# ALPINE ENERGY LIMITED

# ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2012

# MISSION STATEMENT

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 natural resources to support the production and consumption of electricity.
- Providing asset management services.

# CONTENTS



# DIRECTORY

## DIRECTORS:

Mr I..J. Bowan (Chairman)
Mr A. J. France
Mr W. Larsen
Mr R.D. Ramsay
Mr S.R. Thompson

## MANAGEMENT

Mr A.G. Tombs (Chief Executive)
Mr E.J. Powell (Corporate Services Manager)
Mr W.T. Rawlins (Network Manager)
Mr S.M. Small (Compliance and Training Manager)
Mr C.J. Blake (IT Project Manager)

## REGISTERED OFFICE:

Meadows Road,
Washdyke, Timaru
Ph: (03) 687 4300
Fax:(03) 684 8261
**Website: www.alpineenergy.co.nz**

## AUDITOR:

Mr M. Bramley, PricewaterhouseCoopers,
Christchurch
On behalf of the Controller and Auditor-General

## SOLICITORS:

Petrie Mayman Clark, Timaru

## LEGAL COUNSEL:

Quentin Hix, Timaru

# BOARD OF DIRECTORS AND MANAGERS

**Board of Directors**
Back row: - Alister France , Warren Larsen, Rick Ramsay
Front row: - Ian Bowan, Steve Thompson

**Alpine Energy Ltd Managers**
Back row: - Chris Blake, Willem Rawlins, Stephen Small
Front row: - Eoin Powell, Andrew Tombs

*Cable laying*

## OVERVIEW

Overall, Alpine Energy Limited (Alpine) had a satisfactory year despite lower line revenues as a result of less energy delivered across the network. After tax earnings were 3.8% higher than 2010/11 and overall revenue was higher by $1.03 million.

The volume of energy delivered over Alpine's distribution network was 708GWH which against 2010/11 volume was 3.6% lower and was attributed mostly to the wet weather experienced and the less frequent use of irrigation pumps on farming properties.

Capital expenditure (capex) projects progressed well with most large capital expenditure items completed. Including committed funds annual capex totalled $20.96million by 31 March 2012 which was slightly above the planned budget of $20.57million.

Maintenance expenditure (opex) ended the year at $4.66million against a budget of $5.05million.

From a safety perspective there was one lost time injury within the Group. The employee made a full recovery and returned to work after two days.

## FINANCIAL PERFORMANCE

The financial performance for the Group exceeded all the performance targets set in the 2011 Statement of Corporate Intent, with the exception of earnings per share which at 22.6cps was 1.8cps below target. Earnings after tax at $9.35million was 3.8% higher than the level achieved in the previous year ($9.00million).

*Cable jointing*


*Defibrillators*

Lower energy volumes resulted in Network Variable Lines Revenue falling by approximately $1.6million against budget or $0.21million against 2010/11 levels.

On the Expenses side, Transmission decreased marginally, and Depreciation, Amortisation and Impairment also decreased by approximately $0.14million.

New connections remained buoyant throughout the year, and contrary to expectations "customer contributions" exceeded expectations.

## NETWORK OPERATIONS

Major capital works on the network distribution system accounted for expenditure of $20.96 million during the year and included:

- $5.9million associated with Alpine's new Zone Substation at North Street, Timaru
- $3.7million associated with the Rangitata Zone Substation, new 33kV overhead line, and Canal Road tee off
- $2.0million associated with protection upgrades
- $2.0million in new subdivisions and extensions
- $1.5million on line and pole upgrades
- $0.8million in new transformers
- $0.7million Pareora substation transformer installations
- $0.7million Albury 11kV switchboard and ripple plant
- $0.7million associated with Timaru substation upgrades
- $0.4million in upgrading metering sites
- $0.4million associated with communications
- $0.4million Simons Pass upgrade
- $1.7million in numerous small projects
- Major network capital for 2012/13 is budgeted at $16.43million and maintenance is budgeted at $5.35million.

## NETWORK RELIABILITY

Overall reliability for 2011/12 improved significantly against previous years with SAIDI reducing to 162minutes (from 226 in 2010/11) and SAIFI reducing to 1.26 (from 1.71 in 2010/11).

During the year the Commerce Commission (Commission) engaged Strata Energy Consulting Limited (Strata) to review Alpine's reliability performance.

The review was initiated as a result of the Commission's assessment of compliance by electricity distribution businesses against the initial default price-quality path (1 April 2009 to 31 March 2010). The Commission also assessed compliance against the quality standards under the targeted control regime (between 2004/05 and 2008/09).

The Company took a positive approach to the review and cooperated fully and transparently with Strata and the Commission.

In response to the review's findings, Alpine discussed with the Commission steps that the Company is taking, or intends to take including:

- reviewing the treatment of operational expenditure (opex), including investigating why approximately a third of opex spend is currently spent on reactive projects

*Cable pulling*

- commencing a three-five year work programme to improve information management
- resuming live line work based on a new policy and associated procedures following a full investigation into the concerns around safety procedures raised in 2006/07, which had seen live line work cease for a prolonged period, and
- purchasing a mobile diesel generator to reduce the impact of planned outages on consumers.

Alpine has agreed to provide the Commission a report outlining progress at the same time that the Company provides its 2011/12, 2012/13, and 2013/14 annual compliance statements against the default price-quality path.

## NETCON LIMITED

NetCon, a 100% wholly owned subsidiary of Alpine, provides the backbone of contracted field services for Alpine.

The results of NetCon are consolidated into the Group for the twelve month period ending 31st March 2012.

## ROCKGAS TIMARU LIMITED

Alpine has a 50% interest in Rockgas Timaru Limited.

Rockgas Timaru continues to be a successful provider of LPG to South Canterbury. This creates the opportunity for energy users to consider alternative energy options, and to diversify their energy requirements with a viable alternative, particularly for space and water heating.

## FACILITIES AND THE COMMUNITY

As with previous years Alpine continued its active community involvement by sponsoring various facilities and events, which enhance the sporting and recreational life of the region, as well as providing personal development scholarships.

Similarly to last year, in excess of 150 people benefited from personal development scholarships during the year.

## CORE INFRASTRUCTURE

In March 2012 the company re-released its Asset Management Plan (AMP). This was a continuation of the AMP released in March 2010 and March 2011 and

*North Street Switching Station*

was released with particular attention to Regulator (Commerce Commission) requirements as well as attending to changes to load, growth, and augmentation assumptions.

The AMP identifies areas of significant network investment with levels of total annual expenditure being around $14 million for the next two years, after which it sits at less than $9 million until 2021/22.

A number of assets built in the 1950's and 1960's are nearing the end of their expected service life but for the majority of these assets, their general condition is such that they will be able to safely continue service for the next 10 years.

Other assets will be replaced that have served their useful life or have developed defects which will result in their early retirement and replaced with alternative products.

## OTHER BUSINESS

The Company continues to explore opportunities beyond delivering energy to our consumers.

In the 2012/13 financial year the Company intends to conclude assessment of areas of interest in solar, hydro, and micro-wind.

Alpine also has an interest in advanced metering technology and during the year become a shareholder of SmartCo. SmartCo is a company formed by a number of like minded electricity distribution companies looking at the current and future benefits of advanced metering technologies.

## STAFF

Alpine is fortunate to have a highly dedicated and competent team of people who plan, design, operate, control and administer the Group activities.

During the year we welcomed new engineering and support staff and set about securing specific resource to assist the Company in regulatory and pricing work. Recruitment in this area will occur in the first quarter of 2012.

July 2012 will mark the welcoming of a new Corporate Services Manager to take over the reigns from Eoin Powell who after 19 years with the Company has decided to move on to new challenges.

Eoin has provided exemplary service to Alpine during his tenure and the Board and Management wish Eoin and Pat all the very best for the challenges that lie ahead.

## IN CONCLUSION

The Company responded well to the challenges during 2011/12; not the least of which were the completion of high priority network infrastructure projects, more efficient spend in opex, and significant improvement against regulatory quality performance targets.

Alpine is well prepared for continuation of reinforcing and strengthening its core network infrastructure and responding to the needs of current and future generations of South Canterbury consumers.

Alpine's balance sheet remains strong and shareholder value continues to accrue satisfactorily.

We thank you for your continued support and we look forward to completing another successful year.

| | |
|---|---|
| Ian Bowan<br>Chairman | Andrew Tombs<br>Chief Executive Officer |

# TREND STATEMENT FOR THE GROUP

| | 2012 $'000 | 2011 RESTATED $'000 | 2010 RESTATED $'000 | 2009 $'000 | 2008 $'000 |
|---|---|---|---|---|---|
| **FINANCIAL PERFORMANCE** | | | | | |
| Operating Revenue | 39,555 | 38,521 | 38,091 | 38,460 | 35,341 |
| Associate Entities' Earnings | 138 | 128 | 14 | (831) | 544 |
| Operating Surplus before Tax | 12,847 | 13,119 | 14,288 | 16,243 | 13,485 |
| Taxation | (3,496) | (4,118) | (3,997) | ( 3,839) | (2,185) |
| Profit from Operations | 9,351 | 9,001 | 10,291 | 12,404 | 11,300 |
| Shareholder Distribution | 7,563 | 7,815 | 7,794 | 9,402 | 8,741 |
| **FINANCIAL POSITION** | | | | | |
| Current Assets | 3,500 | 3,515 | 6,376 | 11,036 | 10,725 |
| Non-Current Assets | 152,480 | 134,037 | 119,956 | 110,089 | 107,754 |
| Total Assets | 155,980 | 137,552 | 126,332 | 121,126 | 118,479 |
| Liabilities | 47,543 | 31,058 | 20,873 | 20,075 | 20,430 |
| Net Assets | 108,437 | 106,494 | 105,460 | 101,051 | 98,049 |
| Share Capital | 41,328 | 41,328 | 41,328 | 41,328 | 41,328 |
| Retained Earnings | 67,109 | 65,166 | 64,131 | 59,723 | 56,721 |
| Equity | 108,437 | 106,494 | 105,460 | 101,051 | 98,049 |
| **FINANCIAL RATIOS** | | | | | |
| Net Surplus to Average Shareholders' Equity | 8.7% | 8.5% | 10.0% | 12.5% | 11.7% |
| Tangible Assets per Share | $3.79 | $3.33 | $3.06 | $2.93 | $2.87 |
| Earnings per Share (cents) | 22.6 | 21.8 | 24.9 | 30.0 | 27.3 |
| Dividend per Share (cents) | 18.3 | 18.9 | 18.9 | 22.8 | 21.2 |
| **STATISTICS** | | | | | |
| SAIDI (Systems Average interruption | 162 | 226 | 332 | 201 | 150 |
| Duration Index)SAIFI (System Average Interruption | | | | | |
| Frequency Index) | 1.26 | 1.71 | 2.18 | 1.69 | 1.68 |

**Note**: All financial figures have been prepared in accordance with NZ IFRS.

## GENERAL DISCLOSURES

**Principal Activities**

The principal activity of Alpine Energy Limited (the Company) is ownership of its electricity distribution network. The Group, comprising Alpine Energy Limited and its subsidiaries (NetCon Limited and Timaru Electricity Limited) and associated entities (Rockgas Timaru Limited) also undertakes asset management and contracting services.

**Review of Operations**

Operating Revenue of $39.6 million was achieved for the year, 2.7% greater than the previous year.

