

MARLBOROUGH LINES LIMITED - LINES BUSINESS

Financial Statements Prepared in Accord with the Electricity Information Disclosure Requirements 2004

NOTES TO THE FINANCIAL STATEMENTS

For The Year Ended 31 March 2004

1. STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with, and for the sole purpose of, requirement 6 of the Electricity Information Disclosure Requirements 2004. Accordingly these financial statements are for the Line Business Activities of Marlborough Lines Limited only. Marlborough Lines' contracting and investments business, with their associated revenue and costs, have been removed from these Financial Statements in accordance with the Requirements. These accounts are not comparable with the consolidated financial statements prepared and published with the Company's Annual Report. These accounts cannot and should not be used to assess the actual performance of the Company as they are prepared for the sole purpose of complying with the requirements. The contracting and other business activities which are removed from these accounts are required to function separately and produce commercial rates of return but will continue to be a core part of Marlborough Lines' activities.

The financial statements have been prepared on the basis of historical cost with the exception of certain items for which specific accounting policies are identified.

1.1 Consolidation of Subsidiaries

Marlborough Lines Limited's 2003 disclosure accounts were prepared in accord with the previous regulations which required the company to consolidate its Lines business accounts with those of OtagoNet with which it had a 'prescribed business relationship'. The current requirements do not contain this stipulation and so these accounts include only Marlborough Lines Limited Lines business data for both current year and comparative values.

1.2 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.

1.3 Income Tax

Income tax expense recognises the current obligations and all amounts arising from differences between the accounting results and assessable income for the period. This is the liability method applied on a comprehensive basis.

1.4 Receivables

Receivables are stated at the amount they are expected to realise. An estimate for doubtful debts is made and bad debts are written off during the year in which they are identified.

1.5 Inventories

Inventories predominantly comprise network system spares and materials and are valued on the basis of the lower of cost and net realisable value. Cost is determined on the basis of weighted average of purchase costs. Due allowance is made for damaged and obsolete inventory. Work in progress comprises the cost of direct materials and labour together with chargeable overheads.

1.6 Plant, Property and Equipment and Depreciation

Distribution system assets are valued at depreciated replacement cost. Land and buildings are valued at net current value. All revaluation surpluses are transferred directly to the asset revaluation reserves. A number of gifted small areas of land typically used for pad mounted substation sites were bought into the company's financial records as at 31 March 2004. The credits arising from these entries were categorised as revenue and included in the Statement of Financial Performance. All other plant property and equipment is recorded at cost. The cost of assets constructed by the Company includes all materials used in construction, direct labour and direct overheads.

Where commitments arise offshore for capital purchases the exchange rates are fixed forward to minimise foreign currency risk. Any exchange variations are included in the statement of financial performance.

Plant property and equipment is depreciated in order to write off the cost less any estimated residual value over the expected economic lives. Depreciation rates are as follows:

Buildings - Straight line over 40 to 70 years

Reticulation System - Straight line over 15 to 70 years

Plant Equipment and Motor Vehicles - Diminishing value basis 2 to 20 years

1.7 Research and Investigation Expenditure

Research and investigation costs are charged to expense in the year in which they are incurred. Development expenditure is capitalised to the extent that future benefits are expected to accrue.

1.8 Employee Entitlements

Employee entitlements to salaries and wages, annual and long service leave and other benefits are recognised when they accrue to employees. Allowance is made for the present value of future staff retirement gratuity benefits. The calculations provide also for the probability of the employees completing the appropriate period of service.

1.9 Financial Instruments

Financial instruments carried in the statement of financial position include cash and bank balances, receivables and trade creditors. These instruments are generally carried at their estimated fair value. For example receivables are carried net of estimated doubtful receivables. The Company may also on occasions enter into foreign currency forward exchange contracts, in order to reduce exposure to fluctuations in foreign currency values in respect of equipment sourced offshore.

1.10 Foreign Currency Transactions

Transactions denominated in foreign currencies are translated into the reporting currency using the exchange rate in effect at the transaction date. Monetary items receivable or payable in a foreign currency, other than those resulting from short term transactions covered by forward exchange contracts, are translated at balance date at the closing rate. For transactions covered by short term forward exchange contracts, the rates specified in those contracts are used as the basis for measuring and reporting the transaction. Exchange differences on foreign currency balances are recognised in the Statement of Financial Performance.

1.11 Changes in Accounting Policies

In accord with the requirements of the Institute of Chartered Accountants of New Zealand's Financial Reporting Standard FRS-3 Marlborough Lines Limited revalued its network system assets on the basis of Depreciated Replacement Cost (DRC) as at 1 April 2003. Land and buildings were revalued to net current value as at 1 April 2003 as determined by a registered valuer as part of the same revaluation exercise. Network system assets were previously valued at historic cost less accumulated depreciation. Land and buildings were previously valued at historic cost with the exception of a small number of buildings previously revalued in 1985. Depreciation rates on buildings and network system assets have been adjusted to recognise expected economic life of the revalued asset.

