ALPINE ENERGY LTD

STATEMENT OF CORPORATE INTENT

2002/05

26th June 2002

ALPINE ENERGY LIMITED

2002 STATEMENT OF CORPORATE INTENT

Alpine Energy Limited (the "Company") is an energy company (as that term is defined in the Energy Companies Act 1992). The Company's growth opportunities have been developed according to the Electricity Industry Reform Act 1998. This statement of corporate intent sets out the overall intentions and objectives for the Company for the trading period of 1 April 2002 to 31 March 2003 and the two succeeding financial years.

The Company, with Network Waitaki Limited, formed a company Networks South Limited to manage and operate the Alpine and Waitaki networks. Networks South Limited became operational from 1 July 2000, and has provided both strategic and financial benefits.

(a) The Objectives of the Company

n Mission

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To ensure continuing commercial success by:

- Providing safe, efficient, reliable and cost-effective energy delivery
- Encouraging the use of and utilising water resources to support the production and consumption of electricity
- Providing asset management services.

n Business Plan Goals

- **Shareholders**

  To pursue business policies which will maximise the value of the company in the medium and long term.

- **Customers**

  To provide customers with the safe, efficient, economic and reliable delivery of energy and services.

- **Efficient Use Of Resources**

  To promote energy efficiency and effective utilisation of resources under our management.

- **Public and Social Responsibility**

  To be a law abiding and responsible company.

(b) Nature and Scope of Activities to be Undertaken

The Company's business will primarily be that of quality energy delivery, water resource utilisation, and infrastructure asset ownership and management.

The Company, through a subsidiary Networks South Limited, is also involved in contracting activities which support and develop the Business.

Consistent with its objectives the Company will pursue activities designed to ensure the efficient utilisation of its capital assets and human resources.

Opportunities for investment in activities consistent with its Mission, will be investigated by the Company.

The Company will consult with its shareholders on any proposed investment in activities other than the safe, efficient, reliable and cost effective delivery of energy.

(c) Proprietorship Ratio

The ratio of shareholders' funds to total assets will be maintained at not less than 50 percent.

Total assets will comprise all the recorded tangible assets of the Company at their value as defined in the Company's statement of accounting policies.

Consolidated shareholders' funds of the Company will comprise the total issued capital, the balance of undistributed profits and all revenue and capital reserves.

(d) Accounting Policies

The Company's accounting policies will comply with the legal requirements of the Companies Act 1993 and be consistent with generally accepted accounting principles. Financial statements will conform to the Financial Reporting Standards as required by the Financial Reporting Act 1993.

The Company’s electricity distribution network has been maintained to a sustainable standard while being depreciated in the financial accounts.

Details of the current accounting policies and their application are contained in Appendix A.

Present and future reporting of network reticulation system asset values will be on the basis of net current value using the optimised deprival valuation method which together with book values of other assets and working capital will give a fair view of the Company worth.

Revaluations of the network reticulation system are undertaken at least every three years. The latest valuation was undertaken as at 31st March 2001.

(e) Financial Performance Targets

The Company has developed financial performance targets to be used to instigate productivity improvements in each of the main business units and these will comprise specific measurable standards monitored for each unit. The following performance measures have been established for the Group:

		2002/03	2003/04	2004/05
(i)	The ratio of net profit after tax to shareholders funds *:	7.6%	7.6%	7.6%
	Note: A ratio in the range of 7% to 8% is acceptable.			
(ii)	Net Tangible Assets per Share:	$2.17	$2.19	$2.23
(iii)	Earnings per Share:	16.5 cents	16.5 cents	17.0 cents
(iv)	Dividend per Share:	14.5 cents	14.5 cents	14.9 cents

Financial Projections

	$M	$M	$M
Revenue	25.6	26.0	26.3
Operating Expenses	16.4	16.9	17.1
Operating Surplus before Tax	9.2	9.1	9.2
Income Tax	3.0	2.9	3.0
Operating Surplus after Tax	**6.2**	**6.2**	**6.2**
Associated Entities	**0.6**	**0.7**	**0.8**
Net Surplus	**6.8**	**6.9**	**7.0**
Shareholders' Funds	**89.7**	**91.1**	**92.6**
Current Assets	8.1	7.4	7.2
Non-current Assets	85.4	87.5	89.4
Total Assets	93.5	94.9	96.6
Current Liabilities	3.8	3.8	4.0
Non-current Liabilities	0	0	0
Total Liabilities	3.8	3.8	4.0
Net Assets	**89.7**	**91.1**	**92.6**
Capital Expenditure	**6.2**	**5.7**	**5.5**

* Assumes no long term debt in parent company.