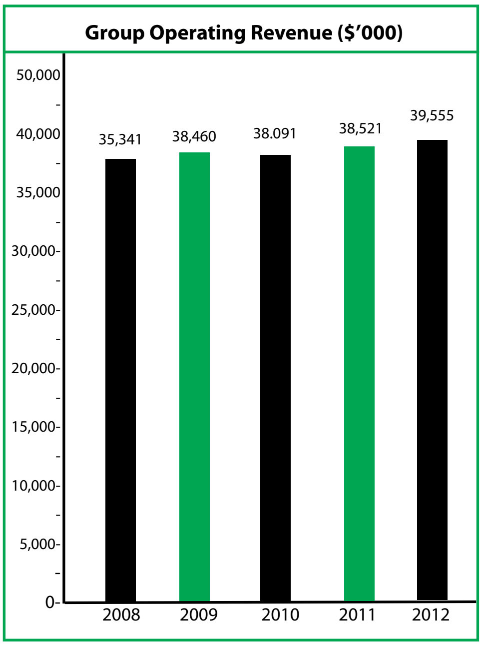
The Group operating surplus before tax for the year is $12.8 million, 2.1% lower than the previous year.

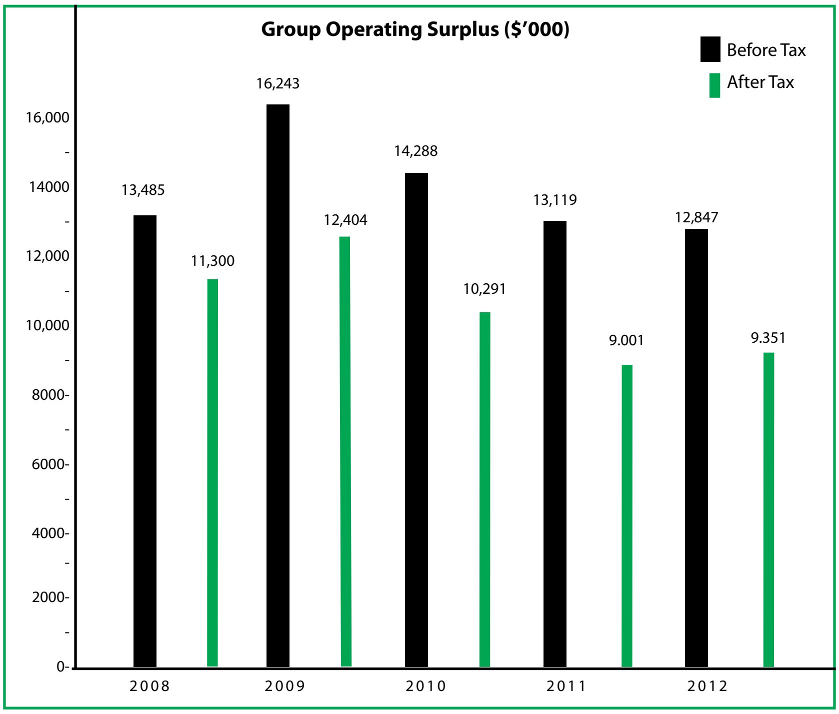
**Review of Financial Performance**

The financial statements presented have been prepared in accordance with the Accounting Policies forming part of these Financial Statements.

### RESULTS FOR THE YEAR ENDED 31 MARCH 2012

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| Profit before Income Tax | 12,847 | 13,119 | 12,498 | 12,800 |
| Income Tax | (3,496) | (4,118) | (3,293) | (3,837) |
| Net Surplus after Income Tax attributable to the Shareholders | **9,351** | **9001** | **9,205** | **8,693** |



## SHARE CAPITAL

Total issued and paid up capital as at 31st March 2012 was 41,328,017 Ordinary Fully Paid Shares. There have been no movements in share capital during the year.

## DIVIDENDS

Interim dividends, each of 3.66 cents per share, were paid in September and December 2011, and March 2012.

Having considered the solvency of the Company and Group, the Directors have resolved that a fully imputed final dividend of 7.32 cents per share be paid to Alpine Energy shareholders.

The fully imputed final dividend of $3.025 million will be paid on 31st July 2012 to all shareholders on the company's register at the close of business on 20th July 2012. This dividend was declared prior to balance date, and is included in the dividends for the year of $7.6 million, and has been provided for.

Solvency certificates were completed in support of the interim dividend declarations on 22nd September and 25th November 2011, and 23rd March 2012, and the final dividend solvency certificate will be submitted to Directors for approval on the 25th July 2012.

The interim, special and final dividends relating to 2011/12 represent 99.5% of the Profit From Operations for the Group, excluding customer contributions.

## RETURN ON SHAREHOLDERS' EQUITY AND STATE OF AFFAIRS

The Group net surplus after income tax attributable to the shareholders for the year ended 31st March 2012 represents 8.7% return on average total shareholders' equity.

The Directors are of the opinion that the state of affairs of the Company is satisfactory.

## CORPORATE GOVERNANCE

The Group operates under a set of corporate governance principles designed to ensure the Group is effectively managed.

**Board of Directors**
The Board is the governing body of Alpine Energy Limited and currently has five members. The Board is appointed by shareholders to oversee the management of the Company and is responsible for all corporate governance matters. The Board endeavours to ensure that the activities undertaken are carried out in the best interests of all shareholders, while respecting the rights of other stakeholders. The Board met ten times during the financial year.

**Operation of the Board**
**Responsibilities**
The Board is responsible for the management, supervision and direction of the Company. This incorporates the long-term strategic financial plan, strategic initiatives, budgets and the policy framework. The Board has developed and maintains clear policies which define the individual and collective responsibilities of the Board and management.

**Audit Committee**
The Audit Committee, comprising the full Board, reviews the Company's financial statements and announcements. It also liaises with the external auditors and reviews internal controls which are relevant to financial reporting and related matters. This Committee is chaired by Mr Thompson and met twice during the financial year.

## DIRECTORS

| Parent | Subsidiaries | Associates |
|---|---|---|
| Mr I.J. Bowan (Chairman) | Mr I.J. Bowan | Mr I.J. Bowan |
| Mr S.R. Thompson | Mr S.R. Thompson | Mr R.D. Ramsay |
| Mr R.D. Ramsay | Mr R.D. Ramsay | |
| Mr W. Larsen | Mr W. Larsen | |
| Mr A.J. France | Mr A.J. France | |
| | Mr E.J. Powell | |

## DIRECTORS' INTERESTS IN CONTRACTS

The following Directors of companies within the Group have declared interests in identified entities as shareholder and/or director. The declaration serves as notice that the Director may benefit from any transactions between the Company or Group and the identified entities.

| Name | Name of Company/Entity | Interest |
|---|---|---|
| Mr I.J. Bowan | NetCon Ltd | Chair |
| | Rockgas Timaru Ltd | Director |
| | South Canterbury Irrigation Trust | Trustee |
| | Temuka Co-operative Salesyard Co. Ltd | Chair |
| | Timaru Electricity Ltd | Chair |
| Mr A.J. France | Geraldine Bus Services Trust | Chairman |
| | NetCon Limited | Director |
| | The Juicy Tree Co Ltd | Director |
| Mr S.R. Thompson | A2 Corporation Ltd | Shareholder |
| | Abbeyfield Construction Ltd | Shareholder |
| | Airtime New Zealand Ltd | Shareholder |
| | Andgra Limited | Shareholder |
| | Arthur Barnett Investments Ltd | Director |
| | Aspiring Guides Ltd | Shareholder |
| | Best View Ltd | Director |
| | Cairnmuir Road Winery Ltd | Director |
| | Deloitte | Partner & Board Member |
| | Deloitte Ltd | Director |
| | DIC Stores Ltd | Director |
| | Ellisons Aluminium Ltd | Director |
| | Ellisons Aluminium Central Ltd | Director |
| | F.S. Investments Ltd | Director |
| | Integrated Contract Solutions Ltd | Director |
| | Kingsgate Properties Ltd | Shareholder |
| | McKenzie Architects Limited | Shareholder |
| | Meridian Centre Ltd | Director |
| | Millenium Solutions Ltd | Director |
| | Minaret Resources Ltd | Director |
| | NetCon Limited | Director |
| | OB Horn Company Ltd | Shareholder |
| | Prospectus Nominees | Director |
| | Prospectus Nominees Services Ltd | Director |
| | Richard E. Shackleton Architects Ltd | Shareholder |
| | Renaissance Holdings (NZ) Ltd | Shareholder |
| | Ripponvale Irrigation Company Ltd | Shareholder |
| | Southern Aluminium Joinery Ltd | Director |
| | Thompson Bloodstock Ltd | Chair |
| | Wanaka Bay Ltd | Director |
| | Westminster Resources Ltd | Director |
| Mr R.D. Ramsay | Energy Mad Ltd | Chair |
| | NetCon Ltd | Director |
| | Pukaki Airport Board | Member |
| | Rockgas Timaru Ltd | Director |
| | Salmon Smolt New Zealand Ltd | Director |
| Mr W.A. Larsen | Air New Zealand Ltd | Director |
| | Centre Port Group Ltd | Chairman |
| | Landcorp Group Ltd | Deputy Chair |
| | Larsen Consultancy Services Ltd | Principal |
| | IOD Member Accreditation Board | Director |
| | NetCon Ltd | Director |
| | NZAEL Limited | Chairman |
| Mr E.J. Powell | Timaru Electricity Ltd | Director |
| Mr A.G. Tombs | Smart Co | Director |

No material contracts involving Directors' interests were entered into after the end of the previous financial year or existed at the end of the financial year other than the transactions detailed in note 21 to the financial statements.

## INDEMNIFICATION AND INSURANCE OF OFFICERS AND DIRECTORS

The Company continues to indemnify all directors named in this report against any liability to any person other than the Company or a related company for any act done or omission made in a Director's capacity as a Director of the Company, and all costs incurred in defending or settling any claim or proceedings related to such liability, unless the liability is criminal liability or liability for breach of Section 131 of the Companies Act 1993.

During the financial year the Company paid insurance premiums in respect of directors' and officers' liability insurance. The policies do not specify the premium for individual directors and executive officers.

The directors' and officers' liability insurance provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Company or a related body corporate) incurred in their position as director or executive officer unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage.

## DONATIONS

Donations paid during the year totalled $158,696 (2010/11 $161,139).

## USE OF COMPANY INFORMATION

There were no notices from Directors of the Company requesting to use Company information received in their capacity as Directors which would not otherwise have been available to them.

## DIRECTORS' REMUNERATION AND BENEFITS FROM THE COMPANY

| | Base | Subsidiaries | Associates | Total |
|---|---|---|---|---|
| I.J. Bowan | 41,800 | 31,649 | 1,500 | 74,949 |
| S.R. Thompson | 23,100 | 17,327 | - | 40,427 |
| R. D. Ramsay | 23,100 | 17,327 | 1,500 | 41,927 |
| W. Larsen | 23,100 | 17,327 | - | 40,427 |
| A.J. France | 23,100 | 17,327 | - | 40,427 |
| | **134,200** | **100,957** | **3,000** | **238,157** |

Mr Powell did not receive any remuneration directly related to the position of Director of a Subsidiary Company.

No Director of the Company has, since the end of the previous financial year, received or become entitled to receive a benefit, (other than a benefit included in the total emoluments received or due and receivable by directors shown in the financial statements) other than those due in the ordinary course of business.

