

**EASTLAND ENERGY
COMMUNITY TRUST**

ANNUAL REPORT

2004

Eastland Energy Community Trust – 2004 Annual Report

Contents

	Page
Chairman's Report	1
Audit Report	3
Statement of Financial Performance	4
Statement of Movements in Equity	4
Statement of Financial Position	5
Statement of Cash Flows	6
Notes to the Financial Statements	7
Directory	21

Signed for and on behalf of the
Eastland Energy Community Trust by:



G L Alexander
CHAIRMAN
28 July 2004

Eastland Energy Community Trust – 2004 Annual Report

Chairman's Report

Overview

I am pleased to present the 2004 Annual Report for the Eastland Energy Community Trust (the Trust) incorporating the financial statements for the year ended 31 March 2004.

The 2004 financial year saw the Trust consolidate its activities following the significant investment activity in 2003, primarily relating to the purchase of the Port of Gisborne. The Trust formed Eastland Infrastructure Limited (EIL) during the year to undertake the task of corporate management, asset growth and value enhancement of both Eastland Network Limited (ENL) and Eastland Port Limited (EPL), and any other infrastructure assets that the Trust may acquire in the future. The one board of directors governs all three companies.

Matt Todd has been appointed chief executive of EIL and is responsible for the development and performance of all three companies. All staff are now employed by EIL and management contracts have been established with both ENL and EPL. The grouping of all resources into the one management company will enable savings in overhead costs as well as providing management resources to facilitate superior returns from the existing operating companies and to identify profitable areas of investment for consideration by the Trust.

During the year the Trustees completed a strategic planning process which identified a number of objectives for the next three years. As a part of this process, the Trust's mission statement was redefined as follows:

“To foster the Gisborne district's economic prosperity, through acquiring, owning and prudently governing investments, and distributing wealth to selected commercial and community enterprises”

The Trust's activities are basically separated into three broad areas or portfolios, being the reserve portfolio, investment portfolio and project portfolio. The reserve portfolio comprises mostly highly liquid investments such as cash, bonds and managed funds and is basically a repository for surplus funds to meet the strategies of the Trust implemented via the other two portfolios.

The investment portfolio comprises two key investment types, being commercial investments (such as Eastland Network Limited and Eastland Port Limited), and local venture capital investments made through the Trust's wholly-owned subsidiary, Eastland Development Fund Limited.

The project portfolio comprises investments in community infrastructure and projects that will enhance the district's economic prosperity and/or contribute to local community life. Projects in this portfolio are likely to be significant in the context of the local community and may involve partnerships with other funding sources.

The success of the three portfolios is essential as funding for grants and other distributions is sourced from surplus cash generated by the income from the portfolios. The strategic planning process identified that for the Trust to meet its objective of enhancing overall returns from the three portfolios for the benefit of the Trust's beneficiaries, suitable management resources were required.

As the first step to providing these resources, Mr David Smart was appointed general manager of the Trust in June 2004. David's main role is to oversee the Trust's activities with a view to maximising the performance of the reserve, investment and project portfolios, thereby providing the funds necessary to grow the Trust's funds and provide distributions for the benefit of the Trust's beneficiaries.

Eastland Energy Community Trust – 2004 Annual Report

Chairman's Report

Financial results

The Trust achieved a net surplus after taxation for the year of \$2.606 million, a 55% increase over last year's result of 1.676 million, on revenues of \$3.304 million (2003:\$2.171 million). Overall, the consolidated group net surplus after taxation increased 43% year-on-year to \$6.003 million (2003:\$4.181 million), on consolidated revenues of \$29.141 million (2003:\$23.684 million).

The consolidated financial figures include the results of Eastland Network Limited, Eastland Port Limited and Eastland Development Fund Limited (including 51%-owned subsidiary Ice Solutions Limited).

The Trustees consider the financial position of the Trust to be sound with total consolidated assets now in excess of \$110 million and net consolidated equity of approximately \$77 million.

Development capital

The Trust's development capital subsidiary, Eastland Development Fund Limited (EDFL), did not make any new investments during the past financial year as no suitable opportunities were identified. EDFL's only investment remains its 51% interest in chilling technology company Ice Solutions Limited. With the appointment of a general manager for the Trust it is expected that more potential investment opportunities will now be identified for consideration by the Trustees.

