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ELECTICITY CORPORATION OF NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO THE ELECTRICITY (INFORMATION
DISCLOSURE) REGULATIONS 1994

Electricity Corporation of New Zealand Limited
FINANCIAL STATEMENTS

STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

These financial statements have been prepared and presented in accordance with Generally Accepted Accounting Practice in New Zealand, the Companies Act 1955, as amended, and the Financial Reporting Act 1993. The financial statements are for the Electricity Corporation of New Zealand Limited (the "Corporation"), as defined in Regulation 4 of the Electricity (Information Disclosure) Regulations 1994 (the "Regulations").

Constitution, Ownership and Activities

ECNZ was incorporated under the Companies Act 1955 on 26 February 1987, pursuant to the State-Owned Enterprises Act 1986, and commenced business on 1 April 1987. With effect from 1 April 1987 ECNZ acquired under a sale and purchase agreement with the Crown the electricity generation business of the Electricity Division of the Ministry of Energy. The assets and liabilities acquired by ECNZ with effect from 1 April 1987 were recorded in the opening statement of financial position at values stated within the sale and purchase agreement.

ECNZ is wholly-owned by the Crown. ECNZ's business is primarily the generation and wholesale marketing of electricity.

Generation and Supply of Electricity Activities

To comply with the Regulations the Corporation has consolidated the following entities involved in the generation and supply of electricity: ECNZ Parent (excluding Brightspot and Appliance Wholesale divisions), Rutherford House Limited and ECNZ Insurance Limited.

Entities which are not involved in the generation and supply of electricity have not been consolidated and are accounted for using the cost method. These subsidiaries are referred to as non-core business activities. The activities and balances that relate to non-core business activities have been separately identified in these financial statements and consist of:

Dividends from non-core business activities

Interest from non-core business activities

Investments in non-core business activities

Advances to non-core business activities

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. No statement of cashflow is required by the Regulations.

Measurement System

The historical cost method, as modified by the revaluation of certain assets, has been followed.

Specific Accounting Policies

The following accounting policies, which significantly affect the measurement of financial performance and of financial position, have been consistently applied:

Revenues

Sales shown in the statement of financial performance comprise the amounts received and receivable by ECNZ for electricity and related electricity services supplied to customers and gains on disposals in the ordinary course of business. Sales are stated exclusive of Goods and Services Tax collected from customers.

Foreign Currencies

Assets and liabilities denominated in a foreign currency are translated at the rates of exchange ruling at balance date. Exchange differences on translation are taken to the statement of financial performance. Hedged assets and liabilities are translated at the rate of exchange determined by the underlying hedge contract.

Foreign currency transactions in the statement of financial performance are translated at the average monthly exchange rate ruling for that month. The financial statements of foreign operations are translated at the average monthly exchange rate ruling for the year.

Outstanding forward foreign exchange contracts which are not designated as hedges are valued at the forward rate of exchange at balance date and the resulting gains and losses are recognised in the statement of financial performance.

Investments

Investments in subsidiaries are stated at cost.

Investments in associate entities are stated at cost.

Short term investments consist of investments which mature or are otherwise realisable within not more than 12 months from the date of purchase and are stated at cost or market value (where available), with resulting gains and losses taken to the statement of financial performance.

Borrowings

Debt is stated at face value less unamortised discounts, premiums and prepaid interest which are amortised to interest expense on a yield to maturity basis over the period of the borrowing. Borrowing costs such as origination, commitment and transaction fees are deferred and amortised to expense over the period of the borrowing.

Joint Ventures

ECNZ's method of accounting for a material interest in a joint venture is to recognise in the respective classification categories the amount of:

- (a) ECNZ's share in each of the individual assets employed in the joint venture;
- (b) liabilities incurred in relation to the joint venture, including ECNZ's share of liabilities for which it is severally liable; and
- (c) ECNZ's share of revenue earned and expenses incurred in relation to the joint venture.

Fixed Assets

Fixed assets are stated at the cost at which they were purchased from the Crown as at 1 April 1987, adjusted by subsequent additions at cost, disposals and depreciation.

The cost of purchased fixed assets equals the consideration given to acquire the assets plus

other directly attributable costs incurred in bringing the assets to the location and condition necessary for their intended service.

The cost of assets constructed by ECNZ, including capital work in progress, includes the cost of all materials used in construction, direct labour on the project, financing costs that are directly attributable to the project and an appropriate proportion of variable and fixed overheads. Costs cease to be capitalised as soon as the asset is ready for productive use and do not include any inefficiency costs. Financing costs on uncompleted capital work in progress are capitalised at ECNZ's weighted average interest rate.

Leased Assets

ECNZ leases certain plant, equipment, land and buildings.

Leases under which ECNZ assumes substantially all the risks and rewards incidental to ownership have been classified as finance leases and are capitalised. The asset and corresponding liability are recorded at the inception of the lease at the lower of fair value of the leased asset and, amounts equivalent to the discounted present value of minimum lease payments, including residual values.

Finance charges are apportioned over the terms of the respective leases using the actuarial method.

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

Capitalised leased assets are depreciated over their expected lives in accordance with rates established for other similar ECNZ assets.

Operating lease payments are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the statement of financial performance in the periods in which they are incurred.

Depreciation

Depreciation is charged on a straight line basis so as to write down the cost of the fixed assets to their estimated residual value over their expected useful lives. The annual depreciation rates shown below are calculated on a weighted average basis for each classification of asset.

