INVERCARGILL CITY HOLDINGS LIMITED

2012
ANNUAL REPORT

ICHL
INVERCARGILL CITY HOLDINGS LTD

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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 2012.

Chairman
N J Elder

Director
C A McCulloch

For and on behalf of the Board of Directors.
28 September 2012

ICHL
INVERCARGILL CITY HOLDINGS LTD

Group Structure

Invercargill CITY COUNCIL

PARENT BODY
Entity Preparing Financial Statements

100%

INVERCARGILL CITY HOLDINGS LIMITED

- 100% *Invercargill City Forests Limited*
- 100% *Electricity Invercargill Limited*
  - 100% *Pylon Limited*
- 100% *Invercargill City Property Limited*
- 55% *Invercargill Airport Limited*

ASSOCIATES & JOINT VENTURES

- 24.5% *Otago Power Services Limited*
- 24.5% *OtagoNet*
- 49% *Power Services Limited*
- 25% *Peak Power Services Limited*
- 50% *Electricity Southland Limited*
- 50% *PowerNet*

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

INVERCARGILL CITY HOLDINGS LIMITED

Activities:

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

2012 Financial Year:

Satisfactory overall financial result of after tax profit of $4.436 million of parent company and $4.952 million for the Group, given the continued uncertaintity in the global financial markets.

ELECTRICITY INVERCARGILL LIMITED

Activities:

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

2012 Financial Year:

- Continuing to operate successfully with after tax profit for the year $5.445 million which was higher than last year $3.578 million due to one off International Financial Reporting Standards adjustments in 2011.
- Dividend paid to shareholder $4.7 million.
- Electricity Invercargill Limited (EIL) achieved a significant milestone this year with the completion of its 40-year undergrounding programme in Invercargill City. EIL is one of the best performing networks in the country with approximately 90% of the electricity network now underground. This helps ensure a quality of supply for its customers that is well above the national average, increases safety and reduces visual pollution in the City. EIL's financial performance also ensures that it continues to contribute to the wealth of Invercargill through its dividends to Invercargill City Holdings Limited.

INVERCARGILL AIRPORT LIMITED

Activities:

- Owners and operator of regional airport.

2012 Financial Year:

- The pre-tax profit for the year, excluding property revaluations and impairment of the runway, is $116,000 (2011: $48,000). There was significant impact on the result from the revaluation of the runway, taxiway and apron surfaces. This asset was reduced by $854,000 based on its future earnings potential. This valuation bears no relation to the physical condition of the asset.
- Passenger numbers decreased from last year by 2.6% however landings increased by 1.67%. This indicates the airlines maximising efficiencies in load factors within the difficult economic climate and the effect the Christchurch Earthquake has had on passenger numbers.
- 2012 continued the renewed focus on redevelopment of the terminal. Whilst the work being undertaken is taking longer than expected, it is the view of the Airport that there is clear understanding of the future requirements for the airport, the costs associated wtih these and ensuring that the right decisions are made for the long term good of the Airport.

INVERCARGILL CITY FORESTS LIMITED

Activities:

- Owners and operator of six forestry blocks in Southland and Otago.

2012 Financial Year:

- Dividend payment continued of $200,000 and planned to be ongoing.

- Log prices have fluctuated throughout the year but Invercargill City Forests Limited (ICFL) have received good prices resulting in after tax profit of $423,499 (2011 $1.625 million which includes $1.375 million carbon credit sales).
- Emissions Trading Scheme has allocated 20,355 units in 2012 which is being held in stock and not sold. A carbon management philosophy is in place which will ensure always having enough carbon credits to cover harvesting operations.
- A property in Palmerston, Otago with 252 hectares of mature forest and 330 hectares of grazing land was acquired in June 2012 with the intention of harvesting and replanting including the grazing land over the next 2-3 years. This purchase is in line with ICFL's goal to actively seek to purchase existing forests or bare land, in an endeavour to increase the size of forestry held. This will lead to an increased bargaining position in the market at harvesting resulting in increased profits.
- The company is fully committed to replanting all of the harvested areas. The value of forests (including land) is $16,110 million (2011: $11,362 million).

INVERCARGILL CITY PROPERTY LIMITED

Activities:

- Sales and marketing of industrial land owned by Invercargill City Council at Awarua (Southland).

2012 Financial Year:

- Commencement of operations in May 2012.

Board of Directors

COMPANY DIRECTORS

N J Elder
Chairman of Directors, City Councillor

M S Cook
Director (Until 31 December 2011)

A G Dennis
Director, City Councillor

C A McCulloch
Deputy Chairman

G J Sycamore
Director, City Councillor
T D Loan
Director (Appointed 1 January 2012)

ELECTRICITY INVERCARGILL LIMITED

N D Boniface
Chairman of Directors, City Councillor

T Campbell
Director

D J Ludlow
Director, City Councillor

P J Mulvey
Director

R L Smith
Director

INVERCARGILL AIRPORT LIMITED

A J O'Connell
Chairman of Directors (Chairman from 1 November 2011)

M S Cook
Chairman of Directors (Until 31 October 2011)

T M Foggo
Director

J D Green
Director
(Appointed 1 November 2011)

R M Walton
Director

INVERCARGILL CITY FORESTS LIMITED

L A Pullar
Chairman of Directors

N J Affleck
Director
(Appointed 1 November 2011)

W H Conway
Director
(Until 30 November 2011)

A B McKenzie
Director

INVERCARGILL CITY PROPERTY LIMITED

P J Carnahan
Chairman of Directors
(Appointed 1 May 2012)

N J Elder
Chairman of Directors, City Councillor
(Until 30 April 2012)

C A McCulloch
Director
(Until 30 April 2012)

M P O'Connor
Director
(Appointed 1 May 2012)

G J Sycamore
Director, City Councillor
(Appointed 1 May 2012)

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)	42,870
M S Cook	12,845
A G Dennis	25,690
C A McCulloch	25,690
G J Sycamore	25,690
T D Loan	12,845

Electricity Invercargill Limited	$
N D Boniface (Chairman)	40,700
T Campbell	23,580
D J Ludlow	23,580
P J Mulvey	23,580
R L Smith	23,580

Invercargill City Forests Limited	$
L A Pullar (Chairman)	23,253
W H Conway	11,167
A B McKenzie	16,160
N J Affleck	10,773

Invercargill Airport Limited	$
A J O'Connell (Chairman)	27,823
M S Cook	10,700
T M Foggo	19,270
J DGreen	12,847
R M Walton	19,270

Invercargill Property Limited	$
P J Carnahan (Chairman)	3,333
M P O'Connor	2,500
G J Sycamore	2,500
N J Elder	Nil
C A McCulloch	Nil

There was no remuneration or other benefits paid to Directors during the year for any of the following:

- Compensation for loss of office.
- Guarantees given by the Company for debts incurred by a Director.
- Entering into a contract to do any of the above.

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

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
120 – 130	1

AUDITORS' REMUNERATION

Audit fees for the Group totalled $193,000. 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 $3,450,000 be paid.

Chairman's Review

It is with pleasure that I present the 15th Annual Report of Invercargill City Holdings Limited on behalf of the directors.

The company recorded a profit of $4,436,000 for the 12 months to 30 June 2012, which is an increase of $335,000 or 8.2% from 2011. The group profit was up $737,000 to $4,952,000 for the 12 months.

Electricity Invercargill Limited had another successful year with a significant milestone achieved through the completion of its 40 year undergrounding program in Invercargill City. The group net surplus increased to $5,445,000. The major reason for this increase was due to International Financial Reporting Standards impacting negatively on the 2011 surplus.

