Electricity Invercargill Ltd

Annual Report 2012

Contents

Directory

Registered Office

251 Racecourse Road
PO Box 88
Invercargill 9840
New Zealand
Telephone: 03 211 1899
Email: enquires@powernet.co.nz
Website: www.eil.co.nz

Principal Bankers

Westpac Banking Corporation

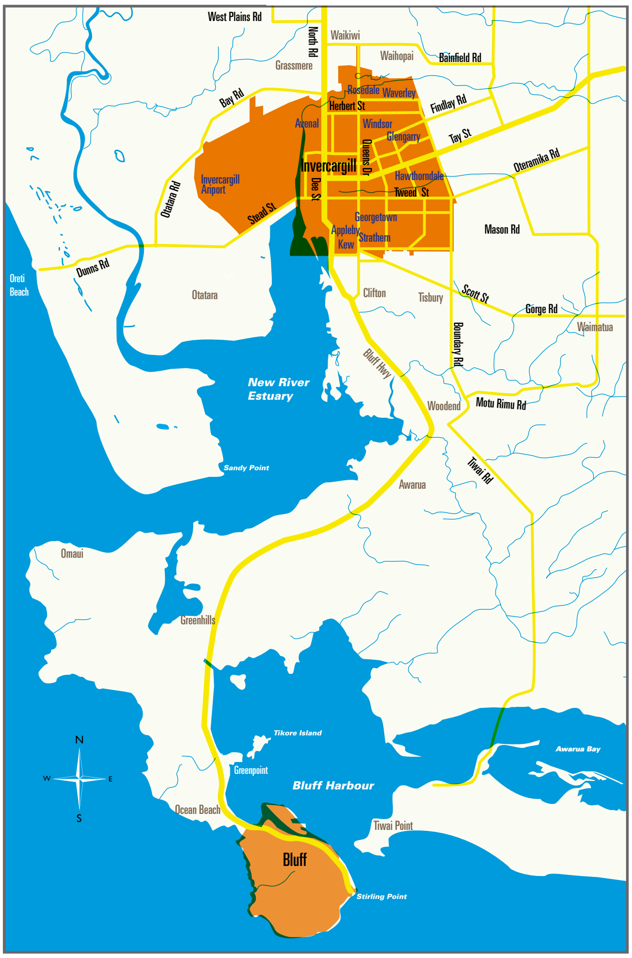
Auditors

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

Solicitors

Preston Russell Law

Map of EIL Area



Company Profile

Electricity Invercargill Limited (EIL) was formed in 1991 and owns the electricity network assets in Invercargill City and the Bluff township area with approximately 17,200 consumers.

EIL has provided power to Invercargill since 1905, operating under a variety of different names over the years, most notably the Invercargill Municipal Electricity Department.

EIL is owned by the Invercargill City Council through its subsidiary, Invercargill City Holdings Limited. Invercargill City Holdings retains 100% ownership of the Company and receives an annual dividend from EIL.

EIL contracts PowerNet Limited (PowerNet) to manage its network and metering assets. The main source of revenue for EIL is attributable to the Use Charge received from 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.

EIL statistics	
Total Connected Consumers	**17,243**
Residential	15,051
Industrial	121
Commercial	2,071
Network Length	654km
Consumer Density	26.4 consumers/km
Number of Distribution Transformers	443
Distribution Transformer Capacity	148MVA
Distribution Transformer Density	226kVA/km
Maximum Demand	68.6MW
Total Energy Conveyed	286GWh
Regulatory Value	$60 million

Our Stakeholders

PowerNet Limited

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

PowerNet is contracted to manage the network and metering assets and EIL 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.

PowerNet manages EIL'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 centre service.

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.

OtagoNet Joint Venture

OtagoNet Joint Venture (OtagoNet) was formed in 2002 between partners EIL (24.5%), its neighbour TPCL (24.5%) and Marlborough Lines Limited (51%). The OtagoNet network has approximately 14,800 consumers spread over a vast area of coastal and inland Otago from Shag Point in the north east, inland through to St Bathans, then south down to the Chaslands.

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. Significant additional expenditure has been committed to renewing and upgrading the network assets, increasing the value of the network and improving supply quality to the customers. Directors are pleased with the year's performance and our shareholder is projected to benefit further from increased dividends and growth in value of the network in the years to come.

Electricity Southland Limited

Electricity Southland Limited is an electricity network asset company formed in 1995 by EIL and TPCL. It owns the Lakeland electricity network at Frankton in the Queenstown Lakes area.

Load growth on this network progressed well this year due to new businesses opening in the Remarkables Park Town Centre in Frankton and the opening of the Hilton Hotel in the Kawarau Falls Station area.

Directors are pleased with the investment and remain confident the continuing development in the area will meet the Company's medium and long term projections.

Investment in network contractors

The Company is a 49% shareholder in the electrical contracting company Power Services Limited. Power Services holds the lines and technical field service contracts for the EIL network. During the year Power Services purchased a facility at Onslow Street, Invercargill and is developing the site for its Head Office, line depot and electrical and transformer workshops. Power Services also invested in a new contracting company, Peak Power Services Limited in February. This company is based in Frankton and provides electrical contracting services in the Central Otago area.

EIL also holds a 24.5% investment in the electrical contracting company Otago Power Services Limited in conjunction with TPCL (24.5%) and Marlborough Lines Limited (51%).

InverNet

EIL established InverNet to develop a fibre optic ring around Invercargill that connects PowerNet's offices and control room and EIL's city substations. The new fibre connects to existing fibre optic cables owned by the Invercargill City Council and to exchange equipment owned by Venture Southland. The network will provide high capacity installation interconnections servicing the above three parties and will also allow some schools to be connected to the national KAREN information resource.

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

The Year in Review

EIL achieved a significant milestone this year with the completion of its 40-year undergrounding programme in Invercargill City. The Company is one of the best performing networks in the country with approximately 90% of the electricity network now underground. This helps ensure a quality of supply for its customers that is well above the national average, increases safety and reduces visual pollution in the City. The Company's financial performance also ensures that it continues to contribute to the wealth of the city through its dividends to Invercargill City Holdings Limited.

Operational Performance

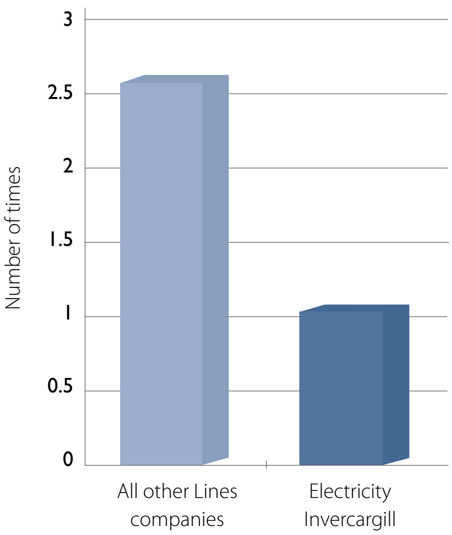
EIL expenditure on technical and distribution maintenance was $1.4 million, with all planned maintenance completed. A further $2.9 million was spent on capital works, the most significant of which was the upgrade of a zone substation in the City. A seismic study highlighted that the Doon Street Zone Substation is on a site that is less than optimal and an alternative site is being investigated.