Freehold buildings	2.7%
Generation plant	2.6%
Other plant and equipment	13.2%

Inventories

Inventories, including fuel stock, are stated at the lower of cost and net realisable value. Cost is determined on a weighted average basis.

Debtors

Debtors are stated at estimated realisable value, after providing for debts where collection is doubtful.

Taxation

ECNZ follows the liability method of accounting for deferred taxation.

The taxation charge against the profit for the year is the estimated liability in respect of that profit, after allowance for permanent differences and timing differences not expected to reverse in the foreseeable future. Deferred taxation resulting from timing differences is adjusted against profit for the year using the liability method and is accounted for on a comprehensive basis.

Future taxation benefits attributable to timing differences or losses carried forward are recognised in the financial statements only where there is virtual certainty that the benefit of the timing differences or losses will be utilised by ECNZ.

Research and Development

Costs incurred on all research and development projects are written off as incurred, except that development costs are capitalised to the extent that such costs are expected, beyond any reasonable doubt, to be recoverable.

Where development costs are deferred they are amortised over future periods on a basis related to expected future benefits.

Financial Instruments

ECNZ has various financial instruments with off-balance sheet risk for the purpose of reducing its exposure to movements in interest rates and foreign exchange rates. While these 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 being hedged.

For interest rate swap agreements the differential to be paid or received is accrued as interest rates change and is recognised as a component of the interest expense over the life of the agreement.

Premiums paid on interest rate options and the net settlement on maturity of forward rate agreements, futures and options are amortised over the period of the underlying asset or liability protected by the instrument.

Forward exchange contracts entered into as a hedge for foreign currency transactions (other than offshore funding activities) are not revalued at balance date.

Financial instruments entered into with no corresponding underlying position are accounted for on a mark to market basis and gains or losses taken to the statement of financial performance as they accrue.

Comparative Figures

Prior year comparative figures are restated where they are inconsistent with current year classifications.

In accordance with FRS9 paragraph 5.5, comparative figures are not shown when items are disclosed for the first time.

Distinction between Capital and Revenue Expenditure

Capital expenditure is defined as all expenditure on the creation of a new asset, and any expenditure which results in a significant improvement of the original function of an existing asset.

Revenue expenditure is defined as expenditure which restores an asset to its original condition and all expenditure incurred in maintaining and operating ECNZ.

Hydrology Reserve

Variances against planned fuel costs, to the extent that they have arisen from hydrological conditions, are applied to the hydrology reserve.

Movements to and from the reserve are an appropriation, rather than a charge against the statement of financial performance.

Employee Entitlements

Provision has been made for annual, long service and retirement leave entitlements estimated to be payable to employees on the basis of statutory and contractual requirements. The provision for long service and retirement leave is based on an actuarial estimate.

Insurance

ECNZ's fixed assets are predominantly concentrated at power station locations which have the potential to sustain major losses through damage to plant and resultant consequential costs.

To minimise the financial impact of such exposures, the assessed risk is transferred to insurance companies by taking out appropriate policies.

Any uninsured loss is charged to the statement of financial performance in the year in which the loss is incurred.

Early Adoption of Accounting Determinations

ECNZ has applied the following reporting standards before the application date contained in those financial reporting standards:- FRS-2 Presentation of Financial Reports and FRS-9 Information to be disclosed in Financial Statements.

Changes in Accounting Policies

There have been no changes in accounting policies during the year ending 30 June 1995. All accounting policies have been applied on bases consistent with those used in the previous period.

Electricity Corporation of New Zealand Limited
Statement of Financial Performance
For the year ended 30 June 1995

	Notes	12 months ended June 1995 \$000	12 months ended June 1994 \$000
CONTINUING ACTIVITIES			
Revenue	2	1,281,750	1,279,043
Operating Expenses		618,543	612,145
Net Finance Costs External	4	87,250	333,375
Less:			
Finance Income Attributable to Non-Core Business Activities		3,899	275,906
Net Finance Costs		83,351	57,469
Operating Surplus from Continuing Activities		<u>579,856</u>	<u>609,429</u>
Surplus before Taxation	3	579,856	609,429
Income Tax Expense	5	193,627	184,404
Surplus after Taxation		<u>386,229</u>	<u>425,025</u>
Net Surplus for the Period		<u>386,229</u>	<u>425,025</u>

Statement of Movement in Equity
For the year ended 30 June 1995

Equity at Start of the Period	14	3,840,636	3,904,723
Net Surplus for the Period		386,229	425,025
Dividends Payable in Cash:			
Ordinary Dividends Paid or Provided	6	856,779	420,112
Preference Dividends Provided	6	-	69,000
Preference Share Capital and Share Premium Repaid	14	800,000	-
		<u>1,656,779</u>	<u>489,112</u>
Equity at End of the Period	14	<u>2,570,086</u>	<u>3,840,636</u>

Electricity Corporation of New Zealand Limited
Statement of Financial Position
As at 30 June 1995

	Notes	1995 \$000	1994 \$000
ASSETS			
CURRENT ASSETS	7	322,454	380,094
NON CURRENT ASSETS			
Term Assets	8	1,217	1,739
Fixed Assets	9	4,152,682	4,242,365
Sub Total		<u>4,476,353</u>	<u>4,624,198</u>
Investment in and Advances to Non-Core Subsidiaries	10	(8,052)	2,983,236
TOTAL ASSETS		<u><u>4,468,301</u></u>	<u><u>7,607,434</u></u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES	12	618,053	2,760,416
NON CURRENT LIABILITIES			
Term Loans	13	1,087,515	813,274
Deferred Taxation	14	<u>192,646</u>	<u>193,108</u>
TOTAL LIABILITIES		<u>1,898,214</u>	<u>3,766,798</u>
EQUITY	15	<u>2,570,087</u>	<u>3,840,636</u>
TOTAL LIABILITIES AND EQUITY		<u><u>4,468,301</u></u>	<u><u>7,607,434</u></u>

The accounting policies on pages 4570 to 4573 and notes on pages 4576 to 4588 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

ECNZ

ECNZ comprises Electricity Corporation of New Zealand Limited, the Parent (excluding Brightspot and Appliance Wholesale divisions), Rutherford House Limited and ECNZ Insurance Limited.