Invercargill Airport Limited has had a satisfying year in challenging times. The company had a loss of $523,000 for the year after tax due to an impairment in the valuation of the runway. Before this impairment, the airport generated an operational pre-tax profit of $116,000. Whilst the passenger numbers decreased by 2.6% to 273,065 the overall aircraft landings increased by 1.67% to 9,392.

Invercargill City Forests Limited have had another successful year with a surplus of $423,499 and allows the company to continue the dividend flow that commenced in 2011. The forestry company is actively seeking to increase its net stocked area to 3000 hectares to improve its position in the market. As part of this, a new forest was purchased in Palmerston which has mature trees that will be harvested from the 2012 year. The falling carbon price continues to be monitored. The board has resolved to hold the carbon credits 'in stock' until the price reaches a satisfactory level.

This year also saw the commencement of operations of Invercargill City Property limited. This company is responsible for the sales and marketing of Councils industrial land at Awarua.

I would take this opportunity to thank Merv Cook for his time and effort as a Director of Invercargill City Holdings Limited. Merv has been on the board since the inception of Invercargill City Holdings Limited and only left to further his career overseas, and we welcome Tim Loan on as a new Director.

I would like to thank my fellow directors, Cam McCulloch, Tim Loan, Alan Dennis and Graham Sycamore for their support and input throughout the year. I would also like to thank our Chief Executive Dean Johnston, Treasury Manager Miles O'Connor, of Bancorp, and all other support staff for their great work throughout 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 2012

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 15 to 78, that comprise the statement of financial position as at 30 June 2012, 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 79.

Opinion

Financial statements and statement of service performance

In our opinion:

- the financial statements of the company and group on pages 15 to 78:
    - 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 2012; 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 79:
    - 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 2012.

Other legal requirements

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

Our audit was completed on 28 September 2012. This is the date at which our opinion is expressed.

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

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and 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).
- Invercargill City Property 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 2012. The financial statements were authorised for issue by the Board on 28 September 2012.

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.

Items of operating expenditure in the Group (from Invercargill Airport Limited) Statement of Comprehensive Income have been reclassified by nature of expense in the comparatives. This has been done to align with the disclosure as prepared by the Airport's majority owner, Invercargill City Holdings Limited, in its group financial statements.

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 and Group 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 and Group 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 and Group's share of the surplus or deficit of the associate after the date of acquisition. The Company's and Group's share of the surplus or deficit of the associate is recognised in the Company's and Group's Statement of Comprehensive Income. Distributions received from an associate reduce the carrying amount of the investment.

The Company's and Group's share in the associate's surplus or deficits resulting from unrealised gains on transactions between the Company and Group 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 Statement of Comprehensive Income 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 Statement of Comprehensive Income 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

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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 improvements	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 discounted cash flow methodology.
- Invercargill Airport Limited's Runway, Apron and Taxiway (Runway assets) are revalued with sufficient regularity to ensure carrying value does not differ materially from that which would be determined as fair value. It is anticipated that the revaluation will occur every three to five years, unless circumstances require otherwise. 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 to fair value and carried at valuation and is not depreciated. The fair value is determined by independent registered valuers based on the highest and best use of the land. 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.

  Land is revalued with sufficient regularity to ensure carrying value does not differ materially from that which would be determined as fair value. It is anticipated that the Land revaluation will occur every three years, unless circumstances require otherwise.

  New Zealand units received from the government 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

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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.

Every five years, the company obtains a valuation of their electricity dishibution network, determined by independent valuers, in accordance with their accounting policy. The valuation of the Company's electricity distribution network was performed as at I April 2011. The best evidence of fair value is discounted cash flow methodology. The major

presumptions used include discount rate, growth rate and future cash flows. Changes in future cash flows arising from

changes in regulatory review may result in the fair value of the electricity distribution network being different from previous estimates.

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

Any errors in estimating the carrying values of these assets are corrected at the next asset revaluation and are not considered to be material on either an annual or a cumulative basis with respect to either reported net profits or carrying values of the network.

The Group invoices its customers (predominantly electricity retailers) monthly for electricity delivery services on the basis of an estimation of usage, adjusted for the latest wash-up data available from the electricity wholesale market and certain metering data from electricity retailers. Management has made an allowance in revenue and in current assets/liabilities for any amounts which are estimated to be under/over charged during the reporting period. However, as final wash-up metering data is not available for in excess of 12 months, it is possible for the final amounts payable or receivable may vary from that calculated.

NEW STANDARDS ADOPTED

The Company and Group are adhering to the following new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011;

Amendments to NZ IAS 1 - Presentation of Financial Statements

The amendments came into effect from 1 January 2011.

The amendments introduce a requirement to present, either in the statement of changes in equity or the notes, for each component of equity, an analysis of other comprehensive income by item.

NZ IAS 24 - Related Party Disclosures

The standard came into effect from 1 January 2011

The standard simplifies the definition of a related party and disclosures on related transactions with Government.

NZ IFRS 7 - Financial Instruments: Disclosures

The standard came into effect from 1 January 2011.

The standard change amends quantitative disclosure required on risks.

Financial Reporting Standard No.44 - New Zealand Additional Disclosures (FRS-44)

The standard came into effect from 1 July 2011.

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

Amendments to New Zealand equivalents to International Financial Reporting Standards to Harmonise with International Financial Reporting Standards and Australian Accounting Standards (Harmonisation Amendments)

The harmonisation amendments came into effect from 1 July 2011.

The Financial Reporting Standards Board (FRSB) issued the Harmonisation Amendments for the purpose of harmonising Australian and New Zealand standards with source IFRS's to eliminate many of the differences between the standards for entities applying IFRS's as adopted in Australia and New Zealand.

The amendment mainly removes disclosures from standards that have been moved to FRS-44 and removes some New Zealand specific disclosures.

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:

Amendments to NZ IAS 1 - Presentation of Financial Statements : presentation of items of other comprehensive income

The amendment comes into effect for fiscal years beginning on or after 1 July 2012.

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

The Company and Group has not yet assessed the impact of the new standard.

NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments : Recognition and Measurement

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

NZ IAS 39 is being replaced through the following 3 main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as those of NZ

IAS 39, except for when an entity elects to designate a financial liability at fair value through the surplus/deficit.

The Company and Group has not yet assessed the effect of the new standard.

NZ IFRS 10 Consolidated Financial Statements

The standard comes into effect for fiscal years beginning on or after 1 January 2013.

NZ IFRS 10 establishes a new control model. It replaces parts of NZ IAS 27 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities.

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

The Company and Group has not yet assessed the effect of the new standard.

NZ IAS 27 Separate Financial Statements - Amendment

The amendment comes into effect for fiscal years beginning on or after 1 January 2013.

The amendments removes the accounting and disclosure requirements for consolidated financial statements, as a result of the issue of NZ IFRS 10 Consolidated Financial Statements and NZ IFRS 12 Disclosures of Interests in Other Entities, which establish new consolidation and disclosure standards.

NZ IAS 27 (as amended in 2011) contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

The Company and Group has not yet assessed the effect of the new standard.

NZ IAS 28 Investments in associates and joint ventures

The amendment comes into effect for fiscal years beginning on or after 1 January 2013.

Amendments to IAS 28 provide clarification that an entity continues to apply the equity method and does not re-measure its retained interest as part of ownership changes where a joint venture becomes an associate and vice versa.

The amendment also introduces a "partial disposal" concept.

Disclosure requires relating to these investments are now contained in NZ IFRS 12 .

The Company and Group has not yet assessed the effect of the new standard.

NZ IFRS 11 Joint Ventures

The new standard comes into effect for fiscal years beginning on or after 1 January 2013.

NZ IFRS 11 replaces NZ IAS 31 Interests in Joint Ventures and SIC-13 Jointly – controlled Entities – Non-monetary Contributions by Ventures. NZ IFRS 11 uses the principle of control in NZ IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change.

