Invercargill City HOLDINGS Limited

Annual Report 2011

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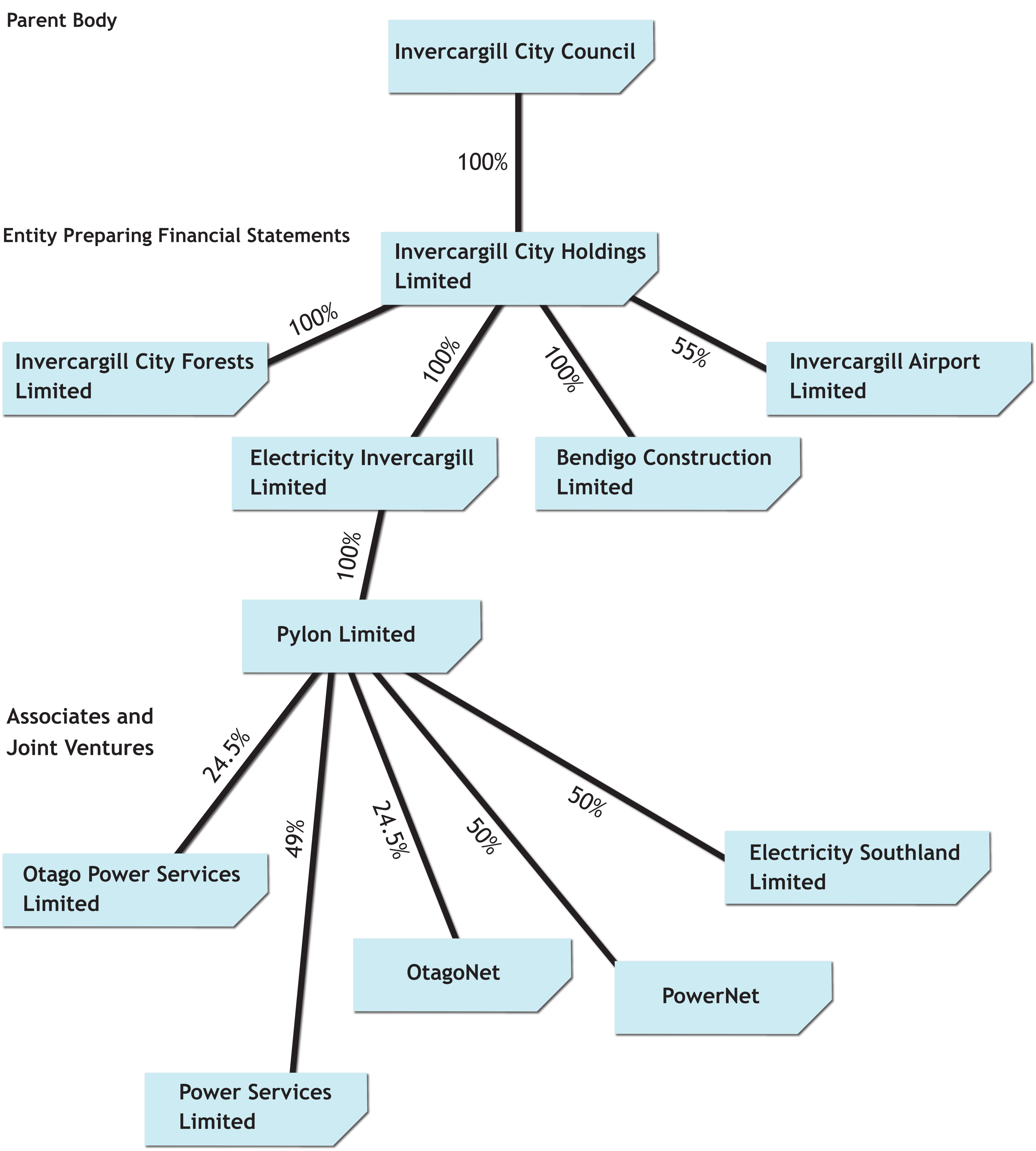
Approval by Directors

The Directors have approved for issue the financial statements of Invercargill City Holdings Limited for the year ended 30 June 2011.

Chairman	Director

For and on behalf of the Board of Directors
30 September 2011

Group Structure



Directory

REGISTERED OFFICE

101 Esk Street
Invercargill 9810

AUDITOR

Audit New Zealand on behalf of the
Office of the Auditor-General

SOLICITORS

Preston Russell Law
92 Spey Street
Invercargill 9810

BANKERS

National Bank of New Zealand

TREASURY MANAGER

ANZ National Bank Limited

TREASURY DIRECTOR

Invercargill City Council

An Overview

ELECTRICITY

Activities:

- Owners of Electricity Network.
- Management of Electricity Network.

2011 Financial Year:

- Continuing to operate successfully with after tax profit for the year $3.578 million which was lower than last year $5.663 million. After removing the goodwill writedown from network asset revaluations, the normalised net surplus after tax is $6.138 million (OtagoNet JV assets revaluation uplift of $3.805 million after tax.)
- Dividend paid to shareholder $4.5 million.
- Reliability of the network did not meet planned levels, however continues to be one the best performers in New Zealand.
- Maintaining a well above average quality of supply for customers while keeping line charges within Commerce Commission regulatory limits, as well as contributing to the wealth of the City through its dividends and enhancement of the visual environment.

FORESTRY

Activities:

- Owners and operator of five local forestry blocks in Southland.

2011 Financial Year:

- First ever dividend payment commenced of $200,000 and planned to be ongoing.
- Log prices have been strong throughout the year resulting in after tax profit of $1.625 million (2010 $42,622).
- Commencement of harvesting operations within the Dunrobin Forest (showing net returns of 35% on the total cost of the forest to date).
- All pre 1990 and post 1989 credits allocated from the Emissions Trading Scheme sold returning $1.376 million. A carbon management philosophy is in place which will ensure always having enough carbon credits to cover harvesting operations.
- The company is fully committed to replanting all of the harvested areas, and to that extent, most of the areas at Dunrobin have already been replanted. The value of forests (including land) is $11,362 million (2010: $10,582 million).

AIRPORT

Activities:

- Owners and operator of regional airport.

2010 Financial Year:

- The pre-tax profit for the year, excluding property revaluations and impairment of the runway, is $48,000 (2010:$676,000). Extra costs incurred this year associated with District Plan changes ensuring protection of future operations ($204,000) and 2010 included $464,000 of runway overlay contribution revenue treated as income for the first time that year.
- Passenger numbers increased from last year 6.6% however landings only increased 2.5%, indicating airlines maximizing efficiencies in load factors within the difficult economic climate.
- Change in Airport management team with a new General Manager.
- 2011 sees the beginning a renewed focus on redevelopment of the terminal. Community first approach is being taken to ensure any redevelopment will reflect the views of the people who use the airport.

FINANCE

Activities:

- Treasury advice and systems.
- Overview of Group operations.

2011 Financial Year:

- Satisfactory overall financial result of after tax profit of $4.101 million of parent company and $4.215 million for Group, given the uncertaintity in the global financial markets.

Board of Directors

COMPANY DIRECTORS

N J Elder
Chairman of Directors, City Councillor

M S Cook
Director

A G Dennis
Director, City Councillor

C A McCulloch
Deputy Chairman

G J Sycamore
Director, City Councillor
(Appointed 1 November 2010)

L S Thomas
Director, City Councillor
(Until 1 November 2010)

ELECTRICITY INVERCARGILL LIMITED

N D Boniface
Chairman of Directors, City Councillor

T Campbell
Director
(Appointed 1 November 2010)

D J Ludlow
Director, City Councillor
(Appointed 1 November 2010)

P J Mulvey
Director

G T Piercy
Director, City Councillor
(Until 1 November 2010)

R L Smith
Director

INVERCARGILL CITY FORESTS LIMITED

W H Conway
Chairman of Directors

A B McKenzie
Director

L A Pullar
Director

INVERCARGILL AIRPORT LIMITED

M S Cook
Chairman of Directors

T M Foggo
Director

A J O'Connell
Director

R M Walton
Director

BENDIGO CONSTRUCTION LIMITED

N J Elder
Chairman of Directors

C A McCulloch
Director

Statement of Governance

The Directors are pleased to present this Governance Statement.

Role of the Board of Directors

The Directors are responsible for the proper direction and control of the Group's activities. This responsibility includes such areas of stewardship as the identification and control of the Group's business risks on behalf of the ultimate shareholder, Invercargill City Council.

The Directors are responsible for the continual overseeing of the investment in the subsidiary companies with the Directors of those companies responsible for the day-to-day operation. Reporting by the subsidiary Boards of financial, market and operational information is received by the Group's Directors on a regular and ongoing basis.

The Directors of Invercargill City Holdings Limited are also responsible for the operation of the Treasury function which is operated within the Holding Company. This section provides a service to the subsidiaries and to the Invercargill City Council by sourcing funds at competitive rates. This function is operated strictly within the Borrowing and Treasury Management Policy drawn up by the Company.

The principal purpose of Invercargill City Holdings Limited is to maximise the performance of the Group as a whole.

Statutory Information

DIRECTORS' REMUNERATION

Invercargill City Holdings Limited

	$
N J Elder (Chairman)	40,720
M S Cook	24,400
A G Dennis	24,400
C A McCulloch	24,400
G J Sycamore	18,300
L S Thomas	6,100

Electricity Invercargill Limited

	$
N D Boniface (Chairman)	38,650
T Campbell	9,333
D J Ludlow	9,333
P J Mulvey	22,400
G T Piercy	13,067
R L Smith	22,400

Invercargill City Forests Limited

	$
W H Conway (Chairman)	25,450
A B McKenzie	14,070
L A Pullar	15,350

Invercargill Airport Limited

	$
M S Cook (Chairman)	30,500
T M Foggo	18,300
A J O'Connell	18,300
R M Walton	18,300

Bendigo Construction Limited

	$
N J Elder (Chairman)	Nil
C A McCulloch	Nil

DIRECTORS' INTERESTS

During the year, no Directors had an interest in any transaction or proposed transaction with the parent company.

The following listing is where an Invercargill City Holdings Limited director has a position on another entity or organisation that has transactions with Invercargill City Holdings Limited.

Director	Company/Organisation	Position
A G Dennis	Invercargill City Council	Councillor
M S Cook	Invercargill Airport Limited	Director
N J Elder	Invercargill City Council	Councillor
G J Sycamore	Invercargill City Council	Councillor
L S Thomas	Invercargill City Council	Councillor

USE OF COMPANY INFORMATION BY DIRECTORS

No Director of any group company has disclosed, used or acted on information that would not otherwise be available to a Director.

SHAREHOLDING BY DIRECTORS

No Director has an interest in any of the Group Company shares held, acquired or disposed of during the year.

DIRECTORS' AND OFFICERS' INDEMNITY INSURANCE

The Group has insured all its Directors and Executive Officers against liabilities to other parties that may arise from their positions.

EMPLOYEES' REMUNERATION

One employee of the Group received remuneration and other benefits of $100,000 or greater during the year.

$'000	No. of employees
190 – 200	1

AUDITORS' REMUNERATION

Audit fees for the Group totalled $145,000. Details of fees payable are contained in Note 3.

LOANS TO DIRECTORS

There are no loans to Directors.

RECOMMENDED DIVIDEND

It is recommended that a dividend of $3,100,000 be paid.

Chairman's Review

It is with pleasure that I present the 14th Annual Report of Invercargill City Holdings Limited on behalf of the Directors.

The financial results for the twelve months to June 2011 show a profit of $4,101,000, an increase of $636,000 or 18.3% over 2010. The group profit is down $752,000 to $4,215,000 due to a write down in the goodwill of Electricity Invercargill Limited. Total comprehensive income for the group increased by $2,939,000, or 60% to $7,855,000. The assets of the group also increased by $4,982,000 to $143,665,000 throughout the year.

Electricity Invercargill Limited had another successful year with the quality of its electricity supply being maintained well above average and the line charges within the Commerce Commission limits. The group surplus for the 2011 year was $3,518,000, which is below the budget of $6,798,000. The main reasons for this difference is the goodwill write down of $3,199,000 due to the revaluation of OtagoNet Joint Venture assets increasing by $3,805,000 and the change in tax rates. Removing these adjustments results in a normalised profit of $7,991,000 before tax.

