Electricity Invercargill Limited

Annual Report 2007

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Directory

Directors

Neil Boniface (Chairman)
Philip Mulvey
Geoffrey Piercy
Ross Smith

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Principal Bankers

Westpac Banking Corporation

Auditors

PricewaterhouseCoopers, Christchurch on behalf of the Office of the Auditor-General

Solicitors

Preston Russell Law

Board of Directors

Left to Right:

Geoffrey Piercy, Philip Mulvey (Deputy Chairman), Neil Boniface (Chairman), Ross Smith

The Year in Review

1. General

It has been another successful year for Electricity Invercargill Limited (EIL).

Its 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 for the year ended 31 March 2007 was $5.565 million (2006 - $5.528 million). The Company provided for an increased dividend of $3.700 million (2006 - $3.300 million).

The result while similar to last year was on increased revenue of $21.002 million (2006 - $18.900 million) and reflects the continuing growth occurring in Invercargill, Bluff and Otago which was offset by increased Transpower costs and additional tax expense.

The investments in OtagoNet Joint Venture (OJV) and Otago Power Services Limited (OPSL) and the increased investment in Power Services Limited (PSL) (previously Continuity Contracting Limited) have all met expectations both financially and operationally. OJV and OPSL continue to contribute positively to both the cashflow and net profit of the EIL Group.

EIL continued to promote Invercargill activities to the extent of $25,000 through the erection of festival lights and a $50,000 contribution to the City's sequicentennial celebrations.

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

The consolidated result for the Group is:

	31 March 2007 $000	31 March 2006 $000
Operating Surplus before Taxation	**7,222**	**6,838**
Less Taxation Expense	(1,657)	(1,310)
Net Surplus after Taxation	**5,565**	**5,528**

Note - Comparative information for 2006 has been restated due to the introduction of New Zealand International Financial Reporting Standards (NZ IFRS). Refer Note 23 to the Financial Statements for the effect of these changes.

EIL and its ultimate owner Invercargill City Council supported a regional campaign offering energy efficient light bulbs at a discounted price to their residential consumers. The cost of this campaign was $41,000.

Asset Revaluation

The total equity of the Group increased to $67.099 million from $52.056 million in 2007. The increase resulted from the increase in the fair value of the network assets of EIL and OJV which were both revalued during the year as required by accounting standards. This was offset by the recording of a deferred tax liability required under NZ IFRS.

The valuation saw an uplift in the value of EIL's network assets in excess of $15 million to $61.272 million. OJV's revaluation saw their assets increase by $17 million; the EIL Group share of the increase being in excess of $4 million.

The EIL network asset increase was 34% up on the 2004 values and reflects the continued rise in the construction index and equipment prices due to raw material cost increases from items such as copper and aluminium. We are somewhat fortunate the rise in the New Zealand dollar since 2004 has helped offset some of these increases.

The 34% valuation increase demonstrates the disjoint between the regulatory Optimised Deprival Valuation (ODV) last updated by the Commerce Commission in 2004 and the 2007 fair value used for financial reporting purposes. In an industry where returns are monitored based on the regulatory ODV values that start 34% behind fair value costs, there is little incentive to invest further in the assets.

International Financial Reporting Standards (NZ IFRS)

EIL adopted NZ IFRS during the year under review due to its ultimate shareholder the Invercargill City Council being required to do the same.

The effect of these changes in prior years are outlined in Note 23 to the financial statements. The main effects on the Group have been the recording of a deferred tax liability of $12.803 million (2006: restated to $6.161 million) which has correspondingly reduced the equity of the Group. The other impact that is welcomed by Directors is that the goodwill arising from the OJV acquisition is no longer amortised as the amortisation has been replaced by an impairment test.

3. Industry Environment

The major concern of the Directors continues to be the impact on sound business management by a regulatory regime which has the potential to suppress investment in a vital national infrastructural asset and divert the focus of management and governance from the business to increasing bureaucratic compliance. This concern is being compounded by the uncertainty resulting from the impending regulatory regime reset and the government review of Part 4A of the Commerce Act.

EIL has maintained regular investment in its distribution network which has not only met customer requirements in price and reliability but has also contributed to increased public safety and enhanced the visual environment through its undergrounding policy. The Company has completed over 95% of the Invercargill City undergrounding programme.

The Company did not breach the March 2007 Price Path Thresholds. Although reliability of the network for the year met overall expectations, both SAIDI and SAIFI very marginally breached the Quality Thresholds due to a short loss of supply from Doon Street zone substation following a protection mal-operation. The consistently high reliability levels are a tribute to the aggressive undergrounding policy and asset stewardship of the past 30 years.

4. Line Business Performance

The net contribution is attributable to the Use Charge received from PowerNet Limited (PowerNet) for the lease of the network assets and the profit from the Company's investment in OJV.

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 Company remains one of the best performers in New Zealand.

The Year in Review *continued*

The target and actual SAIFI and SAIDI reliability indices are shown below.

SAIFI – System Average Interruption Frequency Index
(the average number of times each customer connected to the network is without supply)

Target	Actual
1.00	1.21

SAIDI – System Average Interruption Duration Index
(the average total time in minutes each customer connected to the network is without supply)

Target	Actual
35 minutes	35.65 minutes

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

5. PowerNet Limited

EIL has a 50% shareholding in PowerNet, a joint venture with The Power Company Limited (TPCL). PowerNet is responsible for managing the Company's network, meter assets and business interests.

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 EIL Directors.

PowerNet publishes its own annual report and as it is a break-even company, its performance is judged by the value and efficiency of its network asset management and business development for PowerNet and its stakeholders.

6. Investment and Development

Investigations to increase investment and development have been channelled through the joint venture company Electricity Southland Limited (ESL), particularly those with a view to obtaining further economies of scale and improved efficiencies of network management.

The 50% investment in ESL with TPCL (50%) did not meet its projection this year as new load on the embedded networks in Frankton did not progress as fast as anticipated.

The following major projects on the EIL network were completed by PowerNet during the year.

Project	Approximate Expenditure
Lamond and Salford Street Area, Invercargill - Undergrounding	$439,000
New Customer Connections	$276,000
Distribution Transformer Replacements	$221,000
Raccourse Road and Thurso Street Area, Invercargill - Undergrounding	$89,000
Ring Main Unit Replacements	$52,000

EIL completed its fourth year of its 24.5% investment in the electricity network owner OJV and similar investment in the electrical contracting company OPSL with its neighbour TPCL (24.5%) and Marlborough Lines Limited (MLL) (51%).