Grants

A total of \$781,859 was allocated in grants during the past financial year compared to \$747,984 in the 2003 financial year. A full listing of the grants made during the year is contained on pages 19 and 20. The March 2004 grants round was cancelled pending a decision by the Trustees on the future focus and criteria for grants following the development of the strategic plan. The next grants round is scheduled for September 2004.

Retirements and appointments

In terms of the Trust Deed two trustees, Thomas Corson and I, were required to retire by rotation as at 30 June 2004. I offered myself for reappointment however Thomas Corson advised that he wished to retire after six year's service as a Trustee. The Gisborne District Council reappointed me for a further term of three years and appointed Graham Johnson to fill the vacancy left by Thomas' resignation.

On behalf of the trustees I would like to thank Thomas for his contribution over the past six years and in particular for the invaluable expertise contributed by him in relation to the significant commercial transactions entered into by the Trust over this time.



G L Alexander
Chairman

Eastland Energy Community Trust – 2004 Annual Report

Audit Report To the Readers of the Financial Report of Eastland Energy Community Trust



We have audited the financial report on pages 5 to 18. The financial report provides information about the past financial performance of Eastland Energy Community Trust and group and its financial position as at 31 March 2004. This information is stated in accordance with the accounting policies set out on pages 7 to 10.

Trustees Responsibilities

The Trustees are responsible for the preparation of a financial report which gives a true and fair view of the financial position of Eastland Energy Community Trust and group as at 31 March 2004 and of the results of operations and cash flows for the 12 months ended on that date.

Auditor's Responsibilities

It is our responsibility to express an independent opinion on the financial report presented by the Trustees and report our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial report. It also includes assessing:

- the significant estimates and judgements made by the Trustees in the preparation of the financial report, and
- whether the accounting policies in New Zealand are appropriate to Eastland Energy Community Trust and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial report is free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial report.

Other than in our capacity as auditor we have no relationship with or interests in Eastland Energy Community Trust or any of its subsidiaries.

Unqualified Opinion

We have obtained all information and explanations we have required.

In our opinion:

- proper accounting records have been kept by Eastland Energy Community Trust as far as appears from our examination of those records; and
- the financial report on pages 5 to 18:
 - complies with generally accepted accounting practice;
 - gives a true and fair view of the financial position of Eastland Energy Community Trust and group as at 31 March 2004 and the results of operations and cash flows for the 12 months ended on that date.

Our audit was completed on 28 July 2004 and our unqualified opinion is expressed as at that date.

A handwritten signature in black ink that reads "Graham & Dobson". The signature is written in a cursive, flowing style.

Graham & Dobson - Gisborne
Chartered Accountants

Eastland Energy Community Trust – 2004 Annual Report

Statement of financial performance

for the year ended 31 March 2004

	Notes	Group		Trust	
		2003/04 \$000	2002/03 \$000	2003/04 \$000	2002/03 \$000
Revenue		29,141	23,684	3,304	2,171
Net operating surplus before taxation	2	8,284	6,194	3,104	1,971
Taxation	4	2,348	2,078	498	295
Net operating surplus after taxation		5,936	4,116	2,606	1,676
Minority Interests		67	65	-	-
Net Surplus for the year		6,003	4,181	2,606	1,676

Statement of movements in equity

for the year ended 31 March 2004

Total equity at beginning of year	70,782	67,716	77,887	77,261
Net surplus for the year	6,003	4,181	2,606	1,676
Total recognised revenue and expenses for the year	6,003	4,181	2,606	1,676
Distributions to or on behalf of beneficiaries	(954)	(1,050)	(1,000)	(1,050)
Revaluation of Eastland Network buildings	952	-	-	-
Revaluation of Eastland Network land	(23)	-	-	-
Movement in minority interests	(67)	(65)	-	-
Total equity at the end of the year	76,693	70,782	79,493	77,887

