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WEL ENERGY GROUP LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO THE ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1994

CERTIFICATION OF FINANCIAL STATEMENTS, PERFORMANCE MEASURES, AND STATISTICS DISCLOSED BY LINE OWNERS OTHER THAN TRANSPOWER

We, Shane Ringa Solomon and Brooke Des Forges, Directors of WEL Energy Group Limited, certify that, having made all reasonable enquiry, to the best of our knowledge, -

(a) The attached audited financial statements of WEL Energy Group Limited prepared for the purposes of regulation 6 of the Electricity (Information Disclosure) Regulations 1994, give a true and fair view of the matters to which they relate and comply with the requirements of those regulations; and

(b) The attached information, being financial performance measures, efficiency performance measures, energy delivery efficiency performance measures, statistics, and reliability performance measures in relation to WEL Energy Group Limited, and having been prepared for the purposes of regulations 13, 14, 15, and 16 of the Electricity (Information Disclosure) Regulations 1994, comply with the requirements of the Electricity (Information Disclosure) Regulations 1994.

The valuations on which those financial performance measures are based are as at 31 March 1998.

Shane Ringa Solomon — Date 9 July 1998

Brooke Des Forges — Date 9 July 1998

WEL ENERGY GROUP LIMITED

Statement of Financial Performance
For the year ended 31 March 1998

	Note	Line Business 1998 ($000s)	Line Business 1997 ($000s)	Energy Business 1998 ($000s)	Energy Business 1997 ($000s)
Total revenue	1	**50,700**	47,270	**47,131**	44,231
Operating expenses	2	**(30,568)**	(29,544)	**(44,448)**	(40,502)
Net profit before taxation		**20,132**	17,726	**2,683**	3,729
Taxation expense	3	**(7,593)**	(6,805)	**(885)**	(1,230)
Net profit after taxation		**12,539**	10,921	**1,798**	2,499
Share of surplus of Associate Entity		**-**	-	**(223)**	144
Surplus attributable to the shareholders of the parent company		**12,539**	10,921	**1,575**	2,643

Statement of Financial Position
As at 31 March 1998

	Note	Line Business 1998 ($000s)	Line Business 1997 ($000s)	Energy Business 1998 ($000s)	Energy Business 1997 ($000s)
Shareholders' funds	4	**134,225**	113,157	**2,758**	2,715
Represented by:					
Current assets	5	**13,097**	7,891	**7,072**	4,864
Fixed assets	6	**133,934**	110,880	**803**	780
Investments in associates	7	**-**	-	**81**	1,250
Other non current assets		**251**	328	**-**	-
Total assets		**147,282**	119,099	**7,956**	6,894
Current liabilities	8	**10,130**	3,509	**5,187**	4,168
Deferred taxation	3	**2,927**	2,433	**11**	11
Total liabilities		**13,057**	5,942	**5,198**	4,179
Net assets		**134,225**	113,157	**2,758**	2,715

9 July 1998

These statements are to be read in conjunction with the attached notes and Certification by the Auditor.

Statement of Accounting Policies For the Year Ended 31 March 1998

These financial statements are prepared and presented in accordance with the Electricity (Information Disclosure) Regulations 1994.

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 Disclosure Guidelines have 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 positions 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 and energy 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.

(e) Investments in Associates

The equity method has been used for those entities in which the Group has a significant but not controlling interest.

Investments are valued at cost plus the Group's share of retained earnings.

(f) Financial Instruments

Financial instruments with off-balance sheet risk have been entered into for the primary purpose of reducing exposure to fluctuations in electricity prices. While financial instruments are subject to risk that market rates may change subsequent to acquisition, such changes would generally be offset by opposite effects on the items hedged.

(g) 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.

WEL ENERGY GROUP LIMITED

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.

(h) 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%
Distribution system	4.5%

Depreciation of other fixed assets is provided for on a diminishing value basis as follows:

Furniture	20 - 25%
Plant and Equipment	20 - 30%
Vehicles	25%

(i) Principles of Line and Energy Business Split

The line and energy businesses form segments of the operations of the Group. The allocation of costs, revenue, assets and liabilities were carried out on a basis which reflects the items attributable to each segment of the Group.

Where possible, financial statement items were allocated directly to the line or energy business. In those instances where direct allocation was not possible, the following allocation methodologies were employed.

