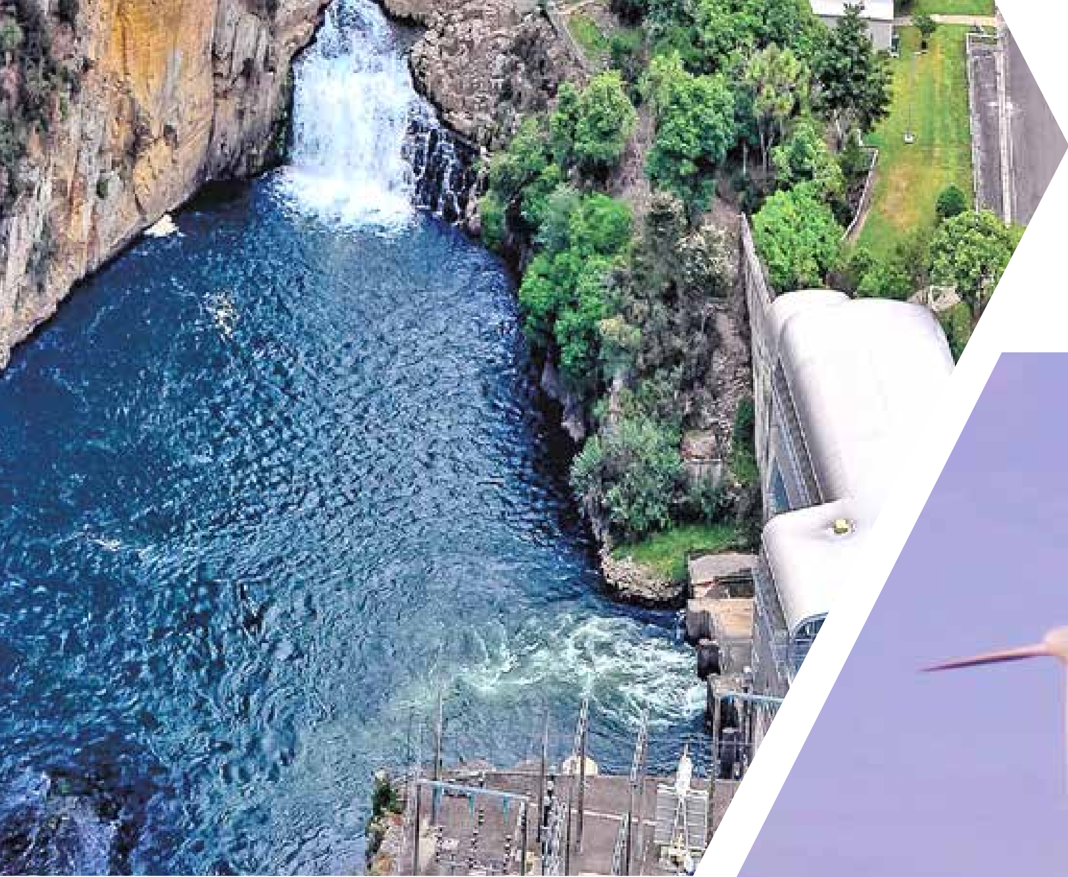

Electricity Invercargill Ltd

Annual **Report** 2016

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Directory

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on behalf of the Office of the Auditor-General

Solicitors
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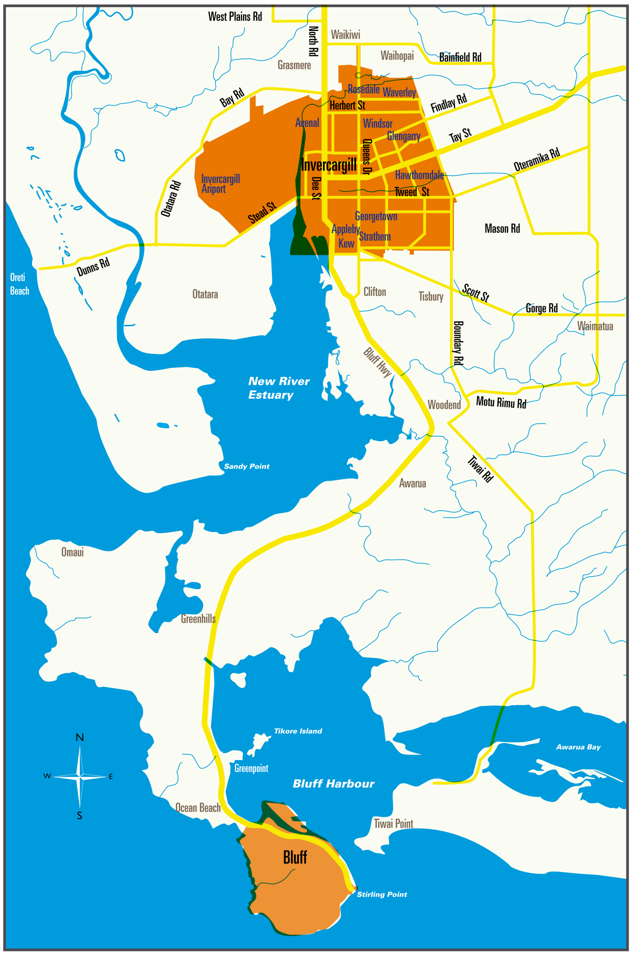
Map of EIL Area



Front Cover, Top left: Aniwhenua hyrdro-electric power station, Bay of Plenty
Centre right: Flat Hill Wind Farm, Bluff
Bottom left: Mt Stuart Wind Farm, Lawrence

Company Profile

Electricity Invercargill Limited (EIL) was formed in 1991 and is one of the best-performing network owners in New Zealand on the key measures of reliability and efficiency.

EIL is owned by the Invercargill City Council through subsidiary company Invercargill City Holdings Limited.

The Company supplies 17,362 customers - 88% of them residential - through our electricity network in Invercargill City and the Bluff area.

Invercargill City Holdings holds 100% ownership and receives an annual dividend from EIL. EIL previously operated as the Invercargill Municipal Electricity Department.

The foresight of EIL's management and directors to underground most of the network over a 45 year period from the late 1960s has made it one of the most reliable networks in New Zealand. The vision of our governing body continues, with a commitment to reducing the overall age of our network and continuously improving our assets to ensure safety, capacity and reliability.

The Regulatory Value of the EIL network assets is $72 million. This includes 670km of predominantly underground cables and some overhead lines and 449 distribution transformers with a capacity of 151.5MVA.

In 2015 EIL, together with sister company The Power Company Limited, purchased a 50 percent interest in the Southern Generation Limited Partnership (SGLP), a partnership which owns Mt Stuart Wind Farm near Lawrence and Flat Hill Wind Farm in Bluff. In November 2015, SGLP committed to the purchase of the Aniwhenua hydro-electric power station in the North Island.

EIL contracts PowerNet Limited (PowerNet) to manage, operate, upgrade, construct and maintain its network and metering assets. PowerNet's costs are recovered through a charging regime on capital and maintenance work and an agency fee for management services.

