# AUCKLAND ENERGY CONSUMER TRUST
# 2003

## FINANCIAL STATEMENTS

The Trustees present the financial statements of the Group for the 15 month period ended 30 June 2003. These financial statements were approved for issue and are signed on the date below.

25/9/03

K A Sherry – Chair Date

25/9/03

J G Collinge – Deputy Chair Date

25/9/03

G W Sturgess – Secretary Date

# Directory for the 15 month period ended 30 June 2003

**Date Settled**

27 August 1993

**Trustees**

Karen Annette Sherry (Chair)
John Gregory Collinge (Deputy Chair)
Michael Joseph Buczkowski
Coralie Ann van Camp
Pauline Alice Winter

**Secretary and Executive Officer**

Gary W Sturgess

**Termination Date**

27 August 2073

**Accountant**

Staples Rodway Limited
P O Box 3899
Auckland

**Auditor**

KPMG
P O Box 1584
Auckland

**Legal Advisor**

David Bigio
P O Box 2133
Shortland Street
Auckland

**Banker**

National Bank of New Zealand Limited
P O Box 788
Auckland

## Statements of Financial Performance for the 15 month period ended 30 June 2003

| | Notes | GROUP 2003 15 Months $000 | GROUP 2002 12 Months $000 | PARENT 2003 15 Months $000 | PARENT 2002 12 Months $000 |
|---|---|---|---|---|---|
| Total operating revenue | 1 | **528,764** | 245,116 | **44,578** | 51,965 |
| Total operating expenses | 3 | **(323,380)** | (135,363) | **(2,340)** | (2,087) |
| **Operating surplus before interest expense and income tax** | | **205,384** | 109,753 | **42,238** | 49,878 |
| Interest expense | 4 | **(124,437)** | (11,623) | **15** | (69) |
| Operating surplus before income tax | 2 | **80,947** | 98,130 | **42,253** | 49,809 |
| Income tax expense | 5 | **(33,708)** | (35,674) | **(1,785)** | (716) |
| **Operating surplus** | | **47,239** | 62,456 | **40,468** | 49,093 |
| Minority interest | 10 | **115** | 320 | **-** | - |
| **Net surplus for the period** | 2 | **47,354** | 62,776 | **40,468** | 49,093 |

## Statements of Movements in Trustees Funds for the 15 month period ended 30 June 2003

| | Notes | GROUP 2003 15 Months $000 | GROUP 2002 12 Months $000 | PARENT 2003 15 Months $000 | PARENT 2002 12 Months $000 |
|---|---|---|---|---|---|
| **Total recognised revenues and expenses** | | | | | |
| Net surplus for the period: | | | | | |
| Parent | | **47,354** | 62,776 | **40,468** | 49,093 |
| Minority interest on acquisition of partnership | 10 | **-** | 1,329 | **-** | - |
| Minority interest | 10 | **(115)** | (320) | **-** | - |
| Movement in asset revaluation reserve | 9 | **196,581** | (76,422) | **-** | - |
| **Total recognised revenues and expenses for the period** | | **243,820** | (12,637) | **40,468** | 49,093 |
| **Distributions to beneficiaries** | | | | | |
| Dividends | 8 | **(42,918)** | (46,658) | **(42,918)** | (46,658) |
| **Movements in trustees funds for the period** | | **200,902** | (59,295) | **(2,450)** | 2,435 |
| **Trustees Funds at beginning of the period** | | **736,890** | 796,185 | **320,193** | 317,758 |
| **Trustees' Funds at end of the period** | | **937,792** | 736,890 | **317,743** | 320,193 |

# Statements of Financial Position as at 30 June 2003

| | Notes | GROUP 2003 June $000 | GROUP 2002 March $000 | PARENT 2003 June $000 | PARENT 2002 March $000 |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash | | **5,498** | 12,313 | **4,200** | 6,185 |
| Short Term Deposits | | **12,900** | 15,927 | **12,900** | 15,927 |
| Receivables and prepayments | 11 | **73,295** | 39,626 | **131** | 950 |
| Income tax | | **22,485** | 748 | **1,404** | 748 |
| Capitalised finance costs | 12 | **8,188** | - | - | - |
| Investments | 13 | **8,220** | - | - | - |
| **Total current assets** | | **130,586** | 68,614 | **18,635** | 23,810 |
| **Non-current assets** | | | | | |
| Receivables and prepayments | 11 | **1,500** | 1,000 | - | - |
| Capitalised finance costs | 12 | **19,274** | - | - | - |
| Investments | 13 | **3,777** | - | **300,000** | 300,000 |
| Intangible assets | 17 | **742,149** | 3,568 | - | - |
| Property, plant and equipment | 16 | **2,197,668** | 961,420 | **8** | 10 |
| **Total non-current assets** | | **2,964,368** | 965,988 | **300,008** | 300,010 |
| **Total assets** | | **3,094,954** | 1,034,602 | **318,643** | 323,820 |
| **Current liabilities** | | | | | |
| Payables and accruals | 18 | **98,438** | 52,079 | **900** | 3,627 |
| Income tax | | - | 4,300 | - | - |
| Borrowings | 22 | **7,830** | 150,763 | - | - |
| **Total current liabilities** | | **106,268** | 207,142 | **900** | 3,627 |
| **Non-current liabilities** | | | | | |
| Borrowings | 22 | **1,836,889** | 338 | - | - |
| Payables and accruals | 18 | **6,862** | - | - | - |
| Deferred tax | 7 | **207,143** | 90,232 | - | - |
| **Total non-current liabilities** | | **2,050,894** | 90,570 | - | - |
| **Total liabilities** | | **2,157,162** | 297,712 | **900** | 3,627 |
| **Trustees Funds** | | | | | |
| Trustees Funds | | **382,204** | 377,768 | **317,743** | 320,193 |
| Asset Revaluation Reserve | 9 | **554,694** | 358,113 | - | - |
| **Attributable to trustees of the Trust** | | **936,898** | 735,881 | **317,743** | 320,193 |
| Attributable to minority shareholders of the Group | 10 | **894** | 1,009 | - | - |
| **Total trustees' funds** | | **937,792** | 736,890 | **317,743** | 320,193 |
| **Total trustees' funds and liabilities** | | **3,094,954** | 1,034,602 | **318,643** | 323,820 |

