

WEL NETWORKS LIMITED

Statement of Financial Performance For the year ended 31 March 2001

	Note	Line Business	
		2001 (\$000s)	2000 (\$000s)
Total revenue	1	52,327	54,993
Operating expenses	2	(28,152)	(29,436)
Operating surplus before interest & taxation		<u>24,175</u>	<u>25,557</u>
Interest expense	3	(3)	(40)
Operating surplus before taxation		<u>24,172</u>	<u>25,517</u>
Taxation expense	4	(9,265)	(9,273)
Surplus attributable to the shareholders of the parent company		<u><u>14,907</u></u>	<u><u>16,244</u></u>

Statement of Movements in Equity For the year ended 31 March 2001

	Note	Line Business	
		2001 (\$000s)	2000 (\$000s)
Equity as at 1 April		<u>226,906</u>	<u>224,656</u>
Net Surplus for the year		14,907	16,244
Revaluation of Assets	5	7,372	-
Total Recognised Revenue and Expenses		<u>22,279</u>	<u>16,244</u>
Dividends		(10,573)	(13,994)
Transfer to Other Business		(80,450)	-
		<u>(91,023)</u>	<u>(13,994)</u>
Equity as at 31 March		<u><u>158,162</u></u>	<u><u>226,906</u></u>

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Statement of Financial Position As at 31 March 2001

		Line Business	
	Note	2001	2000
		(\$000s)	(\$000s)
Tangible assets			
Current assets	6	12,340	96,421
Fixed assets	7	161,153	146,793
Total tangible assets		173,493	243,214
Intangible assets			
Goodwill		-	-
Other intangible assets		-	-
Total intangible assets		-	-
Total Assets		173,493	243,214
Liabilities			
Current liabilities	8	7,512	10,257
Non current liabilities	9	7,819	6,051
Total liabilities		15,331	16,308
Equity			
Capital Notes		-	-
Equity	5	158,162	226,906
Total capital funds		158,162	226,906
Total equity and liabilities		173,493	243,214

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Statements of Cash Flows For the year ended 31 March 2001

	Note	Line Business	
		2001 (\$000s)	2000 (\$000s)
Cash Flows From Operating Activities			
Cash received from operations			
Receipts from customers		52,720	47,388
Interest received		1,410	4,502
Total cash received from operations		<u>54,130</u>	<u>51,890</u>
Cash disbursed on operations			
Payments to employees and suppliers		(20,055)	(22,794)
Interest paid		(3)	(40)
Income tax paid		(9,625)	(6,554)
Total cash disbursed on operations		<u>(29,683)</u>	<u>(29,388)</u>
Net cash flow from operations		<u>24,447</u>	<u>22,502</u>
(refer to reconciliation below)			
Cash Flows From Investing Activities			
Cash received from investing activities			
Investments maturing		-	-
Total cash from investing activities		<u>-</u>	<u>-</u>
Cash disbursed on investing activities			
Fixed asset purchases		(13,665)	(10,609)
Total cash disbursed on investing activities		<u>(13,665)</u>	<u>(10,609)</u>
Net cash flow applied to/(from) investing activities		<u>(13,665)</u>	<u>(10,609)</u>
Cash Flows From Financing Activities			
Cash received from financing activities			
		-	-
Total cash received from financing activities		<u>-</u>	<u>-</u>
Cash disbursed on financing activities			
Transfer to Other Business		(80,450)	
Dividend Paid		(12,892)	(9,017)
Total cash disbursed on financing activities		<u>(93,342)</u>	<u>(9,017)</u>
Net cash flow applied to/(from) financing activities		<u>(93,342)</u>	<u>(9,017)</u>
Net increase in cash held		(82,560)	2,876
Cash at the beginning of the year		88,796	85,920
Cash at the end of the year		<u>6,236</u>	<u>88,796</u>

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Statements of Cash Flows *(continued)*

For the year ended 31 March 2001

	Note	Line Business 2001 (\$000s)	2000 (\$000s)
Reconciliation of net cash flows from operating activities with surplus after taxation.			
Surplus after taxation		14,907	16,244
Non cash items			
Depreciation		6,682	5,821
Total non cash items		6,682	5,821
Increase/(decrease) in working capital			
Trade Debtors		1,807	(3,106)
Other current assets		33	(34)
Trade & other creditors		1,400	800
Customer deposits		-	-
Annual and long service leave provision		(22)	55
Provision for taxation		(2,128)	1,750
Deferred tax		1,768	969
Net decrease/(increase) in working capital		2,858	434
Items classified as investing activities			
Net loss/(gain) on sale of fixed assets		-	3
Net cash inflow from operating activities		24,447	22,502

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Statement of Accounting Policies For the Year Ended 31 March 2001

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 revaluations 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.