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

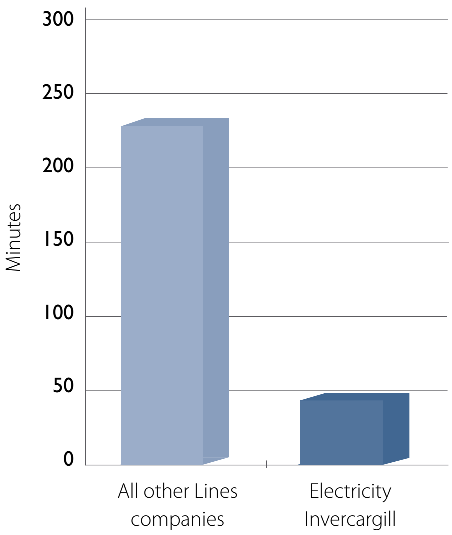
Project	Approximate Expenditure
New Customer Connections	$182,000
Distribution Transformer Replacements	$336,000
West Street Area, Invercargill – Undergrounding	$342,000
Doon Street Substation Transformer Replacement	$1,202,000

Unusually EIL System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI) reliability targets were not met this year. The SAIDI figure at 63.63 minutes exceeded the Business Plan target of 31.54 minutes and the Commerce Commission Reliability Limit of 45.65 minutes. The SAIFI figure of 1.29 times exceeded the Commerce Commission Reliability Limit of 1.13 times and the Business Plan target of 0.80 times. Three major incidents contributed to the result. An internal transformer failure at the Racecourse Road Zone Substation resulted in loss of supply for 151,817 customer minutes and two 11kV cable faults resulted in a loss of supply for a further 516,270 customer minutes. In-field inspection utilising test equipment that helps detect early failure of cable and equipment insulation has increased. However EIL is one of the best performing networks in New Zealand as demonstrated in the graphs below.

Average SAIFI result for all New Zealand lines companies compared to EIL during 2008 - 2011



Average SAIDI result for all New Zealand lines companies compared to EIL during 2008 - 2011



The Year in Review *continued*

PowerNet, on behalf of EIL, is working with the Commerce Commission (the Commission) on the quality boundary calculation for EIL under the Default Price Quality Path. EIL has one of the most reliable networks in New Zealand. However, due to the "major event day" normalisation methodology adopted by the Commission, the reliability limit for EIL has been exceeded for both 2010/11 and 2011/12.

The Business Plan 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)

Business Plan Target	Actual
0.80	1.29

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

Business Plan Target	Actual
31.54 minutes	63.63 minutes

The regulatory environment

The Commission has throughout the year consulted with the industry on a number of regulatory matters including the development of the regulatory reporting under the Information Disclosure (ID) regime. EIL has appreciated the opportunities for staff to participate in workshops and technical reference groups as we find this a more effective form of consultation than the formal written methods commonly adopted.

EIL is however concerned with the continuing costly and time consuming requirements of the draft ID Determination released by the Commission, particularly the increase in compliance and audit costs associated with respect to low level inputs such as all unplanned fault data being provided in ID. A high level outputs based approach to ID, supplemented with data requests, would satisfy the data requirements of the Commission to meet their responsibility of monitoring and analysing the performance of electricity lines businesses.

Audit costs for EIL are forecast to reach $100,000 in 2013 and were in the region of $30,000 before the commencement of the current regulatory environment.

The Company is very concerned about the Commission's work on related parties. We anticipate changes will result in cost increases and eliminate efficiency gains from the various joint ventures structures that have been put in place for commercial and geographical reasons in Southland.

The reset of all regulated lines businesses price or Starting Price Adjustments (SPA's) was scheduled to take place in March 2012, however with Vector's successful High Court action requiring an Input Methodology to be developed of SPA's the reset was delayed until March 2013. A successful appeal by the Commission to the Court of Appeal and a subsequent appeal to the Supreme Court by Vector sees the SPA process at a crossroads. If a reset occurs in March 2013 the Company is not expecting its prices to be adjusted and awaits with interest the overall adjustment for the sector prices relative to the cost of the regime.

EIL continues to have concerns around duplication of investigations surrounding pricing principles by both the Commission and the Electricity Authority (EA). Communication between the two regulatory bodies appears very opaque to an outside observer. The commencement of consultation on pricing principles by the EA will assist in providing the EA with the knowledge and information to make informed decisions.

Financial performance

The Group net surplus after tax for the year ended 31 March 2012 of $5.445 million (2011 - $3.518 million) is considerably higher than last year due to one off International Financial Reporting Standards adjustments in 2011.

The net surplus after tax is below the target of $5.692 million by $247,000. This is due to higher than budgeted depreciation and asset writedowns following the EIL network asset revaluation.

The Company provided for an increased dividend of $4.700 million (2011 – $4.500 million).

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

The operating results supported by the strong financial position and operating cashflow, has the Company well positioned for the future.

The consolidated result for the Group is:

	31 March 2012 $000	31 March 2011 Normalised $000	31 March 2011 IFRS $000
Operating Surplus before Tax	7,191	7,991	4,792
Less Taxation Expense	(1,746)	(1,853)	(1,274)
Net Surplus after Taxation	5,445	6,138	3,518

Acknowledgements

Martin Walton retired after 12½ years as PowerNet's chief executive in January 2012. The Directors wish to acknowledge Martin's significant contribution to EIL and PowerNet as well as his 39 year contribution to the industry.

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 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

Our Community

Asset management plan

PowerNet again prepared the EIL Asset Management Plan which provides detail on EIL's assets and how they are managed so as to provide a reliable electricity supply and service to the Company's customers and stakeholders over the next ten years.

EIL is focusing on the following areas:

- Replacement and upgrade of the Doon Street Substation, with a new substation in Spey Street. This site will have a new 33kV cable installed from the Transpower substation in Findlay Road for additional security of supply
- Relocating the position of some equipment due to roading works
- Installation of spare transformers at both Southern and Racecourse Road substations to ensure continuity of supply
- Seismic strengthening of buildings and equipment
- Continuing replacement of equipment and cables to ensure reliability and to help with growth in the City

The capital spend of $2.7 million is planned to grow to $5.8 million and operational expenditure is expected to reach $3 million per year. The EIL AMP can be viewed at www.powernet.co.nz/eil-amp.

The community

EIL continued to promote Invercargill activities through the erection of the Invercargill City Christmas lights and funding for the Southland Warm Homes Trust for insulation and heating installations.

Invercargill City Christmas Lights
EIL purchased a secure building this year to house the fragile Invercargill City Christmas Lights. EIL contracts Power Services to erect and maintain the lights for the City. The lights are a feature of the central business district during December and January each year.

Southland Warm Homes Trust
The Southland Warm Homes Trust (SWHT) was formed in 2008 by Electricity Invercargill Limited and the Southland Power Trust. The SWHT, in association with the Energy Efficiency and Conservation Authority (EECA) and other funders, 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 third year to June 2011 the SWHT completed 1,828 assessments (2010: 2,040 assessments), 1,046 insulation fit-outs (2010: 975) and 155 heating upgrades (2010: 95) through its service provider Awarua Synergy. Over twenty jobs have been established in Southland and revenue of $4.9 million (2010: $3.6 million) was generated through the Trust during the year.

The Trust's model has been commended by EECA as the most successful in New Zealand. EECA has backed up its confidence in the Trust with increased funding for the years ended June 2011 and 2012. The Trust is forecasting revenue of $4 million in the year to 30 June 2012.

The successful operation of the Trust has only been possible with the support of PowerNet and financial contributions from the Company and the Southland PowerTrust together with community funding from the ILT Foundation, the Invercargill Licensing Trust, the Community Trust of Southland, local councils and primary health organisations.

Directors' Profiles

Neil Boniface (Chair) JP

Neil is a Director of PowerNet Limited, Member of OtagoNet Joint Venture Governing Committee, an Invercargill City Councillor and Chairman of the Southland Warm Homes Trust.

He operates a Driving School business in Southland and also serves on several charitable trusts.

Neil is a Member of the Institute of Directors.

Thomas Campbell BSc (Metallurgy)

Tom is a former Managing Director of Comalco and General Manager of the Tiwai Smelter who now works as an independent company director.

