EIL Annual Report 2010

Contents

Directory

Registered Office

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Principal Bankers

Westpac Banking Corporation

Auditors

Robert Harris
on behalf of the Office of the
Auditor-General

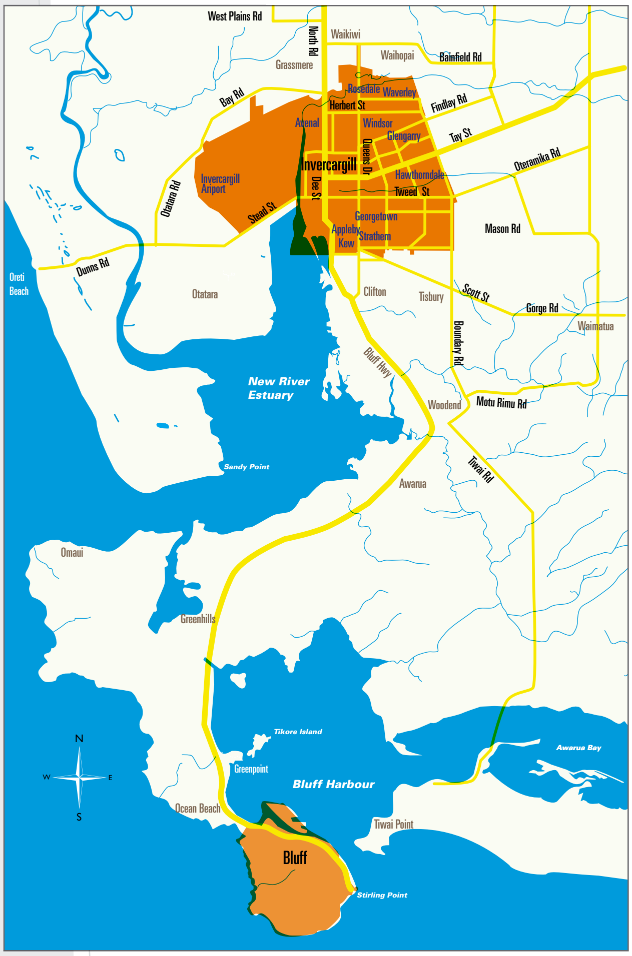
Solicitors

Preston Russell Law

Directors

Neil Boniface (Chair)
Philip Mulvey
Geoffrey Piercy
Ross Smith

Map of EIL Area



Directors

Neil Boniface (Chair)

Philip Mulvey

Ross Smith

Geoffrey Piercy

The Year in Review

1. General

It has been another successful year for Electricity Invercargill Limited (Company), maintaining a well above average quality of supply for its customers, keeping line charges within the Commerce Commission price path threshold and contributing to the wealth of the city through its dividends and enhancement of the visual environment.

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

The main source of revenue for the Company is attributable to the Use Charge received from PowerNet Limited (PowerNet) for the lease of the network assets. This Use Charge calculation takes into account a specified rate of return on the book value of the assets, depreciation and the corporate costs of the Company.

Other revenue is derived from the capital contributions of customers connecting new installations to the network and the profits from the Company's investments in OtagoNet Joint Venture, Otago Power Services Limited, Power Services Limited and Electricity Southland Limited.

2. Financial Performance

The Group net surplus after tax for the year ended 31 March 2010 was $5.663 million (2009 - $6.439 million). The Company provided for an increased dividend of $4.300 million (2009 – $4.100 million).

The decrease in the net surplus after tax of $776,000 is due to an increase in tax expense due to lower losses transferred from Invercargill City Council owned entities and increased maintenance and operational costs for the network. Revenue increased to $24.224 million (2009 – $23.647 million) due to price increases and to pass through increased maintenance and Transpower costs following the security of supply upgrade to the Invercargill grid exit point.

The investments in OtagoNet Joint Venture, Otago Power Services Limited and Power Services Limited have all met expectations both financially and operationally, all continuing to contribute positively to both the cashflow and net surplus of the Electricity Invercargill Limited Group.

The Company continued to promote Invercargill activities through the erection of the Invercargill City Christmas lights and the donation of funds to the Southland Warm Homes Trust for insulation and heating installations.

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 2010 $000	31 March 2009 $000
Operating Surplus before Taxation	**7,255**	**7,678**
Less Taxation Expense	(1,592)	(1,239)
Net Surplus after Taxation	**5,663**	**6,439**

3. Operational Performance

The Company 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 the undergrounding programme.

All planned substation and distribution maintenance was carried out. Two major overhead/underground projects were completed within the year in the areas of Tramway Road and Ethel Street. Commercial connections became a key focus as development of Invercargill's central business district progressed throughout the year.

Reliability of the network for the year was better than the Business Plan and the Commerce Commission Quality Thresholds. The Commerce Commission targets were 0.99 for the System Average Interruption Frequency Index and 35.44 for the System Average Interruption Duration Index. The Company continues to be one of the best performers in New Zealand. On average customers were without power for 30 minutes of the year and would have their power interrupted once every 14 months. These consistently high reliability levels are a tribute to the aggressive undergrounding policy and asset stewardship dating back to the late 1960's.

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

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

Target	Actual
0.95	0.84

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

Target	Actual
35.00 minutes	29.99 minutes

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

4. PowerNet Limited

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

The Company contracts PowerNet to manage its network and metering assets and charges PowerNet a fee for the use of the assets. PowerNet adds maintenance costs and overheads to this and the total costs are on-charged to the electricity retailers through the line and meter charges.

The management includes the execution of the Company's capital and maintenance works programme which constitutes the major part of the Business Plan approved by the Company's Directors.

PowerNet operates a 24-hour, 7-day a week, manned control room that provides a high level of monitoring and control of the network operations and a faults call service for the Company's 17,198 consumers.

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.

5. Investment and Development

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

The 50% investment in Electricity Southland Limited with the Power Company Limited (50%) did not meet its projections again this year as new load on the network in Frankton did not progress as quickly as originally anticipated. Directors are pleased with the investment however and remain confident the continuing development in the area will meet the Company's medium and long term projections.

The following major projects on the Company's network were completed by PowerNet during the year.

Project	Approximate Expenditure
Tramway, Coronation, York and Moulson Street area, Invercargill – undergrounding	$1,240,000
Distribution transformer replacements	$363,000
New customer connections and reticulation of new subdivisions	$239,000
Ethel and Ash Street area, Invercargill – undergrounding	$218,000

The Company completed its seventh year of its 24.5% investment in the electricity network owner OtagoNet Joint Venture and a 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 Otago based investment performed as anticipated, contributing a positive cashflow and increased profitability in addition to the benefits of a strategic partnership and acquisition. Directors are pleased with the 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.

The Company is also a 49% shareholder in the electrical contracting company Power Services Limited. The other shareholder in this company is The Power Company Limited. Power Services has the lines and technical field service contracts for the Company's network.

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

6. Southland Warm Homes Trust

The Southland Warm Homes Trust (SWHT) was formed in 2008 by the Southland Electric Power Supply Consumer Trust and Electricity Invercargill Limited. The SWHT, in association with the Energy Efficiency and Conservation Authority (EECA), offers support for warmer, healthier homes by providing insulation and heating assessments and retrofits for Southland homes.

The Trust offers support and a range of subsidies to Southland home owners and landlords to foster warmer, healthier homes. The Trust provides subsidies for heating assessments as well as insulation and heating retrofits. The project not only benefits the residents of these houses but also contributes to reducing generation demand and network investment.

