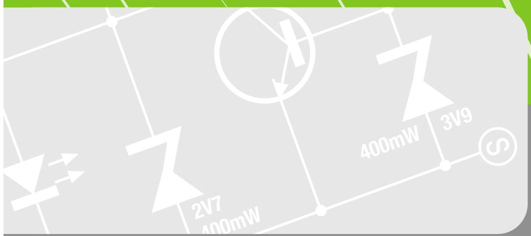

Electricity Invercargill Limited

Annual Report 2003

Contents

Directory

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

Directors

Neil Boniface (Chairman)
Ross Wensley (Deputy Chairman)
Philip Mulvey
Geoffrey Piercy

Registered Office

251 Racecourse Road
PO Box 88
Invercargill Telephone: 03 214 9448
New Zealand Facsimile: 03 214 9404
E-Mail: ei@xtra.co.nz

Principal Bankers

Westpac Banking Corporation

Auditors

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

Solicitors

Preston Russell Law

The Year in Review

1. GENERAL

It has been another successful year for Electricity Invercargill Limited.

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

2. FINANCIAL

The Group net surplus after tax of $4.627 million (2001 - $4.142) has enabled the Company to pay an increased ordinary dividend of $2.400 million at the end of the financial year (2002 - $2.200 million).

This improved result reflects the growth occurring in Invercargill and Bluff and the increased cost savings achieved through the corporate and financial management of the Company by PowerNet Limited.

To simplify the ownership and reporting requirements of the Group, all entities under Electricity Invercargill Limited's ownership are now held by the Company's 100% subsidiary Pylon Limited. The impact of these ownership changes has seen a reduction in the 2003 Parent operating revenue and expenditure due to the operations of PowerNet Limited now being consolidated at the Group level.

Operating revenue and expenditure for the Group has increased during the year as a result of the acquisitions made during the year.

The investments in OtagoNet Joint Venture and Otago Power Services Limited have met expectations both financially and operationally, the positive cash flow and tax benefits contributing to the very satisfactory performance of these investments.

Electricity Invercargill Limited's 24.5% share of the jointly acquired Otago Power Limited electricity distribution network assets was funded through a shareholder loan from Invercargill City Holdings Limited. This enabled the Company to access the competitive funding abilities of its shareholder.

Goodwill arising from the acquisition has been recognised in the Consolidated Statement of Financial Position and is amortised over 20 years as prescribed by the New Zealand Financial Reporting Standards.

As detailed in Note 10 to the Financial Statements, the opportunity to replace this write down with an impairment test will be welcomed through the introduction of international accounting standards in 2005. The Directors support this approach as it more appropriately recognises the long-term nature of the infrastructural assets acquired.

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 cash flow 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 2003 $000	30 June 2002 $000
Operating Surplus before Taxation	**5,668**	**5,574**
Less Taxation Expense	(1,041)	(1,432)
Net Surplus	**4,627**	**4,142**

3. INDUSTRY ENVIRONMENT

Directors have noted with concern the direction of the impending price path regulation.

Electricity Invercargill Limited was consistently judged by Ernst and Young to be one of New Zealand's leading line business industry performers until these comparisons were discontinued in 2001. An internal assessment based on the same criteria last year also maintained its position.

The major concern of the Directors is the impact on sound business management by a regulatory regime which has the potential to suppress investment in a vital national infrastructure asset.

This concern has recently been reinforced by the huge blackout in the USA which has a highly regulated industry and is reported to have suffered from major under-investment during the previous decade.

Electricity Invercargill Limited has maintained a regular investment in its distribution network which has not only met its customer requirements in price and reliability but has also contributed to increased public safety and enhanced visual environment through its undergrounding policy. At the end of the year the Company had completed 93% of its undergrounding programme.

The Commerce Commission must establish thresholds which will continue to encourage sound business operation and management of these assets to ensure the businesses and residents receive all the benefits of a reliable, well engineered and cost effective electricity network well into the future.

Cognisance should be given to the consumer and community ownership of most of these businesses, the efficiencies gained and reduction in real prices over the past few years and the proven effectiveness of the current light-handed regulatory regime. More emphasis should be given to the updating of the outdated ODV handbook, improvement of the Information Disclosure Regulations and investigation of outliers.