A distinction has been made between joint ventures and joint operations. The proposals require the accounting to reflect the contractual rights and obligations agreed by the parties. Therefore, a venture recognises the individual assets to which it has rights and the liabilities for which it is responsible regardless of the legal form of the joint arrangement.

If a venture only has a right to a share of the outcome of the activities of the joint arrangement (that is, a joint venture), this interest is recognised using the equity method. The option to apply the proportional consolidation method when accounting for jointly controlled entities has been removed.

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

The Company and Group has not yet assessed the effect of the new standard.

NZ IFRS 12 Disclosure of Interests in Other Entities

The new standard comes into effect for fiscal years beginning on or after 1 January 2013.

NZ IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

The Company and Group has not yet assessed the effect of the new standard.

Amendments to NZ IAS 12 Income Taxes - Deferred Tax : Recovery of Underlying Assets

The amendment comes into effect for fiscal years beginning on or after 1 January 2012.

These amendments update NZ IAS 12 to include:

- A rebuttable presumption that deferred tax on investment property measured using the fair value model in NZ IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.
- A requirement that deferred tax on non-depreciable assets, measured using the revaluation model in NZ IAS 16, should always be measured on a sale basis.

The amendments incorporate NZ SIC-21 Income Taxes — Recovery of Revalued Non-Depreciable Assets into NZ IAS 12 for non-depreciable assets measured using the revaluation model in NZ IAS 16 Property, Plant and Equipment.

The Company and Group has not yet assessed the effect of the new standard.

NZ IFRS 13 Fair Value Measurement - Amendment

The amendment comes into effect for fiscal years beginning on or after 1 January 2013.

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

The Company and Group has not yet assessed the effect of the new standard.

CHANGES IN ACCOUNTING POLICIES

Except for the new standards adopted (as described above) there have been no changes in accounting policies during the period. All accounting policies have been consistently applied throughout the period covered by these financial statements.

Statement of Financial Position

As at June 30, 2012

	Note	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Assets					
Current assets					
Cash and cash equivalents	7	153	2,384	3,625	5,331
Trade and other receivables	8	5,016	4,804	2,696	2,749
Inventories	9	-	-	131	133
Capital work in progress		-	-	24	21
Derivative financial instruments	16	-	31	-	31
Other financial assets	16	483	389	58	397
Total current assets		5,652	7,608	6,534	8,662
Non-current assets					
Property, plant and equipment	10	-	-	121,776	112,963
Intangible assets	11	-	-	158	209
Forestry assets	12	-	-	11,519	8,054
Investment property	13	-	-	3,900	3,900
Capital work in progress		-	-	3,286	2,345
Investments in associates and joint ventures	14	-	-	7,426	7,132
Other financial assets	16	89,000	84,677	-	-
Deferred tax asset	20	-	-	717	400
Total non-current assets		89,000	84,677	148,782	135,003
Total assets		94,652	92,285	155,316	143,665
Liabilities					
Current liabilities					
Trade and other payables	17	4,101	3,742	7,093	6,682
Employee benefit liabilities	18	3	-	226	203
Borrowings	19	53,316	52,266	53,316	52,266
Tax payable		-	-	527	817
Derivative financial instruments	16	2,503	1,367	2,503	1,367
Total current liabilities		59,923	57,375	63,665	61,335
Non-current liabilities					
Deferred tax liability	20	-	-	19,804	17,811
Total non-current liabilities		-	-	19,804	17,811
Total liabilities		59,923	57,375	83,469	79,146
Equity					
Share capital	21	25,293	25,293	25,293	25,293
Retained earnings	21	11,939	10,953	22,349	20,705
Other reserves	21	(2,503)	(1,336)	24,205	18,521
Total equity attributable to the equity holders of the company		34,729	34,910	71,847	64,519
Equity is attributable to:					
Parent entity		34,729	34,910	69,017	61,454
Minority interest	21	-	-	2,830	3,065
		34,729	34,910	71,847	64,519

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.

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Statement of Comprehensive Income

For the year ended June 30, 2012

	Note	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Income					
Operating revenue	1	6,995	6,871	30,447	30,189
Other gains	2	-	-	165	809
Total income		6,995	6,871	30,612	30,998
Expenditure					
Employee expenses	4	3	-	2,434	2,384
Depreciation and amortisation	10,11	-	-	5,905	5,164
Administration expenses	3	390	306	2,358	1,255
Other expenses		-	-	13,040	14,415
Total operating expenditure		393	306	23,737	23,218
Finance income	5	74	58	371	446
Finance expenses	5	2,240	2,522	1,883	2,199
Net finance expense		(2,166)	(2,464)	(1,512)	(1,753)
Operating surplus/(deficit) before tax		4,436	4,101	5,363	6,027
Share of associate surplus/(deficit)	14	-	-	720	640
Surplus/(deficit) before tax		4,436	4,101	6,083	6,667
Income tax expense	6	-	-	1,131	2,452
Surplus/(deficit) after tax		**4,436**	**4,101**	**4,952**	**4,215**
Surplus/(deficit) after tax attributable to:					
Equity holders of the Company		4,436	4,101	5,187	4,016
Minority interest		-	-	(235)	199
		4,436	4,101	4,952	4,215
Other comprehensive income					
Property, Plant and Equipment Revaluation gains/(losses) - pre tax	10	-	-	9,258	3,998
Tax on revaluation equity items	20	-	-	(2,592)	-
Change in Company Tax rate	20	-	-	-	109
Cash flow hedges	21	(1,167)	(629)	(840)	(467)
Total other comprehensive income		(1,167)	(629)	5,826	3,640
Total comprehensive income		**3,269**	**3,472**	**10,778**	**7,855**
Total comprehensive income attributable to:					
Equity holders of the Company		3,269	3,472	11,013	7,656
Minority interest		-	-	(235)	199
		3,269	3,472	10,778	7,855

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.

Statement of Changes in Equity

For the year ended June 30, 2012

	Note	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Balance at 1 July		34,910	34,538	64,519	59,764
Total Comprehensive Income for the year	21	3,269	3,472	10,778	7,855
Distributions to Shareholders					
Dividends paid/declared	21	(3,450)	(3,100)	(3,450)	(3,100)
Balance at 30 June		34,729	34,910	71,847	64,519
Attributable to:					
Equity holders of the company		34,729	34,910	69,018	61,454
Minority interest		-	-	2,829	3,065
Balance at 30 June		34,729	34,910	71,847	64,519

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.

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Statement of Cash Flows

For the year ended June 30, 2012

	Note	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Cash flows from operating activities					
Interest received		1,931	2,061	626	1,176
Dividends received		4,700	4,300	220	416
Receipts from other revenue		245	275	30,555	29,807
Payments to suppliers and employees		(410)	(285)	(16,142)	(14,214)
Interest paid		(2,063)	(2,474)	(2,063)	(2,969)
Depreciation subsidy paid		(168)	-	-	-
Income tax (paid) / refund		-	-	(1,988)	(1,454)
Goods and services tax [net]		1	-	(55)	90
Net cash from operating activities	22	4,236	3,877	11,153	12,852
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		-	-	57	72
Proceeds from sale of investments		-	-	344	201
Repayment of advance by subsidiary/associate		939	4,104	2,250	400
Purchase of biological assets		-	-	(3,300)	-
Purchase of property, plant and equipment		-	-	(8,113)	(7,013)
Purchase of investment property		-	-	-	(27)
Purchase of short term investments		-	-	(5)	-
Advances made to subsidiaries/associates		(5,356)	(788)	-	-
Investments in associates		-	-	(2,042)	-
Net cash from investing activities		(4,417)	3,316	(10,809)	(6,367)
Cash flows from financing activities					
Proceeds from borrowings		1,600	-	1,600	-
Repayment of borrowings		(550)	(3,584)	(550)	(3,584)
Dividends paid		(3,100)	(2,700)	(3,100)	(2,700)
Net cash from financing activities		(2,050)	(6,284)	(2,050)	(6,284)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		(2,231)	909	(1,706)	201
Cash, cash equivalents and bank overdrafts at the beginning of the year		2,384	1,475	5,331	5,130
Cash, cash equivalents and bank overdrafts at the end of the year		153	2,384	3,625	5,331

The Statement of Accounting Policies and Notes to the Financial Statements are an integral part of, and should be read in conjunction with the financial statements.

