

LINETRUST SOUTH CANTERBURY

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LINETRUST SOUTH CANTERBURY

TRUST DIRECTORY FOR THE YEAR ENDED 31 AUGUST 2006

BANKERS: Westpac

AUDITORS: Martin Wakefield

TRUSTEES: Rick Ramsay (Chairman)
Janya Lobb
Ross Carrick
Grant Eames
David Ives

SECRETARY: Tom Simpson

TRUST APPOINTED DIRECTORS:

- ALPINE ENERGY LTD Murray Cleverly
Ollie Turner



Chairman's Report

For the Year ended 31 August 2006

I have much pleasure in presenting the LineTrust South Canterbury 13th annual report.

Again, it has been a busy year for the Trust with three major energy saving projects progress- a final wrap up on the South Canterbury Household Efficient Lighting Project (Help), the commencement of the South Canterbury Healthy Homes Project, and planning for the South Canterbury Heat Pump Project.

South Canterbury was a trial with Christchurch company Energy Mad for a proposed national light bulb replacement programme. With the assistance of the Foodstuffs group of companies in South Canterbury - Pak n Save, New World, and Four Square, the project has now replaced 92,000 incandescent light bulbs with the new 20 and 18 watt energy efficient Compact Fluorescent Lights (CFL's).

The initial project put 62,000 bulbs in place during the period Aug 2004 to December 2004, and the Board decided to do a follow-up project in 2005, commencing in October.

Combined, the project will have saved South Canterbury electricity consumers almost \$8.4 million on their electricity accounts over the life of the bulbs and a peak load reduction of 5.1 megawatts- slightly more than the output of the Opuha Dam.

The Trust, along with Energy Mad put the project forward for the Energy Efficiency and Conservation Authority (EECA) Energywise Wise awards in 2006 in the "innovation" category, which covered services, products or projects in end-use energy efficiency and/or energy.

I am pleased to report that the project was runner-up in this category.

Energy Mad has now taken this concept throughout New Zealand, and to date has carried out 12 projects, with sufficient electricity saving to power Nelson – a major achievement of which South Canterbury can be justifiably proud to have been the pilot.

The major effort in the past 12 months has been the \$1 million South Canterbury Healthy Homes Project, - a collaborative approach with other agencies to upgrade the insulation in some 825 pre 1977 houses in South Canterbury over three years.

A contract with Energy Smart Ltd was entered into in June 2005 to deliver the project and a Steering Committee was established with representation from the Trust being Mr Grant Eames (Chairman) and Mr David Ives.

The committee includes representatives of social and welfare agencies, Work and Income, The South Canterbury Energy Efficiency Trust, the District Health Board plus the major contributors.

The cost of this project for the Trust is \$952,200 (\$317,400 each year for three years) with the Energy Efficiency Conservation Authority (EECA) contributing \$450,000, the District Health Board \$90,000 and Contact Energy \$75,000.

The average cost per household was estimated at \$2800 but not every house can be fully outfitted because access for underfloor insulation is not always available, or some insulation may be in place.



To date, the cost per house is \$1,802.40 with the LineTrust contribution being \$954.40.

It is estimated that 13,550 homes in South Canterbury have been constructed before 1977 when insulation was not required under the building code, and the average age of houses refitted is 60 years.

A total of 282 houses have been completed between 1 Sept 05 and 31 Aug 06.

Since the commencement of Healthy Homes, installed ceiling insulation has totaled 29,827sq m; underfloor insulation 26,463sq m; polythene ground cover 6,260 sq metre; pipe lagging 247 metres, hot water cylinder wraps 174 and draught excluders on external doors 455.

For the 2006/07 period, there are 156 houses awaiting completion, with 30 in reserve for urgent referrals and referring agencies have a waiting list of almost 100.

While the current reserves will go most of the way towards meeting the Trust contribution on this project, the Trust has decided to distribute 90% of it's dividend from Alpine Energy in future years so that funds become available for other energy saving projects.

This year, the Trust returned \$2,420,928 back to its consumers.