Regulatory and governance costs should be scrutinised particularly as it has been stated no cost benefit analysis of the price path and supply quality regulation will be carried out and the latest Electricity Commission levy proposals indicate significant extra contributions will be required from the line business sector of the industry. These pressures are being applied while the vertically integrated generator/retailer sector is universally imposing 30% increases on a practically stagnant electricity competitive market.

There is a real danger the benefits gained by our customers will be eroded as the Company pays increasing sums each year to meet regulatory and governance levies and local body rates. Current proposals could see these costs increasing to $10 per customer per year.

4. LINE BUSINESS

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

The net contribution is attributable to the Use Charge received from PowerNet Limited for the lease of the network assets and the profit from the Company's shareholding in OtagoNet Joint Venture.

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 Year in Review continued

The statistics provided to the Ministry of Economic Development under the Electricity (Information Disclosure) Regulations showed an overall continuing improvement in the performance of the network during the 2002/2003 year.

The reliability statistics met the SAIFI targets in the Statement of Corporate Intent for the year but the duration of interruptions (SAIDI) for unplanned interruptions was above the target. However the Company is one of the best performers in New Zealand.

SAIFI - System Average Interruption Frequency Index

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

	Target	Actual
Planned	0.04	0.02
Unplanned	1.01	0.99

SAIDI - System Average Interruption Duration Index

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

	Target	Actual
Planned	3.60 minutes	3.07 minutes
Unplanned	28.00 minutes	35.51 minutes

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

5. POWERNET LIMITED

Electricity Invercargill Limited retained its 50% shareholding in PowerNet Limited, a joint venture subsidiary 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 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.

6. INVESTMENT AND DEVELOPMENT

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

The following major projects on the Electricity Invercargill Limited network were completed by PowerNet Limited during the year.

PROJECT	APPROXIMATE EXPENDITURE
Leven Street Substation - Second Transformer	$575,000
Wellington Street, Invercargill - Undergrounding	$229,000
Dublin and Newcastle Streets, Invercargill - Undergrounding	$205,000
Mary and Jackson Streets, Invercargill - Undergrounding	$178,000
New Customer Connections	$154,000
Ward and Chelmsford Streets, Invercargill - Undergrounding	$131,000
Racecourse Road Substation - Earthing Upgrade	$100,000

Electricity Invercargill Limited completed the first year of its 24.5% investment in the electricity network owner OtagoNet Joint Venture and similar investment in the electrical contracting company Otago Power Services Limited with its neighbour The Power Company Limited (24.5%) and Marlborough Lines Limited (51%).

The OtagoNet companies performed as anticipated contributing a positive cash flow and benefits to Electricity Invercargill Limited in addition to the strategic partnership and acquisition. Directors are pleased with the first year's performance and the shareholders are projected to benefit further from increased dividends and growth in value in the years to come.

The 49% investment in the joint venture Electricity Southland Limited with The Power Company Limited (51%) is still at the initial investment stage. Cable ducts have been installed in the Queenstown to Frankton Road and evaluation of embedded generation sites in Southland is progressing.

Neil Boniface
Chairman

Ross Wensley
Deputy Chairman

Electricity Invercargill Limited

Network Details

	30 June 2002	30 June 2003
Length of overhead line	112km	107km
Length of underground cable	579km	586km
Number of distribution transformers	436	436
Distribution transformer capacity (does not include customer owned transformers)	142MVA	142MVA
Consumer connections (ICP's)	17,009	16,996

Directors' Report

The Directors have pleasure in presenting their Annual Report and Financial Statements for the year ended 30 June 2003.

PRINCIPAL ACTIVITIES

The principal activity of the parent entity, Electricity Invercargill Limited is the provision of electricity distribution services. The Company is a wholly owned subsidiary of Invercargill City Holdings Limited. The group consists of Electricity Invercargill Limited, its subsidiary and associate companies.

RESULT AND DISTRIBUTION

The Directors report that the Group's profit after tax and interest for the year under review was $4,627,000. A dividend of $2,400,000 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.