Eastland Energy Community Trust – 2004 Annual Report

Statement of financial position

As at 31 March 2004

		Group		Trust	
	Notes	2003/04	2002/03	2003/04	2002/03
		\$000	\$000	\$000	\$000
Equity	3	76,693	70,782	79,493	77,887
Attributable to stakeholders of the Group		76,790	70,813	79,493	77,887
Attributable to minority shareholders of the Group		(97)	(31)	-	-
Represented by:					
Current assets					
Cash		5,579	3,923	4,074	1,816
Income tax refund due		410	294	3	96
Receivables and prepayments	6	2,933	3,730	234	498
Inventories	7	8	59	-	-
Total current assets		8,930	8,006	4,311	2,410
Current liabilities					
Creditors and borrowings	5	4,181	5,922	1,136	718
Income tax payable		48	-	46	-
Employee provisions		292	231	-	-
Total current liabilities		4,521	6,153	1,182	718
Net working capital		4,409	1,853	3,129	1,692
Non-current assets					
Fixed assets	8	104,550	100,187	-	-
Investments	10	100	100	76,364	76,195
Patents and intellectual property		55	30	-	-
Total non-current assets		104,705	100,317	76,364	76,195
Non-current liabilities					
Creditors and borrowings	5	30,950	30,800	-	-
Income in advance		61	-	-	-
Deferred taxation	4	1,410	588	-	-
Total non-current liabilities		32,421	31,388	-	-
Net assets		76,693	70,782	79,493	77,887

Eastland Energy Community Trust – 2004 Annual Report

Statement of cashflows

For the year ended 31 March 2004

	Notes	Group		Trust	
		2003/04 \$000	2002/03 \$000	2003/04 \$000	2002/03 \$000
Cashflows from operating activities					
Cash was provided from:					
Receipts from customers		30,662	19,467	279	-
Interest received		213	1,054	1,839	1,882
Dividends received		-	-	1,450	250
GST (net)		84	85	-	-
		<u>30,959</u>	<u>20,606</u>	<u>3,568</u>	<u>2,132</u>
Cash was disbursed to:					
Payments to suppliers & employees		17,980	9,892	180	489
Interest paid		2,005	1,990	-	-
Taxes paid		1,607	1,115	359	50
		<u>21,592</u>	<u>12,997</u>	<u>539</u>	<u>539</u>
Net cash inflow from operating activities	9	<u>9,367</u>	<u>7,609</u>	<u>3,029</u>	<u>1,593</u>
Cashflows from investing activities					
Cash was provided from:					
Proceeds from sale of fixed assets		10	494	-	-
		<u>10</u>	<u>494</u>	<u>-</u>	<u>-</u>
Cash was applied to:					
Purchase of fixed assets		6,701	26,662	-	-
Maintenance dredging		648	30	-	-
Investments in subsidiaries		-	-	169	7,141
		<u>7,349</u>	<u>26,692</u>	<u>169</u>	<u>7,141</u>
Net cash outflow from investing activities		<u>(7,339)</u>	<u>(26,198)</u>	<u>(169)</u>	<u>(7,141)</u>
Cashflows from financing activities					
Cash was provided from:					
Proceeds from borrowings		150	3,350	-	-
Shareholder advances		34	-	-	-
		<u>184</u>	<u>3,350</u>	<u>-</u>	<u>-</u>
Cash was applied to:					
Capital notes issue		-	-	-	10,000
Payment of grants		556	616	602	616
		<u>556</u>	<u>616</u>	<u>602</u>	<u>10,616</u>
Net cash inflow/(outflow) from financing activities		<u>(372)</u>	<u>2,734</u>	<u>(602)</u>	<u>(10,616)</u>
Net increase/(decrease) in cash held		1,656	(15,855)	2,258	(16,164)
Opening cash		3,923	19,778	1,816	17,980
Ending cash carried forward		<u>5,579</u>	<u>3,923</u>	<u>4,074</u>	<u>1,816</u>

Eastland Energy Community Trust – 2004 Annual Report

Notes to the financial statements

1. Statement of accounting policies

Reporting entity

The Eastland Energy Community Trust was incorporated on the 7th day of May 1993 pursuant to the Energy Companies (Eastland Energy Limited) Vesting Order 1993 upon the vesting in the Trust of the equity securities and debt securities issued by Eastland Energy Limited.

The Group consists of Eastland Energy Community Trust, its 100% owned subsidiary companies Eastland Network Limited, Eastland Port Limited, Eastland Infrastructure Limited and Eastland Development Fund Limited, and a 51% ownership interest in Ice Solutions Limited (through Eastland Development Fund Limited).

The financial statements and Group financial statements of Eastland Energy Community Trust have been prepared in accordance with the requirements of section 158A of the Electricity Act 1992 and the Financial Reporting Act 1993.

Measurement base

The financial statements have been prepared on the historical cost basis, modified by the revaluation of certain assets.

Accounting policies

The following particular accounting policies which materially affect the measurement of financial results and financial position have been applied:

Basis of consolidation - purchase method

The consolidated financial statements include the Trust and its subsidiaries. The subsidiaries are accounted for using the purchase method which involves adding together corresponding assets, liabilities, revenues and expenses on a line by line basis.

