

# WEL NETWORKS LIMITED

## Statement of Financial Performance For the year ended 31 March 2002

	Note	Line Business	
		2002 (\$000s)	2001 (\$000s)
Total revenue	1	52,912	52,327
Operating expenses	2	(27,260)	(28,152)
Operating surplus before interest & taxation		<u>25,652</u>	<u>24,175</u>
Interest expense	3	(1)	(3)
Operating surplus before taxation		<u>25,651</u>	<u>24,172</u>
Taxation expense	4	(9,333)	(9,265)
Surplus attributable to the shareholders of the parent company		<u><u>16,318</u></u>	<u><u>14,907</u></u>

## Statement of Movements in Equity For the year ended 31 March 2002

	Note	Line Business	
		2002 (\$000s)	2001 (\$000s)
Equity as at 1 April		<u>158,162</u>	<u>226,906</u>
Net Surplus for the year		16,318	14,907
Revaluation of Assets	5	-	7,372
Total Recognised Revenue and Expenses		<u>16,318</u>	<u>22,279</u>
Dividends		(9,909)	(10,573)
Transfer to Other Business			(80,450)
		<u>(9,909)</u>	<u>(91,023)</u>
Equity as at 31 March		<u><u>164,571</u></u>	<u><u>158,162</u></u>

# WEL NETWORKS LIMITED

## Statement of Financial Position As at 31 March 2002

	Note	Line Business	
		2002 (\$000s)	2001 (\$000s)
<b>Tangible assets</b>			
Current assets	6	15,590	12,340
Fixed assets	7	165,360	161,153
<b>Total tangible assets</b>		<b>180,950</b>	<b>173,493</b>
<b>Intangible assets</b>			
Goodwill		-	-
Other intangible assets		-	-
<b>Total intangible assets</b>		<b>-</b>	<b>-</b>
<b>Total Assets</b>		<b>180,950</b>	<b>173,493</b>
<b>Liabilities</b>			
Current liabilities	8	7,311	7,512
Non current liabilities	9	9,068	7,819
<b>Total liabilities</b>		<b>16,379</b>	<b>15,331</b>
<b>Equity</b>			
Capital Notes		-	-
Equity	5	164,571	158,162
<b>Total capital funds</b>		<b>164,571</b>	<b>158,162</b>
<b>Total equity and liabilities</b>		<b>180,950</b>	<b>173,493</b>

19 June 2002

# WEL NETWORKS LIMITED

## Statements of Cash Flows For the year ended 31 March 2002

	Note	Line Business	
		2002	2001
		(\$000s)	(\$000s)
<b>Cash Flows From Operating Activities</b>			
Cash received from operations			
Receipts from customers		52,313	52,720
Interest received		1,463	1,410
Total cash received from operations		53,776	54,130
Cash disbursed on operations			
Payments to employees and suppliers		(21,455)	(20,055)
Interest paid		(1)	(3)
Income tax paid		(10,775)	(9,625)
Total cash disbursed on operations		(32,231)	(29,683)
<b>Net cash flow from operations</b> <b>(refer to reconciliation below)</b>		<b>21,545</b>	<b>24,447</b>
<b>Cash Flows From Investing Activities</b>			
Cash received from investing activities			
Investments maturing		-	-
Total cash from investing activities		-	-
Cash disbursed on investing activities			
Fixed asset purchases		(10,523)	(13,665)
Total cash disbursed on investing activities		(10,523)	(13,665)
<b>Net cash flow applied to/(from) investing activities</b>		<b>(10,523)</b>	<b>(13,665)</b>
<b>Cash Flows From Financing Activities</b>			
Cash received from financing activities			
Total cash received from financing activities		-	-
Cash disbursed on financing activities			
Transfer to Other Business		-	(80,450)
Dividend Paid		(9,658)	(12,892)
Total cash disbursed on financing activities		(9,658)	(93,342)
<b>Net cash flow applied to/(from) financing activities</b>		<b>(9,658)</b>	<b>(93,342)</b>
Net increase in cash held		1,364	(82,560)
Cash at the beginning of the year		6,236	88,796
Cash at the end of the year		7,600	6,236

# WEL NETWORKS LIMITED

## Statements of Cash Flows *(continued)* For the year ended 31 March 2002

	Note	Line Business 2002 (\$000s)	2001 (\$000s)
<b>Reconciliation of net cash flows from operating activities with surplus after taxation.</b>			
Surplus after taxation		<b>16,318</b>	14,907
Non cash items			
Depreciation		<b>6,272</b>	6,682
Total non cash items		<b>6,272</b>	6,682
Increase/(decrease) in working capital			
Trade Debtors		<b>818</b>	1,807
Other current assets		<b>(15)</b>	33
Trade & other creditors		<b>(426)</b>	1,400
Customer deposits		-	-
Annual and long service leave provision		<b>(25)</b>	(22)
Provision for taxation		<b>(2,691)</b>	(2,128)
Deferred tax		<b>1,249</b>	1,768
Net decrease/(increase) in working capital		<b>(1,090)</b>	2,858
Items classified as investing activities			
Net loss/(gain) on sale of fixed assets		<b>45</b>	-
Net cash inflow from operating activities		<b>21,545</b>	24,447

## **WEL NETWORKS LIMITED**

### **Statement of Accounting Policies For the Year Ended 31 March 2002**

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.

