



**STATEMENT OF INTENT
2016/2019**

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INTRODUCTION

This Statement of Intent (SOI) sets out Electricity Invercargill Limited's (EIL) overall intentions and objectives for EIL and the EIL Group for the year ending 31 March 2017 and the two succeeding years.

EIL is a profit orientated limited liability company that was incorporated in New Zealand on 30 June 1991. The Company is a wholly owned subsidiary of Invercargill City Holdings Limited (ICHL). The EIL Group consists of EIL, its wholly owned subsidiaries Pylon Limited, Pylon 2 Limited, its interest in joint venture entities PowerNet Limited, OtagoNet Joint Venture, Electricity Southland Limited and Roaring Forties Energy Limited Partnership, Southern Generation Limited Partnership and its interest in associate entities, Peak Power Services Limited.

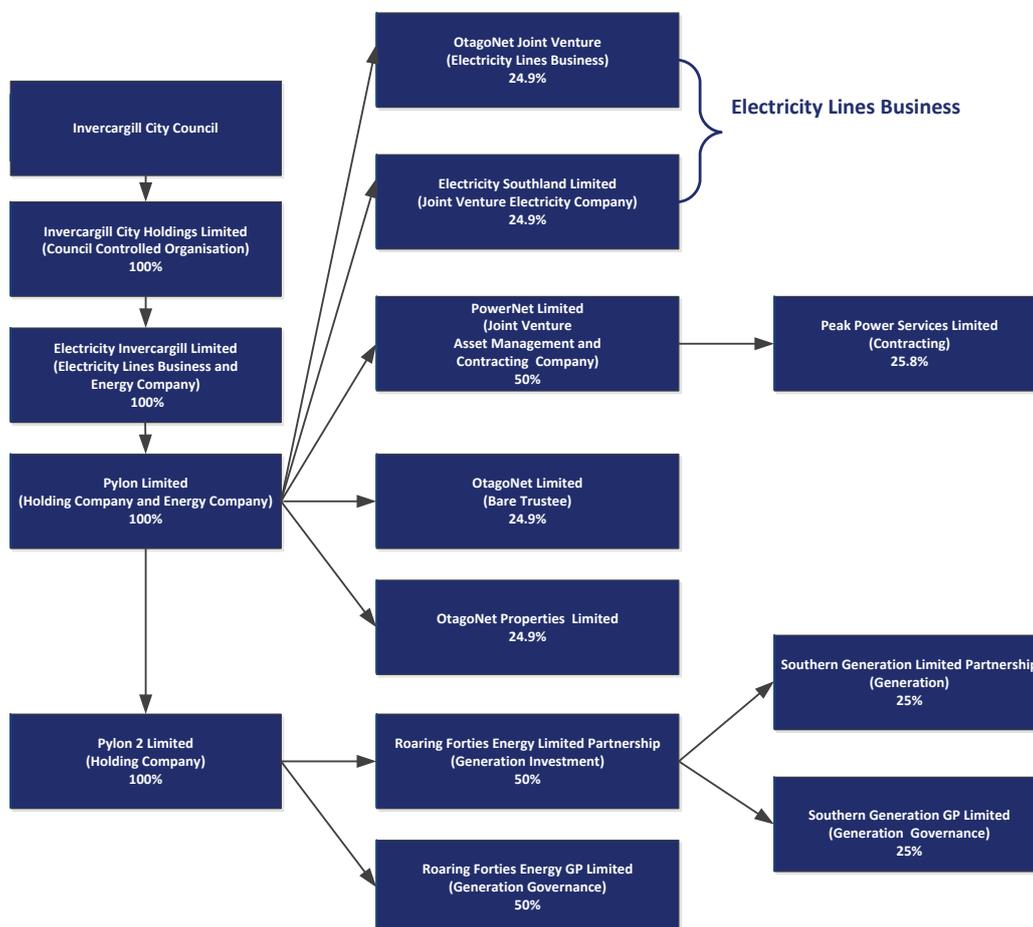
EIL is an Energy Company as defined by the Energy Companies Act 1992 and as such is specifically excluded from being a Council Controlled (Trading) Organisation as defined in the Local Government Act 2002.

The SOI has been prepared in accordance with the Energy Companies Act 1992 and takes into account the likely reporting requirements of EIL's shareholder ICHL as required by the Local Government Act 2002.

The SOI is a public statement of the activities and intentions of EIL incorporating its subsidiaries, joint ventures and associate entities. It sets out the nature and scope of activities intended to be undertaken, its objectives and key performance indicators by which EIL's performance can be measured.

