

WEL NETWORKS LIMITED

Statement of Financial Performance For the year ended 31 March 2004

	Note	Line Business	
		2004 (\$000s)	2003 (\$000s)
Total revenue	1	44,975	48,957
Operating expenses	2	(27,264)	(28,564)
Operating surplus before interest & taxation		17,711	20,393
Interest expense	3	(41)	(435)
Operating surplus before taxation		17,670	19,958
Taxation expense	4	(6,726)	(7,885)
Surplus attributable to the shareholders of the parent company		10,944	12,073

Statement of Movements in Equity For the year ended 31 March 2004

	Note	Line Business	
		2004 (\$000s)	2003 (\$000s)
Equity as at 1 April		158,368	164,571
Net Surplus for the year		10,944	12,073
Total Recognised Revenue and Expenses		10,944	12,073
Dividends		(6,896)	(7,261)
Revaluation of Assets		14,572	-
Loss on amalgamation		-	(11,015)
		7,676	(18,276)
Equity as at 31 March		176,988	158,368

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Statement of Financial Position As at 31 March 2004

	Note	Line Business	
		2004	2003
		(\$000s)	(\$000s)
Tangible assets			
Current assets	6	11,197	9,226
Fixed assets	7	188,189	167,087
Total tangible assets		199,386	176,313
Intangible assets			
Goodwill		-	-
Other intangible assets		-	-
Total intangible assets		-	-
Total Assets		199,386	176,313
Liabilities			
Current liabilities	8	10,005	8,166
Non current liabilities	9	12,393	9,779
Total liabilities		22,398	17,945
Equity			
Capital Notes		-	-
Equity	5	176,988	158,368
Total capital funds		176,988	158,368
Total equity and liabilities		199,386	176,313

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Statements of Cash Flows For the year ended 31 March 2004

	Note	Line Business	
		2004	2003
		(\$000s)	(\$000s)
Cash Flows From Operating Activities			
Cash received from operations			
Receipts from customers		55,482	50,367
Interest received		681	114
Total cash received from operations		<u>56,163</u>	<u>50,481</u>
Cash disbursed on operations			
Payments to employees and suppliers		(18,727)	(23,686)
Interest paid		(41)	(495)
Income tax paid		(3,301)	(3,094)
Total cash disbursed on operations		<u>(22,069)</u>	<u>(27,275)</u>
Net cash flow from operations		<u>34,094</u>	<u>23,206</u>
(refer to reconciliation below)			
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		(12,884)	(8,146)
Total cash disbursed on investing activities		<u>(12,884)</u>	<u>(8,146)</u>
Net cash flow applied to/(from) investing activities		<u>(12,884)</u>	<u>(8,146)</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>-</u>	<u>1,209</u>
Cash disbursed on financing activities			
Loans repaid		(3,447)	(7,488)
Dividend Paid		(4,735)	(10,894)
Total cash disbursed on financing activities		<u>(8,182)</u>	<u>(18,382)</u>
Net cash flow applied to/(from) financing activities		<u>(8,182)</u>	<u>(17,173)</u>
Net increase/(decrease) in cash held		13,028	(2,113)
Cash at the beginning of the year		5,487	7,600
Cash at the end of the year	6	<u>18,515</u>	<u>5,487</u>

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Statements of Cash Flows *(continued)* For the year ended 31 March 2004

	Note	Line Business	
		2004 (\$000s)	2003 (\$000s)
Reconciliation of net cash flows from operating activities with surplus after taxation.			
Surplus after taxation		10,944	12,073
Non cash items			
Depreciation		6,243	6,231
Deferred tax		2,614	711
Total non cash items		8,857	6,942
Increase/(decrease) in working capital			
Trade Debtors		11,079	1,330
Other current assets		(19)	(90)
Trade & other creditors		2,298	(1,335)
Customer deposits		-	-
Annual and long service leave provision		21	16
Provision for taxation		807	4,081
Net decrease/(increase) in working capital		14,186	4,002
Items classified as investing activities			
Net loss/(gain) on sale of fixed assets		107	189
Net cash inflow from operating activities		34,094	23,206

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Statement of Accounting Policies For the year ended 31 March 2004

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 2004 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.