Invercargill Airport Limited produced a surplus of $443,000 after tax on the year, an increase of $1,125,000 over the previous year. The company has had a reasonably challenging year with the expansion of the carpark area, the refurbishment of the terminal building and the district plan provisions. The passenger numbers utilising the airport have increased by 6.6% to 281,633 and the aircraft landings have also increased by 2.5% to 9,238. The airport has also welcomed a new General Manager, Chloe Scala.

Invercargill City Forests Limited has had a successful year with harvesting operations commencing in the Dunrobin forest. This harvesting operation, together with the carbon credits, has resulted in an after tax profit of $1,624,666, which represents a 47.9% return on equity. The Directors were also pleased to be able to make a $200,000 dividend payment to Invercargill City Holdings Limited. The future for forestry is looking positive and the dividend flow will continue.

I would like to thank my fellow Directors, Cam McCulloch, Merv Cook, Alan Dennis and Graham Sycamore for their support and input throughout the year. I would also like to thank our Treasury Director Dean Johnston, Treasury Manager Miles O'Connor, of Bancorp, and all other support staff for their great work though out this year. It is all very much appreciated.

NJ Elder
Chairman

Audit Report

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Independent Auditor's Report

To the readers of
Invercargill City Holdings Limited and group's
financial statements and statement of service performance
for the year ended 30 June 2011

The Auditor-General is the auditor of Invercargill City Holdings Limited (the company) and group. The Auditor-General has appointed me, Bede Kearney, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and statement of service performance of the company and group on her behalf.

We have audited:

- the financial statements of the company and group on pages 14 to 62, that comprise the statement of financial position as at 30 June 2011, the 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 statement of service performance of the company and group on page 62.

Opinion on the financial statements and the statement of service performance

In our opinion:

- the financial statements of the company and group on pages 14 to 62:
  - comply with generally accepted accounting practice in New Zealand; and
  - give a true and fair view of the company and group's:
    - financial position as at 30 June 2011; and
    - financial performance and cash flows for the year ended on that date; and
- the statement of service performance of the company and group on page 62:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the company's service performance achievements measured against the performance targets adopted for the year ended 30 June 2011.

Opinion on other legal requirements

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

Our audit was completed on 30 September 2011. This is the date at which our opinion is expressed.

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

Basis of opinion

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

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

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

An audit also involves evaluating:

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

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

Responsibilities of the Board of Directors

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

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

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

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Reporting Act 1993.

Responsibilities of the Auditor

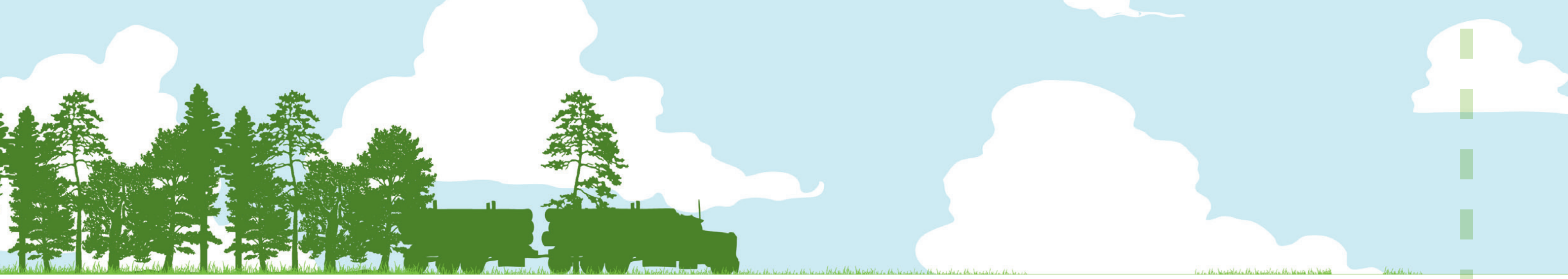
We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 69 of the Local Government Act 2002.

Independence

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

Other than the audit, we have no relationship with or interests in the company or any of its subsidiaries.

Bede Kearney
Audit New Zealand
On behalf of the Auditor-General
Christchurch, New Zealand



Statement of Accounting Policies

REPORTING ENTITY

Invercargill City Holdings Limited ("the Company") is a Council Controlled Organisation as defined in the Local Government Act 2002 and registered under the Companies Act 1993. The Company is wholly owned by the Invercargill City Council ("the Council").

The Invercargill City Holdings Limited Group consists of:

- Electricity Invercargill Limited (100% owned) and its wholly owned subsidiary Pylon Limited. The Electricity Invercargill Limited Group has a balance date of 31 March.
- Invercargill City Forests Limited (100% owned).
- Invercargill Airport Limited (55% owned).
- Bendigo Construction Limited (100%)

All the Group's subsidiaries and associates are incorporated in New Zealand.

The primary objective of the Company is to manage the commercial investments of the Council. Accordingly, the Company has designated itself and the group as profit orientated entities for the purposes of New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS").

The financial statements of the Company and Group are for the year ended 30 June 2011. The financial statements were authorised for issue by the Board on 30 September 2011.

BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with the requirements of the Local Government Act 2002, the Financial Reporting Act 1993, the Companies Act 1993 and the Energy Companies Act 1993.

These financial statements have been prepared in accordance with NZ GAAP. They comply with NZ IFRS, and other applicable Financial Reporting Standards.
The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

The financial statements have been prepared on a historical cost basis, modified by the revaluation of land and buildings, investments in subsidiaries and associates, investment property, biological assets and financial instruments (including derivative instruments).

The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($'000). The functional currency of the Company is New Zealand dollars.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the Statement of Comprehensive Income.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies during the financial year.

SUBSIDIARIES

The Company consolidates as subsidiaries in the group financial statements all entities where the Company has the capacity to control their financing and operating policies so as to obtain benefits from the activities of the entity.

This power exists where the Company controls the majority voting power on the governing body or where such policies have been irreversibly predetermined by the Company or where the determination of such policies is unable to materially impact the level of potential ownership benefits that arise from the activities of the subsidiary.

The Company measures the cost of a business combination as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, in exchange for control of the subsidiary plus any costs directly attributable to the business combination.

Any excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill.

BASIS OF CONSOLIDATION

The purchase method is used to prepare the consolidated financial statements, which involves adding together like items of assets, liabilities, equity, income and expenses on a line-by-line basis. All significant intragroup balances, transactions, income and expenses are eliminated on consolidation.

The Company's investment in its subsidiaries is carried at deemed cost in the Company's own "parent entity" financial statements. Deemed cost is based on the net asset value of the subsidiary on conversion to NZ IFRS.

ASSOCIATES

The Company accounts for an investment in an associate in the group financial statements using the equity method. An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. The investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the Company's share of the surplus or deficit of the associate after the date of acquisition. The Company's share of the surplus or deficit of the associate is recognised in the Company's Statement of Comprehensive Income. Distributions received from an associate reduce the carrying amount of the investment.

The Company's share in the associate's surplus or deficits resulting from unrealised gains on transactions between the Company and its associates is eliminated.

The Company's investments in associates are carried at cost in the Company's own "parent entity" financial statements.

JOINT VENTURES

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

REVENUE

Revenue is measured at the fair value of consideration received.

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at balance date, based on the actual service provided as a percentage of the total services to be provided.

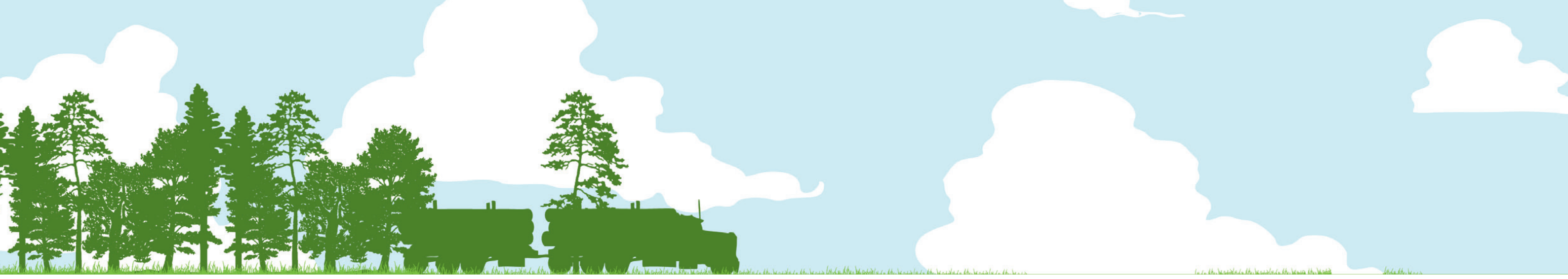
Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be reliably estimated and there is no continuing management involvement with the goods.

Interest income is recognised using the effective interest method.

Dividends are recognised when the right to receive payment has been established.

Contributions from customers in relation to the construction of new lines for the network are accounted for as income in the year in which they have been received.

Government grants:
NZU's allocated by the Crown represent non-monetary government grants and are initially recognised at nil value. Gains and losses on disposals are determined by comparing proceeds with the



carrying amounts. These are included in the Statement of Comprehensive Income.

CONSTRUCTION CONTRACTS

Contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract at balance date. The stage of completion is measured by reference to the contract costs incurred up to balance date as a percentage of total estimated costs for each contract.

Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms of the contract and an allocation of overhead expenses incurred in connection with the group's construction activities in general.

An expected loss on construction contracts is recognised immediately as an expense in the Statement of Comprehensive Income.

Where the outcome of a contract cannot be reliably estimated, contract costs are recognised as an expense as incurred, and where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred.

Construction work in progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings. If there are contracts where progress billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented under other liabilities.

BORROWING COSTS

Borrowing costs are recognised as an expense in the period in which they are incurred.

INCOME TAX

Income tax expense in relation to the surplus or deficit for the period comprises current tax and deferred tax.

Current tax is the amount of income tax payable based on the taxable profit for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using rates that have been enacted or substantively enacted by balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or tax losses can be utilised.

Deferred tax is not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition of an asset and liability in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit.
Deferred tax is recognised on taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the company can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, using tax rates that have been enacted or substantively enacted by balance date.

Current tax and deferred tax is charged or credited to the Statement of Comprehensive Income, except when it relates to items charged or credited directly to equity, in which case the tax is dealt with in equity.

OPERATING LEASES

An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the effective interest method.

INVENTORIES

Inventories (such as spare parts and other items) held for distribution or consumption in the provision of services that are not supplied on a commercial basis are measured at the lower of cost and current replacement cost.

Inventories held for use in the production of goods and services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the FIFO method.

The write down from cost to current replacement cost or net realisable value is recognised in the Statement of Comprehensive Income.

FINANCIAL ASSETS

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

Financial assets at fair value through profit or 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.

- **Financial Assets at Fair Value through Profit or Loss**
  Financial assets at fair value through profit or 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.

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

- **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.

- **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. Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

  Available-for-sale financial assets and financial assets at fair value through 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 profit or loss' category, including interest and dividend income, are presented in the income statement within other income or other expenses in the period in which they arise.

The Company classifies its financial assets (excluding derivatives) as loans and receivables. Loans and receivables are classified as "trade and other receivables" in the Statement of Financial Position. Investments in this category include loans to subsidiaries.

Impairment of Financial Assets
At each Statement of Financial Position date, the Company assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired. Any impairment losses are recognised in the Statement of Comprehensive Income.

FINANCIAL INSTRUMENTS

- **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.

- **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.

- **Trade and Other Payables**
  Trade and other payables are initially measured at fair value, and subsequently measured at amortised cost using the effective interest method.

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

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

- **Accounting for Derivative Financial Instruments and Hedging Activities**
  The Company uses derivative financial instruments to hedge exposure to foreign exchange and interest rate risks arising from financing activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.

  Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each balance date. However, where derivatives qualify for hedge accounting, recognition for any resultant gain or loss depends on the nature of the hedging relationship.

Cash Flow Hedge
Changes in the fair value of the derivatives hedging instruments designated as a cashflow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, change in fair value are recognised in Statement of Comprehensive Income.
If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. The amount recognised in equity is transferred to revenue or expenditure in the same period that the hedged item affects the Statement of Comprehensive Income.

LEASES

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is shown at cost or valuation, less accumulated depreciation and impairment losses.
Certain items of property, plant and equipment that had been revalued to fair value on or prior to 1 July 2005, the date of transition to NZ IFRS are measured on the basis of deemed cost, being the revalued amount at the date of transition.

Additions
The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.

