

MARLBOROUGH LINES LTD - LINES BUSINESS
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2003

1. STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with, and for the sole purpose of, the requirements of regulation 6 of the Electricity (Information Disclosure) Regulations 1999 and amendments to those regulations.

Accordingly these financial statements are for the Line Business Activities of Marlborough Lines Limited consolidated with OtagoNet. Marlborough Lines' Contracting and Investment activities, with their associated revenue and costs, have been removed from these Financial Statements in accordance with the Regulations.

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 meeting the requirements of the regulations. 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 Financial Statements

On 1 July 2002 Marlborough Lines' Investment Business, through its wholly owned subsidiary Southern Lines Limited, purchased a 51% share in the unincorporated joint venture OtagoNet. OtagoNet is a Balclutha-based lines business. Thus, under S3 of the regulations, a prescribed business relationship exists between Marlborough Lines and OtagoNet.

In accordance with sections 7 and 8 of the regulations these financial statements are a 100% consolidation of Marlborough Lines' 'Lines' Business financial statements for the year and OtagoNet's financial statements for the nine months from 1 July 2002 to 31 March 2003. While meeting the requirements of the Regulations this treatment does not comply with generally accepted accounting practice.

The statutory financial statements published with the company's annual report reflected a proportional (51%) consolidation of OtagoNet as required by SSAP25 – "Accounting for Joint Ventures". The impact on the financial statements of the different treatments of consolidating OtagoNet is summarised below:

	OtagoNet Consolidation		
	These Financial Statements	Statutory Financial Statements	
	100%	51%	Variance
Net Surplus Before Tax	2,018	1,029	(989)
Total Operating Revenue	10,049	5,125	(4,924)
Total Operating Expenditure	8,031	4,096	(3,935)
Total Assets	108,806	55,491	(53,315)
Total Liabilities	1,188	606	(582)
Equity	107,618	54,885	(52,733)

Comparative figures for 2002 relate to the 'Lines' business of Marlborough Lines Limited only.

The activities of the Parent have not been separately disclosed in these financial statements as that is not required under the Regulations. Again this represents a departure from generally accepted accounting practice.

1.2 Goodwill

The excess cost over the fair value at the date of acquisition of the assets of the unincorporated joint venture is capitalised as goodwill and amortised on a straight-line basis over the period of expected benefit. This period has been assessed as 20 years from the date of acquisition. The carrying value for goodwill is reviewed annually and adjusted as considered necessary.

1.3 Goods And Services Tax (GST)

The statements of financial performance and 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.

1.4 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.

1.5 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.

1.6 Inventories

Inventories 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.

1.7 Fixed Assets and Depreciation

Marlborough Lines' fixed assets are recorded at cost. The Network assets of OtagoNet, included through the consolidation process, have been valued at depreciated replacement cost in compliance with FRS 3. 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. All costs and exchange variations are included in the capitalised cost of the asset.

Depreciation rates used are in accord with the determinations issued from time to time by the Inland Revenue Department. These rates are as follows:

Buildings (concrete)	1 % on cost price
Buildings (wooden)	2 - 3.6 % on cost price
Reticulation system (global)	5 % on cost price
Reticulation system (from 1.4.87)	5 - 18 % on diminishing value
Substation equipment	7.5 - 39.6 % on diminishing value
Metering and control equipment	10 - 14.4 % on diminishing value
Plant	10 - 62.5 % on diminishing value
Motor vehicles, office, communications	18 - 48 % on diminishing value

1.8 Research and Development 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.

1.9 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.

1.10 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.

1.11 Changes in Accounting Policies

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

	2003	2002
	\$000	\$000
2. INCOME TAX		
2.1 Income Tax Expense		
Net Profit before Tax as per accounts	2,098	(505)
Non-deductible costs	614	52
Non-assessable income	(428)	-
Taxable Income	2,284	(453)
Prior Year adjustment	-	(36)
Taxation charge @ 33%	754	(161)

Income Tax Expense is represented by:

Tax (refund) / payable in respect of the current year	(281)	(144)
(Deferred Tax) / Future income tax benefits	1,035	(17)

	2003	2002
	<u>\$000</u>	<u>\$000</u>
2.2 Future Income Tax Benefits / Deferred Taxation		
Balance at beginning of year	80	(80)
Prior year adjustments	(525)	143
Future benefits (deferred tax) arising on timing differences	(1,035)	17
Balance at end of year	(430)	80

3. SHARE CAPITAL

3.1 Marlborough Lines' shares are held by the trustees of the Marlborough Electric Power Trust.

3.2 Share Capital

Issued and Paid up Capital ordinary \$1.00 shares	8,736	8,736
---	-------	-------

3.3 Minority Interests

Balance at beginning of year	-	-
Capital contributions	53,165	-
Share of net surplus	989	-
Less dividends paid to minority interest	(1,421)	-
Balance at end of year	52,733	-

3.4 Contributions from Owners

Contributions from owners related to a transfer by Marlborough Lines' 'Other' business to the 'Lines' Business for the acquisition of OtagoNet.

4. ACCOUNTS RECEIVABLE

The balance of Accounts Receivable comprises:

Network and other trade debtors, incl GST	2,845	1,378
---	-------	-------

5. INVENTORIES

Reticulation stock - excluding essential spares which are included in System Fixed Assets	287	260
---	-----	-----

Some inventories are subject to retention of title clauses.