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(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:

Plant and Equipment	20 - 50%
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.

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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

Pursuant to FRS-5 "Events After Balance Date" which was issued in July 2000, dividends that are proposed or declared after balance date can no longer be recognised as a liability at balance date. This change has had no impact on the Financial Statements.

There have been no other changes in accounting policies applied during the period under review.

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2001

		Line Business	
		2001	2000
		(\$000s)	(\$000s)
1	Operating Revenue		
	Line access charges	49,858	49,817
	Interest	421	4,502
	AC Rental Rebates	2,048	674
	Revenue from other business	-	-
	Other operating revenue	-	-
	Total Operating Income	52,327	54,993
2	Operating Expenditure		
	Transmission charges	11,148	12,122
	Transfer payments to Other business for:		
	Asset Maintenance	4,263	3,964
	Disconnections/Reconnection	-	-
	Meter data	-	-
	Consumer based load control	-	-
	Avoided transmission (own generation)	-	-
	Royalties & patents	-	-
	Other goods/services	-	-
	Total	4,263	3,964
	Expenses to entities that are not related parties for:		
	Asset Maintenance	-	-
	Disconnections/Reconnection	-	-
	Meter data	-	-
	Consumer based load control	-	-
	Royalties & patents	-	-
	Other goods/services	-	-
	Total	-	-
	Employee salaries and redundancies	3,204	3,660
	Customer billing & Information System expense		2
	Depreciation on:		
	Distribution system	4,473	4,264
	Other assets	2,209	1,557
	Total	6,682	5,821
	Amortisation of:		
	Goodwill	-	-
	Other Intangibles	-	-
	Total	-	-
	Corporate & administration	385	667
	Human resource expenses	326	503
	Marketing & advertising	331	371
	Merger and acquisition	-	-
	Takeover defence	-	-
	Research & development	10	1
	Consultancy & legal	627	1,053

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	Line Business	
	2001	2000
	(\$000s)	(\$000s)
Operating Expenditure <i>(continued)</i>		
Donations	-	-
Directors' Fees	213	235
Other payments to directors	-	-
Audit Fees		
Audit Fees to principal auditors	20	20
Audit Fees to other auditors	-	-
Other Fees paid to principal & other auditors	44	57
Total	64	77
Net loss on sale of fixed assets	62	3
Cost of offering credit		
Bad Debts	1	1
Movement in provision for doubtful debts	-	-
Total	1	1
Local Authority rates	42	36
AC Loss-rental expense	-	-
Rebates to customers due to ownership	-	-
Subvention payments	-	-
Unusual expenses	-	-
Other expenditure	794	920
Total expenditure	28,152	29,436

3 Interest

Interest expense on borrowings	3	40
Finance charges relating to finance leases	-	-
Other interest expenses	-	-
	3	40

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	Line Business	
	2001 (\$000s)	2000 (\$000s)
4 Taxation		
Profit before taxation	24,172	25,517
Tax on profit at 33%	7,976	8,421
Tax effect of permanent differences	1,289	852
Total taxation expense	9,265	9,273
Represented by:		
Deferred income tax liability	1,701	969
Current taxation provision	7,564	8,304
	9,265	9,273
Deferred income tax liability		
Balance at the beginning of the year	6,051	5,082
Adjustments for prior periods	67	-
Current year timing differences	1,701	969
Balance at the end of the year	7,819	6,051
The tax effect of timing differences arising from asset revaluations of the distribution system approximating \$11,900,000, which would only crystallise on disposal, have not been recognised.		
5 Shareholders Funds		
Issued and Paid In Capital	131	131
All ordinary shares carry equal voting rights		
Asset revaluation reserve	90,171	82,799
Retained earnings	26,486	22,152
Other Reserves	41,374	121,824
Total Equity	158,162	226,906
Asset Revaluation Reserve		
Balance at the beginning of the year	82,799	82,799
Asset revaluations	7,372	-
Balance at the end of the year	90,171	82,799
Retained Earnings		
Balance at the beginning of the year	22,152	19,902
Net surplus after tax	14,907	16,244
Dividends	(10,573)	(13,994)
Balance at the end of the year	26,486	22,152
Other Reserves		
Balance at the beginning of the year	121,824	121,824
Transfer to other business	(80,450)	-
Balance at the end of the year	41,374	121,824