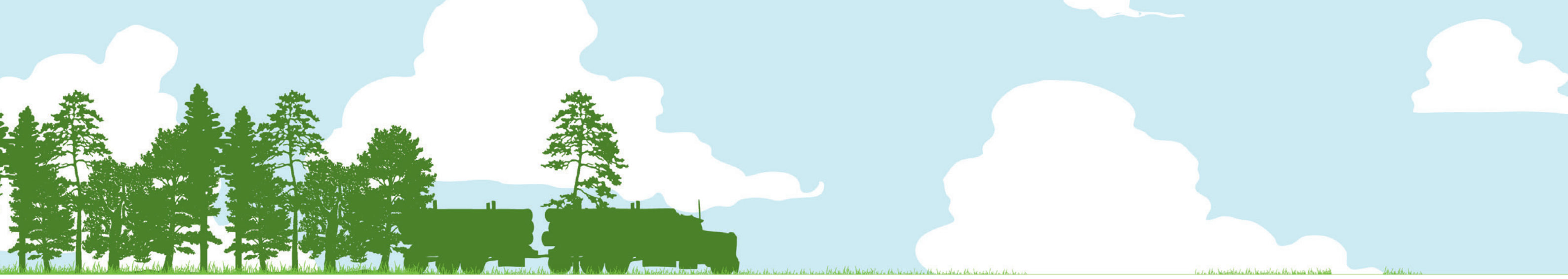
In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value as at the date of acquisition.

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

Disposals
Gains and losses on disposals are determined by comparing the proceeds with the carrying amount of the asset. Gains and losses on disposals are included in the Statement of Comprehensive Income.

When revalued assets are sold, the amounts included in asset revaluation reserves in respect of those assets are transferred to retained earnings.

Subsequent Costs
Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to the Company and the cost of the item can be measured reliably.



Depreciation

Depreciation is provided on all property, plant and equipment other than land, at rates that will write off the cost (or valuation) of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

(a)	Buildings	
	- Electricity Invercargill Limited	1% - 15% Straight Line/Diminishing Value
	- Invercargill Airport Limited	3% Straight Line
(b)	Furniture and Fittings	
	- Invercargill Airport Limited	9.50% - 33% Diminishing Value
(c)	Office Equipment	
	- Electricity Invercargill Limited	5% - 48% Straight Line/ Diminishing Value
(d)	Plant	
	- Electricity Invercargill Limited	5% - 48% Straight Line/ Diminishing Value
	- Invercargill Airport Limited	7.50% - 50% Diminishing Value and 10 % - 12% Straight Line
(e)	Motor Vehicles	
	- Electricity Invercargill Limited	18% - 31.2% Diminishing Value
	- Invercargill Airport Limited	10% - 12% Diminishing Value
(f)	Network Assets	
	- Electricity Invercargill Limited	1.4% - 15% Straight Line
(g)	Other Airport Assets	
	- Fences	1.0% - 6.65% Straight Line
	- Runway, Apron and Taxiway	3.0% Straight Line
	- Top Surface	8.3% Straight Line
	- Base-course and sub-lease	1.0% Straight Line
	- Roads, carparks and stop banks	3.0 Straight Line
(h)	EDP Hardware	
	- Electricity Invercargill Limited	9.0% - 80.4% Straight LIne/ Diminishing Value
(i)	Forestry Road imrovements	6.0% Diminishing Value

The residual value and useful life of an asset is reviewed, and adjusted if applicable, at each financial year end.

Revaluation

Those asset classes that are revalued are valued on a valuation cycle on the basis described below. All other asset classes are carried at depreciated historical cost. The carrying values of revalued items are reviewed at each balance date to ensure that those values are not materially different to fair value.

Valuation

All assets are valued at historic cost, except the following:

- The electricity distribution network is valued at fair value. Fair value is determined on the basis of a periodic valuation, at a maximum of every five years based on depreciated replacment cost methodology. The Network Assets of Electricity Invercargill were revalued by means of a "Directors Revaluation" on 31 March 2007 to assessed fair value. The assessed fair value was achieved by taking the previously revalued assets at their 1 April 2004 carrying values, and updated those values in terms of today's material and labour costs. The Network Assets of OtagoNet Joint Venture were revalued on 1 April 2010 to depreciated replacement cost as assessed by independent valuers Sinclair Knight Merz (SKM), and were reviewed for impairment (in conjunction with goodwill) by Ernst and Young. This resulted in the group recording a revaluation movement of $5.436m and goodwill being impaired to nil.

- Invercargill Airport Limited's assets are valued at cost, less accumulated depreciation and impairment except for Runway, Apron and Taxiway (Runway assets) which are revalued every three to five years. For the purposes of financial reporting the Runway assets are treated as one asset. The valuation of the Runway assets is performed using the discounted cashflow methodology over the assets as a whole and values apportioned to each component on a prorate basis or on the basis of a review of the physical conditions of component parts.

- Invercargill City Forests' land is revalued annually based on the highest and best use of the land. The valuations are carried out on sales of comparable land, based on the Valuer's database. In determing the highest and best use consideration is given as to whether the land has been registered under the New Zealand Emissions Trading Scheme and hence whether there are restrictions on the land use. New Zealand units received from the governement are recognised at cost in the financial statements, which is nil value.

Accounting For Revaluations
The Company accounts for revaluations of property, plant and equipment on an individual asset basis.

The results of revaluing are credited or debited to an asset revaluation reserve for each asset. Where this results in a debit balance in the asset revaluation reserve, this balance is expensed in the Statement of Comprehensive Income.

Any subsequent increase on revaluation that off-sets a previous decrease in value recognised in the Statement of Comprehensive Income will be recognised first in the Statement of Comprehensive Income up to the amount previously expensed, and then credited to the revaluation reserve for that asset.

CAPITAL WORK IN PROGRESS

Work in progress includes the cost of direct materials and direct labour used in putting replacement and new systems and plant in their present location and condition. It includes accruals for the proportion of work completed at the end of the period. Capital work in progress is not depreciated.

INTANGIBLE ASSETS

Goodwill
Goodwill is initially measured at its cost, being the excess of the cost of the acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Goodwill on acquisition of subsidiaries is included in intangible assets by applying the purchase method. Goodwill on acquisition of associates is included in investments in associates by applying the equity method.

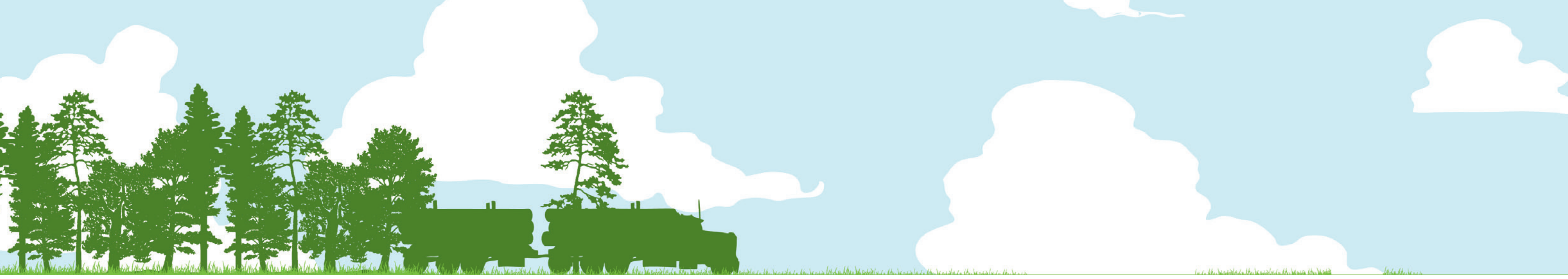
In respect of acquisitions prior to 1 July 2005, goodwill is included on the basis of deemed cost, which represents the amount recorded under previous NZ GAAP at the transition date. The classification and accounting treatment of business combinations that occurred prior to 1 July 2007 has not been reconsidered in preparing the Group's opening NZ IFRS Statement of Financial Position at 1 July 2005.

Goodwill arising in business combinations is not amortised. Instead, goodwill is tested for impairment annually. After initial recognition, the Company measures goodwill at cost less any accumulated impairment losses. An impairment loss recognised for goodwill will not be reversed in any subsequent period.
Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business combination, in which the goodwill arose.

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

Amortisation is charged to the Statement of Comprehensive Income over the estimated useful economic lives of the intangible assets. The amortisation rates for the current period are as follows:

Software
12.5 - 48.0% Straight Line/
Diminishing Value



FORESTRY ASSETS

Forestry assets are independently revalued annually at fair value less estimated point of sale costs. Fair value is determined based on the present value of expected net cash flows discounted at a current market determined pre-tax rate.
Gains or losses arising on initial recognition of biological assets at fair value less estimated point of sale costs and from a change in fair value less estimated point of sale costs are recognised in the Statement of Comprehensive Income.
Forests are revalued annually by an independent registered valuer.

The costs to maintain the forestry assets are included in the Statement of Comprehensive Income.

INVESTMENT PROPERTY

Properties leased to third parties under operating leases are classified as investment property unless the property is held to meet service delivery objectives, rather than to earn rentals or for capital appreciation.

Investment property is measured initially at its cost, including transaction costs.

After initial recognition, the Company measures all investment property at fair value as determined annually by an independent valuer.

Gains or losses arising from a change in the fair value of investment property are recognised in the Statement of Comprehensive Income.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Goodwill and indefinite life intangible assets are not subject to amortisation but are tested annually for impairment. Assets that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The value in use for cash-generating assets is the present value of expected future cash flows.

If an asset's carrying amount exceeds its recoverable amount the asset is impaired and the carrying amount is written down to the recoverable amount. For revalued assets, the impairment loss is recognised against the revaluation reserve for that asset. Where that results in a debit balance in the revaluation reserve, the balance is recognised in the Statement of Comprehensive Income.

For assets not carried at a revalued amount, the total impairment loss is recognised in the Statement of Comprehensive Income.

The reversal of an impairment loss on a revalued asset is credited to the revaluation reserve. However, to the extent that an impairment loss for that asset was previously recognised in Statement of Comprehensive Income, a reversal of the impairment loss is also recognised in the Statement of Comprehensive Income.
For assets not carried at a revalued amount (other than goodwill) the reversal of an impairment loss is recognised in the Statement of Comprehensive Income.

EMPLOYEE BENEFITS

Short-Term Benefits
Employee benefits that the Company expects to be settled within 12 months of balance date are measured at nominal values based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to balance date, annual leave earned to, but not yet taken at balance date, retiring and long service leave entitlements expected to be settled within 12 months, and sick leave.

Obligations for contributions to defined contribution superannuation schemes are recognised as an expense in the Statement of Comprehensive Income as incurred.

BORROWINGS

Borrowings are initially recognised at their fair value. After initial recognition, all borrowings are measured at amortised cost using the effective interest method.

GOODS AND SERVICES TAX (GST)

All items in the financial statements are stated exclusive of GST, except for receivables and payables, which are stated on a GST inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the Inland Revenue Department ("IRD") is included as part of receivables or payables in the Statement of Financial Position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

In preparing these financial statements, the Company has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations or future events that are believed to be reasonable under the circumstances.

The estimates, assumptions and critical judgements in applying accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

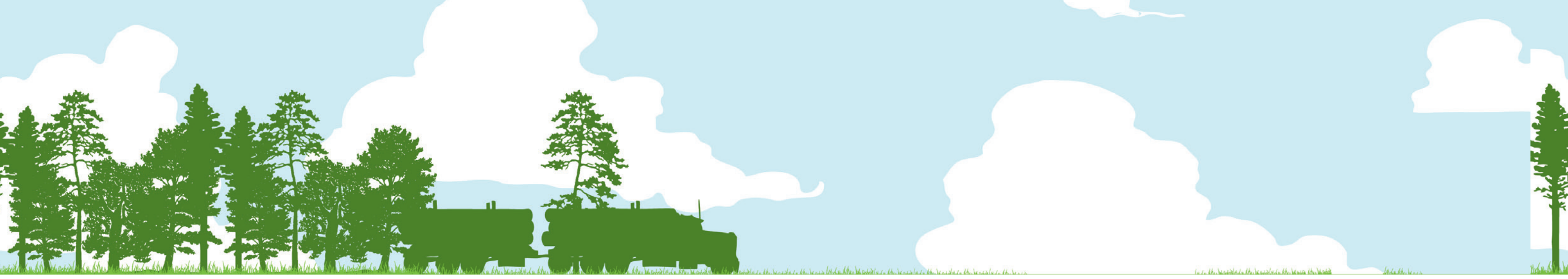
- Determination of the recoverable amount of the runway and taxiway assets. This is discussed in Note 10 of these financial statements.

