New Zealand Gazette

OF THURSDAY, 27 NOVEMBER 1997

WELLINGTON: FRIDAY, 28 NOVEMBER 1997 — ISSUE NO. 167

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 1997

	Notes	1997 $M	1996 $M
CONTINUING ACTIVITIES			
Revenue	2	990	1024
Operating expenses		530	486
Net finance costs	3	82	94
Operating profit from continuing activities		378	444
DISCONTINUED ACTIVITIES			
Revenue	2	93	293
Operating expenses	2	93	239
Operating profit from discontinued activities		-	54
Profit before taxation	4	378	498
Taxation expense	5	111	161
Profit after taxation		267	337
Share of losses of associate entity		-	-
Net profit for the year		267	337

Statement of Movements in Equity for the year ended 30 June 1997

	Notes	1997	1996
Equity at start of the year		1937	2,582
Net profit for the year		267	337
Surplus arising on fair valuation	1	105	434
		2,309	3,353
Dividends payable in cash:			
Ordinary dividends paid or provided	6	148	243
Special dividends paid	6	158	1,173
		306	1,416
Equity at end of the year		2,003	1,937

Electricity Corporation of New Zealand Limited
Statement of Financial Position as at 30 June 1997

	Notes	1997 $M	1996 $M
Assets			
Current assets	7	246	251
Non current assets			
Term assets	8	59	34
Fixed assets	9	3,241	3,230
Total assets		3,546	3,515
Liabilities and equity			
Current liabilities	10	383	572
Non current liabilities			
Term liabilities	11	1,002	716
Deferred taxation	12	158	290
Total liabilities		1,543	1,578
Equity	13	2,003	1,937
Total liabilities and equity		3,546	3,515

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

1. 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 ECNZ undertook a fair value exercise as at 1 February 1996 with some final adjustments at 30 June 1997. 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. 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 arising 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.

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

Debt

Debt as at 1 February 1996 is stated at fair value. 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.

Fixed assets

The value of fixed assets on hand at 1 February 1996 was adjusted to fair value. All subsequent additions to these assets are stated at cost.

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 subsequent to 1 February 1996, 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 the shorter of their estimated useful lives or the lease term.

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	1.7%
Generation plant	2.5%
Other plant and equipment	17.9%

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

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
Notes to the Financial Statements

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 are 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 fixed asset, and any expenditure which results in a significant improvement to the original function of an existing fixed asset.

Revenue expenditure is defined as expenditure which restores a fixed 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.

Resource consents

Costs incurred in obtaining a resource consent are capitalised and recognised as a term asset. These costs are amortised over the life of the consent on a straight-line basis.

Comparative figures

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

Changes in accounting policies

During the year ECNZ changed its accounting policy in respect of resource consents. Due to the significant amounts concerned and the duration of the consents, costs incurred in obtaining a resource consent are now capitalised and recognised as a term asset. These costs are amortised over the life of the consent on a straight-line basis. Previously these costs were included in the statement of financial performance when incurred.

The financial effect of this change in accounting policy is not material to the financial statements of prior periods and is recognised in note 8.

There have been no other changes in accounting policies applied during the year, and all other accounting policies have been applied on bases consistent with those applied in ECNZ's annual report for the previous year.

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

	1997 $M	1996 $M
2. Revenue		
Continuing activities		
Sale of electricity	964	996
Other sales revenue - external	2	-
Other income	24	28
Total revenue from continuing activities	990	1,024

Other sales revenue consists primarily of contracting revenue. Other income consists primarily of ancillary service revenue.

Discontinued activities

Revenue and operating expenses from discontinued activities relate to the eight power stations sold to Contact Energy Limited (Contact) on 1 February 1996 (note 24). Up to 31 January 1996 ECNZ earned the full gross margin from these stations. From 1 February to 30 September 1996 ECNZ sold electricity in relation to these stations on behalf of Contact, at nil margin.