Corporate Overheads

Corporate overhead costs were allocated as follows:

Personnel and payroll costs based on staff numbers; accounting costs based on complexity (primarily the number of transactions generated); Directors fees and consultancy based on an estimate of time spent on each segment. All other overheads were allocated in proportion to the allocation of other previously allocated overheads.

Property Costs

Allocated using market based rentals.

Expenditure

Where a segment of the Group performs line or energy business activities in addition to other functions each item of expenditure incurred by that segment has been allocated to the line or energy business in proportion to the total level of line or energy business activity undertaken by the segment.

Bank Balances

All monies are managed centrally with each segment maintaining a current account with Corporate. Allocating bank balances directly has resulted in no bank balances being shown within the line or energy businesses.

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Electricity Debtors

Electricity debtors have been allocated to the line and energy businesses consistent with the proportion of line or energy revenue to total line and energy revenue.

Inventory / Work in Progress

Inventory / work in progress attributable to both the line or energy business and other activities have been allocated to the line and energy business in proportion to the level of direct expenditure incurred by the line or energy business.

Fixed Assets

Fixed assets used by both the line or energy business and another activity have been allocated to the line or energy business in proportion to the level of use of those assets (where this is not known the level of expenditure is used as a proxy).

Creditors

Creditors not directly attributable to the line or energy 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 or energy business and other activities has been allocated to the line or energy business in proportion to wages expenditure.

Except for line losses, where a departure has occurred for the reason explained in note 2, the Directors consider the principles outlined above are in accordance with the methodologies set out in the Electricity Disclosure Guidelines.

C. Changes in Accounting Policy

There have been no changes in accounting policies during the year.

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 1998

		Line Business		Energy Business	
		1998	1997	**1998**	1997
		($000s)	($000s)	**($000s)**	($000s)
1	**Revenue**				
	Line rental & electricity sales	**49,995**	46,675	**46,321**	43,268
	Contracting sales	**83**	-	**22**	1
	Interest	**127**	128	**5**	3
	Other income	**495**	467	**783**	959
		50,700	47,270	**47,131**	44,231

2 **Operating Expenditure**

Net profit before tax is stated after charging:

	Line 1998	Line 1997	Energy 1998	Energy 1997
Transmission charges & electricity purchases	**12,267**	11,964	**40,543**	37,793
Line losses	**2,360**	2,200	**-**	-
Wages and salaries	**1,720**	2,049	**884**	819
Depreciation	**5,757**	5,309	**107**	92
Rental and Operating Lease Costs	**26**	31	**-**	4
Interest	**37**	37	**1**	1
Write down in investment in associate (note 7)	**-**	-	**971**	-

The Group recovers line losses by way of line charges to its customers. Accordingly the cost of those losses is charged to the line business.

3 **Taxation expense**

	Line 1998	Line 1997	Energy 1998	Energy 1997
Profit before taxation	**20,132**	17,726	**2,683**	3,729
Tax on profit at 33%	**6,644**	5,850	**885**	1,230
Tax effect of permanent differences	**950**	955	**-**	-
Total taxation expense	**7,593**	6,805	**885**	1,230
Represented by:				
Deferred income tax liability	**494**	125	**-**	97
Current taxation provision	**7,099**	6,680	**885**	1,133
	7,593	6,805	**885**	1,230

Deferred income tax liability

	Line 1998	Line 1997	Energy 1998	Energy 1997
Balance at the beginning of the year	**2,433**	2,308	**11**	(86)
Current year timing differences	**494**	125	**-**	97
Balance at the end of the year	**2,927**	2,433	**11**	11

The tax effect of timing differences arising from asset revaluations of the distribution system approximating \$3,800,000, which would only crystallise on disposal, have not been recognised.