Marlborough Lines Limited has also in this year's financial statements included distribution assets vested from consumers. The fair value of these assets together with capital contributions received has been credited to the statement of Financial Performance. The value of vested assets and capital contributions credited is \$2.14m (2003 \$280,378 Capital Contributions)

All other policies have been applied on a basis consistent with previous years.

Requirement 14 states that "information (if any) relating to financial and efficiency performance measures ... in respect of the previous 3 financial years ... must be adjusted so as to be consistent with accounting policies applied in the current financial year". Marlborough Lines Limited is not able to comply with this requirement as the value of vested assets (excluding Capital Contributions) was not captured for previous years.

	2004	2003
	\$000's	\$000's
2. OPERATING REVENUE		
Other operating revenue includes:		
Donated Assets	1,800	
Capital Contributions	426	
Other operating revenue	8	264
	<u>2,234</u>	<u>264</u>

	2004	2003
	\$000's	\$000's
3. INCOME TAX		
3.1 Income Tax Expense		
Operating Surplus before Taxation	2,271	1,883
Add/(Deduct)	-	-
Non Deductible Costs	3,905	521
Non Assessable Revenue	(2,656)	(0)
Taxable Income	3,520	2,403
Taxation Charge @ 33%	1,162	793
Prior Year Under/(Over) Provision	(2)	(188)
Tax Expense	1,159	605
The Income Tax Expense is represented by:		
Tax Payable in Respect of the Current Year	1,159	633
Deferred Tax Liability	-	-
	1,159	633
3.2 Future Income Tax Benefits / Deferred Taxation		
Balance at Beginning of Year	462	(80)
Prior Year Adjustments	-	542
Deferred Tax Arising on Revaluation	4,533	-
Deferred Tax Arising on Timing Differences	-	-
Balance at End of Year	4,996	462
4. EARNINGS PER SHARE		
Earnings per share is calculated by dividing the net surplus after taxation by the average number of shares on issue during the year.		
Average number of shares on issue	8,371	8,371
Net surplus per share	13 cents	15 cents
5. SHARE CAPITAL		
5.1 Marlborough Lines shares are held by the Trustees to the Marlborough Electric Power Trust.		
5.2 Issued and Paid up Capital ordinary \$1.00 shares	8,736	8,006
6. RETAINED EARNINGS / REVALUATION RESERVES		
Balance at Beginning of Year	15,978	14,700
Net Surplus for the Year	1,112	1,278
Revaluations	89,819	-
Transfers to/from Other business	(36)	-
Dividends Provided	(150)	-
Balance at End of Year	106,723	15,978
Distribution system assets were revalued as at 1 April 2003 to depreciated replacement cost (DRC). This valuation was completed in accord with the requirements of FRS 3 by PricewaterhouseCoopers and their valuation report is dated 11 May 2004. The company's land and building assets were also revalued to net current value. The total revaluation credit to reserves of \$94.352m was offset by a charge to deferred tax of \$4.533m representing the deferred tax liability on accumulated tax depreciation on revalued assets at 31 March 2003. The revaluation reserve comprises revaluations in the following categories:		
Land and Buildings	4,368	-
Reticulation System Assets	85,451	-
	89,819	-

	2004	2003
	\$000's	\$000's
7. <u>ACCOUNTS RECEIVABLE</u>		
The balance of Accounts Receivable comprises:		
Network and other trade debtors including GST	1,225	1,337
8. <u>INVENTORIES</u>		
Reticulation stock	528	287
Some inventories are subject to retention of title clauses.		
9. <u>CREDITORS AND ACCRUALS</u>		
In current liabilities the balance of creditors and accruals comprises:		
Trade Creditors Including GST	1,318	823
Employee Entitlements (Annual Leave)	110	139
Total	1,428	962

10. PLANT PROPERTY AND EQUIPMENT

10.1 Valuation

The latest Government valuations for land and improvements dated September 2002 show the following values:

Land	1,871
Improvements	3,827

10.2 Depreciation Charges

Buildings	124	114
Reticulation System	3,724	1,408
Plant Equipment and Motor Vehicles	333	186
Total	4,181	1,708

10.3

	Valuation	Accumulated Depreciation	31 Mar 2004 Net Book Value
Land	3,200	0	3,200
Buildings	4,358	100	4,258
Reticulation System	109,505	3,782	105,723
Plant and Equipment	2,830	2,064	766
Motor Vehicles	348	220	128
Capital Works in Progress	585	0	585
	120,826	6,166	114,660

Distribution system assets belonging to the company were revalued as at 1 April 2003 to depreciated replacement cost as assessed and certified by independent valuers PricewaterhouseCoopers. Land and buildings belonging to the company were revalued to net current value as at 1 April 2003 in accord with values provided by Ian Lyall and Chris Orchard of Hadley and Lyall Ltd. Upon revaluation a deferred tax liability totalling \$4.533m was created in respect of accumulated tax depreciation on revalued assets at 1 April 2003. The revaluation reserve balance at 31 March thus reflects the total revaluation adjustment of \$94.352m less the deferred tax adjustment of \$4.533m.

