

LINETRUST SOUTH CANTERBURY

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LINETRUST SOUTH CANTERBURY

TRUST DIRECTORY FOR THE YEAR ENDED 31 AUGUST 2003

BANKERS: Westpac

AUDITORS: Martin Wakefield

TRUSTEES: Howard Smith (Chairman)
Allan Andrews (Deputy Chairman)
Lawrie Blakernore
Janya Lobb
Rick Ramsay

SECRETARY Tom Simpson

CHAIRMAN'S REPORT YEAR ENDED 31 AUGUST 2003

I have much pleasure in presenting the LineTrust South Canterbury tenth annual report.

This year has been another successful year for the Trust.

In December we distributed \$2,994,173.00 to the Trust's beneficiaries (the consumers). This was 100% of our profit for the year. While our deed requires a minimum 90% be distributed, the Trustees felt that LineTrust South Canterbury has sufficient reserves at present.

We also gave the South Canterbury Energy Efficiency Trust a \$5,000.00 grant, and have spent some time discussing how we may be able to promote energy efficiency in the future.

We have spent a great deal of time on the issue of imputation credits. Currently our-beneficiaries receive their dividends fully imputed and those who pay tax at less than the Company rate and who do not file a tax return, miss out on a possible tax benefit.

A possible way round this was to make the Trust Shareholding a separate class of share and find another way of distributing the dividend: e.g. a discount on consumers electricity accounts.

After much deliberation and legal consultation the Trustees decided that the cost and uncertainty of succeeding for a possible small benefit to some beneficiaries meant that there was no point in pursuing this matter.

Alpine Energy has had another very good year and on behalf of the Trust I compliment both staff and directors for their performance and co-operation with us.

During the year John Dobson resigned as a trust appointed Director. John has been a Director of Alpine Energy for 10 years and has been an excellent Director. His skill and professionalism has helped the Company become the success that it is today.

Murray Cleverley has been appointed as his replacement.

During the year Ric Ramsay was appointed to the board of the Energy Trust of New Zealand. We congratulate Ric on his appointment.

After ten years on the trust I have decided to not seek re-election and wish LineTrust South Canterbury every success in the future.

Thanks to my fellow Trustees and our very capable secretary Tom Simpson and his team for their support throughout the years.

LINE TRUST SOUTH CANTERBURY

HIGHLIGHTS FOR THE YEARS ENDED 31 AUGUST

		2003	2002	2001	2000	1999
Income	Ordinary	3,103,936	3,336,108	2,045,826	1,878,418	1,593,905
	Special			<u>900,951</u>		<u>2,397,025</u>
Total Income		3,103,936	3,336,108	2,946,777	1,878,418	3,990,930
Expenses		134,621	341,935	246,023	79,454	90,881
Net Income		2,969,315	2,994,173	2,700,754	1,798,964	3,900,049
Annual Distribution		2,969,315	2,994,173	2,700,754	1,619,068	3,510,044
Distribution From Reserves				500,000		
Retained Income					179,896	390,005
Accumulated Retained Income		307,773	307,773	307,773	807 73	627,877

Allocation of \$2,994,173

Load Group	Allocate by	Fixed	Demand	winter kWh
Low Fixed Charge (Domestic Concession)	Fixed Amount	\$ 34.00		
Under 8 kVA (Small Domestic)	Fixed Amount	\$ 43.00		
Under 15 kVA (Standard Domestic)	Fixed Amount	\$ 63.00		
3 x 60 A {Small Commercial}	Fixed Amount	\$ 204.00		
Over 15 kVA Assessed & Nameplate	Demand Factor + winter kWh		\$ 6.60	
TOU 400 V	Demand Factor + winter kWh		\$ 9.50	\$ 0.0058
TOU 400 V Remote	Demand Factor + winter kWh		\$ 10.30	\$ 0.0058
TOU 11 kV < 3000kW	Demand Factor + winter kWh		\$ 6.75	\$ 0.0058
TOU 11 kV < 3000kW Remote	Demand Factor + winter kWh		\$ 8.70	\$ 0.0058

LINE TRUST SOUTH CANTERBURY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 AUGUST 2003