## EMPLOYEE REMUNERATION

Details of remuneration ranges for employees of the Group are:-

| Remuneration Range | Number of Employees |
|---|---|
| $100,000 - $109,999 | 3 |
| $110,000 - $119,999 | 5 |
| $120,000 - $129,999 | 5 |
| $130,000 - $139,999 | 1 |
| $140,000 - $149,999 | 1 |
| $150,000 - $159,999 | 1 |
| $160,000 - $169,999 | 1 |
| $170,000 - $179,999 | 1 |
| $180,000 - $189,999 | 1 |
| $280,000 - $289,999 | 1 |

## AUDITORS

In accordance with Section 45 of the Energy Companies Act 1992, the Auditor-General is responsible for the audit of Alpine Energy Limited. In accordance with Section 29 of the Public Finance Act 1977, the Auditor-General has contracted the audit of Alpine Energy Limited to Mark Bramley, using the staff and resources of PriceWaterhouseCoopers. The audit fee for the Group 2011/12 is $67,115 (2010/11 $58,400).

IJ Bowan

I.J. Bowan
Chairman
22 June 2012

S.R. Thompson
Director

The Directors are responsible for ensuring that the financial statements give a true and fair view of the financial position of the Company and the Group as at 31 March 2012 and their financial performance and cash flows for the year ended on that date.

The Directors consider that the financial statements of the Company and the Group have been prepared using appropriate accounting policies consistently applied and supported by reasonable judgements and estimates, and that all relevant reporting and accounting standards have been met.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Company and the Group and facilitate compliance of the financial statements with the Financial Reporting Act 1993.

The Directors consider they have taken adequate steps to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

The Directors have pleasure in presenting the financial statements of Alpine Energy Limited and Group for the year ended 31 March 2012.

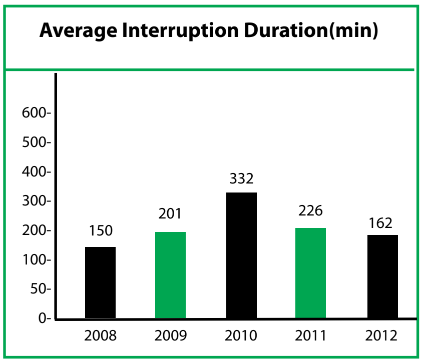
For and on behalf of the Board of Directors,

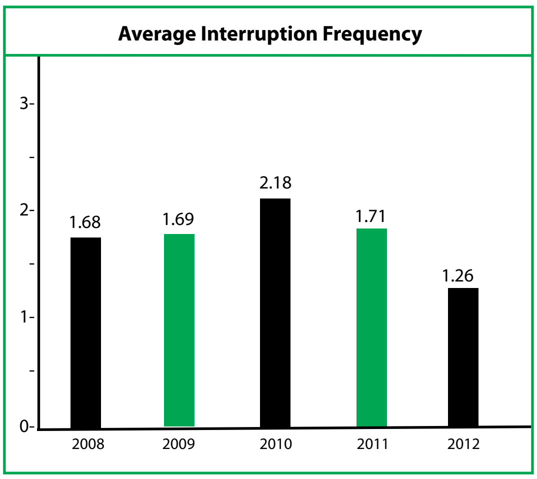
IJ Bowan

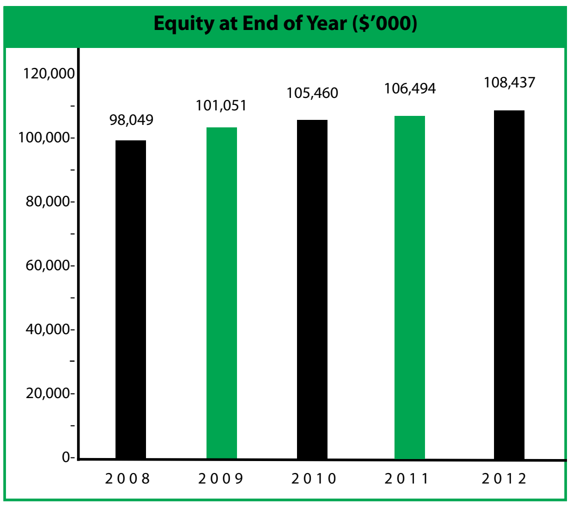
| | |
|---|---|
| **I.J. Bowan** | **S.R. Thompson** |
| Chairman | Director |
| 22 June 2012 | |

# STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

| | NOTE | GROUP 2012 | GROUP 2011 RESTATED | PARENT 2012 | PARENT 2011 |
|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 |
| Revenue | 4 | 39,555 | 38,521 | 38,808 | 37,711 |
| Expenses: | 5 | | | | |
| Transmission | | 8,761 | 8,773 | 8,761 | 8,773 |
| Depreciation, Amortisation and Loss on Disposal | | 4,306 | 4,453 | 3,821 | 4,015 |
| Contract Services | | 456 | 427 | 6,354 | 5,626 |
| Employee Benefits | | 7,736 | 6,878 | 4,050 | 3,661 |
| Other | | 5,587 | 4,999 | 3,324 | 2,836 |
| | | **26,846** | **25,530** | **26,310** | **24,911** |
| Operating Surplus / (Deficit) From Continuing Activities | | 12,709 | 12,991 | 12,498 | 12,800 |
| Share of Profit / (Loss) from Associates | | 138 | 128 | - | - |
| **PROFIT BEFORE INCOME TAX** | | **12,847** | **13,119** | **12,498** | **12,800** |
| Taxation | 6 | 3,496 | 4,118 | 3,293 | 3,837 |
| **PROFIT FROM OPERATIONS** | | **9,351** | **9,001** | **9,205** | **8,963** |
| Other Comprehensive Income for the Year | | | | | |
| Gain / (Loss) on Revaluation of Land and Buildings | | 49 | (259) | - | - |
| Gain/(Loss) on Interest Rate Swap | | 106 | - | 106 | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE PARENT** | | **9,506** | **8,742** | **9,311** | **8,963** |



| | CONTRIBUTED EQUITY $'000 | OTHER RESERVES $'000 | HEDGE RESERVE $'000 | RETAINED EARNINGS $'000 | TOTAL EQUITY $'000 |
|---|---|---|---|---|---|
| **PARENT** | | | | | |
| Balance as at 1 April 2010 | 41,328 | - | - | 63,742 | 105,070 |
| **Comprehensive Income** | | | | | |
| Profit from Operations | - | - | - | 8,963 | 8,963 |
| **Transactions with Owners** | | | | | |
| Dividends | - | - | - | (7,815) | (7,815) |
| **BALANCE AS AT 31 MARCH 2011** | 41,328 | - | - | 64,890 | 106,218 |
| **PARENT** | | | | | |
| Balance as at 1 April 2011 | 41,328 | - | - | 64,890 | 106,218 |
| **Comprehensive Income** | | | | | |
| Profit from Operations | - | - | - | 9,205 | 9,205 |
| Other Comprehensive Income | - | - | 106 | - | 106 |
| **Transactions with Owners** | | | | | |
| Dividends | - | - | - | (7,563) | (7,563) |
| **BALANCE AS AT 31 MARCH 2012** | **41,328** | **-** | **106** | **66,532** | **107,966** |
| **GROUP** | | | | | |
| Balance as at 1 April 2010 | 41,328 | 1,912 | - | 62,220 | 105,460 |
| **Comprehensive Income** | | | | | |
| Profit from Operations | - | - | - | 9,001 | 9,001 |
| Other Comprehensive Income | - | (259) | - | - | (259) |
| Prior Period Adjustment | - | - | - | 107 | 107 |
| **Transactions with Owners** | | | | | |
| Dividends | - | - | - | (7,815) | (7815) |
| **BALANCE AS AT 31 MARCH 2011** | **41,328** | **1,653** | **-** | **63,513** | **106,494** |
| **GROUP** | | | | | |
| Balance as at 1 April 2011 | 41,328 | 1,653 | - | 63,513 | 106,494 |
| **Comprehensive Income** | | | | | |
| Profit from Operations | - | - | - | 9,351 | 9,351 |
| Other Comprehensive Income | - | 49 | 106 | - | 155 |
| **Transactions with Owners** | | | | | |
| Dividends | - | - | - | (7,563) | (7,563) |
| **BALANCE AS AT 31 MARCH 2012** | **41,328** | **1,702** | **106** | **65,301** | **108,437** |

# BALANCE SHEETS AS AT 31 MARCH 2012

| | NOTE | GROUP 2012 | GROUP 2011 | PARENT 2012 | PARENT 2011 |
|---|---|---|---|---|---|
| **EQUITY** | | **$'000** | **$'000** | **$'000** | **$'000** |
| Share Capital | 7 | 41,328 | 41,328 | 41,328 | 41,328 |
| Reserves | | 1,808 | 1,652 | 106 | - |
| Retained Earnings | | 65,301 | 63,514 | 66,532 | 64,889 |
| **TOTAL SHAREHOLDERS EQUITY** | | **108,437** | **106,494** | **107,966** | **106,217** |
| **CURRENT ASSETS** | | | | | |
| Cash and Cash Equivalents | | 750 | 293 | - | 40 |
| Trade and Other Receivables | 8 | 1,852 | 2,219 | 1,663 | 1,922 |
| Inventories | | 695 | 788 | - | - |
| Work in Progress | | 135 | 215 | - | - |
| Tax Receivable | | 68 | - | 49 | - |
| **TOTAL CURRENT ASSETS** | | **3,500** | **3,515** | **1,712** | **1,962** |
| **CURRENT LIABILITIES** | | | | | |
| Bank Overdraft | | - | - | 579 | - |
| Trade and Other Payables | 9 | 2,973 | 3,486 | 3,330 | 4,041 |
| Employee Entitlements | | 1,085 | 1,028 | 438 | 441 |
| Dividends Payable | | 3,025 | 3,025 | 3,025 | 3,025 |
| Tax Payable | | - | 287 | - | 173 |
| **TOTAL CURRENT LIABILITIES** | | **7,083** | **7,826** | **7,372** | **7,680** |
| **NET WORKING CAPITAL** | | **(3,583)** | **(4,311)** | **(5,660)** | **(5,718)** |
| **NON-CURRENT ASSETS** | | | | | |
| Investments in Subsidiary | 11 | - | - | 30 | 30 |
| Investments Accounted for Using the Equity Method | 12 | 270 | 332 | 5 | 5 |
| Property, Plant and Equipment | 13 | 151,961 | 133,594 | 145,257 | 126,778 |
| Investment Property | 14 | - | - | 5,061 | 4,700 |
| Intangible Assets | 15 | 143 | 111 | 105 | 71 |
| Interest Rate Swap | 19 | 106 | - | 106 | - |
| Other Investments | 10 | - | - | 3,729 | 3,729 |
| **TOTAL NON-CURRENT ASSETS** | | **152,480** | **134,037** | **154,293** | **135,313** |
| **NON-CURRENT LIABILITIES** | | | | | |
| Deferred Tax | 6 | 15,306 | 14,258 | 15,513 | 14,404 |
| Loans | 16 | 25,154 | 8,974 | 25,154 | 8,975 |
| **TOTAL NON-CURRENT LIABILITIES** | | **40,460** | **23,232** | **40,667** | **23,378** |
| **NET ASSETS** | | **108,437** | **106,494** | **107,966** | **106,217** |