PowerNet acts as agent for EIL and charges line and metering charges to electricity retailers, pays transmission costs and passes the revenue and expenses through to EIL.

The revenue provides a return on investment to EIL and recovers EIL's overheads, depreciation and operating costs.

Other revenue is derived from the capital contributions of customers connecting new installations to the network and the commercial returns from the Company's investments in the OtagoNet Joint Venture, Electricity Southland Limited, PowerNet Limited and the new generation assets EIL owns in conjunction with sister company The Power Company Limited and Pioneer Energy Limited.

EIL Statistics as at 31 March 2016	
Connected Consumers	17,362
Residential	15,268
Industrial	130
Commercial	1,964
Network Length	670km
Consumer Density	25.9 consumers/km
Number of Distribution Transformers	449
Distribution Transformer Density	226.2kVA/km
Maximum Demand	66MW
Total Energy Conveyed	280GWh
Regulatory Value	$72 million

Jason Nicolson, PowerNet working on an underground link box

Our Stakeholders

PowerNet Limited

Electricity Invercargill Limited has a 50% shareholding in PowerNet Limited, a joint venture with The Power Company Limited (TPCL).

PowerNet was established in 1994 by EIL and TPCL to achieve economies of scale through integrated network management and is contracted to manage the network and metering assets.

Since its inception, PowerNet has led the way in electricity network management and currently manages assets with a Regulatory Value of $546 million.

PowerNet manages EIL's capital and maintenance works programme which constitutes the major part of the Business Plan approved by the Company's Directors.

It also operates a 24-hour, 7-day a week, System Control centre that provides a high level of monitoring and control of the network operations. PowerNet publishes its own Annual Report. Its performance is judged by the value and efficiency of its network asset management and business development for the company and its stakeholders.

Electricity Southland Limited

Electricity Southland Limited (ESL) which owns a network at Frankton in Queenstown is an electricity network asset company formed in 1995 by EIL and TPCL. The ESL network continues to grow rapidly, mainly due to customer connections at the new Shotover Country Subdivision, Lakes Edge, Remarkables Park and Shotover Park developments. EIL holds 24.9% of ESL.

OtagoNet Joint Venture

EIL holds 24.9% of the OtagoNet Joint Venture (OJV), with sister company TPCL holding the remaining 75.1%.

OJV was formed in 2002 following the purchase of the electricity network assets from the shareholders of the consumer co-operative company Otago Power Limited. OJV has 14,866 customers 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 joint venture has a Regulatory Value of $159 million.

Otago Power Services Limited was integrated into the wider PowerNet Group over the course of the 2015/16 year and now contributes to the Group delivering a wide range of services for the network assets.

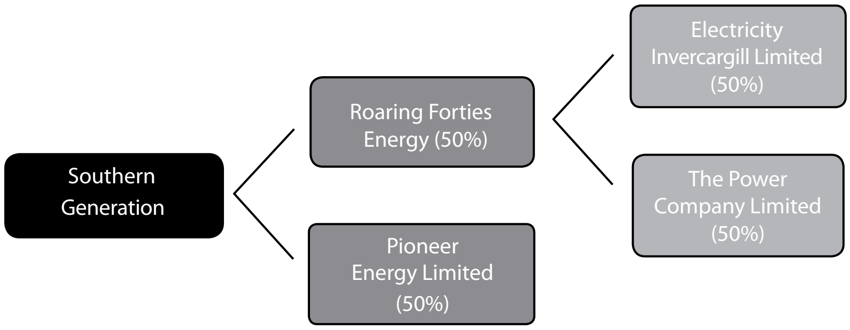
Southern Generation Limited Partnership

Wind energy generation continues to grow in the South. In April 2015 EIL joined with TPCL and Pioneer Energy Limited to create the new Southern Generation Limited Partnership (SGLP). The partnership owns two wind farms – Mt Stuart near Lawrence and Flat Hill near Bluff. In addition there are five wind testing sites within the Otago and Southland region.

In April 2016 SGLP completed the purchase of the Aniwhenua hydro-electric power station on the Rangitaiki River in the Bay of Plenty. This asset, coupled with a long term supply agreement to an electricity retailer, adds further asset value to the EIL balance sheet.

This investment and diversification has been a significant strategic development for EIL.

Our Stakeholders *continued*



Southern Generation Limited Partnership structure

The generation output of the two wind generation sites and Aniwhenua hydro-electric power station is assessed at 174 GWh per annum, with Mt Stuart contributing 22 GWh, Flat Hill 25GWh, and Aniwhenua 127GWh. Wind and hydro generation are clean, green renewable energies that fit with EIL's other strategies, including the transition from fossil fuels to renewables where possible.

The total output is equivalent to that required by 20,000 residential homes.

This renewable generation in Southland, Otago and Bay of Plenty is managed by our partner Pioneer Energy Limited. EIL and TPCL jointly own 50 percent of SGLP through our joint venture Roaring Forties Energy Limited Partnership (RFELP) and Pioneer Energy Limited owns the remaining 50 percent.

The total value of SGLP is $150 million, made up of $30 million of wind and $120 million of hydro-electricity.

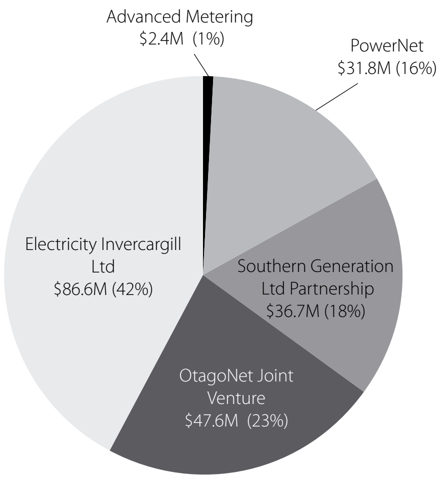
The Return on Investment for RFELP makes this investment by EIL into distributed renewable energy generation a key strategic asset.

Electricity Invercargill Group - Asset Breakdown

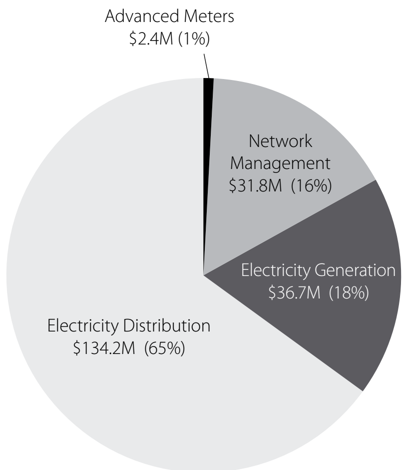
The investment make-up by Asset Investment and Investment Type clearly illustrates the EIL strategy of diversification being achieved within the electricity sector. Historically the predominant investment was the Invercargill/Bluff electricity network. That investment now makes up 42 percent of the investment portfolio. Furthermore, while electricity distribution as an investment type makes up a majority 65 percent, the significant diversification into electricity generation in particular is significant.