1. CHANGE OF BALANCE DATE

The balance date of ECNZ and its subsidiary companies was changed from 31 March to 30 June as at 30 June 1994.

	12 months ended June 1995 \$000	12 months ended June 1994 \$000
2. REVENUE		
Continuing Activities		
Sales of Electricity	1,228,638	1,230,091
Other Sales Revenue - External	-	-
- Subsidiaries	1,083	25,785
Gain on Disposal of Investments	11,610	-
Gain on Sale of Fixed Assets	9,717	4,504
Other Income	30,702	18,663
Total Revenue from Continuing Activities	<u>1,281,750</u>	<u>1,279,043</u>

Other income consists primarily of rental and service income.

3. SURPLUS BEFORE TAXATION

Surplus before Taxation is stated after charging:

Amounts received by the Auditors for:

Auditing the Financial Statements	353	337
Other Services	1,534	-
Directors' Fees	284	300
Depreciation	132,803	127,339
Operating Lease and Rental Costs	2,277	3,075
Bad Debts Written Off	5	-
Donations	215	-

In accordance with FRS9 paragraph 5.5, comparative figures are not shown where items are disclosed for the first time.

NOTES TO THE FINANCIAL STATEMENTS

	12 months ended June 1995 \$000	12 months ended June 1994 \$000
4. NET FINANCE COSTS		
Loan Interest	128,821	363,708
Less: Interest Capitalised	<u>4,817</u>	<u>8,504</u>
	124,004	355,204
Less: Investment Income	36,550	21,144
Realised Foreign Currency Gains	<u>204</u>	<u>685</u>
Total External Interest Costs	87,250	333,375
Less: Interest Earned from Non-Core Business Activities	917	208,258
Dividends Earned from Non-Core Business Activities	<u>2,982</u>	<u>67,648</u>
	3,899	275,906
Net Finance Costs	<u>83,351</u>	<u>57,469</u>
5. INCOME TAX EXPENSE		
Surplus before Taxation	<u>579,856</u>	<u>609,429</u>
Prima Facie Tax at 33%	191,352	201,112
Less: Tax Effect of:		
Permanent Differences	(2,707)	24,277
Prior Year Adjustments	432	(7,569)
Taxation Charge in Statement of Financial Performance	<u>193,627</u>	<u>184,404</u>
The Income Tax Expense is Represented by:		
Tax Payable in Respect of the Current Year	194,089	186,547
Deferred Taxation (note 13)	<u>(462)</u>	<u>(2,143)</u>
	<u>193,627</u>	<u>184,404</u>

There are no income tax losses carried forward and available to be set-off against future assessable income.

NOTES TO THE FINANCIAL STATEMENTS

	12 months ended June 1995 \$000	12 months ended June 1994 \$000
6. DIVIDENDS		
Redeemable Cumulative Preference Shares		
Dividend Provided at 8.625% per annum	<u>-</u>	<u>69,000</u>
Ordinary Shares		
Interim Dividend Paid	110,222	134,000
Final Dividend recommended by Directors	<u>146,557</u>	<u>170,112</u>
	256,779	304,112
Special Dividend Paid	<u>600,000</u>	<u>116,000</u>
Ordinary Dividends Paid or Provided	<u>856,779</u>	<u>420,112</u>
Total Dividends Paid or Provided	<u>856,779</u>	<u>489,112</u>

The preference dividend was payable on the total paid up amount of the preference shares, including the share premium (note 15). In accordance with their terms of issue, preference dividends were accumulated (note 12) on the basis that they would be paid when the interest cover ratio equalled or exceeded 2.25 times, or out of the proceeds of sale of substantial assets by ECNZ or its subsidiaries. The accumulated balance to 30 June 1994 of \$437 million, together with the preference capital of \$800 million, was paid on 1 July 1994 from the proceeds of the sale of the shares in Trans Power New Zealand Limited to the Crown.

The special dividend of \$600 million paid on 30 June 1995 was predominantly from earnings that had been retained in prior years. The special dividend of \$116 million paid on 30 June 1994 resulted from a prior period adjustment made in the 1992/93 financial year.