| | NOTES | GROUP 2012 $'000 | GROUP 2011 RESTATED $'000 | PARENT 2012 $'000 | PARENT 2011 $'000 |
|---|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Cash was Provided from: | | | | | |
| Receipts from Customers | | 40,104 | 38,620 | 38,683 | 36,950 |
| Interest Received | | 24 | 102 | 187 | 272 |
| | | **40,128** | **38,722** | **38,870** | **37,222** |
| Cash was Applied to: | | | | | |
| Payments to Suppliers and employees | | (23,072) | (19,881) | (23,050) | (19,540) |
| Income Tax Paid | | (2,793) | (4,102) | (2,405) | (3,910) |
| Net GST Paid | | 36 | (260) | (156) | (257) |
| | | (25,829) | (24,243) | (25,611) | (23,707) |
| **NET CASH INFLOWS FROM OPERATING ACTIVITIES** | 18 | **14,299** | **14,479** | **13,259** | **13,515** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Cash was Provided from: | | | | | |
| Proceeds from Sale of Fixed Assets | | 17 | 65 | 7 | 63 |
| Mortgage Repayment | | - | 800 | - | 800 |
| Cash was Applied to: | | | | | |
| Purchase of Property, Plant and Equipment | | (22,676) | (19,509) | (22,702) | (19,270) |
| **NET CASH OUTFLOWS FROM INVESTING ACTIVITIES** | | **(22,659)** | **(18,644)** | **(22,695)** | **(18,407)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Cash was provided from: | | | | | |
| Dividends Received | | 200 | - | 200 | 800 |
| Loan from Bank | | 16,180 | 8,974 | 16,180 | 8,974 |
| Cash was applied to: | | | | | |
| Dividend Paid | | (7,563) | (7,815) | (7,563) | (7,815) |
| **CASH FROM FINANCING ACTIVITIES** | | **8,817** | **1,159** | **8,817** | **1,959** |
| **NET INCREASE/(DECREASE) IN CASH HELD** | | 457 | (3,006) | (619) | (2,933) |
| Add opening cash brought forward | | 293 | 3,299 | 40 | 2,973 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | | **750** | **293** | **(579)** | **40** |

## 1 GENERAL INFORMATION

Alpine Energy Limited (the Company), and its subsidiaries and associates (together the Group) is the owner of an electricity distribution network, and also undertakes assets management contracting services.
The Company is a limited liability company incorporated and domiciled in New Zealand. The address of its registered office is 31 Meadows Road, Washdyke, Timaru.

These consolidated financial statements have been approved for issue by the Board of Directors on 7 June 2012.

## 2 SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand. They comply with the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), the International Financial Reporting Standards (IFRS) and other applicable Financial Reporting Standards, as appropriate for profit oriented entities.

### (a) Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.
*Entities reporting*
The financial statements for the 'Parent' are for 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. The Company and Group are designated as profit oriented entities for financial reporting purposes.
*Statutory base*
Alpine Energy Limited is a company registered under the Companies Act 1993.
The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.
*Functional and presentation currency*
The Company's and Group's financial statements are presented in New Zealand dollars, which is the Company's and Group's functional and presentation currency.
*Historical cost convention*
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets as identified in specific accounting policies below.

### (b) Critical accounting estimates and judgements in applying the entity's accounting policies

The preparation of financial statements in conformity with NZ IFRS requires management to make certain critical accounting estimates and judgements that affect the application of policies and reported amount of assets, liabilities, income and expenses. The estimates and associated assumptions have been based on historical experience and other factors that are believed to be reasonable under the circumstances. These estimates and judgements formed the basis for making judgements about the carrying values of assets and liabilities, where these are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying judgements are regularly reviewed. Any changes to estimates are recognised in the period if the change affects that period, or in future periods if the change also affects future periods.

In the process of applying the Company's and Group's accounting policies, management has made the following estimates and judgements that have had the most significant impact on the amounts recognised in these financial statements:
*Investment property valuation*
Investment property valuations are based on net current value and supported by market evidence. No allowance has been made for any vacant tenancy in the capitalisation rate used to calculate the valuation of rental properties.
*Easements*
Easements are recorded at cost.

### Property, Plant and Equipment

Network reticulation assets' depreciation rates reflect the depreciation rates in the ODV Handbook issued by the Commerce Commission in 2004.

### (c) Principles of consolidation

*(i) Subsidiaries*
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Alpine Energy Limited as at 31 March 2012 and the results of all subsidiaries for the year then ended. Alpine Energy Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity. Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries which form part of the Group are consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement. Intercompany transactions, balances and unrealised gains on transactions between subsidiary companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

### (c) Principles of consolidation (continued)

*(ii) Associates*

Associates are all entities over which the Group has significant influence but not control, generally evidenced by holding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the Group by using the equity method of accounting and are initially recognised at cost. The Group's share of its associates' post-acquisition profits or losses is recognised in the Statement of Comprehensive Income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Associates are accounted for at cost in the Parent financial statements.

### (d) Revenue recognition

Revenue comprises the fair value, of consideration received or receivable for the sale of goods and services, excluding Goods and Services Tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the group's activities as described below.

*(i) Sales of goods*
Sales of goods are recognised when a Group entity has delivered a product to the customer. Retail sales are usually in cash or by bank transfer. The recorded revenue is the gross amount of sale.

*(ii) Sales of services*
Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

*(iii) Interest income*
Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

*(iv) Construction contracting*
Contract revenue and expenses related to individual construction contracts are recognised on completion of each contract.

*(v) Rental income*
Rental income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

*(vi) Dividend income*
Dividend income is recognised when the right to receive payment is established.

*(vii) Grants*
Assets constructed for which a government grant is received are recorded net of the grant. Grants received are recognised in the Statement of Comprehensive Income when the requirements under the grant agreement have been met. Any grants for which the requirements under the grant agreement have not been completed are carried as liabilities until all the conditions have been fulfilled.

### (e) 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 expenditure incurred in maintaining and operating the property, plant and equipment and investment properties of the Group.

### (f) Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associate's operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (f) Taxation (continued)

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different entities where there is an intention to settle the balances on a net basis.

### (g) Goods and Services Tax (GST)

The Statement of Comprehensive Income has been prepared so that all components are stated exclusive of GST. All items in the Balance Sheet are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

### (h) Leases

*(i) The Group is the lessee*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

*(ii) The Group is the lessor*

Assets leased to third parties under operating leases are included in property, plant and equipment in the Balance Sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

### (i) Impairment of non financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have an indefinite useful life including goodwill, are not subject to amortisation and are tested annually for impairment irrespective of whether any circumstances identifying a possible impairment have been identified. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### (j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

### (k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

### (l) Investments and other financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at the initial recognition and re-evaluates this designation at every reporting date.

*(i) Financial assets at fair value through profit and loss*

This category has two sub categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

*(ii) Loans and receivables*

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'cash and cash equivalents', and 'other investments' in the balance sheet.

*(iii) Held to maturity investments*

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

*(iv) Available for sale financial assets*

Available for sale financial assets are non derivatives that are either designated in this category or not classified in any other categories. They are included in non current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (l) Investments and other financial assets (continued)

*Recognition and Measurement*

Regular purchases and sales of financial assets are recognised on the trade-date - the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the Statement of Comprehensive Income. Financial assets are derecognised when the rights to receive cash flows from the investments to receive cash flows from the investments have expired or been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains-net' in the period in which they arise. Dividend income from financial assets at fair value through the profit or loss is recognised in the income statement as part of other income when the groups right to receive payments is established.

*Impairment*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial assets that can be reliably estimated.

The criteria that the group uses to determine that there is objective evidence of an impairment losss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments.
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

The group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated Statement of Comprehensive Income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtors credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated Statement of Comprehensive Income.

*Assets Classified As Available For Sale*

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. For debt securities, the group uses the criteria above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cast and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss- is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss is reversed through the separate consolidated income statement.

Impairment testing of trade receivables is described in note 2(k).

### (m) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in the profit or loss. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income with 'finance income' or cost. All other foreign exchange gains and losses are presented within 'other (losses)/gains-net.'

### (n) Inventories

Inventories are stated at the lower of average cost and net realisable value.

### (o) Contract work in progress

Contract work in progress is stated at cost less amounts invoiced to customers. Cost includes all expenses directly related to specific contracts.

### (p) Investment properties

Investment property, principally comprising freehold office buildings, is held for long term rental yields and is not occupied by the group. Investment property is carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the group uses alternative valuation methods such as recent prices on less

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### p) Investment properties (continued)

active markets or discounted cash flow projections. These valuations are approved annually by G.A. Morton. Changes in fair values are recorded in the income statement as part of other income.

Land held under operating lease is classified and accounted for as an investment property when the rest of the definition is met. The operating lease is accounted for as if it were a finance lease.

### (q) Property, plant and equipment

All property, plant and equipment (except land and buildings) is stated at historical cost less depreciation and impairment. Land and buildings are recorded at the revalued net current value resulting from revaluations carried out annually by a registered valuer. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases are charged against other reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying among of the asset charged to the income statement and depreciation based on the assets' original cost is transferred from 'other reserves' to 'retained earnings.'

Land is not depreciated. Depreciation of property, plant and equipment is calculated using diminishing value income tax rates so as to expense the cost of the assets over their useful lives. The rates are as follows:

| | |
|---|---|
| • Reticulation system | 1.4 % - 10.0 % |
| • Metres and Relays | 6.67 % - 15.0 % |
| • Plant and Equipment | 7.5 % - 50.0 % |

The assets' residual value and useful lives are reviewed and adjusted if appropriate at each balance sheet date. Capital work in progress is not depreciated until commissioned.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statement of Comprehensive Income.

When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

### (r) Non Current assets held for sale

An asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than continuing use. On classification as 'Held for Sale', non current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Impairment losses on initial classification as 'Held for Sale' are included in the Statement of Comprehensive Income.

### (s) Intangible assets

*Software costs*

Software costs have a finite useful life. Software costs are capitalised and written off over the useful economic life of 2 to 5 years. Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development employees and an appropriate portion of relevant overheads.

*Easements*

Assets sited on easements will normally be renewed at the end of their economic life in the same location that they are currently housed. On this basis the easement itself has an infinite life. Easements are recorded at cost and are tested annually for any sign of impairment.

### (t) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are recognised at fair value.

### (u) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### (v) Share Capital

Ordinary shares are classified as equity.
Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### (w) Provisions

Provisions for legal claims, service warranties and rental obligations are recognised when the Group has a present legal or the

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (w) Provisions (continued)
constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

### (x) Employee benefits
Liabilities for wages and salaries, including non-monetary benefits, annual leave, and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable. The liability for employee entitlements is carried at the present value of the estimated future cash flows.

### (y) Dividends
Dividend distribution to the Company shareholders is recognised as a liability in the Company's and Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### (z) New standards and interpretations not yet adopted
The Company only adopts new accounting standards once they have been issued and are effective. "Certain new standards, amendments and interpretations of existing standards have been published that are not mandatory for later periods and which the Group has not early adopted. The Group only adopts accounting standards once they have been issued and are effective. The Group has identified the standards which have been issued but not yet adopted that are applicable to the Group, and has assessed the impact of these new standards below.