- Electricity Invercargill Limited Group Estimates and Assumptions

  The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances and have been used in the following areas:
  - Intangibles
  - Property, plant and equipment.
  - Value of donated assets.
  - Employee benefits.
  - Recoverable amount from Cash Generating Units (CGU).

In the process of applying accounting policies, Electricity Invercargill Limited 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 on carrying values of the networks.

The Group enters into arrangements with customers to purchase new network assets at below current replacement costs. Management has estimated the difference between the cash costs and the replacement costs of these assets and the differences are reported within revenue.



Any errors in estimating the carrying values of these assets are corrected at the next asset revaluation and are not considered to be material on either an annual or a cumulative basis with respect to either reported net profits or carrying values of the network.
The Group invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of an estimation of usage, adjusted for the latest wash-up data available from the electricity wholesale market and certain metering data from electricity retailers. Management has made an allowance in revenue and in current assets/liabilities for any amounts which are estimated to be under/over charged during the reporting period. However, as final wash-up metering data is not available for in excess of 12 months, it is possible for the final amounts payable or receivable may vary from that calculated.

NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

Standards, amendments, and interpretations issued but not yet effective that have not been early adopted, and which are relevant to the Company and Group, are:

- NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition andMeasurement. The new standard is required to be adopted for the year ended 30 June 2014. The Group has not yet assessed the effect of the new standard and expects it will not be early adopted.

Statement of Financial Position

As at 30 June 2011

	Note	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Assets					
Current assets					
Cash and cash equivalents	7	2,384	1,475	5,331	5,130
Trade and other receivables	8	4,804	4,524	2,749	2,370
Inventories	9	-	-	133	127
Capital work in progress		-	-	21	48
Tax receivable		-	-	-	-
Derivative financial instruments	16	31	242	31	242
Other financial assets	16	389	391	397	598
Total current assets		7,608	6,632	8,662	8,515
Non-current assets					
Property, plant and equipment	10	-	-	112,963	106,499
Intangible assets	11	-	-	209	3,454
Forestry assets	12	-	-	8,054	7,782
Investment property	13	-	-	3,900	3,655
Capital work in progress		-	-	2,345	1,165
Investments in associates and joint ventures	14	-	-	7,132	7,308
Other financial assets	16	84,677	88,159	-	-
Deferred tax asset	20	-	-	400	305
Total non-current assets		84,677	88,159	135,003	130,168
Total assets		92,285	94,791	143,665	138,683
Liabilities					
Current liabilities					
Trade and other payables	17	3,742	3,454	6,682	5,775
Employee benefit liabilities	18	-	-	203	171
Borrowings	19	52,266	16,777	52,266	16,777
Tax payable		-	-	817	320
Derivative financial instruments	16	1,367	949	1,367	949
Total current liabilities		57,375	21,180	61,335	23,992
Non-current liabilities					
Employee benefit liabilities	18	-	-	-	-
Borrowings	19	-	39,073	-	39,073
Deferred tax liability	20	-	-	17,811	15,854
Total non-current liabilities		-	39,073	17,811	54,927
Total liabilities		57,375	60,253	79,146	78,919
Equity					
Share capital	21	25,293	25,293	25,293	25,293
Retained earnings	21	10,953	9,952	20,705	19,563
Other reserves	21	(1,336)	(707)	18,521	14,908
Total equity attributable to the equity holders of the company		34,910	34,538	64,519	59,764
Equity is attributable to:					
Parent entity		34,910	34,538	61,455	56,899
Minority interest	21	-	-	3,064	2,865
		34,910	34,538	64,519	59,764

The Statement of Accounting Policies on pages 14 to 24 and Notes on pages 29 to 62 are an integral part of, and should be read in conjunction with the financial statements.

Statement of Comprehensive Income

For the year ended 30 June 2011

	Note	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Income					
Operating revenue	1	6,871	6,432	30,056	26,616
Other gains	2	-	-	942	1,007
Total income		6,871	6,432	30,998	27,623
Expenditure					
Employee expenses	4	-	-	2,384	2,443
Depreciation and amortisation	10,11	-	-	5,164	5,506
Administration expenses	3	306	323	1,255	1,107
Other expenses		-	-	14,415	10,892
Total operating expenditure		306	323	23,218	19,948
Finance income	5	58	41	446	403
Finance expenses	5	2,522	2,685	2,199	2,331
Net finance expense		(2,464)	(2,644)	(1,753)	(1,928)
Operating surplus/(deficit) before tax		4,101	3,465	6,027	5,747
Share of associate surplus/(deficit)	14	-	-	640	629
Surplus/(deficit) before tax		4,101	3,465	6,667	6,376
Income tax expense	6	-	-	2,452	1,409
Surplus/(deficit) after tax		**4,101**	**3,465**	**4,215**	**4,967**
Surplus/(deficit) after tax attributable to:					
Equity holders of the Company		4,101	3,465	4,016	5,274
Minority interest		-	-	199	(307)
		4,101	3,465	4,215	4,967
Other comprehensive income					
Property, Plant and Equipment Revaluation gains/(losses) - pre tax	10	-	-	3,998	(200)
Change in Company Tax rate	20	-	-	109	394
Cash flow hedges	21	(629)	(457)	(467)	(245)
Total other comprehensive income		(629)	(457)	3,640	(51)
Total comprehensive income		**3,472**	**3,008**	**7,855**	**4,916**
Total comprehensive income attributable to:					
Equity holders of the Company		3,472	3,008	7,656	5,223
Minority interest		-	-	199	(307)
		3,472	3,008	7,855	4,916

The Statement of Accounting Policies on pages 14 to 24 and Notes on pages 29 to 62 are an integral part of, and should be read in conjunction with the financial statements.

Statement of Changes in Equity

For the year ended 30 June 2011

	Note	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Balance at 1 July		34,538	34,430	59,764	57,748
Total Comprehensive Income for the year	21	3,472	3,008	7,855	4,916
Distributions to Shareholders					
Dividends paid/declared	21	(3,100)	(2,900)	(3,100)	(2,900)
Balance at 30 June		34,910	34,538	64,519	59,764
Attributable to:					
Equity holders of the company		34,910	34,538	61,455	56,899
Minority interest		-	-	3,064	2,865
Balance at 30 June		34,910	34,538	64,519	59,764

The Statement of Accounting Policies on pages 14 to 24 and Notes on pages 29 to 62 are an integral part of, and should be read in conjunction with the financial statements.

Statement of Cash Flows

For the year ended 30 June 2011

	Note	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Cash flows from operating activities					
Interest received		2,061	1,894	1,176	517
Dividends received		4,300	4,443	416	735
Receipts from other revenue		275	185	29,807	26,808
Payments to suppliers and employees		(285)	(373)	(14,214)	(14,499)
Interest paid		(2,474)	(2,532)	(2,969)	(2,532)
Income tax (paid) / refund		-	5	(1,454)	(1,294)
Goods and services tax [net]		-	-	90	13
Net cash from operating activities	22	3,877	3,622	12,852	9,748
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		-	-	72	27
Proceeds from sale of investments		-	1,157	201	1,161
Repayment of advance by subsidiary/associate		4,104	-	400	-
Purchase of property, plant and equipment		-	-	(7,013)	(9,705)
Purchase of investment property		-	-	(27)	-
Advances made to subsidiaries/associates		(788)	-	-	(950)
Net cash from investing activities		3,316	1,157	(6,367)	(9,467)
Cash flows from financing activities					
Advance/Loans to subsidiaries		-	(4,767)	-	-
Proceeds from borrowings		-	3,763	-	3,763
Repayment of borrowings		(3,584)	-	(3,584)	-
Dividends paid		(2,700)	(2,600)	(2,700)	(2,600)
Net cash from financing activities		(6,284)	(3,604)	(6,284)	1,163
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		909	1,175	201	1,444
Cash, cash equivalents and bank overdrafts at the beginning of the year		1,475	300	5,130	3,686
Cash, cash equivalents and bank overdrafts at the end of the year	7	2,384	1,475	5,331	5,130

The Statement of Accounting Policies on pages 14 to 24 and Notes on pages 29 to 62 are an integral part of, and should be read in conjunction with the financial statements.

Notes to the Financial Statements

For the year ended 30 June 2011

1 Operating revenue

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Rendering of services	245	215	25,917	24,807
Sale of goods	-	-	972	95
Dividends	4,700	4,300	-	-
Interest on advances to subsidiaries and associates	1,926	1,917	-	-
Carbon Credits	-	-	1,376	-
Other income	-	-	1,791	1,714
	6,871	6,432	30,056	26,616

2 Other gains and losses

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Rental income from property subleases	-	-	133	138
Change in fair value of investment property	-	-	216	(360)
Change in fair value of biological assets	-	-	272	1,229
Reversal of prior impairment loss	-	-	321	-
	-	-	942	1,007

3 Administrative expenses (includes)

	Company		Group	
	2011 $000	2010 $000	2011 $000	2010 $000
Director fees	138	134	502	449
Loss on sales of property, plant and equipment	-	-	147	139
Bad debts written off	-	-	2	13
Operating lease expenses	-	-	630	602
Subvention payment	-	-	222	292
Donations	2	-	7	44
Audit remuneration to other auditors comprises				
· audit of financial statements	-	-	57	50
· other audit-related services	-	-	37	39
Auditor's remuneration to Audit New Zealand comprises:				
· audit of financial statements	20	24	51	55
· other audit-related services	-	-	-	-

4 Employee expenses

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Wages and salaries	-	-	2,384	2,443
Total employee expenses	-	-	2,384	2,443

5 Finance income and expense

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Finance Income				
Interest income on bank deposits	58	41	446	403
Total finance income	58	41	446	403
Financial expense				
Interest expense on financial liabilities measured at amortised cost	2,522	2,685	2,199	2,331
Total financial expenses	2,522	2,685	2,199	2,331
Net finance costs	(2,464)	(2,644)	(1,753)	(1,928)

6 Income tax expense in the Income Statement

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Current tax expense				
Current period	-	-	2,196	1,393
Adjustment for prior periods	-	-	(245)	150
Total current tax expense	-	-	1,951	1,543
Deferred tax expense				
Origination and reversal of temporary differences	-	-	540	559
Reduction in tax rate	-	-	(39)	(693)
Total deferred tax expense	-	-	501	(134)
Total income tax expense	-	-	2,452	1,409

6 Income tax expense in the Income Statement

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Reconciliation of effective tax rate				
Profit for the year	4,101	3,465	6,667	6,376
Permanent differences	-	-	-	-
Profit excluding income tax	4,101	3,465	6,667	6,376
Tax at 30%	1,230	1,040	2,001	1,914
Group loss offset	180	250	180	250
Permanent Differences	(1,410)	(1,290)	555	(508)
Impact of reduction in tax rates on deferred tax	-	-	(39)	(755)
Change in recognised temporary differences	-	-	-	358
Under/(over) provided in prior periods	-	-	(245)	150
Total income tax expense	-	-	2,452	1,409
Effective Tax Rate	0%	0%	37%	22%

The ‘change in recognised temporary differences’ relates to taxation adjustments triggered by government changes to depreciation on buildings.

ICHL will transfer tax losses to EIL of $599,025 (2010: $1,702,590). Invercargill City Forests will transfer tax losses to Electricity Invercargill Limited of $Nil (2010: $732,167).

From the above tax position of loss offsets transferred to the Company and to other Group companies for the year ended 30 June 2011, there are no unrecognised tax losses of the Group (2010: nil).