His directorships include Todd Corporation, Standards NZ and PowerNet Limited, as well as being Chair of GNS Science.

Tom is an Accredited Member of the Institute of Directors.

Darren Ludlow

Darren has been a Director of Electricity Invercargill Limited since November 2010.

He is a fourth-term Invercargill City Councillor and the City's Deputy Mayor. Darren is a trustee for several community groups and Chairs the Southland Museum & Art Gallery Trust Board and the Southland Art Foundation.

He has worked in the media and communications industries for 25 years and currently manages Radio Southland.

Philip Mulvey BCom CA

Philip joined the Board of Electricity Invercargill Limited on 1 February 2001.

In October 2011 Phil was appointed NZ Chief Executive of WHK (NZ) Limited. Previously he was Chief Executive of WHK, Southern.

Philip also holds a number of directorships, including PowerNet Limited.

He is an Accredited Member of the Institute of Directors.

Ross Smith BCom

Ross joined the Board of Electricity Invercargill Limited in November 2003. He is Chief Executive of SBS Bank, the only member owned Building Society with Bank Registration in New Zealand.

Ross is also a Director of SBS Bank, Finance Now Limited, Funds Administration NZ Limited, Southsure Assurance Limited, PowerNet Limited and Power Services Limited.

Directors' Report

The Directors have pleasure in presenting their Annual Report and Financial Statements for the year ended 31 March 2012.

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 $5,445,000. A dividend of $4,700,000 has been declared payable in August and November 2012 and March 2013. The dividend will be imputed at 28%.

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	Councillor
	Invercargill Venue & Events Management Ltd	Director
	OtagoNet Joint Venture	Member, Governing Committee
	OtagoNet Ltd	Director
	OtagoNet Properties Ltd	Director
	PowerNet Ltd	Director
	Pylon Ltd	Director
	Southland Driving School	Director
	Southland Warm Homes Trust	Trustee
Thomas Campbell		
	Electricity Southland Ltd	Director
	GNS Science Ltd	Chair
	NZ Standards Council	Director
	PowerNet Ltd	Director
	Pylon Ltd	Director
	Todd Corporation Ltd	Director
Darren Ludlow		
	Invercargill City Council	Councillor
	Invercargill Community Recreation & Sports Trust	Trustee
	Pylon Ltd	Director
	Radio Southland	Manager
	Southland Art Foundation	Trustee
	Southland Museum & Art Gallery	Trustee
Philip Mulvey		
	Electricity Southland Ltd	Chair
	Forest Dynamics Ltd	Director
	Otago Cricket Association	Director
	PowerNet Ltd	Chair
	Pylon Ltd	Director
	Southland Cricket Association	Chair
	Southland Outdoor Stadium Trust	Trustee
	WHK	Chief Executive
	WHK Cook Adam Ltd	Director
	WHK (New Zealand) Ltd	Director
	Zak Holdings Ltd	Chair
Ross Smith		
	Electricity Southland Ltd	Director
	Finance Now Ltd	Director
	Fraser Properties Ltd	Director
	Funds Administration NZ Ltd	Director
	Peak Power Services Ltd	Chair
	PowerNet Ltd	Director
	Power Services Ltd	Chair
	Pylon Ltd	Director
	Southland Building Society	Director, Chief Executive Officer
	Southsure Assurance Ltd	Director

Directors' Report *continued*

Remuneration of Directors

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

Neil Boniface	-	Chair
Thomas Campbell	-	Director
Darren Ludlow	-	Director
Philip Mulvey	-	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	$40,700
Thomas Campbell	$23,580
Darren Ludlow	$23,580
Philip Mulvey	$23,580
Ross Smith	$23,580

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	$22,000
Thomas Campbell	$22,000
Philip Mulvey	$44,000
Ross Smith	$22,000

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

Approval by Directors

The Directors have approved for issue the Financial Statements of Electricity Invercargill Limited for the year ended 31 March 2012 on pages 9 to 33.

Neil Boniface	Philip Mulvey
Chair	*Director*

For and on behalf of the Board of Directors

28 June 2012

Statement of Service Performance

For the year ended 31 March 2012

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 2012 $000	Year Ended 31 March 2012 $000	Year Ended 31 March 2011 $000
Financial Measures			
Operating Surplus Before Tax	8,391	7,191	4,792
Operating Surplus After Tax	5,692	5,445	3,518
Earnings Before Interest and Tax to Total Assets (EBIT%)	7.29%	6.76%	5.19%
Return on Equity %	6.32%	6.63%	4.71%
Equity to Total Assets %	68.69%	66.38%	64.62%

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	31.54	63.63	44.77

System Average Interruption Frequency Index (SAIFI)

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

SAIFI	0.80	1.29	1.18

Other Network Reliability Performance Measures

Total number of interruptions		47	39
Faults per 100km of line		12.84	14.32

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	51 km	57 km
Length of underground cable	603 km	598 km
Transformer capacity MVA	148	144
Maximum demand kW - MW	68,600	68,344
Energy into network GWh	286	284
Total consumers	17,243	17,275

Statements of Financial Performance

For the year ended 31 March 2012

	Note	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Operating Revenue	(2)	25,591	24,146	9,947	9,225
Other Income	(2)	1,688	1,767	1,857	2,440
Operating Expenses	(3)	(19,638)	(20,549)	(5,405)	(4,071)
Finance Costs	(3)	(1,170)	(1,212)	(1,168)	(1,210)
Share of Profit of Associates	(8)	720	640	-	-
Operating Surplus Before Taxation	(4)	**7,191**	**4,792**	**5,231**	**6,384**
Less Taxation Expense					
- Current	(4)	(2,078)	(1,571)	(1,293)	(916)
- Deferred	(4/16)	332	297	426	473
Net Surplus After Taxation		**5,445**	**3,518**	**4,364**	**5,941**

Statements of Comprehensive Income

For the year ended 31 March 2012

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Net Surplus After Taxation	**5,445**	**3,518**	**4,364**	**5,941**
Other Comprehensive Income				
- Revaluation	6,666	3,805	6,666	-
- Impact of Change of Tax Rate on Revaluation Reserve	-	503	-	310
Other Comprehensive Income	**6,666**	**4,308**	**6,666**	**310**
Total Comprehensive Income	**12,111**	**7,826**	**11,030**	**6,251**

Statements of Changes in Equity

For the year ended 31 March 2012

	Note	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Total Comprehensive Income					
Net Surplus for the Year		5,445	3,518	4,364	5,941
Other Comprehensive Income		6,666	4,308	6,666	310
		12,111	7,826	11,030	6,251
Distributions to Shareholders					
Dividend Paid/Declared		(4,700)	(4,500)	(4,700)	(4,500)
		(4,700)	(4,500)	(4,700)	(4,500)
Changes in Equity for the Year		**7,411**	**3,326**	**6,330**	**1,751**
Equity at Beginning of Year		**74,743**	**71,417**	**68,683**	**66,932**
Equity at End of Year	(5)	**82,154**	**74,743**	**75,013**	**68,683**

The accompanying notes on pages 13 to 33 form part of and should be read in conjunction with these financial statements.