7. CURRENT ASSETS		
Bank Balance, Call Deposits and Cash	(411)	3,200
Short Term Deposits	2,427	54,484
Trade Debtors:		
Sales of Electricity	194,406	199,881
Subsidiary Companies	5,618	29,166
Other	<u>16,049</u>	<u>9,923</u>
Total debtors	216,073	238,970
Interest Receivable	4,764	243
Prepayments:		
Gas Provision	17,000	-
Other	4,054	4,989
Inventories:		
Fuel Stock	39,890	40,730
Consumable Spares	<u>38,657</u>	<u>37,478</u>
Total Inventories	<u>78,547</u>	<u>78,208</u>
Total Current Assets	<u>322,454</u>	<u>380,094</u>

NOTES TO THE FINANCIAL STATEMENTS

	1995 \$000	1994 \$000
8. TERM ASSETS		
Term Assets	<u>1,217</u>	<u>1,739</u>
Total Term Assets	<u>1,217</u>	<u>1,739</u>
9. FIXED ASSETS		
Freehold Land at Cost	<u>39,793</u>	<u>58,512</u>
Freehold Buildings		
At Cost	54,469	54,313
Accumulated Depreciation	<u>8,988</u>	<u>8,215</u>
Book Value	<u>45,481</u>	<u>46,098</u>
Generation Plant		
At Cost	4,761,779	4,636,518
Accumulated Depreciation	<u>838,375</u>	<u>702,604</u>
Book Value	<u>3,923,404</u>	<u>3,933,914</u>
Capital Work in Progress at Cost	<u>76,368</u>	<u>130,739</u>
Other Plant and Equipment (including vehicles and EDP equipment)		
At Cost	84,212	70,415
Accumulated Depreciation	<u>43,708</u>	<u>37,066</u>
Book Value	<u>40,504</u>	<u>33,349</u>
Assets Intended for Sale		
At Cost	28,415	56,943
Accumulated Depreciation	<u>1,283</u>	<u>17,190</u>
Book Value	<u>27,132</u>	<u>39,753</u>
Total Fixed Assets		
At Cost	5,045,036	5,007,440
Accumulated Depreciation	<u>892,354</u>	<u>765,075</u>
Total Book Value of Fixed Assets	<u>4,152,682</u>	<u>4,242,365</u>
Assets intended for sale are disclosed at net book value. They exclude any assets relating to the proposed split of ECNZ (note 28).		
The aggregate of the latest available Government valuations of land is \$23 million (1994 \$27 million). Separate valuations of buildings are not available.		
10. INVESTMENT IN AND ADVANCES TO NON-CORE SUBSIDIARIES		
Advances to/(from)	(22,980)	1,767,271
Shares	<u>14,928</u>	<u>1,215,965</u>
Total investment in and advances to non-core subsidiaries	<u>(8,052)</u>	<u>2,983,236</u>

NOTES TO THE FINANCIAL STATEMENTS

	1995 \$000	1994 \$000
11. IMPUTATION CREDIT ACCOUNT		
Opening Balance	163,230	92,002
Plus:		
Income Tax Paid	189,100	141,000
Imputation Credit Attached to Dividends Received	1,261	642
Other Credits	2,905	-
Less Imputation Credit Attached to Dividends		
Paid to Shareholder	-	70,304
Other Debits	240	110
Closing Balance	<u>356,256</u>	<u>163,230</u>
12. CURRENT LIABILITIES		
Amounts Owing to Subsidiary Companies	780	18,127
Trade Creditors	103,033	82,827
Other Creditors	14,190	23,417
Provision for Gas Prepayment	17,000	-
Interest Payable	31,785	65,335
Employee Entitlements	11,721	-
Short Term Loans	106,573	90,017
Current Portion of Term Loans (note 13)	181,955	1,833,613
Income Tax Payable	4,459	39,718
Preference Dividend Payable (note 6)	-	437,250
Ordinary Dividend Payable (note 6)	146,557	170,112
Total Current Liabilities	<u>618,053</u>	<u>2,760,416</u>

No security has been given in respect of current liabilities.

NOTES TO THE FINANCIAL STATEMENTS

	1995 \$000	1994 \$000
13. TERM LIABILITIES		
ECNZ Domestic Bond Programme		
Face Value of Bonds on Issue	1,566,000	1,566,000
Less: Bonds Defeased	<u>930,000</u>	<u>-</u>
	636,000	1,566,000
Less: Unamortised Discount	44,586	102,041
	<u>591,414</u>	<u>1,463,959</u>
Loans from Other Sources	678,056	1,182,928
	<u>1,269,470</u>	<u>2,646,887</u>
Less: Current Portion (note 12)	181,955	1,833,613
Total Term Loans	<u>1,087,515</u>	<u>813,274</u>
Total Term Liabilities	<u>1,087,515</u>	<u>813,274</u>

All debt is ranked equally and none is convertible into equity. No security has been given in respect of term liabilities.

Summary of term liabilities by maturity:

Financial year in which liability is repayable	As at 30.6.95		As at 30.6.94	
	\$000	Interest rate pa	\$000	Interest rate pa
1995/1996	-	-	181,955	7.46%
1996/1997	11,015	10.50%	11,015	10.50%
1997/1998	204,344	9.35%	11,015	10.50%
1998/1999	11,015	10.50%	11,015	10.50%
1999/2000	150,682	9.25%	11,015	10.50%
2001/2002	581,125	11.42%	577,104	11.42%
2002/2003	92,345	9.23%	-	-
2004/2005	26,700	9.09%	-	-
2009/2010	10,289	13.87%	10,155	13.87%
	<u>1,087,515</u>		<u>813,274</u>	

DOMESTIC BOND PROGRAMME

The Corporation offers bonds to institutional and retail investors pursuant to its Domestic Bond Programme. Bonds outstanding have interest rates ranging from 8% to 10% per annum and maturity dates between June 1996 and April 2009. The Bonds are issued under a Trust Deed dated 23 August 1988 made between the Corporation and The New Zealand Guardian Trust Company Limited as trustee. Under the terms of the trust deed the Corporation has given a negative pledge that so long as any bond remains outstanding it will not, subject to certain exceptions, create or permit to exist any charge over any of its assets to secure any securities issued by it or any guarantee given by it of any securities issued by any other person unless the benefit of such charge is extended equally and rateably to the bonds or to any guarantee of the bond moneys given by it or there is provided to the bondholders such other security as may be approved by an extraordinary resolution of bondholders.