3. Net finance costs

	1997 $M	1996 $M
Loan interest	101	129
Less: Interest capitalised	3	5
	98	124
Less: Investment income		
Interest from investments	10	15
Dividends received from subsidiaries	6	15
Total investment income	16	30
Net finance costs	82	94

4. Profit before taxation

Profit before taxation is stated after charging:

	1997 $M	1996 $M
Depreciation	87.0	122.0
Write down of assets	2.2	6.5
Operating lease and rental costs	2.3	2.5
Amounts received by the auditors for:		
Auditing the financial statements	0.3	0.3
Other services	1.1	1.0
Directors' fees	0.3	0.4
Bad debts written off	-	0.3
Donations	0.1	0.1
Research	3.0	-

5. Taxation expense

	1997 $M	1996 $M
Profit before taxation	378	498
Prima facie tax at 33%	125	164
Less: Tax effect of:		
Permanent differences	(13)	(2)
Prior year adjustments	(1)	(1)
Taxation expense in statement of financial performance	111	161

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

	1997 $M	1996 $M

5. Taxation expense continued

The taxation expense is represented by:

	1997 $M	1996 $M
Tax payable in respect of the current year	123	224
Deferred taxation (note 12)	(12)	(63)
	111	161

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

Imputation credit account

	1997 $M	1996 $M
Imputation credits at start of the year	576	356
Plus: Income tax paid	131	216
Imputation credits attached to dividends received	1	2
Other credits	-	2
Transfers to subsidiaries	(4)	-
Imputation credits at end of the year	704	576

6. Dividends

	1997 $M	1996 $M
Ordinary shares:		
Interim dividend paid	81	103
Final dividend recommended by directors (note 10)	67	140
	148	243
Special dividend paid	158	1,173
Total dividends paid or provided	306	1,416

7. Current assets

	1997 $M	1996 $M
Cash	8	-
Short term deposits	1	7
Fuel stocks	39	38
Consumable spares	12	12
Prepayments	2	4
Accounts receivable	176	171
Subsidiary companies	-	5
Taxation receivable	5	-
Other current assets	3	14
Total current assets	246	251

8. Term assets

	1997 $M	1996 $M
Investment in subsidiaries	48	32
Resource consents	8	-
Other term assets	3	2
Total term assets	59	34

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

	1997 $M	1996 $M
9. Fixed assets		
Generation plant (including land and buildings)		
Cost	3,279	3,174
Less: Accumulated depreciation	176	50
Book value	3,103	3,124
Other freehold land		
Cost	12	15
Other freehold buildings		
Cost	11	14
Less: Accumulated depreciation	2	1
Book value	9	13
Capital work in progress		
Cost	91	24
Other plant and equipment		
Cost	62	58
Less: Accumulated depreciation	36	4
Book value	26	54
Total fixed assets		
Cost	3,455	3,285
Less: Accumulated depreciation	214	55
Total book value	3,241	3,230

The aggregate of the latest available Government valuations of " other freehold land "is $27 million (1996 $18 million). Separate valuations of buildings are not available, but the aggregate valuation shown above would not differ materially from net current values.

	1997 $M	1996 $M
10. Current liabilities		
Subsidiary companies	-	1
Accounts payable	148	126
Dividend payable (note 6)	67	140
Taxation payable	-	5
Accrued personnel costs	9	9
Loans repayable within one year	94	234
Other current liabilities	65	57
Total current liabilities	383	572

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

	1997 $M	1996 $M
11. *Term liabilities*		
ECNZ bond programme		
Face value of bonds on issue	761	636
Fair valuation	34	45
	795	681
Less: Bonds defeased (note 18)	70	70
	725	611
Less: Unamortised discount	33	36
	692	575
Loans from other sources	693	497
Less: Loans defeased (note 18)	349	349
	344	148
Term liabilities including current portion	1,036	723
Less: Current portion	34	7
Total term liabilities	1,002	716
Term liabilities are repayable as follows:		
Between one and two years	73	35
Between two and three years	142	8
Between three and four years	67	58
Between four and five years	477	8
Later than five years	243	607
Total	1,002	716

Interest rates payable, after giving effect to interest rate swaps, forward rate agreements and interest rate options on term liabilities, range from 6.6% to 9.6% (1996 8.3% to 9.6%).