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Imputation credits				
Imputation credits at 1 July	2,729	2,536	4,013	3,709
New Zealand tax payments, net of refunds	-	-	767	749
Imputation credits attached to dividends received	1,433	1,307	866	669
Imputation credit corrections	(696)	-	(696)	-
Imputation credits attached to dividends paid	(1,157)	(1,114)	(1,157)	(1,114)
Imputation credits at 30 June	2,309	2,729	3,793	4,013
Imputation credits available to shareholders of the company				
Through the company			2,309	2,729
Through subsidiaries			1,484	1,284
			3,793	4,013

7 Cash and cash equivalents

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Call deposits	2,368	1,475	5,031	3,979
Cash and cash equivalents	16	-	352	1,151
Bank overdrafts used for cash management purposes	-	-	(52)	-
Cash and cash equivalents in the statement of cash flows	2,384	1,475	5,331	5,130

8 Trade and other receivables

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Trade receivables	-	-	1,913	1,331
GST receivable	1	2	1	2
Prepayments	-	-	84	92
Related party receivables	4,803	4,522	750	904
Sundry debtors	-	-	1	41
	4,804	4,524	2,749	2,370
Less provision for impairment of receivables	-	-	-	-
	4,804	4,524	2,749	2,370

Movements in the provision for impairment of receivables are as follows:

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
At 1 July	-	-	-	-
Additional provisions made during the year	-	-	-	-
Receivables written off during period	-	-	-	-
At 30 June	-	-	-	-

9 Inventories

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Spare parts	-	-	102	89
Other	-	-	31	38
Total inventories	-	-	133	127

10 Property, Plant and Equipment

2011 – Group ($'000)

	Cost/ revaluation 1 July 2010	Accumulated depreciation and impairment charges 1 July 2010	Carrying amount 1 July 2010	Current year additions - Cost	Current year disposals - Cost	Current year disposals - Depreciation	Current year impairment charges	Current year depreciation	Revaluation surplus	Revaluation correction - depreciation	Cost/ revaluation 30 June 2011	Accumulated depreciation and impairment charges 30 June 2011	Carrying amount 30 June 2011
Land	3,355	-	3,355	40	-	-	-	-	193	-	3,588	-	3,588
Gravel and Fencing	1,755	250	1,505	300	2	-	-	65	-	-	2,053	315	1,738
Buildings, Yards & Terminals	1,969	673	1,296	99	-	-	-	68	-	-	2,068	741	1,327
Network assets	105,523	12,987	92,536	4,888	251	34	-	4,277	939	(4,497)	111,099	12,733	98,366
Plant and equipment	2,720	2,328	392	120	70	61	-	176	-	-	2,770	2,443	327
Motor vehicles	2,636	2,477	159	24	3	-	-	23	-	-	2,657	2,500	157
Furniture and fittings	519	486	33	10	3	-	-	3	-	-	526	489	37
Runway, taxiways and apron	11,291	4,068	7,223	25	-	-	(321)	429	-	-	11,316	4,176	7,140
Roading	-	-	-	286	-	-	-	3	-	-	286	3	283
Total assets	129,768	23,269	106,499	5,792	329	95	(321)	5,044	1,132	(4,497)	136,363	23,400	112,963

2010 – Group ($'000)

	Cost/ revaluation 1 July 2009	Accumulated depreciation and impairment charges 1 July 2009	Carrying amount 1 July 2009	Current year additions	Current year disposals - Cost	Current year disposals - Depreciation	Current year impairment charges	Current year depreciation	Revaluation surplus	Revaluation correction - depreciation	Cost/ revaluation 30 June 2010	Accumulated depreciation and impairment charges 30 June 2010	Carrying amount 30 June 2010
Land	3,555	-	3,555	-	-	-	-	-	(200)	-	3,355	-	3,355
Gravel and Fencing	1,245	201	1,044	510	-	-	-	49	-	-	1,755	250	1,505
Buildings, Yards & Terminals	1,965	609	1,356	4	-	-	-	64	-	-	1,969	673	1,296
Network assets	101,195	9,252	91,943	4,507	179	19	-	3,754	-	-	105,523	12,987	92,536
Plant and equipment	2,576	2,154	422	147	3	-	-	174	-	-	2,720	2,328	392
Motor vehicles	2,534	2,460	74	102	-	-	-	17	-	-	2,636	2,477	159
Furniture and fittings	508	482	26	11	-	-	-	4	-	-	519	486	33
Runway, taxiways and apron	6,728	2,739	3,989	4,563	-	-	857	472	-	-	11,291	4,068	7,223
Roading	-	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	120,306	17,897	102,409	9,844	182	19	857	4,534	(200)	-	129,768	23,269	106,499

No depreciation is charged on land and there have been no impairments throughout the period.

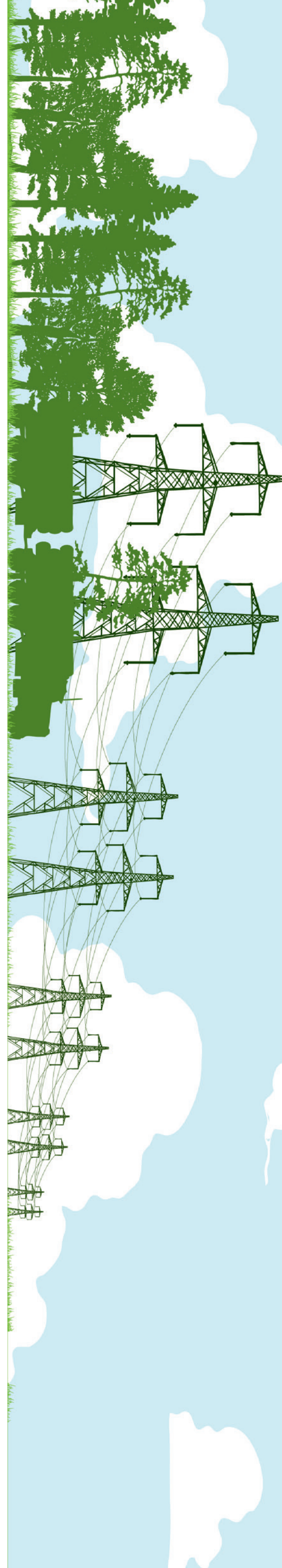
The value of the land owned by Invercargill City Forests Limited, had it been carried at the cost model, would be $1,500,764 at 30th June 2011 ($1,468,788 at 30 June 2010).
At 30th June 2011, the forestry land valuation was performed by Trevor Thayer valuers (independent valuers). The fair value was determined on the highest and best use of the land. The valuation was carried out on sales of comparable land, based on the Valuers sales database.

The Climate Change (Emissions Trading and Renewable Preferences) Admendment Act 2008 that was passed into law on 10 September 2008 has had a dramatic impact on land values.

The value of the network assets owned by Electricity Invercargill Limited, had it been carried at the cost model, would be $73,242,000 at 30 June 2011 ($72,847,000 at 30 June 2010).

The network assets of Otago Net joint venture (part of the Electricity Invercargill Limited group) were revalued on 1 April 2010 by Sinclair Knight Merz (SKM) to depreciated replacement cost and were reviewed for impairment (in conjunction with Goodwill) by Ernst & Young. This resulted in the Group recording a revaluation movement of $5,436,000, and goodwill $3,199,000 being inpaired to nil.

A fair value assessment of the Runway asset was conducted as part of the Company's transition to NZ IFRS at 1 July 2005. This resulted in a significant writedown in the value of the Runway asset value at that date. At each consecutive balance date since the management and directors have assessed whether the carrying value of the Runway asset was materially different to its fair value in completing the financial statements. For 2011 the management and directors have reviewed the underlying assumptions and noted that these have changed substantially from last year's analysis - with substantial change in the revenue streams and long term discount rate (10%) applying. This assessment was reviewed by Ernst Young. On the basis of the assessment conducted for 2011, management and the directors have concluded that the carrying value of the Runway asset now reflects fair value.



11 Intangible Assets	Group Computer Software	Group Goodwill	Group Total
	$000	$000	$000
Cost			
Balance at 1 July 2009	476	3,199	3,675
Additions	83	-	83
Balance at 30 June 2010	559	3,199	3,758
Balance at 1 July 2010	559	3,199	3,758
Reallocations of share of Intangibles	-	-	-
Additions	74	-	74
Disposals	(8)	-	(8)
Balance at 30 June 2011	625	3,199	3,824
Amortisation and Impairment charges			
Balance at 1 July 2009	189	-	189
Amortisation for the year	115	-	115
Balance at 30 June 2010	304	-	304
Balance at 1 July 2010	304	-	304
Amortisation for the year	120	-	120
Disposals	(8)	-	(8)
Impairment losses	-	3,199	3,199
Balance at 30 June 2011	416	3,199	3,615
Carrying amounts			
At 1 July 2009	287	3,199	3,486
At 30 June 2010	255	3,199	3,454
At 1 July 2010	255	3,199	3,454
At 30 June 2011	209	-	209

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

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

12 Biological assets

	Group Forestry $000
Balance at 1 July 2009	6,553
Change in fair value less estimated point-of-sale costs	1,229
Balance at 30 June 2010	7,782
Balance at 1 July 2010	7,782
Change in fair value less estimated point-of-sale costs	272
Balance at 30 June 2011	8,054

At 30 June 2011, standing timber comprised approximately 1,447 hectares of plantations at five different locations.

The forests were revalued as at 30 June 2011 by an independent valuer, Mr Geoff Manners of Chandler Fraser Keating Limited. The analysis includes taxation as a cost. The discount rate is the mid-point of pre-tax discount rates published by the New Zealand Institute of Forestry. The pre-tax discount rate chosen for the 2011 valuations is 11% (2010 11%).

The Group is exposed to a number of risks related to its forestry assets.

Carbon credits (Emissions Trading Scheme)

In the year ended 30 June 2011 Invercargill City Forest Limited has received and sold the following carbon credits:

		$000
Post 1989	52,759 units	1,028
Pre 1990	17,756 units	348
		1,376

As at 30 June 2011 there are nil carbon credits on hand.

Future expected allocations are as follows:

		$000
2012 Post 1989	20,355 units	407
2013 Pre 1990	28,564 units	571
		978

Invercargill City Forests has harvested a total of 40.61 hectares of pre-1990 forest in Dunrobin Forest. Of this harvested land 23 hectares has been replanted at 30 June 2011 and no longer carries any potential deforestation liability. Deforestation liability from pre-1990 land at 30 June 2011, if the land is not replanted is $521,604. It is Invercargill City Forests Limited's intention to replant all forests.

Pre-1990 Forest:

Pre-1990 forests are forests that were established before 1 January 1990. NZUs cannot be earned for an increase in the carbon stock (through forest growth) in a pre-1990 forest, but NZU's are allocated based on the size of the forested area in three tranches. .Provided that pre-1990 forests are re-established after harvesting (by replanting or regeneration), there are no liabilities or obligations under the ETS. Landowners of pre-1990 forests must surrender NZUs equivalent to the carbon emissions from any deforestation.

Post-1989 Forests:

Post-1989 forests are exotic or indigenous forests established after 31 December 1989 on land that was not forest land on 31 December 1989. These forests earn credits under the Kyoto Protocol rules. Therefore, they are also known as “Kyoto Protocol-compliant” forests. Participating in the ETS is voluntary for post-1989 forest owners. If they are part of the ETS, then they earn NZUs for the carbon sequestered in the forest from 1 January 2008, but will need to surrender NZUs to the Crown when the carbon held in their trees decreases, whether through harvest or natural causes (such as by fire or storm). Any liability for post-1989 participants is capped at the amount of NZUs previously claimed for that area of forest land.

Supply and Demand Risk
The Group is exposed to risks arising from fluctuations in the price and sales volume of pine. Where possible the Group manages this risk by aligning its harvest volume to market supply and demand.

The Group is exposed to movements in the price of NZU’s to the extent that, the Group has insufficient NZU’s to offset a deforestoration liability and has to purchase NZU’s on the market.

Management performs regular industry trend analysis to ensure that the Group’s pricing structure is in line with the market and to ensure that projected harvest volumes are consistent with the expected demand.

Climate and Other Risks
The Group’s pine plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces.

The Group has extensive processes in place aimed at monitoring and mitigating those risks, including regular forest health inspections and industry pest and disease surveys.

The Group also insures itself against natural disasters such as floods and snow damage.

13 Investment Property

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Balance at 1 July	-	-	3,655	4,015
Acquisitions	-	-	27	-
Transfer from property, plant and equipment	-	-	2	-
Change in fair value	-	-	216	(360)
Balance at 30 June	-	-	3,900	3,655

Investment property comprises a number of commercial properties that are leased to third parties.

The Group’s investment properties are valued annually at fair value effective 30 June. All investment properties were valued based on open market evidence. The 2011 valuation was performed by Trevor Thayer, an independent valuer from Thayer Todd Valuations Limited. The valuer is an experienced valuer with extensive market knowledge in the types of investment properties owned by the Group.

14 Equity Accounted Investees

The Group's share of profit in its equity accounted investees for the year was $640,000 (2010: $629,000).