In its inaugural year to June 2009 the SWHT completed 1,298 assessments, 667 insulation fit-outs and 50 heating upgrades, through its service provider Energy Smart. Twenty-six new jobs have been established in Southland and $2.7 million of funding from community sources and central Government has been utilised in delivering these measures.

The demand for insulation fit-outs from the Southland community has seen the waiting list begin to approach ten months in some areas. The SWHT has budgeted to increase the number of assessments to 2,000 and the number of insulation and heat pump installations to 1,000 and 100 respectively. Subject to securing ongoing central Government funding from EECA, the SWHT is well on track to achieve those targets in the current year.

7. Regulatory Environment

In last year's Annual Report the Company looked forward with some degree of optimism to the outcome of the Commerce Act Amendments that included the Purpose Statement in the Act regarding investment and energy efficiency incentives in section 54Q. Last year's optimism has been replaced with concern following the release by the Commerce Commission of the Draft Reasons Paper referring to the Methodologies for Electricity Distribution Services.

The Commission has responded positively to the submissions with respect to matters such as the treatment of regulatory tax and cost allocations. However, the Commission's proposed approach to key items such as the Weighted Average Cost of Capital (WACC) and the Regulatory Asset Base raises serious questions about the consideration given to the inclusion of investment incentives in the Purpose Statement.

Using an out of date and unrealistically low Regulatory Asset Base, together with an allowable return (WACC) in the region of seven percent, has the potential to upset the balance between the appropriate investment in assets to maintain the quality of supply and shareholder returns. The inclusion of items in the allowable return that are outside the control of businesses, such as capital contributions and inflation (which could be approaching four to five percent with the increase in GST and the introduction of the Emissions Trading Scheme), could result in the genuine allowable returns from the network assets being minimal.

Investing capital in such an environment will prove difficult to justify.

8. Acknowledgements

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 The Power Company Limited which is continuing to reap benefits for both Companies.

Directors are pleased with the successful relationship with Marlborough Lines Limited through the joint venture investment in OtagoNet Joint Venture.

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

Neil Boniface
Chair

Philip Mulvey
Director

Directors' Report

The Directors have pleasure in presenting their Annual Report and Financial Statements for the year ended 31 March 2010.

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 $5,663,000. A dividend of $4,300,000 has been declared payable in August and November 2010 and March 2011. The dividend will be imputed at 25%.

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
	Invercargill City Council	Deputy Mayor
	Invercargill Licensing Trust	Member
	OtagoNet Joint Venture	Member, Governing Committee
	OtagoNet Ltd	Director
	PowerNet Ltd	Director
	Pylon Ltd	Director
	Southland Driving School	Director
	Southland Warm Homes Trust	Trustee
Philip Mulvey		
	Electricity Southland Ltd	Chair
	Forest Dynamics Ltd	Director
	Otago Cricket Association	Director
	PowerNet Ltd	Chair
	Pylon Ltd	Director
	Southland Outdoor Stadium Trust	Trustee
	WHK Cook Adam Ltd	Director
	WHK Cook Adam Ward Wilson	Chief Executive
	WHK (New Zealand) Ltd	Director
	Zak Holdings Ltd	Chair
Geoffrey Piercy		
	Electricity Southland Ltd	Director
	Grey Power Southland	President
	Invercargill City Council	Councillor
	Invercargill Te Ara a Kewa Primary Health Organisation	Director
	PowerNet Ltd	Director
	Pylon Ltd	Director
	Southland Museum & Art Gallery	Trustee
Ross Smith		
	Electricity Southland Ltd	Director
	Finance Now Ltd	Director
	Fraser Properties Ltd	Director
	Funds Administration NZ Ltd	Director
	PowerNet Ltd	Director
	Power Services Ltd	Director
	Pylon Ltd	Director
	Southland Building Society	Director, Chief Executive Officer
	Southsure Assurance Ltd	Director

Remuneration of Directors

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

Neil Boniface	Chair
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	$36,250
Geoffrey Piercy	$20,500
Philip Mulvey	$20,500
Ross Smith	$20,500

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	$19,425
Geoffrey Piercy	$19,425
Philip Mulvey	$32,000
Ross Smith	$19,425

Directors' Report *continued*

Employee Remuneration

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

Donations

There were no donations 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 the previous year.

Auditor Remuneration

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

For and on behalf of the Directors.

Neil Boniface
Chair

Philip Mulvey
Director

EIL Network Details

	31 March 2010	31 March 2009
Length of overhead line	60km	68km
Length of underground cable	594km	587km
Number of distribution transformers	445	445
Distribution transformer capacity (does not include customer owned transformers)	145MVA	145MVA
Consumer connections (ICP's)	17,198	17,126

Approval By Directors

The Directors have approved the Financial Statements of Electricity Invercargill Limited for the year ended 31 March 2010 on pages 6 to 31.

Neil Boniface
Chair

Philip Mulvey
Director

For and on behalf of the Board of Directors

30 June 2010

Statement of Service Performance for the year ended 31 March 2010

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	
Financial Measures	**Year Ended 31 March 2010 $000**	**Year Ended 31 March 2010 $000**	**Restated Year Ended 31 March 2009 $000**
Operating Surplus Before Tax	7,103	7,255	7,678
Operating Surplus After Tax	5,572	5,663	6,439
Earnings Before Interest and Tax (EBIT%)	7.19%	7.83%	8.37%
Return on Equity %	7.37%	7.93%	9.12%
Equity to Total Assets %	64.87%	64.80%	65.10%

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	29.99	33.17
System Average Interruption Frequency Index (SAIFI)			
The average number of times each customer connected to the network is without supply.			
SAIFI	0.95	0.84	0.85
Other Network Reliability Performance Measures			
Total number of interruptions		35	31
Faults per 100km of line		9.87	10.85

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	60 km	68 km
Length of underground cable	594 km	587 km
Transformer capacity MVA	145	145
Maximum demand kW	65,476	61,364
Energy into network GWh	290	289
Total consumers	17,198	17,126

Statements of Comprehensive Income for the year ended 31 March 2010

		GROUP		PARENT	
	Note	2010 $000	2009 $000	2010 $000	2009 $000
Operating Revenue	(2)	22,559	21,444	8,667	8,835
Other Income	(2)	1,665	2,203	2,485	2,648
Operating Expenses	(3)	(16,226)	(15,246)	(3,835)	(3,651)
Finance Costs	(3)	(1,372)	(1,405)	(1,371)	(1,404)
Share of Profit of Associates	(8)	629	682	-	-
Operating Surplus Before Taxation	(4)	**7,255**	**7,678**	**5,946**	**6,428**
Less Taxation Expense					
- Current	(4)	(1,473)	(1,376)	(838)	(856)
- Deferred	(4/16)	(119)	137	130	192
Net Surplus After Taxation	(17)	**5,663**	**6,439**	**5,238**	**5,764**
Other Comprehensive Income		-	-	-	-
Total Comprehensive Income		**5,663**	**6,439**	**5,238**	**5,764**

Statements of Changes in Equity for the year ended 31 March 2010

		GROUP		PARENT	
	Note	2010 $000	Restated 2009 $000	2010 $000	Restated 2009 $000
Total Comprehensive Income					
Net Surplus for the Year		5,663	6,439	5,238	5,764
Other Comprehensive Income		-	-	-	-
		5,663	6,439	5,238	5,764
Distributions to Shareholders					
Dividend Paid/Declared		(4,300)	(4,100)	(4,300)	(4,100)
		(4,300)	(4,100)	(4,300)	(4,100)
Changes in Equity for the Year		**1,363**	**2,339**	**938**	**1,664**
Equity at Beginning of Year		**70,054**	**67,715**	**65,994**	**64,330**
Equity at End of Year	(5)	**71,417**	**70,054**	**66,932**	**65,994**

The accompanying notes on pages 10 to 31 form part of and should be read in conjunction with these financial statements.