Interest rate repricing

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

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

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

11. Term liabilities continued

The interest repricing profile for ECNZ is as follows:

	1997 $M	1996 $M
Within one year	340	148
Between two and three years	141	-
Between three and four years	24	-
Between four and five years	387	-
Later than five years	113	566
Total	1,005	714

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% per annum (1996 8% to 10%) and maturity dates between 1999 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.

Negative pledge

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.

In addition to the negative pledge given in the Trust Deed for ECNZ bonds, 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).

12. Deferred taxation

Deferred taxation at start of the year	290	192
On profit for the year (note 5)	(12)	(63)
Deferred tax effect of fair valuation	(120)	161
Deferred taxation at end of the year	158	290

13. Equity

Equity includes issued and paid up capital of:

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.

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

	1997 $M	1996 $M
14. Capital commitments		
Commitments in respect of contracts for capital expenditure	254	14

15. Lease commitments

Operating lease commitments are payable:

	1997 $M	1996 $M
Within one year	2	2
Between one and two years	1	2
Between two and five years	5	3
Later than five years	12	7
Total	20	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 land or small items of 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.

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.

Contract amounts of foreign exchange instruments outstanding at balance date are as follows:

	1997	1996
Cross currency interest rate swaps	1,237	1,528
Forward foreign exchange contracts	163	171

The cash settlement requirements of the above instruments approximate the contract amounts shown above.

(b) Interest rate

ECNZ has a mixture of current 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:

	1997	1996
Interest rate swaps	736	327
Forward rate agreements (FRA)	163	395
Interest rate options	497	573
Interest rate futures	183	29

The cash settlement requirement of interest rate swaps is the net interest receivable of $2,671,751 (1996 $663,143 payable).
The best approximation for FRA's is the current market value at balance date which is $36,921 (1996 $165,771).
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 balance date this would be $852,997 (1996 $107,636).
Futures are cash settled each day to reflect the market value at the close of the previous business day.

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

17. Financial instruments continued

(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 2001. 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, is not sufficiently active at balance date.

(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.

The maximum credit exposure to which ECNZ is subject is best measured by the cash settlement amount receivable from the counterparty. This is represented by the contract amount receivable for cross currency interest rate swaps and forward foreign exchange contracts, the net interest payable for interest rate swaps and the market value for forward rate agreements and interest rate options.

(iii) Fair values

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

	1997		1996	
	Carrying value $M	Fair value $M	Carrying value $M	Fair value $M
Short term loans	60	60	227	222
Term liabilities	1,036	1,072	742	698
Currency and interest rate swaps	-	28	-	(39)

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, 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. ECNZ anticipates that these liabilities will be held to maturity and that settlement at fair value is unlikely.

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

18. Debt defeasance

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

19. 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.

20. Transactions with related parties

The shareholder of ECNZ is the Crown. ECNZ undertakes many transactions with other State-Owned Companies and Government Entities, all of which are carried out on a commercial and arms length basis. During the year, ECNZ entered into material transactions with two such parties - Contact (refer notes 2, 18, 23 and 24) and Transpower.

Transpower operates the national electricity distribution grid. During the year ECNZ received $22 million (1996 $20 million) of revenue from Transpower, mainly for the provision of ancillary services such as spinning reserve and voltage control. ECNZ also paid Transpower transmission and connection fees amounting to $112 million (1996 $150 million).

ECNZ holds a 33% share in EMCO Limited (EMCO) which functions as a clearinghouse for the wholesale electricity market. Electricity sales revenues received by ECNZ from EMCO acting in its role as a clearinghouse are not considered to be related party transactions. ECNZ paid service fees of $4 million to EMCO during the year. The amount payable to EMCO at balance date is not material.

During the year, ECNZ paid professional engineering fees of $86,264 (1996 $111,405) 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. Professional engineering services provided by Beca Carter Hollings & Ferner Limited were supplied on normal commercial terms. A balance of $6,635 outstanding at balance date (1996 $5,259) is included in accounts payable.