***NZ IFRS 9 Financial Instruments*** (effective for annual reporting periods beginning on or after 1 January 2015)
Replaces the multiple classification and measurement models in IAS 39 *Financial instruments: Recognition and Measurements* with a single model, that has only two classification categories: amortised cost and fair value. We are still assessing the impacts, however we do not consider this standard to have a significant impact.

***NZ IFRS 10 Consolidated Financial Statements,*** **NZ IFRS 12 Disclosure of Interests in Other Entities,** (effective 1 January 2013)
NZ IFRS 10 replaces all of the guidance on control and consolidation in NZ IAS 27 *Consolidated and Separate Financial Statements,* and NZ IFRIC 12 *Consolidation - Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

NZ IFRS 12 sets out the required disclosures for entities reporting under the two new standards, NZ IFRS 10 and NZ IFRS 11, and replaces the disclosure requirements currently found in NZ IAS 28. Application of this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments.

The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014."

### (aa) Changes in accounting policies
There has been the following change in accounting policies. Revised NZ IAS 24 Related Party Disclosures NZIAS 24 is effective for accounting periods beginning on or after 1 January 2011, and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party, and removes the requirement of government-related entities to disclose details of all transactions with the government and other government-related entities. The Group has applied the amended standard from 1 April 2011 onwards. It has not had a significant effect on the financial statements. All other policies have been applied on bases consistent with those used in the prior year.

## 3 FINANCIAL RISK MANAGEMENT

Risk management is carried out by management under policies approved by the Board of Directors. Management identifies and evaluates relevant financial risks and acts to manage these risks where possible within the parameters set out by the Board of Directors. The Board provides written principles for overall risk management as well as policies covering specific areas, such as foreign exchange risk and credit risk.

### (a) Market risk
*(i) Foreign exchange risk*
The Group's revenue is entirely denominated in New Zealand dollars and it has limited currency exposure in the foreseeable future. The Group may from time to time purchase assets denominated in foreign currency. Board approval is required for foreign currency denominated contracts valued above a specified threshold, together with a recommendation on the manner in which the foreign currency exposure is to be managed, which may include the use of foreign exchange contracts.

*(ii) Cash flow and fair value interest rate risk*
The Group has an interest rate risk relating to bank borrowings that are on floating interest rates, exposing it to the risk that rising

## 3 FINANCIAL RISK MANAGEMENT

*(ii) Cash flow and fair value interest rate risk (continued)*

interest rates will increase its interest expense and hence reduce its profitability. The Group operates under the following policy which prescribes the proportion of fixed interest rate cover that it must hold in relation to its future borrowings. This proportion is calculated based on the actual fixed rate cover held and the forecase debt levels. The Group will have various interest rate financial instruments to manage exposure to fluctuations in interest rates. Any resulting differential to be paid or received on the instruments is recognised as a component of interest paid.

The following framework is utilised by the Group to determine the proportion of fixed rate interest rate cover it must hold.

| **Hedging profile** | | |
|---|---|---|
| Period | Minimum Cover | Maximum Cover |
| 0 to 1 year | 25% | 75% |
| 1 - 3 years | 35% | 75% |
| 3 - 5 years | 35% | 75% |
| 5 - 7 year | 35% | 75% |

The Board will determine the maximum and minimum percentages for each time period. Board approval is required for borrowings, together with a recommendation on the manner in which the interest rate risk is to be managed. The Group also has interest rate risk arising on the cash on deposit. For the year ended 31 March 2011 the Group had minimal cash on deposit.

### (b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions. General financial reserves of the Group may be invested with any bank registered under New Zealand law, or in government or local government stock, or with financial institutions holding a formal credit rating by Standard and Poors or Moody's of an "A" or better, or financial institutions that provide well supported first ranking security. Funds will be invested only for periods of time which reflect the projected cash flow requirements of the Group. The maximum investment in any one financial institution shall not exceed a sum equivalent to 5% of the Group's total assets, as disclosed in the statement of financial position published in the preceding annual report of the Group. Credit risk associated with trade receivables is limited through retailer invoicing for line and metering charges rather than individual consumer invoicing for line and metering charges. Credit risk with each of these retailers is managed by a use of system agreement. Credit is also limited with trade receivables by the requirement of a 50% up front payment of the customer contribution for new connections before work is started.

### (c) Liquidity risk

Liquidity risk management has the objective of maintaining sufficient cash and the availability of funding through an adequate amount of credit facilities to meet the short and long term commitments of the Group as they arise in an orderly manner. Management monitors rolling forecasts of the Group's liquidity requirements on the basis of expected cash flow. The Board of Directors approves all new borrowing facilities. The Group generates sufficient cash flows from its operating activities to make timely payments. It does, however, maintain a committed credit line to cover any shortfall.

### (d) Fair value estimation

The fair value of financial assets and liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of any financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

### (e) Capital risk management

The Group's objective when managing capital (which comprises share capital plus retained earnings) is to safeguard the ability to continue as a going concern in order to provide returns to shareholders, consumers, and other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group is subject to the following externally imposed capital requirements, which are measured at balance date. They relate to bank covenants within the Company's external debt facility.

$$\frac{\text{Shareholders' Investment}}{\text{Total Tangible Assets}} \times 100 \geq 50.00\%$$

$$\frac{\text{EBIT}}{\text{Interest Costs}} \geq 3.0$$

## 4 REVENUE

| | NOTE | GROUP 2012 $'000 | GROUP 2011 RESTATED $'000 | PARENT 2012 $'000 | PARENT 2011 $'000 |
|---|---|---|---|---|---|
| Revenue comprises: | | | | | |
| Network Lines Revenue | | 34,001 | 33,177 | 34,239 | 33,177 |
| Meter Revenue | | 1,499 | 1,358 | 1,499 | 1,358 |
| Contracting Revenue | | 2,220 | 2,137 | 709 | 761 |
| Interest | | 10 | 103 | 187 | 272 |
| Customer Contributions | | 1,749 | 1,353 | 1,749 | 1,353 |
| Sundry | | 76 | 393 | 176 | 359 |
| Dividends | | - | - | 200 | 800 |
| Revaluation of Investment Property | 14 | - | - | 49 | (369) |
| | | **39,555** | **38,521** | **38,808** | **37,711** |

## 5 EXPENSES

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 |
| Audit Fee | 67 | 58 | 41 | 35 |
| Auditor's Other Services | 100 | 33 | 100 | 33 |
| - Non-assurance Services | | | | |
| - Information Disclosure Audit | | | | |
| - Threshold Compliance Audit | | | | |
| Directors' Fees | 238 | 256 | 137 | 138 |
| Bad Debts Written Off | - | 70 | - | 70 |
| Donations | 168 | 161 | 159 | 155 |
| Rent | 19 | 135 | 19 | 4 |
| Interest Expense | 598 | 63 | 598 | 63 |
| **Depreciation of property, plant and equipment** | | | | |
| Network Reticulation System | 3,008 | 2,800 | 3,013 | 2,800 |
| Meters and Relays | 264 | 338 | 264 | 338 |
| Land and Buildings | 34 | 12 | 34 | 12 |
| Fibre | 147 | 36 | 147 | 36 |
| Plant and Equipment | 662 | 587 | 194 | 178 |
| **TOTAL DEPRECIATION** | **4,115** | **3,773** | **3,652** | **3,364** |
| Amortisation | 61 | 26 | 39 | 5 |
| Loss on Disposal of Property, Plant and Equipment | 130 | 654 | 130 | 646 |
| **Total Depreciation, Amortisation and Loss on Disposal** | **4,306** | **4,453** | **3,821** | **4,015** |

## 6 TAXATION

| | | | | |
|---|---|---|---|---|
| Operating Surplus Before Income Tax | 12,847 | 13,118 | 12,498 | 12,799 |
| Taxation @ 28 Cents (2011: 30 cents) | 3,597 | 3,936 | 3,499 | 3,840 |
| *Movement in Income Tax Due to:* | | | | |
| **Non Deferred Tax Differences** | | | | |
| Non Assessable Income | (40) | (42) | (234) | (245) |
| Non Deductible Expenses | (15) | 166 | 66 | 174 |
| Globo Asset Tax Write-off | - | 709 | - | 709 |
| Prior Period Adjustments | (46) | (144) | (38) | (144) |
| Change in Corporate Tax Rate | - | (1,038) | - | (1,029) |
| Reduction in the Tax Base for Buildings | - | 532 | - | 532 |
| Deferred Tax Movements | | - | | - |
| **Tax Expense for Period** | **3,496** | **4,118** | **3,293** | **3,837** |
| **Made up of:** | | | | |
| Income Tax Liability in Respect of Current Year | 2,489 | 3,247 | 2,213 | 2,835 |
| Prior Period Tax Adjustment | (46) | (144) | (39) | (144) |
| Deferred Taxation | 1,053 | 1,014 | 1,119 | 1,146 |
| | **3,496** | **4,118** | **3,293** | **3,837** |
| **Imputation Credit Account Group and Parent** | | | | |
| Opening Balance | 3,483 | 2,714 | 3,465 | 2,550 |
| Income Tax Payment during the Year | 2,806 | 4,118 | 2,406 | 3,921 |
| Imputation Credits Received | 78 | - | 78 | 343 |
| Imputation Credits allocated to Dividends in the Year | (2,941) | (3,349) | (2,941) | (3,349) |
| **CLOSING BALANCE** | **3,426** | **3,483** | **3,008** | **3,465** |

## 6 TAXATION (CONTINUED)

**Deferred Tax**

The analysis of Deferred Tax Assets and Deferred Tax Liabilities is as follows:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| Deferred Tax Assets | | | | |
| - Deferred Tax Assets to be Recovered After More than 12 Months | 325 | 297 | 325 | 297 |
| - Deferred Tax Assets to be Recovered Within 12 Months | 302 | 306 | 124 | 144 |
| Deferred Tax Liabilities | | | | |
| - Deferred Tax Liability to be Recovered After More than 12 Months | (15,888) | (14,816) | (15,917) | (14,800) |
| - Deferred Tax Liability to be Recovered Within 12 Months | (45) | (45) | (45) | (45) |
| **DEFERRED TAX LIABILITIES (NET)** | **(15,306)** | **(14,258)** | **(15,513)** | **(14,404)** |

| | GROUP 2012 | GROUP 2011 | PARENT 2012 | PARENT 2011 |
|---|---|---|---|---|
| The gross movement on the Deferred Income Tax Account is as follows: | | | | |
| At 1 April | (14,258) | (13,353) | (14,404) | (13,259) |
| Tax (charge)/credit relating to Components of Comprehensive Income | (1,146) | (1,014) | (1,109) | (1,145) |
| Tax (charged)/credit directly to equity | 98 | 109 | - | - |
| **AS AT 31 MARCH** | **(15,306)** | **(14,258)** | **(15,513)** | **(14,404)** |

The Movement in Deferred Income Tax Assets and Liabilities during the year without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

### PARENT

| Deferred Tax Liabilities | Accelerated Tax Depreciation | Change in Tax Rate | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| At 1 April 2010 | (13,710) | - | (13,710) |
| Charged/(Credited) to the Statement of Comprehensive Income | (2,196) | 1,061 | (1,135) |
| **As at 31 March 2011** | **(15,906)** | **1,061** | **(14,845)** |
| Charged/(Credited) to the Statement of Comprehensive Income | (1,116) | - | (1,116) |
| **As at 31 March 2012** | **(17,022)** | **1,061** | **(15,961)** |

| Deferred Tax Assets | Provisions | Change in Tax Rate | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| At 1 April 2010 | 451 | - | 451 |
| Charged/(Credited) to the Statement of Comprehensive Income | 22 | (32) | (10) |
| **At 31 March 2011** | 473 | (32) | 441 |
| Charged/(Credited) to the Statement of Comprehensive Income | 7 | - | 7 |
| **At 31 March 2012** | **480** | **(32)** | **448** |