Director	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
	Incompass Ltd	Director
	Pylon Ltd	Director
Geoffrey Piercy	Invercargill City Council	Councillor
	Pylon Ltd	Director
Ross Wensley	PowerNet Ltd	Deputy Chairman
	Wensley Developments Ltd	Director
	WE Investments Ltd	Director
	Wensley Developments The Glebe Ltd	Director
	Wensley Developments The Beacon Ltd	Director
	Wensley Developments The Shore Ltd	Director
	Pylon 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	Geoff Piercy	$1,110
Philip Mulvey	$9,445	Ross Wensley	$14,445

Directors' Report continued

EMPLOYEE REMUNERATION

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

DONATIONS

Donations of $1,936 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

Electricity Invercargill Limited

Approval by Directors

The Directors have approved the Consolidated Financial Statements of Electricity Invercargill Limited for the year ended 30 June 2003 on pages 6 to 19.

Neil Boniface	Ross Wensley
Chairman	Deputy Chairman

For and on behalf of the Board of Directors
28 August 2003

Statement of Service Performance

For the Year Ended 30 June 2003

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	
	Year Ended	Year Ended	Year Ended
	30 June 2003	30 June 2003	30 June 2002
Financial Measures	$000	$000	$000
Operating Profit Before Tax	6,368	5,668	5,574
Operating Profit After Tax	4,266	4,627	4,142
Pre Tax Earnings as a Ratio of Total Assets	8.41%	7.46%	11.91%
Post Tax Earnings as a Ratio of Equity	9.34%	9.66%	8.67%
Equity to Total Assets	60.35%	62.97%	74.46%

Network Reliability Performance

System Average Interruption Duration Index (SAIDI)

The average total time in minutes each customer connected to the network is without supply.

Planned	3.60	3.07	2.07
Unplanned	28.00	35.51	29.99

System Average Interruption Frequency Index (SAIFI)

The average number of times each customer connected to the network is without supply.

Planned	0.04	0.02	0.02
Unplanned	1.01	0.99	1.11

Other Network Reliability Performance Measures

Total number of interruptions		21.00	26.00
Faults per 100km of line		6.23	9.58

Supplementary Information

Network Statistics

Length of overhead line		107km	112km
Length of underground cable		586km	579km
Transformer capacity MVA		142	142
Maximum demand kW		59,686	58,658
Energy into network GWh		281	266
Total consumers		16,996	17,009

The accompanying notes on pages 10 to 19 form part of and should be read in conjunction with these financial statements.

Consolidated Statement of Financial Performance

For the Year Ended 30 June 2003

		GROUP		PARENT	
	Note	30 June 2003	30 June 2002	30 June 2003	30 June 2002
		$000	$000	$000	$000
Operating Revenue	1	17,271	13,264	11,498	12,952
Operating Expenses	2	(11,603)	(7,690)	(4,506)	(7,690)
Operating Surplus/(Deficit) before Taxation		**5,668**	**5,574**	**6,992**	**5,262**
Less Taxation Expense	3	(1,041)	(1,432)	(874)	(1,432)
Net Surplus/(Deficit) After Taxation		**4,627**	**4,142**	**6,118**	**3,830**

Electricity Invercargill Limited

Consolidated Statement of Movements in Equity

For the Year Ended 30 June 2003

		GROUP		PARENT	
	Note	30 June 2003	30 June 2002	30 June 2003	30 June 2002
		$000	$000	$000	$000
Total Recognised Revenues and Expenses					
Net Surplus/(Deficit) for the Year		4,627	4,142	6,118	3,830
Revaluation of Assets		585	1,416	585	1,416
		5,212	5,558	6,703	5,246
Distributions to Shareholders					
- Dividend Proposed/Declared		(2,400)	(2,200)	(2,400)	(2,200)
- Dividend Paid		-	(1,885)	-	(1,885)
- Transfer of Ownership		-	-	(695)	-
		(2,400)	(4,085)	(3,095)	(4,085)
Movements in Equity for the Year		**2,812**	**1,473**	**3,608**	**1,161**
Equity at Beginning of Year		**45,064**	**43,591**	**44,752**	**43,591**
Equity at End of Year	4	**47,876**	**45,064**	**48,360**	**44,752**

The accompanying notes on pages 10 to 19 form part of and should be read in conjunction with these financial statements.

