



annual report 2002

ELECTRICITY INVERCARGILL LIMITED
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Directors

Neil Boniface (Chairman)

Ross Wensley (Deputy Chairman)

Philip Mulvey

Geoffrey Piercy

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Principal Bankers

Westpac Banking Corporation

Auditors

Audit New Zealand on behalf of the Controller and Auditor-General

Solicitors

Preston Russell Law



Left to Right: Philip Mulvey, Ross Wensley (Deputy Chairman), Geoffrey Piercy, Neil Boniface (Chairman)

1. GENERAL

It has been another successful year for Electricity Invercargill Limited.

It's improved financial and network performance ensured it maintained its position as one of the best performing networks in the country.

In February the Company farewelled it's Executive Officer, Alan Falconer, who retired after spending the past 10 years guiding the Company through a time of significant change. Appreciation is expressed to him and Tom Galambos who left at the same time to join his family in Australia.

2. FINANCIAL

The Group produced a pre-tax Operating Surplus of \$5.262 million (2001 - \$4.763 million). The increase is largely due to higher transmission rental rebates from Transpower throughout the year.

The Group net surplus after tax of \$4.142 million (2001 - \$3.486 million) has enabled the Company to pay an additional dividend of \$1.885 million and provide for an increased ordinary dividend of \$2.200 million at the end of the financial year.

During the year the Company revalued its Network System Assets to Depreciated Replacement Cost (DRC) and this contributed to an increase in equity of \$1.416 million through the Asset Revaluation Reserve. Total equity of the Group is now \$45.064 million.

Electricity Invercargill Limited continues to promote Invercargill activities to the extent of \$26,000 through the erection of festival lights and a contribution to the City's Summer Festival.

Overall, the operating results supported by the strong financial position and operating cashflow and continued growth prospects in the Invercargill City has the Company well positioned for the future.

The consolidated result and returns for the Group are:

	30 June 2002	30 June 2001
	\$000	\$000
Operating Surplus before Taxation	5,262	4,763
Less Taxation Expense	(1,432)	(1,277)
Plus Share of Associate Companies Surplus	312	-
Net Surplus	4,142	3,486
	Projected	Actual
Post Tax Earnings as a Percentage of Equity	6.71%	8.67%
Equity to Total Assets	94.50%	74.46%
Dividend as a Percentage of Average Equity	5.05%	4.98%

3. INDUSTRY ENVIRONMENT

The Commerce Commission has played a major role in our industry during the past 12 months. Initially it carried out a recalibration of the optimised deprival valuations of all distribution networks throughout New Zealand. This was done in the interests of assessing the effectiveness of the ODV Handbook and to ensure the interpretation of the Handbook was the same for all networks.

The second involvement of the Commerce Commission was the consideration of the proposed Electricity Governance Board structure which was submitted to them early in 2002. At the end of the year, submissions had been made on the proposal and a final report was awaited from the Commerce Commission.

The third issue involving the Commerce Commission was the progressing of the targeted regulation of line companies. At the end of the year the Commerce Commission was preparing to hear presentations in support of submissions on the Issues Paper it had published earlier in the year.

Other impacts on the industry were the Government Policy Statements relating to the 10% fixed charge domestic customer tariffs and latterly the introduction of Financial Transmission Rights. During the year the local body rating of electricity assets is impacting on several line companies in addition to the levies imposed by the Government to cover the costs of the Commerce Commission and other regulatory functions.

4. LINE BUSINESS

The ownership of electricity distribution network assets provides the major source of income for the Company.

The net contribution is mainly attributable to the Use Charge received from PowerNet Limited for the lease of the network assets.

This Use Charge calculation takes into account a specified rate of return on the book value of the assets, depreciation and the corporate costs of the Company.

The statistics provided to the Ministry of Commerce under the Electricity (Information Disclosure) Regulations 1999 showed an overall continuing improvement in the performance of the network during the 2001/2002 year.

The reliability statistics met the overall SAIDI targets in the Statement of Corporate Intent for the year but the frequency of interruptions was above the target.

SAIFI – System Average Interruption Frequency Index

(the average number of times each customer connected to the network is without supply)

	Target	Actual
Planned	0.07	0.02
Unplanned	0.77	1.11

SAIDI – System Average Interruption Duration Index

(the average total times in minutes each customer connected to the network is without supply)

	Target	Actual
Planned	6.50 minutes	2.07 minutes
Unplanned	34.80 minutes	29.99 minutes

Metering assets and load control relays were also retained by the Company and managed by PowerNet Limited during this year.

Top Performing Lines Business

In the absence of the Cap Gemini Ernst & Young New Zealand Electricity Distribution Company Analysis, the Company carried out its own benchmarking analysis using the same criteria. Electricity Invercargill Limited's second place continues the trend of being one of the country's top performing lines businesses by providing a low cost and top reliability service. The Company is the only lines business to have been in the top three places since the analysis index was introduced in 1995.

5. POWERNET LIMITED

Electricity Invercargill Limited retained its 50% shareholding in PowerNet Limited, a joint venture with The Power Company Limited. PowerNet is responsible for managing the Company's network and meter assets.