### GROUP

| Deferred Tax Liabilities | Accelerated Tax Depreciation | Change in Tax Rate | Total |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| At 1 April 2010 | (13,779) | - | (13,779) |
| Charged/(credited) to the Statement of Comprehensive Income | (1,980) | 1,070 | (909) |
| **At 31 March 2011** | **(15,759)** | **1,070** | **(14,688)** |
| Charged/(credited) to the Statement of Comprehensive Income | (1,245) | - | (1,245) |
| **At 31 March 2012** | **(17,004)** | **1,070** | **(15,933)** |

## 6 TAXATION (CONTINUED)

| Deferred Tax Assets | Change in Provisions $'000 | Tax Rate $'000 | Total $'000 |
|---|---|---|---|
| At April 2010 | 426 | - | 426 |
| Charged/(Credited) to the Statement of Comprehensive Income | 36 | (32) | 4 |
| **At 31 March 2011** | **462** | **(32)** | **430** |
| Charged/(Credited) to the Statement of Comprehensive Income | 197 | - | 197 |
| **At 31 March 2012** | **659** | **(32)** | **627** |

## 7 SHARE CAPITAL

Paid Up Capital: 41,328,017 Ordinary Shares. There are no unpaid or uncalled shares
All shares rank equally for voting rights and dividend distributions.

| The Company is owned as follows: | No. of Shares | |
|---|---|---|
| Timaru District Holdings Limited | 19,630,808 | 47.50% |
| Waimate District Council | 3,116,132 | 7.54% |
| Mackenzie District Council | 2,049,870 | 4.96% |
| LineTrust South Canterbury | 16,531,207 | 40.00% |
| | **41,328,017** | **100.00%** |

There were no changes in shareholdings during the year.

## 8 TRADE AND OTHER RECEIVABLES

| | GROUP 2012 $'000 | GROUP 2011 $'000 | PARENT 2012 $'000 | PARENT 2011 $'000 |
|---|---|---|---|---|
| The balance of Accounts Receivable comprises: | | | | |
| Trade Receivables | 1,514 | 1,512 | 1,435 | 1,379 |
| Prepayments | 184 | 115 | 144 | 100 |
| Accruals | 107 | 557 | 77 | 435 |
| Due by Associated Entities | 7 | - | 7 | - |
| Due by Shareholder District Councils | 40 | 35 | - | 8 |
| **BALANCE AT END OF THE YEAR** | **1,852** | **2,219** | **1,663** | **1,922** |
| Trade receivables less than 90 days old | 1,360 | 1,415 | 1,297 | 1,303 |
| Trade receivables greater than 90 days old | 171 | 85 | 144 | 84 |
| | **1,532** | **1,500** | **1,442** | **1,387** |
| Trade receivables which are neither past due nor impaired | 1,360 | 1,415 | 1,297 | 1,303 |
| Trade receivables which are past due and not impaired | 171 | 85 | 144 | 84 |
| | **1,532** | **1,500** | **1,442** | **1,387** |

## 9 TRADE AND OTHER PAYABLES

| | GROUP 2012 $'000 | GROUP 2011 $'000 | PARENT 2012 $'000 | PARENT 2011 $'000 |
|---|---|---|---|---|
| The balance of Accounts Payable comprises: | | | | |
| Trade Payables | 2,086 | 3,244 | 2,890 | 4,023 |
| Balance Date Accruals | 832 | 207 | 384 | 10 |
| Due to Shareholders District Councils | 13 | 35 | 13 | 8 |
| **BALANCE AT END OF THE YEAR** | **2,931** | **3,486** | **3,288** | **4,041** |

## 10 OTHER INVESTMENTS

| | GROUP 2012 $'000 | GROUP 2011 $'000 | PARENT 2012 $'000 | PARENT 2011 $'000 |
|---|---|---|---|---|
| Shareholder loan to NetCon Limited | - | - | 3,729 | 3,729 |
| **Balance at End of the Year** | **-** | **-** | **3,729** | **3,729** |

## 11 INVESTMENT IN SUBSIDIARIES

| Subsidiary | Interest Held | Balance Date | Principal Activity |
|---|---|---|---|
| Timaru Electricity Limited | 100% | 31 March | Non-trading |
| NetCon Limited | 100% | 31 March | Lines Construction & Maintenance |

## 11 INVESTMENT IN SUBSIDIARIES (CONTINUED)

| **Investment** | **PARENT 2012 $'000** | **PARENT 2011 $'000** |
|---|---|---|
| *Timaru Electricity Limited* | | |
| Shares | 4,036 | 4,036 |
| Advances | - | - |
| Less Provision against Value of Advance | (4,036) | (4,036) |
| | - | - |
| *NetCon Limited* | | |
| Shares | 30 | 30 |
| Advances | 3,729 | 3,729 |
| | **3,759** | **3,759** |

## 12 INVESTMENTS IN ASSOCIATED ENTITIES

| Associated entities include: | Interest Held | Balance Date | Principal Activity |
|---|---|---|---|
| Rockgas Timaru Limited | 50% | 31 March | Sale of LPG Gas and Appliances |

| | ASSETS $'000 | LIABILITIES $'000 | REVENUES $'000 | PROFIT $'000 |
|---|---|---|---|---|
| **2011** | | | | |
| Rockgas Timaru Limited | 971 | 305 | 1,774 | 255 |
| **2012** | | | | |
| Rockgas Timaru Limited | 690 | 149 | 1,936 | 275 |

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Opening Balance | 332 | 183 |
| Share of Profit/(Loss) | 138 | 128 |
| Prior Period Adjustment | - | 21 |
| Dividends Received | (200) | - |
| **Closing Balance** | **270** | **332** |
| Represented as: | | |
| Shares | 5 | 5 |
| Retained Earnings | 265 | 327 |
| | **270** | **332** |

## 13 PROPERTY, PLANT AND EQUIPMENT

| | NETWORK RETICULATION SYSTEM $'000 | METERS AND RELAYS $'000 | LAND AND BUILDINGS $'000 | FIBRE $'000 | PLANT AND EQUIPMENT $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|
| **PARENT** | | | | | | |
| **Year Ended 31 March 2011** | | | | | | |
| Opening Net Book Amount | 108,795 | 2,161 | - | - | 518 | 111,474 |
| Additions | 14,906 | 532 | - | 3,611 | 283 | 19,332 |
| Disposals | (638) | - | - | - | (37) | (675) |
| Depreciation Charge | (2,801) | (338) | - | (36) | (178) | (3,353) |
| **CLOSING NET BOOK AMOUNT** | **120,262** | **2,355** | **-** | **3,575** | **586** | **126,778** |
| **At 31 March 2011** | | | | | | |
| Cost | 148,691 | 4,562 | - | 3,611 | 2,819 | 159,683 |
| Accumulated Depreciation | (28,429) | (2,207) | - | (36) | (2,233) | (32,905) |
| **NET BOOK AMOUNT** | **120,262** | **2,355** | **-** | **3,575** | **586** | **126,778** |
| **Year Ended 31 March 2012** | | | | | | |
| Opening Net Book Amount | 120,262 | 2,355 | - | 3,575 | 586 | 126,778 |
| Additions | 22,062 | - | - | - | 178 | 22,240 |
| Disposals | (135) | - | - | - | (8) | (143) |
| Depreciation Charge | (3,013) | (264) | - | (147) | (194) | (3,618) |
| **CLOSING NET BOOK AMOUNT** | **139,176** | **2,091** | **-** | **3,428** | **562** | **145,257** |

## 13 PROPERTY, PLANT AND EQUIPMENT

| | NETWORK RETICULATION SYSTEM $'000 | METERS AND RELAYS $'000 | LAND AND BUILDINGS $'000 | FIBRE $'000 | PLANT AND EQUIPMENT $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|
| **At 31 March 2012** | | | | | | |
| Cost | 170,618 | 4,562 | - | 3,611 | 2,989 | 181,780 |
| Accumulated Depreciation | (31,442) | (2,471) | - | (183) | (2,427) | (36,523) |
| **NET BOOK AMOUNT** | **139,176** | **2,091** | **-** | **3,428** | **562** | **145,257** |

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Included in the closing Net Book Value is Capital Work in Progress | 4,923 | 9,722 |

**GROUP**

| | NETWORK RETICULATION SYSTEM $'000 | METERS AND RELAYS $'000 | LAND AND BUILDINGS $'000 | FIBRE $'000 | PLANT AND EQUIPMENT $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|
| **Year Ended 31 March 2011** | | | | | | |
| Opening Net Book Amount | 108,305 | 2,161 | 4,845 | - | 3,596 | 118,907 |
| Revaluation | - | - | (369) | - | - | (369) |
| Additions | 14,627 | 532 | 236 | 3,611 | 507 | 19,513 |
| Disposals | (638) | - | - | - | (45) | (683) |
| Depreciation Charge | (2,797) | (338) | (12) | (36) | (591) | (3,774) |
| **CLOSING NET BOOK AMOUNT** | **119,497** | **2,355** | **4,700** | **3,575** | **3,467** | **133,594** |
| **At 31 March 2011** | | | | | | |
| Cost | 147,921 | 4,562 | 4,712 | 3,611 | 7,898 | 168,704 |
| Accumulated Depreciation | (28,424) | (2,207) | (12) | (36) | (4,431) | (35,110) |
| **NET BOOK AMOUNT** | **119,497** | **2,355** | **4,700** | **3,575** | **3,467** | **133,594** |
| **Year Ended 31 March 2012** | | | | | | |
| Opening Net Book Amount | 119,497 | 2,355 | 4,700 | 3,575 | 3,467 | 133,594 |
| Revaluation | - | - | 49 | - | - | 49 |
| Additions | 21,415 | - | 346 | - | 820 | 22,581 |
| Disposals | (135) | - | - | - | (12) | (147) |
| Depreciation Charge | (3,008) | (264) | (34) | (147) | (662) | (4,116) |
| **CLOSING NET BOOK AMOUNT** | **137,769** | **2,091** | **5,061** | **3,428** | **3,612** | **151,961** |
| **At 31 March 2012** | | | | | | |
| Cost | 169,201 | 4,562 | 5,107 | 3,611 | 8,706 | 191,187 |
| Accumulated Depreciation | (31,432) | (2,471) | (46) | (183) | (5,093) | (39,226) |
| **NET BOOK AMOUNT** | **137,769** | **2,091** | **5,061** | **3,428** | **3,612** | **151,961** |

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| Included in the Closing Net Book Value is Capital Work in Progress | 4,555 | 9,591 |

## 14 INVESTMENT PROPERTY

| | NOTE | PARENT 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| Valuation at the Beginning of the Year | | 4,700 | 4,845 |
| Additions/Reallocations | | 346 | 236 |
| Change in Fair Value | 4 | 15 | (381) |
| Valuation at the End of the Year | | **5,061** | **4,700** |

| | | |
|---|---|---|
| Amounts recognised in the Income Statement | | |
| Rental Income | 175 | 209 |
| Direct operating expenses of investment properties that generated income. | 95 | 38 |
| Direct operating expenses of investment properties that did not generate rental income. | - | - |

Investment properties were revalued at 31 March 2012 by G.A. Morton, Registered Public Valuer, with knowledge of the market in which the property is located. The current price of the investment property reflects, among other things, market conditions, rental income from current leases, and expected future cash flows.