All significant inter-entity transactions are eliminated on consolidation.

Goods and Services Tax

As the Trust and Eastland Development Fund Limited are not registered pursuant to the Goods & Services Tax Act 1985 any goods & services tax (GST) paid is irrecoverable as an input tax and is therefore recognised as part of the related asset or expense. In relation to other subsidiary companies all items in the financial statements are exclusive of GST with the exception of receivables and payables which are stated with GST included. Where GST is irrecoverable as an input tax then it is recognised as part of the related asset or expense.

Taxation

Income tax expense / (credit) is charged in the statement of financial performance in respect of current year's earnings after allowing for permanent differences. Deferred taxation (applicable to Eastland Network Limited, Eastland Port Limited and Eastland Infrastructure Limited) is determined on a comprehensive basis using the liability method. Deferred tax assets attributable to timing differences or tax losses are only recognised where there is virtual certainty of realisation.

Eastland Energy Community Trust – 2004 Annual Report

Notes to the financial statements

1. Statement of accounting policies (continued)

Accounts receivable

Accounts receivable are stated at expected realisable value after providing for doubtful and uncollectable debts.

Inventories

Property Held for Sale

Property held for sale includes land, buildings, plant and equipment identified as surplus to the entity's requirement. This is valued at the lower of cost or net realisable value.

Other Inventories

Other inventories are stated at the lower of cost or net realisable value. The estimated costs of marketing, selling and distribution are deducted in calculating net realisable value.

Cost is determined on a weighted average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

Investments

Non-current investments are recorded at cost or valuation. Where investments in subsidiary entities are revalued, the change in value is included in the statement of movements in equity. Where other investments are revalued, the change in value is included in the statement of financial performance.

Fixed assets

Owned Assets

Fixed assets are initially stated at cost and depreciated as outlined below. Where appropriate, the cost of fixed assets includes site preparation costs, installation costs, and the cost of obtaining resource consents.

Leased Assets

Leases in terms of which the Trust (and Group) assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance lease are stated at an amount equal to the present value of the future minimum lease payments, and are depreciated as outlined below.

Revaluations (Eastland Network Limited)

Land and buildings are stated at valuation as determined on a cyclical basis not exceeding three years by an independent valuer. The basis of valuation is market value less the estimated costs of disposal, on an existing use basis.

Network assets are stated at valuation as determined on a cyclical basis not exceeding five years. The basis of valuation is optimised depreciated replacement cost, as reviewed by an independent engineering consultant.

Generation assets are stated at valuation as determined on a cyclical basis not exceeding five years. The basis of valuation is discounted cash flows, as reviewed by an independent valuer.

Eastland Energy Community Trust – 2004 Annual Report

Notes to the financial statements

1. Statement of accounting policies (continued)

Any surplus on revaluation is transferred directly to equity unless it offsets a previous decrease in value recognised in the statement of financial performance, in which case it is recognised in the statement of financial performance. A decrease in value is recognised in the statement of financial performance where it exceeds the surplus previously transferred to equity.

Disposal of Fixed Assets

Where a fixed asset is disposed of, the profit or loss recognised in the statement of financial performance is calculated as the difference between the sale price and the carrying value of the fixed asset.

Depreciation

Depreciation is provided on a straight line basis on all fixed assets other than freehold land, at rates which will write off the cost of the assets to their estimated residual values over their useful lives.

Major depreciation periods are:

Buildings	8 – 100 years
Wharves, walls and surfaces	3 – 100 years
Distribution system	10 – 60 years
Generation equipment	15 – 25 years
Motor vehicles	5 – 10 years
Plant & equipment	3 – 20 years
Floating plant	25 years

Leases

Finance leases

Leases which effectively transfer to the entity substantially all the risks and benefits incidental to ownership of the leased item are classified as finance leases. These are capitalised at the lower of the fair value of the asset or the present value of the minimum lease payments.

The leased assets and the corresponding lease liabilities are recognised in the statement of financial position. The leased assets are depreciated over the period the entity is expected to benefit from their use.

Operating leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items are classified as operating leases. Payments under these leases are recognised as expenses in the periods in which they are incurred.

Maintenance dredging

The cost of maintenance dredging is expensed over the period of benefit through to the commencement of the next dredging campaign. The value of the unexpired portion of maintenance dredging at balance date is reflected in property, plant and equipment.

