

WEL NETWORKS LIMITED

Statement of Financial Performance For the year ended 31 March 2003

	Note	Line Business	
		2003 (\$000s)	2002 (\$000s)
Total revenue	1	48,957	52,912
Operating expenses	2	(28,564)	(27,260)
Operating surplus before interest & taxation		20,393	25,652
Interest expense	3	(435)	(1)
Operating surplus before taxation		19,958	25,651
Taxation expense	4	(7,885)	(9,333)
Surplus attributable to the shareholders of the parent company		12,073	16,318

Statement of Movements in Equity For the year ended 31 March 2003

	Note	Line Business	
		2003 (\$000s)	2002 (\$000s)
Equity as at 1 April		164,571	158,162
Net Surplus for the year		12,073	16,318
Total Recognised Revenue and Expenses		12,073	16,318
Dividends		(7,261)	(9,909)
Loss on amalgamation		(11,015)	-
		(18,276)	(9,909)
Equity as at 31 March		158,368	164,571

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Statement of Financial Position As at 31 March 2003

	Note	Line Business	
		2003 (\$000s)	2002 (\$000s)
Tangible assets			
Current assets	6	9,226	15,590
Fixed assets	7	167,087	165,360
Total tangible assets		176,313	180,950
Intangible assets			
Goodwill		-	-
Other intangible assets		-	-
Total intangible assets		-	-
Total Assets		176,313	180,950
Liabilities			
Current liabilities	8	8,166	7,311
Non current liabilities	9	9,779	9,068
Total liabilities		17,945	16,379
Equity			
Capital Notes		-	-
Equity	5	158,368	164,571
Total capital funds		158,368	164,571
Total equity and liabilities		176,313	180,950

17 June 2003

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Statements of Cash Flows For the year ended 31 March 2003

	Note	Line Business	
		2003	2002
		(\$000s)	(\$000s)
Cash Flows From Operating Activities			
Cash received from operations			
Receipts from customers		50,367	52,313
Interest received		114	1,463
Total cash received from operations		<u>50,481</u>	<u>53,776</u>
Cash disbursed on operations			
Payments to employees and suppliers		(23,686)	(21,455)
Interest paid		(495)	(1)
Income tax paid		(3,094)	(10,775)
Total cash disbursed on operations		<u>(27,275)</u>	<u>(32,231)</u>
Net cash flow from operations (refer to reconciliation below)		<u>23,206</u>	<u>21,545</u>
Cash Flows From Investing Activities			
Cash received from investing activities			
Sale of fixed assets		-	-
Investments maturing		-	-
Total cash from investing activities		<u>-</u>	<u>-</u>
Cash disbursed on investing activities			
Investments made		-	-
Fixed asset purchases		(8,146)	(10,523)
Total cash disbursed on investing activities		<u>(8,146)</u>	<u>(10,523)</u>
Net cash flow applied to/(from) investing activities		<u>(8,146)</u>	<u>(10,523)</u>
Cash Flows From Financing Activities			
Cash received from financing activities			
Cash received on amalgamation with WETSL		1,209	-
Total cash received from financing activities		<u>1,209</u>	<u>-</u>
Cash disbursed on financing activities			
Loans repaid		(7,488)	-
Dividend Paid		(10,894)	(9,658)
Total cash disbursed on financing activities		<u>(18,382)</u>	<u>(9,658)</u>
Net cash flow applied to/(from) financing activities		<u>(17,173)</u>	<u>(9,658)</u>
Net increase/(decrease) in cash held		(2,113)	1,364
Cash at the beginning of the year		7,600	6,236
Cash at the end of the year		<u>5,487</u>	<u>7,600</u>

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Statements of Cash Flows (*continued*) **For the year ended 31 March 2003**

	Note	Line Business	
		2003	2002
		(\$000s)	(\$000s)
Reconciliation of net cash flows from operating activities with surplus after taxation.			
Surplus after taxation		12,073	16,318
Non cash items			
Depreciation		6,231	6,272
Total non cash items		6,231	6,272
Increase/(decrease) in working capital			
Trade Debtors		1,330	818
Other current assets		(90)	(15)
Trade & other creditors		(1,335)	(426)
Customer deposits		-	-
Annual and long service leave provision		16	(25)
Provision for taxation		4,081	(2,691)
Deferred tax		711	1,249
Net decrease/(increase) in working capital		4,713	(1,090)
Items classified as investing activities			
Net loss/(gain) on sale of fixed assets		189	45
Net cash inflow from operating activities		23,206	21,545