Statements of Financial Position as at 31 March 2010

	Note	GROUP 2010 $000	GROUP Restated 2009 $000	PARENT 2010 $000	PARENT Restated 2009 $000
Equity					
Share Capital	(5)	13,000	13,000	13,000	13,000
Reserves	(5)	16,508	16,533	13,593	13,618
Retained Earnings	(5)	41,909	40,521	40,339	39,376
Total Equity		**71,417**	**70,054**	**66,932**	**65,994**
Represented By:					
Current Assets					
Cash and Cash Equivalents	(6)	3,123	2,651	2,253	1,874
Receivables and Prepayments	(7)	2,186	2,240	926	928
Inventories		89	98	-	-
Construction Work in Progress		48	58	-	-
Total Current Assets		**5,446**	**5,047**	**3,179**	**2,802**
Non Current Assets					
Investments in Associates	(8)	7,308	6,121	3,824	2,874
Investment in Subsidiary	(9)	-	-	28,553	28,764
Investments in Joint Ventures	(10)	-	-	1,530	1,610
Property, Plant and Equipment	(11)	93,154	92,560	64,893	64,648
Capital Work in Progress		1,165	1,391	803	1,086
Intangibles	(12)	3,454	3,486	1	1
Total Non Current Assets		**105,081**	**103,558**	**99,604**	**98,983**
Total Assets		**110,527**	**108,605**	**102,783**	**101,785**
Current Liabilities					
Creditors and Accruals	(13)	1,962	1,928	943	1,069
Employee Entitlements	(14)	119	113	-	-
Dividend Payable		4,300	4,100	4,300	4,100
Income Tax Payable		320	120	141	25
Total Current Liabilities		**6,701**	**6,261**	**5,384**	**5,194**
Non Current Liabilities					
Shareholder Advance	(15)	18,000	18,000	18,000	18,000
Deferred Tax Liabilities	(16)	14,409	14,290	12,467	12,597
Total Non Current Liabilities		**32,409**	**32,290**	**30,467**	**30,597**
Total Liabilities		**39,110**	**38,551**	**35,851**	**35,791**
Net Assets		**71,417**	**70,054**	**66,932**	**65,994**

The accompanying notes on pages 10 to 31 form part of and should be read in conjunction with these financial statements.

Statements of Cash Flows for the year ended 31 March 2010

	Note	GROUP 2010 $000	GROUP 2009 $000	PARENT 2010 $000	PARENT 2009 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Was Provided From:					
Receipts from Customers		23,970	23,068	8,809	8,812
Interest Received		300	417	298	404
Dividends Received		392	175	2,046	2,033
Taxation Refunds		197	69	178	58
		24,859	23,729	11,331	11,307
Cash Was Disbursed To:					
Payments to Suppliers and Employees		12,018	11,406	1,184	937
Income Tax Paid		1,470	1,128	900	700
Interest Paid		1,366	1,754	1,365	1,754
GST Paid/(Received)		(1)	14	29	(38)
		14,853	14,302	3,478	3,353
Net Cash Flows From Operating Activities	(17)	**10,006**	**9,427**	**7,853**	**7,954**
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash Was Provided From:					
Sale of Property, Plant and Equipment		27	19	27	17
Associates Advances Repaid		-	1,350	1,740	3,802
		27	1,369	1,767	3,819
Cash Was Applied To:					
Purchase of Property, Plant and Equipment		4,511	4,304	2,741	3,012
Investments in Associates		-	999	-	-
Advances to Associates		950	650	2,400	3,050
		5,461	5,953	5,141	6,062
Net Cash Flows Used in Investing Activities		**(5,434)**	**(4,584)**	**(3,374)**	**(2,243)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash Was Applied To:					
Dividend Payment		4,100	3,900	4,100	3,900
Net Cash Flows Used in Financing Activities		**(4,100)**	**(3,900)**	**(4,100)**	**(3,900)**
Net Increase/(Decrease) in Cash and Cash Equivalents Held		472	943	379	1,811
Add Opening Cash Brought Forward		2,651	1,708	1,874	63
Closing Cash and Cash Equivalents Carried Forward	(6)	**3,123**	**2,651**	**2,253**	**1,874**

The accompanying notes on pages 10 to 31 form part of and should be read in conjunction with these financial statements.

1. Statement of Accounting Policies

Reporting Entity

The parent entity, Electricity Invercargill Limited is a profit oriented limited liability company, that was incorporated in New Zealand on 30 June 1991, is registered under the Companies Act 1993 and whose registered office is at 251 Racecourse Road, Invercargill. 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). They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit oriented entities. These financial statements also comply with International Financial Reporting Standards (IFRS).

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 30 June 2010.

Basis of Preparation

These financial statements are presented in New Zealand dollars, rounded to the nearest thousand. 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 has been revalued to fair value.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Use of Estimates and Judgements

The preparation of financial statements to conform to NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances.

In particular estimates and assumptions have been used in the following areas:

- Intangibles
- Property, plant and equipment
- Value of donated assets
- Employee benefits
- Recoverable amount from Cash Generating Units (CGU).

In the process of applying the Group's accounting policies, management has made the following judgements, estimates and assumptions that have the most significant impact on the amounts recognised in these financial statements.

The Group operates extensive integrated electricity distribution networks comprising large numbers of relatively minor individual network asset components. These components are replaced over time as part of an ongoing maintenance/refurbishment programme, consistent with the Group's approved network asset management plans. The costs associated with recording and tracking all individual components replaced and removed from the networks substantially outweigh the benefits of doing so. Management has estimated the quantities and the carrying values of components removed from the networks in each reporting period. Any errors in the estimates of such removals are corrected at the next asset revaluation, and are not considered to be material on either an annual or a cumulative basis with respect to either reported net surpluses or carrying values of the networks.

The Group enters into arrangements with customers to purchase new network assets at below current replacement costs. Management has estimated the difference between the cash costs and the replacement costs of these assets and the differences are reported within revenue. Any errors in estimating the carrying values of these assets are corrected at the next asset revaluation and are not considered to be material on either an annual or a cumulative basis with respect to either reported net profits or carrying values of the network.

The Group invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of an estimation of usage, adjusted for the latest wash-up data available from the electricity wholesale market and certain metering data from electricity retailers. Management has made an allowance in revenue and in current assets/liabilities for any amounts which are estimated to be under/over charged during the reporting period. However, as final wash-up metering data is not available for in excess of twelve months, it is possible the final amounts payable or receivable may vary from that calculated.

Other areas where judgement has been exercised in preparing these financial statements are in relation to calculating the recoverable amounts from Cash Generating Units and the amounts of employee entitlements.

New Standards Adopted

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2009;

NZ IAS 1 (Amendment), Presentation of Financial Statements – the revised NZ IAS 1 requires an entity to present all owner changes in equity, separately from non-owner changes in equity, in a Statement of Changes in Equity. All non-owner changes in equity (i.e. Comprehensive Income) are required to be presented in one Statement of Comprehensive Income or in two statements (a Profit and Loss and a Statement of Comprehensive Income). Components of Comprehensive Income are not permitted to be presented in the Statement of Changes in Equity. This format has been followed in these Financial Statements.

Borrowing Costs (NZ IAS 23 – Amendment) – This standard required capitalisation of borrowing costs directly attributable to acquisition, construction or production of a qualifying asset. This standard has not had a material impact on the Group.