Eastland Energy Community Trust – 2004 Annual Report

Notes to the financial statements

1. Statement of accounting policies (continued)

Financial instruments

The Trust (and Group) is party to financial instruments as part of its normal operations. These financial instruments include bank accounts, short term deposits, debtors, creditors and loans. All financial instruments are recognised in the statement of financial position and all revenues and expenses in relation to financial instruments are recognised in the statement of financial performance.

Except for loans, which are recorded at face value, and those items covered by a separate accounting policy, all financial instruments are shown at their estimated fair value.

Employee entitlements

A liability for annual leave and long service leave is accrued and recognised in the statement of financial position. The liability is calculated on an actual entitlement basis.

Foreign currency transactions

Transactions denominated in foreign currencies are translated into the reporting currency using the exchange rate in effect at the transaction date.

Monetary items receivable or payable in a foreign currency, other than those resulting from short term transactions covered by forward exchange contracts, are translated at balance date at the closing rate. For transactions covered by short term forward exchange contracts, the rates specified in those contracts are used as the basis for measuring and reporting the transaction.

Exchange differences on foreign currency balances are recognised in the statement of financial performance.

Statement of cash flows

Cash means cash balances on hand, held in bank accounts, demand deposits and other highly liquid investments in which the Trust (and Group) invests as part of its day to day cash management.

Operating activities include cash received from all income sources of the Trust (and Group) and records the cash payments made for the supply of goods and services.

Investing activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise the change in equity and debt capital structure of the Trust (and Group).

Changes in accounting policies

There have been no changes in accounting policies from those adopted in the last financial statements. The policies have been applied on a basis consistent with other years.

Eastland Energy Community Trust – 2004 Annual Report

Notes to the financial statements

	Group		Trust	
	2003/04	2002/03	2003/04	2002/03
	\$000	\$000	\$000	\$000
2. Net operating surplus before taxation				
<i>After charging:</i>				
Amortisation costs	2	2	-	-
Audit fees and expenses	66	45	4	-
Bad debts written off	2	31	-	-
Depreciation	4,221	4,087	-	-
Directors' fees	238	154	-	-
Doubtful debt provision	(8)	(41)	-	-
Interest expense	2,007	1,988	-	-
Loss on disposal of assets	65	86	-	-
Rental and operating lease costs	12	6	-	-
Trustees' remuneration	52	63	52	63
<i>After crediting:</i>				
Interest income	316	1,018	1,854	1,921
Dividend income	-	-	1,450	250
Gain on sale of assets	9	9	-	-
3. Equity				
Paid in capital	20,000	20,000	20,000	20,000
Asset revaluation reserve	22,852	21,923	40,500	40,500
Other equity	33,938	28,890	18,993	17,387
	<u>76,790</u>	<u>70,813</u>	<u>79,493</u>	<u>77,887</u>
Minority interests	(97)	(31)	-	-
Total equity	<u>76,693</u>	<u>70,782</u>	<u>79,493</u>	<u>77,887</u>

Eastland Energy Community Trust – 2004 Annual Report

Notes to the financial statements

	Group		Trust	
	2003/04	2002/03	2003/04	2002/03
	\$000	\$000	\$000	\$000
4. Taxation				
Net operating surplus before taxation	8,284	6,194	3,104	1,971
Prima facie taxation @ 33%	2,734	2,044	1,024	650
Taxation effect of permanent differences	(378)	(12)	(619)	(353)
Income tax expense on surplus	2,356	2,032	405	297
Income tax under (over) provided in prior years	(56)	(2)	93	(2)
Subsidiary company loss not recognised	48	48	-	-
Taxation expense	2,348	2,078	498	295
Income tax expense is made up of:				
Current taxation	1,526	1,337	498	295
Deferred taxation	822	741	-	-
	2,348	2,078	498	295
Deferred taxation account				
Balance at beginning of year	588	(153)	-	-
Current year allowance	822	741	-	-
Balance at end of year	1,410	588	-	-

Eastland Energy Community Trust – 2004 Annual Report

Notes to the financial statements

	Group		Trust	
	2003/04 \$000	2002/03 \$000	2003/04 \$000	2002/03 \$000
5. Creditors and borrowings				
a) Current				
Bank loans - unsecured	-	1,000	-	-
Trade creditors	3,076	4,215	31	11
Outstanding grants	579	400	579	400
Provision for grants	526	307	526	307
	<u>4,181</u>	<u>5,922</u>	<u>1,136</u>	<u>718</u>
b) Non - Current				
Bank loans - unsecured	30,950	30,800	-	-

Eastland Network Limited has a credit line with ASB Bank for \$40 million. This credit line is unsecured, but subject to a Deed of Negative Pledge. The facility is initially for a period of 5 years from 28 July 2001. Borrowings are rolled over on a three monthly or call basis. Eastland Network Limited has a policy of hedging interest rates and currently has interest rate cover of \$23 million for various periods up to five years. The average rate of fixed rate cover at 31 March 2004 is 6.48%.