The Otago based investments performed as anticipated, contributing a positive cash flow and increased profitability in addition to the benefits of a strategic partnership and acquisition. Directors are pleased with the fourth year's performance and our shareholder is projected to benefit further from increased dividends and growth in value in the years to come. The higher revenue from the recent line charge increases has enabled significant additional expenditure on renewing and upgrading network assets, increasing the value of the network and improving supply quality to the customers.

EIL is also a 49% shareholder in the electrical contracting company PSL originally called Continuity Contracting Limited. The other shareholder in this company is TPCL. The shareholding of both current shareholders increased after Netcon Limited sold its shares in the company to them in late 2006. PSL has the lines and technical field service contracts for the EIL network.

EIL will continue to seek further opportunities with its joint venture partners in the interest of its stakeholders.

7. Acknowledgement

Directors wish to acknowledge the ongoing support of the Directors of Invercargill City Holdings Limited throughout the year.

The Directors also acknowledge the ongoing partnership with TPCL which is continuing to reap benefits for both Companies.

Directors are pleased with the successful relationship with MLL through the joint venture investment in OJV.

Although the relationship with Netcon was brief, the Directors wish to acknowledge the efforts of the directors and management in establishing Continuity Contracting Limited.

Finally the Directors wish to record their appreciation to the staff of PowerNet, who have successfully managed the business for another year.

Neil Boniface
Chairman

Philip Mulvey
Deputy Chairman

Network Details

	31 March 2007	31 March 2006
Length of overhead line	75km	89km
Length of underground cable	604km	605km
Number of distribution transformers	441	440
Distribution transformer capacity (does not include customer owned transformers)	146MVA	145MVA
Consumer connections (ICP's)	16,943	16,889

Directors' Report

The Directors have pleasure in presenting their Annual Report and Financial Statements for the year ended 31 March 2007.

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, joint ventures and associate companies.

Result and Distribution

The Directors' report that the Group's profit after tax and interest for the year under review was $5,565,000. A dividend of $3,700,000 has been declared payable in September 2007 and March 2008. 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	Member
	Invercargill City Council	DeputyMayor
	Bond Contracts Ltd	Alternate Director
	Southland Driving School	Director
	Pylon Ltd	Director
	OtagoNet Ltd	Director
	OtagoNet JointVenture	Member, Governing Committee
Philip Mulvey		
	Cook Adam and Co	Managing Partner
	Cook Adam and Co Ltd	Director
	WHK (New Zealand) Ltd	Director
	PowerNet Ltd	Deputy Chairman
	Forest Dynamics Ltd	Director
	Zak Holdings Ltd	Chairman
	Southland Outdoor Stadium Trust	Trustee
	United Pacific Energy Ltd	Director
	Investor Group New Zealand Ltd	Director
	Incompass Ltd	Director
	Pylon Ltd	Director
	ABCO Meats Ltd	Director
	Electricity Southland Ltd	Director
Geoffrey Piercy		
	Invercargill City Council	Councillor
	Pylon Ltd	Director
	Electricity Southland Ltd	Director
	PowerNet Ltd	Director
	Invercargill Te Ara a Kewa Primary Health Organisation	Director
	Grey Power Southland	President
Ross Smith		
	Southland Building Society	Director, Chief Executive Officer
	Southsure Assurance Ltd	Director
	Finance Now Ltd	Director
	Funds Administration NZ Ltd	Director
	Fraser Properties Ltd	Director
	Rural Livestock Finance Ltd	Director
	PowerNet Ltd	Director
	Pylon Ltd	Director
	Electricity Southland Ltd	Director
	Power Services Ltd	Director

Remuneration of Directors

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

Neil Boniface	-	Chairman
Philip Mulvey	-	Director
Geoffrey Piercy	-	Director
Ross Smith	-	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 was:

Neil Boniface	$26,000
Philip Mulvey	$14,000
Geoffrey Piercy	$14,000
Ross Smith	$14,000

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

Neil Boniface	$15,000
Philip Mulvey	$21,000
Geoffrey Piercy	$15,000
Ross Smith	$15,000

Employee Remuneration

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

Directors' Report *continued*

Donations
Donations of $265 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
Accounting policies have been amended to reflect the fact that these accounts have been prepared under New Zealand International Financial Reporting Standards.

Auditor Remuneration
Refer to Note 3 of the Financial Statements for Auditor remuneration.

For and on behalf of the Directors.

Neil Boniface
Chairman

Philip Mulvey
Deputy Chairman

Approval By Directors

The Directors have approved for issue the Financial Statements of Electricity Invercargill Limited for the year ended 31 March 2007 on pages 5 to 26.

Neil Boniface *Chairman*

Philip Mulvey *Deputy Chairman*

For and on behalf of the Board of Directors
31 May 2007

Statement of Service Performance *for the year ended 31 March 2007*

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

Performance Targets

	Target	Achievement	
	Year Ended 31 March 2007 $000	Year Ended 31 March 2007 $000	Year Ended 31 March 2006 $000
Financial Measures			
Operating Profit Before Tax	6,341	7,222	6,838
Earnings Before Interest and Tax (EBIT%)	9.14%	8.14%	10.07%
Return on Equity %	8.59%	8.29%	10.60%
Equity to Total Assets %	70.49%	63.95%	63.51%

Network Reliability Performance

System Average Interruption Duration Index (SAIDI)			
The average total time in minutes each customer connected to the network is without supply.			
SAIDI	35.00	35.65	19.08
System Average Interruption Frequency Index (SAIFI)			
The average number of times each customer connected to the network is without supply.			
SAIFI	1.00	1.21	0.54
Other Network Reliability Performance Measures			
Total number of interruptions		23.00	24.00
Faults per 100km of line		8.92	10.04

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

Supplementary Information

Network Statistics		
Length of overhead line	75 km	89 km
Length of underground cable	604 km	605 km
Transformer capacity MVA	146	145
Maximum demand kW	63,698	57,859
Energy into network GWh	288	277
Total consumers	16,943	16,889

Income Statements *for the year ended 31 March 2007*

	Note	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Operating Revenue	(2)	21,002	18,900	10,600	10,283
Operating Expenses	(3)	(12,817)	(10,931)	(2,776)	(2,728)
Financial Expenses	(3)	(1,316)	(1,415)	(1,316)	(1,415)
Share Retained Surplus of Associates	(8)	353	284	-	-
Operating Surplus Before Taxation		**7,222**	**6,838**	**6,508**	**6,140**
Less Taxation Expense					
- Current	(4)	(1,507)	(1,089)	(1,315)	(898)
- Deferred	(4)	(150)	(221)	60	77
Net Surplus After Taxation		**5,565**	**5,528**	**5,253**	**5,319**