This diversification is important in order to secure long-term, sustainable investment returns.

Asset Investment $205.1 million



Investment Type $205.1 million



The Year in Review

Operational Performance

EIL had another significant year in 2015/16, with major works including the new Spey Street Zone Substation completion and underground substation replacements to the forefront. The second transformer at Spey Street Zone Substation was livened in March with all the 11kV load from the old Doon Street Zone Substation transferred to the new site.

The work on transferring underground substations to above ground in Invercargill continued, with the 50-year-old substation under the Kelvin Hotel replaced in March. This programme is a major workplace safety and network reliability initative. Design work for the upgrade of Southern Zone Substation was completed with construction planned for 2019/20.

These major projects and other projects saw EIL's capital expenditure reach $5.55 million and deliver the ability to improve reliability and supply further growth on the EIL network. Advanced meter installation capital expenditure on the EIL network was $2.36 million during the year, as the meter replacement project continues.

EIL continued maintenance projects, with over $1.35 million spent on operating, monitoring and maintaining network assets in 2015/16. These projects have contributed to maintaining EIL's excellent network reliability.

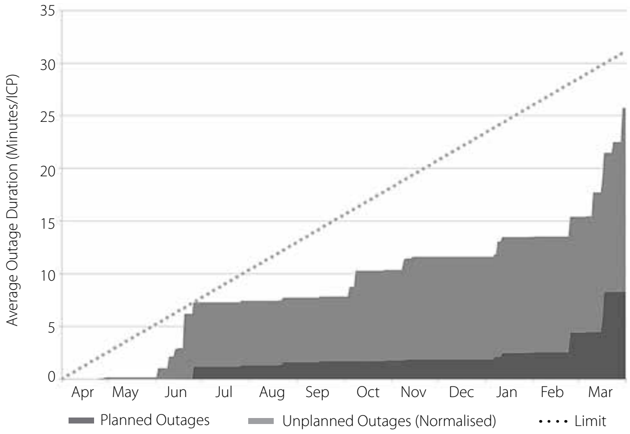
Project	Expenditure
Spey Street Zone Substation - Second Power Transformer and Cables	$2,590,000
Underground 11kV Substation Replacements	$680,000
New Customer Connections	$550,000
400V Link Box Replacements	$430,000
11kV Transformer Replacements	$410,000
Southern Zone Substation Upgrade Design	$290,000
11kV Lines Replacements - Bluff	$270,000

The Year in Review *continued*

The normalised SAIDI minutes of the network was 25.75 which was under the supply quality limit of 31.13, while the normalised SAIFI score of 0.61 was also comfortably under the supply quality limit of 0.77. This is again courtesy of the majority of the network being undergrounded and also to our proactive maintenance and upgrading of assets.

System Average Interruption Duration Index (SAIDI)

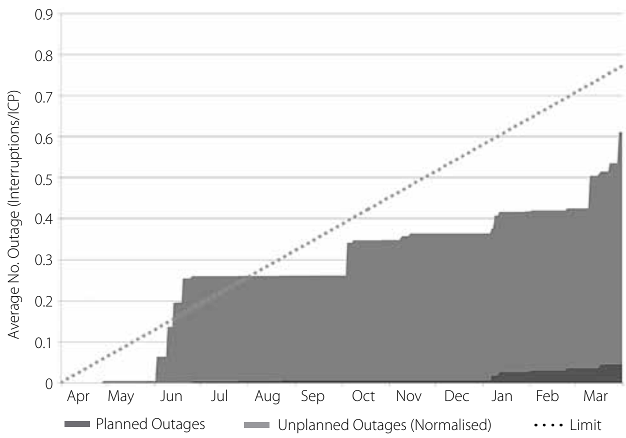
The average total in minutes each customer connected to the network is without supply each year.



SAIDI			
Planned	Unplanned	Quality Limit	Actual
8.27	17.48	31.13	25.75

System Average Interruption Frequency Index (SAIFI)

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



SAIFI			
Planned	Unplanned	Quality Limit	Actual
0.05	0.56	0.77	0.61

The Year in Review *continued*

Regulatory Environment

EIL continues to support the work done on its behalf by PowerNet in relation to the regulatory environment via the Electricity Networks Association through a variety of working groups.

The Groups actively take roles in proactively providing industry direction in areas including the sectors' two regulators, the Commerce Commission (the Commission) and the Electricity Authority (EA). Issues include tree regulations, tariff consolidation, Input Methodologies (IMs), transmission pricing issues and low fixed charge regulations. It is with the low fixed charge regulations that EIL and the energy sector have serious concerns. The politically driven legislated tariff option is providing significant cross subsidies across our consumer groups and promotes inefficient investment in expensive alternative generation compared with lower cost generation options. The regulated tariff is subsidising inefficient investment which will not be in the long term interest of consumers or New Zealand.

As in previous years, the industry continues to work proactively with the Commission and EA with our goal to ensure regulations are targeted, efficient and effective.

The industry is currently encountering proposed regulatory changes in a number of areas including the Commission's review of the IMs which are the rules that govern the regulation of the distribution sector and the EA's Transmission Pricing Methodology (TPM) and Distributed Generation Pricing Principles (DGPP). With one major exception EIL is of the view the proposed changes will see improvements in the sector with sensible proposed changes to the IMs and TPM.

The EA's TPM change attempts to deal with a difficult cost allocation area where there will always be winners and losers. EIL's customers and the Southland region's largest industrial site will materially benefit from the changes. EIL believes the decision to allocate significant North Island grid upgrades to that region is a fair and efficient outcome. Having consumers pay for upgrades they do not benefit from is not efficient and the continuation of the subsidisation could be seriously detrimental to the Invercargill and Southland economies.

EIL's major regulatory concern is the EA's late-in-the-piece, proposed change to remove the DGPP during the TMP consultation. The unintended consequences from the proposal that the EA has not considered will be borne out in submissions. The consultation process is inadequate and the EA needs more time to consider the implications including the potential destruction of significant wealth to embedded generation and the damage to "New Zealand Inc.'s" sovereign risk in the minds of potential investors.

Financial Performance

The Group surplus after tax for the year ended 31 March 2016 of $7.767 million (2015 $7.497 million) is higher than last year and above the target by $1.319 million. The better than targeted outcome was due to an increase in electricity consumption during the year and network assets that were expected to be decommissioned being retained in service. The Company provided for an increased dividend of $6.2 million (2015 – $5.6 million). The EIL investments exceeded expectations both financially and operationally, with all key investments contributing positively to the cash flow and net surplus of the Group.

The operating results, supported by a strong financial position and operating cash flow, have the Company well positioned for the future.

The consolidated result for the Group is:

	31 March 2106 $000	31 March 2015 $000
Operating Surplus before Tax	9,924	10,129
Less Taxation Expenses	(2,157)	(2,632)
Net Surplus after Taxation	7,767	7,497

Acknowledgement

The Directors would like to thank all those who contributed to another successful year for Electricity Invercargill Limited.