No investment properties were sold during the period.

## 14 INVESTMENT PROPERTY (CONTINUED)

At the date of issue of these financial statements, no restriction exists on the realisability of investment property or the remittance of income and proceeds of disposal.

No contractual obligation existed at the date of issue of these financial statements to purchase, construct or the remittance of income and proceeds of disposals.

No contractual obligations existed at the date or issue of these financial statements to purchase, construct or develop investment property or for repairs, maintenance or enhancements of rental properties.

Investment property comprises the property located at Washdyke that is leased to associated and other parties. Land and Buildings can only be classified as Investment if the owner occupies an insignificant portion thereof. The Parent occupies an insignificant portion of the property, which is therefore classified as Investment Property for the Parent. For Group purposes, it is included as Land and Buildings within Property, Plant and Equipment.

The yield applied to the net annual rentals to determine the fair value of the property is 9%.

## 15 INTANGIBLES

| | EASEMENTS | COMPUTER SOFTWARE | TOTAL |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **PARENT** | | | |
| **Year Ended 31 March 2011** | | | |
| Opening Net Book Amount | 26 | 12 | 38 |
| Additions | - | 38 | 38 |
| Disposals | - | - | - |
| Amortisation | - | (5) | (5) |
| **CLOSING NET BOOK AMOUNT** | **26** | **45** | **71** |
| **At 31 March 2011** | | | |
| Cost | 58 | 151 | 209 |
| Accumulated Amortisation | (32) | (106) | (138) |
| **NET BOOK AMOUNT** | **26** | **45** | **71** |
| **Year Ended 31 March 2012** | | | |
| Opening Net Book Amount | 26 | 45 | 71 |
| Additions | - | 75 | 75 |
| Disposals | (2) | - | (2) |
| Amortisation | (2) | (37) | (39) |
| **CLOSING NET BOOK AMOUNT** | **22** | **83** | **105** |
| **At 31 March 2012** | | | |
| Cost | 56 | 226 | 282 |
| Accumulated Amortisation | (34) | (143) | (177) |
| **NET BOOK AMOUNT** | **22** | **83** | **105** |
| **GROUP** | | | |
| **Year Ended 31 March 2011** | | | |
| Opening Net Book Amount | 26 | 38 | 64 |
| Additions | - | 10 | 10 |
| Disposals | - | 62 | 62 |
| Amortisation | - | (25) | (25) |
| **CLOSING NET BOOK AMOUNT** | **26** | **85** | **111** |
| **At 31 March 2011** | | | |
| Cost | 58 | 387 | 445 |
| Accumulated Amortisation | (32) | (302) | (334) |
| **NET BOOK AMOUNT** | **26** | **85** | **111** |

## 15 INTANGIBLES (CONTINUED)

| | EASEMENTS | COMPUTER SOFTWARE | TOTAL |
|---|---|---|---|
| | $'000 | $'000 | $'000 |
| **Year Ended 31 March 2012** | | | |
| Opening Net Book Amount | 26 | 85 | 111 |
| Additions | - | 95 | 95 |
| Disposals | (2) | - | (2) |
| Amortisation | (2) | (59) | (61) |
| **CLOSING NET BOOK AMOUNT** | **22** | **121** | **143** |
| | | | |
| **At 31 March 2012** | | | |
| Cost | 56 | 482 | 538 |
| Accumulated Amortisation | (34) | (361) | (395) |
| **NET BOOK AMOUNT** | **22** | **121** | **143** |

## 16 LOANS

The Group has a loan facility with the ANZ Bank to draw down a maximum of $30,000,000. The loan facility is an interchangeable arrangement between a Flexible Credit Facility and a Money Market Line. At balance date the following amounts were drawn.

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| Flexible Credit Facility | 10,000 | - |
| Money Market Line | 15,154 | 8,974 |

The termination date of the total facility is 16 August 2013. The loan is subject to a negative pledge.
An interest rate swap transaction has been entered into, effective 20 December 2011, covering the $10 million borrowed against the Flexible Credit Facility for a period of five years.
The interest rate applied to borrowings against the Money Market Line facility is linked to the Reserve Bank of New Zealand Official Cash Rate. A movement of 1.0% in this rate would result in a movement of $151,540 in the interest expense for the year. The covenants governing the loan have not been breached during the year.

## 17 COMMITMENTS

| | | 2012 | 2011 |
|---|---|---|---|
| (a) Capital Commitments | | 2,617 | 5,477 |
| Lease commitments as lessee: | | | |
| (b) GPS equipment | Within one year | 18 | 15 |
| | Within one and five years | 32 | 60 |
| (c) Ricoh Equipment | Within one year | 6 | - |
| | Between one and five years | 11 | - |
| Lease payments receivable as lessor | | | |
| (d) Lease of Fibre Network | Within one year | 499 | 490 |
| | Between one and five years | 1,995 | 1,960 |
| | Over five years | 8,854 | 9,800 |

The Group has other commitments totalling $236,984 per annum relating to new investment contracts with Transpower. The contracts generally have a term of 20 years, and the existing contracts have expiry dates ranging from 2017 util 2029.

## 18 RECONCILIATION OF OPERATING SURPLUS WITH CASH FLOWS FROM OPERATING ACTIVITES

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $'000 | $'000 | $'000 | $'000 |
| Operating Surplus After Income Tax | 9,351 | 9,001 | 9,205 | 8,963 |
| Add (Deduct) Non Cash Items | | | | |
| Depreciation and Amortisation | 4,176 | 3,808 | 3,691 | 3,377 |
| Share of Surpluses of Associated Entities | (138) | (128) | - | - |
| Increase in Deferred Tax Liability | 1,045 | 991 | 1,109 | 1,145 |
| Disposal of Property, Plant and Equipment | 130 | 646 | 130 | 636 |
| | **5,213** | **5,317** | **4,930** | **5,158** |

## 18 RECONCILIATION OF OPERATING SURPLUS WITH CASH FLOWS (CONTINUED) FROM OPERATING ACTIVITES

| | GROUP 2012 $'000 | GROUP 2011 $'000 | PARENT 2012 $'000 | PARENT 2011 $'000 |
|---|---|---|---|---|
| Add (Deduct) Movements in Working Capital Items | | | | |
| (Increase)/Decrease in Accounts Receivable | 447 | 381 | 338 | 377 |
| (Increase)/Decrease in Inventories and Work in Progress | 98 | (112) | - | - |
| Increase/(Decrease) in GST Liability | 113 | (473) | (78) | (495) |
| Increase/(Decrease) in Creditors and Employee Entitlements | (568) | 1,380 | (713) | 1,456 |
| (Increase) Decrease in Provision for Tax | (355) | (1,015) | (222) | (1,144) |
| | **(265)** | **161** | **(675)** | **194** |
| Add (Deduct) Items Classified as Financing | | | | |
| Dividends Received | - | - | (200) | (800) |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | **14,299** | **14,479** | **13,259** | **13,515** |

## 19 FINANCIAL ASSETS/(LIABILITIES) BY CATEGORY

| | DERIVATIVES -INTEREST RATE SWAP $'000 | LOANS AND RECEIVABLES $'000 | TOTAL $'000 |
|---|---|---|---|
| **PARENT** | | | |
| **Assets as Per Balance Sheet** | | | |
| **At 31 March 2011** | | | |
| Other Investments | - | 3,729 | 3,729 |
| Receivables | - | 1,922 | 1,992 |
| Cash and Cash Equivalents | - | 40 | 40 |
| | - | **5,691** | **5,691** |
| **At 31 March 2012** | | | |
| Other Investments | - | 3,729 | 3,729 |
| Receivables | - | 1,663 | 1,663 |
| Cash and Cash Equivalents | - | - | - |
| Interest Rate Swap | 106 | - | 106 |
| | **106** | **5,392** | **5,498** |

| **Liabilities as per Balance Sheet** | MEASURED AT AMORTISED COST $'000 | TOTAL $'000 |
|---|---|---|
| **At 31 March 2011** | | |
| Trade and Other Payables | (4,041) | (4,041) |
| | **(4,041)** | **(4,041)** |
| **At 31 March 2012** | | |
| Trade and Other Payables | (3,330) | (579) |
| Cash and Cash Equivalents | (579) | (579) |
| | **3,909** | **3,909** |

| | | LOANS AND RECEIVABLES $'000 | TOTAL $'000 |
|---|---|---|---|
| **GROUP** | | | |
| **Assets as per balance sheet** | | | |
| **At 31 March 2011** | | | |
| Other Investments | - | - | - |
| Receivables | - | 2,219 | 2,219 |
| Cash and Cash Equivalents | | 293 | 293 |
| | - | **2,512** | **2,512** |
| **At 31 March 2012** | | | |
| Other Investments | - | - | - |
| Receivables | - | 1,852 | 1,852 |
| Cash and Cash Equivalents | - | 750 | 750 |
| Interest Rate Swap | 106 | - | 106 |
| | **106** | **2,602** | **2,708** |

## 19 FINANCIAL ASSETS/(LIABILITIES) BY CATEGORY (CONTINUED)

| Liabilities as per Balance Sheet | DERIVATIVES -INTEREST RATE SWAP $'000 | MEASURED AT AMORTISED COST $'000 | TOTAL $'000 |
|---|---|---|---|
| **At 31 March 2011** | | | |
| Trade and Other Payables | - | (3,486) | (3,486) |
| | - | **(3,486)** | **(3,486)** |
| **At 31 March 2012** | | | |
| Trade and Other Payables | - | (2,973) | (2,973) |
| | - | **(2,973)** | **(2,973)** |

## 20 CONTINGENT LIABILITES

The Company has a contingent liability as at 31 March 2012 of $747,872. (2011- $nil). This liability relates to an agreement with Smart Co, for the Company to provide a subordinated shareholder loan to Smart Co once a number of terms have been met.

## 21 RELATED PARTY TRANSACTIONS

**Shareholders**

All transactions between the Company and its Shareholder District Councils have been conducted on a commercial basis. Charges between the parties are made for services provided as part of the normal trading activities of the Company, and as such have been incorporated into the operating costs and revenues of the Company.

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 |
| Revenues from Shareholder District Councils - Contracting Activities | | | | |
| Mackenzie District Council | 42 | 27 | - | 4 |
| Timaru District Council | 527 | 526 | 255 | 260 |
| Waimate District Council | 23 | 48 | - | 12 |
| Payments to Shareholder District Councils - Rates | | | | |
| Mackenzie District Council | 14 | 15 | 14 | 15 |
| Timaru District Council | 46 | 133 | 42 | 133 |
| Waimate District Council | 28 | 10 | 28 | 10 |

Trading balances due from and to Shareholder District Councils are shown in notes 8 and 9.

**Parties Associated with Directors**

The Group contracted with parties associated with certain directors of Alpine Energy Limited. These transactions involved consulting services and were at normal commercial rates.