Statements of Movements in Equity *for the year ended 31 March 2007*

	Note	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Total Recognised Revenues and Expenses					
Net Surplus for the Year		5,565	5,528	5,253	5,319
Revaluation of Assets	(5)	13,178	-	10,388	-
		18,743	5,528	15,641	5,319
Distributions to Shareholders					
- Dividend Declared and Paid		(3,700)	(3,300)	(3,700)	(3,300)
		(3,700)	(3,300)	(3,700)	(3,300)
Movements in Equity for the Year		**15,043**	**2,228**	**11,941**	**2,019**
Equity at Beginning of Year		**52,056**	**49,828**	**52,303**	**50,284**
Equity at End of Year	(5)	**67,099**	**52,056**	**64,244**	**52,303**

The accompanying notes on pages 9 to 26 form part of and should be read in conjunction with these financial statements.

Balance Sheets *as at 31 March 2007*

	Note	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Equity					
Share Capital	(5)	13,000	13,000	13,000	13,000
Reserves	(5)	15,978	2,800	13,188	2,800
Retained Earnings	(5)	38,121	36,256	38,056	36,503
Total Equity		**67,099**	**52,056**	**64,244**	**52,303**
Represented By:					
Current Assets					
Cash and Bank Deposits	(6)	2,580	1,774	18	416
Receivables and Prepayments	(7)	1,445	2,013	1,473	895
Inventories		46	36	-	-
Construction Work in Progress		9	17	-	-
Provision for Tax		12	-	-	33
Total Current Assets		**4,092**	**3,840**	**1,491**	**1,344**
Non Current Assets					
Investments in Associates	(8)	4,284	1,747	2,624	1,171
Investments in Subsidiaries	(9)	-	-	27,827	26,971
Investment in Joint Venture	(10)	-	-	1,650	1,650
Property, Plant and Equipment	(11)	91,637	71,797	64,616	49,090
Capital Work in Progress		1,440	1,133	897	878
Intangibles	(12)	3,475	3,444	-	-
Total Non Current Assets		**100,836**	**78,121**	**97,614**	**79,760**
Total Assets		**104,928**	**81,961**	**99,105**	**81,104**
Current Liabilities					
Creditors and Accruals	(13)	2,690	2,316	1,486	1,386
Provision for Employee Entitlements	(14)	137	122	-	-
Provision for Dividend	(14)	3,700	2,300	3,700	2,300
Provision for Taxation		-	6	4	-
Shareholder Advance	(15)	500	1,000	500	1,000
Total Current Liabilities		**7,027**	**5,744**	**5,690**	**4,686**
Non Current Liabilities					
Shareholder Advance	(15)	18,000	18,000	18,000	18,000
Deferred Taxation		12,802	6,161	11,171	6,115
Total Non Current Liabilities		**30,802**	**24,161**	**29,171**	**24,115**
Total Liabilities		**37,829**	**29,905**	**34,861**	**28,801**
Net Assets		**67,099**	**52,056**	**64,244**	**52,303**

The accompanying notes on pages 9 to 26 form part of and should be read in conjunction with these financial statements.

Statements of Cash Flows *for the year ended 31 March 2007*

	Note	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Was Provided From:					
Receipts from Customers		21,347	18,538	8,505	9,012
Interest Received		516	329	404	347
Dividends Received		-	-	1,178	1,294
Taxation Refunds		9	504	-	471
		21,872	19,371	10,087	11,124
Cash Was Disbursed To:					
Payments to Suppliers and Employees		9,048	7,804	682	422
Income Tax Paid		1,533	1,003	1,272	920
Interest Paid		1,311	1,449	1,311	1,449
		11,892	10,256	3,265	2,791
Net Cash Flows From Operating Activities	(16)	**9,980**	**9,115**	**6,822**	**8,333**
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash Was Provided From:					
Sale of Property, Plant and Equipment		31	19	30	16
Associates Advances Repaid		500	500	2,273	500
		531	519	2,303	516
Cash Was Applied To:					
Purchase of Property, Plant and Equipment		3,867	3,590	2,140	2,399
Investments in Associates		1,084	211	-	-
Advances to Associates		1,954	928	4,583	1,398
		6,905	4,729	6,723	3,797
Net Cash Flows Used in Investing Activities		**(6,374)**	**(4,210)**	**(4,420)**	**(3,281)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash Was Applied To:					
Dividend Payment		2,300	4,100	2,300	4,100
Repayment of Shareholder Advance		500	1,500	500	1,500
		2,800	5,600	2,800	5,600
Net Cash Flows Used in Financing Activities		**(2,800)**	**(5,600)**	**(2,800)**	**(5,600)**
Net Increase/(Decrease) in Cash Held		806	(695)	(398)	(548)
Add Opening Cash Brought Forward		1,774	2,469	416	964
Closing Cash Carried Forward		**2,580**	**1,774**	**18**	**416**

The accompanying notes on pages 9 to 26 form part of and should be read in conjunction with these financial statements.

Notes to and forming part of the Financial Statements
for the year ended 31 March 2007

1. Statement of Accounting Policies

Reporting Entity

The parent entity, Electricity Invercargill Limited is a profit orientated limited liability company that 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 its interest in associates and jointly controlled entities (refer to Notes 8, 9 and 10).

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 financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and are covered by NZ IFRS 1 First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

An explanation of how the transition to NZ IFRS has affected the reported Income Statement, Balance Sheet and Cash Flows of the Group is provided in note 23.

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

The financial statements were approved by the Board of Directors on 31 May 2007.

Basis of Preparation

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 that had been revalued by means of a "Directors' Revaluation" to fair value on 31 March 2007. Prior to the revaluation, these assets were measured at deemed cost, being the revalued amount (under previous revaluation) at the date of transition to NZ IFRS.

These consolidated financial statements have been prepared on the basis of NZ IFRS and International Financial Reporting Interpretations Council (IFRIC) interpretations in issue that are effective or available for early adoption at the Group's first NZ IFRS reporting date, 31 March 2007.

The preparation of the consolidated financial statements in accordance with NZ IFRS 1 resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under previous NZ GAAP. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. They also have been applied in preparing an opening NZ IFRS balance sheet as at 1 April 2005 for the purposes of the transition to NZ IFRS, as required by NZ IFRS 1.