WEL ENERGY GROUP LIMITED

	Line Business 1998 ($000s)	Line Business 1997 ($000s)	Energy Business 1998 ($000s)	Energy Business 1997 ($000s)
4 Shareholders Funds				
Capital reserve	**39,903**	39,903	**581**	581
Asset revaluation reserve	**82,799**	63,835	**(24)**	12
Retained earnings	**11,523**	9,419	**454**	152
Share of associates retained earnings	-	-	**(79)**	144
Energy trading price reserve	-	-	**1,826**	1,826
	134,225	113,157	**2,758**	2,715
Asset Revaluation Reserve				
Balance at the beginning of the year	**63,835**	63,835	**12**	11
Asset revaluations	**18,964**	-	**(36)**	-
Balance at the end of the year	**82,799**	63,835	**(24)**	11
Retained Earnings				
Balance at the beginning of the year	**9,419**	6,271	**152**	1,257
Net surplus after tax	**12,539**	10,921	**1,798**	2,499
Dividends	**(10,435)**	(7,773)	**(1,496)**	(1,778)
Transfer to energy trading price reserve	-	-	-	(1,826)
Balance at the end of the year	**11,523**	9,419	**454**	152
Share of Associates Retained Earnings				
Balance at the beginning of the year	-	-	**144**	-
Net surplus after tax	-	-	**(223)**	144
Balance at the end of the year	-	-	**(79)**	144
Energy Trading Price Reserve				
Balance at the beginning of the year	-	-	**1,826**	-
Transfer from retained earnings	-	-	-	1,826
Balance at the end of the year	-	-	**1,826**	1,826
5 Current assets				
Trade debtors	**5,240**	4,611	**4,801**	4,395
Due from parent	**5,974**	1,332	**1,975**	338
Other assets	**914**	1,222	**183**	-
Tax recoverable	**969**	726	**113**	131
	13,097	7,891	**7,072**	4,864

WEL ENERGY GROUP LIMITED

		Line Business 1998 ($000s)	Line Business 1997 ($000s)	Energy Business 1998 ($000s)	Energy Business 1997 ($000s)
6 Fixed Assets					
Freehold Land and Buildings					
Land	At cost	-	-	-	-
	At valuation	754	797	54	63
Buildings	At cost	1,355	1,355	-	-
	At valuation	2,252	2,493	340	397
		4,361	4,645	394	460
Accumulated depreciation					
	At cost	(250)	(209)	-	-
	At valuation	(200)	(246)	13	(8)
Net book value		3,911	4,190	407	452
Vehicles					
Cost		395	457	188	212
Accumulated depreciation		(339)	(291)	(22)	(51)
Net book value		56	166	166	161
Furniture, Plant and Equipment					
Cost		2,142	1,868	673	571
Accumulated depreciation		(1,485)	(1,327)	(443)	(404)
Net book value		657	541	230	167
Distribution System					
Cost		1,930	12,144		
Valuation		127,380	102,428		
		129,310	114,572		
Accumulated depreciation					
	At cost	-	(426)		
	At Valuation	-	(8,163)		
Net book value		129,310	105,983		
Total net book value		133,934	110,880	803	780

Land and Buildings were revalued on 31 March 1998 by Ford Valuations Limited Registered Valuers.

The distribution system was revalued on 31 March 1998 by Sinclair Knight Merz (NZ) Limited (trading as Leyland Consultants). The effect of revaluing the distribution system has been to increase its estimated remaining life from 22.5 years to 33 years.

Buildings at cost represents 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.

WEL ENERGY GROUP LIMITED

7 **Investments in associates**

At 31 March 1998 the Group owned a 25.1% shareholding in Salamanca Holdings Limited. Salamanca Holdings Limited is an investment company whose principal investment is shares in Pacific Energy Limited and has a balance date of 31 March.

The Directors believe net asset backing is the best estimate of fair value, accordingly the investment has been written down by $971,000 (1997 nil) to reflect the latest asset backing.

	Line Business		Energy Business	
	1998	1997	**1998**	1997
	($000s)	($000s)	**($000s)**	($000s)
8 Current liabilities				
Trade creditors	**4,999**	2,842	**4,094**	3,769
Customer deposits	**331**	306	**331**	306
Provision for annual and long service leave	**380**	361	**128**	93
Provision for dividend	**4,420**	-	**634**	-
	10,130	3,509	**5,187**	4,168

9 **Contingencies**

There are no contingent liabilities in either the line or energy business.

10 **Capital commitments**

Capital commitments in the line business amounted to $2,108,000 (1997 nil). There are no capital commitments in the energy business (1997 nil).

11 **Financial Instruments**

(a) **Electricity Price Risk**

Nature of activities and management policies with respect to financial instruments:

(i) **Electricity price hedging contracts**

The Group has entered into electricity price hedges with its suppliers. Under these agreements the Group agrees with its electricity suppliers a fixed price (hedge price) for a percentage of its estimated electricity needs. On maturity of the electricity price hedges any difference between the hedge price and the spot market price is settled between the parties.

(ii) **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. There are no significant concentrations of credit risk and 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 except as noted below.

