

LINETRUST SOUTH CANTERBURY

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FOR THE YEAR ENDED 31 AUGUST 2004**

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LINETRUST SOUTH CANTERBURY

**TRUST DIRECTORY
FOR THE YEAR ENDED 31 AUGUST 2004**

BANKERS: Westpac

AUDITORS: Martin Wakefield

TRUSTEES: Rick Ramsay (Chairman)
Allan Andrews (Deputy Chairman)
Janya Lobb
Ross carrick
Grant Eames

SECRETARY: Tom Simpson

Chairman's Report For the Year ended 31 August 2004

I have much pleasure in presenting the LineTrust South Canterbury 11th annual report.

This has been a year of change for the Trust - at the elections in October last year two long serving members of the Trust stood down. They were the chairman Mr Howard Smith, and longstanding campaigner Mr Lawrie Blakemore.

It is appropriate that I note the contribution they made to the Trust on behalf of the consumers.

Mr Blakemore has been an unreserved critic of the reforms to the electricity industry- in fact he has published a booklet on it. Mr Smith brought a very professional and businesslike approach to the Trust and was an inaugural trustee - thus our longest serving member.

While it appears near impossible to “turn the clock back” and unravel the mess that the electricity market is now in, it remains the Trust's duty to lobby Government to ensure that changes and regulations which are promulgated do not disadvantage the consumer.

It appears the main impediment to true competition in electricity supply is the fact that the generators are also the retailers. While the Government and Commerce Commission have placed fences around Distributors (such as Alpine Energy in which the Trust holds 40% ownership on behalf of the consumers of South Canterbury) it has not focused on the shortcomings of the "Gentailers".

There is no doubt the demand for electricity has increased, yet there has been little investment in the past few years in new generation from the existing generators-which are in the majority, State Owned Enterprises. The point has now been reached where shortages are forecast and the Government has been placed in the situation of having to fund "dry year reserve" to try and meet the shortfalls.

The cost of this action, of course, has fallen on the Consumer.

While it is not the job of LineTrust South Canterbury to actively pursue “new generation” other than as a shareholder supporting Alpine Energy in generation possibilities, the LineTrust can be actively involved in a field which has a similar end result- that of energy efficiency.

With the long term future of the Trust settled prior to my becoming a Trustee - its life having been extended to 80 years after a prolonged battle with Timaru District Holdings- the incoming Trust decided this year to set aside \$250,000 from reserves to assist energy efficiency and conservation within South Canterbury.

The rationale is that this will have a two fold benefit - the consumers whom we represent will save money, while the load will be reduced. The latter may mean that capital expenditure on Line or equipment upgrades is postponed or not required.

There is no other organization that I am aware of within South Canterbury that is able to act on such a scale to the benefit of such a large group of consumers.

It is pleasing that a major project is being worked on in South Canterbury on a light bulb replacement programme which could see up to 65,000 Compact Fluorescent Lights replacing the old style incandescent lights

This is a "community" project which could save up to 4.5 megawatts of power in South Canterbury while giving a real cost saving to the consumers.

The finance for such projects at present can be taken from reserves and the Trust this year has decided to again rebate the total dividend to its consumers but I would signal that in future the Trust may retain some dividend to achieve other energy efficiency programmes.

This retention is in keeping with the terms of the Trust Deed.

There are other matters the Trust has engaged in this year-in particular the appointment to Alpine Energy of a new director Mr Murray Cleverley to replace Mr John Dobson who retired. Mr Cleverley joins the other director appointed by the Trust, Mr Ollie Turner.

This year, the Trust has endeavoured to have a closer relationship with Alpine Energy which I believe will be beneficial for both parties, and to act as a co-ordinator for the other Local Body shareholders where appropriate on matters which may impact on the industry in our area

Alpine Energy has continued to provide a service of high standard across a sparsely populated area and consistently meets high operational and financial performance.

The Trust has been a strong supporter of the Electricity Trusts of New Zealand and trustees have continued their education in matters concerning the electricity sector through attendance at ETNZ conferences. I thank the Trustees for this approach and support in my position as a member of the ETNZ executive.

Finally, my appreciation also to Mr Tom Simpson and staff of McFarlane Hornsey Simpson Ltd for their secretarial services.