Standards Approved but not yet Effective

The International Financial Reporting Standards Board has issued a number of standards, amendments and interpretations which are not yet effective. There are none deemed relevant to the Company.

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. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the difference is credited to the profit and loss in the period of acquisition. 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.

(v) Parent Investments

Investments in subsidiaries, associates and joint ventures are accounted for at cost in the Parent financial statements.

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 or 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) Finance Costs

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets through the profit and loss and impairment losses recognised on financial assets (except for trade receivables). All borrowing costs are recognised in the profit and loss using the effective interest method, unless they are directly related to the construction of a qualifying asset, when they are capitalised.

d) 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.

e) Property, Plant and Equipment

(i) Owned Assets

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

The deemed value of property, plant and equipment at 1 April 2005, the date of transition to NZ IFRS, was determined by reference to its fair value at that date.

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 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 the profit and loss as an expense as incurred.

The electricity distribution network is valued at fair value. Fair value is determined on the basis of a periodic valuation, at a maximum of every five years, based on depreciated replacement cost methodology. The fair values are recognised in the financial statements of the Group and are reviewed at the end of each reporting period to ensure that the carrying amount of the distribution network is not materially different from its fair value.

Any revaluation increase arising on the revaluation of assets is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense in the profit and loss, in which case the increase is credited to the profit and loss to the extent of the decrease previously charged. A decrease in carrying amount arising on revaluation is charged as an expense in the profit and loss to the extent that it exceeds the balance, if any, held in the asset reserve relating to a previous revaluation of that asset.

When a revalued asset is sold or retired the attributable revaluation surplus remaining in the revaluation reserve, net of any related deferred taxes, is transferred directly to retained earnings.

(ii) Depreciation

Depreciation is charged to the profit and loss on a combination of straight line and diminishing value bases over the estimated useful lives of all 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
Metering Assets	2.5 – 6.7%	Straight Line
Plant and Office Equipment	5.0 – 48%	Straight Line/Diminishing Value
EDP Hardware	9.0 – 80.4%	Straight Line/Diminishing Value

(iii) Impairment

At each reporting date the Group reviews the carrying amounts of its assets and assesses them for indications of impairment. If indications of impairment exist, then the assets' recoverable amount is estimated in order to determine the extent of the impairment. The recoverable amounts are the higher of fair value (less costs to sell) and value in use. In assessing value in use, the estimated future pre-tax cash flows are discounted to their present value using a pre-tax discount rate that reflects the market assessments of the time value of money and the risks specific to the assets involved. If the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down to its recoverable amount and an impairment loss is recognised in the profit and loss, except to the extent that the impairment loss reverses a previous revaluation increase for that asset to the extent of that revaluation increase. When the asset does not generate cash flows independent of other assets, the cash generating unit (CGU) to which the asset belongs is tested for impairment.

Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. Any impairment of goodwill cannot subsequently be reversed.

f) **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 year

g) **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.

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 the profit and loss.

(ii) **Computer Software**

Under NZ IFRS computer software is classified as an intangible asset and amortised on a straight line/diminishing value basis over its estimated useful life.

(iii) **Research and Development**

Research costs are expensed in the year in which they are incurred. Development costs are capitalised to the extent that future benefits (exceeding the costs) are expected to accrue.

(iv) **Amortisation**

Amortisation is charged to the profit and 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 are as follows:

Software	12.5 – 48%	Straight Line/Diminishing Value

h) **Taxation**

Income tax on the surplus or deficit for the period presented comprises current and deferred tax. Income tax is recognised in the 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 recorded 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 profits 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.

i) **Goods and Services Tax**

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

j) **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 in the periods when they are incurred.

k) **Financial Assets**

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

Financial assets at fair value through the profit and loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial Assets at Fair Value through the Profit and loss
Financial assets at fair value through the profit and loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Derivatives are also categorised as held for trading unless they are designated as hedges.

(ii) Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the company provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the statement of financial position.

(iii) Held-to-Maturity Investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the company's management has the positive intention and ability to hold to maturity.

(iv) Available-for-Sale Financial Assets
Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale financial assets and financial assets at fair value through the profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through the profit and loss' category, including interest and dividend income, are presented in the profit and loss within other income or other expenses in the period in which they arise.

l) 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 fair value.

(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 profit and loss 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.

m) Employee Entitlements
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.

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

o) 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.

2. Income

	GROUP		PARENT	
	2010 $000	**2009 $000**	**2010 $000**	**2009 $000**
Operating Revenue				
- Network Charges	22,559	21,444	8,667	8,835
Other Income				
- Interest Revenue	314	510	305	491
- Dividends Received	-	38	2,046	2,043
- Other Income	1,351	1,655	134	114
Total Income	**24,224**	**23,647**	**11,152**	**11,483**

3. Expenses

Expenses Include:				
Amortisation of Intangibles	115	106	-	-
Auditors' Remuneration:				
- Audit of Financial Report				
- PricewaterhouseCoopers	42	45	29	31
- Deloitte	8	8	-	-
- Other Services				
- PricewaterhouseCoopers	33	35	30	32
- Deloitte	6	1	-	-
Bad Debts Written Off	13	3	-	-
Depreciation				
- Buildings	15	14	-	-
- Office Equipment and EDP Hardware	75	56	-	-
- Plant and Equipment	44	35	-	-
- Motor Vehicles	5	-	-	-
- Metering Assets	280	288	280	288
- Network Assets	3,474	3,477	2,351	2,316
Total Depreciation	3,893	3,870	2,631	2,604
Directors' Fees	211	180	98	79
Employee Benefit Expenses	1,663	1,453	-	-
Interest Expense	1,372	1,405	1,371	1,404
Loss on Disposal of Property, Plant and Equipment	139	233	123	194
Network Costs	2,599	2,412	-	-
Operating Lease Expenses:				
- Tenancy and Repeater Site Leases	47	40	-	-
- Motor Vehicle Leases	56	45	-	-
- Office Equipment Leases	8	6	-	-
- Transpower Leases	481	-	-	-
Subvention Payment	292	462	-	50
Transmission Costs	5,002	5,222	-	-
Donations	44	-	-	-
Scholarships and Awards	2	-	-	-

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

Deferred tax expense arises from the origination and reversal of temporary differences.

		GROUP		PARENT	
	Note	2010 $000	2009 $000	2010 $000	2009 $000
Operating Surplus Before Income Tax		7,255	7,678	5,946	6,428
Income Not Taxable					
- Exempt Dividends Received		-	-	(2,046)	(2,005)
- Capital Contributions		(305)	(430)	(134)	(112)
- Equity Accounting Earnings of Associates		(629)	(682)	-	-
Loss Offset (utilised)		(1,793)	(2,218)	(1,593)	(1,861)
Expenses not Deductible		302	(2)	(16)	(2)
Taxable Income		4,830	4,346	2,157	2,448
Prima Facie Taxation at 30%		1,449	1,304	647	734
Made up of:					
Current Tax		1,393	1,441	777	926
Deferred Tax	(16)	56	(137)	(130)	(192)
		1,449	1,304	647	734
Under/(Over) Provisions in Prior Years		143	(65)	61	(70)
Impact of Change in Tax Rate	(16)	-	-	-	-
Taxation Expense for Year		**1,592**	**1,239**	**708**	**664**
Effective Tax Rate		21.9%	16.1%	11.9%	10.3%

Tax Losses Transferred Within the Group

The current tax expense is calculated on the assumption that:

- Tax losses of $1,593,000 (2009: $1,861,000) with a tax benefit of $477,900 (2009: $558,300) have been transferred from Invercargill City Holdings Limited Group by way of group loss offset.