Consolidated Statement of Financial Position
As at 30 June 2003

	Note	GROUP 30 June 2003 $000	GROUP 30 June 2002 $000	PARENT 30 June 2003 $000	PARENT 30 June 2002 $000
Equity					
Share Capital	4	13,000	13,000	13,000	13,000
Reserves	4	25,960	25,375	25,960	25,375
Retained Earnings	4	8,916	6,689	9,400	6,377
Total Equity		**47,876**	**45,064**	**48,360**	**44,752**
Represented By:					
Current Assets					
Cash and Bank Deposits	5	1,829	1,829	1,123	1,829
Receivables & Prepayments	6	1,686	2,914	738	2,914
Inventories		40	190	-	190
Construction Work in Progress		26	55	-	55
Total Current Assets		**3,581**	**4,988**	**1,861**	**4,988**
Non Current Assets					
Investments		-	1,000	-	1,000
Investments in Subsidiaries	7	-	-	26,902	1,225
Investments in Associates	8	593	9,222	1,552	8,910
Deposit on Otago Power Limited Assets		-	1,225	-	-
Property, Plant and Equipment	9	67,075	43,267	43,924	43,267
Capital Work in Progress		1,204	710	935	710
Intangibles	10	3,571	-	-	-
Total Non Current Assets		**72,443**	**55,424**	**73,313**	**55,112**
Total Assets		**76,024**	**60,412**	**75,174**	**60,100**
Current Liabilities					
Creditors, Accruals & Provisions	11/12	2,758	1,815	1,415	1,815
Provision for Dividend	12	2,400	2,200	2,400	2,200
Shareholder Advance	13	1,000	11,285	1,000	11,285
Provision for Tax		(10)	48	(1)	48
Total Current Liabilities		**6,148**	**15,348**	**4,814**	**15,348**
Non Current Liabilities					
Shareholder Advance	13	22,000	-	22,000	-
Total Non Current Liabilities		**22,000**	**-**	**22,000**	**-**
Total Liabilities		**28,148**	**15,348**	**26,814**	**15,348**
Net Assets		**47,876**	**45,064**	**48,360**	**44,752**

The accompanying notes on pages 10 to 19 form part of and should be read in conjunction with these financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 30 June 2003

	Note	GROUP 30 June 2003 $000	GROUP 30 June 2002 $000	PARENT 30 June 2003 $000	PARENT 30 June 2002 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Was Provided From:					
Receipts from Customers		18,203	10,447	13,287	10,447
Interest Received		155	175	145	175
Taxation Refunds		1	136	1	136
		18,359	10,758	13,433	10,758
Cash Was Disbursed To:					
Payments to Suppliers and Employees		6,669	5,857	1,716	5,857
Income Tax Paid		1,101	1,389	925	1,389
GST Paid		4	(50)	(28)	(50)
Interest Paid		1,173	3	1,168	3
		8,947	7,199	3,781	7,199
Net Cash Flows From Operating Activities	14	**9,412**	**3,559**	**9,652**	**3,559**
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash Was Provided From:					
Sale of Property, Plant and Equipment		37	17	29	17
Sale of Investments		11,135	-	1,547	-
		11,172	17	1,576	17
Cash Was Applied To:					
Purchase of Property, Plant and Equipment		26,107	3,746	2,732	3,746
Shares in Associates		-	-	18,717	8,185
Advances to Associates		-	-	-	1,950
Investments		3,992	10,135	-	-
		30,099	13,881	21,449	13,881
Net Cash Flows Used in Investing Activities		**(18,927)**	**(13,864)**	**(19,873)**	**(13,864)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash Was Provided From:					
Shareholder Advance		11,715	11,285	11,715	11,285
		11,715	11,285	11,715	11,285
Cash Was Applied To:					
Dividend Payment		2,200	1,885	2,200	1,885
		2,200	1,885	2,200	1,885
Net Cash Flows From/(Used in) Financing Activities		**9,515**	**9,400**	**9,515**	**9,400**
Net Increase/(Decrease) in Cash Held		-	(905)	(706)	(905)
Add Opening Cash Brought Forward		1,829	2,734	1,829	2,734
Closing Cash To Be Carried Forward		**1,829**	**1,829**	**1,123**	**1,829**

The accompanying notes on pages 10 to 19 form part of and should be read in conjunction with these financial statements.

