

# WEL ENERGY GROUP LIMITED

## Statement of Financial Performance For the year ended 31 March 2000

		Line Business	
	Note	2000 (\$000s)	1999 (\$000s)
Total revenue	1	54,993	52,490
Operating expenses	2	(29,436)	(28,549)
Operating surplus before interest & taxation		<u>25,557</u>	23,941
Interest expense	3	(40)	(51)
Operating surplus before taxation		<u>25,517</u>	23,890
Taxation expense	4	(9,273)	(9,438)
Surplus attributable to the shareholders of the parent company		<u><u>16,244</u></u>	<u><u>14,452</u></u>

## Statement of Movements in Equity For the year ended 31 March 2000

		Line Business	
	Note	2000 (\$000s)	1999 (\$000s)
Equity as at 1 April		<u>224,656</u>	134,225
Net Surplus for the year		16,244	14,452
Total Recognised Revenue and Expenses		<u>16,244</u>	14,452
Dividends		(13,994)	(6,073)
Allocation in compliance with Electricity (Information Disclosure) Regulations			
Cash & Bank		-	85,918
Fixed assets		-	(3,022)
Other		-	(844)
		<u>(13,994)</u>	75,979
Equity as at 31 March		<u><u>226,906</u></u>	<u><u>224,656</u></u>

# WEL ENERGY GROUP LIMITED

## Statement of Financial Position As at 31 March 2000

	Note	Line Business	
		2000 (\$000s)	1999 (\$000s)
<b>Tangible assets</b>			
Current assets	6	96,421	90,404
Fixed assets	7	146,793	142,009
Other tangible assets		-	-
<b>Total tangible assets</b>		<b>243,214</b>	<b>232,413</b>
<b>Intangible assets</b>			
Goodwill		-	-
Other intangible assets		-	-
<b>Total intangible assets</b>		<b>-</b>	<b>-</b>
<b>Total Assets</b>		<b>243,214</b>	<b>232,413</b>
<b>Liabilities</b>			
Current liabilities	8	10,257	2,675
Non current liabilities	9	6,051	5,082
<b>Total liabilities</b>		<b>16,308</b>	<b>7,757</b>
<b>Equity</b>			
Capital Notes		-	-
Equity	5	226,906	224,656
<b>Total capital funds</b>		<b>226,906</b>	<b>224,656</b>
<b>Total equity and liabilities</b>		<b>243,214</b>	<b>232,413</b>

19 July 2000

# WEL ENERGY GROUP LIMITED

## Statements of Cash Flows

For the year ended 31 March 2000

	Note	Line Business 2000 (\$000s)	1999 (\$000s)
<b>Cash Flows From Operating Activities</b>			
Cash received from operations			
Receipts from customers		47,388	58,236
Interest received		4,502	1,001
Total cash received from operations		51,890	59,237
Cash disbursed on operations			
Payments to employees and suppliers		(22,794)	(26,426)
Interest paid		(40)	(51)
Income tax paid		(6,554)	(6,256)
Total cash disbursed on operations		(29,388)	(32,733)
<b>Net cash flow from operations</b>		22,502	26,504
<b>(refer to reconciliation below)</b>			
<b>Cash Flows From Investing Activities</b>			
Cash received from investing activities			
Investments maturing		-	251
Total cash from investing activities		-	251
Cash disbursed on investing activities			
Fixed asset purchases		(10,609)	(13,120)
Total cash disbursed on investing activities		(10,609)	(13,120)
<b>Net cash flow applied to/(from) investing activities</b>		(10,609)	(12,868)
<b>Cash Flows From Financing Activities</b>			
Cash received from financing activities			
Allocation in accordance with the Regulations		-	82,053
(refer Statement of movements in Equity)			
Total cash received from financing activities		-	82,053
Cash disbursed on financing activities			
Dividend Paid		(9,017)	(9,769)
Total cash disbursed on financing activities		(9,017)	(9,769)
<b>Net cash flow applied to/(from) financing activities</b>		(9,017)	72,284
Net increase in cash held		2,876	85,920
Cash at the beginning of the year		85,920	-
Cash at the end of the year		88,796	85,920

