.6% decrease
WACC	2.8% increase
Terminal growth rate	4.5% decrease

Any further impact to the above key assumptions would trigger an impairment.

15. Derivative financial instruments

	2023 $'000	2022 $'000
Interest rate swap asset	2,899	1,779

The Group had outstanding interest rate swaps of $128,000,000 at 31 March 2023 (2022: $53,000,000).
The Group had no forward foreign exchange contracts at 31 March 2023 (2022: nil).

16. Trade and other payables

	2023 $'000	2022 $'000
CURRENT TRADE AND OTHER PAYABLES		
Trade payables	11,042	8,374
Sundry accruals	8,596	3,244
Deferred capital contributions liability	9,016	12,194
Non-interest bearing liabilities	433	734
Total current trade and other payables	**29,087**	**24,546**
NON-CURRENT TRADE AND OTHER PAYABLES		
Non-interest bearing liabilities	–	433
Total trade and other payables	**29,087**	**24,979**

17. Employee benefits

	2023 $'000	2022 $'000
Employee benefits	774	712
Holiday pay	4,260	3,565
Other leave	124	122
Total provisions	**5,158**	**4,399**

Provision is made for annual leave, bonuses and superannuation payments due to employees.

18. Borrowings

	2023 $'000	2022 $'000
Unsecured – interest bearing		
Bank loan – current	15,600	–
Bank loan – non-current	135,567	113,200
Total borrowings	**151,167**	**113,200**

(a) Interest rate risk exposures
Details of the Group's exposure to interest rate changes on interest bearing liabilities are set out in note 3.

(b) Financing arrangements
Unrestricted access was available at reporting date to the following lines of credit:

	2023 $'000	2022 $'000
Credit standby arrangements		
FACILITIES		
Counties Energy Limited	**175,000**	**175,000**
ECL Group Limited	**17,167**	**15,200**
Total facilities	**192,167**	**190,200**
USED AT REPORTING DATE		
Bank loans	**151,167**	**113,200**
UNUSED AT REPORTING DATE		
Bank loans	**41,000**	**77,000**

Counties Energy Limited
The revolving credit bank loan facilities may be drawn down at any time. The ASB banking loan facility limit is $175.0 million (2022: $175.0 million) and expires on 10 December 2024. There have been no breaches of debt covenants during the year and the Group forecasts it will continue to comply with covenants.

ECL Group Limited
The revolving credit bank loan facilities may be drawn down at any time. The ASB banking loan facility limit is $15.2 million (2022: $15.2 million) and expires on 30 June 2024. At 31 March 2023, ECL Group breached its interest cover and leverage ratio covenants. Subsequent to year end the bank issued a waiver and the facility and covenants were renegotiated.

In December 2022, the Group drew down a $2.0 million 5 year fixed term loan to finance assets leased to a customer. The facility term matches the length of the lease term.

Weighted average interest rate
The weighted average interest rate on borrowings was 4.5% (2022: 3.3%). The Distribution System assets include capitalised borrowings costs of $419,000 (2022: $177,000).

(c) Fair value
The fair value of current borrowings equals their carrying amount, as all borrowings are at floating interest rates.

(d) Foreign currency risk exposure
All of the Group's borrowings are denominated in New Zealand dollars.

19. Financial instruments by category

Assets as per Consolidated Statement of Financial Position	Assets through other comprehensive income $000	Amortised cost $'000	Total $'000
AT 31 MARCH 2023			
Derivative financial instruments	2,899	–	2,899
Net trade receivables	–	18,443	18,443
Cash and cash equivalents	–	4,489	4,489
	2,899	**22,932**	**25,831**
AT 31 MARCH 2022			
Derivative financial instruments	1,779	–	1,779
Net trade receivables	–	16,735	16,735
Cash and cash equivalents	–	935	935
	1,779	**17,670**	**19,449**

Liabilities as per Consolidated Statement of Financial Position	Liabilities through other comprehensive income $'000	Financial liabilities at amortised cost $'000	Total $'000
AT 31 MARCH 2023			
Borrowings	–	151,167	151,167
Trade and other payables	–	29,087	29,088
Lease liabilities	–	18,189	18,189
	–	**198,443**	**198,444**
AT 31 MARCH 2022			
Borrowings	–	113,200	113,200
Trade and other payables	–	24,979	24,979
Lease liabilities	–	18,366	18,366
	–	**156,545**	**156,545**

20. Share capital

	2023 $'000	2022 $'000
SHARE CAPITAL		
Ordinary shares	30,797	30,797
Total share capital	**30,797**	**30,797**

Ordinary shares

At 31 March 2023 there were 15,000,000 fully paid ordinary shares (2022: 15,000,000).

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of and amounts paid on the shares held.

All ordinary shares rank equally with one vote attached to each fully paid ordinary share.

All shares have no par value.

21. Commitments

Capital commitments

The Group had $4,851,000 committed for property, plant and equipment at 31 March 2023 (2022: $10,250,000).