1 Operating revenue

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Rendering of services	245	245	27,984	26,050
Sale of goods	-	-	1,032	972
Dividends	4,900	4,700	-	-
Interest on advances to subsidiaries and associates	1,850	1,926	-	-
Carbon Credits	-	-	-	1,376
Other income	-	-	1,431	1,791
	6,995	6,871	30,447	30,189

2 Other gains and losses

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Change in fair value of investment property	-	-	-	216
Change in fair value of biological assets	-	-	165	272
Reversal of prior impairment loss	-	-	-	321
	-	-	165	809

3 Administrative expenses (includes)

	Company		Group	
	2012 $000	2011 $000	2012 $000	2011 $000
Director fees	146	138	571	502
Loss on sales of property, plant and equipment	-	-	826	147
Bad debts written off	-	-	3	2
Operating lease expenses	-	-	628	630
Subvention payment	-	-	222	222
Revaluation of property, plant and equipment	-	-	854	-
Audit remuneration to other auditors comprises				
· audit of financial statements	-	-	54	57
· other audit-related services	-	-	85	37
Auditor's remuneration to Audit New Zealand comprises:				
· audit of financial statements	20	20	54	51
· other audit-related services	-	-	-	-

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4 Employee expenses

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Wages and salaries	3	-	2,434	2,384
Total employee expenses	3	-	2,434	2,384

5 Finance income and expense

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Finance Income				
Interest income on bank deposits	74	58	371	446
Total finance income	74	58	371	446
Financial expense				
Interest expense on financial liabilities measured at amortised cost	2,240	2,522	1,883	2,199
Total financial expenses	2,240	2,522	1,883	2,199
Net finance costs	(2,166)	(2,464)	(1,512)	(1,753)

6 Income tax expense in the Income Statement

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Current tax expense				
Current period	-	-	1,850	2,196
Adjustment for prior periods	-	-	(130)	(245)
Total current tax expense	-	-	1,720	1,951
Deferred tax expense				
Origination and reversal of temporary differences	-	-	(491)	540
Reduction in tax rate	-	-	-	(39)
Adjustment for prior periods	-	-	(32)	-
Recognition of previously unrecognised tax losses	-	-	(66)	-
Total deferred tax expense	-	-	(589)	501
Total income tax expense	-	-	1,131	2,452

6 Income tax expense in the Income Statement

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Reconciliation of effective tax rate				
Profit excluding income tax	4,436	4,101	6,083	6,667
Tax at 28% (2011: 30%)	1,242	1,230	1,703	2,001
Group loss offset	130	180	-	-
Permanent Differences	(1,372)	(1,410)	(345)	735
Impact of reduction in tax rates on deferred tax	-	-	-	(39)
Change in recognised temporary differences	-	-	(67)	-
Under/(over) provided in prior periods	-	-	(160)	(245)
Total income tax expense	-	-	1,131	2,452
Effective Tax Rate	0%	0%	19%	37%

Invercargill City Holdings Limited will transfer tax losses to Electricity Invercargill Limited of $463,788 (2011: $362,000 to Electricity Invercargill Limited, $236,226 to Invercargill City Forests Limited). Invercargill City Forests Limited will transfer tax losses to Electricity Invercargill Limited of $75,704 (2011: Nil).

From the above tax position of loss offsets transferred to other Group companies for the year ended 30 June 2012, there are no unrecognised tax losses of the Group (2011: nil).

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Imputation credits available for use in subsequent periods	3,089	2,309	4,208	3,793
Imputation credits available to shareholders of the company				
Through the company			3,089	2,309
Through subsidiaries			1,119	1,484
			4,208	3,793

The ICA balances above for 2011 are prepared on a cash basis as per IAS12 applicable at 2011. 2012 is calculated on accruals basis as required by FRS 44 from the 2012 year onwards.

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7 Cash and cash equivalents

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Call deposits	124	2,368	2,829	5,031
Cash and cash equivalents	29	16	796	352
Bank overdrafts used for cash management purposes	-	-	-	(52)
Cash and cash equivalents in the statement of cash flows	153	2,384	3,625	5,331

8 Trade and other receivables

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Trade receivables	-	-	1,557	1,913
GST receivable	-	1	25	1
Prepayments	-	-	90	84
Related party receivables	5,016	4,803	1,024	750
Sundry debtors	-	-	-	1
	5,016	4,804	2,696	2,749
Less provision for impairment of receivables	-	-	-	-
	5,016	4,804	2,696	2,749

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

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
At 1 July	-	-	-	-
Additional provisions made during the year	-	-	-	-
Receivables written off during period	-	-	-	-
At 30 June	-	-	-	-

9 Inventories

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Spare parts	-	-	95	102
Other	-	-	36	31
Total inventories	-	-	131	133

10 Property, Plant and Equipment

2012 – Group ($'000)

	Cost/ revaluation	Accumulated depreciation and impairment charges	Carrying amount	Current year additions - Cost	Current year disposals - Cost	Current year disposals - Depreciation
	1 July 2011	1 July 2011	1 July 2011			
Land	3,588	-	3,588	1,300	-	-
Gravel and Fencing	2,053	315	1,738	10	-	-
Buildings, Yards & Terminals	2,068	741	1,327	17	-	2
Network assets	111,099	12,733	98,366	5,488	886	24
Plant and equipment	2,770	2,443	327	119	-	57
Motor vehicles	2,657	2,500	157	72	53	37
Furniture and fittings	526	489	37	-	-	-
Runway, taxiways and apron	11,316	4,176	7,140	-	-	-
Roading	286	3	283	-	-	-
Total assets	136,363	23,400	112,963	7,006	939	120

2011 – Group ($'000)

	Cost/ revaluation	Accumulated depreciation and impairment charges	Carrying amount	Current year additions	Current year disposals - Cost	Current year disposals - Depreciation
	1 July 2010	1 July 2010	1 July 2010			
Land	3,355	-	3,355	40	-	-
Gravel and Fencing	1,755	250	1,505	300	2	-
Buildings, Yards & Terminals	1,969	673	1,296	99	-	-
Network assets	105,523	12,987	92,536	4,888	251	34
Plant and equipment	2,720	2,328	392	120	70	61
Motor vehicles	2,636	2,477	159	24	3	-
Furniture and fittings	519	486	33	10	3	-
Runway, taxiways and apron	11,291	4,068	7,223	25	-	-
Roading	-	-	-	286	-	-
Total assets	129,768	23,269	106,499	5,792	329	95

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Current year impairment charges	Current year depreciation	Revaluation surplus/ (deficit)	Revaluation correction - depreciation	Cost/ revaluation	Accumulated depreciation and impairment charges	Carrying amount
				30 June 2012	30 June 2012	30 June 2012
-	-	-	-	4,888	-	4,888
-	65	-	-	2,063	380	1,683
-	69	-	-	2,085	808	1,277
-	5,093	(164)	(9,423)	115,537	8,379	107,158
-	165	-	-	2,889	2,551	338
-	25	-	-	2,676	2,488	188
-	5	-	-	526	494	32
-	340	(854)	-	10,462	4,516	5,946
-	17	-	-	286	20	266
-	5,779	(1,018)	(9,423)	141,412	19,636	121,776

Current year impairment charges	Current year depreciation	Revaluation surplus/ (deficit)	Revaluation correction - depreciation	Cost/ revaluation	Accumulated depreciation and impairment charges	Carrying amount
				30 June 2011	30 June 2011	30 June 2011
-	-	193	-	3,588	-	3,588
-	65	-	-	2,053	315	1,738
-	68	-	-	2,068	741	1,327
-	4,277	939	(4,497)	111,099	12,733	98,366
-	176	-	-	2,770	2,443	327
-	23	-	-	2,657	2,500	157
-	3	-	-	526	489	37
(321)	429	-	-	11,316	4,176	7,140
-	3	-	-	286	3	283
(321)	5,044	1,132	(4,497)	136,363	23,400	112,963

These comments should be read in conjunction with the previous two pages.