This management is executed through a capital and maintenance works programme which constitutes the major part of the Business Plan approved by the PowerNet and Electricity Invercargill Limited Directors.

PowerNet also took over the corporate management of the Company in the latter half of the year.

PowerNet publishes its own annual report and as it is a break-even company its performance is reflected in the reliability statistics and line charges for each of its respective networks that it manages. In this regard, PowerNet has shown a further improvement on its previous years' performances.

Although PowerNet was established as a break-even company, the revenue and expenditure are compartmentalised for each of the networks that it manages and the profit or loss for each compartment is identifiable as a component of the overall profit or loss.

The profit in the Electricity Invercargill Limited compartment for 2001/2002 was higher than anticipated due to increased revenue mainly from higher consumption and lower than anticipated Transpower costs. As a result PowerNet has been in a position to pay a dividend of \$500,000 (2001 – \$390,000) to Electricity Invercargill Limited.

6. INVESTMENT AND DEVELOPMENT

All investigations to increase investment and development have been channelled through the joint venture company PowerNet, particularly those with a view to obtaining further economies of scale and improved efficiencies of network management.

The following major projects were completed during the year.

PROJECT	APPROXIMATE EXPENDITURE
Centre, Nichol and Norwood Streets, Invercargill – Undergrounding	\$752,000
George and Clifton Streets, Invercargill – Undergrounding	\$483,000
Pomona Street Area, Invercargill – Undergrounding	\$409,000
New Customer Connections	\$216,000
Racecourse Road Substation Upgrade (Stage 1)	\$171,000
Leven Street Substation Backup Line	\$139,000

7. OTAGO POWER LIMITED

During the year the Company entered into a joint venture with The Power Company Limited and Marlborough Lines Limited to purchase the assets of Otago Power Limited effective from 1 July 2002. The Company saw the acquisition of these assets as being important for its future strategy to ensure growth and long-term increase in valuation of the Company.



Neil Boniface
Chairman



Ross Wensley
Deputy Chairman

NETWORK DETAILS

	30 June 2002	30 June 2001
Length of overhead line	112km	123km
Length of underground cable	579km	567km
Number of distribution transformers	436	432
Distribution transformer capacity (does not include customer owned transformers)	142MVA	139MVA
Network connection points	17,009	16,852

The Directors have pleasure in presenting their Annual Report and Financial Statements for the year ended 30 June 2002.

PRINCIPAL ACTIVITIES

The principal activity of the parent entity is the provision of electricity distribution services. The parent entity reports on the network assets along with its joint venture interest in PowerNet Limited.

PowerNet Limited was established on 1 July 1994 to manage the electricity reticulation networks of the Company and The Power Company Limited. The Company and The Power Company Limited each own 50% of PowerNet Limited, whilst still retaining ownership of their respective networks.

RESULT AND DISTRIBUTION

The Directors report that the Group's profit after tax and interest for the year under review was \$4,142,000. A dividend of \$2,200,000 is recommended. The dividend will carry full imputation credits.

STATE OF COMPANY'S AFFAIRS

The Directors consider the state of the Company's affairs to be satisfactory.

DIRECTORS

The Directors are appointed by the Shareholder.

DIRECTORS' INTERESTS

The following entries were made in the Interests Register of the Company with regard to the Directors:

General:

All Directors are interested in transactions with the Company involving the supply of standard network services, on standard terms and conditions, to premises in which they may have one or more of the following interests:

- (a) Owner, either alone or jointly with others.
- (b) Parent, child or spouse of another person who may have a material interest in a property.
- (c) Director, officer or shareholder of a body corporate which may have a material interest in a property.
- (d) Trustee or beneficiary of a trust which may have a material interest in a property.

Because the interest which Directors may have in such transactions is no different in kind, quality, benefit or obligation from transactions which the Company has with other network services customers, it is not intended to list such premises or properties in the Interests Register.

Directors	Company	Position
Neil Boniface	Electricity Southland Ltd	Director
	PowerNet Ltd	Director
	Invercargill Licensing Trust	Deputy President
	Invercargill City Council	Deputy Mayor
	Southland Driving School	Director
	Bluesparks Ltd	Director
	Lightswitch Ltd	Director
	Power Surge Ltd	Director
	Shockwave Ltd	Director
	Pylon Ltd	Director
Philip Mulvey	Cook Adam and Co	Managing Partner
	Cook Adam and Co Ltd	Director
	PowerNet Ltd	Director
	Bond Contracts Ltd	Director
	Forest Dynamics Ltd	Director
	Zak Holdings Ltd	Chairman
	Southland Outdoor Stadium Trust	Trustee
	United Pacific Energy Ltd	Director
	Focus Computer Consultants Ltd	Director
	Investor Group New Zealand Ltd	Director
Geoffrey Piercy	Incompass Ltd	Director
	Invercargill City Council	Councillor
	PowerNet Ltd	Deputy Chairman
	Wensley Developments Ltd	Director
	WE Investments Ltd	Director
	Wensley Developments The Glebe Ltd	Director

REMUNERATION OF DIRECTORS

The following Directors held office during the year under review and were paid fees accordingly:

Neil Boniface	-	Chairman
Ross Wensley	-	Deputy Chairman
Philip Mulvey	-	Director
Geoffrey Piercy	-	Director

Remuneration paid or due and payable to Directors for services as a Director and in any other capacity for Electricity Invercargill Limited, during the year were:

Neil Boniface	\$24,000	Geoffrey Piercy	\$12,000
Philip Mulvey	\$12,000	Ross Wensley	\$12,000

Remuneration paid or due and payable to Directors for services as a Director and in any other capacity for PowerNet Limited during the year were:

Neil Boniface	\$10,000	Ross Wensley	\$15,000
Philip Mulvey	\$10,000		

EMPLOYEE REMUNERATION

No employees or former employees received remuneration to the value of \$100,000 or greater during the year.