# Statements of Cash Flows for the 15 month period ended 30 June 2003

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2003<br>15 Months<br>$000 | 2002<br>12 Months<br>$000 | 2003<br>15 Months<br>$000 | 2002<br>12 Months<br>$000 |
| **Net cash from/(used in) operating activities** | | | | |
| *Cash provided from:* | | | | |
| Receipts from customers | **531,953** | 238,139 | **-** | - |
| Interest received | **5,223** | 3,371 | **1,809** | 2,688 |
| Dividend received | **100** | - | **42,800** | 48,000 |
| Legal fee recoveries | **882** | 417 | **882** | 417 |
| | **538,158** | 241,927 | **45,491** | 51,105 |
| *Cash applied to:* | | | | |
| Payments to suppliers and employees | **309,748** | 101,007 | **2,683** | 2,526 |
| Income tax paid | **23,718** | 28,045 | **2,443** | 4,520 |
| Distributions to beneficiaries | **45,374** | 94,279 | **45,374** | 94,279 |
| Interest paid on capital bonds | **16,746** | - | **-** | - |
| Interest paid | **77,158** | 11,448 | **-** | - |
| | **472,744** | 234,779 | **50,500** | 101,325 |
| Net cash from operating activities | **65,414** | 7,148 | **(5,009)** | (50,220) |
| **Net cash from/(used in) investing activities** | | | | |
| *Cash provided from:* | | | | |
| Withdrawal of short term deposits | **3,028** | 21,917 | **3,028** | 21,917 |
| Proceeds from sale of Eastern and Central assets | **998,814** | - | **-** | - |
| Proceeds from sale of other property, plant and equipment | **1,706** | 4,938 | **-** | - |
| Proceeds from sale of investments | **1,401** | - | **-** | - |
| Contributions from minority interest | **-** | 1,329 | **-** | - |
| | **1,004,949** | 28,184 | **3,028** | 21,917 |
| *Cash applied to:* | | | | |
| Investment in subsidiary | **-** | 3,928 | **-** | - |
| Acquisition of UnitedNetworks Limited | **1,513,297** | - | **-** | - |
| Bank overdraft acquired on acquisition of UnitedNetworks Limited | **20,459** | - | **-** | - |
| Purchase and construction of property, plant and equipment | **95,409** | 44,177 | **4** | 8 |
| | **1,629,165** | 48,105 | **4** | 8 |
| Net cash used in investing activities | **(624,216)** | (19,921) | **3,024** | 21,909 |

## Statements of Cash Flows (CONTINUED) for the 15 month period ended 30 June 2003

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2003 15 Months $000 | 2002 12 Months $000 | 2003 15 Months $000 | 2002 12 Months $000 |
| **Net cash from/(used in) financing activities** | | | | |
| *Cash provided from/(applied to):* | | | | |
| Proceeds from borrowings | **1,986,921** | - | - | - |
| Repayment of borrowings | **(1,742,139)** | (13,709) | - | - |
| Proceeds from capital bonds issue | **307,205** | - | - | - |
| Dividends paid | - | - | - | - |
| Net cash used in financing activities | **551,987** | (13,709) | - | - |
| Net increase in cash balances | **(6,815)** | (26,482) | **(1,985)** | (28,311) |
| Cash balances at beginning of the period | **12,313** | 38,795 | **6,185** | 34,496 |
| Cash balances at end of the period | **5,498** | 12,313 | **4,200** | 6,185 |

**Reconciliation of net surplus to net cash flows from operating activities**

| | | | | |
|---|---|---|---|---|
| **Net surplus for the period** | **47,354** | 62,776 | **40,468** | 49,093 |
| Distributions to beneficiaries | **(42,918)** | (46,658) | **(42,918)** | (46,658) |
| Minority interest in deficit of partnership | **(115)** | (320) | - | - |
| | **4,321** | 15,798 | **(2,450)** | 2,435 |
| **Items classified as investing/financing activities** | | | | |
| Loss/(gain) on sale of property, plant and equipment | **(229)** | (1,900) | - | - |
| Loss/(gain) on sale of investment | **(1,401)** | - | - | - |
| Capitalised costs | **(2,213)** | (1,026) | - | - |
| | **(3,843)** | (2,926) | - | - |
| **Non-cash items** | | | | |
| Depreciation and amortisation | **103,281** | 31,677 | **5** | 4 |
| Amortisation of the mark to market adjustment | **(4,934)** | - | - | - |
| Increase/(decrease) in deferred tax | **(3,814)** | 17,945 | - | - |
| Increase/(decrease) in provisions | **(8,191)** | - | - | - |
| Equity earnings | **(414)** | - | - | - |
| | **85,928** | 49,622 | **5** | 4 |
| **Movement in working capital** | | | | |
| Decrease/(increase) in capitalised finance costs | **(27,462)** | - | - | - |
| Increase/(decrease) in payables and accruals | **(19,302)** | (48,729) | **(471)** | (50,097) |
| Decrease/(increase) in receivables and prepayments | **11,575** | 1,419 | **819** | (854) |
| Increase/(decrease) in income tax payable | **16,452** | (10,133) | **(657)** | (3,805) |
| Increase/(decrease) in provision for dividend | **(245)** | (694) | **(245)** | (694) |
| Increase/(decrease) in unclaimed dividends | **(2,010)** | 2,791 | **(2,010)** | 2,791 |
| | **(20,992)** | (55,346) | **(2,564)** | (52,659) |
| **Net cash from operating activities** | **65,414** | 7,148 | **(5,009)** | (50,220) |

# Notes to the financial statements for the 15 month period ended 30 June 2003

## STATEMENT OF ACCOUNTING POLICIES

### Reporting Entity

AUCKLAND ENERGY CONSUMER TRUST is a Discretionary Trust under the Trustee Act 1956.

Financial statements for AUCKLAND ENERGY CONSUMER TRUST (the "Parent") and consolidated financial statements are presented. The consolidated financial statements comprise the Trust, its subsidiaries and the Group's interest in associates and partnerships (the "Group").

### Basis of Preparation

The general accounting policies as recommended by the Institute of Chartered Accountants of New Zealand for the measurement and reporting of results and financial position under the historical cost method have been adopted in the preparation of these financial statements. This ensures compliance with the Electricity Act 1992 and Amendments that required financial statements comply with New Zealand Generally Accepted Accounting Practice. The Trust Deed also stipulates that the financial statements of the Trust present a true and fair view.

The Group's principal activity during the period was the operation of a distribution network providing utilities in New Zealand.

In 2003 the Group changed its statutory reporting balance date to 30 June. These financial statements are prepared for the 15 month period ended 30 June 2003. Comparatives for 2002 are for the 12 month period ended 31 March 2002.

### Specific accounting policies

The financial statements are prepared in accordance with New Zealand generally accepted accounting practice. The following specific accounting policies that materially affect the measurement of financial performance, financial position and cash flows have been applied:

***a) Basis of consolidation***

The changes imposed by the Electricity Amendment Act with regard to financial reporting require Energy and Consumer Trusts to comply with FRS 37: *Consolidating Investments In Subsidiaries* and in particular to prepare consolidated Financial Statements. Energy Trusts are therefore required to consolidate their financial statements with the Electricity company in which they hold shares.

The Trustees believe that while this adds costs, it does not provide any corresponding benefit to the beneficiaries. The Trustees have presented a submission in this regard proposing an exemption, however this was not granted.

Accordingly, to comply with legislation the Trust has presented both the Trust and consolidated financial statements for the current period and comparative.

**Subsidiaries**

Subsidiaries are those entities controlled, directly or indirectly by the Trust. The financial statements of subsidiaries are included in the consolidated financial statements using the purchase method of consolidation.

**Associates**

Associates are entities in which the Group has significant influence, but not control over the operating and financial policies. The Group's share of the net surplus of associates is recognised as a component of operating revenue in the statement of financial performance after adjusting for the amortisation of goodwill arising on acquisition and differences between the accounting policies of the Group and associates. The Group's share of other gains and losses of associates is recognised as a component of total recognised revenues and expenses in the statement of movements in equity. Dividends received from associates are credited to the carrying amount of the investment in associates.