Notes to and Forming Part of the Consolidated Financial Statements

For the Year Ended 30 June 2003

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

The parent entity, Electricity Invercargill Limited was incorporated on 30 June 1991 and is registered under the Companies Act 1993. The Company is a wholly owned subsidiary of Invercargill City Holdings Limited. The group consists of Electricity Invercargill Limited, its subsidiaries and associates (refer to note 7 and note 8).

In the prior year the parent included Electricity Invercargill Limited and its joint venture interest, this joint venture is now accounted for at a group level.

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.

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

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.

The Group financial statements include the parent company (as outlined above), its subsidiaries and associates using both the proportionate and equity methods where appropriate.

All significant inter-company transactions have been eliminated on consolidation.

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	5.0-39.6%	Straight Line/Diminishing Value
Motor Vehicles	18.0-31.2%	Diminishing Value
Office Furniture and EDP Equipment	5.0-60.0%	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) Intangibles

Goodwill arising on the acquisition of a business represents the excess of the purchase consideration over the fair value of the identifiable net assets acquired. The carrying value will be reviewed annually by the Directors and adjusted where it is considered necessary.

Goodwill is amortised to the Statement of Financial Performance over 20 years.

i) 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.

j) 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.

k) 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.

l) 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.

m) 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 period ended 30 June 2003.

Notes to the Consolidated Financial Statements continued
For the Year Ended 30 June 2003

	GROUP		PARENT	
	30 June 2003	30 June 2002	30 June 2003	30 June 2002
	$000	$000	$000	$000
1. Operating Revenue				
Network Charges	14,342	11,229	7,846	11,229
Interest Revenue	162	175	151	175
Bad Debts Recovered	-	1	-	1
Profit on Sale of Property, Plant and Equipment	3	7	1	7
Share of Retained Surplus of Associates	1,227	312	-	-
Other Income	1,537	1,540	3,500	1,540
	17,271	**13,264**	**11,498**	**12,952**
2. Operating Expenses				
Operating Expenses Include:				
Auditors Remuneration:				
- Audit of Financial Report				
- Audit New Zealand	27	36	27	36
- PricewaterhouseCoopers	11	-	-	-
- Deloitte Touche Tohmatsu	7	-	-	-
- Other Services	-	3	-	3
Bad Debts Written Off	7	1	7	1
Increase/(Decrease) in Provision for Doubtful Debts	-	-	-	-
Depreciation				
- Buildings	13	15	-	15
- Office Equipment & EDP Equipment	104	153	-	153
- Motor Vehicles	1	2	-	2
- Plant & Equipment	43	59	-	59
- Metering Assets	186	178	186	178
- Network Assets	2,029	1,381	1,425	1,381
Directors' Fees	106	98	60	98
Donations	2	3	2	3
Interest Expense	1,970	51	1,965	51
Operating Lease Expenses:				
- Tenancy and Repeater Site Leases	14	18	-	18
- Motor Vehicle Leases	35	31	-	31
- Office Equipment Leases	8	7	-	7
- Computer Leases	-	-	-	-
Loss on Disposal of Property, Plant and Equipment	10	4	7	4
Subvention Payment	97	114	95	114

3. Taxation

	GROUP		PARENT	
	30 June 2003	30 June 2002	30 June 2003	30 June 2002
	$000	$000	$000	$000
Operating Surplus/(Deficit) Before Taxation	**5,668**	**5,574**	**6,992**	**5,262**
Timing Differences	(1,135)	198	(182)	197
Permanent Differences	(1,377)	(1,222)	(1,751)	(1100)
Taxable Income	**3,156**	**4,550**	**5,059**	**4,359**
Prima Facie Taxation at 33%	1,041	1,501	1,669	1,438
Imputation Credits	-	(63)	(795)	-
Under/(Over) Provisions in Prior Years	-	(6)	-	(6)
Taxation Expense for Year	**1,041**	**1,432**	**874**	**1,432**

Tax Losses Transferred Within the Group

The tax expense is calculated on the assumption that;

- Tax losses of $1,295,000 (2002 $1,220,909) with a tax benefit of $427,350 (2002 $402,900) have been transferred from Invercargill City Holdings Limited Group by way of group loss offset.
- Tax losses of $302,325 (2002 nil) with a tax benefit of $99,767 (2002 nil) have been transferred from Pylon Limited Group by way of group loss offset.