INTEREST RATE REPRICING

ECNZ has entered into a number of long term borrowings at fixed rates, which have been swapped into repricing periods earlier than maturity through the use of interest rate swaps.

ECNZ's remaining financial assets and liabilities have the same repricing and maturity profiles and are not interest rate sensitive.

The interest repricing profile for ECNZ on and off balance sheet financial liabilities is as follows:-

	1995 \$000	1994 \$000
Within One Year	332,996	170,940
Between One and Two Years	130,060	11,015
Between Two and Three Years	11,015	11,015
Between Three and Four Years	11,015	11,015
Between Four and Five Years	11,015	11,015
Later than Five Years	<u>591,414</u>	<u>598,274</u>
	<u>1,087,515</u>	<u>813,274</u>

NOTES TO THE FINANCIAL STATEMENTS

14. DEFERRED TAXATION

Deferred Taxation at Start of Period	191,882	195,251
On Surplus for the Year (note 5)	(262)	(2,143)
Deferred Taxation at end of Period	<u>191,620</u>	<u>193,108</u>

1995	1994
\$000	\$000

15. EQUITY

Authorised Capital		
1,999,200,000 Ordinary Shares of \$1 each	1,999,200	1,999,200
800,000 Preference Shares of \$1 each	-	800
Total Authorised Capital	<u>1,999,200</u>	<u>2,000,000</u>
Issued and Uncalled Capital		
100,000 Ordinary Shares of \$1 each	-	-
Issued and Paid up Capital		
1,000,000,000 Ordinary Shares of \$1 each issued at a premium of \$1.50	1,000,000	1,000,000
800,000 Redeemable Cumulative Preference Shares of \$1 each, issued at a Premium of \$999 each	-	800
Total Issued and Paid up Capital	<u>1,000,000</u>	<u>1,000,800</u>
Share Premium Reserve		
In Respect of Ordinary Shares	1,500,000	1,500,000
In Respect of Preference Shares	-	799,200
Total Share Premium Reserve	<u>1,500,000</u>	<u>2,299,200</u>
Total Paid up Capital and Share Premium Reserve	<u>2,500,000</u>	<u>3,300,000</u>
Reserves		
Hydrology Reserve		
Opening Balance	34,426	24,000
Transferred (to) from Net Surplus for the Period		
Fuel Burnt	43,483	(4,574)
Rebuilding the Reserve	-	15,000
Closing Balance	<u>77,909</u>	<u>34,426</u>
Capital Redemption Reserve		
Opening Balance	-	-
Transferred from Net Surplus for the Period	800	-
Closing Balance	<u>800</u>	<u>-</u>
Retained Earnings		
Opening Balance	492,231	580,723
Net Surplus for the Period	412,988	425,025
	<u>905,219</u>	<u>1,005,748</u>
Dividends Paid or Provided	856,779	489,112
Transfers to Reserves	44,283	10,426
Total Appropriations	<u>901,062</u>	<u>499,538</u>
Closing Balance	<u>4,157</u>	<u>506,210</u>
Total Equity	<u>2,582,866</u>	<u>3,840,636</u>

NOTES TO THE FINANCIAL STATEMENTS

15. EQUITY (continued)

The preference shares of \$800 million, together with accumulated preference dividends of \$437 million, were repaid on 1 July 1994 out of the proceeds of the sale of the shares in Trans Power New Zealand Limited to the Crown. All fully paid ordinary shares rank *pari passu* as to dividend and voting rights. Each share confers the right, on a poll, to vote at general meetings. For the financial periods ended 30.6.95 and 30.6.94, the total ordinary shares of \$1 each that had not been allotted were 999,100,000. Allotment of the ordinary shares must be made in accordance with the provisions of ECNZ's Articles of Association and the State-Owned Enterprises Act 1986. Those provisions restrict the allotment of shares other than to the Shareholding Ministers on behalf of the Crown.

1995	1994
\$000	\$000

16. CAPITAL COMMITMENTS

Commitments in respect of Contracts for Capital Expenditure (all of which are planned for payment within 3 years)	<u>65,827</u>	<u>47,772</u>
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17. OPERATING LEASE COMMITMENTS

Operating Lease Commitments are payable:

Within One Year	1,706	1,820
One to Two Years	1,643	1,709
Two to Five Years	3,865	4,533
Later than Five Years	<u>7,356</u>	<u>8,332</u>
Total	<u>14,570</u>	<u>16,394</u>

The operating leases are of a rental nature and are on normal terms and conditions. The majority of the lease commitment dollars are for building accommodation. The remainder relate to small plant and equipment.

18. CONTRIBUTIONS TO RETIREMENT SAVINGS PLAN

Contributions are made into ECNZ's Retirement Savings Plan in respect of ECNZ's employees who are members of the Plan. ECNZ contributes a maximum of 10% of the relevant employee's basic salary. These contributions are charged against earnings.

19. CONTINGENT LIABILITIES

CLAIMS

The amounts of claims made against ECNZ are not considered to be material to the results or to the financial position.

ECNZ is currently the subject of a periodic review by the Department of Inland Revenue. The financial effect, if any, on ECNZ of this review is not known but the Director's believe that it would not be material to the results or to the financial position.