The Trust, along with Energy Mad, Canterbury Regional Council, and local retailers has been working on a Heat Pump replacement programme as a further energy efficiency initiative in South Canterbury.

Costing almost \$600,000, the project will contain a "core" segment aimed at installing 250 4kw heaters with funding from Environment Canterbury, 500 funded by the LineTrust, and a further 500 units of larger units funded by the Trust by way of a rebate voucher , to be obtained through local retailers who have agreed to become part of the scheme.

The objective of this project is to reduce further the peak load on the network, and save power for South Canterbury consumers.

It is estimated the Core component alone will save 0.6 of a megawatt and around \$1.5 million of electricity over 10 years for those who convert from old inefficient electrical heating to heat pumps.

This project is more complex than those previously undertaken by the Trust, and is again an example of working with other groups and organizations, and bringing money into South Canterbury to the benefit of our consumers.

A steering committee has been established with Janya Lobb (Chair) and David Ives representing LineTrust South Canterbury, and representatives from Ecan and local retailers.

As with previous projects, a proportion of the project is dedicated to monitoring and measurement to look at the "real life" performance of the heat pumps - understood to be a New Zealand first. The Trust hopes it will again provide the experience and data to enable the project to be rolled out nationwide.

The Trust is mindful that the major snow event in June this year may affect the dividend the Trust receives on behalf of consumers in the near future and will have to tailor any projects to suit.

On other fronts, the Trustees have continued to attend the Electricity Trusts of New Zealand conferences and enlarge their understanding of the complexities of the industry.

I thank the Trustees for their support of my position as a member of the ETNZ executive.

Attendance at the ETNZ conferences has assisted Trustees in considering the issues being faced by Alpine Energy, and the other shareholders. It is pleasing to report that a mechanism has been established for others involved in the industry, such as directors of Timaru District Holdings, to attend Trust conferences.

The Trust has continued to foster relationships with the other shareholders and to hold regular meetings with them to share information and discuss issues facing the industry and the company. The Trust met with the other shareholders in April 2006.

An example of this greater co-operation has been the agreement that it is not desirable for too many directors on Alpine Energy to all come up for re-appointment during the same term.

Two directors were due for retirement in 2006 and three in 2008.

LineTrust South Canterbury has taken a pro-active role, and decided to stagger its director appointments, and so has re-appointed Mr Murray Cleverly for a further 12 months so that the Trusts two directorships now fall in different years.

Timaru District Council may follow a similar path with its appointments.

On the national electricity situation, New Zealand is still on a knife edge and the cost of electricity will continue to rise as electricity shortages loom and replacement for Maui gas used in thermal generation is replaced with more expensive substitutes.

On the positive side, there has been a major increase in wind generation proposals and Meridian has proposed a "tunnel" project for the Lower Waitaki which would go some way to making up the lost generation potential of Project Aqua.

The Commerce Commission remains focused on the Lines Companies but still nothing appears to be done about the generator-retailers and the loss of a truly competitive and independent electricity market.

The Electricity Commission has been steadily increasing its influence on the sector, and much of the focus has been on the requirements for upgrading the national transmission grid. Some of this work (between Livingstone in Waitaki and Christchurch) will take place in our area.

The Commission is also looking hard at energy efficiency and has expressed strong interest in the pilot projects which have been carried out in South Canterbury.

I express the Trust's appreciation also to Mr Tom Simpson, Andrew Mann and staff of McFarlane Hornsey Simpson Ltd for their secretarial services.

And finally, I thank all Trustees for their imagination and determination to be pro-active for the consumers that we represent in South Canterbury - they have faced an increased workload, and some difficult decisions and processes, but have worked as a team and as chairman, I could not have asked for more.