**Partnerships**

Partnerships are those relationships that the Group has with other persons whereby the partners carry on a business in common with a view to generating a profit. The Group has joint and several liability in respect of all liabilities incurred by the partnerships. Where the Group has a controlling interest in a partnership it is accounted for in the consolidated financial statements as a subsidiary. Where the Group has significant influence over the operating and financial policies of the partnership it is accounted for in the consolidated financial statements as an associate.

**Acquisition or disposal during the period**

Where an entity becomes or ceases to be a part of the Group during the period, the results of the entity are included in the consolidated results from the date that control or significant influence commenced or until the date that control or significant influence ceased. When an entity is acquired all identifiable assets and liabilities are recognised at their fair value at acquisition date. The fair value does not take into consideration any future intentions by the Group. Where an entity that is part of the Group is disposed of the gain or loss recognised in the statement of financial performance is calculated as the difference between the sale price and the carrying amount of the entity.

**Goodwill arising on acquisition**

Goodwill arising on acquisition of a subsidiary or associate represents the excess of the purchase consideration over the fair value of the identifiable net assets acquired. Goodwill is amortised to the statement of financial performance on a straight line basis over the period during which benefits are expected to be derived up to a maximum of 20 years.

**Transactions eliminated on consolidation**

The effects of intra-group transactions are eliminated in preparing the consolidated financial statements.

***b) Income recognition***

Income from the provision of utility services is recognised as services are delivered. Interest and rental income is accounted for as earned. Income from capital contributions is typically recognised on an as-invoiced or percentage of completion basis to match the conditions of the contract.

## STATEMENT OF ACCOUNTING POLICIES - CONTINUED

### c) *Property, plant and equipment*

The cost of purchased property, plant and equipment is the value of the consideration given to acquire the property, plant and equipment and the value of other directly attributable costs, which have been incurred in bringing the property, plant and equipment to the location and condition necessary for the intended service. All feasibility costs are expensed as incurred.

The cost of self-constructed property, plant and equipment includes the cost of all materials used in construction, direct labour on the project, costs of obtaining resource management consents, financing costs that are attributable to the project and an appropriate proportion of the variable and fixed overheads. Costs cease to be capitalised as soon as the property, plant and equipment is ready for productive use and do not include any inefficiency costs.

Subsequent expenditure relating to an item of property, plant and equipment is added to its gross carrying amount when such expenditure either increases the future economic benefits beyond its existing service potential, or is necessarily incurred to enable future economic benefits to be obtained, and that expenditure would have been included in the initial cost of the item had the expenditure been incurred at that time.

Distribution systems and some land and buildings are revalued by independent experts on the basis of depreciated replacement cost, while land and buildings are valued by reference to market information.

Valuations are performed based on highest and best use in accordance with FRS 3: *Accounting For Property, Plant And Equipment*. If the estimated recoverable amount of an asset is less than its carrying amount, the asset is written down to its estimated recoverable amount and an impairment loss is recognised in the statement of financial performance. Estimated recoverable amount is the greater of the estimated amount from the asset's future use and ultimate disposal, and its net market value. Annual impairment reviews are undertaken for all property, plant and equipment not subject to revaluations.

Revaluations of distribution systems and distribution land and buildings are carried out at least every three years.

### d) *Depreciation*

Depreciation of property, plant and equipment, other than freehold land, is calculated so as to expense the cost of the property, plant and equipment, or the revalued amounts, to their residual values over their useful lives as follows:

| | |
|---|---|
| Buildings | 50 – 100 years |
| Distribution Systems | 15 – 100 years |
| Motor Vehicles and Mobile Equipment | 20% - 33% per annum diminishing value |
| Computer and Telecommunication Equipment | 3 – 40 years |
| Other Plant and Equipment | 4% - 60% per annum diminishing value |

### e) *Receivables*

Receivables are carried at estimated realisable value after providing against debts where collection is doubtful.

### f) *Income tax*

The income tax expense recognised for the period is based on the operating surplus before taxation, adjusted for permanent differences between accounting and tax rules.

The impact of all timing differences between accounting and taxable income is recognised as a deferred tax liability or asset. This is the comprehensive basis for the calculation of deferred tax under the liability method.

A deferred tax asset, or the effect of losses carried forward that exceed the deferred tax liability, is recognised in the financial statements only where there is the virtual certainty that the benefit of the timing differences, or losses, will be utilised.

### g) *Inventories*

Inventories are stated at lower of cost and net realisable value.

### h) *Goods and services tax (GST)*

The statement of financial performance and statement of cash flows have been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

### i) *Leased assets*

**Finance leases**

Property, plant and equipment under finance leases are recognised as non-current assets in the statement of financial position. Leased property, plant and equipment are recognised initially at the lower of the present value of the minimum lease payments or their fair value. A corresponding liability is established and each lease payment allocated between the liability and the interest expense. Leased property, plant and equipment are depreciated on the same basis as equivalent property, plant equipment.

**Operating leases**

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased property, plant and equipment, are included in the determination of the surplus/(deficit) in equal instalments over the lease term.

The cost of improvements to leasehold property are capitalised and amortised over the unexpired period of the lease or the estimated useful life of the improvements, whichever is the shorter.

**STATEMENT OF ACCOUNTING POLICIES - CONTINUED**

***j) Foreign currencies***

Transactions in foreign currencies are translated at the New Zealand rate of exchange ruling at the date of the transaction. At balance date foreign monetary assets and liabilities not hedged by foreign currency derivative instruments are translated at the closing rate, and exchange variations arising from these translations are included in the statement of financial performance as operating items.

Monetary assets and liabilities in foreign currencies at balance date hedged by foreign currency derivative instruments are translated at contract rates.

***k) Financial instruments***

The Group uses derivative financial instruments within predetermined policies and limits in order to reduce its exposure to fluctuations in foreign currency exchange rates and interest rates.

Derivative financial instruments that are designated as hedges of specific items are recognised on the same basis as the underlying hedged items.

The Group does not engage in speculative transactions or hold derivative financial instruments for trading purposes.

Fees incurred in raising debt finance are capitalised and amortised over the term of the debt instrument.

***l) Investments***

Non-current investments are stated at cost.

***m) Provisions***

**Employee entitlements**

Employee entitlements to salaries and wages, annual leave, long-term leave and other benefits are recognised when they accrue to employees.

The liability for employee entitlements is carried at the present value of the estimated future cash outflows.

**Provision for claims**

A provision for claims is recognised as a liability where the Group considers that a constructive or legal obligation to settle items under litigation may exist in the foreseeable future. Provision for claims are not recognised where the likelihood of a resultant liability is considered remote.

***n) Statement of Cash Flows***

The following are the definitions of the terms used in the statement of cash flows:

- Operating activities include all transactions and other events that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment and of investments. Investments can include securities not falling within the definition of cash.
- Financing activities are those that result in changes in the size and composition of the capital structure. This includes both equity and debt not falling within the definition of cash. Dividends paid in relation to the capital structure are included in financing activities.
- Cash is considered to be cash on hand and current accounts in banks, net of bank overdrafts, and excluding short term deposits.

***o) Discontinued operations***

Discontinued operations are clearly distinguishable activities of the Group's business that have been sold or terminated before the earlier of three months after balance date and the date that the financial statements are approved. In order for the activities to be classified as discontinued, they must have a material effect on the nature and focus of the business and represent a material reduction in either operating facilities or turnover.

***p) Dividends Received***

Dividends received are recorded on an accrual basis and are shown net of imputation credits.