GUARANTEES

Energy Advances Limited (EAL) is a special purpose short term funding vehicle. Notes issued by EAL amounting to \$96 million as at 30 June 1995 (1994 \$67 million) are jointly and severally guaranteed by ECNZ and Citibank, N.A. ECNZ's obligations under the EAL guarantee are offset by a counter-guarantee from Citibank, N.A.

20. FINANCIAL INSTRUMENTS

(i) Currency, interest rate and revenue risk

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

(a) Currency

ECNZ has exposure to foreign exchange risk as a result of offshore funding activities, and transactions denominated in foreign currencies, arising from normal trading activities.

Where exposures are certain, such as borrowings or capital commitments, it is ECNZ's policy to hedge these risks as they arise.

ECNZ uses cross currency interest rate swaps and forward foreign exchange contracts to manage these exposures.

NOTES TO THE FINANCIAL STATEMENTS

	1995 \$000	1994 \$000
20. FINANCIAL INSTRUMENTS (continued)		
Contract amounts of foreign exchange instruments outstanding at balance date are as follows:		
Cross Currency Interest Rate Swaps	1,667,538	1,148,123
Forward Foreign Exchange Contracts	74,004	147,547
The cash settlement requirements of the above instruments approximate the contract amounts shown above.		

(b) Interest Rate

ECNZ has a mixture of medium to long term borrowings that are used to fund ongoing activities. It is ECNZ policy to manage exposure to interest rate risk via the use of interest rate swaps, forward rate agreements, interest rate options and interest rate futures.

The notional principal or contract amounts of interest rate contracts outstanding at balance date are as follows:

Interest Rate Swaps	741,371	609,634
Forward Rate Agreements	64,000	198,000
Interest Rate Options	210,000	676,000

The cash settlement requirement of interest rate swaps is the net interest receivable/payable of \$408,549 (1994 \$915,000). The best approximation for FRA's is the current market value which is \$14,569 (1994 \$16,842).

The cash settlement requirement of interest rate options is the net market value of the options, at strike date, if the option is exercised. Based on current market rates at 30 June 1995 this would be \$130,890 (1994 \$805,772).

(c) Revenue - Electricity hedge contracts

As part of its energy supply contracts, ECNZ has entered into electricity price hedges with customers for the period 1 July 1995 to 31 March 1996. Under these contracts ECNZ sells electricity forward at a fixed price (hedge price) together with a limited volume of call options. Any difference on maturity between the hedge price and the spot price is settled between the parties, irrespective of how much electricity is supplied. If the spot price is greater than the hedge price, ECNZ must settle with the counterparty. Conversely, if the spot price is less than the hedge price the counterparty must settle with ECNZ. It is not practicable to estimate the fair value of electricity hedge contracts as the secondary market for electricity price hedge products, namely seasonal hedge, monthly hedge and call options, was not sufficiently active as at 30 June 1995. The contract amount of electricity price hedges at balance date amounted to \$356 million (June 1994 \$266 million).

ECNZ's Board of Directors have issued a policy to manage ECNZ's exposure to the risk of being over hedged by issuing a hedge limit equivalent to the sale of 26,000 GWh in any one year. Total sales for the year ended 30 June 1995 were 30,008 GWh.

(ii) Fair Values

The estimated fair values of ECNZ's other financial instruments are as follows:

	June 1995		June 1994	
	Carrying value \$000	Fair value \$000	Carrying value \$000	Fair value \$000
Term Receivables	-	-	32,000	32,000
Short Term Loans	106,573	99,244	90,017	104,380
Term Liabilities	1,277,340	1,381,737	2,646,887	2,730,000
Currency and Interest Rate Swaps	-	(9,147)	-	(23,977)
Foreign Exchange Contracts	-	(1,651)	-	832
Forward Rate Agreements	-	(15)	-	17
Interest Rate Options	-	(131)	-	806

Cash and liquid deposits, debtors, trade creditors, other debtors and creditors and short term investments are excluded from the table above because, due to their short term nature, the carrying value of these items is equal to their fair value.

NOTES TO THE FINANCIAL STATEMENTS

20. FINANCIAL INSTRUMENTS (continued)

The following methods were used to estimate the fair values of these classes of financial instrument:

Term liabilities and short term loans

The fair value of ECNZ's term liabilities and short term loans is estimated based on current market rates available to ECNZ for debt of a similar maturity. ECNZ anticipates that these liabilities will be held to maturity and that settlement at fair value is unlikely.

Currency and interest rate swaps, foreign exchange contracts, interest rate swaps, forward rate agreements, interest rate options and interest rate futures

The fair value of these instruments is estimated based on their quoted market prices.

(iii) Concentration of credit risk

In the normal course of its business ECNZ incurs credit risk from trade debtors and from transactions with financial institutions.

ECNZ has a credit policy that is used to manage this exposure to credit risk. As part of this policy, limits on exposures with counterparties have been set and approved by ECNZ's Board of Directors and are monitored on a regular basis.

ECNZ does not have any significant concentrations of credit risk. ECNZ does not require collateral or security to support financial instruments, due to the high credit rating of the financial institutions dealt with. ECNZ further minimises its credit exposure by limiting the amount of funds placed with any one financial institution at any one time. ECNZ does not anticipate the non-performance of any obligations that existed at balance date.