**WEL ENERGY GROUP LIMITED**

**Statements of Cash Flows (*continued*)**

**For the year ended 31 March 2000**

	Note	Line Business 2000 (\$000s)	1999 (\$000s)
<b>Reconciliation of net cash flows from operating activities with surplus after taxation.</b>			
Surplus after taxation		<b>16,244</b>	14,452
Non cash items			
Depreciation		<b>5,821</b>	5,044
Total non cash items		<b>5,821</b>	5,044
Increase/(decrease) in working capital			
Trade Debtors		<b>(3,106)</b>	6,746
Other current assets		<b>(34)</b>	896
Trade & other creditors		<b>800</b>	(3,270)
Customer deposits		-	(331)
Annual and long service leave provision		<b>55</b>	(216)
Provision for taxation		<b>1,750</b>	1,028
Deferred tax		<b>969</b>	2,155
Net decrease/(increase) in working capital		<b>434</b>	7,008
Items classified as investing activities			
Net loss/(gain) on sale of fixed assets		<b>3</b>	-
Net cash inflow from operating activities		<b>22,502</b>	26,504

## **WEL ENERGY GROUP LIMITED**

### **Statement of Accounting Policies For the Year Ended 31 March 2000**

These financial statements are prepared and presented in accordance with the Electricity (Information Disclosure) Regulations 1999 (as amended)

#### **A. General Accounting Policies**

The general accounting policies recognised as appropriate for the measurement and reporting of results and the financial position have been followed in the preparation of these financial statements.

The historical cost method, as modified by the revaluation of certain assets, has been followed.

The Electricity Information Disclosure Handbook 2000 has been followed in the preparation of these financial statements.

#### **B. Particular Accounting Policies**

The particular accounting policies which have a significant effect on the financial performance and financial position are as follows:

##### **(a) Income Tax**

The income tax expense charged to the Statement of Financial Performance includes both current and deferred tax. Deferred tax is calculated using the liability method, and is accounted for using the comprehensive basis, except that deferred tax is not provided on asset revaluation's of the distribution system.

##### **(b) Trade Debtors**

Trade debtors are stated at their estimated realisable value after adequate provision for doubtful debts. Bad debts are written off in the period they are identified.

##### **(c) Revenue Recognition**

Line revenues include an accrual for charges incurred by customers but not billed at balance date.

##### **(d) Inventories**

Inventories are valued at the lower of weighted average cost and net realisable value. Work in Progress is valued at cost comprising direct labour, materials, freight and a proportion of production overheads based on a normal level of activity.

## WEL ENERGY GROUP LIMITED

### (e) Fixed Assets

The distribution system is revalued by independent valuers every three years based on an optimised deprival value basis. Additions to the distribution system are stated at cost.

Land and buildings are revalued by independent valuers every three years on the basis of open market value for existing use.

Cost for internally constructed assets comprise direct labour, materials, freight, and a proportion of production overheads based on a normal level of activity. All other fixed assets are recorded at cost less accumulated depreciation.

### (f) Depreciation of Fixed Assets

Depreciation of the distribution system and buildings is provided for on a straight line basis over their estimated useful lives as follows:

Buildings	3.0%
Distribution system	2.9%

Depreciation of other fixed assets is provided for on a diminishing value basis as follows:

Furniture	20 - 25%
Plant and Equipment	20 - 30%
Vehicles	25%

### (g) Principles of Line Business Split

The line business forms a segment of the operations of the Group. The allocation of costs, revenue, assets and liabilities was carried out on a basis which reflects the items attributable to this segment of the Group.

Where possible, financial statement items were allocated directly to the line business. In those instances where direct allocation was not possible, the avoidable cost allocation methodology was employed, which has resulted in allocations as follows:

#### Corporate Overheads

Corporate overhead costs were allocated as follows:

Directors fees and associated costs	Weighted fixed assets
Chief executive and associated costs	Weighted fixed assets
Consultants and business analysts	Weighted fixed assets
All other costs	Weighted staff numbers

Items have been weighted by multiplying the value attributable to Other by 33%

#### Property Costs

Allocated using market based rentals.