We are grateful to the Directors of Invercargill City Holdings Limited for their continued support as our shareholders and appreciate their efforts in underpinning our investments in OJV, SGLP and other assets.

Our partnership with TPCL in key investments is of great importance to us and we thank the Directors of our sister company for their enduring relationship and more recently acknowledge the positively growing relationship with Pioneer Energy Limited, our partner in the SGLP investments in renewable energy.

Our assets would be nothing without the high quality staff and management at PowerNet. The Directors record their appreciative thanks for the work carried out on our behalf by PowerNet during the year to maintain, manage, and grow our safe, efficient and reliable network and generation assets.

Our Community

Asset Management Plan

As in previous years, PowerNet prepared the EIL Asset Management Plan (AMP) which outlines how our network assets are to be managed to provide a safe, efficient and reliable electricity supply and service to the Company's customers and communities over the next 10 years.

The purpose of the AMP is to provide a governance and management framework that EIL works to.

The maximum demand on the network has increased about 0.4 percent per annum over the last 20 years with energy increasing by about 0.2 percent per annum.

The network will be upgraded to meet expected growth with reviews of loadings at zone substations used to trigger actual projects.

The focus over the short to medium term is the completion of the following initiatives:

- Southern Zone Substation design work for the upgrade will include a new building to house new 33kV and 11kV switchboards, supervisory control and data acquistition (SCADA) and control equipment. The design will also allow for the installation and relocation of the refurbished ex-Doon Street transformer as a second unit for firm supply.
- Relocation of underground distribution substations and in-ground link boxes to above ground, a significant workplace and public safety initative.
- Continued seismic strengthening work at zone and distribution substations.
- Neutral earthing resistor (NER) installations at Zone Substations.

These projects will provide for the additional capacity projected and contribute to maintaining network safety, efficiency and reliability.

Additional work over the 10 year planning period aimed at maintaining service levels will include:

- Improving safety at zone substations and on the distribution network.
- Upgrading areas to maintain acceptable voltages.
- Renewing or remedying any underperforming assets.
- Meeting customer and distributed generation requests for new connections.
- Improving efficiency of the network by upgrading assets that have high losses and exchanging overloaded distribution transformers with currently installed under-utilised units.
- Extending remote monitoring and control to distribution devices.

Renewals of transformers, ring main units and pillar boxes are expected to have a significant on-going cost. Capital expenditure each year varies with $3.28 million in 2016/17, then varying between $2.92 million and $4.91 million over the remainder of the 10 year planning horizon.

As in other years, EIL gave customers the chance to have their say and provide input into the Company's plans. The Company undertakes its annual telephone survey of network customers, interviews with some of our larger commercial customers, and invites public comment on the AMP.

The Company works closely with customers and developers planning new connections to the EIL network to understand their plans and then feed these back into our asset management planning.

These customer interactions assists EIL to better understand the needs of stakeholders, and gives us good feedback and planning material for our network.

The EIL AMP can be viewed at: www.eil.co.nz

Supporting our Community

Southland Warm Homes Trust

The annual contribution by EIL to support the Southland Warm Homes Trust (SWHT) is $125,000. EIL supports PowerNet's administration services to the SWHT. The SWHT, in conjunction with the Energy Efficiency and Conservation Authority (EECA), has carried out more than 6,000 insulation and heating retrofits in Southland and West Otago homes since 2008.

Funding under EECA's Healthy Homes Programme is targeted at those who stand to benefit most from having their homes insulated; those being low income households with high health needs, including families with children and the elderly. Landlords with eligible tenants are included but are required to make a contribution.

To be eligible, homes must have been built prior to 1 January 2000, occupants require a Community Services Card (CSC) and those with high health needs to be referred through an approved referral service.

From 1 July 2016 Central Government has announced changes to EECA's funding and narrowed the eligibility criteria for the Healthy Homes programme to apply to landlords with eligible tenants only. The criteria is expected to tie in with the requirements of landlords under the Residential Tenancies Amendment Act 2016 minimum insulation requirements for rental properties.

In addition to the continued EECA/SWHT programme, SWHT and service provider Awarua Synergy have offered a health subsidy of up to $2,000 for households to install insulation.

First Aid Equipment

During the year the EIL Directors donated an Automated External Defibrillator (AED) to the Bluff community. The AED has been installed in a locked box and is publicly available 24/7 outside the Challenge Bluff service station.

Directors' Profiles

Neil Boniface (Chair) JP

Neil is a Director of PowerNet Limited, a Member of the OtagoNet Joint Venture Governing Committee, an Invercargill City Councillor and Chairman of Council's Finance and Policy Committee. He is also Chairman of Invercargill Venue and Events Management Limited and the Southland Warm Homes Trust.

He was awarded a QSO in 2016 for services to local government and the community and also serves on several charitable trusts.

Neil is a Chartered Fellow of the Institute of Directors.

Sarah Brown LLB BA

Sarah joined the Board of Electricity Invercargill Limited in November 2013.

She is the Project Manager for the Southland Regional Development Strategy, has been Council Chair of the Southern Institute of Technology since 2011 and is a Director of PowerNet Limited since April 2015.

Sarah 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 and PowerNet Limited, as well as being the Chair of both the Southland Regional Development Strategy and the Energy Efficiency and Conservation Authority (EECA).

Tom is an Chartered Fellow of the Institute of Directors.

Darren Ludlow

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

He is a fifth-term Invercargill City Councillor and the City's Deputy Mayor. Darren is a Director of PowerNet Limited and a trustee for several community groups.

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

Darren is a Member of the Institute of Directors.

Ross Smith BCom

Ross joined the Board of Electricity Invercargill Limited in November 2003 and is currently Deputy Chair. He was Group Managing Director/CEO of SBS Bank from 1992-2014 and served as a Director on three SBS Group subsidiary companies from 2001-2014.

Ross is also Chair of both PowerNet Limited and Peak Power Services Limited.

Ross is a Member of the Institute of Directors.

Directors' Report

The Directors have pleasure in presenting their Annual Report and Financial Statements for the year ended 31 March 2016.