	NOTE	2003	2002
INCOME			
Dividends Received			
Alpine Energy Ltd- Ordinary	1	2,982,230	3,233,504
		<u>2,982,230</u>	<u>3,233,504</u>
Interest Received			
Westpac Trust	2	213	1,795
ASB Bank			5,533
National Bank			13,316
ANZ Bank	2	121,493	66,444
Bank of New Zealand			15,517
		<u>121,706</u>	<u>102,605</u>
TOTAL GROSS INCOME		<u>3,103,936</u>	<u>3,336,109</u>
Trustees Remuneration		32,200	36,400
Trustees Reimbursements		1,906	8,252
Accountancy		5,625	4,500
Advertising		2,058	12,508
Audit Fees		1,378	675
Bank Charges		136	9,223
Consultancy Fees		7,313	5,063
Consumer Poll Expenses			37,004
Declaratory Judgement & Resettlement Expenses		30,642	174,691
Distribution Costs		5,977	23,295
Election Expenses		18,000	
Energy Trusts of New Zealand		1,957	2,000
Interest: Westpac Trust			14
Legal Expenses		3,375	6,227
Meeting Expenses		150	
Printing Postage & Stationery		1,191	1,881
Secretarial Costs		8,944	6,750
Subscriptions		668	265
Telephone & Tolls		266	43
Trust Review Expenses			2,007
Insurance	7	12,825	11,138
TOTAL EXPENSES		<u>134,621</u>	<u>341,936</u>
NET PROFIT		<u>2,969,315</u>	<u>2,994,173</u>

LINETRUST SOUTH CANTERBURY

STATEMENT OF MOVEMENTS IN EQUITY FOR THE YEAR ENDED 31 AUGUST 2003

	NOTE	2003	2002
Opening Balance		36,968,500	35,862,500
Revaluation of Investment	3	673,600	1,106,000
		673,600	1,106,000
		37,642,100	36,968,500
CLOSING BALANCE		37,642,100	36,968,500

LINETRUST SOUTH CANTERBURY

TRUSTEES INCOME STATEMENT FOR THE YEAR ENDED 31 AUGUST 2003

	NOTE	2003	2002
Opening Balance		3,955,717	3,977,748
Distributions Unclaimed (2000)		-	67,444
Distributions Unclaimed (2001)		-	78,533
Distributions Unclaimed (2002)		23,210	
Tax Refund Due	5	45,021	38,574
Profit For Year		2,969,315	2,994,173
		<hr/>	<hr/>
		3,037,546	3,178,724
		<hr/>	<hr/>
		6,993,263	7,156,472
Distribution to			
Consumers		2,994,173	3,200,754
Energy Efficiency Trust		5,000	-
		<hr/>	<hr/>
		2,999,173	3,200,754
		<hr/>	<hr/>
CLOSING BALANCE		3,994,090	3,955,718
		<hr/>	<hr/>

LINETRUST SOUTH CANTERBURY

STATEMENT OF FINANCIAL POSITION AS AT 31 AUGUST 2003

	NOTE	2003	2002
CURRENT ASSETS			
Westpac		7,180	22,364
Sundry Debtors		-	4,859
ANZ: Term Deposit		431,048	437,581
ANZ: Term Deposit		59,183	56,335
ANZ: Term Deposit		472,529	1,700,000
ANZ: Term Deposit		387,554	945,640
ANZ: Term Deposit		461,676	346,174
ANZ: Term Deposit		446,313	431,096
ANZ : Term Deposit		157,970	
ANZ : Term Deposit		1,545,000	
Tax Refund Due	5	51,738	38,573
		4,020,191	3,982,622
INVESTMENTS			
Alpine Energy Ltd Shares	3	37,616,000	36,942,400
		37,616,000	36,942,400
TOTAL ASSETS		41,636,191	40,925,022

LINETRUST SOUTH CANTERBURY

STATEMENT OF FINANCIAL POSITION AS AT 31 AUGUST 2003

	NOTE	2003	2002
CURRENT LIABILITIES			
Sundry Creditors			805
			805
TRUSTEES INCOME ACCOUNT			
As Scheduled	3,994,090		3,955,718
		3,994,090	3,955,718
EQUITY			
As Per Statement	37,642,100		36,968,500
		37,642,100	36,968,500
TOTAL LIABILITIES AND EQUITY		41,636,190	40,925,023

LINETRUST SOUTH CANTERBURY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 AUGUST 2003

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Was Provided From:		
Dividends Received	2,982,230	3,233,504
Interest Received	121,707	102,604
Tax Refund	31,858	44,561
	3,135,795	3,380,669
Cash Was Applied To:		
Other Operating Expenses	135,071	341,936
	135,071	341,936
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	3,000,724	3,038,733
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Was Provided From:		
Withdrawal of Investments		171,770
		171,770
Cash Was Applied To:		
Purchase of Investments	44,448	
	44,448	
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES	(44,448)	171,770
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Was Applied To:		
Distribution to Consumers	2,971,459	3,189,492
Energy Efficiency Trust	5,000	
	3,189,492	2,971,459
NET CASH INFLOW (OUTFLOW) FROM FINANCING ACTIVITIES	(2,971,459)	(3,189,492)
NET INCREASE (DECREASE) IN CASH HELD		
(15,183)	21,011	
Opening Bank Balance	22,364	1,352
CLOSING BANK BALANCE	7,181	22,363

LINETRUST SOUTH CANTERBURY

STATEMENT OF ACCOUNTING POLICIES KOR THE YEAR ENDED 31 AUGUST 2003

1. GENERAL ACCOUNTING POLICIES

Reporting Entity

The reporting entity is a trust. The financial statements are general purpose financial statements which have been prepared according to generally accepted accounting practice. The entity is entitled to use differential reporting exemptions because it is not publicly accountable, and because of its size. Other than preparing the financial statements inclusive of GST, the entity has taken advantage of all differential reporting exemptions.