6. CREDITORS AND ACCRUALS

6.1 In current liabilities the balance of payables and accruals comprises:

Trade Creditors and Accruals, incl GST	2,026	1,127
Employee Entitlements	139	190

6.2 In non-current liabilities payables and accruals represent the Company's liability for retirement gratuities.

7. FIXED ASSETS

7.1 Schedule 1 Part 8

Annual Valuation Reconciliation Report Year ending 31 March 2003

System fixed assets at ODV at 31 March 2002	70,828	69,786
Add system fixed assets acquired during the Year at ODV	60,395	6,166
Less system fixed assets disposed of during the year at ODV	(558)	(1,233)
Less depreciation on system fixed assets at ODV	(4,710)	(2,569)
Add revaluations of system fixed assets	17,745	(1,322)
Equals system fixed assets at ODV at 31 March 2003	143,700	70,828

7.2 Table of Fixed Assets as at 31 March 2003

	Cost	Depreciation	Accumulated Depreciation	Net Book Value
Land	540	-	-	540
Buildings	3,638	(124)	(853)	2,785
Reticulation System	122,210	(3,886)	(15,553)	106,657
Plant and Equipment	2,241	(187)	(1,708)	533
Motor Vehicles	259	1	(180)	79
Capital Works under Construction	1,191	-	-	1,191
Totals	130,079	(4,196)	(18,294)	111,785

	Cost	Depreciation	accumulated depreciation	Net Book Value
as at 31 March 2002				
Land	442	-	-	442
Buildings	2,948	(92)	(789)	2,159
Reticulation System	26,021	(1,178)	(11,608)	14,413
Plant and Equipment	2,014	(151)	(1,520)	494
Motor Vehicles	308	(39)	(218)	90
Capital Works under Construction	214	-	-	214
Totals	31,947	(1,460)	(14,135)	17,812

Capital work under construction includes transfer payments and purchases from outside organisations as well as from the 'Other' Business.

	2003 \$000	2002 \$000
8. <u>GOODWILL</u>		
Goodwill arising on acquisition	15,139	-
Less amortisation of goodwill	(567)	-
Balance at end of year	14,572	-

9. PROVISIONS

The following movements were recorded in provisions held by the business during the 2002/2003 financial year:

	opening balance	movement	closing balance
Provision for staff leave	190	(51)	139
Provision for retirement gratuities	52	50	102
Other Miscellaneous *	-	220	220

* This provision was created by OtagoNet for site restoration following contamination from the failure of capacitor equipment.

	2003 \$000	2002 \$000
10. <u>COMMITMENTS</u>		
10.1 <u>Capital Commitments</u>		
Capital expenditure committed to but not recognised in the financial statements.	615	473

10.2 Lease Commitments

Commitments under present lease agreements over the next five years are as follows:

2004 - \$14,000; 2005 - \$14,000; 2006 - \$4,500; 2007 - \$4,500; 2008 - \$4,500

The Company will continue to incur lease costs for a number of substation and repeater sites beyond 2008. The lease costs for these sites cannot be quantified at the present time.

11. TERM LOANS

As part of the acquisition process for investment in the OtagoNet joint venture a term debt facility was negotiated by Marlborough Lines during the year to provide additional funding.

	Facility Limit	Maturity Date	Drawn Down As at 31 March 2003
Bank Term Debt Facility	\$26.0m	30-Jun-05	\$23.0m

No security has been issued by Marlborough Lines in respect of the company's loans. Southern Lines Limited has provided a guarantee.

The interest rate is linked to the 90-Day Bank Bill Rate.

The effective interest rate at 31 March 2003 was 6.18%.

12. CONTINGENT LIABILITIES

The company has no contingent assets or liabilities as at 31 March 2003. (2002: 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 systems 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 company's 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. The company had no cover under forward exchange contracts at 31 March 2003 (2002: nil).

13.4 Fair Values

The carrying amount of cash, short term deposits and trade receivables reflect their fair values.

14 RELATED PARTIES

Transactions with these related parties are for the period 1 April 2002 to 31 March 2003.

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. There were no related party transactions with the Trust during the year (2002: nil).

14.2 Parties Associated With Directors

The company contracted with parties associated with certain directors of Marlborough Lines Limited. These transactions involve the provision of legal and consulting services. All transactions were at commercial rates.

	2003	2002
	<u>\$000</u>	<u>\$000</u>
PJ Radich (Radich Dwyer Hardy-Jones Clark)	10	31

14.3 Contracting Division Of Marlborough Lines

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

Construction of sub transmission assets	5	18
Construction of zone substations	140	163
Construction of distribution lines and cables	127	77
Construction of medium voltage switchgear	19	22
Construction of distribution substations	14	10
Construction of low voltage reticulation	94	262
Maintenance of assets	1,268	1,411
Other services	393	593
The Contracting Division of Marlborough Lines Limited has paid for the following:		
Other services	460	446

There were no outstanding balances at 31 March 2003 (31 March 2002: nil).

14.4 Otago Power Services Ltd

Otago Power Services Ltd (OPSL) has provided the following services at commercial rates

Construction of sub transmission assets	358	-
Construction of zone substations	35	-
Construction of distribution lines and cables	430	-
Construction of medium voltage switchgear	10	-
Construction of distribution transformers	88	-
Construction of low voltage reticulation	54	-
Maintenance of assets	798	-
OPSL has paid for the following:		
Other services	10	-
Marlborough Lines' Lines Business owed OPSL at 31 March	345	-
OPSL owed Marlborough Lines at 31 March	1	-