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ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED

INFORMATION FOR DISCLOSURE

PURSUANT TO THE ELECTRICITY (INFORMATION DISCLOSURE) REGULATIONS 1994

ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 1996

	Notes	1996 $M	1995 $M
CONTINUING ACTIVITIES			
Revenue	1	1,066	1,196
Operating Expenses		528	599
Net Finance Costs	2	94	82
Operating Surplus from Continuing Activities		444	515
DISCONTINUED ACTIVITIES			
Revenue	1	293	257
Operating Expenses		239	168
Operating Surplus from Discontinued Activities		54	89
SURPLUS BEFORE TAXATION	3	498	604
Taxation Expense	4	161	191
NET SURPLUS FOR THE YEAR		337	413

STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 30 JUNE 1996

	Notes	1996 $M	1995 $M
Equity at Start of the Year		2,582	3,825
Net Surplus for the Year		337	413
Surplus Arising on Fair Valuation	27	434	-
		3,353	4,238
Dividends Payable in Cash:			
Ordinary Dividends Paid or Provided	5	243	256
Special Dividends Paid	5	1,173	600
Preference Share Capital and Premium Repaid	5	-	800
		1,416	1,656
Equity at End of Year		1,937	2,582

The accounting policies on pages 3 to 5 and notes on pages 6 to 17 form part of these financial statements.

ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 1996

	Notes	1996 $M	1995 $M
ASSETS			
CURRENT ASSETS	6	251	334
NON CURRENT ASSETS			
Term Assets	7	34	54
Fixed Assets	8	3,230	4,142
TOTAL ASSETS		3,515	4,530
LIABILITIES AND EQUITY			
CURRENT LIABILITIES	9	572	669
NON CURRENT LIABILITIES			
Term Liabilities	10	716	1,087
Deferred Taxation	11	290	192
TOTAL LIABILITIES		1,578	1,948
EQUITY		1,937	2,582
TOTAL LIABILITIES AND EQUITY		3,515	4,530

The accounting policies on pages 3 to 5 and notes on pages 6 to 17 form part of these financial statements.

ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED
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 1993 and the Financial Reporting Act 1993. The financial statements are for Electricity Corporation of New Zealand Limited (ECNZ) as defined in Regulation 4 of the Electricity (Information Disclosure) Regulations 1994.

Constitution, Ownership and Activities

ECNZ was incorporated on 26 February 1987, pursuant to the State-Owned Enterprises Act 1986, and commenced business on 1 April 1987. With effect from that date ECNZ acquired under a sale and purchase agreement with the Crown the electricity generation business of the Electricity Division of the Ministry of Energy.

ECNZ is wholly-owned by Her Majesty the Queen in Right of New Zealand (the "Crown").

ECNZ's business is primarily the generation and wholesale marketing of electricity.

Pursuant to the restructuring and breakup of ECNZ's monopoly in the electricity generation industry (note 25) ECNZ undertook a fair value exercise as at 1 February 1996 (note 27). As a result, the fair value of assets and liabilities as at 1 February 1996 is deemed to be their historic cost.

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.

Measurement System

The historical cost method 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:

Revenue

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 foreign currency assets and liabilities are translated at the rate of exchange determined by the underlying hedge contract.

Foreign currency transactions are translated at the average monthly exchange rate ruling during the month in which the transaction occurred.

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 ECNZ's share of the fair value of the associate's net tangible assets at acquisition, adjusted for ECNZ's share of post-acquisition increases and decreases in the associate's reserves.

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.

Debt

Debt as at 1 February 1996 is stated at fair value (note 27). All subsequent debt is stated at cost, less unamortised discounts, premiums and prepaid interest which are amortised to interest expense or interest income 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 interest expense over the borrowing period.

ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED
STATEMENT OF ACCOUNTING POLICIES

Fixed Assets

Fixed assets as at 1 February 1996 are deemed to be stated at cost, adjusted by subsequent disposals and depreciation.

The cost of fixed assets purchased subsequent to 1 February 1996 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. They do not include any inefficiency costs. Financing costs 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 fair value of the leased asset, at 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 assets.

Operating lease payments represent 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 economic lives. The annual depreciation rates shown below are calculated on a weighted average basis for each classification of asset:

Freehold buildings	3.4%
Generation plant	2.6%
Other plant and equipment	15.7%

Inventories

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

Accounts Receivable

Accounts Receivable 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.

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.

ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED
STATEMENT OF ACCOUNTING POLICIES

Research and Development

Costs incurred on all research and development projects are written off as incurred, except that when a project reaches the stage where such expenditure is considered capable of being recouped through development or sale, all subsequent expenditures are capitalised.

Capitalised costs are amortised on a straight line basis over the period of the expected 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 and is recognised as a component of interest expense or interest income over the life of the swap 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 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.

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 to the original function of an existing asset.

Revenue expenditure is defined as expenditure which restores an asset to its original operating capabilities and all expenditure incurred in maintaining and operating the business.

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.

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.

Changes in Accounting Policies

There have been no changes in accounting policies during the year ending 30 June 1996. All accounting policies have been applied on bases consistent with those used in the previous year.

Comparative Figures

The comparative figures for the year ended 30 June 1995 have been restated to show :

- as discontinued activities the revenue and expenses for that year of the eight power stations that were sold to Contact Energy Limited (Contact) at book value on 1 February 1996;
- the elimination of two subsidiaries, namely Rutherford House Limited and ECNZ Insurance Limited as this provides a more accurate basis for disclosure under the Electricity Information (Disclosure) Regulations 1994.

ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	1996 $M	1995 $M
1. REVENUE		
Continuing Activities		
Sale of Electricity	1,036	1,143
Other Sales Revenue - Subsidiaries	-	1
Gain on Disposal of Investments	-	12
Gain on Sale of Fixed Assets	2	10
Other Income	28	30
Total Revenue from Continuing Activities	1,066	1,196

Other sales revenue consists primarily of contracting revenue.

Other income consists primarily of ancillary service revenue.

As stated in note 26, on 1 February 1996 ECNZ sold eight power stations to Contact at book value. The revenue and expenditure for the eight power stations for the 7 months ended 31 January 1996 is disclosed under discontinued activities. The amounts paid to Contact for electricity between 1 February and 30 June 1996 under the interim generation arrangements, together with the related revenue, are also included as discontinued activities.

Revenue from discontinued activities represents sales of electricity.

2. NET FINANCE COSTS

	1996 $M	1995 $M
Loan Interest	129	129
Less: Interest Capitalised	5	5
	124	124
Less: Investment Income		
Dividends Received - Subsidiaries	15	6
Interest from - Other Investments	15	36
- Subsidiaries	-	(1)
Foreign Currency Gains	-	1
Total Investment Income	30	42
Net Finance Costs	94	82

3. SURPLUS BEFORE TAXATION

Surplus before Taxation is stated after charging:

	1996 $M	1995 $M
Depreciation	122.0	132.0
Write Down of Assets	6.5	-
Operating Lease and Rental Costs	0.1	2.3
Amounts received by the Auditors for:		
Auditing the Financial Statements	0.3	0.4
Other Services	1.0	1.5
Directors' Fees	0.4	0.3
Bad Debts Written Off	0.3	-
Donations	0.1	0.2

ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

	1996 $M	1995 $M
4. TAXATION EXPENSE		
Surplus before Taxation	498	604
Prima Facie Tax at 33%	164	199
Tax Effect of:		
Permanent Differences	(2)	(7)
Prior Year Adjustments	(1)	(1)
Taxation Expense in Statement of Financial Performance	161	191
The Taxation Expense is Represented by:		
Tax Payable in Respect of the Current Year	224	192
Deferred Taxation (note 11)	(63)	(1)
	161	191

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

5. DIVIDENDS

	1996 $M	1995 $M
Ordinary Shares		
Interim Dividend Paid	103	110
Final Dividend recommended by Directors (note 9)	140	146
	243	256
Special Dividend Paid	1,173	600
Preference Share Capital and Premium Repaid	-	800
Total Dividends Paid or Provided	1,416	1,656

The preference shares were repaid on 1 July 1994 out of the proceeds of the sale of Trans Power New Zealand Limited to the Crown.

The special dividend in 1996 was paid from share premium reserve, using part of the proceeds of the sale of assets to Contact (note 26).