The SOI is prepared and forwarded as a draft for comment to ICHL on or before 1 March each year. After consideration of any comments from ICHL the SOI is finalised before 30 June each year.

The EIL group structure comprises:



CORE BUSINESS

The nature and scope of activities undertaken by EIL are:

- To operate an electricity distribution network and metering service in the Invercargill City and Bluff area in a reliable, efficient and effective manner.
- To manage, grow and if appropriate realise subsidiary, joint venture and associate investments in the infrastructure, electrical and energy sectors.
- To operate a successful business for the benefit of the Company's shareholder.

VISION STATEMENT

To be the top performing New Zealand electricity distribution business.

CRITICAL SUCCESS FACTORS

- Delivery to customers of an efficient, economic and quality power supply to match their requirements.
- Maintaining and enhancing the long-term value of assets, business units, products and investments.
- Compliance with and maximising opportunities from the increasing regulatory intervention on the business.
- Optimising the balance between regulatory, environmental, social and commercial drivers.
- Delivery of all aspects of the Statement of Intent.

OBJECTIVES

EIL aims to operate as a successful business. We strive to become an efficient and effective operation within the electricity industry and provide stakeholders with an appropriate balance of:

- competitive pricing
- leading public and workplace safety performance
- above average levels of service
- acceptable social and environmental impacts
- commercial return on investment.

EIL needs to balance a number of objectives to achieve this outcome. These objectives include:

COMMERCIAL

The Company intends to:

- Manage its operations in a progressive and commercial manner.
- Undertake new investments, that:
 - have relevance to the core business
 - yield a return at least equal to the risk adjusted weighted average cost of capital for those investments
 - are undertaken in a manner that will increase the commercial value of the business.
- If appropriate, realise investments over time.

QUALITY OF SUPPLY

EIL is one of the most reliable electricity distribution networks in New Zealand.

EIL's network is managed through an agreement with its joint venture entity PowerNet Limited. PowerNet operates the network in accordance with this agreement, EIL's network security of supply standard and the 10 year Asset Management Plan (AMP). The AMP is published each year in accordance with the Electricity Information Disclosure Requirements and provides an opportunity for customers to provide input into the operation of their electricity network.

EIL monitors the performance of its network through a variety of key performance indicators. The network supply quality targets are shown in the Performance Targets later in the SOI.

EIL is subject to the Default Price and Quality Path Regime under the jurisdiction of the Commerce Commission and reports in June each year on quality of supply performance against these limits.

EIL will endeavour to ensure the region has a secure and cost effective electricity supply and transmission system. EIL will continue to represent the region and be involved with dry year power crisis issues that may affect Southland despite the overall responsibility for these issues being under the watchful eye of the Electricity Authority.

SOCIAL

EIL's key role in the community is to continue to ensure the region has a safe, secure and cost effective electricity and transmission system.

The community is fortunate that EIL, by operating a commercial business, is able through its ownership structure to provide a community benefit through a regular dividend stream to its shareholder, ICHL. ICHL is in turn owned by the Invercargill City Council.

EIL will endeavour either in its own capacity or through its joint ventures or subsidiary and associate investments to:

- ensure the company's network assets and operations do not present a safety risk to members of the public, or their property
- ensure safe work practices amongst PowerNet staff and contractors working on the company's network
- minimise incidents of vehicles hitting network equipment
- provide a limited number of key community sponsorships
- commit \$125,000 to the operation and ongoing monitoring of the Southland Warm Homes Trust
- provide targeted trainee programmes for talented individuals for key positions within our business associates
- ensure adequate and cost effective Transpower services to the region
- ensure adequate electricity generation resources are available
- recover line charges in cost reflective and socially responsible manner.

ENVIRONMENTAL

EIL is committed towards a sustainable environment and progressively reducing its impact on the environment. We will achieve this by focusing on:

- reducing carbon emissions and the impact on the environment within EIL owned organisations
- relationships with suppliers who can demonstrate a commitment to sustainability
- facilitating connection or investing in low carbon emitting generation
- reducing power losses through peak load management and electricity network investment decisions
- recover line charges in a cost reflective way that promotes efficient investment in generation.

EIL has the highest ratio of underground cables to overhead lines of any electricity distribution business in New Zealand.

The past commitment of the Company and Directors to undergrounding within the City will continue to have a number of positive spin offs; including improved reliability, aesthetics and public safety for generations to come.

BUSINESS PLAN FOR 2016/2017

In addition to meeting the requirements of the Asset Management Plan there will be continued focus on seismic preparedness and public safety reviews of the network assets and operations.

PRICING AND REGULATORY REGIME

EIL is subject to Default Price Path and Quality (DPQP) regulation under the jurisdiction of the Commerce Commission and reports in June each year as to whether it has remained within the price path and quality limits set by the Commission.