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 $7,767,000. A dividend of $6,200,000 has been declared payable in July and November 2016 and March 2017. 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	Cancer Society of New Zealand	Director
	Electricity Southland Limited	Director
	Invercargill City Council	Councillor
	Invercargill Venue & Events Management Limited	Chair
	OtagoNet Joint Venture	Member, Governing Committee
	OtagoNet Limited	Director
	OtagoNet Properties Limited	Director
	Otago Southland Division of the Cancer Society	Chair
	PowerNet Limited	Director
	Pylon Limited	Director
	Pylon 2 Limited	Director
	Southland Driving School	Director
	Southland Warm Homes Trust	Trustee
Sarah Brown	PowerNet Limited	Director
	Pylon Limited	Director
	Pylon 2 Limited	Director
	Roaring Forties Energy GP Limited	Director
	Southern Institute of Technology	Chair
	Southern Lakes Education College Limited	Director
	Southland Regional Development Strategy	Project Manager
	Tavendale and Partners	Associate
Thomas Campbell	Energy Efficiency & Conservation Authority	Chair
	GNS Science Limited	Chair
	PowerNet Limited	Director
	Pylon Limited	Director
	Pylon 2 Limited	Director
	Roaring Forties Energy GP Limited	Director
	Southern Generation GP Limited	Director
	Southland Regional Development Strategy Governance Group	Chair
	Todd Corporation Limited	Director
	Todd Offshore Limited	Director
	Venture Southland	Director
Darren Ludlow	Invercargill City Council	Deputy Mayor
	Invercargill Community Recreation & Sports Trust	Trustee
	PowerNet Limited	Director
	Pylon Limited	Director
	Pylon 2 Limited	Director
	Radio Southland	Manager
	Southland Art Foundation	Trustee
	Southland Museum and Art Gallery	Trustee
Ross Smith	Peak Power Services Limited	Chair
	PowerNet Limited	Chair
	Pylon Limited	Director
	Pylon 2 Limited	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	Sarah Brown	-	Director
Thomas Campbell	-	Director	Darren Ludlow	-	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	$53,000	Darren Ludlow	$27,900
Sarah Brown	$27,900	Ross Smith	$27,900
Thomas Campbell	$27,900		

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	$26,200	Darren Ludlow	$26,200
Sarah Brown	$26,200	Ross Smith	$55,625
Thomas Campbell	$30,700		

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 has been no changes in the accounting policies during the year. These accounting policies 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

Tom Campbell
Director

Approval by Directors

The Directors have approved for issue the Financial Statements of Electricity Invercargill Limited for the year ended 31 March 2016 on pages 12 to 33.

Neil Boniface
Chair

Tom Campbell
Director

For and on behalf of the Board of Directors

30 June 2016

Statement of Service Performance

For the Year Ended 31 March 2016

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 2016 $000	Year Ended 31 March 2016 $000	Year Ended 31 March 2015 $000
Financial Measures			
Operating Surplus Before Tax	8,647	9,924	10,129
Operating Surplus After Tax	6,448	7,767	7,497
Earnings Before Interest and Tax to Total Assets (EBIT%)	7.90%	7.42%	7.84%
Return on Equity %	8.30%	8.71%	8.56%
Equity to Total Assets %	56.62%	55.70%	58.07%

Network Reliability Performance

The performance targets for SAIDI (System Average Interruption Duration Index) and SAIFI (System Average Interruption Frequency Index) identified in the Statement of Intent targets were both exceeded during the year. The Statement of Intent targets are lower than the limits set by the Commerce Commission in the Electricity Distribution Services Default Price Path Quality Determination 2015. The audited Default Price Path Annual Compliance Statement for the year to 31 March 2016 shows that EIL has not breached the reliability limits.

Supplementary Information

	Achievement	
	2016	2015
Network Statistics		
Length of overhead line	54 km	54 km
Length of underground cable	616 km	607 km
Total number of interruptions	42	27
Faults per 100km of line	7.90	11.85
Transformer capacity MVA	152	151
Maximum demand kW	66,006	60,730
Energy into network GWh	280	273
Total consumers	17,362	17,368

Statement of Financial Performance

For the Year Ended 31 March 2016

	Note	GROUP 2016 $000	GROUP 2015 $000
Operating Revenue	(2)	20,126	20,040
Other Income	(2)	2,035	2,103
Operating Expenses	(3)	(15,146)	(14,435)
Finance Costs	(3)	(1,956)	(1,698)
Share of Profit of Associates and Joint Ventures	(8/9)	4,865	4,119
Operating Surplus Before Taxation	(4)	**9,924**	**10,129**
Less Taxation Expense			
- Current	(4)	(2,083)	(2,858)
- Deferred	(4/13)	(74)	226
Net Surplus After Taxation		**7,767**	**7,497**

Statement of Comprehensive Income

For the Year Ended 31 March 2016

	2016	2015
Net Surplus After Taxation	**7,767**	**7,497**
Other Comprehensive Income		
- Revaluation	-	2,833
Other Comprehensive Income	**-**	**2,833**
Total Comprehensive Income	**7,767**	**10,330**

Statement of Changes in Equity

For the Year Ended 31 March 2016

	Note	2016	2015
Total Comprehensive Income			
Net Surplus for the Year		7,767	7,497
Other Comprehensive Income		-	2,833
		7,767	10,330
Distributions to Shareholders			
Dividend Paid/Declared		(6,200)	(5,600)
		(6,200)	(5,600)
Changes in Equity for the Year		**1,567**	**4,730**
Equity at Beginning of Year		**87,552**	**82,822**
Equity at End of Year	(5)	**89,119**	**87,552**

The accompanying notes on pages 15 to 33 form part of and should be read in conjunction with these financial statements.

Statement of Financial Position

As at 31 March 2016

	Note	GROUP 2016 $000	GROUP 2015 $000
Equity			
Share Capital	(5)	13,000	13,000
Reserves	(5)	29,804	29,859
Retained Earnings	(5)	46,315	44,693
Total Equity		**89,119**	**87,552**
Represented By:			
Current Assets			
Cash and Cash Equivalents	(6)	207	8,084
Receivables and Prepayments	(7)	2,411	2,667
Total Current Assets		**2,618**	**10,751**
Non Current Assets			
Investments in Associates	(8)	1,554	3,742
Advances to Associates		1,720	4,531
Investments in Joint Ventures	(9)	54,270	43,950
Advances to Joint Ventures		13,430	5,275
Investments in Other Entities		118	72
Property, Plant and Equipment	(10)	84,019	79,919
Capital Work in Progress		2,279	2,525
Total Non Current Assets		**157,390**	**140,014**
Total Assets		**160,008**	**150,765**
Current Liabilities			
Creditors and Accruals	(11)	5,137	6,919
Dividend Payable		6,200	5,600
Income Tax Payable		1,081	1,296
Total Current Liabilities		**12,418**	**13,815**
Non Current Liabilities			
Shareholder Advance	(12)	40,500	31,500
Deferred Tax Liabilities	(13)	17,971	17,898
Total Non Current Liabilities		**58,471**	**49,398**
Total Liabilities		**70,889**	**63,213**
Net Assets		**89,119**	**87,552**

The accompanying notes on pages 15 to 33 form part of and should be read in conjunction with these financial statements.