Specific Accounting Policies

a) Principles of Consolidation

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Associates

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

(iii) Joint Ventures

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

(iv) Transactions eliminated on consolidation

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

b) Revenue

Revenue is measured at the fair value of the consideration given for the sale of goods and services, net of goods and services tax. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably and there is no continuing management involvement with the goods.

(i) Network Charges

Revenue comprises the amounts received and receivable for goods and services supplied to customers in the ordinary course of business.

(ii) Investment Income

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

(iii) Dividend Income

Dividend income is recognised when the right to receive payment is established.

(iv) Customer Contributions

Contributions from customers in relation to the construction of new lines for the network and donated assets are accounted for as revenue in the year in which they are received.

(v) Government Grants

Government grants that compensate the group for the cost of an asset are recognised initially in the balance sheet as deferred income and then recognised in profit and loss as other operating income on a systematic basis over the useful life of the asset.

c) Inventories

Inventories are stated at the lower of cost at weighted average cost price, and net realisable value.

d) Property, Plant and Equipment

(i) Owned Assets

Items of property, plant and equipment are stated at cost, deemed cost or revalued amount less accumulated depreciation and impairment losses.

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

Items of property, plant and equipment revalued after the date of transition are stated at their revalued amount plus additions at cost.

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item, if when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the group and the cost of the item can be measured reliably. All other costs are recognised in profit and loss as an expense as incurred.

(ii) Depreciation

Depreciation is charged to profit and loss on a combination of straight line and diminishing value over the estimated useful lives of all tangible property, plant and equipment. Land is not depreciated. The primary annual rates used are:

Buildings	1.0 – 15%	Straight Line/Diminishing Value
Network Assets	1.4 – 15%	Straight Line
Plant and Equipment	5.0 – 31.2%	Straight Line/Diminishing Value
Motor Vehicles	18.0 – 31.2%	Diminishing Value
Office and EDP Equipment	5.0 – 60.0%	Straight Line/Diminishing Value

(iii) Impairment

At each reporting date the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered impairment. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the profit and loss.

e) Capital Work in Progress

Capital Work in Progress is stated at cost and is not depreciated. It includes an accrual for the proportion of work completed at the end of the period.

f) Intangible Assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill (if it exists) has been recognised in acquisitions of subsidiaries, associates and joint ventures. In respect of business acquisitions since 1 April 2005, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous NZ GAAP at the transition date. The classification and accounting treatment of business combinations that occurred prior to 1 April 2005 has not been reconsidered in preparing the Group's opening NZ IFRS balance sheet at 1 April 2005.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to CGUs and is no longer amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in profit and loss.

(ii) Other Intangible Assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iii) Amortisation

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated amortisation rates for the current period is as follows:

Software	40 – 48%	Straight Line/Diminishing Value

g) Taxation

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

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

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

h) Goods and Services Tax

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

i) Financial Instruments

(i) Receivables

Trade and other receivables are recognised initially at fair value. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant amount of risk of changes in value.

(iii) Trade and Other Payables

Trade and other payables are stated at cost.

(iv) Borrowings

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

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

(v) Leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement over a straight-line basis over the period of the lease.

j) Employee Benefits

Provision is made for benefits accruing to employees in respect of salaries and wages, annual leave and long service leave when it is probable that they will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected at the time of settlement.

Provisions made in respect of employee benefits that are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the group in respect of services provided by employees up to balance date.

k) Seasonality

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

	GROUP		PARENT	
	2007 $000	**2006 $000**	**2007 $000**	**2006 $000**
2. Operating Revenue				
Network Charges	19,503	17,737	8,975	8,604
Interest Revenue	483	384	404	345
Dividends Received	-	-	1,178	1,294
Other Income	1,016	779	43	40
	21,002	**18,900**	**10,600**	**10,283**
3. Operating Expenses				
Operating Expenses Include:				
Amortisation of Intangibles	61	37	-	-
Auditors Remuneration:				
• Audit of Financial Report				
- Audit New Zealand	6	27	6	27
- PricewaterhouseCoopers	39	11	28	-
- Deloitte	7	8	-	-
• Other Services				
- PricewaterhouseCoopers	23	28	18	16
- Audit New Zealand	-	8	-	8
- Deloitte	1	1	-	-
Bad Debts Written Off	1	3	-	-
Depreciation				
• Buildings	12	12	-	-
• Office Equipment and EDP Equipment	44	32	-	-
• Motor Vehicles	-	-	-	-
• Plant and Equipment	33	23	-	-
• Metering Assets	278	281	278	281
• Network Assets	2,846	2,562	1,746	1,707
	3,213	2,910	2,024	1,988
Directors' Fees	155	149	68	68
Donations	-	-	-	-
Interest Expense	1,316	1,415	1,316	1,415
Operating Lease Expenses:				
- Tenancy and Repeater Site Leases	33	26	-	-
- Motor Vehicle Leases	41	36	-	-
- Office Equipment Leases	4	4	-	-
Loss on Disposal of Property, Plant and Equipment	55	52	45	22
Subvention Payment	-	147	-	147

4. Taxation

Current tax

Current tax expense is the expected tax payable on the taxable income for the year.

Current tax for the current and prior periods is classified as a current liability to the extent that it is unpaid. Amounts paid in excess of amounts owed are classified as a current asset.

Deferred tax

The amounts of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using the estimated average annual effective tax rate for the periods presented.

The primary components of the Group's recognised deferred tax assets include temporary differences relating to employee benefits, deferred government grants, provisions and other items.

The primary components of the Group's deferred tax liabilities include temporary differences related to property, plant and equipment, intangible assets and other investments.

Deferred tax expense arises from the origination and reversal of temporary differences. The primary component of deferred tax expense for the year ended 31 March 2007 is related to an increase in deferred tax liabilities, relating primarily to property, plant and equipment, intangible assets and other investments.

	GROUP		PARENT	
	2007 $000	**2006 $000**	**2007 $000**	**2006 $000**
Operating Surplus Before Income Tax	**7,222**	**6,838**	**6,508**	**6,140**
Permanent Differences	(2,015)	(2,638)	(2,521)	(3,424)
Taxable Income	5,207	4,200	3,987	2,716
Prima Facie Taxation at 33%	1,718	1,386	1,316	895
Made up of:				
Current Tax	1,568	1,165	1,376	972
Deferred Tax	150	221	(60)	(77)
	1,718	1,386	1,316	895
Under/(Over) Provisions in Prior Years	(61)	(76)	(61)	(74)
Taxation Expense for Year	**1,657**	**1,310**	**1,255**	**821**

Tax Losses Transferred Within the Group

The current tax expense is calculated on the assumption that:

- Tax losses of $1,300,000 (31 March 2006: $2,250,000) with a tax benefit of $429,000 (31 March 2006: $743,000) have been transferred from Invercargill City Holdings Limited Group by way of group loss offset.