The Company has an unrecorded deferred tax liability of $6,641,977 (2002 $5,158,409).

	PARENT	
	30 June 2003	30 June 2002
	$000	$000
Imputation Credit Account:		
Credit Balance at Beginning of Year	1,154	885
Credits:		
Income Tax Payments During Year	925	1,140
Imputation Credits on Dividend Received	795	192
Resident Withholding Tax	-	1
Debits:		
Imputation Credits on Dividend Paid	(1,084)	(929)
Income Tax Refund During Year	-	(135)
Credit Balance at End of Year	**1,790**	**1,154**

The Imputation Credit Account relates to Electricity Invercargill Limited only.

Notes to the Consolidated Financial Statements continued

For the Year Ended 30 June 2003

	GROUP		PARENT	
	30 June 2003	30 June 2002	30 June 2003	June 2002
	$000	$000	$000	$000
4. Equity				
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	22,575	21,159	22,575	21,159
Network Revaluation	585	1,416	585	1,416
Closing Balance	23,160	22,575	23,160	22,575
Total Reserves	25,960	25,375	25,960	25,375
Retained Earnings				
Opening Balance	6,689	6,632	6,377	6,632
Net Surplus/(Deficit)	4,627	4,142	6,118	3,830
Dividend Proposed/Declared	(2,400)	(2,200)	(2,400)	(2,200)
Dividend Paid	-	(1,885)	-	(1,885)
Transfer of Ownership	-	-	(695)	-
Closing Balance	8,916	6,689	9,400	6,377
Total Equity	**47,876**	**45,064**	**48,360**	**44,752**
5. Cash and Bank Deposits				
Current Account	42	49	13	49
Bank Deposits (Short term)	1,787	1,780	1,110	1,780
Total Cash and Bank Deposits	**1,829**	**1,829**	**1,123**	**1,829**
6. Receivables & Prepayments				
Trade Debtors	1,660	2,889	738	2,889
Prepayments	26	25	-	25
Total Receivables & Prepayments	**1,686**	**2,914**	**738**	**2,914**
7. Investment in Subsidiaries				
Shares in Subsidiaries	-	-	26,901	-
Advances to Subsidiaries	-	-	1	1,225
Total Investment in Subsidiary	**-**	**-**	**26,902**	**1,225**

Subsidiaries:

	Percentage Held By Group		
	30 June 2003	30 June 2002	Balance Date
Pylon Limited	100%	100%	30 June

8. Associate Companies

	Percentage Held By Group		
	30 June 2003	30 June 2002	Balance Date
Otago Power Services Limited	24.5%	-	31 March
Electricity Southland Limited	49%	50%	30 June
Lightswitch Limited	-	50%	30 June
Bluesparks Limited	-	50%	30 June
Power Surge Limited	-	50%	30 June
Shockwave Limited	-	50%	30 June

	GROUP		PARENT	
	30 June 2003	30 June 2002	30 June 2003	30 June 2002
	$000	$000	$000	$000
Carrying Amount at Beginning of Year	9,222	-	8,910	-
Investments in Associates	437	8,910	1,427	8,910
Disposal of Associate	(8,785)	-	(8,785)	-
Share of Equity Accounted Earnings of Associates	1,226	312	-	-
Dividends Paid	(1,507)	-	-	-
Carrying Amount at End of Year	**593**	**9,222**	**1,552**	**8,910**