R D Ramsay
Chairman



LINETRUST SOUTH CANTERBURY

HIGHLIGHTS FOR THE YEARS ENDED 31 AUGUST

	2006	2005	2004	2003	2002
Income	2,922,311	2,799,107	2,787,846	3,103,936	3,336,108
Expenses	112,299	114,512	112,477	134,621	341,935
Net Income	2,810,012	2,684,595	2,675,369	2,969,315	2,994,173
Annual Distribution	2,529,011	2,416,136	2,675,369	2,969,315	2,994,173

Allocation of \$2,416,136

Load Group	Winter kWh	Allocate by	Fixed	Demand
Low Fixed Charge (Domestic Concession)		Fixed Amount	\$ 47.00	
Under 8 kVA (Small Domestic)		Fixed Amount	\$ 47.00	
Under 15 kVA (Standard Domestic)		Fixed Amount	\$ 47.00	
3 x 60 A (Small Commercial)		Fixed Amount	\$ 144.00	
Over 15 kVA Assessed & Nameplate		Demand Factor		\$ 4.95
TOU 400 V	\$ 0.0037	Demand Factor + winter kWh		\$ 5.80
TOU 400 V Remote	\$ 0.0037	Demand Factor + winter kWh		\$ 7.85
TOU 11 kV < 3000kW	\$ 0.0037	Demand Factor + winter kWh		\$ 5.55
TOU 11 kV < 3000kW Remote	\$ 0.0037	Demand Factor + winter kWh		\$ 6.15



LINETRUST SOUTH CANTERBURY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 AUGUST 2006

	NOTE	2006	2005
INCOME			
Dividends Received			
Alpine Energy Ltd - Ordinary	1	2,727,649	2,644,993
		2,727,649	2,644,993
Interest Received			
Westpac	2	3,935	1,988
ANZ Bank	2	190,727	152,126
		194,662	154,114
		2,922,311	2,799,107
TOTAL GROSS INCOME			
Trustees Remuneration		46,460	42,815
Trustees Reimbursements		9,517	15,378
Accountancy		5,906	4,781
Advertising		9,976	9,063
Audit Fees		1,125	956
Bank Charges		99	105
Conference & Seminar Expenses		10,674	-
Consultancy Fees		-	9,900
Distribution Costs		6,588	3,148
Energy Trusts of New Zealand		1,519	3,450
Meeting Expenses		665	890
Printing Postage & Stationery		808	1,179
Secretarial Costs		10,519	7,875
Subscriptions		405	760
Sundry Expenses		68	-
Telephone & Tolls		95	93
Trust Review Expenses		-	2,981
Insurance	7	7,875	11,138
		112,299	114,512
TOTAL EXPENSES			
		2,810,012	2,684,595
NET PROFIT			

LINETRUST SOUTH CANTERBURY

STATEMENT OF MOVEMENTS IN EQUITY FOR THE YEAR ENDED 31 AUGUST 2006

	NOTE	2006	2005
Opening Balance		35,961,300	35,629,700
Revaluation of Investment	3	991,200	331,600
		<u>991,200</u>	<u>331,600</u>
		36,952,500	35,961,300
CLOSING BALANCE		<u>36,952,500</u>	<u>35,961,300</u>



LINETRUST SOUTH CANTERBURY

TRUSTEES INCOME STATEMENT FOR THE YEAR ENDED 31 AUGUST 2006

	NOTE	2006	2005
Opening Balance		3,619,897	3,546,551
Tax Refund Due	5	49,890	37,829
Profit For Year		<u>2,810,012</u>	<u>2,684,595</u>
		2,859,902	2,722,424
		<u>6,479,799</u>	<u>6,268,975</u>
Distribution to Consumers	2,420,928		2,677,175
Household Efficient Lighting Project	1,891		(21,085)
Healthy Homes Project	344,173		82,989
SCDHB Healthy Homes Funding	-		(90,000)
Ecoheater Project	11,518		-
		<u>2,778,510</u>	<u>2,649,079</u>
CLOSING BALANCE		<u>3,701,289</u>	<u>3,619,896</u>