	Cost	Accumulated Depreciation	31 Mar 2003 Net Book Value
Land	453	-	453
Buildings	2,826	(843)	1,983
Reticulation System	28,615	(13,076)	15,539
Plant and Equipment	2,241	(1,707)	534
Motor Vehicles	259	(180)	79
Capital Works in Progress	383	-	383
	34,777	(15,806)	18,971

	2004	2003
	\$000's	\$000's
10.4 Annual Valuation Reconciliation Report Year ending 31 March 2004 (Schedule 1 Part 8)		
System fixed assets at ODV at 31 March 2003	76,992	70,828
Add system fixed assets acquired during the Year at ODV	5,660	5,308
Less system fixed assets disposed of during the year at ODV	(892)	(488)
Less depreciation on system fixed assets at ODV	(3,847)	(2,752)
Add revaluations of system fixed assets	22,483	4,097
Equals system fixed assets at ODV at 31 March 2004	<u>100,396</u>	<u>76,992</u>

11. PROVISIONS

The following movements were recorded in provisions held by Marlborough Lines Limited during the 2003/2004 financial year.

	Opening balance	movement	Closing balance
Provision for Staff Leave	139	(29)	110
Provision for Retirement Gratuities	102	(18)	84

Employee entitlements in non current liabilities recognises the Company's liability for retirement gratuities.

12. COMMITMENTS

12.1 Capital Commitments.

Marlborough Lines capital expenditure committed to at balance date but not recognised in the financial statements

	968	615
--	-----	-----

12.2 Lease Commitments

Commitments under present lease agreements over the next five years are as follows: 2005 - \$14,000, 2006 - \$4,500, 2007 - \$4,500, 2008 - \$4,500, 2009 - \$4,500. The Company will continue to incur lease costs for a number of substation and repeater sites beyond 2009. The lease costs for these sites is not able to be quantified at the present time.

13. CONTINGENT LIABILITIES

Marlborough Lines has no contingent liabilities as at 31 March 2004. (2003 Nil)

14. FINANCIAL INSTRUMENTS

14.1 Credit Risk

Credit risk is the risk that an outside party will not be able to meet its obligations to the Company. Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash deposits, short term deposits and trade receivables. The maximum credit risk is the book value of these financial instruments; however, the Company considers the risk of non-recovery of these amounts to be minimal. The Company places its cash deposits with high credit quality financial institutions. Credit risk exists in respect of accounts receivable. The Company is able to impose bond requirements on retailers trading across its network in accord with the use of system agreements held with the retailers.

14.2 Interest Rate Risk

Interest rate risk is the risk that interest rates will change, increasing or decreasing the cost of borrowing or lending. The Groups short term deposits are at fixed interest rates and mature within one year.

14.3 Currency Risk

Currency risk is the risk that amounts payable in foreign currencies will change due to movements in exchange rates. The Company enters into foreign currency forward exchange contracts in order to manage its exposure to fluctuations in foreign currency exchange rates on the purchase of specific plant and equipment items from overseas suppliers. Total cover under forward exchange contracts at balance date was \$nil (2003 - \$nil).

14.4 Fair Values

The carrying amount of cash, short term deposits and trade receivables reflect their fair values. The fair value of foreign currency forward exchange contracts represents the estimated amount the Company would receive on termination of the contract at balance date, thereby taking into account the unrealised gain of open contracts.

15. RELATED PARTIES

Transactions with these related parties are for the period 1 April 2003 to 31 March 2004. No related party debt has been written off or forgiven

	2004	2003
	\$000's	\$000's
15.1 Marlborough Electric Power Trust		
The Trustees of the Marlborough Electric Power Trust hold all of the Company's shares. The Company may from time to time advance funds of a short term nature to the Trust; the Company also pays dividends to the same Trust.		
Dividends Paid to the Trust	150	-
Administrative Costs Charged to the Trust	-	1
Amounts Owed by the Trust to the Company as at 31 March	-	1

15.2 Parties Associated with Directors

The company undertook one transaction with a party associated with a director of Marlborough Lines Limited. The transaction involved the provision of legal services. The transaction was at commercial rates.

D W R Dew (Dew and Company)	1	-
P J Radich (Radich Dwyer)	-	10

15.3 Marlborough Lines' Contracting business

The contracting division of Marlborough Lines Limited has provided the following services at commercial rates:

Construction of sub transmission assets	9	5
Construction of zone substations	78	140
Construction of distribution lines and cables	191	127
Construction of medium voltage switchgear	15	19
Construction of distribution substations	23	14
Construction of low voltage reticulation	134	94
Maintenance of assets	1,103	1,268
Consumer Connections & Disconnections	-	-
Other services	697	393

The Contracting Division of Marlborough Lines Limited has paid for the following:

Other services	109	460
----------------	-----	-----

At year end there were no outstanding balances (31 March 2003 nil)

16. EVENTS SUBSEQUENT TO BALANCE DATE

The Directors are not aware of any matter or circumstance since the end of the financial year not otherwise dealt with in these financial statements, that has or may significantly affect the operations of Marlborough Lines.