**Changes in Accounting Policies**

**Property, plant and equipment**

The Financial Standards Reporting Board recently issued a new standard FRS 3: *Accounting For Property, Plant And Equipment*. Revaluations have been stated at highest and best use without deducting disposal costs. Previously, revaluations were prepared on the basis of current use.

The effect of applying FRS 3 has been to increase the amount of the revaluation of property, plant and equipment at 31 March 2003 by $155.1 million. Consequently, the increase in depreciation charged to the statement of financial performance for the three month period from 1 April 2003 to 30 June 2003 is estimated to be between $1.0 million and $1.5 million.

With the exceptions of the above change there have been no changes in accounting policies during the period and all policies have been applied on a basis consistent with those used in the prior period

# Notes forming part of the financial statements

NOTES

# Notes to the financial statements for the 15 month period ended 30 June 2003

| | Notes | GROUP 2003 15 Months $000 | GROUP 2002 12 Months $000 | PARENT 2003 15 Months $000 | PARENT 2002 12 Months $000 |
|---|---|---|---|---|---|
| **1. OPERATING REVENUE** | | | | | |
| **Trading revenue:** | | | | | |
| Rendering of services | | **502,511** | 230,511 | **-** | - |
| **Investment income:** | | | | | |
| Interest income | | **5,130** | 3,411 | **1,716** | 2,728 |
| Dividend income | | **100** | - | **42,800** | 48,000 |
| Equity accounted earnings of associate | 15 | **414** | - | **-** | - |
| **Gain on disposal of non-current assets** | | **1,902** | 1,917 | **-** | - |
| **Other revenue:** | | | | | |
| Miscellaneous income | | **735** | 3,519 | **62** | 1,237 |
| Capital contributions | | **17,972** | 5,758 | **-** | - |
| **Total operating revenue** | | **528,764** | 245,116 | **44,578** | 51,965 |

## 2. CONTINUING AND DISCONTINUED ACTIVITIES

| | GROUP 2003 15 Months $000 | GROUP 2002 12 Months $000 | PARENT 2003 15 Months $000 | PARENT 2002 12 Months $000 |
|---|---|---|---|---|
| **Continuing activities** | | | | |
| Operating revenue | **528,864** | 244,948 | **44,578** | 51,965 |
| Operating surplus before tax | **80,947** | 98,395 | **42,253** | 49,809 |
| Net surplus for the period | **47,354** | 63,041 | **40,468** | 49,093 |
| **Discontinued activities** | | | | |
| Operating revenue | **-** | 268 | **-** | - |
| Operating surplus before tax | **-** | (265) | **-** | - |
| Net surplus for the period | **-** | (265) | **-** | - |
| **Totals** | | | | |
| Operating revenue | **528,864** | 245,216 | **44,578** | 51,965 |
| Operating surplus before tax | **80,947** | 98,130 | **42,253** | 49,809 |
| Net surplus for the period | **47,354** | 62,776 | **40,468** | 49,093 |

In November 2002, UnitedNetworks Limited sold its Eastern region electricity network and Central North Island gas networks to Powerco Limited and Hawkes Bay Network Limited. The Group continues to provide electricity and gas services to other regions in New Zealand.

Continuing activities include net surplus of $44.0 million relating to UnitedNetworks Limited, which was acquired in October 2002.

# Notes to the financial statements for the 15 month period ended 30 June 2003

| | Notes | GROUP 2003 15 Months $000 | GROUP 2002 12 Months $000 | PARENT 2003 15 Months $000 | PARENT 2002 12 Months $000 |
|---|---|---|---|---|---|
| **3. OPERATING EXPENSES** | | | | | |
| Operating expenses include: | | | | | |
| **Depreciation of property, plant and equipment** | | | | | |
| Distribution systems | | **60,787** | 24,391 | **-** | - |
| Leasehold improvements | | **1,156** | 466 | **-** | - |
| Motor vehicles | | **59** | 36 | **-** | - |
| Computer and telecommunications equipment | | **10,915** | 6,102 | **5** | 4 |
| Other plant and equipment | | **1,656** | 325 | **-** | - |
| Total depreciation | | **74,573** | 31,320 | **5** | 4 |
| Amortisation of goodwill | 17 | **28,708** | 361 | **-** | - |
| Research costs | | **298** | 330 | **-** | - |
| Bad debts written off | | **401** | 869 | **-** | - |
| Increase/(decrease) in provision for doubtful debts | | **636** | (120) | **-** | - |
| Rental and operating lease costs | | **1,959** | 1,418 | **21** | 16 |
| Loss on disposal of property, plant and equipment | | **272** | - | **-** | - |
| Donations | | **10** | - | **-** | - |
| Directors fees | | **399** | 245 | **-** | - |
| Trustees Remuneration | | **162** | 130 | **162** | 130 |
| **Auditors remuneration** | | | | | |
| Audit fees paid to principal auditors - KPMG | | **160** | 16 | **27** | 16 |
| Audit fees paid to other auditors – PwC, Ernst & Young | | **105** | 115 | **-** | - |
| Fees paid for other assurance services provided - PwC | | **120** | 59 | **-** | - |
| Fees paid for other non-assurance services provided - PwC | | **370** | 326 | **-** | - |
| **4. INTEREST EXPENSE** | | | | | |
| Interest paid and accrued | | **105,693** | 11,623 | **(15)** | 69 |
| Amortised facility fees | | **18,744** | - | **-** | - |
| **Total interest expense** | | **124,437** | **11,623** | **(15)** | **69** |

# Notes to the financial statements for the 15 month period ended 30 June 2003

| | Notes | GROUP 2003 15 Months $000 | GROUP 2002 12 Months $000 | PARENT 2003 15 Months $000 | PARENT 2002 12 Months $000 |
|---|---|---|---|---|---|
| **5. TAXATION** | | | | | |
| **Operating surplus before tax** | | **80,947** | 98,130 | **42,253** | 49,809 |
| Prima facie tax @ 33% | | **26,713** | 32,383 | **13,943** | 16,437 |
| Plus/(less) tax effect of permanent differences: | | | | | |
| Deferred tax asset not previously recognised | | **(4,368)** | (3,494) | - | - |
| Prior period adjustment | | **92** | 212 | - | - |
| Other permanent differences | | **11,271** | 6,573 | **(12,158)** | (15,721) |
| **Income tax expense** | | **33,708** | 35,674 | **1,785** | 716 |
| The income tax expense is represented by: | | | | | |
| Current tax | | **37,522** | 17,729 | **1,785** | 716 |
| Deferred tax | 7 | **(3,814)** | 17,945 | - | - |
| | | **33,708** | 35,674 | **1,785** | 716 |

During the period, the Group prepaid tax of $23.4 million.