LINETRUST SOUTH CANTERBURY

STATEMENT OF FINANCIAL POSITION AS AT 31 AUGUST 2006

	NOTE	2006	2005
CURRENT ASSETS			
Westpac		9,423	9,718
Sundry Debtors		-	2,140
ANZ : Term Deposit		395,889	-
ANZ : Term Deposit		541,524	-
ANZ : Term Deposit		-	114,520
ANZ : Term Deposit		1,594,409	1,562,861
ANZ : Term Deposit (SCDHB)		56,254	78,921
ANZ : Term Deposit		-	1,840,008
ANZ : Term Deposit		1,080,000	-
Tax Refund Due	5	49,890	37,827
		<hr/>	<hr/>
		3,727,389	3,645,995
INVESTMENTS			
Alpine Energy Ltd Shares	3	36,926,400	35,935,200
		<hr/>	<hr/>
		36,926,400	35,935,200
TOTAL ASSETS			
		<hr/>	<hr/>
		40,653,789	39,581,195
		<hr/>	<hr/>



LINETRUST SOUTH CANTERBURY

STATEMENT OF FINANCIAL POSITION AS AT 31 AUGUST 2006

	NOTE	2006	2005
CURRENT LIABILITIES			
		-	-
TRUSTEES INCOME ACCOUNT			
As Scheduled	3,701,289		3,619,896
		3,701,289	3,619,896
EQUITY			
As Per Statement	36,952,500		35,961,300
		36,952,500	35,961,300
TOTAL LIABILITIES AND EQUITY		40,653,789	39,581,196

LINETRUST SOUTH CANTERBURY

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 AUGUST 2006

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Was Provided From:		
Dividends Received	2,727,649	2,644,993
Interest Received	196,770	152,007
Tax Refund	37,829	32,589
	<u>2,962,248</u>	<u>2,829,589</u>
Cash Was Applied To:		
Other Operating Expenses	112,267	114,545
	<u>112,267</u>	<u>114,545</u>
NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES	2,849,981	2,715,044
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Was Applied To:		
Purchase of Investments	71,766	65,471
	<u>71,766</u>	<u>65,471</u>
NET CASH INFLOW (OUTFLOW) FROM INVESTING ACTIVITIES	(71,766)	(65,471)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Was Provided From:		
Household Efficient Lighting Project	-	21,085
SCHDB Healthy Homes Funding	-	90,000
	<u>-</u>	<u>111,085</u>
Cash Was Applied To:		
Distribution to Consumers	2,420,928	2,677,175
Household Efficient Lighting Project	1,891	-
Healthy Homes Project	344,173	82,989
Ecoheater Project	11,518	-
	<u>2,778,510</u>	<u>2,760,164</u>
NET CASH INFLOW (OUTFLOW) FROM FINANCING ACTIVITIES	(2,778,510)	(2,649,079)
NET INCREASE (DECREASE) IN CASH HELD	(295)	494
Opening Bank Balance	9,718	9,223
CLOSING BANK BALANCE	9,423	9,717



LINETRUST SOUTH CANTERBURY

STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 AUGUST 2006

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 2006

1. DIVIDENDS RECEIVED

	2006	2005
Gross Dividend	\$4,071,118	\$3,947,751
Imputation Credit	\$1,343,469	\$1,302,758
Net Dividend Received	\$2,727,649	\$2,644,993

2. INTEREST RECEIVED

	2006	2005
Gross Interest	\$244,552	\$191,943
Resident Withholding Tax	\$49,890	\$37,829
Net Interest Received	\$194,662	\$154,114

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 2006 Alpine Energy Ltd Annual Report.

An Independent Valuation under N Z Equivalents to International Financial Reporting Standards has indicated a valuation of \$2.86 per share or \$47,279,252 for the Trust's 40% shareholding in Alpine Energy Ltd.

