

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 2005

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 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.

1.2 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.

1.3 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.

1.4 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.

1.5 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.

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

1.6 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.

1.7 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.

1.8 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.

1.9 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.

1.10 Changes in Accounting Policies

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

2. OPERATING REVENUE

Other operating revenue includes:

Donated Assets

Capital Contributions

Other operating revenue

	2005 \$000's	2004 \$000's
Donated Assets	1,932	1,800
Capital Contributions	481	426
Other operating revenue	27	8
	<u>2,440</u>	<u>2,234</u>

3. INCOME TAX

3.1 Income Tax Expense

Operating Surplus before Taxation

Add/(Deduct)

Non Deductible Costs

Non Assessable Revenue

Taxable Income

Taxation Charge @ 33%

Prior Year Under/(Over) Provision

Tax Expense

Operating Surplus before Taxation	3,158	2,271
Add/(Deduct)	-	-
Non Deductible Costs	3,975	3,905
Non Assessable Revenue	(2,962)	(2,656)
Taxable Income	4,171	3,520
Taxation Charge @ 33%	1,376	1,162
Prior Year Under/(Over) Provision	-	(2)
Tax Expense	<u>1,376</u>	<u>1,159</u>

The Income Tax Expense is represented by:

Tax Payable in Respect of the Current Year

Deferred Tax Liability

Tax Payable in Respect of the Current Year	856	1,159
Deferred Tax Liability	520	-
	<u>1,376</u>	<u>1,159</u>

	2005	2004
	\$000's	\$000's
3.2 Future Income Tax Benefits / Deferred Taxation		
Balance at Beginning of Year	4,996	462
Prior Year Adjustments	(8)	-
Deferred Tax Arising on Revaluation	-	4,533
Deferred Tax Arising on Timing Differences	520	-
Balance at End of Year	5,508	4,996
4. <u>EARNINGS PER SHARE</u>		
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	8,736	8,371
Net surplus per share	20 cents	13 cents
5. <u>SHARE CAPITAL</u>		
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	8,736
6. <u>RETAINED EARNINGS / REVALUATION RESERVES</u>		
Retained Earnings Balance at Beginning of Year	17,049	15,978
Net Surplus for the Year	1,781	1,112
Transfers to/from Other business	-	109
Dividends Provided	(150)	(150)
Retained Earnings Balance at End of Year	18,680	17,049
Revaluations Reserve Balance at Beginning of Year	89,819	-
Revaluations	-	89,819
Revaluations Reserve Balance at End of Year	89,819	89,819
Retained Earnings and Revaluations Reserve Balance at End of Year	108,499	106,723
Distribution system assets were revalued as at 1 April 2003 to depreciated replacement cost (DRC). This valuation was completed in accordance 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	4,368
Reticulation System Assets	85,451	85,451
	89,819	89,819
7. <u>ACCOUNTS RECEIVABLE</u>		
The balance of Accounts Receivable comprises:		
Network and other trade debtors	1,520	1,225
GST Receivable	514	-
Total	2,034	1,225
8. <u>CREDITORS AND ACCRUALS</u>		
In current liabilities the balance of creditors and accruals comprises:		
Trade Creditors Including GST	1,417	1,318
Employee Entitlements (Annual Leave)	151	110
Total	1,568	1,428

		2005	2004
		\$000's	\$000's
9.	<u>PLANT PROPERTY AND EQUIPMENT</u>		
9.1	Valuation		
	The latest Government valuations for land and improvements dated September 2002 show the following values:		
	Land	1,871	1,871
	Improvements	3,827	3,827
9.2	Depreciation Charges		
	Buildings	73	124
	Reticulation System	3,889	3,724
	Plant Equipment and Motor Vehicles	653	333
	Total	4,615	4,181

		Valuation	Accumulated Depreciation	31 Mar 2005 Net Book Value
9.3				
	Land	3,201	-	3,201
	Buildings	5,967	(1,712)	4,255
	Reticulation System	110,239	(3,868)	106,371
	Plant and Equipment	4,228	(2,670)	1,558
	Motor Vehicles	285	(25)	260
	Capital Works in Progress	557	-	557
		124,477	(8,275)	116,202

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.

		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

		2005	2004
		\$000's	\$000's
9.4	Annual Valuation Reconciliation Report Year ending 31 March 2005 (Schedule 1 Part 8)		
	System fixed assets at ODV at 31 March 2004	100,396	76,992
	Add system fixed assets acquired during the Year at ODV	4,384	5,660
	Less system fixed assets disposed of during the year at ODV	(349)	(892)
	Less depreciation on system fixed assets at ODV	(3,936)	(3,847)
	Add revaluations of system fixed assets	-	22,483
	Equals system fixed assets at ODV at 31 March 2005	100,495	100,396

10. PROVISIONS

The following movements were recorded in provisions held by Marlborough Lines Limited during the 2004/2005 financial year.

	Opening balance	movement	Closing balance
Provision for Staff Leave	110	41	151
Provision for Retirement Gratuities	84	35	119

11. COMMITMENTS

11.1 Capital Commitments.

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

	2005 \$000's	2004 \$000's
	2,021	968

11.2 Lease Commitments

Commitments under present lease agreements over the next five years for the parent company are presently estimated as follows: less than 1 year - \$11,628, less than 2 years - \$11,628, 3-5 years - \$25,883, greater than 5 years - \$25,770. The Company will continue to incur lease costs for a number of substation and repeater sites beyond 2010.

12. CONTINGENT LIABILITIES

Marlborough Lines has no contingent liabilities as at 31 March 2005. (2004 Nil)

13. FINANCIAL INSTRUMENTS

13.1 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.

13.2 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.

13.3 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 (2004 - \$nil).

13.4 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.

14.	<u>RELATED PARTIES</u>	2005	2004
		\$000's	\$000's
	Transactions with these related parties are for the period 1 April 2004 to 31 March 2005. No related party debt has been written off or forgiven		
14.1	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	150
	Administrative Costs Charged to the Trust		-
	Amounts Owed by the Trust to the Company as at 31 March		-
14.2	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	<1
14.3	Marlborough Lines' Contracting business		
	The contracting division of Marlborough Lines Limited has provided the following services at commercial rates:		
	Construction of sub transmission assets	5	9
	Construction of zone substations	105	78
	Construction of distribution lines and cables	286	191
	Construction of medium voltage switchgear	24	15
	Construction of distribution substations	20	23
	Construction of low voltage reticulation	124	134
	Maintenance of assets	1,191	1,103
	Consumer Connections & Disconnections	-	-
	Other services	535	697
	The Contracting Division of Marlborough Lines Limited has paid for the following:		
	Other services	94	109
	At year end there were no outstanding balances (31 March 2004 nil)		
15.	<u>EVENTS SUBSEQUENT TO BALANCE DATE</u>		
	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.		