## **WEL ENERGY GROUP LIMITED**

### **Expenditure**

Where a segment of the Group performs line activities in addition to other functions each item of expenditure incurred by that segment has been allocated to the line business in proportion to the total level of line business activity undertaken by the segment. This has been achieved using the following methodologies:

Customer services/billing	10% Lines
Marketing	Revenue

### **Bank Balances**

Cash and bank balances have been allocated based on cash movements as per the cash flow statement.

### **Fixed Assets**

Fixed assets used by both the line and another activity have been allocated to the line business on the following basis:

Motor vehicles	Weighted staff numbers
Plant, Furniture and equipment	Weighted staff numbers

Items have been weighted by multiplying the value attributable to Other by 33%

### **Creditors**

Creditors not directly attributable to the line business have been allocated in proportion to the expenditure allocation as noted above.

### **Provision for Annual and Long Service Leave**

The amount of the provision attributable to employees working on both the line business and other activities has been allocated to the line business in proportion to wages expenditure.

## **C. Changes in Accounting Policy**

There have been no changes in accounting policies during the year.

# WEL ENERGY GROUP LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2000

		Line Business	
		2000	1999
		(\$000s)	(\$000s)
<b>1</b>	<b>Operating Revenue</b>		
	Line access charges	49,817	49,704
	Interest	4,502	1,001
	AC Rental Rebates	674	1,785
	Revenue from other business	-	-
	Other operating revenue	-	-
	Total Operating Income	54,993	52,490
<b>2</b>	<b>Operating Expenditure</b>		
	Transmission charges	12,122	10,910
	Transfer payments to Other business for:		
	Asset Maintenance	3,964	3,827
	Disconnection' s/Reconnection	-	-
	Meter data	-	-
	Consumer based load control	-	-
	Avoided transmission (own generation)	-	-
	Royalties & patents	-	-
	Other goods/services	-	-
	<b>Total</b>	3,964	3,827
	Expenses to entities that are not related parties for:		
	Asset Maintenance	-	-
	Disconnection' s/Reconnection	-	-
	Meter data	-	-
	Consumer based load control	-	-
	Royalties & patents	-	-
	Other goods/services	-	-
	<b>Total</b>	-	-
	Employee salaries and redundancies	3,660	2,539
	Customer billing & Information System expense	2	177
	Depreciation on:		
	Distribution system	4,264	3,956
	Other assets	1,557	1,087
	<b>Total</b>	5,821	5,044
	Amortisation of:		
	Goodwill	-	-
	Other Intangibles	-	-
	<b>Total</b>	-	-
	Corporate & administration	667	396
	Human resource expenses	503	190
	Marketing & advertising	371	289
	Merger and acquisition	-	497
	Take-over defence	-	-
	Research & development	1	8
	Consultancy & legal	1,053	2,566



# WEL ENERGY GROUP LIMITED

	Line Business	
	2000	1999
	(\$000s)	(\$000s)
<b>Operating Expenditure</b> <i>(continued)</i>		
Donations	-	-
Directors' Fees	235	124
Other payments to directors	-	119
Audit Fees		
Audit Fees to principal auditors	20	20
Audit Fees to other auditors	-	-
Other Fees paid to principal & other auditors	57	-
<b>Total</b>	<b>77</b>	<b>20</b>
Net loss on sale of fixed assets	<b>3</b>	<b>25</b>
Cost of offering credit		
Bad Debts	1	298
Movement in provision for doubtful debts	-	-
<b>Total</b>	<b>1</b>	<b>298</b>
Local Authority rates	36	38
AC Loss-rental expense	-	-
Rebates to customers due to ownership	-	-
Subvention payments	-	-
Unusual expenses	-	-
Other expenditure	920	1,482
Total expenditure	<b>29,436</b>	<b>28,549</b>
<b>3 Interest</b>		
Interest expense on borrowings	40	51
Finance charges relating to finance leases	-	-
Other interest expenses	-	-
	<b>40</b>	<b>51</b>