With the introduction of amendments to the Commerce Act in late 2008 it was expected there would be significant improvements in the certainty surrounding the regulatory environment for Electricity Lines Businesses.

The 2008 Commerce Act amendment required the Commission to determine a number of Input Methodologies (IMs) which are the key inputs leading to the measurement of performance of Electricity Lines Businesses.

A number of merits appeals have been heard by the High Court on the Commerce Commission's determinations.

In EIL's view the appeal outcome on the Weight Average Cost of Capital (WACC) has enabled a subjective decision to be made by the Commission on WACC percentiles that does not provide a sufficient return on the industry's assets.

The Commission is undergoing a review of the IMs with a view to updating them to take into account emerging new technologies such as solar generation and electric vehicles. EIL looks forward to some technical improvements in the operation and interpretation of the IMs particularly regarding related party rules and increases in the WACC reflecting the additional risks that emerging technologies bring to the business.

The price control regime for regulated Electricity Lines Businesses for 2013/2014 onwards permits businesses to increase their prices to an allowable revenue level as determined by the Commission. The regime allows EIL to directly pass through any price increases from Transpower and CPI increases and prices have been reset by the Commission for the second five year Regulatory Control Period commencing 1 April 2015.

EIL sets its prices in accordance with its line pricing methodology which is published each year in accordance with the Electricity Information Disclosure Requirements and is committed to staying within the DPQP.

The Electricity Authority monitors EIL's compliance with its pricing methodology and other electricity market rules.

The Authority is consulting on Distributor and Transmission Pricing Methodologies and has expressed concerns regarding inefficient investment outcomes due to these pricing methods. EIL looks forward to working with the Authority to achieve efficient outcomes through cost reflective pricing, particularly those prices promoting inefficient investment in solar generation.

EIL will work with the industry and the regulator to ensure its prices recover reasonable costs and allow it to provide a high quality service to consumers, an appropriate return to shareholders and meet social and environmental requirements.

PERFORMANCE TARGETS

Financial

Listed below are the Group forecast returns for the next three years:

EBIT% - PERCENTAGE EARNINGS BEFORE TAX AND INTEREST ON ASSETS EMPLOYED

	2017	2018	2019
Net Profit Before Tax (NPBT)	9,767,516	9,671,201	10,056,651
Interest	3,476,652	3,748,133	3,768,967
Net Profit Before Interest and Taxation	13,244,168	13,419,334	13,825,618
Total Assets	179,975,482	182,923,905	184,067,230
EBIT %	7.36%	7.34%	7.51%

NPAT% - PERCENTAGE TAX PAID PROFIT ON EQUITY

	2017	2018	2019
Net Profit After Tax (NPAT)	7,975,513	7,796,333	7,969,931
Equity	89,277,728	90,415,385	91,897,559
NPAT %	8.93%	8.62%	8.67%

PERCENTAGE OF CONSOLIDATED EQUITY TO TOTAL ASSETS

	2017	2018	2019
Equity	89,277,728	90,415,385	91,897,559
Total Assets	179,975,482	182,923,905	184,067,230
% Equity/Total Assets	49.61%	49.43%	49.93%

SUPPLY QUALITY TARGETS

SAIFI - SYSTEM AVERAGE INTERRUPTION FREQUENCY INDEX (THE AVERAGE NUMBER OF TIMES EACH CUSTOMER CONNECTED TO THE NETWORK IS WITHOUT SUPPLY)

2017	2018	2019
0.57	0.57	0.57

SAIDI - SYSTEM AVERAGE INTERRUPTION DURATION INDEX (THE AVERAGE TOTAL TIMES IN MINUTES EACH CUSTOMER CONNECTED TO THE NETWORK IS WITHOUT SUPPLY)

2017	2018	2019
21.10	21.08	21.06

THE COMMERCE COMMISSION SUPPLY QUALITY LIMITS ARE:

SAIFI	0.77 times
SAIDI	31.13 minutes

PROPOSED DISTRIBUTIONS

To provide the shareholder with a dividend of \$6.2 million per year for the next three years starting on 1 April 2016.

INFORMATION TO BE REPORTED

The Company will report on a six-month and annual basis, in the form set down by legislation. An audited Annual Report is required to be delivered to the Shareholder by 30 June with the opportunity to assess the performance of the Company, and the value of the investment.

Un-audited half-yearly accounts will include Statements of Comprehensive Income and Financial Position, together with such other supporting information as may be required to enable an informed assessment of the Company's performance during the reporting period, as agreed between the Shareholder and the Directors.