9. Property, Plant and Equipment

Land	54	32	-	32
Buildings (At Cost)	476	277	-	277
Accumulated Depreciation	(114)	(98)	-	(98)
	362	179	-	179
Furniture, Fittings & EDP (At Cost)	994	850	-	850
Accumulated Depreciation	(719)	(610)	-	(610)
	275	240	-	240
Motor Vehicles (At Cost)	2	22	-	22
Accumulated Depreciation	(1)	(16)	-	(16)
	1	6	-	6
Plant and Equipment (At Cost)	470	409	-	409
Accumulated Depreciation	(310)	(218)	-	(218)
	160	191	-	191
Metering Assets (At Cost)	6,842	3,944	6,842	3,944
Accumulated Depreciation	(2,981)	(178)	(2,981)	(178)
	3,861	3,766	3,861	3,766
Network Assets (At Valuation)	64,703	39,202	41,819	39,202
Accumulated Depreciation	(2,341)	(349)	(1,756)	(349)
	62,362	38,853	40,063	38,853
Total Property, Plant and Equipment	**67,075**	**43,267**	**43,924**	**43,267**

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.

	GROUP		PARENT	
	30 June 2003	30 June 2002	30 June 2003	30 June 2002
	$000	$000	$000	$000

10. Intangibles

Goodwill Arising on Acquisition	3,709	-	-	-
Amortised During the Period	(138)	-	-	-
Total Intangibles	**3,571**	**-**	**-**	**-**

Goodwill arising on the acquisition of a business represents the balance of the purchase consideration in addition to the fair value for financial reporting purposes of the identifiable net assets acquired.

This valuation approach, while generally being more objective for financial reporting purposes, does have limitations. This is due to certain assets of the infrastructure purchased, such as easements, consents, existing use rights and information system data, not being recognised.

Goodwill arising on the acquisition of the Otago Power Limited electricity distribution network has been amortised over 20 years as prescribed by FRS36 Accounting for Acquisitions Resulting in Combinations of Entities.

It is the view of the Directors that amortisation of goodwill as prescribed by FRS36 is inappropriate. The assets purchased have an average life of 53 years and were valued and purchased on the basis that they would continue in perpetuity. The Directors believe that amortisation of goodwill over a 20-year period results in the understatement of the operating surplus in these accounts by an amount of $138,000.

There is considerable industry concern that the acquisition of monopoly assets is not appropriately treated under FRS36, particularly in relation to the establishment of goodwill and the minimum amortisation requirements for goodwill. The adoption of international accounting standards (optional from 2005) will require amortisation on the basis of an annual impairment test. It is intended to adopt the international standard at the first opportunity.

11. Creditors, Accruals & Provisions

Trade Creditors & Accruals	2,489	1,498	1,298	1,498
GST Payable	156	208	117	208
Provision for Employee Entitlements	113	109	-	109
Total Creditors, Accruals & Provisions	**2,758**	**1,815**	**1,415**	**1,815**

12. Provisions

Provision for Employee Entitlements

Balance at 1 July	109	113	109	113
Additional Provision Made	103	86	-	86
Amount Utilised	(99)	(90)	(109)	(90)
Balance at 30 June	**113**	**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

Balance at 1 July	2,200	-	2,200	-
Additional Provision Made	2,400	2,200	2,400	2,200
Amount Utilised	(2,200)	-	(2,200)	-
Balance at 30 June	**2,400**	**2,200**	**2,400**	**2,200**

Notes to the Consolidated Financial Statements continued

For the Year Ended 30 June 2003

	GROUP		PARENT	
	30 June 2003	30 June 2002	30 June 2003	30 June 2002
	$000	$000	$000	$000

13. Shareholder Advance

Invercargill City Holdings				
- Current Portion	1,000	11,285	1,000	11,285
- Non Current Portion	22,000	-	22,000	-
Total Shareholder Advance	**23,000**	**11,285**	**23,000**	**11,285**

This advance is repayable on demand and is subject to interest at 7%.

14. 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.