During the year, ECNZ also paid professional engineering fees of $79,103 to Kingston Morrison Limited, for whom Mr S C Gentry is Executive Chairman. Mr Gentry is a Director of ECNZ. Professional engineering services provided by Kingston Morrison Limited were supplied on normal commercial terms. A balance of $998 outstanding at balance date is included in accounts payable.

21. Investments

Company name	Percentage Owned	Principal activity	Balance date
Subsidiary companies			
*DesignPower New Zealand Limited	100	Design and engineering consultancy	30 June
*ECNZ Energy Limited	100	Energy	30 June
*ECNZ Insurance Limited	100	Insurance	30 June
*ECNZ International Limited	100	Finance	30 June
*Energy Promoters Limited	100	Dormant	30 June
*Kinleith Cogeneration Limited	100	Construction	30 June
*Rutherford House Limited	100	Property management	30 June
+Kupe Development Limited (acquired 1 January 1997)	65	Holding company	30 June
^Kupe Mining (No 1) Limited (acquired 1 January 1997)	100	Oil and gas exploration	30 June
^Kupe Mining (No 2) Limited (acquired 1 January 1997)	100	Oil and gas exploration	30 June
Associate companies			
Electricity Market Company Limited (EMCO)	33	Wholesale market development	30 June
Rangitata Diversion Race Management Limited	38	Irrigation	30 June

* wholly owned by ECNZ
\+ 65% owned by ECNZ Energy Limited
^ 100% owned by Kupe Development Limited

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

22. 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.

23. Long term contracts

Gas purchase contracts

a) 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. The maximum amount payable under the contract up to 30 September 2006 is $316 million.

b) ECNZ has entered into a heads of agreement with Fletcher Challenge Energy Limited under which ECNZ is required to purchase specified annual gas quantities from 1 October 2000 to 30 September 2017.

Coal purchase contract

a) ECNZ has entered into a contract with Solid Energy Limited to purchase specified quantities of coal up to 30 September 2001. The maximum amount payable under the contract up to 30 September 2001 is $62 million.

24. Memorandum of Understanding (MoU)

Pursuant to the MoU that was signed by ECNZ and the Crown on 8 June 1995, ECNZ has:

a) sold 8 power stations to Contact. These stations accounted for 29% of ECNZ's generating capacity as at the MoU date;
b) revalued its assets as at 1 February 1996;
c) agreed to sell 8 hydro stations subject to appropriate consultation by the crown with Maori as to any Treaty of Waitangi issues. The stations involved (Cobb, Coleridge, Highbank, Matahina, Mangahao, Tuai, Piripaua and Kaitawa) accounted for 4.5% of ECNZ's generating capacity at the MoU date. The Crown has advised ECNZ that consultation with Maori relating to Mangahao Power Station has been completed and that the sale of that station may proceed. Registrations of interest have now been received from eligible bidders.

ECNZ and the Crown also 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 would include:

i) any refurbishments and modifications to Meremere, Marsden A and Marsden B;
ii) any increase in Huntly Power Station'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.

(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 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

Electricity Corporation of New Zealand Limited
Notes to the Financial Statements

24. Memorandum of Understanding (MoU) continued

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.

25. Industry review

The Crown has initiated a review of the energy industry. It has indicated this is likely to involve further break-up of ECNZ. The outcome of the review may have an impact on ECNZ's future business activities and its financial affairs.

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.

31 October 1997

Coopers & Lybrand

chartered accountants and business advisers

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

telephone 0-4-499 9898
facsimile 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 31 October 1997 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
31 October 1997

DEPARTMENT OF INTERNAL AFFAIRS
TE TARI TAIWHENUA

PUBLISHED BY AUTHORITY OF DEPARTMENT OF INTERNAL AFFAIRS:
GP LEGISLATION SERVICES, WELLINGTON, NEW ZEALAND—1997

ISSN 0111-5650
Price $3.95 (inc. G.S.T.)
30732—97A