

# **WEL NETWORKS LIMITED**

## **Statement of Financial Performance** **For the year ended 31 March 2005**

	Note	<b>Line Business</b>	
		<b>2005</b>	<b>2004</b>
		<b>(\$000s)</b>	<b>(\$000s)</b>
Total revenue	1	<b>46,123</b>	44,975
Operating expenses	2	<b>(28,402)</b>	(27,264)
Operating surplus before interest & taxation		<b>17,721</b>	17,711
Interest expense	3	<b>(3,696)</b>	(41)
Operating surplus before taxation		<b>14,025</b>	17,670
Taxation expense	4	<b>(5,719)</b>	(6,726)
Surplus attributable to the shareholders of the parent company		<b>8,306</b>	10,944

## **Statement of Movements in Equity** **For the year ended 31 March 2005**

	Note	<b>Line Business</b>	
		<b>2005</b>	<b>2004</b>
		<b>(\$000s)</b>	<b>(\$000s)</b>
<b>Equity as at 1 April</b>		<b>176,988</b>	158,368
Net Surplus for the year		<b>8,306</b>	10,944
<b>Total Recognised Revenue and Expenses</b>		<b>8,306</b>	10,944
Dividends		<b>(30,390)</b>	(6,896)
Revaluation of Assets		-	14,572
		<b>(30,390)</b>	7,676
<b>Equity as at 31 March</b>		<b>154,904</b>	176,988

# WEL NETWORKS LIMITED

## Statement of Financial Position As at 31 March 2005

	Note	Line Business	
		2005 (\$000s)	2004 (\$000s)
<b>Tangible assets</b>			
Current assets	6	26,136	22,697
Fixed assets	7	202,570	188,189
<b>Total tangible assets</b>		<b>228,706</b>	<b>210,886</b>
<b>Intangible assets</b>			
Goodwill		-	-
Other intangible assets		-	-
<b>Total intangible assets</b>		<b>-</b>	<b>-</b>
<b>Total Assets</b>		<b>228,706</b>	<b>210,886</b>
<b>Liabilities</b>			
Current liabilities	8	22,641	21,505
Non current liabilities	9	51,161	12,393
<b>Total liabilities</b>		<b>73,802</b>	<b>33,898</b>
<b>Equity</b>			
Capital Notes		-	-
Equity	5	154,904	176,988
<b>Total capital funds</b>		<b>154,904</b>	<b>176,988</b>
<b>Total equity and liabilities</b>		<b>228,706</b>	<b>210,886</b>

# WEL NETWORKS LIMITED

## Statements of Cash Flows For the year ended 31 March 2005

	Note	Line Business	
		2005 (\$000s)	2004 (\$000s)
<b>Cash Flows From Operating Activities</b>			
Cash received from operations			
Receipts from customers		47,867	55,482
Interest received		1,051	681
Total cash received from operations		48,918	56,163
Cash disbursed on operations			
Payments to employees and suppliers		(20,113)	(18,727)
Interest paid		(3,696)	(41)
Income tax paid		(4,756)	(3,301)
Total cash disbursed on operations		(28,565)	(22,069)
<b>Net cash flow from operations (refer to reconciliation below)</b>		<b>20,353</b>	<b>34,094</b>
<b>Cash Flows From Investing Activities</b>			
Cash received from investing activities			
Sale of fixed assets		-	-
Investments maturing		-	-
Total cash from investing activities		-	-
Cash disbursed on investing activities			
Investments made		-	-
Fixed asset purchases		(21,138)	(12,884)
Total cash disbursed on investing activities		(21,138)	(12,884)
<b>Net cash flow applied to/(from) investing activities</b>		<b>(21,138)</b>	<b>(12,884)</b>
<b>Cash Flows From Financing Activities</b>			
Cash received from financing activities			
Loans raised		36,546	-
Total cash received from financing activities		36,546	-
Cash disbursed on financing activities			
Loans repaid		-	(3,447)
Dividend Paid		(32,549)	(4,735)
Total cash disbursed on financing activities		(32,549)	(8,182)
<b>Net cash flow applied to/(from) financing activities</b>		<b>3,997</b>	<b>(8,182)</b>
Net increase/(decrease) in cash held		3,212	13,028
Cash at the beginning of the year		18,515	5,487
Cash at the end of the year	6	21,727	18,515