6. CURRENT ASSETS

	1996 $M	1995 $M
Short Term Deposits	7	2
Fuel Stocks	38	40
Consumable Spares	12	39
Prepayments	4	21
Accounts Receivable	171	194
Subsidiary Companies	5	16
Other Current Assets	14	22
Total Current Assets	251	334

ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

		1996 $M	1995 $M
7.	**TERM ASSETS**		
	Investment in Subsidiaries	32	53
	Other Term Assets	2	1
	Total Term Assets	34	54
8.	**FIXED ASSETS**		
	Freehold Land		
	Cost	15	35
	Freehold Buildings		
	Cost	14	51
	Less Accumulated Depreciation	1	8
	Book Value	13	43
	Generation Plant		
	Cost	3,174	4,791
	Less Accumulated Depreciation	50	840
	Book Value	3,124	3,951
	Capital Work in Progress		
	Cost	24	77
	Other Plant and Equipment		
	Cost	58	73
	Less Accumulated Depreciation	4	37
	Book Value	54	36
	Total Fixed Assets		
	Cost	3,285	5,027
	Less Accumulated Depreciation	55	885
	Book Value	3,230	4,142

The aggregate of the latest available Government valuations of land is $18 million (1995 $23 million). Separate valuations of buildings are not available, but the aggregate valuation shown above would not differ materially from net current values.

As stated in note 27, the assets have been stated at deemed cost which represents fair values as at 1 February 1996. The fair values have been independently reviewed by Deloitte Touche Tohmatsu, Wellington.

ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

		1996 $M	1995 $M
9	**CURRENT LIABILITIES**		
	Subsidiary Companies	1	54
	Accounts Payable	126	101
	Dividend Payable (note 5)	140	146
	Taxation Payable	5	1
	Accrued Personnel Costs	9	6
	Loans Repayable within One Year	234	289
	Other Current Liabilities	57	72
	Total Current Liabilities	572	669
10.	**TERM LIABILITIES**		
	ECNZ Bond Programme		
	Face Value of Bonds on Issue	636	1,566
	Fair Valuation (note 27)	45	-
		681	-
	Less: Bonds Defeased (note 19)	70	930
		611	636
	Less: Unamortised Discount	36	45
		575	591
	Loans from Other Sources	497	678
	Less: Loans Defeased (note 19)	349	-
		148	678
		723	1,269
	Less: Current Portion	7	182
	Total Term Liabilities	716	1,087
	Term Liabilities are Repayable as follows:		
	Between One and Two Years	35	11
	Between Two and Three Years	8	204
	Between Three and Four Years	58	11
	Between Four and Five Years	8	151
	Later than Five Years	607	710
		716	1,087

Interest rates payable, after giving effect to interest rate swaps, forward rate agreements and interest rate options on term liabilities, range from 8.34% to 9.60% (1995: 8.31% to 13.87%).

ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

10. TERM LIABILITIES (Cont.)

INTEREST RATE REPRICING

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

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 is as follows:

	1996 $M	1995 $M
Within One Year	148	334
Between One and Two Years	-	130
Between Two and Three Years	-	11
Between Three and Four Years	-	11
Between Four and Five Years	-	11
Later than Five Years	566	635
	714	1,132

DOMESTIC BOND PROGRAMME

ECNZ offers bonds to institutional and retail investors pursuant to its Domestic Bond Programme. Bonds outstanding have coupon interest rates ranging from 8% to 10% (1995: 8% to 10%) per annum and maturity dates between 2001 and 2009. The Bonds are issued under a Trust Deed dated 23 August 1988 made between ECNZ and The New Zealand Guardian Trust Company Limited as Trustee. Under the terms of the Trust Deed ECNZ 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.

NEGATIVE PLEDGE

In addition to the negative pledge given in the Trust Deed for ECNZ bonds dated 23 August 1988, ECNZ has given undertakings that it will not create or permit to exist any security interest on its assets as security for any other indebtedness except on the conditions specified in the undertakings and/or with the prior consent of the lenders concerned (as the case may be).

11. DEFERRED TAXATION

	1996	1995
Deferred Taxation at Start of Year	192	193
On Surplus for the Year (note 4)	(63)	(1)
Deferred Tax effect of Fair Valuation (note 27)	161	-
Deferred Taxation at End of Year	290	192

ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

		1996 $M	1995 $M
12.	**EQUITY**		
	CAPITAL		
	Issued and Paid up capital		
	1,000,000,000 Ordinary Shares	1,000	1,000

ORDINARY SHARES

All issued ordinary shares in ECNZ are owned by the Crown. Holders of ordinary shares have the following rights:

a) The right to receive notice of and attend and vote at a meeting of the shareholders of the Company on any resolution. Each holder of a share will have one vote.
b) The right to an equal share in dividends on a per share basis.
c) The right to an equal share in the distribution of surplus assets on a per share basis.