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 $2,800,764 at 30th June 2012 ($1,500,764 at 30 June 2011).

Forestry land is revalued with sufficient regularity to ensure carrying value does not differ materially from that which would be determined as fair value. It is anticipated that the land revaluation will occur every three years, unless circumstances require otherwise. The last valuation was performed by Thayer Todd valuer's (independent valuers) as at 30 June 2011. 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 value of the network assets owned by Electricity Invercargill Limited, had it been carried at the cost model, would be $72,774,000 at 30 June 2012 ($73,242,000 at 30 June 2011).

The network assets of Electricity Invercargill Limited were revalued to fair value using discounted cash flow methodology on I April 2011 by Ernst & Young, who is an independent valuer. This resulted in a revaluation increase movement of $9,259,000.

The following valuation assumptions were adopted;

o The free cash flows is based on the company's five year business plan and asset management plan adjusted for non-recurring or non-arms length transactions and for transactions that arise from expansionary growth in the network after the date of the valuation.

o The corporate tax rate used is 28%

o The weighted average cost of capital (WACC) used is 7.9%

o The sustainable growth adjustment used is 0%.

The runway/taxiway assets of Invercargill Airport Limited were revalued to fair value using discounted cash flow methodology on 30 June 2012 by Ernst & Young, who is an independent valuer. This resulted in a revaluation decrease movement of $(854,000) deficit.

The following valuation assumptions were adopted;

o The free cash flows are based on the company's five year business plan, and forecasts for the six to twenty one years based on the business plan inflationary adjusted and asset management plan information for major capital expenditure required for replacement over the twenty one years.

o The free cash flows are also based on receiving funding for the major capital expenditure required over the twenty one years from either the shareholders or major customers.

o The corporate tax rate used is28%

o The weighted average cost of capital (WACC) used is 10.7%.

o The sustainable inflation growth adjustment used is 2%.

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 reflected fair value.

11 Intangible Assets	Group Computer Software $000	Group Goodwill $000	Group Total $000
Cost			
Balance at 1 July 2010	559	3,199	3,758
Additions	74	-	74
Disposals	(8)	-	(8)
Balance at 30 June 2011	625	3,199	3,824
Balance at 1 July 2011	625	3,199	3,824
Additions	18	-	18
Balance at 30 June 2012	643	3,199	3,842
Amortisation and Impairment charges			
Balance at 1 July 2010	304	-	304
Amortisation for the year	120	-	120
Disposals	(8)	-	(8)
Impairment loss	-	3,199	3,199
Balance at 30 June 2011	416	3,199	3,615
Balance at 1 July 2011	416	3,199	3,615
Amortisation for the year	126	-	126
Disposals	(57)	-	(57)
Balance at 30 June 2012	485	3,199	3,684
Carrying amounts			
At 1 July 2010	255	3,199	3,454
At 30 June 2011	209	-	209
At 1 July 2011	209	-	209
At 30 June 2012	158	-	158

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

Goodwill, in respect of acquisitions made prior to transition date, was stated at cost being the amount recorded under 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 2010	7,782
Change in fair value less estimated point-of-sale costs	272
Balance at 30 June 2011	8,054
Balance at 1 July 2011	8,054
Additions	3,300
Change in fair value less estimated point-of-sale costs	165
Balance at 30 June 2012	11,519

At 30 June 2012, standing timber comprised approximately 1,717 hectares of plantations at six different locations. At 30 June 2011, standing timber comprised approximately 1,447 hectares of plantations at five different locations.

The forests (excluding the forest purchased In June 2012 for $3,300,000) were revalued as at 30 June 2012 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 2012 valuations is 11% (2011:11%).

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

Carbon credits (Emissions Trading Scheme)

Invercargill City Forest Limited has received and sold the following carbon credits:

	2012 Units	2012 $000	2011 Units	2011 $000
Received:				
Post 1989	20,355 units	142	52,759 units	1,028
Pre 1990		-	17,756 units	348
		142		1,376
Sold:				
Post 1989		-	52,759 units	1,028
Pre 1990		-	17,756 units	348
		-		1,376

As at 30 June 2012 there are 20,355 carbon credits units on hand (30 June 2011: nil).

Future expected allocations are as follows:	2012 Units	2012 $000	2011 Units	2011 $000
2012 Post 1989		-	20,355 units	407
2013 Pre 1990	28,564 units	200	28,564 units	571
		200		978

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.

Invercargill City Forests has harvested a total of 83.50 hectares of pre-1990 forest in Dunrobin Forest. All of this harvested land has been replanted at 30 June 2012 and no longer carries any potential deforestation liability for the harvested pre-1990 forest. Potential deforestation liability on post-1989 forest is mitigated by future carbon credit management and planning that ensures carbon sequestered by the forest is greater than harvesting. It is Invercargill City Forests Limited's intention to replant all forests. If complete deforestation occurred at 30 June 2012, there would be a liability for previously sold post-1989 carbon credits of $369,331 at $7.00 per unit (at adoption of the Annual Report in September 2012 this potential liability is $174,105 at $3.30 per unit per the NZU spot market).

Supply and Demand Risk

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

The Company is exposed to movements in the price of NZU's to the extent that, the Company 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 Company'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 Company's pine plantations are exposed to the risk of damage from climatic changes, diseases, forest fires and other natural forces.

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

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

13 Investment Property

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Balance at 1 July	-	-	3,900	3,655
Acquisitions	-	-	-	27
Transfer from property, plant and equipment	-	-	-	2
Change in fair value	-	-	-	216
Balance at 30 June	-	-	3,900	3,900

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 2012 and 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 $720,000 (2011: $640,000).

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
2012			
Power Services Limited, Electricity Southland Limited, Otago Power Services Limited, and Peak Power Services Ltd	7,154	18,197	25,351
2011			
Power Services Limited, Electricity Southland Limited & Otago Power Services Limited	5,661	14,622	20,283

	Current liabilities $000	Non-current liabilities $000	Total liabilities $000
2012			
Power Services Limited, Electricity Southland Limited, Otago Power Services Limited, and Peak Power Services Ltd	4,103	6,849	10,952
2011			
Power Services Limited, Electricity Southland Limited & Otago Power Services Limited	3,102	8,120	11,222

	Revenues $000	Expenses $000	Profit/loss $000
2012			
Power Services Limited, Electricity Southland Limited, Otago Power Services Limited, and Peak Power Services Ltd	21,428	19,386	2,042
2011			
Power Services Limited, Electricity Southland Limited & Otago Power Services Limited	20,578	18,676	1,902

The Group owns 49% of Power Services Limited, 50% of Electricity Southland Limited, 24.5% of Otago Power Services Limited, and 25% of Peak Power Services Limited.