21. RESOURCE CONSENTS

ECNZ requires water and air consents, obtained under the Resource Management Act 1991, to enable it to operate its thermal and hydro power stations. The duration of consents vary and are up to thirty-five years. The number of significant consents and their respective renewable dates are summarised below:

Renewable Dates	Number of Consents
Within 2 Years	7
Between 2 and 4 Years	3
Between 4 and 6 Years	1
Between 6 and 8 Years	16
Between 8 and 10 Years	-
Later than 10 Years	9
Total Significant Consents	<u>36</u>

The renewable dates are fixed either by the expiry date of the consent or, where there is no expiry date, by the renewal date of 1 October 2001 set by the Resource Management Act. Most consents are or will be subject to periodic reviews.

22. DEBT DEFEASANCE

Leased Asset

In the year ended 31 March 1993 a payment of \$216.4 million was made to a third party which extinguished financial obligations of \$233 million arising under a new finance lease for high voltage electricity equipment (part of the HVDC asset). ECNZ has a purchase option under the finance lease to acquire all of the leased equipment on 31 March 2008. Under a separate lease agreement with ECNZ, Haywards Limited (a fully owned subsidiary of Trans Power New Zealand Limited) has an option to acquire the same leased assets from ECNZ on 31 March 2008.

Sale of Trans Power New Zealand Limited

On the 1 July 1994 ECNZ sold its shares in Trans Power New Zealand Limited to the Crown. As part of that arrangement \$1.588 billion of debt was extinguished through an in-substance defeasance with the Crown.

23. LAND CLAIMS

Under the Treaty of Waitangi Act 1975, the Waitangi Tribunal has the power to recommend, in appropriate circumstances, that land purchased by ECNZ under the State-Owned Enterprises Act 1986 be resumed by the Crown in order that it be returned to the Maori claimants. In the event that the Tribunal's initial recommendation is confirmed and the land is to be returned, compensation will be paid to ECNZ under the provisions of the Public Works Act 1981. If this is insufficient to cover the loss, certain additional compensation is payable under the sale and purchase agreement between ECNZ and the Crown.

NOTES TO THE FINANCIAL STATEMENTS

24. TRANSACTIONS WITH RELATED PARTIES

The ultimate shareholder of ECNZ is the Crown. ECNZ undertakes many transactions with other State-Owned Enterprises and Government Departments, carried out on a commercial and arms length basis. Because it is considered that these do not fall within the intended scope of related party disclosures, they have not been treated as such in these financial statements.

During the year ECNZ paid professional engineering fees of \$158,756 (1994 \$303,139) to Beca Carter Hollings & Ferner Limited which is wholly owned by Beca Carter Group Limited of which Mr R P Carter is the Executive Chairman and a minority shareholder. Mr Carter is a Director of ECNZ Limited. Professional engineering services provided by Beca Carter Hollings & Ferner Limited were supplied on normal commercial terms. A balance of \$27,631 outstanding at 30 June 1995 (1994 \$54,350) is included in trade creditors.

Trans Power New Zealand Limited (Trans Power) was a wholly owned subsidiary of ECNZ. As at 1 July 1994 ECNZ disposed of Trans Power at book value to the Crown (ultimate shareholder of both companies). Trans Power owns and operates the National Grid (transmission system). ECNZ owns and operates the electricity generation assets. Due to the nature of the electricity business, Trans Power and ECNZ depend on each other for their revenue. All related party transactions with Trans Power are conducted on a commercial and arms length basis.

During the two periods covered by this annual report, namely 12 months to June 1995 and 15 months to June 1994, ECNZ entered into certain transactions with Trans Power New Zealand Limited and its subsidiaries (Trans Power Group). Related party transactions between ECNZ and Trans Power Group are disclosed as follows:

	Notes	12 months ended June 1995 \$000	15 month ended June 1994 \$000
REVENUE	2	<u>23,350</u>	<u>30,163</u>
Revenue earned by ECNZ consisted mainly of contracting work and consultancy services in relation to the operation and maintenance of the National Grid system.			
OPERATING EXPENSES			
Transmission Charges	3	<u>130,067</u>	347,892
Other Expenses	3	<u>154</u>	<u>813</u>
		<u>130,221</u>	<u>348,705</u>
NET INTEREST INCOME	4	<u>3,718</u>	<u>138,667</u>
OUTSTANDING BALANCES			
CURRENT ASSETS			
Receivables	7	<u>6,465</u>	18,308
Short Term Advances	7	-	1,738,933
		<u>6,465</u>	<u>1,757,241</u>
CURRENT LIABILITIES			
Amounts Payable	11	<u>12,473</u>	<u>15,523</u>

ECNZ enters into certain transactions with its subsidiaries. Outstanding balances at year end are disclosed in the current assets and liabilities notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. INVESTMENTS

Company Name	Percentage Interest	Principal Activity	Balance Date
Subsidiary Companies			
As at balance date the significant subsidiaries, all wholly owned, were as follows:			
PowerDesignBuild Group Limited	100	Holding company	30 June
DesignPower New Zealand Limited	100	Design and engineering consultancy	30 June
Power Securities Limited	100	Finance	30 June
Electricorp Services Limited	100	Finance	30 June
Electricity Corporation of New Zealand Insurance Limited	100	Insurance	30 June
Rutherford House Limited	100	Property management	30 June
Kinleith Cogeneration Limited	100	Construction	30 June
Electricity Farmland Holdings No1 Limited	100	Development	30 June
Associate Entities			
Electricity Market Company Limited (EMCO)	50	Wholesale market development	30 June
Energy Advances Limited (EAL)	40	Finance	30 June

26. SEGMENTAL INFORMATION

ECNZ operates predominantly in one industry, the generation and wholesale marketing of electricity. Its operations are carried out predominantly in New Zealand and are therefore within one geographical segment for reporting purposes.