(f) Operating Performance Targets

The Company has developed annual operating performance targets to show how its quality of service to customers and consumers is focussed. Alpine Energy seeks to be in the top quartile of New Zealand line companies and its annual operating targets below are based on this criteria.

(i)	Electricity Line Losses	< 6% per year
(ii)	Average Interruption Duration (SAIDI)	< 90 minutes of interruption p.a.
(iii)	Average Interruption Frequency (SAIFI)	< 1.5 interruptions per customer

(g) Dividend Distribution Policy

The Company will, subject to a solvency certificate being signed by Directors, distribute to its Shareholders not less than 90% of consolidated tax paid profit, excluding customer contributions.

The Board of Directors of the Company will include within its report on the operations of the Company (prepared after the end of each financial year) a statement recommending the maximum amount of dividend (if any) payable by the Company in respect of its equity securities.

Quarterly interim dividends will be paid out on 30 September, 31 December, 31 March and the final dividend on 31 July subject to completion of the Annual General Meeting.

(h) Information to be Provided to Shareholders

The Company will provide information which complies with the requirements of the Companies Act 1993, the Energy Companies Act 1992, and the Financial Reporting Act 1993. The following information will be available.

Half yearly reports will be delivered to the Company's shareholders within 3 months after the end of each reporting period. These reports will comprise:

(i) a report from the directors covering the operations for the half year period, including significant activities of the Company in regard to its associate company investments; and

(ii) financial statements, including a statement of financial position and a statement of profit and loss.

Annual reports will be delivered to the Company's shareholders within three months of the end of each financial year and will comprise:

(i) a report from the directors covering the operations for the year, including significant activities of the Company in regard to its associate company investments;

(ii) audited consolidated financial statements for the financial year in respect of the Company and its subsidiaries (if any);

(iii) auditors' report on the financial statements and the performance targets (together with other measures by which performance of the Company has been judged in relation to the Company's objectives).

The Company's audited consolidated financial statements will comprise the following:

* Statement of financial performance

* Statement of financial position

* Statement of cash flows

* Statement of movements of equity

* Details of all transactions entered into during the financial year by the Company or any of its subsidiaries and certain other bodies

* Such other statements as may be necessary to fairly reflect the financial position of the Company and its subsidiaries (if any), the resources available to it or them and the financial results of the operations.

Information for disclosure for the separated line and energy businesses prepared for the purposes of the Electricity (Information Disclosure) Regulations 1994 will be delivered to the Company's shareholders within three weeks of the information being published in the New Zealand Gazette.

Draft statements of corporate intent will be delivered to the Company's shareholders within one month of the end of each financial year.

Shareholders may request further information or reports from the Directors, and the Company shall supply this information to all Shareholders in such manner as shall from time to time be agreed between the Company and Shareholders.

(i) Procedures for Acquisition of Interests in Other Companies or Organisations

As a general policy, any proposed investment by the Company in other companies or organisations will be required to meet the weighted average cost of capital (WACC) of the investments being considered, which shall reflect the market cost of debt and the market cost of equity.

All investment proposals will be considered by the Company's Board of Directors and in respect of any acquisition which has a value greater than 10% of the value of the total assets of the Company, as disclosed in the statement of financial position published in the preceding annual report of the Company, recommendations will be made for shareholders approval.

(j) Transaction Details

The following information is disclosed in terms of Section 39(2)(i) of the Energy Companies Act 1992:-

- Contractual arrangements with the District Councils include:-

    * Development, installation and maintenance of community lighting facilities.