	PARENT	
	2010 $000	2009 $000
Imputation Credit Account		
Credit Balance at Beginning of Year	346	489
Credits:		
Income Tax Payments During Year	900	700
Imputation Credits on Dividend Received	669	505
Withholding Tax on Dividend Received	-	10
Debits:		
Imputation Credits on Dividend Paid	(1,307)	(1,300)
Income Tax Refund During Year	(178)	(58)
Credit Balance at End of Year	**430**	**346**

The Imputation Credit Account relates to Electricity Invercargill Limited.

5. Equity

The authorised and issued share capital comprises 13 million ordinary shares (2009: 13 million ordinary shares) which are fully paid up and are not subject to a par value. All shares have the same rights and privileges.

	GROUP		PARENT	
	2010 $000	Restated 2009 $000	2010 $000	Restated 2009 $000
Contributed Capital				
Share Capital	**13,000**	**13,000**	**13,000**	**13,000**
Reserves				
General Reserve	2,800	2,800	2,800	2,800
Revaluation Reserve Opening Balance	13,733	13,768	10,818	10,853
Revaluation Write Downs due to Asset Disposal	(25)	(35)	(25)	(35)
Closing Balance	13,708	13,733	10,793	10,818
Total Reserves	**16,508**	**16,533**	**13,593**	**13,618**
Retained Earnings				
Opening Balance	40,521	38,147	39,376	37,677
Net Surplus	5,663	6,439	5,238	5,764
Revaluation Write Downs due to Asset Disposal	25	35	25	35
Dividend Declared/Paid	(4,300)	(4,100)	(4,300)	(4,100)
Total Retained Earnings	**41,909**	**40,521**	**40,339**	**39,376**
Total Equity	**71,417**	**70,054**	**66,932**	**65,994**
			Cents per Share	Cents per Share
Dividend per Share			33.1	32.0

6. Cash and Cash Equivalents

Current Account	663	85	33	34
Bank Deposits (Short term)	2,460	2,566	2,220	1,840
Total Cash and Cash Equivalents	**3,123**	**2,651**	**2,253**	**1,874**

7. Receivables and Prepayments

Trade Debtors	2,096	2,123	910	918
Prepayments	90	117	16	10
Total Receivables and Prepayments	**2,186**	**2,240**	**926**	**928**

Trade and other receivables are stated at their cost less any impairment losses. The carrying amounts of the Group's receivables are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any indication exists, the receivables' recoverable amount is estimated.

At balance date 5% of the Group's trade receivables (Parent: 0%) were 30-90 days passed due, 4% of the Group's trade receivables (Parent: 0%) > 90 days passed due. As most of these amounts are expected to be recovered, no provision for impairment has been created.

8. Investments in Associates

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

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

	GROUP	
	2010 $000	**2009 $000**
Share of Surplus Before Taxation	974	863
Less Taxation Expense	(345)	(181)
Total Recognised Revenues and Expenses	**629**	**682**

The Group's interests in associate entities are as follows:

Carrying Amount at Beginning of Year	6,121	5,286
Investments in Associates	-	1,000
Total Recognised Revenues and Expenses	629	682
Increase (decrease) in Advances to Associates	950	(700)
Dividends Received	(392)	(147)
Carrying Amount at End of Year	**7,308**	**6,121**

Summary financial information for equity accounted associates, not adjusted to percentage ownership held by the Group.

Revenue	19,262	17,785
Expenses	(17,453)	(15,947)
Profit/(Loss)	**1,809**	**1,838**
Current Assets	5,731	4,443
Non Current Assets	13,813	12,310
Current Liabilities	2,905	2,622
Non Current Liabilities	8,289	6,389

The Parent's advances to associates are as follows:

	PARENT	
	2010 $000	**2009 $000**
Advances to Associates	3,824	2,874

The advances are repayable on demand, but with a 13 month period of notice. The advances incur interest at 0.75% above the 90 day bank bill rate.

9. Investment in Subsidiary

The Group's interest in the subsidiary entity is as follows:

	Percentage Held By Group		
	2010	**2009**	**Balance Date**
Pylon Limited	100%	100%	31 March

	PARENT	
	2010 $000	**2009 $000**
Shares in Subsidiary	26,901	26,901
Advance to Subsidiary	1,652	1,863
Total Investment in Subsidiary	**28,553**	**28,764**

The Advance is repayable on demand but with a 13 month notice period and does not incur any interest.

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	**2010**	**2009**	**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 year, consolidated on a line-by-line basis was:

	2010 $000	**2009 $000**
Revenue	23,819	23,304
Expenses	12,516	11,569
Financial Position The Group's share of assets and liabilities consolidated on a line-by-line basis was:		
Current Assets	2,267	2,245
Non Current Assets	32,144	31,836
Current Liabilities	1,811	1,642
Non Current Liabilities	-	-
Net Assets Employed in Joint Venture	32,464	32,439

The Parent's advances to joint ventures are as follows:

	PARENT	
	2010 $000	**2009 $000**
Advances to Joint Ventures	1,530	1,610

The advances are repayable on demand, but with a 13 month period of notice. The advances incur interest at 0.75% above the 90 day bank bill rate.

11. Property, Plant and Equipment

	PARENT		
	Network Assets $000	**Meters $000**	**Total $000**
Cost or Valuation			
Balance at 1 April 2008	63,574	3,993	67,567
Additions	3,046	138	3,184
Disposals	(226)	-	(226)
Balance at 31 March 2009	**66,394**	**4,131**	**70,525**
Balance at 1 April 2009	66,394	4,131	70,525
Additions	2,946	78	3,024
Disposals	(166)	-	(166)
Balance at 31 March 2010	**69,174**	**4,209**	**73,383**
Depreciation and Impairment Losses			
Balance at 1 April 2008	2,437	851	3,288
Depreciation for Year	2,316	288	2,604
Impairment Losses	-	-	-
Disposals	(15)	-	(15)
Balance at 31 March 2009	**4,738**	**1,139**	**5,877**
Balance at 1 April 2009	4,738	1,139	5,877
Depreciation for Year	2,351	280	2,631
Impairment Losses	-	-	-
Disposals	(18)	-	(18)
Balance at 31 March 2010	**7,071**	**1,419**	**8,490**
Carrying Amount/Book Value			
Book Value 31 March 2009	**61,656**	**2,992**	**64,648**
Book Value 31 March 2010	**62,103**	**2,790**	**64,893**

Carrying amounts of property, plant and equipment had they been recognised under the cost model.

31 March 2009	*46,132*	*2,992*	*49,124*
31 March 2010	*46,579*	*2,790*	*49,369*

	GROUP						
	Land $000	Buildings $000	Plant and Equipment $000	Motor Vehicles $000	Network Assets $000	Meters $000	Total $000
Cost or Valuation							
Balance at 1 April 2008	59	358	350	-	92,796	3,993	97,556
Reallocation of Share of Assets	(13)	(39)	(87)	-	-	-	(139)
Additions	-	91	118	-	4,544	138	4,891
Disposals	-	-	-	-	(276)	-	(276)
Balance at 31 March 2009	**46**	**410**	**381**	**-**	**97,064**	**4,131**	**102,032**
Balance at 1 April 2009	46	410	381	-	97,064	4,131	102,032
Additions	-	3	128	12	4,429	78	4,650
Disposals	-	-	(3)	-	(179)	-	(182)
Balance at 31 March 2010	**46**	**413**	**506**	**12**	**101,314**	**4,209**	**106,500**
Depreciation and Impairment Losses							
Balance at 1 April 2008	-	29	136	-	4,660	851	5,676
Reallocation of Share of Assets	-	(3)	(47)	-	-	-	(50)
Depreciation for Year	-	14	91	-	3,477	288	3,870
Impairment Losses	-	-	-	-	-	-	-
Disposals	-	-	-	-	(24)	-	(24)
Balance at 31 March 2009	**-**	**40**	**180**	**-**	**8,113**	**1,139**	**9,472**
Balance at 1 April 2009	-	40	180	-	8,113	1,139	9,472
Depreciation for Year	-	15	119	5	3,474	280	3,893
Impairment Losses	-	-	-	-	-	-	-
Disposals	-	-	-	-	(19)	-	(19)
Balance at 31 March 2010	**-**	**55**	**299**	**5**	**11,568**	**1,419**	**13,346**
Carrying Amount/Book Value							
Book Value 31 March 2009	**46**	**370**	**201**	**-**	**88,951**	**2,992**	**92,560**
Book Value 31 March 2010	**46**	**358**	**207**	**7**	**89,746**	**2,790**	**93,154**

Carrying amounts of property, plant and equipment had they been recognised under the cost model.