In addition, a monthly Consolidated Summary report will be provided to the Shareholder showing the Financial Performance of the Group.

Transactions with related parties primarily consist of asset maintenance and construction, administration and management services.

All related party transactions are eliminated in the preparation of the Annual Financial Statements.

ACQUISITION PROCEDURES

The Company will not establish any new company or other organisation or acquire shares, equity, voting interests or memberships of any company or organisation without the Directors having gained prior approval of the shareholder.

The current procedures are that except by a special resolution of shareholders the Company may not enter into a major transaction. A major transaction includes the acquisition of, or an agreement to acquire assets, the value of which are more than 10% of Electricity Invercargill Limited's assets before acquisition. The Company has proposed to the shareholder to increase the authority level for the Electricity Invercargill Limited Group.

COMPENSATION SOUGHT FROM LOCAL AUTHORITIES

EIL is not aware of any compensation sought from any local authority apart from a contribution towards the cost of undergrounding overhead lines associated with local authority streetlights. It is not possible to accurately quantify the amount each year as it depends on the nature of the specific projects undertaken; however the amount is estimated at less than \$100,000 per annum.

BOARD ESTIMATE OF THE VALUE OF SHAREHOLDER'S INVESTMENT

The Directors estimate the commercial value of the shareholder's investment in the group to be at least the value of shareholder's equity reported in EIL's financial statements and SOI.

Each year as part of the financial reporting process the Board considers its investments for signs of impairment. Presently there are no signs of impairment however this may be subject to future adverse consequences of any regulatory decision made by the Commerce Commission.

GOVERNANCE

EIL's Directors are appointed by its shareholder, Invercargill City Holdings Limited. Up to two of the five Director appointments may be made from the pool of publicly elected Invercargill City Council Councillors.

ROLE OF THE BOARD

The Board is responsible for the final decision making with respect to the Company. The responsibility includes:

- Preparation and approval of the Business Plan and Statement of Intent
- Oversight of the PowerNet management contract
- Monitoring Company and investment performance
- Approval of the corporate, operational, financial and dividend policies
- Risk identification and management
- Authority delegation
- Establishing internal control and information systems
- Shareholder reporting
- Stakeholder relationships
- Investment opportunities
- Ensuring compliance with relevant legislation.
- Appointment of the Chief Executive.

The Board does not have any sub-committees due to the small number of Directors, consequently health and safety, audit and risk management are functions of the full Board. Remuneration policies and practices are performed by a sub-committee within PowerNet Limited. Treasury management and policy setting is performed by EIL's shareholder ICHL.

BOARD PERFORMANCE

The Board monitors its own performance and through EIL's 100% owned subsidiary Pylon Limited the performance of PowerNet management and the various director appointments to entities EIL invests in. The purpose of these reviews is to ensure performance and capability and to identify any areas for improvement.

STATEMENT OF INTENT

Each year in accordance with the Energy Companies Act 1992 the Board submits a draft Statement of Intent (SOI) for the coming financial year and the two succeeding years. The SOI sets out the nature and scope of the activities to be undertaken by EIL, its objectives and key performance indicators by which EIL's performance can be measured.

After consulting with ICHL and considering its comments on the draft SOI the final SOI is approved by the Company's Board. The final SOI is delivered to ICHL, placed on the internet and advertised as being available to the public, with copies at the Company's registered office.

INVESTMENT PERFORMANCE

EIL has a number of significant investments in other entities. The Company receives quarterly updates from each entity and has director representation on each entity's governing body to assist with performance monitoring and decision making.

STATEMENT OF ACCOUNTING POLICIES

The Accounting Policies of Electricity Invercargill Limited disclosed in the previous year's annual Financial Statements are:

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 2013. 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 25 June 2015.

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
- Value of donated assets
- Employee benefits
- 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.

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 following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 April 2014;

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.

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) 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 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.

(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 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.

(v) Government Grants

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

c) Finance Costs

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

d) Inventories

Inventories are stated at the lower of cost using weighted average cost price, and net realisable value. Obsolete items of inventory (if any) are written off as identified.

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 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 cannot subsequently be reversed.

f) Capital Work in Progress

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

g) Intangible Assets

(i) Goodwill

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

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

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

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

(ii) Computer Software

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

(iii) Research and Development

Research costs are 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/Diminishing Value
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h) Taxation

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

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

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

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

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

i) Goods and Services Tax

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

(j) Operating Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments under these leases are recognised in the periods when they are incurred.

(k) Financial Assets

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

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

(i) Financial Assets at Fair Value through the Profit and loss

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

(ii) Loans and Receivables

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

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) Seasonality

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