

**NGC – Gas Distribution Activities**  
**Statement of Financial Performance**  
**For the year ended 30 June 2004**  
**For the purposes of the Gas (Information Disclosure) Regulations 1997**

		<b>\$Thousands</b>	
	<b>Note</b>	<b>2004</b>	<b>2003</b>
Revenue		21,980	22,884
Abnormal Items	2	-	(993)
Expenses	2	(13,798)	(12,194)
<b>Surplus before Taxation</b>	2	<b>8,182</b>	<b>9,697</b>
Income Tax Expense	3	(2,526)	(3,202)
<b>Net Surplus for the Year</b>		<b>5,656</b>	<b>6,495</b>

**NGC – Gas Distribution Activities  
Statement of Financial Position**

**As at 30 June 2004**

**For the purposes of the Gas (Information Disclosure) Regulations 1997**

		<b>\$Thousands</b>	
	<b>Note</b>	<b>2004</b>	<b>2003</b>
<b>Non Current Assets</b>			
Fixed Assets	4	116,557	116,091
<b>Total Non Current Assets</b>		<b>116,557</b>	<b>116,091</b>
<b>Current Assets</b>			
Cash and Short Term Deposits		12	4
Accounts Receivable	6	2,058	1,887
Inventories – Consumable Spares		207	189
<b>Total Current Assets</b>		<b>2,277</b>	<b>2,080</b>
<b>Total Assets</b>		<b>118,834</b>	<b>118,171</b>
<b>Equity</b>			
Notional Reserves	7	93,565	91,568
<b>Total Equity</b>		<b>93,565</b>	<b>91,568</b>
<b>Non Current Liabilities</b>			
Deferred Taxation		20,286	23,622
<b>Total Non Current Liabilities</b>		<b>20,286</b>	<b>23,622</b>
<b>Current Liabilities</b>			
Current Tax		(146)	1,468
Accounts Payable and Accruals		5,129	1,513
<b>Total Current Liabilities</b>		<b>4,983</b>	<b>2,981</b>
<b>Total Liabilities and Equity</b>		<b>118,834</b>	<b>118,171</b>

**NGC – Gas Distribution Activities  
Notes to the Financial Statements  
For the year ended 30 June 2004**

**1. Statement of Accounting Policies**

**a) Accounting Entity**

The financial statements are those of NGC – Gas Distribution Activities (NGC). Gas Distribution Activities involves the ownership and the supply of line function services for the distribution of gas. This excludes activities associated with the gas metering business.

**b) Special Purpose Financial Statements**

The financial statements have been prepared in accordance with the Gas (Information Disclosure) Regulations 1997 and generally accepted accounting principles.

**c) General Accounting Policies**

The general accounting policies recognised as appropriate for the measurement and reporting of earnings and the financial position under the historical cost method, as modified by the revaluation of certain assets, have been followed in the preparation of these financial statements. This includes the going concern concept and the matching of revenue and expenses under the accrual concept.

**d) Particular Accounting Policies**

The following particular accounting policies which materially affect the measurement of financial performance and financial position have been adopted:

**i) Revenues and Expenses**

These financial statements are presented under the Avoidable Cost Allocation Methodology (ACAM). The 2003 comparatives have not been prepared on this basis. In November 2002 the Cabinet reaffirmed its May 2000 decision to mandate the use of the avoidable cost allocation methodology (ACAM) in the Gas (Information Disclosure) Regulations 1997. The Gas Control Inquiry being conducted by the Commerce Commission has been assessing the gas transportation businesses as stand alone entities which has involved the application of ACAM.

Revenues and expenses are stated exclusive of Goods and Services Tax (GST).

**ii) Valuation of Fixed Assets**

Pipelines, compressors and gate stations are recorded at the most recent valuation, adjusted by subsequent additions, disposals and depreciation. Valuations are carried out regularly and reviewed by independent experts, using the optimised deprival valuation methodology. All fixed assets other than pipelines, compressors and gate stations, are included at cost less accumulated depreciation.

Under the modified historical cost method, the revaluation, reflecting the difference between the net carrying value of the assets and the valuation (net of the deferred tax), is recorded in the asset revaluation reserve. In arriving at the net carrying value any accumulated depreciation is written back against the asset value. The revaluation increase or decrease is transferred from the revaluation reserve to retained earnings on the disposal of an asset.