6. Receivables and prepayments

Trade receivables	2,647	3,134	-	-
Other receivables	286	596	234	219
Advance to subsidiary	-	-	-	279
	<u>2,933</u>	<u>3,730</u>	<u>234</u>	<u>498</u>

7. Inventories

No inventories are pledged as security for liabilities nor are any inventories subject to retention of title clauses.

Eastland Energy Community Trust – 2004 Annual Report

Notes to the financial statements

	Group		Trust	
	2003/04 \$000	2002/03 \$000	2003/04 \$000	2002/03 \$000
8. Fixed assets				
<i>At cost / valuation:</i>				
Freehold land	4,620	4,570	-	-
Buildings	4,248	3,306	-	-
Wharves, walls, surfaces	10,602	10,531	-	-
Generation equipment	7,993	7,784	-	-
Distribution network	82,032	76,285	-	-
Plant and equipment	3,297	2,880	-	-
Floating plant	500	500	-	-
Vehicles	328	247	-	-
Maintenance dredging	678	363	-	-
	<u>114,298</u>	<u>106,466</u>	<u>-</u>	<u>-</u>
<i>Accumulated depreciation:</i>				
Buildings	(106)	(111)	-	-
Wharves, walls, surfaces	(456)	(34)	-	-
Generation equipment	(547)	(206)	-	-
Distribution network	(6,164)	(4,145)	-	-
Plant and equipment	(2,034)	(1,632)	-	-
Floating plant	(22)	(2)	-	-
Vehicles	(195)	(149)	-	-
Maintenance dredging	(224)	-	-	-
	<u>(9,748)</u>	<u>(6,279)</u>	<u>-</u>	<u>-</u>
<i>Net book value:</i>				
Freehold land	4,620	4,570	-	-
Buildings	4,142	3,195	-	-
Wharves, walls, surfaces	10,146	10,497	-	-
Generation equipment	7,446	7,578	-	-
Distribution network	75,868	72,140	-	-
Plant and equipment	1,263	1,248	-	-
Floating plant	478	498	-	-
Vehicles	133	98	-	-
Maintenance dredging	454	363	-	-
	<u>104,550</u>	<u>100,187</u>	<u>-</u>	<u>-</u>

Eastland Network Limited's revalued freehold land and buildings on hand at balance date are stated at net current value as determined by Roger Kelly ANZIV, of Valuation & Property Services in February 2004. Network assets have been valued at Optimised Depreciated Replacement Cost as confirmed by Kerslake and Partners, Consulting Engineers, as at 31 March 2002. Additions since valuation have been recorded at cost. Generation Assets have been valued at market value as determined by KPMG and confirmed by DTZ New Zealand Limited as at 31 March 2002. Additions since valuation have been recorded at cost. All other assets are stated at cost.

Eastland Energy Community Trust – 2004 Annual Report

Notes to the financial statements

8. Fixed assets (continued)

The capital works programme undertaken by Eastland Network Limited during the year was partly financed from borrowings. Interest incurred on these borrowing during the period of construction has been capitalised being recognition that the borrowing cost was part of the cost of the resulting assets. The total amount of interest capitalised in this manner is \$95,341.

9. Reconciliation of net operating surplus after taxation with cash inflow from operating activities

	Group		Trust	
	2003/04	2002/03	2003/04	2002/03
	\$000	\$000	\$000	\$000
Reported net operating surplus after taxation	5,936	4,116	2,606	1,676
Add back non-cash items:				
Depreciation	4,221	4,087	-	-
Movement in deferred taxation	822	739	-	-
Movement in income in advance	61	-	-	-
Amortisation costs	2	2	-	-
Overhead recovered in fixed assets	(701)	-	-	-
	4,405	4,828	-	-
Add back item classified as investment activity:				
Net loss (gain) on disposal of assets	56	79	-	-
Grants included in payables	(398)	(434)	(398)	(434)
Purchase of fixed assets included in payables	302	(344)	-	-
Asset transferred to cost of sales	-	28	-	-
	(40)	(671)	(398)	(434)
Add back item classified as financing activity:				
Shareholder advances	(34)	-	-	-
	(34)	-	-	-
Movements in working capital:				
(Increase)/decrease in taxation refund/payable	(68)	-	139	245
(Increase)/decrease in receivables & prepayments	797	(1,704)	264	(318)
(Increase)/decrease in inventories	51	229	-	-
Increase/(decrease) in creditors and borrowings	(1,680)	811	418	424
Net working capital movements	(900)	(664)	821	351
Net cash inflow from operating activities	9,367	7,609	3,029	1,593