22. Right of use assets and lease liabilities

The leases for buildings relate to office and warehouse space throughout New Zealand. Distribution system assets are used exclusively by the Group.

Right of use assets

	Buildings $'000	Plant and vehicles $'000	Distribution system $'000	Total $'000
YEAR ENDED 31 MARCH 2022				
Opening net book value	8,403	1,716	1,580	11,699
Additions	5,985	2,837	–	8,822
Disposals	(340)	–	–	(340)
Depreciation charge (note 7)	(1,047)	(1,497)	(142)	(2,686)
Closing net book value	**13,001**	**3,056**	**1,438**	**17,495**
AT 31 MARCH 2022				
Cost	15,818	5,226	1,864	22,908
Accumulated depreciation	(2,817)	(2,170)	(426)	(5,413)
Net book value	**13,001**	**3,056**	**1,438**	**17,495**
YEAR ENDED 31 MARCH 2023				
Opening net book value	13,001	3,056	1,438	17,495
Additions	742	1,691	–	2,433
Disposals	–	(60)	–	(60)
Depreciation charge (note 7)	(1,108)	(1,593)	(142)	(2,843)
Closing net book value	**12,635**	**3,094**	**1,296**	**17,025**
AT 31 MARCH 2023				
Cost	16,560	6,586	1,864	25,010
Accumulated depreciation	(3,925)	(3,492)	(568)	(7,985)
Net book value	**12,635**	**3,094**	**1,296**	**17,025**

Right of use assets are depreciated on a straight-line basis over the life of the lease.
The current rates are:

Buildings	5–50%
Plant and vehicles	20–90%
Distribution system	6–14%

Right of use assets that had a lease term of less than 12 months or were low value leases were not material in 2023 or 2022.

22. Right of use assets and lease liabilities (continued)

Lease liabilities

	2023 $'000	2022 $'000
LEASE LIABILITIES		
Current	2,458	2,285
Non-current	15,731	16,081
	18,189	**18,366**

Opening value	**18,366**	**12,078**
Additions	2,384	8,477
Lease interest (note 7)	921	819
Lease payments	(3,482)	(3,008)
Closing value	**18,189**	**18,366**

23. Investments in subsidiaries

SUBSIDIARIES

Name of entity	Country of incorporation	Interest held by entity 2023	Interest held by entity 2022
ECL Group Limited	New Zealand	100%	75%
CPL Network Limited	New Zealand	100%	100%

On 31 May 2022, Counties Energy Limited acquired the remaining 25% shareholding in ECL Group Limited from Optima Investment Group Limited for $6,775,000.

24. Investment in associates and joint ventures

Name of entity	Place of business/country of incorporation	% of ownership interest	Nature of relationship	Measurement method
SmartCo Limited	New Zealand	14.29%	Joint Venture	Equity
Ampli Limited	New Zealand	31.58%	Associate	Equity

In 2010, the Group acquired a 14.29% joint venture investment in SmartCo Limited. Due to the nature of the contractual rights and obligations, SmartCo Limited is classified as a joint venture for accounting purposes and accounted for using the equity method.

In 2017, the Group acquired a shareholding of 31.58% in Ampli Limited (incorporated on 18 December 2017) at nil consideration. The company is no longer trading.

There were no changes during the year.

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25. Related party transactions

(a) Parent

The Group is 100% owned by the Counties Energy Trust.

(b) Transactions with related parties

The following transactions occurred with related parties:

	2023 $'000	2022 $'000
Counties Energy Trust (Parent)		
Dividends paid (9.6 cents per share)	1,433	400
Loan	–	1,133
Loan interest received	37	–
Finance lease payments	241	–

The loan to Counties Energy Trust was fully repaid on 28 March 2023.

	2023 $'000	2022 $'000
SmartCo Limited (Joint Venture)		
Contribution to operating costs	6	6
Optima Investment Group Limited		
Financial liabilities (note 2(x))	–	6,775

(c) Key management personnel compensation

	2023 $'000	2022 $'000
Directors' fees – Parent Company	364	345
Directors' fees – ECL Group Limited	169	150
Salaries and short-term employee benefits	2,511	2,301
	3,044	**2,796**

Key management personnel have been defined as the Leadership Team.

26. Events occurring after the reporting date

There have been no subsequent events that have not already been disclosed.

Statement of Service Performance

The tables below set out the performance targets included in the Statement of Corporate Intent for 2023.

Financial targets

For the year ended 31 March	2023		2022	
	Target	Actual	Target	Actual
Earnings before interest and tax expressed as a percentage of total average capital employed	6.2%	7.6%	4.9%	11.1%
Profit after tax expressed as a percentage of average consolidated shareholders' funds	5.7%	6.4%	4.3%	9.7%

Financial targets were exceeded in 2023.