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Statement of Accounting Policies For the year ended 31 March 2003

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

There have been no 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 2003

		Line Business	
		2003	2002
		(\$000s)	(\$000s)
1	Operating Revenue		
	Revenue from Other	-	-
	Line access charges	47,202	49,813
	Interest	114	474
	AC Rental Rebates	1,641	2,625
	Revenue from other business	-	-
	Other operating revenue	-	-
	Total Operating Income	48,957	52,912
	Deducted from Line access charges is \$7.5M discount (2002 NIL)		
2	Operating Expenditure		
	Transmission charges	10,762	10,472
	Transfer payments to Other business for:		
	Asset Maintenance	3,993	3,942
	Disconnections/Reconnection	-	-
	Meter data	-	-
	Consumer based load control	-	-
	Avoided transmission (own generation)	-	-
	Royalties & patents	-	-
	Other goods/services	-	-
	Total	3,993	3,942
	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	3,293	3,377
	Customer billing & Information System expense		
	Depreciation on:		
	Distribution system	5,235	4,539
	Other assets	996	1,677
	Total	6,231	6,216
	Amortisation of:		
	Goodwill	-	-
	Other Intangibles	-	-
	Total	-	-
	Corporate & administration	155	364
	Human resource expenses	206	229
	Marketing & advertising	276	316
	Merger and acquisition	1,300	110
	Takeover defence	-	-
	Research & development	10	-
	Consultancy & legal	660	1,090

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	Line Business	
	2003	2002
	(\$000s)	(\$000s)
Operating Expenditure <i>(continued)</i>		
Donations	-	-
Directors' Fees	222	215
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	43	37
Total	63	57
Net loss on sale of fixed assets	189	45
Cost of offering credit		
Bad Debts	3	4
Movement in provision for doubtful debts	-	-
Total	3	4
Local Authority rates	184	42
AC Loss-rental expense	-	-
Rebates to customers due to ownership	-	-
Subvention payments	-	-
Unusual expenses	-	-
Other expenditure	1,017	781
Total expenditure	28,564	27,260

3 Interest

Interest expense on borrowings	435	1
Finance charges relating to finance leases	-	-
Other interest expenses	-	-
	435	1

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	Line Business	
	2003 (\$000s)	2002 (\$000s)
4 Taxation		
Profit before taxation	19,958	25,651
Tax on profit at 33%	6,586	8,465
Tax effect of permanent differences	1,299	868
Total taxation expense	7,885	9,333
Represented by:		
Deferred income tax liability	711	1,249
Current taxation provision	7,174	8,084
	7,885	9,333
Deferred income tax liability		
Balance at the beginning of the year	9,068	7,819
Adjustments for prior periods	-	-
Current year timing differences	711	1,249
Balance at the end of the year	9,779	9,068
The tax effect of timing differences arising from asset revaluations of the distribution system approximating \$17,100,000, 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	90,040	90,171
Retained earnings	37,838	32,895
Other Reserves	30,359	41,374
Total Equity	158,368	164,571
Asset Revaluation Reserve		
Balance at the beginning of the year	90,171	90,171
Transfer to Retained Earnings	(131)	-
Balance at the end of the year	90,040	90,171
Retained Earnings		
Balance at the beginning of the year	32,895	26,486
Net surplus after tax	12,073	16,318
Dividends	(7,261)	(9,909)
Transfer from Revaluation Reserve	131	-
Balance at the end of the year	37,838	32,895
Other Reserves		
Balance at the beginning of the year	41,374	41,374
Loss on Amalgamation with WETSL	(11,015)	-
Balance at the end of the year	30,359	41,374

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Amalgamation with WEL Energy Trust Shareholding Limited

On 30 April 2002 WEL Energy Trust Shareholding Ltd has amalgamated with the Parent. Until the date of the amalgamation WEL Energy Trust Shareholding Ltd had a controlling interest in the Parent. Both companies were ultimately controlled by the WEL Energy Trust. Under the amalgamation the Parent took control of the assets of WEL Energy Trust Shareholding Ltd and assumed its liabilities. WEL Energy Trust Shareholding Ltd has been removed from the New Zealand register of companies.