DONATIONS

Donations of \$3,000 were made during the year.

USE OF COMPANY INFORMATION

During the year the Board received no notices from the Directors of the Company requesting to use Company information received in their capacity as Directors which would not otherwise have been made available to them.

DIRECTORS' AND EMPLOYEES' INDEMNITY AND INSURANCE

Liability Insurance was effected for Directors of the Company.

ACCOUNTING POLICIES

There have been no changes in accounting policies during the year. These have been applied on a basis consistent with those used in previous periods.

AUDITOR REMUNERATION

It is proposed that the Auditor, Audit New Zealand on behalf of the Controller and Auditor-General, continue in office in accordance with Section 594ZC of the Local Government Act 1974.

Refer to Note 2 of the Consolidated Financial Statements for Auditor remuneration.

For and on behalf of the Directors.



Neil Boniface
Chairman



Ross Wensley
Deputy Chairman

APPROVAL BY DIRECTORS

The Directors have approved the Consolidated Financial Statements of Electricity Invercargill Limited for the year ended 30 June 2002 on pages 5 to 18.



Neil Boniface
Chairman



Ross Wensley
Deputy Chairman

For and on behalf of the Board of Directors
4 September 2002

The objectives of Electricity Invercargill Limited for this financial year are clearly specified in the Statement of Corporate Intent, which was approved by the Shareholders. The performance targets and measures identified in the Statement of Corporate Intent, along with the performance achieved during the financial year, are detailed below.

Performance Targets

	Target	Achievement	
	30 June 2002	30 June 2002	30 June 2001
Financial Measures			
Net Profit Before Tax	4,360	5,262	4,695
Net Profit After Tax	2,921	3,830	3,146
Pre Tax Earnings as a Ratio of Shareholder Funds	10.01%	11.91%	11.45%
Post Tax Earnings as a Ratio of Shareholder Funds	6.71%	8.67%	7.67%
Shareholder Funds to Total Assets	94.5%	74.46%	94.5%
Dividend Paid	2,200	2,200	2,000
Dividend as a Ratio of Average Shareholder Funds	5.05%	4.98%	5.00%

Network Performance

SAIDI – This represents the number of minutes the average customer was without power during the reporting period.

	Target	Achievement	
	30 June 2002	30 June 2002	30 June 2001
SAIDI	41.30	32.06	39.10

SAIFI – This represents the number of interruptions experienced by the average consumer.

	Target	Achievement	
	30 June 2002	30 June 2002	30 June 2001
SAIFI	0.84	1.13	1.23

Undergrounding

	Target	Achievement	
	30 June 2002	30 June 2002	30 June 2001
During the year the following cable was laid:	10,300 metres	21,800 metres	28,984 metres
The cost of which was:	\$1,975,000	\$1,983,000	\$3,894,323

ELECTRICITY INVERCARGILL LIMITED CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2002

	Note	GROUP		PARENT	
		30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Operating Revenue	1	12,952	12,963	12,952	12,963
Operating Expenses	2	(7,690)	(8,200)	(7,690)	(8,200)
Operating Surplus/(Deficit) before Taxation		5,262	4,763	5,262	4,763
Less Taxation Expense	3	(1,432)	(1,277)	(1,432)	(1,277)
Net Surplus/(Deficit) After Taxation		3,830	3,486	3,830	3,486
Share of Retained Surplus of Associate Companies After Taxation	4	312	-	-	-
Net Surplus Attributable to the Shareholders of the Parent Company		4,142	3,486	3,830	3,486

ELECTRICITY INVERCARGILL LIMITED CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2002

	Note	GROUP		PARENT	
		30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Equity at Beginning of Year		43,591	39,767	43,591	39,767
Revaluation of Assets		1,416	2,338	1,416	2,338
Net Surplus/(Deficit) for the Year		4,142	3,486	3,830	3,486
Total Recognised Revenues and Expenses for the Period		5,558	5,824	5,246	5,824
Distribution to Shareholders:					
- Dividend Proposed/Declared		(2,200)	-	(2,200)	-
- Dividend Paid		(1,885)	(2,000)	(1,885)	(2,000)
Equity at End of Year	5	45,064	43,591	44,752	43,591

The accompanying notes on pages 9 to 18 form part of and should be read in conjunction with these financial statements.