(h) Leased Assets

Operating Leases

Operating Lease payments are recognised as an expense in the period the amount is payable.

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 2004

	Line Business	
	2004	2003
	(\$000s)	(\$000s)
1 Operating Revenue		
Revenue from Other	-	-
Line access charges	42,566	47,202
Interest	681	114
AC Rental Rebates	1,728	1,641
Revenue from other business	-	-
Other operating revenue	-	-
Total Operating Income	44,975	48,957
Deducted from Line access charges is \$11.4M discount (2003 \$7.5M)		
2 Operating Expenditure		
Transmission charges	10,615	10,762
Transfer payments to Other business for:		
Asset Maintenance	2,958	3,993
Disconnections/Reconnection	-	-
Meter data	-	-
Consumer based load control	-	-
Avoided transmission (own generation)	-	-
Royalties & patents	-	-
Other goods/services	-	-
Total	2,958	3,993
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	3,768	3,293
Customer billing & Information System expense		
Depreciation on:		
Distribution system	5,351	5,235
Other assets	892	996
Total	6,243	6,231
Amortisation of:		
Goodwill	-	-
Other Intangibles	-	-
Total	-	-
Corporate & administration	199	155
Human resource expenses	239	206
Marketing & advertising	266	276
Merger and acquisition	2	1,300
Takeover defence	-	-
Research & development	1	10
Consultancy & legal	1,140	660

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	Line Business	
	2004	2003
	(\$000s)	(\$000s)
Operating Expenditure <i>(continued)</i>		
Donations	-	-
Directors' Fees	242	222
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	87	43
Total	107	63
Net loss on sale of fixed assets	134	189
Cost of offering credit		
Bad Debts	0	3
Movement in provision for doubtful debts	-	-
Total	0	3
Local Authority rates	262	184
AC Loss-rental expense	-	-
Rebates to customers due to ownership	-	-
Subvention payments	-	-
Unusual expenses	-	-
Other expenditure	1,088	1,017
Total expenditure	27,264	28,564

3 Interest

Interest expense on borrowings	41	435
Finance charges relating to finance leases	-	-
Other interest expenses	-	-
	41	435

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	Line Business	
	2004	2003
	(\$000s)	(\$000s)
4 Taxation		
Profit before taxation	17,670	19,958
Tax on profit at 33%	5,831	6,586
Tax effect of permanent differences	895	1,299
Total taxation expense	6,726	7,885
Represented by:		
Deferred income tax liability	2,614	711
Current taxation provision	4,112	7,174
	6,726	7,885
Deferred income tax liability		
Balance at the beginning of the year	9,779	9,068
Adjustments for prior periods	-	-
Current year timing differences	2,614	711
Balance at the end of the year	12,393	9,779
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	104,612	90,040
Retained earnings	41,886	37,838
Other Reserves	30,359	30,359
Total Equity	176,988	158,368
Asset Revaluation Reserve		
Balance at the beginning of the year	90,040	90,171
Asset revaluation	14,572	-
Transfer to Retained Earnings	-	(131)
Balance at the end of the year	104,612	90,040
Retained Earnings		
Balance at the beginning of the year	37,838	32,895
Net surplus after tax	10,944	12,073
Dividends	(6,896)	(7,261)
Transfer from Revaluation Reserve		131
Balance at the end of the year	41,886	37,838
Other Reserves		
Balance at the beginning of the year	30,359	41,374
Loss on Amalgamation with WETSL	-	(11,015)
Balance at the end of the year	30,359	30,359

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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	
	2004	2003
	(\$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	18,515	5,487
Trade debtors	(7,463)	3,616
Short term investments	-	-
Inventories	96	115
Other assets	49	8
Tax recoverable	-	-
	11,197	9,226