Statements of Financial Position

As at 31 March 2012

	Note	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Equity					
Share Capital	(5)	13,000	13,000	13,000	13,000
Reserves	(5)	27,313	20,789	20,400	13,876
Retained Earnings	(5)	41,841	40,954	41,613	41,807
Total Equity		82,154	74,743	75,013	68,683
Represented By:					
Current Assets					
Cash and Cash Equivalents	(6)	2,641	4,565	2,500	4,127
Receivables and Prepayments	(7)	2,477	2,185	1,029	773
Inventories		95	102	-	-
Construction Work in Progress		24	21	-	-
Total Current Assets		5,237	6,873	3,529	4,900
Non Current Assets					
Investments in Associates	(8)	7,426	7,132	1,174	3,424
Investment in Subsidiary	(9)	-	-	30,431	28,362
Investments in Joint Ventures	(10)	-	-	1,330	1,450
Property, Plant and Equipment	(11)	107,814	99,045	73,878	65,054
Capital Work in Progress		3,121	2,345	1,879	1,670
Intangibles	(12)	158	209	-	-
Total Non Current Assets		118,519	108,731	108,692	99,960
Total Assets		123,756	115,604	112,221	104,860
Current Liabilities					
Creditors and Accruals	(13)	2,712	2,526	2,277	1,702
Employee Entitlements	(14)	159	157	-	-
Dividend Payable		4,700	4,500	4,700	4,500
Income Tax Payable		530	437	381	291
Shareholder Advance	(15)	-	2,000	-	2,000
Total Current Liabilities		8,101	9,620	7,358	8,493
Non Current Liabilities					
Shareholder Advance	(15)	16,000	16,000	16,000	16,000
Deferred Tax Liabilities	(16)	17,501	15,241	13,850	11,684
Total Non Current Liabilities		33,501	31,241	29,850	27,684
Total Liabilities		41,602	40,861	37,208	36,177
Net Assets		82,154	74,743	75,013	68,683

The accompanying notes on pages 13 to 33 form part of and should be read in conjunction with these financial statements.

Statements of Cash Flows

For the year ended 31 March 2012

	Note	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash Was Provided From:					
Receipts from Customers		26,724	25,537	9,755	9,410
Interest Received		270	381	318	368
Dividends Received		220	416	1,507	2,021
Taxation Refunds		2	43	-	23
		27,216	26,377	11,580	11,822
Cash Was Disbursed To:					
Payments to Suppliers and Employees		13,323	12,048	703	576
Income Tax Paid		1,987	1,497	1,200	790
Interest Paid		1,105	1,235	1,182	1,233
GST Paid/(Received)		6	(40)	(99)	(83)
		16,421	14,740	2,986	2,516
Net Cash Flows From Operating Activities	(17)	**10,795**	**11,637**	**8,594**	**9,306**
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash Was Provided From:					
Sale of Property, Plant and Equipment		47	72	38	67
Associates Advances Repaid		2,250	400	4,571	2,371
		2,297	472	4,609	2,438
Cash Was Applied To:					
Purchase of Property, Plant and Equipment		6,474	6,367	4,060	3,870
Investments in Associates		2,042	-	-	-
Advances to Associates		-	-	4,270	1,700
		8,516	6,367	8,330	5,570
Net Cash Flows Used in Investing Activities		**(6,219)**	**(5,895)**	**(3,721)**	**(3,132)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Cash Was Applied To:					
Dividend Payment		4,500	4,300	4,500	4,300
Repayment of Shareholder Advance		2,000	-	2,000	-
Net Cash Flows Used in Financing Activities		**(6,500)**	**(4,300)**	**(6,500)**	**(4,300)**
Net Increase/(Decrease) in Cash and Cash Equivalents Held		(1,924)	1,442	(1,627)	1,874
Add Opening Cash Brought Forward		4,565	3,123	4,127	2,253
Closing Cash and Cash Equivalents Carried Forward	(6)	**2,641**	**4,565**	**2,500**	**4,127**

The accompanying notes on pages 13 to 33 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 28 June 2012.

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.

Every five years, the company obtains a valuation of their electricity distribution network, determined by independent valuers, in accordance with their accounting policy. The valuation of the Company's electricity distribution network was performed as at 1 April 2011. The best evidence of fair value is discounted cash flow methodology. The major presumptions used include discount rate, growth rate and future cash flows. Changes in future cash flows arising from changes in regulatory review may result in the fair value of the electricity distribution network being different from previous estimates.

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.

Notes to and Forming Part of the Financial Statements

For the year ended 31 March 2012

New Standards Adopted

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2011;

NZ IAS 24 - Related Party Disclosures and IFRS 7 - Financial Instruments: Disclosures

The above standards came into effect from January 2011. The Group is adhering to the new standards.

Standards or Interpretations not yet Effective

Various standards, amendments and interpretations have been issued by the External Reporting Board (XRB) but not yet adopted by Electricity Invercargill Limited as they are not yet effective.

NZ IFRS 9: Financial Instruments - Phase 1: Classification and Measurement

NZ IFRS 9 Phase 1 was issued in November 2009 and is effective for the financial statements issued for the fiscal years beginning on or after 1 January 2015.

The new standard simplifies the classification criteria for financial assets, compared to the current requirements of NZ IAS 39, which results in a reduced number of categories of financial assets and some consequential amendments to disclosures required by NZ IAS 1 "Presentation of Financial Statements" and NZ IFRS 7 "Financial Instruments: Disclosures". The Company and Group's financial assets and liabilities currently fall into the category of "Loans" and "Receivables" within the NZ IAS 39 classification. If NZ IFRS 9 was adopted, these assets would fall into the definition of the category of "Financial assets and liabilities measured at amortised cost". However, their measurement and disclosure would not be affected. The Company and Group would not have any transactions to disclose under the NZ IAS 1 and NZ IFRS 7 disclosure requirements relating to gains or losses arising on derecognition of financial assets measured at amortised cost. This standard will be adopted when it is effective. There is no intention to adopt earlier.

Financial statement presentation - presentation of other comprehensive income (amendment to IAS1)

This amendment is effective for the financial statements issued for the fiscal years beginning on or after 1 January 2014.

The amendment requires profit or loss and other comprehensive income (OCI) to be presented, either in a single continuous statement or in two separate but consecutive statements. There is little noticeable change from the current requirements. However, the format of the OCI section is required to be changed to separate items that might be recycled from items that will not be recycled. The changes do not effect the measurement of net profit or earnings per share; however, they change the way items of OCI are presented.

This amendment has minimal effect on the Company and Group as they currently have only one immaterial other comprehensive income transaction. This standard will be adopted when it is effective. There is no intention to adopt earlier.

NZ IFRS 10: Consolidated Financial Statements (amendment from May 2011)

The amendment to NZ IFRS 10 from May 2011 is effective for the financial statements issued for the accounting periods beginning on or after 1 January 2013.

The amendment builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess.

Application of this standard is not expected to have a material effect on the entities consolidated in the Electricity Invercargill Limited Group. This standard will be adopted when it is effective. There is no intention to adopt earlier.

NZ IFRS 13: Fair Value Measurement (amendment from May 2011)

The amendment to NZ IFRS 13 from May 2011 is effective for the financial statements issued for the accounting periods beginning on or after 1 January 2013.

The standard provides guidance on how fair value should be applied where its use is already required or permitted by other standards within IFRS, including a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.

Application of this standard is not expected to have a material effect on the Company or Group. This standard will be adopted when it is effective. There is no intention to adopt earlier.

Financial Reporting Standard No. 44 *New Zealand Additional Disclosures* (FRS-44) (approved April 2011)

This standard was approved in April 2011 and is effective for the financial statements issued for the accounting periods beginning on or after 1 July 2011.

This standard sets out New Zealand-specific disclosures for entities that have adopted New Zealand equivalents to International Financial Reporting Standards (NZ IFRS's). The Standard supports the objective of harmonising financial reporting standards in Australia and New Zealand.

Application of this standard is not expected to have a material impact on the Company and Group since the required disclosures are already included in these financial statements.