R D Ramsay
Chairman

LINETRUST SOUTH CANTERBURY

HIGHLIGHTS FOR THE YEARS ENDED 31 AUGUST

	2004	2003	2002	2001	2000
Income - Ordinary	2,787,846	3,103,936	3,336,108	2,045,826	1,878,418
- Special	-	-	-	900,951	-
Total Income	2,787,846	3,103,936	3,336,108	2,946,777	1,878,418
Expenses	112,477	134,621	341,935	246,023	79,454
Net Income	2,675,369	2,969,315	2,994,173	2,700,754	1,798,964
Annual Distribution	2,675,369	2,969,315	2,994,173	2,700,754	1,619,068
Distributions From Reserves	-	-	-	500,000	-

Allocation of \$2,969,315

Load Group	Allocate by	Fixed	Demand	Winter kWh
Low Fixed Charge (Domestic Concession)	Fixed Amount	\$ 31.00		
Under 8 kVA (Small Domestic)	Fixed Amount	\$ 41.00		
Under 15 kVA (Standard Domestic)	Fixed Amount	\$ 62.00		
3 x 60 A (Small Commercial)	Fixed Amount	\$ 200.00		
Over 15 kVA Assessed & Nameplate	Demand Factor		\$ 6.40	
TOU 400 V	Demand Factor + winter kWh		\$ 8.45	\$ 0.0055
TOU 400 V Remote	Demand Factor + winter kWh		\$ 9.50	\$ 0.0055
TOU 11 kV < 3000kW	Demand Factor + winter kWh		\$ 6.85	\$ 0.0055
TOU 11 kV < 3000kW Remote	Demand Factor + winter kWh		\$ 6.85	\$ 0.0055

LINETRUST SOUTH CANTERBURY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 AUGUST 2004

	NOTE	2004	2003
INCOME			
Dividends Received			
Alpine Energy Ltd - Ordinary	1	2,656,565	2,982,230
			<u>2,982,230</u>
		2,656,565	2,982,230
Interest Received			
Westpac	2	3,148	213
ANZ Bank	2	128,133	121,493
			<u>121,706</u>
		131,281	121,706
		<u>2,787,846</u>	<u>3,103,936</u>
TOTAL GROSS INCOME			
Trustees Remuneration		34,300	32,200
Trustees Reimbursements		7,665	1,906
Accountancy		3,938	5,625
Advertising		794	2,058
Audit Fees		731	1,378
Bank Charges		58	136
Consultancy Fees		-	7,313
Declaratory Judgement & Resettlement Expenses		-	30,642
Distribution Costs		6,704	5,977
Election Expenses		33,135	18,000
Energy Trusts of New Zealand		3,219	1,967
Legal Expenses		313	3,375
Meeting Expenses		213	150
Printing Postage & Stationery		752	1,191
Secretarial Costs		6,750	8,944
Subscriptions		1,024	668
Telephone & Tolls		56	266
Insurance	7	12,825	12,825
			<u>134,621</u>
		112,477	134,621
TOTAL EXPENSES			
		<u>2,675,369</u>	<u>2,969,315</u>
NET PROFIT			

LINETRUST SOUTH CANTERBURY

**STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 31 AUGUST 2004**

	NOTE	2004	2003
Opening Balance		37,642,100	36,968,500
Revaluation of Investment	3	(2,012,400)	673,600
		<u>(2,012,400)</u>	<u>673,600</u>
		35,629,700	37,642,100
CLOSING BALANCE		<u>35,629,700</u>	<u>37,642,100</u>

LINETRUST SOUTH CANTERBURY

**TRUSTEES INCOME STATEMENT
FOR THE YEAR ENDED 31 AUGUST 2004**

	NOTE	2004	2003
Opening Balance		3,994,091	3,955,717
Distributions Unclaimed (2002)		-	23,210
Tax Refund Due	5	32,589	45,021
Profit For Year		2,675,369	2,969,315
		<u>2,707,958</u>	<u>3,037,546</u>
		6,702,049	6,993,263
Distribution to Consumers		2,974,320	2,994,172
Energy Efficiency Trust		-	5,000
Household Efficient Lighting Project		181,178	-
		<u>3,155,498</u>	<u>2,999,172</u>
CLOSING BALANCE		<u>3,546,551</u>	<u>3,994,091</u>