Statement of Cash Flows

For the Year Ended 31 March 2016

	Note	GROUP 2016 $000	GROUP 2015 $000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Was Provided From:			
Receipts from Customers		21,453	20,940
Interest Received		440	384
Taxation Refunds		57	30
		21,950	21,354
Cash Was Disbursed To:			
Payments to Suppliers and Employees		12,549	8,325
Income Tax Paid		2,355	2,250
Interest Paid		1,983	1,699
GST Paid/(Received)		(296)	(253)
		16,591	12,021
Net Cash Flows From Operating Activities	(14)	**5,359**	**9,333**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash Was Provided From:			
Sale of Property, Plant and Equipment		8	250
Sale of Shares in Associate		4,200	1,700
Dividend Received		3,121	2,661
		7,329	4,611
Cash Was Applied To:			
Purchase of Property, Plant and Equipment		7,986	9,072
Purchase of shares in Associate		-	1,905
Purchase of additional Interest in Joint Ventures		10,588	1,151
Advances to Associates and Joint Ventures		5,391	2,676
		23,965	14,804
Net Cash Flows Used in Investing Activities		**(16,636)**	**(10,193)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash Was Provided From:			
Shareholder Advances Received		9,000	13,500
		9,000	13,500
Cash Was Applied To:			
Dividend Payment		5,600	5,400
		5,600	5,400
Net Cash Flows Used in Financing Activities		**3,400**	**8,100**
Net Increase/(Decrease) in Cash and Cash Equivalents Held		(7,877)	7,240
Add Opening Cash Brought Forward		8,084	844
Closing Cash and Cash Equivalents Carried Forward	(6)	**207**	**8,084**

The accompanying notes on pages 15 to 33 form part of and should be read in conjunction with these financial statements.

Notes to and Forming Part of the Financial Statements

For the Year Ended 31 March 2016

1. Statement of Accounting Policies

Reporting 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 and 9).

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 2013. The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP), and comply with the New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR), and other reporting standards as appropriate for profit oriented entities.

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

The financial statements were approved by the Board of Directors on 30 June 2016.

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 a 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
- Recoverable amount from Cash Generating Units (CGU)
- Joint arrangement classification

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 2012. The best evidence of fair value is discounted cash flow methodology. The major assumptions 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 fair value measurement of the distribution network is categorised under Level 3 of the fair value hierarchy.

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2016

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 CGUs and the amounts of employee entitlements.

New Standards Adopted

There have been no new standards adopted in the current period that have a material effect on the financial statements.

The Group is eligible and has elected to report in accordance with Tier 2 for-profit accounting standards, NZ IFRS Reduced Disclosure Regime (NZ IFRS RDR) by virtue of the fact that it has no public accountability and it is not a large for-profit public sector entity.

In adopting the Reduced Disclosure Regime framework, the Group has taken advantage of a number of disclosure concessions.

The transition date was 1 June 2014, therefore the financial statements for the year ended 31 March 2016 are the first prepared under NZ IFRS RDR. In transitioning from NZ IFRS Differential Reporting to NZ IFRS RDR, the Group has complied with NZ IFRS 1 where applicable, and there have been no changes to equity reported under Tier 2 RDR.

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 (effective for annual periods beginning on or after 1 January 2018)

NZ IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. NZ IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in NZ IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. NZ IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under NZ IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group intends to adopt NZ IFRS 9 on its effective date and has yet to assess its full impact.

IFRS 15, Revenue from contract with customers, (effective for annual periods beginning on or after 1 January 2017)

NZ IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The group intends to adopt NZ IFRS 15 on its effective date and is currently assessing its full impact. This standard is not expected to significantly impact the Group.

Specific Accounting Policies

a) Principles of Consolidation

(i) 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.

(ii) 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 share of the joint venture entities' total recognised gains and losses on an equity accounted basis, from the date joint control commences until the date joint control ceases.

(iii) Transactions eliminated on consolidation

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

b) Revenue

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

(i) Network Charges

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

(ii) Investment Income

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

(iii) Dividend Income

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

(iv) Customer Contributions

Contributions from customers in relation to the construction of new lines for the network and donated assets are accounted for as revenue when the asset is connected to the network.

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.

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2016

d) 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 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

(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.

e) Capital Work in Progress

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

f) Intangible Assets

(i) Goodwill

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

In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous NZ GAAP at the transition date.

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 expenses 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

g) 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.

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2016

h) 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.

i) 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.

j) 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 balance sheet.

(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.

k) 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.

l) Seasonality

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

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2016

2. Income

	GROUP	
	2016 $000	2015 $000
Operating Revenue		
- Network Charges	20,105	20,019
- Fibre Charges	21	21
Other Income		
- Interest Revenue	429	462
- Dividends Received	-	-
- Other Income	1,606	1,641
Total Income	**22,161**	**22,143**

3. Expenses

Expenses Include:

Auditors' Remuneration - PricewaterhouseCoopers		
- Audit of Financial Report	38	36
- Audit of Default Price Path	23	18
- Audit of Regulatory Disclosures	30	28
Other Fees - PricewaterhouseCoopers	-	23
Depreciation		
- Fibre Assets	35	34
- Metering Assets	309	312
- Network Assets	3,223	3,009
Total Depreciation	3,567	3,355
Directors' Fees	165	160
Interest Expense	1,956	1,698
Loss on Disposal of Property, Plant and Equipment	556	11
Network Costs	7,555	7,002
Transmission Costs	5,975	6,167

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2016

4. Taxation

Current tax

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

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

Deferred tax

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

		GROUP	
	Note	2016 $000	2015 $000
Operating Surplus Before Income Tax		**9,924**	**10,129**
Income Not Taxable			
- Equity Accounting Earnings of Associates and Joint Ventures		(1,090)	(331)
Loss Offset (Utilised)		(750)	(750)
Expenses not Deductible		(62)	356
Taxable Income		8,022	9,404
Prima Facie Taxation at 28%		2,246	2,633
Made up of:			
Current Tax		2,295	2,859
Deferred Tax	(13)	(49)	(226)
		2,246	2,633
Under/(Over) Provisions in Prior Years			
Current Tax		(212)	(1)
Deferred Tax		123	-
Taxation Expense for Year		**2,157**	**2,632**
Effective Tax Rate		21.7%	26.0%

Tax Losses Transferred Within the Group

The current tax expense is calculated on the assumption that:

- Tax losses of $750,000 (2015: $1,000,000) with a tax benefit of $210,000 (2015: $280,000) have been transferred from Invercargill City Holdings Limited Group by way of group loss offset.

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2016

5. Equity

The authorised and issued share capital comprises 13 million ordinary shares (2015: 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	
	2016 $000	2015 $000
Contributed Capital		
Share Capital	**13,000**	**13,000**
Reserves		
General Reserve	2,800	2,800
Revaluation Reserve Opening Balance	27,059	24,277
Revaluation	-	2,833
Revaluation Reversal due to Asset Disposal	(55)	(51)
Closing Balance	27,004	27,059
Total Reserves	**29,804**	**29,859**
Retained Earnings		
Opening Balance	44,693	42,745
Net Surplus	7,767	7,497
Revaluation Reversal due to Asset Disposal	55	51
Dividend Declared/Paid	(6,200)	(5,600)
Total Retained Earnings	**46,315**	**44,693**
Total Equity	**89,119**	**87,552**

	Cents per Share	Cents per Share
Dividend per Share	47.7	43.1

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2016

6. Cash and Cash Equivalents

	GROUP	
	2016 $000	2015 $000
Current Account	167	40
Bank Deposits (Short Term)	40	8,044
Total Cash and Cash Equivalents	**207**	**8,084**

7. Receivables and Prepayments

Trade Debtors	2,049	2,077
Prepayments	23	23
GST Receivable	339	567
Total Receivables and Prepayments	**2,411**	**2,667**

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.