    * Road and Footpath Sealing:- re-sealing of cable trenches and restoration of footpaths etc after underground cabling and new subdivisions.

    * Negotiation of a contribution towards the overhead line to underground conversion programme.

All transactions between the Company and its Shareholder District Councils will be conducted on a commercial basis. Charges between the parties made for services provided as part of the normal trading activities of the Company, are incorporated into the operating costs and revenues of the Company.

(k) Further Matters

The Company intends to investigate, consider and if appropriate, acquire interests in electricity lines related activities to the extent that such opportunities become available to the Company.

The maintenance and development of the total reticulation system of the Company will be a prime responsibility for the Company and shall be charged for on a fair and reasonable basis while acknowledging that some cross subsidisation among customers may occur.

26th June 2002

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APPENDIX A

STATEMENT OF ACCOUNTING POLICIES

Financial statements are presented for the reporting entity Alpine Energy Limited and the consolidated financial statements of the group comprising Alpine Energy Limited and its subsidiary and associated entities.

Financial statements are prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Energy Companies Act 1992**.**

Financial statements are prepared on the basis of historical cost, with the exception of certain items for which specific accounting policies are identified.

(a) **Principles of Consolidation**

The consolidated financial statements include those of the parent company and its subsidiaries accounted for using the purchase method. All inter-company transactions, balances and unrealised profits and losses on transactions between group members have been eliminated.

(b) **Customer Contributions**

Contributions from customers, in relation to the construction of new lines for the network, and contributions from district councils, towards the costs of replacing overhead lines with underground cables, are accounted for as income in the year in which they are received.

(c) **Capital and Operating Expenditure**

Capital expenditure relates to expenditure incurred in the creation of a new asset and expenditure incurred on existing reticulation system assets to the extent the system is enhanced.

Operating expenditure relates to expenditure which restores an asset closer to its original condition and includes expenditure incurred in maintaining and operating the fixed assets of the Company.

(d) **Depreciation**

Depreciation is charged as follows:

Network Reticulation System	Straight line over useful lives from 10 to 70 years *
Buildings	1 to 2.5% of cost
Plant and Equipment	9 to 40% on diminishing value

* Useful lives are now in accordance with ODV asset lives set by the Ministry of Commerce.

Depreciation for taxation purposes recognises that:

- Additions to the network reticulation system exclude any allocation of indirect costs.

- Only 80% of the book value of the Globo distribution system at 1 April 1987 is depreciated.

(e) **Taxation**

The income tax expense charged to the statement of financial performance includes both the current year's provision and the income tax effects of timing differences calculated using the liability method.

Tax effect accounting is applied on a comprehensive basis to all timing differences. A debit balance in the deferred tax account, arising from timing differences or income tax benefits from income tax losses, is only recognised if there is virtual certainty of realisation.

(f) **Accounts Receivable**

Accounts receivable are stated at estimated realisable value after making provision for doubtful debts. Bad debts are written off during the period in which they are identified.

(g) **Fixed Assets**

All fixed assets are initially recorded at cost. Network reticulation system assets are subsequently revalued to net current value as determined by an independent valuer using the optimised deprival valuation method. Other Fixed assets are stated at cost, after due allowance for recoverable amount, less depreciation.

(h) **Cash Flows**

Terms used in the Statement of Cash Flows are explained as follows:

- Cash means coins and notes, demand deposits and other highly liquid investments.

- Investing activities are those activities relating to the acquisition and disposal of fixed assets and investments.

- Financing activities are those activities which result in changes to the size and composition of the capital structure of the Company. This includes both equity and debt not falling within the definition of cash, and includes dividend payments to shareholders.

(i) **Financial Instruments**

Financial instruments carried in the Statement of Financial Position include cash and bank balances, receivables and trade creditors. These instruments are generally carried at their estimated fair value. For example receivables are carried net of the related provision for doubtful debts. The particular recognition methods are disclosed in the notes for each item.

(j) **Goods and Services Tax (GST)**

The financial statements are prepared on a GST exclusive basis.

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