**WEL NETWORKS LIMITED**

**Statements of Cash Flows (*continued*)**  
**For the year ended 31 March 2005**

		<b>Line Business</b>	
	Note	<b>2005</b>	2004
		<b>(\$000s)</b>	<b>(\$000s)</b>
<b>Reconciliation of net cash flows from operating activities with surplus after taxation.</b>			
Surplus after taxation		<b>8,306</b>	10,944
Non cash items			
Depreciation	2	<b>6,438</b>	6,243
Deferred tax	4	<b>2,217</b>	2,614
Total non cash items		<b>8,655</b>	8,857
(Increase)/decrease in working capital			
Trade Debtors		<b>(208)</b>	11,079
Other current assets		<b>(19)</b>	(19)
Trade & other creditors		<b>4,579</b>	2,298
Customer deposits		-	-
Annual and long service leave provision		<b>(30)</b>	21
Provision for taxation		<b>(1,254)</b>	807
Net decrease/(increase) in working capital		<b>3,068</b>	14,186
Items classified as investing activities			
Net loss/(gain) on sale of fixed assets		<b>324</b>	107
Net cash inflow from operating activities		<b>20,353</b>	34,094

## **WEL NETWORKS LIMITED**

### **Statement of Accounting Policies For the year ended 31 March 2005**

These financial statements are prepared and presented in accordance with the Electricity Information Disclosure Requirements 2004.

#### **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.

## 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.

## (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 year under review.

Certain comparatives have been re-classified to ensure greater transparency and comparability between periods.

# WEL NETWORKS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2005

	<b>Line Business</b>	
	<b>2005</b>	<b>2004</b>
	<b>(\$000s)</b>	<b>(\$000s)</b>
<b>1 Operating Revenue</b>		
Revenue from Other	-	-
Line access charges	43,838	42,566
Interest	1,051	681
AC Rental Rebates	1,234	1,728
Revenue from other business	-	-
Other operating revenue	-	-
Total Operating Income	<b>46,123</b>	<b>44,975</b>
Deducted from Line access charges is \$14.1M discount (2004 \$11.4M)		
<b>2 Operating Expenditure</b>		
Transmission charges	11,755	10,615
Transfer payments to Other business for:		
Asset Maintenance	3,813	2,958
Disconnections/Reconnection	-	-
Meter data	-	-
Consumer based load control	-	-
Avoided transmission (own generation)	-	-
Royalties & patents	-	-
Other goods/services	-	-
<b>Total</b>	<b>3,813</b>	<b>2,958</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	3,555	3,768
Customer billing & Information System expense		
Depreciation on:		
Distribution system	5,690	5,351
Other assets	748	892
<b>Total</b>	<b>6,438</b>	<b>6,243</b>
Amortisation of:		
Goodwill	-	-
Other Intangibles	-	-
<b>Total</b>	<b>-</b>	<b>-</b>
Corporate & administration	467	199
Human resource expenses	248	239
Marketing & advertising	245	266
Merger and acquisition	0	2
Takeover defence	-	-
Research & development	-	1
Consultancy & legal	911	1,140



# WEL NETWORKS LIMITED

	Line Business	
	2005	2004
	(\$000s)	(\$000s)
<b>Operating Expenditure</b> <i>(continued)</i>		
Donations	-	-
Directors' Fees	241	242
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	79	87
<b>Total</b>	<b>99</b>	<b>107</b>
Net loss on sale of fixed assets	324	134
Cost of offering credit		
Bad Debts	(0)	0
Movement in provision for doubtful debts	-	-
<b>Total</b>	<b>(0)</b>	<b>0</b>
Local Authority rates	216	262
AC Loss-rental expense	-	-
Rebates to customers due to ownership	-	-
Subvention payments	-	-
Unusual expenses	-	-
Other expenditure	90	1,088
<b>Total expenditure</b>	<b>28,402</b>	<b>27,264</b>