Amendments to New Zealand Equivalents to International Financial Reporting Standards to Harmonise with International Financial Reporting Standards and Australian Accounting Standards (Harmonisation Amendments) (approved April 2011)

The Financial Reporting Standards Board (FRSB) issued the Harmonisation Amendments for the purpose of harmonising Australian and New Zealand Standards with source IFRS's to eliminate many of the differences between the Standards for profit-oriented entities applying IFRS's as adopted in Australia and New Zealand. The Standard is effective for annual periods beginning on or after 1 July 2011.

It is likely that changes arising from the Harmonisation Amendments will effect the disclosure requirements of the Group financial statements.

IAS 28: Investments in associates and joint ventures

This amendment to IAS 28 is effective for the financial statements issued for the accounting periods beginning on or after 1 January 2013.

Amendments to IAS 28 provide clarification that an entity continues to apply the equity method and does not re-measure its retained interest as part of ownership changes where a joint venture becomes an associate and vice versa. The amendment also introduces a "partial disposal" concept. This amendment is expected to have a minimal effect on the Company and Group as they currently do not expect to have any changes in ownership.

IFRS 11 Joint Ventures

The new standard is effective for the financial statements issued for the accounting periods beginning on or after 1 January 2013.

A distinction has been made between joint ventures and joint operations. The proposals require the accounting to reflect the contractual rights and obligations agreed by the parties. Therefore, a venture recognises the individual assets to which it has rights and the liabilities for which it is responsible regardless of the legal form of the joint arrangement. If a venture only has a right to a share of the outcome of the activities of the joint arrangement (that is, a joint venture), this interest is recognised using the equity method. The option to apply the proportional consolidation method when accounting for jointly controlled entities has been removed.

Accounting for joint arrangements is not driven by the legal form in which the activities take place. The accounting that applies to a joint arrangement in certain circumstances is similar to the accounting that might have applied using proportionate consolidation under the current IAS 31.

The new standard is expected to have a large impact on the Company and Group as they have joint venture arrangements that are accounted for using the proportional consolidation method. As at the issue date of these financial statements the extent of these charges are unknown.

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.

Notes to and Forming Part of the Financial Statements

For the year ended 31 March 2012

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 discounted cash flow 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 can not 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.

Notes to and Forming Part of the Financial Statements

For the year ended 31 March 2012

(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.

Notes to and Forming Part of the Financial Statements

For the year ended 31 March 2012

2. Income

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Operating Revenue				
- Network Charges	25,583	24,146	9,939	9,225
- Fibre Charges	8	-	8	-
Other Income				
- Interest Revenue	277	355	310	369
- Dividends Received	-	-	1,507	2,021
- Other Income	1,411	1,412	40	50
Total Income	**27,279**	**25,913**	**11,804**	**11,665**

3. Expenses

	GROUP 2012	GROUP 2011	PARENT 2012	PARENT 2011
Expenses Include:				
Amortisation of Intangibles	126	120	-	1
Auditors' Remuneration:				
- Audit of Financial Report				
- PricewaterhouseCoopers	47	49	31	33
- Deloitte	7	8	-	-
- Other Services				
- PricewaterhouseCoopers	79	35	63	25
- Deloitte	6	2	-	-
Bad Debts Written Off	3	2	-	-
Depreciation				
- Buildings	20	17	-	-
- Office Equipment and EDP Hardware	78	92	-	-
- Plant and Equipment	42	44	-	-
- Motor Vehicles	9	10	-	-
- Fibre Assets	12	-	12	-
- Metering Assets	364	280	364	280
- Network Assets	4,717	3,997	3,074	2,385
Total Depreciation	5,242	4,440	3,450	2,665
Directors' Fees	266	228	135	115
Donations	1	5	-	-
Employee Benefit Expenses	1,922	1,795	-	-
Goodwill Impairment	-	3,199	-	-
Interest Expense	1,170	1,212	1,168	1,210
Loss on Disposal of Property, Plant and Equipment	824	147	798	110
Network Costs	2,941	2,653	-	-
Operating Lease Expenses:				
- Tenancy and Repeater Site Leases	55	52	-	-
- Motor Vehicle Leases	57	55	-	-
- Office Equipment Leases	9	7	-	-
- Transpower Leases	492	508	-	-
Scholarships and Awards	2	2	-	-
Subvention Payment	294	222	-	-
Transmission Costs	5,660	5,302	-	-

Notes to and Forming Part of the Financial Statements

For the year ended 31 March 2012

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.

	Note	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Operating Surplus Before Income Tax		**7,191**	**4,792**	**5,231**	**6,384**
Income Not Taxable					
- Exempt Dividends Received		-	-	(1,507)	(2,021)
- Capital Contributions (1)		-	13	-	20
- Goodwill Impairment		-	3,199	-	-
- Equity Accounting Earnings of Associates		(720)	(640)	-	-
Loss Offset (utilised)		(1,000)	(362)	(1,000)	(362)
Expenses not Deductible		(50)	(7)	(2)	-
Taxable Income		5,421	6,995	2,722	4,021
Prima Facie Taxation at 28% (30% prior periods)		1,518	2,098	762	1,206
Made up of:					
Current Tax		1,850	1,816	1,188	1,155
Deferred Tax	(16)	(332)	282	(426)	51
		1,518	2,098	762	1,206
Under/(Over) Provisions in Prior Years		228	(245)	105	(239)
Impact of Change in Tax Rate (2)	(16)	-	(579)	-	(524)
Taxation Expense for Year		**1,746**	**1,274**	**867**	**443**
Effective Tax Rate		24.3%	26.6%	16.6%	6.9%

(1) Note that from 21 May 2010, capital contributions are taxed over 10 years

(2) A change in the company tax rate from 30% to 28% effective 1 April 2011 has been accounted for as a decrease of $579,000 (Parent: $524,000) in the taxation expense for the 2011 year.

Tax Losses Transferred Within the Group

The current tax expense is calculated on the assumption that:

Tax losses of $1,000,000 (2011: $362,000) with a tax benefit of $280,000 (2011: $109,000) have been transferred from Invercargill City Holdings Limited Group by way of Group loss offset.

	PARENT 2012 $000	PARENT 2011 $000
Imputation Credit Account		
Credit Balance at Beginning of Year	630	430
Credits:		
Income Tax Payments During Year	1,462	790
Imputation Credits on Dividend Received	586	866
Debits:		
Imputation Credits on Dividend Paid	(1,500)	(1,433)
Income Tax Refund During Year	(274)	(23)
Credit Balance at End of Year	**904**	**630**

The Imputation Credit Account relates to Electricity Invercargill Limited.

5. Equity

The authorised and issued share capital comprises 13 million ordinary shares (2011: 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	
	2012 $000	2011 $000	2012 $000	2011 $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	17,989	13,708	11,076	10,793
Impact of change of Tax Rate	-	503	-	310
Revaluation	6,666	3,805	6,666	-
Revaluation Write Downs due to Asset Disposal	(142)	(27)	(142)	(27)
Closing Balance	24,513	17,989	17,600	11,076
Total Reserves	**27,313**	**20,789**	**20,400**	**13,876**
Retained Earnings				
Opening Balance	40,954	41,909	41,807	40,339
Net Surplus	5,445	3,518	4,364	5,941
Revaluation Write Downs due to Asset Disposal	142	27	142	27
Dividend Declared/Paid	(4,700)	(4,500)	(4,700)	(4,500)
Total Retained Earnings	**41,841**	**40,954**	**41,613**	**41,807**
Total Equity	**82,154**	**74,743**	**75,013**	**68,683**

	Cents per Share	Cents per Share
Dividend per Share	36.1	34.6

6. Cash and Cash Equivalents

Current Account	50	(52)	40	(66)
Bank Deposits (Short term)	2,591	4,617	2,460	4,193
Total Cash and Cash Equivalents	**2,641**	**4,565**	**2,500**	**4,127**

7. Receivables and Prepayments

Trade Debtors	2,387	2,104	1,013	757
Prepayments	90	81	16	16
Total Receivables and Prepayments	**2,477**	**2,185**	**1,029**	**773**

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 2% 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.