Notes to and forming part of the Financial Statements *continued*

for the year ended 31 March 2007

Imputation Credit Account

The Imputation Credit Accounts relate to Electricity Invercargill Limited.

	PARENT	
	2007 $000	**2006 $000**
Imputation Credit Account:		
Credit Balance at Beginning of Year	-	1,129
Credits:		
Income Tax Payments During Year	1,007	920
Imputation Credits on Dividend Received	580	-
Imputation Credits Transferred	-	360
Prior Period Adjustment	18	-
Debits:		
Imputation Credits on Dividend Paid	(1,133)	(2,019)
Imputation Credits prior period adjustment on Dividends Paid	-	149
Imputation Credits Transferred	-	(70)
Income Tax Refund During Year	(106)	(469)
Credit Balance at End of Year	**366**	**-**

	GROUP		PARENT	
	2007 $000	**2006 $000**	**2007 $000**	**2006 $000**
5. Equity				
Contributed 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	-	-	-	-
Network Revaluation	13,178	-	10,388	-
Revaluation Reserve Closing Balance	13,178	-	10,388	-
Total Reserves	15,978	2,800	13,188	2,800
Retained Earnings				
Opening Balance	36,256	34,028	36,503	34,484
Net Surplus	5,565	5,528	5,253	5,319
Dividend Declared and Paid	(3,700)	(3,300)	(3,700)	(3,300)
Closing Balance	38,121	36,256	38,056	36,503
Total Equity	**67,099**	**52,056**	**64,244**	**52,303**

Notes to and forming part of the Financial Statements *continued*

for the year ended 31 March 2007

	GROUP		PARENT	
	2007 $000	**2006 $000**	**2007 $000**	**2006 $000**
6. Cash and Bank Deposits				
Current Account	589	144	18	6
Bank Deposits (Short term)	1,991	1,630	-	410
Total Cash and Bank Deposits	**2,580**	**1,774**	**18**	**416**
7. Receivables and Prepayments				
Trade Debtors	1,355	1,924	1,466	879
Prepayments	90	89	7	16
Total Receivables and Prepayments	**1,445**	**2,013**	**1,473**	**895**

8. Interest in Associates

On 1 September 2006, Pylon Limited, a fully owned subsidiary of the Group acquired a further 24 percent of the share capital in Power Services Limited (formerly Continuity Contracting Limited), a lines contracting business.

The value of the net assets acquired was their value in the books of Power Services Limited and was assessed as fair value.

As a result of customer relationships that did not meet the criteria for recognition as an intangible asset at the date of acquisition, goodwill has been recognised on acquisition of the additional shares in Power Services Limited.

Details of the net assets acquired and goodwill are as follows:

	$000
Net identifiable assets and liabilities	10
Contingent Liaibilities	-
Equity assets acquired	(12)
Goodwill on acquisition	259
	257
Cash Paid for shares	252
Direct costs relating to the purchase	5
	257

Associate Companies	**Percentage Held By Group**	**Balance Date**
Power Services Limited	49%	31 March
Electricity Southland Limited	50%	31 March
Otago Power Services Limited	24.5%	31 March

The Group's share of the results of its associate entities is as follows:

	GROUP	
	2007 $000	2006 $000
Share of Surplus Before Taxation	444	440
Less Taxation Expense	(91)	(156)
Total Recognised Revenues and Expenses	**353**	**284**
The Group's interests in associate entities are as follows:		
Carrying Amount at Beginning of Year	1,747	1,108
Investments in Associates made in the Year	725	-
Total Recognised Revenues and Expenses	353	284
Goodwill Arising on Acquisition	259	-
Equity acquired on Acquisition	(12)	-
Increase in Advances to Associates	1,454	429
Dividends Paid	(242)	(74)
Carrying Amount at End of Year	**4,284**	**1,747**

	GROUP		PARENT	
	2007 $000	2006 $000	2007 $000	2006 $000
9. Investment in Subsidiaries				
Shares in Subsidiaries	-	-	26,901	26,901
Advances to Subsidiaries	-	-	926	70
Total Investment in Subsidiary	**-**	**-**	**27,827**	**26,971**

Subsidiaries:

	Percentage Held By Group		
	2007	2006	Balance Date
Pylon Limited	100%	100%	31 March

10. Investments in Joint Ventures

The Group has a participating interest in the following Joint Ventures through its wholly owned subsidiary Pylon Limited.

	Percentage Held By Group		
Joint Venture Companies	**2007**	**2006**	**Balance Date**
PowerNet Limited	50%	50%	31 March
OtagoNet Joint Venture	24.5%	24.5%	31 March

Financial Performance

The Group's operating revenues and share of expenses for the period, consolidated on a line-by-line basis was:

	2007 $000	2006 $000
Revenue	20,802	18,146
Expenses	9,998	8,258
Financial Position		
The Group's share of assets and liabilities consolidated on a line-by-line basis was:		
Current Assets	2,590	2,529
Non Current Assets	31,039	26,406
Current Liabilities	2,249	1,957
Non Current Liabilities	12	4

11. Property, Plant and Equipment

EIL PARENT

	Network Assets $000	Meters $000	Totals $000
Cost, Deemed Cost or Depreciated Replacement Cost (DRC)			
Balance as at 1 April 2005	45,273	3,600	48,873
Additions	2,103	139	2,242
Disposals	(39)	-	(39)
Balance at 31 March 2006	**47,337**	**3,739**	**51,076**
Balance at 1 April 2006	47,337	3,739	51,076
Additions	1,957	164	2,121
Revaluation	12,212	-	12,212
Eliminate Acc Depreciation on Revaluation	-	-	-
Disposals	(83)	-	(83)
Balance at 31 March 2007	**61,423**	**3,903**	**65,326**
Depreciation and Impairment Losses			
Balance at 1 April 2005	-	-	-
Depreciation for Year	1,705	281	1,986
Impairment Losses	-	-	-
Disposals	-	-	-
Balance at 31 March 2006	**1,705**	**281**	**1,986**
Balance at 1 April 2006	1,705	281	1,986
Depreciation for Year	1,746	278	2,024
Impairment Losses	-	-	-
Impact of Revaluation	(3,292)	-	(3,292)
Disposals	(8)	-	(8)
Balance at 31 March 2007	**151**	**559**	**710**
Carrying Amount 31 March 2007	**61,272**	**3,344**	**64,616**