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2016

8. Investments in Associates

Associate Companies	Country of Incorporation	Percentage Held By Group 2016	Percentage Held By Group 2015	Balance Date
Electricity Southland Limited	NZ	24.9%	24.9%	31 March
Otago Power Services Limited	NZ	-	50%	31 March

On 2 December 2013, PowerNet Limited, a joint venture of the Group acquired 100% of the share capital of Power Services Limited. Power Services Limited was then amalgamated into PowerNet Limited. PowerNet Limited has from that date a 51% shareholding in Peak Power Services Limited.

On 30 September 2014, the Group purchased an additional 3.2% shareholding in Otago Power Services Limited (a contracting company). On 31 March 2015 an additional 22.30% of shareholding was purchased to attain a share holding of 50%. Goodwill recognised in the acquisition was $1,613,000.

The 50% share holding in Otago Power Services Limited was purchased by PowerNet Limited on 16 February 2016. Following the completion of the acquisition, Otago Power Services Limited was amalgamated with PowerNet Limited on 31 March 2016.

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

	GROUP 2016 $000	GROUP 2015 $000
Share of Surplus Before Taxation	669	485
Less Taxation Expense	(188)	(201)
Total Recognised Revenues and Expenses	**481**	**284**
The Group's interests in associate entities are as follows:		
Carrying Amount at Beginning of Year	3,742	4,536
Investments in Associates	-	291
Total Recognised Revenues and Expenses	481	284
Goodwill on Acquisition	-	1,613
Dividends Received/Declared	(500)	(1,389)
Disposal of Associates	(2,169)	(1,593)
Carrying Amount at End of Year	**1,554**	**3,742**

9. Investment in Joint Ventures

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

Joint Venture	Country of Incorporation	Percentage Held By Group		Balance Date
		2016	2015	
PowerNet Limited Group*	NZ	50%	50%	31 March
OtagoNet Joint Venture**	NZ	24.9%	24.9%	31 March
Roaring Forties Energy Limited Partnership***	NZ	50%	-	31 March

*The PowerNet Limited Group has a 51.7% shareholding in Peak Power Services Limited.

**The Group holds a 25% voting rights over OtagoNet Joint Venture.

***Roaring Forties Energy Limited Partnership has 50% interest in Southern Generation Limited Partnership.

On 31 September 2014, the Group purchased an additional 3.2% interest in OtagoNet Joint Venture. On 31 March 2015, some of this was sold to leave a 24.9% interest in OtagoNet Joint Venture. Goodwill recognised in the acquisition was $693,000.

On April 2015 the Group took a 25% interest in Southern Generation Limited Partnership. This partnership was formed to invest in electricity generation opportunities. During the year, the partnership completed the acquisition of the Mt Stuart and Flat Hill wind farms. The partners also entered in a conditional agreement to purchase the assets relating to Aniwhenua hydro electric power station where a deposit payment was made during the period.

The Group's interests in Joint Venture entities are as follows:

	GROUP	
	2016 $000	2015 $000
Carrying Amount at Beginning of Year	43,950	37,416
Investments in Joint Ventures	10,588	4,392
Total Recognised Revenues and Expenses	4,384	3,835
Goodwill on Acquisition	-	693
Reversal of Gain on Intragroup Restructure	(2,031)	-
Distributions Received	(2,621)	(2,386)
Carrying Amount at End of Year	**54,270**	**43,950**

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2016

10. Property, Plant and Equipment

	GROUP				
	Network Assets $000	Meters $000	Fibre $000	Buildings $000	Total $000
Cost or Valuation					
Balance at 1 April 2014	78,209	4,702	1,025	12	83,948
Additions	11,583	48	18	-	11,649
Disposals	(142)	-	(137)	(12)	(291)
Balance at 31 March 2015	**89,650**	**4,750**	**906**	**-**	**95,306**
Balance at 1 April 2015	89,650	4,750	906	-	95,306
Additions	5,799	2,364	69	-	8,232
Disposals	(134)	(2,036)	-	-	(2,170)
Balance at 31 March 2016	**95,315**	**5,078**	**975**	**-**	**101,368**
Depreciation and Impairment Losses					
Balance at 1 April 2014	9,240	2,742	80	-	12,062
Depreciation for Year	3,009	312	34	-	3,355
Impairment Losses	-	-	-	-	-
Disposals	(21)	-	(9)	-	(30)
Balance at 31 March 2015	**12,228**	**3,054**	**105**	**-**	**15,387**
Balance at 1 April 2015	12,228	3,054	105	-	15,387
Depreciation for Year	3,223	309	35	-	3,567
Impairment Losses	-	-	-	-	-
Disposals	(52)	(1,553)	-	-	(1,605)
Balance at 31 March 2016	**15,399**	**1,810**	**140**	**-**	**17,349**
Carrying Amount/Book Value					
Book Value 31 March 2015	**77,422**	**1,696**	**801**	**-**	**79,919**
Book Value 31 March 2016	**79,916**	**3,268**	**835**	**-**	**84,019**

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

31 March 2015	*54,905*	*1,696*	*801*	*-*	*57,402*
31 March 2016	*57,399*	*3,268*	*835*	*-*	*61,502*

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 was 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 net work after the date of the valuation.
- The corporate tax rate used was 28%.
- The weighted average cost of capital (WACC) used was 7.9%.
- The sustainable growth adjustment used was 0%.

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2016

11. Creditors and Accruals

	Note	GROUP 2016 $000	2015 $000
Trade Payables		3,867	5,492
Accruals		1,180	1,392
Revenue in advance		90	35
GST Payable		-	-
Total Creditors and Accruals		**5,137**	**6,919**

12. Shareholder Advance

Invercargill City Holdings Limited			
- Non Current Portion		40,500	31,500
Total Shareholder Advance		**40,500**	**31,500**

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.

A new general facility agreement for $42 million was entered into with ICHL on 30 June 2016, for a two year term and is extended by one year unless notice is given. ICHL have confirmed that the amounts owing under the existing general facility are not payable for 13 months.

The weighted average interest rate for the loan excluding facility fee is 6.06% (2015: 6.73%)

13. Deferred Tax Liabilities

Balance at the Beginning of the Year		17,898	17,022
Charged to the Profit and loss	(4)		
- Temporary Difference Reversals - Depreciation		(17)	(309)
- Temporary Difference Reversals - Other		90	83
Charged to Equity			
- Effect of Revaluation		-	1,102
Balance at the End of the Year		**17,971**	**17,898**

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

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

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2016

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

The following is a reconciliation between the Net Surplus After Taxation shown in the Statement of Financial Performance and the Net Cash Flows From Operating Activities.