		1996 $M	1995 $M
13.	**IMPUTATION CREDIT ACCOUNT**		
	Opening Balance	356	163
	Plus:		
	Income Tax Paid	216	189
	Imputation Credit Attached to Dividends Received	2	1
	Other Credits	2	3
	Closing Balance	576	356
14.	**CAPITAL COMMITMENTS**		
	Commitments in respect of Contracts for Capital Expenditure	14	66
15.	**LEASE COMMITMENTS**		
	Operating Lease Commitments are payable as follows:		
	Within One Year	2	2
	One to Two Years	2	2
	Two to Five Years	3	3
	Later than Five Years	7	7
	Total	14	14

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

16. **CONTRIBUTIONS TO RETIREMENT SAVINGS PLAN**

Contributions are made into ECNZ's Retirement Savings Plan in respect of ECNZ 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 profit.

ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

17. 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 borrowing 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.

	1996 $M	1995 $M
Contract amounts of foreign exchange instruments outstanding at balance date are as follows:		
Cross Currency Interest Rate Swaps	1,528	1,668
Forward Foreign Exchange Contracts	171	74

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	327	741
Forward Rate Agreements (FRA)	395	64
Interest Rate Options	573	210
Interest Rate Futures	29	-

The cash settlement requirement of interest rate swaps is the net interest payable of $663,143 (1995 $408,549). The best approximation for FRA's is the current market value at 30 June 1996 which is $165,771 (1995 $14,569). 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 1996 this would be $107,636 (1995 $130,890).

Futures are cash settled each day to reflect the market value at close of the previous business day.

(c) Revenue - Electricity Hedge and Options Contracts

As part of its energy supply contracts, ECNZ entered into electricity price hedges with customers for the period to 30 September 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 and option 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 1996. The contract amount of electricity price hedges at 30 June 1996 amounted to $174 million (1995 $356 million)

(ii) 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 the 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.

ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

17. **FINANCIAL INSTRUMENTS (Cont.)**

(iii) **Fair Values**

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

	1996		1995	
	Carrying value $M	Fair value $M	Carrying value $M	Fair value $M
Short Term Loans	227	222	106	99
Term Liabilities	742	698	1,277	1,382
Currency and Interest Rate Swaps	-	(39)	-	(9)
Foreign Exchange Contracts	-	(0.2)	-	(2)
Forward Rate Agreements	-	(0.2)	-	(0.01)
Interest Rate Options	(0.05)	0.1	-	(0.1)

Cash and short term deposits, accounts receivable, accounts payable, other current assets and current liabilities 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.

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

(a) **Term Liabilities and Short Term Loans**

The fair value of ECNZ's term liabilities and short term loans is estimated based on current market interest 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.

(b) **Currency and Interest Rate Swaps, Foreign Exchange Contracts, Forward Rate Agreements, Interest Rate Options and Interest Rate Futures**

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

18. **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 up to 35 years. The number of significant consents and their respective renewable dates are summarised below:

Renewable Dates	**Number of Consents**	
	1996	**1995**
Within 2 Years	1	7
Between 2 and 4 Years	-	3
Between 4 and 6 Years	8	1
Between 6 and 8 Years	1	16
Later than 10 Years	8	9
Total Significant Consents	18	36

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.

19. **DEBT DEFEASANCE**

Leased Asset

In the year ended 31 March 1993 a payment of $216 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. 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 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 1 July 1994 ECNZ sold Trans Power New Zealand Limited to the Crown. As part of that arrangement $1,588 million of debt was extinguished through an in-substance defeasance with the Crown for an equivalent amount.

ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

19. DEBT DEFEASANCE (Cont.)

Sale of Assets to Contact

On 1 February 1996 ECNZ sold eight power stations to Contact (note 26). Of the $1,592 million received from Contact, $419 million was used to defease debt of an equivalent amount and the balance was treated as surplus equity and distributed to the Crown as a special dividend.

20. 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.

21. TRANSACTIONS WITH RELATED PARTIES

The shareholder of ECNZ is the Crown. ECNZ undertakes many transactions with other State-Owned Enterprises and Government Entities, all of which are carried out on a commercial arms length basis. During the year, ECNZ entered into material transactions with two such parties - Contact (note 26) and Trans Power New Zealand Limited ("Trans Power").

Trans Power operates the national electricity distribution grid. During the year ECNZ received $20 million of revenue from Trans Power, mainly for the provision of ancillary services such as spinning reserve and voltage control. ECNZ also paid Trans Power transmission and connection fees amounting to $150 million. The balances outstanding between the two parties at balance date were not material.