## WEL NETWORKS 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:

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.

## **WEL NETWORKS 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 applied during the period under review.

# WEL NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2002

		Line Business	
		2002	2001
		(\$000s)	(\$000s)
<b>1</b>	<b>Operating Revenue</b>		
	Line access charges	49,813	49,858
	Interest	474	421
	AC Rental Rebates	2,625	2,048
	Revenue from other business	-	-
	Other operating revenue	-	-
	<b>Total Operating Income</b>	<b>52,912</b>	<b>52,327</b>
<b>2</b>	<b>Operating Expenditure</b>		
	Transmission charges	10,472	11,148
	Transfer payments to Other business for:		
	Asset Maintenance	3,942	4,263
	Disconnections/Reconnection	-	-
	Meter data	-	-
	Consumer based load control	-	-
	Avoided transmission (own generation)	-	-
	Royalties & patents	-	-
	Other goods/services	-	-
	<b>Total</b>	<b>3,942</b>	<b>4,263</b>
	Expenses to entities that are not related parties for:		
	Asset Maintenance	-	-
	Disconnections/Reconnection	-	-
	Meter data	-	-
	Consumer based load control	-	-
	Royalties & patents	-	-
	Other goods/services	-	-
	<b>Total</b>	<b>-</b>	<b>-</b>
	Employee salaries and redundancies	3,377	3,204
	Customer billing & Information System expense		
	Depreciation on:		
	Distribution system	4,539	4,473
	Other assets	1,677	2,209
	<b>Total</b>	<b>6,216</b>	<b>6,682</b>
	Amortisation of:		
	Goodwill	-	-
	Other Intangibles	-	-
	<b>Total</b>	<b>-</b>	<b>-</b>
	Corporate & administration	364	385
	Human resource expenses	229	326
	Marketing & advertising	316	331
	Merger and acquisition	110	-
	Takeover defence	-	-
	Research & development	-	10
	Consultancy & legal	1,090	627



# WEL NETWORKS LIMITED

	Line Business	
	2002	2001
	(\$000s)	(\$000s)
<b>Operating Expenditure</b> <i>(continued)</i>		
Donations	-	-
Directors' Fees	215	213
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	37	44
<b>Total</b>	<b>57</b>	<b>64</b>
Net loss on sale of fixed assets	45	62
Cost of offering credit		
Bad Debts	4	1
Movement in provision for doubtful debts	-	-
<b>Total</b>	<b>4</b>	<b>1</b>
Local Authority rates	42	42
AC Loss-rental expense	-	-
Rebates to customers due to ownership	-	-
Subvention payments	-	-
Unusual expenses	-	-
Other expenditure	781	794
<b>Total expenditure</b>	<b>27,260</b>	<b>28,152</b>

## 3 Interest

Interest expense on borrowings	1	3
Finance charges relating to finance leases	-	-
Other interest expenses	-	-
	<b>1</b>	<b>3</b>

# WEL NETWORKS LIMITED

		Line Business	
		2002	2001
		(\$000s)	(\$000s)
<b>4</b>	<b>Taxation</b>		
	Profit before taxation	25,651	24,172
	Tax on profit at 33%	8,465	7,976
	Tax effect of permanent differences	868	1,289
	Total taxation expense	9,333	9,265
	Represented by:		
	Deferred income tax liability	1,249	1,701
	Current taxation provision	8,084	7,564
		9,333	9,265
	Deferred income tax liability		
	Balance at the beginning of the year	7,819	6,051
	Adjustments for prior periods	-	67
	Current year timing differences	1,249	1,701
	Balance at the end of the year	9,068	7,819
	The tax effect of timing differences arising from asset revaluations of the distribution system approximating \$15,400,000, which would only crystallise on disposal, have not been recognised.		
<b>5</b>	<b>Shareholders Funds</b>		
	Issued and Paid In Capital	131	131
	All ordinary shares carry equal voting rights		
	Asset revaluation reserve	90,171	90,171
	Retained earnings	32,895	26,486
	Other Reserves	41,374	41,374
	Total Equity	164,571	158,162
	Asset Revaluation Reserve		
	Balance at the beginning of the year	90,171	82,799
	Asset revaluations		7,372
	Balance at the end of the year	90,171	90,171
	Retained Earnings		
	Balance at the beginning of the year	26,486	22,152
	Net surplus after tax	16,318	14,907
	Dividends	(9,909)	(10,573)
	Balance at the end of the year	32,895	26,486
	Other Reserves		
	Balance at the beginning of the year	41,374	121,824
	Transfer to other business	-	(80,450)
	Balance at the end of the year	41,374	41,374