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:

	Current assets $000	Non-current assets $000	Total assets $000
2011			
Power Services Limited, Electricity Southland Limited & Otago Power Services Limited	5,661	14,622	20,283
2010			
Power Services Limited, Electricity Southland Limited & Otago Power Services Limited	5,731	13,813	19,544

	Current liabilities $000	Non-current liabilities $000	Total liabilities $000
2011			
Power Services Limited, Electricity Southland Limited & Otago Power Services Limited	3,102	8,120	11,222
2010			
Power Services Limited, Electricity Southland Limited & Otago Power Services Limited	2,905	8,289	11,194

	Revenues $000	Expenses $000	Profit/loss $000
2011			
Power Services Limited, Electricity Southland Limited & Otago Power Services Limited	20,578	18,676	1,902
2010			
Power Services Limited, Electricity Southland Limited & Otago Power Services Limited	19,262	17,453	1,809

The Group owns 49% of Power Services Limited, 50% of Electricity Southland Limited and 24.5% of Otago Power Services Limited

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

Financial performance

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

	Group 2011 $000	Group 2010 $000
Share of surplus before taxation	1,025	974
Less taxation expense	(385)	(345)
	640	629

Movements in carrying value of equity accounted investee : Power Services Limited, Electricity Southland Limited & Otago Power Services Limited

	Group 2011 $000	Group 2010 $000
Balance at 1 July	7,308	6,121
Investments in associates	-	-
Share of profit/(loss)	640	629
Goodwill on acquisition	-	-
Equity acquired on acquisition	-	-
Increase in advance to Associate	(400)	950
Dividends received	(416)	(392)
Balance at 30 June	7,132	7,308
Amount of goodwill in carrying value of equity accounted investees:		
Balance at 1 July	259	259
Goodwill on acquisition of associate	-	-
Balance at 30 June	259	259

15 Joint Ventures

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

	Percentage held by Group		
Joint venture companies	**2011**	**2010**	**Balance Date**
PowerNet Limited	50%	50%	31 March
OtagoNet Joint Venture	24.50%	24.50%	31 March

Financial performance

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

	2011 $000	2010 $000
Revenue	25,534	23,819
Expenses	16,490	12,516

Financial Position

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

	2011 $000	2010 $000
Current assets	1,857	2,267
Non-current assets	34,948	32,144
Current liabilities	2,345	1,811
Non-current liabilities	-	-
Net Assets Employed in Joint Venture	34,460	32,600

16 Other Financial Assets & Liabilities

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Non-current investments - Assets				
Investments in subsidiaries	55,706	55,706	-	-
Loans to subsidaries	28,971	32,453	-	-
Total non-current investments	84,677	88,159	-	-
Current investments - Assets				
Short term investments	-	-	397	598
Loans to subsidaries	389	391	-	-
Other financial assets	-	-	-	-
Total current investments	389	391	397	598
Total investments - Assets	85,066	88,550	397	598
Current financial instruments				
Interest rate swaps (cash flow hedges) - assets	31	242	31	242
Interest rate swaps (cash flow hedges) - liabilities	(1,367)	(949)	(1,367)	(949)
Derivatives	(1,336)	(707)	(1,336)	(707)

17 Trade and Other Payables

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Trade payables	6	3	1,522	946
Directors fee payable	7	7	7	7
Accrued expenses	629	743	1,223	1,795
Amounts due to other related parties	-	1	697	177
Income in advance	-	-	-	-
GST payable	-	-	133	150
Dividends payable	3,100	2,700	3,100	2,700
Total trade and other payables	3,742	3,454	6,682	5,775

Trade and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of trade and other payables approximate their fair value.

18 Employee benefit liabilities

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Accrued pay	-	-	10	10
Annual leave	-	-	152	134
Other liabilities	-	-	33	22
Long service leave	-	-	8	5
Retirement gratuities	-	-	-	-
	-	-	203	171
Comprising:				
Current	-	-	203	171
Non-current	-	-	-	-
Total employee benefit liabilities	-	-	203	171

19 Borrowings

	Company 2011 $000	Company restated 2010 $000	Group 2011 $000	Group restated 2010 $000
Current				
Redeemable preference shares	16,777	16,777	16,777	16,777
Shareholder advance	-	-	-	-
Secured Loans	35,489	-	35,489	-
Total current borrowings	52,266	16,777	52,266	16,777
Non-current				
Redeemable preference shares	-	-	-	-
Shareholder advances	-	-	-	-
Secured loans		39,073	-	39,073
Total non-current borrowings	-	39,073	-	39,073

Secured loans of the Company are secured against assets, undertakings and uncalled capital of the Group.

The weighted average interest rate for the multi-option note facility was 5.71% (2010: 6.32%) with hedging refer note 28.

The total borrowing facility of $45m expires on 31 May 2012. Debt may be raised by a committed cash advance facility or by the issuance of promissory notes upon the multi-option note facility for a term of 90 days before being re-tendered.

The redeemable preference shares bear no interest or dividend payable unless the Directors of the Company are notified by the holders of the shares prior to 31 August of each year that payment is required. The rate determined shall not exceed 5% above the ninety (90) day Bank Bill Settlement Rate as quoted on the Reuters Monitor screen page BKBM on the date fixed for redemption.

On a return of assets on liquidation or otherwise the assets of the Company available for distribution amongst its members shall be applied first in repaying the holders of the Redeemable Preference Shares the amounts paid up on the Redeemable Preference Shares, and the balance of such assets subject to any special rights which may be attached to any other class of shares shall be distributed in accordance with the Company's Constitution.

20 Deferred Tax Assets and Liabilities

Group :

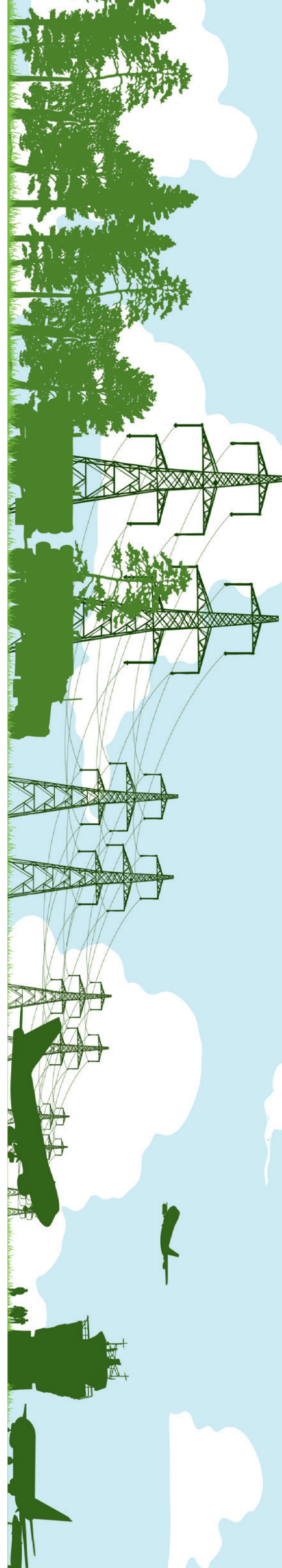
Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2011 $000	Assets 2010 $000	Liabilities 2011 $000	Liabilities 2010 $000	Net 2011 $000	Net 2010 $000
Property, plant and equipment	-	-	16,313	14,470	16,313	14,470
Intangible assets	-	-	-	-	-	-
Biological assets	-	-	1,679	1,602	1,679	1,602
Investment property	-	-	756	724	756	724
Derivatives	(383)	(285)	9	73	(374)	(212)
Other items	(17)	(20)	-	-	(17)	(20)
Tax (assets)/liabilities	(400)	(305)	18,757	16,869	18,357	16,564
Set off of tax	-	-	(946)	(1,015)	(946)	(1,015)
Net tax (assets)/liabilities	(400)	(305)	17,811	15,854	17,411	15,549

Movements in temporary differences during the year

	Balance 1-Jul-09 $000	Recognised in profit or loss $000	Recognised in equity $000	Balance 30-Jun-10 $000	Recognised in profit or loss $000	Recognised in equity $000	Balance 30-Jun-11 $000
Property, plant and equipment	14,122	742	(394)	14,470	320	1,523	16,313
Intangible assets	-	-	-	-	-	-	-
Biological assets	1,348	254	-	1,602	77	-	1,679
Investment property	774	(50)	-	724	32	-	756
Derivatives	(107)	-	(105)	(212)	-	(162)	(374)
Other items	(17)	(3)	-	(20)	3	-	(17)
Impact of losses	-	(1,015)	-	(1,015)	69	-	(946)
Tax loss carry-forwards	-	-	-	-	-	-	-
Total movements	16,120	(72)	(499)	15,549	501	1,361	17,411



20 Deferred Tax Assets and Liabilities

Parent:

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets 2011 $000	Assets 2010 $000	Liabilities 2011 $000	Liabilities 2010 $000	Net 2011 $000	Net 2010 $000
Derivatives	-	-	-	-	-	-
Tax (assets)/liabilities	-	-	-	-	-	-
Net tax (assets)/liabilities	-	-	-	-	-	-

Movements in temporary differences during the year

	Balance 1-Jul-09 $000	Recognised in profit or loss $000	Recognised in equity $000	Balance 30-Jun-10 $000	Recognised in profit or loss $000	Recognised in equity $000	Balance 30-Jun-11 $000
Derivatives	(107)	-	107	-	-	-	-
Total movements	(107)	-	107	-	-	-	-

The parent has not recognised in 2011 year a deferred tax asset in relation to temporary differences of $1,336,000 (2010: $707,000). However, the deferred tax asset has been recognised at a group level.

21 Equity

Group

	Attributable to equity holders of the Company					Minority interest	Parent interest
	Share capital $000	Cashflow Hedging reserve $000	Revaluation reserve $000	Retained earnings $000	Total $000	$000	$000
Balance at 1 July 2009	25,293	(250)	15,234	17,471	57,748	3,172	54,576
Surplus/(deficit) after tax	-	-	-	4,967	4,967	-307	5,274
Other comprehensive income							
Property, Plant and Equipment Revaluation gains/(losses)	-	-	(200)	-	(200)	-	(200)
Change in Company Tax rate	-	-	394	-	394		394
Transfer of revaluation reserve to retained earnings due to asset disposal	-	-	(25)	25	-	-	-
Effective portion of changes in fair value of cash flow hedges, net of tax	-	(245)	-	-	(245)	-	(245)
Distributions to Shareholders							
Dividends paid/declared	-	-	-	(2,900)	(2,900)	-	(2,900)
Balance at 30 June 2010	**25,293**	**(495)**	**15,403**	**19,563**	**59,764**	**2,865**	**56,899**
					-		
Balance at 1 July 2010	25,293	(495)	15,403	19,563	59,764	2,865	56,899
Surplus/(deficit) after tax	-	-	-	4,215	4,215	199	4,016
Other comprehensive income							
Property, Plant and Equipment Revaluation gains/(losses)	-	-	3,998	-	3,998		3,998
Change in Company Tax rate	-	-	109	-	109		109
Transfer of revaluation reserve to retained earnings due to asset disposal	-	-	(27)	27	-	-	-
Effective portion of changes in fair value of cash flow hedges, net of tax	-	(467)	-	-	(467)	-	(467)
Distributions to Shareholders							
Dividends paid/declared	-	-	-	(3,100)	(3,100)	-	(3,100)
Balance at 30 June 2011	**25,293**	**(962)**	**19,483**	**20,705**	**64,519**	**3,064**	**61,455**

21 Equity

Parent

	Attributable to equity holders of the Company					Minority interest	Parent interest
	Share capital	Cashflow Hedging reserve	Revaluation reserve	Retained earnings	Total		
	$000	$000	$000	$000	$000	$000	$000
Balance at 1 July 2009	25,293	(250)	-	9,387	34,430	-	34,430
Surplus/(deficit) after tax	-	-	-	3,465	3,465	-	3,465
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges, net of tax	-	(457)	-	-	(457)	-	(457)
Distributions to Shareholders							
Dividends paid/declared	-	-	-	(2,900)	(2,900)	-	(2,900)
Balance at 30 June 2010	**25,293**	**(707)**	**-**	**9,952**	**34,538**	**-**	**34,538**
Balance at 1 July 2010	25,293	(707)	-	9,952	34,538	-	34,538
Surplus/(deficit) after tax	-	-	-	4,101	4,101	-	4,101
Other comprehensive income							
Effective portion of changes in fair value of cash flow hedges, net of tax	-	(629)	-	-	(629)	-	(629)
Distributions to Shareholders							
Dividends paid/declared	-	-	-	(3,100)	(3,100)	-	(3,100)
Balance at 30 June 2011	**25,293**	**(1,336)**	**-**	**10,953**	**34,910**	**-**	**34,910**

The Company has 17,398,202 ordinary shares that have been called and a further 67,650,000 ordinary shares that have been issued to the Invercargill City Council for $1 each but remain uncalled at balance date.