The LineTrust South Canterbury was constituted under a Trust Deed dated 24 June 2002.

Measurement Base

The measurement base adopted is that of historical cost, unless otherwise stated in a particular accounting policy.

2. PARTICULAR ACCOUNTING POLICIES

Accounts Receivable

Accounts receivable are stated at expected realisable value.

Investments

Investments have been brought to account at current value and dividend and interest income is recognised in the statement of financial performance when received.

Goods and Services Tax

This trust is not registered for GST purposes, The accounts have all been prepared inclusive of GST.

3. CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies. All policies have been applied on bases consistent with those used in previous years.

LINETRUST SOUTH CANTERBURY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 AUGUST 2003

1. DIVIDENDS RECEIVED	2003	2002
Gross Dividend	\$4,451,089	\$4,826,125
Imputation Credit	\$1,468,859	\$1,592,621
Net Dividend Received	\$2,982,230	\$3,233,504
2. INTEREST RECEIVED	2003	2002
Gross Interest	\$166,727	5141,178
Resident Withholding Tax	\$45,021	\$38,574
Net Interest Received	\$121,707	\$102,604

3. INVESTMENTS

Alpine Energy Lid Shares

16,531,207 fully paid Ordinary \$1.00 Shares in Alpine Energy Ltd vested in the Trust in terms of The Energy Companies (Alpine Energy Ltd) Vesting Order 1993. These have been valued at 40% of total shareholders funds as shown in the 2003 Alpine Energy Ltd Annual Report.

4. RECONCILIATION OF NET PROFIT WITH CASH FLOWS FROM OPERATING ACTIVITIES

	2003	2002
Net Profit as Reported	\$2,969,315	\$2,994,173
Increase (decrease) in Accounts Payable	\$ (450)	\$ nil
Decrease (increase) in Accounts Receivable	\$ nil	\$ nil
Taxation Refunded (Paid)	\$31,858	\$44,561
Net Cash Flows from Operating Activities	\$3,000,724	\$3,038,733

LINETRUST SOUTH CANTERBURY

NOTES TO THE ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 AUGUST 2003

5. TAXATION

	2003	2002
Profit as per Accounts	\$2,969,315	\$2,994,173
Gross Up Interest and Dividends	\$ 1,513,880	\$ 1,631,195
Loss Brought Forward From Last Year	\$(363,615)	\$(162,858)
Taxable Income	\$4,119,580	\$4,462,510
Tax on Income at 33c	\$1,359,461	\$ 1,472,628
Application of Imputation Credits	\$1,468,859	\$1,472,628
Resident Withholding Tax	\$45,021	\$38,574
Taxation Payable (Refundable)	\$(45,021)	\$(38,574)
IMPUTATION CREDITS		
Imputation Credits attached to Dividends Received	\$ 1,468,859	\$ 1,592,621
Used for Tax on Income	\$1,359,461	\$ 1,472,628
Balance	\$109,398	\$119,993
Converts to loss carried forward against future income	\$331,510	\$363,615

6. CONTINGENT LIABILITIES, CAPITAL EXPENDITURE

There are no contingent liabilities.
No amounts have been committed for future capital expenditure.

7. TRUSTEES INSURANCE

During the financial period the Trust paid premiums in respect of Trustees and Officers Liability insurance.

8. RESETTLEMENT OF TRUST

There was a resettlement of the Trust on the 24th of June 2002 where the Trust changed its name from South Canterbury Power Trust to LineTrust South Canterbury.

9. TRUSTEES STATEMENT

The Trustees confirm they have complied with their obligations under the operating guidelines for LineTrust South Canterbury.

ALPINE ENERGY LIMITED

2003 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 2003 to 31 March 2004 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**

■ **Mission**

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.