# WEL ENERGY GROUP LIMITED

	Line Business	
	2000 (\$000s)	1999 (\$000s)
<b>4 Taxation</b>		
Profit before taxation	25,517	23,890
Tax on profit at 33%	8,421	7,884
Tax effect of permanent differences	852	1,554
Total taxation expense	9,273	9,438
Represented by:		
Deferred income tax liability	969	2,155
Current taxation provision	8,304	7,283
	9,273	9,438
Deferred income tax liability		
Balance at the beginning of the year	5,082	2,927
Current year timing differences	969	2,155
Balance at the end of the year	6,051	5,082
The tax effect of timing differences arising from asset revaluation 's of the distribution system approximating \$8,700,000, which would only crystallise on disposal, have not been recognised.		
<b>5 Shareholders Funds</b>		
Issued and Paid In Capital	131	131
All ordinary shares carry equal voting rights		
Asset revaluation reserve	82,799	82,799
Retained earnings	22,152	19,902
Other Reserves	121,824	121,824
Minority interests	-	-
Total Equity	226,906	224,656
Asset Revaluation Reserve		
Balance at the beginning of the year	82,799	82,799
Balance at the end of the year	82,799	82,799
Retained Earnings		
Balance at the beginning of the year	19,902	11,523
Net surplus after tax	16,244	14,452
Dividends	(13,994)	(6,073)
Balance at the end of the year	22,152	19,902
Other Reserves		
Balance at the beginning of the year	121,824	39,772
Allocation in compliance with Regulations (refer Statement of Movements in Equity)	-	82,052
Balance at the end of the year	121,824	121,824

# **WEL ENERGY GROUP LIMITED**

		<b>Line Business</b>	
		<b>2000</b>	1999
		<b>(\$000s)</b>	(\$000s)
<b>6</b>	<b>Current assets</b>		
	Cash and Bank	<b>88,796</b>	85,919
	Trade debtors	<b>7,573</b>	4,467
	Short term investments	-	-
	Inventories	-	-
	Other assets	<b>52</b>	18
		<hr/> <b>96,421</b>	90,404 <hr/>
<b>7</b>	<b>Fixed Assets</b>		
	<b>Freehold Land and Buildings</b>		
	Land      At cost	<b>85</b>	85
	At valuation	<b>744</b>	744
	Buildings    At cost	<b>1,355</b>	1,355
	At valuation	<b>1,366</b>	1,366
		<hr/> <b>3,550</b>	3,550 <hr/>
	Accumulated depreciation		
	At cost	<b>(393)</b>	(393)
	At valuation	<b>(123)</b>	(41)
	Net book value	<hr/> <b>3,034</b>	3,116 <hr/>
	<b>Vehicles</b>		
	Cost	<b>557</b>	525
	Accumulated depreciation	<b>(256)</b>	(282)
	Net book value	<hr/> <b>301</b>	243 <hr/>
	<b>Furniture, Plant and Equipment</b>		
	Cost	<b>7,943</b>	7,056
	Accumulated depreciation	<b>(4,459)</b>	(3,892)
	Net book value	<hr/> <b>3,484</b>	3,164 <hr/>

# WEL ENERGY GROUP LIMITED

	Line Business	
	2000 (\$000s)	1999 (\$000s)
<b>Fixed Assets (continued)</b>		
<b>Distribution System</b>		
Cost	20,155	10,438
Valuation	127,380	127,380
	<b>147,535</b>	137,818
Accumulated depreciation values		
Cost	(777)	(207)
Valuation	(7,388)	(3,694)
Net book value	<b>139,370</b>	133,917
<b>Total before assets under construction</b>	<b>146,189</b>	140,440
<b>Capital assets under construction</b>	<b>604</b>	1,569
<b>Consumer billing &amp; information system assets</b>	-	-
<b>Other fixed assets</b>	-	-
<b>Total net book value</b>	<b>146,793</b>	142,009

Land and Buildings were revalued on 31 March 1998 by Ford Valuations Limited Registered Valuers.

The distribution system was revalued on 31 March 1998 by Sinclair Knight Merz (NZ) Limited (trading as Leyland Consultants).