Notes to and Forming Part of the Financial Statements

For the year ended 31 March 2012

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
Peak Power Services Limited	NZ	25%	31 March

On 21 February 2012, Power Services Limited, an associate of the Group, acquired a 51% shareholding in Peak Power Services Limited, a lines contracting business. Because the Group has a 49% shareholding in Power Services Limited it is therefore deemed to have a 25% interest in Peak Power Services Limited.

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

	GROUP	
	2012 $000	2011 $000
Share of Surplus Before Taxation	1,020	1,025
Less Taxation Expense	(300)	(385)
Total Recognised Revenues and Expenses	**720**	**640**

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

	2012 $000	2011 $000
Carrying Amount at Beginning of Year	7,132	7,308
Investments in Associates	2,250	-
Total Recognised Revenues and Expenses	720	640
Increase (Decrease) in Advances to Associates	(2,250)	(400)
Dividends Received/Declared	(426)	(416)
Carrying Amount at End of Year	**7,426**	**7,132**

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

	2012 $000	2011 $000
Revenue	21,428	20,578
Expenses	(19,386)	(18,676)
Profit/(Loss)	**2,042**	**1,902**
Current Assets	7,154	5,661
Non Current Assets	18,197	14,622
Current Liabilities	(4,103)	(3,102)
Non Current Liabilities	(6,849)	(8,120)

The Parent's advances to associates are as follows:

	PARENT	
	2012 $000	2011 $000
Advances to Associates	**1,174**	**3,424**

The advances are repayable on demand, but with a 13 month period of notice. The advances incur interest at 2.00% above the 90 day bank bill rate.

Notes to and Forming Part of the Financial Statements

For the year ended 31 March 2012

9. Investment in Subsidiary

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

	Percentage Held By Group		
	2012	2011	Balance Date
Pylon Limited	100%	100%	31 March

	PARENT	
	2012 $000	2011 $000
Shares in Subsidiary	26,901	26,901
Advance to Subsidiary	3,530	1,461
Total Investment in Subsidiary	**30,431**	**28,362**

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

10. Investment 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	2012	2011	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:

	2012 $000	2011 $000
Revenue	26,968	25,534
Expenses	(14,178)	(16,490)

Financial Position

The Group's share of assets and liabilities consolidated on a line-by-line basis was:

	2012 $000	2011 $000
Current Assets	1,503	1,857
Non Current Assets	35,420	34,948
Current Liabilities	(2,421)	(2,345)
Non Current Liabilities	-	-
Net Assets Employed in Joint Venture	**34,502**	**34,460**

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

	PARENT	
	2012 $000	2011 $000
Advances to Joint Ventures	1,330	1,450

The advances are repayable on demand, but with a 13 month period of notice. The advances incur interest at 2.00% above the 90 day bank bill rate.

Notes to and Forming Part of the Financial Statements

For the year ended 31 March 2012

11. Property, Plant and Equipment

PARENT

	Network Assets $000	Meters $000	Fibre $000	Buildings $000	Total $000
Cost or Valuation					
Balance at 1 April 2010	69,174	4,209	-	-	73,383
Additions	2,555	278	171	-	3,004
Disposals	(211)	-	-	-	(211)
Balance at 31 March 2011	**71,518**	**4,487**	**171**	**-**	**76,176**
Balance at 1 April 2011	71,518	4,487	171	-	76,176
Revaluation	(164)	-	-	-	(164)
Additions	3,087	71	682	12	3,852
Disposals	(847)	-	-	-	(847)
Balance at 31 March 2012	**73,594**	**4,558**	**853**	**12**	**79,017**
Depreciation and Impairment Losses					
Balance at 1 April 2010	7,071	1,419	-	-	8,490
Depreciation for Year	2,385	280	-	-	2,665
Impairment Losses	-	-	-	-	-
Disposals	(33)	-	-	-	(33)
Balance at 31 March 2011	**9,423**	**1,699**	**-**	**-**	**11,122**
Balance at 1 April 2011	9,423	1,699	-	-	11,122
Effect of Revaluation	(9,423)	-	-	-	(9,423)
Depreciation for Year	3,074	364	12	-	3,450
Impairment Losses	-	-	-	-	-
Disposals	(10)	-	-	-	(10)
Balance at 31 March 2012	**3,064**	**2,063**	**12**	**-**	**5,139**
Carrying Amount/Book Value					
Book Value 31 March 2011	**62,095**	**2,788**	**171**	**-**	**65,054**
Book Value 31 March 2012	**70,530**	**2,495**	**841**	**12**	**73,878**

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

31 March 2011	*46,572*	*2,788*	*171*	*-*	*49,531*
31 March 2012	*45,748*	*2,495*	*841*	*12*	*49,096*

	GROUP							
	Land $000	Buildings $000	Plant and Equipment $000	Motor Vehicles $000	Network Assets $000	Meters $000	Fibre $000	Total $000
Cost or Valuation								
Balance at 1 April 2010	46	413	506	12	101,314	4,209	-	106,500
Revaluation	-	-	-	-	939	-	-	939
Additions	8	91	104	23	4,439	278	171	5,114
Disposals	-	-	(63)	-	(251)	-	-	(314)
Balance at 31 March 2011	54	504	547	35	106,441	4,487	171	112,239
Balance at 1 April 2011	54	504	547	35	106,441	4,487	171	112,239
Revaluation	-	-	-	-	(164)	-	-	(164)
Additions	-	17	54	-	4,735	71	682	5,559
Disposals	-	-	-	(4)	(886)	-	-	(890)
Balance at 31 March 2012	54	521	601	31	110,126	4,558	853	116,744
Depreciation and Impairment Losses								
Balance at 1 April 2010	-	55	299	5	11,568	1,419	-	13,346
Effect of Revaluation	-	-	-	-	(4,497)	-	-	(4,497)
Depreciation for Year	-	17	136	10	3,997	280	-	4,440
Impairment Losses	-	-	-	-	-	-	-	-
Disposals	-	-	(61)	-	(34)	-	-	(95)
Balance at 31 March 2011	-	72	374	15	11,034	1,699	-	13,194
Balance at 1 April 2011	-	72	374	15	11,034	1,699	-	13,194
Effect of Revaluation	-	-	-	-	(9,423)	-	-	(9,423)
Depreciation for Year	-	20	120	9	4,717	364	12	5,242
Impairment Losses	-	-	-	-	-	-	-	-
Disposals	-	(2)	(57)	-	(24)	-	-	(83)
Balance at 31 March 2012	-	90	437	24	6,304	2,063	12	8,930
Carrying Amount/Book Value								
Book Value 31 March 2011	54	432	173	20	95,407	2,788	171	99,045
Book Value 31 March 2012	54	431	164	7	103,822	2,495	841	107,814

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

31 March 2011	*54*	*432*	*173*	*20*	*70,283*	*2,788*	*171*	*73,920*
31 March 2012	*54*	*431*	*164*	*7*	*69,438*	*2,495*	*841*	*73,430*

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 to fair value using discounted cash flow methodology on 1 April 2011 by Ernst & Young, who is an independent valuer. This resulted in a revaluation movement of $9,259,000.

The following valuation assumptions were adopted;

- The free cash flows is based on the company's five year business plan and asset management plan adjusted for non-recurring or non-arms length transactions and for transactions that arise from expansionary growth in the network after the date of the valuation.
- The corporate tax rate used is 28%.
- The weighted average cost of capital (WACC) used is 7.9%.
- The sustainable growth adjustment used is 0%.