During the year ECNZ also paid professional engineering fees of $111,405 (1995 $158,756) to Beca Carter Hollings & Ferner Limited which is wholly owned by Beca 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 $5,259 outstanding at 30 June 1996 (1995 $27,631) is included in accounts payable.

22. INVESTMENTS

Company Name	**Percentage Owned**	**Principal Activity**	**Balance Date**
Subsidiary Companies			
As at balance date the subsidiaries, all wholly owned, were as follows:			
DesignPower New Zealand Limited	100	Design and engineering consultancy	30 June
ECNZ Energy Limited	100	Holding Company	30 June
ECNZ Insurance Limited	100	Insurance	30 June
ECNZ International Limited	100	Finance	30 June
Electricity Farmland Holdings No 1 Limited	100	Development	30 June
Energy Promoters Limited	100	Dormant	30 June
Kinleith Cogeneration Limited	100	Construction	30 June
Rutherford House Limited	100	Property management	30 June
Associate Entities			
Electricity Market Company Limited (EMCO)	33	Wholesale market development	30 June
Rangitata Diversion Race Management Limited	38	Irrigation	30 June

23. 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.

ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

24. LONG TERM CONTRACTS

Gas Purchase Contract

ECNZ has entered into a contract with Contact under which ECNZ is entitled to purchase specified annual gas quantities from 1 October 1996 to 30 September 2006. Each year ECNZ is required to pay an amount based on the quantity of gas available to ECNZ in that year but not taken, calculated as provided in the contract. Subject to the terms of the contract as to availability, ECNZ is entitled to take such gas in subsequent years without further payment, apart from an amount relating to the Energy Resources Levy. An amount on account of gas paid for but not taken at the completion of the contract will be refunded to ECNZ. The maximum amount payable under the contract up to 30 September 2006 is $391 million.

25. MEMORANDUM OF UNDERSTANDING (MoU)

The MoU was signed by ECNZ and the Crown on 8 June 1995. Pursuant to this ECNZ agreed to:

a) sell 8 power stations to Contact (note 26). These stations accounted for 29% of ECNZ's generating capacity as at the MoU date;
b) revalue its assets by 1 February 1997 (note 27);
c) sell 8 hydro stations subject to appropriate consultation by the Crown with Maori as to any Treaty of Waitangi issues. The stations involved are Cobb, Coleridge, Highbank, Matahina, Mangahao, Tuai, Piripaua and Kaitawa. These stations accounted for 4.5% of ECNZ's generating capacity as at the MoU date.

ECNZ and the Crown agreed on four additional constraints on ECNZ. These constraints cease to apply in the event that ECNZ's total New Zealand generating capacity (measured in MW) falls below 45%. The constraints are:

(a) Cap on ECNZ providing additional generating capacity

ECNZ can only provide up to 50% of additional generating capacity. This constraint excludes:

i) refurbishments and modifications to existing hydro stations, provided that the additional energy is created from existing catchment areas;
ii) new plant using cogeneration or non-traditional renewable resources.

This constraint includes:

i) any refurbishments and modifications to Meremere, Marsden A or Marsden B;
ii) any increase in Huntly's capacity above 1,000 MW.

(b) Ring-fencing of additional generating capacity

Additional generating capacity provided by ECNZ in New Zealand will be ring-fenced where:

i) the additional capacity is more than 10 MW
ii) ECNZ would have control over the development and sale of the additional capacity

The objective of ring fencing is to ensure that any additional capacity undertaken by ECNZ is conducted without any cross-subsidisation.

(c) Contract offer mechanism

ECNZ will offer on at least an annual basis sufficient contracts to ensure that customers have the opportunity to contract ECNZ revenue up to at least the level specified in the following table:

Years ahead	Percentage of firm capacity
1	87
2	70
3	50
4	40
5	30

The initial offer is being made by way of tender in five tranches at monthly intervals. Each tranche consists of a combination of year 1, year 2, year 3, year 4 or year 5 blocks. The minimum block size is 1000 GWh and the maximum block size is 5000 GWh. The nominal reserve prices offered by tender have been set in consultation with the Crown for the tenders offered prior to 30 September 1996, as follows:

ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED
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25. **MEMORANDUM OF UNDERSTANDING (MoU) (Cont.)**

Years Ahead	Reserve Price
1996/97	4.35
1997/98	4.43
1998/99	4.40
1999/00	4.50
2000/01	4.55

d) **Acquiring Energy Companies**

ECNZ will not acquire any energy company, as defined in section 2 of the Energy Companies Act 1992, or any significant share in an energy company.