Net Surplus/(Deficit) After Taxation	4,627	4,142	6,118	3,830
Plus/(Less) Non Cash Items:				
Depreciation	2,376	1,788	1,611	1,788
Equity Accounted Earnings From Associates	-	(312)	-	-
Amortisation of Goodwill	139	-	-	-
	2,515	1,476	1,611	1,788
Plus/(Less) Items Classified as Investing:				
Asset Adjustment	-	220	-	220
Loss on Sale of Property, Plant and Equipment	10	4	7	4
Profit on Sale of Property, Plant and Equipment	(3)	(7)	(1)	(7)
	7	217	6	217
Plus/(Less) Movements in Working Capital:				
Increase/(Decrease) in Creditors, Accruals & Provisions	943	(100)	(400)	(100)
(Increase)/Decrease in Receivables	1,228	(2,321)	2,176	(2,321)
(Increase)/Decrease in Inventories	150	(33)	190	(33)
Increase/(Decrease) in Provision for Taxation	(58)	178	(49)	178
	2,263	(2,276)	1,917	(2,276)
Net Cash Flows From Operating Activities	**9,412**	**3,559**	**9,652**	**3,559**

15. Commitments

Capital Commitments

There are no Capital Commitments as at 30 June 2003 (2002: Nil).

Operating Lease Commitments

Operating lease commitments are payable as follows:

- Not later than one year	36	30	-	30
- Later than one year and not later than two years	18	7	-	7
- Later than two years and not later than five years	35	2	-	2
Total Operating Lease Commitments	**89**	**39**	**-**	**39**

16. Contingent Liabilities

There are no contingent liabilities as at 30 June 2003 (2002: Nil).

17. Financial Instruments

Off Balance Sheet Financial Instruments -

The Group does not have any off balance sheet financial instruments.

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 2003	30 June 2002	30 June 2003	30 June 2002
	$000	$000	$000	$000
Current Account	42	49	13	49
Short Term Deposits	1,787	1,780	1,110	1,780
Receivables	1,660	2,914	738	2,914
Investments	-	1,000	-	1,000
	3,489	**5,743**	**1,861**	**5,743**

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 except for an arrangement to fix the interest rates through Electricity Invercargill Limited's parent company Invercargill City Holdings Limited.

Fair Values -

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

18. Segmental Reporting

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

19. 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 an interest in the PowerNet Limited joint venture, OtagoNet Joint Venture, Electricity Southland Limited and Otago Power Services Limited through their wholly owned subsidiary Pylon Limited.

Electricity Invercargill Limited also had four associate companies Bluesparks Limited, Shockwave Limited, Power Surge Limited and Lightswitch Limited which have subsequently been wound up.

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 2003 $000	30 June 2002 $000
Supplied to:		
PowerNet Limited	7,933	6,704
Electricity Southland Limited	8	2
Receivables Outstanding at Balance Date		
PowerNet Limited	725	999
Electricity Southland Limited	2	2
Supplied by:		
PowerNet Limited	2,700	2,943
Electricity Southland Limited	-	-
Invercargill City Holdings Limited	1,221	91
Invercargill City Council	120	375
Creditors Outstanding at Balance Date		
PowerNet Limited	201	616
Invercargill City Holdings Limited	8	9
Invercargill City Council	25	-

Other Related Parties

There have been no material transactions with Directors with the exception of the following:

Electricity Invercargill Limited, through its joint venture interest in PowerNet Limited, uses AWS Legal as its solicitors, of which Alan Harper is a Partner. Electricity Invercargill Limited's share of fees paid to AWS Legal during the period amounted to $12,000 (2002: $8,000) of which $4,000 (incl GST) is owing at balance date.

All transactions between PowerNet Limited and AWS Legal relate to normal trading activities and have been conducted on a commercial basis.

Report of the Auditor-General
For the Year Ended 30 June 2003

Audit New Zealand

TO THE READERS OF THE FINANCIAL STATEMENTS OF ELECTRICITY INVERCARGILL LIMITED AND GROUP FOR THE YEAR ENDED 30 JUNE 2003

We have audited the financial statements and performance information on pages 6 to 19. The financial statements provide information about the past financial performance of Electricity Invercargill Limited and group and its financial position as at 30 June 2003. 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 10 and 11.

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 2003 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 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 6 to 19:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of:
    - Electricity Invercargill and group's financial position as at 30 June 2003; 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 6 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 2003.

Our audit was completed on 8 September 2003 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

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