Construction in progress is recorded at cost. For projects having a cost in excess of \$500,000 and a construction period of not less than three months, finance costs relating to that project are capitalised. The finance costs capitalised are based on the actual cost directly attributable to the construction of the asset. Where this is not clearly identifiable, NGC's cost of debt is used. Assets constructed by NGC are commissioned and transferred from construction in progress to fixed assets as each facility or operating unit within a facility becomes operational and available for use.

**iii) Current Assets**

Accounts receivables are valued at their estimated realisable value. Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis. All other current assets are valued at their estimated realisable value.

**iv) Depreciation**

The rates of depreciation vary according to the nature and economic lives of the assets and fall within the following ranges (on a straight line basis):

Low Pressure Pipelines	25-50 years
Meters and Stations	15-45 years
Plant, Equipment & Motor Vehicles	5-20 years
Buildings	40-100 years
Capital Spares	5-20 years

Depreciation of pipelines commences when the pipeline is physically complete and flowing gas.

**v) Deferred Income**

Contributions received from gas utilities and other parties towards the capital expenditure on pipelines are accounted for initially in a deferred income account. Amortisation to income of the deferred income account takes place only after the obligations in connection with the contributions are performed. The deferred income account is amortised to the statement of financial performance over the life of the pipelines to which they relate or over the life of the gas supply contract, whichever is the shorter.

**vi) Taxation**

NGC recognises deferred taxation using the liability method and on a comprehensive basis. Income tax expense is recognised on the surplus before taxation. It is then adjusted for permanent differences between taxable and accounting income. The tax effect of all timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is recognised in the statement of financial position as a future tax benefit or as deferred tax. The future tax benefit or deferred tax is stated at the income tax rates prevailing at balance date. Future tax benefits are not recognised unless realisation of the asset is virtually certain. Future tax benefits and deferred tax is offset.

**vii) Deferred Expenditure**

Deferred expenditure is expenditure which provides benefits beyond the current accounting period. These expenditures include the connection of new customers to the gas system and the conversion of existing customers' appliances to the use of natural gas which are written off over periods up to ten years, and financing costs which are amortised to earnings over the remaining life of the relevant lending facility.

**e) Changes in Accounting Policy and Comparatives**

Management fees allocated to the Distribution business have been calculated and presented under the Avoidable Cost Allocation Methodology (ACAM) for the 2004 results. This has resulted in the Management fee being \$0.01million higher than was actually charged in the current year. Otherwise, there have been no changes in accounting policies. These policies have been applied on a consistent basis during the year.

**2. Surplus before Taxation**

	<b>\$ Thousands</b>	
	<b>2004</b>	<b>2003</b>
Surplus before Taxation is stated after charging/(crediting):		
Audit fees and expenses	33	31
Depreciation	4,962	4,319
Amortisation	-	767
Leasing Costs	235	197
Asset Acquisition Feasibility Cost	-	993

### 3. Income Tax

	\$ Thousands	
	2004	2003
The Income Tax Expense has been calculated as follows:		
Surplus before Taxation	8,182	9,697
Income Tax at 33%	2,700	3,200
Adjusted for:		
Prior Period Adjustment	(177)	-
Permanent Differences	3	2
	<b>2,526</b>	<b>3,202</b>

### 4. Fixed Assets

	\$Thousands			
	2004			
	Cost/ Valuation	Accumulated Depreciation	Net Book Value	Depreciation Charge
Pipelines, Compressors & Gate Stations	115,258	5,107	110,151	3,738
Plant, Equipment & Motor Vehicles	7,885	5,371	2,514	1,223
Work in Progress	3,832	-	3,832	-
Freehold Land & Buildings	71	11	60	1
	<b>127,046</b>	<b>10,489</b>	<b>116,557</b>	<b>4,962</b>

**\$Thousands**

**2003**

	<b>Cost/ Valuation</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>	<b>Depreciation Charge</b>
Pipelines, Compressors & Gate Stations	111,666	-	111,666	3,240
Plant, Equipment & Motor Vehicles	7,268	4,097	3,171	1,078
Work in Progress	1,194	-	1,194	-
Freehold Land & Buildings	71	11	60	1
	<b>120,199</b>	<b>4,108</b>	<b>116,091</b>	<b>4,319</b>

Pipelines, compressors and gate stations were revalued as at 30 June 2003 using the optimised deprival valuation (ODV) methodology. As a result, the valuation of pipelines, compressors and gate stations increased by \$12.93 million from the pre-revaluation amounts.

NGC has been completing regular revaluations of these assets since 1994 using the ODV methodology. The major assumptions resulting in the increase from the 2000 revaluation included an increase in construction rates for measure and value contracts. The valuation was reviewed and certified by Meritec Limited, the legal entity that employed its Senior Business Consultant, Guenter Wabnitz, as the person with primary responsibility for the review of NGC's valuation.