# WEL NETWORKS LIMITED

		Line Business	
		2002	2001
		(\$000s)	(\$000s)
<b>6</b>	<b>Current assets</b>		
	Cash and Bank	7,600	6,236
	Trade debtors	4,947	5,766
	Short term investments	-	-
	Inventories	-	-
	Other assets	33	19
	Tax recoverable	3,010	319
		<u>15,590</u>	<u>12,340</u>
<b>7</b>	<b>Fixed Assets</b>		
	<b>Freehold Land and Buildings</b>		
	Land At cost	67	-
	At valuation	996	996
	Buildings At valuation	<u>1,111</u>	<u>1,080</u>
		<u>2,174</u>	<u>2,076</u>
	Accumulated depreciation At valuation	<u>(33)</u>	<u>-</u>
	Net book value	<u>2,141</u>	<u>2,076</u>
	<b>Vehicles</b>		
	Cost	408	442
	Accumulated depreciation	<u>(147)</u>	<u>(188)</u>
	Net book value	<u>261</u>	<u>254</u>
	<b>Furniture, Plant and Equipment</b>		
	Cost	10,250	10,130
	Accumulated depreciation	<u>(7,742)</u>	<u>(6,739)</u>
	Net book value	<u>2,508</u>	<u>3,391</u>

# WEL NETWORKS LIMITED

	<b>Line Business</b>	
	<b>2002</b>	<b>2001</b>
	<b>(\$000s)</b>	<b>(\$000s)</b>
<b>Fixed Assets</b> <i>(continued)</i>		
<b>Distribution System</b>		
Cost	<b>9,874</b>	-
Valuation	<b>154,133</b>	154,133
	<b>164,007</b>	154,133
Accumulated depreciation values		
Cost	<b>(1,434)</b>	-
Valuation	<b>(4,470)</b>	-
Net book value	<b>158,103</b>	154,133
<b>Total before assets under construction</b>	<b>163,013</b>	159,854
<b>Capital assets under construction</b>	<b>1,507</b>	419
<b>Consumer billing &amp; information system assets</b>	-	-
<b>Other fixed assets</b>	-	-
Cost	<b>1,355</b>	1,355
Accumulated depreciation	<b>(515)</b>	(475)
Net book value	<b>840</b>	880
<b>Total net book value</b>	<b>165,360</b>	161,153

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	<b>1,246</b>	1,283
(included as part of the distribution system)		

## 8 Current liabilities

Bank overdraft & short term borrowings	-	-
Trade creditors	<b>3,033</b>	3,520
Provision for annual and long service leave	<b>171</b>	196
Provision for dividend	<b>3,633</b>	3,382
Provision for tax	-	-
Other current liabilities	<b>474</b>	414
	<b>7,311</b>	7,512

## WEL NETWORKS LIMITED

		<b>Line Business</b>	
		<b>2002</b>	<b>2001</b>
		<b>(\$000s)</b>	<b>(\$000s)</b>
<b>9</b>	<b>Non-current Liabilities</b>		
	Payables and accruals	-	-
	Borrowings	-	-
	Deferred tax	<b>9,068</b>	<b>7,819</b>
	Other non-current liabilities	-	-
		<hr/>	<hr/>
		<b>9,068</b>	<b>7,819</b>
		<hr/>	<hr/>

### **10 Contingencies**

There are no contingent liabilities (2001: nil)

### **11 Capital commitments**

Capital commitments as at 31 March 2002 are estimated at \$276,000 (2001: \$973,000).

### **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 NETWORKS LIMITED

### 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:

		<b>Line Business</b>	
		<b>2002</b>	<b>2001</b>
		<b>(\$000s)</b>	<b>(\$000s)</b>
<b>(a)</b>	Construction of subtransmission assets Approximately 15 km of 33kV underground cable laid.	<b>412</b>	1,618
<b>(b)</b>	Construction of zone substations Upgrading of six substations	<b>2,950</b>	4,034
<b>(c)</b>	Construction of distribution lines and cables. Cost of undergrounding 11 kV cable	<b>2,616</b>	2,416
<b>(d)</b>	Construction of medium voltage switchgear	<b>97</b>	726
<b>(e)</b>	Construction of distribution transformers.	<b>874</b>	517
<b>(f)</b>	Construction of distribution substations	<b>449</b>	685
<b>(g)</b>	Construction of Low voltage lines & cables	<b>915</b>	745
WEL Networks was involved in connecting new consumers to its network and the following costs were incurred:			
<b>(h)</b>	Relays for new connections	<b>425</b>	253
	Consumer connections	<b>1,404</b>	1,609
<b>(i)</b>	Maintenance of distribution system	<b>3,942</b>	4,263
		<b>14,084</b>	16,866

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

**WEL NETWORKS LIMITED**

		<b>Line Business</b>	
		<b>2002</b>	<b>2001</b>
		<b>(\$000s)</b>	<b>(\$000s)</b>
<b>14</b>	<b>Imputation Credit Memorandum Account</b>		
	Balance at the beginning of the year	<b>15,675</b>	11,281
	Dividends allocated	<b>(4,996)</b>	(5,918)
	Taxation paid	<b>10,525</b>	10,312
	Balance at the end of the year	<b>21,204</b>	15,675
<b>15</b>	<b>Adjusted net working capital</b>	<b>4,312</b>	1,974
<b>16</b>	<b>Interest tax shield</b>	<b>(156)</b>	(138)