A deferred tax asset of $14.8 million (2002: $18.3 million) has not been recognised as at 30 June 2003 as there is not virtual certainty of the utilisation by the Group.

| | GROUP 2003 June $000 | GROUP 2002 March $000 | PARENT 2003 June $000 | PARENT 2002 March $000 |
|---|---|---|---|---|
| **6. IMPUTATION BALANCES** | | | | |
| Balance at beginning of the period | - | - | - | - |
| Imputation credits received | - | - | **17,687** | 10,420 |
| Imputation credits distributed | - | - | **(17,666)** | (10,024) |
| Imputation credits reversed | - | - | **173** | - |
| Imputation credits utilised on trustee income | - | - | **(194)** | (396) |
| **Balance at end of the period** | - | - | - | - |

| | Notes | GROUP 2003 June $000 | GROUP 2002 March $000 | PARENT 2003 June $000 | PARENT 2002 March $000 |
|---|---|---|---|---|---|
| **7. DEFERRED TAX ASSET/(LIABILITY)** | | | | | |
| Balance at beginning of the period | | **(90,232)** | (7,287) | - | - |
| On surplus for the period | 5 | **3,814** | (17,945) | - | - |
| Fair value of deferred tax liability acquired | | **(120,725)** | - | - | - |
| Deferred tax adjustment on revalued assets | 9 | - | (65,000) | - | - |
| **Balance at end of the period** | | **(207,143)** | (90,232) | - | - |

# Notes to the financial statements for the 15 month period ended 30 June 2003

| | GROUP & PARENT 2003 June $000 | 2002 March $000 |
|---|---|---|
| **8. DIVIDENDS** | | |
| **Distributions during the period:** | | |
| Dividends paid to beneficiaries | **42,918** | 46,658 |
| **Total** | **42,918** | 46,658 |

| | Notes | GROUP 2003 June $000 | GROUP 2002 March $000 | PARENT 2003 June $000 | PARENT 2002 March $000 |
|---|---|---|---|---|---|
| **9. ASSET REVALUATION RESERVE** | | | | | |
| Balance at beginning of the period | | **358,113** | 434,535 | - | - |
| Increase/(decrease) arising from revaluation of distribution system property, plant and equipment | | **194,887** | (11,422) | - | - |
| Increase/(decrease) arising from revaluation of telecommunications property, plant and equipment | | **1,694** | - | - | - |
| Deferred tax adjustment on revaluation reserve | 7 | - | (65,000) | - | - |
| **Balance at end of the period** | | **554,694** | 358,113 | - | - |
| **10. MINORITY INTEREST** | | | | | |
| Balance at beginning of the period | | **1,009** | - | - | - |
| Acquisition of interest in partnership | | - | 1,329 | - | - |
| Share of deficit in partnership | | **(115)** | (320) | - | - |
| **Balance at end of the period** | | **894** | 1,009 | - | - |
| **11. RECEIVABLES AND PREPAYMENTS** | | | | | |
| Trade receivables | | **68,176** | 32,431 | - | - |
| Provision for doubtful debts | | **(2,016)** | - | - | - |
| | | **66,160** | 32,431 | - | - |
| Other receivables | | **4,296** | 4,956 | **37** | 950 |
| Prepayments | | **2,839** | 2,239 | **94** | - |
| **Total current receivables and prepayments** | | **73,295** | 39,626 | **131** | 950 |
| Other receivables | | **1,500** | 1,000 | - | - |
| **Total non-current receivables and prepayments** | | **1,500** | 1,000 | - | - |

| | Notes | GROUP 2003 June $000 | GROUP 2002 March $000 | PARENT 2003 June $000 | PARENT 2002 March $000 |
|---|---|---|---|---|---|
| **12. CAPITALISED FINANCE COSTS** | | | | | |
| **Total capitalised costs** | | | | | |
| Capital bonds - cost | | **10,459** | - | - | - |
| Capital bonds - amortisation | | **(1,706)** | - | - | - |
| Other debt - cost | | **35,747** | - | - | - |
| Other debt - amortisation | | **(17,038)** | - | - | - |
| **Balance at end of the period** | | **27,462** | - | - | - |
| **Current capitalised costs** | | | | | |
| Capital bonds | | **2,541** | - | - | - |
| Other debt | | **5,647** | - | - | - |
| **Balance at end of the period** | | **8,188** | - | - | - |
| **Non-current capitalised costs** | | | | | |
| Capital bonds | | **6,212** | - | - | - |
| Other debt | | **13,062** | - | - | - |
| **Balance at end of the period** | | **19,274** | - | - | - |
| **13. INVESTMENTS** | | | | | |
| **Current investments** | | | | | |
| Surplus property held for resale | | **8,220** | - | - | - |
| **Balance at end of the period** | | **8,220** | - | - | - |
| **Non current investments** | | | | | |
| Investments in subsidiaries | | - | - | **300,000** | 300,000 |
| Investment in associates | 15 | **2,284** | - | - | - |
| Other investments | | **1,493** | - | - | - |
| **Balance at end of the period** | | **3,777** | - | **300,000** | 300,000 |

Property held for resale was independently valued on 31 March 2003 by Trevor Walker, a registered valuer with Telfer Young (Auckland) Limited. Trevor Walker is a member of the New Zealand Institute of Valuers. The basis of valuation was market value less the estimated costs of disposal, based on the properties' highest and best use.

In December 2002, the Group sold its investments in Morrinsville Trading Limited and Warkworth Trading Limited resulting in a profit on sale of $1.4 million.

# Notes to the financial statements for the 15 month period ended 30 June 2003

## 13. GROUP INVESTMENTS – CONTINUED

The Group's investment in subsidiaries comprises shares at cost. Significant investments in Group companies comprise:

| | PERCENTAGES HELD June 2003 | March 2002 | PRINCIPAL ACTIVITIES |
|---|---|---|---|
| **Significant subsidiaries – Parent** | | | |
| Vector Limited | **100%** | 100% | Utilities Network Provider |
| **Significant subsidiaries - Group** | | | |
| UnitedNetworks Limited | **100%** | - | Utilities Network Provider |
| Auckland Generation Limited | **100%** | 100% | Holding Company |
| - MEL Silverstream Limited | **100%** | 100% | Holding Company |
| - MEL Network Limited | **100%** | 100% | Holding Company |
| - Mercury Geotherm Limited (in receivership) | **65.1%** | 65.1% | Holding Company |
| - Poihipi Land Limited (in receivership) | **65.1%** | 65.1% | Holding Company |
| Caduceus Equities No. 1 Limited | **100%** | 100% | Holding Company |
| Tangent Limited | **100%** | 100% | Telecommunication Network Provider |
| VECTOR Stream Limited | **100%** | 100% | Holding Company |
| - Stream Information Limited | **70%** | 70% | Agent for Partnership |
| - Stream Information | **70%** | 70% | Partnership – Meter Services |
| **Non-trading subsidiaries** | | | |
| VECTOR Power Limited | **100%** | 100% | Dormant |
| Auckland Network Limited | **100%** | 100% | Dormant |
| Energy North Limited | **100%** | 100% | Dormant |
| Acquired with UnitedNetworks Limited (effective 11 October 2002): | | | |
| **Significant subsidiaries** | | | |
| Salamanca Holdings Limited | **74.9%** | - | Investment |
| Broadband Services Limited | **100%** | - | Telecommunication Network Provider |
| **Significant associates** | | | |
| Treescape Limited | **50%** | - | Vegetation Management |
| **Non-trading associates** | | | |
| Pacific Energy Limited | **37%** | - | Dormant |

All entities have a balance date of 30 June, apart from Treescape Limited, Salamanca Holdings Limited, Pacific Energy Limited, Mercury Geotherm Limited (in receivership) and Poihipi Land Limited (in receivership) which all have a balance date of 31 March.