All shares, whether called or uncalled, have equal voting rights and have no par value.

22 Reconciliation of net surplus/(deficit) to net cash inflows (outflows) from operating activities

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Reconciliation with reported operating surplus				
Net surplus after tax	4,101	3,465	4,215	4,967
Add/(deduct) non-cash items:				
Depreciation	-	-	5,044	4,534
Amortisation of intangible assets	-	-	120	115
Impairment of runway	-	-	(321)	857
Impairment of goodwill	-	-	3,199	-
Net (profit)/loss on sale of fixed assets	-	-	146	139
Derecognition of term loan	168	168	-	-
Change in fair value of investment property	-	-	(216)	360
Change in fair value of biological assets	-	-	(272)	(1,229)
Increase/(decrease) in deferred taxation	-	-	501	(72)
Associate post-acquisition profits	-	-	(224)	(237)
Loss / (Gain) on sale of assets	-	-	3	-
	168	168	7,980	4,467
Add/(less) movements in working capital:				
(Increase)/decrease in receivables	(281)	61	(400)	403
(Increase)/decrease in inventories	-	-	(6)	(4)
(Increase)/decrease in construction WIP	-	-	27	10
Increase/(decrease) in accounts payable and accruals	(112)	(74)	556	(273)
Increase/(decrease) in GST/taxation	1	2	480	178
	(392)	(11)	657	314
Net cash inflow (outflow) from operating activities	3,877	3,622	12,852	9,748

23 Related party transactions

The Company is the sole shareholder of Electricity Invercargill Limited, Invercargill City Forests Limited, Bendigo Construction Limited and holds a 55% stake in Invercargill Airport Limited. During the year, the following transactions took place with the group companies. All transactions with the subsidiaries have been eliminated upon consolidation.

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
(a) Invercargill City Council				
Revenue				
Provision of services	30	30	35	30
Expenditure				
Provision of services and subvention payments	27	27	77	66
Dividends from Subsidiary to Parent	3,100	2,900	3,100	2,900
Outstanding at balance date by Parent and Group	3,100	2,701	3,102	2,704
Outstanding at balance date to Parent and Group	-	-	-	-
(b) Electricity Invercargill Limited				
Revenue				
Provision of services and interest charges	1,333	1,495	-	-
Dividends from Subsidiary to Parent	4,500	4,300	-	-
Expenditure				
Recovery of expenses incurred on behalf	(27)	(36)	-	-
Provision of services			-	-
Outstanding at balance date by Parent and Group	-	-	-	-
Outstanding at balance date to Parent and Group	4,603	4,425	-	-
Loan outstanding at balance date to Parent and Group	16,000	18,000	-	-
(c) Invercargill City Forests Limited				
Revenue				
Provision of services and interest charges	281	298	-	-
Dividends from Subsidiary to Parent	200	-	-	-
Expenditure				
Provision of services	-	-	-	-
Outstanding at balance date by Parent and Group	-	-	-	-
Outstanding at balance date to Parent and Group	200	-	-	-
Loan outstanding at balance date to Parent and Group	6,197	6,993	-	-
(d) Invercargill Airport Limited				
Revenue				
Provision of services and depreciation subsidy, interest charges	343	97	-	-
Expenditure				
Provision of services and depreciation subsidy, interest charges	168	168	-	-
Outstanding at balance date by Parent and Group	-	-	-	-
Outstanding at balance date to Parent and Group	-	97	-	-
Loans outstanding at balance date to Parent and Group	7,163	7,851	-	-

23 Related party transactions

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
(e) AWS Legal				
Revenue				
Provision of services	-	-	-	-
Expenditure				
Provision of services	41	38	117	64
Outstanding at balance date by Parent and Group	-	-	7	2
Outstanding at balance date to Parent and Group	-	-	-	-
(f) WHK				
Revenue				
Provision of services	-	-	-	-
Expenditure				
Provision of services	24	24	57	53
Outstanding at balance date by Parent and Group	7	7	7	8
Outstanding at balance date to Parent and Group	-	-	-	-
(g) SBS Bank (renamed from Southland Building Society)				
Revenue				
Provision of services and interest charges	-	-	172	111
Expenditure				
Provision of goods and services	-	-	-	-
Outstanding at balance date by Parent and Group	-	-	-	-
Outstanding at balance date to Parent and Group	-	-	4,193	2,222
(h) AJO Management Limited				
Revenue				
Provision of services	-	-	-	-
Expenditure				
Provision of goods and services	-	-	31	14
Outstanding at balance date by Parent and Group	-	-	-	-
Outstanding at balance date to Parent and Group	-	-	-	-
(i) PowerNet Limited				
Revenue				
Provision of services	-	-	9,273	8,711
Expenditure				
Provision of goods and services	-	-	3,801	3,018
Outstanding at balance date by Parent and Group	-	-	688	157
Outstanding at balance date to Parent and Group	-	-	716	872

23 Related party transactions	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
(j) Bert Walker Sportsworld Limited				
Revenue				
Provision of services	-	-	-	-
Expenditure				
Provision of goods and services	-	-	-	5
Outstanding at balance date by Parent and Group	-	-	-	-
Outstanding at balance date to Parent and Group	-	-	-	-
(k) Electricity Southland Limited				
Revenue				
Provision of services	-	-	108	82
Expenditure				
Provision of goods and services	-	-	-	-
Outstanding at balance date by Parent and Group	-	-	-	-
Outstanding at balance date to Parent and Group	-	-	25	24
(l) Otago Power Services Limited				
Revenue				
Provision of services	-	-	11	10
Expenditure				
Provision of goods and services	-	-	-	-
Outstanding at balance date by Parent and Group	-	-	-	-
Outstanding at balance date to Parent and Group	-	-	3	2
(m) Power Services Limited				
Revenue				
Provision of services	-	-	27	25
Expenditure				
Provision of goods and services	-	-	42	47
Outstanding at balance date by Parent and Group	-	-	-	13
Outstanding at balance date to Parent and Group	-	-	6	6
(m) Power Services Limited				
Revenue				
Provision of services	-	-	-	-
Expenditure				
Provision of goods and services	-	-	1	-
Outstanding at balance date by Parent and Group	-	-	-	-
Outstanding at balance date to Parent and Group	-	-	-	-

23 Related party transactions

No related party transactions have been written off or were forgiven during the 2011 year (2010: nil).

Electricity Invercargill Limited through its joint venture interest in PowerNet Limited, uses AWS Legal as its solicitors. A B Harper is a Director of PowerNet Limited and is a Partner of AWS Legal.
R Smith who is a Director of Electricity Invercargill Limited is a Director and Chief Executive Officer of Southland Building Society with which Electricity Invercargill Limited holds term investments.
P Mulvey who is a Director of Electricity Invercargill Limited, is Chief Executive Officer of WHK with which Electricity Invercargill Limited uses for tax advice.
Invercargill Airport Limited purchased services from WHK (formerly WHK Cook Adam Ward Wilson), an accounting firm, in which MS Cook is a principal. These services cost $30,500 (2010 $25,600) including director fees, and were supplied on normal commercial terms. There is a nil balance (2010 $nil) outstanding at year-end.
During the year Invercargill Airport Limited purchased electrical services from PowerNet, an electrical infrastructure company, in which RM Walton is the Chief Executive Officer. These services cost $18,300 (2010 $12,800) including director fees, and were supplied on normal commercial terms. There is a nil balance (2010 $nil) outstanding at year-end.
During the year Invercargill Airport Limited purchased nil services from Bert Walker Sportsworld Limited, a management company, in which AB McKenzie is the Chairman. These services cost $nil (2010 $4,267) including director fees, and were supplied on normal commercial terms. There is a nil balance (2010 $nil) outstanding at year-end.
During the year Invercargill Airport Limited purchased services from AJO Management Limited, a management company, in which AJ O'Connell is the Director. These services cost $31,178 (2010 $13,888) including director fees, and were supplied on normal commercial terms. There is a nil balance (2010 $nil) outstanding at year-end.
There are close family members of key management personnel employed by Invercargill Airport Limited. The terms and conditions of those arrangements are no more favourable than Invercargill Airport Limited would have adopted if there were no relationship to key management personnel.

No debt has been written off or forgiven during the period and all transactions are at arms - length. The outstanding balances are not subject to interest and are repayable on demand.

Refer note 6 for details on tax loss offsets within the group.

Key management personnel compensation comprises:	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Short term employment benefits	-	-	1,033	1,265
Directors Fees	138	134	502	449

Short term employee benefits relate to:
Invercargill Airport Limited, and consist of salaries and does not include any costs for the following: post employment benefits, other long term benefits and termination benefits as they are not provided for by Invercargill Airport Limited.
Electricity Invercargill Limited group, and consist of salaries and other short term benefits.

For the year ended 30 June 2011, Invercargill Airport Limited made one (2010: one) severance payment to an employee totalling $35,473 (2010: $97,056).

24 Capital commitments and operating leases

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Capital commitments				
Capital expenditure contracted for at balance date but not yet incurred for property, plant and equipment	-	-	1,204	1,254

Operating leases as lessee

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Non-cancellable operating leases as lessee				
Not later than one year	-	-	727	396
Later than one year and not later than five years	-	-	1,606	1,182
Later than five years	-	-	7,653	4,916
Total non-cancellable operating leases	-	-	9,986	6,494

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

Operating leases as lessor

The Group leases its investment property under operating leases. The majority of these leases have a non-cancellable term of 36 months. The future aggregate minimum lease payments to be collected under non-cancellable operating leases are as follows:

	Company 2011 $000	Company 2010 $000	Group 2011 $000	Group 2010 $000
Non-cancellable operating leases as lessor				
Not later than one year	-	-	308	318
Later than one year and not later than five years	-	-	335	292
Later than five years	-	-	59	50
Total non-cancellable operating leases	-	-	702	660

There are no restrictions placed on the Company by any of the leasing arrangements.

25 Contingencies

Contingent assets:

Invercargill City Forests Limited has been allocated $978,380 of Carbon Credits as at 30 June 2011 (2010: Nil) contingent upon the holding account with Ministry of Agriculture and Fisheries being approved. 17,756 NZU's in 2011 and 28,564 NZU's in 2013, refer note 12.

Contingent liabilities:

Invercargill City Forests has harvested a total of 40.61 hectares of pre-1990 forest in Dunrobin Forest. Of this harvested land 23 hectares has been replanted at 30 June 2011 and no longer carries any potential deforestation liability. Deforestation liability from pre-1990 land at 30 June 2011, if the land is not replanted is $521 604. It is Invercargill City Forests Limited's intention to replant all forests. (2010:Nil). Refer note 12.

26 Key Management Personnel

A number of key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entitites.

A number these entitites transacted with the Group in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

27 Events after the Balance Sheet date

There were no other significant events after balance date.

28 Financial Instruments

Invercargill City Holdings Limited provides services to the businesses in the group and the shareholder, co-ordinates access to domestic financial markets and monitors and manages financial risks relating to the group.

Capital management

The group's capital includes share capital, reserves and retained earnings.

The group manages its capital to ensure that entities in the group will be able to continue as a going concern while maximising return to stakeholders through the optimisation of the debt and equity balance.

The objective of the group from the parent company's Statement of Intent is to provide reasonable returns to the shareholder, while acting generally as a responsible corporate citizen and in accordance with sound business practice, by having regard to the interests of the community.

The board monitors the performance of the subsidiary companies in the group, to meet the objectives while maintaining a strong capital base to sustain future development of the group's businesses.

The intentions of the parent company in respect of distributions for each three year period are disclosed in the annual Statement of Intent submitted to council in public.

Financial Instruments - Risk

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

The Company has a series of policies to manage the risks associated with financial instruments. The Company is risk averse and seeks to minimise exposure from its treasury activities. The Company has established Company approved Liability Management and Investment policies. These policies do not allow any transactions that are speculative in nature to be entered into.

• Credit risk

Credit risk is the risk that a counterparty will default on its obligation causing the Company/Group to incur a financial loss.