EIL GROUP

	Land $000	Buildings $000	Plant and Equipment $000	Motor Vehicles $000	Network Assets $000	Meters $000	Total $000
Cost, Deemed Cost or Depreciated Replacement Cost (DRC)							
Balance at 1 April 2005	53	347	272	1	67,160	3,600	71,433
Additions	-	5	67	-	3,159	139	3,370
Disposals	-	(5)	(21)	(1)	(70)	-	(97)
Balance at 31 March 2006	**53**	**347**	**318**	**-**	**70,249**	**3,739**	**74,706**
Balance at 31 March 2006	53	347	318	-	70,249	3,739	74,706
Additions	6	16	140	-	3,217	164	3,543
Revaluation	-	-	-	-	16,377	-	16,377
Eliminate Acc Depreciation on Revaluation	-	-	-	-	(855)	-	(855)
Disposals	-	-	(139)	-	(93)	-	(232)
Balance at 31 March 2007	**59**	**363**	**319**	**-**	**88,895**	**3,903**	**93,539**
Depreciation and Impairment Losses							
Balance at 1 April 2005	-	-	-	-	-	-	-
Depreciation for Year	-	12	54	-	2,560	281	2,907
Impairment Losses	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-
Balance at 31 March 2006	**-**	**12**	**54**	**-**	**2,560**	**281**	**2,907**
Balance at 1 April 2006	-	12	54	-	2,560	281	2,907
Depreciation for Year	-	11	16	-	2,845	278	3,150
Impairment Losses	-	-	-	-	-	-	-
Impact of Revaluation	-	-	-	-	(4,147)	-	(4,147)
Disposals	-	-	-	-	(8)	-	(8)
Balance at 31 March 2007	**-**	**23**	**70**	**-**	**1,250**	**559**	**1,902**
Carrying Amount 31 March 2007	**59**	**340**	**249**	**-**	**87,645**	**3,344**	**91,637**

Deemed Cost

The carrying amount of property, plant and equipment at 1 April 2005, the date of transition to NZ IFRS is now taken as the deemed cost of the property, plant and equipment at that date.

Valuation

The network assets of Electricity Invercargill Limited were revalued by means of a "Directors' Revaluation" on 31 March 2007 to assessed fair value. The assessed fair value was achieved by taking the previously revalued assets at their 1 April 2004 carrying values, and updated those values in terms of today's material and labour costs.

The network assets of OtagoNet Joint Venture were revalued on 1 April 2006 to depreciated replacement cost as assessed by independent valuers PricewaterhouseCoopers.

Acquisitions and Disposals

Electricity Invercargill Limited network assets acquired between 1 April 2004 and 31 March 2005 (pre transition) are stated at deemed cost, with all network assets acquired since that date stated at purchase cost. All other assets are stated at historical cost. Disposals are written back against the asset cost with any necessary adjustments to accumulated depreciation.

	GROUP		PARENT	
	2007 $000	**2006 $000**	**2007 $000**	**2006 $000**
12. Intangible Assets				
Balance at Beginning of Year				
- Goodwill	3,199	3,199	-	-
- Software	245	233	-	-
Acquired During Year (Net)	92	49	-	-
Amortised During the Year	(61)	(37)	-	-
Balance at End of Year	**3,475**	**3,444**	**-**	**-**

Software assets have a finite useful life and are amortised over that useful life.

Goodwill, in respect of acquisitions made prior to transition date, is stated at deemed cost being the amount recorded under NZ FRS at transition date. Goodwill additions since transition date have been stated at cost. Goodwill is not amortised but tested for impairment annually.

	GROUP 2007	GROUP 2006	PARENT 2007	PARENT 2006
13. Creditors and Accruals				
Trade Creditors and Accruals	2,486	2,213	1,360	1,374
GST Payable	204	103	126	12
Total Creditors and Accruals	**2,690**	**2,316**	**1,486**	**1,386**
14. Provisions				
Provision for Employee Entitlements				
Balance at Beginning of Year	122	122	-	-
Additional Provision Made	116	104	-	-
Amount Utilised	(101)	(104)	-	-
Balance at End of Year	**137**	**122**	**-**	**-**
Employee entitlements				
Classified as:				
Current	137	122	-	-
Non current	-	-	-	-
	137	**122**	**-**	**-**

The provision for employee entitlements includes accrued wages, bonuses, accrued holiday pay, and long service leave. Where settlement is expected to be greater than one year, the item(s) are discounted using the group's weighted average cost of capital.

The directors consider that the carrying amount of the provision for staff entitlements approximates to their fair value as most of the entitlement is due to be settled within one year.

	GROUP 2007	GROUP 2006	PARENT 2007	PARENT 2006
Provision for Dividend				
Balance at Beginning of Year	2,300	3,100	2,300	3,100
Additional Provision Made	3,700	3,300	3,700	3,300
Amount Utilised	(2,300)	(4,100)	(2,300)	(4,100)
Balance at End of Year	**3,700**	**2,300**	**3,700**	**2,300**

Notes to and forming part of the Financial Statements *continued*

for the year ended 31 March 2007

	GROUP		PARENT	
	2007 $000	**2006 $000**	**2007 $000**	**2006 $000**
15. Shareholder Advance				
Invercargill City Holdings				
- Current Portion	500	1,000	500	1,000
- Non Current Portion	18,000	18,000	18,000	18,000
Total Shareholder Advance	**18,500**	**19,000**	**18,500**	**19,000**

This advance is repayable on demand and is subject to interest at 7.49%.

16. Reconciliation of Net Surplus After Taxation with Net Operating Cash Flows

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

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Net Surplus After Taxation	5,565	5,528	5,253	5,319
Plus/(Less) Non Cash Items:				
Depreciation	3,212	2,910	2,024	1,988
Amortisation of Software	61	37	-	-
Deferred Taxation	150	221	(60)	(77)
	3,423	3,168	1,964	1,911
Plus/(Less) Items Classified as Investing:				
Loss on Sale of Property, Plant and Equipment	55	52	46	21
	55	52	46	21
Plus/(Less) Movements in Working Capital:				
Increase/(Decrease) in Payables, Accruals and Provisions	389	73	100	149
(Increase)/Decrease in Receivables	567	(355)	(578)	416
(Increase)/Decrease in Inventories	(2)	59	-	-
Increase/(Decrease) in Provision for Taxation	(17)	590	37	517
	937	367	(441)	1,082
Net Cash Flows From Operating Activities	**9,980**	**9,115**	**6,822**	**8,333**

17. Commitments

Capital Commitments

The Group, through its Joint Ventures PowerNet Limited and OtagoNet Joint Venture, has capital expenditure contracted for at 31 March 2007 but not provided for in the financial statements totalling $1,315,000 (31 March 2006: $192,000).