The independent valuer was engaged by NGC on the basis of his experience in valuations of infrastructure assets and technical and commercial expertise in New Zealand's gas and energy sector. Meritec Limited is an independent consulting firm and has no commercial interest in NGC.

The qualifications of Guenter Wabnitz relevant to this valuation review are:

- Commercial valuations of most of New Zealand's gas networks, for ODV, due diligence, insurance, district valuation roll and other purposes.
- Over 20 years experience in management, design and operations of gas production, processing and transportation systems in New Zealand, Australia, Asia and Europe.

## 5. Deferred Expenditure

	\$Thousands	
	2004	2003
Balance as at 1 July	-	774
Less amounts amortised to expenses	-	(774)
	-	-

## 6. Accounts Receivable

	\$Thousands	
	2004	2003
Trade Debtors	2,058	1,801
Prepayments and Sundry Receivables	-	86
	<b>2,058</b>	<b>1,887</b>

## 7. Notional Reserves

NGC's Gas Distribution Activity is not a company and therefore has no share capital. Notional reserves are determined on the basis that Gas Distribution is fully equity funded by NGC. Notional reserves therefore represent all funding provided to Gas Distribution by the NGC Group.

## 8. Deferred Income

	\$Thousands	
	2004	2003
Balance as at 1 July	-	7
Less amount amortised to earnings	-	(7)
	-	-

Deferred income represents contributions from customers as explained in Note 1(d)(v).

## 9. Capital Commitments

There were no capital amounts committed but not recorded in these financial statements (30 June 2003: Nil).

<b>Operating Lease Commitments</b>	<b>\$ Thousands</b>	
	<b>2004</b>	<b>2003</b>
Non cancellable operating lease rentals are payable as		
Not later than one year	187	279
Between one and two years	34	189
Between two and five years	10	131
Later than five years	-	-
	<b>231</b>	<b>599</b>

## **10. Contingent Liabilities**

There are no contingent liabilities which would have a material adverse effect on the financial statements. (30 June 2003: Nil).

## **11. Financial Instruments**

### *Interest Rate Risk*

There is no interest rate risk as NGC – Distribution Activities does not hold any interest bearing assets or liabilities.

### *Credit Risk*

Financial instruments potentially subject to credit risk are cash deposits and trade debtors. Cash deposits are placed with a small number of trading banks and the amount deposited per bank is limited. The counter parties and the credit limits are approved by the Board of Directors. NGC completes credit evaluations on customers where possible and requires a bond to be paid when customers cannot demonstrate an adequate credit history. There are no significant concentrations of credit risk.

### *Foreign Currency Risk*

Transactions denominated in foreign currencies are undertaken from time to time and resulting from these activities exposures in foreign currencies arise, these exposures are managed by other NGC Group companies.

### *Fair Values*

Cash at bank, other investments, trade creditors and amounts due to subsidiaries - the carrying value of these items is equivalent to their fair value.

## **12. Related Parties Transactions**

NGC Management Limited provides management services in respect of the gas distribution activities. Management fees were paid to NGC Management Limited of \$3.5 million (30 June 2003: \$4.1 million).

Sales of distribution services to Gas Retailing Activities were \$3.9 million (30 June 2003: \$9.6 million). No amounts were outstanding from related parties as at 30 June 2004 (30 June 2003: Nil).

Transactions with related parties are settled in the ordinary course of business. No amounts have been written off or forgiven during the year ended 30 June 2004 (30 June 2003: Nil).

**Natural Gas Corporation – Gas Distribution Activities**  
**Statement of Performance Measures**  
**For the year ended 30 June 2004**  
**For the purposes of the Gas (Information Disclosure) Regulations 1997**