## 3 Interest

Interest expense on borrowings	3,696	41
Finance charges relating to finance leases	-	-
Other interest expenses	-	-
	<b>3,696</b>	<b>41</b>

# WEL NETWORKS LIMITED

	<b>Line Business</b>	
	<b>2005</b>	<b>2004</b>
	<b>(\$000s)</b>	<b>(\$000s)</b>
<b>4 Taxation</b>		
Profit before taxation	<b>14,025</b>	17,670
Tax on profit at 33%	<b>4,628</b>	5,831
Tax effect of permanent differences	<b>1,091</b>	895
Total taxation expense	<b>5,719</b>	6,726
Represented by:		
Deferred income tax liability	<b>2,217</b>	2,614
Current taxation provision	<b>3,502</b>	4,112
	<b>5,719</b>	6,726
Deferred income tax liability		
Balance at the beginning of the year	<b>12,393</b>	9,779
Adjustments for prior periods	<b>5</b>	-
Current year timing differences	<b>2,217</b>	2,614
Balance at the end of the year	<b>14,615</b>	12,393
The tax effect of timing differences arising from asset revaluations of the distribution system approximating \$23,689,000, which would only crystallise on disposal, have not been recognised.		
<b>5 Shareholders Funds</b>		
Issued and Paid In Capital	<b>41,504</b>	41,504
All ordinary shares carry equal voting rights		
Asset revaluation reserve	<b>104,612</b>	104,612
Retained earnings	<b>8,788</b>	30,872
<b>Total Equity</b>	<b>154,904</b>	176,988
<b>Asset Revaluation Reserve</b>		
Balance at the beginning of the year	<b>104,612</b>	90,040
Asset revaluation	-	14,572
Transfer to Retained Earnings	-	-
Balance at the end of the year	<b>104,612</b>	104,612
<b>Retained Earnings</b>		
Balance at the beginning of the year	<b>30,872</b>	26,824
Net surplus after tax	<b>8,306</b>	10,944
Dividends	<b>(30,390)</b>	(6,896)
Transfer from Revaluation Reserve		
Balance at the end of the year	<b>8,788</b>	30,872

# WEL NETWORKS LIMITED

Line Business  
2005                  2004  
(\$000s)              (\$000s)

## 6 Current assets

Cash and Bank		21,727	18,515
Trade debtors		4,245	4,037
Short term investments		-	-
Inventories		161	96
Other assets		3	49
Tax recoverable		-	-
		<b>26,136</b>	<b>22,697</b>

## 7 Fixed Assets

### System Fixed assets

Distribution System	At cost	14,302	-
	At valuation	182,189	182,189
Land	At cost	-	-
	At valuation	1,276	1,276
Buildings	At cost	-	-
	At valuation	1,403	1,403
Furniture Plant & Equipment	At cost	-	-
	At valuation	-	-
		<b>199,170</b>	<b>184,868</b>
Accumulated depreciation			
Distribution System	At cost	(213)	-
	At valuation	(5,283)	-
Buildings	At cost	-	-
	At valuation	(42)	-
Furniture Plant & Equipment	At cost	-	-
	At valuation	-	-
		<b>(5,538)</b>	<b>-</b>
<b>Total System Fixed Assets</b>		<b>193,632</b>	<b>184,868</b>

### Vehicles

Cost	411	467
Accumulated depreciation	(152)	(182)
Net book value	<b>259</b>	<b>285</b>