(i) Electricity Price Hedging Contracts

The fair value of electricity price hedging contracts is determined by the difference between "face value" and spot price . As at balance date the secondary market for electricity price hedging contracts was not sufficiently active to reliably measure the spot price and thereby calculate the fair value of the Group's hedging contracts. On maturity of these agreements there is potentially an asset or liability in relation to the electricity price hedges which has not been recognised in the financial statements. As at balance date the "face value" of the electricity hedging activity amounted to $ 96,838,000, ranging for periods of one to five years. The risk associated with these purchase contracts is partially mitigated by long term customer sales contracts.

Statement of Performance Measures
For the year ended 31 March 1998

	1998	1997	1996	1995
Financial measures				
Accounting return on Total Assets (pre-tax)	**16.2%**	15.8%	14.2%	10.3%
Accounting return on Equity (post-tax)	**10.5%**	8.9%	9.6%	6.0%
Accounting Rate of Profit (post-tax)	**27.9%**	8.8%	9.9%	6.0%
Efficiency Measures				
Direct Line cost per Kilometre	**$1,885**	$1,795	$1,608	$1,802
Indirect line costs per Electricity Customer	**$49.60**	$54.57	$61.85	$68.71

The following amounts have been adjusted in deriving the above performance measures:

	1998 ($000s)	1997 ($000s)	1996 ($000s)	1995 ($000s)
Depreciation has been adjusted to reflect the ODV valuation of the distribution system.				
Financial Statements	**5,757**	5,309	4,725	3,631
Performance Measures	**5,757**	5,309	5,240	5,312
Tax has been adjusted to reflect cash paid.				
Financial Statements	**7,593**	6,805	6,105	4,559
Performance Measures	**7,204**	7,836	5,052	4,542
Fixed assets have been adjusted to reflect the ODV valuation for the distribution system.				
Financial Statements	**133,934**	110,880	110,622	75,213
Performance Measures	**133,934**	110,880	110,622	108,770

The latest available ODV Valuation was prepared by Sinclair Knight Merz (NZ) Limited (trading as Leyland Consultants) as at 31 March 1998 and amounted to $129,438,500 (1 July 1995 $104,383,000).

Coopers
&Lybrand

CERTIFICATION BY AUDITORS IN RELATION TO

LINES AND ENERGY BUSINESS FINANCIAL STATEMENTS

We have examined the attached financial statements prepared by WEL Energy Group Limited dated 9 July 1998 for the purposes of Regulation 6 of the Electricity (Information Disclosure) Regulations 1994.

We hereby certify that, having made all responsible enquiry, to the best of our knowledge, those financial statements give a true and fair view of the matters to which they relate and have been prepared in accordance with the requirements of the Electricity (Information Disclosure) Regulations 1994.

Coopers & Lybrand

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS
AUCKLAND

28 July 1998

Coopers
&Lybrand

CERTIFICATE OF PERFORMANCE MEASURES BY AUDITOR

We have examined the attached information, being:

(a) Financial performance measures specified in clause 1 of Part II of the First Schedule to the Electricity (Information Disclosure) Regulations 1994; and

(b) Financial components of the efficiency performance measures specified in clause 2 of Part II of the Schedule,

and having been prepared by WEL Energy Group Limited for the year ended 31 March 1998 for the purposes of regulation 13 of those regulations.

We certify that, having made all reasonable enquiry, to the best of our knowledge, that information has been prepared in accordance with the Electricity (Information Disclosure) Regulations 1994.

Coopers & Lybrand

COOPERS AND LYBRAND
CHARTERED ACCOUNTS
AUCKLAND

28 July 1998

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17 July 1998

The Directors
WEL Energy Group Limited
P O Box 925
HAMILTON

CERTIFICATION BY AUDITOR IN RELATION TO ODV VALUATION OF WEL ENERGY GROUP LIMITED LINES BUSINESS

I have examined the valuation report prepared by Leyland Consultants dated 3 July 1998, which report contains valuations as at 31 March 1998.

I hereby certify that, having made all reasonable enquiry, to the best of my knowledge, the valuations contained in the report have been made in accordance with the ODV Handbook.