	2004 NGC	2003 NGC	2002 NGC/ AGLNZE	2001 NGC/ AGLNZE	2000 NGC Only
<b>1. Financial Performance Measures</b>					
<b>a) Measures including abnormal items and earnings adjustments</b>					
Accounting Return on Total Assets	7.15%	8.24%	11.37%	16.27%	14.44%
Accounting Return on Equity	6.11%	6.54%	11.47%	33.56%	39.24%
Accounting Rate of Profit	3.96%	16.29%	9.04%	15.70%	17.83%
<b>b)</b> <i>The accounting rate of profit for 2003 includes a revaluation increase of \$12.93 million in respect of the NGC network. Excluding this amount, the accounting rate of profit would be reduced from 16.29% to 6.20%. The accounting rate of profit for 2000 includes a revaluation increase of \$9.9 million in respect of the NGC network. Excluding this amount, the accounting rate of profit would be reduced from 17.83% to 11.68% in 2000.</i>					
<b>c)</b> <i>2003, 2002 and 2001 ratios are calculated inclusive of abnormal items. The 2003 ratios include abnormal costs associated with asset acquisition feasibility costs of \$1 million. The 2002 ratios include abnormal items of \$4.9 million being profit on the sale of the AGLNZE pipeline assets. In addition, the 2001 ratios are calculated after adding back to earnings, the amortisation of identifiable intangible asset (pre-tax \$1.4 million), and ODV write-downs through earnings of AGLNZE and after deducting from funds employed and shareholders funds the value of the identifiable intangible asset of AGLNZE (\$50 million).</i>					
<b>d) Measures Adjusted to exclude abnormal items</b>					
Accounting Return on Total Assets	7.15%	8.88%	8.43%	11.89%	11.91%
Accounting Return on Equity	6.11%	6.69%	8.58%	23.50%	33.08%
Accounting Rate of Profit	3.96%	16.72%	6.14%	11.56%	15.22%
<b>e) Measures Adjusted to exclude abnormal items and earnings adjustments described above</b>					
Accounting Return on Total Assets	7.15%	8.88%	8.43%	8.77%	6.66%
Accounting Return on Equity	6.11%	6.69%	8.58%	11.88%	10.10%
Accounting Rate of Profit	3.96%	16.72%	6.14%	8.47%	9.04%
<b>2. Efficiency Performance Measures</b>					
Direct Line Costs per Kilometre	\$1,097	\$718	\$716	\$1,100	\$1,345
Indirect Line Costs per Gas Customer	\$92	\$135	\$155	\$71	\$64

<b>NGC ONLY</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
<b>3. Energy Delivery Efficiency Performance Measures</b>					
Load Factor	83.68%	86.12%	84.83%	69.22%	85.33%
Unaccounted for Gas Ratio	0.31% Loss	0.31% Loss	0.31% Loss	0.31% Loss	0.31% Loss
<b>4. Statistics</b>					
System Length (km)	2,867	2,739	2,639	2,533	2,479
Maximum Monthly Amount of Gas Entering System (GJ)	1,105,540	1,070,335	1,005,560	1,223,573	856,362
Total Annual Amount of Gas Conveyed through System (GJ)	11,101,232	11,061,901	10,235,729	10,163,878	8,769,123
Total Annual Amount of Gas Conveyed through System for persons not in a prescribed business relationship (GJ)	1,300,715	1,352,001	1,218,363	173,197	805,395
Total Number of Customers	57,896	55,938	52,318	50,452	48,270
<b>5. Reliability Performance Measures</b>					
Unplanned Transmission System Interruptions (hours)	n.a	n.a	n.a	n.a	n.a
Unplanned Distribution System Interruptions not related to Transmission System Interruptions (hours/customer)	0.0097	0.0657	.00245	.0086	.4564
Interruptions attributable to third party interference	.00364	0.0592	.00109	.0084	.01679
Unplanned Distribution System Interruptions related to Transmission System Interruptions (hours/customer)	0	0	0	0	.7513

<b>AGL NZE ONLY</b>	<b>2001</b>	<b>2000</b>
<b>3. Energy Delivery Efficiency Performance Measures</b>		
Load Factor	64.98	65.23%
Unaccounted for Gas Ratio	2.8% gain	0.5% loss
<b>4. Statistics</b>		
System Length (km)	1,162	1,030
Maximum Monthly Amount of Gas Entering System (GJ)	239,608	240,099
Total Annual Amount of Gas Conveyed through System (GJ)	1,868,405	1,879,423

<b>AGL NZE ONLY</b>	<b>2001</b>	<b>2000</b>
Total Annual Amount of Gas Conveyed through System for persons not in a prescribed business relationship (GJ)	310,560	1,367,372
Total Number of Customers	28,347	27,068
<b>5. Reliability Performance Measures</b>		
Unplanned Transmission System Interruptions (hours)	n.a.	n.a
Unplanned Distribution System Interruptions not related to Transmission System Interruptions (hours/customer)	Nil	Nil
Interruptions attributable to third party interference	0.1428	0.1219
Unplanned Distribution System Interruptions related to Transmission System Interruptions (hours/customer)	Nil	Nil

**NB:** Some prior year performance measures have changed due to new information available.