Eastland Energy Community Trust – 2004 Annual Report

Notes to the financial statements

10. Subsidiaries

Investments held by the parent entity comprises:

- 100% interest in the share capital of Eastland Network Limited and \$10 million of capital notes issued by Eastland Network Limited.
- 100% interest in the share capital of Eastland Port Limited and \$10 million of capital notes issued by Eastland Port Limited.
- 100% interest in the share capital of Eastland Infrastructure Limited.
- 100% interest in the share capital of Eastland Development Fund Limited, which in turn has a 51% interest in the ordinary share capital of Ice Solutions Limited.

All subsidiary entities have a 31 March balance date.

11. Contingent Liability

As at 31 March 2004, Eastland Network Limited has a contingent liability of \$92,289 (2003 \$92,289) in respect of Subdivision Developers' Rebates on sections that are reticulated but undeveloped. The individual liabilities will be brought to charge as each section is developed and line charges become payable.

12. Contingent Asset

Last year Eastland Network Limited reported a contingent asset in respect of an insurance claim resulting from storm damage incurred in September 2000. During the year the Company accepted a settlement offer from the insurance companies involved resulting in the receipt of an additional \$395,000, increasing the total settlement proceeds to \$1.145 million.

13. Financial instruments

Credit risk

Financial assets which potentially subject the entity to a credit risk consist principally of bank balances and accounts receivable. The maximum credit risk is the book value of these financial instruments, however the entity considers the risk of non recovery of these amounts to be minimal.

Bank balances and investments in short term deposits are made with registered banks with satisfactory credit ratings. Exposure with any one financial institution is restricted in accordance with policies adopted by each Group entity.

Currency risk

The Group had no material exposure to currency risk as at 31 March 2004.

Interest risk

The interest rate risk is limited to bank borrowings. Eastland Network Limited has a policy of hedging interest rates and has hedges covering \$23 million of borrowings for periods between two and five years at less than 7.5%.

Fair Values

The carrying value of cash and bank deposits, accounts receivable and accounts payable is equivalent to their fair value.

Eastland Energy Community Trust – 2004 Annual Report

Notes to the financial statements

14. Related parties

(a) Parent entity

The ultimate holding entity is the Eastland Energy Community Trust (the Trust).

(b) Identity of related parties with whom material transactions have occurred

Note 10 identifies all Group entities in which the Trust has an interest. All of these entities are related parties of the Trust. There are no additional related parties with whom material transactions have taken place.

(c) Material related party transactions

The following material related party transactions took place during the year:

- Eastland Network Limited paid a dividend to the Trust during the year of \$1,450,000 and also paid interest on capital notes amounting to \$850,000.
- Eastland Port Limited paid interest on capital notes to the Trust during the year amounting to \$850,000.
- During the year the Trust subscribed for 100 ordinary shares in Eastland Infrastructure Limited for a total consideration of \$100,000.
- During the year the Trust subscribed for \$68,700 in redeemable preference shares in Eastland Development Fund Limited.
- During the year Eastland Development Fund Limited subscribed for \$26,820 in redeemable preference shares in Ice Solutions Limited and also provided a shareholders' advance of \$35,700.
- During the year Eastland Infrastructure Limited took over some of the staff at Eastland Network Limited and Eastland Port Limited and subsequently provided management services to these companies. The management fees for the year ended 31 March 2004 amounted to \$429,940 (Eastland Network Limited) and \$132,233 (Eastland Port Limited).

15. Capital Commitments

There were no material capital commitments at balance date (2003:\$306,584 – Eastland Port Limited).

16. Events subsequent to balance date

There have been no material events subsequent to balance date requiring disclosure.

Eastland Energy Community Trust – 2004 Annual Report

Notes to the financial statements

17. Statement of objectives and performance

The Trust's statement of intent contains the objectives and performance targets that the Trust aims to meet.