# Notes to the financial statements for the 15 month period ended 30 June 2003

## 14. ACQUISITION OF SUBSIDIARY

On 11 October 2002 the Group acquired a controlling interest in UnitedNetworks Limited, a company providing utility services in New Zealand. The acquisition of 100% of UnitedNetworks Limited was completed on 15 November 2002.

The contribution of UnitedNetworks Limited to the consolidated net surplus for the 15 month period ended 30 June 2003 was $44.0 million (after the elimination of intra-group transactions).

The acquisition was accounted for using the purchase method with the resulting goodwill being amortised in accordance with the Group's accounting policy.

The acquisition had the following effect on the consolidated financial position:

| | Notes | GROUP 2003 15 Months $000 | 2002 12 Months $000 |
|---|---|---|---|
| **Fair value of assets and liabilities acquired:** | | | |
| Cash/(bank overdraft) | | **(20,459)** | - |
| Receivables and prepayments | | **82,364** | - |
| Investments | | **3,665** | - |
| Payables and accruals | | **(63,227)** | - |
| Deferred tax liability | | **(120,725)** | - |
| Property, plant and equipment | | | |
| Eastern and Central assets | | **999,585** | - |
| Retained assets | | **1,014,778** | - |
| Surplus property | 16 | **8,220** | - |
| Borrowings | | **(1,157,854)** | - |
| **Net assets acquired** | | **746,347** | - |
| **Goodwill arising on acquisition** | 17 | **752,899** | - |
| Cash consideration paid | | **1,499,246** | - |
| Costs incurred in acquisition | 17 | **14,051** | - |
| **Bank overdraft acquired with subsidiary** | | **20,459** | - |
| **Net cash impact of acquisition** | | **1,533,756** | - |

In a separate transaction, the Eastern region electricity and Central North Island gas assets were sold to Powerco Limited and Hawkes Bay Network Limited.

Costs incurred in acquisition are professional fees paid to the Parent's professional advisors, of which $2.2 million has been paid to other auditors (PwC).

## 15. INVESTMENT IN ASSOCIATES

### (A) Carrying amount of associates

| | GROUP 2003 15 Months $000 | GROUP 2002 12 Months $000 | PARENT 2003 15 Months $000 | PARENT 2002 12 Months $000 |
|---|---|---|---|---|
| Carrying amount at beginning of the period | - | - | - | - |
| Acquisition of interest in associate | 1,970 | - | - | - |
| Equity accounted earnings of associates | 414 | - | - | - |
| Dividends from associates | (100) | - | - | - |
| **Carrying amount at end of the period** | **2,284** | - | - | - |

### (B) Equity accounted earnings of associates

| | GROUP 2003 15 Months $000 | GROUP 2002 12 Months $000 | PARENT 2003 15 Months $000 | PARENT 2002 12 Months $000 |
|---|---|---|---|---|
| **Equity accounted earnings comprise:** | | | | |
| Surplus before income tax | 618 | - | - | - |
| Income tax | (204) | - | - | - |
| **Net surplus** | **414** | - | - | - |
| Other gains and losses | - | - | - | - |
| **Total recognised revenues and expenses** | **414** | - | - | - |

## 16. PROPERTY, PLANT AND EQUIPMENT

| | GROUP 2003 June $000 | GROUP 2002 March $000 | PARENT 2003 June $000 | PARENT 2002 March $000 |
|---|---|---|---|---|
| **Freehold land at cost** | **3,733** | 2,212 | **-** | - |
| **Freehold buildings at valuation** | **1,157** | - | **-** | - |
| Leasehold improvements at cost | **3,423** | 3,250 | **-** | - |
| Accumulated depreciation | **(1,656)** | (710) | **-** | - |
| **Net book value** | **1,767** | 2,540 | **-** | - |
| Distribution systems at valuation | **2,026,011** | 879,684 | **-** | - |
| Distribution land at valuation | **46,716** | 22,351 | **-** | - |
| Distribution buildings at valuation | **44,699** | 17,780 | **-** | - |
| | **2,117,426** | 919,815 | **-** | - |
| Accumulated depreciation | | | | |
| Distribution systems | **(15,911)** | (23,452) | **-** | - |
| Distribution buildings | **(365)** | (937) | **-** | - |
| | **(16,276)** | (24,389) | **-** | - |
| **Net book value** | **2,101,150** | 895,426 | **-** | - |
| Plant and equipment | | | | |
| Motor vehicles and mobile equipment – at cost | **495** | 371 | **-** | - |
| Computer and telecommunications equipment – at cost | **67,159** | 73,168 | **21** | 20 |
| Computer and telecommunications equipment – at valuation | **1,181** | - | **-** | - |
| Other plant and equipment – at cost | **9,669** | 9,237 | **-** | - |
| | **78,504** | 82,776 | **21** | 20 |
| Accumulated depreciation | | | | |
| Motor vehicles and mobile equipment | **(315)** | (227) | **-** | - |
| Computer and telecommunications equipment | **(28,147)** | (29,638) | **(13)** | (10) |
| Other plant and equipment | **(4,265)** | (4,269) | **-** | - |
| | **(32,727)** | (34,134) | **(13)** | (10) |
| **Net book value** | **45,777** | 48,642 | **8** | 10 |
| Capital work in progress | **44,084** | 12,600 | **-** | - |
| **Total net book value** | **2,197,668** | 961,420 | **8** | 10 |

The trustees consider that the fair value of land and buildings is equal to their book value.

The distribution assets were revalued to $2,090.5 million as at 31 March 2003. Subsequent additions are stated at cost.

The basis of valuation was depreciated replacement cost. This valuation was undertaken in conjunction with Meritec Limited consulting engineers.

As indicated in the accounting policies interest and other costs are capitalised to property, plant and equipment while under construction. During the period $2.2 million (2002: $1.3 million) of interest and other costs were capitalised. Included in other plant and equipment are $2.1 million of property, plant and equipment held under finance leases.

| | Notes | GROUP 2003 June $000 | GROUP 2002 March $000 | PARENT 2003 June $000 | PARENT 2002 March $000 |
|---|---|---|---|---|---|
| **17. INTANGIBLE ASSETS** | | | | | |
| **Goodwill** | | | | | |
| Balance at beginning of the period | | **3,568** | 3,929 | **-** | - |
| **Acquired in the financial period** | | | | | |
| UnitedNetworks Limited | 14 | **752,899** | - | **-** | - |
| Other | | **339** | - | **-** | - |
| Acquisition costs | 14 | **14,051** | - | **-** | - |
| Amortisation in the financial period | 3 | **(28,708)** | (361) | **-** | - |
| **Balance at end of the period** | | **742,149** | 3,568 | **-** | - |

Goodwill is amortised over a period up to 20 years in accordance with the Group's accounting policy.