Summary of the effect of amalgamation of WEL Energy Trust Shareholding Limited

	Line Business	
	2003	2002
	(\$000s)	(\$000s)
Assets and liabilities amalgamated:		
Bank balances	1,209	-
Net current assets/current liabilities	(1,289)	-
Borrowings	(10,935)	-
Balance recognised in the statement of movements in equity	(11,015)	-

The assets and liabilities have been brought into the Company's financial statements at their carrying amounts which approximate their fair value. The operating results of WEL Energy Trust Shareholding Ltd after the amalgamation have been included in the statement of financial performance of the Company since 1 May 2002. The balance on amalgamation has been recognised in the statement of movements in equity of the Company. The comparatives for the Company have not been adjusted for the amalgamation.

6 Current assets

Cash and Bank	5,487	7,600
Trade debtors	3,616	4,947
Short term investments	-	-
Inventories	115	-
Other assets	8	33
Tax recoverable	-	3,010
	9,226	15,590

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7 Fixed Assets

Freehold Land and Buildings

Land	At cost	67	67
	At valuation	996	996
Buildings	At valuation	1,111	1,111
		<u>2,174</u>	<u>2,174</u>
Accumulated depreciation			
	At valuation	(67)	(33)
		<u>2,107</u>	<u>2,141</u>
Net book value			

Vehicles

Cost	377	408
Accumulated depreciation	(121)	(147)
Net book value	<u>256</u>	<u>261</u>

Furniture, Plant and Equipment

Cost	11,304	10,250
Accumulated depreciation	(9,067)	(7,742)
Net book value	<u>2,237</u>	<u>2,508</u>

Distribution System

Cost	16,642	9,874
Valuation	154,133	154,133
	<u>170,775</u>	<u>164,007</u>

Accumulated depreciation values		
Cost	(1,923)	(1,434)
Valuation	(8,940)	(4,470)

Net book value	<u>159,912</u>	<u>158,103</u>
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Total before assets under construction	<u>164,512</u>	<u>163,013</u>
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Capital assets under construction	1,776	1,507
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Consumer billing & information system assets	-	-
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Other fixed assets

Cost	1,355	1,355
Accumulated depreciation	(556)	(515)
Net book value	<u>799</u>	<u>840</u>

Total net book value	<u>167,087</u>	<u>165,360</u>
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Line Business
2003 2002
(\$000s) (\$000s)

Fixed Assets *(continued)*

Reconciliation to annual valuation reconciliation report

Distribution System net book value above	159,912	158,103
add system assets included in ODV valuation classified as Land & Buildings and Furniture, Plant and Equipment:		
Land & Buildings net book value	1,419	1,431
Furniture, Plant and Equipment net book value	432	727
System fixed assets at ODV in reconciliation report	161,763	160,261

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)	1,210	1,246
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8 Current liabilities

Bank overdraft & short term borrowings	3,447	-
Trade creditors	3,260	3,033
Customer deposits	-	-
Provision for annual and long service leave	187	171
Provision for dividend	-	3,633
Provision for tax	1,071	-
Other current liabilities	201	474
	8,166	7,311

9 Non-current Liabilities

Payables and accruals	-	-
Borrowings	-	-
Deferred tax	9,779	9,068
Other non-current liabilities	-	-
	9,779	9,068

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10 Contingencies

There are no contingent liabilities (2002: nil)

11 Capital commitments

Capital commitments as at 31 March 2003 are estimated at \$271,000 (2002: \$276,000).

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.

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13 Related Party Transactions

The Lines Business has received services from WEL Networks Network Services 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	
		2003	2002
		(\$000s)	(\$000s)
(a)	Construction of subtransmission assets	213	412
(b)	Construction of zone substations	392	2,950
(c)	Construction of distribution lines and cables.	2,009	2,616
(d)	Construction of medium voltage switchgear	81	97
(e)	Construction of distribution transformers.	351	874
(f)	Construction of distribution substations	1,563	449
(g)	Construction of Low voltage lines & cables	928	915
WEL Networks was involved in connecting new consumers to its network and the following costs were incurred:			
(h)	Relays for new connections	173	425
	Consumer connections	1,394	1,404
(i)	Maintenance of distribution system	3,993	3,942
		11,097	14,084

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

14 Imputation Credit Memorandum Account

	Balance at the beginning of the year	21,204	15,675
	Dividends allocated	(5,520)	(4,996)
	Taxation paid	4,706	10,525
	Transfer on amalgamation with WETSL	9,811	-
	Balance at the end of the year	30,201	21,204
15	Adjusted net working capital	91	4,312
16	Interest tax shield	106	(156)