	GROUP 2007 $000	GROUP 2006 $000	PARENT 2007 $000	PARENT 2006 $000
Operating Lease Commitments				
Operating lease commitments are payable as follows:				
- Not later than one year	65	41	-	-
- Later than one year and not later than two years	37	17	-	-
- Later than two years and not later than five years	25	16	-	-
- Later than five years	1	-	-	-
Total Operating Lease Commitments	**128**	**74**	**-**	**-**

18. Contingent Liabilities

There are no Contingent Liabilities as at 31 March 2007 (31 March 2006: Nil).

19. 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	
	2007 $000	**2006 $000**	**2007 $000**	**2006 $000**
Current Account	589	144	18	6
Short Term Deposits	1,991	1,630	-	410
Receivables	1,355	1,924	1,466	879
	3,935	**3,698**	**1,484**	**1,295**

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.

20. Segmental Reporting

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

21. 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, Otago Power Services Limited and Power Services Limited through their wholly owned subsidiary 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:

	2007 $000	2006 $000
Supplied to:		
PowerNet Limited	9,110	8,705
Electricity Southland Limited	63	49
Otago Power Services Limited	21	14
Power Services Limited	83	34
Receivables Outstanding at Balance Date		
PowerNet Limited	1,409	840
Electricity Southland Limited	21	26
Otago Power Services Limited	6	4
Power Services Limited	30	8
Supplied by:		
PowerNet Limited	2,390	2,598
Electricity Southland Limited	-	-
Invercargill City Holdings Limited	1,440	1,514
Invercargill City Council	75	204
Creditors Outstanding at Balance Date		
PowerNet Limited	642	654
Invercargill City Holdings Limited	378	342
Invercargill City Council	-	56

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 year amounted to $14,000 (31 March 2006: $6,000) of which $300 (incl GST) (31 March 2006: $1,000 (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.

Electricity Invercargill Limited has held term investments with Southland Building Society of which Ross Smith is Chief Executive. Electricity Invercargill Limited received $60,000 interest (paid and accrued) during the year from Southland Building Society (Year ending 31 March 2006: $77,000) but holds no term investment at balance date (31 March 2006: Nil).

22. Subsequent Events

A proposed change to the Company tax rate will impact on the deferred tax liability recorded, as deferred tax must be recorded at the rate expected to be in effect when the tax liability is reversed.

Therefore, as a result of the proposed change in the Company tax from 33% to 30% with effect from 1 April 2008, on passing of the Bill the Group's deferred tax liability will reduce by approximately $1,163,000.

23. Effect of Transition to NZ IFRS

As stated in Note 1, these are the Group's first NZ IFRS annual consolidated financial statements prepared in accordance with NZ IFRS.

The accounting policies in Note 1 have been applied in preparing the consolidated financial statements for the 12 months ended 31 March 2007, the comparative information for the financial statements for the year ended 31 March 2006 and the preparation of an opening NZ IFRS balance sheet at 1 April 2005 (the Group's date of transition).

In preparing its opening NZ IFRS balance sheet and comparative information for the financial statements for the year ended 31 March 2006, the group has adjusted amounts reported previously in financial statements prepared in accordance with NZ FRS.

An explanation of how the transition from previous NZ FRS to NZ IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and notes that accompany the tables.

Effect of the Change to NZ IFRS on the Group Balance Sheet

	Note	As at 31 March 2006 Superseded Policies $000	Effect of Transition to NZ IFRS $000	NZIFRS Bal Sheet at 31 Mar 06 $000	Note	As at 1 April 2005 Superseded Policies $000	Effect of Transition to NZ IFRS $000	NZIFRS Bal Sheet at 31 Mar 05 $000
Equity								
Share Capital		13,000		13,000		13,000		13,000
Reserves	a	30,740	(27,940)	2,800	a	30,740	(27,940)	2,800
Retained Earnings	b	14,291	21,965	36,256	b	12,028	22,000	34,028
Total Equity		**58,031**	**(5,975)**	**52,056**		**55,768**	**(5,940)**	**49,828**
Represented By:								
Current Assets								
Cash and Bank Deposits		1,774		1,774		2,468		2,468
Receivables and Prepayments		2,013		2,013		1,657		1,657
Inventories		36		36		31		31
Construction Work in Progress		17		17		81		81
Provision for Tax (if Asset)		-		-		584		584
		3,840		3,840		4,821		4,821
Non Current Assets								
Investments								
Investments in Subsidiaries		-		-		-		-
Investments in Associates		1,747		1,747		1,108		1,108
		1,747		1,747		1,108		1,108
Property, Plant and Equipment	c	72,041	(244)	71,797	c	71,667		71,667
Capital Work in Progress		1,133		1,133		937		937
Intangibles	d	3,014	430	3,444	d	3,199		3,199
		76,188	186	76,374		75,803		75,803
TOTAL ASSETS		**81,775**	**186**	**81,961**		**81,732**		**81,732**
Current Liabilities								
Bank Overdrafts		-		-		-		-
Creditors, Accruals and Provisions		2,438		2,438		2,364		2,364
Shareholder Advance		1,000		1,000		1,500		1,500
Provision for Dividend		2,300		2,300		3,100		3,100
Provision for Taxation (if liability)		6		6		-		-
		5,744		5,744		6,964		6,964
Non Current Liabilities								
Deferred Tax Liabilities	e	-	6,161	6,161	e	-	5,940	5,940
Term Liabilities		18,000		18,000		19,000		19,000
		18,000	6,161	24,161		19,000	5,940	24,940
TOTAL LIABILITIES		**23,744**	**6,161**	**29,905**		**25,964**	**5,940**	**31,904**
Net Assets		**58,031**	**(5,975)**	**52,056**		**55,768**	**(5,940)**	**49,828**