Financial instruments that potentially subject the Company/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 Company has no significant concentrations of credit risk. The Company invests funds only in deposits with registered banks and local authority stock and its Investment policy limits the amount of credit exposure to any one institution or organisation.

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 Electricity Invercargill Limited group is exposed to a concentration of credit risk with regards to the amounts owing by energy retailers for line charges. However, these entities are considered to be high credit quality entities. An amount of $1,804,000 (2010: $1,849,000) is owed by energy retailers at balance date.

• Liquidity risk

Liquidity risk is the risk that the Company/Group will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Company aims to maintain flexibility in funding by keeping committed credit lines available.

In meeting its liquidity requirements, the Company maintains a target level of investments that must mature within the next 12 months.

The Company manages its borrowings in accordance with its funding and financial policies, which includes a Liability Management policy.

In general the Group generates sufficient cash flows from its operating activities to meet its contractual obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls.

The following table details the exposure to liquidity risk as at 30 June 2011:

Group 2011	Maturity Dates < 1 year $000	1-3 years $000	> 3 years $000	Total $000
Financial Assets				
Cash and cash equivalents	7,043	-	-	7,043
Trade and other receivables	2,244	-	-	2,244
Construction work in progress	21	-	-	21
Derivative financial instruments (interest rate swaps)	-	-	31	31
Short term investments	397	-	-	397
	9,705	-	31	9,736
Financial Liabilities				
Trade and other payables	2,311	1,222	-	3,533
Dividends payable	3,100	-	-	3,100
Derivative financial instruments (interest rate swaps)	57	176	1,134	1,367
Borrowings - secured loans	35,489	-	-	35,489
Borrowings - redeemable preference shares	16,777	-	-	16,777
	57,734	1,398	1,134	60,266

Parent 2011	Maturity Dates < 1 year $000	1-3 years $000	> 3 years $000	Total $000
Financial Assets				
Cash and cash equivalents	2,384	-	-	2,384
Trade and other receivables	104	-	-	104
Dividends receivable	4,700	-	-	4,700
Derivative financial instruments (interest rate swaps)	-	-	31	31
Advances	389	16,794	12,145	29,328
	7,577	16,794	12,176	36,547
Financial Liabilities				
Trade and other payables	642	-	-	642
Dividends payable	3,100	-	-	3,100
Derivative financial instruments (interest rate swaps)	57	176	1,134	1,367
Borrowings - secured loans	35,489	-	-	35,489
Borrowings - redeemable preference shares	16,777	-	-	16,777
	56,065	176	1,134	57,375

The interest rates on the Company's borrowings are disclosed in note 19.

The ultimate parent (ICC) being the holder of the redeemable preference shares has indicated that the shares will not be called for redemption in the next financial year. As the shares are callable the debt is classified as current in the statement of financial position.

The following table details the exposure to liquidity risk as at 30 June 2009:

Group 2010	Maturity Dates < 1 year $000	1-3 years $000	> 3 years $000	Total $000
Financial Assets				
Cash and cash equivalents	5,130	-	-	5,130
Trade and other receivables	2,370	-	-	2,370
Construction work in progress	48	-	-	48
Derivative financial instruments (interest rate swaps)	35	3	204	242
Short term investments	598	-	-	598
	8,181	3	204	8,388
Financial Liabilities				
Trade and other payables	3,250	-	-	3,250
Dividends payable	2,700	-	-	2,700
Derivative financial instruments (interest rate swaps)	82	183	684	949
Borrowings - secured loans	-	39,073	-	39,073
Borrowings - redeemable preference shares	16,777	-	-	16,777
	22,809	39,256	684	62,749

Parent 2010	Maturity Dates < 1 year $000	1-3 years $000	> 3 years $000	Total $000
Financial Assets				
Cash and cash equivalents	1,475	-	-	1,475
Trade and other receivables	224	-	-	224
Dividends receivable	4,300	-	-	4,300
Derivative financial instruments (interest rate swaps)	35	3	204	242
Advances	391	18,782	13,671	32,844
	6,425	18,785	13,875	39,085
Financial Liabilities				
Trade and other payables	754	-	-	754
Dividends payable	2,700	-	-	2,700
Derivative financial instruments (interest rate swaps)	82	183	684	949
Borrowings - secured loans	-	39,073	-	39,073
Borrowings - redeemable preference shares	16,777	-	-	16,777
	20,313	39,256	684	60,253

• Market risk.

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

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is not exposed to currency risk, as it does not enter into foreign currency transactions.

Interest Rate Risk

Interest Rate Risk : Fair Value Interest Rate Risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Borrowing issued at fixed rates expose the Company to fair value interest rate risk. The Company's Liability Management policy outlines the level of borrowing that is to be secured using fixed rate instruments. Fixed to floating interest rate swaps are entered into to hedge the fair value interest rate risk arising where the Company has borrowed at fixed rates.

The Group has interest bearing debt which is subject to interest rate variations in the market. The debt is raised from the Group's parent company, Invercargill City Holdings Limited's bank borrowing facility and then advanced onto the group companies.

The Group through the Parent uses interest rate swaps to manage its exposure to interest rate movements on its multi option facility borrowings.

The interest rates on the Company's borrowings are disclosed in note 19.

The financial assets and liabilities are exposed to interest rate risk as follows:

<u>Financial Assets</u>	
Cash and cash equivalents	Variable interest rates
Trade and other receivables	Non interest bearing
Dividends receivable	Non interest bearing
Capital work in progress	Non interest bearing
Derivative financial instruments (interest rate swaps)	Variable interest rates
Advances	Variable interest rates
Short term investments	Variable interest rates
<u>Financial Liabilities</u>	
Trade and other payables	Non interest bearing
Dividends payable	Non interest bearing
Advances	Variable interest rates
Derivative financial instruments (interest rate swaps)	Variable interest rates
Borrowings - secured loans	Variable interest rates
Borrowings - redeemable preference shares	Non interest bearing

Interest Rate Risk : Cash Flow Interest Rate Risk

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Borrowings and investments issued at variable interest rates expose the Company to cash flow interest rate risk.

The Company manages its cash flow interest rate risk on borrowings by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings at floating rates and swaps them into fixed rates that are generally lower than those available if the Company borrowed at fixed rates directly. Under the interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

The notional principal outstanding in regard to the interest rate swaps is as follows:

	Company/Group	
	2011	**2010**
	$000	**$000**
	Liability	**Liability**
Maturity < 1 year	7,500	9,100
Maturity 1-2 years	1,500	7,500
Maturity 2-3 years	3,500	1,500
Maturity 3-4 years	4,000	-
Maturity 4-5 years	3,800	4,000
Maturity 5-6 years	5,300	2,400
Maturity 6-7 years	1,700	5,300
Maturity 7-10 years	3,500	3,500
	30,800	33,300

- Effectiveness of Cash Flow Hedges

The matched terms method is used in applying hedges. In all cases the terms of both the hedge instrument (Interest rate swap derivative) and the underlying transaction are matched.

	Company/Group	
	2011	**2010**
	%	**%**
Effectiveness	100	100

- Sensitivity analysis on Financial Instruments

Borrowings: If interest rates on borrowings at 30 June 2011 had fluctuated by plus or minus 0.5%, the effect would have been to decrease/increase the surplus after tax by $32,013 (2010: $12,397) as a result of higher/lower interest expense on floating rate borrowings.

Cash and cash equivalents included deposits at call which are at floating interest rates. Sensitivity to a 0.5% movements in rates is immaterial as these cash deposits are very short term.

Derivative Asset: Cash Flow hedge

The derivatives are hedge accounted and managed by the company to be 100% effective and thus there is no sensitivity to the profit and loss to change in the interest rates.

Sensitivity to a 0.5% movements in rates is as follows and affect the equity balance of the Group:

	Carrying amount Year 2011 $000	Equity change +0.5% $000	-0.5% $000
Net Derivative financial asset/(Liability) - Cashflow Hedge	(1,336)	290	(290)

	Year 2010 $000	+0.5% $000	-0.5% $000
Net Derivative financial asset/(Liability) - Cashflow Hedge	(707)	133	(133)

Fair Value Hierarchy disclosures

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

For those instruments recognised at fair value in the statement of financial position, fair values are determined according to the following hierarchy:

- Quoted market price (level 1) – Financial instruments with quoted prices for identical instruments in active markets.

- Valuation technique using observable inputs (level 2)   Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

- Valuation techniques with significant non-observable inputs (level 3) – Financial instruments valued using models where one or more significant inputs are not observable.

The level in fair value hierarchy within which fair value measurement is categorised in its entirety should be detemined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

The determination of what constitutes "observable" requires significant judgement by the Group. The Group considers observable data to be market data that is readily available, regularly distributable or updated, reliable and verifiable, not proprietory and provided by independent sources that are actively involved in the relevant market.

All financial assets and liabilities measured at fair value consisting of interest rate swaps are classified within level 2, being net liability $1,336,000 (2010: net liability $707,000) .

29 Segmental reporting

	Energy 2011 $000	Energy 2010 $000	Forestry 2011 $000	Forestry 2010 $000	Airport 2011 $000	Airport 2010 $000	Finance 2011 $000	Finance 2010 $000	Consolidate / Elimination 2011 $000	Consolidate / Elimination 2010 $000	Total 2011 $000	Total 2010 $000
Total external revenues	25,558	23,910	2,535	1,229	3,043	2,622	6,871	6,432	(7,009)	(6,570)	30,998	27,623
Intersegmental revenue	-	-	-	-	-	-	-	-	-	-	-	-
Total segmental revenue	25,558	23,910	2,535	1,229	3,043	2,622	6,871	6,432	(7,009)	(6,570)	30,998	27,623
Segment result												
Unallocated expenses	20,549	16,226	370	439	2,208	3,145	306	323	(215)	(185)	23,218	19,948
Results from operating activities	5,009	7,684	2,165	790	835	(523)	6,565	6,109	(6,794)	(6,385)	7,780	7,675
Net finance costs	857	1,058	276	293	250	18	2,464	2,644	(2,094)	(2,085)	1,753	1,928
Share of profit of equity accounted investees	640	629	-	-	-	-	-	-	-	-	640	629
Income tax expense	1,853	1,013	457	255	142	141	-	-	-	-	2,452	1,409
Gain on sale of discontinued operation (net of tax)	-	-	-	-	-	-	-	-	-	-	-	-
Profit for the period	2,939	6,242	1,432	242	443	(682)	4,101	3,465	(4,700)	(4,300)	4,215	4,967
Segment assets	106,472	103,219	12,095	10,603	15,167	15,549	92,285	94,791	(89,486)	(92,787)	136,533	131,375
Investment in equity accounted investees	7,132	7,308	-	-	-	-	-	-	-	-	7,132	7,308
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	113,604	110,527	12,095	10,603	15,167	15,549	92,285	94,791	(89,486)	(92,787)	143,665	138,683
Segment liabilities	38,861	38,137	8,707	8,640	8,357	9,182	57,375	60,253	(34,154)	(37,293)	79,146	78,919
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	38,861	38,137	8,707	8,640	8,357	9,182	57,375	60,253	(34,154)	(37,293)	79,146	78,919
Capital expenditure	5,114	4,650	318	-	360	5,194	-	-	-	-	5,792	9,844
Depreciation	4,440	3,893	3	-	601	641	-	-	-	-	5,044	4,534
Amortisation of intangible assets	120	115	-	-	-	-	-	-		-	120	115
Impairment of intangible assets and property, plant and equipment	-	-	-	-	(321)	857	-	-	-	-	(321)	857

All businesses operate in the south of the South Island of New Zealand. Therefore the Group has one geographical segment.

30 Publication of Financial Statements

Invercargill City Holdings Limited is a Council-Controlled Trading Organisation operating under the Local Government Act 2002. The Act requires the Board to deliver to the shareholders and make public the audited annual report within three months of the end of the financial year. This time frame has been met.

Statement of Service Performance

For the year ended 30 June 2011

The performance targets established in the 2011 Statement of Corporate Intent for Invercargill City Holdings Limited and the results achieved for the year ended 30 June 2011 follow.

Performance Targets

1 That a rate of return before tax on shareholders funds of 6.98% be achieved.
Achieved rate of return of 10.33%

2 That half yearly reports are provided to the Shareholder within two months of the end of the period and that the annual statements and report are provided within 3 months of the end of the financial year.
Achieved.

3 That all statutory requirements for reporting under the Companies Act 1993 and the Local Government Act 2002 are achieved.
Achieved.

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