ELECTRICITY INVERCARGILL LIMITED **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AS AT 30 JUNE 2002

	Note	GROUP		PARENT	
		30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Equity					
Share Capital	5	13,000	13,000	13,000	13,000
Reserves	5	25,375	23,959	25,375	23,959
Retained Earnings	5	6,689	6,632	6,377	6,632
Total Equity		45,064	43,591	44,752	43,591
Represented By:					
Current Assets					
Cash and Bank Deposits	6	1,829	2,734	1,829	2,734
Receivables & Prepayments	7	2,914	592	2,914	592
Inventories		190	157	190	157
Construction Work in Progress		55	-	55	-
Taxation Refund		-	130	-	130
Total Current Assets		4,988	3,613	4,988	3,613
Non Current Assets					
Investments	8	1,000	1,000	1,000	1,000
Investments in Subsidiaries:					
- Shares	9	-	-	-	-
- Advances	9	-	-	1,225	-
Investments in Associates	10	9,222	-	8,910	-
Deposit on Otago Power Limited Assets	21	1,225	-	-	-
Property, Plant and Equipment	13	43,267	40,560	43,267	40,560
Capital Work in Progress		710	332	710	332
Total Non Current Assets		55,424	41,892	55,112	41,892
Total Assets		60,412	45,505	60,100	45,505
Current Liabilities					
Creditors, Accruals & Provisions	11/12	1,815	1,914	1,815	1,914
Provision for Dividend	12	2,200	-	2,200	-
Shareholder Advance	14	11,285	-	11,285	-
Provision for Tax		48	-	48	-
Total Current Liabilities		15,348	1,914	15,348	1,914
Net Assets		45,064	43,591	44,752	43,591

The accompanying notes on pages 9 to 18 form part of and should be read in conjunction with these financial statements.

ELECTRICITY INVERCARGILL LIMITED **CONSOLIDATED STATEMENT OF CASH FLOWS**
FOR THE YEAR ENDED 30 JUNE 2002

	Note	GROUP		PARENT	
		30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Was Provided From:					
Receipts from Customers		10,447	12,353	10,447	12,353
Interest Received		175	340	175	340
Taxation Refunds		136	-	136	-
		<u>10,758</u>	<u>12,693</u>	<u>10,758</u>	<u>12,693</u>
Cash Was Disbursed To:					
Payments to Suppliers and Employees		5,857	6,086	5,857	6,086
Income Tax Paid		1,389	1,377	1,389	1,377
GST Paid		(50)	(80)	(50)	(80)
Interest Paid		3	6	3	6
		<u>7,199</u>	<u>7,389</u>	<u>7,199</u>	<u>7,389</u>
Net Cash Flows From Operating Activities	15	<u>3,559</u>	<u>5,304</u>	<u>3,559</u>	<u>5,304</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash Was Provided From:					
Sale of Property, Plant and Equipment		17	23	17	23
Repayment of Investments		-	3,000	-	3,000
		<u>17</u>	<u>3,023</u>	<u>17</u>	<u>3,023</u>
Cash Was Applied To:					
Purchase of Property, Plant and Equipment		3,746	3,271	3,746	3,271
Shares in Associates		-	-	8,185	-
Advances to Associates		-	-	1,950	-
Investments		10,135	-	-	-
		<u>13,881</u>	<u>3,271</u>	<u>13,881</u>	<u>3,271</u>
Net Cash Flows Used in Investing Activities		<u>(13,864)</u>	<u>(248)</u>	<u>(13,864)</u>	<u>(248)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash Was Provided From:					
Shareholder Advance		11,285	-	11,285	-
		<u>11,285</u>	<u>-</u>	<u>11,285</u>	<u>-</u>
Cash Was Applied To:					
Dividend Payment		1,885	3,750	1,885	3,750
		<u>1,885</u>	<u>3,750</u>	<u>1,885</u>	<u>3,750</u>
Net Cash Flows From/(Used in) Financing Activities		<u>9,400</u>	<u>(3,750)</u>	<u>9,400</u>	<u>(3,750)</u>
Net Increase/(Decrease) in Cash Held		(905)	1,306	(905)	1,306
Add Opening Cash Brought Forward		2,734	1,428	2,734	1,428
Closing Cash To Be Carried Forward		<u>1,829</u>	<u>2,734</u>	<u>1,829</u>	<u>2,734</u>

GENERAL ACCOUNTING POLICIES

Reporting Entity

Electricity Invercargill Limited, incorporated on 30 June 1991, is registered under the Companies Act 1993. The Company is a wholly owned subsidiary of Invercargill City Holdings Limited.

Electricity Invercargill Limited, through its wholly owned subsidiary Pylon Limited, has a 24.5% interest in the assets of OtagoNet, a joint venture between Marlborough Lines Limited, Electricity Invercargill Limited and The Power Company Limited. In conjunction with The Power Company Limited, Electricity Invercargill Limited has a 50% interest in PowerNet Limited, Electricity Southland Limited and four companies established to purchase shares in Otago Power Limited (Bluesparks Limited, Lightswitch Limited, Power Surge Limited and Shockwave Limited).

Electricity Invercargill Limited reports on the network assets along with the joint venture interests in PowerNet Limited and OtagoNet, and associates Electricity Southland Limited, Bluesparks Limited, Lightswitch Limited, Power Surge Limited and Shockwave Limited.