Reliability targets

For the year ended 31 March	2023		2022	
	Target	Actual	Target	Actual
Average minutes without electricity per Consumer (SAIDI)				
• Unplanned outages	101.50	122.82	104.26	147.89
• Planned	176.15	228.34	180.00	150.37
Average number of outages per Consumer (SAIFI)				
• Unplanned outages	1.87	2.50	2.28	2.71
• Planned	0.54	0.77	0.58	0.48

Unplanned outages, as measured by SAIDI (average minutes without electricity per customer), were unfavourable to target by 21.32 minutes (21% unfavourable). The main categories of faults were Vegetation, Defective Equipment, Third Party Interference and No Cause Found. Unplanned SAIFI (average number of outages per customer) was also unfavourable to target by 0.64 interruptions (34% unfavourable).

Planned SAIDI was above target by 52.19 minutes (30% unfavourable). Planned SAIFI was also above target, being 0.23 interruptions (43%) above the year's target.

The unplanned SAIDI and SAIFI results were calculated in accordance with the 2021-25 DPP normalisation method and the planned SAIDI and SAIFI results calculated in accordance with the Information Disclosure (ID) method using information from the Company's non-financial systems. Outages on Transpower or initiated by events on privately owned secondary networks, planned and unplanned, are excluded. Counties Energy also commenced recording the full impact of single transformer outages part way through FY22 in order to better understand the full customer experience of network reliability. These outages on single transformers are excluded from the FY23 reported measures. Although this is a variation from the standard 2021-25 DPP methodology, it is consistent with how Counties Energy measures have been reported to date and how the targets for FY23 were derived. Including single transformer outages, the measures would be 129.33 SAIDI and 2.54 SAIFI. Single transformer outages will be included in reporting and factored into targets in the Statement of Corporate Intent and Asset Management Plan from FY24.

The longer term targets for SAIFI and SAIDI have been revised based on:

- Recent performance of network
- Research presented to the Counties Energy Directors on network reliability
- A forecast of planned outage requirements, which is based on investment programmes (outlined in the Asset Management Plan), and the expected reliability improvements from those investments.

Health and safety targets

	2023		2022	
	Target	Actual	Target	Actual
Lost time injuries (LTIs)	–	1	–	3

Counties Energy's emphasis on safety excellence continues to gain momentum with the strengthening of their health, safety, quality, training and environmental resource. Improved engagement throughout the business has resulted in more focused opportunities and improved safety performance across all disciplines.

Focused, targeted conversations and improvements are discussed and facilitated at all meetings. The Health, Safety and Environmental Committee has been strengthened by additional time, training and a strong representative voice from the business, with nineteen regular attendees.

The Company's safety performance is constantly monitored, and reported on internally, and comparative data is utilised through engagement with the Electrical Engineers Association, the Business Leaders Health and Safety Forum and the Energy Networks Aotearoa.

Counties Energy is never complacent when safety is at stake and this has continued with strengthened focus, which has contributed to a positive impact on reported safety metrics.

Auditor’s Report

For the year ended 31 March 2023

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Independent auditor’s report

To the Readers of Counties Energy Limited’s Group Consolidated Financial Statements and Performance Information for the year ended 31 March 2023

The Auditor-General is the auditor of Counties Energy Limited and its controlled entities (collectively referred to as ‘the Group’). The Auditor-General has appointed me, Matthew White, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements and the performance information of the Group on his behalf.

Our opinion:

We have audited:

- the financial statements of the Group on pages 34 to 66, that comprise the consolidated statement of financial position as at 31 March 2023, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended on that date and the notes to the consolidated financial statements that include accounting policies and other explanatory information; and
- the statement of service performance of the Group on pages 68 to 69.

In our opinion:

- the consolidated financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 31 March 2023; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to the International Financial Reporting Standards; and
- the statement of service performance of the Group presents fairly, in all material respects, the Group’s achievements measured against the performance targets adopted for the year ended 31 March 2023.

Our audit was completed on 30 June 2023. This is the date at which our opinion is expressed.

The basis for our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the consolidated financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for 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 consolidated financial statements and the performance information

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

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The Board of Directors is also responsible on behalf of the Group for preparing performance information that is fairly presented.

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

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

The Board of Directors' responsibilities arise from the Energy Companies Act 1992.

Responsibilities of the auditor for the audit of the consolidated financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers taken on the basis of these consolidated financial statements and performance information.

For the targets reported in the statement of service performance, our procedures were limited to checking that the information agreed to the Group's statement of corporate intent.

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

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

- We identify and assess the risks of material misstatement of the financial statements
- and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the Group's framework for reporting its performance.

- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial statements and the performance information of the entities or business activities within the Group to express an opinion on the consolidated financial statements and the consolidated performance information. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 4 to 30, but does not include the consolidated financial statements and the performance information, and our auditor's report thereon.

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

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

Independence

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

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In addition to the audit, we have carried out assignments in the areas of compliance with the Electricity Distribution (Information Disclosure) Determination 2012.This assignment was compatible with the Auditor-General's independence requirements. Other than this assignment, we have no relationship with or interests in the Group.

Matthew White
PricewaterhouseCoopers
On behalf of the Auditor-General

Hamilton, New Zealand

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