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

	2006	2005
Net Profit as Reported	\$2,810,012	\$2,684,595
Increase (decrease) in Accounts Payable	\$ nil	\$ nil
Decrease (increase) in Accounts Receivable	\$ 2,140	(\$2,140)
Taxation Refunded (Paid)	\$37,829	\$32,589
Net Cash Flows from Operating Activities	\$2,849,981	\$2,715,044



LINETRUST SOUTH CANTERBURY

NOTES TO THE ACCOUNTS (CONTINUED) FOR THE YEAR ENDED 31 AUGUST 2006

5. TAXATION

	2006	2005
Profit as per Accounts	\$2,810,012	\$2,684,595
Gross Up Interest and Dividends	\$1,393,359	\$1,340,587
Loss Brought Forward From Last Year	\$(202,687)	\$(280,118)
Taxable Income	\$4,000,684	\$3,745,064
Tax on Income at 33c	\$1,320,226	\$1,235,871
Application of Imputation Credits	\$1,343,469	\$1,302,758
Resident Withholding Tax	\$49,890	\$37,829
Taxation Payable (Refundable)	\$(49,890)	\$(37,829)

IMPUTATION CREDITS

Imputation Credits attached to Dividends Received	\$1,343,469	\$1,302,758
Used for Tax on Income	\$1,320,226	\$1,235,871
Balance	\$23,243	\$66,887
Converts to loss carried forward against future income	\$70,434	\$202,687

6. CONTINGENT LIABILITIES, CAPITAL EXPENDITURE

There are no contingent liabilities.

The Trust is committed to the completion of Healthy Homes Project. The total value of expenditure committed is \$317,400 per annum for three years.

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

2006 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 2006 to 31 March 2007 and the two succeeding financial years.

(a) The Objectives of the Company

n Mission

To ensure continuing commercial success by:

- Providing safe, efficient, reliable and cost-effective energy delivery that promotes efficient and sustainable energy use.
- 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.

- Human Resources

To be regarded as a fair and reasonable employer in our region and a company for whom staff are proud to work.

- 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 an associate company, NetCon 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:

	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>
(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:	\$2.25	\$2.30	\$2.35
(iii) Earnings per Share:	19.0 cents	19.5 cents	19.5 cents
(iv) Dividend per Share:	16.5 cents	16.5 cents	16.5 cents

Financial Projections

	\$M	\$M	\$M
Revenue	31.7	31.5	32.2
Operating Expenses	<u>18.9</u>	<u>19.6</u>	<u>20.4</u>
Operating Surplus before Tax	12.8	11.9	11.9
Income Tax	<u>4.8</u>	<u>4.7</u>	<u>4.8</u>
Operating Surplus after Tax	8.0	7.2	7.1
Associated Entities	<u>0.8</u>	<u>0.9</u>	<u>1.0</u>
Net Surplus	8.8	8.1	8.1
Shareholders' Funds	94.9	96.2	97.5
Current Assets	2.1	2.3	2.3
Non-current Assets	<u>112.3</u>	<u>118.0</u>	<u>123.8</u>
Total Assets	114.4	120.3	126.1
Current Liabilities	1.8	2.3	2.8
Non-current Liabilities	<u>17.7</u>	<u>21.8</u>	<u>25.8</u>
Total Liabilities	19.5	24.1	28.6
Net Assets	94.9	96.2	97.5
Capital Expenditure	9.1	9.8	9.9



(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 either a dividend of 16.5 cents per share or not less than 90% of consolidated tax paid profit, excluding customer capital contributions, whichever is the greater.

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 5% 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.

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.

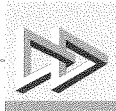
Statement of cash flows

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.

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AUDIT REPORT

To the Readers of the financial report of the LineTrust South Canterbury:

We have audited the financial report on pages 6 to 14. The financial report provides information about the past financial performance of the Trust and its financial position as at 31 August 2006. The information is stated in accordance with the accounting policies set out on page 12.

Trust Board Responsibilities

The Trust Board 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 2006 and of the results of operations for the 12 months ended 31 August 2006.

Auditors' Responsibilities

It is our responsibility to express an independent opinion on the financial report presented by the Trust Board 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 Trust Board 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 information and explanations 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 examination of those records: and
- * the financial report on pages 6 to 14.
 - complies with generally accepted accounting practice;
 - gives a true and fair view of the financial position of the Trust as at 31 August 2006 and the results of its operations for the 12 months ended on that date.

Our audit was completed on 25 October 2006 and our unqualified opinion is expressed as at that date.

Auditors Martin Wakefield

Address (city): TIMARU