26. **SALE OF ASSETS TO CONTACT**

Pursuant to the MoU (note 25), ECNZ signed an agreement with Contact on 13 November 1995 to sell 8 power stations at book value on 1 February 1996. The power stations sold were New Plymouth, Stratford, Whirinaki, Otahuhu, Wairakei, Ohaaki, Clyde and Roxburgh. The Clutha River and geothermal development sites were also included in the sale and ECNZ surrendered its existing rights under the Maui gas contracts.

As part of the settlement, ECNZ received $1,592 million from Contact on 1 February 1996. $419 million was used to defease debt and the balance of $1,173 million was treated as surplus equity and distributed to the Crown. The effect of the sale on the financial position of ECNZ was as follows:

	Unaudited Statement of Financial Position as at 31 January 1996 $M	Unaudited Assets Sold/Debt Defeased $M	Unaudited Statement of Financial Position as at 1 February 1996 $M
Current Assets	574	79	495
Non Current Assets	4,146	1,526	2,620
Current Liabilities	(332)	(13)	(319)
	4,388	1,592	2,796
Non Current Liabilities	1,725	532	1,193
Equity	2,663	1,060	1,603
	4,388	1,592	2,796

27. **FAIR VALUATION AS AT 1 FEBRUARY 1996**

In accordance with the MoU (note 25), ECNZ has reviewed its asset values. The purpose of the review was to adjust ECNZ's financial structure to reflect the establishment of a competitive wholesale electricity market and to ensure that ECNZ's asset values are appropriate for its ongoing operations in the competitive environment. The sale of assets to Contact on 1 February 1996 at book value, rather than a negotiated market value, was the first step towards the creation of a competitive generation market. In effect, two new companies have been created to operate in the new market environment.

To reflect the underlying substance of the restructuring of ECNZ and the generation industry, a fair value exercise was performed as at 1 February 1996. The book values of assets and liabilities were adjusted to fair value, by a valuation of the business based on projected net future cashflows. The resulting surplus was allocated between the underlying assets and liabilities, and the net difference was credited to equity. The fair value exercise does not constitute the adoption of modified historical cost accounting.

ELECTRICITY CORPORATION OF NEW ZEALAND LIMITED
NOTES TO THE FINANCIAL STATEMENTS

27. FAIR VALUATION AS AT 1 FEBRUARY 1996 (Cont.)

The results of the exercise have been independently reviewed by Deloitte Touche Tohmatsu, Wellington.

The financial effect of the fair value exercise on ECNZ's statement of financial position was as follows:

	Unaudited Statement of Financial Position as at 1 February 1996 after Sale of Assets to Contact	Revaluation adjustments	Unaudited Statement of Financial Position as at 1 February 1996 after Revaluation
	$M	$M	$M
Current Assets	495	-	495
Non Current Assets	2,620	655	3,275
Current Liabilities	(319)	(13)	(332)
	2,796	642	3,438
Non Current Liabilities	1,193	208	1,401
Equity	1,603	434	2,037
	2,796	642	3,438

28. POST BALANCE DATE EVENTS

a) Manapouri Hydro Power Station

On 3 July 1996 ECNZ announced the significant enhancement of its Manapouri Hydro Power Station by building a second tailrace tunnel. The project is estimated to cost approximately $200 million and, subject to consents, is scheduled for completion within 4 years from commencement. The station generation capacity will increase from 585MW to 760MW.

b) Long Term Contracts

Pursuant to the MoU (note 25) ECNZ has offered long-term contracts to its customers by way of tender, commencing on 19 June 1996 covering the next 5 years from 1 October 1996.

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 statements, having been prepared for the purposes of regulation 4 of the Electricity (Information Disclosure) Regulations 1994, give a true and fair view of the matters to which they relate and comply with the requirements of those regulations.

7 November 1996

Coopers
&Lybrand

chartered accountants
and business advisers

PO Box 243
UDC Tower
113-119 The Terrace
Wellington
New Zealand

telephone 0-4-499 9898
fax 0-4-499 9696

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 7 November 1996 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

COOPERS & LYBRAND
7 November 1996

DEPARTMENT OF INTERNAL AFFAIRS
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