Financial performance

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

	Group 2012 $000	Group 2011 $000
Share of surplus before taxation	1,020	1,025
Less taxation expense	(300)	(385)
	720	640

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

	Group 2012 $000	Group 2011 $000
Balance at 1 July	7,132	7,308
Investments in associates	2,250	-
Share of profit/(loss)	720	640
Increase in advance to Associate	(2,250)	(400)
Dividends received/declared	(426)	(416)
Balance at 30 June	7,426	7,132
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	**2012**	**2011**	**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:

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

Financial Position

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

Current assets	1,503	1,857
Non-current assets	35,420	34,948
Current liabilities	2,421	2,345
Non-current liabilities	-	-
Net Assets Employed in Joint Venture	34,502	34,460

16 Other Financial Assets & Liabilities

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Non-current investments - Assets				
Investments in subsidiaries	55,706	55,706	-	-
Loans to subsidaries	33,294	28,971	-	-
Total non-current investments	89,000	84,677	-	-
Current investments - Assets				
Short term investments	-	-	58	397
Loans to subsidaries	483	389	-	-
Total current investments	483	389	58	397
Total investments - Assets	89,483	85,066	58	397
Current financial instruments				
Interest rate swaps (cash flow hedges) - assets	-	31	-	31
Interest rate swaps (cash flow hedges) - liabilities	(2,503)	(1,367)	(2,503)	(1,367)
Derivatives	(2,503)	(1,336)	(2,503)	(1,336)

17 Trade and Other Payables

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Trade payables	3	6	1,253	1,522
Directors fee payable	-	7	6	7
Accrued expenses	646	629	1,721	1,223
Amounts due to other related parties	2	-	556	697
GST payable	-	-	107	133
Dividends payable	3,450	3,100	3,450	3,100
Total trade and other payables	4,101	3,742	7,093	6,682

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 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Accrued pay	3	-	26	10
Annual leave	-	-	165	152
Other liabilities	-	-	26	33
Long service leave	-	-	9	8
	3	-	226	203
Comprising:				
Current	3	-	226	203
Non-current	-	-	-	-
Total employee benefit liabilities	3	-	226	203

19 Borrowings

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Current				
Redeemable preference shares	16,777	16,777	16,777	16,777
Secured Loans	36,539	35,489	36,539	35,489
Total current borrowings	53,316	52,266	53,316	52,266
Non-current				
Secured loans	-	-	-	-
Total non-current borrowings	-	-	-	-

The weighted average interest rate for the multi-option note facility was 5.33% (2011: 5.71%) with hedging refer note 28.

The total borrowing facility of $45m expires on 2 July 2012. A new facility was renewed for $50m for 3 years on 2 July 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 Liabilities/(Assets)

Group :	Balance	Recognised in profit or loss	Recognised in equity
	1-Jul-10		
	$000	$000	$000
Property, plant and equipment	14,470	320	1,523
Biological assets	1,602	77	-
Investment property	724	32	-
Derivatives	(212)	-	(162)
Other items	(20)	3	-
Tax losses	(1,015)	69	-
Total movements	15,549	501	1,361

Parent :	Balance	Recognised in profit or loss	Recognised in equity
	1-Jul-10		
	$000	$000	$000
Derivatives	-	-	-
Total movements	-	-	-

The parent has not recognised in the 2012 year a deferred tax asset in relation to temporary differences of $2,503,000 (2011: $1,336,000). However, the deferred tax asset has been recognised at a group level.

A deferred tax asset was not recognised in relation to tax losses of nil (2011: $241,327) in the group.

Balance 30-Jun-11 $000	Recognised in profit or loss $000	Recognised in equity $000	Balance 30-Jun-12 $000
16,313	(659)	2,592	18,246
1,679	46	-	1,725
756	-	-	756
(374)	-	(327)	(701)
(17)	1	-	(16)
(946)	23	-	(923)
17,411	(589)	2,265	19,087

Balance 30-Jun-11 $000	Recognised in profit or loss $000	Recognised in equity $000	Balance 30-Jun-12 $000
-	-	-	-
-	-	-	-

21 Equity

Group

	Attributable to equity holders of the Company				
	Share capital	**Cashflow Hedging reserve**	**Revaluation reserve**	**Retained earnings**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
Balance at 1 July 2010	25,293	(495)	15,403	19,563	59,764
Surplus/(deficit) after tax	-	-	-	4,215	4,215
Other comprehensive income					
Property, Plant and Equipment Revaluation gains/(losses) - pre tax	-	-	3,998	-	3,998
Tax on revaluation equity items	-	-	-	-	-
Change in Company Tax rate	-	-	109	-	109
Transfer of revaluation reserve of subsidiary, now associate, to retained earnings	-	-	-	-	-
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)
Distributions to Shareholders					
Dividends paid/declared	-	-	-	(3,100)	(3,100)
Balance at 30 June 2011	**25,293**	**(962)**	**19,483**	**20,705**	**64,519**
Balance at 1 July 2011	25,293	(962)	19,483	20,705	64,519
Surplus/(deficit) after tax	-	-	-	4,952	4,952
Other comprehensive income					
Property, Plant and Equipment Revaluation gains/(losses) - pre tax	-	-	9,258	-	9,258
Tax on revaluation equity items	-	-	(2,592)	-	(2,592)
Change in Company Tax rate	-	-	-	-	-
Transfer of revaluation reserve of subsidiary, now associate, to retained earnings	-	-	-	-	-
Transfer of revaluation reserve to retained earnings due to asset disposal	-	-	(142)	142	-
Effective portion of changes in fair value of cash flow hedges, net of tax	-	(840)	-	-	(840)
Distributions to Shareholders					
Dividends paid/declared	-	-	-	(3,450)	(3,450)
Balance at 30 June 2012	**25,293**	**(1,802)**	**26,007**	**22,349**	**71,847**

Minority interest	Parent interest
$000	$000
2,865	56,899
199	4,016
-	3,998
1	-1
	109
-	-
-	-
-	(467)
-	(3,100)
3,065	**61,454**
3,065	61,454
(235)	5,187
	9,258
	(2,592)
	-
-	-
-	-
-	(840)
-	(3,450)
2,830	**69,017**

21 Equity

Parent

	Attributable to equity holders of the Company				
	Share capital	**Cashflow Hedging reserve**	**Revaluation reserve**	**Retained earnings**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
Balance at 1 July 2010	25,293	(707)	-	9,952	34,538
Surplus/(deficit) after tax	-	-	-	4,101	4,101
Other comprehensive income					
Effective portion of changes in fair value of cash flow hedges, net of tax	-	(629)	-	-	(629)
Distributions to Shareholders					
Dividends paid/declared	-	-	-	(3,100)	(3,100)
Balance at 30 June 2011	**25,293**	**(1,336)**	**-**	**10,953**	**34,910**
Balance at 1 July 2011	25,293	(1,336)	-	10,953	34,910
Surplus/(deficit) after tax	-	-	-	4,436	4,436
Other comprehensive income					
Effective portion of changes in fair value of cash flow hedges, net of tax	-	(1,167)	-	-	(1,167)
Distributions to Shareholders					
Dividends paid/declared	-	-	-	(3,450)	(3,450)
Balance at 30 June 2012	**25,293**	**(2,503)**	**-**	**11,939**	**34,729**

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.