The principal activity of Electricity Invercargill Limited is the provision of electricity distribution services.

The financial statements have been prepared in accordance with the requirements of the Energy Companies Act 1992, the Companies Act 1993 and the Financial Reporting Act 1993.

Measurement Base

The accounting principles recognised as appropriate for the measurement and reporting of earnings and financial position on an historical cost basis are followed by the Group, with the exception that certain property, plant and equipment have been revalued.

Specific Accounting Policies

All policies relate to both Group and Parent.

a) Principles of Consolidation

The Parent financial statements are prepared from the financial statements of Electricity Invercargill Limited and its joint venture company PowerNet Limited, using the proportionate method.

All significant inter-company transactions between Electricity Invercargill Limited and its joint venture company are eliminated.

The Group financial statements consolidate the financial statements of the parent (as outlined above) and its wholly owned subsidiary Pylon Limited using the proportionate method.

The financial results of Electricity Southland Limited, Bluesparks Limited, Lightswitch Limited, Power Surge Limited and Shockwave Limited have been reflected in the Group financial statements using the equity method.

b) Receivables

Receivables are stated at their estimated realisable value. All known losses are written off in the period in which it becomes apparent that the debts are not collectable.

c) Inventories

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

d) Investments

Investments are stated at cost.

e) Property, Plant and Equipment

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

Revaluation

The network assets were revalued as at 31 March 2002 to Depreciated Replacement Cost (DRC) as assessed by independent valuers KPMG and Kerslake & Partners. Previously these assets were recorded at cost less accumulated depreciation.

Network assets are revalued on a cyclical basis with no asset being recognised at a valuation undertaken more than five years previously.

Revaluation increments are transferred to the Asset Revaluation Reserve.

f) Depreciation

Depreciation is provided on a combination of straight line and diminishing value on all tangible property, plant and equipment with the exception of land, at rates calculated to allocate the costs of the assets, less any estimated residual value, over their estimated useful lives.

The primary annual rates used are:

Buildings	4.0-10.0%	Straight Line/Diminishing Value
Network Assets	1.4-10.0%	Straight Line
Plant and Equipment	7.0-39.6%	Straight Line/Diminishing Value
Motor Vehicles	26.0-31.2%	Diminishing Value
Office Furniture and EDP Equipment	9.0-60.0%	Straight Line/Diminishing Value
Shared Assets	9.0-48.0%	Diminishing Value

g) Capital Work in Progress

Capital Work In Progress is stated at cost and is not depreciated.

h) Income Tax

The income tax expense charged against the profit for the year is the estimated liability in respect of that profit and is calculated after allowance for permanent differences and timing differences not expected to reverse in future periods. This is the partial basis for the calculation of deferred taxation. The Company uses the liability method of accounting for deferred taxation. Future tax benefits attributable to tax losses or timing differences are only recognised when there is virtual certainty of realisation.

i) Goods and Services Tax

All amounts in the financial statements have been shown exclusive of Goods and Services Tax, with the exception of debtors and creditors which are shown inclusive of Goods and Services Tax.

j) Financial Instruments

The Group is party to financial instrument arrangements as part of its everyday operations. Revenues and expenses in relation to all financial instruments are recognised in the Statement of Financial Performance on an accrual basis.

The Group has no off-balance sheet exposures. The Group values all financial instruments at fair value in the Statement of Financial Position.

k) Operating Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments under these leases are recognised as expenses in the periods in which they are incurred.

l) Employee Entitlements

Provision is made in respect of the Company's liability for annual and long service leave. Annual leave has been calculated on an actual entitlement basis at current rates of pay.

Changes in Accounting Policies

There have been no changes in accounting policies during the year ended 30 June 2002.

1. Operating Revenue

	GROUP		PARENT	
	30 June 2002	30 June 2001	30 June 2002	30 June 2001
	\$000	\$000	\$000	\$000
Network Charges	11,229	11,257	11,229	11,257
Interest Revenue	175	326	175	326
Bad Debts Recovered	1	1	1	1
Profit on Sale of Property, Plant and Equipment	7	2	7	2
Other Income	1,540	1,377	1,540	1,377
	<u>12,952</u>	<u>12,963</u>	<u>12,952</u>	<u>12,963</u>

2. Operating Expenses

	GROUP		PARENT	
	30 June 2002	30 June 2001	30 June 2002	30 June 2001
	\$000	\$000	\$000	\$000
Operating Expenses Include:				
Auditors Remuneration:				
- Audit of Financial Report	36	26	36	26
- Other Services	3	-	3	-
Bad Debts Written Off	1	2	1	2
Increase/(Decrease) in Provision for Doubtful Debts	-	-	-	-
Depreciation	1,788	1,643	1,788	1,643
Directors' Fees	98	93	98	93
Donations	3	-	3	-
Interest Expense	51	8	51	8
Operating Lease Expenses:				
- Tenancy and Repeater Site Leases	18	33	18	33
- Motor Vehicle Leases	31	22	31	22
- Office Equipment Leases	7	7	7	7
- Computer Leases	-	1	-	1
Loss on Disposal of Property, Plant and Equipment	4	3	4	3
Subvention Payment	114	-	114	-