W. M. Cook

W M Cook
17 July 1998

First Schedule Pt III Energy Delivery Efficiency Performance Measures and Statistics

		1998	1997	1996	1995
1 a)	Load factor	**62.0%**	58.0%	58.0%	58.9%
b)	Loss ratio	**5.5%**	5.5%	5.0%	5.0%
c)	Capacity utilisation	**34.3%**	36.0%	34.7%	34.0%
2 a)	Circuit km (total)				
	33 kV	**251.40**	248.00	248.00	248.00
	11 kV	**2,131.10**	2,120.30	2,113.70	2,113.70
	400 V	**1,230.90**	1,215.60	1,193.40	1,193.40
	TOTAL	**3,613.40**	3,583.90	3,555.10	3,555.10
b)	Circuit km (overhead)				
	33 kV	**188.50**	186.40	186.40	184.37
	11 kV	**1,776.60**	1,772.60	1,772.80	1,772.03
	400 V	**840.80**	840.80	840.70	840.38
	TOTAL	**2,805.90**	2,799.80	2,799.90	2,796.78
c)	Circuit km (underground)				
	33 kV	**62.90**	61.60	61.60	58.94
	11 kV	**354.50**	347.70	340.90	336.96
	400 V	**390.10**	374.80	352.70	336.74
	TOTAL	**807.50**	784.10	755.20	732.64
d)	Transformer capacity (kVA)	**497,202**	468,317	471,980	452,617
e)	Maximum demand (kW)	**164,330**	167,380	163,700	153,700
f)	Total electricity supplied from the system (kWh) (excluding losses)	**845,085,000**	811,599,531	791,882,000	753,646,133
g)	Total amount of electricity conveyed through the system for other ER's and generators (kWh)	**27,176,000**	37,700,000	50,967,000	19,455,380
h)	Total customers	**67,265**	65,985	64,961	63,323

First Schedule Pt IV Performance Statistics

			1998	1997	1996	1995
1	Total Interruptions					
	Class A	Planned outages TransPower	-	-	-	-
	Class B	Planned outages WEL	**50**	36	117	177
	Class C	Unplanned outages WEL	**261**	263	238	213
	Class D	Unplanned outages TransPower	**1**	-	3	-
	Class E	Unplanned Interruption ECNZ	-	-	-	-
	Class F	Unplanned Interruption other generator	-	-	-	-
	Class G	Other Interruption	-	-	-	-
	Total		**312**	299	358	390
2	Faults per 100 km (Total)					
	33 kV		**10.08**	15.02	14.10	10.27
	11 kV		**16.56**	15.35	9.70	8.91
	TOTAL		**15.73**	15.17	10.20	9.06
3	Faults per 100 km (Overhead)					
	33 kV		**10.08**	15.02	16.30	13.56
	11 kV		**12.89**	12.75	11.20	9.93
	TOTAL		**12.62**	12.97	11.60	10.27
4	Faults per 100 km (Underground)					
	33 kV		-	-	8.50	-
	11 kV		**3.67**	2.60	2.40	3.56
	TOTAL		**3.11**	2.20	3.20	3.03
5,6	SAIDI					
	Class A	Planned outages TransPower	-	-	-	-
	Class B	Planned outages WEL	**4.51**	2.98	22.00	38.38
	Class C	Unplanned outages WEL	**143.25**	172.81	141.00	125.08
	Class D	Unplanned outages TransPower	**43.43**	-	36.00	-
	Class E	Unplanned Interruption ECNZ	-	-	-	-
	Class F	Unplanned Interruption other generator	-	-	-	-
	Class G	Other Interruption	-	-	-	-
	TOTAL		**191.19**	175.79	199.00	163.46

			1998	1997	1996	199
7,8	SAIFI					
	Class A	Planned outages TransPower	-	-	-	
	Class B	Planned outages WEL	**0.06**	0.04	0.10	0.2
	Class C	Unplanned outages WEL	**2.12**	3.15	2.40	2.5
	Class D	Unplanned outages TransPower	**0.14**	-	0.50	
	Class E	Unplanned Interruption ECNZ	-	-	-	
	Class F	Unplanned Interruption other generator	-	-	-	
	Class G	Other Interruption	-	-	-	
	TOTAL		**2.32**	3.19	3.00	2.7
9,10	CAIDI					
	Class A	Planned outages TransPower	-	-	-	
	Class B	Planned outages WEL	**79.58**	84.93	182.00	159.9
	Class C	Unplanned outages WEL	**67.73**	54.83	58.00	49.4
	Class D	Unplanned outages TransPower	**301.34**	-	77.00	
	Class E	Unplanned Interruption ECNZ	-	-	-	
	Class F	Unplanned Interruption other generator	-	-	-	
	Class G	Other Interruption	-	-	-	
			82.56	55.16	66.00	59.0

DEPARTMENT OF INTERNAL AFFAIRS
TE TARI TAIWHENUA

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