A comparison of the specific performance targets of the Trust (as contained in the Trust's statement of intent) to the achievements during the year is detailed below.

Performance measure	Outcome
Consult and agree with the boards of each subsidiary the content of their Statement of Corporate Intent no later than 30 April 2003.	SCIs were finalised in June 2003
Monitor the performance of each subsidiary by receiving and considering financial information on at least a quarterly basis and requesting regular updates from the chairman of each board.	Achieved
Complete the bi-annual process of funding community initiatives by the 30 th of June and the 31 st of December 2003.	Achieved
Proactively seek to identify suitable projects for development funding throughout the year with the aim of making at least one investment during the year.	No suitable projects were identified during the year
Meet all accountability and reporting requirements contained in the Trust deed by their due date.	Achieved
Send Trustee representatives to Energy Trust Association of New Zealand seminars in order to keep abreast of changes in the industry that may impact on the value of the Trust's investments.	Achieved
Meet at least nine times during the year to transact Trust business.	Achieved

Eastland Energy Community Trust – 2004 Annual Report

Notes to the financial statements

18. Distributions

The following organisations were allocated grants during the year:

Riverdale Kindergarten (purchase fridge)	662.20
Epilepsy Association of New Zealand (purchase computer equipment)	3,373.33
St Johns Gisborne Area (purchase manikins)	9,700.00
Gisborne Trampoline Club Inc (purchase power tumbling floor)	32,588.26
Gisborne Youth Sports Charitable Trust (building renovations)	93,500.00
Tuia 2000 Charitable Trust (2003/2004 new year festival)	132,567.09
Eastland Helicopter Rescue Trust (purchase night vision goggles)	21,540.00
Alzheimers Society Gisborne Inc (purchase office equipment)	1,540.00
Gisborne Yacht Club (purchase inflatable boat & trailer)	4,460.00
Gisborne Netball Centre (resurface netball courts)	30,000.00
Whakarua Park Board (upgrade electrical supply)	56,894.31
Te Hapara Anglican Parish (upgrade security lighting)	831.40
East Coast Museum of Technology (purchase branch rail line)	45,000.00
Gisborne District Council (produce promotional disc)	4,025.00
Gisborne Chamber of Commerce (young enterprise scheme)	4,950.00
Gisborne City Vintage Railway Inc (purchase and repair of building)	17,500.00
Gisborne District Council (lighting christmas tree)	5,110.00
Cornerstone Preschool (purchase shade sails)	4,500.00
Hinemaurea Marae (upgrade lighting)	2,000.00
Eastland Network Limited (East Coast solar project)	46,000.00
Gisborne Hospital Childcare Society (purchase air conditioning)	1,850.00
Gisborne District Council (destination Gisborne publication)	20,000.00
Gisborne Centre Stage Theatre Group (purchase lighting)	5,383.13
YMCA Gisborne (building upgrade)	60,000.00
Eastwoodhill Trust Board (construction of walkway)	15,000.00
Toko Toru Tapu Restoration Trust (install smoke detectors/sprinklers)	15,000.00
Pickering Street Kindergarten (purchase freezer)	743.00
Tourism Eastland Society Inc (underwrite classical arts week)	10,505.78
Gisborne Rotary Club Charitable Trust (underwrite music competition)	5,327.00
Gisborne Boys' High School (construct cricket practice pitch)	11,992.00
Poverty Bay Cricket Association (purchase equipment)	15,636.29
Gisborne Speedway Club Inc (lighting & irrigation improvements)	17,118.00
Gisborne Riding Club for Disabled (lighting & drainage improvements)	107,266.00
Carried forward	802,562.79

Eastland Energy Community Trust – 2004 Annual Report

Notes to the financial statements

18. Distributions (continued)

Brought forward	802,562.79
Pregnancy Counselling Services (educational material)	1,890.00
Subtotal	804,452.79
Grants from previous years reversed	(22,593.54)
Total grants allocated during the year (net)	781,859.25

DIRECTORY

Trustees

G L Alexander (Chairman)
T N Corson (retired 1 July 2004)
A G Davidson
P J Farley
G L Johnson (appointed 21 July 2004)
G M Milner
E R Revington
S J Smail

Management

D N Smart (General Manager)
H K Hughes (Secretary)

Postal address

PO Box 800
GISBORNE

Auditor

Graham & Dobson
PO Box 1247
GISBORNE

Bankers

Westpac
Gisborne Branch
PO Box 942
GISBORNE

Solicitors

Nolans
PO Box 1141
GISBORNE