Effect of the Change to NZ IFRS on EIL Parent Balance Sheet

	Note	As at 31 March 2006 Superseded Policies $000	Effect of Transition to NZ IFRS $000	NZIFRS Bal Sheet at 31 Mar 06 $000	Note	As at 1 April 2005 Superseded Policies $000	Effect of Transition to NZ IFRS $000	NZIFRS Bal Sheet at 31 Mar 05 $000
Equity								
Share Capital		13,000		13,000		13,000		13,000
Reserves	a	30,740	(27,940)	2,800	a	30,740	(27,940)	2,800
Retained Earnings	b	14,678	21,825	36,503	b	12,736	21,748	34,484
Total Equity		**58,418**	**(6,115)**	**52,303**		**56,476**	**(6,192)**	**50,284**
Represented By:								
Current Assets								
Cash and Bank Deposits		416		416		964		964
Receivables and Prepayments		895		895		1,311		1,311
Inventories		-		-		-		-
Construction Work in Progress		-		-		-		-
Provision for Tax (if Asset)		33		33		550		550
		1,344		1,344		2,825		2,825
Non Current Assets								
Investments								
Investments in Subsidiaries		26,971		26,971		26,901		26,901
Investments in Joint Ventures		1,650		1,650		1,250		1,250
Investments in Associates		1,171		1,171		743		743
		29,792		29,792		28,894		28,894
Property, Plant and Equipment		49,090		49,090		48,873		48,873
Capital Work in Progress		878		878		721		721
		49,968		49,968		49,594		49,594
TOTAL ASSETS		**81,104**		**81,104**		**81,313**		**81,313**
Current Liabilities								
Bank Overdrafts								
Creditors, Accruals and Provisions		1,386		1,386		1,237		1,237
Shareholder Advance		1,000		1,000		1,500		1,500
Provision for Dividend		2,300		2,300		3,100		3,100
Provision for Taxation (if liability)		-		-		-		-
		4,686		4,686		5,837		5,837
Non Current Liabilities								
Deferred Tax Liabilities	e	-	6,115	6,115	e	-	6,192	6,192
Term Liabilities		18,000		18,000		19,000		19,000
		18,000	6,115	24,115		19,000	6,192	25,192
TOTAL LIABILITIES		**22,686**	**6,115**	**28,801**		**24,837**	**6,192**	**31,029**
Net Assets		**58,418**	**(6,115)**	**52,303**		**56,476**	**(6,192)**	**50,284**

Notes to and forming part of the Financial Statements *continued*

for the year ended 31 March 2007

Notes to explain the effect of transition on the Group and Parent Balance Sheets

a At 1 April 2005 and 31 March 2006 an amount of $27,940,000 has been reclassified from a revaluation reserve recognised under previous NZ GAAP to retained earnings. The amount represents the balance on the revaluation reserve at 1 April 2005 in respect of assets that are measured on the basis of deemed cost under NZ IFRS.

b Retained earnings are increased by the amount of the previous revaluation reserve less the tax difference, as well as the effects passed through from the Income Statements.

c Property plant and equipment is reduced by the net book value of software assets which are now categorised as intangible assets.

d Intangible assets are increased as goodwill amortisation is no longer allowed under NZ IFRS. Also software assets are now included in this category.

e Under superseded policies, the Group adopted accounting principles whereby income tax expense was calculated on pre-tax accounting profits after adjustment for permanent and timing differences. Under NZ IFRS, deferred tax is determined using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities and their tax base.

Effect of Transition to NZ IFRS on the Group Income Statement

		GROUP For the year ended 31 March 2006			PARENT For the year ended 31 March 2006		
	Note	Superseded Policies $000	Effect of Transition to NZ IFRS $000	NZIFRS Income Statement $000	Superseded Policies $000	Effect of Transition to NZ IFRS $000	NZIFRS Income Statement $000
Operating Revenue	a	19,184	(284)	18,900	10,283		10,283
Operating Expenses	b	(12,532)	1,601	(10,931)	(4,143)	1,415	(2,728)
Financial Expenses	c	-	(1,415)	(1,415)	-	(1,415)	(1,415)
Share of Retained Surplus of Associates	d	-	284	284	-		-
Operating Surplus Before Taxation		6,652	186	6,838	6,140	0	6,140
Less Taxation Expense							
- Current tax		(1,089)		(1,089)	(898)		(898)
- Deferred tax	e	-	(221)	(221)	-	77	77
Net Surplus After Taxation		**5,563**	**(35)**	**5,528**	**5,242**	**77**	**5,319**

Notes to explain the effect of transition on the Group Income Statement

a Revenue decreases are because the retained surplus from associates is no longer classified under operating revenue.

b Operating expenses were reduced by goodwill amortisation (no longer allowed), and financial expenses which are now recognised separately.

c Financial expenses are now recognised separately.

d Share of the retained earnings of associates is now recognised separately.

e Deferred tax is now shown on the profit and loss as well as in the balance sheet.

Report of the Auditor-General

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AUDIT REPORT
TO THE READERS OF
ELECTRICITY INVERCARGILL LIMITED'S
FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION
FOR THE YEAR ENDED 31 MARCH 2007

The Auditor-General is the auditor of Electricity Invercargill Limited ("the Company") and Group. The Auditor-General has appointed me, Maurice Noone, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements and performance information of the Company and Group, on his behalf, for the year ended 31 March 2007.

Unqualified Opinion

In our opinion:

- The financial statements of the Company and Group on pages 6 to 26:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of:
    - the Company and Group's financial position as at 31 March 2007; and
    - the results of their operations and cashflows for the year ended on that date.
- The performance information of the Company and Group on page 5 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 31 March 2007.
- Based on our examination the Company kept proper accounting records.

The audit was completed on 31 May 2007, and is the date at which our opinion is expressed.

The basis of the opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

Basis of Opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed our audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements and performance information did not have material misstatements whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements and performance information. We assessed the results of those procedures in forming our opinion.

Audit Report *continued*

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming year-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all required disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance information.

We evaluated the overall adequacy of the presentation of information in the financial statements and performance information. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor

The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of the Company and Group as at 31 March 2007. They must also give a true and fair view of the results of their operations and cashflows for the year ended on that date. The Board of Directors is also responsible for preparing performance information that gives a true and fair view of performance achievements for the year ended 31 March 2007. The Board of Directors' responsibilities arise from the Energy Companies Act 1992 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 45(1) of the Energy Companies Act 1992.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit and issuing certificates pursuant to the Electricity Information Disclosure Requirements 2004 and the Commerce Act (Electricity Distribution Thresholds) Notice 2004, and in providing industry related advice we have no relationship with or interests in the Company and Group.

Maurice Noone
PricewaterhouseCoopers
On behalf of the Auditor-General
Christchurch, New Zealand