The network assets of OtagoNet Joint Venture were revalued on 1 April 2010 by Sinclair Knight Merz (SKM) to depreciated replacement cost and were reviewed for impairment (in conjunction with goodwill) by Ernst & Young. This resulted in the Group recording a revaluation movement of $5,436,000, and goodwill being impaired to nil.

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.

Notes to and Forming Part of the Financial Statements

For the year ended 31 March 2012

12. Intangible Assets

	GROUP			PARENT
	Software $000	Goodwill $000	Total $000	Software $000
Cost				
Balance at 1 April 2010	559	3,199	3,758	1
Additions	74	-	74	-
Disposals	(8)	-	(8)	-
Balance at 31 March 2011	**625**	**3,199**	**3,824**	**1**
Balance at 1 April 2011	625	3,199	3,824	1
Additions	18	-	18	-
Disposals	-	-	-	-
Balance at 31 March 2012	**643**	**3,199**	**3,842**	**1**
Amortisation and Impairment Losses				
Balance at 1 April 2010	304	-	304	-
Amortisation for Year	120	-	120	1
Impairment Losses	-	3,199	3,199	-
Disposals	(8)	-	(8)	-
Balance at 31 March 2011	**416**	**3,199**	**3,615**	**1**
Balance at 1 April 2011	416	3,199	3,615	1
Amortisation for Year	126	-	126	-
Impairment Losses	-	-	-	-
Disposals	(57)	-	(57)	-
Balance at 31 March 2012	**485**	**3,199**	**3,684**	**1**
Carrying Amount/Book Value				
Book Value 31 March 2011	**209**	**-**	**209**	**-**
Book Value 31 March 2012	**158**	**-**	**158**	**-**

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, was stated at cost being the amount recorded under NZ FRS at transition date. Goodwill is not amortised but tested for impairment annually. Goodwill associated with the OtagoNet network assets was reviewed for impairment by Ernst & Young (E&Y) in conjunction with the 1 April 2010 network asset revaluation by Sinclair Knight Merz (SKM). SKM relying on the review by E&Y concluded that the Goodwill should be impaired to a nil value.

13. Creditors and Accruals

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Trade Payables	936	1,354	697	736
Accruals	1,685	1,065	1,483	935
GST Payable	91	107	97	31
Total Creditors and Accruals	**2,712**	**2,526**	**2,277**	**1,702**

14. Employee Entitlements

Balance at Beginning of Year	157	119	-	-
Additional Accrual	91	105	-	-
Amount Utilised	(89)	(67)	-	-
Balance at End of Year	**159**	**157**	**-**	**-**

Employee entitlements include 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.

Notes to and Forming Part of the Financial Statements

For the year ended 31 March 2012

15. Shareholder Advance

	Note	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Invercargill City Holdings					
- Current Portion		-	2,000	-	2,000
- Non Current Portion		16,000	16,000	16,000	16,000
Total Shareholder Advance		**16,000**	**18,000**	**16,000**	**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 7.29% (2011: 6.52%)

16. Deferred Tax Liabilities

	Note	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Balance at the Beginning of the Year		15,241	14,409	11,684	12,467
Charged to the Profit and loss	(4)				
- Temporary Difference Reversals - Depreciation		(405)	270	(433)	51
- Temporary Difference Reversals - Other		73	12	7	-
- Changes in Company Tax Rate		-	(579)	-	(524)
Charged to Equity					
- Changes in Company Tax Rate		-	(502)	-	(310)
- Effect of Revaluation		2,592	1,631	2,592	-
Balance at the End of the Year		**17,501**	**15,241**	**13,850**	**11,684**

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

A change in the company tax rate from 30% to 28% effective 1 April 2011 has been accounted for in a reduction of $1,081,000 (Parent; $834,000) in the deferred tax liability at the end of 2011.

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

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 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Net Surplus After Taxation	5,445	3,518	4,364	5,941
Plus/(Less) Non Cash Items:				
Depreciation	5,242	4,440	3,450	2,665
Amortisation of Software	126	120	-	1
Goodwill Impairment	-	3,199	-	-
Deferred Taxation	(332)	(297)	(427)	(473)
Loss on Sale of Property, Plant and Equipment	824	146	798	110
Share of (Profit)/Loss of Associates	(502)	(224)	-	-
	5,358	7,384	3,821	2,303
Plus/(Less) Movements in Working Capital:				
Increase/(Decrease) in Payables and Accruals	188	603	575	804
(Increase)/Decrease in Receivables	(292)	1	(256)	108
(Increase)/Decrease in Inventories	4	14	-	-
Increase/(Decrease) in Provision for Taxation	92	117	90	150
	(8)	735	409	1,062
Net Cash Flows From Operating Activities	**10,795**	**11,637**	**8,594**	**9,306**

Notes to and Forming Part of the Financial Statements

For the year ended 31 March 2012

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.

	GROUP		PARENT	
	2012 $000	2011 $000	2012 $000	2011 $000
Capital Commitments	1,968	1,204	1,484	607
Total Capital Commitments	**1,968**	**1,204**	**1,484**	**607**

Operating Lease Commitments

	GROUP 2012 $000	GROUP 2011 $000	PARENT 2012 $000	PARENT 2011 $000
Operating lease commitments are payable as follows:				
- Not later than one year	543	581	-	-
- Later than one year and not later than two years	474	506	-	-
- Later than two years and not later than five years	923	886	-	-
- Later than five years	7,163	7,621	-	-
Total Operating Lease Commitments	**9,103**	**9,594**	**-**	**-**

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

19. Contingent Liabilities

The Company has a contingent liability as at 31 March 2012 of $417,121 (31 March 2011: Nil). This liability relates to an agreement with Smart Co for the Company to provide a subordinated loan to Smart Co once a number of terms have been met.

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 $2,291,000 (2011: $1,804,000) 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 Parent's 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 2012:

	Maturity Dates <1 Month $000	Maturity Dates <1 Year $000	Maturity Dates 1-3 Years $000	Total $000
Financial Assets				
Cash and Cash Equivalents	2,641	-	-	2,641
Trade and Other Receivables	2,181	206	-	2,387
Construction Work In Progress	-	24	-	24
	4,822	230	-	5,052
Financial Liabilities				
Trade Payables	936	-	-	936
Accruals	-	1,685	-	1,685
Advances	-	-	16,000	16,000
Dividend Payable	-	4,700	-	4,700
	936	6,385	16,000	23,321

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 2012:

Financial Assets				
Cash and Cash Equivalents	2,500	-	-	2,500
Trade and Other Receivables	1,013	-	-	1,013
Advances	-	-	6,034	6,034
	3,513	-	6,034	9,547
Financial Liabilities				
Trade Payables	697	-	-	697
Accruals	-	1,483	-	1,483
Advances	-	-	16,000	16,000
Dividend Payable	-	4,700	-	4,700
	697	6,183	16,000	22,880

Advances to associates, subsidiaries and joint ventures, are repayable on demand but with a 13 month notice period. The $16 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 2011:

Financial Assets				
Cash and Cash Equivalents	4,565	-	-	4,565
Trade and Other Receivables	2,104	-	-	2,104
Construction Work In Progress	-	21	-	21
	6,669	21	-	6,690
Financial Liabilities				
Trade Payables	1,355	-	-	1,355
Accruals	-	1,065	-	1,065
Advances	-	2,000	16,000	18,000
Dividend Payable	-	4,500	-	4,500
	1,355	7,565	16,000	24,920

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

Notes to and Forming Part of the Financial Statements
For the year ended 31 March 2012

The following table details the Parent's exposure to liquidity risk as at 31 March 2011:

	Maturity Dates <1 Month $000	Maturity Dates <1 Year $000	Maturity Dates 1-3 Years $000	Total $000
Financial Assets				
Cash and Cash Equivalents	4,127	-	-	4,127
Trade and Other Receivables	757	-	-	757
Advances	-	-	6,335	6,335
	4,884	-	6,335	11,219
Financial Liabilities				
Trade Payables	735	-	-	735
Accruals	-	935	-	935
Advances	-	2,000	16,000	18,000
Dividend Payable	-	4,500	-	4,500
	735	7,435	16,000	24,170

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 to 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 2012:

	Variable Interest Rate $000	Maturity Dates <1 Year $000	Non Interest Bearing $000	Total $000
Financial Assets				
Cash and Cash Equivalents	2,641	-	-	2,641
Trade and Other Receivables	-	-	2,387	2,387
	2,641	-	2,387	5,028
Financial Liabilities				
Trade and Other Payables	-	-	2,621	2,621
Advances	16,000	-	-	16,000
	16,000	-	2,261	18,621

The following table details the Parent's exposure to interest rate risk as at 31 March 2012:

Financial Assets				
Cash and Cash Equivalents	2,500	-	-	2,500
Advances	2,504	-	3,530	6,034
Trade and Other Receivables	-	-	1,013	1,013
	5,004	-	4,543	9,547
Financial Liabilities				
Trade and Other Payables	-	-	2,180	2,180
Advances	16,000	-	-	16,000
	16,000	-	2,180	18,180

The following table details the Group's exposure to interest rate risk as at 31 March 2011:

	Variable Interest Rate $000	Maturity Dates <1 Year $000	Non Interest Bearing $000	Total $000
Financial Assets				
Cash and Cash Equivalents	4,565	-	-	4,565
Trade and Other Receivables	-	-	2,104	2,104
	4,565	-	2,104	6,669
Financial Liabilities				
Trade and Other Payables	-	-	2,420	2,420
Advances	18,000	-	-	18,000
	18,000	-	2,420	20,420

The following table details the Parent's exposure to interest rate risk as at 31 March 2011:

	Variable Interest Rate $000	Maturity Dates <1 Year $000	Non Interest Bearing $000	Total $000
Financial Assets				
Cash and Cash Equivalents	4,127	-	-	4,127
Advances	4,874	-	1,461	6,335
Trade and Other Receivables	-	-	757	757
	9,001	-	2,218	11,219
Financial Liabilities				
Trade and Other Payables	-	-	1,670	1,670
Advances	18,000	-	-	18,000
	18,000	-	1,670	19,670

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 $48,000 (2011: $77,000).

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.

Notes to and Forming Part of the Financial Statements
For the year ended 31 March 2012

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 and Peak Power Services Limited through Power Services 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 an arms length and 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:

	2012 $000	2011 $000
Goods and Services Supplied to:		
PowerNet Limited (Joint Venture)	9,997	9,273
Electricity Southland Limited (Associate)	115	108
Otago Power Services Limited (Associate)	14	11
Power Services Limited (Associate)	34	27
Receivables Outstanding at Balance Date		
PowerNet Limited (Joint Venture)	965	716
Electricity Southland Limited (Associate)	28	25
Otago Power Services Limited (Associate)	3	3
Power Services Limited (Associate)	8	6
Goods and Services Supplied by:		
PowerNet Limited (Joint Venture)	3,860	3,783
Invercargill City Holdings Limited (Other Related Party)	1,318	1,360
Power Services Limited (Associate)	33	42
The Power Company Limited (Other Related Party)	-	1
Creditors Outstanding at Balance Date		
PowerNet Limited (Joint Venture)	533	688
Invercargill City Holdings Limited (Other Related Party)	97	97
Power Services Limited (Associate)	13	-
Dividends Paid to:		
Invercargill City Holdings Limited (Other Related Party)	4,500	4,300
Dividends Paid by:		
Pylon Limited (Subsidiary)	1,507	2,021
Advances Provided to (Repaid by):		
PowerNet Limited (Joint Venture)	(120)	(80)
Electricity Southland Limited (Associate)	(2,250)	(400)
Pylon Limited (Subsidiary)	2,069	(191)
Advances Repaid to:		
Invercargill City Holdings Limited (Other Related Party)	2,000	-

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 and OtagoNet Joint Venture 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 $121,000 (2011: $76,000) of which $4,000 (incl GST) (2011: $7,000 (incl GST)) is owing at balance date.

Electricity Invercargill Groups share of fees for taxation advice paid to WHK (of which Philip Mulvey is Chief Executive and Duncan Fea is a Principal) during the year amounted to $7,000 (excl GST) (2011: $2,000 (excl GST) of which $0 (incl GST) (2011: $200 (incl GST)) is owing at balance date.

All transactions between Electricity Invercargill, OtagoNet Joint Venture, PowerNet Limited and AWS Legal and WHK relate to normal trading activities and have been conducted on an arms length and commercial basis.

Electricity Invercargill Limited and OtagoNet Joint Venture have held term investments with SBS Bank of which Ross Smith is Chief Executive. Electricity Invercargill Limited received $93,000 interest (paid and accrued) during the year from SBS Bank (31 March 2011: $170,000) and holds term investments at balance date amounting to $2,460,000 (31 March 2011: $4,193,000).

Pylon Limited's share of OtagoNet Joint Venture's interest (paid and accrued) during the year from SBS Bank was $2,246 (31 March 2011: $2,452), and Pylon's share of OtagoNet Joint Venture's term investment with the SBS Bank at balance date amounting to $22,000 (31 March 2011: $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	
	2012 $000	2011 $000	2012 $000	2011 $000
Salaries and Short-term Employee Benefits	801	694	135	115

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

No subsequent events have occurred which would materially affect these accounts.

Audit Report

PricewaterhouseCoopers
5 Sir Gil Simpson Drive
Burnside
PO Box 13244
Christchurch 8053
New Zealand
Telephone +64 3 374 3000
Facsimile +64 3 374 3001
www.pwc.com/nz

Independent Auditor's Report

To the readers of Electricity Invercargill Limited and Group's financial statements and performance report for the year ended 31 March 2012.

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 report of the company and group on her behalf.

We have audited:

- the financial statements of the company and group on pages 9 to 33, that comprise the statements of the financial position as at 31 March 2012, the statements of financial performance, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the financial measures within the statement of service performance of the company and group on page 5.

Opinion

Financial statements and the performance report

In our opinion:

- the financial statements of the company and group on pages 9 to 33:
  - comply with generally accepted accounting practice in New Zealand;
  - 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 2012; and
    - financial performance and cash flows for the year ended on that date;
- the financial measures within the statement of service performance of the company and group on page 9:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the company and group's achievements measured against the financial measures adopted for the year ended 31 March 2012.

Other legal requirements

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 28 June 2012. This 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 our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and performance report are free from material misstatement.

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

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and performance report. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and performance report whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements and performance report that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and performance report; and
- the overall presentation of the financial statements and performance report.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance report. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board of Directors

The Board of Directors is responsible for preparing financial statements and a performance report that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company and group's financial position, financial performance and cash flows; and
- give a true and fair view of the company and group's service performance achievements.

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

The Board of Directors' responsibilities arise from the Energy Companies Act 1992 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our 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 New Zealand Institute of Chartered Accountants.

In addition to the audit, we have carried out assignments in the areas of compliance with the Electricity Distribution (Information Disclosure) Requirements 2008 and other regulatory requirements of the Commerce Act 1986, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with, or interests in, the Company or any of its subsidiaries.

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

33/11kV transformer at Doon Street substation

Recording the position of underground cables

Southland Warm Homes Trust - Warming up Southland homes

Annual report designed by Allan Derrick Advertising and Design
Photos by Envious Photography

This Annual Report is printed on environmentally sustainable paper using soy based inks.