3. Taxation

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Operating Surplus/(Deficit) Before Taxation	5,262	4,763	5,262	4,763
Prima Facie Taxation at 33%	1,736	1,572	1,736	1,572
Plus/(less) Taxation Effect of:				
Under/(Over) Provisions in Prior Years	(6)	-	(6)	-
Timing Differences	65	145	65	145
Permanent Differences	(363)	(440)	(363)	(440)
Taxation Expense for Year	1,432	1,277	1,432	1,277
Comprising of:				
Current Taxation	1,432	1,277	1,432	1,277
Deferred Taxation	-	-	-	-
	1,432	1,277	1,432	1,277

Tax Losses Transferred Within the Group

Tax losses of \$1,220,909 (2001 \$1,633,423) with a tax benefit of \$402,900 (2001 \$539,029) have been transferred from Invercargill City Holdings Limited by way of group loss offset. The Company has an unrecorded deferred tax liability of \$5,158,409 (2001 \$4,715,697).

	PARENT	
	30 June 2002 \$000	30 June 2001 \$000
Imputation Credit Account:		
Credit Balance at Beginning of Year	885	1,469
Credits:		
Income Tax Payments During Year	1,140	1,174
Imputation Credits on Dividend Received	192	187
Resident Withholding Tax	1	-
Debits:		
Imputation Credits on Dividend Paid	(929)	(1,847)
Income Tax Refund During Year	(135)	(98)
Credit Balance at End of Year	1,154	885

The Imputation Credit Account relates to Electricity Invercargill Limited only.

4. Associate Companies

	Percentage Held By Group		
	30 June 2002	30 June 2001	Balance Date
Electricity Southland Limited	50%	50%	30 June
Lightswitch Limited	50%	-	31 March
Bluesparks Limited	50%	-	31 March
Power Surge Limited	50%	-	31 March
Shockwave Limited	50%	-	31 March

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Share of Retained Earnings Less				
Losses of Associate Companies	312	-	-	-

5. Equity

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Paid up Capital				
Authorised and fully paid up share capital of 13,000,000 ordinary shares	13,000	13,000	13,000	13,000
Reserves				
General Reserve	2,800	2,800	2,800	2,800
Revaluation Reserve Opening Balance	21,159	18,821	21,159	18,821
Network Revaluation	1,416	2,338	1,416	2,338
Closing Balance	<u>22,575</u>	<u>21,159</u>	<u>22,575</u>	<u>21,159</u>
Total Reserves	<u>25,375</u>	<u>23,959</u>	<u>25,375</u>	<u>23,959</u>
Retained Earnings				
Opening Balance	6,632	5,146	6,632	5,146
Net Surplus/(Deficit)	4,142	3,486	3,830	3,486
Dividend Proposed/Declared	(2,200)	-	(2,200)	-
Dividend Paid	<u>(1,885)</u>	<u>(2,000)</u>	<u>(1,885)</u>	<u>(2,000)</u>
Closing Balance	<u>6,689</u>	<u>6,632</u>	<u>6,377</u>	<u>6,632</u>
Total Equity	<u>45,064</u>	<u>43,591</u>	<u>44,752</u>	<u>43,591</u>

6. Cash and Bank Deposits

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Current Account	49	54	49	54
Bank Deposits (Short term)	1,780	2,680	1,780	2,680
Total Cash and Bank Deposits	<u>1,829</u>	<u>2,734</u>	<u>1,829</u>	<u>2,734</u>

7. Receivables & Prepayments

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Trade Debtors	2,889	547	2,889	547
Prepayments	25	45	25	45
Total Receivables & Prepayments	<u>2,914</u>	<u>592</u>	<u>2,914</u>	<u>592</u>

8. Investments

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Southland Building Society	1,000	1,000	1,000	1,000
Total Investments	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>

The investment with the Southland Building Society has an interest rate of 7.4% and is due to mature on 4 August 2003.

9. Investment in Subsidiaries

	GROUP		PARENT	
	30 June 2002	30 June 2001	30 June 2002	30 June 2001
	\$000	\$000	\$000	\$000
Shares in Subsidiaries	-	-	-	-
Advances to Subsidiaries	-	-	1,225	-
Total Investment in Subsidiary	-	-	1,225	-

Electricity Invercargill Limited owns the authorised capital of Pylon Limited. However, because this capital remains uncalled at 30 June 2002, it is not reflected in these accounts.