	GROUP	
	2016 $000	2015 $000
Net Surplus After Taxation	**7,767**	**7,497**
Plus/(Less) Non Cash Items:		
Depreciation	3,567	3,355
Deferred Taxation	74	(226)
Loss on Sale of Property, Plant and Equipment	556	11
Loss (Gain) on Sale of Associate	-	(106)
Share of (Profit)/Loss of Associates and Joint Ventures	(4,865)	(4,119)
	(668)	(1,085)
Plus/(Less) Movements in Working Capital:		
Increase/(Decrease) in Payables and Accruals	(1,215)	3,092
(Increase)/Decrease in Receivables	(310)	(807)
Increase/(Decrease) in Provision for Taxation	(215)	636
	(1,740)	2,921
Net Cash Flows From Operating Activities	**5,359**	**9,333**

15. Commitments

Capital Commitments

The Group has capital expenditure contracted for but not provided for in the financial statements.

Capital Commitments	1,686	1,320
Total Capital Commitments	**1,686**	**1,320**

16. Contingent Liabilities

The Company has a contingent liability as at 31 March 2016 of $415,000 (31 March 2015: $415,000). 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.

17. 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.

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 18 Transactions with Related Parties. However, these entities are considered to be high credit quality entities.

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.

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.

Sensitivity Analysis for Interest Rate Change

The Group 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 $74,000 (2015: $70,000).

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.

Notes to and Forming Part of the Financial Statements *continued*

For the Year Ended 31 March 2016

18. 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 Southern Generation Limited Partnership through their wholly owned subsidiary Pylon Limited and Peak Power Services Limited through PowerNet Limited.

All transactions between Electricity Invercargill Limited and related parties relate to the normal trading activities of Electricity Invercargill Limited.

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:

	GROUP	
	2016	2015
	$000	$000
Goods and Services Supplied to:		
PowerNet Limited (Joint Venture)	245	217
Electricity Southland Limited (Associate)	71	74
Otago Power Services Limited (Associate)	33	34
OtagoNet (Joint Venture)	14	50
Receivables Outstanding at Balance Date		
PowerNet Limited (Joint Venture)	76	106
Electricity Southland Limited (Associate)	19	24
Otago Power Services Limited (Associate)	-	9
OtagoNet (Joint Venture)	-	11
Goods and Services Supplied by:		
PowerNet Limited (Joint Venture)	11,042	11,967
Invercargill City Holdings Limited (Other Related Party)	2,334	1,833
Creditors Outstanding at Balance Date		
PowerNet Limited (Joint Venture)	3,545	5,100
Invercargill City Holdings Limited (Other Related Party)	178	157
Dividends Paid to:		
Invercargill City Holdings Limited (Other Related Party)	5,600	5,400
Advances Provided to (Repaid by):		
PowerNet Limited (Joint Venture)	3,667	130
Electricity Southland Limited (Associate)	600	500
Pylon Limited (Subsidiary)	-	-
Otago Power Services Limited (Associate)	(2,296)	1,954
OtagoNet (Joint Venture)	(825)	90
Advances Repaid to (Provided from):		
Invercargill City Holdings Limited (Other Related Party)	(9,000)	(13,500)

18. Transactions with Related Parties *continued*

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 $41,000 (2015: $248,000) of which $0 (incl GST) (2015: $30,000 (incl GST)) is owing at balance date.

All transactions between PowerNet Limited, OtagoNet Joint Venture, Electricity Invercargill Limited and AWS Legal relate to normal trading activities.

Electricity Invercargill Limited holds term investments with SBS Bank of which Ross Smith (retired on August 2014) was Chief Executive. Electricity Invercargill Limited received $62,000 interest (paid and accrued) during the year from SBS Bank (31 March 2015: $85,000) and holds term investments at balance date amounting to $40,000 (31 March 2015: $8,044,000).

Key Management Personnel

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

	GROUP	
	2016 $000	2015 $000
Salaries and Short-term Employee Benefits	189	170

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.

19. Subsequent Events

On 29 April 2016 the Group via its 25% interest in the Southern Generation Limited Partnership completed the acquisition of the assets relating to the Aniwhenua Hydro Station in the Bay of Plenty region. The final payment amount represented an increase in the Group assets at balance date in excess of 15%. The acquisition was financed through a five year facility with Invercargill City Holdings Limited.

There are no further material subsequent events that have arisen since the end of the financial year to the date of this report.

Audit Report

pwc

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Independent Auditor's Report

To the Readers of Electricity Invercargill Limited Group's Financial statements and Performance Information for the year ended 31 March 2016.

The Auditor-General is the auditor of Electricity Invercargill Limited Group (the Group). The Auditor-General has appointed me, Nathan Wylie, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements and the performance information of the Group consisting of Electricity Invercargill Limited and its subsidiaries and other controlled entities, on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Group on pages 12 to 33, that comprise the statements of financial position as at 31 March 2016, the statement of financial performance, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Group on page 11.

In our opinion:

- the financial statements of the Group:
  - present fairly, in all material respects:
    - its financial position as at 31 March 2016; and
    - its financial performance and cash flows for the year then ended; and
  - comply with generally accepted accounting practice in New Zealand in accordance with the New Zealand equivalents to International Financial Reporting Standards RDR.
- the performance information of the Group presents fairly, in all material respects, the Group's achievements measured against the performance targets adopted the year ended 31 March 2016.

Our audit was completed on 30 June 2016. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we would 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 the ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information are free from material misstatement.

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

Audit Report

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and in the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Group's financial statements and performance information 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 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 appropriateness of the performance information within the Group's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and in the performance information; and
- the overall presentation of the financial statements and performance information.

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

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 the preparation and fair presentation of financial statements in accordance with New Zealand equivalents to International Financial Reporting Standards RDR and generally accepted accounting practice, and for the preparation and fair presentation of performance information for the Group.

The Board of Directors' responsibilities arise from the Energy Companies Act 1992.

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

Responsibilities of the Auditor
We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence
When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit, and our role as auditors of its associates and joint ventures, we have carried out assignments in the areas of compliance with the Electricity Distribution (Information Disclosure) Determination 2012, Electricity Distribution Services Default Price-Quality Path Determination 2015 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 associates or joint ventures.

Nathan Wylie
Pricewaterhouse Coopers
On behalf of the Auditor-General
Christchurch, New Zealand

Transformer 2 being moved from Doon Street Zone Substation to Spey Street Zone Substation

Pole replacement in Bluff township

Decommissioning of the underground substation outside the entrance of the Kelvin Hotel

Back Cover: Switchgear maintenance at Doon Street Zone Substation

EIL
Electricity Invercargill Ltd