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 |
| Deloitte (S.R. Thompson) | 169 | 41 | 85 | - |

**Associated Entities**

Transactions with Associated Entities include:

Charges to Rockgas Timaru Limited for property rentals.

| | | | | |
|---|---|---|---|---|
| Revenues from Rockgas Timaru Limited | 13 | 7 | 6 | 7 |

Trading balances due from and to Associated Entities, and loans to Associated Entities are shown in notes 8 and 9.

## 21 RELATED PARTY TRANSACTIONS (CONTINUED)

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 |
| Transactions with Subsidiaries include: | | | | |
| Charges to NetCon Limited for property rentals and interest. | | | | |
| Payments to NetCon Limited for lines maintenance and construction. | | | | |
| Revenues from NetCon Limited | 230 | 288 | 230 | 288 |
| Payments to NetCon Ltd | 15,583 | 10,890 | 15,583 | 10,890 |
| Trading balances due from and to Subsidiaries and loans to Subsidiaries are shown in notes 8, 9 and 10. Interest on the loan is included in revenue above. | | | | |
| **Transactions with key management personnel** | | | | |
| Key management personnel compensation was as follows: | | | | |
| Salaries | 1,544 | 1,310 | 881 | 683 |

There is no provision for doubtful debts or bad debt expense for Related Parties.

## 22 PRIOR PERIOD RESTATEMENT

During the year it was established that the contract revenue of $5.458 million for Alpine Energy was not fully eliminated in the 31 March 2011 financial statements. The prior year balances have been restated to correct this error. The profits on inter company transactions were appropriately eliminated and the error was therefore only a gross up of revenue and expenses with no impact on the profit from operations or the balance sheets. There is no tax effect as a result of these adjustments.

The amounts impacted in the financial statements are summarised below:

| **Consolidated Statement of Comprehensive Income** | $'000 |
|---|---|
| Decrease in Revenue | 5,458 |
| Decrease in Contract Services | 1,169 |
| Decrease in Employee Benefits | 1,459 |
| Decrease in Other | 2,830 |
| **Consolidated Statement of Cash Flows** | |
| Decrease in Receipts from Customers | 5,458 |
| Decrease in Payments to Suppliers | 5,458 |

The above adjustments have no effect on the balance sheets at 1 April 2010 or on the profit for any earlier period. Accordingly no restated balance sheets at 1 April 2010 have been presented.

## 23 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 this report that has significantly affected or may significantly affect the operation of the Company or Group, the results of those operations or the state of affairs of the Company or Group.

Performance targets were set in the Statement of Corporate Intent approved by Directors.

| | | GROUP | | PARENT | |
|---|---|---|---|---|---|
| | | 2012 $'000 | 2011 $'000 | 2012 $'000 | 2011 $'000 |
| 1 | **Ratio of Net Surplus attributable to the Shareholders to Average Shareholders' Equity:** | | | | |
| | Target | 7.5% | 7.5% | 7.5% | 7.5% |
| | Result | 8.7% | 8.5% | 8.6% | 8.5% |
| 2. | **Tangible Assets per Share** | | | | |
| | Target | $2.60 | $2.50 | $2.60 | $2.50 |
| | Result | $3.79 | $3.33 | $3.77 | $3.32 |
| 3. | **Earnings per Share:** | | | | |
| | Target | $0.244 | $0.223 | $0.244 | $0.223 |
| | Result | $0.226 | $0.218 | $0.223 | $0.217 |
| 4. | **Total Dividend per Share:** | | | | |
| | Target | | | $0.183 | $0.183 |
| | Result | | | $0.183 | $0.189 |
| 5. | **Ratio of Shareholders' Equity to Total Assets:** | | | | |
| | Minimum Target | 50.0% | 50.0% | 50.0% | 50.0% |
| | Result | 69.3% | 77.4% | 69.2% | 77.4% |
| 6. | **Electricity Line Losses**: | | | | |
| | Maximum Target | | | 6.0% | 6.0% |
| | Result | | | 4.4% | 2.4% |
| 7. | **Average Interruption Duration:** | | | | |
| | Maximum Target (minutes per duration) | | | 180 | 90 |
| | Result | | | 162 | 226 |
| 8. | **Average Interruption Frequency:** | | | | |
| | Maximum Target (interruptions per customer) | | | 1.5 | 1.5 |
| | Result | | | 1.3 | 1.7 |

# Independent Auditor's Report

## To the readers of Alpine Energy Limited and Group's financial statements and performance report for the year ended 31 March 2012

The Auditor-General is the auditor of Alpine Energy Limited (the company) and group. The Auditor-General has appointed me, Mark Bramley, using the staff and resources of PricewaterhouseCoopers, to carry out the audit of the financial statements and performance report of the company and group on her behalf.

We have audited:
- the financial statements of the company and group on pages 13 to 33, that comprise the balance sheets as at 31 March 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance report of the company and group on page 34, except for the non-financial targets 6, 7 and 8 on page 34.

***Modified Opinion***

***Financial statements and the performance report***

In our opinion:
- the financial statements of the company and group on pages 13 to 33:
  - comply with generally accepted accounting practice in New Zealand;
  - comply with International Financial Reporting Standards; and
  - give a true and fair view of the company and group's:
    - financial position as at 31 March 2012; and
    - financial performance and cash flows for the year ended on that date;
- the performance report of the company and group on page 34, except for the non-financial targets 6, 7 and 8 on page 34:
  - complies with generally accepted accounting practice in New Zealand; and
  - gives a true and fair view of the company and group's achievements measured against the performance targets adopted for the year ended 31 March 2012.

***Other legal requirements***

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company and group as far as appears from an examination of those records.

Our audit was completed on 25 June 2012. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and our responsibilities, and explain our independence.

***Basis of opinion***

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and performance report are free from material misstatement.
Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements and performance report. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and performance report. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and performance report whether due to

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fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company and group's financial statements and performance report that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control.

An audit also involves evaluating:
- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the adequacy of all disclosures in the financial statements and performance report; and
- the overall presentation of the financial statements and performance report.

The non-financial targets 6, 7 and 8 on page 34 have been compiled on the basis of un-audited source data of the company. It was not practicable to extend our audit procedures beyond agreeing the non-financial information to the records of the company. Therefore we are unable to express an opinion on the non-financial information contained on page 34.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and performance report. In accordance with the Financial Reporting Act 1993, we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

***Responsibilities of the Board of Directors***

The Board of Directors is responsible for preparing financial statements and a performance report that:
- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company and group's financial position, financial performance and cash flows; and
- give a true and fair view of the company and group's service performance achievements.

The Board of Directors is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements and a performance report that are free from material misstatement, whether due to fraud or error.

The Board of Directors' responsibilities arise from the Energy Companies Act 1992 and the Financial Reporting Act 1993.

***Responsibilities of the Auditor***

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and section 45(1) of the Energy Companies Act 1992.

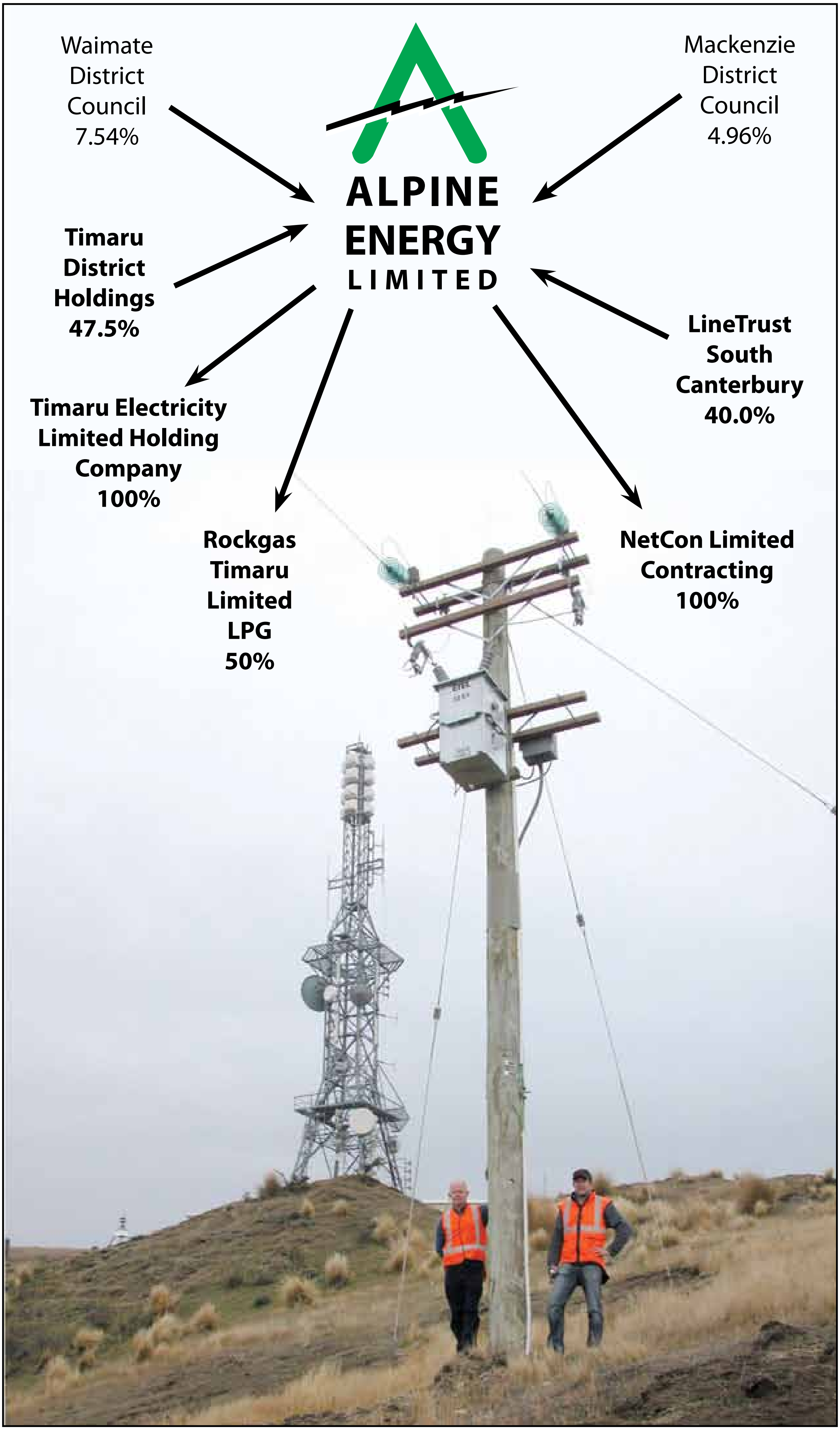
***Independence***

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the New Zealand Institute of Chartered Accountants.

In addition to the audit, we have carried out assignments in the areas of compliance with the Electricity Distribution (Information Disclosure) Requirements 2008, other regulatory requirements of the Commerce Act 1986 and limited scope non-assurance procedures, which are compatible with those independence requirements. Other than the audit and these assignments, we have no relationship with, or interests in, the Company or any of its subsidiaries.

Mark Bramley

Mark Bramley
PricewaterhouseCoopers
On behalf of the Auditor-General
Dunedin, New Zealand


Waimate District Council 7.54%
Mackenzie District Council 4.96%
ALPINE ENERGY LIMITED
Timaru District Holdings 47.5%
LineTrust South Canterbury 40.0%
Timaru Electricity Limited Holding Company 100%
Rockgas Timaru Limited LPG 50%
NetCon Limited Contracting 100%

**ALPINE ENERGY LIMITED**

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