Buildings at cost represents the amount paid to Hamilton City Council in 1989 for the use of substations buildings. This amount is being depreciated over a period of 33 years.

Centralised load control equipment (included as part of the distribution system)	1,073	1,105
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## 8 Current liabilities

Bank overdraft & short term borrowings	-	-
Trade creditors	2,244	1,363
Provision for annual and long service leave	218	163
Provision for dividend	5,701	724
Provision for tax	1,809	59
Other current liabilities	285	366
	<b>10,257</b>	2,675

# WEL ENERGY GROUP LIMITED

Line Business	
2000	1999
(\$000s)	(\$000s)

## 9 Non-current Liabilities

Payables and accruals	-	-
Borrowings	-	-
Deferred tax	6,051	5,082
Other non-current liabilities	-	-
	<u>6,051</u>	<u>5,082</u>

## 10 Contingencies

There are no contingent liabilities (1999: nil)

## 11 Capital commitments

There are no capital commitments in the line business (1999: Nil).

## 12 Financial Instruments

### (a) Risk

Nature of activities and management policies with respect to financial instruments:

#### (i) Concentrations of Credit Risk

In the normal course of its business, the Group incurs credit risk from trade receivables from customers and transactions with financial institutions. A provision has been set up for trade receivables which are unlikely to be collected.

The Group has a credit policy which is used to manage this exposure to credit risk. As part of this policy, limits on exposures with counterparties have been set and are monitored on a regular basis.

The Group has in excess of 90% of its trade debtors owing from the incumbent retailer. This debt is subject to a written agreement and regular credit checks. The Group does not require any collateral.

### (b) Fair Values

The Directors estimate that the carrying amounts of financial instruments in the Statement of Financial Position equal their fair values.

## WEL ENERGY GROUP LIMITED

### 13 Related Party Transactions

The Lines Business has received services from WEL Energy Operations Division. Both entities form part of WEL Energy Group. All transactions between the two parties are at arms length and at market rates. There have been no transactions at nil or nominal value.

There are no outstanding balances between the two parties. No debts were forgiven or written off.

Details of the transactions are as follows:

		<b>Line Business</b>	
		<b>2000</b>	<b>1999</b>
		<b>(\$000s)</b>	<b>(\$000s)</b>
<b>(a)</b>	Construction of subtransmission assets Approximately 15 km of 33kV underground cable laid.	<b>1,657</b>	2,436
<b>(b)</b>	Construction of zone substations Upgrading of six substations	<b>3,228</b>	3,159
<b>(c)</b>	Construction of distribution lines and cables. Cost of undergrounding 11kV cable	<b>1,699</b>	1,624
WEL Energy was involved in Krone 11kV switchgear replacement.			
<b>(d)</b>	Construction of medium voltage switchgear	<b>124</b>	157
<b>(e)</b>	Construction of distribution transformers.	<b>641</b>	588
<b>(f)</b>	Construction of distribution substations	<b>757</b>	537
<b>(g)</b>	Construction of Low voltage lines & cables	<b>676</b>	652
WEL Energy was involved in connecting new consumers to its network and the following costs were incurred:			
<b>(h)</b>	Relays for new connections	<b>203</b>	368
	Consumer connections	<b>935</b>	931
<b>(i)</b>	Maintenance of distribution system	<b>3,964</b>	3,827
		<b>13,884</b>	14,279

In some cases estimates have been used to apportion costs between the categories listed above.

**WEL ENERGY GROUP LIMITED**

		<b>Line Business</b>	
		<b>2000</b>	1999
		<b>(\$000s)</b>	<b>(\$000s)</b>
<b>14</b>	<b>Imputation Credit Memorandum Account</b>		
	Balance at the beginning of the year	<b>11,458</b>	10,380
	Dividends allocated	<b>(6,612)</b>	(2,634)
	Taxation paid	<b>6,435</b>	3,712
	Balance at the end of the year	<b>11,281</b>	11,458
<b>15</b>	<b>Adjusted net working capital</b>	<b>3,889</b>	2,593
<b>16</b>	<b>Interest tax shield</b>	<b>(1,472)</b>	(314)