### 18. PAYABLES AND ACCRUALS

| | Notes | GROUP 2003 June $000 | GROUP 2002 March $000 | PARENT 2003 June $000 | PARENT 2002 March $000 |
|---|---|---|---|---|---|
| **Current** | | | | | |
| Trade payables and other creditors | | **57,944** | 42,295 | **119** | 591 |
| Provision for claims | 19 | **15,179** | 2,020 | **-** | - |
| Provision for dividends | | **-** | 245 | **-** | 245 |
| Provision for unclaimed dividends | | **781** | 2,791 | **781** | 2,791 |
| Mark to market adjustment | | **4,427** | - | **-** | - |
| Interest payable | | **18,371** | 3,405 | **-** | - |
| Employee entitlements | 20 | **1,736** | 1,323 | **-** | - |
| **Total current payables and accruals** | | **98,438** | 52,079 | **900** | 3,627 |
| **Non current** | | | | | |
| Mark to market adjustment | | **6,862** | - | **-** | - |
| **Total non current payables and accruals** | | **6,862** | - | **-** | - |

### 19. PROVISION FOR CLAIMS

| | Notes | GROUP 2003 June $000 | GROUP 2002 March $000 | PARENT 2003 June $000 | PARENT 2002 March $000 |
|---|---|---|---|---|---|
| Balance at beginning of the period | | **2,020** | 5,591 | **-** | - |
| Additions | | **13,555** | 1,300 | **-** | - |
| Utilised | | **(396)** | (2,500) | **-** | - |
| Reversed | | **-** | (2,371) | **-** | - |
| **Balance at end of the period** | | **15,179** | 2,020 | **-** | - |

| | GROUP 2003 June $000 | GROUP 2002 March $000 | PARENT 2003 June $000 | PARENT 2002 March $000 |
|---|---|---|---|---|
| **20. PROVISION FOR EMPLOYEE ENTITLEMENTS** | | | | |
| Balance at beginning of the period | **1,323** | 1,343 | - | - |
| Additions | **413** | - | - | - |
| Utilised | - | (20) | - | - |
| **Balance at end of the period** | **1,736** | 1,323 | - | - |

## 21. COMMITMENTS

The following amounts have been committed to by the Group or Parent, but not recognised in the financial statements.

| | GROUP 2003 June $000 | GROUP 2002 March $000 | PARENT 2003 June $000 | PARENT 2002 March $000 |
|---|---|---|---|---|
| **Capital expenditure commitments** | | | | |
| Estimated capital expenditure contracted for at balance date but not provided: | **39,871** | 10,775 | - | - |
| **Operating lease commitments** | | | | |
| Within one year | **3,329** | 1,172 | - | - |
| One to two years | **1,663** | 1,172 | - | - |
| Two to five years | **4,377** | 2,302 | - | - |
| Beyond five years | **3,864** | 113 | - | - |
| Total | **13,233** | 4,759 | - | - |

The majority of the operating lease commitments relate to premises leases. Operating leases held over properties give the Group the right to renew the lease.

## 22. BORROWINGS

| Group June 2003 | Notes | Weighted average interest rate % | Total $000 | Payable within 1 year $000 | Payable between 1 and 2 years $000 | Payable between 2 and 5 years $000 | Payable after 5 years $000 |
|---|---|---|---|---|---|---|---|
| Bank loans | | **5.95** | **760,000** | - | - | **760,000** | - |
| Working capital loan | | **5.75** | **7,000** | **7,000** | - | - | - |
| Medium term notes – fixed rate NZ$ | | **6.50** | **198,933** | - | - | **198,933** | - |
| Medium term notes – floating rate A$ | | **5.30** | **569,018** | - | - | **319,018** | **250,000** |
| Capital bonds | 23 | **9.75** | **307,205** | - | - | **307,205** | - |
| Other | | **5.09** | **2,563** | **830** | - | **1,678** | **55** |
| | | **6.44** | **1,844,719** | **7,830** | - | **1,586,834** | **250,055** |

### 22. BORROWINGS - CONTINUED

| Group<br>March 2002 | Weighted average interest rate | Total | Payable within 1 year | Payable between 1 and 2 years | Payable between 2 and 5 years | Payable after 5 years |
|---|---|---|---|---|---|---|
| | % | $000 | $000 | $000 | $000 | $000 |
| CHF bond | 7.10 | 104,810 | 104,810 | - | - | - |
| Commercial paper | 4.94 | 45,000 | 45,000 | - | - | - |
| Other | 1.99 | 1,291 | 953 | - | 338 | - |
| | 6.42 | 151,101 | 150,763 | - | 338 | - |

The Parent has no borrowings during this period.

All borrowings are unsecured with all bank loans and medium term notes being subject to negative pledge arrangements.
Interest rates for all bank loans are floating based on the bank bill rate plus a margin. Medium term notes – fixed rate NZ$ mature April 2007 and are shown at the value of proceeds received after deducting the discount on issue ($1.7 million) and adjusted for the amount amortised ($0.6 million).

Medium term notes – floating rate A$ mature April 2008 and April 2011.

Borrowings are classified between current and non-current dependent on repayment dates.

Bank loans are subject to various covenants. These have all been met for the 15 month period to 30 June 2003 and the 12 month period to 31 March 2002.

### 23. CAPITAL BONDS

On 5 November 2002 Vector Limited issued 307,205,000 capital bonds for $307,205,000. The capital bonds have an initial term of 4 years from the date of issue. The capital bonds are convertible into Vector Limited Ordinary shares in certain limited circumstances and have a principal amount of NZ$1.00 each.

The interest rate of 8.25% is fixed until the first election date of 15 December 2006, and thereafter will be reset at intervals determined by the Parent. If a Public Offer (which involves the quotation of Ordinary Shares on the New Zealand Stock Exchange and the issue of at least 24.9% of the total Vector Limited ordinary share capital to persons other than the Auckland Energy Consumer Trust) is not completed by 30 September 2003, the interest rate will be increased by 1.5% per annum as from 15 June 2003 (until the date on which a Public Offer is completed or the first election date, whichever date is earlier). Such an adjustment will be in addition to any adjustment to the interest rate as a result of a change to Vector Limited's credit rating.

The capital bonds are unsecured debt obligations of Vector Limited, which are subordinated to all other creditors of Vector Limited and are constituted by a Trust Deed entered into by Vector Limited and The New Zealand Guardian Trust Company Limited as Trustee dated 25 September 2002.

The capital bonds were issued to partially finance Vector Limited's acquisition of UnitedNetworks Limited.

## 24. FINANCIAL INSTRUMENTS

The Group has a comprehensive treasury policy approved by the board of directors to manage the risks of financial instruments.

The Parent has no short or long term borrowings.

### Interest rate risk

The Group has long-term borrowings, which are used to fund ongoing activities. The Group actively manages interest rate exposures in accordance with Treasury Policy. In this respect, at least 40% of all term debt must be at fixed interest rates or effectively fixed using interest rate swaps, forward rate agreements, options and similar derivative instruments.

The weighted average rates of borrowings are as follows:

| | 2003 June | | 2002 March | |
|---|---|---|---|---|
| Group | Weighted average interest rate | Face value | Weighted average interest rate | Face value |
| | % | $000 | % | $000 |
| Bank loans | **5.95** | **760,000** | - | - |
| Working capital loan | **5.75** | **7,000** | - | - |
| CHF bond | - | - | 7.10 | 104,810 |
| Commercial paper | - | - | 4.94 | 45,000 |
| Medium term notes – fixed rate NZ$ | **6.50** | **200,000** | - | - |
| Medium term notes – floating rate A$ | **5.30** | **569,018** | - | - |
| Capital bonds | **9.75** | **307,205** | - | - |
| Other | **5.09** | **2,563** | 1.99 | 1,291 |

The weighted average rates of interest rate swaps are as follows:

| | 2003 June | | 2002 March | |
|---|---|---|---|---|
| Group | Weighted average interest rate | Face value | Weighted average interest rate | Face value |
| | % | $000 | % | $000 |
| Interest rate swaps | | | | |
| Maturing in less than 1 year | **7.16** | **111,250** | - | - |
| Maturing between 1 and 2 years | **6.97** | **135,000** | 7.17 | 20,000 |
| Maturing between 2 and 5 years | **6.94** | **542,500** | 7.12 | 50,000 |
| Maturing after 5 years | **6.69** | **172,500** | - | - |
| **Total** | **6.92** | **961,250** | 7.13 | 70,000 |
| | | | | |
| Cross currency swaps | **5.30** | **569,018** | 7.10 | 104,810 |

### Foreign exchange risk

The Group has, in this reporting period, conducted transactions in foreign currencies for the purposes of protecting the NZ$ value of capital expenditure and for the issuance of A$ medium term notes which have been hedged with cross currency swaps.