# WEL NETWORKS LIMITED

	Line Business	
	2005	2004
	(\$000s)	(\$000s)
<b>Fixed Assets</b> <i>(continued)</i>		
<b>Furniture, Plant and Equipment</b>		
Cost	11,730	11,062
Accumulated depreciation	(9,829)	(9,257)
Net book value	1,901	1,805
<b>Total before assets under construction</b>	195,792	186,958
<b>Capital assets under construction</b>	6,060	473
<b>Consumer billing &amp; information system assets</b>	-	-
<b>Other fixed assets</b>		
Cost	1,355	1,355
Accumulated depreciation	(637)	(596)
Net book value	718	759
<b>Total net book value</b>	202,570	188,189

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)	1,180	1,215
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## 8 Current liabilities

Bank overdraft & short term borrowings	-	-
Trade creditors	21,430	16,745
Provision for annual and long service leave	178	208
Provision for dividend	-	2,160
Provision for tax	624	1,878
Other current liabilities	409	514
	22,641	21,505

## WEL NETWORKS LIMITED

	<b>Line Business</b>	
	<b>2005</b>	<b>2004</b>
	<b>(\$000s)</b>	<b>(\$000s)</b>
<b>9 Non-current Liabilities</b>		
Payables and accruals	-	-
Borrowings (refer note 17 )	<b>36,546</b>	-
Deferred tax	<b>14,615</b>	12,393
Other non-current liabilities	-	-
	<b>51,161</b>	12,393

## 10 Contingencies

There are no contingent liabilities (2004: nil).

## 11 Capital commitments

### Capital expenditure

Capital commitments as at 31 March 2005 are estimated at \$4,314,000 (2004: \$474,000).

### Operating Leases

Non-cancellable operating lease commitments:

Within one year	<b>73</b>	73
Later than one, not later than two years	<b>54</b>	73
Later than two, not later than five years	<b>123</b>	137
Later than five years	<b>799</b>	839

Total Operating Leases	<b>1,049</b>	1,122
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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.

## WEL NETWORKS LIMITED

### 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:

	<b>Line Business</b>	
	<b>2005</b>	<b>2004</b>
	<b>(\$000s)</b>	<b>(\$000s)</b>
(a) Construction of subtransmission assets	5,897	147
(b) Construction of zone substations	260	498
(c) Construction of distribution lines and cables.	6,975	6,399
(d) Construction of medium voltage switchgear	856	204
(e) Construction of distribution transformers.	773	547
(f) Construction of distribution substations	91	726
(g) Construction of Low voltage lines & cables	3,007	1,958
WEL Networks was involved in connecting new consumers to its network and the following costs were incurred:		
(h) Relays for new connections	-	-
Consumer connections	4,020	2,638
(i) Maintenance of distribution system	3,813	2,958
	<b>25,692</b>	<b>16,075</b>

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

# WEL NETWORKS LIMITED

	Line Business	
	2005 (\$000s)	2004 (\$000s)
<b>14 Imputation Credit Memorandum Account</b>		
Balance at the beginning of the year	31,747	30,201
Dividends allocated	(15,988)	(2,302)
Taxation paid	4,980	3,848
Balance at the end of the year	<u>20,739</u>	<u>31,747</u>
<b>15 Adjusted net working capital</b>	<b>(17,607)</b>	<b>(13,285)</b>
<b>16 Interest tax shield</b>	<b>873</b>	<b>(211)</b>
<b>17 Convertible Note</b>		

On 30 June 2004 the Company paid a dividend of \$37.4m to its 100% shareholder, WEL Energy Trust. On the same day the Company issued \$37.4m of convertible notes to the WEL Energy Trust. The Notes are subordinated to all other forms of debt. They are unsecured and bear interest of 8.3% p.a, accrued monthly. The Notes are convertible into an amount of ordinary shares equal to the face value of the Notes, divided by the assessed fair value of WEL shares at the date of conversion. Conversion is at the discretion of the Directors provided 30 business days notice is given.

The Line Business share of the above transaction was \$36,546,000.