Subsidiaries:

	Percentage Held By Group		
	30 June 2002	30 June 2001	Balance Date
Pylon Limited	100%	-	30 June

10. Investments in Associates

	GROUP		PARENT	
	30 June 2002	30 June 2001	30 June 2002	30 June 2001
	\$000	\$000	\$000	\$000
Carrying Amount at Beginning of Year	-	-	-	-
Investments in Associates	8,910	-	8,910	-
Share of Equity Accounted Earnings of Associates	312	-	-	-
Carrying Amount at End of Year	9,222	-	8,910	-

11. Creditors, Accruals & Provisions

	GROUP		PARENT	
	30 June 2002	30 June 2001	30 June 2002	30 June 2001
	\$000	\$000	\$000	\$000
Trade Creditors & Accruals	1,498	1,667	1,498	1,667
GST Payable	208	134	208	134
Provision for Employee Entitlements	109	113	109	113
Total Creditors, Accruals & Provisions	1,815	1,914	1,815	1,914

12. Provisions

	GROUP	PARENT
	30 June 2002	30 June 2002
	\$000	\$000
Provision for Employee Entitlements		
Balance at 1 July	113	113
Additional Provision Made	86	86
Amount Utilised	(90)	(90)
Balance at 30 June	109	109

The provision for employee entitlements relates to employee benefits such as accrued annual leave and long service leave and has been calculated on an actual entitlement basis at current rates of pay. The provision may be affected by the timing of benefits being taken. The liability is expected to be incurred during the next year.

Provision for Dividend

	GROUP	PARENT
	30 June 2002	30 June 2002
	\$000	\$000
Balance at 1 July	-	-
Additional Provision Made	2,200	2,200
Amount Utilised	-	-
Balance at 30 June	2,200	2,200

13. Property, Plant and Equipment

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Land	32	32	32	32
Buildings (At Cost)	277	277	277	277
Accumulated Depreciation	(98)	(85)	(98)	(85)
	179	192	179	192
Furniture, Fittings & EDP (At Cost)	850	742	850	742
Accumulated Depreciation	(610)	(493)	(610)	(493)
	240	249	240	249
Motor Vehicles (At Cost)	22	44	22	44
Accumulated Depreciation	(16)	(26)	(16)	(26)
	6	18	6	18
Plant and Equipment (At Cost)	409	296	409	296
Accumulated Depreciation	(218)	(155)	(218)	(155)
	191	141	191	141
Metering Assets (At Valuation)	3,631	3,631	3,631	3,631
Metering Assets (At Cost)	313	-	313	-
Accumulated Depreciation	(178)	-	(178)	-
	3,766	3,631	3,766	3,631
Network Assets (At Valuation)	38,052	36,297	38,052	36,297
Network Assets (At Cost)	1,150	-	1,150	-
Accumulated Depreciation	(349)	-	(349)	-
	38,853	36,297	38,853	36,297
Total Property, Plant and Equipment	43,267	40,560	43,267	40,560

Network Assets

The network assets were revalued as at 31 March 2002 to Depreciated Replacement Cost as assessed by independent valuers KPMG and Kerslake & Partners.

14. Shareholder Advance

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Invercargill City Holdings	11,285	-	11,285	-
Total Shareholder Advance	11,285	-	11,285	-

This advance is repayable on demand and is subject to interest at 5.85-6.20%.

15. Reconciliation of Net Surplus/(Deficit) After Taxation with Net Operating Cash Flows

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

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
Net Surplus/(Deficit) After Taxation	3,830	3,486	3,830	3,486
Plus/(Less) Non Cash Items:				
Depreciation	1,788	1,643	1,788	1,643
	1,788	1,643	1,788	1,643
Plus/(Less) Items Classified as Investing:				
Asset Adjustment	220	161	220	161
Loss on Sale of Property, Plant and Equipment	4	-	4	-
Profit on Sale of Property, Plant and Equipment	(7)	-	(7)	-
	217	161	217	161
Plus/(Less) Movements in Working Capital:				
Increase/(Decrease) in Creditors, Accruals & Provisions	(100)	467	(100)	467
(Increase)/Decrease in Receivables	(2,321)	(410)	(2,321)	(410)
(Increase)/Decrease in Inventories	(33)	(43)	(33)	(43)
(Increase)/Decrease in Provision for Taxation	178	-	178	-
	(2,276)	14	(2,276)	14
Net Cash Flows From Operating Activities	3,559	5,304	3,559	5,304

16. Commitments

Capital Commitments

There are no Capital Commitments as at 30 June 2002 (2001: \$26,400).

Operating Lease Commitments

Operating lease commitments are payable as follows:

	GROUP		PARENT	
	30 June 2002 \$000	30 June 2001 \$000	30 June 2002 \$000	30 June 2001 \$000
- Not later than one year	30	34	30	34
- Later than one year and not later than two years	7	15	7	15
- Later than two years and not later than five years	2	4	2	4
	39	53	39	53

17. Contingent Liabilities

There are no contingent liabilities as at 30 June 2002 (2001: Nil).

18. Financial Instruments

Off Balance Sheet Financial Instruments -

The Group does not have any off balance sheet financial instruments, with the exception of interest rate swaps detailed below.

Credit Risk

Credit risk is the risk that a third party will default on its obligation to the Group, causing the Group to incur a loss.

Financial instruments which potentially subject the Group to credit risk principally consist of cash, short-term deposits and accounts receivable. Bank deposits are placed with high credit quality financial institutions. The Group performs credit evaluations on all customers requiring credit and generally does not require collateral.