LINETRUST SOUTH CANTERBURY

STATEMENT OF FINANCIAL POSITION AS AT 31 AUGUST 2004

	NOTE	2004	2003
CURRENT ASSETS			
Westpac		9,223	7,180
ANZ : Term Deposit		566,715	431,048
ANZ : Term Deposit		887,000	59,183
ANZ : Term Deposit		-	472,529
ANZ : Term Deposit		-	387,554
ANZ : Term Deposit		-	461,676
ANZ : Term Deposit		-	446,313
ANZ : Term Deposit		-	157,970
ANZ : Term Deposit		2,077,124	1,545,000
Tax Refund Due	5	32,589	51,738
		<hr/>	<hr/>
		3,572,651	4,020,191
INVESTMENTS			
Alpine Energy Ltd Shares	3	35,603,600	37,616,000
		<hr/>	<hr/>
		35,603,600	37,616,000
TOTAL ASSETS			
		<hr/>	<hr/>
		39,176,251	41,636,191
		<hr/>	<hr/>

LINETRUST SOUTH CANTERBURY

**STATEMENT OF FINANCIAL POSITION
AS AT 31 AUGUST 2004**

	NOTE	2004	2003
CURRENT LIABILITIES			
		-	-
TRUSTEES INCOME ACCOUNT			
As Scheduled	3,546,551		3,994,091
		3,546,551	3,994,091
EQUITY			
As Per Statement	35,629,700		37,642,100
		35,629,700	37,642,100
TOTAL LIABILITIES AND EQUITY		39,176,251	41,636,191

LINETRUST SOUTH CANTERBURY

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 AUGUST 2004**

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Was Provided From:		
Dividends Received	2,656,565	2,982,230
Interest Received	131,281	121,707
Tax Refund	51,737	31,858
	<u>2,839,583</u>	<u>3,135,795</u>
Cash Was Applied To:		
Other Operating Expenses	112,478	135,071
	<u>112,478</u>	<u>135,071</u>
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	2,727,105	3,000,724
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Was Provided From:		
Withdrawal of Investments	430,435	-
	<u>430,435</u>	<u>-</u>
Cash Was Applied To:		
Purchase of Investments	-	44,449
	<u>-</u>	<u>44,449</u>
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES	430,435	(44,449)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Was Applied To:		
Distribution to Consumers	2,974,319	2,966,459
Energy Efficiency Trust	-	5,000
Household Efficient Lighting Project	181,178	-
	<u>3,155,497</u>	<u>2,971,459</u>
NET CASH INFLOW (OUTFLOW) FROM FINANCING ACTIVITIES	(3,155,497)	(2,971,459)
NET INCREASE (DECREASE) IN CASH HELD	2,043	(15,184)
Opening Bank Balance	7,180	22,364
CLOSING BANK BALANCE	9,223	7,180

LINETRUST SOUTH CANTERBURY

STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 AUGUST 2004

1. GENERAL ACCOUNTING POLICIES

Reporting Entity

The reporting entity in 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 Line Trust 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

Investments

Investments have been brought to account at current value and dividend and interest income is recognized 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 2004

1. DIVIDENDS RECEIVED

	2004	2003
Gross Dividend	\$3,965,022	\$4,451,089
Imputation Credit	\$1,308,457	\$1,468,859
Net Dividend Received	\$2,656,565	\$2,982,230

2. INTEREST RECEIVED

	2004	2003
Gross Interest	\$163,870	\$166,727
Resident Withholding Tax	\$32,589	\$45,021
Net Interest Received	\$131,281	\$121,707

3. INVESTMENTS

Alpine Energy Ltd 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 2004 Alpine Energy Ltd Annual Report.