27. LONG TERM CONTRACTS

Take or pay gas purchase contract

ECNZ has entered into a contract with the Crown whereby ECNZ is committed to purchase gas contract quantities from 1 July 1995 to 27 June 2009. Under the terms of the contract ECNZ is required to pay for a minimum quantity of gas in each contract year, whether or not ECNZ takes that quantity of gas. Prepayments for gas not taken entitle ECNZ to gas in subsequent years without further payments.

As at 30 June 1995 the aggregate amount of the minimum take or pay payments was as follows:

Year Ending	\$000
June 1996	96,870
June 1997	104,320
June 1998	104,320
June 1999	96,870
June 2000	89,420
Later years	894,180
Total	<u>1,385,980</u>

In addition, under the terms of the contract ECNZ is required to pay the Crown a margin based on the minimum quantity of gas in each contract year until 27 June 2009, whether or not ECNZ takes that quantity or takes more than the minimum quantity of gas. However the Crown will refund the margin under certain specified circumstances. As at 30 June 1995 the aggregate amount of the Crown margin payments was as follows:

Year Ending	\$000
June 1996	41,700
June 1997	41,700
June 1998	41,700
June 1999	39,290
June 2000	36,090
Later years	246,190
Total	<u>446,670</u>

NOTES TO THE FINANCIAL STATEMENTS

Other gas purchase contracts

ECNZ has entered into a contract with Petrocorp Exploration Ltd, whereby ECNZ is committed to purchase a minimum quantity of gas each year from 1 July 1995 to 31 March 2005. As at 30 June 1995 the minimum amounts to be purchased were as follows:

Year Ending	\$000
June 1996	12,090
June 1997	20,240
June 1998	20,240
June 1999	20,800
June 2000	22,490
Later years	95,580
Total	<u>191,440</u>

Take or pay electricity supply contracts

ECNZ has entered into a contract with Comalco Power New Zealand Limited (Comalco) whereby ECNZ is committed to supply electricity in annual contract quantities from 1 July 1995 to 31 December 2022. Under the terms of the contract ECNZ will receive payment for a minimum quantity of electricity, whether or not Comalco has taken that quantity of electricity.

As part of this electricity supply contract with Comalco, ECNZ has entered into a contract with Trans Power New Zealand Limited (Trans Power) for the transmission of the contracted quantities of electricity to Comalco at a current annual charge of \$40 million. This contract with Trans Power expires on 31 December 2022. The total payable to maturity at current prices amounts to \$1,100 million.

28. SPLIT OF ECNZ

On 8 June 1995, the Government announced a comprehensive set of measures aimed at establishing a competitive wholesale electricity market. These included:

(a) A proposal to split ECNZ

Subject to the successful conclusion of consultations with Maori, Government proposes to establish a new SOE which will purchase a number of generating assets from ECNZ on 1 February 1996. The principal assets involved are the New Plymouth, Stratford, Whirinaki, Otahuhu, Wairakei, Ohaaki, Clyde and Roxburgh stations, key development sites in the Clutha catchment and ECNZ's rights under the Maui gas contract.

The transfer of assets to the new SOE will take place at book value. At 30 June 1995, the fixed assets involved had a net book value of approximately \$1.6 billion. ECNZ and the new SOE are both required to revalue their fixed assets within twelve months after 1 February 1996 to reflect the establishment of long term contracts and to ensure that their value will be recovered through future operating revenues.

Certain current assets will be transferred to the new SOE which will also assume responsibility for discharging certain current liabilities. ECNZ will use the sale proceeds to make a capital repayment to its shareholder and to defease a significant portion of its long term debt. At the present stage in the sale process, it is not possible to quantify the impact on current assets, current liabilities, debt and equity.

(b) The sale of the Taranaki Combined Cycle (TCC) development to a third party.

(c) The sale of small hydro stations to third parties.

ECNZ will progressively offer eight small hydros for sale. The stations involved are Cobb, Coleridge, Highbank, Mangahao, Matahina and the Waikaremoana group of three stations.

(d) Constraints on ECNZ

The Government has also placed a number of constraints on ECNZ whilst its market share is greater than 45%. The foremost of these relates to new investment. At least 50% of additional generating capacity must be provided by independent third parties. Any additional capacity provided by ECNZ must be ring-fenced to restrict cross subsidisation.

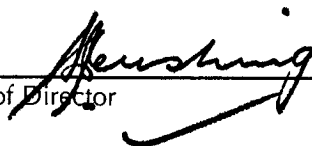
**CERTIFICATE OF FINANCIAL STATEMENT BY
DIRECTORS
OF THE CORPORATION**

We, Victor Wu and Selwyn Cushing, being directors of the Electricity Corporation of New Zealand Limited, certify that having made all reasonable enquiry, to the best of our knowledge, the attached audited financial statement, having been prepared for the purposes of regulation 4 of the Electricity (Information Disclosure) Regulations 1994, gives a true and fair view of the matters to which it relates and complies with the requirements of those regulations.

Signature of Director



Signature of Director




Date

9 November 1995

ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1994**REGULATION 25(2)****CERTIFICATION BY AUDITOR IN RELATION TO FINANCIAL STATEMENTS**

We have examined the attached financial statements prepared by the Electricity Corporation of New Zealand Limited and dated 9 November 1995 for the purposes of Regulation 4 of the Electricity (Information Disclosure) Regulations 1994.

We hereby certify that, having made all reasonable 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
9 November 1995

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