Maximum exposures to credit risk at balance date are:

	GROUP		PARENT	
	30 June 2002	30 June 2001	30 June 2002	30 June 2001
	\$000	\$000	\$000	\$000
Current Account	49	54	49	54
Short Term Deposits	1,780	2,680	1,780	2,680
Receivables	2,914	592	2,914	592
Investments	1,000	1,000	1,000	1,000
	<u>5,743</u>	<u>4,326</u>	<u>5,743</u>	<u>4,326</u>

The above maximum exposures are net of any recognised provision for losses on these financial instruments. No collateral is held on the above amounts.

Concentrations of Credit Risk -

The Group is exposed to a concentration of credit risk by one significant energy retailer. This entity is considered to be a high quality entity.

Foreign Exchange Risk -

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group is not exposed to any foreign exchange risk.

Interest Rate Risk -

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group is exposed to normal fluctuations in market interest rates.

Fair Values -

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

19. Segmental Reporting

Electricity Invercargill Limited operates predominantly in one segment, being the management of assets involved in the distribution of electricity in New Zealand.

20. Transactions with Related Parties

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

Electricity Invercargill Limited has a 50% shareholding in PowerNet Limited, Electricity Southland Limited, Bluesparks Limited, Lightswitch Limited, Power Surge Limited and Shockwave Limited. Electricity Invercargill Limited has a wholly owned subsidiary in Pylon Limited.

All transactions between Electricity Invercargill Limited and related parties relate to the normal trading activities of Electricity Invercargill Limited and have been conducted on a commercial basis.

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

Material transactions Electricity Invercargill Limited has had with the above-mentioned parties during the period are as follows:

	30 June 2002	30 June 2001
	\$000	\$000
Supplied to:		
PowerNet Limited	6,704	6,757
Electricity Southland Limited	2	-
Receivables Outstanding at Balance Date		
PowerNet Limited	999	468
Electricity Southland Limited	2	-
Supplied by:		
PowerNet Limited	2,943	3,589
Electricity Southland Limited	-	-
Invercargill City Holdings Limited	91	102
Invercargill City Council	375	-
Creditors Outstanding at Balance Date		
PowerNet Limited	616	392
Invercargill City Holdings Limited	9	-

Other Related Parties

There have been no material transactions with Directors during the year.

21. Events Subsequent to Balance Date

On 1 July 2002, a joint venture comprising Electricity Invercargill Limited, The Power Company Limited and Marlborough Lines Limited purchased the assets of Otago Power Limited (including all Property, Plant and Equipment and the shares in Otago Power Services Limited) for \$109,000,000. Electricity Invercargill Limited's interest in the joint venture is 24.5%.

**TO THE READERS OF THE FINANCIAL STATEMENTS OF ELECTRICITY INVERCARGILL LIMITED AND GROUP**

We have audited the financial statements and performance information on pages 5 to 18. The financial statements provide information about the past financial performance of Electricity Invercargill Limited and group and its financial position as at 30 June 2002. The performance information specifies the performance targets and other measures by which the performance of Electricity Invercargill Limited and group can be judged in relation to its objectives. This information is stated in accordance with the accounting policies set out on pages 9 and 10.

Responsibilities of the Board of Directors

The Energy Companies Act 1992 and the Financial Reporting Act 1993 require the Board of Directors (the Board) to prepare financial statements in accordance with generally accepted accounting practice in New Zealand that give a true and fair view of the financial position of Electricity Invercargill Limited and group as at 30 June 2002 and the results of its operations and cash flows for the year ended on that date. The Energy Companies Act 1992 also requires the Board to report the performance targets and other measures by which the performance of Electricity Invercargill Limited and group can be judged in relation to its objectives.

Auditor's responsibilities

Section 15 of the Public Audit Act 2001 and Section 45(1) of the Energy Companies Act 1992 require the Auditor-General to audit the financial statements and the performance information presented by the Board. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and the performance information and report that opinion to you.

The Auditor-General has appointed Bede Kearney, of Audit New Zealand, to undertake the audit.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements and performance information. It also includes assessing:

- the significant estimates and judgements made by the Board in the preparation of the financial statements and performance information; and
- whether the accounting policies are appropriate to Electricity Invercargill Limited and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and performance information are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

We have carried out an assurance related assignment for Electricity Invercargill Limited. This involved issuing audit certificates pursuant to the Electricity (Information Disclosure) Regulations 1999. Other than this assignment, and in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in Electricity Invercargill Limited or any of its subsidiaries.

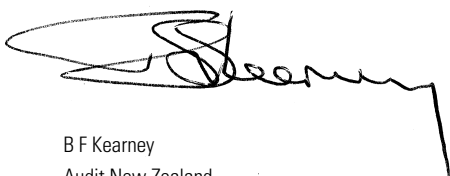
Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by Electricity Invercargill Limited and group as far as appears from our examination of those records;
- the financial statements of Electricity Invercargill Limited and group on pages 5 to 18:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - Electricity Invercargill Limited and group's financial position as at 30 June 2002; and
 - the results of its operations and cash flows for the year ended on that date; and
- the performance information of Electricity Invercargill Limited and group on page 5 gives a true and fair view of the achievements in relation to the performance targets and other measures adopted for the year ended 30 June 2002.

Our audit was completed on 11 September 2002 and our unqualified opinion is expressed as at that date.



B F Kearney
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand