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Minority interest	Parent interest
$000	$000
-	34,538
-	4,101
-	(629)
-	(3,100)
-	**34,910**
-	34,910
-	4,436
-	(1,167)
-	(3,450)
-	**34,729**

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

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Reconciliation with reported operating surplus				
Net surplus after tax	4,436	4,101	4,952	4,215
Add/(deduct) non-cash items:				
Depreciation	-	-	5,779	5,044
Amortisation of intangible assets	-	-	126	120
Impairment of runway	-	-	-	(321)
Impairment of goodwill	-	-	-	3,199
Net (profit)/loss on sale of fixed assets	-	-	826	149
Derecognition of term loan	-	168	-	-
Change in fair value of investment property	-	-	-	(216)
Change in fair value of biological assets	-	-	(165)	(272)
Increase/(decrease) in deferred taxation	-	-	(589)	501
Increase/(decrease) in current years tax	-	-	22	-
Revaluation of property, plant and equipment (runway)	-	-	854	-
Associate post-acquisition profits	-	-	(502)	(224)
	-	168	6,351	7,980
Add/(less) movements in working capital:				
(Increase)/decrease in receivables	(213)	(281)	53	(400)
(Increase)/decrease in inventories	-	-	2	(6)
(Increase)/decrease in construction WIP	-	-	(3)	27
Increase/(decrease) in accounts payable and accruals	12	(112)	114	556
Increase/(decrease) in GST/taxation	1	1	(316)	480
	(200)	(392)	(150)	657
Net cash inflow (outflow) from operating activities	4,236	3,877	11,153	12,852

23 Related party transactions

The Company is the sole shareholder of Electricity Invercargill Limited, Invercargill City Forests Limited, Invercargill City Property 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 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
(a) Invercargill City Council				
Revenue				
Provision of services	30	30	35	35
Expenditure				
Provision of services and subvention payments	27	27	144	77
Dividends from Subsidiary to Parent	3,450	3,100	3,450	3,100
Outstanding at balance date by Parent and Group	3,452	3,100	3,456	3,102
Outstanding at balance date to Parent and Group	20	-	20	-
(b) Electricity Invercargill Limited				
Revenue				
Provision of services and interest charges	1,313	1,333	-	-
Dividends from Subsidiary to Parent	4,700	4,500	-	-
Expenditure				
Recovery of expenses incurred on behalf	-	(27)	-	-
Provision of services			-	-
Outstanding at balance date by Parent and Group	-	-	-	-
Outstanding at balance date to Parent and Group	4,796	4,603	-	-
Loan outstanding at balance date to Parent and Group	16,000	16,000	-	-
(c) Invercargill City Forests Limited				
Revenue				
Provision of services and interest charges	251	281	-	-
Dividends from Subsidiary to Parent	200	200	-	-
Expenditure				
Provision of services	-	-	-	-
Outstanding at balance date by Parent and Group	-	-	-	-
Outstanding at balance date to Parent and Group	200	200	-	-
Loan outstanding at balance date to Parent and Group	10,753	6,197	-	-

23 Related party transactions	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
(d) Invercargill Airport Limited				
Provision of services, depreciation subsidy, interest charges	500	555	-	-
Expenditure				
Provision of services, depreciation subsidy, interest charges	365	380	-	-
Outstanding at balance date by Parent and Group	-	-	-	-
Outstanding at balance date to Parent and Group	-	-	-	-
Loans outstanding at balance date to Parent and Group	7,024	7,163	-	-
(e) Invercargill City Property Limited				
Revenue				
Provision of services	-	-	-	-
Expenditure				
Provision of goods and services	-	-	-	-
Outstanding at balance date by Parent and Group	-	-	-	-
Outstanding at balance date to Parent and Group	-	-	-	-
(f) AWS Legal				
Revenue				
Provision of services	-	-	-	-
Expenditure				
Provision of services	43	41	164	117
Outstanding at balance date by Parent and Group	-	-	4	7
Outstanding at balance date to Parent and Group	-	-	-	-
(g) WHK				
Revenue				
Provision of services	-	-	-	-
Expenditure				
Provision of services	13	24	31	57
Outstanding at balance date by Parent and Group	-	7	-	7
Outstanding at balance date to Parent and Group	-	-	-	-

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23 Related party transactions

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
(h) SBS Bank				
Provision of services and interest charges	-	-	95	172
Expenditure				
Provision of goods and services	-	-	-	-
Outstanding at balance date by Parent and Group	-	-	-	-
Outstanding at balance date to Parent and Group	-	-	2,482	4,193
(i) AJO Management Limited				
Revenue				
Provision of services	-	-	-	-
Expenditure				
Provision of goods and services	-	-	28	31
Outstanding at balance date by Parent and Group	-	-	6	-
Outstanding at balance date to Parent and Group	-	-	-	-
(j) PowerNet Limited				
Revenue				
Provision of services	-	-	9,997	9,273
Expenditure				
Provision of goods and services	-	-	3,870	3,801
Outstanding at balance date by Parent and Group	-	-	533	688
Outstanding at balance date to Parent and Group	-	-	965	716
(k) Electricity Southland Limited				
Revenue				
Provision of services	-	-	115	108
Expenditure				
Provision of goods and services	-	-	-	-
Outstanding at balance date by Parent and Group	-	-	-	-
Outstanding at balance date to Parent and Group	-	-	28	25

23 Related party transactions	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
(l) Otago Power Services Limited				
Revenue				
Provision of services	-	-	14	11
Expenditure				
Provision of goods and services	-	-	-	-
Outstanding at balance date by Parent and Group	-	-	-	-
Outstanding at balance date to Parent and Group	-	-	3	3
(m) Power Services Limited				
Revenue				
Provision of services	-	-	34	27
Expenditure				
Provision of goods and services	-	-	33	42
Outstanding at balance date by Parent and Group	-	-	13	-
Outstanding at balance date to Parent and Group	-	-	8	6
(n) The Power Company 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 2012 year (2011: 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 and OtagoNet Joint Venture 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, an accounting firm, in which MS Cook is a principal. These services included director fees, and were supplied on normal commercial terms.

During the year Invercargill Airport Limited purchased electrical services from PowerNet Limited, an electrical infrastructure company, in which RM Walton was the Chief Executive Officer until December 2011. These services included director fees, and were supplied on normal commercial terms.

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 included director fees, and were supplied on normal commercial terms.

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 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Short term employment benefits	3	-	928	1,033
Directors Fees	146	138	571	502

Short term employee benefits relate to:

Invercargill City Holdings Limited, and consist of salaries.

Invercargill City Forests Limited, and consist of salaries.

Invercargill City Property Limited, and consist of salaries.

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 2012, Invercargill Airport Limited made no (2011: one) severance payments to an employee (2011: $35,473).

24 Capital commitments and operating leases

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Capital commitments				
Capital expenditure contracted for at balance date but not yet incurred for property, plant and equipment	-	-	1,968	1,204

Operating leases as lessee

	Company 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Non-cancellable operating leases as lessee				
Not later than one year	-	-	548	727
Later than one year and not later than five years	-	-	1,400	1,606
Later than five years	-	-	7,163	7,653
Total non-cancellable operating leases	-	-	9,111	9,986

The operating leases consist of vehicle leases, office equipment leases, ATM lease, 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 2012 $000	Company 2011 $000	Group 2012 $000	Group 2011 $000
Non-cancellable operating leases as lessor				
Not later than one year	-	-	260	308
Later than one year and not later than five years	-	-	403	335
Later than five years	-	-	162	59
Total non-cancellable operating leases	-	-	825	702

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

25 Contingencies

Contingent assets: (refer note 12)

2012 Year: Pre-1990 Carbon Credits: Invercargill City Forests Limited has been allocated 28,564 ($199,948) of Pre-1990 Carbon Credits as at 30 June 2012 contingent upon the holding account with Ministry of Agriculture and Fisheries being approved.

2012 Year: Post-1989 Carbon Credits: Invercargill City Forests Limited has been allocated 20,355 ($142,492) of Post-1989 Carbon Credits as at 30 June 2012 which are on hand. These carbon credits are recognised as assets at cost (being nil value) and the value disclosed in this note is contingent upon the market price at the time of sale.

2011 year: Invercargill City Forests Limited has been allocated, contingent upon the holding account with Ministry of Agriculture and Fisheries being approved, 28,564 ($571,280) of Pre-1990 Carbon Credits and 20,355 ($407,100) of Post-1989 Carbon Credits, which are not yet on hand.

Contingent liabilities:

Invercargill City Forests Limited has harvested a total of 83.50 hectares of pre-1990 forest in Dunrobin Forest. All of this harvested land has been replanted at 30 June 2012 and no longer carries any potential deforestation liability. At 30 June 2011 Invercargill City Forests had harvested a total of 40.61 hectares of pre-1990 forest in Dunrobin Forest and of this 23 hectares had been replanted. Deforestation liability from pre-1990 land at 30 June 2011, if the land was not replanted was $521,604. It is Invercargill City Forests Limited's intention to replant all forests. Refer note 12.

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

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

Except for the renewal of the loan facility on 2 July 2012 as detailed in note 19, 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 $2,291,000 (2011: $1,804,000) 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 2012:

Group 2012	**Maturity Dates**			
	< 1 year	**1-3 years**	**> 3 years**	**Total**
	$000	**$000**	**$000**	**$000**
Financial Assets				
Cash and cash equivalents	3,625	-	-	3,625
Trade and other receivables	2,609	-	-	2,609
Construction work in progress	24	165	-	189
Short term investments	58	-	-	58
	6,316	165	-	6,481
Financial Liabilities				
Trade and other payables	3,645	-	-	3,645
Dividends payable	3,450	-	-	3,450
Derivative financial instruments (interest rate swaps)	22	289	2,192	2,503
Borrowings - secured loans	36,539	-	-	36,539
Borrowings - redeemable preference shares	16,777	-	-	16,777
	60,433	289	2,192	62,914

Parent 2012	**Maturity Dates**			
	< 1 year	**1-3 years**	**> 3 years**	**Total**
	$000	**$000**	**$000**	**$000**
Financial Assets				
Cash and cash equivalents	153	-	-	153
Trade and other receivables	116	-	-	116
Dividends receivable	4,900	-	-	4,900
Advances	483	21,632	11,662	33,777
	5,652	21,632	11,662	38,946
Financial Liabilities				
Trade and other payables	654	-	-	654
Dividends payable	3,450	-	-	3,450
Derivative financial instruments (interest rate swaps)	22	289	2,192	2,503
Borrowings - secured loans	36,539	-	-	36,539
Borrowings - redeemable preference shares	16,777	-	-	16,777
	57,442	289	2,192	59,923

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 2011:

Group 2011	Maturity Dates			
	< 1 year	**1-3 years**	**> 3 years**	**Total**
	$000	**$000**	**$000**	**$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	**1-3 years**	**> 3 years**	**Total**
	$000	**$000**	**$000**	**$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

• **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:

Financial Assets	
Cash and cash equivalents	Variable interest rates
Trade and other receivables	Non interest bearing
Dividends receivable	Non interest bearing
Construction 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
Financial Liabilities	
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	
	2012	**2011**
	$000	**$000**
	Liability	**Liability**
Maturity < 1 year	6,500	7,500
Maturity 1-2 years	3,500	1,500
Maturity 2-3 years	4,000	3,500
Maturity 3-4 years	3,800	4,000
Maturity 4-5 years	10,300	3,800
Maturity 5-6 years	1,700	5,300
Maturity 6-7 years	3,500	1,700
Maturity 7-10 years	-	3,500
	33,300	30,800

- 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	
	2012	**2011**
	%	**%**
Effectiveness	100	100

- Sensitivity analysis on Financial Instruments

Borrowings: If interest rates on borrowings at 30 June 2012 had fluctuated by plus or minus 0.5%, the effect would have been to decrease/increase the surplus after tax by $11,504 (2011: $32,013) 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	**Equity change**	
	Year 2012	**+0.5%**	**-0.5%**
	$000	**$000**	**$000**
Net Derivative financial asset/(Liability) - Cashflow Hedge	(2,503)	478	(478)

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

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 $2,503,000 (2011: net liability $1,336,000) .

INVERCARGILL CITY HOLDINGS LTD

29 Segmental reporting

	Energy	Energy	Forestry	Forestry	Airport	Airport
	2012 $000	2011 $000	2012 $000	2011 $000	2012 $000	2011 $000
Total external revenues	27,002	25,558	1,217	2,535	2,514	3,043
Intersegmental revenue	-		-	-	-	-
Total segmental revenue	27,002	25,558	1,217	2,535	2,514	3,043
Segment result						
Unallocated expenses	19,638	20,549	891	370	3,019	2,208
Results from operating activities	7,364	5,009	326	2,165	(505)	835
Net finance costs	893	857	236	276	233	250
Share of profit of equity accounted investees	720	640	-	-	-	-
Income tax expense	1,746	1,853	(334)	457	(215)	142
Gain on sale of discontinued operation (net of tax)	-	-	-	-	-	-
Profit for the period	5,445	2,939	424	1,432	(523)	443
Segment assets	116,330	106,472	16,412	12,095	14,265	15,167
Investment in equity accounted investees	7,426	7,132	-	-	-	-
Unallocated assets	-	-	-	-	-	-
Total assets	123,756	113,604	16,412	12,095	14,265	15,167
Segment liabilities	41,602	38,861	12,800	8,707	7,978	8,357
Unallocated liabilities	-	-	-	-	-	-
Total liabilities	41,602	38,861	12,800	8,707	7,978	8,357
Capital expenditure	5,559	5,114	1,300	318	147	360
Depreciation	5,242	4,440	17	3	520	601
Amortisation of intangible assets	126	120	-	-	-	-
Impairment of intangible assets and property, plant and equipment	-	-	-	-	-	(321)

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

Finance	Finance	Property	Property	Consolidate / Elimination	Consolidate / Elimination	Total	Total
2012 $000	2011 $000	2012	2011	2012 $000	2011 $000	2012 $000	2011 $000
6,995	6,871	17	-	(7,133)	(7,009)	30,612	30,998
-	-	-	-		-	-	-
6,995	6,871	17	-	(7,133)	(7,009)	30,612	30,998
393	306	12	-	(216)	(215)	23,737	23,218
6,602	6,565	5	-	(6,917)	(6,794)	6,875	7,780
2,166	2,464	-	-	(2,016)	(2,094)	1,512	1,753
-	-	-	-	-	-	720	640
-	-	(66)	-	-	-	1,131	2,452
-	-	-	-	-	-	-	-
4,436	4,101	71	-	(4,901)	(4,700)	4,952	4,215
94,652	92,285	9	-	(93,778)	(89,486)	147,890	136,533
-	-	-	-	-	-	7,426	7,132
-	-	-	-	-	-	-	-
94,652	92,285	9	-	(93,778)	(89,486)	155,316	143,665
59,923	57,375	(62)	-	(38,772)	(34,154)	83,469	79,146
-	-	-	-			-	-
59,923	57,375	(62)	-	(38,772)	(34,154)	83,469	79,146
-	-	-	-	-	-	7,006	5,792
-	-	-	-	-	-	5,779	5,044
-	-	-	-		-	126	120
-	-	-	-	-	-	-	(321)

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 June 30, 2012

The performance targets established in the 2012 Statement of Corporate Intent for Invercargill City Holdings Limited and the results achieved for the year ended 30 June 2012 follow.

Performance Targets

1 That a rate of return before tax on shareholders funds of 8.05% be achieved.
Achieved rate of return of 8.47%

That a rate of return after tax on shareholders funds of 5.80% be achieved.
Achieved rate of return of 6.89%

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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