31 March 2009	*46*	*370*	*201*	*-*	*69,262*	*2,992*	*72,871*
31 March 2010	*46*	*358*	*207*	*7*	*70,057*	*2,790*	*73,465*

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 updating those values in terms of today's material and labour costs. This resulted in a revaluation movement of $15,504,000.

The network assets of OtagoNet Joint Venture were revalued on 1 April 2006 to depreciated replacement cost as assessed by independent valuers PricewaterhouseCoopers. This resulted in the Group recording a revaluation movement of $4,165,000

Acquisitions and Disposals

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

The reallocation detailed on the previous page relates to a change in the proportional interest in the PowerNet Joint Venture from 33% to 20% during the 2009 year.

12. Intangible Assets

	GROUP			PARENT
	Software $000	Goodwill $000	Total $000	Software $000
Cost				
Balance at 1 April 2008	454	3,199	3,653	-
Reallocation of Share of Intangibles	(131)	-	(131)	-
Additions	153	-	153	1
Disposals	-	-	-	-
Balance at 31 March 2009	**476**	**3,199**	**3,675**	**1**
Balance at 1 April 2009	476	3,199	3,675	1
Additions	83	-	83	-
Disposals	-	-	-	-
Balance at 31 March 2010	**559**	**3,199**	**3,758**	**1**
Amortisation and Impairment Losses				
Balance at 1 April 2008	138	-	138	-
Reallocation of Share of Intangibles	(55)	-	(55)	-
Amortisation for Year	106	-	106	-
Impairment Losses	-	-	-	-
Disposals	-	-	-	-
Balance at 31 March 2009	**189**	**-**	**189**	**-**
Balance at 1 April 2009	189	-	189	-
Amortisation for Year	115	-	115	-
Impairment Losses	-	-	-	-
Disposals	-	-	-	-
Balance at 31 March 2010	**304**	**-**	**304**	**-**
Carrying Amount/Book Value				
Book Value 31 March 2009	**287**	**3,199**	**3,486**	**1**
Book Value 31 March 2010	**255**	**3,199**	**3,454**	**1**

Software assets have a finite useful life and are amortised over that useful life of 3-8 years.

Goodwill, in respect of acquisitions made prior to transition date, is stated at cost being the amount recorded under NZ FRS at transition date. Goodwill is not amortised but tested for impairment annually. Goodwill is tested for impairment by allocation to the OtagoNet Joint Venture as a Cash Generating Unit.

The reallocation detailed above relates to a change in the proportional interest in the PowerNet Joint Venture from 33% to 20% during the 2009 year.

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
13. Creditors and Accruals				
Trade Payables	960	1,137	195	367
Accruals	852	635	672	609
GST Payable	150	156	76	93
Total Creditors and Accruals	**1,962**	**1,928**	**943**	**1,069**
14. Employee Entitlements				
Balance at Beginning of Year	113	161	-	-
Reallocation Adjustment	-	(65)	-	-
Additional Accrual	69	102	-	-
Amount Utilised	(63)	(85)	-	-
Balance at End of Year	**119**	**113**	**-**	**-**

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 employee entitlements approximate their fair value.

The reallocation detailed above relates to a change in the proportional interest in the PowerNet Joint Venture from 33% to 20% during the 2009 year.

15. Shareholder Advance

	Group 2010	Group 2009	Parent 2010	Parent 2009
Invercargill City Holdings				
- Current Portion	-	-	-	-
- Non Current Portion	18,000	18,000	18,000	18,000
Total Shareholder Advance	**18,000**	**18,000**	**18,000**	**18,000**

The Electricity Invercargill Limited's (EIL) shareholder Invercargill City Holdings Limited (ICHL) provides all loan facilities for companies in the ICHL Group including EIL. Costs incurred by ICHL on their borrowings and facilities are passed directly through to EIL. ICHL's facility has a revolving three year term. Agreement is reached each year between EIL and ICHL on loan repayments to be made for the following year.

The weighted average interest rate for the loan is 7.38% (2009: 7.80%)

16. Deferred Tax Liabilities

	Note	Group 2010	Group 2009 Restated	Parent 2010	Parent 2009 Restated
Balance at the Beginning of the Year		14,290	14,427	12,597	12,789
Charged to the Profit and loss	(4)				
- Temporary Difference Reversals - Depreciation		53	2	(130)	(177)
- Temporary Difference Reversals - Other		66	(139)	-	(15)
Charged to Equity					
Balance at the End of the Year		**14,409**	**14,290**	**12,467**	**12,597**

The primary component of the deferred tax balance is related to software, property, plant and equipment.

There is not expected to be any significant reversal of deferred taxation in the next 12 months.

In calculating the deferred tax on transition to NZ IFRS under the requirements of NZ IAS 12 the deferred tax balance was determined to be understated. Therefore there has been an adjustment to deferred tax with the following restatement made to the 2009 financial statements.

	As previously Stated 2009 $000	Restated 2009 $000	As previously Stated 2009 $000	Restated 2009 $000
Deferred Tax	11,469	14,290	9,776	12,597
Retained Earnings	43,342	40,521	42,197	39,376

Refer to Note 24 for Restated Balance Sheet as at 1 April 2008.

17. 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 Profit and Loss and the Net Cash Flows From Operating Activities.

	GROUP		PARENT	
	2010 $000	**2009 $000**	**2010 $000**	**2009 $000**
Net Surplus After Taxation	5,663	6,439	5,238	5,764
Plus/(Less) Non Cash Items:				
- Depreciation	3,893	3,870	2,631	2,604
- Amortisation of Software	115	106	-	-
- Deferred Taxation	119	(137)	(130)	(191)
- Loss on Sale of Property, Plant and Equipment	139	233	123	194
- Share of Profit of Associates	(237)	(535)	-	-
	4,029	3,537	2,624	2,607
Plus/(Less) Movements in Working Capital:				
- Increase/(Decrease) in Payables and Accruals	40	(652)	(127)	(446)
- (Increase)/Decrease in Receivables	55	(127)	2	(176)
- (Increase)/Decrease in Inventories	19	(77)	-	-
- Increase/(Decrease) in Provision for Taxation	200	307	116	205
	314	(549)	(9)	(417)
Net Cash Flows From Operating Activities	**10,006**	**9,427**	**7,853**	**7,954**

18. Commitments

Capital Commitments

The Group, through its Joint Ventures PowerNet Limited and OtagoNet Joint Venture, has capital expenditure contracted for but not provided for in the financial statements.