At balance date the Group has no significant exposure to foreign currency risk.

## 24. FINANCIAL INSTRUMENTS-CONTINUED

### Credit risk

In the normal course of business, the Group is exposed to credit risk from energy retailers, financial institutions and trade debtors. The Group has a credit policy, which is used to manage this exposure to credit risk.

As part of this policy, the Group can only have exposures to financial institutions having at least a credit rating of A- long term from Standard & Poors (or equivalent rating). In addition, limits on exposures to financial institutions have been set by the Board of Directors and are monitored on a regular basis. In this respect, the Group minimises the credit risk by spreading such exposures across a range of institutions. The Group does not anticipate non-performance by any of these financial institutions.

The Group has some concentration of credit exposures with a few large energy retailers. To minimise this risk, the Group performs credit evaluations on all energy retailers and other electricity customers and requires a bond or other form of security where deemed necessary.

The maximum exposure to credit risk is represented by the carrying value of each financial asset:

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2003 June $000 | 2002 March $000 | 2003 June $000 | 2002 March $000 |
| Cash and bank | **5,498** | 12,313 | **4,200** | 6,185 |
| Short Term Deposits | **12,900** | 15,927 | **12,900** | 15,927 |
| Trade receivables | **68,176** | 32,431 | **-** | - |

### Fair values

The estimated fair value of financial instruments at balance date is:

| | 2003 June | | 2002 March | |
|---|---|---|---|---|
| Group | Carrying amount $000 | Fair value $000 | Carrying amount $000 | Fair value $000 |
| Bank loans | **760,000** | **760,000** | 104,810 | 104,810 |
| Working capital loan | **7,000** | **7,000** | - | - |
| Commercial paper | **-** | **-** | 45,000 | 45,000 |
| Medium term notes – fixed rate NZ$ | **198,933** | **207,340** | - | - |
| Medium term notes – floating rate A$ | **569,018** | **539,100** | - | - |
| Capital bonds | **307,205** | **340,629** | - | - |
| Interest rate swaps loss/(gain) | **12,275** | **45,481** | - | (28,500) |
| Cross currency swaps loss | **-** | **25,558** | - | - |
| Other | **2,563** | **2,563** | 1,291 | 1,291 |

The following methods and assumptions were used to estimate the fair value of each class of financial instrument where it is practical to estimate that value:

### Cash and short term deposits, loans and working capital

The carrying amount of these items is equivalent to their fair value. Bank overdrafts are set off against cash balances pursuant to right of set off.

### Medium term notes

The fair value of NZ$ notes is based on quoted market prices.

The fair value of A$ notes is based on the face value converted at the exchange rate prevailing at the end of the period.

### 24. FINANCIAL INSTRUMENTS - CONTINUED

**Capital bonds**

The fair value of capital bonds is based on quoted market prices.

**Derivative instruments**

The fair value of interest rate swaps, forward rate agreements, interest rate options and other derivative instruments is estimated based on the quoted market prices for these instruments.

### 25. CONTINGENT LIABILITIES

Trustees are aware of claims that have been made against the Group and have recognised provisions for these within the financial statements. No other material contingencies have been identified.

### 26. TRANSACTIONS WITH RELATED PARTIES

During the period the Parent had the following transactions with Vector Limited, the Parent is the sole shareholder of Vector Limited:

- Receipt of dividend from Vector Limited $ 42.8 million (2002: $48.0 million)
- Payments made to Vector Limited $ 0.1 million (2002: $ 0.1 million)

Note 13 identifies all Group entities including associates and partnerships in which the Group has an interest. All of these entities are related parties of the Parent. Other than the Trustees and Directors themselves, there are no additional related parties with whom material transactions have taken place.

On 21 August 2003, the Directors of Vector Limited recommended a final dividend of 10.73 cents per Class A share ($32.2 million), which has not been provided for in these financial statements. This dividend received by the Parent will then be distributed to the beneficiaries of the Trust at $155 per beneficiary.

| | GROUP | | PARENT | |
|---|---|---|---|---|
| | 2003 June $000 | 2002 March $000 | 2003 June $000 | 2002 March $000 |
| **Trustees Remuneration** | | | | |
| M Buczkowski | **31** | 25 | **31** | 25 |
| J Collinge | **80** | 25 | **31** | 25 |
| K Sherry | **38** | 25 | **38** | 25 |
| C Van Camp | **31** | 25 | **31** | 25 |
| P Winter | **31** | 30 | **31** | 30 |
| Other Directors fees | **350** | 245 | **-** | - |
| **Total** | **561** | 375 | **162** | 130 |

## 27. SEGMENT INFORMATION

The Group operates a distribution network providing utilities. All operations are carried out within New Zealand.

## 28. EVENTS AFTER BALANCE DATE

Effective from 1 July 2003, UnitedNetworks Limited and Caduceus Equities No. 1 Limited were amalgamated with Vector Limited.

On 21 August 2003, the Directors of Vector Limited announced that a decision had been reached not to proceed with the Public Offer at this time (see note 25). The Group has accrued interest on capital bonds in these financial statements at a premium of 1.5% per annum from 15 June 2003 to allow for the additional interest payable should the Public Offer not be completed by 30 September 2003.

Hence no adjustments are required to these financial statements in respect of these events.

KPMG

# Audit report

## To the Trustees of Auckland Energy Consumer Trust

We have audited the financial statements on pages 2 to 26. The financial statements provide information about the past financial performance and financial position of the trust and group as at 30 June 2003. This information is stated in accordance with the accounting policies set out on pages 7 to 9.

### Trustees' responsibilities

The Trustees are responsible for the preparation of financial statements which give a true and fair view of the financial position of the trust and group as at 30 June 2003 and the results of their operations and cash flows for the 15 month period ended on that date.

### Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Trustees and report our opinion to you.

### Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Trustees in the preparation of the financial statements;
- whether the accounting policies are appropriate to the trust's and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Partners and employees of our firm may also deal with the trust as consumers of Vector Limited. This has not impaired our independence as auditors of the trust and group. The firm has no other relationship with, or interest in, the trust and group.

KPMG

*Unqualified opinion*

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the trust as far as appears from our examination of those records;

- the financial statements on pages 2 to 26:

  - comply with New Zealand generally accepted accounting practice;

  - give a true and fair view of the financial position of the trust and group as at 30 June 2003 and the results of their operations and cash flows for the 15 month period ended on that date.

Our audit was completed on 25 September 2003 and our unqualified opinion is expressed as at that date.

KPMG

Auckland