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		Line Business	
		2001	2000
		(\$000s)	(\$000s)
6	Current assets		
	Cash and Bank	6,236	88,796
	Trade debtors	5,766	7,573
	Short term investments	-	-
	Inventories	-	-
	Other assets	19	52
	Tax recoverable	319	-
		<u>12,340</u>	<u>96,421</u>
7	Fixed Assets		
	Freehold Land and Buildings		
	Land At cost	-	85
	At valuation	996	744
	Buildings At valuation	<u>1,080</u>	<u>1,366</u>
		<u>2,076</u>	<u>2,195</u>
	Accumulated depreciation At valuation	<u>-</u>	<u>(123)</u>
		<u>2,076</u>	<u>2,072</u>
	Net book value		
	Vehicles		
	Cost	442	557
	Accumulated depreciation	<u>(188)</u>	<u>(256)</u>
	Net book value	<u>254</u>	<u>301</u>
	Furniture, Plant and Equipment		
	Cost	10,130	7,943
	Accumulated depreciation	<u>(6,739)</u>	<u>(4,459)</u>
	Net book value	<u>3,391</u>	<u>3,484</u>

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	Line Business	
	2001	2000
	(\$000s)	(\$000s)
Fixed Assets (continued)		
Distribution System		
Cost	-	20,155
Valuation	154,133	127,380
	154,133	147,535
Accumulated depreciation values		
Cost	-	(777)
Valuation	-	(7,388)
Net book value	154,133	139,370
Total before assets under construction	159,854	145,227
Capital assets under construction	419	604
Consumer billing & information system assets	-	-
Other fixed assets	-	-
Cost	1,355	1,355
Accumulated depreciation	(475)	(393)
Net book value	880	962
Total net book value	161,153	146,793

Land and Buildings were revalued on 31 March 2001 by Knight Frank Limited Registered Valuers.

The distribution system was revalued on 31 March 2001 by Sinclair Knight Merz (NZ) Limited (trading as Leyland Consultants).

Other fixed assets represent 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)	1,283	1,073
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8 Current liabilities

Bank overdraft & short term borrowings	-	-
Trade creditors	3,520	2,244
Provision for annual and long service leave	196	218
Provision for dividend	3,382	5,701
Provision for tax	-	1,809
Other current liabilities	414	285
	7,512	10,257

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		Line Business	
		2001	2000
		(\$000s)	(\$000s)
9	Non-current Liabilities		
	Payables and accruals	-	-
	Borrowings	-	-
	Deferred tax	7,819	6,051
	Other non-current liabilities	-	-
		<hr/>	<hr/>
		7,819	6,051
		<hr/>	<hr/>

10 Contingencies

There are no contingent liabilities (2000: nil)

11 Capital commitments

Capital commitments as at 31 March 2001 are estimated at \$973,000 (2000: 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.

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13 Related Party Transactions

The Lines Business has received services from WEL Networks Operations Division. Both entities form part of WEL Networks. 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:

		Line Business	
		2001	2000
		(\$000s)	(\$000s)
(a)	Construction of subtransmission assets Approximately 15 km of 33kV underground cable laid.	1,618	1,657
(b)	Construction of zone substations Upgrading of six substations	4,034	3,228
(c)	Construction of distribution lines and cables. Cost of undergrounding 11 kV cable	2,416	1,699
(d)	Construction of medium voltage switchgear	726	124
(e)	Construction of distribution transformers.	517	641
(f)	Construction of distribution substations	685	757
(g)	Construction of Low voltage lines & cables	745	676
WEL Networks was involved in connecting new consumers to its network and the following costs were incurred:			
(h)	Relays for new connections	253	203
	Consumer connections	1,609	935
(i)	Maintenance of distribution system	4,263	3,964
		16,866	13,884

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

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		Line Business	
		2001	2000
		(\$000s)	(\$000s)
14	Imputation Credit Memorandum Account		
	Balance at the beginning of the year	11,281	11,458
	Dividends allocated	(5,918)	(6,612)
	Taxation paid	10,312	6,435
	Balance at the end of the year	15,675	11,281
15	Adjusted net working capital	1,974	3,889
16	Interest tax shield	(138)	(1,472)