Capital Commitments	1,254	1,233	314	663
Total Capital Commitments	**1,254**	**1,233**	**314**	**663**
Operating Lease Commitments				
Operating lease commitments are payable as follows:				
- Not later than one year	396	87	-	-
- Later than one year and not later than two years	349	65	-	-
- Later than two years and not later than five years	833	78	-	-
- Later than five years	4,916	-	-	-
Total Operating Lease Commitments	**6,494**	**230**	**-**	**-**

The operating leases consist of vehicle leases, office equipment leases, tenancy leases and Transpower leases.

19. Contingent Liabilities

There are no contingent liabilities as at 31 March 2010 (31 March 2009: Nil).

20. Financial Instruments

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

Credit Risk

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and short-term investments and trade receivables. Cash and short-term investments are placed with banks with high credit ratings assigned by international credit-rating agencies, or other high credit quality financial institutions.

The Group manages its exposure to credit risk from trade receivables by performing credit evaluations on all customers requiring credit whenever possible, and continuously monitoring the outstanding credit exposure to individual customers. The Group does not generally require or hold collateral against credit risk.

The Group is exposed to a concentration of credit risk with regards to the amounts owing by energy retailers for line charges. However, these entities are considered to be high credit quality entities. An amount of $1,849,000 (2009: $1,781,000) is owed by energy retailers at balance date.

The Company is exposed to a concentration of credit risk with regard to the amounts owing by related parties at balance date as disclosed in Note 22 Transactions with Related Parties. However, these entities are considered to be high credit quality entities.

The following liquidity tables show the Group and Parents maximum credit exposure at balance date.

Liquidity Risk

Liquidity risk represents the Group's ability to meet its contractual obligations.

The Group evaluates its liquidity requirements on an ongoing basis. In general the Group generates sufficient cash flows from its operating activities to meet its contractual obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

The following table details the Group's exposure to liquidity risk as at 31 March 2010:

	Maturity Dates < 1 Month $000	Maturity Dates <1 Yr $000	Maturity Dates 1-3 Yrs $000	Total $000
Financial Assets				
Cash and Cash Equivalents	3,123	-	-	3,123
Trade and Other Receivables	2,096	-	-	2,096
Construction Work In Progress	-	48	-	48
	5,219	48	-	5,267
Financial Liabilities				
Trade Payables	1,110	-	-	1,110
Accruals	-	852	-	852
Employee Entitlements	-	119	-	119
Advances	-	-	18,000	18,000
Dividend Payable	-	4,300	-	4,300
	1,110	5,271	18,000	24,381

Advance repayment arrangements are discussed in Note 15. The above table includes principal repayments only, as interest payable is linked to a variable interest rate.

The following table details the Parent's exposure to liquidity risk as at 31 March 2010:

	Maturity Dates < 1 Month $000	Maturity Dates <1 Yr $000	Maturity Dates 1-3 Yrs $000	Total $000
Financial Assets				
Cash and Cash Equivalents	2,253	-	-	2,253
Trade and Other Receivables	910	-	-	910
Advances	-	-	7,006	7,006
	3,163	-	7,006	10,169
Financial Liabilities				
Trade Payables	271	-	-	271
Accruals	-	672	-	672
Employee Entitlements	-	-	-	-
Advances	-	-	18,000	18,000
Dividend Payable	-	4,300	-	4,300
	271	4,972	18,000	23,243

Advances to associates, subsidiaries and joint ventures, are repayable on demand but with a 13 month notice period. The $18 million advance repayment arrangements are discussed in Note 15.

The accruals are funded by either short-term investment funds or from cash generated by operating activities.

The following table details the Group's exposure to liquidity risk as at 31 March 2009:

	Maturity Dates < 1 Month $000	Maturity Dates <1 Yr $000	Maturity Dates 1-3 Yrs $000	Total $000
Financial Assets				
Cash and Cash Equivalents	2,651	-	-	2,651
Trade and Other Receivables	2,123	-	-	2,123
Construction Work In Progress	-	58	-	58
	4,774	58	-	4,832
Financial Liabilities				
Trade Payables	1,293	-	-	1,293
Accruals	-	635	-	635
Employee Entitlements	-	113	-	113
Advances	-	-	18,000	18,000
Dividend Payable	-	4,100	-	4,100
	1,293	4,848	18,000	24,141

The $18 million advance repayment arrangements are discussed in Note 15.

The following table details the Parent's exposure to liquidity risk as at 31 March 2009:

	Maturity Dates < 1 Month $000	Maturity Dates <1 Yr $000	Maturity Dates 1-3 Yrs $000	Total $000
Financial Assets				
Cash and Cash Equivalents	1,874	-	-	1,874
Trade and Other Receivables	918	-	-	918
Advances	-	-	6,347	6,347
	2,792	-	6,347	9,139
Financial Liabilities				
Trade Payables	460	-	-	460
Accruals	-	609	-	609
Employee Entitlements	-	-	-	-
Advances	-	-	18,000	18,000
Dividend Payable	-	4,100	-	4,100
	460	4,709	18,000	23,169

Advances to associates, subsidiaries and joint venture, are repayable on demand but with a 13 month notice period. The $18 million advance repayment arrangements are discussed in Note 15.

The accruals are funded by either short-term investment funds or from cash generated by operating activities.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments.

The Group has interest bearing debt which is subject to interest rate variations in the market. This debt (being an advance from the Group's parent company, Invercargill City Holdings Limited) is partially hedged and managed by the Group's parent company, thus reducing the Group's exposure the interest rate variation.

The Group is not subject to foreign exchange risk.

The following table details the Group's exposure to interest rate risk as at 31 March 2010:

	Variable Interest Rate $000	Maturity Dates <1 Yr $000	Non Interest Bearing $000	Total $000
Financial Assets				
Cash and Cash Equivalents	3,123	-	-	3,123
Trade and Other Receivables	-	-	2,096	2,096
	3,123	-	2,096	5,219
Financial Liabilities				
Trade and Other Payables	-	-	1,962	1,962
Employee Entitlements	-	-	119	119
Advances	18,000	-	-	18,000
	18,000	-	2,081	20,081

The following table details the Parent's exposure to interest rate risk as at 31 March 2010:

	Variable Interest Rate $000	Maturity Dates <1 Yr $000	Non Interest Bearing $000	Total $000
Financial Assets				
Cash and Cash Equivalents	2,253	-	-	2,253
Advances	5,354	-	1,652	7,006
Trade and Other Receivables	-	-	910	910
	7,607	-	2,562	10,169
Financial Liabilities				
Trade and Other Payables	-	-	943	943
Employee Entitlements	-	-	-	-
Advances	18,000	-	-	18,000
	18,000	-	943	18,943

The following table details the Group's exposure to interest rate risk as at 31 March 2009:

	Variable Interest Rate $000	Maturity Dates <1 Yr $000	Non Interest Bearing $000	Total $000
Financial Assets				
Cash and Cash Equivalents	2,651	-	-	2,651
Trade and Other Receivables	-	-	2,123	2,123
	2,651	-	2,123	4,774
Financial Liabilities				
Trade and Other Payables	-	-	1,928	1,928
Employee Entitlements	-	-	113	113
Advances	18,000	-	-	18,000
	18,000	-	2,041	20,041

The following table details the Parent's exposure to interest rate risk as at 31 March 2009:

	Variable Interest Rate $000	Maturity Dates <1 Yr $000	Non Interest Bearing $000	Total $000
Financial Assets				
Cash and Cash Equivalents	1,874	-	-	1,874
Advances	4,484	-	1,863	6,347
Trade and Other Receivables	-	-	918	918
	6,358	-	2,781	9,139
Financial Liabilities				
Trade and Other Payables	-	-	1,069	1,069
Advances	18,000	-	-	18,000
	18,000	-	1,069	19,069

Sensitivity Analysis for Interest Rate Change

Electricity Invercargill Limited is subject to exposure to interest rate variations through both its cash and short-term investments and loans.