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

	2004	2003
Net Profit as Reported	\$2,675,369	\$2,969,315
Increase (decrease) in Accounts Payable	\$ nil	\$ (450)
Decrease (increase) in Accounts Receivable	\$ nil	\$ nil
Taxation Refunded (Paid)	\$51,737	\$31,858
Net Cash Flows from Operating Activities	\$2,727,106	\$3,000,724

LINETRUST SOUTH CANTERBURY

NOTES TO THE ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 AUGUST 2004

5. TAXATION

	2004	2003
Profit as per Accounts	\$2,675,369	\$2,969,315
Gross Up Interest and Dividends	\$1,341,046	\$1,513,880
Loss Brought Forward From Last Year	\$(331,510)	\$(363,615)
Taxable Income	\$3,684,905	\$4,119,580
Tax on Income at 33c	\$1,216,018	\$1,359,461
Application of Imputation Credits	\$1,308,457	\$1,468,859
Resident Withholding Tax	\$32,589	\$45,021
Taxation Payable (Refundable)	\$(32,589)	\$(45,021)

IMPUTATION CREDITS

Imputation Credits attached to Dividends Received	\$1,308,457	\$1,468,859
Used for Tax on Income	\$1,216,018	\$1,359,461
Balance	\$92,439	\$109,398
Converts to loss carried forward against future income	\$280,118	\$331,510

6. CONTINGENT LIABILITIES, CAPITAL EXPENDITURE

There are no contingent liabilities.

The Trust is committed to the completion of Household Efficiency Lighting Project. The total value of any further expenditure cannot be estimated at this time, but is not expected to be material.

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

2004 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 2004 to 31 March 2005 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 2004.

(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:

	2004/05	2005/06	2006/07
(i) The ratio of net profit after tax to shareholders funds:	7.5%	7.5%	7.5%
Note: A ratio in the range of 7% to 8% is acceptable.			
(ii) Net Tangible Assets per Share:	\$2.30	\$2.35	\$2.40
(iii) Earnings per Share:	19.0 cents	19.0 cents	19.0 cents
(iv) Dividend per Share:	15.0 cents	15.0 cents	15.0 cents

Financial Projections

	\$M	\$M	\$M
Revenue	29.0	29.0	29.4
Operating Expenses	<u>17.9</u>	<u>17.7</u>	<u>18.1</u>
Operating Surplus before Tax	11.1	11.3	11.3
Income Tax	<u>4.3</u>	<u>4.4</u>	<u>4.4</u>
Operating Surplus after Tax	6.8	6.9	6.9
Associated Entities	<u>0.7</u>	<u>0.8</u>	<u>0.8</u>
Net Surplus	<u>7.5</u>	<u>7.7</u>	<u>7.7</u>
Shareholders' Funds	102.8	104.3	106.0
Current Assets	1.7	2.3	2.3
Non-current Assets	<u>116.5</u>	<u>122.9</u>	<u>127.7</u>
Total Assets	118.2	125.2	130.0
Current Liabilities	1.6	1.9	2.0
Non-current Liabilities	<u>13.8</u>	<u>19.0</u>	<u>22.0</u>
Total Liabilities	15.4	20.9	24.0
Net Assets	102.8	104.3	106.0
Capital Expenditure	11.7	9.5	8.0
(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.



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.

The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method.

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.



AUDIT REPORT



To the Readers of the financial report of Line Trust South Canterbury.

We have audited the financial report on pages 4 to 13. The financial report provides information about the past financial performance of the Trust and its financial position as at 31 August 2004. The Information is stated in accordance with the accounting policies set out on page 11

Directors Responsibilities

The Directors are responsible for the preparation of a financial report which gives a true and fair view of the financial position of the Trust as at 31 August 2004 and of the results of operations for the 12 months ended 31 August 2004.

Authors Responsibilities

It is our responsibility to express an Independent opinion on the financial report presented by the Directors and report our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial report. It also includes assessing:

- * the significant estimates and judgements made by the Directors in the preparation of the financial report, and
- * whether the accounting policies are appropriate to the Trust circumstances consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards New Zealand. We planned and performed our audit so as to obtain all the reformation and explanatory which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial report is free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial report.

Other than in the normal course of business and in our capacity as auditors we have no relationship with or interest in the Trust.

Unqualified Opinion

We have obtained all the information and explanations we have required.

In our opinion:

- * proper accounting records have been kept by the Trust as far as appears from our examinations of those records: and
- * the financial report on pages 4 to 13.
 - complies with generally accepted accounting practice;
 - gives a true and fair view of the financial position of the Trust as at 31 August 2004 and the results of its operations for the 12 months ended on that date,

Our audit was completed on 1 November 2004 and our unqualified opinion is expressed as at that date.

Auditors Martin Wakefield

Address (city) Timaru