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		Line Business	
		2004	2003
		(\$000s)	(\$000s)
7	Fixed Assets		
	System Fixed assets		
Distribution System	At cost	-	16,642
	At valuation	182,189	154,133
Land	At cost	-	67
	At valuation	1,276	308
Buildings	At cost	-	-
	At valuation	1,403	1,111
Furniture Plant & Equipment	At cost	-	1,286
	At valuation	-	-
		184,868	173,547
Accumulated depreciation			
Distribution System	At cost	-	(1,923)
	At valuation	-	(8,940)
Buildings	At cost	-	-
	At valuation	-	(67)
Furniture Plant & Equipment	At cost	-	(854)
	At valuation	-	-
		-	(11,784)
Total System Fixed Assets		184,868	161,763
	Buildings		
Valuation		-	688
Accumulated depreciation			
Valuation		-	-
Net book value		-	688
	Vehicles		
Cost		467	377
Accumulated depreciation		(182)	(121)
Net book value		285	256

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	Line Business	
	2004	2003
	(\$000s)	(\$000s)
Fixed Assets <i>(continued)</i>		
Furniture, Plant and Equipment		
Cost	11,062	10,018
Accumulated depreciation	(9,257)	(8,213)
Net book value	1,805	1,805
Total before assets under construction	186,958	164,512
Capital assets under construction	473	1,776
Consumer billing & information system assets	-	-
Other fixed assets		
Cost	1,355	1,355
Accumulated depreciation	(596)	(556)
Net book value	759	799
Total net book value	188,189	167,087

Land and Buildings were revalued on 31 March 2004 by DTZ Registered Valuers.

The distribution system was revalued on 31 March 2004 by Sinclair Knight Merz (NZ) Limited Registered Engineers.

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)	1,215	1,210
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8 Current liabilities

Bank overdraft & short term borrowings	-	3,447
Trade creditors	5,245	3,260
Provision for annual and long service leave	208	187
Provision for dividend	2,160	-
Provision for tax	1,878	1,071
Other current liabilities	514	201
	10,005	8,166

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	Line Business 2004 (\$000s)	2003 (\$000s)
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9 Non-current Liabilities

Payables and accruals	-	-
Borrowings	-	-
Deferred tax	12,393	9,779
Other non-current liabilities	-	-
	12,393	9,779

10 Contingencies

There are no contingent liabilities (2003: nil).

11 Capital commitments

Capital expenditure

Capital commitments as at 31 March 2004 are estimated at \$474,000 (2003: \$271,000).

Operating Leases

Non-cancellable operating lease commitments:

Current	73	73
Non Current	1,049	1,122
	1,122	1,195

The Group leases land and premises. Operating leases held over properties give the Group the right to renew the lease subject to a predetermination of the lease rental by the lessor. There are no options to purchase in respect of land and premises held under operating leases.

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.

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Financial Instruments *(continued)*

(b) Fair Values

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

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	
	2004	2003
	(\$000s)	(\$000s)
(a) Construction of subtransmission assets	147	213
(b) Construction of zone substations	498	392
(c) Construction of distribution lines and cables.	6,399	2,009
(d) Construction of medium voltage switchgear	204	81
(e) Construction of distribution transformers.	547	351
(f) Construction of distribution substations	726	1,563
(g) Construction of Low voltage lines & cables	1,958	928
WEL Networks was involved in connecting new consumers to its network and the following costs were incurred:		
(h) Relays for new connections	-	173
Consumer connections	2,638	1,394
(i) Maintenance of distribution system	2,958	3,993
	16,075	11,097

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

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		Line Business	
		2004	2003
		(\$000s)	(\$000s)
14	Imputation Credit Memorandum Account		
	Balance at the beginning of the year	30,201	21,204
	Dividends allocated	(2,302)	(5,520)
	Taxation paid	3,848	4,706
	Transfer on amalgamation with WETSL	-	9,811
	Balance at the end of the year	31,747	30,201
15	Adjusted net working capital	(13,285)	91
16	Interest tax shield	(211)	106