An increase/(decrease) in the interest rate of 1% is estimated to increase/(decrease) the net profit before tax and equity by $77,000 (2009: $29,000).

Fair Value

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

Capital Management

The Group's capital includes share capital, reserves and retained earnings. The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowing and the advantages and security afforded by a sound capital position.

The Group is not subject to any externally imposed capital requirements.

21. Segmental Reporting

Electricity Invercargill Limited operates predominantly in one segment, being the management of assets involved in the distribution of electricity in Southland/Otago.

22. 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 year are as follows:

	2010 $000	2009 $000
Goods and Services Supplied to:		
PowerNet Limited (Joint Venture)	8,711	8,957
Electricity Southland Limited (Associate)	82	169
Otago Power Services Limited (Associate)	10	22
Power Services Limited (Associate)	25	52
Invercargill City Holdings Limited (other related party)	-	50
Receivables Outstanding at Balance Date		
PowerNet Limited (Joint Venture)	872	882
Electricity Southland Limited (Associate)	24	23
Otago Power Services Limited (Associate)	2	3
Power Services Limited (Associate)	6	7
Goods and Services Supplied by:		
PowerNet Limited (Joint Venture)	3,005	3,268
Electricity Southland Limited (Associate)	-	-
Invercargill City Holdings Limited (Other Related Party)	1,521	1,554
Invercargill City Council (Other Related Party)	-	-
Power Services Limited (Associate)	47	34
Creditors Outstanding at Balance Date		
PowerNet Limited (Joint Venture)	157	270
Invercargill City Holdings Limited (Other Related Party)	128	151
Invercargill City Council (Other Related Party)	-	-
Power Services Limited (Associate)	13	-
Dividends Paid to:		
Invercargill City Holdings Limited (Other Related Party)	4,100	3,900
Dividends Paid by:		
Pylon Limited (Subsidiary)	2,046	2,005
Advances Provided to (Repaid by):		
PowerNet Limited (Joint Venture)	(80)	(740)
Electricity Southland Limited (Associate)	950	(700)
Pylon Limited (Subsidiary)	(211)	688

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 $23,000 (2009: $23,000) of which $2,000 (incl GST) (2009: $500 (incl GST)) is owing at balance date.

Electricity Invercargill Limited's share of fees for taxation advice paid to WHK (of which Philip Mulvey is Chief Executive) during the year amounted to $3,000 (excl GST) (2009: $2,000 (excl GST) of which $1,000 (incl GST) (2009: $200 (incl GST)) is owing at balance date.

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

Electricity Invercargill Limited and OtagoNet Joint Venture have held term investments with Southland Building Society of which Ross Smith is Chief Executive. Electricity Invercargill Limited received $109,000 interest (paid and accrued) during the year from Southland Building Society (31 March 2009: $84,500) and holds term investments at balance date amounting to $2,220,000 (31 March 2009: $1,530,000).

Pylon Limited's share of OtagoNet Joint Venture's interest (paid and accrued) during the year from Southland Building Society was $1,920 (31 March 2009: $0), and Pylon's share of OtagoNet Joint Venture's term investment with the Southland Building Society at balance date amounting to $2,450 (31 March 2009: $0).

Key Management Personnel
The compensation of the directors and executives, being the key management personnel of the entity is set out below:

	GROUP		PARENT	
	2010 $000	2009 $000	2010 $000	2009 $000
Salaries and Short-term Employee Benefits	750	641	98	79

Executive staff remuneration comprises salary and other short-term benefits. PowerNet executives appointed to the boards of related companies do not receive directors' fees personally.

23. 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 Company tax from 30% to 28% with effect from 1 April 2011, on passing of the Bill the Group's deferred tax liability will reduce by approximately $973,000.

24. Restated Balance Sheet as at 1 April 2008

	GROUP Restated 1 Apr 2008 $000	PARENT Restated 1 Apr 2008 $000
Equity		
Share Capital	13,000	13,000
Reserves	16,568	13,653
Retained Earnings	38,147	37,677
Total Equity	**67,715**	**64,330**
Represented By:		
Current Assets	**4,087**	**929**
Non Current Assets	**102,648**	**99,540**
Total Assets	**106,735**	**100,469**
Current Liabilities	6,593	5,350
Non Current Liabilities		
Shareholder Advance	18,000	18,000
Deferred Tax Liabilities	14,427	12,789
Total Non Current Liabilities	**32,427**	**30,789**
Total Liabilities	**39,020**	**36,139**
Net Assets	**67,715**	**64,330**

Refer also to Note 16 for detail on the restatement.

PRICEWATERHOUSECOOPERS

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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 2010**

The Auditor-General is the auditor of Electricity Invercargill Limited ("the Company") and Group. The Auditor-General has appointed me, Robert Harris, 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 2010.

Unqualified Opinion

In our opinion:

- The financial statements of the Company and Group on pages 7 to 31:
    - comply with generally accepted accounting practice in New Zealand; and
    - comply with International Financial Reporting Standards; and
    - give a true and fair view of:
        - the Company and Group's financial position as at 31 March 2010; and
        - the results of its operations and cash flows for the year ended on that date

- The performance information of the Company and Group on page 6 gives a true and fair view of the achievements measured against the performance targets adopted for the year ended 31 March 2010

- Based on our examination the Company and Group kept proper accounting records

The audit was completed on 30 June 2010, and is the date at which our opinion is expressed.

The basis of our 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 the 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.

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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 financial statement and performance information 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. The financial statements must give a true and fair view of the financial position of the Company and Group as at 31 March 2010 and the results of its operations and cash flows 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 2010. The Board of Directors' responsibilities arise from the Energy Companies Act 1992 and the Financial Reporting Act 1993.

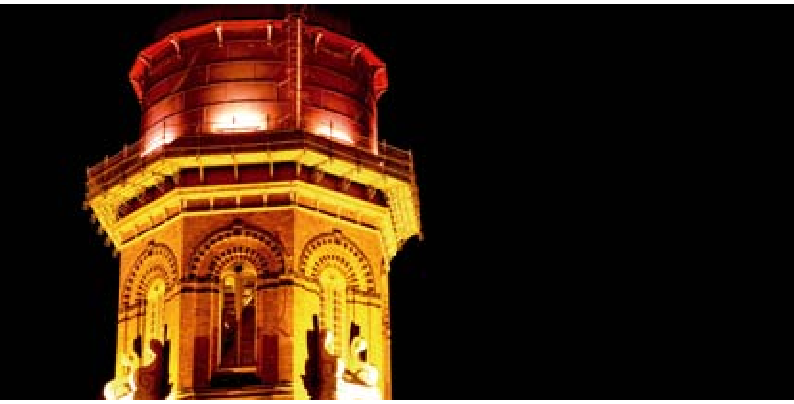
We are responsible for expressing an independent opinion on the financial statements and performance information and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and section 45(1) of the Energy Companies Act 1992.

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.

In addition to the audit we have carried out assignments in the areas of the Electricity Distribution (Information Disclosure) Requirements 2008, the Commerce Act (Electricity Distribution Thresholds) Notice 2004 and in providing industry related advice, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with or interests in the Company and Group.

Robert Harris
PricewaterhouseCoopers
On behalf of the Auditor-General
Christchurch, New Zealand




PowerNet

Electricity Invercargill Ltd

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