■ **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:

	2003/04	2004/05	2005/06
(i) The ratio of net profit after tax to shareholders funds:	8.0%	8.0%	8.0%
Notes: A ratio in the range of 7% to 8% is acceptable. Assumes no long term debt in parent company.			
(ii) Net Tangible Assets per Share:	\$2.25	\$2.28	\$2.30
(iii) Earnings per Share:	20.0 cents	20.0 cents	20.5 cents
(iv) Dividend per Share:	16.0 cents	16.0 cents	16.5 cents

Financial Projections

	\$M	\$M	\$M
Revenue	27.2	27.4	27.9
Operating Expenses	<u>16.0</u>	<u>16.4</u>	<u>16.7</u>
Operating Surplus before Tax	11.2	11.0	11.2
Income Tax	<u>3.3</u>	<u>3.3</u>	<u>3.3</u>
Operating Surplus after Tax	7.9	7.7	7.9
Associated Entities	<u>0.9</u>	<u>0.9</u>	<u>0.9</u>
Net Surplus	8.8	8.6	8.8
Shareholders' Funds	94.9	96.5	98.2
Current Assets	6.7	3.2	2.0
Non-current Assets	<u>89.8</u>	<u>94.9</u>	<u>97.8</u>
Total Assets	96.5	98.1	99.8
Current Liabilities	1.6	1.6	1.6
Non-current Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	1.6	1.6	1.6
Net Assets	94.9	96.5	98.2
Capital Expenditure	6.0	7.9	5.9
(Includes a new line from Temuka Substation to Clandeboye in 2004/05)			

(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 2 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.

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APPENDIX A

STATEMENT OF ACCOUNTING POLICIES

ENTITIES REPORTING

Financial statements are presented for the “Parent”, Alpine Energy Limited as a separate legal entity.

The consolidated financial statements for the “Group” are for the economic entity comprising Alpine Energy Limited, its subsidiaries and associates.

STATUTORY BASE

Alpine Energy Limited is a company registered under the Companies Act 1993 and is an energy company as defined in the Energy Companies Act 1992.

Financial statements are prepared in accordance with the requirements of the Financial Reporting Act 1993, the Companies

Act 1993, and the Energy Companies Act 1992.

MEASUREMENT BASE

Financial Statements are prepared on the historical cost basis, as modified by the revaluation of certain assets as identified in specific accounting policies below.

ACCOUNTING POLICIES

Financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The accounting policies that materially affect the measurement of financial performance, financial position and cash flows are set out below.

Group financial statements

The Group financial statements consolidate the financial statements of subsidiaries, using the purchase method, and include the results of associates using the equity method.

Subsidiaries are entities that are controlled, either directly or indirectly, by the Parent.

Associates are entities in which the Parent, either directly or indirectly, has a significant but not controlling interest.

All material transactions between subsidiaries or between the Parent and subsidiaries are eliminated on consolidation.

The results of subsidiaries or associates acquired or disposed of during the year are included in the consolidated statement of financial performance from the date of acquisition or up to the date of disposal.

Revenue

Goods and services

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

Investment income

Dividend income is recognised in the period the dividend is declared.
Interest and rental income are accounted for as earned.

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.

Property, plant and equipment

Initial recording

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

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.

Depreciation

Depreciation is provided on all property, plant and equipment, other than freehold land, at rates that will allocate the assets' cost or valuation, to their residual values, over their estimated useful lives. Distribution assets and Buildings are depreciated on a straight-line basis. All other assets are depreciated on a diminishing value basis.

The useful lives and associated depreciation rates for major classes of assets used in the preparation of the financial statements are as follows:

Distribution System	10 to 70 years	1.4% to 10.0%
Freehold Buildings	40 to 100 years	1% to 2.5%
Motor Vehicles	4 to 7 years	15% to 26%
Plant and Equipment	2 to 14 years	7.5% to 50%
Office Furniture and Equipment	3 to 10 years	10% to 33%

Gains and losses on disposal of fixed assets are taken into account in determining the operating result for the year.

Tax

The tax expense recognised for the year is based on the accounting surplus, adjusted for permanent differences between accounting and tax rules.

Tax effect accounting is applied on a partial basis to all timing differences.

Goods and Services Tax (GST)

The statement of financial performance and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

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 is that incurred in maintaining and operating the property, plant and equipment of the Company.

Investment

Investments in subsidiaries and associates are stated at cost in the statement of financial position of the Parent. Other investments are stated at the lower of cost or net realisable value.

Accounts receivable

Accounts receivable are carried at estimated realisable value after providing against debts where collection is doubtful.

Impairment

Annually, the directors assess the carrying value of each asset. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down. The impairment loss is recognised in the statement of financial performance.

Financial instruments

Financial instruments carried on the statement of financial position include cash and bank balances, investments, receivables, trade creditors and borrowing. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. The group has no off balance sheet exposure.

Statement of cash flows

The following are the definitions of the terms used in the statement of cash flows:

- (a) Operating activities include all transaction and other events that are not investing or financing activities.
- (b) Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments can include securities not falling within the definition of cash.
- (c) Financing activities are those activities that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- (d) Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts.

